

Hup Seng Industries Berhad

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

Maintain BUY

Solid Demand for Alternative Staple Food

Revised Target Price: RM0.90
(previously RM0.88)

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Stronger earnings and revenue in 2QFY23**
- **Better margin on the back of falling raw materials cost in 1HFY23**
- **Maintain BUY with a revised TP of RM0.90 (from RM0.88)**

Within expectation. Hup Seng Industries ("HSIB") reported a core PAT of RM18.4m for 1HFY23, after excluding a one-time off item of RM0.1m. The core PAT came in within the full-year FY23F estimation but above consensus, amounting to 52% of ours and 59% of the streets'. The group reported an interim single-tier dividend of 1sen/share in 2QFY23, bringing the total dividend to 2sen/share.

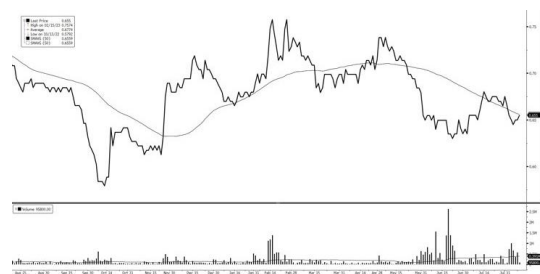
Stronger earnings and revenue in 2QFY23. HSIB's revenue rose by +10.5%yoy to RM 81.5m, mainly supported by increased domestic sales (+11%yoy), as well as better export sales (+9%yoy) to Singapore and Indonesia. The gross profit margin improved by +9.3ppt yoy to 28.7%, due to a lower cost of sales resulting from the cost reduction of certain major input materials. As a result, core PAT surged more than double from RM 2.9m in 2QFY22 to RM 8.8m during the quarter. On a sequential basis, the revenue dropped by -5.6%qoq to RM 81.5m. This was mainly due to lower domestic sales (-10%qoq) owing to the Hari Raya Puasa celebration, which more than offset the higher export sales (+14%qoq). Consequently, core PAT dropped by -11.3%qoq to RM 8.8m due to lower revenue and increased administrative, selling, and marketing costs.

Better margin on the back of falling raw materials cost in 1HFY23. Cumulatively, the group's revenue increased by +9.7%yoy to RM167.9m, mainly lifted by higher selling prices and domestic sales (+13%yoy) in 1HFY23. Gross profit margin improved by +6.1ppt yoy to 28.6% in 1HFY23, thanks to higher selling prices along with the reduction in major input materials (including CPO and wheat). As a result, core earnings increased by +87.4%yoy to RM18.7m.

RETURN STATISTICS

Price @ 9 August 2023 (RM)	0.65
Expected share price return (%)	+39.0
Expected dividend yield (%)	5.2
Expected total return (%)	+44.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-5.8
3 months	3.1	-13.3
12 months	-12.7	-10.5

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	1,462.03
Issue shares (m)	800.00
Estimated free float (%)	34.67
Market Capitalisation (RM'm)	524.00
52-wk price range	RM0.6 - RM0.80
3-mth average daily volume (m)	0.37
3-mth average daily value (RM'm)	0.24
Top Shareholders (%)	
HSB Group Sdn Bhd	51.00
Employees Provident Fund Board	2.44
Kerk Chian Tung	1.42

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Maintain BUY with a revised TP of RM0.90 (from RM0.88). We make no changes to our forecast, considering that earnings are within our estimation. Our TP is based on DDM valuation with a revised growth rate of 3.0% (up from 2.0%) and a WACC of 10.2%. We continue to like Hup Seng underpinned by its (1) relatively stable demand for its products due to its well-known household brand name, (2) consistent dividend payout (over 70% for the past 8 years), and (3) a solid net cash position of RM72.3m as of 2QFY23. Moving forward, we anticipate a normalized profit margin, supported by the normalization of global commodity prices for wheat and CPO. While sugar prices have remained elevated, we have observed a recovery from their 2-year peak level. Hence, we maintain a **BUY** recommendation. Hup Seng Industries is currently trading at an attractive FY24F PER of 10.7x, which is below its 5-year historical mean PER of 18.6x and the sectoral PER for consumer staples under our coverage (excluding QL and Nestle), which is 17.9x.

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

Hup Seng Industries: 1QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	81.5	86.4	73.8	10.5	(5.6)	167.9	153.1	9.7
Cost of Sales	(58.2)	(61.8)	(59.5)	(2.2)	(5.9)	(120.0)	(118.7)	1.0
Gross Profit	23.4	24.6	14.3	63.2	(4.9)	48.0	34.3	39.7
Other income	0.9	0.8	0.8	9.5	19.6	1.7	1.5	14.0
Administrative expenses	(4.9)	(4.8)	(4.4)	10.3	2.0	(9.7)	(8.9)	8.2
Selling and marketing expenses	(7.8)	(7.5)	(6.5)	19.6	3.9	(15.3)	(13.5)	13.4
Operating profit (EBIT)	11.6	13.1	4.2	174.8	(11.1)	24.7	13.4	84.1
Finance cost	(0.0)	(0.0)	(0.0)	(33.3)	0.0	(0.0)	(0.0)	(33.3)
Profit before tax (PBT)	11.6	13.1	4.2	175.0	(11.1)	24.7	13.4	84.3
Income tax expense	(2.9)	(3.4)	(1.2)	144.4	(14.7)	(6.3)	(3.6)	75.6
Profit After tax (PAT)	8.7	9.7	3.0	187.1	(9.8)	18.4	9.8	87.4
Core PAT	8.8	9.9	2.9	201.6	(11.3)	18.7	10.0	87.4
Core EPS (sen)	1.1	1.2	0.4	201.6	(11.3)	2.3	1.3	87.5
DPS (sen)	1.0	1.0	0.0	n.m.	0.0	2.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	28.7	28.5	19.4	9.3	0.2	28.6	22.4	6.1
Operating Profit Margin	14.3	15.2	5.7	8.5	(0.9)	14.7	8.8	6.0
PBT Margin	14.3	15.1	5.7	8.5	(0.9)	14.7	8.8	6.0
Core PAT Margin	10.8	11.5	4.0	6.8	(0.7)	11.2	6.5	4.6
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	14.0	13.5	10.9	3.1	0.5	14.0	10.9	3.1
Effective tax rate (%)	25.1	26.1	28.2	(3.2)	(1.1)	25.6	26.9	(1.3)

Source: Company, MIDFR

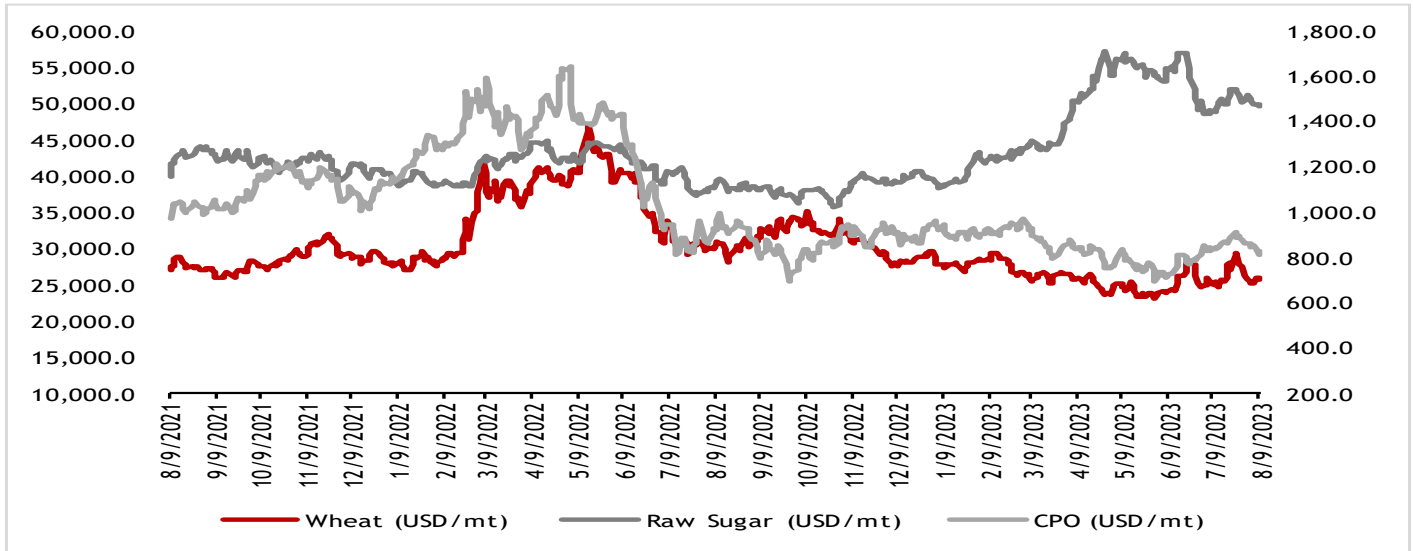
Hup Seng Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	60.7	63.7	55.4	9.5	(4.8)	124.4	114.4	8.7
Beverage Manufacturing	1.9	1.3	1.5	24.5	46.5	3.2	3.4	(3.9)
Trading	62.9	70.0	56.7	11.1	(10.1)	133.0	117.6	13.0
Total	125.6	135.1	113.6	10.5	(7.0)	260.6	235.5	10.7
Operating Profit (RM'm):								
Biscuit Manufacturing	6.3	5.7	(0.4)	(1,642.8)	11.5	12.0	2.4	401.0
Beverage Manufacturing	0.2	(0.0)	(0.1)	(506.0)	(1,115.0)	0.2	(0.0)	(489.4)
Trading	5.7	7.9	5.3	8.6	(27.4)	13.6	12.1	12.4
Total	12.2	13.5	4.8	154.7	(9.5)	25.7	14.4	78.4

Operating profit margin (%):				+ / (-) pts	+ / (-) pts			+ / (-) pts
Biscuit Manufacturing	10.4	8.9	(0.7)	11.1	1.5	9.6	2.1	7.5
Beverage Manufacturing	10.6	(1.5)	(3.2)	13.8	12.1	5.7	(1.4)	7.1
Trading	9.1	11.2	9.3	(0.2)	(2.2)	10.2	10.3	(0.1)
Total	7.2	15.6	6.5	0.7	(8.4)	10.1	9.4	0.6

Source: Company, MIDFR

TABLE 1: Wheat, Raw Sugar, CPO Futures Price Trend (USD/MT)



Source: MIDFR, Bloomberg

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
Core EPS (sen)	3.5	3.1	4.5	6.1	7.6
DPS (sen)	2.5	3.0	3.4	4.5	5.7

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	145.2	154.8	168.2
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	72.0	69.9	63.6
Total Liabilities	68.1	71.7	79.2	77.5	71.6

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	45.6	47.3	54.8
Cash flow from investing	2.5	(3.8)	(15.1)	(7.5)	(5.2)
Cash flow from financing	(44.3)	(24.3)	(27.3)	(36.4)	(45.7)
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)	19.1	19.9	14.3	10.7	8.5
Net Cash/Market Capitalisation (%)	12.8	12.0	12.6	13.3	14.0
P/BV ratio (x)	3.7	3.7	3.6	3.4	3.1
Cash/share (sen)	3.7	3.1	5.7	5.9	6.9

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	27.6	24.6	28.4	32.4	36.1
EBIT Margin (%)	12.6	10.8	14.8	18.7	22.2
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 <i>rise</i> 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 <i>fall</i> 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