HUP SENG INDUSTRIES BERHAD

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

***Maintain* BUY**

Better margin ahead

***Revised* Target Price: RM0.85**
(from RM0.79)

KEY INVESTMENT HIGHLIGHTS

- **Earnings above expectations**
- **Better revenue and core PAT in 4QFY22**
- **Reduced core PAT for 12MFY22 despite better revenue**
- **Revised earnings projection for FY23-24F and introduce FY25F estimation**
- **Maintain BUY with a higher TP of RM0.85 (previously RM0.79)**

Earnings above expectations. Hup Seng Industries ("Hup Seng") reported a core PAT of RM26.4m for FY22. The result exceeded both our and consensus full-year FY22F projection, coming in at 123.2% of our estimate and 133% of the streets. The positive deviation was mainly due to the better-than-expected margin, which was supported by lower costs for certain raw materials. Meanwhile, the group proposed a dividend of 1 sen per share for 4QFY22, bringing the total dividend for FY22 to 2 sen per share.

Better revenue and core PAT in 4QFY22. On quarterly basis, revenue increased by +35.2%qoq to RM94.9m, mainly due to stronger sales in all three divisions namely biscuit manufacturing, beverage manufacturing and trading segments. Meanwhile, the gross profit margin increased by +7.2ppt qoq to 29.7% on the back of the higher sales contribution and lower costs as a result of falling raw material prices. Hence, core PAT more than doubled from RM4.0m in 3QFY22 to RM12.4m in 4QFY22. On yearly basis, the group's revenue for 4QFY22 increased by +16.0%yoy to RM94.9m, mostly due to strong domestic sales growth of +23%, which more than offset a dip in the export market. As a result, core PAT improved to RM12.4m in 4QFY22 from RM9.5m in 4QFY21.

Reduced core PAT for 12MFY22 despite better revenue. Cumulatively, the group's revenue rose +7.6%yoy to RM318.2m due to higher export and domestic sales. However, earnings were dragged by higher competition in the industry and rising cost of commodities which reduced gross profit margin by -3ppt yoy to 24.6%. As a result, core PAT declined from RM27.8m in 12MFY21 to RM26.4m in 12MFY22.

Revised earnings projection for FY23-24F and introduce FY25F estimation. We raise our earnings forecast for FY23F by +11.3% and FY24F by 8.4%. This is after accounting for a lower cost of sales caused by a decrease in the cost of raw materials.

RETURN STATISTICS	
Price @ 14th February 2023 (RM)	0.77
Expected share price return (%)	+10.0
Expected dividend yield (%)	+3.6
Expected total return (%)	**+13.62**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	11.6	12.4
3 months	7.7	17.8
12 months	-11.0	-5.0

KEY STATISTICS	
FBM KLCI	1,483.97
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)	616.00
52-wk price range	RM0.6 - RM0.87
Beta vs FBM KLCI (x)	0.63
3-mth average daily volume (m)	0.16
3-mth average daily value (RM'm)	0.12
Top Shareholders (%)	
HSB Group Sdn Bhd	51.00
Employees Provident Fund Board	2.35
Kerk Chian Tung	1.42

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Maintain BUY with a higher TP of RM0.85 (previously RM0.79). Our TP is based on DDM valuation with a 2.0% growth rate and a revised WACC of 9.8% (from 8.9%). We continue to like Hup Seng underpinned by its: (1) relatively stable demand for the biscuits due to its well-known household brand name, (2) consistent dividend payout and (3) strong net cash position of RM62.4m in FY22. The earnings outlook for FY23 is also expected to underpin by lower raw material costs such as CPO and wheat, which are the primary materials used in biscuit production. Meanwhile, Hup Seng Industries is currently trading at an attractive FY23F PER of 16.9x, which is below its 5-year historical mean PER of 19.1x.

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

INVESTMENT STATISTICS

FYE DEC (RM'm)	2021A	2022A	2023E	2024E	2025E
Revenue	295.8	318.2	334.6	353.1	373.6
Cost of Sales	(214.2)	(239.9)	(239.7)	(240.2)	(241.5)
Gross Profit	**81.7**	**78.3**	**94.9**	**112.8**	**132.1**
Other Income	1.5	2.9	3.1	3.3	3.4
Selling and Distribution expenses	(28.3)	(27.4)	(29.1)	(31.0)	(33.1)
General & Administrative	(18.6)	(18.4)	(19.5)	(20.8)	(22.2)
EBITDA	**29.5**	**28.7**	**46.5**	**61.1**	**76.5**
EBIT	**36.3**	**35.5**	**49.4**	**64.3**	**80.2**
Profit before tax (PBT)	**37.3**	**35.4**	**49.5**	**64.4**	**80.3**
Income tax expense	(10.1)	(9.4)	(13.1)	(17.0)	(21.3)
Profit After tax (PAT)	**27.3**	**26.1**	**36.4**	**47.3**	**59.1**
Core PATANCI	**27.5**	**26.4**	**36.4**	**47.3**	**59.1**
Basic EPS (sen)	3.4	3.3	4.5	5.9	7.4
Core EPS (sen)	3.4	3.3	4.5	5.9	7.4
DPS (sen)	2.5	2.0	2.8	3.8	5.7
Growth & Margin					
Revenue Growth (%)	(9.6)	7.6	5.2	5.5	5.8
Gross Profit Growth (%)	(21.9)	(4.2)	21.3	18.8	17.1
EBITDA Growth (%)	(36.4)	(2.6)	61.9	31.2	25.3
Core PATANCI Growth (%)	(32.9)	(4.0)	37.6	30.1	24.8
Gross Profit Margin (%)	27.6	24.6	28.4	32.0	35.4
EBITDA Margin (%)	10.0	9.0	13.9	17.3	20.5
EBIT Margin (%)	12.3	11.1	14.8	18.2	21.5
Core PATANCI Margin (%)	9.3	8.3	10.9	13.4	15.8
Ratios & Valuation					
Effective tax rate (%)	26.9	26.4	26.5	26.5	26.5
Dividend Yield (%)	3.2	2.6	3.6	5.0	7.4
PER (x)	22.6	23.6	16.9	13.0	10.4
Cash/Market Capitalisation (sen)	10.8	10.1	14.4	15.2	16.1
Cash/share (sen)	8.3	7.8	11.1	11.7	12.4

Source: Company, MIDFR

Hup Seng: 4QFY22 RESULTS SUMMARY

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue	94.9	70.2	81.8	16.0	35.2	318.2	295.8	7.6
Cost of Sales	(66.8)	(54.4)	(58.9)	13.4	22.7	(239.9)	(214.2)	12.0
Gross Profit	**28.2**	**15.8**	**22.9**	**23.0**	**78.4**	**78.3**	**81.7**	**(4.2)**
Other income	0.8	0.7	0.9	(9.7)	19.7	2.9	2.5	14.7
Administrative expenses	(5.1)	(4.4)	(4.0)	27.9	16.3	(18.4)	(18.6)	(1.3)
Selling and marketing expenses	(7.1)	(6.8)	(6.6)	8.5	4.1	(27.4)	(28.3)	(3.2)
Operating profit (EBIT)	**16.8**	**5.3**	**13.3**	**26.5**	**219.0**	**35.5**	**37.3**	**(5.0)**
Finance cost	(0.0)	(0.0)	(0.0)	(53.3)	0.0	(0.0)	(0.0)	(3.7)
Profit before tax (PBT)	**16.8**	**5.3**	**13.2**	**26.6**	**219.3**	**35.4**	**37.3**	**(5.0)**
Income tax expense	(4.3)	(1.4)	(3.5)	22.5	203.7	(9.4)	(10.1)	(6.9)
Profit After tax (PAT)	**12.4**	**3.8**	**9.7**	**28.1**	**225.1**	**26.1**	**27.2**	**(4.3)**
Core PAT	**12.4**	**4.0**	**9.5**	**29.7**	**207.0**	**26.4**	**27.8**	**(4.8)**
Basic EPS (sen)	1.6	0.5	1.2	28.1	222.9	3.3	3.4	(4.1)
DPS (sen)	1.0	1.0	1.0	0.0	0.0	2.0	4.5	(55.6)
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Revenue Growth	35.2	(4.9)	26.3	9.0	40.1	42.5	38.2	4.3
Gross Profit Growth	78.4	10.2	35.2	43.1	68.2	56.2	39.0	17.2
Operating Profit Growth	219.0	24.0	132.7	86.2	194.9	89.7	55.1	34.6
Core PAT Growth	207.0	38.1	115.9	91.1	168.9	88.3	52.4	35.8
Gross Profit Margin	29.7	22.5	28.0	1.7	7.2	24.6	27.6	(3.0)
Operating Profit Margin	17.7	7.5	16.2	1.5	10.2	11.1	12.6	(1.5)
Core PAT Margin	13.0	5.7	11.7	1.4	7.3	8.3	9.4	(1.1)
Ratios & Valuation				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Effective tax rate (%)	25.8	27.1	26.7	(0.9)	(1.3)	26.4	27.0	(0.5)

Source: Company, MIDF Research

Hup Seng: BREAKDOWN BY SEGMENT

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	70.4	52.0	61.2	14.9	35.4	236.8	216.2	9.5
Beverage Manufacturing	1.9	1.6	2.3	(17.5)	20.7	6.8	7.0	(2.3)
Trading	73.2	54.2	59.5	23.1	35.0	245.1	225.5	8.7
Intersegment	(50.6)	(37.6)	(41.2)	22.7	34.5	(170.6)	(118.4)	44.1
Total	**94.9**	**70.2**	**81.8**	**16.0**	**35.2**	**318.2**	**330.3**	**(3.7)**
Operating Profit (RM'm):								
Biscuit Manufacturing	8.0	1.1	6.9	16.8	634.8	11.5	14.4	(20.0)
Beverage Manufacturing	0.1	0.0	(1.2)	(111.4)	291.4	0.1	0.4	(66.0)
Trading	9.2	4.7	8.1	12.9	95.2	26.0	25.4	2.5
Total	**145.5**	**107.8**	**123.0**	**18.3**	**35.0**	**488.8**	**448.7**	**8.9**
Operating profit margin:								
Biscuit Manufacturing	11.4	2.1	11.2	0.2	9.3	(72.0)	(54.8)	31.5
Beverage Manufacturing	7.2	2.2	(52.1)	59.3	5.0	0.0	0.0	n.m.
Trading	12.5	8.7	13.7	(1.1)	3.9	10.6	11.2	(5.7)
Total	**18.3**	**8.3**	**16.9**	**1.4**	**10.0**	**(15.3)**	**(21.7)**	**(29.6)**

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