

28 November 2017 | 3QFY18 Results Review

## QL Resources Berhad

*Stellar performance from the ILF segment*

### INVESTMENT HIGHLIGHTS

- 3QFY18 earnings rose by +3.2%yoy to RM57.9m
- Strong earnings recorded for ILF segment
- Nevertheless, MPM and POA segment recorded uninspiring performance
- Reaffirm NEUTRAL stance with a revised TP of RM4.74

**Within expectations.** QL Resources Berhad (QL)'s 3QFY18 earnings came in at RM57.9m. This brings the cumulative 9MFY18 earnings to RM159.9m which came in within ours and consensus expectations, accounting for 72.1% and 73.9% of full year FY18 earnings forecasts respectively. Against last year, revenue and earnings rose by +11.6%yoy and +3.2%yoy respectively while on a quarterly sequential basis, revenue rose by +10.3% but earnings dropped by -3.3%. The commendable 3QFY18 performance was due to the strong recorded earnings of the integrated livestock farming (ILF) segment but its solid performance is mitigated by the subdued earnings of the marine product manufacturing (MPM) segment.

**Strong earnings recorded for ILF segment.** The ILF's 3QFY18 revenue and profit before tax (PBT) increased by +8.9%yoy and +46.9%yoy respectively. The improvement in PBT was mainly due to the: (i) higher contribution from Indonesia and East Malaysia's poultry units and; (ii) lower cost of feed raw material mainly corn and soybean due to the strengthening of Ringgit. As a result, PBT margin improved to 5.4% from 4.0% recorded in the prior year corresponding quarter.

**MPM and POA segments recorded uninspiring performance.** MPM's 3QFY18 PBT dropped by -14.4%yoy. The subdued performance of the MPM divisions was due to the post El-Nino low fish cycle in Malaysia waters especially the Kota Kinabalu unit. This led to a lower contribution from Surimi and fishmeal operation in comparison to the corresponding quarter. Meanwhile, the Palm Oil Activities (POA) segment's 3QFY18 PBT dropped marginally -0.1%yoy. The stagnant performance was due to the: (i) lower CPO prices which was at RM2,592 per metric tonne in 3QFY18 in comparison to RM2,867 per metric tonne in the previous year corresponding quarter (a decline of -10.6%yoy) and; (ii) lower oil extraction rate as a result of heavy rainfall.

**Maintain NEUTRAL**


**Revised Target Price (TP): RM4.74**  
(Previously RM4.13)

RETURN STATS	
Price (26 February 2018)	RM4.95
Target Price	RM4.74
Expected Share Price Return	-4.2%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>-3.1%</b>

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	7084 / QLG MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	1622.438
Market cap. (RM'm)	8,031.07m
Price over NA	3.51
52-wk price Range	RM3.25-RM4.98
Beta (against KLCI)	0.59
3-mth Avg Daily Vol	0.56m
3-mth Avg Daily Value	RM2.57m
Major Shareholders (%)	
CBG Holdings Sdn Bhd	42.07
Farsathy Holdings Sdn Bhd	12.08
EPF	5.21

**Prospect.** We believe that QL will continue to report satisfactory performance in the 4QFY18 mainly driven by the recovery of the ILF segment driven. This is pursuant to the strengthening of Ringgit which will reduce the cost of animal feed raw material. Nevertheless, the prolong low fish catch cycle will continue to affect MPM segment performance.

**Impact to earnings.** No change to our earnings estimates at this juncture.

**Reaffirm NEUTRAL stance with a revised TP of RM4.74.** We are maintaining our **NEUTRAL** call on QL with a revised TP of RM4.74 per share (previously RM4.13). Our target price is premised on a higher PER19 of 29.8x and EPS19 of 15.9sen. Note that we updated the group's two year historical PER to 29.8x from 26.0x previously. 

## INVESTMENT STATISTICS

FYE March (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	2,707.8	2,853.9	3,012.0	3,320.9	3,690.9
PBT	246.0	249.5	260.5	287.8	321.9
<b>PAT</b>	<b>195.9</b>	<b>201.8</b>	<b>206.8</b>	<b>230.3</b>	<b>257.6</b>
Minority interests	4.5	9.7	10.9	8.6	9.7
<b>PATAMI</b>	<b>191.4</b>	<b>192.1</b>	<b>195.9</b>	<b>221.6</b>	<b>247.9</b>
Basic EPS (sen)	11.8	11.8	12.7	14.2	15.9
Net DPS (sen)	4.3	4.3	7.3	5.0	5.5
PAT margin (%)	7.2	7.1	6.9	6.9	7.0
PATAMI margin (%)	7.1	6.7	6.5	6.7	6.7
Effective tax rate (%)	20.3	19.1	20.6	20.0	20.0
<b>Basic EPS growth (%)</b>	<b>19.7</b>	<b>0.4</b>	<b>7.7</b>	<b>11.3</b>	<b>11.9</b>
Net dividend yield (%)	0.9	0.9	1.5	1.0	1.1
PER (x)	42.0	41.8	38.8	34.9	31.2

Source: Company, MIDFR

## DAILY PRICE CHART



Nabil Zainoodin, CA  
 nabil.zainoodin@midf.com.my  
 03-2772 1663

## QL Resources Bhd: 3QFY18 Results Review

FYE March (RM'm)	Quarterly results				Cumulative results			
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	892.0	808.9	799.1	11.6	10.3	2,479.4	2,198.3	12.8
Operating Profit	115.2	109.4	106.7	7.9	5.3	313.0	299.5	4.5
Depreciation and amortisation	(30.4)	(31.0)	(27.9)	8.9	(2.0)	(91.8)	(86.6)	6.0
Interest income	2.6	2.6	2.1	23.0	0.5	6.0	5.2	15.4
Finance costs	(12.1)	(12.1)	(7.8)	53.8	(0.0)	(34.7)	(27.1)	27.9
Share of profit/(loss) of associates (net)	2.4	2.3	2.3	6.6	7.4	6.9	8.0	(12.9)
<b>Profit before tax</b>	<b>77.8</b>	<b>71.2</b>	<b>75.4</b>	<b>3.2</b>	<b>9.2</b>	<b>199.4</b>	<b>198.9</b>	<b>0.3</b>
Income tax expense	(14.7)	(9.1)	(14.3)	3.0	62.6	(29.8)	(40.6)	(26.5)
<b>Profit after tax</b>	<b>63.1</b>	<b>62.2</b>	<b>61.1</b>	<b>3.2</b>	<b>1.5</b>	<b>169.6</b>	<b>158.3</b>	<b>7.1</b>
Minority interests	5.2	2.4	5.1	3.0	119.7	9.7	9.6	0.9
<b>PATAMI</b>	<b>57.9</b>	<b>59.8</b>	<b>56.0</b>	<b>3.2</b>	<b>(3.3)</b>	<b>159.9</b>	<b>148.7</b>	<b>7.5</b>
Basic EPS (sen)	3.6	4.8	3.5	3.5	(25.5)	9.9	9.2	7.5
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
PBT margin (%)	8.7	8.8	9.4	(0.7)	0.1	8.0	9.0	(1.0)
PAT margin (%)	7.1	7.7	7.6	(0.6)	0.6	6.8	7.2	(0.4)
PATAMI margin (%)	6.5	7.4	7.0	(0.5)	0.9	6.4	6.8	(0.3)
Effective tax rate (%)	18.9	12.7	18.9	(0.0)	(6.2)	15.0	20.4	(5.5)
<b>Segments</b>								
<b>Revenue</b>								
Marine Product Manufacturing (MPM)	266.2	217.6	230.1	15.7	22.3	698.9	664.1	5.2
Palm Oil Activities (POA)	104.0	77.5	89.9	15.6	34.1	297.4	247.3	20.2
Integrated Livestock Farming (ILF)	521.9	513.8	479.1	8.9	1.6	1,483.2	1,286.8	15.3
<b>Profit before tax (PBT)</b>								
Marine Product Manufacturing (MPM)	39.4	31.7	46.0	(14.4)	24.1	102.4	117.7	(13.0)
Palm Oil Activities (POA)	10.1	3.5	10.1	(0.1)	184.1	19.4	15.2	28.1
Integrated Livestock Farming (ILF)	28.4	36.0	19.3	46.9	(21.2)	76.7	66.1	16.1
<b>PBT margin (%)</b>								
Marine Product Manufacturing (MPM)	14.8	14.6	20.0	(5.2)	(0.2)	14.6	17.7	(3.1)
Palm Oil Activities (POA)	9.7	4.6	11.2	(1.5)	(5.1)	6.5	6.1	0.4
Integrated Livestock Farming (ILF)	5.4	7.0	4.0	1.4	1.6	5.2	5.1	0.0

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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.