

Leong Hup International Berhad

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

9MFY23 Core PATANCI Margin Resurgence

Maintain BUY

Revised Target Price: RM1.05
(Previously RM0.80)

KEY INVESTMENT HIGHLIGHTS

- **Above expectations**
- **3QFY23's core PATANCI more than tripled compared to the previous year**
- **9MFY23's core PATANCI margin returned to FY20 levels but yet to reach FY19 levels**
- **Raised earnings projections for FY23F-25F**
- **Maintain BUY with a revised TP of RM1.05 (previously RM0.80)**

Above expectations. Leong Hup International ("LHI") reported a 9MFY23 core PATANCI of RM234.4m (after excluding a one-time item of +RM14.2m), came in above ours and consensus' full-year FY23F projections. It accounted for 116.1% of ours and 120.9% of the streets' full-year FY23F earnings estimates. This was driven by: (1) stronger-than-expected margin resulted from the greater-than-expected sales of specific products with higher margins in Malaysia and Indonesia, and (2) lower-than-expected operating expenses, attributed to backdrop of feed input costs and the cost efficiency gained through economies of scale.

Dividend payout. In 3QFY23, LHI declared a single-tier interim dividend of 1.2 sen/share (vs. none in 3QFY22), bringing 9MFYFY23's total dividend to 3.0 sen/share (up from 2.2 sen/share in 9MFY22). This translates into a dividend yield of 4.3% for 9MFY23.

3QFY23's core PATANCI more than tripled compared to the previous year. On yearly basis, it rose +6.6%yoy to RM2.52b in 3QFY23, driven by robust sales in all three segments including livestock, feed mill, and others. The operating profit margin also rose significantly by +5.4ppt yoy to 13.9%, mainly due to improved margins from higher selling prices of (i) DOC and eggs in Malaysia, (ii) DOC in Indonesia, and (iii) feed mill in the Philippines. Consequently, core PATANCI increased threefold from RM44.5m in 3QFY22 to RM141.3m in 3QFY23. On a quarterly basis, core PATANCI nearly doubled to RM141.3m. This was attributed to higher revenue growth of +4.2%qoq to RM2.52b and slightly lower operating expenses. This resulted in a 4.1ppt qoq increase in the operating profit margin to 10.7% in 3QFY23.

9MFY23's core PATANCI margin returned to 9MFY20 levels but yet to reach 9MFY19 levels. Cumulatively, revenue increased by +6%yoy to RM7.13b, primarily fueled by strong recovery in Indonesia, followed by the Philippines, Malaysia, and Singapore. Conversely, Vietnam operations experienced a -43.3%yoy decrease in cumulative revenue to RM417.7m. Core PATANCI surged +60.3%yoy to RM234.4m, mainly supported by the improved margins, along with reduced feed input costs and enhanced cost efficiency. Overall, the core PATANCI margin increased 1.1ppt yoy to 3.3% in 9MFY23, which surpassed the core PATANCI margin of 3.0% in 9MFY20 but still falls short of the 6% core PATANCI margin achieved in 9MFY19.

RETURN STATISTICS

Price @ 28 th Nov 2023 (RM)	0.705
Expected share price return (%)	51.47
Expected dividend yield (%)	5.25
Expected total return (%)	56.72

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	8.7	8.2
3 months	25.5	30.8
12 months	43.8	46.6

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	9,759.1	10,184.2	10,560.1
EBITDA	1,024.4	1,152.2	1,250.3
Profit before tax (PBT)	587.3	718.3	819.8
Core PATANCI	389.7	471.0	546.1
Core EPS (sen)	10.7	12.9	15.0
DPS (sen)	3.6	4.4	5.1
Dividend Yield (%)	5.2	6.4	7.3


KEY STATISTICS

FBM KLCI	1,448.02
Issue shares (m)	3650.00
Estimated free float (%)	15.84
Market Capitalisation (RM'm)	2,518.50
52-wk price range	RM0.4-RM0.73
3-mth average daily volume (m)	3.93
3-mth average daily value (RM'm)	2.46
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.08
Amanah Saham Nasional Bhd	7.07

Analyst

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Raised earnings projections for FY23-25F. We tweak our top line projections for FY23F-25F upward by +2.6%/+3.2%/+4.0% respectively, despite 9MFY23 revenue hitting 74.9% of our FY23F projections. This adjustment accounts for: (1) higher revenue from Malaysian operations driven by the expectation of normalized selling price following the removal of price controls for chicken (government subsidies added back), as well as (2) expectation of continuous strong demand for DOC and eggs in Malaysia, driven by tightened supply, which enables LHI to achieve higher sales volume and better selling prices. In addition, given that the earnings came in above our expectation, we raised our core PATANCI projections by +93%/+97%/+102%. This adjustment considers (1) higher revenue, (2) lower feed input costs, given declining global corn and soybean meal prices, and (3) reduced operating expenses due to economies of scale and cost efficiency, leading to a normalized profit margin.

Maintain BUY with a revised TP of RM1.05 (previously RM0.80). Our revised TP is based on a revised PER of 8.1x (poultry sectoral historical 2-year average mean PER) pegged to a revised FY24F EPS of 12.90sen (up from 6.6sen). We maintain positive on outlook for Leong Hup in FY24, supported by (1) normalization of margins in its Malaysian operation, a result of the removal of price controls for chicken, (2) the global softening of commodity prices for chicken feed and (3) better operating environment in Vietnam (due to tight supplies) and Indonesia (where supplies are normalizing following government initiatives to manage market demand and supply, thereby raising selling prices and margins) that could contribute to both the top and bottom lines. With the persistent shortage of DOC and eggs worldwide, including Malaysia, the group is well-positioned to meet unmet demand, thanks to its strong regional production capacity. Hence, we maintain our BUY call on Leong Hup. **Downside risks** include (1) significant raw material cost increases, (2) adverse regulatory changes like price controls or culling programs, (3) shortages of great-grandparent DOC, and (4) disease outbreaks. 

Leong Hup International: 3QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	2,516.4	2,413.9	2,361.4	6.6	4.2	7,126.5	6,720.8	6.0
Other income	46.3	48.5	65.5	(29.4)	(4.6)	157.4	124.2	26.7
Operating expenses	(2,292.7)	(2,303.2)	(2,290.4)	0.1	(0.5)	(6,779.7)	(6,571.9)	3.2
Operating profit (EBIT)	270.0	159.2	136.6	97.7	69.6	504.2	273.1	84.6
Net finance income/(cost)	(42.5)	(45.7)	(36.7)	15.9	(7.1)	(132.9)	(97.5)	36.4
Profit before tax (PBT)	227.5	113.6	100.1	127.3	100.2	371.5	176.0	111.1
Tax expense	(50.2)	(22.9)	(27.7)	81.2	119.4	(86.4)	(46.2)	87.0
Profit After tax (PAT)	177.4	90.8	72.4	144.9	95.4	285.1	129.8	119.7
PATANCI	133.0	65.0	67.4	97.3	104.5	220.1	128.3	71.5
Core PATANCI	141.3	76.3	44.5	217.9	85.1	234.4	146.2	60.3
Basic EPS (sen)	3.6	1.8	1.8	102.2	104.5	6.0	3.5	72.3
DPS (sen)	1.2	0.0	0.0	n.m.	n.m.	3.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	10.7	6.6	5.8	4.9	4.1	7.1	4.1	3.0
PBT Margin	9.0	4.7	4.2	4.8	4.3	5.2	2.6	2.6
Core PATANCI Margin	5.6	3.2	1.9	3.7	2.5	3.3	2.2	1.1
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 (%)	22.1	20.1	27.7	(5.6)	1.9	23.3	26.3	(3.0)

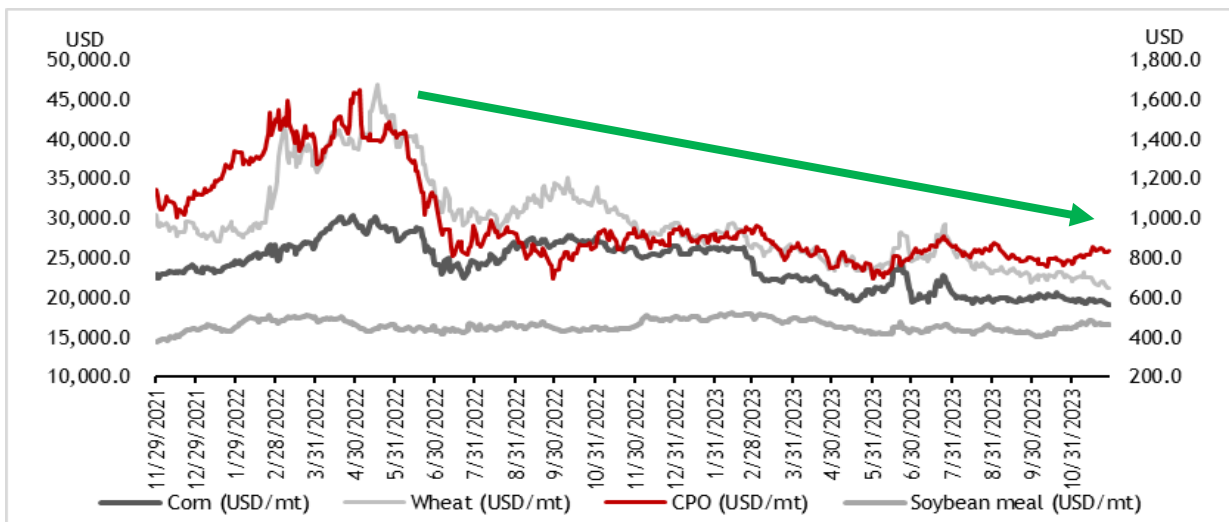
Source: Company, MIDFR

Leong Hup International: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (External):								
Livestock and poultry	1,369.4	1,323.1	1,295.7	5.7	3.5	3,891.9	3,717.8	4.7
Feedmill	1,143.8	1,087.5	1,062.8	7.6	5.2	3,224.8	2,994.5	7.7
Others	3.2	3.2	3.0	5.5	(2.5)	9.7	8.6	12.9
Total	2,516.4	2,413.9	2,361.5	6.6	4.2	7,126.5	6,720.9	6.0
EBITDA:								
Livestock and poultry	167.3	84.8	87.8	90.5	97.2	258.0	179.7	43.6
Feedmill	187.5	142.5	126.4	48.3	31.6	479.2	321.0	49.3
Others	(5.9)	11.3	(2.4)	145.5	(152.0)	2.8	(3.7)	(174.5)
Total	348.9	238.7	211.8	64.7	46.2	740.0	497.0	48.9
EBITDA margin:								
Livestock and poultry	12.2	6.4	6.8	5.4	5.8	6.6	4.8	1.8
Feedmill	16.4	13.1	11.9	4.5	3.3	14.9	10.7	4.1
Others	(186.2)	349.3	(80.0)	(106.2)	(535.4)	28.4	(43.0)	71.4
Total	13.9	9.9	9.0	4.9	4.0	10.4	7.4	3.0

Source: Company, MIDFR

Chart 1: Raw Material Futures Price Trend for Chicken Feed (USD/mt)



Sources: MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	7,153.5	9,042.7	9,759.1	10,184.2	10,560.1
Change in biological assets	42.8	7.9	75.7	(2.7)	16.1
Change in closing inventories	228.6	29.6	63.8	(6.0)	35.5
Purchase of inventories and livestock	(5,514.4)	(6,865.4)	(7,231.5)	(7,191.8)	(7,427.4)
Gross Profit	1,910.5	2,214.8	2,667.2	2,983.7	3,184.3
Other Income	39.1	188.8	152.8	37.0	38.4
Employee benefit costs including Directors' remuneration	(645.8)	(677.4)	(715.1)	(751.2)	(793.0)
Utilities costs	(185.6)	(221.4)	(274.8)	(281.0)	(288.5)
Repair and maintenance	(80.0)	(91.2)	(119.1)	(124.2)	(128.8)
Transportation expenses	(149.9)	(181.4)	(197.7)	(214.6)	(251.4)
Other operating expenses	(366.7)	(467.0)	(488.9)	(497.4)	(510.6)
EBIT	237.9	464.0	747.0	866.4	950.2
Profit before tax (PBT)	140.3	326.6	587.3	718.3	819.8
Profit After tax (PAT)	95.9	243.9	440.5	538.7	614.9
Core PATANCI	88.2	240.6	389.7	471.0	546.1
Core EPS (sen)	2.4	6.6	10.7	12.9	15.0
DPS (sen)	0.7	1.8	3.6	4.4	5.1

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	2,770.3	2,784.5	2,669.6	2,584.1	2,534.3
Total Non-current assets	3,411.2	3,431.8	3,316.4	3,239.4	3,197.4
Inventories	973.5	1,025.9	1,089.7	1,083.7	1,119.2
ST - Trade and other receivables	740.1	823.2	935.8	976.6	1,012.6
Cash and cash equivalents	764.6	840.3	816.2	843.2	865.6
Total current assets	2,918.6	3,160.4	3,392.5	3,454.0	3,566.2
Total Assets	6,329.8	6,592.2	6,708.9	6,693.5	6,763.6
Total Equity	2,359.8	2,589.6	2,920.3	2,977.5	3,095.3
LT Loans and borrowings	1,054.6	1,046.4	948.6	920.2	892.6
Total Non-current liabilities	1,321.4	1,339.5	1,262.4	1,246.3	1,229.7
ST Trade and other payables	534.7	629.8	634.0	630.5	651.2
ST Loans and borrowings	2,070.1	1,986.3	1,841.5	1,786.2	1,732.6
Total Current Liabilities	2,648.5	2,663.1	2,526.2	2,469.6	2,438.6
Total Liabilities	3,970.0	4,002.6	3,788.6	3,716.0	3,668.3

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	140.3	326.6	587.3	718.3	819.8
Cash flow from operations	44.2	620.9	1,007.5	669.3	717.0
Cash flow from investing	(392.6)	(277.6)	(197.0)	(238.6)	(289.2)
Cash flow from financing	264.3	(362.1)	(550.4)	(403.6)	(405.4)
Net cash flow	(84.1)	(18.8)	260.1	27.0	22.4
(+/-) Adjustments	13.4	(0.3)	0.0	0.0	0.0
Net cash/(debt) b/f	645.8	575.1	556.1	816.2	843.2
Net cash/(debt) c/f	575.1	556.1	816.2	843.2	865.6

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	31.7	25.3	25.0	25.0	25.0
PER (x)	29.5	11.5	5.7	4.7	4.1
Net debt/total equity (%)	1.0	0.8	0.7	0.6	0.6

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	26.7	24.5	27.3	29.3	30.2
EBIT Margin (%)	3.3	5.1	7.7	8.5	9.0
Core PATANCI Margin (%)	1.2	2.7	4.0	4.6	5.2

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