Leong Hup International Berhad

(6633 | LHIB MK) Main | Consumer Products & Services | Agriculture Products

Higher Utilisation Rate for Feedmill Segment

***Maintain* BUY**

***Unchanged* Target Price: RM0.90**

KEY INVESTMENT HIGHLIGHTS

- **Higher utilization rate for Feedmill segment in 4QFY22**
- **Increased broiler DOC and chicken sales in 4QFY22**
- **Lower borrowings in 4QFY22**
- **More B2C channels across countries**
- **Installation of solar power system in Malaysia**
- **Maintain BUY with an unchanged TP of RM0.90**

Virtual briefing. We attended Leong Hup International ("LHIB") analyst briefing for 12MFY22. The salient highlights are as follows: -

Higher utilization rate for Feedmill segment in 4QFY22. In 4QFY22, the Feedmill division's sales volume increased by +5%yoy to 676.4k mt, while the utilisation rate increased by +2.1ppt yoy to 63.9%. This was mostly driven by greater output from the Philippines operation. Overall, Indonesia continues to have the greatest production output within the group.

Increased broiler DOC and chicken sales in 4QFY22. The increased supply of broiler DOC (+3.1%yoy) was primarily attributable to higher sales in Indonesia and Malaysia. The volume of chicken supplied grew by +7.3%yoy to 39.8m birds due to higher supply from operations in Indonesia, Vietnam, and the Philippines. On the other hand, the volume of eggs sold fell by -8.4%yoy to 439.6m eggs mainly due to lower sales from Indonesia, Vietnam, and Malaysia operations.

Lower borrowings in 4QFY22. The total borrowings decreased from RM3.12b in 4QFY21 to RM3.03b in 4QFY22. This was part of the group's strategy to lower financing costs amid current environment of rising interest rates.

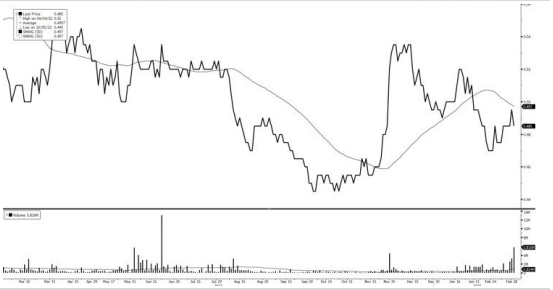
Postponed certain CAPEX projects. The group is still delaying some of the regional capex projects because of the uncertain market conditions and rising interest rates. As such, the group currently anticipates that the overall capex for FY23F would be less than RM200m, down from RM291.5m in FY22F. Recall that the capex for FY21 was RM345.9m, RM498.6m for FY20, and RM400.2m for FY19.

Completed additional production line on shrimp feed and fingerling feed in Vietnam. In FY22, the group completed the additional production line in Vietnam to meet the robust feed demand. The completion of the production line will add 6k mt per month to the capacity.

More B2C channels across countries. During the quarter, opened four new Sunny Chick stores in Indonesia, bringing the total number of Sunny Chick stores to 54. Meanwhile, the group added three new LH Deli outlets in 4QFY22, bringing the total number of stores to 42. As for Malaysia, the total number of Baker's Cottage outlets remained at 161.

RETURN STATISTICS	
Price @ 1st March 2023 (RM)	0.49
Expected share price return (%)	+83.70
Expected dividend yield (%)	+3.50
Expected total return (%)	**+87.2**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.0	0.7
3 months	-2.0	-6.5
12 months	-6.7	2.8

INVESTMENT STATISTICS

FYE Mar	2021A	2022A	2023F
Revenue	7,153.5	9,042.7	9,671.0
EBITDA	521.6	711.3	802.6
Profit Before Tax	140.6	326.8	380.5
Core PATANCI	79.1	246.2	284.2
Core EPS	2.2	6.7	7.8
DPS	0.7	1.7	2.2
Dividend Yield (%)	1.3	3.5	4.5

KEY STATISTICS	
FBM KLCI	1,450.20
Issue shares (m)	3,650.00
Estimated free float (%)	16.70
Market Capitalisation (RM'm)	1,770.25
52-wk price range	RM0.44- RM0.5
3-mth average daily volume (m)	0.74
3-mth average daily value (RM'm)	0.37
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07

Analyst
Genevieve Ng Pei Fen
Genevieve.ng@midf.com.my

Installation of solar power system in Malaysia. The group allocated RM8.3m for the installation of solar systems in Malaysia. The installation is scheduled to be completed by 1QFY23, with the objective of lowering electricity consumption in certain plants. The installation will take place in seven locations: Prima Anjung, Kota Tinggi, Bidor, Serom, Pagoh, Merlimau, and Tangkak. Management anticipates that the installation will reduce electricity consumption by 70% to 85%.

Maintain BUY with an unchanged TP of RM0.90. Post analyst briefing, we make no changes to our earnings forecast for FY23F-25F. Our TP of RM0.90 is based on unchanged PER of 11.5x (slightly below its 5-year historical PE) that is pegged to FY24F EPS of 7.8sen. We are upbeat on Leong Hup's FY23 outlook, which is supported by: (1) solid demand for chicken and eggs in various operations ahead, and (2) its vertical integration of poultry, eggs, and livestock feed which could partially offset the downside. Besides, we believe that the removal of the retail chicken price ceiling after June 2023 will benefit Leong Hup by allowing it to pass on higher 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; and (2) adverse regulatory change.

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	7,153.5	9,042.7	9,671.0	10,359.9	11,109.1
Gross Profit	1,910.5	2,226.3	2,568.8	2,864.0	3,168.9
EBITDA	**521.6**	**711.3**	**802.6**	**880.5**	**994.1**
EBIT	238.2	451.1	520.8	581.7	654.1
Net interest	(98.0)	(124.8)	(140.3)	(142.2)	(148.8)
Profit before tax	**140.6**	**326.8**	**380.5**	**439.5**	**505.3**
Tax expense	(44.4)	(82.7)	(96.3)	(111.2)	(127.9)
PATANCI	85.7	219.1	284.2	328.3	377.4
Core PATANCI	**79.1**	**246.2**	**284.2**	**328.3**	**377.4**

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	2,770.3	2,784.5	2,665.2	2,566.8	2,477.4
Intangible assets	96.1	99.2	106.1	113.7	121.9
Total Non-current assets	**3,411.2**	**3,431.8**	**3,318.5**	**3,245.4**	**3,169.5**
Biological Assets	406.2	419.6	540.9	537.2	554.3
Inventories	973.5	1,025.9	1,215.0	1,266.3	1,298.5
ST - Trade and other receivables	740.1	823.1	947.4	1,009.9	1,060.8
Cash and cash equivalents	764.6	840.3	903.2	972.3	1,047.9
Total current assets	**2,918.6**	**3,160.3**	**3,661.6**	**3,844.7**	**4,024.8**
Total Assets	**6,329.8**	**6,592.1**	**6,980.0**	**7,090.1**	**7,194.3**
Total Equity	**2,359.8**	**2,589.6**	**2,887.9**	**2,864.5**	**2,727.2**
LT Lease Liabiltiies	146.3	1,033.0	1,104.7	1,183.4	1,269.0
LT Loans and borrowings	1,054.6	154.6	146.9	149.8	157.3
Total Non-current liabilities	**1,321.4**	**1,326.0**	**1,397.4**	**1,487.0**	**1,588.8**
ST Trade and other payables	534.7	629.7	744.6	747.0	786.0
Lease liabilities	26.3	23.1	24.7	26.5	28.4
ST Loans and borrowings	2,070.1	1,999.7	1,899.8	1,937.8	2,034.6
Total Current Liabilities	**2,648.5**	**2,676.5**	**2,694.7**	**2,738.6**	**2,878.3**
Total Liabilities	**3,970.0**	**4,002.6**	**4,092.1**	**4,225.6**	**4,467.1**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	140.6	326.8	380.5	439.5	505.3
Cash flow from operations	44.2	625.2	947.9	585.5	608.2
Cash flow from investing	(392.6)	(282.2)	(182.4)	(223.9)	(274.6)
Cash flow from financing	264.3	(362.5)	(418.4)	(292.5)	(258.1)
Net cash flow	**(84.1)**	**(19.5)**	**347.1**	**69.2**	**75.5**
(+/-) Adjustments	13.4	0.4	0.0	0.0	0.0
Beginning cash flow	**645.8**	**575.1**	**556.1**	**903.2**	**972.3**
Ending cash flow	**575.1**	**556.1**	**903.2**	**972.3**	**1,047.9**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	31.6	25.3	25.3	25.3	25.3
Dividend Yield (%)	1.3	3.5	4.5	5.2	6.0
PER (x)	20.9	8.2	6.3	5.4	4.7
Biological Assets (Days)	26.9	21.4	26.5	24.9	24.3
Inventories (Days)	64.4	52.4	59.5	58.8	56.9
Net debt/total equity (x)	1.0	0.5	0.4	0.4	0.4

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	26.7	24.6	26.6	27.6	28.5
EBITDA Margin (%)	7.3	7.9	8.3	8.5	8.9
EBIT Margin (%)	3.3	5.0	5.4	5.6	5.9
Core PATANCI Margin (%)	1.1	2.7	2.9	3.2	3.4

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 *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