Corporate Update

Hup Seng Industries Berhad

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

SHARIAH Compliant

4QFY24 Results Review
Record-Breaking Earnings in FY24

Maintain NEUTRAL with a higher TP of RM1.09. As FY24 result came in above expectation, we revise our FY25-26F earnings forecasts upward by +3% and +5%, respectively, to reflect higher sales, improved production efficiencies. Our TP is raised to RM1.09 (previously RM1.04), based on DDM valuation with a consistent 3.0% growth and an unchanged WACC of 9.8%. Earnings outlooks remain stable due to strong domestic demand, expanding export markets, and enhanced production capabilities. However, we expect profit margin pressure to persist in view of rising input cost and other key materials.

Above expectations. Hup Seng Industries (Hup Seng) chalked in 4QFY24 revenue of RM117.1m (+12.2%qoq; +23.1%yoy) and core PATANCI of RM17.8m (+2.7%qoq, +28.8%yoy). This brought 12MFY24 core PATANCI to RM58.5m (+27.7%yoy), exceeding both our full-year FY24 forecast, and consensus estimates at 110% and 111%, respectively. A third interim dividend of 1 sen/share and a special dividend of 1 sen/share were declared, bringing total FY24 dividends to 7.0 sen.

Strong growth in revenue driven by higher sales. Hup Seng's 4QFY24 revenue surged to RM117.1m, fueled by strong demand in the biscuit manufacturing and trading segments, which grew by 23.2%yoy and 25.6%yoy, respectively. The robust topline performance was also attributed to improved production efficiencies following the commercial run of a new oven in 3QFY24, which boosted production capacity and output. Cumulatively, FY24 revenue increased by 10.7%yoy to RM395.3m, supported by an 11% increase in domestic sales and a 10% rise in export sales, mainly from Indonesia, Japan, Singapore, Myanmar, and Mauritius. While the beverage segment saw a 26.7%yoy decline, its impact remained minimal to the group's overall performance.

Profitability strengthens alongside sales growth. Profitability improved in tandem with strong revenue growth, with operating profit for 12MFY24 increasing to RM73.8m (+22.9%yoy), driven by better cost management and economies of scale. Full year core earnings followed suit, climbing 27.7%yoy to RM58.5m. The strong bottom-line growth was primarily supported by lower input costs for key raw materials during 1Q-3QFY24, alongside higher production efficiency from the new oven. Notably, the 12MFY24 operating profit margin expanded by 1.9ppts to 18.7%, reflecting the combined impact of higher sales volume and cost efficiency measures.

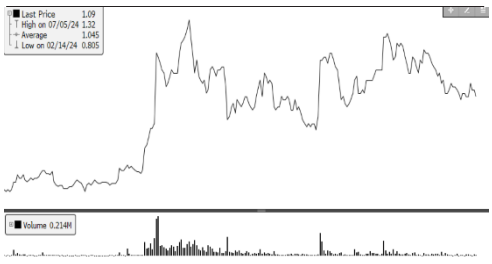
Outlook. We maintain a cautiously optimistic outlook on Hup Seng, supported by (i) steady product demand, (ii) a growing consumer preference for locally produced goods in Malaysia, (iii) a consistent track record of dividend payouts, and (iv) a strong net cash position that provides a buffer against potential downside risks. However, rising input costs, particularly for palm oil and other key raw materials, remain a challenge that could put pressure on margins.

Maintain **Neutral**

Revised Target Price **RM1.09**
(Previously RM1.04)

RETURN STATISTICS	
Price @ 10th Feb 2025 (RM)	1.09
Expected share price return (%)	+0.0
Expected dividend yield (%)	+6.2
Expected total return (%)	+6.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.0	-5.3
3months	-10.7	1.1
12 months	37.3	30.6

INVESTMENT STATISTICS

FYE SEPT (RM'm)	2025F	2026F	2027F
Revenue	425.1	450.4	469.2
EBITDA	90.4	96.2	100.3
PBT	86.2	92.5	95.9
Core PATANCI	63.8	68.4	71.0
Core EPS (sen)	8.0	8.6	8.9
DPS (sen)	6.8	7.3	7.5
Dividend Yield (%)	6.2	6.7	6.9

KEY STATISTICS	
FBM KLCI	1,589.95
Issue shares (m)	800.00
Estimated free float (%)	35.92
Market Capitalisation (RM'm)	872.00
52-wk price range	RM0.78 - RM1.31
3-mth average daily volume (m)	1.14
3-mth average daily value (RM'm)	1.34
Top Shareholders (%)	
HSB Group Sdn Bhd	51.00
Kerk Chian Tung	1.42
Employees Provident Fund Board	1.39

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Hup Seng Industries: 4QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	12MFY24	12MFY23	YoY (%)
Revenue	117.1	104.4	95.1	23.1	12.2	395.3	357.3	10.7
Cost of Sales	(81.3)	(71.6)	(64.2)	26.6	13.5	(272.3)	(248.8)	9.4
Gross Profit	**35.8**	**32.8**	**30.9**	**15.9**	**9.2**	**123.1**	**108.5**	**13.5**
Other income	1.2	1.0	1.0	12.1	10.8	4.3	3.5	20.8
Administrative expenses	(4.4)	(4.4)	(4.7)	(8.1)	(1.2)	(18.3)	(19.2)	(5.1)
Selling and marketing expenses	(10.3)	(8.8)	(9.3)	10.5	16.8	(35.3)	(32.7)	7.8
Operating profit (EBIT)	**22.3**	**20.6**	**17.9**	**24.8**	**8.2**	**73.8**	**60.0**	**22.9**
Finance cost	(0.0)	(0.0)	(0.0)	200.0	150.0	(0.0)	(0.0)	55.6
Profit before tax (PBT)	**22.3**	**20.6**	**17.9**	**24.7**	**8.2**	**73.8**	**60.0**	**22.9**
Income tax expense	(5.0)	(3.4)	(4.2)	18.2	48.4	(16.2)	(14.9)	8.3
Profit After tax (PAT)	17.3	17.3	13.7	26.7	0.4	57.6	45.1	27.8
Core PATANCI	**17.8**	**17.3**	**13.8**	**28.8**	**2.7**	**58.5**	**45.8**	**27.7**
Core EPS (sen)	2.2	2.2	1.7	28.8	2.7	7.3	5.7	27.7
DPS (sen)	2.0	3.0	2.0	0.0	(33.3)	7.0	4.0	75.0
Growth & Margin (%)				+/(-) ppts	+/(-) ppts			+/(-) ppts
Gross Profit Margin	30.6	31.4	32.5	(1.9)	(0.8)	31.1	30.4	0.8
Operating Profit Margin	19.1	19.8	18.8	0.3	(0.7)	18.7	16.8	1.9
PBT Margin	19.1	19.8	18.8	0.3	(0.7)	18.7	16.8	1.9
Core PATANCI Margin	15.2	16.6	14.5	0.7	(1.4)	14.8	12.8	2.0
Ratios & Valuation				+/(-) ppts	+/(-) ppts			+/(-) ppts
Net cash/market cap (%)	9.5	11.0	10.4	(0.8)	(1.5)	9.5	10.4	(0.8)
Effective tax rate (%)	22.3	16.3	23.6	(1.2)	6.0	21.9	24.9	(3.0)

Source: Company, MIDFR

Hup Seng Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	12MFY24	12MFY23	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	87.2	78.0	70.8	23.2	11.7	295.2	264.9	11.4
Beverage Manufacturing	1.2	1.4	1.7	(26.7)	(11.1)	5.5	6.6	(17.0)
Trading	92.9	84.6	74.0	25.6	9.8	313.8	283.3	10.7
Total	**117.1**	**104.4**	**95.1**	**23.1**	**12.2**	**395.3**	**357.3**	**10.7**
Operating Profit (RM'm):								
Biscuit Manufacturing	11.6	11.0	10.9	6.8	6.1	40.1	32.3	24.3
Beverage Manufacturing	0.0	(0.0)	0.0	(83.7)	(136.8)	0.0	0.2	(81.8)
Trading	10.9	10.2	7.3	48.8	6.4	35.2	29.3	20.3
Total	**22.5**	**21.1**	**18.2**	**23.5**	**6.4**	**75.4**	**61.8**	**22.0**
Operating profit margin (%):				+/(-) ppts	+/(-) ppts			+/(-) ppts
Biscuit Manufacturing	13.3	14.0	15.4	(2.0)	(0.7)	13.6	12.2	1.4
Beverage Manufacturing	0.6	(1.4)	2.6	(2.0)	2.0	0.8	3.8	(2.9)
Trading	11.7	12.1	9.9	1.8	(0.4)	11.2	10.3	0.9
Total	**19.2**	**20.3**	**19.1**	**0.1**	**(1.0)**	**19.1**	**17.3**	**1.8**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	357.3	395.3	425.1	450.4	469.2
Gross Profit	108.5	123.1	143.2	151.5	154.1
EBITDA	63.7	80.0	90.4	96.2	100.3
EBIT	58.0	73.8	84.4	90.5	93.8
PBT	60.0	73.8	86.2	92.5	95.9
Taxation	(14.9)	(16.2)	(22.4)	(24.0)	(24.9)
PAT	45.1	57.6	63.8	68.4	71.0
Core PATANCI	45.8	58.5	63.8	68.4	71.0
Core EPS (sen)	5.7	7.3	8.0	8.6	8.9
PER (x)	19.5	15.1	13.7	12.7	12.3
DPS (sen)	4.0	7.0	6.8	7.3	7.5
Dividend Yield (%)	3.7	6.4	6.2	6.7	6.9

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
PBT	60.0	73.8	86.2	92.5	95.9
Operating cash flow	53.2	66.5	77.9	62.5	62.3
Investing cash flow	(0.9)	(17.6)	(3.5)	(4.2)	(5.0)
Financing cash flow	(24.3)	(56.3)	(49.8)	(51.9)	(52.6)
Net cash flow	28.1	(7.4)	24.6	6.4	4.8
Beginning cash flow	62.4	90.5	83.1	107.7	114.1
Ending cash flow	90.5	83.1	107.7	114.1	118.9

Growth (%)	2023A	2024A	2025F	2026F	2027F
Revenue Growth	12.3	10.7	7.5	5.9	4.2
Gross Profit Growth	38.5	13.5	16.3	5.8	1.7
EBITDA Growth	55.4	25.6	13.0	6.5	4.2
Core PATANCI Growth	83.2	27.7	9.0	7.3	3.7

Profitability Ratios (%)	2023A	2024A	2025F	2026F	2027F
Gross Profit Margin	30.4	31.1	33.7	33.6	32.8
EBITDA Margin	17.8	20.2	21.3	21.4	21.4
EBIT Margin	16.2	18.7	19.8	20.1	20.0
Core PATANCI Margin	12.8	14.8	15.0	15.2	15.1

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
PPE	70.1	84.3	72.9	73.5	74.3
Intangible assets	2.0	0.0	0.0	0.0	0.0
Non-current assets	80.2	91.4	83.0	83.5	84.1
Inventories	30.1	31.9	30.7	31.8	32.9
ST - Trade receivables	37.3	44.0	42.9	44.4	46.1
Cash and cash equivalents	90.5	83.1	107.7	114.1	118.9
Current assets	158.4	159.7	182.1	191.2	198.8
Total Assets	238.6	251.1	265.2	274.7	282.9
Total Equity	162.2	163.8	171.6	179.8	188.1
LT Loans	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	6.5	7.9	7.3	7.6	7.9
ST Trade payables	61.7	72.0	61.3	63.5	65.8
ST Loans	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	69.9	79.4	86.3	87.3	87.0
Total Liabilities	76.4	87.3	93.6	94.9	94.8

Liquidity Ratios (x)	2023A	2024A	2025F	2026F	2027F
Current ratio	2.3	2.0	2.1	2.2	2.3
Quick ratio	1.8	1.6	1.8	1.8	1.9

Leverage Ratios (x)	2023A	2024A	2025F	2026F	2027F
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Total Debt to Assets	0.0	0.0	0.0	0.0	0.0
Net debt/total equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Efficiency Ratios (days)	2023A	2024A	2025F	2026F	2027F
Inventories Turnover	44.3	44.8	45.2	43.5	43.5
Receivable Turnover	40.3	40.1	41.3	40.2	40.2
Payable Turnover	89.7	98.7	98.6	89.3	89.6
Cash Conversion Cycle	(5.1)	(13.8)	(12.2)	(5.6)	(5.8)

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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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