Leong Hup International Berhad

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

***Maintain* BUY**

Margin Compression but Diversification Limit Downside

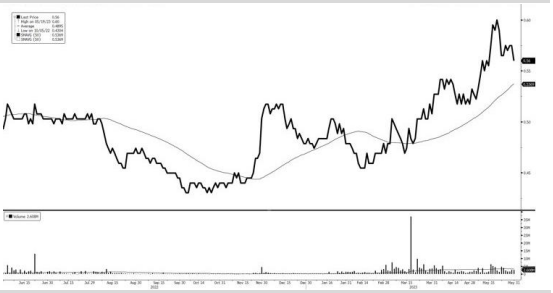
***Unchanged* Target Price: RM0.90**

KEY INVESTMENT HIGHLIGHTS

- **Below expectations**
- **Disappointed 1QFY23 earnings**
- **Earnings forecast maintained pending analyst briefing**
- **Maintain BUY with an unchanged TP of RM0.90**

RETURN STATISTICS	
Price @ 31st May 2023 (RM)	0.56
Expected share price return (%)	+83.69
Expected dividend yield (%)	4.77
Expected total return (%)	**+88.45**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.7	6.8
3 months	6.7	18.3
12 months	9.8	23.0

Below expectations. Leong Hup International ("LHI") reported a core PATANCI of RM16.7m for 3MFY23, deducting a one-time off item of RM5.4m. The results came in below ours and consensus FY23F full-year estimation, accounting for 5.9% of ours and 7.6% of consensus'. The negative divergence was mostly due to the higher-than-expected operating expenses, greater-than-expected finance cost as well as higher-than-expected effective tax rate. The group declared an interim single-tier dividend of 1.80sen/share for FY23.

Disappointed 1QFY23 earnings. On quarterly basis, the revenue fell -5.4%qoq to RM2.19b in 1QFY23, mainly due to decreased sales across Livestock and poultry division, Feedmill division and others division. Particularly, the Vietnam business showed a decline in the ASP and sales volume of broiler chicken as well as lower sales volume of livestock feed. The Malaysian operation reported a decline in the volume of broiler chicken sales as well as the ASP and sales of livestock feed. The core PATANCI plunged -83.4%qoq to RM16.7m on the back of higher operating expenses along with increased finance cost as well as higher effective tax rate (+19.8%qoq). On yearly basis, topline rose +5.2%yoy to RM2.19b mainly supported by: (1) increased ASP and sales volume of DOC in Malaysia as well as (2) greater sales volume of dressed chickens in Philippines. However, the core PATANCI fell from RM47.6m in 1QFY22 to RM16.7m in 1QFY23. This was mainly due margin compression as a result of increased feed input costs and a fall in Indonesia's ASP of DOC.

Maintain BUY with an unchanged TP of RM0.90. We make no changes to our earnings projection pending for the upcoming analyst briefing. Our **TP** of **RM0.90** is based on a PER of 11.5x (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) persistent shortage of eggs in Malaysia, creating an opportunity for Leong Hup to capture additional sales, and 2) its vertical integration of poultry, eggs, and livestock feed, as well as geographic diversification across countries, which could partially offset the downside. Besides, we expect that the removal of the retail chicken price ceiling in July 2023 will benefit Leong Hup by allowing it to pass on higher costs to customers and improve margins. Hence, we maintain **BUY** call on Leong Hup. **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	2023F	2024F	2025F
Revenue	9,671.0	10,359.9	11,109.1
Operating Profit	**821.2**	**900.3**	**1,015.2**
Profit Before Tax	380.5	439.6	505.4
Core PATAMI	**284.2**	**328.3**	**377.5**
Core EPS	7.8	9.0	10.3
DPS	2.3	2.7	3.1
Dividend Yield	4.8	5.5	6.3

KEY STATISTICS	
FBM KLCI	1,387.12
Issue shares (m)	3650.00
Estimated free float (%)	16.99
Market Capitalisation (RM'm)	2,044.00
52-wk price range	RM0.4 - RM0.6
3-mth average daily volume (m)	3.43
3-mth average daily value (RM'm)	1.82
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07

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Leong Hup International: 1QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	2,196.2	2,321.9	2,087.2	5.2	(5.4)	2,196.2	2,087.2	5.2
Other income	62.6	64.6	10.3	507.0	(3.2)	62.6	10.3	507.0
Operating expenses	(2,183.8)	(2,195.6)	(2,036.4)	7.2	(0.5)	(2,183.8)	(2,036.4)	7.2
Operating profit (EBIT)	**75.0**	**191.0**	**61.1**	**22.7**	**(60.7)**	**75.0**	**61.1**	**22.7**
Net finance income/(cost)	(44.7)	(40.4)	(29.3)	52.8	10.6	(44.7)	(29.3)	52.8
Profit before Associates & JV	**30.2**	**150.5**	**31.8**	**(5.0)**	**(79.9)**	**30.2**	**31.8**	**(5.0)**
Profit before tax (PBT)	30.3	150.7	31.9	(5.2)	(79.9)	30.3	31.9	(5.2)
Profit After tax (PAT)	**17.0**	**114.3**	**23.9**	**(29.2)**	**(85.2)**	**17.0**	**23.9**	**(29.2)**
PATANCI	22.1	90.7	20.4	8.4	(75.6)	22.1	20.4	8.4
Core PATANCI	**16.7**	**100.5**	**47.6**	**(64.8)**	**(83.4)**	**16.7**	**47.6**	**(64.8)**
Basic EPS (sen)	0.6	2.5	0.6	1.7	(75.5)	0.6	0.6	1.7
DPS (sen)	1.8	0.0	0.0	n.m.	n.m.	1.8	0.0	n.m.
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating Profit Margin	3.4	8.2	2.9	0.5	(4.8)	3.4	2.9	0.5
PBT Margin	1.4	6.5	1.5	(0.2)	(5.1)	1.4	1.5	(0.2)
Core PATANCI Margin	0.8	4.3	2.3	(1.5)	(3.6)	0.8	2.3	(1.5)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net debt/total equity (%)	1.3	1.2	1.3	(0.0)	0.0	1.3	1.3	(0.0)
Effective tax rate (%)	44.0	24.2	25.0	18.9	19.8	44.0	25.0	18.9

Source: Company, MIDFR

Leong Hup International: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue (External):								
Livestock and poultry	1,199.4	1,261.5	1,152.0	4.1	(4.9)	1,199.4	1,152.0	4.1
Feedmill	993.5	1,054.5	931.8	6.6	(5.8)	993.5	931.8	6.6
Others	3.3	6.0	3.4	(3.0)	(44.6)	3.3	3.4	(3.0)
Total	**2,196.2**	**2,321.9**	**2,087.2**	**5.2**	**(5.4)**	**2,196.2**	**2,087.2**	**5.2**
Operating Profit:								
Livestock and poultry	5.9	97.6	34.8	(83.0)	(93.9)	5.9	34.8	(83.0)
Feedmill	149.2	162.2	100.7	48.1	(8.0)	149.2	100.7	48.1
Others	(2.7)	8.5	(0.6)	348.7	(131.8)	(2.7)	(0.6)	348.7
Total	**152.4**	**268.2**	**134.9**	**13.0**	**(43.2)**	**152.4**	**134.9**	**13.0**
Operating profit margin:								
Livestock and poultry	0.5	7.7	3.0	(2.5)	(7.2)	0.5	3.0	(2.5)
Feedmill	15.0	15.4	10.8	4.2	(0.4)	15.0	10.8	4.2
Others	(81.6)	142.3	(17.6)	(64.0)	(223.9)	(81.6)	(17.6)	(64.0)
Total	**6.9**	**11.6**	**6.5**	**0.5**	**(4.6)**	**6.9**	**6.5**	**0.5**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	**7,153.5**	**9,042.7**	**9,671.0**	**10,359.9**	**11,109.1**
Change in biological assets	42.8	7.9	8.4	8.8	9.5
Change in closing inventories	228.6	29.6	31.3	32.9	34.9
Purchase of inventories and livestock	(5,514.4)	(6,865.4)	(7,158.8)	(7,553.7)	(8,002.8)
Gross Profit	**1,910.5**	**2,214.8**	**2,551.9**	**2,847.9**	**3,150.7**
Other Income	39.1	188.8	72.5	77.7	84.2
Employee benefit costs including Directors' remuneration	(645.8)	(677.4)	(753.4)	(835.3)	(922.6)
Utilities costs	(185.6)	(221.4)	(260.4)	(302.7)	(318.1)
Repair and maintenance	(80.0)	(91.2)	(104.8)	(117.8)	(131.5)
Transportation expenses	(149.9)	(181.4)	(200.8)	(220.5)	(241.1)
Other operating expenses	(366.7)	(467.0)	(483.9)	(549.0)	(606.3)
EBITDA	**521.6**	**765.3**	**821.2**	**900.3**	**1,015.2**
EBIT	**237.9**	**464.0**	**545.3**	**607.6**	**681.7**
Profit before tax (PBT)	140.3	326.6	380.5	439.6	505.4
Profit After tax (PAT)	**95.9**	**243.9**	**284.2**	**328.3**	**377.5**
Core PATANCI	**78.8**	**243.9**	**284.2**	**328.3**	**377.5**
Core EPS (sen)	2.2	6.7	7.8	9.0	10.3
DPS (sen)	0.7	1.8	2.3	2.7	3.1

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Property, plant and equipment	2,770.3	2,784.5	2,671.1	2,578.8	2,496.0
Total Non-current assets	**3,411.2**	**3,431.8**	**3,336.8**	**3,268.4**	**3,196.8**
Inventories	973.5	1,025.9	1,182.2	1,237.6	1,277.3
ST - Trade and other receivables	740.1	823.2	948.2	1,011.1	1,062.5
Cash and cash equivalents	764.6	840.3	903.2	972.3	1,047.9
Total current assets	**2,918.6**	**3,160.4**	**3,614.5**	**3,804.7**	**3,995.6**
Total Assets	**6,329.8**	**6,592.2**	**6,951.3**	**7,073.1**	**7,192.4**
Total Equity	**2,359.8**	**2,589.6**	**2,983.9**	**3,018.5**	**2,922.3**
LT Loans and borrowings	1,054.6	1,046.4	994.1	1,014.0	1,064.7
Total Non-current liabilities	**1,321.4**	**1,339.5**	**1,305.5**	**1,345.5**	**1,418.0**
ST Trade and other payables	534.7	629.8	724.6	730.6	773.4
ST Loans and borrowings	2,070.1	1,986.3	1,887.0	1,924.7	2,020.9
Total Current Liabilities	**2,648.5**	**2,663.1**	**2,661.8**	**2,709.2**	**2,852.1**
Total Liabilities	**3,970.0**	**4,002.6**	**3,967.4**	**4,054.7**	**4,270.1**

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
Pretax profit	140.3	326.6	380.5	439.6	505.4
Cash flow from operations	44.2	620.9	959.8	533.0	526.4
Cash flow from investing	(392.6)	(277.6)	(196.4)	(239.0)	(290.9)
Cash flow from financing	264.3	(362.1)	(416.3)	(224.8)	(159.9)
Net cash flow	**(84.1)**	**(18.8)**	**347.1**	**69.2**	**75.5**
(+/-) Adjustments	13.4	(0.3)	0.0	0.0	0.0
Net cash/(debt) b/f	**645.8**	**575.1**	**556.1**	**903.2**	**972.3**
Net cash/(debt) c/f	**575.1**	**556.1**	**903.2**	**972.3**	**1,047.9**

Key Metrics	2021A	2022A	2023A	2024F	2025F
Effective tax rate (%)	31.7	25.3	25.3	25.3	25.3
PER (x)	20.9	8.2	6.3	5.4	4.7
Net debt/total equity (%)	1.0	0.8	0.7	0.7	0.7

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross Profit Margin (%)	26.7	24.5	26.4	27.5	28.4
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