Leong Hup International Berhad

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

Stellar Profits Defy Softer Revenue

***Maintain* BUY**

***Revised* Target Price: RM0.90**

(Previously RM0.80)

KEY INVESTMENT HIGHLIGHTS

- **Leong Hup's 9MFY24 earnings came above expectation**
- **Revenue moderates amid weaker feedmill sales**
- **Strong core PATNCI despite softer revenue**
- **Revised FY24-26F core earnings**
- **Maintain BUY with revised TP of RM0.90 (from RM0.80)**

Above expectation. Leong Hup International (LHI) chalked in 3QFY24 revenue of RM2.2b (-5.4%qoq; -11.4%yoy) and core PATANCI of RM163.1m (+29.5qoq, +4.5%yoy) which brought 9MFY24 core PATANCI to RM374.2m (+27.1%yoy). This came in above our full-year FY24 forecast and consensus at 107% and 124% of full-year expectations respectively. The variance against our forecast was largely due to the stronger than expected margin resulting from the lower feed costs and weakening USD.

Dividend payout. In 3QFY24, LHI declared a second interim single-tier dividend of 1.45 sen per share, bringing 9MFY24's total dividend to 2.5sen.

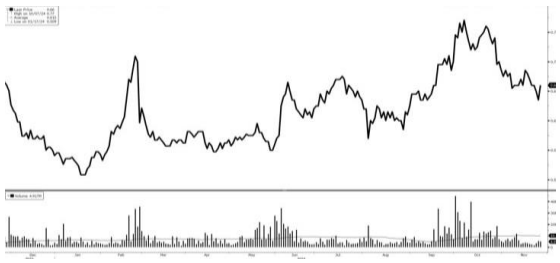
Revenue moderates amid weaker feed mill sales. For 9MFY24, LHI recorded total revenue of RM7b, a minor decrease of -1.9%yoy. The livestock and poultry segment saw a slight year-on-year revenue increase of +2.7% to RM4b, driven by higher ASP and sales volume of DOC and broiler chicken in Indonesia and Philippines. However, this was offset by the feedmill segment, where revenue fell -7.3%yoy to RM3b due to lower average selling prices and weaker sales volumes in key markets like Indonesia and Vietnam.

Strong core PATANCI despite softer revenue. Despite the moderation in revenue, LHI's 9MFY24 core PATANCI surged +27.1%yoy to RM374.2m. This notable increase in profitability was driven by effective cost management, particularly in the livestock segment, which benefitted from lower feed prices and favorable foreign exchange movements against the USD. The group's core PATANCI margin expanded to 5.4% from 4.1% in the same period last year, while EBITDA margin grew by 0.6 ppts to 11%. Additionally, a government subsidy of RM46.3m helped boost EBITDA during the period.

Government Subsidies in 3QFY24. On a quarterly basis, the core PATACI gained by +29.5%qoq to RM163.1m. This growth was mainly attributed to a higher government subsidy of RM37.1m in 3QFY24 compared to RM14.5m in 3QFY23. Notably, the Malaysian government lifted subsidies for chicken effective 1 November 2023, although egg subsidies remain in place.

RETURN STATISTICS	
Price @ 26th Nov 2024 (RM)	0.66
Expected share price return (%)	+36.5
Expected dividend yield (%)	+5.5
Expected total return (%)	**+42**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-10.8	-10.0
3 months	-5.7	12.5
12 months	-7.0	-15.7

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	9,858.1	10,198.9	10,607.8
EBITDA	**1,189.4**	**1,205.9**	**1,254.4**
Profit before tax (PBT)	714.3	727.8	760.3
Core PATANCI	**438.8**	**450.4**	**476.3**
Core EPS (sen)	12.0	12.3	13.1
DPS (sen)	3.6	3.7	3.9
Dividend Yield (%)	5.5	5.6	5.9

KEY STATISTICS	
FBM KLCI	1,603.15
Issue shares (m)	3650.00
Estimated free float (%)	26.56
Market Capitalisation (RM'm)	2,410.12
52-wk price range	RM0.51-RM0.77
3-mth average daily volume (m)	9.88
3-mth average daily value	6.96
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.78
Amanah Saham Nasional Bhd	7.07
CLARINDEN INV PTE	4.91

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Earnings estimate revised upwards. Factoring in the strong set of results, our FY24-26F core earnings estimates are revised higher by +25%/+20%/+11% respectively, mainly to account for lower feed cost assumptions.

Maintain BUY with revised TP of RM0.90. Higher core net profit forecasts aside, we revise our **TP** to **RM0.90** by (i) roll forward our valuation base year (from FY24F to FY25F), (ii) lower our target PER to 7.3x (by taking into account of its latest 2 year historical average PER). Correspondingly, we reiterate our **BUY** call on Leong Hup with a higher **TP** of **RM0.90** based on revised 7.3x FY25 core EPS of 12.3 sen.

Outlook. We remain positive on LHI's outlook, driven by resilient demand for poultry products, with chicken continuing to be a staple food, and the global softening of livestock feed commodity prices, such as corn and soy, which will reduce raw material costs. Market conditions in key regions like Indonesia, Vietnam, and the Philippines are expected to remain favorable, with a balanced demand-supply dynamic and lower input costs following significant drops in commodity prices. Any weakening of the USD should further support margin expansion, as a majority of raw materials are imported, except for Indonesia, which benefits from its own domestic corn supply. With these tailwinds, we anticipate the strong momentum to persist in near term.

Downside risks are (i) greater-than-expected raw material cost, (ii) adverse regulatory changes, (iii) shortages of great-grandparent DOC, (iv) disease outbreaks and (v) intense regional competition.

Leong Hup International: 3QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	2,228.3	2,355.1	2,516.4	(11.4)	(5.4)	6,994.3	7,126.5	(1.9)
Other income	40.9	9.6	46.3	(11.6)	324.1	74.2	157.4	(52.9)
Operating expenses	(2,036.4)	(2,146.1)	(2,292.7)	(11.2)	(5.1)	(6,455.9)	(6,779.7)	(4.8)
Operating profit (EBIT)	**232.8**	**218.7**	**270.0**	**(13.8)**	**6.5**	**612.6**	**504.2**	**21.5**
Net finance income/cost)	(31.0)	(34.2)	(42.5)	(27.0)	(9.2)	(101.4)	(132.9)	(23.7)
Profit before Associates & JV	**201.8**	**184.5**	**227.5**	**(11.3)**	**9.4**	**511.2**	**371.3**	**37.7**
Profit before tax (PBT)	**201.9**	**184.6**	**227.5**	**(11.3)**	**9.4**	**511.3**	**371.5**	**37.7**
Profit After tax (PAT)	**185.7**	**144.1**	**177.4**	**4.7**	**28.8**	**424.8**	**285.1**	**49.0**
PATANCI	135.0	96.2	133.0	1.5	40.4	287.8	220.1	30.7
Core PATANCI	**163.1**	**125.9**	**156.0**	**4.5**	**29.5**	**374.2**	**294.3**	**27.1**
Basic EPS (sen)	3.7	2.6	3.6	1.6	40.2	7.9	6.0	30.8
Core EPS (sen)	4.5	3.5	4.3	4.5	29.5	10.3	8.1	27.1
DPS (sen)	1.2	1.3	1.2	0.0	(7.7)	2.5	3.0	(16.7)
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
PBT Margin	9.1	7.8	9.0	0.0	1.2	7.3	5.2	2.1
Core PATANCI Margin	7.3	5.3	6.2	1.1	2.0	5.4	4.1	1.2
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 (%)	8.0	21.9	22.1	(14.1)	(13.9)	16.9	23.3	(6.3)

Source: Company, MIDFR

Leong Hup International: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue (External):								
Livestock and poultry	1,311.7	1,368.0	1,369.4	(4.2)	(4.1)	3,995.5	3,891.9	2.7
Feedmill	913.8	984.2	1,143.8	(20.1)	(7.2)	2,990.2	3,224.8	(7.3)
Others	2.8	2.9	3.2	(11.7)	(3.6)	8.6	9.7	(11.2)
Total	**2,228.3**	**2,355.1**	**2,516.4**	**(11.4)**	**(5.4)**	**6,994.3**	**7,126.5**	**(1.9)**
EBITDA:								
Livestock and poultry	163.9	84.4	167.3	(2.1)	94.1	327.2	258.0	26.8
Feedmill	140.4	134.5	187.5	(25.1)	4.4	439.5	479.2	(8.3)
Others	5.0	(0.3)	(5.9)	(184.2)	(2,084.8)	1.8	2.8	(33.7)
Total	**309.3**	**218.7**	**348.9**	**(11.4)**	**41.4**	**768.5**	**740.0**	**3.9**
EBITDA margin:								
Livestock and poultry	12.5	6.2	12.2	0.3	6.3	8.2	6.6	1.6
Feedmill	15.4	13.7	16.4	(1.0)	1.7	14.7	14.9	(0.2)
Others	177.6	(8.6)	(186.2)	363.8	186.2	21.2	28.4	(7.2)
Total	**13.9**	**9.3**	**13.9**	**0.0**	**4.6**	**11.0**	**10.4**	**0.6**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	**9,042.7**	**9,539.5**	**9,858.1**	**10,198.9**	**10,607.8**
Change in biological assets	7.9	90.5	13.5	17.6	21.3
Change in closing inventories	29.6	(25.2)	25.7	33.5	40.5
Purchase of inventories and livestock	(6,865.4)	(7,030.1)	(7,155.9)	(7,414.6)	(7,704.2)
Gross Profit	2,214.8	2,574.7	2,741.5	2,835.4	2,965.5
Other Income	175.7	272.7	295.7	302.9	313.5
Employee benefit costs including Directors' remuneration	(677.4)	(781.4)	(824.8)	(862.3)	(901.5)
Utilities costs	(221.4)	(251.6)	(256.3)	(267.8)	(281.3)
Repair and maintenance	(91.2)	(97.0)	(101.3)	(105.8)	(111.2)
Transportation expenses	(181.4)	(201.6)	(197.2)	(199.9)	(203.8)
Other operating expenses	(467.0)	(464.1)	(468.3)	(496.6)	(526.8)
EBIT	**450.9**	**709.5**	**871.8**	**887.6**	**922.1**
Profit before tax (PBT)	**326.6**	**554.7**	**714.3**	**727.8**	**760.3**
Profit After tax (PAT)	243.9	429.8	557.1	567.7	593.0
Core PATANCI	**240.6**	**324.9**	**438.8**	**450.4**	**476.3**
Core EPS (sen)	6.6	8.9	12.0	12.3	13.1
DPS (sen)	1.8	3.0	3.6	3.7	3.9

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,784.5	2,730.3	2,715.5	2,700.4	2,671.6
Total non-current assets	**3,431.8**	**3,399.5**	**3,424.6**	**3,477.6**	**3,569.7**
Inventories	1,025.9	978.8	1,004.6	1,038.0	1,078.6
ST - Trade and other receivables	823.2	874.2	910.8	939.7	977.4
Cash and cash equivalents	840.3	699.5	708.4	718.2	732.1
Total current assets	**3,160.4**	**3,127.1**	**3,213.9**	**3,305.8**	**3,421.7**
Total Assets	**6,592.2**	**6,526.6**	**6,638.5**	**6,783.4**	**6,991.4**
Total Equity	**2,589.6**	**2,955.1**	**3,080.2**	**3,229.9**	**3,433.1**
LT Loans and borrowings	1,046.4	870.8	853.4	836.3	819.6
Total non-current liabilities	**1,339.5**	**1,213.2**	**1,212.4**	**1,213.7**	**1,218.9**
ST Trade and other payables	629.8	682.1	700.0	723.4	751.6
ST Loans and borrowings	1,986.3	1,587.3	1,555.6	1,524.4	1,494.0
Total Current Liabilities	**2,663.1**	**2,358.3**	**2,345.9**	**2,339.7**	**2,339.4**
Total Liabilities	**4,002.6**	**3,571.5**	**3,558.3**	**3,553.5**	**3,558.3**

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	326.6	554.7	714.3	727.8	760.3
Cash flow from operations	620.9	992.5	728.2	662.7	677.6
Cash flow from investing	(277.6)	(163.8)	(288.2)	(288.6)	(289.2)
Cash flow from financing	(362.1)	(773.3)	(358.9)	(364.2)	(374.6)
Net cash flow	**(18.8)**	**55.3**	**81.1**	**9.8**	**13.9**
(+/-) Adjustments	(0.3)	15.9	0.0	0.0	0.0
Net cash/(debt) b/f	**575.1**	**556.1**	**627.3**	**708.4**	**718.2**
Net cash/(debt) c/f	**556.1**	**627.3**	**708.4**	**718.2**	**732.1**

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	25.3	22.5	22.0	22.0	22.0
PER (x)	10.0	7.4	5.5	5.3	5.1
Net debt/total equity (%)	0.8	0.6	0.6	0.5	0.5

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	24.5	27.0	27.8	27.8	28.0
EBIT Margin (%)	5.0	7.4	8.8	8.7	8.7
Core PATANCI Margin (%)	2.7	3.4	4.5	4.4	4.5

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