

QL Resources Berhad

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

From Sabah's Marine Riches to Consumer Plate

KEY INVESTMENT HIGHLIGHTS

- **Vertical Expansion into Prawn Aquaculture Activities in Kudat Sabah**
- **Export-Oriented with Asian Markets Dominate QL MPM Sabah Product Sales**
- **Growing opportunities for QL's MPM shrimp farm and downstream production in Sabah**
- **Maintain BUY with an unchanged TP of RM6.50**

Sabah Visit. We recently visited QL Resources' Tuaran Sabah Marine Product Manufacturing Plant and remain optimistic about the company's FY24 outlook. Some of the salient highlights are as follows:-

Integrated Seafood Processing Complex in Tuaran Sabah. QL Resources' MPM in Tuaran, Sabah, is an integrated seafood processing facility involved in surimi, fishmeal, and frozen seafood processing. Currently, QL employs a total of 700 workers, with 95% being locals. Notably, the cutting process requires a significant number of workers, as the machinery is unable to cut the fish into different sizes efficiently. The plant boasts a total annual production capacity of 10k mt for surimi, 20k mt for frozen seafood, and 20k mt for fishmeal.

Vertical Expansion into Prawn Aquaculture Activities in Kudat Sabah. QL ventured into shrimp farming in 2013 with a total investment to date of RM56m on 260 acres of land in Kudat. The farm comprises both shrimp ponds and a hatchery. Currently, the group has constructed 76 culture ponds in the area, with a total production capacity of 2k mt per annum and an employed workforce of 200. We gather that the group transports the harvested shrimp to the Tuaran MPM processing farm for further processing according to customer requirements. The shrimp are primarily sold in USD to restaurants and hotels, with prices varying based on market supply and demand, as well as shrimp quality.

Chart 1: Shrimp Farm at Kudat Sabah



Source: Company, MIDFR

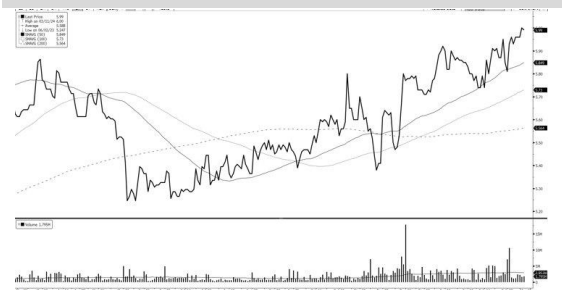
Maintain BUY

Unchanged Target Price: RM6.50

RETURN STATISTICS

Price @ 13 th Mar 2024 (RM)	5.99
Expected share price return (%)	+8.4
Expected dividend yield (%)	+1.6
Expected total return (%)	+10.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.5	1.9
3 months	4.9	-1.6
12 months	4.4	-4.6

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	6,721.3	7,138.9	7,622.9
EBITDA	879.6	946.7	1,022.8
Profit before tax (PBT)	571.6	638.0	711.3
Core PATANCI	428.2	478.7	534.5
Core EPS (sen)	17.6	19.7	22.0
DPS (sen)	8.8	9.8	11.0
Dividend Yield (%)	1.5	1.6	1.8

KEY STATISTICS

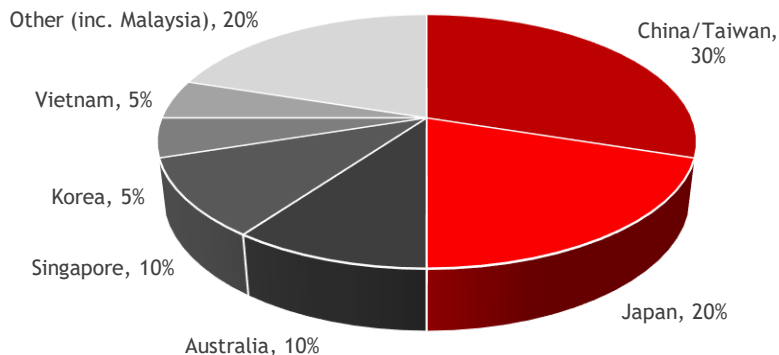
FBM KLCI	1,538.13
Issue shares (m)	2433.66
Estimated free float (%)	25.01
Market Capitalization (RM'm)	14,577.61
52-wk price range	RM5.23-RM6.03
3-mth average daily volume (m)	2.97
3-mth average daily value (RM'm)	17.28
Top Shareholders (%)	
CBG L PTE LTD	40.25
PELITA GLOBAL SDN BHD	11.93
Farsathy Holdings Sdn Bhd	11.57

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Export-Oriented with Asian Markets Dominate QL MPM Sabah Product Sales. QL Sabah MPM plant exported 80% of its processed seafood products, including surimi, fishmeal, and frozen seafood. Notably, China/Taiwan (30%) is the primary market, followed by Japan (20%), and Australia (10%). This is primarily because exporting frozen seafood commands higher profit margins compared to selling in the local market. However, the export dynamics for shrimp vary across countries due to differing customer preference. QL caters to China, Taiwan, and Singapore with both cooked and frozen shrimp, while only export prawn meat to Australia.

Chart 2: Geographical Breakdown of Product Sales



Source: Company, MIDFR

Growing opportunities for QL’s MPM shrimp farm and downstream production in Sabah. The rising fisheries and aquaculture industry in Sabah state present an opportunity for QL to expand its MPM segment. Based on the Department of Statistics Malaysia (DOSM), the fishing industry (inclusive of fisheries and aquaculture) contributed 5% to the total state GDP in 2022, marking a significant increase from the pre-pandemic level of 4% in 2018. This equivalent to 16% of the total value of the agriculture sector. According to our recent conversation with the Ministry of Agriculture, Fisheries, and Food Industry (MAFFI Sabah), we gathered that Sabah boasts a self-sufficiency rate (SSL) of fish at 106%, indicating the potential for export to Peninsular Malaysia and overseas markets. This highlights the sustainable fisheries resources within Sabah, either from marine capture or aquaculture, which benefit QL's surimi and frozen seafood processing products. Note that QL stands as one of the largest integrated seafood processors in Sabah.

Table 3: Sabah GDP Breakdown by Economic Activity (%)

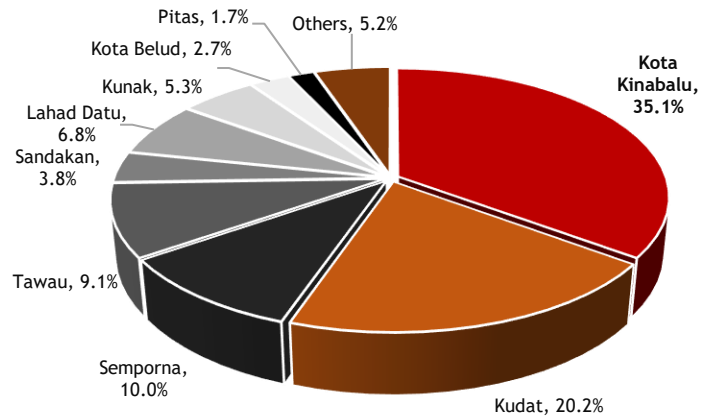
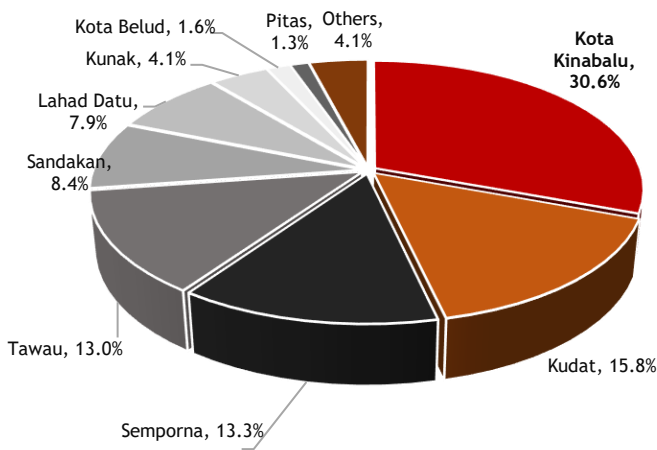
	2018	2019	2020	2021	2022
Agriculture	29.3%	29.8%	31.2%	30.2%	30.4%
Agriculture	21.7%	22.4%	23.5%	22.3%	22.3%
Livestock	1.5%	1.6%	1.8%	1.8%	1.9%
Forestry & logging	2.1%	1.5%	1.0%	1.4%	1.3%
Fishing	4.0%	4.3%	4.9%	4.7%	5.0%
Mining & Quarrying	50.8%	49.4%	48.7%	49.7%	49.4%
Manufacturing	13.8%	14.1%	14.7%	14.3%	14.1%
Construction	6.2%	6.7%	5.4%	5.7%	6.1%

Source: DOSM, MIDFR

Strategic Location of QL MPM Plant and Farm in Sabah. According to the Department of Fisheries Sabah, Kota Kinabalu remains the largest hub for marine fish landing in terms of both volume and value in 2022, closely followed by Kudat and Semporna. This geographical proximity aligns with the positioning of the QL MPM downstream plant situated at Tuaran, which is close to the source from Tuaran and KK. Meanwhile regions such as the West Coast, Kudat, Sandakan, and Tawau are significant areas focusing on freshwater fish ponds. Sabah is renowned for its aquaculture practices, particularly in Blackwich water culture for fish, tiger prawns, and other species. In 2022, Sabah's Brackishwater aquaculture sector achieved a total production of 10k metric tons, with a wholesale value amounting to RM240.5m. Note that QL boasts a production capacity of 2k metric tons for prawn aquaculture. This solidifies QL position as one of the largest contributors to the Brackishwater culture industry in Sabah.

Chart 4: Landing of Marine Fish Breakdown by Volume in 2022

Chart 5: Landing of Marine Fish Breakdown by Value in 2022

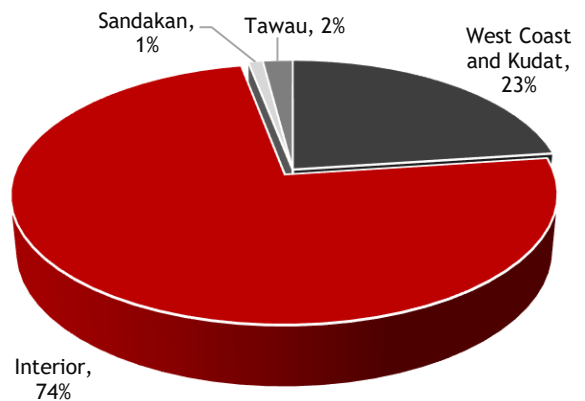
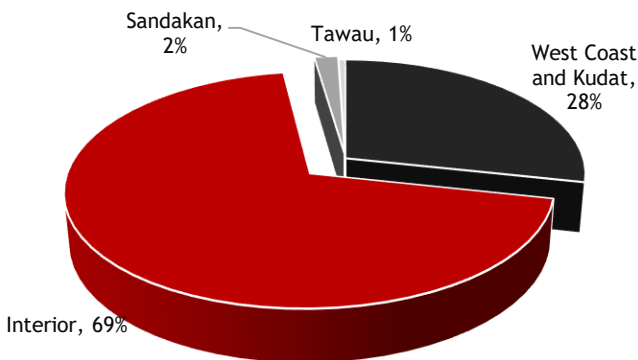


Source: DOSM, MIDFR, Department of Fisheries Sabah

Source: DOSM, MIDFR, Department of Fisheries Sabah


Chart 6: Number of Freshwater Fish Ponds Breakdown Across Sabah in 2022 (%)

Chart 7: Area of Freshwater Fish Ponds Breakdown Across Sabah in 2022 (%)



Source: DOSM, MIDFR, Department of Fisheries Sabah

Source: DOSM, MIDFR, Department of Fisheries Sabah

Maintain BUY with an unchanged TP of RM6.50. We make no changes to our earnings forecast for FY24-26F post visit. Our **TP** is based on an unchanged growth rate of 3.5% and an unchanged WACC of 6.7%. We remain positive about QL Resources' FY2F outlook, underpinned by: (1) its diversified revenue base, which operates across 4 divisions and geographical regions and thus offers protection against potential downside risks; and (2) better performance for the MPM and ILF divisions ahead on the back of resilient demand for essential products. We like QL for venturing into a new market by supplying inflight hot food to MAS Awana through the CVS segment that signifies potential for a new market and future additional revenue. We gathered that sales for MAS Awana increased substantially in absolute amount on a weekly basis, largely attributed to heightened demand spurred by increased tourist activity. **Downside risks** include a sharp increase in raw material input costs, which may erode margins in the MPM, ILF, and CVS divisions. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	5,236.0	6,242.6	6,721.3	7,138.9	7,622.9
Cost of Sales	(4,333.6)	(4,988.4)	(5,129.2)	(5,445.1)	(5,811.5)
Gross Profit	902.5	1,254.2	1,592.1	1,693.7	1,811.5
Other Income	57.4	38.5	50.7	54.4	58.7
Administrative expenses	(325.6)	(367.0)	(375.4)	(378.8)	(384.2)
Distribution Costs	(240.5)	(322.2)	(339.9)	(371.9)	(409.0)
Other operating expenses	(29.1)	(67.2)	(48.0)	(50.8)	(54.2)
EBITDA	594.7	782.8	879.6	946.7	1,022.8
EBIT	364.6	536.3	633.3	696.9	769.4
Profit before tax (PBT)	321.2	480.8	571.6	638.0	711.3
Profit After tax (PAT)	235.5	361.9	428.7	478.5	533.5
Core PATANCI	212.3	377.0	428.2	478.7	534.5
Core EPS (sen)	8.7	15.5	17.6	19.7	22.0
DPS (sen)	3.5	7.0	8.8	9.8	11.0
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,187.3	2,209.9	2,235.1	2,271.8	2,322.0
Intangible assets	128.1	125.0	134.6	143.0	152.7
Total Non-current assets	2,856.3	2,926.9	2,988.1	3,024.7	3,081.7
Biological Assets	232.0	251.9	249.5	264.8	282.6
Inventories	679.3	955.2	842.6	894.5	954.7
ST - Trade and other receivables	679.3	616.4	699.5	742.9	793.3
Cash and cash equivalents	481.1	346.5	447.7	477.9	512.8
Total current assets	2,100.8	2,358.2	2,441.8	2,595.3	2,773.2
Total Assets	4,957.1	5,285.1	5,429.9	5,620.0	5,854.9
Total Equity	2,706.4	2,887.5	3,061.3	3,150.0	3,272.3
LT Loans and borrowings	436.3	237.9	245.0	252.4	260.0
Total Non-current liabilities	751.9	610.9	647.2	680.5	718.0
ST Trade and other payables	464.0	649.1	550.0	583.9	623.2
ST Loans and borrowings	924.1	1,017.2	1,047.7	1,079.1	1,111.5
Total Current Liabilities	1,498.8	1,786.7	1,721.4	1,789.6	1,864.6
Total Liabilities	2,250.6	2,397.6	2,368.6	2,470.1	2,582.6
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	321.2	480.8	571.6	638.0	711.3
Cash flow from operations	470.4	618.6	772.7	739.2	831.7
Cash flow from investing	(198.2)	(231.4)	(402.5)	(426.1)	(486.6)
Cash flow from financing	(280.9)	(515.8)	(265.7)	(283.0)	(310.2)
Net cash flow	(8.7)	(128.6)	104.5	30.2	35.0
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	480.5	471.8	343.2	447.7	477.9
Net cash/(debt) c/f	471.8	343.2	447.7	477.9	512.8
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	26.7	24.7	25.0	25.0	25.0
Dividend Yield (%)	0.6	1.2	1.5	1.6	1.8
PER (x)	46.1	42.8	34.0	30.5	27.3
Biological Assets (Days)	18.6	17.8	17.8	17.8	17.8
Inventories (Days)	56.1	60.0	60.0	60.0	60.0
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	17.2	20.1	23.7	23.7	23.8
EBITDA Margin (%)	11.4	12.5	13.1	13.3	13.4
EBIT Margin (%)	7.0	8.6	9.4	9.8	10.1
Core PATANCI Margin (%)	4.1	6.0	6.4	6.7	7.0

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 <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.

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