QL Resources Berhad

(7084 | QLG MK) | Consumer Products & Services| Agricultural Products

***Maintain* BUY**

***Revised* Target Price: RM5.62**

(Previously RM5.54)

Sanguine demand for MPM, ILF and CVS divisions

KEY INVESTMENT HIGHLIGHTS

- **1QFY23's core earnings beat expectations**
- **Stronger margin in 1QFY23 was supported by the recovery of the economy**
- **Core PATANCI increased by +18.8%qoq to RM82.4m**
- **Revised earnings upward by +37.7%/+3.5% for FY23F/24F**
- **Maintained BUY with a higher target price of RM5.62 (previously RM5.54)**

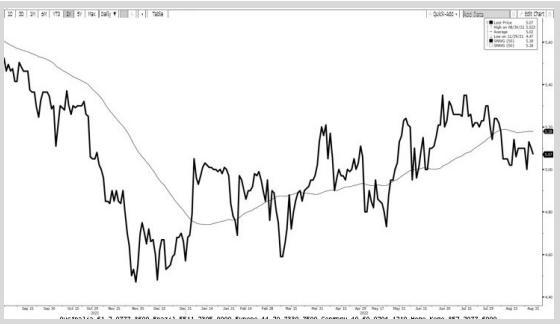
1QFY23's core earnings beat expectations. QL Resources (QL)'s core PATANCI of RM82.4m came in above both our and the street projection. It accounted for 36.1% of ours and 30.9% of consensus full-year estimation. The positive result was due to better-than-expected earnings from Marine Product Manufacturing (MPM), Integrated Livestock Farming (ILF) and Convenience Store Chain (CVS) divisions. This has more than offset the weaker-than-expected earnings recorded for the Palm Oil and Clean Energy (POCE) division.

Stronger margin in 1QFY23 was supported by the recovery of the economy. The group's increased revenue of RM1.52b (+24.2%yoy) was primarily due to: (i) higher sales volume and improved selling prices for MPM and ILF's products and (ii) increase new stores in CVS division. Conversely, POCE reported decreased sales due to a considerable decrease in the amount of FFB produced and processed, reduced CPO sales and a rise in inventories amid Indonesia's export bans. Meanwhile, 1QFY23 core PATANCI's skyrocketed by +95.3%yoy to RM82.4m. This is backed by a notable improvement in ILF's earnings which was supported by higher selling prices, a government cost subsidy to lessen higher feed raw material costs, and a strong recovery in egg prices in Vietnam. This was further contributed by an improved margin with economies of scale in CVS divisions.

Core PATANCI increased by +18.8%qoq to RM82.4m, in tandem with a +10.8%qoq rise in revenue to RM1.52b. The group's operating profit margin increased marginally (+0.4ppt qoq) to 11.8% held back by the margin erosion in MPM's division amid an increase in input and fuel costs. In addition, CVS' operating profit margin only grew by 5.1%qoq to RM15.8m despite a +13.9%qoq growth in revenue to RM201.3m amid higher labour costs. On a positive note, increased profitability from ILF's activities in Vietnam, as well as better margin and volume from trading feed raw materials, offset the margin erosion from MPM and CVS division, leading to an improvement in core PATANCI.

RETURN STATISTICS	
Price @ 29th Aug 2022 (RM)	5.07
Expected share price return (%)	+10.9
Expected dividend yield (%)	+0.9
Expected total return (%)	**+11.80**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.3	-4.9
3 months	-2.5	3.6
12 months	-8.8	-2.8

KEY STATISTICS	
FBM KLCI	1,501.57
Syariah compliant	Yes
Issue shares (m)	2433.66
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	22.27
Market Capitalisation (RM'm)	12,338.64
52-wk price range	RM4.45 - RM5.73
Beta vs FBM KLCI (x)	0.43
Monthly velocity (%)	0.83
Monthly volatility (%)	11.79
3-mth average daily volume (m)	1.37
3-mth average daily value (RM'm)	7.05
Top Shareholders (%)	
CBG L PTE LTD	40.25
Pelita Global	11.93
Farsathy Holdings Sdn Bhd	11.57

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Revised earnings upward by +37.7%/+3.5% for FY23F/24F. In view of the earnings exceeding expectations, we raised our earnings projections. This is after factoring in higher selling prices and demand for MPM, ILF and CVS divisions; as well as lower CPO tonnage sold for POCE division.

Maintained BUY with a higher target price of RM5.62 (previously RM5.54). Our DCF-derived TP is based on a terminal growth rate of 4% and a WACC assumption of 7.2%. We are positive about QL Resources's FY23F outlook underpinned by its: (i) diversified revenue base, which operates across four divisions and hence offers protection against potential downside; (ii) MPM, ILF, and CVS divisions, which prospered from the recovery of the economy, and (iii) plans to open 300 additional Family mart stores and 300 Family mart minis over the next 5-year. We also like QL because of its focus on clean industrial energy and water in Malaysia and Indonesia, where the company aims to focus more on clean energy and divest its Palm oil business. Downside risks are: (i) a sharp rise in input cost, which erodes the margin for MPM, ILF and CVS divisions. QL is currently trading at an appealing FY23F PE of 39.3x, above the sector average of 11.7x. It offers a dividend yield of 0.9%.

INVESTMENT STATISTICS

FYE MAR (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
Revenue	**4,378.8**	**5,236.0**	**5,957.9**	**6,228.0**	**6,516.0**
COGS	(3,508.8)	(4,333.6)	(4,871.8)	(5,067.3)	(5,275.1)
Gross Profit	**870.0**	**902.5**	**1,086.0**	**1,160.8**	**1,240.9**
Administrative expenses	(286.3)	(325.6)	(389.0)	(406.5)	(425.0)
Distribution costs	(201.6)	(240.5)	(268.2)	(280.3)	(293.3)
Other expenses	(23.6)	(29.1)	(32.8)	(34.3)	(35.9)
Other income	113.6	57.4	58.0	60.6	63.4
Operating Profit	**472.1**	**364.6**	**454.0**	**500.3**	**550.1**
Finance cost	(56.4)	(51.7)	(55.3)	(58.7)	(62.3)
Finance income	7.5	7.8	10.3	10.9	11.5
Share of associate	9.3	0.5	24.9	26.1	27.3
Profit before tax	**432.5**	**321.2**	**434.0**	**478.6**	**526.6**
Income tax expense	(107.4)	(85.7)	(106.5)	(117.5)	(129.3)
Profit after tax	**325.2**	**235.5**	**327.5**	**361.1**	**397.3**
Non-controllong interest	13.8	18.2	13.4	14.0	14.7
PATANCI	**311.4**	**217.3**	**314.1**	**347.1**	**382.7**
EI	1.6	0.7	0.0	0.0	0.0
Core PATANCI	**313.0**	**218.1**	**314.1**	**347.1**	**382.7**
Basic EPS (sen)	12.9	9.0	12.9	14.3	15.7
DPS (sen)	4.5	4.5	4.5	4.5	4.5
Growth & Margin (%)					
Revenue Growth	5.4	19.6	13.8	4.5	4.6
Core PATANCI Growth	29.7	(30.3)	44.0	10.5	10.3
Gross Profit Margin	19.9	17.2	18.2	18.6	19.0
Operating Profit Margin	10.8	7.0	7.6	8.0	8.4
PBT Margin	9.9	6.1	7.3	7.7	8.1
Core PATANCI Margin	7.1	4.2	5.3	5.6	5.9
Effective tax rate	24.8	26.7	24.5	24.5	24.5
Ratios & Valuation					
PER (x)	39.4	56.6	39.3	35.5	32.2
Net debt/Total Equity (%)	42.1	38.8	41.8	41.1	40.2
Dividend yield	0.9	0.9	0.9	0.9	0.9

Source: Company, MIDFR

QL RESOURCES BERHAD: 1QFY23 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	1,521.8	1,373.1	1,225.4	24.2	10.8	1,521.8	1,225.4	24.2
Operating Profit	180.0	156.7	131.4	37.0	14.8	180.0	131.4	37.0
Depreciation and amortisation	(59.6)	(52.8)	(62.6)	(4.7)	12.9	(59.6)	(62.6)	(4.7)
Interest income	1.7	2.5	5.6	(68.8)	(31.1)	1.7	5.6	(68.8)
Finance costs	(14.1)	(13.8)	(13.7)	2.8	2.0	(14.1)	(13.7)	2.8
Share of profit/(loss) of associates (net)	0.1	0.1	(0.1)	(214.4)	(11.2)	0.1	(0.1)	(214.4)
Profit before tax	108.1	92.8	60.6	78.4	16.5	108.1	60.6	78.4
Income tax expense	(24.6)	(21.9)	(15.4)	60.0	12.3	(24.6)	(15.4)	60.0
Profit after tax	83.5	70.8	45.2	84.6	17.8	83.5	45.2	84.6
Non-controlling interest	1.0	1.4	3.0	(65.5)	(28.2)	1.0	3.0	(65.5)
PATANCI	82.4	69.4	42.2	95.3	18.8	82.4	42.2	95.3
Core PATANCI	82.4	69.4	42.2	95.3	18.8	82.4	42.2	95.3
Basic EPS (sen)	3.4	2.9	1.7	96.0	18.9	3.4	1.7	96.0
Ratios & Margins				+/(-) ppts	+/(-) ppts			+/(-) ppts
Operating Profit Margin (%)	11.8	11.4	10.7	1.1	0.4	11.8	10.7	1.1
PBT margin (%)	7.1	6.8	4.9	2.2	0.3	7.1	4.9	2.2
PAT margin (%)	5.5	5.2	3.7	1.8	0.3	5.5	3.7	1.8
Core PATANCI margin (%)	5.4	5.1	3.4	2.0	0.4	5.4	3.4	2.0
Effective tax rate (%)	22.8	23.7	25.4	(2.6)	(0.9)	22.8	25.4	(2.6)
Segmental Breakdown								
Revenue:								
Marine Product Manufacturing (MPM)	332.4	279.1	270.9	22.7	19.1	332.4	270.9	22.7
Palm Oil and Clean Energy (POCE)	141.5	178.1	153.2	(7.6)	(20.5)	141.5	153.2	(7.6)
Integrated Livestock Farming (ILF)	846.6	727.7	661.7	28.0	16.3	846.6	661.7	28.0
Convenience Store Chain (CVS)	201.3	176.8	139.7	44.1	13.9	201.3	139.7	44.1
Profit before tax (PBT):								
Marine Product Manufacturing (MPM)	50.1	44.2	41.7	20.1	13.3	50.1	41.7	20.1
Palm Oil and Clean Energy (POCE)	(4.6)	5.8	12.2	(137.4)	(178.2)	(4.6)	12.2	(137.4)
Integrated Livestock Farming (ILF)	46.7	27.7	0.1	37,279.2	69.0	46.7	0.1	37,279.2
Convenience Store Chain (CVS)	15.8	15.1	6.6	139.2	5.1	15.8	6.6	139.2
PBT margin (%):								
Marine Product Manufacturing (MPM)	15.1	15.8	15.4	(0.3)	(0.8)	15.1	15.4	(0.3)
Palm Oil and Clean Energy (POCE)	(3.2)	3.3	8.0	(11.2)	(6.5)	(3.2)	8.0	(11.2)
Integrated Livestock Farming (ILF)	5.5	3.8	0.0	5.5	1.7	5.5	0.0	5.5
Convenience Store Chain (CVS)	7.9	8.5	4.7	3.1	(0.7)	7.9	4.7	3.1

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 *rise* 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 *fall* 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