Hup Seng Industries Berhad

Maintain BUY

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

Persistent Craving

Unchanged Target Price: RM0.88

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Improving domestic sales on yearly basis in 1QFY23**
- **Softer demand on sequential basis in 1QFY23**
- **Maintain BUY with an unchanged TP of RM0.88**

RETURN STATISTICS	
Price @ 18th May 2023 (RM)	0.73
Expected share price return (%)	+21.10
Expected dividend yield (%)	3.80
Expected total return (%)	**+24.90**

Within expectation. Hup Seng Industries (HSIB) reported a core PAT of RM9.7m for 3MFY23 after subtracting a one-time off item of RM0.3m. The earnings came in within our full-year FY23 estimation but exceeded consensus', accounting for 27% of ours and 31% of streets'. The group declared a single-tier dividend of 1sen/share for the 1QFY23.

Improving domestic sales on yearly basis in 1QFY23. HSIB's revenue climbed +9%yoy to RM86.4m in 1QFY23, mostly owing to higher domestic sales (+15%yoy), which more than offset reduced export sales (-10%yoy) due to lower demand from Thailand, Saudi Arabia, Vietnam, and China. Meanwhile, the group repricing the products has more than offset the rising input costs and improved margins. As such, core PAT surged from RM6.8m in 1QFY22 to RM9.7m in 1QFY23.

Softer demand on sequential basis in 1QFY23. The group recorded a decreased revenue of RM86.4m during the quarter as compared to RM94.9m in 4QFY22. This was due to lower demand from both domestic and export markets combined with the high base impact brought on by the CNY seasonal effect during the prior quarter. Given that the group enjoys stronger sales over celebration for Chinese New Year. As such, the core PAT dropped -22.3%qoq to RM9.7m in 1QFY23.

Maintain BUY with an unchanged TP of RM0.88. We make no changes to our forecast given that earnings within our estimation. Our **TP** is based on DDM valuation with a 2.0% growth rate and an unchanged WACC of 9.8%. We like Hup Seng because of its: (1) relatively stable demand for its product due to its well-known household brand name, (2) consistent dividend payout, and (3) solid net cash position of RM70.1m in FY22. We are also positive about the recent acquisition of a new production line, which could improve productivity while lowering production costs and enhancing profitability. Moving forward, we anticipate a higher core PAT in 2QFY23 supported by Hari Raya celebration. Hence, maintain **BUY**. Hup Seng Industries is currently trading at an attractive FY23F PER of 15.9x, which is below its 5-year historical mean PER of 18.6x.

The downside risk is a sharp increase in comodities price, especially CPO, sugar, and wheat flour.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.4	1.2
3 months	2.1	0.0
12 months	-13.2	-5.8

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	334.6	352.3	372.1
EBITDA	56.8	70.7	86.5
Profit before tax (PBT)	49.5	65.9	82.8
Core PATANCI	36.4	48.5	60.9
Core EPS (sen)	4.5	6.1	7.6
DPS (sen)	2.8	3.9	5.9
Dividend Yield (%)	3.8	5.4	8.1

KEY STATISTICS	
FBM KLCI	1,428.04
Issue shares (m)	800.0
Estimated free float (%)	35.4
Market Capitalisation (RM'm)	576.0
52-wk price range	RM0.6 – RM0.8
3-mth average daily volume (m)	0.1
3-mth average daily value (RM'm)	0.1
Top Shareholders (%)	
HSB Group Sdn Bhd	51.0
Employees Provident Fund Board	2.4
Kerk Chian Tung	1.4

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Hup Seng Industries: 1QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	86.4	94.9	79.3	9.0	(9.0)	86.4	79.3	9.0
Cost of Sales	(61.8)	(66.8)	(59.3)	4.3	(7.5)	(61.8)	(59.3)	4.3
Gross Profit	**24.6**	**28.2**	**20.0**	**22.9**	**(12.7)**	**24.6**	**20.0**	**22.9**
Other income	0.8	0.8	0.6	19.9	(1.8)	0.8	0.6	19.9
Administrative expenses	(4.8)	(5.1)	(4.5)	6.2	(5.6)	(4.8)	(4.5)	6.2
Selling and marketing expenses	(7.5)	(7.1)	(7.0)	7.6	5.2	(7.5)	(7.0)	7.6
Operating profit (EBIT)	**13.1**	**16.8**	**9.2**	**42.4**	**(21.9)**	**13.1**	**9.2**	**42.4**
Finance cost	(0.0)	(0.0)	(0.0)	(33.3)	(42.9)	(0.0)	(0.0)	(33.3)
Profit before tax (PBT)	**13.1**	**16.8**	**9.2**	**42.4**	**(21.9)**	**13.1**	**9.2**	**42.4**
Income tax expense	(3.4)	(4.3)	(2.4)	41.6	(20.9)	(3.4)	(2.4)	41.6
Profit After tax (PAT)	**9.7**	**12.4**	**6.8**	**42.7**	**(22.3)**	**9.7**	**6.8**	**42.7**
Core PAT	9.9	12.4	7.1	40.3	(19.8)	9.9	7.1	40.3
Basic EPS (sen)	1.2	1.6	0.9	42.4	(21.9)	1.2	0.9	42.4
Core EPS (sen)	1.2	1.5	0.9	40.3	(19.8)	1.2	0.9	40.3
DPS (sen)	1.0	1.0	0.0	n.m.	0.0	1.0	0.0	n.m.
Growth & Margin (%)				+/(-) ppts	+/(-) ppts			+/(-) ppts
Gross Profit Margin	28.5	29.7	25.2	3.2	(1.2)	28.5	25.2	3.2
Operating Profit Margin	15.2	17.7	11.6	3.6	(2.5)	15.2	11.6	3.6
PBT Margin	15.1	17.7	11.6	3.6	(2.5)	15.1	11.6	3.6
Core PAT Margin	11.5	13.0	8.9	2.6	(1.6)	11.5	8.9	2.6
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	12.1	10.8	11.1	1.0	1.3	12.1	11.1	1.0
Effective tax rate (%)	26.1	25.8	26.3	(0.2)	0.4	26.1	26.3	(0.2)

Source: Company, MIDFR

Hup Seng Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	63.7	70.4	59.0	8.0	(9.4)	63.7	59.0	8.0
Beverage Manufacturing	1.3	1.9	1.8	(28.0)	(30.8)	1.3	1.8	(28.0)
Trading	70.0	73.2	61.0	14.8	(4.4)	70.0	61.0	14.8
Intersegment	(48.7)	(50.6)	(42.6)	14.3	(3.7)	(48.7)	(42.6)	14.3
Total	**86.4**	**94.9**	**79.3**	**9.0**	**(9.0)**	**86.4**	**79.3**	**9.0**
Operating Profit (RM'm):								
Biscuit Manufacturing	5.7	8.0	2.8	102.3	(29.5)	5.7	2.8	102.3
Beverage Manufacturing	(0.0)	0.1	0.0	(766.7)	(114.6)	(0.0)	0.0	(766.7)
Trading	7.9	9.2	6.8	15.3	(14.3)	7.9	6.8	15.3
Total	**135.1**	**145.5**	**121.8**	**10.9**	**(7.2)**	**135.1**	**121.8**	**10.9**
Operating profit margin:				+/(-) ppts	+/(-) ppts			+/(-) ppts
Biscuit Manufacturing	8.9	11.4	4.7	4.1	(2.5)	8.9	4.7	4.1
Beverage Manufacturing	(1.5)	7.2	0.2	(1.7)	(8.7)	(1.5)	0.2	(1.7)
Trading	11.2	12.5	11.2	0.0	(1.3)	11.2	11.2	0.0
Total	**15.6**	**18.3**	**12.1**	**3.5**	**(2.6)**	**15.6**	**12.1**	**3.5**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	295.8	318.2	334.6	352.3	372.1
Cost of Sales	(214.2)	(239.9)	(239.7)	(238.1)	(237.6)
Gross Profit	**81.7**	**78.3**	**94.9**	**114.3**	**134.4**
Other Income	1.5	1.7	3.1	3.2	3.4
Selling and Distribution expenses	(27.4)	(27.4)	(29.1)	(30.9)	(33.0)
General & Administrative	(18.6)	(18.4)	(19.5)	(20.7)	(22.1)
EBITDA	**43.9**	**41.0**	**56.8**	**70.7**	**86.5**
EBIT	37.2	34.3	49.4	65.8	82.7
Profit before tax (PBT)	**38.2**	**35.4**	**49.5**	**65.9**	**82.8**
Income tax expense	(10.1)	(9.4)	(13.1)	(17.4)	(21.9)
Profit After tax (PAT)	28.1	26.1	36.4	48.5	60.9
Core PATANCI	**28.4**	**25.0**	**36.4**	**48.5**	**60.9**
Basic EPS (sen)	3.4	3.3	4.5	6.1	7.6
DPS (sen)	2.5	3.0	2.8	3.9	5.9

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	72.8	72.7	80.3	82.9	84.4
Intangible assets	0.0	1.0	0.0	0.0	0.0
Total Non-current assets	**80.2**	**79.5**	**91.1**	**93.7**	**95.3**
Inventories	31.6	29.9	30.8	30.6	30.6
ST - Trade and other receivables	28.2	40.2	36.1	38.0	40.1
Cash and cash equivalents	66.7	62.4	65.7	69.1	73.0
Total current assets	**127.0**	**133.3**	**133.3**	**138.5**	**144.5**
Total Assets	**207.2**	**212.8**	**224.4**	**232.2**	**239.8**
Total Equity	139.0	141.1	150.1	164.8	176.9
LT Lease Liabiltiies	0.3	0.2	0.2	0.2	0.2
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**7.2**	**6.9**	**7.2**	**7.6**	**8.0**
ST Trade and other payables	56.3	58.3	57.5	57.1	57.0
ST Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	**60.9**	**64.9**	**67.0**	**59.8**	**54.9**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	38.2	35.4	49.5	65.9	82.8
Cash flow from operations	**29.9**	**24.9**	**40.6**	**42.2**	**56.2**
Cash flow from investing	**2.5**	**(3.8)**	**(15.1)**	**(7.5)**	**(5.2)**
Cash flow from financing	**(44.3)**	**(24.3)**	**(22.3)**	**(31.2)**	**(47.1)**
Net cash flow	(11.9)	(3.2)	3.2	3.5	3.9
(+/-) Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	**77.5**	**65.7**	**62.4**	**65.7**	**69.1**
Net cash/(debt) c/f	**65.7**	**62.4**	**65.7**	**69.1**	**73.0**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	26.3	26.4	26.5	26.5	26.5
PER (x)	21.1	22.1	15.8	11.9	9.5
Cash/Market Capitalisation (sen)	11.6	10.8	11.4	12.0	12.7
Cash/share (sen)	8.3	7.8	8.2	8.6	9.1
P/BV ratio (x)	4.1	4.1	3.8	3.5	3.3

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	27.6	24.6	28.4	32.4	36.1
EBITDA Margin (%)	14.8	12.9	17.0	20.1	23.2
Core PATANCI Margin (%)	9.6	7.9	10.9	13.8	16.4

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