QL Resources Berhad

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

Maintain BUY

Revised Target Price: RM6.80
(from RM6.30)

Better margin for ILF segment

KEY INVESTMENT HIGHLIGHTS

- **9MFY23's core earnings above expectations**
- **Stronger revenue and core PATANCI in 3QFY23**
- **Better sequential core earnings despite slight decline in revenue**
- **Higher revenue across MPM, ILF and CVS divisions in 9MFY23**
- **Revised earnings upward by +11.8%/+13.5%/+18.7% for FY23F-FY25F**
- **Maintained BUY with a higher target price of RM6.80 (previously RM6.30)**

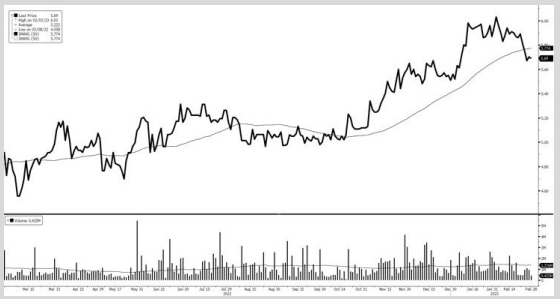
9MFY23's core earnings above expectations. QL Resources' (QL) core PATANCI of RM274.5m for 9MFY23 exceeded both our and consensus expectations. It represented 82.6% of our and 84.2% of the consensus full-year FY23 forecasts. The positive variance was primarily due to higher-than-expected sales from Marine Product Manufacturing (MPM) and Integrated Livestock Farming (ILF). No dividend was declared for this quarter.

Stronger revenue and core PATANCI in 3QFY23. On yearly basis, QL's 3QFY23 revenue increased by +16.3%yoy to RM1.6b primarily due to higher turnover from the MPM, ILF, and Convenience Store Chain (CVS) divisions, which more than offset lower sales from the Palm Oil and Clean Energy (POCE) division. The lower revenue from the POCE division (-28.4%yoy) was due to sluggish project progress at Boilermech, as well as poor performance of palm oil activities due to lower CPO prices and a significant drop in FFB tonnage produced and processed. Meanwhile, the overall higher revenue in 9MFY23 has resulted in higher operating profit margin of 12.8% in 3QFY23, compared to 11.9% in 3QFY22. As a result, core PATANCI increased +64.2%yoy to RM98.2m in 3QFY23.

Better sequential core earnings. The group reported a marginal decrease in revenue by -0.6%qoq to RM1.6b. The softer performance was due to: (1) lower turnover from the POCE segment (-14%qoq) due to slower project progress at Boilermech and lower CPO prices for palm oil activities and (2) decreased CVS sales (-2.2%qoq) due to lower average store sales owing to weaker consumer demand. Meanwhile, ILF's sales increased by +0.9%qoq to RM912.9m was due to higher feed material trading price which partially offset lower trading volume. The MPM division increased revenue (+2.7%qoq) was due to greater selling prices across the board and volume recovery for surimi-based products. Despite a slight decline in revenue, core PATANCI increased by +4.6%qoq to RM274.5m owing primarily to improved operational efficiency and government cost subsidies in Malaysia, which resulted in higher ILF earnings.

RETURN STATISTICS	
Price @ 28th Feb 2022 (RM)	5.81
Expected share price return (%)	+17.0
Expected dividend yield (%)	+0.8
Expected total return (%)	**+17.80**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.1	-1.0
3 months	3.3	4.6
12 months	14.9	27.2

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	Yes
Issue shares (m)	2433.66
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	23.26
Market Capitalisation (RM'm)	13,847.51
52-wk price range	RM4.56 - RM6.09
Beta vs FBM KLCI (x)	0.53
3-mth average daily volume (m)	1.39
3-mth average daily value (RM'm)	7.97
Top Shareholders (%)	
CBG L PTE LTD	40.25
Pelita Global	11.93
Farsathy Holdings Sdn Bhd	11.57

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Higher revenue across MPM, ILF and CVS divisions in 9MFY23. Cumulatively, 9MFY23's core PATANCI surged +85.5%yoy to RM274.5m. This is consistent with a higher topline of RM4.8b in 9MFY23 as compared to RM3.9b in 9MFY22. The improved performance was supported by: (1) higher PBT margins from the MPM division (+1.5ppt yoy) due to higher selling prices, and (2) normalised ILF earnings from RM4.5m in 9MFY22 to RM133.6m post-pandemic.

Revised earnings upward by +11.8%/+13.5%/+18.7% for FY23F-FY25F. In view of the earnings exceeding our expectation, we raised our earnings projections. This is after accounting for higher MPM division selling prices and volume, as well as higher ILF division margins.

Maintain BUY with a higher target price of RM6.80 (previously RM6.30). Our DCF-derived TP is based on a growth rate of 3.5% and a WACC assumption of 5.3%. We are optimistic about QL Resources' FY23F outlook underpinned by: (1) its diversified revenue base, which operates across four divisions and thus offers protection against potential downside; (2) improved performance for MPM products ahead, particularly for deep sea fish and prawn, following the global economy's reopening, as well as (3) strong demand for chicken eggs ahead due to the global shortage of eggs caused by the globally spread Avian Flu. QL is currently trading at a FY24F PER of 33.4x, which is below its 2-year historical PE of 47x. **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)	2021A	2022A	2023E	2024E	2025E
Revenue	**4,378.8**	**5,236.0**	**6,439.4**	**7,003.4**	**7,520.3**
COGS	(3,508.8)	(4,333.6)	(5,265.6)	(5,646.6)	(5,996.7)
Gross Profit	**870.0**	**902.5**	**1,173.8**	**1,356.8**	**1,523.7**
Administrative expenses	(286.3)	(325.6)	(406.4)	(448.7)	(489.0)
Distribution costs	(201.6)	(240.5)	(298.7)	(328.1)	(355.9)
Other expenses	(23.6)	(29.1)	(36.4)	(40.2)	(43.8)
Other income	113.6	57.4	62.7	69.9	75.8
Operating Profit	**472.1**	**364.6**	**495.0**	**609.7**	**710.8**
Finance cost	(56.4)	(51.7)	(18.8)	(66.0)	(71.9)
Finance income	7.5	7.8	8.5	9.5	10.4
Share of associate	9.3	0.5	27.0	29.3	31.5
Profit before tax	**432.5**	**321.2**	**511.6**	**582.5**	**680.8**
Income tax expense	(107.4)	(85.7)	(125.6)	(143.0)	(167.1)
Profit after tax	**325.2**	**235.5**	**386.0**	**439.5**	**513.7**
PATANCI	**311.4**	**217.3**	**371.6**	**423.8**	**496.8**
Core PATANCI	**313.0**	**218.1**	**371.6**	**423.8**	**496.8**
Basic EPS (sen)	12.9	9.0	15.3	17.4	20.4
DPS (sen)	4.5	4.5	4.5	4.5	4.5
Growth & Margin (%)					
Revenue Growth	5.4	19.6	23.0	8.8	7.4
Core PATANCI Growth	29.7	(30.3)	70.4	14.1	17.2
Gross Profit Margin	19.9	17.2	18.2	19.4	20.3
PBT Margin	9.9	6.1	7.9	8.3	9.1
Core PATANCI Margin	7.1	4.2	5.8	6.1	6.6
Ratios & Valuation					
PER (x)	45.2	64.8	38.1	33.4	28.5
Net debt/Total Equity (%)	42.1	38.8	5.1	50.1	48.6
Effective tax rate	24.8	26.7	24.5	24.5	24.5
Dividend yield	0.8	0.8	0.8	0.8	0.8

Source: Company, MIDFR

QL RESOURCES BERHAD: 3QFY23 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	**1,629.1**	**1,638.2**	**1,400.8**	**16.3**	**(0.6)**	**4,789.2**	**3,874.3**	**23.6**
Operating Profit	**208.1**	**202.8**	**166.4**	**25.1**	**2.6**	**590.9**	**432.0**	**36.8**
Depreciation and amortisation	(62.3)	(60.5)	(57.3)	8.7	3.0	(182.4)	(171.6)	6.3
Interest income	1.9	1.9	1.9	(0.2)	(0.5)	5.5	5.6	(3.0)
Finance costs	(17.0)	(15.4)	(14.2)	19.5	10.0	(46.5)	(38.1)	22.0
Share of profit/(loss) of associates (net)	0.2	0.5	0.2	(4.7)	(56.7)	0.8	0.4	107.7
Profit before tax	**131.0**	**129.2**	**97.0**	**35.0**	**1.3**	**368.3**	**228.4**	**61.2**
Income tax expense	(28.9)	(29.8)	(28.3)	2.2	(3.0)	(84.3)	(63.7)	32.4
Profit after tax	**102.1**	**99.5**	**68.7**	**48.5**	**2.6**	**284.0**	**164.8**	**72.4**
Non-controlling interest	3.9	5.6	8.9	(56.2)	(29.7)	10.5	16.7	(37.1)
PATANCI	**98.2**	**93.9**	**59.8**	**64.2**	**4.6**	**273.5**	**148.0**	**84.8**
Core PATANCI	**98.2**	**93.9**	**59.8**	**64.2**	**4.6**	**274.5**	**147.9**	**85.5**
Basic EPS (sen)	4.0	3.9	2.5	62.2	3.4	11.2	6.1	84.9
Ratios & Margins				+/(-) ppts	+/(-) ppts			+/(-) ppts
Operating Profit Margin (%)	12.8	12.4	11.9	0.9	0.4	12.3	11.2	1.2
PBT margin (%)	8.0	7.9	6.9	1.1	0.2	7.7	5.9	1.8
PAT margin (%)	6.3	6.1	4.9	1.4	0.2	5.9	4.3	1.7
Core PATANCI margin (%)	6.0	5.7	4.3	1.8	0.3	5.7	3.8	1.9
Effective tax rate (%)	22.0	23.0	29.1	(7.1)	(1.0)	22.9	27.9	(5.0)

Source: Company, MIDFR

Table 2: Segmental Breakdown

FYE March (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue:								
Marine Product Manufacturing (MPM)	362.5	352.9	330.5	9.7	2.7	1,047.8	885.8	18.3
Palm Oil and Clean Energy (POCE)	135.1	157.1	188.8	(28.4)	(14.0)	433.7	469.8	(7.7)
Integrated Livestock Farming (ILF)	912.9	904.7	703.4	29.8	0.9	2,664.2	2,058.8	29.4
Convenience Store Chain (CVS)	218.5	223.5	178.2	22.7	(2.2)	643.4	459.9	39.9
Total	**1,629.1**	**1,638.2**	**1,400.8**	**16.3**	**(0.6)**	**4,789.2**	**3,874.3**	**23.6**
Profit before tax (PBT):								
Marine Product Manufacturing (MPM)	74.6	76.4	61.7	20.8	(2.4)	201.0	156.6	28.4
Palm Oil and Clean Energy (POCE)	(1.2)	3.2	16.2	(107.7)	(139.2)	(2.6)	39.5	(106.7)
Integrated Livestock Farming (ILF)	51.9	35.0	3.5	1,381.4	48.2	133.6	4.5	2,894.3
Convenience Store Chain (CVS)	5.8	14.7	15.6	(62.8)	(60.5)	36.3	27.9	30.1
Total	**131.0**	**129.2**	**97.0**	**35.0**	**1.3**	**368.3**	**228.4**	**61.3**
PBT margin (%):								
Marine Product Manufacturing (MPM)	20.6	21.6	18.7	1.9	(1.1)	19.2	17.7	1.5
Palm Oil and Clean Energy (POCE)	(0.9)	2.0	8.6	(9.5)	(2.9)	(0.6)	8.4	(9.0)
Integrated Livestock Farming (ILF)	5.7	3.9	0.5	5.2	1.8	5.0	0.2	4.8
Convenience Store Chain (CVS)	2.7	6.6	8.7	(6.1)	(3.9)	5.6	6.1	(0.4)
Total	**131.0**	**129.2**	**97.0**	**34.0**	**1.7**	**368.3**	**228.4**	**139.9**

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