

31 May 2019

# QL Resources Bhd

## FY19 Within Expectations

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

**FY19 PATAMI of RM216.7m (+11%) and dividend of 4.5 sen are within expectations. Better marine and livestock segments will stay as key growth drivers of the group, with Family Mart operation to start contributing in the near-term. Meanwhile, the palm oil segment should still be dampened by poor CPO prices. We believe the stock's valuations may be stretched against its peers, on less exciting fundamentals. Maintain UNDERPERFORM and TP of RM6.05.**

**FY19 within.** FY19 PATAMI of RM216.7m is within our/consensus estimates, at 95% of both respective full-year expectations. A single interim dividend of 4.5 sen was declared, which we deem to be broadly within our 5.0 sen anticipated payment for the year.

**YoY,** the stronger 12M19 revenue of RM3.61b (+11%) was propelled by higher catch rates from the marine products manufacturing (MPM) segment and growth in output and sales from integrated livestock farming (ILF). Palm oil activities (POA) showed prolonged weakness owing to the prevailing weakness in CPO prices and lower stock. Consequently, 12M19 PATAMI came up to RM216.7m (+11%).

**QoQ,** 4Q19 revenue of RM898.0m fell by 8%. This was due to both MPM and ILF segments experiencing adverse swings in the form of lower seasonal yields and poorer sales from raw material trades. On the contrary, POA businesses saw improvements from better sequential CPO prices, with profits also boosted by solid associates' performance. As margins were dragged by the abovementioned, 4Q18 PATAMI closed lower at RM43.2m (-38%).

**Building a solid base.** The group is continuing efforts to expand its key MPM segments. Upgrades to its Hutan Melintang facility and surimi plants, fleets and new aquaculture initiatives could be supplemented by more favourable weather and fish breeding conditions. The POA segment may trail poorly if weak CPO prices persist. Still, contribution from this segment could remain less meaningful to the group as opposed to its other businesses (i.e. <10% PBT). For the ILF segment, we believe there could be further opportunities for growth in its regional bases (i.e. Vietnam and Indonesia) where the group looks to ramp up production capacity to tap into the vibrant demand. On the other hand, the FamilyMart convenience store chain is expected to generate profits by FY20, having already opened 90 stores as at March 2019.

**Post results,** we tweak our FY20E earnings by -0.2% as we incorporate FY19 full-year financials. Additionally, we also introduce our FY21E numbers.

**Maintain UNDERPERFORM and TP of RM6.05.** Our valuation is based on an unchanged 40.0x FY20E PER (within the stock's +1.5SD over its 3-year mean PER). We believe the rich valuations are due to high investors' appetite, attributed to the stock defensive quality in the consumer staples space. However, current levels may be excessive owing to: (i) low dividend returns of c.1% (vs. peers' average of 3-4%), and (ii) its low ROE (vs. peers of up to +100%).

**Risks to our call include:** (i) significant improvement to MPM sales, (ii) significant uptick in palm oil prices and sales volume, (iii) better-than-expected demand of poultry products abroad.

## UNDERPERFORM ↔

Price : **RM6.80**  
Target Price : **RM6.05** ↔

### Share Price Performance



KLCI 1,636.50  
YTD KLCI chg -3.2%  
YTD stock price chg -0.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	QLG MK Equity
Market Cap (RM m)	11,032.6
Shares Outstanding	1,622.4
52-week range (H)	7.63
52-week range (L)	5.20
3-mth avg daily vol	744,029
Free Float	40%
Beta	0.8

### Major Shareholders

CBG (L) Pte Ltd	41.2%
Farsathy Holdings Sdn Bhd	11.8%
Kumpulan Wang Simpanan Pekerja	7.4%

### Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Turnover	3,613.3	4,008.9	4,188.2
EBIT	312.6	349.2	361.8
PBT	272.3	307.8	320.6
<b>Net Profit (NP)</b>	<b>225.4</b>	<b>254.8</b>	<b>265.4</b>
<b>Core PATAMI</b>	<b>216.7</b>	<b>245.0</b>	<b>255.2</b>
Consensus (NP)	228.5	258.0	283.5
Earnings Revision		-0.2%	-
Core EPS (sen)	13.4	15.1	15.7
Core EPS growth (%)	11.2%	13.0%	4.2%
NDPS (sen)	4.5	5.5	5.5
BVPS (RM)	1.2	1.3	1.4
Core PER	50.9	45.0	43.2
Price/Bv (x)	5.7	5.2	4.9
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	0.7%	0.8%	0.8%

31 May 2019

## Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YTD
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	898.0	978.9	-8.3%	783.9	14.6%	3,613.3	3,263.3	10.7%
EBITDA	96.8	152.9	-36.7%	90.9	6.5%	457.8	403.7	13.4%
PBT/(LBT)	61.2	93.0	-34.2%	46.0	33.1%	272.3	240.4	13.3%
Taxation	-16.2	-17.7	8.5%	-8.1	-100.0%	-46.9	-37.8	-23.9%
Net Profit	45.0	75.3	-40.2%	37.9	18.8%	225.4	202.5	11.3%
PATAMI	43.2	69.1	-37.5%	38.9	11.3%	216.7	195.0	11.2%
EPS (sen)	2.7	4.3		2.4		13.4	12.0	
EBITDA margin	10.8%	15.6%		11.6%		12.7%	12.4%	
PBT margin	6.8%	9.5%		5.9%		7.5%	7.4%	
NP margin	5.0%	7.7%		4.8%		6.2%	6.2%	
PATAMI margin	4.8%	7.1%		5.0%		6.0%	6.0%	
Effective tax rate	26.4%	19.0%		17.6%		17.2%	15.7%	

Note:

\* Restated to reflect MFRS1 &amp; 9 adoption

Source: Company, Kenanga Research

## Segmental Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YTD
Revenue (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Marine Products Manufacturing	244.5	279.4	-12.5%	206.5	18.4%	1,007.9	905.4	11.3%
Palm Oil Activities	77.9	70.5	10.6%	89.9	-13.4%	303.1	387.3	-21.7%
Integrated Livestock Farming	575.6	629.0	-8.5%	487.4	18.1%	2,302.3	1,970.6	16.8%
Total	898.0	978.9	-8.3%	783.9	14.6%	3,613.3	3,263.3	10.7%
Profit Before Tax (RM'm)								
Marine Products Manufacturing	31.6	51.8	-39.0%	21.8	45.0%	153.3	124.2	23.5%
Palm Oil Activities	10.5	8.7	21.6%	2.6	300.5%	20.4	20.8	-1.7%
Integrated Livestock Farming	19.1	32.5	-41.4%	21.6	-11.6%	98.6	95.5	3.3%
Total	61.2	93.0	-34.2%	46.0	33.1%	272.3	240.4	13.3%
PBT margin								
Marine Products Manufacturing	12.9%	18.5%		10.5%		15.2%	13.7%	
Palm Oil Activities	13.5%	12.3%		2.9%		6.7%	5.4%	
Integrated Livestock Farming	3.3%	5.2%		4.4%		4.3%	4.8%	
Total	6.8%	9.5%		5.9%		7.5%	7.4%	

Note:

\* Restated to reflect MFRS1 &amp; 9 adoption

Source: Company, Kenanga Research

31 May 2019

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.56	1,827.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	37.5	33.0	31.3	26.0	25.2	77.5%	2.6%	1.35	UP
AEON CO (M) BHD	1.52	2,134.1	Y	12/2019	6.5%	3.1%	17.3%	9.2%	20.1	17.2	15.7	1.1	1.1	5.3%	2.6%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	5.86	963.3	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.7	16.8	15.8	4.1	3.9	23.8%	4.7%	7.25	OP
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	34.20	12,543.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.9	28.0	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP
MYNEWS HOLDINGS BHD	1.37	934.6	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.3	29.1	24.1	3.4	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.30	34,541.9	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.2	47.2	45.2	52.8	52.8	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.71	2,440.8	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.7	15.8	13.0	3.7	3.3	22.3%	3.1%	4.00	MP
PARKSON HOLDINGS BHD	0.260	277.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	33.5	0.1	0.1	-1.7%	0.0%	0.240	MP
POWER ROOT BHD	1.46	578.0	Y	03/2020	6.3%	8.6%	26.3%	16.8%	17.4	14.3	12.6	2.6	2.4	18.0%	6.2%	1.75	OP
QL RESOURCES BHD	6.80	11,032.6	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.9	45.0	43.2	5.5	5.1	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP
Simple Average					4.8%	4.3%	2.9%	64.0%	28.5	25.1	24.0	11.3	11.1	33.7%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	29.28	8,360.3	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	17.8	20.2	19.8	19.8	18.9	96.0%	4.7%	29.55	UP
CARLSBERG BREWERY MALAYSIA BHD	24.38	7,499.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.4	25.6	24.4	41.5	45.1	173.9%	4.1%	23.00	MP
HEINEKEN MALAYSIA BHD	23.44	7,081.2	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.1	24.4	23.2	19.1	18.9	77.9%	4.1%	23.25	MP
Simple Average					3.8%	4.1%	-0.6%	3.9%	23.4	23.4	22.5	26.8	27.6	115.9%	4.3%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.80	645.2	N	06/2019	8.2%	9.9%	2368.1%	15.4%	549.1	22.2	19.3	1.7	1.7	7.3%	2.7%	2.08	BUY
BONIA CORPORATION BHD	0.300	238.8	Y	06/2019	-4.9%	1.3%	-29.7%	2.9%	12.1	17.2	16.7	0.6	0.5	2.9%	2.3%	0.245	SELL
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL
KAWAN FOOD BHD	1.40	503.3	Y	12/2019	16.7%	20.3%	54.9%	23.4%	22.1	14.2	11.5	1.6	1.4	10.4%	2.7%	2.16	BUY
MAGNI-TECH INDUSTRIES BHD	4.59	746.6	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.2	7.0	6.3	1.4	N.A.	21.0%	N.A.	6.45	BUY

Source: Bloomberg, Kenanga Research

31 May 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research