

KLK manages to turn around Crabtree & Evelyn

► KUALA LUMPUR KEPONG BHD				
	2009	2010F	2011F	2012F
REVENUE (RM mil)	6,658.3	7,938.9	8,247.5	8,885.5
NET PROFIT (RM mil)	612.5	859.1	893.6	1,000.6
EPS (sen)	57.4	80.5	83.7	93.7
P/E (x)	29.5	21.0	20.2	18.0

► **Recommendation:**
Hold

Target Price: RM16.20

By ECM Libra Investment Research (Aug 19)

Within Expectations

KUALA Lumpur Kepong Bhd's (KLK) annualised adjusted net profits came in within house expectations (+3.5%) and only slightly below consensus estimates (-6.1%).

For the quarter, it achieved a CPO ASP Of RM2,562 per metric tonne (pmt) and on a cumulative basis, CPO ASP was RM2,390 pmt. This is still within our full-year estimate of RM2,400 pmt.

Margins have improved this year so far as the group's

manufacturing segment (oleochemicals) turned in a profit compared to a loss last year.

Margins from plantations have remained flattish despite the higher CPO ASP on higher operating costs from rehabilitation work in Sumatra and new fields coming into maturity in Kalimantan.

Route to Recovery

The highlight of this quarter's results is that Crabtree & Evelyn actually turned in a profit of RM4.5 million (9M10 PBT is RM36.7 million compared to loss of RM39.5 million in 9M09).

Typically, the company only makes a profit during the year-end Christmas season.

It is heartening to see the segment in the black this quarter indicating that the group has managed to turn the company around after downsizing its loss making US operations.

Maintain 'Hold'

We make no changes to earnings at this juncture and maintain our 'Hold' call on KLK.

Our target price of RM16.20 is based on their CY10 EPS of 81 sen pegged to a historical average PE of 20x.

We continue to be neutral on the stock given our sector view that the oncoming peak production cycle will cause stock levels in Malaysia to rise and hence CPO prices to decline slightly in the near term.