Leong Hup International Berhad

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

Maintain BUY

Stronger sales volume of DOC in Malaysia

***Revised* Target Price: RM0.90**
(from RM0.80)

KEY INVESTMENT HIGHLIGHTS

- **Earnings above projections**
- **Increased revenue and core PATANCI**
- **Lower ASP in Indonesia and Vietnam**
- **Raised our earnings projection for FY23-24F and introduce the FY25F projection**
- **Maintain BUY with a higher TP of RM0.90 (previously RM0.80)**

Earnings above projections. Leong Hup International (LHIB) reported a core PATACI of RM245.9m in 12MFY22. After excluding an RM27m one-time item, earnings exceeded both ours and the consensus' expectations, accounting for 149.1% and 143.8% of respective full-year FY22F projections. The positive variance was primarily due to higher-than-expected revenue, which was driven by higher sales volume and average selling price. No dividend was declared during the quarter.

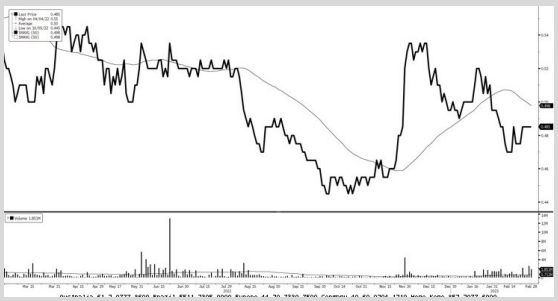
Increased revenue and core PATANCI. On yearly basis, 4QFY22 revenue rose +28.0%yoy to RM2.3b, thanks to higher revenue in all three divisions, namely livestock and poultry, Feedmill, and other. The increased revenue from the livestock & poultry segment (+19.0%yoy) was contributed by the higher sales volume of DOC in Malaysia and Indonesia coupled with better ASP and sales volume of broiler chicken and eggs in Vietnam. Meanwhile, the Feedmill segment's revenue increased +40.4%yoy to RM1.05b, primarily due to higher ASP and sales volume in Indonesia and Vietnam. As such, core PATANCI more than doubled from RM45.5m in 4QFY21 to RM100.5m in 4QFY22.

Lower ASP in Indonesia and Vietnam. Sequentially, Leong Hup reported a sequential decline of -1.7%qoq to RM2.3b in revenue. This was primarily due to (1) lower revenue from the Indonesian operation (-8.8%qoq), which was driven by lower ASP and sales volume of DOC and lower ASP of livestock feed, and (2) lower revenue from the Vietnam operation (-2.8%qoq), which was driven by lower ASP and sales volume of broiler chicken. On a positive note, higher sales volumes of broiler chicken and DOC in Malaysia (+7.5%qoq) have offset the declines in Indonesia and Vietnam. Operating profit margin increased by +2.4ppt to 8.2% in 4QFY22 due to lower operating expenses (-4.1%yoy) which more than enough to offset the slight decrease in revenue. As such, core PATANCI rose +120.9%yoy to RM100.5m.

12MFY22 core PATANCI increased by +180%yoy to RM245.9m, which in line with a +26.4%yoy growth of revenue to RM9.0b. The improved performance was primarily due to higher revenue from the livestock and poultry segment (+27.2%yoy) and Feedmill segment (+25.5%yoy).

RETURN STATISTICS	
Price @ 28th Feb 2023 (RM)	0.49
Expected share price return (%)	+80.9
Expected dividend yield (%)	+3.4
Expected total return (%)	**+84.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.0	1.2
3 months	-1.0	-3.5
12 months	-6.7	3.3

KEY STATISTICS	
FBM KLCI	1,454.19
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)	1,788.50
52-wk price range	RM0.44 - RM0.57
Beta vs FBM KLCI (x)	0.49
3-mth average daily volume (m)	0.69
3-mth average daily value (RM'm)	0.35
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07

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Raised our earnings projection for FY23-24F and introduce the FY25F projection. We raised our earnings forecast for FY23F by +63.7% and FY24F by +68.2% in anticipation of higher sales and normalised profit margins. This is after accounting for increased sales volume, and average selling prices for chicken and eggs.

Maintain BUY with a higher TP of RM0.90 (previously RM0.80). Our revised **TP** of **RM0.90** is based on a revised PER of 11.5x (slightly below its 5-year historical PE) that is pegged to FY24F EPS of 6.4sen. We are optimistic about Leong Hup's FY23 outlook underpinned by: (1) higher egg demand ahead, backed by the ongoing global chicken shortage caused by the widely spread Avian Flu, (2) higher revenue in Singapore operations as Malaysia's export ban is gradually lifted, and (3) its vertical integration of poultry, eggs, and livestock feed, as well as geographic diversification across countries, which could partially offset the downside. Besides, we believe that the anticipated removal of the retail chicken price ceiling after June 2023 will benefit Leong Hup by allowing it to pass on the increased costs to customers and improve margins. Hence, we maintain our **BUY** call on Leong Hup. Leong Hup is currently trading at an attractive FY24F PER of 5.5x, compared to its 2-year historical average PER of 11.5x. **Downside risks** are (1) a substantial increase in the cost of raw materials; (2) adverse regulatory change; and (3) fierce competition.

INVESTMENT STATISTICS

FYE DEC (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	**7,153.5**	**9,042.7**	**9,670.9**	**10,359.7**	**11,109.0**
Operational Profit	**252.9**	**464.0**	**532.1**	**621.3**	**698.7**
Finance costs	(112.4)	(137.9)	(167.7)	(200.3)	(214.8)
Share of profit of associates	0.4	0.4	0.5	0.5	0.5
PBT	**140.8**	**326.6**	**364.9**	**421.5**	**484.5**
Income tax	(44.4)	(82.7)	(80.7)	(93.2)	(107.1)
Net Profit	**96.4**	**243.9**	**284.2**	**328.3**	**377.4**
PATANCI	**85.9**	**218.9**	**284.2**	**328.3**	**377.4**
Core PATANCI	**84.2**	**218.9**	**284.2**	**328.3**	**377.4**
Basic EPS (sen)	2.3	6.0	7.8	9.0	10.3
DPS (sen)	0.7	1.7	2.2	2.6	2.9
Growth & Margin (%)					
Revenue Growth	18.4	26.4	6.9	7.1	7.2
Core PATANCI Growth	(27.1)	160.0	29.9	15.5	14.9
Operating Profit Margin	3.5	5.1	5.5	6.0	6.3
PBT Margin	2.0	3.6	3.8	4.1	4.4
Core PATANCI Margin	1.2	2.4	2.9	3.2	3.4
Effective tax rate	31.5	25.3	22.1	22.1	22.1
Ratios & Valuation					
PER (x)	21.5	8.3	6.4	5.5	4.8
Net debt/Total Equity (%)	100.0	111.7	110.2	108.3	106.1
Dividend yield	1.3	3.4	4.5	5.2	5.9

Source: Company, MIDFR

TABLE 1: Leong Hup's 4QFY22 Result Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue	**2,321.9**	**2,361.4**	**1,814.1**	**28.0**	**(1.7)**	**9,042.7**	**7,153.5**	**26.4**
Other income	64.6	65.5	13.5	378.3	(1.4)	188.8	53.5	252.9
Operating expenses	(2,195.6)	(2,290.4)	(1,738.7)	26.3	(4.1)	(8,767.5)	(6,954.7)	26.1
Operating profit	**191.0**	**136.6**	**88.9**	**114.9**	**39.8**	**464.0**	**252.3**	**83.9**
Finance costs	(40.4)	(36.7)	(31.6)	28.0	10.3	(137.9)	(112.4)	22.7
Share of profits of associates	0.1	0.2	(0.2)	(151.9)	(20.0)	0.4	(0.0)	(1,114.0)
PBT	**150.7**	**100.1**	**57.0**	**164.2**	**50.6**	**326.6**	**139.8**	**133.5**
Tax expense	(36.4)	(27.7)	(5.5)	561.1	31.2	(82.7)	(44.5)	85.8
PAT	**114.3**	**72.3**	**51.5**	**121.7**	**58.0**	**243.9**	**95.3**	**155.8**
PATANCI	**90.7**	**67.3**	**37.5**	**141.8**	**34.8**	**218.9**	**84.8**	**158.0**
Core PATANCI	**100.5**	**43.8**	**45.5**	**120.9**	**129.7**	**245.9**	**87.8**	**180.0**
Basic EPS (sen)	2.5	1.8	1.0	139.4	35.3	6.0	2.4	155.3
Ratios & Margins				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating profit margin (%)	8.2	5.8	4.9	3.3	2.4	5.1	3.5	1.6
PBT margin (%)	6.5	4.2	3.1	3.3	2.3	3.6	2.0	1.7
Core PATANCI margin (%)	4.3	1.9	2.5	1.8	2.5	2.4	1.2	1.2
Effective Tax rate (%)	24.2	27.7	9.7	14.5	(3.6)	25.3	31.8	(6.5)

Source: Company, MIDFR

TABLE 2: Breakdown by Segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue (RMm)								
Livestock and poultry	1,261.5	1,295.7	1,060.2	19.0	(2.6)	4,979.2	3,915.4	27.2
Feedmill	1,054.5	1,062.8	750.8	40.4	(0.8)	4,049.0	3,227.0	25.5
Others	6.0	3.0	3.1	90.4	100.5	14.5	11.2	29.9
Total	**2,321.9**	**2,361.4**	**1,814.1**	**28.0**	**(1.7)**	**9,042.7**	**7,153.5**	**26.4**
EBITDA (RMm)								
Livestock and poultry	97.6	87.8	37.3	161.5	11.2	277.3	185.8	49.3
Feedmill	162.2	126.4	126.2	28.5	28.3	483.2	420.7	14.9
Others	8.5	(2.4)	(1.7)	(605.0)	(451.5)	4.7	(70.4)	(106.7)
Total	**268.2**	**211.8**	**161.9**	**65.7**	**26.6**	**765.3**	**536.1**	**42.8**
Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Livestock and poultry	7.7	6.8	3.5	4.2	1.0	12.6	4.7	7.8
Feedmill	15.4	11.9	16.8	(1.4)	3.5	26.1	13.0	13.1
Others	142.3	(81.2)	(53.6)	195.9	223.5	98.7	(630.2)	728.9
Total	**11.6**	**9.0**	**8.9**	**2.6**	**2.6**	**8.5**	**7.5**	**1.0**

Source: Company, MIDFR

TABLE 3: Breakdown by Geographical Segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue (RM'm)								
Malaysia	634.1	589.7	542.3	16.9	7.5	2,357.7	1,947.4	21.1
Indonesia	789.1	865.0	523.0	50.9	(8.8)	3,282.1	2,458.0	33.5
Vietnam	573.6	590.3	476.1	20.5	(2.8)	2,196.6	1,748.8	25.6
Philippines	125.6	115.4	63.1	99.0	8.8	395.7	200.8	97.0
Singapore	193.6	197.9	209.6	(7.6)	(2.2)	796.2	790.5	0.7
Total	**2,321.9**	**2,361.4**	**1,814.1**	**28.0**	**(1.7)**	**9,042.7**	**7,153.5**	**26.4**
EBITDA (RM'm)								
Malaysia	126.5	89.2	69.9	80.9	41.7	360.8	193.8	86.2
Indonesia	59.7	38.2	46.0	29.9	56.4	151.6	146.7	3.3
Vietnam	43.6	50.6	19.7	121.5	(14.0)	145.4	78.0	86.3
Philippines	17.6	18.3	10.7	65.6	(3.5)	50.1	37.3	34.6
Singapore	20.8	15.5	15.6	33.0	34.6	57.3	80.2	(28.6)
Total	**268.2**	**211.8**	**161.9**	**65.7**	**26.6**	**765.3**	**536.1**	**42.8**
EBITDA Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Malaysia	19.9	15.1	12.9	7.1	4.8	33.5	10.0	23.6
Indonesia	7.6	4.4	8.8	(1.2)	3.2	11.3	6.0	5.3
Vietnam	7.6	8.6	4.1	3.5	(1.0)	13.9	4.5	9.4
Philippines	14.1	15.8	16.9	(2.8)	(1.8)	26.1	18.5	7.5
Singapore	10.7	7.8	7.5	3.3	2.9	16.8	10.2	6.6
Total	**11.6**	**9.0**	**8.9**	**2.6**	**2.6**	**8.5**	**7.5**	**1.0**

Source: Company, 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 *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