

Hup Seng Industries Berhad

(5024 | HSI MK) Main | Consumer Products & Services | Food & Beverages

Robust Domestic Sales; Better Margin

KEY INVESTMENT HIGHLIGHTS

- **Above estimations**
- **Remarkable surge in 3QFY23 core PATANCI**
- **Core PATANCI margin rebounds in 9MFY23**
- **Raised FY23-24F earnings forecast but maintained FY25F**
- **Maintain BUY with a revised TP of RM0.98 (from RM0.95)**

Above estimations. Hup Seng Industries ("HSIB") reported a 9MFY23 core PATANCI of RM32m, came in above our and consensus FY23 projections. The earnings (after excluding a one-off item of RM0.6m), constituted 88% of our estimate and 117% of consensus full-year FY23 projection. The notable outperformance was attributed to: (1) higher-than-expected revenue, driven by a robust recovery in export sales, and (2) lower-than-expected raw material costs, thanks to cost reductions in key inputs (wheat and CPO). No dividend was declared in the quarter.

Remarkable surge in 3QFY23 core PATANCI. On yearly basis, the group's revenue increased by +34.2%yoy to RM94.2m, with a significant contribution from a domestic sales across all channels (+41%yoy) and export sales from Thailand and Singapore (+10% yoy). Notably, export sales typically constituted a third of the total group revenue. The group also experienced improved demand following a price hike in 2QFY22. In 3QFY23, relief from input cost pressures led to an increase in the operating profit margin by +11ppt yoy to 18.5%, returning to pre-pandemic levels (2019) of 17.5%-19%. Consequently, core earnings more than doubled to RM13.3m. On a sequential basis, the core PATANCI rose +50.7%qoq to RM13.3m. This was mainly due to the higher revenue of RM94.2m (+15.5%qoq) on the back of stronger domestic sales (+21% qoq) offsetting a slight decline in export sales (-3%qoq) from Thailand.

Core PATANCI margin rebounds in 9MFY23. Cumulatively, the group's revenue increased by +17.4% yoy to RM262.1m, primarily driven by higher selling prices and sales volumes which contributed to a +22%yoy growth in domestic sales and a +2%yoy growth in export sales. Coupled with cost reductions in key input materials, core PATANCI doubled from RM14m in 9MFY22 to RM32m in 9MFY23. The core PATANCI margin also improved by +5.9pptoy to 12.2%, signaling a recovery towards pre-pandemic levels of 12.9%-14.4%.

Maintain BUY
Revised Target Price: RM0.98
 (Previously RM0.95)

RETURN STATISTICS

Price @ 8 th Nov 2023 (RM)	0.72
Expected share price return (%)	+36.6
Expected dividend yield (%)	7.0
Expected total return (%)	+43.64

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.1	2.2
3 months	2.1	10.3
12 months	10.8	9.5

INVESTMENT STATISTICS


FYE Dec	2023F	2024F	2025F
Revenue	362.4	372.7	390.0
EBITDA	64.0	73.7	87.8
Profit before tax (PBT)	57.2	67.6	81.6
Core PATANCI	42.7	50.4	60.9
Core EPS (sen)	5.3	6.3	7.6
DPS (sen)	5.0	6.0	7.5
Dividend Yield (%)	7.0	8.4	10.4

KEY STATISTICS

FBM KLCI	1,457.60
Issue shares (m)	800.00
Estimated free float (%)	34.67
Market Capitalisation (RM'm)	572.00
52-wk price range	RM0.6 - RM0.80
3-mth average daily volume (m)	0.28
3-mth average daily value (RM'm)	0.19
Top Shareholders (%)	
HSB Group Sdn Bhd	51.00
Employees Provident Fund Board	2.44
Kerk Chian Tung	1.42

Analyst
Genevieve Ng Pei Fen
 genevieve.ng@midf.com.my

Raised FY23-24F earnings forecast but maintained FY25F. Given that the earnings came in above our expectation, we tweaked our FY23F-24F earnings forecast higher by +17.4%/4.1% but maintained our FY25F earnings forecast. This was after taking into account (1) continuous strong domestic sales, (2) higher export sales, and (3) lower raw material costs, given the normalizing global commodities prices for major input ingredients.

Maintain BUY with a revised TP of RM0.98 (from RM0.95). Our revised **TP** is based on DDM valuation with an unchanged growth rate of 3.0% and an revised WACC of 10.1% (from 10%). We continue to like Hup Seng, underpinned by its (1) relatively stable demand for its products thanks to its well-established household brand, (2) consistent dividend payout (over 70% for the past 8 years), and (3) a solid net cash position of RM80.2m as of 2QFY23. Moving forward, we anticipate a normalized profit margin, supported by the normalization of global commodity prices for wheat and CPO. Hence, we maintain a **BUY** recommendation. Hup Seng Industries is currently trading at an attractive FY24F PER of 11.3x, which is below its 5-year historical mean PER of 18.2x and the sectoral PER for consumer staples under our coverage (excluding QL and Nestle), which is 17.9x. **The downside risk** is a sharp increase in commodities price, especially CPO, sugar, and wheat flour. 

Hup Seng Industries: 3QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	94.2	81.5	70.2	34.2	15.5	262.1	223.3	17.4
Cost of Sales	(64.6)	(58.2)	(54.4)	18.8	11.1	(184.6)	(173.1)	6.6
Gross Profit	29.6	23.4	15.8	87.3	26.5	77.5	50.1	54.7
Other income	0.8	0.9	0.7	21.4	(13.7)	2.5	2.1	16.3
Administrative expenses	(4.8)	(4.9)	(4.4)	11.0	(0.9)	(14.5)	(13.3)	9.2
Selling and marketing expenses	(8.1)	(7.8)	(6.8)	19.1	4.6	(23.4)	(20.3)	15.3
Operating profit (EBIT)	17.4	11.6	5.3	230.9	49.4	42.1	18.7	125.4
Finance cost	(0.0)	(0.0)	(0.0)	(28.6)	25.0	(0.0)	(0.0)	(31.6)
Profit before tax (PBT)	17.4	11.6	5.3	231.3	49.4	42.1	18.7	125.6
Income tax expense	(4.4)	(2.9)	(1.4)	206.5	49.5	(10.7)	(5.0)	112.6
Profit After tax (PAT)	13.0	8.7	3.8	240.5	49.4	31.4	13.6	130.4
Core PATANCI	13.3	8.8	4.0	229.1	50.7	32.0	14.0	128.2
Core EPS (sen)	1.7	1.1	0.5	229.1	50.7	4.0	1.8	128.2
DPS (sen)	0.0	1.0	1.0	(100.0)	(100.0)	2.0	1.0	100.0
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	31.4	28.7	22.5	8.9	2.7	29.6	22.5	7.1
Operating Profit Margin	18.5	14.3	7.5	11.0	4.2	16.1	8.4	7.7
PBT Margin	18.5	14.3	7.5	11.0	4.2	16.1	8.4	7.7
Core PATANCI Margin	14.1	10.8	5.7	8.3	3.3	12.2	6.3	5.9
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	14.0	12.7	10.5	3.5	1.3	14.0	10.5	3.5
Effective tax rate (%)	25.1	25.1	27.1	(2.0)	0.0	25.4	27.0	(1.6)

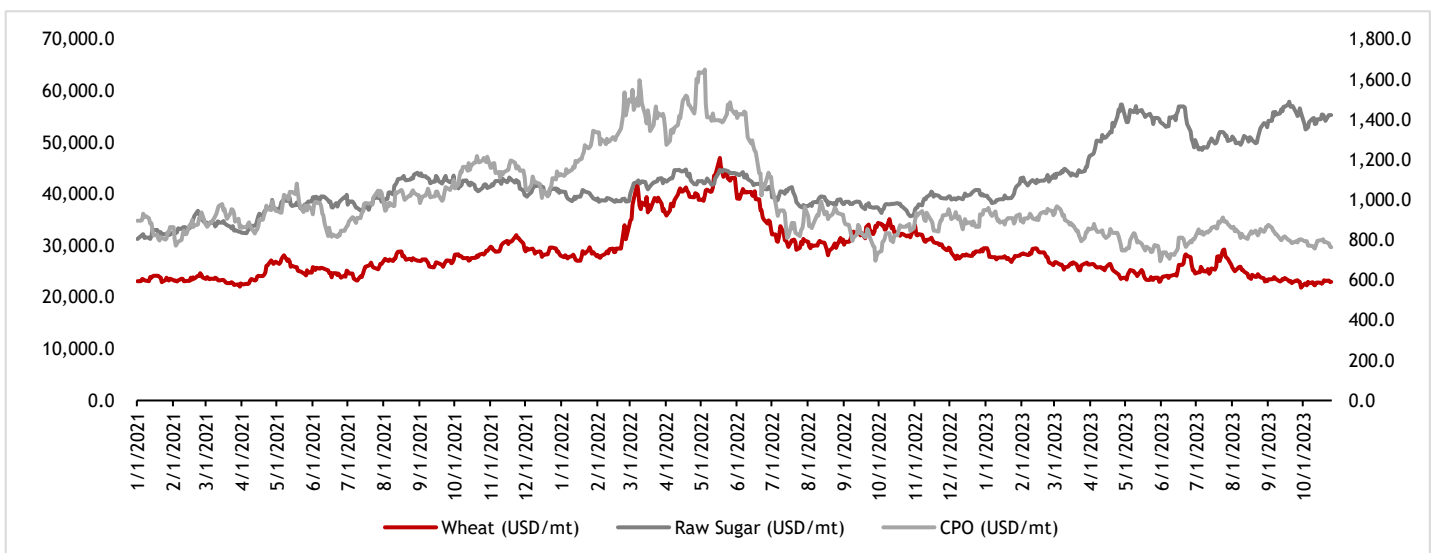
Source: Company, MIDFR

Hup Seng Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	69.6	60.7	52.0	33.9	14.7	194.1	166.4	16.6
Beverage Manufacturing	1.7	1.9	1.6	7.3	(12.3)	4.9	4.9	(0.3)
Trading	76.4	62.9	54.2	40.8	21.3	209.3	171.9	21.8
Total	147.7	125.6	107.8	37.0	17.6	408.3	343.3	19.0
Operating Profit (RM'm):								
Biscuit Manufacturing	9.4	6.3	1.1	762.1	49.3	21.4	3.5	514.4
Beverage Manufacturing	0.0	0.2	0.0	(40.0)	(89.7)	0.2	(0.0)	(1,800.0)
Trading	8.4	5.7	4.7	77.8	46.5	22.0	16.8	30.7
Total	17.8	12.2	5.8	205.3	45.7	43.5	20.3	115.0
Operating profit margin (%):				+ / (-) pts	+ / (-) pts			+ / (-) pts
Biscuit Manufacturing	13.5	10.4	2.1	11.4	3.1	11.0	2.1	8.9
Beverage Manufacturing	1.2	10.6	2.2	(1.0)	(9.3)	4.1	(0.2)	4.4
Trading	11.0	9.1	8.7	2.3	1.9	10.5	9.8	0.7
Total	18.9	15.0	8.3	10.6	3.9	16.6	9.1	7.5

Source: Company, MIDFR

TABLE 1: Wheat, Raw Sugar, CPO Futures Price Trend (USD/MT)



Source: MIDFR, Bloomberg

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	295.8	318.2	362.4	372.7	390.0
Cost of Sales	(214.2)	(239.9)	(256.8)	(254.9)	(255.4)
Gross Profit	81.7	78.3	105.5	117.8	134.6
Other Income	1.5	1.7	4.7	4.8	5.1
Selling and Distribution expenses	(27.4)	(27.4)	(32.1)	(33.4)	(35.3)
General & Administrative	(18.6)	(18.4)	(20.9)	(21.8)	(22.9)
EBITDA	43.9	41.0	64.0	73.7	87.8
EBIT	37.2	34.3	57.2	67.5	81.5
Profit before tax (PBT)	38.2	35.4	57.2	67.6	81.6
Income tax expense	(10.1)	(9.4)	(14.5)	(17.2)	(20.7)
Profit After tax (PAT)	28.1	26.1	42.7	50.4	60.9
Core PATANCI	28.4	25.0	42.7	50.4	60.9
Core EPS (sen)	3.5	3.1	5.3	6.3	7.6
DPS (sen)	2.5	3.0	5.0	6.0	7.5

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	72.8	72.7	81.2	82.7	82.0
Intangible assets	0.0	1.0	0.0	0.0	0.0
Total Non-current assets	80.2	79.5	92.0	93.6	93.0
Inventories	31.6	29.9	33.0	32.8	32.9
ST - Trade and other receivables	28.2	40.2	39.0	40.2	42.0
Cash and cash equivalents	66.7	62.4	71.1	73.1	76.5
Total current assets	127.0	133.3	144.0	146.9	152.3
Total Assets	207.2	212.8	236.0	240.5	245.3
Total Equity	139.0	141.1	138.5	138.4	137.8
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	7.2	6.9	7.8	8.0	8.4
ST Trade and other payables	56.3	58.3	61.6	61.2	61.3
ST Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	60.9	64.9	89.7	94.1	99.1
Total Liabilities	68.1	71.7	97.5	102.1	107.5

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	38.2	35.4	57.2	67.6	81.6
Cash flow from operations	29.9	24.9	64.3	57.7	68.6
Cash flow from investing	2.5	(3.8)	(15.4)	(7.7)	(5.5)
Cash flow from financing	(44.3)	(24.3)	(40.2)	(47.9)	(59.7)
Net cash flow	(11.9)	(3.2)	8.7	2.0	3.4
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	77.5	65.7	62.4	71.1	73.1
Net cash/(debt) c/f	65.7	62.4	71.1	73.1	76.5

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	26.3	26.4	25.4	25.4	25.4
PER (x)	21.0	21.9	13.4	11.3	9.4
Net Cash/Market Capitalisation (%)	11.7	10.9	12.4	12.8	13.4
P/BV ratio (x)	4.1	4.1	4.1	4.1	4.2
Cash/share (sen)	3.7	3.1	8.0	7.2	8.6

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	27.6	24.6	29.1	31.6	34.5
EBIT Margin (%)	12.6	10.8	15.8	18.1	20.9
Core PATANCI Margin (%)	9.6	7.9	11.8	13.5	15.6

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