

02 December 2019

QL Resources Bhd

1HFY20 Within Expectations

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1HFY20 PATAMI of RM120.2m and the absence of dividend came in within expectations. Moving forward, the group's core marine segment is expected to remain in the driver seat, on the back of more favourable fish breeding conditions. Meanwhile, its Family Mart operations with c.145 stores opened to date are likely to be segmented out in FY20. Post-results, we maintain UP with higher TP of RM6.60 based on valuations pegged to an updated +0.5SD PER.

Within expectations. 1HFY20 PATAMI of RM120.2m came in within expectations at 49%/48% of our/consensus' estimates, respectively. No dividend was announced, as expected.

Results review. YoY, 1HFY20 PATAMI grew 13%, largely driven by: (i) sturdier Marine Product Manufacturing (MPM) segment (+43% PBT) supported by stronger fishmeal and surimi-based products, coupled with (ii) better Palm Oil Activities (POA) segment (+52% PBT) on higher Oil Extraction Rate (OER) and favourable forex gains. The better results were slightly shadowed by a weaker Integrated Livestock Farming (ILF) segment (-6% PBT), dragged by softer regional poultry contribution in 1Q. For the individual quarter of 2QFY20, PATAMI grew 15% YoY thanks to higher contribution across all segments. Particularly, ILF business registered a slight growth (+2% PBT) on the back of improved Indonesia and Sabah poultry operations.

QoQ, 2QFY20 earnings rose a solid 38% to RM69.7m as ILF segment improved significantly by two-fold to record a PBT of RM30.2m, boosted by stronger feed raw material trade and greater contribution from Vietnam and West Malaysia poultry units. This is on top of a sustained growth from its core MPM segment (+13% PBT) similarly due to the foresaid reasons. Meanwhile, POA's PBT was weaker by 25%, depressed by softer CPO prices and lower FFB processed.

Keep the fishes coming. Moving forward, the group's earnings are anticipated to be continued being buoyed by its core MPM segment, on the back of improving fish breeding conditions. While the coming quarter may be slightly shadowed by the East Malaysia's monsoon season, we remain comforted by the group's relentless efforts to upgrade its Hutan Melintang facility, surimi plants, shrimp processing plants and new aquaculture initiatives, to further enhance this growing segment. We believe that there could still be more growth opportunities for its ILF segment in its regional bases (i.e. Vietnam and Indonesia) where the group looks to ramp up production capacity, banking on their larger population. Meanwhile, the FamilyMart convenience store chain is expected to generate profits by FY20, having already opened c.145 stores to date.

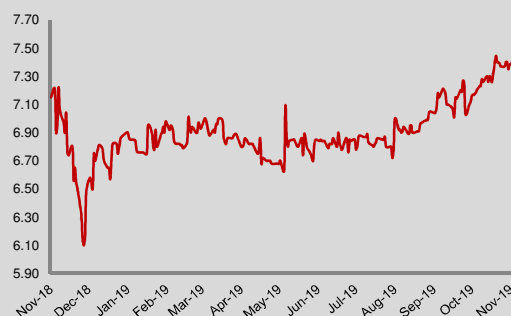
Post results, we made no changes to our earnings forecasts.

Maintain UNDERPERFORM and higher TP of RM6.60 (from RM6.30, previously) as we revised our valuation by ascribing a higher FY21E PER of 42.0x from 40.0x (within the stock's unchanged +0.5SD over its 3-year mean). 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, and (iii) better-than-expected demand of poultry products abroad.

UNDERPERFORM ↔

Price : RM7.25
Target Price : RM6.60 ↑

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,561.74 |
| YTD KLCI chg | -7.6% |
| YTD stock price chg | 6.5% |

Stock Information

| | |
|---------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | QLG MK Equity |
| Market Cap (RM m) | 11,762.7 |
| Shares Outstanding | 1,622.4 |
| 52-week range (H) | 7.45 |
| 52-week range (L) | 6.03 |
| 3-mth avg daily vol | 896,689 |
| Free Float | 36% |
| Beta | 0.7 |

Major Shareholders

| | |
|---------------------------|-------|
| CBG (L) Pte Ltd | 41.2% |
| Farsathy Holdings Sdn Bhd | 11.8% |
| Employees Provident Fund | 6.1% |

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 |
| Net Profit (NP) | 225.4 | 254.8 | 265.4 |
| Core PATAMI | 216.7 | 245.0 | 255.2 |
| Consensus (NP) | 228.5 | 248.4 | 276.1 |
| Earnings Revision | - | - | - |
| 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 (x) | 54.3 | 48.0 | 46.1 |
| Price/Bv (x) | 6.0 | 5.6 | 5.2 |
| Net Gearing (x) | 0.5 | 0.4 | 0.4 |
| Net Div. Yield (%) | 0.6% | 0.8% | 0.8% |

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Results Highlights

| | 2Q | 1Q | QoQ | 2Q | YoY | 6M | 6M | YTD |
|--------------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| FYE Mar (RM m) | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Turnover | 1,072.9 | 993.2 | 8.0% | 920.3 | 16.6% | 2,066.1 | 1,736.4 | 19.0% |
| EBITDA | 140.0 | 117.1 | 19.5% | 113.5 | 23.3% | 257.0 | 208.0 | 23.5% |
| PBT/(LBT) | 84.3 | 62.2 | 35.7% | 67.0 | 25.9% | 146.5 | 118.2 | 24.0% |
| Taxation | -14.5 | -12.8 | -12.8% | -5.5 | -162.3% | -27.3 | -13.0 | -109.3% |
| Net Profit | 69.9 | 49.3 | 41.6% | 61.5 | 13.6% | 119.2 | 105.1 | 13.4% |
| PATAMI | 69.7 | 50.6 | 37.8% | 60.5 | 15.1% | 120.2 | 104.4 | 15.2% |
| EPS (sen) | 4.3 | 3.1 | | 3.7 | | 7.4 | 6.4 | |
| EBITDA margin | 13.0% | 11.8% | | 12.3% | | 12.4% | 12.0% | |
| PBT margin | 7.9% | 6.3% | | 7.3% | | 7.1% | 6.8% | |
| NP margin | 6.5% | 5.0% | | 6.7% | | 5.8% | 6.1% | |
| PATAMI margin | 6.5% | 5.1% | | 6.6% | | 5.8% | 6.0% | |
| Effective tax rate | 17.1% | 20.6% | | 8.2% | | 18.6% | 11.0% | |

Source: Company, Kenanga Research

Segmental Highlights

| | 2Q | 1Q | QoQ | 2Q | YoY | 6M | 6M | YTD |
|---------------------------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Revenue (RM'm) | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Marine Products Manufacturing | 317.6 | 282.7 | 12.4% | 266.8 | 19.1% | 600.4 | 484.0 | 24.0% |
| Palm Oil Activities | 50.5 | 68.6 | -26.3% | 82.5 | -38.7% | 119.1 | 154.8 | -23.0% |
| Integrated Livestock Farming | 704.7 | 641.9 | 9.8% | 571.0 | 23.4% | 1346.6 | 1097.6 | 22.7% |
| Total | 1072.9 | 993.2 | 8.0% | 920.3 | 16.6% | 2066.1 | 1736.4 | 19.0% |
| Profit Before Tax (RM'm) | | | | | | | | |
| Marine Products Manufacturing | 53.3 | 47.0 | 13.4% | 39.1 | 36.4% | 100.4 | 70.0 | 43.4% |
| Palm Oil Activities | 0.8 | 1.0 | -25.3% | -1.6 | -147.7% | 1.8 | 1.2 | 52.2% |
| Integrated Livestock Farming | 30.2 | 14.1 | 114.4% | 29.5 | 2.3% | 44.3 | 47.0 | -5.7% |
| Total | 84.3 | 62.2 | 35.7% | 67.0 | 25.9% | 146.5 | 118.2 | 24.0% |
| PBT margin | | | | | | | | |
| Marine Products Manufacturing | 16.8% | 16.6% | | 14.7% | | 16.7% | 14.5% | |
| Palm Oil Activities | 1.5% | 1.5% | | -2.0% | | 1.5% | 0.8% | |
| Integrated Livestock Farming | 4.3% | 2.2% | | 5.2% | | 3.3% | 4.3% | |
| Total | 7.9% | 6.3% | | 7.3% | | 7.1% | 6.8% | |

Source: Company, Kenanga Research

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 | 1.44 | 1,656.3 | N | 12/2019 | 12.4% | 4.9% | 13.6% | 5.5% | 34.6 | 30.5 | 28.9 | 24.0 | 23.2 | 77.5% | 2.8% | 1.35 | MP | |
| AEON CO (M) BHD | 1.50 | 2,106.0 | Y | 12/2019 | 5.5% | 5.4% | -26.5% | 16.4% | 16.9 | 23.0 | 19.8 | 1.0 | 1.0 | 4.5% | 2.7% | 1.60 | MP | |
| AMWAY MALAYSIA HOLDINGS BHD | 5.91 | 971.5 | Y | 12/2019 | 2.2% | 2.0% | 5.5% | 6.3% | 17.8 | 16.9 | 15.9 | 4.1 | 3.9 | 23.8% | 4.7% | 5.90 | MP | |
| DUTCH LADY MILK INDUSTRIES BHD | 55.80 | 3,571.2 | Y | 12/2019 | -3.0% | 2.0% | -17.4% | 10.0% | 28.8 | 34.9 | 31.7 | 33.9 | 33.4 | 97.9% | 2.9% | 54.60 | MP | |
| FRASER & NEAVE HOLDINGS BHD | 34.74 | 12,741.9 | Y | 09/2020 | 2.7% | 2.4% | 2.5% | 5.7% | 30.4 | 29.7 | 28.1 | 5.0 | 4.7 | 16.5% | 1.9% | 35.15 | MP | |
| HAI-O ENTERPRISE BHD | 2.15 | 624.2 | N | 04/2020 | 1.7% | 2.3% | 0.1% | 1.8% | 13.2 | 13.2 | 12.9 | 2.0 | 2.0 | 15.1% | 6.0% | 1.95 | UP | |
| MYNEWS HOLDINGS BHD | 1.22 | 832.2 | N | 10/2019 | 27.3% | 14.2% | 21.0% | 20.7% | 31.4 | 26.0 | 21.5 | 2.7 | 2.6 | 10.2% | 0.8% | 1.55 | OP | |
| NESTLE (MALAYSIA) BHD | 143.30 | 33,603.9 | Y | 12/2019 | 2.5% | 3.8% | 3.5% | 7.2% | 51.7 | 50.0 | 46.7 | 51.4 | 50.6 | 104.6% | 2.0% | 128.00 | UP | |
| PADINI HOLDINGS BHD | 3.45 | 2,269.8 | Y | 06/2020 | 0.5% | 4.7% | 12.8% | 5.3% | 14.5 | 12.9 | 12.2 | 3.4 | 2.9 | 24.5% | 3.3% | 4.00 | OP | |
| PARKSON HOLDINGS BHD | 0.23 | 245.5 | Y | 06/2020 | 0.4% | 0.5% | 749.5% | 16.0% | N.A. | 29.6 | 25.5 | 0.1 | 0.1 | 0.3% | 0.0% | 0.27 | MP | |
| POWER ROOT BHD | 2.42 | 979.1 | Y | 03/2020 | 13.3% | 10.5% | 54.0% | 12.3% | 28.6 | 19.2 | 17.6 | 4.4 | 3.9 | 21.8% | 3.7% | 2.75 | OP | |
| QL RESOURCES BHD | 7.25 | 11,762.7 | Y | 03/2020 | 10.9% | 4.5% | 13.0% | 4.2% | 54.3 | 48.0 | 46.1 | 5.8 | 5.4 | 12.1% | 0.8% | 6.60 | UP | |
| SPRITZER BHD | 2.20 | 461.9 | Y | 12/2019 | 8.0% | 1.2% | 27.6% | 6.4% | 19.1 | 14.9 | 14.1 | 1.2 | 1.1 | 7.7% | 1.8% | 2.50 | OP | |
| Simple Average | | | | | 6.5% | 4.5% | 66.1% | 9.1% | 28.4 | 26.8 | 24.7 | 10.7 | 10.4 | 32.0% | 2.6% | | | |
| SIN | | | | | | | | | | | | | | | | | | |
| BRITISH AMERICAN TOBACCO (M) BHD | 16.30 | 4,654.1 | N | 12/2019 | -18.2% | -3.4% | -28.9% | -2.0% | 9.9 | 14.0 | 14.2 | 11.0 | 10.8 | 78.1% | 6.9% | 18.30 | MP | |
| CARLSBERG BREWERY MALAYSIA BHD | 27.34 | 8,410.4 | N | 12/2019 | 16.0% | 7.3% | 13.6% | 9.0% | 30.7 | 28.7 | 27.4 | 46.5 | 45.6 | 175.6% | 3.7% | 30.00 | OP | |
| HEINEKEN MALAYSIA BHD | 26.50 | 8,005.6 | N | 12/2019 | 22.4% | 4.0% | 21.3% | 5.1% | 28.3 | 27.6 | 26.2 | 21.6 | 18.8 | 85.9% | 3.6% | 28.60 | OP | |
| Simple Average | | | | | 6.7% | 2.7% | 2.0% | 4.0% | 23.0 | 23.4 | 22.6 | 26.4 | 25.0 | 113.2% | 4.7% | | | |

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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