# QL Resources Berhad

(7084 | QLG MK) Main | Consumer Products & Services | Agriculture & Products

**More Additional CVS' Outlets and Vending Machine Ahead**

***Maintain* BUY**

***Revised* Target Price: RM6.75**
*(previously RM6.80)*

## KEY INVESTMENT HIGHLIGHTS

- **Below our expectation**
- **Mixed 4QFY23 results**
- **Better 12MFY23 revenue and core PATANCI**
- **Revised earnings projection for FY24-25F**
- **Maintain BUY with a lower TP of RM6.75 (previously RM6.80)**

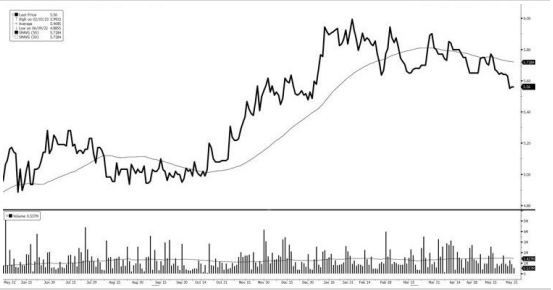
**Below our expectation.** QL Resources' (QL) FY23 core PATANCI of RM346.8m came in slightly below our FY23F full-year estimation but within consensus', which accounting for 93.3% of ours and 99.4% of streets'. The negative deviation was primarily due to higher-than-expected production cost in Marine Product Manufacturing (MPM) on the back of low production volume, as well as higher-than-expected operating costs in the Convenience Store Chain (CVS) division due to increased labour costs. The group proposed a final single-tier dividend of 3.5sen/share for FY23, subject to approval by shareholders at the forthcoming AGM. This was consistent with the total dividend declared for FY22, which was 3.5sen/share.

**Mixed 4QFY23 results.** On sequential basis, the group's revenue fell -9.5%qoq to RM1.47b in 4QFY23. This was mostly due to weaker revenues from the MPM, and Integrated Livestock Farming (ILF) divisions. CVS division recorded slight increase in revenue by +1.3%qoq to RM221.4m on the back of additional 14 new stores opening that slightly offset the lower average store sales. Meanwhile, the Palm Oil and Clean Energy (POCE) division reported a growth in revenue of +23.8%qoq to RM167.3m, mostly due to improved project progress at Boilermech and CPO selling price. The group's core PATANCI plummeted -24.6%qoq to RM73.3m in 4QFY23, owing to lower earnings from the MPM and ILF divisions, which offset higher profits from the POCE and CVS divisions. On yearly basis, 4QFY23F topline climbed +8.3%yoy to RM1.47b primarily due to increased revenue from the MPM, ILF, and CVS divisions. This more than offset a decrease in revenue in the POCE division which was due to lower CPO selling prices. As such, the core PATANCI increased +5.6%yoy to RM73.3m.

**Better FY23 revenue and core PATANCI.** Cumulatively, QL's revenue increased from RM5.24b in FY22 to RM6.26b in FY23 due to better performance in the MPM, ILF, and CVS divisions. However, the POCE's lower sales were attributable to poorer palm oil activities, which were impacted by a large decline in FFB tonnage produced and processed. Likewise, all three MPM, ILF and CVS divisions reported better profitability, together with a lower effective tax rate (-1.9ppt yoy), the core PATANCI increased by +59.6%yoy to RM346.8m.

| RETURN STATISTICS | |
|---|---|
| Price @ 30th May 2023 (RM) | 5.56 |
| Expected share price return (%) | +21.30 |
| Expected dividend yield (%) | 0.60 |
| **Expected total return (%)** | **+21.97** |

**SHARE PRICE CHART**



| Price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -1.6 | -0.3 |
| 3 months | -4.3 | -0.4 |
| 12 months | 10.5 | 24.2 |

**INVESTMENT STATISTICS**

| FYE Mar | 2023A | 2024F | 2025F |
|---|---|---|---|
| Revenue | 6,263.8 | 6,793.3 | 7,290.5 |
| EBITDA | 781.5 | 810.3 | 921.2 |
| Profit before tax (PBT) | 480.8 | 544.8 | 653.5 |
| Core PATANCI | 346.8 | 410.0 | 491.8 |
| Core EPS (sen) | 14.3 | 16.8 | 20.2 |
| DPS (sen) | 3.5 | 5.1 | 6.1 |
| Dividend Yield (%) | 0.6 | 0.9 | 1.1 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,396.91 |
| Issue shares (m) | 2433.66 |
| Estimated free float (%) | 23.34 |
| Market Capitalization (RM'm) | 13,531.14 |
| 52-wk price range | RM4.6 – RM6.1 |
| 3-mth average daily volume (m) | 1.49 |
| 3-mth average daily value (RM'm) | 8.54 |
| Top Shareholders (%) | |
| CBG L PTE LTD | 40.25 |
| PELITA GLOBAL SDN BHD | 11.93 |
| Farsathy Holdings Sdn Bhd | 11.57 |

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**Revised earnings projection for FY24-25F.** Given that results were slightly lower than expected, we tweak our earnings estimation for FY24F by –3.3% and FY25F by -1.0%, after accounting for increased CVS division input costs.

**Maintain BUY with a lower TP of RM6.75 (previously RM6.80).** We maintain our **BUY** call with a revised **TP** of **RM6.75**. Our DCF-derived **TP** is based on a growth rate of 3.5% and a WACC of 6.7% (from 6.4%). We remained optimistic about QL Resources' FY2F outlook, underpinned by: (1) its diversified revenue base, which operates across four divisions and thus offers protection against potential downside; (2) better performance for the MPM and ILF divisions ahead on the back of solid demand for their products, as well as (3) an additional 72 outlets, 50 FAMICafe, and 72 units FM Mini opening under CVS division in FY24F, which could increase revenue. QL is currently trading at an FY24F PER of 33x, which is below its 2-year historical PE of 45x. **Downside risk** is a sharp increase in input costs, which will erode margins in the MPM, ILF, and Convenience value services (CVS) divisions.

## QL Resources: 4QFY23 Results Summary

| FYE MAR (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 4QFY23 | 3QFY23 | 4QFY22 | YoY (%) | QoQ (%) | 1FY23 | FY22 | YoY (%) |
| Revenue | 1,474.6 | 1,629.1 | 1,361.7 | 8.3 | (9.5) | 6,263.8 | 5,236.0 | 19.6 |
| Operating Expenses | (1,284.0) | (1,421.0) | (1,206.7) | 6.4 | (9.6) | (5,482.2) | (4,642.9) | 18.1 |
| **EBITDA** | **190.6** | **208.1** | **155.0** | **23.0** | **(8.4)** | **781.5** | **593.1** | **31.8** |
| Depreciation & Amortisation | (62.8) | (62.3) | (50.8) | 23.5 | 0.7 | (245.2) | (228.4) | 7.3 |
| EBIT | **127.9** | **145.9** | **104.2** | **22.8** | **(12.3)** | **536.4** | **364.6** | **47.1** |
| Net finance income/(cost) | (15.7) | (15.1) | (11.5) | 37.0 | 4.2 | (56.7) | (43.9) | 29.2 |
| Profit before Associates & JV | 112.1 | 130.7 | 92.7 | 21.0 | (14.2) | 479.6 | 320.7 | 49.6 |
| Share of results of an associate | 0.4 | 0.2 | 0.1 | 223.3 | 68.2 | 1.2 | 0.4 | 176.4 |
| **Profit before tax (PBT)** | **112.5** | **131.0** | **92.8** | **21.3** | **(14.1)** | **480.8** | **321.1** | **49.7** |
| Tax expense | (34.6) | (29.9) | (21.9) | 57.9 | 15.9 | (118.9) | (85.6) | 38.9 |
| **Profit After tax (PAT)** | **77.9** | **101.1** | **70.8** | **9.9** | **(23.0)** | **361.9** | **235.5** | **53.7** |
| Non-Controlling Interest (NCI) | 4.6 | 3.9 | 1.4 | 221.3 | 16.3 | 15.1 | 18.2 | (16.9) |
| **PATANCI** | **73.3** | **97.2** | **69.4** | **5.6** | **(24.6)** | **346.8** | **217.4** | **59.6** |
| **Core PATANCI** | **73.3** | **97.2** | **69.4** | **5.6** | **(24.6)** | **346.8** | **217.4** | **59.6** |
| Core EPS (sen) | 3.0 | 4.0 | 2.9 | 5.6 | (24.6) | 14.3 | 8.9 | 59.6 |
| DPS (sen) | 3.5 | 0.0 | 3.5 | 0.0 | n.m. | 3.5 | 3.5 | 0.0 |
| **Growth & Margin (%)** | | | | *+/(-) ppts* | *+/(-) ppts* | | | *+/(-) ppts* |
| EBITDA Margin | 12.9 | 12.8 | 11.4 | 1.5 | 0.2 | 12.5 | 11.3 | 1.2 |
| PBT Margin | 7.6 | 8.0 | 6.8 | 0.8 | (0.4) | 7.7 | 6.1 | 1.5 |
| Core PATANCI Margin | 5.0 | 6.0 | 5.1 | (0.1) | (1.0) | 5.5 | 4.2 | 1.4 |
| **Ratios & Valuation** | | | | *+/(-) ppts* | *+/(-) ppts* | | | *+/(-) ppts* |
| Net debt/total equity (%) | 0.3 | 0.3 | 0.3 | (0.1) | (0.0) | 0.3 | 0.3 | (0.1) |
| Effective tax rate (%) | 30.8 | 22.8 | 23.7 | 7.1 | 8.0 | 24.7 | 26.7 | (1.9) |

*Source: Company, MIDFR*

## QL Resources: Breakdown by operating segment

| FYE MAR (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 4QFY23 | 3QFY23 | 4QFY22 | YoY (%) | QoQ (%) | FY23 | FY22 | YoY (%) |
| **Revenue (External):** | | | | | | | | |
| Marine Product Manufacturing (MPM) | 307.1 | 362.5 | 279.1 | 10.0 | (15.3) | 1,355.0 | 1,164.9 | 16.3 |
| Integrated Livestock Farming (ILF) | 778.8 | 912.9 | 727.7 | 7.0 | (14.7) | 3,443.0 | 2,786.5 | 23.6 |
| Convenience Store Chain (CVS) | 221.4 | 218.5 | 176.8 | 25.2 | 1.3 | 864.8 | 636.7 | 35.8 |
| Palm Oil and Clean Energy (POCE) | 167.3 | 135.1 | 178.1 | (6.1) | 23.8 | 601.0 | 647.9 | (7.2) |
| **Total** | **1,474.6** | **1,629.1** | **1,361.7** | **8.3** | **(9.5)** | **6,263.8** | **5,236.0** | **19.6** |
| **Operating Profit:** | | | | | | | | |
| Marine Product Manufacturing (MPM) | 41.2 | 74.6 | 44.2 | (6.8) | (44.7) | 242.2 | 200.8 | 20.6 |
| Integrated Livestock Farming (ILF) | 49.5 | 51.9 | 27.7 | 79.1 | (4.5) | 183.1 | 32.1 | 470.2 |
| Convenience Store Chain (CVS) | 7.4 | 5.8 | 15.1 | (50.9) | 27.7 | 43.7 | 43.0 | 1.7 |
| Palm Oil and Clean Energy (POCE) | 14.4 | (1.2) | 5.8 | 146.2 | >100 | 11.7 | 45.3 | (74.1) |
| **Total** | **112.5** | **131.0** | **92.8** | **21.3** | **(14.1)** | **480.8** | **321.2** | **49.7** |
| **Operating profit margin:** | | | | | | | | |
| Marine Product Manufacturing (MPM) | 13.4 | 20.6 | 15.8 | (2.4) | (7.2) | 17.9 | 17.2 | 0.6 |
| Integrated Livestock Farming (ILF) | 6.4 | 5.7 | 3.8 | 2.6 | 0.7 | 5.3 | 1.2 | 4.2 |
| Convenience Store Chain (CVS) | 3.3 | 2.7 | 8.5 | (5.2) | 0.7 | 5.1 | 6.8 | (1.7) |
| Palm Oil and Clean Energy (POCE) | 8.6 | (0.9) | 3.3 | 5.3 | 9.5 | 2.0 | 7.0 | (5.0) |
| **Total** | **7.6** | **8.0** | **6.8** | **0.8** | **(0.4)** | **7.7** | **6.1** | **1.5** |

*Source: Company, MIDFR*

## FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023A | 2024F | 2025F |
|---|---|---|---|---|---|
| **Revenue** | **4,378.8** | **5,236.0** | **6,263.8** | **6,793.3** | **7,290.5** |
| Cost of Sales | (3,508.8) | (4,333.6) | (4,988.3) | (5,442.2) | (5,782.1) |
| **Gross Profit** | **870.0** | **902.5** | **1,275.5** | **1,351.1** | **1,508.4** |
| Other Income | 113.6 | 57.4 | 68.7 | 76.0 | 82.3 |
| Adminsitrative expenses | (286.3) | (325.6) | (383.2) | (419.7) | (458.6) |
| Distribution Costs | (201.6) | (240.5) | (209.6) | (229.1) | (244.6) |
| Other operating expenses | (23.6) | (29.1) | 30.1 | 32.0 | 33.6 |
| **EBITDA** | 680.3 | 594.7 | 781.5 | 810.3 | 921.2 |
| EBIT | 472.2 | 364.6 | 536.4 | 597.4 | 707.3 |
| **Profit before tax (PBT)** | **432.6** | **321.2** | **480.8** | **544.8** | **653.5** |
| Profit After tax (PAT) | 325.2 | 235.5 | 361.9 | 410.0 | 491.8 |
| **Core PATANCI** | **230.3** | **212.3** | **346.8** | **410.0** | **491.8** |
| Core EPS (sen) | 9.5 | 8.7 | 14.3 | 16.8 | 20.2 |
| DPS (sen) | 4.5 | 3.5 | 3.5 | 5.1 | 6.1 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023A | 2024F | 2025F |
|---|---|---|---|---|---|
| Property,plant and equipment | 2,211.1 | 2,187.3 | 2,230.0 | 2,160.0 | 2,099.0 |
| Intangible assets | 129.2 | 128.1 | 125.2 | 135.7 | 145.7 |
| **Total Non-current assets** | **2,871.0** | **2,856.3** | **2,944.5** | **2,931.3** | **2,922.8** |
| Biological Assets | 209.6 | 232.0 | 252.7 | 283.2 | 292.4 |
| Inventories | 652.2 | 679.3 | 953.4 | 873.3 | 921.6 |
| ST - Trade and other receivables | 652.2 | 679.3 | 677.8 | 830.9 | 870.2 |
| Cash and cash equivalents | 486.5 | 481.1 | 346.5 | 377.7 | 407.3 |
| **Total current assets** | **1,964.4** | **2,100.8** | **2,359.1** | **2,504.5** | **2,641.3** |
| **Total Assets** | **4,835.4** | **4,957.1** | **5,303.6** | **5,435.8** | **5,564.0** |
| **Total Equity** | **2,545.5** | **2,706.4** | **2,887.5** | **2,996.1** | **3,020.7** |
| LT Loans and borrowings | 608.3 | 436.3 | 246.2 | 253.5 | 261.1 |
| **Total Non-current liabilities** | **908.3** | **751.9** | **624.4** | **666.6** | **708.2** |
| ST Trade and other payables | 465.4 | 464.0 | 668.6 | 616.5 | 644.4 |
| ST Loans and borrowings | 783.5 | 924.1 | 987.4 | 1,017.1 | 1,047.6 |
| **Total Current Liabilities** | **1,381.7** | **1,498.8** | **1,791.7** | **1,773.1** | **1,835.2** |
| **Total Liabilities** | **2,289.9** | **2,250.6** | **2,416.0** | **2,439.6** | **2,543.4** |

| Cash Flow (RM'm) | 2021A | 2022A | 2023A | 2024F | 2025F |
|---|---|---|---|---|---|
| Pretax profit | 432.6 | 321.2 | 480.8 | 544.8 | 653.5 |
| Cash flow from operations | 589.2 | 470.4 | 571.0 | 455.5 | 490.9 |
| Cash flow from investing | (265.3) | (198.2) | (198.2) | (257.7) | (273.7) |
| Cash flow from financing | (104.9) | (280.9) | (501.5) | (163.4) | (187.5) |
| **Net cash flow** | **219.0** | **(8.7)** | **(128.6)** | **34.5** | **29.7** |
| (+/-) Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net cash/(debt) b/f** | **261.6** | **480.5** | **471.8** | **343.2** | **377.7** |
| **Net cash/(debt) c/f** | **480.5** | **471.8** | **343.2** | **377.7** | **407.3** |

| Key Metrics | 2021A | 2022A | 2023A | 2024F | 2025F |
|---|---|---|---|---|---|
| Effective tax rate (%) | 24.8 | 26.7 | 24.7 | 24.7 | 24.7 |
| Dividend Yield (%) | 0.8 | 0.6 | 0.6 | 0.9 | 1.1 |
| PER (x) | 46.3 | 42.8 | 39.0 | 33.0 | 27.5 |
| Biological Assets (Days) | 20.6 | 18.6 | 17.8 | 19.0 | 18.5 |
| Inventories (Days) | 59.7 | 56.1 | 59.9 | 58.6 | 58.2 |

| Profitability Margins | 2021A | 2022A | 2023A | 2024F | 2025F |
|---|---|---|---|---|---|
| Gross Profit Margin (%) | 19.9 | 17.2 | 20.4 | 19.9 | 20.7 |
| EBITDA Margin (%) | 15.5 | 11.4 | 12.5 | 11.9 | 12.6 |
| EBIT Margin (%) | 10.8 | 7.0 | 8.6 | 8.8 | 9.7 |
| Core PATANCI Margin (%) | 5.3 | 4.1 | 5.5 | 6.0 | 6.7 |

*Source: Bloomberg, 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