Equatorial Palm Oil

Energy Research

27 November 2017 08:50[i] / 27 November 2017 09:00[ii]

Buy

Bloomberg	PAL LN
Price (p/shr)	3.0
Target Price (p/shr)	6.2
Upside (%)	107%
12mth high/low (p/shr)	1.88/4.13
Shares out (mill)	356.3
Fully diluted (mill)	356.3
Mkt Cap (US$m)	14.1
Enterprise Value (US$m)	14.1

Resources Analysts

Tim Hurst-Brown
+44 (0) 20 3167 7276
tim.hurst.brown@mirabaud.co.uk

James Midgley
+44 (0) 20 3167 7273
james.midgley@mirabaud.co.uk

Daisy Savage
+44 (0) 20 3167 7274
daisy.savage@mirabaud.co.uk

Resources Sales

Pav Sanghera
+44 (0) 20 3167 7284
pav.sanghera@mirabaud.co.uk

Jonathan Colvile
+44 (0) 20 3167 7282
jonathan.colvile@mirabaud.co.uk

Lucas McHugh
+44 (0) 20 3167 7233
lucas.mchugh@mirabaud.co.uk

Nick Orgill
+44 (0) 20 3167 7283
nick.orgill@mirabaud.co.uk

Guy Wheatley
+44 (0) 20 3167 7280
guy.wheatley@mirabaud.co.uk

Jason Woollard
+44 (0) 20 3167 7285
jason.woollard@mirabaud.co.uk

Fruits of labour

Contents

Investment case

Fruits of labour

It's fair to say that Equatorial Palm Oil has kept a relatively low profile over the past couple of years, as it set about restoring exports from its oil palm estates in Liberia. The company has overcome challenges, most notably the Ebola epidemic which crippled the region between 2014 and 2016, however it is now fast approaching completion of its major new palm oil mill development which will signal a new era for the company.

The new mill is on track to complete in early H2 next year, which will facilitate EPO's first material sales. It will transform the company into a substantial producer, with almost 30,000 tonnes of crude palm oil (CPO) expected to be sold in its first full year of production (Sept 2018 – Sept 2019). On our numbers, this will generate gross sales of US$22m, and EBITDA of c.US$7m (EPO has a 50% stake in the joint venture).

EPO's supportive shareholder and JV partner, KLK, has provided the funding through the project's development phases, and it is likely to continue to do so while the partners plant out the portfolio and expand mill capacity, at least until the project is free cash flow positive. With a 'friendly' interest rate of 5% plus US LIBOR, the deal is very attractive from EPO's point of view, and while cash flows from the project will initially be directed towards clearing the debt, over the long term EPO will benefit from a strong and stable cash flow stream, more akin to an annuity. On top of the financial support, a big brother such as KLK (which is in the top five largest palm oil companies in the world) provides political muscle, and helps EPO ensure that the most stringent environmental and ethical safeguards are in place.

Using a long term CPO price of US$775/tonne, and a discount rate of 12%, we value EPO's stake at US$29m, or 6.2p/shr. This offers over 100% upside from current levels.

Nearing the end game?

The core investment case therefore revolves around a combination of operational catalysts and the material discount to fair value at current levels. However, we believe that the company is a clear takeover candidate, which could see shareholders realising value far sooner. The palm oil industry is going through a period of consolidation, which makes West Africa look ever more attractive for companies seeking growth. Land in the industry heartlands of South East Asia is becoming scarce, and with West Africa both the native home of the oil palm tree and the industry's birthplace, it is an obvious destination for developers. Growth is self-fulfilling, with the growing industry infrastructure and support network making operating in the area easier and less expensive.

50% joint venture partner KLK already owns 63% of EPO's ordinary share capital, and therefore, with an 81.5% effective interest in the joint venture, we consider a bid for the company at some point almost inevitable. KLK's decision will hinge upon balancing value, with project risking. Each milestone which the joint venture reaches (for example, completion of the mill, first sales, a period of proven operational performance etc.) will de-risk the project in KLK's mind, it will also raise EPO's price expectations. In our view, once the project is up and running, and therefore de-risked from an operational perspective, EPO will become particularly vulnerable to takeover.

Operational update

EPO is making rapid headway as it seeks to reinitiate sales from its substantial position in Liberia. Having visited the asset earlier this year, it is particularly encouraging to see first-hand the progress being made at the company's Palm Bay estate, and the area leased for a storage tank facility at the Buchanan deep water port (the locations of which are illustrated in Figure 1, below), which are on track for first exports in under 12 months.

Figure 1: Liberian industry overview

Source: Equatorial Palm Oil.

The mill

The heart of EPO's future operation will be the new 60 mt mill which is currently under construction at the Palm Bay estate. As Figure 2 shows, the skeletal structure was already taking shape in June, and shortly after the picture was taken, the roof was complete. This is significant as work can continue unabated throughout the ongoing rainy season. As previously announced, the mill will be modular in nature, comprising two 30 mt lines. The groundwork is now complete for the full 60 mt, with work now ongoing for the first 30 mt mill. This minimises inefficient operations at levels substantially under capacity, and also allows the second module to be quickly and inexpensively installed once production is ramping up.

The work itself is being undertaken by a Malaysian contractor with considerable experience in developing mills across West Africa. The mill is being constructed on a turnkey basis, meaning that the contractors are well incentivised to complete the job in a timely manner, and having spoken with some of the key operational staff, we have confidence in the current schedule (operational in H2 2018).

Figure 2: The new 60 mt/yr mill at Palm Bay

Source: Mirabaud Securities.

The Buchanan deep water port

The mill is one, admittedly large, piece of the jigsaw required for full CPO production. Other key components include a new c.25km reinforced road, capable of handling the 20 tonne offtake tankers, and new storage and loading facilities at the port of Buchanan. EPO has secured the land required for these developments, and work will begin once the rainy season has subsided. Importantly, the port development is on a 4.5 acre brownfield site. The facilities have not been used for decades and will need to be replaced, however it will be a far easier task replacing existing facilities than installing new ones from scratch. With rains now starting to abide signalling the end of the wet season, contractors can start working on the port and road. Like the mill, commissioning of the storage and loading facilities can be phased to ramp up with CPO production, but we expect the initial outlay for first exports to cost in the region of US$1m, with a further US$5m required to reach full capacity (of 10,000 tonnes).

Prior to the Ebola outbreak, Buchanan was a thriving port, with iron ore producer ArcelorMittal in particular handling two trains per day (each train comprising 70 cars, and 630 tonnes) of ore from its mines in the north of the country. Rubber, timber and palm oil has also been exported from the port on a regular basis at various points in the country's history. The collapse in iron ore price during 2014 and 2015, as well as the Ebola outbreak reduced export operations down to a trickle. While we were visiting both public berths were in use by timber vessels (as in Figure 2, below), and Mittal's bulk carrier berth (out of view in the photo) is still in regular, but infrequent use. This reduction in activity has clearly left the port underutilised, but the facilities remain in place and ready for service. Some ancillary services, such as Mittal's vast camp, have been opened up to other corporates, including EPO, which can utilise the facilities for a modest fee.

Figure 3: Buchanan Deepwater port

Source: Mirabaud Securities.

Sustainability and planting

Planting on the Palm Bay and Butaw estates has been consistent despite the Ebola outbreak and its devastating effects on the community. In fact, the biggest constraint to planting relates to corporate social responsibility (CSR) and sustainability. Alongside partner and shareholder KLK, EPO has initiated annual sustainability reports, which publicises the partners' policies and demonstrates to the wider community that CSR and sustainability is taken seriously. The exercise ensures that good practise is being adhered to on an ongoing basis, and is a major step in mitigating against concerns by social and environmental NGOs.

The effectiveness of the charities and NGOs which are particularly active in both the palm oil industry and in Liberia may be questioned, however their influence cannot, and nothing will change anytime soon. Accordingly, it is imperative that EPO proactively stays ahead of the curve, identifying and addressing any potential clashes before they occur. This policy was effective during the company's self-imposed moratorium on new planting, which lasted until the company completed its High Carbon Stock assessments (October last year). One of the latest blights to hit the industry stemmed from a report from Amnesty International late last year, which accused a number of Indonesian palm oil producers of exploiting child labour, as well as other human rights abuses. To ensure that EPO avoids any such issues, the company has commissioned an independent assessment on EPO's operations and internal procedures.

Figure 4: Palm nursery at Palm Bay

Source: Mirabaud Securities.

Irrespective of the country in question, one of the greatest challenges for today's palm oil producers is obtaining the necessary FPIC (free prior informed consent) to develop land. EPO is fortunate in that it already has a large land bank, and is explicitly avoiding areas not supported by the communities, however the process to obtain FPIC is still a slow one, and is the key bottleneck for planting.

Figure 5: Ongoing planting at Palm Bay

Source: Mirabaud Securities.

This year to date, EPO has planted just 282 ha of new palm, a long way short of its record year in 2014/15 of 2,263 ha. It is worth noting that planting only recommenced after a years' break early this year (while the company carried out its High Carbon Stock Assessments), and with the years running September-September, EPO effectively only had a half year of planting – much of which was during the rainy season. Still the modest area of new palm is indicative of the challenges securing the necessary FPIC across the industry, and accordingly we have rebased our long term planting expectations to 1,000 ha per year, on each of the two main estates.

Figure 6: Liberian Palm Developments (LPD) acreage summary

	Palm Bay (ha)	Butaw (ha)	Total (ha)	First maturity	First harvest
Plantings					
2011	1,243	-	1,243	2014	2017
2012	750	243	993	2015	2017
2013	1,133	439	1,572	2016	2017
2014	2,030	233	2,263	2017	2018
2015	1,032	503	1,535	2018	2018
2016	-	-	-	2019	2019
2017E	282	-	282	2020	2020
At Sept 2017	6,470	1,418	7,888		
2018E	1,000	500	1,500	2021	2021
At Sept 2018E	7,470	1,918	9,388		
Unplanted (at Sept 2017)[1]	5,236	5,792	11,028		
Total base area (JV)[1]	11,706	7,210	18,916		
JV expansion area[1]	9,105	26,205	35,310		
JV Total[1]	20,812	33,415	54,226		
Attributable to outgrowers[1]	9,105	15,680	24,785		

Source: Mirabaud Securities; Equatorial Palm Oil. [1]Assumes 10% of land unavailable for planting (roads etc.).

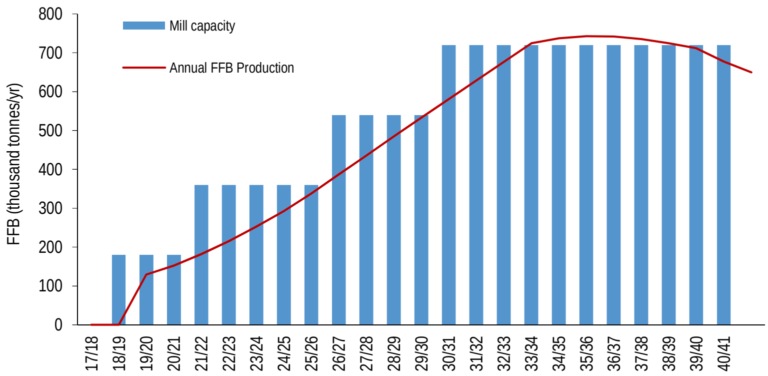
Production & Financial forecasts

EPO's earliest plantings, made in 2011 are now bearing fruit, and by September 2018, we expect the company to have over 6,000 ha of mature plantation ready for harvest. In our forecasts we have factored in a gradual ramp up to our theoretical yield (which is based on our yield curve assumption), assuming fresh fruit bunch (FFB) yields of 17% in 2018/19, and 20% in 2019/20, before reverting to our theoretical yield (of 23% in 2020/21). On this basis, we expect total FFB production of some 130k tonnes of FFB in EPO's first year of production, rising to 182k tonnes in 2020/21 – just ahead of Phase I mill capacity of 180k.

The two key constraints on future growth are the rate of planting, and the milling capacity. On the latter, we have assumed that Phase II of the mill development is completed in 2021, which would facilitate a seamless ramp up in production as palms planted during 2017 and onwards mature. The mill upgrade would double production capacity to 60 mt/hr, or 360,000 tonnes/yr of FFB, and service in the region of 15,000ha of mature plantation (at peak). The second tranche of the mill development is expect to cost just US$10m, and take around 12 months to commission. Given that the first phase development will be generating solid levels of cash flow at this stage, EPO and partner KLK will have to consider the best way to finance the upgrade. In our view a loan to the JV from shareholder KLK (mirroring the financing deal for Phase I) makes most sense. This would free up cash flow for planting out the acreage, meaning that plateau production can be reached at the earliest opportunity, and the mill is working under capacity for the shortest possible length of time (see Figure 7, below). Additional mill capacity will be required as mature acreage grows, with a mill on the Butaw estate (c.100km to the south-east of Palm Bay – see Figure 1, above) likely to follow in due course (during 2026 on our numbers).

Going forwards we expect EPO to be able to plant in the region of 1,000ha/yr on each of Palm Bay and Butaw. Each hectare of new plantation is expected to cost an average US$8,344, spread over three years, and including land preparation costs, nursery costs, immature area upkeep and other initial expenditures. At a combined rate of 2,000ha/yr across the two estates, this implies ongoing planting costs of c.US$17m/annum, which will be covered by operating cash flow once the project is fully up and running.

Figure 7: Annual FFB production forecast & mill capacity



Source: Mirabaud Securities.

Assuming an extraction rate of 23%, we forecast peak Phase I CPO production of 42k tonnes/yr of CPO during 2020/21, with a further c.9k tonnes of PKO and Kernel cake taking total palm products to c.50k tonnes. In turn, based on an assumed CPO price of US$656/tonne (FOB Monrovia), this equates to gross sales of US$32m/yr by 2020/21.

In terms of operating costs, we have made three key assumptions: mature area upkeep costs of US$550/ha, harvesting costs of US$16/tonne of FFB, and mill costs, including transportation, of US$28/tonne. All-in this equates to production costs of around US$400/tonne of CPO (unadjusted for inflation). These production costs are largely variable, and accordingly gross EBITDA is expected to build from the US$7m per annum forecasted in 2018/19 proportionally as production grows. We expect EBITDA margins trending towards 40% over the medium term.

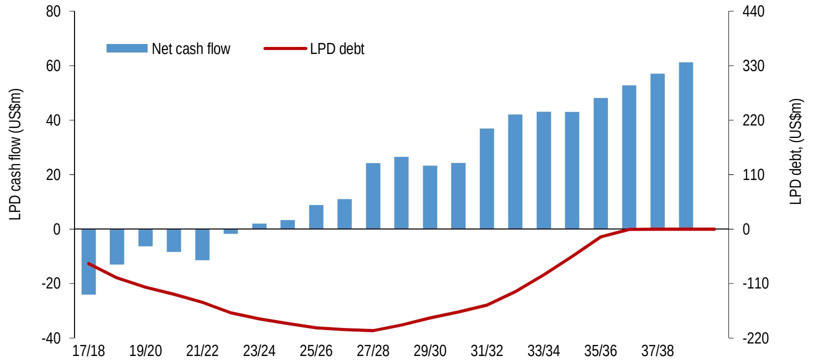
Figure 8: LPD cashflow summary

Year ending		Sep-17A	Sep-18e	Sep-19e	Sep-20e	Sep-21e	Sep-22e
Total mature palms	Hectares	3,808	6,071	7,606	7,606	7,888	9,388
New palms planted	Hectares	282	1,500	2,000	2,000	2,000	2,000
FFB production	Tonnes	-	-	129,302	152,120	182,179	214,656
Average FFB yield	Tonnes/ha	-	-	17.0	20.0	23.1	22.9
CPO production	Tonnes	-	-	29,739	34,988	41,901	49,371
PKO production	Tonnes	-	-	2,909	3,423	4,099	4,830
Kernel cake production	Tonnes	-	-	3,233	3,803	4,554	5,366
CPO extraction rate	%	n/a	n/a	23%	23%	23%	23%
CPO price (FOB Monrovia)	US$/tonne	-	-	625	641	656	672
Revenue	US$m	-	-	21.8	26.3	32.2	38.9
Operating costs	US$m	(6.4)	(7.6)	(14.9)	(17.9)	(21.3)	(24.9)
	US$/tonne	-	-	*501.0*	*510.3*	*507.2*	*504.2*
EBITDAX	US$m	(6.4)	(7.6)	6.9	8.4	11.0	14.0
EBITDAX margin	*%*	*0%*	*0%*	*32%*	*32%*	*34%*	*36%*
D&A	US$m	(6.1)	(7.7)	(9.7)	(11.2)	(12.8)	(13.6)
Interest expense, net	US$m	(4.4)	(6.2)	(7.4)	(8.3)	(9.3)	(10.7)
Pre-tax profit	US$m	(16.9)	(21.6)	(10.3)	(11.1)	(11.1)	(10.2)
Income tax	US$m	-	-	-	-	-	(1.4)
Gross income (LPD)	US$m	(16.9)	(21.6)	(10.3)	(11.1)	(11.1)	(11.7)
Net to EPO		(8.5)	(10.8)	(5.1)	(5.5)	(5.6)	(5.8)
EPS	*p/shr*	*(1.8)*	*(2.3)*	*(1.1)*	*(1.2)*	*(1.2)*	*(1.3)*
Capex	US$m	(8.5)	(16.5)	(19.9)	(14.8)	(19.4)	(24.1)
Free cash flow	US$m	(14.9)	(24.1)	(13.0)	(6.4)	(8.4)	(11.5)
Movement of debt, other	US$m	14.9	24.1	13.0	6.4	8.4	11.5
Net increase (decrease) in cash	US$m	-	-	-	-	-	-
Net cash (debt)	US$m	(70.0)	(98.5)	(117.8)	(131.6)	(148.3)	(169.1)
Cash balance	US$m	6.4	6.4	6.4	6.4	6.4	6.4
P/E – fully diluted	*x*	*(1.7x)*	*(1.3x)*	*(2.7x)*	*(2.5x)*	*(2.5x)*	*(2.4x)*
EV/EBITDA (net to EPO)	*x*	-	-	*4.1x*	*3.3x*	*2.6x*	*2.0x*

Source: Mirabaud Securities.

As has been the case to date, our forecasts assume that KLK continues to debt finance any shortfalls in the project. We assume interest is added to the principal at a rate of 5% plus LIBOR (in line with the current facilities), and we have conservatively assumed that the facilities are repaid wholly with cashflow, until settled in full. Effectively, this means that we expect EPO to have to wait until 2035 until the debt is cleared and it is self-sufficient (see Figure 9, below). At this point however, the project will be generating nearly US$50m of free cash flow, of which EPO is entitled to 50%.

Figure 9: LPD annual net cash flow and debt profile



Source: Mirabaud Securities.

Valuation

We have updated our DCF model for EPO's Palm Bay and Butaw estates to reflect the latest guidance on expected capital and operational costs. As discussed above, we have assumed that KLK continues to provide finance over the coming years, in line with the current terms, and that cash flows are directed towards repaying the accumulated debt before any pay-out to EPO. Our model factors in an inflation rate of 3% per annum (including costs and commodity prices) from 2019 onwards. Assuming a long term CPO price of US$775/tonne (CIF Rotterdam, nominal), and transportation costs of US$150/tonne, we estimate that the project will ultimately generate in the order of US$30m of free cash flow per annum, net to EPO, once the KLK debt is cleared.

The timing of the settlement of KLK's debt will depend on a number of factors including the pace of planting, but based on our assumption of 2,000ha/annum (1,000ha/annum over each of the two estates) we assume that the debt will be cleared during 2034/35. Because EPO's net cash flows are therefore relatively distant, our valuation is particularly sensitive to the applied discount rate, which we have set at 12% to reflect EPO's low cost of capital (we are assuming KLK provides debt funding at a rate of 5% plus US LIBOR), as well as the heightened geopolitical risks of a country such as Liberia. On this basis, we calculate a Total NAV of US$29m, or 6.2p/shr.

Figure 10: Valuation summary

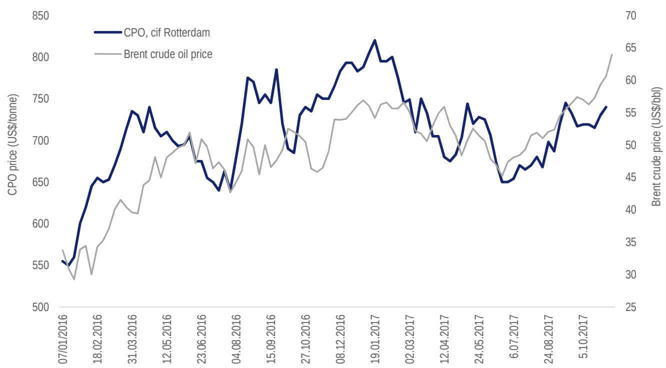
12% NPV; US$775/tn L-T				
Asset name	Hectares[1]	US$/ha	US$m	p/shr
Palm Bay	20,812	542	11	2.4
Butaw	33,415	542	18	3.9
Total NAV	54,226		29	6.2

Source: Mirabaud Securities estimates. [1]Available for planting.

Sensitivity analysis

Clearly, a key sensitivity to our DCF valuation is the long term palm oil price, which we have set at US$775/tonne. While this is at a premium to the current CPO prices (c.US$740/tonne), we believe that it is a conservative assumption, and see greater risk to the upside than the downside. With CPO prices historically demonstrating a close correlation to petroleum crude oil prices, we broadly attribute the general malaise in CPO markets over the past few years to the 2014 crash in oil prices. As Figure 11, below, demonstrates, both CPO and petroleum crude prices have shown signs of recovery, particularly over the past three months, and judging by the Brent forward strip, prices are expected to be supported around these levels at least throughout 2018.

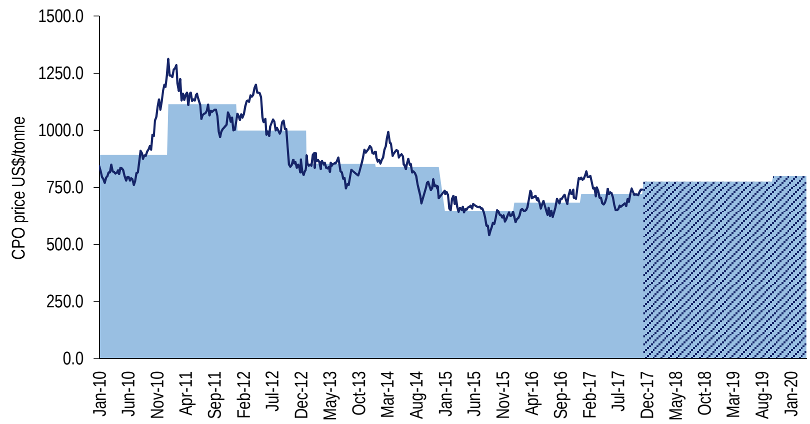
Figure 11: CPO prices vs. Brent crude oil



Source: Mirabaud Securities.

Looking at the mid-term trend, CPO prices seem to be demonstrating a gradual recovery from the lows reached in early 2015 (also consistent with the link to petroleum crude prices). As Figure 12 demonstrates below, our long term assumption of US$775/tonne is, broadly speaking, a conservative extrapolation of the general trend in CPO prices over the past couple of years. The reality is, however, that it is going to be some time before the project starts generating meaningful levels of cash flow, during which CPO prices will almost certainly remain volatile.

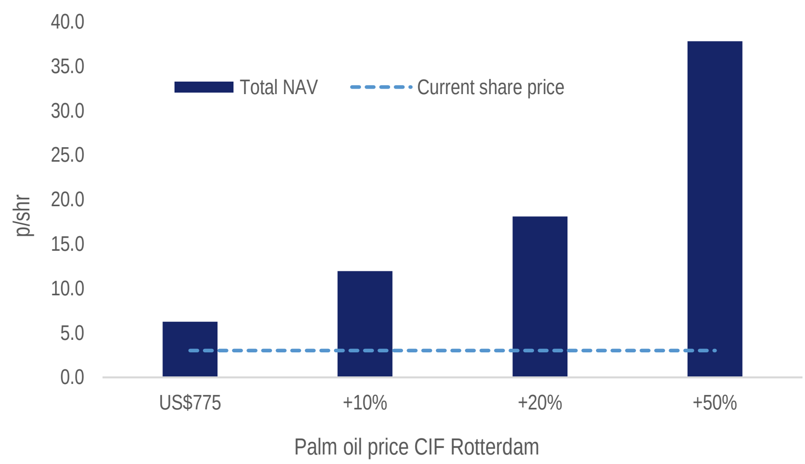
Figure 12: CPO mid-term trend (Mirabaud forecast striped)



Source: Mirabaud Securities.

With this in mind, we have considered the sensitivity of our valuation to an increase in CPO prices (see Figure 13, below). We have modelled scenarios with CPO prices 20% and 50% ahead of our base-case assumption of US$775/tonne. Although this sounds aggressive, it's worth pointing out that the US$930/tonne (20% increase), and even US$1,163/tonne (50% increase), remain comfortably short of the highs reached in 2008, 2010, 2011 and 2012. In the 20% scenario, the outcome is a 3x increase in Total NAV to over 18p/shr (6x the current share price), and in the 50% scenario, our Total NAV increases to 38p/shr – over 12x the current share price.

Figure 13: Valuation sensitivity to long term CPO prices*



Source: Mirabaud Securities.

Appendix 1: Management & Board

Michael Frayne – Non-executive Chairman

Michael Frayne has a Bachelor of Commerce Degree majoring in accounting and finance, a Bachelor of Science Degree majoring in Geology and a Postgraduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. He is a Chartered Accountant and a member of the Australian Institute of Mining and Metallurgy. Mr Frayne was previously employed at major international accounting firm, Ernst & Young, and consulted to a number of resource and commodity companies. He then worked directly in the resource industry including Great Central Mines Ltd (now part of Newmont Ltd). He then joined the corporate team of Minara Resources Ltd (formerly Anaconda Nickel Ltd), the majority owner of the Murrin Murrin Nickel Cobalt Project in Western Australia whose major investors were Anglo American Group and Glencore International. Since 2002, Michael has provided corporate management and advice to the resource, commodity and energy sectors, successfully listing several companies with projects in Australia, Southern Africa, Asia, North and South America, onto AIM and the Australian Stock Exchange. Most recently Michael founded and was the joint managing director of Asia Energy plc. Michael is one of the founders of the Company, overseeing the company strategy, performing day-to-day executive duties and building the senior management team.

Geoffrey Brown – Executive Director

Geoffrey Brown has over 38 years' experience in the plantation sector. He joined Harrisons & Crosfield plc in Malaysia in 1962 where he was employed on various plantations growing oil palm and rubber. He moved to Indonesia in 1976 and was made responsible for Harrisons & Crosfield's interests in that country. He was appointed executive Chairman of London Sumatra Indonesia in 1982 and remained Managing Director of this large Indonesian plantation company until 1998. In 1990, he was appointed an executive director of Harrisons & Crosfield Plc, responsible for the plantation division. Harrisons & Crosfield Plc owned and managed plantations of rubber, oil palms, cocoa, coffee and tea in Indonesia, and oil palm and coffee in Papua New Guinea. He remained an executive director of Harrisons & Crosfield Plc until the company divested itself of its plantation interest in 1994. In 1999 and 2000, he co-ordinated the expansion of oil palm plantations belonging to the Musim Mas Group in Indonesia and has since then been a consultant specialising in plantation management.

Sandy Barblett – General Manager, Commercial

Sandy Barblett has 20 years' experience in senior management roles with public companies. He has advised a number of companies in relation to general fund raising, admission onto public markets, strategy and management selection. He has a Bachelor of Business from Curtin University of Technology in Perth, Australia and a Bachelor of Laws from the University of Queensland; he previously worked for Minter Ellison as a solicitor.

Lee Oi Hian – Non-executive Director

Mr Lee Oi Hian has been the Chief Executive Officer of KLK since 2001. He joined the Company in 1974 as an executive and was appointed to the Board of KLK in 1985. In 1988, he was appointed as Managing Director and became Chairman of KLK Group in 1993. He subsequently held the post of joint Chairman and Chief Executive Officer until 2008, when he relinquished his role as Chairman, remaining as Chief Executive Officer of the Group. He has served in various positions in the plantations industry, including the Malaysian Palm Oil Council, the Malaysian Palm Oil Board and the Malaysian Cocoa

Board. He is also currently the Chairman of Batu Kawan Berhad, and a trustee of several charitable organisations. Mr Lee Oi Hian is also an Honorary Fellow of the Malaysian Oil Scientists' and Technologies' Association (MOSTA) and Honorary Fellow of the Incorporated Society of Planters (FISP).

Teh Sar Moh Nee – Non-executive Director

Mr Teh Sar Moh Nee started his planting career in 1976 in Sime Darby Plantation Berhad before joining the KLK Group in 1984. He serves as Regional Director (Peninsular Malaysia) of the KLK Group and has also held the position of Chief Executive Officer at Ladang Perbadanan-Fima Berhad since May 2008. He is a Council Member and 2nd Deputy President of the Malaysian Agricultural Producers Association ("MAPA") and also sits on MAPA's Finance/Executive Committee and Negotiating Committee. Mr Teh Sar Moh Nee attended the Senior Management Programme at Harvard Business School and Senior Executive Programme at Stanford University Business School.

Yap Miow Kien – Non-executive Director

Ms Yap Miow Kien joined KLK in 2002 and is currently its Company Secretary and Senior General Manager (Legal and Secretariat). Prior to joining KLK, Ms Yap was a partner in a law firm. She is an Associate of the Malaysian Institute of Chartered Secretaries and Administrators. She was called to the bar at Middle Temple and completed a bachelor of law (Hons) at the University of Leeds.

Lee Guo Zhang – Non-executive Director

Mr Lee Guo Zhang graduated with a Bachelor Degree in Medicinal & Biological Chemistry from the University of Nottingham in 2009. He joined KLK in 2010 as an executive and has experience across various departments in the Company. He is currently a Senior Manager in the Plantations Division.

RECOMMENDATIONS HISTORY

Market index **FTSE AIM All Share**

Date	Market Index level	Share Price (p)	Target Price (p)	Opinion
Equatorial Palm Oil				
1 May 2015	752	3.63	14.0	BUY
16 Nov. 2015	728	1.88	14.0	BUY
24 Oct. 2016	829	1.75	8.0	BUY
27 Nov. 2017	1,030	3.00	6.2	BUY

RATINGS, CERTIFICATION AND DISCLOSURE

RATINGS SYSTEM

BUY: The stock is expected to generate absolute positive price performance of over 10% during the next 12 months.

NEUTRAL: The stock is expected to generate absolute price performance of between 10% positive and 10% negative during the next 12 months.

SELL: The stock is expected to generate absolute negative price performance of over 10% during the next 12 months.

RISK Qualifier: Speculative: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

The ratings are applicable to all research produced after 1st January 2016.

INVESTMENT ANALYST CERTIFICATION

All research is issued under the regulatory oversight of Mirabaud Securities LLP

Each Investment Analyst of Mirabaud Securities LLP whose name appears as the Author of this Investment Research hereby certifies that the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all of the Designated Investments or Relevant Issuers discussed herein that are within such Investment Analyst's coverage universe.

INVESTMENT RESEARCH DISCLOSURES

The following disclosures relate to this document: **10, 11, 12**

1. This is a commissioned or a non-independent research note/comment.
2. In the past 12 months Mirabaud Securities or its affiliates have had corporate Finance mandates or managed or co-managed a public offering of the relevant Issuer's securities or received compensation for Corporate Finance services from the Relevant Issuer, excluding acting as a corporate broker, on a retained basis, for the Relevant Issuer.
3. Mirabaud Securities expect to receive or intend to seek compensation for Corporate Finance services from this company in the next 6 months, excluding acting as a corporate broker, on a retained basis, for the Relevant Issuer.
4. The Investment Analyst or a member of the Investment Analyst's household has a long position in the shares or derivatives of the Relevant Issuer.
5. The Investment Analyst or a member of the Investment Analyst's household has a short position in the shares or derivatives of the Relevant Issuer.
6. At the date of production Mirabaud Securities or its affiliates have a net long position exceeding 0.5% of the issued share capital of the Relevant Issuer.
7. At the date of production Mirabaud Securities or its affiliates have a net short position exceeding 0.5% of the issued share capital of the Relevant Issuer.
8. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Mirabaud Securities and/or its affiliates beneficially owned 5% or more of any class of common equity securities of the Relevant Issuer.
9. A senior executive or director of Mirabaud Securities, or a member of his / her household, is an officer, director, advisor, or board member of the Relevant Issuer and/or one of its subsidiaries.
10. Mirabaud Securities acts as corporate broker, on a retained basis, for the Relevant Issuer.
11. This research note has been seen by the Relevant Issuer to review factual content only prior to publication.
12. Factual changes have been made by the Relevant Issuer prior to the distribution of this note/comment.

The Investment Analysts who are responsible for the preparation of this Investment Research are employed by Mirabaud Securities LLP a securities broker-dealer. The Investment Analysts who are responsible for the preparation of this Investment Research have received (or will receive) compensation linked to the general profits of Mirabaud Securities LLP.
Copies of the Mirabaud Securities Policy on the Management of Material Interests and Conflicts of Interest in Investment Research can be obtained from the Mirabaud Securities Compliance Department by emailing compliance@mirabaud.co.uk
For the valuation methodology and investment risks, please contact the primary analyst directly.

IMPORTANT INFORMATION

ISSUED BY MIRABAUD SECURITIES LLP, A LIMITED LIABILITY PARTNERSHIP AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY. A MEMBER OF THE LONDON STOCK EXCHANGE

 This document has been prepared and issued by Mirabaud Securities LLP or its associated companies and has been approved for publication in the United Kingdom by Mirabaud Securities LLP, a limited liability partnership authorised and regulated by the Financial Conduct Authority or via its branch in Spain called Mirabaud Securities LLP Sucursal en España under MiFID passporting arrangements and whose conduct of business activities are regulated by the CNMV. This document is distributed in Hong Kong by Mirabaud Securities (Asia) Limited, which is authorised as a licenced dealer in securities and regulated by the Hong Kong Securities and Futures Commission. Neither the information nor the opinions expressed in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities (i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from and based upon generally available information which Mirabaud Securities LLP believes to be reliable but the accuracy or completeness of which cannot be guaranteed. All comments and estimates given are statements of Mirabaud Securities LLP's or an associated company's opinion only and no express or implied representation or warranty is given or to be implied therefrom. All opinions expressed herein are subject to change without notice. This document does not take into account the specific investment objectives, financial status, attitude to risk or any other specific matters relevant to any person who receives this document and should therefore not be used in substitution for the exercise of judgment by such person. Neither Mirabaud Securities LLP nor any associated company accepts any liability whatsoever for any direct or consequential loss arising from the use of its advice or research publications save where such loss arises as a direct result of Mirabaud Securities LLP's or an associated company's negligence. Research publications are issued by Mirabaud Securities LLP or an associated company for private circulation to eligible counterparties, professional clients and professional advisers, ("its clients"), and specifically not to private or retail clients. They may not be reproduced, distributed or published by you for any purpose except with Mirabaud Securities LLP's express written permission. Mirabaud Securities LLP, an associated company, or their employees and officers may have a holding (long or short) in an investment which it knows will be the subject of a published research recommendation to clients. It may also have a consulting relationship with a company being reported on. Mirabaud Securities LLP or an associated company may also act as agent of its clients and may have or have undertaken transactions in investments covered by this document prior to your receipt of it. Additional information on the contents of this report is available on request.

IN THE UNITED STATES

Mirabaud Securities LLP is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to major U.S. institutional investors ONLY in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC").

MAJOR U.S. INSTITUTIONAL INVESTORS

The Information being furnished is for distribution to "Major U.S. Institutional Investors" within the meaning of Rule 15a-6 of the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934.