

28 August 2018 | 1QFY19 Results Review

## QL Resources Berhad

*Slow recovery of its fishery units*

### INVESTMENT HIGHLIGHTS

- **1QFY19 earnings rose by +4.4%yoy to RM43.9m**
- **MPM segment, QL's biggest earnings contributor, impacted by weak performance of its fishery units**
- **Concern over the outlook of ILF segment**
- **Maintain SELL with an adjusted TP of RM5.48**

**Earnings within expectations.** QL Resources Berhad (QL)'s 1QFY19 earnings came in at RM43.9m, an increase of +4.4%yoy. This is within expectations (albeit at lower-end), accounting for 18.0% of both ours and consensus' full year FY19 earnings forecasts. Historically, Q1 contributed approximately 21.0% of full year earnings. Despite the subdued performance of the Marine Product Manufacturing (MPM) segment, the group earnings grew due to the improved earnings of Integrated Livestock Farming (ILF).

**MPM segment impacted by low fish catch.** QL's biggest earnings contributor, the Marine Product Manufacturing (MPM) segment recorded marginal growth for both of its 1QFY19 revenue (+1.0%yoy) and profit before tax (+0.5%yoy). The subpar performance was mainly due to post El-Nino low fish cycle in Malaysia waters especially the Kota Kinabalu, Sabah and Endau, Johor operations. Moreover, a relatively stronger ringgit was unfavorable to the segment as it caused contribution from export of fishery products to drop.

**Concern over oversupply of eggs in Peninsular Malaysia.** The weak 1QFY19 performance of MPM segment was partially mitigated by an improved performance of the Integrated Livestock Farming (ILF) segment. The latter segment's 1QFY19 revenue and PBT leap substantially by +17.7%yoy and +31.1%yoy respectively. This was mainly attributable to: (i) increased in sales of animal feed trading; and (ii) positive contribution from regional poultry farms operation such as Indonesia and Vietnam. However, these were partially mitigated by the weaker performance of domestic poultry operation in view of oversupply of eggs in Peninsular Malaysia.

**Impact to earnings.** We made no changes to our FY19 and FY20 earnings forecasts post earnings announcement.

**Maintain SELL**

**Adjusted Target Price (TP): RM5.48**  
*(Previously RM4.71)*

RETURN STATS	
Price (27 August 2018)	RM6.18
Target Price	RM5.48
Expected Share Price Return	-11.3%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>-10.2%</b>

STOCK INFO	
KLCI	1,811.6
Bursa / Bloomberg	7084 / QLG MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	1622.44
Market cap. (RM'm)	10,026.66m
Price over NA	5.59
52-wk price Range	RM3.70-RM6.20
Beta (against KLCI)	0.69
3-mth Avg Daily Vol	1.04m
3-mth Avg Daily Value	RM6.10m
Major Shareholders (%)	
CBG Holdings Sdn Bhd	42.07
Farsathy Holdings Sdn Bhd	12.08
EPF	5.53

**Target Price.** We are rolling forward our valuation base year to FY20 and derive a new target price of **RM5.48** (previously RM4.71). This is based on pegging the FY20 EPS of 18.4sen per share to PER of 29.8x. The assigned PER multiple is the group's three-year average historical PER.

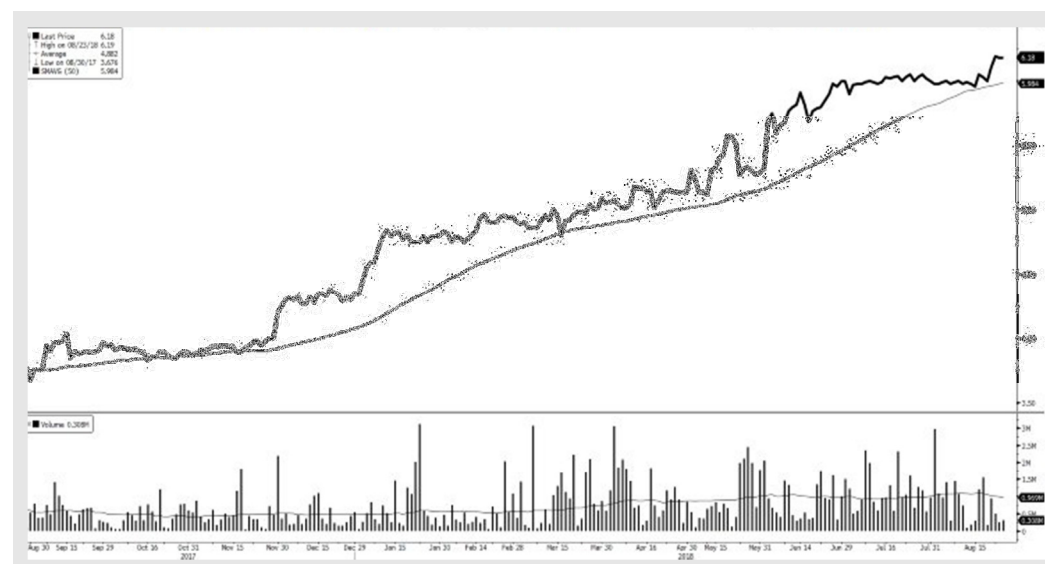
**Maintain SELL.** We believe that the MPM segment will remain suppressed by the prolong low fish catch cycle. While the overall group performance will continue to be lifted by the good performance of ILF segment, the segment's margin is the lowest among QL's three operating segments. Hence, its marginal growth does not contribute as much to the group's earnings. The stock is currently trading at PER of 44.7x which is approximately 60% premium on its historical five year historical PER of 28.3x. Given the lack of significant positive catalysts, we are reiterating our **SELL** recommendation on the stock.

## INVESTMENT STATISTICS

FYE March (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	2,853.9	3,012.0	3,263.3	3,666.2	4,106.2
PBT	249.5	260.5	255.3	319.8	369.6
<b>PAT</b>	<b>201.8</b>	<b>206.8</b>	<b>215.7</b>	<b>255.8</b>	<b>308.0</b>
Minority interests	9.7	11.6	10.2	9.6	9.8
<b>PATAMI</b>	<b>192.1</b>	<b>195.2</b>	<b>205.5</b>	<b>246.2</b>	<b>298.2</b>
Basic EPS (sen)	11.8	12.0	12.7	15.2	18.4
Net DPS (sen)	4.3	7.3	4.5	5.4	6.5
PAT margin (%)	7.1	6.9	6.6	7.0	7.5
PATAMI margin (%)	6.7	6.5	6.3	6.7	7.3
Effective tax rate (%)	19.1	20.6	15.5	20.0	16.7
<b>Basic EPS growth (%)</b>	<b>0.4</b>	<b>1.6</b>	<b>5.3</b>	<b>19.8</b>	<b>21.1</b>
Net dividend yield (%)	0.7	1.2	0.7	0.9	1.1
PER (x)	52.2	51.4	48.8	40.7	33.6

Source: Company, MIDFR

## DAILY PRICE CHART



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## QL RESOURCES BHD: 1QFY19 RESULTS REVIEW

FYE March (RM'm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue	816.2	784.4	778.5	4.8	4.0
Operating Profit	94.5	91.7	89.4	5.7	3.0
Depreciation and amortisation	(34.5)	(32.8)	(32.1)	7.6	5.0
Interest income	1.9	1.9	0.8	130.8	0.0
Finance costs	(13.1)	(8.3)	(10.6)	23.2	56.6
Share of profit/(loss) of associates (net)	2.3	3.4	2.2	5.2	(31.8)
<b>Profit before tax</b>	<b>51.2</b>	<b>55.9</b>	<b>49.8</b>	<b>2.8</b>	<b>(8.4)</b>
Income tax expense	(7.5)	(9.8)	(6.3)	19.9	(23.2)
<b>Profit after tax</b>	<b>43.7</b>	<b>46.1</b>	<b>43.5</b>	<b>0.4</b>	<b>(5.3)</b>
Minority interests	(0.2)	(0.3)	1.5	(114.1)	(22.6)
<b>PATAMI</b>	<b>43.9</b>	<b>46.4</b>	<b>42.0</b>	<b>4.4</b>	<b>(5.4)</b>
Basic EPS (sen)	2.7	2.9	2.6	4.2	(5.6)
				<i>+ / (-) ppts</i>	
PBT margin (%)	6.3	7.1	6.4	(0.1)	0.9
PAT margin (%)	5.3	5.9	5.6	(0.2)	0.5
PATAMI margin (%)	5.4	5.9	5.4	(0.0)	0.5
Effective tax rate (%)	14.7	17.5	12.6	2.1	2.8
<b>Segments</b>					
<b>Revenue</b>					
Marine Product Manufacturing (MPM)	217.3	206.5	215.1	1.0	5.2
Palm Oil Activities (POA)	72.3	89.9	115.9	(37.6)	(19.6)
Integrated Livestock Farming (ILF)	526.6	487.9	447.5	17.7	7.9
<b>Profit before tax (PBT)</b>					
Marine Product Manufacturing (MPM)	30.9	21.8	30.7	0.5	41.8
Palm Oil Activities (POA)	2.8	7.6	5.7	(50.5)	(62.6)
Integrated Livestock Farming (ILF)	17.5	26.6	13.3	31.1	(34.2)
<b>PBT margin (%)</b>					
Marine Product Manufacturing (MPM)	14.2	10.5	14.3	(0.1)	(3.7)
Palm Oil Activities (POA)	3.9	8.4	4.9	(1.0)	4.5
Integrated Livestock Farming (ILF)	3.3	5.4	3.0	0.3	2.1

Source: Company, MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.