

31 May 2023

## QL Resources

### A Show of Pricing Power

By Ahmad Ramzani Ramli | [ahmadramzani@kenanga.com.my](mailto:ahmadramzani@kenanga.com.my)

QL's FY23 results met expectations. Most of its major segments benefited from the reopening of economies and were able to raise prices to pass on cost inflation. Its convenience store (CVS) division added 76 new stores, translating to a 26% growth in terms of store count. We moderate our FY24F earnings forecast by 6% and TP by 5% to RM6.29 (from RM6.66) but maintain our **OUTPERFORM** call.

FY23 core net profit met both our forecast and the consensus estimate. It declared a dividend of 7.0 sen that tops our forecast of 6.0 sen.

**YoY**, revenue grew 19% YoY driven largely by strong performance from its marine products division (+ 15%, partly contributed by the resumption of exports to China) and poultry business (+24%). Its CVS operations jumped 36% on account of higher stores. EBITDA improved by a stronger 31% thanks to: (i) improved selling prices (for marine products), and (ii) improved egg prices in both Malaysia (partly due to government subsidies) and operational efficiency in both its Indonesia and Vietnam farming operations.

With the exception of oil palm plantation, all other operations showed improvement, with marine products driven by higher volume (as operations normalised) and a 10% increase in ASP (aided by stronger USD), while its convenience store division was boosted by the addition of 76 new stores (from 290 as at end of FY22). Its poultry business was bolstered by higher prices for eggs and feed meals, higher volumes for feed meals and prices for feed meals sold and government subsidies. CVS operations saw its average sales/store jumping by 20% to RM7.2k per store per day with a PBT margin of 5% (which was a tad lower than our assumptions of RM8k per store per day and PBT margin of 7%).

**Forecasts.** We cut our FY24F earnings forecast by 6% to be more in-line with sales per store per day and PBT margin achieved in FY23 at its CVS operations.

Correspondingly we lower our DCF-derived TP by 5% to RM6.29 (WACC: 5.2% and TG: 2%) from RM6.66). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintained at **OUTPERFORM**.

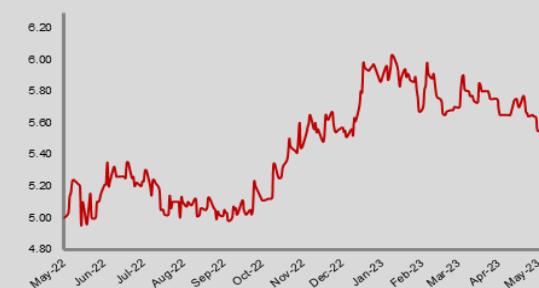
We like QL for: (i) the sustained strong export demand for its marine products as exports normalised post pandemic (ii) its strong *Family Mart* convenience store franchise given its appealing Japanese-themed products and continued outlet expansion including *Family Mart Mini* targeting petrol stations and highways, and (iii) the strong growth potential of its poultry business in Indonesia and Vietnam on increased protein content in diet as living standards improve with prices looking stable (and likely to increase in Indonesia).

**Risks to our call include:** (i) higher-than-expected inflationary pressure, (ii) aggressive monsoon season, (iii) changes in fishing regulations, and (iv) a weaker USD.

## OUTPERFORM ↔

Price: **RM5.56**  
Target Price: **RM6.29** ↓

### Share Price Performance



KLCI 1,396.91  
YTD KLCI chg -6.6%  
YTD stock price chg 0.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	QLG MK Equity
Market Cap (RM m)	13,531.1
Shares Outstanding	2,433.7
52-week range (H)	6.09
52-week range (L)	4.90
3-mth avg daily vol	1,486,904
Free Float	23%
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)	2023A	2024F	2025F
Turnover	6,237	6,781	7,298
EBIT	536	609	650
PBT	481	553	597
<b>Net Profit</b>	<b>347</b>	<b>403</b>	<b>435</b>
Consensus		386	424
Earnings Revision	0%	-6%	N.m
EPS (sen)	14.3	16.6	17.9
EPS growth (%)	59.6%	16.3%	7.8%
NDPS (sen)	7.0	8.4	9.0
BVPS (RM)	1.2	1.3	1.4
Core PER (x)	39.0	33.5	31.1
Price/BV (x)	4.7	4.4	4.1
Net Gearing (x)	0.3	0.2	0.2
Net Div. Yield (%)	1.3%	1.5%	1.6%



31 May 2023

**Results Highlights**

FYE Mar (RM m)	4Q23	3Q23	QoQ Chg	4Q22	YoY Chg	12M23	12M22	YoY Chg
Turnover	1,474.6	1,629.1	-9.5%	1,373.1	7.4%	6,263.8	5,247.4	19.4%
EBITDA	128.3	270.4	-52.5%	156.7	-18.1%	781.5	594.8	31.4%
EBIT	65.6	208.1	-68.5%	103.9	-36.9%	536.4	364.4	47.2%
PBT/(LBT)	112.5	131.0	-14.1%	92.8	21.3%	480.8	321.2	49.7%
Taxation	(34.6)	(29.9)	15.9%	(21.9)	57.9%	(118.9)	(85.7)	38.8%
Net Profit	77.9	101.1	-23.0%	70.8	9.9%	361.9	235.5	53.6%
PATAMI	73.3	97.2	-24.6%	69.4	5.7%	346.8	217.3	59.6%
EPS (sen)	3.0	4.0	-24.6%	2.9	5.7%	14.3	8.9	59.6%
DPS (sen)	3.5	3.5	0.0%	3.5	0.0%	7.0	3.5	100.0%
EBITDA Margins	8.7%	16.6%		11.4%		12.5%	11.3%	
EBIT Margins	4.4%	12.8%		7.6%		8.6%	6.9%	
PBT Margins	7.6%	8.0%		6.8%		7.7%	6.1%	
PATAMI margins	5.0%	6.0%		5.1%		5.5%	4.1%	
Effective tax rate	30.8%	22.8%		23.7%		24.7%	26.7%	

Source: Company, Kenanga Research

**Segmental Highlights**

Revenue (RM m)	4Q23	3Q23	QoQ Chg	4Q22	YoY Chg	12M23	12M22	YoY Chg
Marine Products	306.8	362.9	-15.5%	288.6	6.3%	1,355.0	1,174.0	15.4%
Manufacturing	167.3	135.1	23.8%	178.2	-6.1%	601.0	648.0	-7.3%
Palm Oil Activities	778.9	912.8	-14.7%	729.1	6.8%	3,443.0	2,787.9	23.5%
Integrated Livestock Farming	221.5	218.5	1.3%	177.2	25.0%	864.9	637.2	35.7%
CVS	1,474.4	1,629.4	-9.5%	1,373.1	7.4%	6,263.8	5,386.8	16.3%
Total								
Profit Before Tax (RM m)								
Marine Products	41.2	74.6	-44.7%	44.2	-6.8%	242.2	200.8	20.7%
Manufacturing	14.4	(1.2)	N.m	5.8	146.2%	11.7	45.3	-74.1%
Palm Oil Activities	49.5	51.9	-4.5%	27.7	79.1%	183.1	32.1	470.2%
Integrated Livestock Farming	7.4	5.8	27.7%	15.1	-50.9%	43.7	43.0	1.7%
CVS	112.5	131.0	-14.1%	92.8	21.3%	480.8	321.2	49.7%
Total								
PBT margin								
Marine Products	13.4%	20.5%		15.3%		17.9%	17.1%	
Manufacturing	8.6%	-0.9%		3.3%		2.0%	7.0%	
Palm Oil Activities	6.4%	5.7%		3.8%		5.3%	1.2%	
Integrated Livestock Farming	3.3%	2.7%		8.5%		5.1%	6.7%	
CVS	7.6%	8.0%		6.8%		7.7%	6.0%	
Total								

Source: Company, Kenanga Research

31 May 2023

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
7-ELEVEN MALAYSIA HOLDINGS BHD	OP	2.04	2.38	16.67%	2,264.5	N	12/2023	6.7	8.5	11.5%	26.3%	30.4	24.0	16.4	57.0%	2.7	1.3%
AEON CO. (M) BHD	OP	1.32	1.80	36.36%	1,853.3	Y	12/2023	9.1	10.0	15.2%	9.4%	14.5	13.2	1.0	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	25.50	26.99	5.84%	1,632.0	Y	12/2023	116.6	122.7	-16.4%	5.2%	21.9	20.8	3.4	16.3%	60.0	2.4%
FRASER & NEAVE HOLDINGS BHD	OP	25.78	28.44	10.32%	9,455.5	Y	09/2023	118.6	129.1	13.5%	8.8%	21.7	20.0	3.0	14.1%	62.5	2.4%
MR D.I.Y. GROUP (M) BHD	MP	1.63	1.67	2.45%	15,376.4	Y	12/2023	6.3	6.4	24.8%	2.7%	26.0	25.3	9.2	38.1%	4.0	2.5%
MYNEWS HOLDINGS BHD	UP	0.465	0.410	-11.83%	317.2	N	10/2023	1.0	2.2	-135.8%	127.7%	48.8	21.4	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	130.00	121.18	-6.78%	30,485.0	Y	12/2023	303.0	305.1	14.6%	0.7%	42.9	42.6	43.3	106.9%	270.0	2.1%
PADINI HOLDINGS BHD	OP	3.66	6.00	63.93%	2,407.9	Y	06/2023	34.2	38.6	46.0%	12.8%	10.7	9.5	2.5	24.1%	10.0	2.7%
POWER ROOT BHD	OP	2.04	2.70	32.35%	881.5	Y	03/2024	14.3	15.2	0.8%	6.0%	14.3	13.5	2.5	18.1%	12.0	5.9%
QL RESOURCES BHD	OP	5.56	6.29	13.13%	13,531.1	Y	03/2024	16.6	17.9	16.3%	7.8%	33.5	31.1	4.1	12.9%	8.4	1.5%
SECTOR AGGREGATE					78,204.5					18.5%	6.2%	28.9	27.2	6.1	21.1%		2.4%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.32	10.00	-3.10%	2,946.7	N	12/2023	73.0	74.7	-20.6%	2.4%	14.1	13.8	7.6	54.5%	69.3	6.7%
CARLSBERG BREWERY MALAYSIA BHD	MP	20.96	23.50	12.12%	6,408.5	N	12/2023	113.7	122.8	13.0%	8.0%	18.4	17.1	32.5	203.3%	100.0	4.8%
HEINEKEN MALAYSIA BHD	MP	26.70	28.60	7.12%	8,066.0	N	12/2023	144.2	150.4	5.5%	4.3%	18.5	17.8	20.6	111.1%	144.2	5.4%
Sector Aggregate					17,421.2					0.9%	5.2%	17.5	16.7	20.2	123.0%		5.6%

Source: Bloomberg, Kenanga Research

31 May 2023

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
<b>SPECIFIC</b>	Occupational Health & Safety	★	★	★	★	
	Product Safety	★	★	★	☆	
	Sustainable Fishing	★	★	★		
	Waste Disposal/Pollution Control	★	★	★	★	
	Migrant Worker Welfare	★	★	☆		
	Energy Efficiency	★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP

**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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

**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)