



MKH Oil Palm Bhd

Harvesting success

Main Market
Plantation Sector
SUBSCRIBE
IPO Price: RM0.62
Fair Value: RM0.80

Valuation / Recommendation

We have a **SUBSCRIBE** recommendation on MKH Oil Palm (East Kalimantan) Bhd (MKHOP) with a **FV of RM0.80 based on 14x FY24F EPS**, translating to 29% upside to IPO price. Our target PE is at a 25% discount to Malaysian's peers average PE, considering MKHOP's smaller market capitalisation. We like MKHOP for the favourable age profile and superior FFB yield of its plantation, which would be a compelling play should crude palm oil (CPO) prices remain high.

Investment Highlights

Prime plantation profile. Currently, 95% of MKHOP's plantation area is comprised of prime mature oil palms (aged 10-16 years), while the remaining 5% consists of young mature oil palms (aged 4-9 years). This favourable age profile has contributed to MKHOP achieving an average Fresh Fruit Bunch (FFB) yield of 24.1 MT/ha for FY23, far ahead of the average FFB yield in East Kalimantan, which stands at 17.4 MT/ha. We anticipate MKHOP's FFB yields to improve further to 25.5MT/ha and 26.5MT/ha in FY24 and FY25 respectively, indicating a rebound from the adverse impacts of La Nina in previous years. This would help to drive a modest 4-6% growth in FFB production for FY24-25, and similarly for its CPO production on the back on stable oil extraction rate of 20-21%. Overall, we believe MKHOP's plantation output should remain prime for years to come, while its planned acquisition of 5,000ha of land post-IPO would add ~27% to its plantation landbank and start contributing from FY28 onwards.

Significant margins improvement in FY24-FY25. Despite achieving better ASP, the margins for MKHOP had been on a downtrend since FY21 mainly due to the spike in fertiliser and labour costs. We see FY24 as a key turning point for the company, as a combination of favourable CPO prices and lower production costs (i.e. fertiliser and fuel) should help to significantly boost MKHOP's EBIT margins recovery to 22-24% in FY24-25 (from a low of only 14% in FY23).

Based on market forecast, we have assumed MKHOP to achieve a stable CPO ASP (Indonesia domestic price) of RM3,500/3,400 per tonne in FY24-25 (vs. RM3,350/tonne realised in FY23). For sensitivity analysis, we estimate for every RM100/tonne increase in our CPO price assumptions, MKHOP's FY24-25 earnings will rise by 3% respectively.

Risk factors for MKHOP include (1) Fluctuation in the market prices of CPO and PK; and (2) Adverse weather conditions affecting FFB yield.

FY Sep	FY21	FY22	FY23	FY24F	FY25F
Revenue (RM m)	306.6	315.8	338.0	357.3	360.1
EBITDA (RM m)	140.3	109.7	78.4	110.4	117.4
PAT (RM m)	77.5	60.1	31.3	58.2	64.0
PAT Margin (%)	25.3	19.0	9.2	16.3	17.8
EPS (sen)	9.6	7.5	3.9	5.7	6.2
EPS Growth (%)	314.4	-22.4	-48.0	46.2	8.8
BV Per Share (sen)	0.26	0.35	0.39	0.47	0.50
PE (x)				10.9	10.0
Net Gearing (%)	0.3	Cash	Cash	Cash	Cash
ROE (%)				12.5	12.9

Business Overview

MKH Oil Palm specialises in cultivating oil palm and producing crude palm oil (CPO) and palm kernel (PK), with its plantation landbank mainly located at East Kalimantan, Indonesia. The company adopts sustainable plantation practices and is ISPO-certified.

Listing Details

Listing date	30 April 2024
New shares (m)	220.0
Offer for sale (m)	30.7
Funds raised (RM m)	136.4

Post Listing

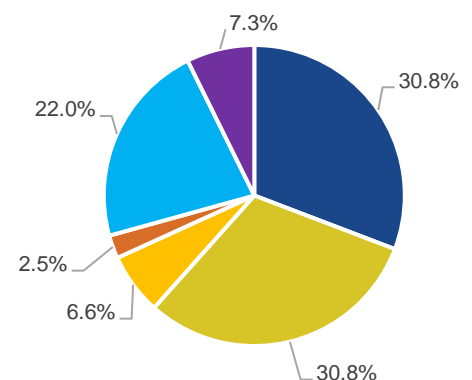
Ordinary shares (m)	1,023.6
Market cap (RM m)	636.6
Free float	36.0
P/E (FY24F)	10.9

Top 3 Shareholders

Metro Kajang (Oversea)	30.7%
Metro Kajang Holdings	28.7%
PT Hikmat	3.9%

Utilisation of Proceeds

	RM m
Expansion of land banks for oil palm plantation	42.0
Capital expenditures for existing plantation lands	42.0
Setup of PK crushing facility	9.0
Working capital	3.4
Repayment of loan due to related party	30.0
Listing expenses	10.0



Source: Company, Mercury Securities



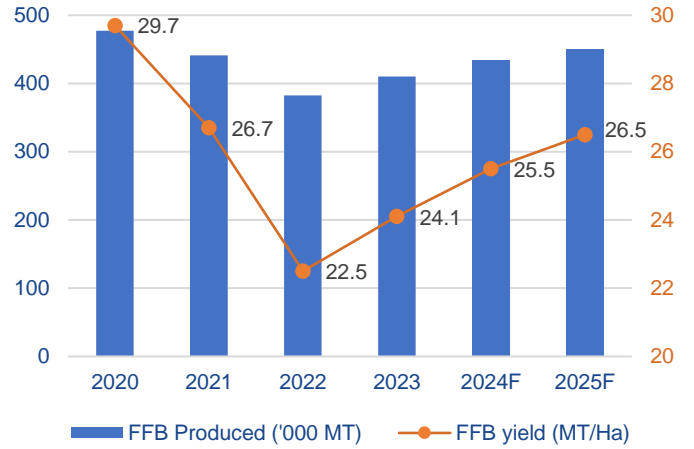
Key Charts

Figure 1 : Benchmark Malaysia CPO Price trend (RM/tonne)



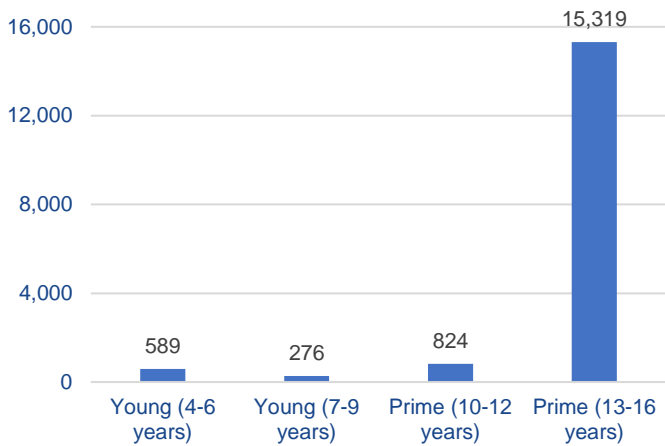
Source: Mercury Securities, Bloomberg

Figure 2 : MKHOP's FFB production & yield



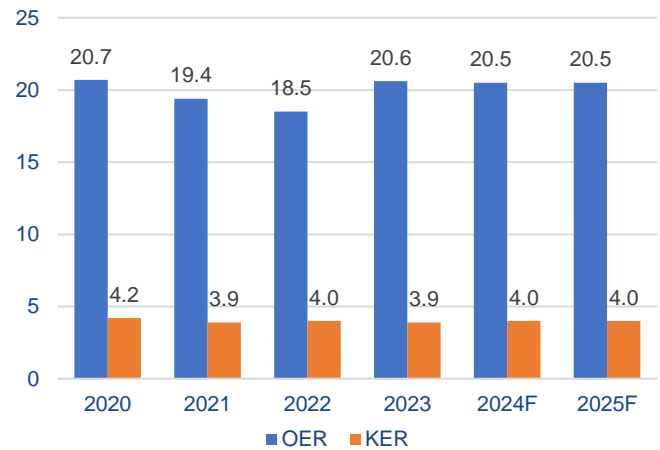
Source: Company, Mercury Securities

Figure 3 : MKHOP's plantation hectareage, by age profile



Source: Company

Figure 4 : MKHOP's Oil & Kernel Extraction Rate (%)



Source: Company, Mercury Securities



Peer Comparison (as at 9 Apr 2024)

Company	Bloomberg Ticker	Share Px (LC)	Mkt Cap	EPS Growth (%)		P/E (x)		P/B		ROE (%)		Net Dividend Yield (%)	
				2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
Malaysia			US\$ m										
KLK Kepong	KLK MK	23.02	5,312	105.8	5.6	19.5	18.5	1.7	1.7	8.4	8.7	2.8	2.9
Sime Darby Plantation	SIME MK	4.69	6,679	(21.9)	1.9	21.9	21.4	1.7	1.6	8.0	7.9	2.6	2.7
Genting Plantation	GENP MK	6.20	1,171	25.3	(6.5)	17.5	18.7	1.0	1.0	5.6	5.6	3.4	3.4
IOI Plantation	IOI MK	4.03	5,262	48.5	3.1	19.2	18.7	2.1	2.0	11.1	11.0	2.7	2.8
FGV Holdings	FGV MK	1.41	1,083	176.6	11.5	18.1	16.2	0.8	0.8	4.9	5.7	3.2	3.4
Hap Seng Plantation	HAPL MK	1.92	323	28.6	(4.1)	13.1	13.6	0.8	0.7	5.4	5.7	4.1	4.3
Simple Average MY				60.5	1.9	18.2	17.9	1.3	1.3	7.2	7.5	3.1	3.2
Indonesia & Singapore													
PT Astra Agro	AALI IJ	6,975	845	24.0	(7.2)	10.3	11.1	0.6	0.6	4.7	5.0	n/a	n/a
Wilmar International	WIL SP	3.51	16,261	9.8	11.6	9.7	8.7	0.8	0.7	8.1	8.6	4.6	5.3
Golden Agri	GGR SP	0.27	2,541	98.7	9.7	6.5	5.9	0.5	0.5	13.1	12.2	2.0	4.0
First Resources	FR SP	1.40	1,619	46.6	(2.9)	7.6	7.9	1.0	1.0	13.7	12.6	6.1	6.6
Simple Average ID & SG				44.8	2.8	8.5	8.4	0.7	0.7	9.9	9.6	4.2	5.3

Source: Bloomberg

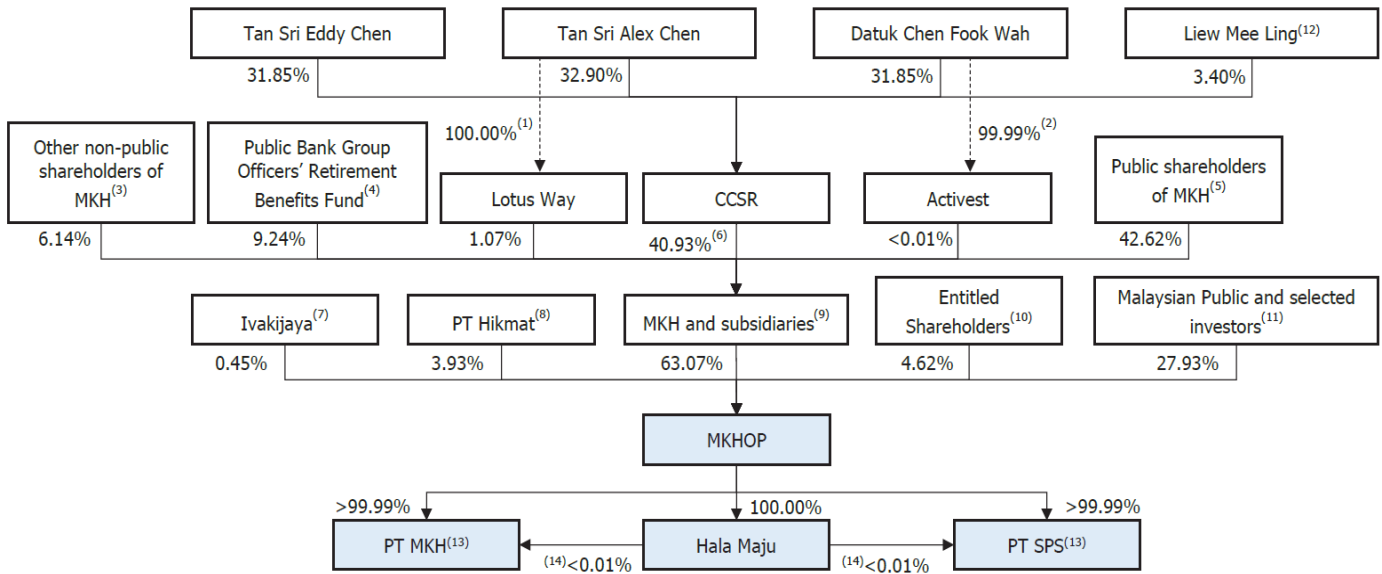
IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<u>Retail Offering</u>				
Eligible Persons	-	-	-	0.0
Malaysian Public (Bumiputera)	-	25.6	25.6	2.5
Malaysian Public (Non-Bumiputera)	-	25.6	25.6	2.5
<u>Institutional Offering</u>				
Selected investors	30.7	168.8	199.5	19.5
Total	-	220.0	250.7	24.5

Source: Company



Group Structure Post Listing



Source: Company



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