

4QFY15 RESULTS UPDATE

12 June 2015

# QL Resources Berhad

Price : RM4.08

Market Capitalization : RM5,092.0 mln

Market : Main Market

Sector : Consumer

Recommendation : Hold

Bursa / Bloomberg Code: 2084 / QLG MK  
Stock is Shariah-compliant.

## QL: 4QFY15 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY15	3QFY15	% chg	4QFY14	% chg	FY15	FY14	% chg
Turnover	661.6	732.8	-9.7%	606.9	9.0%	2,704.5	2,457.2	10.1%
EBITDA	75.9	100.0	-24.1%	70.3	7.9%	330.5	299.6	10.3%
Pre-tax profit	59.2	74.6	-20.7%	47.5	24.6%	246.4	203.8	20.9%
Tax	(12.0)	(15.3)		(6.7)		(50.5)	(37.0)	
MI	(0.5)	(3.7)		(2.2)		(5.3)	(6.8)	
Net profit	46.7	55.6	-16.0%	38.6	20.9%	190.5	159.9	19.1%
EPS (sen)	3.2	4.5	-27.8%	3.2	0.0%	15.3	13.8	10.7%
EBITDA margin	11.5%	13.6%		11.6%		12.2%	12.2%	
Pre-tax margin	8.9%	10.2%		7.8%		9.1%	8.3%	
Net profit margin	7.1%	7.6%		6.4%		7.0%	6.5%	
Net Assets/share (RM)	1.15							

## 4QFY15 Results Review

- QL proved its resilience by delivering yet another set of robust results, with 4QFY15 net profit up 20.9% y-o-y to RM46.7 mln. Full year net earnings of RM190.5 mln were within our expectations having reached 100% of our estimate.
- QL continues to break its own record, with FY15 results setting new highs at RM190.5 mln net profit and RM2.70 bln turnover. Its three core divisions – Marine Products Manufacturing (MPM), Palm Oil Activities (POA) and Integrated Livestock Farming (ILF) – registered growth in both turnover and PBT.

	Y-o-Y			Year to date		
	4QFY15	4QFY14	% Chg	FY15	FY14	% Chg
<b>Revenue</b>						
MPM	191.9	148.5	29.2%	732.6	618.5	18.4%
POA	74.6	92.2	-19.1%	347.3	334.7	3.8%
ILF	395.1	366.2	7.9%	1,624.7	1,503.9	8.0%
<b>Group</b>	<b>661.6</b>	<b>606.9</b>	<b>9.0%</b>	<b>2,704.5</b>	<b>2,457.2</b>	<b>10.1%</b>
<b>PBT</b>						
MPM	28.3	20.0	41.3%	126.7	109.2	16.0%
POA	(0.8)	6.8	nm	13.0	9.5	36.1%
ILF	31.7	20.7	53.3%	106.7	85.0	25.5%
<b>Group</b>	<b>59.2</b>	<b>47.5</b>	<b>24.6%</b>	<b>246.4</b>	<b>203.8</b>	<b>20.9%</b>
<b>PBT Margin</b>						
MPM	14.7%	13.5%		17.3%	17.7%	
POA	nm	7.4%		3.7%	2.9%	
ILF	8.0%	5.7%		6.6%	5.7%	
<b>Group</b>	<b>8.9%</b>	<b>7.8%</b>		<b>9.1%</b>	<b>8.3%</b>	

- MPM segment, which yields the highest PBT margin at 17.3% in FY15, recorded turnover and PBT growth of 18.4% and 16.0% y-o-y respectively, spurred by improved performance from its

marine activities that include deep sea fishing, production of surimi-based products and fishmeal operations.

- The ILF business too posted a commendable performance which saw not only increase in turnover and PBT, but also expansion in PBT margin to 6.6% in FY15 from 5.7% a year ago. Higher volume of feed raw materials, coupled with increase in prices of its farm produce were the reasons behind the improved performance.
- The Palm Oil Activities (POA) is in the distant third and smallest position in terms of turnover and profit contribution. The segment made up only 12.8% of turnover and a mere 5.3% of PBT for QL in FY15. Operations remained affected by the prevailing sluggish CPO price that is hovering at about RM2,200/mt. FY15 PBT was also dragged down by the losses incurred at its Indonesian operations in the 1HFY15. Still, we noted overall PBT from POA in FY15 was some 36% higher y-o-y at RM13.0 mln.
- Balance sheet-wise, net gearing hovers at a healthy 0.4x as at end-March 2015, with BV/share at RM1.15. The Group continues to produce enviable positive net operating cash flow, generating RM270.1 mln cash in FY15 vs. RM119.1 mln in FY14.
- We retain our FY16 earnings projections of RM215.2 mln at this juncture given no surprises in the results. We continue to like QL and believe the Group would sustain its double-digit earnings growth over the next 2 years, underpinned by the sustained demand growth for its products as well as ongoing expansion plans at the MPM and ILF segments. We opine the Group's performance should remain resilient in spite of the current slowdown in consumer spending as its products are mostly considered inexpensive food produce where demand is pretty much inelastic.
- The board of directors proposed a final single-tier dividend of 3.5 sen for FY15 (FY14: 3.5 sen), subject to shareholders' approval.

## Recommendation

While we really do like QL for its solid earnings delivery track record and growth prospects, we opine its valuation is somewhat rich at the current price point with the stock trading at prospective FY16 PER of 23.7x considering the macroeconomic uncertainties clouding the broader equity market. Net dividend yield, at 0.9%, is also not too attractive for now. As such, we retain our **Hold** recommendation with a fair value of **RM3.97** which is derived from pegging its FY16 earnings against a PER multiple of 23x.

Per Share Data				P&L Summary				
FYE Mar	FY14	FY15	FY16f	FYE Mar (RM mln)	FY13	FY14	FY15	FY16f
Book Value (RM)	1.03	1.15	1.29	Revenue	2,146.3	2,457.2	2,704.5	3,253.5
Cash Flow (sen)	20.5	22.1	24.5	EBITDA	258.0	300.0	330.5	384.3
Earnings (sen)	13.8	15.3	17.2	Depreciation	(65.9)	(78.2)	(85.7)	(90.6)
Net Dividend (sen)	3.5	3.5	3.5	Net Int Exp	(26.7)	(32.6)	(30.0)	(29.7)
Payout Ratio (%)	27.3%	22.9%	20.3%	Pre-tax Profit	172.7	203.8	246.4	276.5
PER (x)	29.6	26.7	23.7	Eff. Tax Rate	20.4%	18.2%	19.0%	20.0%
P/Cash Flow (x)	19.9	18.4	16.7	Net Profit	131.7	159.9	190.5	215.2
P/Book Value (x)	4.0	3.5	3.2	EBITDA Margin (%)	12.0%	12.2%	12.2%	11.8%
Dividend Yield (%)	0.9%	0.9%	0.9%	Pre-tax Margin (%)	8.0%	8.3%	9.1%	8.5%
ROE (%)	13.4%	13.3%	13.4%	Net Margin (%)	6.1%	6.5%	7.0%	6.6%
Net gearing (x)	0.3	0.4	0.4					

**QL's last 12-month share price chart**



Source: Bloomberg

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**RATING GUIDE**

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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