

QL Resources Berhad

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

Maintain BUY

Stable and Solid Outlook

Revised Target Price: RM6.50
(Previously RM6.25)

KEY INVESTMENT HIGHLIGHTS

- **Beat expectations**
- **Lower dividend of 3.0sen/share**
- **Better 3QFY24 core PATANCI supported by strong earnings from all segments**
- **Flattish core earnings on a quarterly basis in 3QFY24**
- **Maintain BUY with a revised TP of RM6.50 (from RM6.25)**

Beat expectations. QL Resources ("QL") reported a 9MFY24 core PATANCI of RM339.1m, exceeding ours and consensus' full-year FY24 estimations of 83.5%/82.7% respectively. This was mainly due to (1) greater-than-expected POCE revenue on the back of higher project progress and margin recovery and (2) better-than-expected ILF performance driven by lower feed costs, subsidies received, and contributions from newly acquired farms.

Lower dividend of 3.0sen/share. On 29 Feb 2024, QL declared an interim single-tier dividend of 3.0sen/share for FY24, slightly lower than the first-interim dividend of 3.5sen/share declared in FY23.

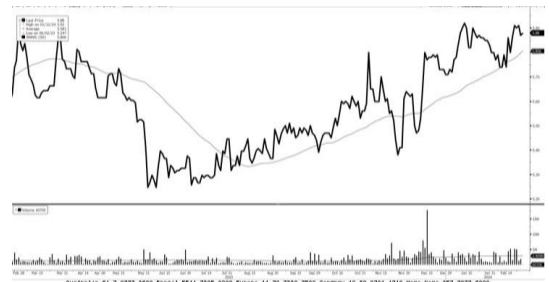
Better 3QFY24 core PATANCI supported by strong earnings from all segments. On a yearly basis, the topline increased +5.1% yoy to RM1.71b in 3QFY24. This was mainly driven by higher project progress in the POCE segment along with additional revenue from 42 new Family Mart stores and additional FM Mini. The core PATANCI surged +27.2% yoy to RM123.6m, mainly driven by higher revenue along with (1) better margins for fishmeal and surimi-based products, (2) better profits from the POCE segment thanks to margin recovery at BM Greentech and better palm oil activities, (3) improved feed raw material trading margins, cost subsidies received, and additional contributions from newly acquired layer farms in Malaysia operations, as well as (4) store operation efficiency at the CVS segment.

Flattish core earnings on a quarterly basis in 3QFY24. QL's revenue rose +1.3% qoq to RM1.71b mainly due to higher trading volume for feed raw material and additional revenue from 6 new Family Mart stores. This has more than offset the lower performance of MPM and POCE segments. On the flip side, the withdrawal of subsidies for broiler chicken in Malaysia and higher operating costs in CVS have more than offset the greater revenue and lower input material costs of surimi-based products. As such, core PATANCI rose marginally by +0.8% qoq to RM123.6m.

RETURN STATISTICS

Price @ 29 th Feb 2024 (RM)	5.85
Expected share price return (%)	+11.10
Expected dividend yield (%)	+1.50
Expected total return (%)	+12.62

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.3	-3.8
3 months	3.3	0.4
12 months	0.2	-4.7

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	6,721.3	7,138.9	7,622.9
EBITDA	879.6	946.7	1,022.8
Profit before tax (PBT)	571.6	638.0	711.3
Core PATANCI	428.2	478.7	534.5
Core EPS (sen)	17.6	19.7	22.0
DPS (sen)	8.8	9.8	11.0
Dividend Yield (%)	1.5	1.7	1.9

KEY STATISTICS


FBM KLCI	1,551.44
Issue shares (m)	2433.66
Estimated free float (%)	25.01
Market Capitalization (RM'm)	14,358.58
52-wk price range	RM5.23-RM6.09
3-mth average daily volume (m)	2.97
3-mth average daily value (RM'm)	16.97
Top Shareholders (%)	
CBG L PTE LTD	40.25
PELITA GLOBAL SDN BHD	11.93
Farsathy Holdings Sdn Bhd	11.57

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Stronger cumulative core PATANCI, in tandem with higher revenue. Cumulatively, the core PATANCI increased +24% yoy to RM339.1m largely due to better performance from all divisions, particularly POCE segment profit turned into black in 9MFY24.

Revised FY24-26F earnings forecast higher. Given that earnings came in above expectations, we adjust FY24-26F earnings higher by +5.5%/+6.8%/+8.1% respectively. This adjustment is made after factoring in (1) higher trading margins for feed raw material, (2) continuous subsidies for eggs received in the near term, as well as (3) better revenue and income received in the clean energy segment under POCE.

Maintain BUY with a revised TP of RM6.50 (from RM6.25). Our revised TP is based on an unchanged growth rate of 3.5% and an updated WACC of 6.7% (from 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 additional revenue. **Downside risks** include a sharp increase in input costs, which may erode margins in the MPM, ILF, and CVS divisions. 

QL Resources: 3QFY24 Results Summary

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	1,712.0	1,690.2	1,629.1	5.1	1.3	5,001.6	4,789.2	4.4
Operating Expenses	(1,452.7)	(1,435.0)	(1,421.0)	2.2	1.2	(4,270.5)	(4,198.3)	1.7
EBITDA	259.3	255.1	208.1	24.6	1.6	731.1	590.9	23.7
Depreciation & Amortisation	(66.7)	(62.9)	(62.3)	7.0	6.0	(193.8)	(182.4)	6.2
EBIT	192.7	192.3	145.9	32.1	0.2	537.3	408.5	31.5
Net finance income/(cost)	(15.4)	(15.6)	(15.1)	2.2	(1.2)	(47.4)	(41.0)	15.6
Profit before Associates & JV	177.2	176.7	130.7	35.5	0.3	489.9	367.5	33.3
Share of results of an associate	0.4	0.1	0.2	67.3	333.7	0.8	0.8	(7.1)
Profit before tax (PBT)	177.6	176.7	131.0	35.6	0.5	490.7	368.3	33.2
Tax expense	(43.1)	(43.8)	(29.9)	44.2	(1.6)	(123.3)	(84.3)	46.3
Profit After tax (PAT)	134.5	133.0	101.1	33.1	1.2	367.4	284.0	29.4
PATANCI	123.6	122.6	97.2	27.2	0.8	339.1	273.5	24.0
Core PATANCI	123.6	122.6	97.2	27.2	0.8	339.1	273.5	24.0
Core EPS (sen)	5.1	5.0	4.0	27.2	0.8	13.9	11.2	24.0
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	11.3	11.4	9.0	2.3	(0.1)	10.7	8.5	2.2
PBT Margin	10.4	10.5	8.0	2.3	(0.1)	9.8	7.7	2.1
Core PATANCI Margin	7.2	7.3	6.0	1.3	(0.0)	6.8	5.7	1.1
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 (%)	24.3	24.8	22.8	1.4	(0.5)	25.1	22.9	2.2

Source: Company, MIDFR

QL Resources: Breakdown by operating segment

FYE MAR (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue (External):								
MPM	361.7	363.6	362.5	(0.2)	(0.5)	1,072.3	1,047.8	2.3
ILF	911.3	871.8	912.9	(0.2)	4.5	2,605.3	2,664.2	(2.2)
CVS	284.7	274.9	218.5	30.3	3.6	814.4	643.4	26.6
POCS	154.6	179.9	135.1	14.4	(14.1)	509.8	433.7	17.5
Total	1,712.2	1,690.1	1,629.1	5.1	1.3	5,001.8	4,789.2	4.4
Operating Profit:								
MPM	88.7	78.4	74.6	19.0	13.1	224.1	201.0	11.5
ILF	63.6	67.4	51.9	22.6	(5.7)	187.4	133.6	40.3
CVS	16.5	17.0	5.8	185.3	(2.6)	45.1	36.3	24.2
POCS	8.8	13.9	(1.2)	(803.5)	(37.0)	34.1	(2.6)	(1,393.2)
Total	177.6	176.7	131.0	35.6	0.5	490.7	368.3	33.2
Operating profit margin:								
MPM	24.5	21.6	20.6	4.0	3.0	20.9	19.2	1.7
ILF	7.0	7.7	5.7	1.3	(0.8)	7.2	5.0	2.2
CVS	5.8	6.2	2.7	3.2	(0.4)	5.5	5.6	(0.1)
POCS	5.7	7.7	(0.9)	6.6	(2.1)	6.7	(0.6)	7.3
Total	10.4	10.5	8.0	2.3	(0.1)	9.8	7.7	2.1

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	6,721.3	7,138.9	7,622.9
Cost of Sales	(4,333.6)	(4,988.4)	(5,129.2)	(5,445.1)	(5,811.5)
Gross Profit	902.5	1,254.2	1,592.1	1,693.7	1,811.5
Other Income	57.4	38.5	50.7	54.4	58.7
Administrative expenses	(325.6)	(367.0)	(375.4)	(378.8)	(384.2)
Distribution Costs	(240.5)	(322.2)	(339.9)	(371.9)	(409.0)
Other operating expenses	(29.1)	(67.2)	(48.0)	(50.8)	(54.2)
EBITDA	594.7	782.8	879.6	946.7	1,022.8
EBIT	364.6	536.3	633.3	696.9	769.4
Profit before tax (PBT)	321.2	480.8	571.6	638.0	711.3
Profit After tax (PAT)	235.5	361.9	428.7	478.5	533.5
Core PATANCI	212.3	377.0	428.2	478.7	534.5
Core EPS (sen)	8.7	15.5	17.6	19.7	22.0
DPS (sen)	3.5	7.0	8.8	9.8	11.0
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,187.3	2,209.9	2,235.1	2,271.8	2,322.0
Intangible assets	128.1	125.0	134.6	143.0	152.7
Total Non-current assets	2,856.3	2,926.9	2,988.1	3,024.7	3,081.7
Biological Assets	232.0	251.9	249.5	264.8	282.6
Inventories	679.3	955.2	842.6	894.5	954.7
ST - Trade and other receivables	679.3	616.4	699.5	742.9	793.3
Cash and cash equivalents	481.1	346.5	447.7	477.9	512.8
Total current assets	2,100.8	2,358.2	2,441.8	2,595.3	2,773.2
Total Assets	4,957.1	5,285.1	5,429.9	5,620.0	5,854.9
Total Equity	2,706.4	2,887.5	3,061.3	3,150.0	3,272.3
LT Loans and borrowings	436.3	237.9	245.0	252.4	260.0
Total Non-current liabilities	751.9	610.9	647.2	680.5	718.0
ST Trade and other payables	464.0	649.1	550.0	583.9	623.2
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	1,721.4	1,789.6	1,864.6
Total Liabilities	2,250.6	2,397.6	2,368.6	2,470.1	2,582.6
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	321.2	480.8	571.6	638.0	711.3
Cash flow from operations	470.4	618.6	772.7	739.2	831.7
Cash flow from investing	(198.2)	(231.4)	(402.5)	(426.1)	(486.6)
Cash flow from financing	(280.9)	(515.8)	(265.7)	(283.0)	(310.2)
Net cash flow	(8.7)	(128.6)	104.5	30.2	35.0
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	480.5	471.8	343.2	447.7	477.9
Net cash/(debt) c/f	471.8	343.2	447.7	477.9	512.8
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	1.7	1.9
PER (x)	45.0	41.8	33.2	29.8	26.7
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	23.7	23.7	23.8
EBITDA Margin (%)	11.4	12.5	13.1	13.3	13.4
EBIT Margin (%)	7.0	8.6	9.4	9.8	10.1
Core PATANCI Margin (%)	4.1	6.0	6.4	6.7	7.0

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