

26 February 2021

QL Resources Bhd

9MFY21 Results as Expected

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9MFY21 net profit of RM197 came in within estimates. We expect the group to remain resilient ahead, as its core fishery segment continues to hold fort on the strength of stable fish-cycle and sustained products demand. Maintain MARKET PERFORM with unchanged TP of RM6.60.

In line. 9MFY21 net profit of RM197m came within expectations accounting for 73%/74% of our/market estimates. No dividend was announced, as expected.

Results' highlights. YoY, 9MFY21 net profit improved moderately by 2% despite flattish sales largely sustained by robust sales (+8%) from Marine Product Manufacturing (MPM). Sales from Palm Oil activities (POA) contracted by 9% due to lower FFB production and tonnage processed. On a positive note, PBT surged +17% on the back of improved PBT margins from both MPM and Palm Oil activities (POA) on the back production cost efficiency (MPM) and foreign currency translation gain from Indonesian Rupiah strengthening against end-March 2020 rate (RM/IDR at 3,774 vs 3,497 end-December 2020) for POA.

QoQ, saw improvement in earnings as net profit rose +9% to RM76m outpacing sales which grew +3% to RM RM1.1b. MPM sales contracted by 6% to RM319m but PBT was flat as margin improved (130bps) on account of higher selling price. POA sales contracted 9% due to lower CPO tonnage sold, despite marginally higher ex-mill selling price with earnings rebounding due to forex gains. Live stocks current quarter sales increased by +8% against the preceding quarter mainly due to higher sales volume for farm produce and higher selling price for raw material trading with improved earnings on account of recovery in farm performance and higher raw material trading margin, despite lower contribution from FamilyMart operation.

Outlook. Its 4Q sales might be weaker historically given the seasonal cyclical factors which will affect both MPM and POA. On a more forward outlook, the group's earnings are anticipated to be mainly anchored by its MPM segment (historically taking up c.57% of group PBT), on the back of (i) stable fish-cycle, coupled with (ii) persistently robust sales momentum especially from the frozen surimi-based products. We take comfort in the resiliency of the group's anchor segment, as it has been largely unaffected by the Covid-19 outbreak. Meanwhile, we expect FamilyMart to see gradual improvements ahead, mainly underpinned by normalising retail footfalls post lockdown. The group is on track to meet its FY22 target of 300 locations, with c.212 stores opened to date. Hence, we reiterate our view that this segment will be an exciting avenue of growth, premised on its high-margin fresh food content products.

Post results, we made no changes to our estimates as earnings are in line.

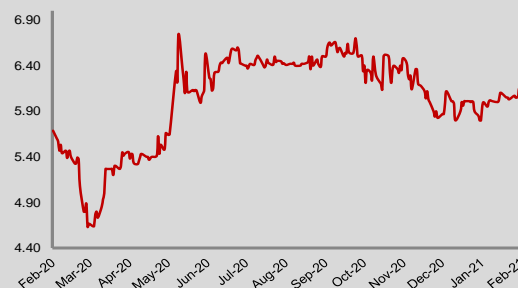
Maintain MARKET PERFORM with unchanged TP of RM6.60, based on an unchanged 54.0x FY22E PER, closely in-line with the stock's +1.0SD over its 3-year mean PER). While valuation appears rich at this level, we believe it is justified, premised on its resiliency and rosy earnings growth expectations of c.13-9% for FY21-22. Nonetheless, the current valuations may have priced in the foresaid merits, limiting its near-term upside potential.

Risks to our call include better/worse-than-expected MPM sales.

MARKET PERFORM ↔

Price: **RM6.09**
Target Price: **RM6.60** ↔

Share Price Performance



KLCI 1,581.54
YTD KLCI chg -2.8%
YTD stock price chg 5.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker QLGMK Equity
Market Cap (RM m) 14,821.0
Shares Outstanding 2,433.7
52-week range (H) 7.20
52-week range (L) 4.33
3-mth avg daily vol 1,664,665
Free Float 34%
Beta 0.6

Major Shareholders

CBG (L) Pte Ltd 40.3%
Farsathy Holdings Sdn Bhd 11.6%
Employees Provident Fund 7.9%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Turnover	4,152.8	4,701.3	5,048.0
EBIT	352.8	398.3	432.9
PBT	306.9	348.6	380.3
Net Profit	239.3	271.8	296.5
Consensus	-	267.0	296.0
Earnings Revision	-	-	-
EPS (sen)	9.8	11.2	12.2
EPS growth (%)	10.4	13.6	9.1
NDPS (sen)	4.5	5.5	6.0
BVPS (RM)	0.8	0.9	0.9
Core PER (x)	61.9	54.5	50.0
Price/BV (x)	7.3	6.9	6.4
Net Gearing (x)	0.5	0.5	0.5
Net Div. Yield (%)	0.7	0.9	1.0

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Mar (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	1,111.4	1,078.1	3.1%	1,107.3	0.4%	3,159.6	3,173.4	-0.4%
EBITDA	166.9	156.4	6.8%	149.6	11.6%	465.3	406.6	14.4%
PBT/(LBT)	108.5	97.3	11.4%	97.7	11.1%	286.2	244.1	17.2%
Taxation	(28.0)	(24.5)	-14.2%	(22.7)	-23.6%	(79.1)	(50.0)	-58.3%
Net Profit	76.3	70.1	8.8%	76.1	0.3%	197.3	194.2	1.6%
EPS (sen)	3.1	2.9		3.1		8.1	12.0	
EBITDA margin	15.0%	14.5%		13.5%		14.7%	12.8%	
PBT margin	9.8%	9.0%		65.3%		9.1%	7.7%	
Net margin	6.9%	6.5%		-23.2%		6.2%	6.1%	
Effective tax rate	25.9%	25.2%		-335.7%		27.6%	20.5%	-7.2%

Source: Company, Kenanga Research

Segmental Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
Revenue (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Marine Products Manufacturing	318.6	337.3	-5.6%	288.9	10.3%	961.6	889.2	8.1%
Palm Oil Activities	52.4	57.6	-9.1%	68.5	-23.6%	170.9	187.6	-8.9%
Integrated Livestock Farming	740.4	683.2	8.4%	749.9	-1.3%	2027.1	2096.5	-3.3%
Total	1111.4	1078.1	3.1%	1107.3	0.4%	3159.6	3173.4	-0.4%
Profit Before Tax (RM m)								
Marine Products Manufacturing	73.7	73.6	0.2%	53.7	37.3%	209.2	154.1	35.8%
Palm Oil Activities	0.0	-1.6	N.a	3.2	-99.0%	12.9	5.0	158.8%
Integrated Livestock Farming	34.8	25.3	37.2%	40.8	-14.7%	64.2	85.1	-24.6%
Total	108.5	97.3	11.5%	97.7	11.2%	286.3	244.1	17.3%
PBT margin								
Marine Products Manufacturing	23.1%	21.8%		18.6%		21.8%	17.3%	
Palm Oil Activities	0.1%	-2.8%		4.6%		7.5%	2.7%	
Integrated Livestock Farming	4.7%	3.7%		5.4%		3.2%	4.1%	
Total	9.8%	9.0%		8.8%		9.1%	7.7%	

Source: Company, Kenanga Research

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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	1.28	1,445.4	N	12/2020	7.7%	3.4%	15.9%	0.5%	29.2	25.2	25.1	15.5	11.2	33.9%	2.3%	1.40	MP		
AEON CO. (M) BHD	1.20	1,684.8	Y	12/2021	3.7%	4.8%	88.6%	15.0%	40.7	21.6	18.8	1.0	1.0	4.6%	1.3%	1.30	OP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.67	932.1	Y	12/2021	0.7%	0.7%	16.4%	7.9%	19.9	17.1	15.8	4.2	4.0	23.8%	4.9%	5.45	MP		
DUTCH LADY MILK INDUSTRIES BHD	34.98	2,238.7	Y	12/2021	5.0%	1.0%	8.9%	0.4%	30.5	28.0	27.9	13.4	11.9	45.0%	2.6%	34.55	MP		
FRASER & NEAVE HOLDINGS BHD	29.98	10,996.0	Y	09/2021	5.0%	2.1%	3.9%	1.5%	27.2	26.2	25.8	4.1	3.8	15.0%	2.1%	32.55	MP		
MYNEWS HOLDINGS BHD	0.670	457.0	N	10/2021	10.2%	24.5%	97.8%	15.9%	N.A.	25.1	21.7	1.6	1.5	6.1%	1.5%	0.480	UP		
NESTLE (MALAYSIA) BHD	136.00	31,892.0	Y	12/2021	1.1%	2.2%	14.4%	2.4%	57.7	50.4	49.3	57.2	56.2	112.4%	1.9%	138.60	MP		
PADINI HOLDINGS BHD	2.91	1,914.5	Y	06/2021	8.9%	11.0%	58.1%	17.0%	25.5	16.1	13.8	2.5	2.3	14.9%	2.6%	2.90	MP		
POWER ROOT BHD	1.76	743.8	Y	03/2021	-18.8%	13.5%	-26.1%	14.9%	13.4	18.2	15.8	2.8	2.6	15.3%	5.7%	1.80	MP		
QL RESOURCES BHD	6.09	14,821.0	Y	03/2021	13.2%	7.4%	13.6%	9.1%	61.9	54.5	50.0	7.1	6.7	12.6%	0.9%	6.60	MP		
Simple Average					3.7%	7.1%	29.2%	8.5%	34.0	28.2	26.4	10.9	10.1	28.4%	2.6%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	13.12	3,746.2	N	12/2021	-8.0%	-2.4%	-3.5%	4.9%	14.4	14.9	14.2	8.6	8.5	57.4%	6.6%	11.45	UP		
CARLSBERG BREWERY MALAYSIA BHD	23.96	7,325.7	N	12/2021	19.9%	5.3%	52.8%	9.1%	41.7	27.3	25.0	37.5	27.5	120.1%	2.7%	25.65	OP		
HEINEKEN MALAYSIA BHD	25.50	7,703.5	N	12/2021	16.1%	6.1%	54.1%	14.0%	43.9	28.5	25.0	19.5	19.6	68.7%	3.5%	22.35	MP		
Simple Average					9.4%	3.0%	34.5%	9.3%	33.3	23.6	21.4	21.9	18.5	82.1%	4.3%				

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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