

1 March 2024

Consumer Non-cyclical | Food & Beverage Products

QL Resources (QLG MK)

Neutral (from Buy)

More Surprises From Poultry; D/G To NEUTRAL

- **Downgrade to NEUTRAL from Buy, new TP of MYR6.27 from MYR6.46, 8% upside.** QL Resources' 9MFY24 results exceeded expectations on the better-than-expected performance of its integrated livestock farming (ILF) unit. After revising our earnings estimates, the unfavourable change in the composition in our SOP valuation led to a cut in our TP. As such, we turn NEUTRAL on the stock, as its current valuation is fair in view of the flat earnings growth ahead from a high FY24F base.
- **9MFY24 results outpaced estimates.** Net profit of MYR339m (+24%) accounted for 83% of both our and consensus full-year forecasts. The positive deviation could be attributed to a stronger-than-expected contribution from the ILF business. Post-results, we raise FY24-26F earnings by 3-5% after increasing our ILF net profit forecast and toning down our numbers for its marine product manufacturing (MPM) and convenience store (CVS) segments. As a result, our SOP-driven TP drops to MYR6.27, which is inclusive of a 2% ESG premium and implies 36x P/E FY25F, below the stock's 5-year mean.
- **Results review.** YoY, 9MFY24 revenue grew 4% to MYR5bn, mainly underpinned by robust growth of the CVS division (+27%) on the back of a net addition of 42 new stores. Meanwhile, 9MFY24 PBT jumped 33% to MYR491m, boosted by a higher contribution (+40%) from the ILF unit, thanks to better feedmill margins and a government subsidy. Meanwhile, the MPM segment remained the key earnings anchor, with 9MFY24 PBT growing 12% to MYR224m from easing input costs and favourable FX rates. QoQ, 3QFY24 revenue and net profit growth was flattish, with higher MPM earnings stemming from a better PBT margin offsetting the softer ILF contribution. The ILF numbers were dragged by the withdrawal of a subsidy for broiler chickens in Malaysia and a weaker performance from its overseas operations.
- **Outlook.** QoQ growth is likely to soften, in view of the monsoon season affecting the MPM business, the normalisation of feedmill margins from a high base, as well as the consumer boycott resulting in lower CVS sales volumes. Beyond the immediate term, MPM and ILF should continue to anchor the earnings – with the former benefitting from easing input costs and the latter aided by the government subsidy for eggs and contributions from its newly acquired layer farm. Meanwhile, the CVS segment should contribute to overall growth on its store network expansion, with the easing of the boycott sentiment following the convenience store chain parent's announcement to end its business partnership with an Israeli party.
- **Downside risks to our recommendation** include a sharp rise in input costs and a low fish catch cycle. The opposite circumstances would constitute upside risks.

Target Price (Return): MYR6.27 (+8%)
Price (Market Cap): MYR5.81 (USD2,964m)
ESG score: 3.1 (out of 4)
Avg Daily Turnover (MYR/USD) 15.9m/3.30m

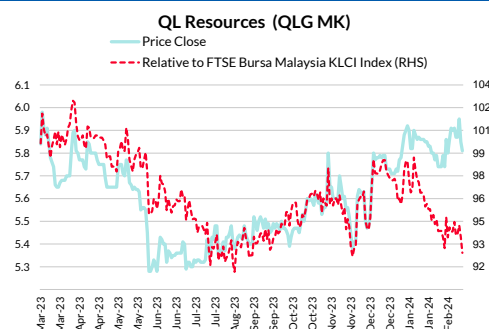
Analyst

Soong Wei Siang
+603 2302 8130
soong.wei.siang@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.8	(0.7)	7.4	7.6	0.0
Relative	(4.9)	(3.1)	0.1	0.9	(6.7)
52-wk Price low/high (MYR)				5.28	–5.98



Source: Bloomberg

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover (MYRm)	5,247	6,264	6,603	7,078	7,534
Recurring net profit (MYRm)	217	347	421	433	443
Recurring net profit growth (%)	(6.7)	59.6	21.4	2.9	2.4
Recurring P/E (x)	65.05	40.76	33.58	32.64	31.89
P/B (x)	5.7	5.3	4.9	4.5	4.1
P/CF (x)	27.51	24.76	19.43	19.58	19.06
Dividend Yield (%)	0.6	1.2	1.2	1.2	1.3
EV/EBITDA (x)	25.88	19.47	16.36	15.73	15.17
Return on average equity (%)	9.1	13.5	15.1	14.3	13.4
Net debt to equity (%)	32.6	30.7	21.1	13.0	5.5

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

QL is committed to growing the business in a responsible manner. It is focused on managing and expanding renewable energy generation and improving the management of energy, water and waste.

S: GOOD

It advocates for diversity, fair labour practices and the well-being of the communities in the locations it operates. It is committed to empower and build human capital capacity and extend support to the communities, especially the vulnerable groups.

G: EXCELLENT

QL has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance with independent directors comprising >50% of the board with women making up >30% of it.

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Financial Exhibits

Asia	Financial summary (MYR)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Malaysia	Recurring EPS	0.09	0.14	0.17	0.18	0.18
Consumer Non-cyclical	DPS	0.04	0.07	0.07	0.07	0.07
QL Resources	BVPS	1.02	1.09	1.20	1.30	1.41
QLG MK	Return on average equity (%)	9.1	13.5	15.1	14.3	13.4
Neutral						
	Valuation metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Valuation basis	Recurring P/E (x)	65.05	40.76	33.58	32.64	31.89
SOP	P/B (x)	5.7	5.3	4.9	4.5	4.1
	FCF Yield (%)	2.2	2.7	3.0	3.0	3.1
Key drivers	Dividend Yield (%)	0.6	1.2	1.2	1.2	1.3
i. Regional expansion plan;	EV/EBITDA (x)	25.88	19.47	16.36	15.73	15.17
ii. Favourable product prices.	EV/EBIT (x)	41.81	28.39	22.80	22.30	21.91
	Income statement (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Key risks	Total turnover	5,247	6,264	6,603	7,078	7,534
i. Sharp increase in input costs;	Gross profit	859	1,131	1,287	1,340	1,386
ii. Unfavourable demand-supply dynamics.	EBITDA	589	782	920	945	966
	Depreciation and amortisation	(224)	(246)	(260)	(278)	(297)
Company Profile	Operating profit	364	536	660	667	669
QL Resources is a multinational agro-food company that farms and produces protein and food energy sources. Its principal activities are integrated livestock farming and marine products manufacturing. It is also involved in the palm oil value chain. QL Resources also runs the FamilyMart convenience store chain in Malaysia.	Net interest	(44)	(57)	(59)	(48)	(36)
	Pre-tax profit	321	481	601	619	633
	Taxation	(86)	(119)	(144)	(148)	(152)
	Reported net profit	217	347	421	433	443
	Recurring net profit	217	347	421	433	443
	Cash flow (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Change in working capital	(130)	(195)	(32)	(58)	(56)
	Cash flow from operations	514	571	728	722	742
	Capex	(210)	(195)	(300)	(300)	(300)
	Cash flow from investing activities	(210)	(198)	(284)	(284)	(284)
	Dividends paid	(85)	(170)	(168)	(173)	(177)
	Cash flow from financing activities	(321)	(624)	(261)	(221)	(713)
	Cash at beginning of period	487	478	347	530	747
	Net change in cash	(17)	(251)	183	217	(255)
	Ending balance cash	471	227	530	747	492
	Balance sheet (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Total cash and equivalents	478	347	530	747	492
	Tangible fixed assets	2,230	2,230	2,270	2,292	2,295
	Total investments	19	27	27	27	27
	Total assets	4,967	5,304	5,589	5,942	5,799
	Short-term debt	926	987	800	800	300
	Total long-term debt	436	246	400	400	400
	Total liabilities	2,257	2,416	2,413	2,468	2,022
	Total equity	2,709	2,888	3,176	3,473	3,777
	Total liabilities & equity	4,967	5,304	5,589	5,942	5,799
	Key metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Revenue growth (%)	21.8	19.4	5.4	7.2	6.4
	Recurrent EPS growth (%)	(6.7)	59.6	21.4	2.9	2.4
	Gross margin (%)	16.4	18.1	19.5	18.9	18.4
	Operating EBITDA margin (%)	11.2	12.5	13.9	13.4	12.8
	Net profit margin (%)	4.1	5.5	6.4	6.1	5.9
	Dividend payout ratio (%)	39.2	49.1	40.0	40.0	40.0
	Capex/sales (%)	4.0	3.1	4.5	4.2	4.0
	Interest cover (x)	7.02	8.38	9.86	11.11	14.09

Source: Company data, RHB

Results At a Glance

Figure 1: QL's results highlights

FYE Mar (MYRm)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
Revenue	1,629.1	1,690.2	1,712.2	1.3	5.1	4,789.2	5,001.8	4.4	Primarily underpinned by the CVS business,
EBITDA	208.1	255.1	259.3	1.6	24.6	590.9	731.1	23.7	
Margin (%)	12.8	15.1	15.1	0.0	2.4	12.3	14.6	2.3	
Depreciation	(62.3)	(62.9)	(66.7)	6.0	7.0	(182.4)	(183.8)	0.7	
EBIT	145.9	192.3	192.7	0.2	32.1	408.5	547.3	34.0	
Margin (%)	9.0	11.4	11.3	(0.1)	2.3	8.5	10.9	2.4	
Interest expense	(17.0)	(17.5)	(17.8)			(46.5)	(53.2)		
Interest income	1.9	2.0	2.4			5.5	6.0		
Associates	0.2	0.1	0.4			0.8	0.8		
El/Others	0.0	0.0	0.0			0.0	0.0		
Pretax profit	131.0	176.7	177.6	0.5	35.6	368.3	490.7	33.2	
Margin (%)	8.0	10.5	10.4	(0.1)	2.3	7.7	9.8	2.1	
Tax	(29.9)	(43.8)	(43.1)	(1.6)	44.2	(84.3)	(123.3)	46.3	At 83% of full-year forecasts.
ETR (%)	22.8	24.8	24.3	(0.5)	1.4	22.9	25.1	2.2	
Net Profit	97.2	122.6	123.6	0.8	27.2	273.5	339.1	24.0	
Margin (%)	6.0	7.3	7.2	(0.0)	1.3	5.7	6.8	1.1	

Source: Company data

Figure 2: Segmental breakdown of results

FYE Mar (MYRm)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
Revenue									
MPM	362.5	363.6	361.7	(0.5)	(0.2)	1,047.8	1,072.3	2.3	Robust growth driven by outlet network expansion.
POCE	135.1	179.9	154.6	(14.1)	14.4	433.7	509.8	17.5	
ILF	912.9	871.8	911.3	4.5	(0.2)	2,664.2	2,605.3	(2.2)	
CVS	218.5	274.9	284.7	3.6	30.3	643.4	814.4	26.6	
Total	1,629.1	1,690.2	1,712.2	1.3	5.1	4,789.2	5,001.8	4.4	
PBT									
MPM	74.6	78.4	88.7	13.1	19.0	201.0	224.1	11.5	Driven by easing input costs and favourable FX rates.
POCE	(1.2)	13.9	8.8	nm	nm	(2.6)	34.1	nm	
ILF	51.9	67.4	63.6	(5.7)	22.6	133.6	187.4	40.3	Boosted by the margin expansion of the feedmill business, and government subsidy given.
CVS	5.8	17.0	16.5	(2.7)	185.3	36.3	45.1	24.2	
Total	131.0	176.7	177.6	0.5	35.6	368.3	490.7	33.2	
Margin (%)									
MPM	20.6	21.6	24.5	3.0	4.0	19.2	20.9	1.7	
POCE	-0.9	7.7	5.7	-2.1	6.6	-0.6	6.7	7.3	
ILF	5.7	7.7	7.0	-0.8	1.3	5.0	7.2	2.2	
CVS	2.7	6.2	5.8	-0.4	3.2	5.6	5.5	-0.1	
Total	8.0	10.5	10.4	-0.1	2.3	7.7	9.8	2.1	

Source: Company data

Emissions And ESG

Trend analysis

QL's emissions intensity has decreased by 17.2% vs the levels recorded in the base year of FY20.

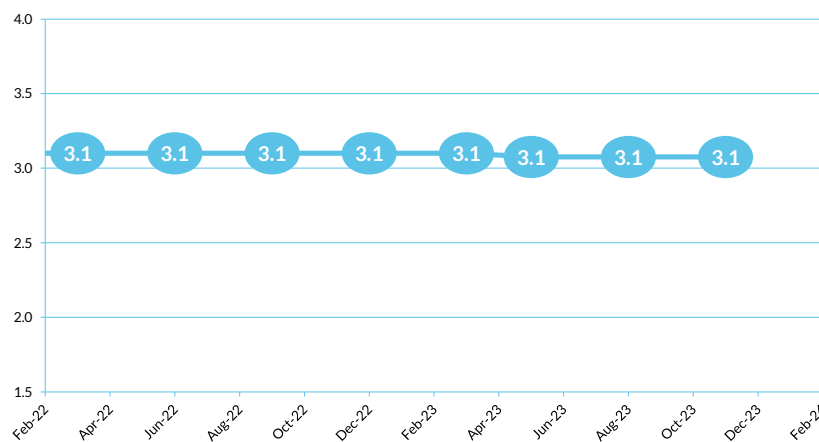
Emissions (tCO2e)	Mar-21	Mar-22	Mar-23
Scope 1	28,090	23,520	35,510
Scope 2	72,820	75,430	107,310
Scope 3	na	na	na
Total emissions	100,910	98,950	142,820

Source: Company data, RHB

Latest ESG-Related Developments

- It installed solar power solutions for 337 customers and biomass boilers, which led to the potential avoidance of over 2m tonnes of carbon dioxide emitted per year.
- It upgraded its chicken manure composting facility and capacity.
- It also upgraded the fishing tools of 924 fishermen via the MYR22m interest-free Fishermen Financial Assistance Scheme (FFAS).

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-30	Buy	6.46	5.61
2023-08-30	Buy	6.12	5.40
2023-05-31	Neutral	5.64	5.55
2023-03-01	Neutral	5.81	5.84
2022-11-30	Neutral	5.60	5.57
2022-08-29	Neutral	5.31	5.07
2022-05-31	Neutral	4.92	5.13
2022-02-24	Neutral	4.67	4.90
2022-02-14	Neutral	4.71	4.86
2021-11-29	Neutral	4.80	4.47
2021-08-11	Neutral	5.76	5.63
2021-05-28	Neutral	6.05	6.00
2020-11-29	Neutral	6.05	6.14
2020-08-27	Neutral	6.05	6.43
2020-06-30	Neutral	5.72	6.40

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470