Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services| Agricultural Products

Maintain NEUTRAL

***Unchanged* Target Price: RM0.47**

Raw material cost remains high

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings met expectations**
- **3QFY22's core PATANCI surged +59.1%qoq to RM65.7m**
- **Higher revenue and core earnings for 9MFY22**
- **Maintain NEUTRAL with an unchanged TP of RM0.47**

RETURN STATISTICS	
Price @ 29th Nov 2022 (RM)	0.49
Expected share price return (%)	-2.3
Expected dividend yield (%)	+1.9
Expected total return (%)	**-0.40**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.8	6.0
3 months	5.4	2.0
12 months	-7.6	-5.0

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	16.70
Market Capitalisation (RM'm)	1,770.25
52-wk price range	RM0.44 - RM0.62
Beta vs FBM KLCI (x)	0.58
3-mth average daily volume (m)	0.22
3-mth average daily value (RM'm)	0.10
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07

9MFY22 earnings met expectations. Leong Hup International Berhad (LHI) reported a core PATANCI of RM86.2m for 9MFY22, after excluding a one-time-off item of -RM0.3m. This was within our and the consensus' full-year forecasts of 72.1% and 71.2% respectively. For the quarter, no dividend was declared.

3QFY22's core PATANCI surged +59.1%qoq to RM65.7m, in line with an increase in revenue from RM2.27b in 2QFY22 to RM2.36b in 3QFY22. The improved earnings performance was driven by higher revenue on the back of (1) higher average selling price (ASPs) for livestock feed in Vietnam, Malaysia, and Indonesia, (2) increased sales volume for livestock feed in Vietnam, and (3) higher ASP for day-old chick (DOC) in Indonesia. On yearly basis, 3QFY22 revenue grew +30.5%yoy to RM2.36b, primarily due to higher ASPs and sales volume, which resulted in higher revenue in all three segments. EBITDA margin increased by +6.8ppt YoY to 9.0%, thanks to better margins in Malaysia, Indonesia, and Vietnam operations. The core PATANCI turned profitable at RM65.7m in 3QFY22 as compared to a net loss of -RM51.8m in 3QFY21.

Higher revenue and core earnings for 9MFY22. The cumulative topline increased by +25.9%yoy to RM6.72b, due to higher revenue in all three segments. EBITDA expanded +32.8%yoy to RM497.1m, owing to higher profit from the following operations: (1) Malaysia, backed by higher revenue for DOC and eggs, as well as an RM51.5m of government subsidy and grant on livestock, (2) Vietnam, due to higher ASP and sales volume, and (3) Philippines, due to higher ASP and sales volume of broiler chicken. As such, the core PATANCI increased by +140.8%yoy to RM84.8m.

MIDF Research
research@midf.com.my

Maintain NEUTRAL with an unchanged TP of RM0.47. We make no changes to our forecast pending analyst briefing. Our TP is unchanged at RM0.47, based on a PER of 16.8x pegged to FY23F EPS of 2.8sen. We remain cautious that the margin compression will persist in the near term on the back of the still high raw material cost for livestock & poultry along with the ongoing price controls for chicken and egg in Malaysia. Nevertheless, we opine that Leong Hup's vertical integration of poultry, eggs, and livestock feed and geographic diversification across countries could partially mitigate against the downside. Also, government subsidies and grants for livestock in Malaysia could potentially sustain the margin by reducing the impact of price controls on chicken and eggs. Hence, we are maintaining our **NEUTRAL** call on LHI. **Downside risks** are (i) a substantial increase in the cost of raw materials; (ii) adverse regulatory change; and (iii) fierce competition.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	**6,040.7**	**7,153.5**	**8,224.9**	**8,478.0**	**8,727.6**
Operational Profit	**282.6**	**252.9**	**287.4**	**280.4**	**257.2**
Finance costs	(125.9)	(112.4)	(136.9)	(148.8)	(155.4)
Share of profit of associates	0.4	0.4	0.5	0.5	0.5
PBT	**157.1**	**140.8**	**151.0**	**132.1**	**102.3**
Income tax	(39.6)	(44.4)	(33.4)	(29.2)	(22.6)
Net Profit	**117.5**	**96.4**	**117.6**	**102.9**	**79.7**
Minority interest	4.4	10.5	0.0	0.0	0.0
PATANCI	**113.1**	**85.9**	**117.6**	**102.9**	**79.7**
EI	(2.4)	1.7	0.0	0.0	0.0
Core PATANCI	**115.5**	**84.2**	**117.6**	**102.9**	**79.7**
Basic EPS (sen)	3.2	2.3	3.2	2.8	2.2
DPS (sen)	0.6	0.7	0.9	0.8	0.6
Growth & Margin (%)					
Revenue Growth	(0.2)	18.4	15.0	3.1	2.9
Core PATANCI Growth	(22.3)	(27.1)	39.7	(12.5)	(22.6)
Operating Profit Margin	4.7	3.5	3.5	3.3	2.9
PBT Margin	2.6	2.0	1.8	1.6	1.2
Core PATANCI Margin	1.9	1.2	1.4	1.2	0.9
Effective tax rate	25.2	31.5	22.1	22.1	22.1
Ratios & Valuation					
PER (x)	15.3	21.0	15.1	17.2	22.2
Net debt/Total Equity (%)	83.7	100.0	115.9	114.2	116.9
Dividend yield	1.1	1.4	1.9	1.7	1.3

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 3QFY22 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	**2,361.4**	**2,272.2**	**1,809.1**	**30.5**	**3.9**	**6,720.8**	**5,339.4**	**25.9**
Other income	65.5	48.3	8.6	658.1	35.6	124.2	40.0	210.5
Operating expenses	(2,290.4)	(2,245.2)	(1,849.5)	23.8	2.0	(6,571.9)	(5,216.0)	26.0
Operating profit	**136.6**	**75.4**	**(31.7)**	**(530.5)**	**81.1**	**273.1**	**163.5**	**67.0**
Finance costs	(36.7)	(31.6)	(28.5)	28.7	16.1	(97.5)	(80.9)	20.6
Share of profits of associates	0.2	0.1	0.1	40.9	131.3	0.3	0.2	59.2
PBT	**100.1**	**43.9**	**(60.1)**	**(266.5)**	**128.0**	**175.9**	**82.8**	**112.4**
Tax expense	(27.7)	(10.5)	(6.0)	363.0	164.5	(46.3)	(39.0)	18.7
PAT	**72.3**	**33.4**	**(66.1)**	**(209.4)**	**116.6**	**129.9**	**43.8**	**196.6**
PATANCI	**67.3**	**40.5**	**(53.5)**	**(225.8)**	**66.2**	**85.1**	**40.3**	**111.3**
Core PATANCI	**65.7**	**41.3**	**(51.8)**	**(227.0)**	**59.1**	**84.8**	**35.2**	**140.8**
Basic EPS (sen)	1.8	1.1	(1.5)	(226.0)	65.8	3.5	1.3	167.9
Ratios & Margins				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Operating profit margin (%)	5.8	3.3	(1.8)	7.5	2.5	4.1	3.1	1.0
PBT margin (%)	4.2	1.9	(3.3)	7.6	2.3	2.6	1.6	1.1
Core PATANCI margin (%)	2.8	1.8	(2.9)	5.6	1.0	1.3	0.8	0.5
Effective Tax rate (%)	27.7	23.9	(10.0)	37.7	3.8	26.3	47.1	(20.8)
BREAKDOWN BY SEGMENT								
Revenue (RMm)								
Livestock and poultry	1,295.7	1,270.1	947.6	36.7	2.0	3,717.8	2,855.2	30.2
Feedmill	1,062.8	999.9	859.0	23.7	6.3	2,994.5	2,476.2	20.9
Others	3.0	2.2	2.6	15.7	34.6	8.5	8.0	6.3
Total	**2,361.4**	**2,272.2**	**1,809.1**	**30.5**	**3.9**	**6,720.8**	**5,339.4**	**25.9**
EBITDA (RMm)								
Livestock and poultry	87.8	57.1	(54.5)	(261.0)	53.6	179.7	148.5	21.1
Feedmill	126.4	93.9	94.3	34.1	34.7	321.1	294.4	9.0
Others	(2.4)	(0.7)	(0.3)	816.7	246.9	(3.7)	(68.7)	(94.6)
Total	**211.8**	**150.3**	**39.5**	**435.8**	**40.9**	**497.1**	**374.2**	**32.8**
Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Livestock and poultry	6.8	4.5	(5.8)	12.5	2.3	4.8	5.2	(0.4)
Feedmill	11.9	9.4	11.0	0.9	2.5	10.7	11.9	(1.2)
Others	(81.2)	(31.5)	(10.2)	(70.9)	(49.7)	(43.6)	(854.5)	811.0
Total	**9.0**	**6.6**	**2.2**	**6.8**	**2.4**	**7.4**	**7.0**	**0.4**

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue (RM'm)								
Malaysia	589.7	581.7	482.4	22.2	1.4	1,723.5	1,405.1	22.7
Indonesia	865.0	823.2	624.0	38.6	5.1	2,493.0	1,934.9	28.8
Vietnam	590.3	563.9	449.1	31.5	4.7	1,623.0	1,272.7	27.5
Philippines	115.4	94.4	52.3	120.7	22.2	270.1	137.7	96.1
Singapore	197.9	206.8	201.3	(1.7)	(4.3)	602.6	580.9	3.7
Total	**2,361.4**	**2,272.2**	**1,809.1**	**30.5**	**3.9**	**6,720.8**	**5,339.4**	**25.9**
EBITDA (RM'm)								
Malaysia	89.2	76.8	32.1	178.2	16.2	234.4	123.9	89.2
Indonesia	38.2	18.0	(6.6)	(676.1)	111.6	91.9	100.8	(8.8)
Vietnam	50.6	35.5	(10.7)	(571.8)	42.7	101.8	58.4	74.5
Philippines	18.3	4.8	8.5	116.4	282.7	32.5	26.6	22.2
Singapore	15.5	15.2	16.4	(5.5)	1.4	36.5	64.6	(43.5)
Total	**211.8**	**150.3**	**39.5**	**435.8**	**40.9**	**497.1**	**374.2**	**32.8**
EBITDA Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Malaysia	15.1	13.2	6.6	8.5	1.9	13.6	8.8	4.8
Indonesia	4.4	2.2	(1.1)	5.5	2.2	3.7	5.2	(1.5)
Vietnam	8.6	6.3	(2.4)	11.0	2.3	6.3	4.6	1.7
Philippines	15.8	5.1	16.2	(0.3)	10.8	12.0	19.3	(7.3)
Singapore	7.8	7.4	8.1	(0.3)	0.4	6.1	11.1	(5.1)
Total	**9.0**	**6.6**	**2.2**	**6.8**	**2.4**	**7.4**	**7.0**	**0.4**

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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