

1QFY12 RESULTS UPDATE

25 August 2011

# QL Resources Berhad

Price : RM2.98

Market Capitalization : RM2,479.5 mln

Market : Main Market

Sector : Consumer

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

Recommendation : Buy

## QL: 1QFY12 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year	
	Jun 11	Mar 11	% chg	Jun 10	% chg
Turnover	454.6	502.6	-9.6%	384.5	18.2%
EBITDA	52.8	54.2	-2.5%	47.1	12.1%
Pre-tax profit	36.2	40.5	-10.5%	33.2	9.1%
Tax	(6.3)	(7.1)		(5.0)	
MI	(2.1)	(1.8)		(1.4)	
Net profit	27.8	31.6	-11.9%	26.8	3.7%
EPS (sen) - basic	3.3	3.9	-13.4%	3.4	-2.6%
EBITDA margin	11.6%	10.8%		12.3%	
Pre-tax margin	8.0%	8.0%		8.6%	
Net profit margin	6.1%	6.3%		7.0%	
NTA/share (RM)	0.92				

## 1QFY12 Results Review

- QL's 1QFY12 net profit of RM27.8 mln constitutes 19% of our full year forecast of RM145.8 mln, which we deem to be in line broadly with our expectations as 1Q is seasonally weak with performance generally improve in the remaining quarters. Incidentally, management also noted in the results that 1Q is historically the weakest quarter, contributing an average of 21% to full year earnings.
- 1QFY12 revenue rose 18.2% y-o-y to RM384.5 mln on higher contributions from all 3 business divisions -- Marine Products Manufacturing (MPM), Palm Oil Activities (POA) and Integrated Livestock Farming (ILF). The MPM (+65.6% y-o-y) and ILF (+10.8% y-o-y) segments, in particular, generated the bulk of the revenue growth, as illustrated in the table below:-

	Y-o-Y		
	1QFY12	1QFY11	% Chg
<b>Revenue</b>			
MPM	104.7	103.0	1.6%
POA	114.8	69.4	65.6%
ILF	235.1	212.1	10.8%
<b>Group</b>	<b>454.6</b>	<b>384.5</b>	<b>18.2%</b>
<b>PBT</b>			
MPM	11.2	15.1	-25.7%
POA	7.9	1.1	623.5%
ILF	17.1	17.0	0.6%
<b>Group</b>	<b>36.2</b>	<b>33.2</b>	<b>9.1%</b>
<b>PBT Margin</b>			
MPM	10.7%	14.7%	
POA	6.9%	1.6%	
ILF	7.3%	8.0%	
<b>Group</b>	<b>8.0%</b>	<b>8.6%</b>	

- The MPM division reported a 25.7% y-o-y decline in PBT on a marginal 1.6% y-o-y increase in turnover, principally due to lower fishmeal prices and poor fish landing in Sabah during the quarter under review. To recap, fishmeal prices shot up in 2010 due to decline in supply arising from reduced fish catch in Peru and Chile. The supply has since normalized and fishmeal prices have corrected accordingly. Meanwhile, bad weather in 1QFY12 was the culprit for the poor fish landing in Sabah. We understand from management that the situation has since improved in 2QFY12 with fish landing resumed to the previous level.
- The POA business experienced great improvement in 1QFY12 with revenue and PBT rising 65.6% and 623.5% y-o-y respectively, attributed to i) increase in the average CPO price to RM3,332/mt from RM2,511/mt); ii) 28% increase in FFB processed; and iii) new contribution from its listed-associate, Boilermech Holdings Bhd. Correspondingly, PBT margin for POA expanded to 6.9% from 1.6% in 1QFY11.
- As for the ILF segment, the increase in selling prices of feed raw materials pushed sales higher by 10.8% y-o-y to RM235.1 mln. Nevertheless, PBT only rose by a marginal 0.6% y-o-y due to lower profit margin from the trading activities of feed raw materials.
- Overall, 1QFY12 EBITDA margin weakened to 11.6% from 12.3% a year ago, largely due to the poorer performance of the MPM business, which carries the highest PBT margin. Meanwhile, on balance sheet strength, net gearing rose slightly to 0.6x as at end-June 2011 from 0.5x in March 2011, backed by a NTA per share of 92 sen.
- In the longer term, QL's prospects remain bright, underpinned by the growth in the domestic market as well as its expansion efforts in overseas. Management indicated that its overseas ventures are all on track, with the status as follows:-

Expansion Activities	Target Commencement	Est. Output
<b>MPM</b>		
Indonesia – Surimi & fishmeal processing plant	Commissioned plant in May 2011. Commercial production started in July for surimi, and in August for fishmeal	Initial annual output of 5,000 mt each of surimi and fishmeal, for export markets.
<b>POA</b>		
Sabah – Biogas plant & plant pelletizing plant	June 2011	40,000 mt of palm oil pellets annually, for export markets.
<b>ILF</b>		
Vietnam – Layer farm	1QFY13	250,000 eggs/day in April 2012, gradually increasing to 450,000 eggs/day in June 2012
Indonesia – Layer farm	1QFY13	500,000 eggs/day by April 2012, gradually increasing to 1 mln eggs/day by Jan 2013
Indonesia – Breeder farm	Started operation in July 2011	1.5 mln of Day-Old-Chicks per month by October 2011

- In addition, QL's oil palm plantation venture in Kalimantan, Indonesia, which comprises 20,000 hectares in plantation land, is also ongoing with maiden contribution expected to commence in FY13.
- At this juncture, we maintain our FY12 net profit estimate of RM145.8 mln (+17.1% y-o-y) on the expectation of better performance in the remaining quarters to make up for the slack in 1QFY11. We also expect improvement in EBITDA margin in 2QFY12, driven by better performance from its MPM division. Overall growth drivers in FY12, meanwhile, include continued increase in

demand from the local market, contribution from its recently listed-associate, Boilermech, as well as from its new breeder farm in Indonesia.

## Recommendation

We maintain our **Buy** recommendation on QL with an unchanged fair value of **RM3.60**, derived from ascribing a peer-benchmarked EV/EBITDA multiple of 14x. We continue to like 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) continuation of double-digit earnings growth in FY12 and FY13; 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)	21.8	19.0	17.0
P/Cash Flow (x)	15.9	13.9	12.7
P/Book Value (x)	4.6	3.2	2.9
Dividend Yield (%)	1.3%	1.4%	1.6%
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



**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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