

QL Resources Berhad

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

Maintain BUY

Expect CE and CVS Setting the Pace Ahead

Unchanged Target Price: RM7.25

KEY INVESTMENT HIGHLIGHTS

- **Stable Malaysia's Integrated Livestock Farming ("ILF") performance**
- **More focus on the clean energy business under the POCE Segment**
- **Ample central kitchen capacity to support the convenience value chain segment**
- **Solid Marine Product Manufacturing ("MPM") segment ahead**
- **Maintain BUY with an unchanged TP of RM7.25**

Virtual Briefing. We recently attended QL's analyst briefing and remain optimistic that the clean energy and convenience value chain segments will drive revenue growth ahead. Some salient highlights are as follows:

Stable Malaysia's Integrated Livestock Farming ("ILF") performance. Looking forward, we foresee solid revenue and earnings from the ILF segment, which will likely remain as the largest revenue contributor (51.1%) in FY25. This is expected to be driven by (1) stable sales and margins for raw material trading, (2) sustainable layer egg performance due to lower feed costs in Vietnam and Malaysia, (3) ongoing egg subsidies in Malaysia, and better egg prices and demand in Indonesia and (4) improving DOC and broiler chicken prices in Indonesia contribute to this solid outlook.

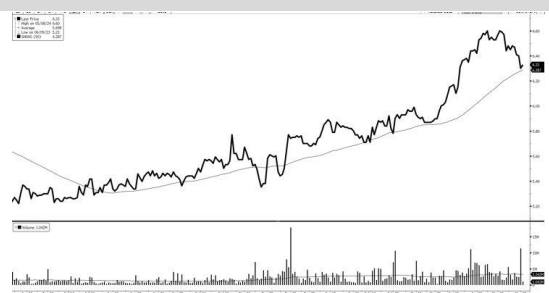
More focus on the clean energy business under the POCE Segment. Looking forward, QL remains committed to disposing of all palm oil business and focusing on clean energy through BM Greentech (BMG). Note that BMG is a regional leader in renewable energy and sustainable environmental solutions, operating through three wholly owned subsidiaries: Boilermech, BM TEK, and Tera. In FY24, in this segment, bioenergy was the largest revenue contributor (74%), followed by solar (15%) and water treatment (11%). Looking forward, BMG plans to increase solar revenue contribution (via wholly owned subsidiary Tera, a top 5 rooftop solar player) to over 30% in the next five years, with sustainable double-digit growth. BMG aims to maintain current margins with a balance between commercial, industrial, and residential projects.

Ample central kitchen capacity to support the convenience value chain segment. The two central kitchens can serve 600 stores and currently operate at close to 70% capacity. These kitchens not only supply RTG food to QL-owned downstream convenience businesses (FamiCafe, FamilyMart, FM Mini) but also act as third-party hot food suppliers for various airlines and trains. The group is exploring new facilities in FY25 to potentially expand central kitchen production capacity. We gather that stricter regulations on packaging meals and logistical requirements for transportation and storage in airlines are leading the group to focus on less restrictive train food services. QL remains committed to achieving 600 FamilyMart outlets by 2027 (currently 395

RETURN STATISTICS

Price @ 5 th June 2024 (RM)	6.40
Expected share price return (%)	+13.3
Expected dividend yield (%)	+1.3
Expected total return (%)	+14.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.2	-4.2
3 months	7.3	1.8
12 months	19.9	3.2

INVESTMENT STATISTICS

FYE Mar	2025F	2026F	2027F
Revenue	7,266.0	7,880.2	8,601.4
EBITDA	1,055.4	1,171.5	1,303.8
Profit before tax (PBT)	717.0	820.9	938.7
Core PATANCI	541.7	620.3	709.2
Core EPS (sen)	22.3	25.5	29.1
DPS (sen)	8.0	9.2	10.5
Dividend Yield (%)	1.3	1.4	1.6


KEY STATISTICS

FBM KLCI	1,608.53
Issue shares (m)	2433.66
Estimated free float (%)	22.54
Market Capitalization (RM'm)	15,405.05
52-wk price range	RM5.23-RM6.64
3-mth average daily volume (m)	3.53
3-mth average daily value (RM'm)	22.07
Top Shareholders (%)	
CBG L PTE LTD	40.25
PELITA GLOBAL SDN BHD	11.93
Farsathy Holdings Sdn Bhd	11.57

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Solid Marine Product Manufacturing ("MPM") segment ahead. Moving forward, we expect the MPM segment to be sustained as the second-largest contributor (20%) to revenue for FY25F. This will be driven by strong demand for surimi-based products, lower fish purchase prices, and higher production from new plants at QL Figo and Hasil Laut. While the new fishing season resumes in March 2024, the weaker global demand and ample fish catch from the west coast of Peninsular Malaysia have pressured fish purchase prices. This could lower the revenue of the fishing division under MPM but support the margins of fishmeal, surimi, and surimi-based products. Recall that QL's MPM segment is vertically integrated from fishing to fishmeal, surimi, aquaculture, and surimi-based products.

Maintain BUY with an unchanged TP of RM7.25. We make no alterations to our earnings forecast post briefing. Our **TP** is unchanged at **RM7.25**, based on a 10-year multi-stage DCF model with an unchanged growth rate of 3.5% and unchanged WACC of 7%. We like QL's commitment to being the market leader across various business ventures and diversified revenue base spanning horizontally and vertically across four divisions and geographical regions. We remain positive about the CVS segment's revenue growth momentum, buoyed by new outlet openings and better consumer sentiment (supported by an improving job market and progressive wage hikes ahead). We also anticipate an uptick in clean energy projects from BM Greentech within the POCE segment, aligned with government renewable energy initiatives and global energy transitions. The MPM and ILF segments are poised to remain solid supported by sustained demand for poultry products and soaring demand for seafood products. Hence, we maintain our **BUY** call on QL Resources.

Potential downside risks are (1) a sharp increase in operating costs, which could erode margins in the MPM, ILF, and CVS divisions, (2) lower-than-expected clean energy projects, and (3) weaker-than-expected consumer sentiment. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024E	2025F	2026F	2027F
Revenue	6,242.6	6,677.8	7,266.0	7,880.2	8,601.4
Cost of Sales	(4,988.4)	(5,069.3)	(5,488.2)	(5,922.4)	(6,445.1)
Gross Profit	1,254.2	1,608.5	1,777.7	1,957.8	2,156.3
Other Income	38.5	45.2	49.2	53.3	58.2
Administrative expenses	(367.0)	(318.3)	(339.4)	(360.8)	(385.9)
Distribution Costs	(322.2)	(337.7)	(380.4)	(422.8)	(463.8)
Other operating expenses	(67.2)	(47.6)	(51.7)	(56.0)	(61.0)
EBITDA	782.8	950.0	1,055.4	1,171.5	1,303.8
EBIT	536.3	689.6	779.4	879.0	993.7
Profit before tax (PBT)	480.8	626.6	717.0	820.9	938.7
Profit After tax (PAT)	361.9	473.5	541.7	620.3	709.2
Core PATANCI	377.0	437.9	541.7	620.3	709.2
Core EPS (sen)	15.5	18.0	22.3	25.5	29.1
DPS (sen)	7.0	6.5	8.0	9.2	10.5
Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
Property, plant and equipment	2,209.9	2,381.8	2,395.0	2,416.1	2,448.4
Intangible assets	125.0	126.6	137.8	149.4	163.1
Total Non-current assets	2,926.9	3,117.3	3,158.2	3,210.3	3,281.5
Biological Assets	251.9	246.7	272.6	294.2	320.2
Inventories	955.2	884.7	915.4	987.8	1,075.0
ST - Trade and other receivables	616.4	732.0	805.9	874.0	954.0
Cash and cash equivalents	346.5	397.8	432.8	471.7	517.5
Total current assets	2,358.2	2,362.1	2,536.6	2,746.9	2,996.7
Total Assets	5,285.1	5,479.4	5,694.8	5,957.2	6,278.2
Total Equity	2,887.5	3,197.8	3,430.2	3,623.4	3,854.2
LT Loans and borrowings	237.9	71.4	69.3	67.2	65.2
Total Non-current liabilities	610.9	477.8	515.6	556.7	606.7
ST Trade and other payables	649.1	671.2	640.4	691.0	752.0
ST Loans and borrowings	1,017.2	992.9	963.1	934.2	906.1
Total Current Liabilities	1,786.7	1,803.8	1,749.1	1,777.0	1,817.3
Total Liabilities	2,397.6	2,281.6	2,264.6	2,333.8	2,424.0
Cash Flow (RM'm)	2023A	2024E	2025F	2026F	2027F
Pretax profit	480.8	626.6	717.0	820.9	938.7
Cash flow from operations	618.6	863.4	771.1	822.0	894.5
Cash flow from investing	(231.4)	(348.7)	(410.8)	(439.6)	(472.5)
Cash flow from financing	(515.8)	(465.6)	(319.8)	(343.5)	(376.3)
Net cash flow	(128.6)	49.2	40.5	38.9	45.8
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	471.8	343.2	392.3	432.8	471.7
Net cash/(debt) c/f	343.2	392.3	432.8	471.7	517.5
Key Metrics	2023A	2024E	2025F	2026F	2027F
Effective tax rate (%)	24.7	24.4	24.4	24.4	24.4
Dividend Yield (%)	1.1	1.0	1.3	1.4	1.6
PER (x)	45.7	35.6	28.8	25.1	22.0
Biological Assets (Days)	17.8	18.0	18.1	18.1	18.1
Inventories (Days)	60.0	66.6	60.9	60.9	60.9
Profitability Margins	2023A	2024E	2025F	2026F	2027F
Gross Profit Margin (%)	20.1	24.1	24.5	24.8	25.1
EBITDA Margin (%)	12.5	14.2	14.5	14.9	15.2
EBIT Margin (%)	8.6	10.3	10.7	11.2	11.6
Core PATANCI Margin (%)	6.0	6.6	7.5	7.9	8.2

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