

QL Resources Berhad

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

Maintain BUY

Stable Outlook Ahead

Unchanged Target Price: RM6.25

KEY INVESTMENT HIGHLIGHTS

- Meeting with QL Resources
- Continued price control and subsidies for eggs in the near term
- Manageable impact from lower egg order from Indonesia MCD
- Convenience store on track to expand
- Sufficient capacity to supply inflight hot food to MAS Awana
- Maintain BUY with an unchanged TP of RM6.25

Meeting with QL Resources. We recently held a meeting with QL Resources and remain optimistic about its FY24 outlook. The key highlights from meeting are as follows:

Continued price control and subsidies for eggs in the near term.

Recall that the government removed the price control and subsidies for chicken effective 1 November 2023, while the subsidies for eggs remained unchanged at RM0.10/egg. Based on our channel check, price control and subsidies for eggs continue to be in place in CY23. This is partly due to the tight egg supply in Malaysia, likely resulting from the shortage of grandparent and parent layer DOC at the beginning of the year, primarily affected by the limited supply from the key suppliers. Note that there are only 2 suppliers of great-grandfather DOC in the world

Manageable impact from lower egg order from Indonesia MCD.

The group highlighted a decrease in demand from McDonald's Indonesia following the Indonesian consumers' boycott of Israeli products in support of Palestine. However, the order is normalizing recently, and the impact is manageable, considering that McDonald's Indonesia is not a key customer in the Indonesia Integrated Livestock segment. Note that the ILF segment contributed 55% of total FY23 revenue.

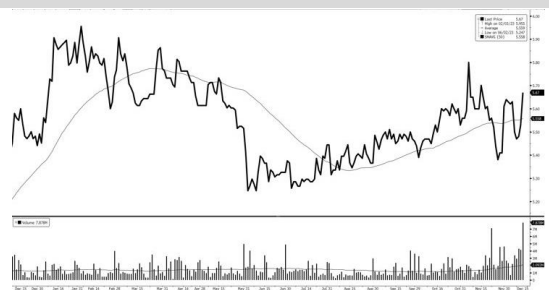
Convenience store on track to expand.

As of 2Q24, QL has 379 Family Mart & Fami CAFÉ outlets, with FM Mini comprising 84 outlets. Moving forward, the group remains on track to open more outlets in the Northern region and East Coast, with the total number of outlets expected to surpass 400 stores by FY24. The expansion of FM Mini will continue but at a slower pace. Moving forward, the group anticipates the convenience store segment's topline and bottom line will continue to grow, supported by both the expanding number of stores and ongoing efforts to improve operating efficiency.

RETURN STATISTICS

| | |
|--|--------|
| Price @ 13 th Dec 2023 (RM) | 5.67 |
| Expected share price return (%) | +10.20 |
| Expected dividend yield (%) | +1.50 |
| Expected total return (%) | +11.69 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | 1.3 | 1.5 |
| 3 months | 3.8 | 3.8 |
| 12 months | 2.7 | 5.2 |

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 | 1.6 | 1.8 |


KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,448.04 |
| Issue shares (m) | 2433.66 |
| Estimated free float (%) | 25.01 |
| Market Capitalization (RM'm) | 13,798.84 |
| 52-wk price range | RM5.23-RM6.09 |
| 3-mth average daily volume (m) | 1.93 |
| 3-mth average daily value (RM'm) | 10.70 |
| 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

Sufficient capacity to supply inflight hot food to MAS Awana. QL Kitchen commenced supplying inflight hot food to MAS Awana in 3QFY24 but it is still in the pilot phase. Recall that QL Kitchen is one of the 10 partners awarded the contract to cook and freeze the food, then deliver it to MAG Catering Operations (MCAT), and finally, to the planes. We understand that QL Resources has ample production capacity for inflight hot food. Notably, QL Central Kitchen can supply hot food to 600 Family outlets, despite having only 379 outlets at present. We are positive about this development for QL Resources, as it enhances the factory's utilization rate.

Maintain BUY with an unchanged TP of RM6.25. We make no changes to our earnings forecast for FY24-26F post meeting with the management. Our TP is based on an unchanged growth rate of 3.5% and an unchanged WACC of 6.6%. We remain 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 venturing 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. **Downside risk** includes a sharp increase in input costs, which may erode margins in the MPM, ILF, and Convenience Value Services (CVS) divisions. 

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 | 1.2 | 1.5 | 1.6 | 1.8 |
| PER (x) | 43.6 | 40.5 | 34.0 | 30.8 | 27.9 |
| 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