

QL Resources Berhad

(7084 | QLG MK) Main | Consumer Products & Services | Agriculture & Products

Expecting More Goal-Focused Expansion Ahead

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Solid revenue growth was driven by improved performance in all four segments**
- **Steady 1HFY24 revenue and earnings backed by diversified operations**
- **Revised earnings expectation for FY24-26F**
- **Maintain BUY with a lower TP of RM6.25 (from RM6.75)**

Within expectation. QL Resources ("QL") 1HFY24 core PATANCI of RM215.5m came in within our FY24 estimation, but came in above consensus'. It accounted for a 52.6% of ours and 55.9% of the consensus' FY24F projections. No dividend was declared during the quarter.

Solid revenue growth was driven by improved performance in all four segments. On a quarterly basis, the group's revenue increased by +5.7%qoq to RM1.69b, primarily attributed to stronger revenue growth in Marine Product Manufacturing (MPM), Palm Oil and Clean Energy (POCE), Integrated Livestock Farming (ILF), and the Convenience store chain (CVS). The higher revenue, coupled with (1) improved farm produce selling prices in Indonesia and Vietnam, (2) enhanced margin in PO activities, and (3) improved margin from CVS's operations, resulted in a core PATANCI increase of +32.1%qoq to RM122.6m. On a yearly basis, core PATANCI grew +30.6%yoy to RM122.6m, aligning with a +3.2%yoy increase in revenue to RM1.69b. The positive performance was mainly driven by (1) marginal improvement in MPM due to better fishing activities, fishmeal (good fish landing), and sustained demand for surimi-based products, (2) enhanced POCE revenue and earnings from higher FFB tonnage produced and processed, as well as greater sales and project margin at BM GreenTech, (3) increased earnings from ILF due to better feed raw material trading margin, stronger Malaysia farming operations, better Indonesia farming operations that increased volume and sales, and low unit costs, and (4) the opening of an additional 60 new family market stores and the setup of FM mini.

Steady 1HFY24 revenue and earnings backed by diversified operations. Cumulatively, core PATANCI rose +22.2%yoy to RM215.5m, in tandem with a +4.1%yoy growth in revenue to RM3.3b. This was supported by (1) better margins for fishmeal and surimi-based products, (2) higher sales and project margins at BM Greentech, (3) higher FFB yield, OER, and better milling efficiency, and (4) better feed raw material trading margin due to lower unit costs. Overall, the better PBT from MPM, POCE, and ILF has more than offset the -6.4%yoy drop in CVS' PBT to RM28.6m which dragged by higher operating costs.

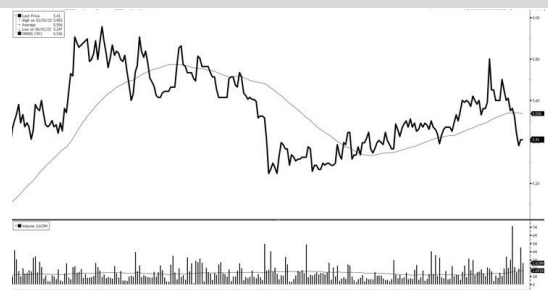
Maintain BUY

Revised Target Price: RM6.25
(Previously RM6.75)

RETURN STATISTICS

Price @ 29 th Nov 2023 (RM)	5.41
Expected share price return (%)	+15.5
Expected dividend yield (%)	+1.5
Expected total return (%)	+17.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.0	-3.3
3 months	-0.9	0.8
12 months	-2.2	-0.1

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	6,713.1	7,122.8	7,588.9
EBITDA	849.1	906.6	970.8
Profit before tax (PBT)	541.1	597.9	659.3
Core PATANCI	405.9	448.4	494.5
Core EPS (sen)	16.7	18.4	20.3
DPS (sen)	8.3	9.2	10.2
Dividend Yield (%)	1.5	1.7	1.9

KEY STATISTICS


FBM KLCI	1,448.02
Issue shares (m)	2433.66
Estimated free float (%)	25.01
Market Capitalization (RM'm)	13,166.09
52-wk price range	RM5.23-RM6.09
3-mth average daily volume (m)	1.64
3-mth average daily value (RM'm)	9.04
Top Shareholders (%)	
CBG L PTE LTD	40.25
PELITA GLOBAL SDN BHD	11.93
Farsathy Holdings Sdn Bhd	11.57

Analyst(s)

Genevieve Ng Pei Fen
Genevieve.ng@midf.com.my

Outlook. Moving forward, the new production line in Figo is expected to commission by Dec 2023. The expansion of the Hutan Melintang plant is in the process of applying for land partitioning and industrial land conversion, as well as the development of order application issuance for CCC for the new worker quarter. The PT hasil laut plant is on track for commissioning in 4QFY24. The group also mentioned that the clean energy business (under BM GreenTech) outlook remains positive, along with substantial orders on hand. For 3QFY24, the group targets to kickstart the supply of inflight hot food to MAS Awana. While it is just a pilot phase, we are positive on this expansion plan, given that QL's centralized kitchen has the capability to provide catering and expand the revenue base. The store expansion of FM Mini will continue at strategic locations but at a slower pace. Meanwhile, more Family Mart stores are expected to open in the Northern region and East Coast region. Overall, the capex allocation for FY24F remains unchanged at RM300-400m.

Revised earnings expectation for FY24-26F. Despite earnings coming in within expectations, we have adjusted our earnings forecast for FY24-26F lower by -1%/-8.8%/-6.8%. This was after factoring in (1) lower revenue and store expansion for the CVS segment due to the weakening consumer sentiment, (2) reduced revenue from POCE owing to the decline in CPO price – in-line with our in-house plantation analyst forecast, and (3) weaker demand from the Vietnam operation.

Maintain BUY with a lower TP of RM6.25 (from RM6.75). Our revised **TP** is based on an updated growth rate of 3.5 (from 3.7%) and an unchanged WACC of 6.6%. We remained optimistic about QL Resources' FY2F outlook, underpinned by: (1) its diversified revenue base, which operates across four divisions and thus offers protection against potential downside risks; and (2) better performance for the MPM and ILF divisions ahead on the back of solid demand for their products. We like QL for their venture into a new market by supplying inflight hot food to MAS Awana through the CVS segment. While still in the initial stage, this move signifies potential for a new market and future revenue. QL is currently trading at an FY25F PER of 29.4x, which is below its 2-year historical PE of 43x. **The downside risk** is a sharp increase in input costs, which will erode margins in the MPM, ILF, and Convenience value services (CVS) divisions. 

QL Resources: 2QFY24 Results Summary

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	1,690.2	1,599.4	1,638.2	3.2	5.7	3,289.6	3,160.1	4.1
Operating Expenses	(1,435.0)	(1,382.8)	(1,435.4)	(0.0)	3.8	(2,817.8)	(2,777.3)	1.5
EBITDA	255.1	216.7	202.8	25.8	17.8	471.8	382.7	23.3
Depreciation & Amortisation	(62.9)	(64.3)	(60.5)	3.9	(2.2)	(127.1)	(120.1)	5.8
EBIT	192.3	152.4	142.3	35.1	26.2	344.7	262.6	31.2
Net finance income/(cost)	(15.6)	(16.3)	(13.6)	15.2	(4.3)	(32.0)	(25.9)	23.4
Profit before Associates & JV	176.7	136.1	128.7	37.2	29.8	312.7	236.7	32.1
Share of results of an associate	0.1	0.3	0.5	(83.3)	(73.3)	0.4	0.6	(34.0)
Profit before tax (PBT)	176.7	136.4	129.2	36.8	29.6	313.1	237.3	31.9
Tax expense	(43.8)	(36.5)	(29.8)	47.1	20.0	(80.2)	(54.4)	47.5
Profit After tax (PAT)	133.0	99.9	99.5	33.7	33.1	232.9	182.9	27.3
PATANCI	122.6	92.8	93.9	30.6	32.1	215.5	176.3	22.2
Core PATANCI	122.6	92.8	93.9	30.6	32.1	215.5	176.3	22.2
Core EPS (sen)	5.0	3.8	3.9	30.6	32.1	8.9	7.2	22.2
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
EBIT Margin	11.4	9.5	8.7	2.7	1.8	10.5	8.3	2.2
PBT Margin	10.5	8.5	7.9	2.6	1.9	9.5	7.5	2.0
Core PATANCI Margin	7.3	5.8	5.7	1.5	1.5	6.5	5.6	1.0
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net debt/total equity (%)	0.3	0.3	0.3	(0.1)	(0.0)	0.3	0.3	(0.1)
Effective tax rate (%)	24.8	26.7	23.0	1.7	(2.0)	25.6	22.9	2.7

Source: Company, MIDFR

QL Resources: Breakdown by operating segment

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue (External):								
MPM	363.6	347.0	352.9	3.0	4.8	710.6	685.3	3.7
ILF	871.8	822.2	904.7	(3.6)	6.0	1,694.0	1,751.3	(3.3)
CVS	274.9	254.8	223.5	23.0	7.9	529.7	424.8	24.7
POCS	179.9	175.4	157.1	14.5	2.6	355.2	298.6	19.0
Total	1,690.1	1,599.4	1,638.2	3.2	5.7	3,289.6	3,160.1	4.1
Operating Profit:								
MPM	78.4	57.1	76.4	2.6	37.4	135.5	126.5	7.1
ILF	67.4	56.4	35.0	92.8	19.7	123.8	81.7	51.5
CVS	17.0	11.6	14.7	15.6	46.7	28.6	30.5	(6.4)
POCS	13.9	11.4	3.2	337.9	22.2	25.3	(1.4)	(1,922.3)
Total	176.7	136.4	129.2	36.7	29.6	313.1	237.3	31.9
Operating profit margin:								
MPM	21.6	16.4	21.6	(0.1)	5.1	19.1	18.5	0.6
ILF	7.7	6.9	3.9	3.9	0.9	7.3	4.7	2.6
CVS	6.2	4.5	6.6	(0.4)	1.6	5.4	7.2	(1.8)
POCS	7.7	6.5	2.0	5.7	1.2	7.1	(0.5)	7.6
Total	10.5	8.5	7.9	2.6	1.9	9.5	7.5	2.0

Source: Company, MIDFR

**Marine Product Manufacturing (MPM)

**Palm Oil and Clean Energy (POCE)

**Integrated Livestock Farming (ILF)

**Convenience store chain (CVS).

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	5,236.0	6,242.6	6,713.1	7,122.8	7,588.9
Cost of Sales	(4,333.6)	(4,988.4)	(5,179.3)	(5,506.3)	(5,878.4)
Gross Profit	902.5	1,254.2	1,533.8	1,616.4	1,710.5
Other Income	57.4	38.5	50.7	54.3	58.4
Administrative expenses	(325.6)	(367.0)	(374.9)	(377.9)	(382.5)
Distribution Costs	(240.5)	(322.2)	(311.8)	(334.1)	(359.6)
Other operating expenses	(29.1)	(67.2)	(48.6)	(52.1)	(56.1)
EBITDA	594.7	782.8	849.1	906.6	970.8
EBIT	364.6	536.3	602.9	656.8	717.4
Profit before tax (PBT)	321.2	480.8	541.1	597.9	659.3
Profit After tax (PAT)	235.5	361.9	405.9	448.4	494.5
Core PATANCI	212.3	377.0	405.9	448.4	494.5
Core EPS (sen)	8.7	15.5	16.7	18.4	20.3
DPS (sen)	3.5	7.0	8.3	9.2	10.2
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,187.3	2,209.9	2,234.9	2,270.9	2,320.0
Intangible assets	128.1	125.0	134.4	142.6	152.0
Total Non-current assets	2,856.3	2,926.9	2,987.4	3,022.8	3,077.0
Biological Assets	232.0	251.9	251.9	267.8	285.9
Inventories	679.3	955.2	850.9	904.6	965.7
ST - Trade and other receivables	679.3	616.4	698.6	741.2	789.7
Cash and cash equivalents	481.1	346.5	447.1	476.8	510.5
Total current assets	2,100.8	2,358.2	2,450.8	2,605.1	2,780.6
Total Assets	4,957.1	5,285.1	5,438.2	5,627.9	5,857.6
Total Equity	2,706.4	2,887.5	3,064.7	3,152.3	3,270.1
LT Loans and borrowings	436.3	237.9	245.0	252.4	260.0
Total Non-current liabilities	751.9	610.9	646.8	679.5	716.0
ST Trade and other payables	464.0	649.1	555.4	590.5	630.4
ST Loans and borrowings	924.1	1,017.2	1,047.7	1,079.1	1,111.5
Total Current Liabilities	1,498.8	1,786.7	1,726.7	1,796.0	1,871.5
Total Liabilities	2,250.6	2,397.6	2,373.5	2,475.6	2,587.6
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	321.2	480.8	541.1	597.9	659.3
Cash flow from operations	470.4	618.6	760.0	722.4	808.2
Cash flow from investing	(198.2)	(231.4)	(402.0)	(425.1)	(484.4)
Cash flow from financing	(280.9)	(515.8)	(254.0)	(267.7)	(290.1)
Net cash flow	(8.7)	(128.6)	103.9	29.7	33.7
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	480.5	471.8	343.2	447.1	476.8
Net cash/(debt) c/f	471.8	343.2	447.1	476.8	510.5
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	26.7	24.7	25.0	25.0	25.0
Dividend Yield (%)	0.6	1.3	1.5	1.7	1.9
PER (x)	41.6	38.6	32.5	29.4	26.6
Biological Assets (Days)	18.6	17.8	17.8	17.8	17.8
Inventories (Days)	56.1	60.0	60.0	60.0	60.0
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	17.2	20.1	22.8	22.7	22.5
EBITDA Margin (%)	11.4	12.5	12.6	12.7	12.8
EBIT Margin (%)	7.0	8.6	9.0	9.2	9.5
Core PATANCI Margin (%)	4.1	6.0	6.0	6.3	6.5

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology