

4QFY11 RESULTS UPDATE

30 May 2011

QL Resources Berhad

Price : RM3.30

Market Capitalization : RM2,745.6m

Market : Main Market

Sector : Consumer

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

Recommendation : Buy

QL: 4QFY11 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Mar 11	Dec 10	% chg	Mar 10	% chg	FY11	FY10	% chg
Turnover	502.6	450.9	11.4%	413.0	21.7%	1,776.8	1,476.4	20.3%
EBITDA	54.2	60.6	-10.6%	49.9	8.6%	220.2	187.9	17.2%
Pre-tax profit	40.5	44.4	-8.9%	34.9	15.9%	160.8	136.2	18.1%
Tax	(7.1)	(8.6)		(7.2)		(27.1)	(20.9)	
MI	(1.8)	(2.6)		(1.3)		(9.2)	(8.2)	
Net profit	31.6	33.1	-4.8%	26.4	19.3%	124.5	106.9	16.4%
EPS (sen) - basic	3.9	4.2	-8.3%	3.4	14.1%	15.7	13.7	15.0%
EBITDA margin	10.8%	13.4%		12.1%		12.4%	12.7%	
Pre-tax margin	8.0%	9.8%		8.5%		9.1%	9.2%	
Net profit margin	6.3%	7.3%		6.4%		7.0%	7.2%	
NTA/share (RM)	0.93							

4QFY11 Results Review

- QL's FY11 results were within our expectations with net profit of RM124.5 mln against our projection of RM122.6 mln. The Group's impressive growth track record continues with a 15% y-o-y increase in net profit, the 11th consecutive growth year since its listing in 2000.
- Both QL's top and bottom line expanded by double-digit in percentage, with FY11 revenue and net profit rising 20.3% and 18.1% y-o-y to RM1.78 bln and RM124.5 mln respectively. Across the board, all three business divisions (Marine Products Manufacturing, Palm Oil Activities and Integrated Livestock Farming) registered higher sales, as shown in the table below:-

	Y-o-Y			Year to date		
	4QFY11	4QFY10	% Chg	FY11	FY10	% Chg
Revenue						
MPM	112.1	92.8	20.8%	450.4	356.9	26.2%
POA	103.1	92.5	11.5%	332.3	269.4	23.3%
ILF	287.4	227.7	26.2%	994.1	850.1	16.9%
Group	502.6	413.0	21.7%	1,776.8	1,476.4	20.3%
PBT						
MPM	10.5	13.0	-19.4%	63.4	55.4	14.5%
POA	2.3	2.5	-5.8%	5.3	8.0	-33.9%
ILF	27.6	19.4	42.3%	92.1	72.6	26.8%
Group	40.5	34.9	15.9%	160.8	136.0	18.3%
PBT Margin						
MPM	9.4%	14.0%		14.1%	15.5%	
POA	2.3%	2.7%		1.6%	3.0%	
ILF	9.6%	8.5%		9.3%	8.5%	
Group	8.0%	8.5%		9.1%	9.2%	

- The MPM division's turnover and PBT rose 26.2% and 14.5% y-o-y respectively, boosted by healthy catch of fish during the year and strong fishmeal price in 1HFY11. For the POA segment, while turnover increased 23.3% y-o-y on higher CPO prices, PBT fell 33.9% y-o-y as the 'La Nina' weather effect resulted in fewer fresh fruit bunch (FFB) processed and lower oil extraction rate (OER) which offset the jump in revenue. Fortunately, the POA, at this juncture, is the smallest division, contributing only 3.3% of the Group PBT. The ILF business remains the largest contributor to Group turnover and PBT at 56% and 57% respectively. And this segment posted a healthy 16.9% and 26.8% y-o-y growth in turnover and PBT respectively. Management attributed the improved ILF performance to higher sales volume and better margins on its products.
- From the profitability perspective, QL has managed to maintain its margins, with FY11 EBITDA and net profit margins of 12.4% and 7.0% respectively, similar to prior year's performance. On balance sheet strength, net gearing improved to 0.5x at end-March 2011 from 0.6x a year ago, backed by a NTA per share of 92 sen.
- Going forward, QL's prospects remains bright, underpinned by the growth in the domestic market as well as its expansion efforts in overseas. The following table illustrates the progress of its overseas ventures:-

Expansion Activities	Target Commencement	Est. Output
MPM		
Indonesia – Surimi & fishmeal processing plant	Commenced operations on 15 May 2011	Initial annual output of 5,000 mt each of surimi and fishmeal, for export markets.
POA		
Sabah – Biogas plant & plant pelletizing plant	June 2011	40,000 mt of palm oil pellets annually, for export markets.
ILF		
Vietnam – Layer farm	1QFY13	250,000 eggs/day (down from the initial plan of 500,000 eggs/day)
Indonesia – Layer farm	1QFY13	500,000 eggs/day by 1QFY13 and gradually increasing to 1 mln eggs/day by 4QFY13
Indonesia – Breeder farm	2QFY12	1 mln of Day-Old-Chicks per month

- At this juncture, we maintain our FY12 net profit estimate of RM145.8 mln (+17.1% y-o-y). Earnings growth drivers in FY12 include the continued increase in demand from the local market, contribution from its recently acquired associate, Boilermech Sdn Bhd (Boilermech) as well as from its new breeder farm in Indonesia.
- On the corporate front, QL's associate company, Boilermech, successfully debut on the ACE Market of Bursa Malaysia on 5 May 2011, and saw its share price doubles to 66 sen currently from its IPO price of 33 sen. QL's equity stake in Boilermech (at 35% post-listing) is now worth RM59.7 mln vs. its initial investment of RM29.2 mln.
- QL proposed a single-tier final dividend of 4.25 sen, subject to shareholders' approval at the upcoming AGM. The proposed dividend translates into a net yield of 1.3%, and the payout, at 27% of net profit, is consistent with prior years.

Recommendation

We maintain our **Buy** recommendation on QL with an unchanged fair value of **RM3.60**, derived from ascribing a target EV/EBITDA multiple of 14x, which is benchmarked against QL's peer from Thailand, Thai Union Frozen Products PCL (TUF).

We continue to QL for its i) highly capable management who has led the Group's outstanding double-digit revenue and net profit growth over the last decade; ii) improving profitability margin; iii) healthy fundamentals; iv) new income streams from its overseas ventures; and v) potential upside from its biogas and palm pellet projects.

Per Share Data

FYE Mar	FY10	FY11	FY12f
Book Value (RM)	0.64	0.93	1.01
Cash Flow (sen)	18.7	21.4	23.6
Earnings (sen)	13.7	15.7	17.5
Net Dividend (sen)	3.8	4.3	4.7
Payout Ratio (%)	27.5%	27.1%	27.0%
PER (x)	24.2	21.0	18.8
P/Cash Flow (x)	17.7	15.4	14.0
P/Book Value (x)	5.1	3.6	3.3
Dividend Yield (%)	1.1%	1.3%	1.4%
ROE (%)	21.3%	16.9%	17.3%
Net gearing (x)	0.6	0.5	0.5

P&L Summary

FYE Mar (RM mIn)	FY09	FY10	FY11	FY12f
Revenue	1,397.9	1,476.4	1,776.8	1,930.5
EBITDA	159.6	187.9	220.2	254.1
Depreciation	(34.2)	(39.4)	(45.4)	(50.2)
Net Int Exp	(16.0)	(12.9)	(17.5)	(18.7)
Pre-tax Profit	109.9	136.0	160.8	188.1
Eff. Tax Rate	12.0%	15.4%	16.9%	16.5%
Net Profit	89.3	106.9	124.5	145.8
EBITDA Margin (%)	11.4%	12.7%	12.4%	13.2%
Pre-tax Margin (%)	7.9%	9.2%	9.1%	9.7%
Net Margin (%)	6.4%	7.2%	7.0%	7.6%

QL's last 12-month share price chart



Analyst: Nicole Tan Yoke Ping (nicole@zj.com.my)

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

DISCLAIMER

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme. ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 22B, 22nd Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
