

COMPANY UPDATE

QL Resources (QLG MK)

Sailing Into Fairer Seas As Earnings Visibility Improves

QL is expected to see a robust 1HFY23 following a seasonally stronger MPM segment and its POCE segment's ramp-up. Meanwhile, FM has fully launched its second centralised kitchen, supporting its store expansion ambitions over the medium term. We continue to like QL for its overall execution, earnings resiliency and it being a defensive stock. QL could be further catalysed by its potential inclusion in the FBMKLCI Index. Maintain BUY with an unchanged target price of RM5.70.

WHAT'S NEW

- Seasonally stronger quarter in store for MPM.** Apart from the seasonally stronger quarter that should lift performance, management revealed that demand continues to be robust. Its fully operational fishing fleet should allow it to meet demand. In addition, Family Mart (FM) will drive marine products manufacturing's (MPM) sales as well, now consisting up to 10% of MPM sales – which FM sales should grow in the region of 20% over the near-to-medium term alongside its store expansion outlook. QL Resources' (QL) new frozen surimi-based factory in Surabaya, which is due to be completed in early-24, is expected to quadruple its existing production capacity. This should support QL's growth over the medium term.
- Better quarter ahead for the palm oil and clean energy (POCE) segment.** QL's plantation operations should realise a better quarter sequentially vis-à-vis 1QFY23 despite the lower market CPO prices (2QFY23: RM6,453/MT vs 1QFY23: RM4,044/MT) given the absence of foreign translation losses that weighed on 1QFY23's earnings. Over the longer term, QL is looking to divest its palm oil operations (16,000 hectares of plantation) as it prioritises clean energy instead with its 52%-owned subsidiary Boilermach (BMHB MK). Further ramping up of operations with an increased workforce should see further normalisation of Boilermach's contributions going forward.
- Central kitchen operational.** FM's second central kitchen has been fully completed and is operational. The central kitchen signals FM's long-term commitment and potential with the new central kitchen being able to support an additional 500 new stores (existing central kitchen supports 300 stores). FM is due to expand 60 stores per annum going forward, skewed towards Tier 2 cities. The expansion rate has slowed from 80-100 stores previously as issues with labour recruitment have been a limiting factor. Apart from that, FM has 30 vending machines, selling fresh food, desserts and drinks. These format points-of-sales are expected to see a similar rollout of 60 machines per year. We also gather that FM is working on a new high-end FM store format as well.

KEY FINANCIALS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	4,373	5,247	5,863	6,306	6,775
EBITDA	687	597	583	610	643
Operating profit	480	373	410	430	454
Net profit (rep./act.)	311	217	281	296	314
Net profit (adj.)	232	217	281	296	314
EPS (sen)	9.5	8.9	11.5	12.2	12.9
PE (x)	52.4	56.0	43.4	41.0	38.7
P/B (x)	5.3	4.9	4.6	4.2	3.9
EV/EBITDA (x)	19.3	22.3	22.8	21.8	20.7
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7
Net margin (%)	7.1	4.1	4.8	4.7	4.6
Net debt/(cash) to equity (%)	44.4	35.7	23.8	19.5	16.2
Interest cover (x)	12.1	11.5	12.3	14.7	18.1
ROE (%)	14.4	9.1	10.9	10.7	10.5
Consensus net profit	-	-	292	336	365
UOBKH/Consensus (x)	-	-	0.96	0.88	0.86

Source: QL Resources Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.02
Target Price	RM5.70
Upside	+13.9%

COMPANY DESCRIPTION

QL Resources is involved in integrated livestock farming (ILF), marine products manufacturing (MPM) and palm oil activities (POA) in Malaysia, Indonesia and Vietnam

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	QLG MK
Shariah Compliant:	Yes
Shares issued (m):	2,433.7
Market cap (RMm):	12,168.3
Market cap (US\$m):	2,617.7
3-mth avg daily t'over (US\$m):	1.5

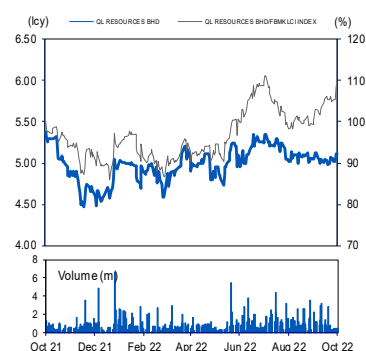
Price Performance (%)

52-week high/low	RM5.37/RM4.47			
1mth	3mth	6mth	1yr	YTD
(1.6)	(4.4)	(2.5)	(6.0)	9.4

Major Shareholders

	%
CBG Holdings	40.3
Pelita Global	11.9
Farsathy Holdings	11.6
FY23 NAV/Share (RM)	1.10
FY23 Net Debt/Share (RM)	0.26

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Further sequential improvement for FM.** Foot traffic to places of retail continues to strengthen alongside increased confidence and reopening of the economy, with 2QFY23 foot traffic averaging -1.1% (pre-COVID-19 levels) and -2.8% to places of retail and workplaces respectively. For 1QFY23, foot traffic to these places averaged -3.3% and -7.4% respectively. This should bode well for FM in terms of in-store sales, similar to the 3.6% qoq improvement in in-store sales in 1QFY23. Apart from that, a higher proportion of stores with operating hours past 12-midnight, should further supplement revenue generation.
- Stable outlook for integrated livestock farming (ILF).** QL expects near-term prospects to be intact with robust contributions from its egg production operations in Vietnam, driven by robust demand amid a free market structure. Vietnam operations accounts for 25% of the groups egg production. QL's feed raw material sub-segment is expected to be stable alongside its margin and volume sales.
- Potential FBMKLCI inclusion could be a new milestone for QL.** Based on the most recent market capitalisation, QL is poised to be included as new constituent into the FBMKLCI Index in the upcoming review in Dec 22. QL's market capitalisation of RM12.2b ranks it as the 29th largest market capitalised company in the FBMKLCI Index. Should things stand, QL and AMMB Holdings (ranked 28th) are most likely due to replace Hartalega and Top Glove, which are due to drop out of the index due to their respective market capitalisation positions of 50th and 63rd, both dropping below the 35th threshold position.

EARNINGS REVISION/RISK

- No changes to earnings.** Risks include: a) unfavourable weather conditions affecting fishing yields, b) outbreak of poultry diseases, and c) a sharp collapse in CPO prices.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM5.70.** QL is on the path of recovery heading into FY23. In the long run, growth will be supplemented by FM, which provides multi-year growth visibility. It could be further catalysed should it be included into the FBMKLCI Index. The implied PE to 2023 from our target price is 47.4x, which is close to +0.5SD of its seven-year PE mean. We value QL's long-established businesses at 37.0x FY23F PE, a 20% discount to Nestle's valuation. We value FM on a DCF basis (WACC: 6.9%, terminal growth: 4.0%) to capture the deep value it offers over the long term.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

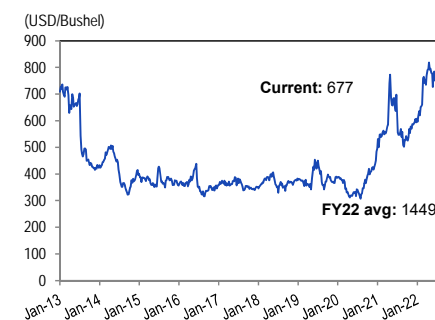
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Climate change and emissions. To reduce greenhouse gases intensity by 20% by FY26 from baseline in FY20, municipal water consumption intensity by 34% to 0.151m³/1,000 pcs of gloves by FY25 with the use of in-house water cycling facilities. Waste management. Diverted 97% of non-hazardous waste from landfills and composted 84% of chicken manure to organic fertiliser. Social <ul style="list-style-type: none"> Financial assistance. Provided RM24m of interest-free financial assistance to 974 fishermen over FY21. Gender diversity. Workforce is fairly balanced with 57:43 ratio of male-to-female among its 5,000 strong workforce. Governance <ul style="list-style-type: none"> Board composition. Board comprises of six Independent Non-Executive Directors, five Executive Directors and three Alternate Directors to Executive Directors. Of the six Independent Directors, four are women.

SEGMENTAL BREAKDOWN

	FY23	FY24	FY25
Revenue (RMm)	5,863	6,306	6,775
MPM	1,451	1,546	1,640
POCE	501	498	498
ILF	3,909	4,261	4,636
	5,863	6,306	6,775
PBT (RMm)	363	389	418
MPM	144	157	172
POCE	45	38	30
ILF	174	194	216
	363	389	418
PBT margin			
MPM	9.9	10.2	10.5
POCE	9.0	7.5	6.0
ILF	4.4	4.6	4.7

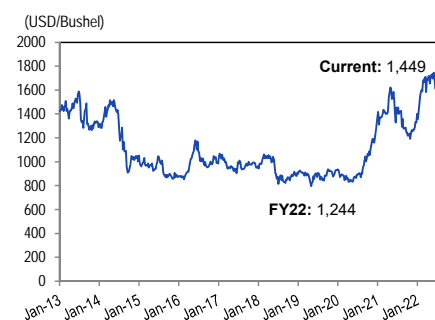
Source: UOB Kay Hian

CORN



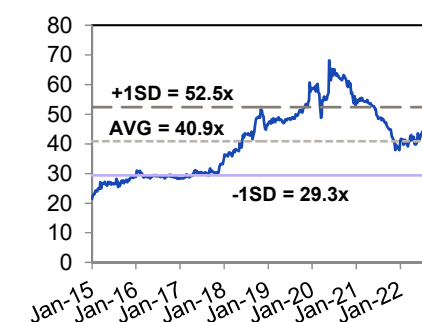
Source: Bloomberg

SOYBEAN MEAL



Source: Bloomberg

QL'S SEVEN-YEAR PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Net turnover	5,247	5,863	6,306	6,775
EBITDA	597	583	610	643
Deprec. & amort.	224	173	180	190
EBIT	373	410	430	454
Associate contributions	1	14	15	15
Net interest income/(expense)	(52)	(47)	(41)	(35)
Pre-tax profit	321	377	403	434
Tax	(86)	(83)	(93)	(104)
Minorities	(18)	(13)	(14)	(15)
Net profit	217	281	296	314
Net profit (adj.)	217	281	296	314

BALANCE SHEET

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,230	2,524	2,634	2,774
Other LT assets	660	589	589	589
Cash/ST investment	478	551	475	385
Other current assets	1,599	1,357	1,436	1,518
Total assets	4,967	5,021	5,134	5,267
ST debt	926	851	776	701
Other current liabilities	585	606	643	682
LT debt	436	336	261	186
Other LT liabilities	310	310	310	310
Shareholders' equity	2,474	2,670	2,881	3,110
Minority interest	235	248	263	278
Total liabilities & equity	4,967	5,021	5,134	5,267

CASH FLOW

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Operating	518	630	490	511
Pre-tax profit	321	377	403	434
Tax	(88)	(83)	(93)	(104)
Deprec. & amort.	224	173	180	190
Associates	2	n.a.	n.a.	n.a.
Working capital changes	15	116	(42)	(44)
Non-cash items	2	n.a.	n.a.	n.a.
Other operating cashflows	41	47	41	35
Investing	(214)	(250)	(290)	(330)
Capex (growth)	(210)	(250)	(290)	(330)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(4)	n.a.	n.a.	n.a.
Financing	(316)	(308)	(277)	(271)
Dividend payments	(96)	(85)	(85)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(196)	(175)	(150)	(150)
Others/interest paid	(24)	(47)	(41)	(35)
Net cash inflow (outflow)	(12)	72	(76)	(90)
Beginning cash & cash equivalent	482	478	551	475
Changes due to forex impact	8	0	0	0
Ending cash & cash equivalent	478	551	475	385

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.4	9.9	9.7	9.5
Pre-tax margin	6.1	6.4	6.4	6.4
Net margin	4.1	4.8	4.7	4.6
ROA	4.4	5.6	5.8	6.0
ROE	9.1	10.9	10.7	10.5
Growth				
Turnover	20.0	11.7	7.6	7.4
EBITDA	(13.1)	(2.4)	4.7	5.4
Pre-tax profit	(25.7)	17.3	7.1	7.5
Net profit	(30.2)	29.2	5.6	6.0
Net profit (adj.)	(6.5)	29.2	5.6	6.0
EPS	(6.5)	29.2	5.6	6.0
Leverage				
Debt to total capital	33.5	28.9	24.8	20.7
Debt to equity	55.1	44.5	36.0	28.5
Net debt/(cash) to equity	35.7	23.8	19.5	16.2
Interest cover (x)	11.5	12.3	14.7	18.1

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