

Leong Hup International Berhad

(6633 | LHIB MK) Main | Consumer Products & Services | Agricultural Products

Better Margin in Indonesia Operation for 2QFY23

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Better margin on the back of higher ASP for certain products in 2QFY23**
- **Indonesia operation improved significantly on a quarterly basis**
- **Lower core PATANCI in 1HFY23**
- **Maintain NEUTRAL with an unchanged TP of RM0.50**

Within expectation. Leong Hup International (“LHIB”) reported a core PATANCI of RM93.1m for 1HFY23, after excluding a one-time off items of RM5.9m. The core earnings met our full-year FY23 projections but exceeded consensus estimates, accounting for 51% of our forecast and 59% of street estimates. No dividend was declared during the quarter.

Better margin on the back of higher ASP for certain products in 2QFY23. On yearly basis, the revenue rose +6.2%yoy to RM2.4b in 2QFY23. This was primarily due to higher sales across all three segments: livestock & poultry, feedmill, and others. Meanwhile, operating profit margin improved by +3.3ppt yoy to 6.6%, thanks to higher ASP for Day-Old Chicks (“DOC”) and eggs in Malaysia, as well as DOC in Indonesia, which contributed to margin enhancement. As such, core PATANCI up +40.8%yoy to RM76.3m in 2QFY23.

Indonesia operation improved significantly on a quarterly basis. On quarterly basis, revenue recorded robust growth of +9.9%qoq to RM2.42b due to impressive performance of the Indonesia and Vietnam operations. Specifically, the Indonesia operation benefited from improved sales in (1) DOC due to higher ASP and sales volume, (2) livestock feed due to higher ASP and sales volume, and (3) broiler chickens due to increased ASP. Meanwhile, the Vietnam operation was supported by better ASPs and sales volume of livestock feed and broiler chickens. Core PATANCI more than tripled from RM16.7m in 1QFY23 to RM76.3m, primarily due to higher revenue and improved margin from the Indonesia operation.

Lower core PATANCI in 1HFY23. The revenue increased by +5.8%yoy to RM4.6b in 1HFY23. This was mainly due to (1) improved sales in the livestock and poultry segments from Malaysia and Philippines operations, and (2) better performance in the feedmill segment from Vietnam, Philippines, and Indonesia operations. Operating profit improve slightly by +1.9ppt yoy to 5.1% in 1HFY23, mainly driven by higher feedmill ASPs from Vietnam, Philippines, and Indonesia operations, which more than offset margin compression in the livestock segment due to higher input costs. The core PATANCI dropped by -8.6%yoy to RM93.1m after excluding the one-time items (a greater amount of government subsidies received) and hence reflects the impact of higher raw material and input costs in 1HFY23.

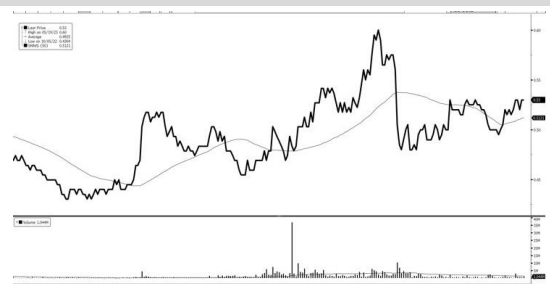
Maintain NEUTRAL

Unchanged Target Price: RM0.50

RETURN STATISTICS

| | |
|---|-------|
| Price @ 29 th August 2023 (RM) | 0.53 |
| Expected share price return (%) | -6.35 |
| Expected dividend yield (%) | 2.84 |
| Expected total return (%) | -3.51 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | 1.0 | 0.7 |
| 3 months | 6.0 | -11.5 |
| 12 months | 9.3 | 13.6 |

INVESTMENT STATISTICS

| FYE Dec | 2023F | 2024F | 2025F |
|-------------------------|--------------|--------------|--------------|
| Revenue | 9,338.8 | 9,753.9 | 10,139.2 |
| EBITDA | 689.6 | 756.6 | 866.0 |
| Profit before tax (PBT) | 245.4 | 292.3 | 352.4 |
| Core PATANCI | 183.3 | 218.3 | 263.2 |
| Core EPS (sen) | 5.0 | 6.0 | 7.2 |
| DPS (sen) | 1.5 | 1.8 | 2.2 |
| Dividend Yield (%) | 2.8 | 3.4 | 4.1 |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,454.44 |
| Issue shares (m) | 3650.00 |
| Estimated free float (%) | 15.40 |
| Market Capitalisation (RM'm) | 1,934.50 |
| 52-wk price range | RM0.44-RM0.61 |
| 3-mth average daily volume (m) | 1.45 |
| 3-mth average daily value (RM'm) | 0.74 |
| Top Shareholders (%) | |
| Emerging Glory Sdn Bhd | 52.80 |
| CLARINDEN INV PTE | 8.56 |
| Amanah Saham Nasional Bhd | 7.07 |

Analyst

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Maintain NEUTRAL with an unchanged TP of RM0.50. Given that the earnings meet our estimation, we make no changes to our FY23F-25F earnings forecast. Our **TP** is based on a FY24F PER of 8.3x (above it -1SD 3-year historical PE) that is pegged to FY24F EPS of 6.0sen. We maintain a cautious outlook for LHIB's FY23 due to ongoing margin compression caused by retail price ceilings for chicken and eggs in Malaysia, as well as higher input costs. Meanwhile, we are cautiously optimistic about the near-term outlook for its Indonesia operation, where demand might be impacted by various global and local challenges. On a positive note, the company's vertical integration of poultry, eggs, and livestock feed, coupled with geographic diversification, can partially mitigate potential downsides. Hence, we maintain our **NEUTRAL** call. **Downside risks** are (1) a substantial increase in raw material costs and (2) adverse regulatory changes (such as price controls or culling programs). **Re-rating catalysts** are (1) a significant drop in raw material costs and (2) favorable regulatory changes (such as the removal of price ceilings and subsidies in Malaysia).



Leong Hup International: 2QFY23 Results Summary

| FYE Dec (RM'm) | Quarterly results | | | | | Cumulative results | | |
|--|-------------------|-------------|-------------|--------------|--------------|--------------------|--------------|--------------|
| | 2QFY23 | 1QFY23 | 2QFY22 | YoY (%) | QoQ (%) | 1HFY23 | 1HFY22 | YoY (%) |
| Revenue | 2,413.9 | 2,196.2 | 2,272.2 | 6.2 | 9.9 | 4,610.1 | 4,359.4 | 5.8 |
| Other income | 48.5 | 62.6 | 48.3 | 0.4 | (22.5) | 111.1 | 58.6 | 89.4 |
| Operating expenses | (2,303.2) | (2,183.8) | (2,245.2) | 2.6 | 5.5 | (4,487.0) | (4,281.5) | 4.8 |
| Operating profit (EBIT) | 159.2 | 75.0 | 75.4 | 111.2 | 112.4 | 234.2 | 136.5 | 71.6 |
| Net finance income/(cost) | (45.7) | (44.7) | (31.6) | 44.8 | 2.2 | (90.4) | (60.8) | 48.7 |
| Profit before Associates & JV | 113.5 | 30.2 | 43.8 | 159.0 | 275.3 | 143.8 | 75.7 | 90.0 |
| Profit before tax (PBT) | 113.6 | 30.3 | 43.9 | 158.8 | 275.3 | 143.9 | 75.9 | 89.7 |
| Profit After tax (PAT) | 90.8 | 17.0 | 33.4 | 171.6 | 435.2 | 107.7 | 57.4 | 87.8 |
| PATANCI | 65.0 | 22.1 | 40.5 | 60.5 | 193.7 | 87.2 | 60.9 | 43.0 |
| Core PATANCI | 76.3 | 16.7 | 54.2 | 40.8 | 356.3 | 93.1 | 101.8 | (8.6) |
| Basic EPS (sen) | 1.8 | 0.6 | 1.1 | 61.8 | 191.8 | 2.4 | 1.7 | 40.6 |
| DPS (sen) | 0.0 | 1.8 | 0.0 | n.m. | (100.0) | 1.8 | 0.0 | n.m. |
| Growth & Margin (%) | | | | + / (-) ppts | + / (-) ppts | | | + / (-) ppts |
| Operating Profit Margin | 6.6 | 3.4 | 3.3 | 3.3 | 3.2 | 5.1 | 3.1 | 1.9 |
| PBT Margin | 4.7 | 1.4 | 1.9 | 2.8 | 3.3 | 3.1 | 1.7 | 1.4 |
| Core PATANCI Margin | 3.2 | 0.8 | 2.4 | 0.8 | 2.4 | 2.0 | 2.3 | (0.3) |
| Ratios & Valuation | | | | + / (-) ppts | + / (-) ppts | | | + / (-) ppts |
| Net debt/total equity (%) | 1.3 | 1.2 | 1.3 | (0.0) | 0.0 | 1.3 | 1.3 | (0.0) |
| Effective tax rate (%) | 20.1 | 44.0 | 23.9 | (3.8) | (23.9) | 25.1 | 24.4 | 0.8 |

Source: Company, MIDFR

Leong Hup International: Breakdown by operating segment

| FYE Dec (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---------------------------------|-------------------|----------------|----------------|-------------|-------------|--------------------|----------------|-------------|
| | 2QFY23 | 1QFY23 | 2QFY22 | YoY (%) | QoQ (%) | 1HFY23 | 1HFY22 | YoY (%) |
| Revenue (External): | | | | | | | | |
| Livestock and poultry | 1,323.1 | 1,199.4 | 1,270.1 | 4.2 | 10.3 | 2,522.5 | 2,422.1 | 4.1 |
| Feedmill | 1,087.5 | 993.5 | 999.9 | 8.8 | 9.5 | 2,081.0 | 1,931.7 | 7.7 |
| Others | 3.2 | 3.3 | 2.2 | 47.6 | (1.6) | 6.5 | 5.6 | 16.9 |
| Total | 2,413.9 | 2,196.2 | 2,272.2 | 6.2 | 9.9 | 4,610.1 | 4,359.4 | 5.8 |
| Operating Profit: | | | | | | | | |
| Livestock and poultry | 84.8 | 5.9 | 57.1 | 48.5 | 1,332.9 | 90.7 | 91.9 | (1.3) |
| Feedmill | 142.5 | 149.2 | 93.9 | 51.8 | (4.5) | 291.7 | 194.6 | 49.9 |
| Others | 11.3 | (2.7) | (0.7) | (1,720.1) | (521.3) | 8.6 | (1.3) | (765.3) |
| Total | 238.7 | 152.4 | 150.3 | 58.8 | 56.6 | 391.1 | 285.2 | 37.1 |
| Operating profit margin: | | | | | | | | |
| Livestock and poultry | 6.4 | 0.5 | 4.5 | 1.9 | 5.9 | 3.6 | 3.8 | (0.2) |
| Feedmill | 13.1 | 15.0 | 9.4 | 3.7 | (1.9) | 14.0 | 10.1 | 3.9 |
| Others | 349.3 | (81.6) | (31.8) | 381.1 | 430.9 | 132.1 | (23.2) | 155.3 |
| Total | 9.9 | 6.9 | 6.6 | 3.3 | 2.9 | 8.5 | 6.5 | 1.9 |

Source: Company, MIDFR

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023F | 2024F | 2025F |
|--|----------------|----------------|----------------|----------------|-----------------|
| Revenue | 7,153.5 | 9,042.7 | 9,338.8 | 9,753.9 | 10,139.2 |
| Change in biological assets | 42.8 | 7.9 | 8.2 | 8.4 | 8.7 |
| Change in closing inventories | 228.6 | 29.6 | 30.7 | 31.4 | 32.4 |
| Purchase of inventories and livestock | (5,514.4) | (6,865.4) | (7,019.3) | (7,228.6) | (7,401.4) |
| Gross Profit | 1,910.5 | 2,214.8 | 2,358.5 | 2,565.1 | 2,778.8 |
| Other Income | 39.1 | 188.8 | 86.9 | 90.7 | 94.3 |
| Employee benefit costs including Directors' remuneration | (645.8) | (677.4) | (727.5) | (786.5) | (829.8) |
| Utilities costs | (185.6) | (221.4) | (256.1) | (299.5) | (326.9) |
| Repair and maintenance | (80.0) | (91.2) | (101.2) | (110.9) | (118.8) |
| Transportation expenses | (149.9) | (181.4) | (191.1) | (203.6) | (215.8) |
| Other operating expenses | (366.7) | (467.0) | (479.9) | (498.7) | (515.8) |
| EBIT | 237.9 | 464.0 | 413.9 | 464.1 | 532.9 |
| Profit before tax (PBT) | 140.3 | 326.6 | 245.4 | 292.3 | 352.4 |
| Profit After tax (PAT) | 95.9 | 243.9 | 183.3 | 218.3 | 263.2 |
| Core PATANCI | 78.8 | 243.9 | 183.3 | 218.3 | 263.2 |
| Core EPS (sen) | 2.2 | 6.7 | 5.0 | 6.0 | 7.2 |
| DPS (sen) | 0.7 | 1.8 | 1.5 | 1.8 | 2.2 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023F | 2024F | 2025F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Property, plant and equipment | 2,770.3 | 2,784.5 | 2,671.1 | 2,578.8 | 2,496.0 |
| Total Non-current assets | 3,411.2 | 3,431.8 | 3,327.7 | 3,250.3 | 3,167.4 |
| Inventories | 973.5 | 1,025.9 | 1,159.2 | 1,184.3 | 1,181.3 |
| ST - Trade and other receivables | 740.1 | 823.2 | 915.7 | 951.9 | 969.7 |
| Cash and cash equivalents | 764.6 | 840.3 | 824.4 | 852.4 | 877.3 |
| Total current assets | 2,918.6 | 3,160.4 | 3,467.9 | 3,546.4 | 3,589.8 |
| Total Assets | 6,329.8 | 6,592.2 | 6,795.7 | 6,796.7 | 6,757.2 |
| Total Equity | 2,359.8 | 2,589.6 | 2,793.0 | 2,732.1 | 2,513.0 |
| LT Loans and borrowings | 1,054.6 | 1,046.4 | 1,015.0 | 1,035.3 | 1,087.1 |
| Total Non-current liabilities | 1,321.4 | 1,339.5 | 1,317.0 | 1,349.5 | 1,412.7 |
| ST Trade and other payables | 534.7 | 629.8 | 710.4 | 699.1 | 715.3 |
| ST Loans and borrowings | 2,070.1 | 1,986.3 | 1,926.7 | 1,965.2 | 2,063.5 |
| Total Current Liabilities | 2,648.5 | 2,663.1 | 2,685.7 | 2,715.1 | 2,831.5 |
| Total Liabilities | 3,970.0 | 4,002.6 | 4,002.7 | 4,064.6 | 4,244.2 |

| Cash Flow (RM'm) | 2021A | 2022A | 2023F | 2024F | 2025F |
|----------------------------|---------------|---------------|--------------|--------------|--------------|
| Pretax profit | 140.3 | 326.6 | 245.4 | 292.3 | 352.4 |
| Cash flow from operations | 44.2 | 620.9 | 786.0 | 453.7 | 431.5 |
| Cash flow from investing | (392.6) | (277.6) | (195.3) | (236.9) | (287.6) |
| Cash flow from financing | 264.3 | (362.1) | (322.3) | (188.8) | (119.2) |
| Net cash flow | (84.1) | (18.8) | 268.4 | 28.0 | 24.8 |
| (+/-) Adjustments | 13.4 | (0.3) | 0.0 | 0.0 | 0.0 |
| Net cash/(debt) b/f | 645.8 | 575.1 | 556.1 | 824.4 | 852.4 |
| Net cash/(debt) c/f | 575.1 | 556.1 | 824.4 | 852.4 | 877.3 |

| Key Metrics | 2021A | 2022A | 2023F | 2024F | 2025F |
|---------------------------|-------|-------|-------|-------|-------|
| Effective tax rate (%) | 31.7 | 25.3 | 25.3 | 25.3 | 25.3 |
| PER (x) | 22.6 | 8.8 | 10.6 | 8.9 | 7.4 |
| Net debt/total equity (%) | 1.0 | 0.8 | 0.8 | 0.8 | 0.9 |

| Profitability Margins | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------|-------|-------|-------|-------|-------|
| Gross Profit Margin (%) | 26.7 | 24.5 | 25.3 | 26.3 | 27.4 |
| EBIT Margin (%) | 3.3 | 5.1 | 4.4 | 4.8 | 5.3 |
| Core PATANCI Margin (%) | 1.1 | 2.7 | 2.0 | 2.2 | 2.6 |

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

| | |
|-----|--|
| ☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology