

Hup Seng Industries Berhad

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

Continuously Time-Honoured Household Choice

Maintain BUY
Unchanged Target Price: RM0.99

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Stronger bottom line in 1QFY24**
- **Lower selling and marketing expenses in 1QFY24**
- **Maintain BUY with an unchanged TP of RM0.99**

Within expectation. Hup Seng Industries' 1QFY24 core PATANCI of RM14.1m (after excluding a one-time item of RM0.2m) came in within our full-year FY24F estimation but above consensus, as we are cautiously optimistic about the volatility in certain input costs of raw materials. This accounted for 26.5% of our estimate and 29.9% of the street's. No dividend was declared during the quarter.

Stronger bottom line in 1QFY24. On a yearly basis, the topline rose +8.3%yoy to RM93.6m, mainly driven by increased domestic sales across all channels and robust export sales to Myanmar, the Maldives, and Singapore. The gross profit margin rose +4.2ppt yoy to 32.7% thanks to higher sales along with lower input costs of certain materials (CPO and wheat). As a result, core PATANCI rose +42.2%yoy to RM14.1m.

Lower selling and marketing expenses in 1QFY24. Sequentially, the core PATANCI rose +2.3%qoq to RM14.1m during the quarter despite a seasonally weak revenue of RM93.6m (-1.7%qoq). This was mainly due to reduced selling and marketing expenses, which improved the operating margin by +1.1ppt qoq to 19.9%.

Maintain BUY with an unchanged TP of RM0.99. We make no changes to our earnings forecast for FY24-26F. Our TP is based on DDM valuation with an unchanged growth rate of 3.0% and an unchanged WACC of 10.1%.

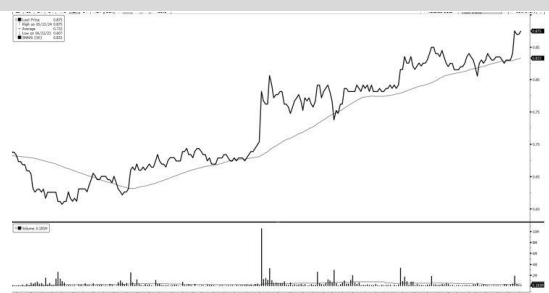
Outlook. We remain optimistic about Hup Seng's FY24F outlook, bolstered by: (1) stable product demand driven by a strong household brand and the advantage of a shift in Malaysian consumer preferences towards local products; (2) a consistent dividend payout exceeding 70% over the past eight years; and (3) a robust net cash position of RM95.7m in FY24F that could safeguards against potential downside risks. We maintain our **BUY** recommendation on Hup Seng. Hup Seng currently offers a cheap FY25F PER of 11.3x, which is below its 5-year historical average PER of 18.2x.

The downside risk is a sharp escalation in commodity prices, particularly CPO, sugar, and wheat flour.

RETURN STATISTICS

Price @ 16 th May 2024 (RM)	0.88
Expected share price return (%)	+13.7
Expected dividend yield (%)	+6.1
Expected total return (%)	+19.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.1	1.4
3 months	7.4	4.1
12 months	20.6	6.6

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	377.7	393.7	407.4
EBITDA	75.1	88.3	91.6
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 (%)	6.1	7.1	7.4

KEY STATISTICS

FBM KLCI	1,611.11
Issue shares (m)	800.00
Estimated free float (%)	36.01
Market Capitalisation (RM'm)	700.00
52-wk price range	RM0.6 - RM0.88
3-mth average daily volume (m)	0.40
3-mth average daily value (RM'm)	0.34
Top Shareholders (%)	
HSB Group Sdn Bhd	51.00
Kerk Chian Tuna	1.42
Employees Provident Fund Board	1.39

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

Hup Seng Industries: 1QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	93.6	95.1	86.4	8.3	(1.7)	93.6	86.4	8.3
Cost of Sales	(63.0)	(64.2)	(61.8)	1.9	(1.9)	(63.0)	(61.8)	1.9
Gross Profit	30.6	30.9	24.6	24.3	(1.1)	30.6	24.6	24.3
Other income	1.1	1.0	0.8	48.1	10.6	1.1	0.8	48.1
Administrative expenses	(4.8)	(4.7)	(4.8)	(0.1)	1.0	(4.8)	(4.8)	(0.1)
Selling and marketing expenses	(8.3)	(9.3)	(7.5)	10.5	(11.3)	(8.3)	(7.5)	10.5
Operating profit (EBIT)	18.7	17.9	13.1	42.6	4.3	18.7	13.1	42.6
Finance cost	(0.0)	(0.0)	(0.0)	(25.0)	(40.0)	(0.0)	(0.0)	(25.0)
Profit before tax (PBT)	18.7	17.9	13.1	42.6	4.3	18.7	13.1	42.6
Income tax expense	(4.7)	(4.2)	(3.4)	37.1	11.2	(4.7)	(3.4)	37.1
Profit After tax (PAT)	14.0	13.7	9.7	44.6	2.1	14.0	9.7	44.6
Core PATANCI	14.1	13.8	9.9	42.2	2.3	14.1	9.9	42.2
Core EPS (sen)	1.8	1.7	1.2	42.2	2.3	1.8	1.2	42.2
DPS (sen)	0.0	2.0	1.0	(100.0)	(100.0)	0.0	1.0	(100.0)
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	32.7	32.5	28.5	4.2	0.2	32.7	28.5	4.2
Operating Profit Margin	19.9	18.8	15.2	4.8	1.1	19.9	15.2	4.8
PBT Margin	19.9	18.8	15.1	4.8	1.1	19.9	15.1	4.8
Core PATANCI Margin	15.1	14.5	11.5	3.6	0.6	15.1	11.5	3.6
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	12.5	12.9	10.0	2.5	(0.4)	12.5	10.0	2.5
Effective tax rate (%)	25.1	23.6	26.1	(1.0)	1.6	25.1	26.1	(1.0)

Source: Company, MIDFR

Hup Seng Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	69.0	70.8	63.7	8.3	(2.5)	69.0	63.7	8.3
Beverage Manufacturing	2.1	1.7	1.3	58.7	25.4	2.1	1.3	58.7
Trading	73.6	74.0	70.0	5.1	(0.5)	73.6	70.0	5.1
Total	93.6	95.1	86.4	8.3	(1.7)	93.6	86.4	8.3
Operating Profit (RM'm):								
Biscuit Manufacturing	10.6	10.9	5.7	87.1	(2.6)	10.6	5.7	87.1
Beverage Manufacturing	0.2	0.0	(0.0)	(975.0)	307.0	0.2	(0.0)	(975.0)
Trading	8.3	7.3	7.9	5.8	14.0	8.3	7.9	5.8
Total	19.1	18.2	13.5	41.3	4.8	19.1	13.5	41.3
Operating profit margin (%):				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Biscuit Manufacturing	15.3	15.4	8.9	6.5	(0.0)	15.3	8.9	6.5
Beverage Manufacturing	8.4	2.6	(1.5)	9.9	5.8	8.4	(1.5)	9.9
Trading	11.3	9.9	11.2	0.1	1.4	11.3	11.2	0.1
Total	20.4	19.1	15.6	4.8	1.3	20.4	15.6	4.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	318.2	357.3	377.7	393.7	407.4
Cost of Sales	(239.9)	(248.8)	(252.5)	(252.7)	(262.0)
Gross Profit	78.3	108.5	125.2	141.0	145.4
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)
EBITDA	41.0	63.7	75.1	88.3	91.6
EBIT	34.3	58.0	70.4	82.3	85.9
Profit before tax (PBT)	35.4	60.0	72.1	84.1	87.7
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
Core PATANCI	25.0	45.7	53.3	62.2	64.9
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

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	72.7	70.1	73.3	72.9	73.5
Intangible assets	1.0	2.0	0.0	0.0	0.0
Total Non-current assets	79.5	80.2	83.6	83.0	83.5
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
Total current assets	133.3	158.4	168.3	174.2	180.3
Total Assets	212.8	238.6	251.9	257.2	263.8
Total Equity	141.1	162.2	170.3	181.0	191.9
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	6.9	6.5	7.0	7.3	7.6
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
Total Current Liabilities	64.9	69.9	74.6	68.9	64.3
Total Liabilities	71.7	76.4	81.6	76.3	71.9

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	35.4	60.0	72.1	84.1	87.7
Cash flow from operations	24.9	53.2	54.1	57.5	59.8
Cash flow from investing	(3.8)	(0.9)	(6.0)	(3.7)	(4.4)
Cash flow from financing	(24.3)	(24.3)	(43.0)	(49.8)	(51.9)
Net cash flow	(3.2)	28.1	5.2	4.1	3.5
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	65.7	62.4	90.5	95.7	99.7
Net cash/(debt) c/f	62.4	90.5	95.7	99.7	103.2

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	26.4	24.9	26.0	26.0	26.0
PER (x)	26.8	15.6	13.1	11.3	10.8
Net Cash/Market Capitalisation (%)	8.9	12.9	13.7	14.2	14.7
P/BV ratio (x)	5.0	4.3	4.1	3.9	3.6
Cash/share (sen)	3.1	6.7	6.8	7.2	7.5

Profitability Margins	2022A	2023A	2024F	2025F	2026F
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