

25 May 2017 | 4QFY18 Results Review

## QL Resources Berhad

*MPM segment to continues to underperform*

### INVESTMENT HIGHLIGHTS

- **4QFY18 earnings decreased by -1.8%yoy, impacted by underperformance from MPM and POA segments**
- **Slight improvement seen from the ILF segment**
- **4.5sen dividend announced for FY18**
- **Prolong low fish catch cycle to further impact MPM segment**
- **Downgrade to SELL with a revised TP of RM4.71**

**Earnings lagged our expectation.** QL Resources Berhad (QL)'s 4QFY18 earnings came in at RM46.4m. Against last year, 4QFY18 revenue and earnings dropped by -3.6%yoy and -1.8%yoy respectively while on quarterly sequential basis, revenue and earnings declined by -12.1% and -1.8% respectively. The weak 4QFY18 performance was due to the continued poor performance of Marine Product Manufacturing (MPM) segment. Cumulatively, full year FY18 earnings amounted to RM206.2m (+5.3%yoy) which lagged ours but within consensus expectations, accounting for 93.1% and 96.7% of full year FY18 earnings forecasts respectively.

**MPM segment impacted by low fish catch cycle.** The segment's 4QFY18 Profit before tax (PBT) dropped by -17.7%yoy, which brought its losing streak to eight consecutive quarters. The weakness of the MPM segment was due to post El-Nino low fish cycle in Malaysia waters especially the Kota Kinabalu unit. As fish accounts of approximately 60% of the cost of producing surimi, a disruption in fish supply will translate into a lower margin for the segment. This is as QL has to source its fish supply elsewhere at a higher price.

**ILF segment revenue dropped.** QL's biggest revenue contributor, the Integrated Livestock Farming (ILF) segment's 4QFY18 revenue declined by -1.7%yoy mainly due to the lower volume of animal feed traded. Nevertheless, due to the better performance of poultry farms operation from Indonesia and East Malaysia's poultry units, PBT for the segment recorded higher by +2.6%yoy. This is as the poultry unit PBT margins is higher than the animal feed trading unit by +2.0ppts to +5%ppts.

**Dividend proposed.** The company propose a final single tier dividend of 4.50sen per share in respect of FY18 subject to the approval of the shareholders at the forthcoming general meeting.

**Downgrade to SELL**  
*(Previously NEUTRAL)*  
**Revised Target Price (TP): RM4.71**  
*(Previously RM4.74)*

### RETURN STATS


Price (24 <sup>th</sup> May 2018)	RM5.35
Target Price	RM4.71
Expected Share Price Return	-11.9%
Expected Dividend Yield	+1.0%
<b>Expected Total Return</b>	<b>-10.9%</b>

### STOCK INFO

KLCI	1,775.66
Bursa / Bloomberg	7084 / QLG MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	1622.44
Market cap. (RM'm)	8,631.37m
Price over NA	4.85
52-wk price Range	RM3.65-RM5.62
Beta (against KLCI)	0.67
3-mth Avg Daily Vol	0.96m
3-mth Avg Daily Value	RM4.87m
Major Shareholders (%)	
CBG Holdings Sdn Bhd	42.07
Farsathy Holdings Sdn Bhd	12.08
EPF	5.53

**Impact to earnings.** We are revising FY19 earnings forecasts downwards to RM246.2m as we are assuming a more conservative performance from the MPM segment.

**Prospect.** 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.

**Downgrade to SELL.** We are downgrading our call to **SELL** (previously NEUTRAL) on QL with a revised TP of RM4.71 (previously RM4.74). Our target price is premised on a PER19 of 29.8x and EPS19 of 15.8sen. The PER is based on the group's two year historical PER. 

## INVESTMENT STATISTICS

FYE March (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	2,853.9	3,012.0	3,263.8	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	10.9	9.4	9.6	9.8
<b>PATAMI</b>	<b>192.1</b>	<b>195.9</b>	<b>206.2</b>	<b>246.2</b>	<b>287.4</b>
Basic EPS (sen)	11.8	12.1	12.7	15.8	19.0
Net DPS (sen)	4.3	7.3	4.5	5.5	6.6
PAT margin (%)	7.1	6.9	6.6	7.0	7.5
PATAMI margin (%)	6.7	6.5	6.3	6.7	7.0
Effective tax rate (%)	19.1	20.6	22.4	20.0	20.0
<b>Basic EPS growth (%)</b>	<b>0.4</b>	<b>2.0</b>	<b>5.2</b>	<b>24.0</b>	<b>20.4</b>
Net dividend yield (%)	0.8	1.4	0.8	1.0	1.2
PER (x)	45.2	44.3	42.1	33.9	28.2

Source: Company, MIDFR

## DAILY PRICE CHART



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## QL Resources Bhd: 4QFY18 Results Review

FYE March (RM'm)	Quarterly results				Cumulative results			
	4QFY18	3QFY18	4QFY17	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue	784.4	892.0	813.7	(3.6)	(12.1)	3,263.8	3,012.0	8.4
Operating Profit	91.7	115.2	95.1	(3.5)	(20.4)	404.7	394.6	2.6
Depreciation and amortisation	(32.8)	(30.4)	(26.2)	25.2	8.2	(124.6)	(112.8)	10.5
Interest income	1.9	2.6	2.2	(13.0)	(27.3)	7.9	7.4	7.1
Finance costs	(8.3)	(12.1)	(13.1)	(36.3)	(30.9)	(43.0)	(40.2)	7.0
Share of profit/(loss) of associates (net)	3.4	2.4	3.6	(5.7)	41.0	10.4	11.6	(10.7)
<b>Profit before tax</b>	<b>55.9</b>	<b>77.8</b>	<b>61.6</b>	<b>(9.2)</b>	<b>(28.2)</b>	<b>255.3</b>	<b>260.5</b>	<b>(2.0)</b>
Income tax expense	(9.8)	(14.7)	(13.1)	(25.1)	(33.5)	(39.6)	(53.7)	(26.2)
<b>Profit after tax</b>	<b>46.1</b>	<b>63.1</b>	<b>48.5</b>	<b>(5.0)</b>	<b>(26.9)</b>	<b>215.7</b>	<b>206.8</b>	<b>4.3</b>
Minority interests	(0.3)	5.2	1.3	(120.8)	(105.1)	9.4	10.9	(13.3)
<b>PATAMI</b>	<b>46.4</b>	<b>57.9</b>	<b>47.2</b>	<b>(1.8)</b>	<b>(19.9)</b>	<b>206.2</b>	<b>195.9</b>	<b>5.3</b>
Basic EPS (sen)	2.9	3.6	2.9	(1.7)	(19.9)	12.7	12.1	5.2
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	7.1	8.7	7.6	(0.4)	1.6	7.8	8.6	(0.8)
PAT margin (%)	5.9	7.1	6.0	(0.1)	1.2	6.6	6.9	(0.3)
PATAMI margin (%)	5.9	6.5	5.8	0.1	0.6	6.3	6.5	(0.2)
Effective tax rate (%)	17.5	18.9	21.2	(3.7)	1.4	15.5	20.6	(5.1)
<b>Segments</b>								
<b>Revenue</b>								
Marine Product Manufacturing (MPM)	206.5	266.2	213.0	(3.0)	(22.4)	905.4	877.1	3.2
Palm Oil Activities (POA)	89.9	104.0	104.5	(13.9)	(13.5)	387.3	351.9	10.1
Integrated Livestock Farming (ILF)	487.9	521.9	496.2	(1.7)	(6.5)	1,971.2	1,783.1	10.5
<b>Profit before tax (PBT)</b>								
Marine Product Manufacturing (MPM)	21.8	39.4	26.4	(17.7)	(44.7)	124.2	146.6	(15.3)
Palm Oil Activities (POA)	7.6	10.1	9.3	(18.4)	(25.0)	27.9	25.0	11.9
Integrated Livestock Farming (ILF)	26.6	28.4	25.9	2.6	(6.4)	103.2	89.0	16.0
<b>PBT margin (%)</b>								
Marine Product Manufacturing (MPM)	10.5	14.8	12.4	(1.9)	4.2	13.7	16.7	(3.0)
Palm Oil Activities (POA)	8.4	9.7	8.9	(0.5)	1.3	7.2	7.1	0.1
Integrated Livestock Farming (ILF)	5.4	5.4	5.2	0.2	(0.0)	5.2	5.0	0.2

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.