

2QFY12 RESULTS UPDATE

24 November 2011

QL Resources Berhad

Price : RM2.92

Market Capitalization : RM2,429.4 mln

Market : Main Market

Sector : Consumer

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

Recommendation : Buy

QL: 2QFY12 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Sep 11	Jun 11	% chg	Sep 10	% chg	1HFY12	1HFY11	% chg
Turnover	495.2	454.6	8.9%	438.7	12.9%	949.8	823.2	15.4%
EBITDA	63.6	52.8	20.4%	58.3	9.2%	116.5	105.4	10.5%
Pre-tax profit	47.8	36.2	32.0%	42.8	11.6%	84.0	76.0	10.5%
Tax	(9.2)	(6.3)		(6.4)		(15.6)	(11.4)	
MI	(0.5)	(2.1)		(3.4)		(2.6)	(4.8)	
Net profit	38.0	27.8	36.7%	33.0	15.1%	65.8	59.8	10.0%
EPS (sen) - basic	4.6	3.3	36.7%	4.2	8.3%	7.9	7.6	3.5%
EBITDA margin	12.9%	11.6%		13.3%		12.3%	12.8%	
Pre-tax margin	9.6%	8.0%		9.8%		8.8%	9.2%	
Net profit margin	7.7%	6.1%		7.5%		6.9%	7.3%	
NTA/share (RM)	0.92							

2QFY12 Results Review

- QL's 1HFY12 net profit of RM65.8 mln was broadly in line with our expectations, having reached 45% of our full year projection of RM145.8 mln.
- 1HFY12 revenue and net profit were 15.4% and 10.0% higher y-o-y at RM949.8 mln and RM65.8 mln respectively, on improved performance from both the Palm Oil Activities (POA) and the Integrated Livestock Farming (ILF) divisions, moderated by poorer contribution from the Marine Products Manufacturing (MPM) business.
- POA registered a 42.8% y-o-y rise in 1HFY12 revenue, attributed to higher CPO price achieved compared to 1HFY11. Meanwhile, the substantial 432.1% y-o-y jump in POA's PBT was due to contribution from its associate, Boilermech Bhd, in addition to higher CPO price. As a result, PBT margin soared to 5.6% in 1HFY12 from 1.5% a year ago.
- ILF segment remains the largest contributor to both top line and PBT of the Group, having posted 14.8% and 18.1% y-o-y growth in 1HFY12 revenue and PBT respectively. Higher prices of feed raw materials were the reasons behind ILF's double-digit revenue growth, while PBT was further boosted by the inclusion of earnings from Lay Hong Bhd, which is now treated as an associate of QL (previously it was treated as available-for-sale investment). Segmental PBT margin improved marginally to 8.6% in 1HFY12 from 8.4% in 1HFY11.
- While POA and ILF experienced healthy growth, performance of MPM continued to be affected by poor fish landing in Sabah and lower fishmeal margin, which pushed 1HFY12 revenue and PBT lower by 1.1% and 23.6% y-o-y respectively. In tandem with the weaker results, PBT margin eroded to 12.3% from 15.9% in 1HFY11. We note however, the situation is gradually improving with 2QFY12 MPM revenue and PBT rising 8.9% and 39.3% q-o-q respectively. Additionally, management also stated that fish landing in 3QFY12 has been picking up pace.

	Y-o-Y			Year to date		
	2QFY12	2QFY11	% Chg	1HFY12	1HFY11	% Chg
Revenue						
MPM	114.0	118.1	-3.5%	218.7	221.1	-1.1%
POA	88.1	72.8	21.0%	202.9	142.1	42.8%
ILF	293.1	247.9	18.3%	528.2	460.0	14.8%
Group	495.2	438.7	12.9%	949.8	823.2	15.4%
PBT						
MPM	15.6	20.1	-22.1%	26.9	35.2	-23.6%
POA	3.5	1.1	235.2%	11.4	2.2	432.1%
ILF	28.6	21.7	31.8%	45.7	38.6	18.1%
Group	47.8	42.8	11.6%	84.0	76.0	10.5%
PBT Margin						
MPM	13.7%	17.0%		12.3%	15.9%	
POA	4.0%	1.5%		5.6%	1.5%	
ILF	9.7%	8.7%		8.6%	8.4%	
Group	9.6%	9.8%		8.8%	9.2%	

- Overall, 1HFY12 EBITDA margin weakened a tad to 12.3% from 12.8% a year ago, pulled down by the poor performance of the MPM. Meanwhile, on balance sheet strength, net gearing remained stable at 0.6x as at end-September 2011, supported by a NTA per share of 92 sen.
- We view the issues in the MPM division as a temporary setback, and maintain our positive outlook on QL's prospects in the longer term. Contributions from its overseas expansions are gradually trickling in over the next twelve months. Its surimi and fishmeal processing plant in Indonesia has already commenced production with an initial annual output of 5,000 mt each. The Group's breeder farm in Indonesia is also in operations and is currently producing some 1.5 mln Day-Old-Chicks. We expect to see maiden contributions from these projects, together with its oil palm plantation in Kalimantan, towards the end of FY12.
- We maintain our FY12 net profit estimate of RM145.8 mln (+17.1% y-o-y) for now, as we expect 2HFY12 performance to be more robust.

Recommendation

We reiterate 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	0.88	1.01
Cash Flow (sen)	18.7	21.7	23.1
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)	21.4	18.6	16.7
P/Cash Flow (x)	15.6	13.5	12.6
P/Book Value (x)	4.5	3.3	2.9
Dividend Yield (%)	1.3%	1.5%	1.6%
ROE (%)	21.3%	16.9%	17.3%
Net gearing (x)	0.6	0.5	0.6

P&L Summary

FYE Mar (RM mIn)	FY10	FY11	FY12f	FY13f
Revenue	1,476.4	1,777.1	1,930.5	2,200.8
EBITDA	187.9	222.1	247.0	274.3
Depreciation	(39.4)	(47.5)	(46.3)	(53.3)
Net Int Exp	(12.9)	(17.3)	(18.5)	(19.9)
Pre-tax Profit	136.0	160.8	188.1	209.1
Eff. Tax Rate	15.4%	16.8%	16.5%	17.0%
Net Profit	106.9	124.6	145.8	165.5
EBITDA Margin (%)	12.7%	12.5%	12.8%	12.5%
Pre-tax Margin (%)	9.2%	9.0%	9.7%	9.5%
Net Margin (%)	7.2%	7.0%	7.6%	7.5%

QL's last 12-month share price chart



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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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