3QFY22 Results Review (Within)| Thursday, 10 November 2022

Hup Seng Industries

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

***Maintain* BUY**

***Unchanged* Target Price: RM0.79**

Better sales ahead

KEY INVESTMENT HIGHLIGHTS

- **Earnings deem within expectations**
- **Core PATANCI for 3QFY22 increased +38.5%qoq to RM4m**
- **Lower core earnings for 9MFY22**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM0.79**

Earnings deem within expectations. Hup Seng Industries ("Hup Seng")'s 9MFY22 earnings of RM14m were deemed to be within our full-year FY22 expectation despite it represented 65.6% of ours and 64.7% of the streets' full-year projection as we anticipate stronger quarter in 4QFY22 due to stronger sales ahead for Chinese New Year celebration. Meanwhile, Hup Seng declared a single-tier dividend of 1 sen/share, bringing the total dividend for 9MFY22 to 2 sen/share. This was slightly below the total dividend for 9MFY21, which was 3.5 sen/share.

Core PATANCI for 3QFY22 increased +38.5%qoq to RM4m thanks to lower prices of certain raw materials during the quarter. Operating profit margin grew to 5.4% from 4.2% in 2QFY22 due to a higher margin for manufacturing biscuits and beverages. However, top-line decreased by -4.9%qoq to RM70.2m due to poor export sales and domestic sales. On yearly basis, revenue climbed by +8.3%yoy to RM70.2m, mainly contributed by greater export sales from Saudi Arabia and Indonesia, along with increased sales from domestic's modern channels. The group's bottom line was nevertheless hurt by the increasing cost of raw materials despite higher sales. As a result, core PATANCI decreased from RM4.4m in the 3QFY21 to RM4m in the 3QFY22.

Lower core earnings for 9MFY22, despite increased revenue. Hup Seng's cumulative revenue climbed by +4.3%yoy to RM223.3m due to higher domestic sales from the modern channel and East Malaysia coupled with better export sales. However, the sharp increase in global commodity prices since the beginning of 2021 has resulted in margin compression. As such, the core PATANCI plummeted -22.9%yoy to RM14m.

Maintain BUY with an unchanged TP of RM0.79. We make no changes to our earnings forecast for FY22-FY24F. Our TP is based on DDM valuation with a growth rate of 2.0% and WACC of 8.9%. We are optimistic about Hup Seng's prospects underpinned by its: (1) relatively stable demand for the biscuits due to its well-known household brand name, (2) consistent dividend payout supported by a positive operating cash flow, and (3) strong balance sheet with net cash of RM60.3m in 9MFY22, equivalent to 11.6% of the total market capitalization.

RETURN STATISTICS	
Price @ 9th November 2022 (RM)	0.65
Expected share price return (%)	+22.2
Expected dividend yield (%)	+3.0
Expected total return (%)	**+25.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	6.6	4.3
3 months	-1.5	-10.3
12 months	-27.8	-22.8

KEY STATISTICS	
FBM KLCI	1,446.19
Syariah compliant	Yes
Issue shares (m)	800.00
F4BGM Index	No
ESG Grading Band (Star rating)	NA
Estimated free float (%)	35.42
Market Capitalisation (RM'm)	520.00
52-wk price range	RM0.6 - RM0.90
Beta vs FBM KLCI (x)	0.57
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.08
Top Shareholders (%)	
HSB Group Sdn Bhd	51.00
Employees Provident Fund Board	2.35
Kerk Chian Tung	1.42

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Downside risk is a further increase in the raw material prices, especially CPO, sugar, and wheat flour, which are the main raw material for manufacturing biscuits.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	**327.3**	**295.8**	**311.2**	**322.1**	**333.4**
Cost of Sales	(222.7)	(214.2)	(239.3)	(232.8)	(226.5)
Gross Profit	**104.6**	**81.7**	**72.0**	**89.3**	**106.9**
Profit Before Tax (PBT)	55.0	37.3	29.3	44.7	59.7
Income Tax Expenses	(14.6)	(10.1)	(7.9)	(12.0)	(16.1)
PATANCI	**40.4**	**27.3**	**21.4**	**32.6**	**43.7**
Core PATANCI	**41.0**	**27.5**	**21.4**	**32.6**	**43.7**
EPS (sen)	5.1	3.4	2.7	4.1	5.5
Dividend per share (sen)	6.0	2.5	2.0	3.0	4.0
Dividend yield (%)	4.4	4.0	3.0	4.6	6.2
Growth & Valuation (%)					
Revenue Growth	5.7	(9.6)	5.2	3.5	3.5
Gross Profit Growth	(0.7)	(21.9)	(11.9)	24.1	19.7
Core PATANCI Growth	(3.7)	(32.9)	(22.2)	52.4	33.8
Gross Profit Margin	31.9	27.6	23.1	27.7	32.1
PBT Margin	16.8	12.6	9.4	13.9	17.9
Core PATANCI Margin	12.5	9.3	6.9	10.1	13.1
Effective tax rate	26.6	26.9	26.9	26.9	26.9

Source: Company, MIDFR

Hup Seng: 3QFY22 RESULTS SUMMARY

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	70.2	73.8	64.8	8.3	(4.9)	223.3	214.0	4.3
Cost of sales	(54.4)	(59.5)	(47.8)	13.7	(8.5)	(173.1)	(155.3)	11.5
Gross Profit	**15.8**	**14.3**	**16.9**	**(6.8)**	**10.2**	**50.1**	**58.8**	**(14.7)**
EBIT	**5.3**	**4.2**	**5.7**	**(7.7)**	**24.0**	**18.7**	**24.1**	**(22.3)**
Finance cost	(0.0)	(0.0)	(0.0)	75.0	16.7	(0.0)	(0.0)	58.3
Profit before tax (PBT)	**5.3**	**4.2**	**5.7**	**(7.7)**	**24.1**	**18.7**	**24.1**	**(22.4)**
Income tax expense	(1.4)	(1.2)	(1.6)	(11.4)	19.2	(5.0)	(6.5)	(22.8)
Profit after tax	**3.8**	**3.0**	**4.1**	**(6.3)**	**26.0**	**13.6**	**17.5**	**(22.2)**
Minority Interest	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
PATANCI	**3.8**	**3.0**	**4.1**	**(6.3)**	**26.0**	**13.6**	**17.5**	**(22.2)**
Core PATANCI	**4.0**	**2.9**	**4.4**	**(8.5)**	**38.5**	**14.0**	**18.2**	**(22.9)**
Basic EPS (sen)	0.5	0.4	0.5	(5.9)	26.3	1.7	2.2	(21.9)
DPS (sen)	1.0	0.0	1.5	(33.3)	n.m.	2.0	3.5	(42.9)
Dividend yield (%)	1.5	0.0	2.3	(0.8)	1.5	3.1	5.4	(2.3)
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	(4.9)	(6.9)	(2.6)	(2.3)	2.0	45.9	43.4	2.4
Core PATANCI Growth	38.5	(58.7)	20.7	17.8	97.2	40.5	32.1	8.4
Gross Profit Margin	22.5	19.4	26.1	(3.6)	3.1	22.5	27.5	(5.0)
PBT Margin	7.5	5.7	8.8	(1.3)	1.7	8.4	11.2	(2.9)
Core PATANCI Margin	5.8	4.0	6.8	(1.1)	1.8	6.3	8.5	(2.2)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	11.6	9.2	8.8	2.8	2.4	11.6	8.8	2.8
Effective tax rate (%)	27.1	28.2	28.3	(1.1)	(1.1)	27.0	27.1	(0.1)

Source: Company, MIDF Research

Hup Seng: BREAKDOWN BY SEGMENT

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue:								
Biscuit Manufacturing	52.0	55.4	46.5	5.5	(3.4)	166.4	155.0	11.5
Beverage Manufacturing	1.6	1.5	1.4	0.2	0.0	4.9	4.7	0.2
Trading	54.2	56.7	49.9	4.3	(2.4)	171.9	166.0	5.9
Total	**107.8**	**113.6**	**97.9**	**9.9**	**(5.8)**	**343.3**	**325.7**	**17.6**
Operating Profit:								
Biscuit Manufacturing	1.1	(0.4)	1.7	(0.6)	1.5	3.5	7.5	(4.0)
Beverage Manufacturing	0.0	(0.1)	(0.0)	0.0	0.1	(0.0)	1.6	(1.6)
Trading	4.7	5.3	4.7	0.1	(0.6)	16.8	17.2	(0.4)
Total	**5.8**	**4.8**	**6.3**	**(0.5)**	**1.0**	**20.3**	**26.3**	**(6.0)**
Operating Profit Margin:								
Biscuit Manufacturing	2.1	(0.7)	3.6	(1.5)	2.8	2.1	4.9	(2.8)
Beverage Manufacturing	2.2	(3.2)	(0.4)	2.6	5.5	(0.2)	33.3	(33.6)
Trading	8.7	9.3	9.3	(0.6)	(0.6)	9.8	10.4	(0.6)
Total	**5.4**	**4.2**	**6.4**	**(1.0)**	**1.2**	**5.9**	**8.1**	**(2.2)**

Source: Company, MIDF Research

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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 *rise* 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 *fall* 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