QL Resources Berhad

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

Maintain BUY

Better performance for ILF segment ahead

***Revised* Target Price: RM6.30**

(Previously RM5.62)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23's core earnings above expectations**
- **Stronger revenue and core PATANCI**
- **Better revenue and PBT for MPM segments following the reopening of the economy**
- **Almost all segments recorded positive PBT margins in 1HFY23**
- **Revised earnings upward by +5.8%/+7.5% for FY23F-FY24F and introduced FY25F projection**
- **Maintained BUY with a higher target price of RM6.30 (previously RM5.62)**

1HFY23's core earnings above expectations. QL Resources' (QL) core PATANCI of RM176.3m exceeded both our and the street's full-year projections. It accounted for 56.1% of our estimate and 59.1% of the consensus' full-year FY23 forecast. The positive divergence was driven by higher-than-expected revenue from Marine Product Manufacturing (MPM). No dividend was declared for this quarter.

Stronger revenue and core PATANCI on a quarterly basis in 2QFY23. The group's revenue increased +7.6%qoq to RM1.64b, thanks to higher revenue from all four segments. PBT margin increased by +0.8ppt qoq to 7.9% in 2QFY23, with MPM and Palm oil and clean energy (POCE) segments leading the increase. Meanwhile, Integrated Livestock Farming (ILF) segment recorded a lower PBT margin of 3.9% (-1.7ppt qoq) due to higher feed raw material trading volume and financing costs that outweighed increased sales volume and farm produce price. Besides, higher input costs and the minimum wage reduced the PBT margin for the Convenience Store Chain (CVS) segment to 6.6% in 2QFY23 from 7.9% in 1QFY23. Meanwhile, 1QFY23 core earnings increased by +13.9%qoq to RM93.9m in 2QFY23.

Better revenue and PBT for MPM segments following the reopening of the economy. On yearly basis, revenue increased from RM1.25b in 2QFY22 to RM1.64b in 2QFY23, with all four segments recording higher revenue. CVS's revenue grew by +57.3%yoy to RM223.5m, largely due to the addition of 70 new stores and higher average sales per store. MPM's increased revenue of RM352.9m (+24.1%yoy) was due to higher selling prices and sales volume. Meanwhile, 2QFY23 core earnings increased by +104.4%yoy to RM93.9m, due to higher PBT margin in the MPM, ILF, and CVS segments coupled with lower income tax expense.

RETURN STATISTICS	
Price @ 29th Nov 2022 (RM)	5.53
Expected share price return (%)	+13.9
Expected dividend yield (%)	+0.8
Expected total return (%)	**+14.70**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.2	6.5
3 months	11.0	11.2
12 months	23.7	27.2

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
Issue shares (m)	2433.66
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	23.09
Market Capitalisation (RM'm)	13,458.13
52-wk price range	RM4.45 - RM5.6
Beta vs FBM KLCI (x)	0.46
3-mth average daily volume (m)	1.12
3-mth average daily value (RM'm)	5.77
Top Shareholders (%)	
CBG L PTE LTD	40.25
Pelita Global	11.93
Farsathy Holdings Sdn Bhd	11.57

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Almost all segments recorded positive PBT margins in 1HFY23. Cumulatively, 1HFY23 core PATANCI increased by +100%yoy to RM176.3m, in line with higher revenue for 1HFY23 of RM3.16b (+27.8%yoy). This was supported by higher contribution from MPM, ILF, and CVS divisions. The ILF segment reported a higher PBT of RM81.7m in 1HFY23 as compared to RM1m in 1HFY22. This was largely due to: (1) a turnaround in farming operations in Vietnam; and (2) the government cost subsidies in Malaysia to mitigate the impact of high input costs. Meanwhile, the POCE segment recorded a cumulative loss of -RM1.4m from a PBT of RM23.2m in 1HFY22. This is primarily due to a drop in FFB tonnage produced and processed, as well as a sales disruption caused by Indonesia's export ban in 1QFY23.

Revised earnings upward by +5.8%/+7.5% for FY23F-FY24F and introduced FY25F projection. In view of the earnings exceeding expectations, we raised our earnings projections. This is after accounting for higher selling prices and sales volume for the MPM division.

Maintained BUY with a higher target price of RM6.30 (previously RM5.62). Our DCF-derived TP is based on a sustainable growth rate of 3% and a WACC assumption of 5.3%. We are optimistic about QL Resources' FY23F outlook, which is supported by: (1) its diversified revenue base, which operates across four divisions and thus offers protection against potential downside; (2) sustained performance from MPM due to stable demand for marine products and (3) better performance for ILF segment ahead, supported by Malaysian government initiatives to provide subsidies to ensure the continued supply of chicken and eggs. **Downside risk** is a sharp rise in input cost, which erodes the margin for MPM, ILF, and CVS divisions.

INVESTMENT STATISTICS

FYE MAR (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
Revenue	**4,378.8**	**5,236.0**	**6,304.4**	**6,697.9**	**7,124.5**
COGS	(3,508.8)	(4,333.6)	(5,155.2)	(5,449.6)	(5,767.7)
Gross Profit	**870.0**	**902.5**	**1,149.2**	**1,248.3**	**1,356.8**
Administrative expenses	(286.3)	(325.6)	(411.6)	(437.1)	(464.7)
Distribution costs	(201.6)	(240.5)	(283.8)	(301.5)	(320.7)
Other expenses	(23.6)	(29.1)	(34.7)	(36.9)	(39.3)
Other income	113.6	57.4	61.4	65.2	69.3
Operating Profit	**472.1**	**364.6**	**480.4**	**538.0**	**601.5**
Finance cost	(56.4)	(51.7)	(58.5)	(63.1)	(68.1)
Finance income	7.5	7.8	10.9	11.7	12.6
Share of associate	9.3	0.5	26.4	28.0	29.8
Profit before tax	**432.5**	**321.2**	**459.2**	**514.7**	**575.8**
Income tax expense	(107.4)	(85.7)	(112.7)	(126.3)	(141.3)
Profit after tax	**325.2**	**235.5**	**346.5**	**388.3**	**434.5**
Non-controllong interest	13.8	18.2	14.2	15.1	16.0
PATANCI	**311.4**	**217.3**	**332.3**	**373.3**	**418.4**
Core PATANCI	**313.0**	**218.1**	**332.3**	**373.3**	**418.4**
Basic EPS (sen)	12.9	9.0	13.7	15.3	17.2
DPS (sen)	4.5	4.5	4.5	4.5	4.5
Growth & Margin (%)					
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
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)	43.0	61.7	40.5	36.1	32.2
Net debt/Total Equity (%)	42.1	38.8	43.9	43.6	43.0
Dividend yield	0.8	0.8	0.8	0.8	0.8

Source: Company, MIDFR

QL RESOURCES BERHAD: 2QFY23 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	**1,638.2**	**1,521.8**	**1,248.1**	**31.3**	**7.6**	**3,160.1**	**2,473.5**	**27.8**
Operating Profit	**202.8**	**180.0**	**140.3**	**44.5**	**12.7**	**382.7**	**271.7**	**40.9**
Depreciation and amortisation	(60.5)	(59.6)	(57.7)	4.8	1.5	(120.1)	(120.3)	(0.2)
Interest income	1.9	1.7	1.9	(3.4)	7.0	3.6	7.5	(52.0)
Finance costs	(15.4)	(14.1)	(13.9)	10.8	9.6	(29.5)	(27.6)	6.8
Share of profit/(loss) of associates (net)	0.5	0.1	0.2	186.1	400.0	0.6	0.1	586.7
Profit before tax	**129.2**	**108.1**	**70.8**	**82.6**	**19.6**	**237.3**	**131.4**	**80.7**
Income tax expense	(29.8)	(24.6)	(20.0)	48.6	20.8	(54.4)	(35.4)	53.6
Profit after tax	**99.5**	**83.5**	**50.7**	**96.1**	**19.2**	**182.9**	**95.9**	**90.7**
Non-controlling interest	5.6	1.0	4.8	16.3	437.9	6.6	7.8	(15.2)
PATANCI	**93.9**	**82.4**	**45.9**	**104.4**	**13.9**	**176.3**	**88.2**	**100.0**
Core PATANCI	**93.9**	**82.4**	**45.9**	**104.4**	**13.9**	**176.3**	**88.2**	**100.0**
Basic EPS (sen)	3.9	3.4	1.9	104.2	13.9	7.3	3.6	100.3
Ratios & Margins				**+/(-) ppts**	**+/(-) ppts**			**+/(-) ppts**
Operating Profit Margin (%)	12.4	11.8	11.2	1.1	0.6	12.1	11.0	1.1
PBT margin (%)	7.9	7.1	5.7	2.2	0.8	7.5	5.3	2.2
PAT margin (%)	6.1	5.5	4.1	2.0	0.6	5.8	3.9	1.9
Core PATANCI margin (%)	5.7	5.4	3.7	2.1	0.3	5.6	3.6	2.0
Effective tax rate (%)	23.0	22.8	28.3	(5.3)	0.2	22.9	27.0	(4.0)
Segmental Breakdown								
Revenue:								
Marine Product Manufacturing (MPM)	352.9	332.4	284.4	24.1	6.2	685.3	555.3	23.4
Palm Oil and Clean Energy (POCE)	157.1	141.5	127.8	22.9	11.1	298.6	281.0	6.2
Integrated Livestock Farming (ILF)	904.7	846.6	693.7	30.4	6.9	1,751.3	1,355.4	29.2
Convenience Store Chain (CVS)	223.5	201.3	142.1	57.3	11.0	424.8	281.8	50.8
Total	**1,638.2**	**1,521.8**	**1,248.1**	**31.3**	**7.6**	**3,160.1**	**2,473.5**	**27.8**
Profit before tax (PBT):								
Marine Product Manufacturing (MPM)	76.4	50.1	53.2	43.7	52.5	126.5	94.9	33.3
Palm Oil and Clean Energy (POCE)	3.2	(4.6)	11.0	(71.2)	(169.6)	(1.4)	23.2	(106.0)
Integrated Livestock Farming (ILF)	35.0	46.7	0.8	4,090.2	(25.1)	81.7	1.0	8,411.7
Convenience Store Chain (CVS)	14.7	15.8	5.7	157.1	(7.3)	30.5	12.3	147.5
Total	**129.2**	**108.1**	**70.8**	**82.6**	**19.6**	**237.3**	**131.4**	**80.6**
PBT margin (%):								
Marine Product Manufacturing (MPM)	21.6	15.1	18.7	2.9	6.6	18.5	17.1	1.4
Palm Oil and Clean Energy (POCE)	2.0	(3.2)	8.6	(6.6)	5.2	(0.5)	8.3	(8.7)
Integrated Livestock Farming (ILF)	3.9	5.5	0.1	3.7	(1.7)	4.7	0.1	4.6
Convenience Store Chain (CVS)	6.6	7.9	4.0	2.6	(1.3)	7.2	4.4	2.8
Total	**129.2**	**108.1**	**70.8**	**58.5**	**21.1**	**237.3**	**131.4**	**105.9**

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