

QL Resources Bhd

1Q20 No Surprises

By Nikki Thang | nikkithang@kenanga.com.my

1Q20 PATAMI of RM50.6m (+15%) and the absence of dividend came in within expectations. Moving forward, earnings are expected to be largely driven by its stronger marine segments, on the back of more favourable weather and fish breeding conditions. Meanwhile, FamilyMart operations could be profitable in FY20. Post-results, maintain UP with higher TP of RM6.30 (from RM6.05) as we roll forward our valuations base year to FY21E.

No surprises. With 1Q being a seasonally weaker quarter, 1Q20 PATAMI of RM50.6m came in within expectations at 21%/20% of ours and consensus' estimates, respectively. No dividend was announced, as expected.

YoY, 1Q20 PATAMI of RM50.6m grew 15%, anchored by stronger sales and profit contributions from the Marine Product Manufacturing (MPM) segment's helmed by its fishmeal and surimi based products. The robust performance from the MPM segment (+52% PBT) supported: (i) poorer Palm oil activities (POA) results (-63% PBT) which was dragged by the prevailing weakness in CPO prices, and (ii) weaker integrated livestock segment (ILF) (-19% PBT) owing to poorer feed meal margins which offset its strong sales growth in operating regions.

Sequentially, 1Q20 earnings jumped by 17%, mainly driven by its studier MPM segment (+36% PBT) versus a seasonally weaker 4Q which was impacted by monsoon season. On the flip side, the group's POA business continued to see a decline in PBT (-90%), depressed by lower CPO prices and lower contribution from its associate (Boilermech) while ILF business saw a -13% decline in PBT due to frailer peninsular poultry contribution.

Time to go fishing. Moving forward, the group's earnings are anticipated to be largely buoyed by its MPM segments, on the back of more favourable weather and fish breeding conditions. Moreover, the group's persistent efforts to upgrade its Hutan Melintang facility, surimi plants, fleets and new aquaculture initiatives could only further enhance the growing segment. While its ILF segment has shown a rather volatile earnings track record, we believe that there could still be more growth opportunities in its regional bases (i.e. Vietnam and Indonesia) where the group looks to ramp up production capacity, banking on their larger population. On the other hand, the FamilyMart convenience store chain is expected to generate profits by FY20, having already opened c.120 stores to date.

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

Maintain UNDERPERFORM and higher TP of RM6.30 (from RM6.05, previously). Our valuation is based on an unchanged 40.0x PER (within the stock's +0.5SD over its 3-year mean PER) as we roll forward our valuation base year to FY21E. We believe the rich valuations are due to high investors' appetite, attributed to the stock defensive quality in the consumer staples space. However, current levels may be excessive owing to: (i) low dividend returns of c.1% (vs. peers' average of 3-4%), and (ii) its low ROE (vs. peers of up to +100%).

Risks to our call include: (i) significant improvement to MPM sales, (ii) significant uptick in palm oil prices and sales volume, (iii) better-than-expected demand of poultry products abroad.

UNDERPERFORM ↔

Price : RM6.90
Target Price : RM6.30 ↑

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,589.82 |
| YTD KLCI chg | -6.0% |
| YTD stock price chg | 1.3% |

Stock Information

| | |
|---------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | QLG MK Equity |
| Market Cap (RM m) | 11,194.8 |
| Shares Outstanding | 1,622.4 |
| 52-week range (H) | 7.63 |
| 52-week range (L) | 5.80 |
| 3-mth avg daily vol | 1,176,810 |
| Free Float | 40% |
| Beta | 0.7 |

Major Shareholders

| | |
|---------------------------|-------|
| CBG (L) Pte Ltd | 41.2% |
| Farsathy Holdings Sdn Bhd | 11.8% |
| Employees Provident Fund | 6.6% |

Summary Earnings Table

| FY Mar (RM'm) | 2019A | 2020E | 2021E |
|------------------------|--------------|--------------|--------------|
| Turnover | 3,613.3 | 4,008.9 | 4,188.2 |
| EBIT | 312.6 | 349.2 | 361.8 |
| PBT | 272.3 | 307.8 | 320.6 |
| Net Profit (NP) | 225.4 | 254.8 | 265.4 |
| Core PATAMI | 216.7 | 245.0 | 255.2 |
| Consensus (NP) | 228.5 | 247.4 | 275.3 |
| Earnings Revision | - | - | - |
| Core EPS (sen) | 13.4 | 15.1 | 15.7 |
| Core EPS growth (%) | 11.2% | 13.0% | 4.2% |
| NDPS (sen) | 4.5 | 5.5 | 5.5 |
| BVPS (RM) | 1.2 | 1.3 | 1.4 |
| Core PER | 51.7 | 45.7 | 43.9 |
| Price/Bv (x) | 5.7 | 5.3 | 4.9 |
| Net Gearing (x) | 0.5 | 0.4 | 0.4 |
| Net Div. Yield (%) | 0.7% | 0.8% | 0.8% |

29 August 2019

| Results Highlights | | | | | | | | |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YTD |
| FYE Mar (RM'm) | FY20 | FY19 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Turnover | 993.2 | 903.8 | 9.9% | 816.2 | 21.7% | 993.2 | 816.2 | 21.7% |
| EBITDA | 117.1 | 111.5 | 5.0% | 94.5 | 23.9% | 117.1 | 94.5 | 23.9% |
| PBT/(LBT) | 62.2 | 61.2 | 1.6% | 51.2 | 21.5% | 62.2 | 51.2 | 21.5% |
| Taxation | -12.8 | -16.2 | 20.8% | -7.5 | -70.4% | -12.8 | -7.5 | -70.4% |
| Net Profit | 49.3 | 45.0 | 9.6% | 43.7 | 13.0% | 49.3 | 43.7 | 13.0% |
| PATAMI | 50.6 | 43.2 | 16.9% | 43.9 | 15.3% | 50.6 | 43.9 | 15.3% |
| EPS (sen) | 3.1 | 2.7 | | 2.7 | | 3.1 | 2.7 | |
| EBITDA margin | 11.8% | 12.3% | | 11.6% | | 11.8% | 11.6% | |
| PBT margin | 6.3% | 6.8% | | 6.3% | | 6.3% | 6.3% | |
| NP margin | 5.0% | 5.0% | | 5.3% | | 5.0% | 5.3% | |
| PATAMI margin | 5.1% | 4.8% | | 5.4% | | 5.1% | 5.4% | |
| Effective tax rate | 20.6% | 26.4% | | 14.7% | | 20.6% | 14.7% | |

Source: Company, Kenanga Research

| Segmental Highlights | | | | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YTD |
| Revenue (RM'm) | FY20 | FY19 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Marine Products Manufacturing | 282.7 | 242.5 | 16.6% | 217.3 | 30.1% | 282.7 | 217.3 | 30.1% |
| Palm Oil Activities | 68.6 | 77.9 | -11.9% | 72.3 | -5.2% | 68.6 | 72.3 | -5.2% |
| Integrated Livestock Farming | 641.9 | 583.3 | 10.0% | 526.6 | 21.9% | 641.9 | 526.6 | 21.9% |
| Total | 993.2 | 898.0 | 10.6% | 816.2 | 21.7% | 993.2 | 816.2 | 21.7% |
| Profit Before Tax (RM'm) | | | | | | | | |
| Marine Products Manufacturing | 47.0 | 34.5 | 36.4% | 30.9 | 52.4% | 47.0 | 30.9 | 52.4% |
| Palm Oil Activities | 1.0 | 10.5 | -90.1% | 2.8 | -63.2% | 1.0 | 2.8 | -63.2% |
| Integrated Livestock Farming | 14.1 | 16.2 | -13.1% | 17.5 | -19.4% | 14.1 | 17.5 | -19.4% |
| Total | 62.2 | 61.2 | 1.6% | 51.2 | 21.5% | 62.2 | 51.2 | 21.5% |
| PBT margin | | | | | | | | |
| Marine Products Manufacturing | 16.6% | 14.2% | | 14.2% | | 16.6% | 14.2% | |
| Palm Oil Activities | 1.5% | 13.5% | | 3.9% | | 1.5% | 3.9% | |
| Integrated Livestock Farming | 2.2% | 2.8% | | 3.3% | | 2.2% | 3.3% | |
| Total | 6.3% | 6.8% | | 6.3% | | 6.3% | 6.3% | |

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 (%) | 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. | 1-Yr. Fwd. | | |
| F&B AND RETAIL | | | | | | | | | | | | | | | | | |
| 7-ELEVEN MALAYSIA HOLDINGS BHD | 1.50 | 1,757.2 | N | 12/2019 | 12.4% | 4.9% | 13.6% | 5.5% | 36.1 | 31.7 | 30.1 | 25.0 | 24.2 | 77.5% | 2.7% | 1.35 | UP |
| AEON CO (M) BHD | 1.54 | 2,162.2 | Y | 12/2019 | 5.5% | 5.4% | -18.2% | 9.6% | 17.4 | 21.2 | 19.4 | 1.1 | 1.0 | 5.0% | 2.6% | 1.70 | MP |
| AMWAY MALAYSIA HOLDINGS BHD | 6.08 | 999.5 | Y | 12/2019 | 2.2% | 2.0% | 5.5% | 6.3% | 18.3 | 17.4 | 16.4 | 4.3 | 4.0 | 23.8% | 4.5% | 5.90 | MP |
| DUTCH LADY MILK INDUSTRIES BHD | 63.10 | 4,038.4 | Y | 12/2019 | -3.0% | 2.0% | -17.4% | 10.0% | 32.6 | 39.4 | 35.8 | 38.3 | 37.7 | 97.9% | 2.5% | 54.60 | UP |
| FRASER & NEAVE HOLDINGS BHD | 34.72 | 12,734.5 | Y | 09/2019 | 5.9% | 7.0% | 9.4% | 2.9% | 32.1 | 29.3 | 28.5 | 5.5 | 5.1 | 18.0% | 1.9% | 36.60 | MP |
| HAI-O ENTERPRISE BHD | 2.26 | 656.2 | N | 04/2020 | 1.7% | 2.3% | 0.1% | 1.8% | 13.8 | 13.8 | 13.6 | 2.1 | 2.1 | 15.1% | 5.8% | 1.95 | UP |
| MYNEWS HOLDINGS BHD | 1.40 | 955.0 | N | 10/2019 | 27.3% | 14.2% | 21.0% | 20.7% | 36.0 | 29.8 | 24.7 | 3.1 | 3.0 | 10.2% | 0.7% | 1.55 | OP |
| NESTLE (MALAYSIA) BHD | 147.00 | 34,471.5 | Y | 12/2019 | 2.5% | 3.8% | 3.5% | 7.2% | 53.1 | 51.3 | 47.9 | 52.7 | 51.9 | 104.6% | 2.0% | 128.00 | UP |
| PADINI HOLDINGS BHD | 3.74 | 2,460.6 | Y | 06/2020 | 6.2% | -1.6% | 21.8% | 12.7% | 15.7 | 12.9 | 11.4 | 3.8 | 3.2 | 26.8% | 3.1% | 3.75 | OP |
| PARKSON HOLDINGS BHD | 0.200 | 213.4 | Y | 06/2019 | 0.4% | 0.5% | 749.5% | 16.0% | N.A. | 25.7 | 22.2 | 0.1 | 0.1 | 0.3% | 0.0% | 0.270 | OP |
| POWER ROOT BHD | 1.93 | 764.4 | Y | 03/2020 | 12.3% | 9.7% | 26.6% | 16.0% | 23.1 | 18.8 | 16.7 | 3.5 | 3.2 | 18.1% | 4.7% | 2.30 | OP |
| QL RESOURCES BHD | 6.90 | 11,194.8 | Y | 03/2020 | 10.9% | 4.5% | 13.0% | 4.2% | 51.7 | 45.7 | 43.9 | 5.5 | 5.1 | 12.1% | 0.8% | 6.30 | UP |
| SPRITZER BHD | 2.40 | 503.9 | Y | 12/2019 | 5.1% | 1.2% | 14.6% | 13.0% | 20.8 | 18.2 | 16.1 | 1.3 | 1.2 | 7.0% | 1.7% | 2.40 | MP |
| Simple Average | | | | | 6.9% | 4.3% | 64.9% | 9.7% | 29.2 | 27.3 | 25.1 | 11.2 | 10.9 | 32.0% | 2.5% | | |
| SIN | | | | | | | | | | | | | | | | | |
| BRITISH AMERICAN TOBACCO (M) BHD | 20.06 | 5,727.7 | N | 12/2019 | -12.8% | 0.6% | -22.3% | 0.7% | 12.2 | 13.8 | 13.6 | 13.6 | 13.0 | 84.5% | 6.0% | 24.40 | UP |
| CARLSBERG BREWERY MALAYSIA BHD | 25.66 | 7,893.6 | N | 12/2019 | 11.4% | 4.6% | 6.9% | 4.8% | 28.8 | 26.9 | 25.7 | 46.4 | 50.7 | 186.7% | 3.9% | 25.95 | OP |
| HEINEKEN MALAYSIA BHD | 24.68 | 7,455.8 | N | 12/2019 | 6.1% | 5.0% | 2.8% | 5.1% | 26.4 | 25.7 | 24.4 | 20.1 | 19.9 | 77.9% | 3.8% | 23.25 | MP |
| Simple Average | | | | | 1.6% | 3.4% | -4.2% | 3.5% | 22.5 | 22.1 | 21.2 | 26.7 | 27.9 | 116.4% | 4.6% | | |
| CONSENSUS ESTIMATES | | | | | | | | | | | | | | | | | |
| BERJAYA FOOD BHD | 1.55 | 555.9 | N | 06/2019 | 9.8% | 8.4% | 14.3% | 9.3% | 21.1 | 18.5 | 16.9 | 1.5 | 1.5 | 7.5% | 3.0% | 1.94 | BUY |
| BONIA CORPORATION BHD | 0.270 | 209.2 | Y | 06/2019 | 3.4% | 3.1% | -29.7% | 18.2% | 10.6 | 15.0 | 12.7 | 0.6 | 0.6 | 3.2% | 2.6% | 0.300 | SELL |
| COCOALAND BHD | 1.87 | 427.9 | Y | 12/2019 | 5.7% | 7.1% | 6.2% | 9.8% | 13.8 | 13.0 | 11.9 | 1.7 | 1.7 | 13.4% | 4.1% | 2.36 | NEUTRAL |
| KAWAN FOOD | 1.21 | 435.0 | Y | 12/2019 | 10.5% | 14.5% | -41.0% | 61.1% | 19.1 | 32.3 | 20.0 | 1.4 | 1.3 | 4.1% | 2.1% | 1.14 | SELL |
| MAGNI-TECH INDUSTRIES BHD | 5.20 | 845.8 | Y | 04/2020 | 18.8% | 4.5% | 13.0% | 5.2% | 8.2 | 7.3 | 6.9 | 1.6 | n/a | 20.3% | n/a | 6.60 | BUY |

Source: Bloomberg, Kenanga Research

29 August 2019

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 and printed 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 E-mail: research@kenanga.com.my

