

28 February 2020

QL Resources Bhd

9MFY19 Within Expectations

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9MFY19 PATAMI of RM196.4m (+13%) and the absence of dividend came in within expectations. We believe the group is sailing towards a stronger FY, largely anchored by its solid marine segment which is spurred by stable fish cycle and robust surimi-based product demand. Notably, its Family Mart convenience store business is expected to be segmented out in the upcoming quarter. Post-results, maintain MP with an unchanged TP of RM8.30.

No surprises. 9MFY20 PATAMI of RM196.4m came in within expectations at 80% and 70% of our and consensus' estimates, respectively, as 9MFY results historically takes up c.78% of full-year's earnings. As expected, no dividend was declared. The group typically pays a single interim dividend annually; expected to be 5.5 sen for FY20.

Results review. YoY, 9MFY20 PATAMI rose 13%, largely backed by: (i) stronger PBT from Marine Product Manufacturing (MPM) segment (+27%), thanks to robust demand for surimi-based products which cushioned the weakness in fishmeal demand and price, coupled with (ii) improved performance from Integrated Livestock Farming (ILF) segment (+7%) helmed by better regional and Sabah poultry operations. These were slightly offset by a weaker Palm Oil Activities (POA) segment (-50%), which was impaired by lower FFB processed and softer average CPO prices.

QoQ, 3QFY20 PATAMI grew 9% to close at RM76.1m, premised on better contribution from (i) POA segment which registered a three-fold growth in PBT to finish at RM3.2m (from RM0.8m), great thanks to higher CPO prices as well as greater crop and FFB processed, coupled with (ii) ILF segment (+35%), similarly boosted by better regional and Sabah operations, as well as better margin from feed raw material trade. The MPM segment, however, registered flattish contribution (+0.7%) as both 3Q and 4Q contributions were buoyed by peak fishing season in Peninsular east coast.

Moving towards a stronger year. Here forth, the group's earnings are anticipated to be largely buoyed by its MPM segment (takes up c.53% of group's PBT), on the back of stable fish cycle and robust sales momentum especially from the frozen prawn and frozen surimi-based products. We also gathered that the segment has been largely unaffected by the recent coronavirus outbreak as the epidemic has instead spurred panic buying on food products. On the other hand, the FamilyMart convenience store business is expected to be segmented out in 4QFY20, with c.175 stores already opened to date. We believe that this segment will be an exciting avenue of growth for the group, banking on its high fresh food content which takes up c.80% of its sales. For the POA segment, better CPO prices are also expected to lift earnings in the upcoming quarters.

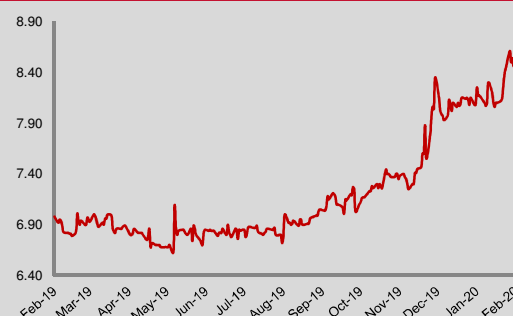
Post results, we made no changes to our earnings forecasts.

Maintain MARKET PERFORM at TP of RM8.30. Our valuation is based on a 50.0x FY21E PER (closely in-line with the stock's +1.5SD over its 3-year mean PER). While valuation appears rich at this level, we believe it is fair, premised on its resilient earnings base and rosy earnings growth expectations of c.13-10%. Its pedestrian dividend yield of c.1% is not unusual for high growth stocks such as this. Comparatively, other large cap F&Bs are expected to only demonstrate c.8% earnings growth on average. **Risks to our call include:** (i) better/worse-than-expected MPM sales, and (ii) better/ poorer-than-expected demand of poultry products abroad.

MARKET PERFORM ↔

Price : **RM8.30**
Target Price : **RM8.30** ↔

Share Price Performance



KLCI 1,505.59
YTD KLCI chg -5.2%
YTD stock price chg 2.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	QLG MK Equity
Market Cap (RM m)	13,466.2
Shares Outstanding	1,622.4
52-week range (H)	8.65
52-week range (L)	6.50
3-mth avg daily vol	785,993
Free Float	36%
Beta	0.7

Major Shareholders

CBG (L) Pte Ltd	41.0%
Farsathy Holdings Sdn Bhd	11.8%
Employees Provident Fund	6.3%

Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Turnover	3,613.3	4,008.9	4,473.5
EBIT	312.6	349.2	379.0
PBT	272.3	307.8	337.4
Net Profit (NP)	225.4	254.8	279.3
Core PATAMI	216.7	245.0	268.6
Consensus (NP)	-	252.0	282.7
Earnings Revision	-	-	-
Core EPS (sen)	13.4	15.1	16.6
Core EPS growth (%)	11.2	13.0	9.6
NDPS (sen)	4.5	5.5	5.5
BVPS (RM)	1.2	1.3	1.4
Core PER	62.1	55.0	50.1
Price/Bv (x)	6.9	6.4	5.9
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	0.5	0.7	0.7

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Mar (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	1,107.3	1,072.9	3.2%	978.9	13.1%	3,173.4	2,715.3	16.9%
EBITDA	149.6	140.0	6.9%	152.9	-2.2%	406.6	361.0	12.7%
PBT/(LBT)	97.7	84.3	15.8%	93.0	5.0%	244.1	211.1	15.6%
Taxation	-22.7	-14.5	-56.8%	-17.7	-28.3%	-50.0	-30.7	-62.7%
Net Profit	75.0	69.9	7.3%	75.3	-0.4%	194.2	180.4	7.6%
PATAMI	76.1	69.7	9.2%	69.1	10.1%	196.4	173.5	13.2%
EPS (sen)	4.7	4.3		4.3		12.1	10.7	
EBITDA margin	13.5%	13.0%		15.6%		12.8%	13.3%	
PBT margin	8.8%	7.9%		9.5%		7.7%	7.8%	
NP margin	6.8%	6.5%		7.7%		6.1%	6.6%	
PATAMI margin	6.9%	6.5%		7.1%		6.2%	6.4%	
Effective tax rate	23.2%	17.1%		19.0%		20.5%	14.5%	

Source: Company, Kenanga Research

Segmental Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
Revenue (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Marine Products Manufacturing	288.9	317.6	-9.1%	279.4	3.4%	889.2	763.4	16.5%
Palm Oil Activities	68.5	50.5	35.7%	70.5	-2.7%	187.6	225.2	-16.7%
Integrated Livestock Farming	749.9	704.7	6.4%	629.0	19.2%	2096.5	1726.6	21.4%
Total	1107.3	1072.9	3.2%	978.9	13.1%	3173.4	2715.3	16.9%
Profit Before Tax (RM m)								
Marine Products Manufacturing	53.7	53.3	0.7%	51.8	3.7%	154.1	121.8	26.5%
Palm Oil Activities	3.2	0.8	306.9%	8.7	-63.5%	5.0	9.9	-49.5%
Integrated Livestock Farming	40.8	30.2	34.9%	32.5	25.4%	85.1	79.5	7.0%
Total	97.7	84.3	15.8%	93.0	5.0%	244.1	211.1	15.6%
PBT margin								
Marine Products Manufacturing	18.6%	16.8%		18.5%		17.3%	15.9%	
Palm Oil Activities	4.6%	1.5%		12.3%		2.7%	4.4%	
Integrated Livestock Farming	5.4%	4.3%		5.2%		4.1%	4.6%	
Total	8.8%	7.9%		9.5%		7.7%	7.8%	

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 (%) 1-Yr. Fwd.	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.					
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.38	1,587.3	N	12/2019	7.9%	4.8%	13.5%	3.1%	31.5	27.7	26.9	16.7	16.7	60.2%	3.6%	1.35	MP		
AEON CO (M) BHD	1.30	1,825.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	16.7	16.5	16.1	1.1	1.0	6.4%	3.1%	1.65	OP		
AMWAY MALAYSIA HOLDINGS BHD	5.50	904.1	Y	12/2019	-1.0%	2.0%	1.4%	3.7%	17.7	17.4	16.8	4.1	3.9	23.0%	5.0%	5.10	MP		
DUTCH LADY MILK INDUSTRIES BHD	43.84	2,805.8	Y	12/2020	1.7%	1.7%	2.5%	2.3%	26.6	26.0	25.4	19.4	15.4	66.2%	2.5%	43.85	MP		
FRASER & NEAVE HOLDINGS BHD	31.30	11,480.2	Y	09/2020	2.4%	3.0%	2.5%	6.0%	27.3	26.7	25.2	4.5	4.2	16.4%	2.1%	35.20	OP		
HAI-O ENTERPRISE BHD	1.95	566.1	N	04/2020	1.7%	2.3%	-24.9%	8.7%	11.9	15.9	14.6	1.8	1.8	11.4%	5.1%	1.50	UP		
MYNEWS HOLDINGS BHD	0.870	593.5	N	10/2020	24.3%	17.0%	11.2%	20.8%	22.1	19.9	16.5	2.0	1.8	9.5%	1.1%	1.10	MP		
NESTLE (MALAYSIA) BHD	142.00	33,299.0	Y	12/2020	4.1%	1.9%	6.6%	3.7%	51.1	47.9	46.2	49.7	48.6	102.5%	2.0%	124.50	UP		
PADINI HOLDINGS BHD	3.11	2,046.1	Y	06/2020	0.5%	4.8%	3.2%	5.6%	13.1	12.7	12.0	2.8	2.5	20.6%	3.7%	3.70	OP		
PARKSON HOLDINGS BHD	0.195	208.1	Y	06/2020	0.4%	0.5%	-16.7%	-140.6%	N.A.	N.A.	N.A.	0.1	0.1	-12.3%	0.0%	0.145	Ceased		
POWER ROOT BHD	2.30	941.3	Y	03/2020	13.3%	10.5%	53.9%	12.3%	27.1	18.2	16.8	4.1	3.7	21.8%	3.9%	2.75	OP		
QL RESOURCES BHD	8.30	13,466.2	Y	03/2020	10.9%	11.6%	13.1%	9.6%	62.1	55.0	50.1	6.7	6.2	12.1%	0.7%	8.30	MP		
SPRITZER BHD	2.17	455.6	Y	12/2020	1.4%	3.1%	3.2%	3.4%	14.6	14.2	13.7	1.1	1.1	7.6%	2.3%	2.45	OP		
Simple Average					5.3%	5.0%	5.4%	-4.5%	26.8	24.8	23.4	8.8	8.2	26.6%	2.7%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	14.52	4,145.9	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	11.5	12.2	12.7	9.6	9.4	78.2%	7.9%	16.70	OP		
CARLSBERG BREWERY MALAYSIA BHD	33.58	10,267.0	N	12/2020	13.8%	9.2%	12.0%	9.5%	35.6	31.7	29.0	62.2	60.5	200.4%	3.1%	29.00	UP		
HEINEKEN MALAYSIA BHD	27.50	8,307.7	N	12/2020	13.0%	4.0%	16.1%	5.6%	26.5	22.9	21.7	23.2	21.4	97.3%	4.0%	28.90	MP		
Simple Average					5.3%	3.4%	7.5%	3.6%	24.5	22.3	21.1	31.7	30.4	125.3%	5.0%				

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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