

# Malaysia's leading agro-food player

QL RESOURCES BERHAD

ANNUAL GENERAL MEETING

25<sup>TH</sup> AUGUST 2017



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## Performance Review : FY17 vs FY16



Summarised income statement			
RM'million	FY2017	FY2016	% change
Revenue	3,012	2,853	+4.0%
Profit before tax (PBT % margin)	260 (9%)	249 (9%)	+4.4%
Profit after tax (PAT % margin)	196 (6.5%)	192 (6.7%)	+2.0%

# FY2017 Performance Review: Marine Products Manufacturing

## Marine Products Manufacturing

- ASEAN's leading marine products manufacturer
- Produced more than 130k mt of marine products per annum
- Sales - FY17: RM877m vs FY16: RM840m (Up 4%)
- PBT - FY17: RM146m vs FY16: RM166m (Down 12%)
- During the year under review, despite MPM division's turnover growth was affected by post El-Nino low fish cycle in Q4, sales was up 4%.
- Earnings decreased 12% due to exceptional strong earnings in FY16 caused by Ringgit depreciation in the preceding year.

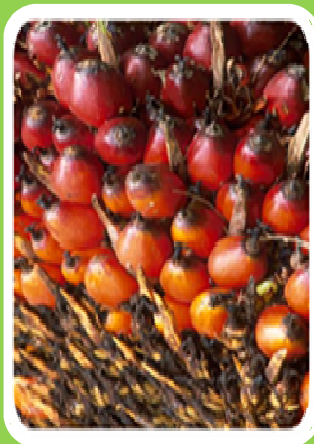


## Integrated Livestock Farming



- Asean's leading poultry egg producer
- 4.6m eggs per day, 1 million mt of raw material feed per year
- Sales – FY17: RM1.78b vs FY16:RM1.70b (Up 4%)
- PBT – FY17: RM88.9m vs FY16: RM71.0m (Up 25%)
- For the year under review, the ILF division performance was adversely affected by severe over supply of egg in Peninsular market & weak international market.
- However, higher contribution from regional and East Malaysia farming operations as well as improved broiler farming efficiency in East Malaysia division help to improve ILF division performance

## Palm Oil Activities



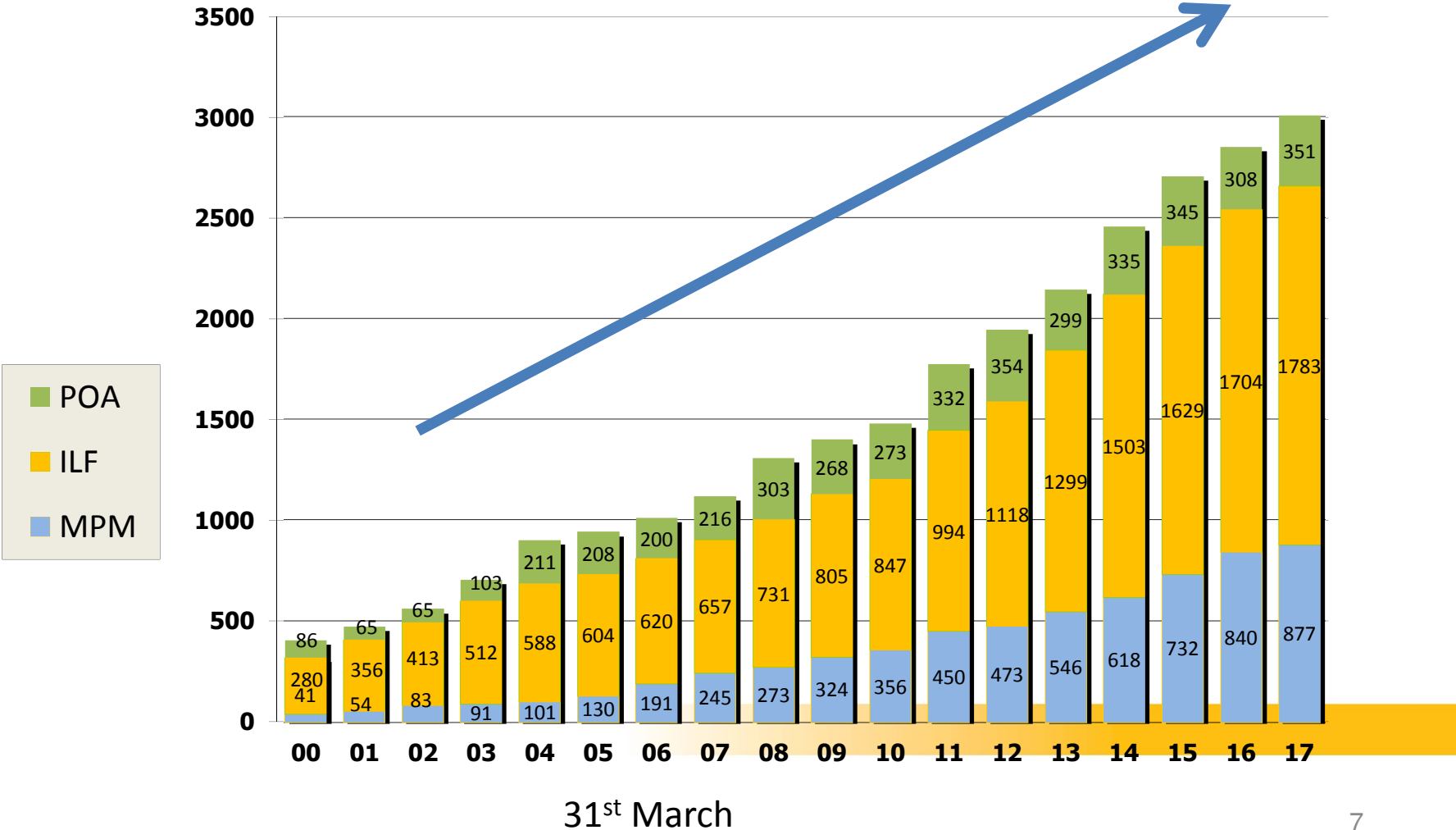
- Plantation, CPO Milling & Palm Biomass
- 16.2k HA plantation land, 10.2k HA planted 9.2k HA mature), remaining 5k mt to be planted subject to permit
- 2 CPO mills in Tawau, 1 CPO mill in Tarakan (all with 45MT/hour capacity)
- Sales – FY17:RM351m vs FY16:RM308m (Up 14%)
- PBT – FY17:RM24.9m vs FY16: RM11.6m (Up 114%)
- POA's sales increased 14% mainly due to higher CPO price as well as higher volume FFB produced & processed by Indonesian unit;
- Earnings increased significantly due to strong recovery of CPO price in the second half of the year in reaction to the 2016 El Nino weather phenomenon despite lower contribution from Associate (Boilermech)

# Past Financial Trend & Summary

Turnover Track Record since IPO (RM million)



**CAGR FY2000-FY2017 = 12%**

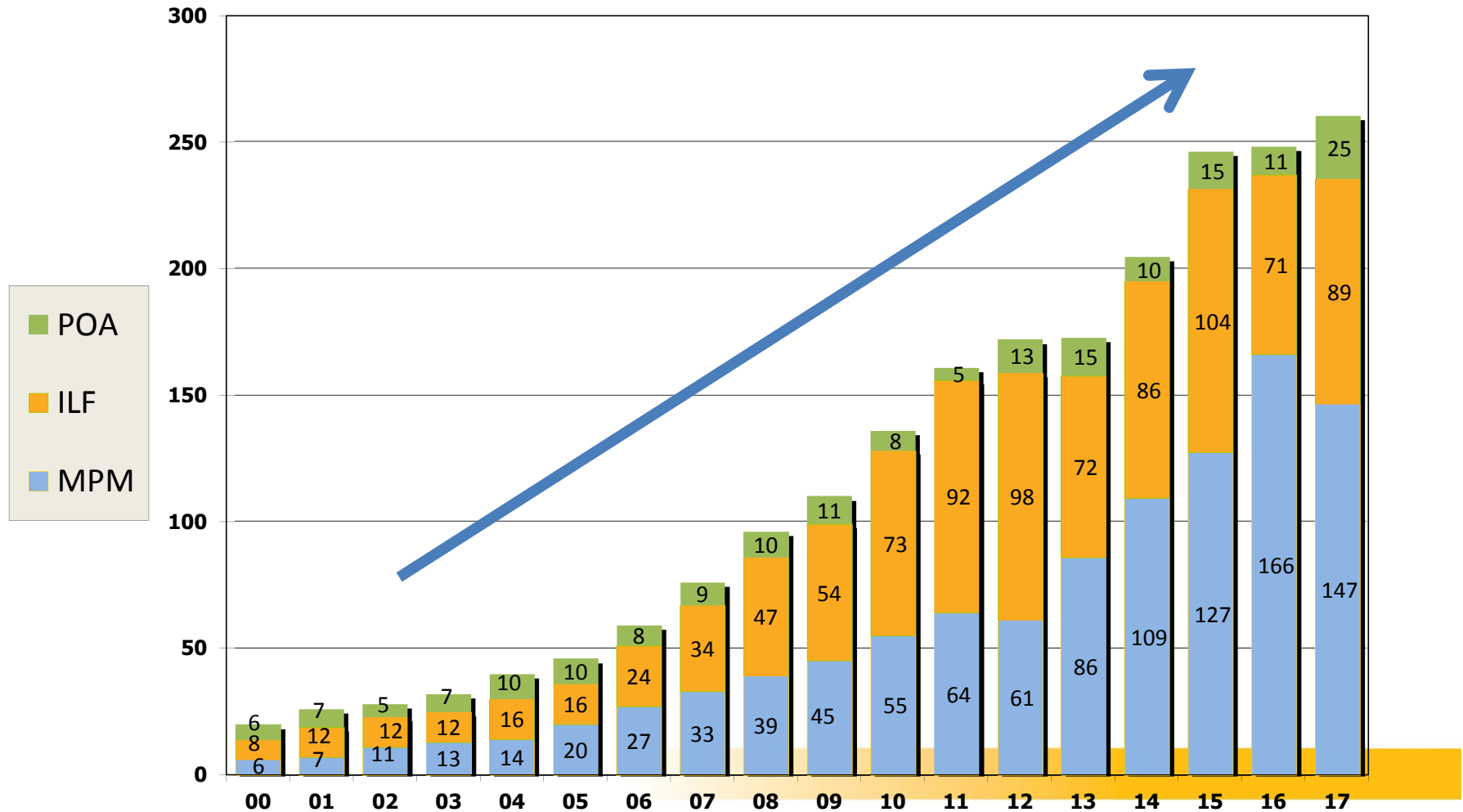


# Past Financial Trend & Summary

Earnings (PBT) Track Record since IPO (RM million)



**CAGR FY2000-2017=17%**

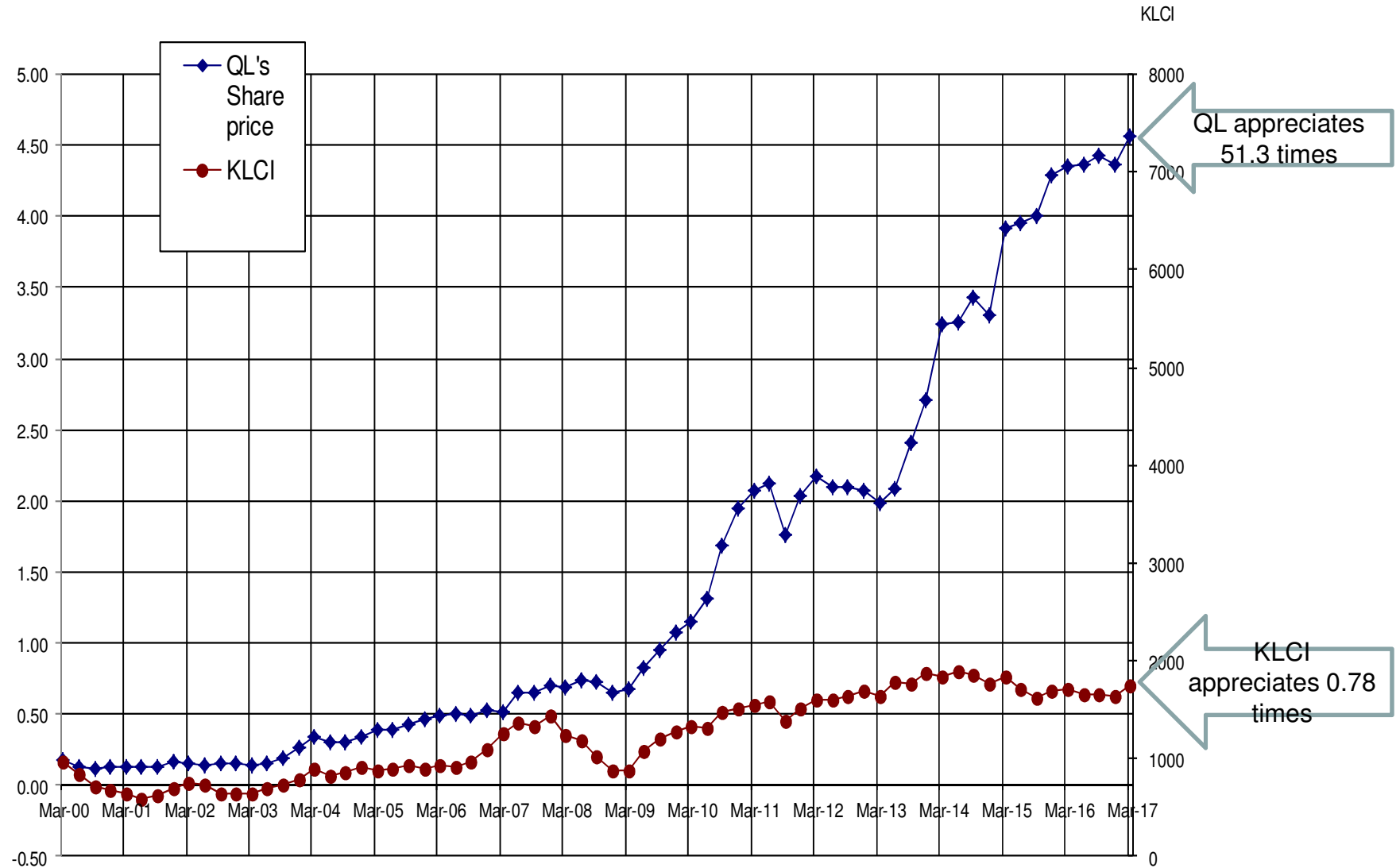


31<sup>st</sup> March



# Past Financial Trend & Summary

## QL Share Price & KLCI appreciation chart – March 2000 to March 2017



# Past Financial Trend & Summary

## 5 Years Summarised Financial Ratios



	YE 2013	YE 2014	YE 2015	YE 2016	YE 2017
Current Ratios	1.45	1.62	1.51	1.45	1.33
Debtors Day	37 days	32 days	34 days	36 days	37 days
Inventory Days	47 days	40 days	55 days	59 days	59 days
Long Term Debts to Equity	47%	21%	22%	18%	17%
Dividend Payout	28%	28%	28%	28%	28%
Total Assets	RM2.0b	RM2.24b	RM2.58b	RM2.81b	RM3.2b
Market Capitalisation	At 31.3.2013 RM2.5b	At 31.3.2014 RM4.04b	At 31.3.2015 RM4.99b	At 31.3.2016 RM5.3b	At 31.3.2017 RM6.0b

# Significant Operational Highlights for FY2017



- Marine Products Manufacturing activities

- New plant specialising in frozen surimi-based products in Kulai is now in the next phase of migrating operations from its current factory in Johor Bahru.
- A new RM40-million chilled surimi-based product plant being built in Hutan Melintang is making steady progress in time for completion in FY2018. This new facility will double the current capacity of 12,000 metric tonnes per year.
- Also on-going is the construction of another new factory dedicated to processing frozen products that is scheduled for completion in FY2018 as well, at an investment of RM40 million.
- Construction of the RM25 million frozen marine products processing plant in Tuaran, Sabah has been completed. This new plant was immediately commissioned and put to good use, processing prawns for export in particular to Australia and China.

# Significant Operational Highlights for FY2017



- **Integrated Livestock Farming Activities**
  - Plans are being put in place to increase production of broiler feed which has higher margins. At the same time, the new 10,000 metric tonnes per 12-hour shift feed mill in Kuching will be completed on schedule by FY2018. In the pipeline is the expansion of the existing feed mill in Kota Kinabalu to double its current capacity.
  - On the broiler integration activity front, QL expanded operations in Indonesia through an additional investment of RM15 million for new commercial broiler farm houses, to increase our monthly broiler capacity. The new third broiler farm in Kota Kinabalu was completed on schedule, while work on the new poultry processing plant in Tawau has commenced.
  - Building of the new integrated layer farming project in Raub is ongoing with completion slated for the end of FY2018. With an earmarked investment of RM50 million, this new layer farm will have a capacity of 500,000 eggs per day upon completion of its first phase.

# Significant Operational Highlights for FY2017



- Palm Oil Activities

- FY2017 was a good year for POA as CPO prices recovered strongly in the second half of the year in reaction to the 2016 El Nino weather phenomenon. While the effects of El Nino from the previous years persisted, the profile of our plantation especially those in Indonesia, played in our favour as the younger trees were able to better withstand the dryness. As a result, the oil palm trees made good recovery to produce more fresh fruit bunch (FFB). FFB production in FY2017 reached almost 100,000 metric tonnes.
- This increased harvest in turn gave rise to increased palm oil processing activities at the mills. The mills were also busier with more processing activities, translating to improved performance.
- With the recovery of the CPO prices, the pessimism shrouding the industry is also slowly being lifted and this augurs well for Boilermech Holdings Berhad.

# Significant Operational Highlights for FY2017

- FamilyMart Convenience Stores

- The signing of franchise agreement with FamilyMart in April 2016 is QL's strategic plan to expand into convenience-stores chain.
- Since 1st store opening in November 2016, we have opened 19th CVS in the Klang Valley. We are targeting to have 30 CVS by 31.3.2018 .
- Targets 300 stores in 5 years
- Average store performance is up to expectation in terms of key stores operating KPIs such as gross margin, average ticket count and ticket size.

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changing concept to  
Malaysia



## Summary of 1st quarter earnings results: Q1FY18 vs Q1FY17



RM'million	Qtr 30.6.17	Qtr 30.6.2016	% change
Revenue	778.4	669.5	+16%
Results from operating activities	88.3	85.5	+3%
Profit before tax (PBT % margin)	50.3	52.7	-5%
Profit after tax after MI (PAT % margin)	42.2	42.1	+0.2%

For details review, please refer to our quarterly report

# Overall outlook for FY2018

- QL is in consumer staples market where demand is less affected by market and financial condition. With domestic consumer sentiments that remain bearish and a lethargic growth for Malaysia and other economies, FY2018 will continue to be a challenging year.
- Sectors outlook :
  - MPM outlook is generally challenging:
    - Strengthening Ringgit may affect prospects for more export
    - We will continue to grow for QL's products through new capacity expansion, innovative new product range, new market, brand and price leadership
    - Lower fish landing cycle may also affect FY2018 performance
  - ILF activities outlook is mix:
    - Our new commercial feed mill in Indonesia will continue to bring greater feed mill quantity and improvement in FY2018.
    - Broiler farming efficiency has also improved significantly in the last 2 years and will continue to do so in FY2018.
    - Egg prices are anticipated to reflect different consumption demands in the region, likely to give mixed fortune. Prolong egg prices consolidation in Peninsular due to domestic over supply and poor international prices will affect ILF contribution in H1FY2018.
    - Similarly entrant of new players in feed raw material business will also lead to stiffer competition.



## Overall outlook for FY2018 -continue



- Palm Oil activities is expected to further improve in FY18:
  - Growing palm maturity from Indonesia plantation will provide positive contribution in the coming financial year. We forecast CPO price in the coming financial year and to be between RM 2,400 to RM 2,600 per metric tonne. This will be positive for our plantation.
  - Contribution from our associate Boilermech Holdings Berhad is expected to recover in FY2018 as a result of improvement in CPO price even though recovery is still slow in Q1FY18.
  - However excessive rainfall in Indonesia plantation unit may affect OER (Oil extraction rate).
- Overall for the Group, barring unforeseen events, we remain cautiously optimistic of another year of growth.
- This year is QL's 30<sup>th</sup> anniversary and we are proud of our 30 year continuous growth track record. This year, we have paid a special one-off 3.0 sen interim dividend and proposed a 30% bonus issue as a token of appreciation and to reward our loyal shareholders who have supported us through the years. Thank you for your support.

# Thank you

# Questions from MSWG

In the Interest of minority shareholders and all other stakeholders of the Company, we would like to raise the following issue at the 20th Annual General Meeting of QL Resources Berhad

Q1.

In relation to the Group's Integrated Livestock. Farming business in Indonesia and Vietnam, what is QL's market share in these 2 countries?

**Answer:**

QL's market share in Vietnam egg market is about 3% while in Indonesia its about 1%.

Q2.

We noted on page 21 of the Annual Report, the new feed mill in Indonesia has begun its operation.

- (a) What is the estimated timeframe for the investment in the new feed mill in Indonesia to breakeven?
- (b) What is the current capacity of the new feed mill in Indonesia?

Answer:

We have started to breakeven in Q4FY17 last financial year. Current capacity is 24,000 mt per month (3 shifts of 8 hours per shift)

Q3.

It was reported on page 22 of the Annual Report that QL has opened 14 FamilyMart stores as at 7 July 2017, in the Klang Valley and the immediate focus was to fill the gap in the Klang Valley before venturing into other territories.

- (a) Could the Board provide the estimated number of FamilyMart stores to be opened for FY2018
- (b) What is the estimated timeframe to open FamilyMart stores outside of the Klang Valley

**Answer:**

We target to have 30 stores by March2018.

We have yet to decide the timeframe to open stores outside Klang Valley

Q4.

Under the Sustainability Statement on page 54 of the Annual Report, we noted that out of a total of 18 accidents in QL Marine units, 6 accidents were categorised as major.

(a) What is the industry benchmark in relation to industrial accidents?

**Answer:**

For the period of January - July 2017, there were a total of 1238 accident cases reported to Department of Occupational Safety & Health Malaysia for the Manufacturing sector. As for QL, we have about 1700 employees in the selected marine units, 6 major accidents is equivalent to about 0.3% of work force, which we consider is very low when compared to the industry.

Was there any regulatory actions taken against the Company on these incidents?

**Answer:**

No regulatory actions were taken against the Company as 6 major accidents are reported to DOSH for the purpose of insurance claims..

(c) Is there any financial impact to the Company?

Answer:

As the total number of cases (18) throughout the year represented less than 1% of the selected QL Marine unit's total workforce, the operational impact of workplace accidents for the year was negligible hence no financial impact had occurred.

(d) What measures have been taken to address and mitigate the reoccurrence of these incidents?

Answer:

Most of the accidents occurred due to mishandling of machineries. In light of this, QL Marine placed higher importance on training employees to operate machineries in the prescribed manner. Besides that, special emphasis was given on ensuring employees equipped themselves with proper personal protective equipment e.g. gloves, boots, hair caps etc.



Q5.

Under Note 21 on page 114 of the Annual Report it was reported that the Group's non-audit fees by KPMG Malaysia increased by approximately 124% from RM146,000 in FY2016 to RM327,000 in FY2017.

- What is the nature of the non audit fees?

**Answer:**

The increase is mainly due to fee for assisting QL with Sustainability Report framework.

Q6.

We noted under Note 21 on page 114, the Group's impairment loss on receivables increased by approximately 295% from RM 1.4 million in FY2016 to RM5.5 million in FY2017.

(a) What is the nature of the impairment loss on receivables?

**Answer:**

These are impairment loss provision for trade receivables of slow moving debts.

# Strategic & Financial Matters - continue



Q6 (b)

Could the Board provide the breakdown and the reasons for the increase?

**Answer:**

Increase in impairment loss is mainly due to ILF division's Kuching unit having receivables that are long outstanding with slow repayments.

Impairment loss on receivables (RM'000)	FY17	FY16	Changes
ILF division	4835	1140	3695
MPM division	606	260	346
POA division	59	0	59
<b>Total</b>	<b>5500</b>	<b>1400</b>	<b>4100</b>

# Corporate Governance Matter

Q1.

We noted that YM Tengku Dato' Zainal Rashid Bin Tengku Mahmood and Prof Datin Paduka Dr. Aini Binti Ideris attended only 4 out of 6 Board meetings and 4 out of 5 Audit Committee meetings during the financial year.

What were the reasons for them not being able to attend these meetings during the financial year?

Answer:

YM Tengku Dato' Zainal Rashid Bin Tengku Mahmood was on medical leave on both occasions.

Datin Paduka Dr. Aini Binti Ideris had to chair PERMATA International Conference meeting (where Datin Paduka Seri Rosmah was in attendance) in May 2016 and in November 2016, she has to attend her daughter's graduation in Scotland.

Q2.

We noted that YM Tengku Dato' Zainal Rashid Bin Tengku Mahmood and Chieng Ing Huong, Eddy, the Independent Non-Executive Directors (INED) have served on the Board for more than 15 years, respectively.

We hope the Board would look Into the Succession Planning taking cognisance of the requirements under Practice 4.2 of the Malaysian Corporate Governance Code 2017 (MCCG2017) relating to Independent Directors who have served the Board for more than nine years.

**Answer:**

**We are currently looking at restructuring the Board in order to comply with the MCCG2017.**

Q3.

In relation to QL's Statement on Risk Management and Internal Control, we noted that the Risk Management Committee ("RMC") was chaired by the Group Managing Director and consist of the Executive Directors of the Company.

Could the Board explain the rationale for having only executive directors in the RMC and how effective is the RMC?

Answer:

We will restructure our RMC to comply with the MCCG2017.

Q4.

We noted on page 42 of the Statement on Risk Management and Internal Control of the Annual Report, the Board has received assurance from the Executive Committee that the Group's risk management and internal control system is adequate and operates effectively, in all material aspects.

There was no mentioned of the Chief Financial Officer providing such assurance to the Board as required by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers issued by the Bursa Malaysia Securities Berhad. Please explain.

**Answer:**

QL's executive committee members consist of various Heads of Business Units including Finance Director which in our opinion gives a stronger assurance than just Chief Financial Officer.

# Thank you