Corporate Update

Hup Seng Industries Berhad

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

SHARIAH Compliant

Maintain **Neutral**

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

1QFY25 Results Review
Slow Start to FY25

Maintain NEUTRAL with lower TP of RM1.04. As 1QFY25 results came in below expectations, we revise our FY25–FY27 earnings forecasts lower by -20%, -19%, and -16%, respectively, to reflect softer sales assumptions and sustained input cost pressures. Consequently, our TP is reduced to RM1.04 (from RM1.09), based on DDM valuation, assuming a consistent 3.0% dividend growth and an updated WACC of 9.1%. While dividend yields remain attractive at 5.1%, near-term earnings headwinds may limit upside potential.

Below expectations. Hup Seng Industries (Hup Seng) chalked in 1QFY25 revenue of RM91.7m (-21.7%qoq; -2.0%yoy) and core PATANCI of RM10.7m (-39.9%qoq, -24.3%yoy) which came in below our and consensus expectations—accounting for just 17% of full-year estimate. The variance against our forecast was largely due to lower export sales and higher input costs.

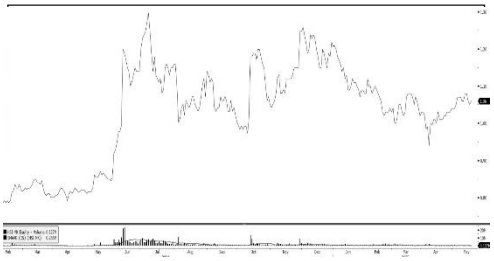
Softer sales weighed by export disruption. Hup Seng's 1QFY25 revenue declined -2.0%yoy to RM91.7m, mainly dragged by a -16% contraction in export sales due to import permit restrictions in Myanmar and erratic shipping schedules in Mauritius. Domestically, sales improved by +2%yoy, driven by stronger demand from East Malaysia. On a quarter-on-quarter basis, revenue fell sharply by -21.7%, reflecting seasonal normalisation in domestic consumption and slower export momentum, with domestic sales dropping -19% and export markets declining -31%, particularly from Thailand, Indonesia, Myanmar and the Pacific region.

Margins dented by lower sales and higher input costs. Gross profit declined -13.8%yoy to RM26.4m, with gross margin narrowing by 3.9ppts to 28.7%, as the Group faced elevated input costs on key raw materials during the quarter. The earnings contraction was further exacerbated by the weaker topline, which limited operating leverage. Consequently, operating profit fell -23.8%yoy to RM14.2m, translating to a 4.4ppt decline in operating margin to 15.5%. At the bottom line, Core PATANCI margin contracted 3.4ppts yoy to 11.7%.

Outlook. We maintain a cautiously optimistic outlook on Hup Seng, supported by (i) stable domestic demand, (ii) a resilient core biscuit segment, (iii) consistent dividend payouts which offer defensive appeal. Nonetheless, ongoing input cost pressures and global uncertainties—including shipping disruptions and regulatory hurdles in key export markets—remain key challenges that could weigh on margins in the near term.

RETURN STATISTICS	
Price @ 21st May 2025 (RM)	1.06
Expected share price return (%)	-1.8
Expected dividend yield (%)	+5.1
Expected total return (%)	+3.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.0	1.9
3months	3.9	7.0
12 months	22.6	28.7

INVESTMENT STATISTICS FYE SEPT (RM'm)	2025F	2026F	2027F
Revenue	397.7	426.0	442.2
EBITDA	74.7	79.0	85.5
PBT	69.0	75.1	80.9
Core PATANCI	51.1	55.6	59.9
Core EPS (sen)	6.4	7.0	7.5
DPS (sen)	5.4	5.9	6.4
Dividend Yield (%)	5.1	5.6	6.0

KEY STATISTICS	
FBM KLCI	1,544.80
Issue shares (m)	800.00
Estimated free float (%)	35.92
Market Capitalisation (RM'm)	848.0
52-wk price range	RM0.84 - RM1.30
3-mth average daily volume (m)	0.59
3-mth average daily value (RM'm)	0.61
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: 1QFY25 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue	91.7	117.1	93.6	(2.0)	(21.7)	91.7	93.6	(2.0)
Cost of Sales	(65.4)	(81.3)	(63.0)	3.8	(19.6)	(65.4)	(63.0)	3.8
Gross Profit	**26.4**	**35.8**	**30.6**	**(13.8)**	**(26.4)**	**26.4**	**30.6**	**(13.8)**
Other income	1.0	1.2	1.1	(9.6)	(10.8)	1.0	1.1	(9.6)
Administrative expenses	(4.3)	(4.4)	(4.8)	(9.9)	(1.0)	(4.3)	(4.8)	(9.9)
Selling and marketing expenses	(8.9)	(10.3)	(8.3)	7.2	(13.9)	(8.9)	(8.3)	7.2
Operating profit (EBIT)	**14.2**	**22.3**	**18.7**	**(23.8)**	**(36.3)**	**14.2**	**18.7**	**(23.8)**
Finance cost	(0.0)	(0.0)	(0.0)	100.0	(60.0)	(0.0)	(0.0)	100.0
Profit before tax (PBT)	**14.2**	**22.3**	**18.7**	**(23.8)**	**(36.3)**	**14.2**	**18.7**	**(23.8)**
Income tax expense	(3.6)	(5.0)	(4.7)	(22.9)	(27.4)	(3.6)	(4.7)	(22.9)
Profit After tax (PAT)	10.6	17.3	14.0	(24.2)	(38.9)	10.6	14.0	(24.2)
Core PATANCI	**10.7**	**17.8**	**14.1**	**(24.3)**	**(39.9)**	**10.7**	**14.1**	**(24.3)**
Core EPS (sen)	1.3	2.2	1.8	(24.3)	(39.9)	1.3	1.8	(24.3)
DPS (sen)	0.0	2.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				+/(-) ppts	+/(-) ppts			+/(-) ppts
Gross Profit Margin	28.7	30.6	32.7	(3.9)	(1.9)	28.7	32.7	(3.9)
Operating Profit Margin	15.5	19.1	19.9	(4.4)	(3.6)	15.5	19.9	(4.4)
PBT Margin	15.5	19.1	19.9	(4.5)	(3.6)	15.5	19.9	(4.5)
Core PATANCI Margin	11.7	15.2	15.1	(3.4)	(3.5)	11.7	15.1	(3.4)
Ratios & Valuation				+/(-) ppts	+/(-) ppts			+/(-) ppts
Effective tax rate (%)	25.4	22.3	25.1	0.3	3.1	25.4	25.1	0.3

Source: Company, MIDFR

Hup Seng Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue (RM'm):								
Biscuit Manufacturing	67.8	87.2	69.0	(1.8)	(22.2)	67.8	69.0	(1.8)
Beverage Manufacturing	1.4	1.2	2.1	(31.8)	16.6	1.4	2.1	(31.8)
Trading	75.2	92.9	73.6	2.2	(19.0)	75.2	73.6	2.2
Total	**91.7**	**117.1**	**93.6**	**(2.0)**	**(21.7)**	**91.7**	**93.6**	**(2.0)**
Operating Profit (RM'm):								
Biscuit Manufacturing	6.8	11.6	10.6	(35.9)	(41.5)	6.8	10.6	(35.9)
Beverage Manufacturing	0.0	0.0	0.2	(82.3)	342.9	0.0	0.2	(82.3)
Trading	7.8	10.9	8.3	(6.0)	(28.0)	7.8	8.3	(6.0)
Total	**14.7**	**22.5**	**19.1**	**(23.2)**	**(34.9)**	**14.7**	**19.1**	**(23.2)**
Operating profit margin (%):				+/(-) ppts	+/(-) ppts			+/(-) ppts
Biscuit Manufacturing	10.0	13.3	15.3	(5.3)	(3.3)	10.0	15.3	(5.3)
Beverage Manufacturing	2.2	0.6	8.4	(6.2)	1.6	2.2	8.4	(6.2)
Trading	10.4	11.7	11.3	(0.9)	(1.3)	10.4	11.3	(0.9)
Total	**16.0**	**19.2**	**20.4**	**(4.4)**	**(3.2)**	**16.0**	**20.4**	**(4.4)**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	357.3	395.3	397.7	426.0	442.2
Gross Profit	108.5	123.1	122.4	131.1	136.0
EBITDA	63.7	71.2	74.7	79.0	85.5
EBIT	58.0	71.1	67.3	73.3	79.0
PBT	60.0	73.8	69.0	75.1	80.9
Taxation	(14.9)	(16.2)	(17.9)	(19.5)	(21.0)
PAT	45.1	57.6	51.1	55.6	59.9
Core PATANCI	45.7	58.2	51.1	55.6	59.9
Core EPS (sen)	5.7	7.3	6.4	7.0	7.5
PER (x)	18.9	14.7	16.6	15.2	14.2
DPS (sen)	4.0	7.0	5.4	5.9	6.4
Dividend Yield (%)	3.8	6.6	5.1	5.6	6.0

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
PBT	60.0	73.8	69.0	75.1	80.9
Operating cash flow	53.2	66.5	71.3	64.0	62.4
Investing cash flow	(0.9)	(17.6)	(4.0)	(4.9)	(5.7)
Financing cash flow	(24.3)	(56.3)	(49.8)	(52.0)	(52.6)
Net cash flow	28.1	(7.4)	17.5	7.2	4.1
Beginning cash flow	62.4	90.5	83.1	100.6	107.8
Ending cash flow	90.5	83.1	100.6	107.8	111.9

Growth (%)	2023A	2024A	2025F	2026F	2027F
Revenue Growth	12.3	10.7	0.6	7.1	3.8
Gross Profit Growth	38.5	13.5	(0.5)	7.1	3.7
EBITDA Growth	55.4	11.9	4.9	5.7	8.2
Core PATANCI Growth	82.7	27.4	(12.3)	8.9	7.7

Profitability Ratios (%)	2023A	2024A	2025F	2026F	2027F
Gross Profit Margin	30.4	31.1	30.8	30.8	30.7
EBITDA Margin	17.8	18.0	18.8	18.5	19.3
EBIT Margin	16.2	18.0	16.9	17.2	17.9
Core PATANCI Margin	12.8	14.7	12.8	13.1	13.5

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
PPE	70.1	84.3	82.5	83.4	84.5
Intangible assets	2.0	0.0	0.0	0.0	0.0
Non-current assets	80.2	91.4	93.1	94.2	95.4
Inventories	30.1	31.9	31.3	33.6	34.9
ST - Trade receivables	37.3	44.0	40.9	43.8	45.5
Cash and cash equivalents	90.5	83.1	100.6	107.8	111.9
Current assets	158.4	159.7	173.7	186.1	193.2
Total Assets	238.6	251.1	266.8	280.3	288.6
Total Equity	162.2	163.8	169.6	175.6	182.1
LT Loans	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	6.5	7.9	7.8	8.4	8.7
ST Trade payables	61.7	72.0	67.6	72.4	75.2
ST Loans	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	69.9	79.4	89.5	96.2	97.8
Total Liabilities	76.4	87.3	97.3	104.6	106.5

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	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