

Leong Hup International Berhad

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

Maintain NEUTRAL

Better Broiler Chicken and Egg Sales

Unchanged Target Price: RM0.50

KEY INVESTMENT HIGHLIGHTS

- **Virtual briefing**
- **Lower feedmill sales volume in 2QFY23**
- **Improved sales volume for Broiler chicken and eggs in 2QFY23**
- **FY23F target capex unchanged**
- **Capex updates for downstream business across geographical segments**
- **Maintain NEUTRAL with an unchanged TP of RM0.50**

Virtual briefing. We attended Leong Hup's ("LHIB") 1HFY23 virtual briefing and remained cautiously optimistic about its FY24F outlook.

Lower feedmill sales volume in 2QFY23. LHIB's 2QFY23 sales volume dropped by -1.7%yoy to 653.1k mt. This was primarily due to reduced sales in Malaysia, Vietnam, and Indonesia. However, the group's production capacity increased from 1.04m mt in 2QFY22 to 1.07m mt in 2QFY23, thanks to expansion in Vietnam and the Philippines. As such, the average utilization rate decreased slightly by -3.4ppt yoy to 60.8% in 2QFY23, but higher than the 60.4% rate in 1QFY23. Overall, external sales remained the largest contributor to the feedmill segment at 63%, with the rest coming from internal sales.

Improved sales volume for Broiler chicken and eggs in 2QFY23. LHIB's broiler chicken sales volume increased by +0.2%yoy to 41.4m birds, driven by higher sales in Indonesia and the Philippines. Egg sales also saw positive growth, up +1.1%yoy to 446.4m eggs. However, the group's Day-Old Chick ("DOC") sales volume declined by -4%yoy to 140.5m chicks due to weaker demand in Vietnam and Malaysia.

Table 1: Sales volume breakdown across segments

Volume	2QFY23 vs. 2QFY22			
	DOC	Broiler Chicken	Feed	Egg
Vietnam	-18.1%yoy	-11.3%yoy	-2.5%yoy	+6.9%yoy
Indonesia	+1.4%yoy	+14%yoy	-1.8%yoy	
Philippines		+72.6%yoy	+59.6%yoy	
Malaysia	-6.5%yoy	-7.4%yoy	-8.2%yoy	

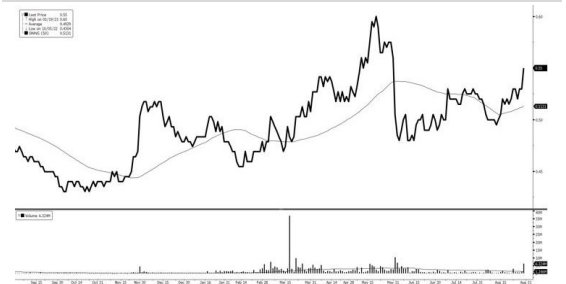
Source: Bloomberg, MIDFR

FY23F target capex unchanged. Management reiterated their target of RM200m in total capex for FY23F, consistent with what was mentioned in the 1QFY23 briefing. This allocation is lower than the previous years (RM291.5m in FY22, RM345.9m in FY21, RM498.6m in FY20, and RM400.2m in FY19), mainly due to challenging business conditions and weak sentiment.

RETURN STATISTICS

Price @ 30 th August 2023 (RM)	0.55
Expected share price return (%)	-9.75
Expected dividend yield (%)	2.74
Expected total return (%)	-7.01

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.8	5.3
3 months	10.0	-6.2
12 months	12.2	16.9

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 (%)	2.7	3.3	3.9

KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	3650.00
Estimated free float (%)	15.40
Market Capitalisation (RM'm)	2,007.50
52-wk price range	RM0.44-RM0.61
3-mth average daily volume (m)	1.52
3-mth average daily value (RM'm)	0.77
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07


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Completion broiler farm in Indonesia. LHIB completed the construction of two closed houses in Serdang 6, Indonesia, which are equivalent to six broiler houses in 2QFY23. The total capex for this project was RM2.1m. Following the completion of the broiler farm, the DOC production capacity increased by 100k per cycle (or equivalent to 600k DOC per year), to meet stronger demand of DOC from Indonesian market.

Parent Stock ("PS") farm in Philippines. LHIB converted a broiler house in Orani, Bataan, Philippines, into a Parent Stock farm. The total capex for this project was RM12.2m, and the farm has been operational since March 2023. This conversion has increased capacity by 6% to accommodate 61.9k birds.

Capex updates for downstream business across geographical segments. LHIB's downstream segment in Indonesia operation recorded a decrease in Sunny Chick outlets from 52 outlets in 1QFY23 to 35 outlets in 2QFY23. The 35 outlets include 29 kiosks, 2 dine-in locations, 1 main store, 2 food courts, and 1 food truck. LHIB allocated RM4m in capex for expanding Sunny Chick's stores in FY23 and will focus on production development and operations ahead. On a positive note, LHIB opened 48 LH Deli kiosks in the Philippines as of 2QFY23 (vs. 45 in 1QFY23 and 42 in 4QFY22). Note that LH Deli kiosks operate on a franchise basis and specialize in take-away offerings.

Maintain NEUTRAL with an unchanged TP of RM0.50. We make no changes to our FY23F-25F earnings forecast post analyst briefing. 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). 

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)	23.5	9.2	11.0	9.2	7.6
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