

30 November 2021

QL Resources Bhd

Resilient Top-line

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

1HFY22 earnings came in below expectations on account of an exceptionally long low fish landing cycle and still elevated feed costs. However top-line continued to be resilient and improving both YoY and QoQ given its diversified revenue base. TP remains at RM6.00 based on FY23E PER of 44x (5-year mean). We believe it is justified, premised on its resiliency and robust earnings growth potential from diversified revenue streams. Given the sharp price weakness, we upgrade call to **OUTPERFORM**.

Below expectations. 1HFY22 PATAMI of RM88m accounts for 31%/33% of our/market estimates as low fish landing cycle continued into 2QFY22 coupled with high feed costs. No dividend declared as expected which is normally declared in the final quarter.

YoY, while revenue improved 21% to RM2.47b, earnings continued to be eroded due to still elevated input costs and continuation of low fish landing cycle. Top-line was underpinned by improvements in both Palm Oil & Clean Energy Segment (POCE) and Integrated Livestock Farming (ILF) at >+100% and +27%, respectively to RM281m and RM1.64b. Marine Products Manufacturing sales were dragged by low landing fish cycle and the shortage of foreign fishing crew due to the pandemic. POCE sales was boosted the consolidation of Boilermech and improvement in CPO's selling price while IFL's higher sales stemmed from higher price of both feed raw material and eggs. Margins saw erosion of c.4ppt coming notably from IFL due to a combination of high feed costs and slow recovery in egg price. With ETR relatively stable, PATAMI fell 27% to RM88m.

QoQ, revenue improved to RM1.25b (+2%) offset by POCE (-17%) attributed to delay in project delivery and site installation by Boilermech and lower FFB tonnage processed. On a positive note, MPM improved (+5%) coming from improved fish landing activity as 50% of the fishing fleet resumed operations coupled with higher selling price. Likewise, for IFL which revenue improvement (+4%) was underpinned by higher egg selling price and improved feed raw material trading volume. EBIT saw 20% improvement coming from MPM's higher margins due to higher selling price. Despite a higher ETR (+3ppt), PATAMI improved by 10 ppt to RM46m.

2HFY22 looks to be improving as the group's earnings are expected to be anchored by its MPM segment (historically taking up c.66% 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. MPM activities are historically lower in the 4Q of the financial year (due to monsoon) but we expect improvements ahead provided no further resurgence of the pandemic. POCE should see a better 2H with operations and site installation resuming coupled with a higher FFB production seasonally in the third quarter. However, IFL's improvement will be offset by high feed costs.

Post results, our FY22E NP is revised down by 11% to RM255m on account of the weak 1H performance.

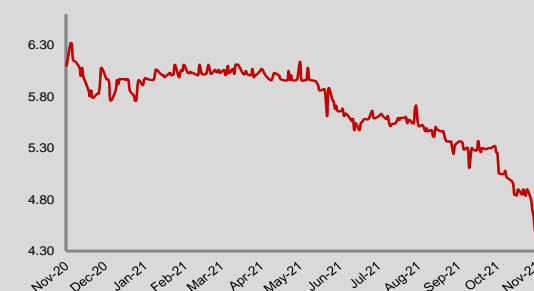
Upgrade to OUTPERFORM with unchanged TP of RM6.00 based on FY23E PER of 44x in-line with its 5-year mean. While valuation appears rich at this level, we believe it is justified, premised on its resiliency and robust earnings growth potential from diversified revenue streams.

Risk to our call: worse-than-expected MPM sales.

OUTPERFORM ↑

Price: **RM4.47**
Target Price: **RM6.00** ↔

Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-22.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	QLG MK Equity
Market Cap (RM m)	10,878.4
Shares Outstanding	2,433.7
52-week range (H)	6.57
52-week range (L)	4.45
3-mth avg daily vol	733,189
Free Float	20%
Beta	0.6

Major Shareholders

CBG (L) Pte Ltd	40.3%
Farsathy Holdings Sdn Bhd	11.9%
Employees Provident Fund	11.6%

Summary Earnings Table

FY Mar (RM m)	2021A	2022E	2023E
Turnover	4,379	4,912	5,491
EBIT	473	403	522
PBT	433	354	463
Net Profit	311	255	334
Consensus	262	267	324
Earnings Revision		-11.3%	-4.1%
EPS (sen)	12.8	10.5	13.7
EPS growth (%)	30.1	-18.2	31.0
NDPS (sen)	3.5	6.0	6.0
BVPS (RM)	1.0	1.0	1.1
Core PER (x)	34.9	42.7	32.6
Price/BV (x)	4.7	4.5	4.2
Net Gearing (x)	0.4	0.4	0.4
Net Div. Yield (%)	0.8	1.3	1.3

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Results Highlights								
Y/E : Mac (RM m)	2Q22	1Q22	QoQ Chg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Turnover	1,248.1	1,225.4	1.8%	1,078.1	15.8%	2,473.5	2,048.2	20.8%
EBITDA	140.3	131.4	6.8%	156.4	-10.3%	271.7	298.4	-8.9%
EBIT	82.6	68.8	20.0%	106.6	-22.5%	151.4	198.6	-23.8%
PBT/(LBT)	70.8	60.7	16.6%	97.3	-27.3%	131.4	177.7	-26.0%
Taxation	(20.0)	(15.4)	29.7%	(24.5)	-18.4%	(35.5)	(51.0)	-30.5%
Net Profit	50.7	45.2	12.2%	72.8	-30.3%	96.0	126.7	-24.3%
PATAMI	45.9	42.2	8.9%	70.1	-34.5%	88.1	121.0	-27.2%
EPS (sen)	1.9	1.7	8.9%	2.9	-34.5%	3.6	5.0	-27.2%
DPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
EBITDA Margins	11.2%	10.7%		14.5%		11.0%	14.6%	
EBIT Margins	6.6%	5.6%		9.9%		6.1%	9.7%	
PBT Margins	5.7%	5.0%		9.0%		5.3%	8.7%	
PATAMI margins	3.7%	3.4%		6.5%		3.6%	5.9%	
Effective tax rate	28.3%	25.4%		25.2%		27.0%	28.7%	

Source: Company, Kenanga Research

Segmental Highlights								
Revenue (RM m)	2Q22	1Q22	QoQ Chg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Marine Products Manufacturing	284.4	270.6	5.1%	337.3	-15.7%	554.9	643.0	-13.7%
Palm Oil Activities	127.8	153.2	-16.6%	57.6	121.9%	281.1	118.5	137.2%
Integrated Livestock Farming	835.9	801.3	4.3%	683.2	22.4%	1,637.2	1,286.7	27.2%
Total	1,248.1	1,225.2	1.9%	1,078.1	15.8%	2,473.2	2,048.2	20.7%
Profit Before Tax (RM m)								
Marine Products Manufacturing	53.2	41.7	27.5%	73.6	-27.8%	94.9	135.4	-30.0%
Palm Oil Activities	11.0	12.2	-9.8%	(1.6)	-781.1%	23.3	12.9	80.9%
Integrated Livestock Farming	6.6	6.8	-2.9%	25.3	-74.2%	13.3	29.4	-54.8%
Total	70.8	60.7	16.6%	97.3	-27.3%	131.4	177.7	-26.0%
PBT margin								
Marine Products Manufacturing	18.7%	15.4%		21.8%		17.1%	21.1%	
Palm Oil Activities	8.6%	8.0%		-2.8%		8.3%	10.9%	
Integrated Livestock Farming	0.8%	0.8%		3.7%		0.8%	2.3%	
Total	5.7%	5.0%		9.0%		5.3%	8.7%	

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	1.50	1,689.5	N	12/2021	7.2%	34.2%	-43.8%	98.5%	24.8	44.2	22.3	10.6	14.0	27.3%	3.3%	1.60	MP	
AEON CO. (M) BHD	1.39	1,951.6	Y	12/2021	-5.2%	13.7%	17.9%	109.4%	47.1	40.0	19.1	1.2	1.2	2.9%	2.0%	1.60	OP	
AMWAY (MALAYSIA) HOLDINGS BHD	5.42	891.0	Y	12/2021	28.1%	-10.0%	19.0%	0.9%	19.0	16.0	15.8	4.0	4.0	25.0%	6.5%	6.05	OP	
DUTCH LADY MILK INDUSTRIES BHD	33.00	2,112.0	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.8	26.4	26.3	12.7	10.1	42.7%	1.8%	40.20	OP	
FRASER & NEAVE HOLDINGS BHD	23.90	8,766.0	Y	09/2022	4.8%	6.4%	0.3%	16.9%	22.2	22.1	18.9	3.1	2.9	13.7%	2.6%	32.45	OP	
MR D.I.Y.	3.50	21,978.2	Y	12/2021	27.4%	37.6%	33.9%	56.6%	65.1	48.7	31.1	25.1	18.8	44.2%	0.8%	4.10	OP	
MYNEWS HOLDINGS BHD	0.875	596.9	N	10/2021	-15.7%	54.7%	-10.2%	-283.0%	N.A.	N.A.	37.1	2.0	2.1	-3.1%	0.0%	0.900	MP	
NESTLE (MALAYSIA) BHD	134.00	31,423.0	Y	12/2021	1.9%	2.2%	18.2%	-10.0%	56.9	48.1	53.4	56.4	48.5	108.5%	1.8%	138.90	MP	
PADINI HOLDINGS BHD	2.71	1,782.9	Y	06/2022	23.3%	32.2%	75.4%	48.3%	33.0	18.8	12.7	2.2	2.1	11.6%	3.3%	3.20	OP	
POWER ROOT BHD	1.35	555.1	Y	03/2022	8.9%	7.4%	-36.2%	74.0%	20.3	31.8	18.3	2.1	2.0	6.4%	2.9%	1.35	MP	
QL RESOURCES BHD	4.47	10,878.4	Y	03/2022	12.2%	11.8%	-18.2%	31.0%	34.9	42.7	32.6	4.3	4.1	10.2%	1.3%	6.00	OP	
Simple Average					8.9%	17.4%	5.9%	13.0%	35.2	33.9	26.2	11.2	10.0	26.3%	2.4%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	13.68	3,906.1	N	12/2021	5.4%	1.6%	6.4%	2.2%	15.0	14.1	13.8	9.0	8.6	62.5%	6.7%	16.70	OP	
CARLSBERG BREWERY MALAYSIA BHD	20.00	6,115.0	N	12/2021	-1.6%	19.9%	18.4%	32.9%	34.8	29.4	22.1	31.3	24.3	96.1%	2.5%	23.10	MP	
HEINEKEN MALAYSIA BHD	20.80	6,283.6	N	12/2021	3.0%	17.2%	32.8%	15.9%	35.8	27.0	23.3	15.9	15.7	58.6%	3.6%	23.60	MP	
Simple Average					2.3%	12.9%	19.2%	17.0%	28.5	23.5	19.7	18.8	16.2	72.4%	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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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 E-mail: research@kenanga.com.my

