

06 June 2024

QL Resources

Prudent Growth Strategy

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QL is unperturbed by the withdrawal of subsidy on eggs, if it happens, as the impact on demand will be minimal given eggs being a staple food item. Meanwhile, easing corn prices are positive to its poultry farming business. It plans to open 60 to 90 new Family Mart stores in FY25. We maintain our forecasts, TP and MARKET PERFORM rating.

We walked away from QL's post-results briefing feeling mildly positive about its near-term prospects. The key takeaways are as follows:

1. QL is of the opinion that the government may review its current subsidy of 10 sen per egg and the controlled prices of 41 sen to 45 sen for eggs of Grades A to C. In the event the subsidy and price control are withdrawn (resulting in higher market-based egg prices), however, the impact on demand will be minimal as eggs are a staple food item for the general public.
2. Meanwhile, easing corn prices (-6% YTD) in the absence of oversupply of chicken in the market (that could dampen prices) should buoy the performance of its integrated livestock farming (ILF) segment. In FY24, the division contributed 53% to group turnover and saw its PBT margin improving to 6.5% vs. 5.3% a year ago.
3. Its marine product manufacturing (MPM) division is expected to remain stable due to sustainable demand for its surimi-based products. Additionally, the overall margin is anticipated to improve due to declining input costs.
4. Its Family Mart convenience store chain (CVS) will open 60 to 90 new stores during FY25. The division's operating efficiency could be boosted by raising utilisation at its central kitchen, currently stands at 70, by offering more ready-to-eat food items without compromising on quality.
5. Its plantation & clean energy division (POCE) segment, meanwhile, will continue to be driven by 52.57%-owned **BMGREEN (UP; TP: RM1.15)** that focuses on higher-margin segments (>10%) such as water treatment and solar energy which benefit from various government renewable energy initiatives. Conversely, its plantation segment is likely to remain lacklustre on flattish CPO prices.

Outlook. QL's growth trajectory remains stable, supported by various segments. The ILF and MPM segments are expected to sustain earnings through steady demand, cost subsidies, and lower surimi input costs. Additionally, the POCE segment's focus on clean energy initiatives via **BMGREEN** will drive growth. Consumer confidence is expected to improve with the new civil servant wage structure. The group aims to open 60-90 new stores (in line with our 75 new store target) by the end of FY25, focusing on the East Coast region, and remains committed to the long-term target of 600 outlets by 2027.

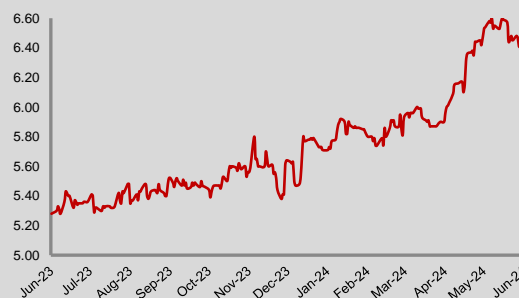
Forecasts. Maintained.

Valuations. We also keep our DCF-derived TP at RM6.25 (WACC: 5.8% and TG: 2%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

MARKET PERFORM ↔

Price: **RM6.40**
Target Price: **RM6.25** ↔

Share Price Performance



KLCI 1,608.53
YTD KLCI chg 10.6%
YTD stock price chg 12.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker **QLG MK EQUITY**
Market Cap (RM m) 15,575.4
Shares Outstanding 2,433.7
52-week range (H) 6.64
52-week range (L) 5.23
3-mth avg daily vol: 3,363,010
Free Float 23%
Beta 0.6

Major Shareholders

Cbg L Pte Ltd 40.3%
Pelita Global SdnBh 11.9%
Farsathy Holdings Sd 11.6%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	6,678	7,128	7,484
EBIT	690	736	769
PBT	627	679	712
Net Profit	438	476	505
Consensus	-	461	493
Earnings Revision	-	-	-
EPS (sen)	19.5	20.7	21.9
EPS growth (%)	31%	7%	6%
NDPS (sen)	6.5	9.0	9.0
BVPS (RM)	1.21	1.33	1.46
Core PER (x)	32.9	30.9	29.2
Price/BV (x)	5.3	4.8	4.4
Net Gearing (x)	0.3	0.2	0.1
Net Div. Yield (%)	1.0%	1.4%	1.4%



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Investment case. We like QL for: (i) the consistent high export demand for its marine products, supported by robust fish landings and decreasing input costs, (ii) the high growth potential of its Family Mart convenience store franchise, highlighted by its popular Japanese-themed products and continued expansion, including the new *Family Mart Mini* outlets targeting petrol stations and highways, and (iii) it growing poultry business in Indonesia and Vietnam, driven by increasing protein consumption as living standards rise. However, its valuations are fair at the current levels. Maintain **MARKET PERFORM**.

Risks to our call include: (i) inability of pass on cost inflation, (ii) rough aggressive monsoon seasons, (iii) changes in fishing regulations, and (iv) MYR strengthening against the USD.

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2022A	2023A	2024A	2025F	2026F	FY Mar	2022A	2023A	2024A	2025F	2026F
Revenue	5,236	6,243	6,678	7,128	7,484	Growth (%)					
EBITDA	587	782	950	1,023	1,100	Turnover	19.6	19.2	7.0	6.7	5.0
Depreciation	222	245	260	287	331	EBITDA	-13.7	33.1	21.6	7.7	7.6
Operating Profit	365	536	690	736	769	Operating Profit	-22.8	47.1	28.6	6.7	4.5
Interest Expense	57	38	67	71	75	PBT	-25.7	49.5	30.4	8.3	4.9
Interest Income	52	64	72	65	65	Net Profit	-30.3	59.4	26.4	8.7	6.2
Associate	0	0	0	0	0	Profitability (%)					
Exceptional Items	0	0	0	0	0	EBITDA Margin	11.2	12.5	14.2	14.4	14.7
PBT	321	480	627	679	712	Operating Margin	7.0	8.6	10.3	10.3	10.3
Taxation	-86	-119	-153	-174	-178	PBT Margin	6.1	7.7	9.4	9.5	9.5
Minority Interest	-18	-15	-36	-29	-29	Core Net Margin	4.2	5.5	6.6	6.7	6.7
Net Profit	236	361	473	505	534	Effective Tax Rate	-26.7	-24.8	-24.4	-25.6	-25.0
Core Net Profit	217	346	438	476	505	ROA	4.4	6.6	8.0	8.1	8.1
						ROE	8.0	12.0	13.7	13.5	13.1
						DuPont Analysis					
						Net Margin (%)	4.2%	5.5%	6.6%	6.7%	6.7%
						Assets Turnover (x)	1.1x	1.2x	1.2x	1.2x	1.2x
						Leverage Factor (x)	1.8x	1.8x	1.7x	1.7x	1.6x
						ROE (%)	8.0	12.0	13.7	13.5	13.1
						Leverage					
						Debt/Asset (x)	0.3	0.3	0.2	0.2	0.2
						Debt/Equity (x)	0.5	0.5	0.4	0.3	0.3
						Net Cash/(Debt)	-967	-1,015	-771	-603	-222
						Net Debt/Equity (x)	0.4	0.4	0.3	0.2	0.1
						Valuations					
						EPS (sen)	9.7	14.9	19.5	20.7	21.9
						NDPS (sen)	3.5	7.0	6.5	9.0	9.0
						BV/Share (RM)	1.02	1.09	1.21	1.33	1.46
						PER (x)	66.1	43.1	32.9	30.9	29.2
						Net Div. Yield (%)	0.5%	1.1%	1.0%	1.4%	1.4%
						P/NTA (x)	6.3	5.9	5.3	4.8	4.4
						EV/EBITDA (x)	24.8	18.6	15.5	14.6	13.9

Balance Sheet					
FY Mar (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	2,214	2,235	2,406	2,420	2,397
Intangible Assets	128.1	125.0	126.6	125.6	124.6
Other FA	500	547	550	550	550
Inventories	679	955	885	1,102	1,080
Receivables	428	462	557	562	608
Other CA	527	615	558	561	562
Cash	481	346	398	566	947
Total Assets	4,957	5,285	5,479	5,886	6,268
Payables	464	649	671	733	765
ST Borrowings	88	107	105	105	105
Other ST Liability	947	1,031	1,028	1,033	1,034
LT Borrowings	436	238	71	71	71
Other LT Liability	316	373	406	432	437
Minorities Int.	235	231	255	284	313
Net Assets	2,471	2,656	2,943	3,228	3,543
Share Capital	620	620	620	620	620
Reserves	1,851	2,036	2,323	2,608	2,923
Equity	2,471	2,656	2,943	3,228	3,543

Cashflow Statement					
FY Mar (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	536	619	863	907	847
Investing CF	-198	-231	-349	-307	-319
Financing CF	-347	-516	-466	-219	-219
Change In Cash	472	343	49	381	309
Free CF	297	293	564	600	528

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 5-Jun (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																	
AEON CO. (M) BHD	MP	1.41	1.21	-14.2%	1,979.6	Y	12/2024	8.7	8.9	6.9%	2.1%	16.1	15.8	1.0	6.5%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	32.28	38.25	18.5%	11,839.6	Y	09/2024	167.6	176.4	26.9%	5.3%	19.3	18.3	3.2	17.7%	85.0	2.6%
MR D.I.Y.	OP	1.80	1.97	9.4%	17,011.6	Y	12/2024	7.0	7.9	18.2%	12.6%	25.7	22.8	8.5	35.4%	4.0	2.2%
NESTLE (MALAYSIA) BHD	UP	124.00	115.00	-7.3%	29,078.0	Y	12/2024	292.3	306.0	3.8%	4.7%	42.4	40.5	44.3	102.9%	300.0	2.4%
PADINI HOLDINGS BHD	MP	3.80	3.63	-4.5%	2,500.1	Y	06/2024	23.5	26.9	-30.4%	14.2%	16.1	14.1	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.71	1.40	-18.1%	786.2	Y	03/2025	9.1	9.8	2.6%	7.3%	18.8	17.5	2.3	12.2%	7.0	4.1%
QL RESOURCES BHD	MP	6.40	6.25	-2.3%	15,575.4	Y	03/2025	19.5	20.8	8.7%	6.2%	32.7	30.8	4.8	16.4%	9.0	1.4%
KAREX BHD	OP	0.820	1.10	34.1%	863.8	Y	06/2024	2.4	4.4	137.1%	85.1%	34.7	18.7	1.8	5.1%	1.0	1.2%
Sector Aggregate					79,634.3					9.9%	8.1%	28.6	26.4	5.9	20.7%		2.5%

Source: Kenanga Research

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Stock ESG Ratings:

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

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

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