

QL Resources Berhad

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

Maintain NEUTRAL

Revised Target Price: RM9.21
(previously RM7.46)

Marine product manufacturing segment lifts

KEY INVESTMENT HIGHLIGHTS

- **FY20 earnings of RM239.3m was within our and consensus' expectations**
- **Record annual earnings of RM239.3m primed on revenue that rose 14.8%yoy to a high of RM4.2b.**
- **4QFY20 net profit is almost unchanged at RM43.0m**
- **One bonus share for every two shares held**
- **Maintain NEUTRAL with a revised TP RM9.21 (from RM7.46)**

FY20 earnings of RM239.3m was within our and consensus' expectations. QL Resources Berhad's (QL) FY20 net profit made up 94% of ours and 96% of consensus' full year estimates. A dividend of 4.5sen was announced, which is lower than that we had expected.

Record annual earnings of RM239.3m primed on revenue that rose 14.8%yoy to a high of RM4.2b. For the full year, revenue jumped to record high of RM4.2b (+14.8%yoy) lifting net profit to RM239.3m, which was higher by +6%yoy. This can be attributed the climb in sales for the marine product manufacturing (MPM) and integrated livestock farming (ILF) segments. However, the Palm Oil Activities (POA) segment took a breather due to lower fresh fruit bunch processed. On top of that, the POA segment was also hit by forex losses. MPM sales jumped due to higher contributions from surimi, fishmeal and surimi-based products. Meanwhile, the ILF segment saw increasing contribution from the Regional and Sabah poultry operation, higher feed raw material trade and Family Mart.

4QFY20 net profit was almost unchanged at RM43.0m compared to a year ago premised on revenue that rose +8.4%yoy to RM979.4m. This can be attributed to higher finance cost (+26.6%yoy) and lower contribution from associates (-39.2%yoy).

One bonus share for every two shares held. QL has also announced that it is giving out bonus shares, which is expected to enlarge its share base from 1.6b to 2.4b, potentially improving its liquidity going forward.

Impact to earnings. We maintain our FY21F and FY22F earnings forecasts as there are no major surprises from QL's results.

Target Price. Following QL's consistent growth over the past few years, we tweak our DCF-derived **TP to RM9.21** (previously RM7.46) as we adjusted our terminal growth rate to 6.0% from 5.9% previously. Our WACC assumption of 7.0% is unchanged. Our TP may be adjusted to RM6.15, after the listing of new bonus shares.

RETURN STATISTICS

Price @ 29 th June 2020 (RM)	9.50
Expected share price return (%)	-3.0
Expected dividend yield (%)	+0.6
Expected total return (%)	-2.4

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-6.1	-7.5
3 months	28.4	16.0
12 months	38.9	55.4

KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	Yes
Issue shares (m)	1622.44
Estimated free float (%)	34.85
Market Capitalisation (RM'm)	15,413.16
52-wk price range	RM6.5 - RM10.2
Beta vs FBM KLCI (x)	0.64
Monthly velocity (%)	0.00
Monthly volatility (%)	4.22
3-mth average daily volume (m)	1.41
3-mth average daily value (RM'm)	12.29
Top Shareholders (%)	
CBG Holdings Sdn Bhd	40.99
Farsathy Holdings Sdn Bhd	11.77
EPF	7.42

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Maintain NEUTRAL. 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 FamilyMart's operation expansion will sustain group's earnings trajectory as well as lifting the growth of its ILF segment. While we believe that QL will continue to register positive growth in the long-run due to the resilient income and efficiency, we think that valuation remains lofty. As such, we are maintain our **NEUTRAL** recommendation on QL. 

INVESTMENT STATISTICS

Financial year ending 31st Mac (in RM'm, unless otherwise stated)	2018A	2019A	2020A	2021E	2022F
Revenue	3,260.5	3,619.2	4,152.8	4,831.0	5,314.1
PBT	240.4	272.4	306.9	390.4	430.4
Income tax expense	(37.8)	(46.9)	(68.0)	(78.1)	(79.8)
PAT	202.5	225.5	239.0	312.3	350.6
Minority interests	7.5	8.7	(0.4)	15.6	21.1
PATAMI	195.0	216.8	239.3	296.7	329.5
Basic EPS (sen)	12.0	13.4	14.8	18.3	20.3
Net DPS (sen)	4.5	4.5	4.5	4.5	4.5
PAT margin (%)	6.2	6.2	5.8	6.5	6.6
PATAMI margin (%)	6.0	6.0	5.8	6.1	6.2
Effective tax rate (%)	15.7	17.2	22.1	20.0	20.0
Basic EPS growth (%)	(0.1)	11.2	10.4	24.0	11.1
Net dividend yield (%)	0.5	0.5	0.5	0.5	0.5
PER (x)	69.1	62.1	56.3	45.4	40.9

Source: Company, MIDFR

QL RESOURCES BERHAD: 4QFY20 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results			Cumulative results		
	4QFY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	979.4	8.4	(11.6)	4,152.8	3,617.1	14.8
Operating Profit	121.8	9.2	(18.6)	528.4	472.5	11.8
Depreciation and amortisation	(44.8)	9.6	2.0	(175.6)	(159.7)	10.0
Interest income	2.3	104.5	(3.3)	8.8	7.5	17.5
Finance costs	(19.4)	26.6	47.8	(65.9)	(60.7)	8.5
Share of profit/(loss) of associates (net)	2.9	(39.2)	6.6	11.2	12.8	(12.7)
Profit before tax	62.8	2.6	(35.7)	306.9	272.4	12.7
Income tax expense	(18.0)	11.4	(20.5)	(68.0)	(46.9)	45.0
Profit after tax	44.8	(0.6)	(40.3)	239.0	225.5	6.0
Minority interests	1.8	1.7	(257.1)	(0.4)	8.7	nm
PATAMI	43.0	(0.7)	(43.5)	239.3	216.8	10.4
Basic EPS (sen)	2.7	(0.7)	(43.5)	14.8	13.4	10.4
		<i>+ / (-) ppts</i>				
PBT margin (%)	6.4	(0.4)	2.4	7.4	7.5	(0.1)
PAT margin (%)	4.6	(0.4)	2.2	5.8	6.2	(0.5)
PATAMI margin (%)	4.4	(0.4)	2.5	5.8	6.0	(0.2)
Effective tax rate (%)	28.7	2.3	(5.5)	22.1	17.2	4.9
Segments						
Revenue						
Marine Product Manufacturing (MPM)	274.5	13.2	(5.0)	1,163.7	1,005.9	15.7
Palm Oil Activities (POA)	68.3	(12.4)	(0.4)	255.9	303.2	(15.6)
Integrated Livestock Farming (ILF)	636.6	9.1	(15.1)	2,733.2	2,310.0	18.3
Profit before tax (PBT)						
Marine Product Manufacturing (MPM)	41.5	20.6	(22.8)	195.5	156.2	25.2
Palm Oil Activities (POA)	3.3	(68.2)	5.5	8.3	20.4	(59.1)
Integrated Livestock Farming (ILF)	18.0	10.9	(55.9)	103.1	95.7	7.7
PBT margin (%)						
Marine Product Manufacturing (MPM)	15.1	0.9	3.5	16.8	15.5	1.3
Palm Oil Activities (POA)	4.9	(8.6)	(0.3)	3.3	6.7	(3.5)
Integrated Livestock Farming (ILF)	2.8	0.0	2.6	3.8	4.1	(0.4)

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.