

Leong Hup International Berhad

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

Capturing Underserved Vietnam and Philippines Markets

KEY INVESTMENT HIGHLIGHTS

- **Consistent growth in feedmill business**
- **Increased broiler chicken and egg sales volume in 1QFY24**
- **Ongoing capital expenditure plan**
- **Downstream Livestock business expansion**
- **Strategy to reduce borrowings and lower finance costs**
- **Maintain BUY with an unchanged TP of RM0.70**

We recently attended Leong Hup International's virtual briefing and remain positive about the FY24F outlook. Key highlights are as follows:

Consistent growth in feedmill business. LHI's feedmill production capacity increased by +2.7%yoy to 1,102k mt in 1QFY24. Feedmill sales volume grew by 2.5%yoy to 665k mt, with external sales (63%) being the largest contributor. Consequently, the utilization rate rose by 1.5ppt yoy to 61.9% during the quarter.

Increased broiler chicken and egg sales volume in 1QFY24. LHI's broiler DOC sales volume increased marginally by +1%yoy to 146.4m chicks in 1QFY24, driven by improved operations in Malaysia, Vietnam, and the Philippines. Broiler chicken sales volume rose by +8.2%yoy to 43.7m birds due to the robust sales in the Philippines (+24%yoy), followed by Malaysia and Vietnam. Egg sales volume surged by +12.4%yoy to 504.9m in 1QFY24 due to higher demand in Malaysia and Vietnam.

Ongoing capital expenditure plan. LHI targets a capex allocation of less than RM300m for FY24. Some key projects include a new slaughtering plant in Yong Peng, with a capacity of 24k birds per day, which is 50% complete and expected to be finished by 3QFY25. Additionally, a new raw material warehouse at the Tarlac feedmill in the Philippines is set to increase capacity by 25%, with completion expected by 3QFY24.

Downstream Livestock business expansion. In Indonesia, the retail brand Sunny Chick opened two new stores in 1QFY24, bringing the total to 26 outlets and one food truck. In the Philippines, the retail brand LH Deli added seven new kiosks in 1QFY24, bringing the total to 61 outlets, all on a franchise basis.

Strategy to reduce borrowings and lower finance costs. The net gearing ratio decreased to 0.6x in 1QFY24 from 0.8x in 1QFY23 mainly due to lower total borrowings. Moving forward, management aims to further reduce total borrowings to lower finance costs in the current high interest rate environment. The group is also committed to a dividend payout of at least 30% of PAT going forward.

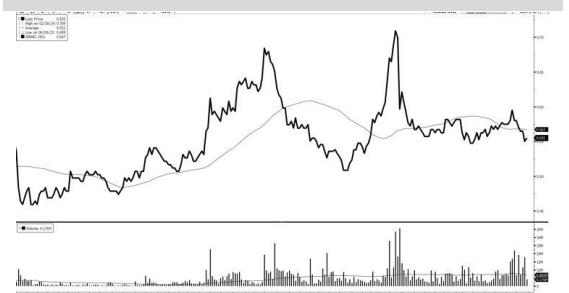
Maintain BUY

Unchanged Target Price: RM0.70

RETURN STATISTICS

Price @ 31 st May 2024 (RM)	0.56
Expected share price return (%)	+24.6
Expected dividend yield (%)	+6.3
Expected total return (%)	+30.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.3	-6.2
3 months	-3.5	-15.7
12 months	-3.5	-16.2

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	9,809.1	10,155.3	10,557.7
EBITDA	943.9	1,036.4	1,127.1
Profit before tax (PBT)	467.3	554.4	628.6
Core PATANCI	303.2	369.9	425.4
Core EPS (sen)	8.3	10.1	11.7
DPS (sen)	3.0	3.5	4.0
Dividend Yield (%)	5.3	6.3	7.1

KEY STATISTICS


FBM KLCI	1,596.68
Issue shares (m)	3650.00
Estimated free float (%)	19.26
Market Capitalisation (RM'm)	2,025.75
52-wk price range	RM0.47-RM0.74
3-mth average daily volume (m)	7.05
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	4.91

Analyst

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Maintain BUY with an unchanged TP of RM0.70. We make no changes to our earnings forecast post analyst briefing as earnings came in within expectation. Our **TP** is unchanged at **RM0.70**, based on an unchanged PER of 8.4x (5-year historical -1SD PER) pegged to an unchanged FY24F EPS of 8.31sen.

Outlook. We are optimistic about Leong Hup's mid-to-long-term outlook, supported by (1) resilient demand for poultry products due to their staple food nature and (2) the softening of global commodity prices for livestock feed, reducing raw material costs in the livestock and poultry-related product segment. Additionally, we are confident that the group is well-positioned to capture underserved demand in Vietnam and the Philippines. Therefore, we maintain our **BUY** call on Leong Hup.

Downside risks are (1) higher-than-expected raw material costs, (2) adverse regulatory changes such as price controls or culling programs, (3) shortages of great-grandparent DOC, and (4) disease outbreaks. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	9,042.7	9,539.5	9,809.1	10,155.3	10,557.7
Change in biological assets	7.9	90.5	22.7	8.2	19.1
Change in closing inventories	29.6	(25.2)	43.1	15.5	36.3
Purchase of inventories and livestock	(6,865.4)	(7,030.1)	(7,279.8)	(7,410.8)	(7,669.8)
Gross Profit	2,214.8	2,574.7	2,595.2	2,768.2	2,943.3
Other Income	175.7	272.7	266.3	273.0	282.4
Employee benefit costs including Directors' remuneration	(677.4)	(781.4)	(824.8)	(862.3)	(901.5)
Utilities costs	(221.4)	(251.6)	(261.3)	(273.2)	(286.9)
Repair and maintenance	(91.2)	(97.0)	(100.8)	(105.4)	(110.7)
Transportation expenses	(181.4)	(201.6)	(248.8)	(252.4)	(257.2)
Other operating expenses	(467.0)	(464.1)	(481.9)	(511.4)	(542.3)
EBIT	450.9	709.5	624.9	714.2	790.5
Profit before tax (PBT)	326.6	554.7	467.3	554.4	628.6
Profit After tax (PAT)	243.9	429.8	362.1	429.5	487.1
Core PATANCI	240.6	324.9	303.2	369.9	425.4
Core EPS (sen)	6.6	8.9	8.3	10.1	11.7
DPS (sen)	1.8	3.0	3.0	3.5	4.0

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,784.5	2,730.3	2,713.0	2,693.0	2,659.1
Total Non-current assets	3,431.8	3,399.5	3,421.8	3,470.8	3,558.2
Inventories	1,025.9	978.8	1,022.0	1,037.5	1,073.8
ST - Trade and other receivables	823.2	874.2	906.3	935.7	972.8
Cash and cash equivalents	840.3	699.5	704.9	715.2	728.6
Total current assets	3,160.4	3,127.1	3,232.0	3,297.6	3,406.0
Total Assets	6,592.2	6,526.6	6,653.9	6,768.4	6,964.2
Total Equity	2,589.6	2,955.1	3,085.3	3,216.9	3,411.1
LT Loans and borrowings	1,046.4	870.8	853.4	836.3	819.6
Total Non-current liabilities	1,339.5	1,213.2	1,210.8	1,212.4	1,217.3
ST Trade and other payables	629.8	682.1	712.2	723.0	748.3
ST Loans and borrowings	1,986.3	1,587.3	1,555.6	1,524.4	1,494.0
Total Current Liabilities	2,663.1	2,358.3	2,357.8	2,339.1	2,335.8
Total Liabilities	4,002.6	3,571.5	3,568.6	3,551.5	3,553.1

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	326.6	554.7	467.3	554.4	628.6
Cash flow from operations	620.9	992.5	700.6	656.8	680.2
Cash flow from investing	(277.6)	(163.8)	(288.1)	(288.5)	(289.0)
Cash flow from financing	(362.1)	(773.3)	(334.9)	(358.1)	(377.7)
Net cash flow	(18.8)	55.3	77.6	10.3	13.5
(+/-) Adjustments	(0.3)	15.9	0.0	0.0	0.0
Net cash/(debt) b/f	575.1	556.1	627.3	704.9	715.2
Net cash/(debt) c/f	556.1	627.3	704.9	715.2	728.6

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	25.3	22.5	22.5	22.5	22.5
PER (x)	9.3	6.8	5.6	4.8	4.2
Net debt/total equity (%)	0.8	0.6	0.6	0.5	0.5

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	24.5	27.0	26.5	27.3	27.9
EBIT Margin (%)	5.0	7.4	6.4	7.0	7.5
Core PATANCI Margin (%)	2.7	3.4	3.1	3.6	4.0

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