

QL Resources Berhad

(7084 | QLGMK) | Consumer Products & Services | Agricultural Products

Maintain NEUTRAL

Solid performance from the poultry segment

Unchanged Target Price: RM7.46

KEY INVESTMENT HIGHLIGHTS

- **3QFY20 earnings came in at RM76.1m (+10.1%yoy) which was within our and consensus' expectations**
- **Integrated livestock farming segment recorded strong upward earnings trajectory with +25.4%yoy growth**
- **Meanwhile, commendable performance recorded by the marine product manufacturing segment**
- **Maintain NEUTRAL with an unchanged TP of RM7.46**

3QFY20 earnings within expectations. QL Resources Berhad (QL)'s 3QFY20 earnings came in at RM76.1m (+10.1%yoy). This brings its 9MFY20 earnings to RM196.4m (+13.2%yoy), which met ours and consensus expectations, both accounting for 78.1% and 78.0% of full year FY20 earnings forecasts respectively. The stronger 3QFY20 earnings was mainly driven by the solid performance of the Integrated Livestock Farming (ILF) segment.

ILF segment registered strong earnings. QL's largest revenue contributor, the ILF segment, continued recording strong revenue and earnings performance. 3QFY20 revenue rose by +19.2%yoy to RM749.9m while PBT growth was even stronger at +25.4%yoy to RM40.8m. The strong performance was mainly due to the: (i) higher sales from the FamilyMart business (ii) better performance from the regional and Sabah poultry operation; and (iii) improved margins on feed raw material trade.

MPM segment recorded a commendable earnings trajectory. During the quarter, Marine Product Manufacturing (MPM) segment registered an improved performance compared to 3QFY19. The MPM segment's 3QFY20 earnings grew by +3.7%yoy attributable to the: (i) higher sales volume of fishmeal and surimi-based products and; (ii) weaker Ringgit against USD. Meanwhile, despite the improvement in CPO price, POA segment drop significantly by -63.5%yoy to RM3.2m. The weak performance of POA segment was caused by the: (i) lower FFB processed and; (ii) lower average CPO price.

Impact to earnings. We are maintaining our FY20 and FY21 earnings forecasts at this juncture.

Target Price. Our target price remains unchanged at **RM7.46** per share. The target price is derived based on DCF valuation with the assumption of terminal growth at 5.9% and WACC of 7.0%.

RETURN STATISTICS

Price @ 28 th February 2020 (RM)	8.30
Expected share price return (%)	-10.1
Expected dividend yield (%)	+0.8
Expected total return (%)	-9.3

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	2.5	5.6
3 months	2.1	19.6
12 months	20.3	36.4

KEY STATISTICS

FBM KLCI	1,505.59
Syariah compliant	Yes
Issue shares (m)	1,622.44
Estimated free float (%)	35.96
Market Capitalisation (RM'm)	13,466.24
52-wk price range	RM6.50 – RM8.65
Beta vs FBM KLCI (x)	0.72
Monthly velocity (%)	11.02
Monthly volatility (%)	4.22
3-mth average daily volume (m)	0.78
3-mth average daily value (RM'm)	6.45
Top Shareholders (%)	
CBG Holdings Sdn Bhd	40.99
Farsathy Holdings Sdn Bhd	11.77
EPF	6.25

ANALYST

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Maintain NEUTRAL. Despite the improved performance of ILF segment during the quarter, we believe that the MPM segment will remain as the main earnings growth driver for the group in the short to medium term due to the: (i) strong demand of the product; (ii) ramp-up of production and; (iii) weaker Ringgit. Additionally, the segment's margin is the highest among QL's three operating segments and hence, its strong growth will contribute positively to the group's earnings. Over a longer term, we expect that expansion of FamilyMart operation will sustain group's earnings trajectory. At this juncture, we view that the current PER valuation of more than 50.0x is lofty. We believe that the diversification benefit has been priced in and the potential upside is limited in the near term. Hence, we are maintaining our **NEUTRAL** stance on QL. 

INVESTMENT STATISTICS

Financial year ending 31st Mac (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	3,260.5	3,619.2	4,202.0	4,831.0	5,314.1
PBT	240.4	272.4	333.3	390.4	430.4
Income tax expense	(37.8)	(46.9)	(66.6)	(78.1)	(86.1)
PAT	202.5	225.5	266.7	312.3	344.4
Minority interests	7.5	8.7	13.3	15.6	20.7
PATAMI	195.0	216.8	253.3	296.7	329.5
Basic EPS (sen)	12.0	13.4	15.6	18.3	20.3
Net DPS (sen)	4.5	4.5	5.9	6.9	7.5
PAT margin (%)	6.2	6.2	6.3	6.5	6.5
PATAMI margin (%)	6.0	6.0	6.0	6.1	6.2
Effective tax rate (%)	15.7	17.2	20.0	20.0	20.0
Basic EPS growth (%)	(0.1)	11.2	16.9	17.1	11.0
Net dividend yield (%)	0.5	0.5	0.7	0.8	0.9
PER (x)	69.1	62.1	53.2	45.4	40.9

Source: Company, MIDFR

QL RESOURCES BERHAD: 3QFY20 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results			Cumulative results		
	3QFY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	1,107.3	13.1	3.2	3,173.4	2,715.3	16.9
Operating Profit	149.6	(2.2)	6.9	406.6	361.0	12.7
Depreciation and amortisation	(43.9)	(9.9)	2.5	(130.8)	(118.8)	10.1
Interest income	2.4	17.8	7.8	6.5	6.4	2.3
Finance costs	(13.1)	(18.7)	(24.5)	(46.5)	(45.4)	2.4
Share of profit/(loss) of associates (net)	2.7	(6.6)	11.6	8.3	8.0	3.2
Profit before tax	97.7	5.0	15.8	244.1	211.1	15.6
Income tax expense	(22.7)	28.3	56.8	(50.0)	(30.7)	62.7
Profit after tax	75.0	(0.4)	7.3	194.2	180.4	7.6
Minority interests	(1.1)	(118.6)	(703.2)	(2.2)	6.9	nm
PATAMI	76.1	10.1	9.2	196.4	173.5	13.2
Basic EPS (sen)	4.7	10.1	9.3	12.1	10.7	13.2
		<i>+ / (-) pts</i>				
PBT margin (%)	8.8	(0.7)	(1.0)	7.7	7.8	(0.1)
PAT margin (%)	6.8	(0.9)	(0.3)	6.1	6.6	(0.5)
PATAMI margin (%)	6.9	(0.2)	(0.4)	6.2	6.4	(0.2)
Effective tax rate (%)	23.2	4.2	(6.1)	20.5	14.5	5.9
Segments						
Revenue						
Marine Product Manufacturing (MPM)	288.9	3.4	(9.1)	889.2	763.4	16.5
Palm Oil Activities (POA)	68.5	(2.7)	35.7	187.6	225.2	(16.7)
Integrated Livestock Farming (ILF)	749.9	19.2	6.4	2,096.5	1,726.6	21.4
Profit before tax (PBT)						
Marine Product Manufacturing (MPM)	53.7	3.7	0.7	154.1	121.8	26.5
Palm Oil Activities (POA)	3.2	(63.5)	306.9	5.0	9.9	(49.4)
Integrated Livestock Farming (ILF)	40.8	25.4	34.9	85.1	79.5	7.0
PBT margin (%)						
Marine Product Manufacturing (MPM)	18.6	0.1	(1.8)	17.3	15.9	1.4
Palm Oil Activities (POA)	4.6	(7.7)	(3.1)	2.7	4.4	(1.7)
Integrated Livestock Farming (ILF)	5.4	0.3	(1.1)	4.1	4.6	(0.5)

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.