

## Hup Seng Industries Berhad

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

**Maintain BUY**

### Reduced Input Costs; Improved Margin

**Revised Target Price: RM0.99**  
 (Previously RM0.98)

#### KEY INVESTMENT HIGHLIGHTS

- **FY23 core PATANCI beat expectations**
- **Better dividend, yet below expected**
- **Lower input costs lifted 4QFY23 earnings**
- **Stronger bottom line in FY23 mainly boosted by robust sales and lower costs**
- **Raised FY24-25F earnings forecast and introduced FY26F**
- **Maintain BUY with a revised TP of RM0.99 (from RM0.98)**

**12MFY23 core PATANCI beat expectations.** Hup Seng Industries ("HKI") reported FY23 core PATANCI of RM45.8m, after excluding a one-time item of RM0.7m. This exceeded both our consensus full-year FY23 core PATANCI, accounting for 107% of ours and 109% of the street's. The positive deviation was mainly due to the lower-than-expected raw material input costs, which raised the core PATANCI.

**Better dividend, yet below expected.** The group proposed a 3rd interim single-tier dividend of 1.5sen/share and a special dividend of 0.5sen/share, with the entitlement date to be announced in due course. This led to a total dividend of 4sen/share for FY23, greater than 3.0sen/share in FY22. However, the dividend payout ratio was at 70.9% in FY23, falling below our previous expectation of 94%. Historically, the dividend payout ratio was above 90% before the pandemic. On the other hand, the net cash increased +44.9%yoy to RM90.5m in FY23.

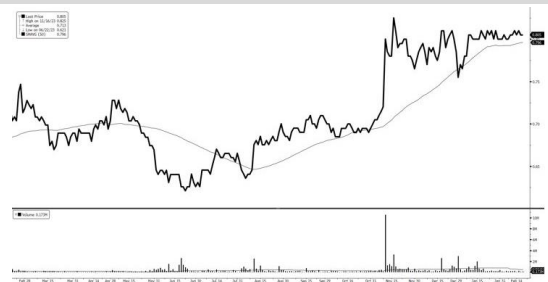
**Lower input costs lifted 4QFY23 earnings.** On a yearly basis, the revenue rose marginally by +0.2%yoy to RM95.1m, mainly lifted by better domestic sales that more than offset the decline in export sales. Despite a small bump in revenue, the core PATANCI increased +11.5% yoy, mainly due to the cost reduction of certain essential input ingredients (such as wheat and CPO). On a quarterly basis, revenue grew +1%qoq to RM95.1m, mainly supported by greater export sales to Thailand, Indonesia, and China. The drop in global commodity prices for certain main ingredients also led to lower input costs and hence a higher gross profit margin (+1.1ppt qoq). As such, the core PATANCI improved +4%qoq to RM13.8m.

**Stronger bottom line in FY23 mainly boosted by robust sales and lower costs.** The FY23 core PATANCI surged +73.5yoy to RM45.8m, which was in tandem with the uptick in revenue by +12.3% yoy to RM357.3m. This was mainly driven by stronger sales volume from both domestic and export markets as well as lower costs for certain major input materials.

#### RETURN STATISTICS

|  |       |
|--|-------|
| Price @ 19 <sup>th</sup> Feb 2024 (RM) | 0.81  |
| Expected share price return (%)        | +22.2 |
| Expected dividend yield (%)            | 4.9   |
| Expected total return (%)              | +27.1 |

#### SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month               | 0.6      | -2.4     |
| 3 months              | 2.5      | -5.3     |
| 12 months             | 7.3      | 3.4      |

#### INVESTMENT STATISTICS


| FYE Dec                 | 2024F | 2025F | 2026F |
|-------------------------|-------|-------|-------|
| Revenue                 | 377.7 | 393.7 | 407.4 |
| EBITDA                  | 72.0  | 88.5  | 91.7  |
| Profit before tax (PBT) | 72.1  | 84.1  | 87.7  |
| Core PATANCI            | 53.3  | 62.2  | 64.9  |
| Core EPS (sen)          | 6.7   | 7.8   | 8.1   |
| DPS (sen)               | 5.3   | 6.2   | 6.5   |
| Dividend Yield (%)      | 6.6   | 7.7   | 8.0   |

#### KEY STATISTICS

|                                  |                |
|----------------------------------|----------------|
| FBM KLCI                         | 1,538.61       |
| Issue shares (m)                 | 800.00         |
| Estimated free float (%)         | 34.67          |
| Market Capitalisation (RM'm)     | 644.00         |
| 52-wk price range                | RM0.6 - RM0.80 |
| 3-mth average daily volume (m)   | 0.56           |
| 3-mth average daily value (RM'm) | 0.45           |
| Top Shareholders (%)             |                |
| HSB Group Sdn Bhd                | 51.00          |
| Employees Provident Fund Board   | 2.44           |
| Kerk Chian Tung                  | 1.42           |

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**Raised FY24-25F earnings forecast and introduced FY26F.** Given that the earnings surpassed our expectation, we revised our FY24F-25F earnings forecasts upward by +5.8%/+2.2%. This adjustment was made after considering: (1) increased domestic sales driven by solid demand for biscuits and the anticipation of a slight shift in Malaysian consumer preference towards local brands, and (2) lower raw material costs, attributed to the normalization of wheat and CPO prices, as well as the recent decline in global sugar prices. Additionally, we have adjusted our distribution cost forecast upward by +9%/+15%, in line with the expectation of higher sales and taking into account anticipated higher transportation costs. Meanwhile, we have revised our dividend payout ratio downward to 80% (from the previous estimate of 95%), based on our assumption that the group aims to preserve more cash to mitigate potential downside risks and to fuel future investments necessary for maintaining competitiveness within the industry.

**Maintain BUY with a revised TP of RM0.99 (from RM0.98).** Our revised **TP** is based on DDM valuation with an unchanged growth rate of 3.0% and an unchanged WACC of 10.1%. We maintain a positive outlook on Hup Seng, supported by: (1) its stable product demand driven by a strong household brand and the benefit from a shift in Malaysian consumer preferences towards local products; (2) a consistent dividend payout exceeding 70% over the past 8 years; and (3) a strong net cash position of RM90.5m that protect against any downside risks. Moving forward, we anticipate lower raw material input costs, attributable not only to the normalization of wheat and CPO prices but also to the recent decline in sugar prices. Hence, we maintain our **BUY** recommendation. Hup Seng Industries currently presents an appealing FY24F PER of 12.1x, which is below its 5-year historical mean PER of 18.2x. **The downside risk** is a sharp escalation in commodity prices, particularly CPO, sugar, and wheat flour. 

### Hup Seng Industries: 4QFY23 Results Summary

| FYE Dec (RM'm)                 | Quarterly results |             |             |             |            | Cumulative results |             |             |
|--------------------------------|-------------------|-------------|-------------|-------------|------------|--------------------|-------------|-------------|
|                                | 4QFY23            | 3QFY23      | 4QFY22      | YoY (%)     | QoQ (%)    | 12MFY23            | 12MFY22     | YoY (%)     |
| Revenue                        | 95.1              | 94.2        | 94.9        | 0.2         | 1.0        | 357.3              | 318.2       | 12.3        |
| Cost of Sales                  | (64.2)            | (64.6)      | (66.8)      | (3.8)       | (0.6)      | (248.8)            | (239.9)     | 3.7         |
| <b>Gross Profit</b>            | <b>30.9</b>       | <b>29.6</b> | <b>28.2</b> | <b>9.8</b>  | <b>4.6</b> | <b>108.5</b>       | <b>78.3</b> | <b>38.5</b> |
| Other income                   | 1.0               | 0.8         | 0.8         | 31.5        | 29.7       | 3.5                | 2.9         | 20.4        |
| Administrative expenses        | (4.7)             | (4.8)       | (5.1)       | (6.6)       | (2.1)      | (19.2)             | (18.4)      | 4.8         |
| Selling and marketing expenses | (9.3)             | (8.1)       | (7.1)       | 31.0        | 14.5       | (32.7)             | (27.4)      | 19.4        |
| <b>Operating profit (EBIT)</b> | <b>17.9</b>       | <b>17.4</b> | <b>16.8</b> | <b>6.8</b>  | <b>2.9</b> | <b>60.0</b>        | <b>35.5</b> | <b>69.3</b> |
| Finance cost                   | (0.0)             | (0.0)       | (0.0)       | (28.6)      | 0.0        | (0.0)              | (0.0)       | (30.8)      |
| <b>Profit before tax (PBT)</b> | <b>17.9</b>       | <b>17.4</b> | <b>16.8</b> | <b>6.8</b>  | <b>2.9</b> | <b>60.0</b>        | <b>35.4</b> | <b>69.4</b> |
| Income tax expense             | (4.2)             | (4.4)       | (4.3)       | (2.5)       | (3.4)      | (14.9)             | (9.4)       | 59.4        |
| Profit After tax (PAT)         | 13.7              | 13.0        | 12.4        | 10.0        | 5.0        | 45.1               | 26.1        | 73.0        |
| <b>Core PATANCI</b>            | <b>13.8</b>       | <b>13.3</b> | <b>12.4</b> | <b>11.5</b> | <b>4.0</b> | <b>45.8</b>        | <b>26.4</b> | <b>73.5</b> |
| Core EPS (sen)                 | 1.7               | 1.7         | 1.5         | 11.5        | 4.0        | 5.7                | 3.3         | 73.5        |
| DPS (sen)                      | 2.0               | 0.0         | 1.0         | 100.0       | n.m.       | 4.0                | 2.0         | 100.0       |
| <b>Growth &amp; Margin (%)</b> |                   |             |             | +/(-) ppts  | +/(-) ppts |                    |             | +/(-) ppts  |
| Gross Profit Margin            | 32.5              | 31.4        | 29.7        | 2.8         | 1.1        | 30.4               | 24.6        | 5.8         |
| Operating Profit Margin        | 18.8              | 18.5        | 17.7        | 1.2         | 0.3        | 16.8               | 11.1        | 5.7         |
| PBT Margin                     | 18.8              | 18.5        | 17.7        | 1.2         | 0.3        | 16.8               | 11.1        | 5.7         |
| Core PATANCI Margin            | 14.5              | 14.1        | 13.0        | 1.5         | 0.4        | 12.8               | 8.3         | 4.5         |
| <b>Ratios &amp; Valuation</b>  |                   |             |             | +/(-) ppts  | +/(-) ppts |                    |             | +/(-) ppts  |
| Net cash/market cap (%)        | 14.0              | 12.4        | 9.6         | 4.3         | 1.6        | 14.0               | 9.6         | 4.3         |
| Effective tax rate (%)         | 23.6              | 25.1        | 25.8        | (2.2)       | (1.5)      | 24.9               | 26.4        | (1.6)       |

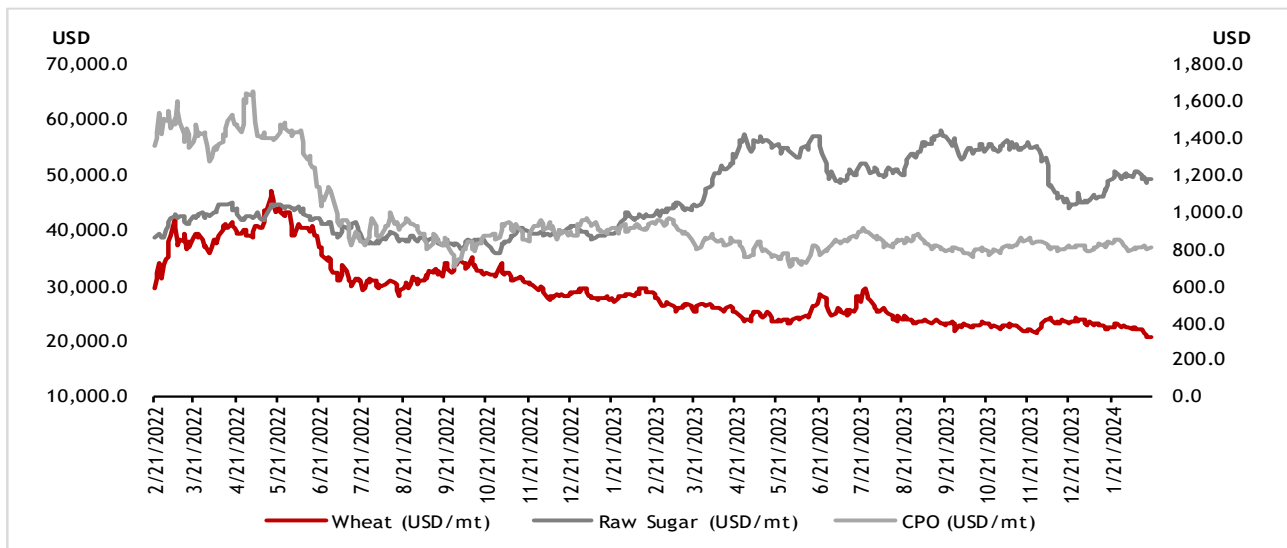
Source: Company, MIDFR

**Hup Seng Industries: Breakdown by operating segment**

| FYE Dec (RM'm)                      | Quarterly results |             |             |             |             | Cumulative results |              |             |
|-------------------------------------|-------------------|-------------|-------------|-------------|-------------|--------------------|--------------|-------------|
|                                     | 4QFY23            | 3QFY23      | 4QFY22      | YoY (%)     | QoQ (%)     | 12MFY23            | 12MFY22      | YoY (%)     |
| <b>Revenue (RM'm):</b>              |                   |             |             |             |             |                    |              |             |
| Biscuit Manufacturing               | 70.8              | 69.6        | 70.4        | 0.6         | 1.7         | 264.9              | 236.8        | 11.8        |
| Beverage Manufacturing              | 1.7               | 1.7         | 1.9         | (12.4)      | (1.5)       | 6.6                | 6.8          | (3.7)       |
| Trading                             | 74.0              | 76.4        | 73.2        | 1.1         | (3.1)       | 283.3              | 245.1        | 15.6        |
| <b>Total</b>                        | <b>95.1</b>       | <b>94.2</b> | <b>94.9</b> | <b>0.2</b>  | <b>1.0</b>  | <b>357.3</b>       | <b>318.2</b> | <b>12.3</b> |
| <b>Operating Profit (RM'm):</b>     |                   |             |             |             |             |                    |              |             |
| Biscuit Manufacturing               | 10.9              | 9.4         | 8.0         | 35.4        | 15.4        | 32.3               | 11.5         | 180.3       |
| Beverage Manufacturing              | 0.0               | 0.0         | 0.1         | (68.6)      | 104.8       | 0.2                | 0.1          | 97.6        |
| Trading                             | 7.3               | 8.4         | 9.2         | (20.5)      | (12.7)      | 29.3               | 26.0         | 12.6        |
| <b>Total</b>                        | <b>18.2</b>       | <b>17.8</b> | <b>17.4</b> | <b>5.0</b>  | <b>2.3</b>  | <b>61.8</b>        | <b>37.6</b>  | <b>64.2</b> |
| <b>Operating profit margin (%):</b> |                   |             |             | + /(-) ppts | + /(-) ppts |                    |              | + /(-) ppts |
| Biscuit Manufacturing               | 15.4              | 13.5        | 11.4        | 3.9         | 1.8         | 12.2               | 4.9          | 7.3         |
| Beverage Manufacturing              | 2.6               | 1.2         | 7.2         | (4.6)       | 1.3         | 3.8                | 1.8          | 1.9         |
| Trading                             | 9.9               | 11.0        | 12.5        | (2.7)       | (1.1)       | 10.3               | 10.6         | (0.3)       |
| <b>Total</b>                        | <b>19.1</b>       | <b>18.9</b> | <b>18.3</b> | <b>0.9</b>  | <b>0.2</b>  | <b>17.3</b>        | <b>11.8</b>  | <b>5.5</b>  |

Source: Company, MIDFR

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



Source: MIDFR, Bloomberg

**FINANCIAL SUMMARY**

| <b>Income Statement (RM'm)</b>    | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> | <b>2026F</b> |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                           | 318.2        | 357.3        | 377.7        | 393.7        | 407.4        |
| Cost of Sales                     | (239.9)      | (248.8)      | (252.5)      | (252.7)      | (262.0)      |
| <b>Gross Profit</b>               | <b>78.3</b>  | <b>108.5</b> | <b>125.2</b> | <b>141.0</b> | <b>145.4</b> |
| Other Income                      | 1.7          | 1.5          | 1.6          | 1.7          | 1.7          |
| Selling and Distribution expenses | (27.4)       | (32.7)       | (36.3)       | (40.5)       | (41.1)       |
| General & Administrative          | (18.4)       | (19.2)       | (20.0)       | (19.9)       | (20.1)       |
| <b>EBITDA</b>                     | <b>41.0</b>  | <b>63.7</b>  | <b>72.0</b>  | <b>88.5</b>  | <b>91.7</b>  |
| EBIT                              | 34.3         | 58.0         | 70.4         | 82.3         | 85.9         |
| <b>Profit before tax (PBT)</b>    | <b>35.4</b>  | <b>60.0</b>  | <b>72.1</b>  | <b>84.1</b>  | <b>87.7</b>  |
| Income tax expense                | (9.4)        | (14.9)       | (18.7)       | (21.9)       | (22.8)       |
| Profit After tax (PAT)            | 26.1         | 45.1         | 53.3         | 62.2         | 64.9         |
| <b>Core PATANCI</b>               | <b>25.0</b>  | <b>45.8</b>  | <b>53.3</b>  | <b>62.2</b>  | <b>64.9</b>  |
| Core EPS (sen)                    | 3.1          | 5.7          | 6.7          | 7.8          | 8.1          |
| DPS (sen)                         | 3.0          | 4.0          | 5.3          | 6.2          | 6.5          |

| <b>Balance Sheet (RM'm)</b>          | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> | <b>2026F</b> |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Property, plant and equipment        | 72.7         | 70.1         | 76.3         | 75.8         | 76.3         |
| Intangible assets                    | 1.0          | 1.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Non-current assets</b>      | <b>79.5</b>  | <b>80.2</b>  | <b>87.1</b>  | <b>86.7</b>  | <b>87.3</b>  |
| Inventories                          | 29.9         | 30.1         | 30.7         | 30.7         | 31.8         |
| ST - Trade and other receivables     | 40.2         | 37.3         | 41.2         | 42.9         | 44.4         |
| Cash and cash equivalents            | 62.4         | 90.5         | 95.7         | 99.7         | 103.2        |
| <b>Total current assets</b>          | <b>133.3</b> | <b>158.4</b> | <b>168.3</b> | <b>174.2</b> | <b>180.3</b> |
| <b>Total Assets</b>                  | <b>212.8</b> | <b>238.6</b> | <b>255.4</b> | <b>260.9</b> | <b>267.6</b> |
| Total Equity                         | 141.1        | 162.2        | 170.2        | 180.8        | 191.6        |
| LT Loans and borrowings              | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Non-current liabilities</b> | <b>6.9</b>   | <b>6.5</b>   | <b>7.0</b>   | <b>7.3</b>   | <b>7.6</b>   |
| ST Trade and other payables          | 58.3         | 61.7         | 61.2         | 61.3         | 63.5         |
| ST Loans and borrowings              | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Current Liabilities</b>     | <b>64.9</b>  | <b>69.9</b>  | <b>78.2</b>  | <b>72.7</b>  | <b>68.4</b>  |
| <b>Total Liabilities</b>             | <b>71.7</b>  | <b>76.4</b>  | <b>85.2</b>  | <b>80.1</b>  | <b>76.0</b>  |

| <b>Cash Flow (RM'm)</b>          | <b>2022A</b>  | <b>2023E</b>  | <b>2024F</b>  | <b>2025F</b>  | <b>2026F</b>  |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Pretax profit                    | 35.4          | 60.0          | 72.1          | 84.1          | 87.7          |
| <b>Cash flow from operations</b> | <b>24.9</b>   | <b>53.2</b>   | <b>54.4</b>   | <b>57.8</b>   | <b>60.0</b>   |
| <b>Cash flow from investing</b>  | <b>(3.8)</b>  | <b>(0.9)</b>  | <b>(6.2)</b>  | <b>(3.9)</b>  | <b>(4.6)</b>  |
| <b>Cash flow from financing</b>  | <b>(24.3)</b> | <b>(24.3)</b> | <b>(43.0)</b> | <b>(49.8)</b> | <b>(51.9)</b> |
| Net cash flow                    | (3.2)         | 28.1          | 5.2           | 4.1           | 3.5           |
| (+/-) Adjustments                | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Net cash/(debt) b/f</b>       | <b>65.7</b>   | <b>62.4</b>   | <b>90.5</b>   | <b>95.7</b>   | <b>99.7</b>   |
| <b>Net cash/(debt) c/f</b>       | <b>62.4</b>   | <b>90.5</b>   | <b>95.7</b>   | <b>99.7</b>   | <b>103.2</b>  |

| <b>Key Metrics</b>                 | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> | <b>2026F</b> |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Effective tax rate (%)             | 26.4         | 24.9         | 26.0         | 26.0         | 26.0         |
| PER (x)                            | 24.8         | 14.4         | 12.1         | 10.4         | 10.0         |
| Net Cash/Market Capitalisation (%) | 9.6          | 14.0         | 14.8         | 15.4         | 15.9         |
| P/BV ratio (x)                     | 4.6          | 4.0          | 3.8          | 3.6          | 3.4          |
| Cash/share (sen)                   | 3.1          | 6.7          | 6.8          | 7.2          | 7.5          |

| <b>Profitability Margins</b> | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> | <b>2026F</b> |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Gross Profit Margin (%)      | 24.6         | 30.4         | 33.1         | 35.8         | 35.7         |
| EBIT Margin (%)              | 10.8         | 16.2         | 18.6         | 20.9         | 21.1         |
| Core PATANCI Margin (%)      | 7.9          | 12.8         | 14.1         | 15.8         | 15.9         |

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