

Leong Hup International Berhad

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

Maintain BUY

Weaker Sales in the Indonesia Operation

Unchanged Target Price: RM0.83

KEY INVESTMENT HIGHLIGHTS

- **Below expectations**
- **Lower 4QFY23 core PATANCI mainly due to weaker sales and margins in the Indonesia operation**
- **Improved FY23 cumulative performance**
- **Maintain BUY with an unchanged TP of RM0.83**

Below Expectations. Leong Hup International (“Leong Hup”) reported a FY23 core PATANCI of RM271.1m, after excluding a one-time off item of -RM30.6m (including government subsidies or incentives received). The earnings came below expectations, accounting for 89.1%/91.9% of ours and consensus’ full-year FY23 estimations, despite revenue being in line with our forecast. The negative deviation was mainly due to higher-than-expected operating costs. No dividend was proposed in 4QFY23, with the total dividend for FY23 remaining at 3 sen/share, equivalent to a dividend yield of 4.2%.

Lower 4QFY23 core PATANCI mainly due to weaker sales and margins in the Indonesia operation. On a quarterly basis, revenue dropped -4.1%qoq to RM2.41b, due to weaker sales in Indonesia on the back of lower ASP and sales volume of DOC, as well as reduced DOC of broiler chickens. Core PATANCI plunged -74%qoq to RM36.8m, mainly due to the reduced revenue and lower DOC margin in Indonesia operation. On a yearly basis, improved revenue (+3.9%yoy) was mainly attributed to strong feedmill sales and slightly higher livestock and poultry product sales. However, core PATANCI dropped significantly by -61.9%yoy to RM36.8m. This was mainly due to margin compression from the reduced ASP of broiler chicken in Malaysia, Philippines, and Vietnam.

Improved FY23 cumulative performance. Cumulatively, LHI revenue increased +5.5%yoy to RM9.54b in FY23. This was largely due to higher sales contributions from both livestock and poultry-related products as well as feedmill segments. Malaysia operation's higher revenue was due to better livestock and poultry-related product sales. Meanwhile, the higher FY23 revenue in Philippines and Indonesia operations was driven by higher livestock & poultry-related products and feedmill sales. Core PATANCI improved +11.7%yoy to RM271.1m in FY23, mainly fueled by higher revenue along with lower raw material costs in Vietnam, Malaysia, and the Philippines. The better margin from higher ASP of eggs in Malaysia also contributed to the higher core earnings.

Maintain BUY with an unchanged TP of RM0.83. We maintain our FY24-25F earnings forecast pending analyst briefing. Our **TP of RM0.83** is based on an unchanged PER of 8.4x (5-year historical -1SD PER) pegged to an unchanged FY24F EPS of 9.9sen.

RETURN STATISTICS

Price @ 27 th Feb 2024 (RM)	0.715
Expected share price return (%)	+16.2
Expected dividend yield (%)	+4.2
Expected total return (%)	+20.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	30.9	27.2
3 months	27.4	-4.9
12 months	48.5	39.6

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	9,539.5	9,783.9	10,051.3
EBITDA	724.0	906.0	933.5
Profit before tax (PBT)	554.7	481.6	526.2
Core PATANCI	271.1	361.2	394.6
Core EPS (sen)	7.4	9.9	10.8
DPS (sen)	3.0	3.0	3.2
Dividend Yield (%)	4.2	4.2	4.5

KEY STATISTICS

FBM KLCI	1,558.80
Issue shares (m)	3650.00
Estimated free float (%)	17.97
Market Capitalisation (RM'm)	2,646.25
52-wk price range	RM0.47-RM0.74
3-mth average daily volume (m)	6.69
3-mth average daily value (RM'm)	4.09
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
Amanah Saham Nasional Bhd	7.07
CLARINDEN INV PTE	6.21

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Outlook. Despite facing multiple headwinds, we are positive about Leong Hup's FY24F outlook, underpinned by (1) the resilient demand for poultry products due to the staple food nature of its product (2) the normalization of margins for its Malaysian operations following removal of price controls for broiler chicken, and (3) the global softening of commodity prices for livestock feed, thereby reduce the raw material cost for the livestock & poultry related product segment. 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: 4QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	2,413.0	2,516.4	2,321.9	3.9	(4.1)	9,539.5	9,042.7	5.5
Other income	129.8	46.3	64.6	100.8	180.4	287.2	188.8	52.1
Operating expenses	(2,323.0)	(2,292.7)	(2,195.6)	5.8	1.3	(9,102.7)	(8,767.5)	3.8
Operating profit (EBIT)	219.8	270.0	191.0	15.1	(18.6)	724.0	464.0	56.0
Net finance income/(cost)	(36.7)	(42.5)	(40.4)	(9.3)	(13.7)	(169.6)	(137.9)	23.0
Profit before tax (PBT)	183.3	227.5	150.7	21.6	(19.5)	554.7	326.6	69.8
Tax expense	(38.5)	(50.2)	(36.4)	5.9	(23.2)	(124.9)	(82.6)	51.2
Profit After tax (PAT)	144.7	177.4	114.3	26.7	(18.4)	429.8	244.0	76.1
PATANCI	81.6	133.0	90.7	(10.0)	(38.6)	301.7	219.1	37.7
Core PATANCI	36.8	141.3	96.6	(61.9)	(74.0)	271.1	242.8	11.7
Basic EPS (sen)	2.2	3.6	2.5	(10.0)	(38.5)	8.3	6.0	38.1
DPS (sen)	0.0	1.2	0.0	n.m.	(100.0)	3.0	0.0	n.m.
Growth & Margin (%)				<i>+ / (-) ppts</i>	<i>+ / (-) ppts</i>			<i>+ / (-) ppts</i>
Operating Profit Margin	9.1	10.7	8.2	0.9	(1.6)	7.6	5.1	2.5
PBT Margin	7.6	9.0	6.5	1.1	(1.4)	5.8	3.6	2.2
Core PATANCI Margin	1.5	5.6	4.2	(2.6)	(4.1)	2.8	2.7	0.2
Ratios & Valuation				<i>+ / (-) ppts</i>	<i>+ / (-) ppts</i>			<i>+ / (-) ppts</i>
Net debt/total equity (%)	1.3	1.2	1.3	(0.0)	0.0	1.3	1.3	(0.0)
Effective tax rate (%)	21.0	22.1	24.2	(3.1)	(1.0)	22.5	25.3	(2.8)

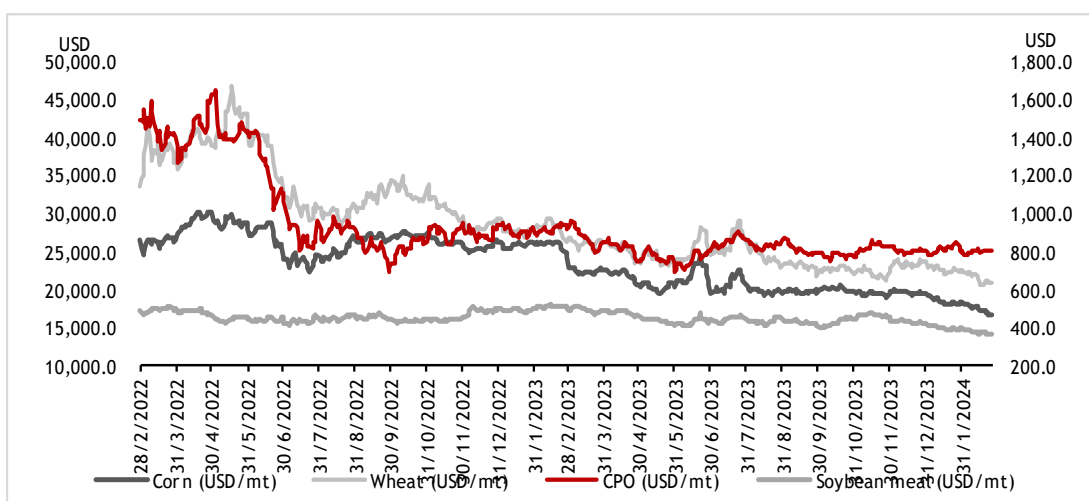
Source: Company, MIDFR

Leong Hup International: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue (External):								
Livestock and poultry	1,263.7	1,369.4	1,261.5	0.2	(7.7)	5,155.6	4,979.3	3.5
Feedmill	1,146.0	1,143.8	1,054.5	8.7	0.2	4,370.8	4,049.0	7.9
Others	3.4	3.2	6.0	(43.5)	6.3	13.1	14.6	(10.2)
Total	2,413.0	2,516.4	2,321.9	3.9	(4.1)	9,539.5	9,042.8	5.5
EBITDA:								
Livestock and poultry	83.6	167.3	97.6	(14.3)	(50.0)	341.6	277.3	23.2
Feedmill	228.2	187.5	162.2	40.7	21.7	707.4	483.2	46.4
Others	(8.4)	(5.9)	8.5	(199.3)	42.8	(5.7)	4.8	(218.5)
Total	303.4	348.9	268.2	13.1	(13.0)	1,043.4	765.2	36.4
EBITDA margin:								
Livestock and poultry	6.6	12.2	7.7	(1.1)	(5.6)	6.6	5.6	1.1
Feedmill	19.9	16.4	15.4	4.5	3.5	16.2	11.9	4.3
Others	(250.2)	(186.2)	142.3	(392.5)	(64.0)	(43.3)	32.8	(76.1)
Total	12.6	13.9	11.6	1.0	(1.3)	10.9	8.5	2.5

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	2023E	2024F	2025F
Revenue	7,153.5	9,042.7	9,539.5	9,783.9	10,051.3
Change in biological assets	42.8	7.9	67.1	(3.0)	10.7
Change in closing inventories	228.6	29.6	44.9	(6.7)	23.6
Purchase of inventories and livestock	(5,514.4)	(6,865.4)	(7,205.6)	(7,061.1)	(7,217.9)
Gross Profit	1,910.5	2,214.8	2,445.9	2,713.0	2,867.8
Other Income	39.1	188.8	287.2	35.5	36.5
Employee benefit costs including Directors' remuneration	(645.8)	(677.4)	(785.1)	(740.3)	(792.9)
Utilities costs	(185.6)	(221.4)	(320.6)	(286.0)	(304.1)
Repair and maintenance	(80.0)	(91.2)	(116.5)	(119.4)	(122.6)
Transportation expenses	(149.9)	(181.4)	(233.5)	(204.2)	(247.5)
Other operating expenses	(366.7)	(467.0)	(553.3)	(492.7)	(503.6)
EBIT	237.9	464.0	724.0	625.8	650.5
Profit before tax (PBT)	140.3	326.6	554.7	481.6	526.2
Profit After tax (PAT)	95.9	243.9	429.8	361.2	394.6
Core PATANCI	88.2	240.6	271.1	361.2	394.6
Core EPS (sen)	2.4	6.6	7.4	9.9	10.8
DPS (sen)	0.7	1.8	3.0	3.0	3.2
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Property, plant and equipment	2,770.3	2,784.5	2,730.3	2,699.6	2,636.9
Total Non-current assets	3,411.2	3,431.8	3,415.3	3,344.2	3,285.3
Inventories	973.5	1,025.9	978.8	1,064.0	1,087.6
ST - Trade and other receivables	740.1	823.2	870.1	938.2	963.8
Cash and cash equivalents	764.6	840.3	699.5	810.1	823.9
Total current assets	2,918.6	3,160.4	3,111.3	3,351.6	3,426.9
Total Assets	6,329.8	6,592.2	6,526.6	6,695.8	6,712.2
Total Equity	2,359.8	2,589.6	2,955.1	3,075.0	3,200.2
LT Loans and borrowings	1,054.6	1,046.4	870.8	896.3	851.5
Total Non-current liabilities	1,321.4	1,339.5	1,213.2	1,211.0	1,174.1
ST Trade and other payables	534.7	629.8	682.1	619.1	632.8
ST Loans and borrowings	2,070.1	1,986.3	1,587.3	1,739.9	1,652.9
Total Current Liabilities	2,648.5	2,663.1	2,358.2	2,409.8	2,337.9
Total Liabilities	3,970.0	4,002.6	3,571.5	3,620.8	3,512.0
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Pretax profit	140.3	326.6	554.7	481.6	526.2
Cash flow from operations	44.2	620.9	993.1	457.0	725.1
Cash flow from investing	(392.6)	(277.6)	(164.5)	(257.1)	(257.3)
Cash flow from financing	264.3	(362.1)	(773.3)	(89.3)	(381.7)
Net cash flow	(84.1)	(18.8)	55.3	110.6	86.1
(+/-) Adjustments	13.4	(0.3)	15.9	0.0	0.0
Net cash/(debt) b/f	645.8	575.1	556.1	627.3	737.8
Net cash/(debt) c/f	575.1	556.1	627.3	737.8	823.9
Key Metrics	2021A	2022A	2023E	2024F	2025F
Effective tax rate (%)	31.7	25.3	22.5	25.0	25.0
PER (x)	30.6	11.9	8.6	7.2	6.6
Net debt/total equity (%)	1.0	0.8	0.6	0.6	0.5
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross Profit Margin (%)	26.7	24.5	25.6	27.7	28.5
EBIT Margin (%)	3.3	5.1	7.6	6.4	6.5
Core PATANCI Margin (%)	1.2	2.7	2.8	3.7	3.9

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