Consumer

Poultry: Resilient Output, Fragile Inputs

POSITIVE (Maintain)

HIGHLIGHTS

- Malaysia's poultry sector remains one of the stronger components of national food security, with chicken self-sufficiency at around 91%-93% and egg production in surplus at about 107%.
- The main vulnerability sits upstream. Maize self-sufficiency is only 0.2%, implying 99.8% import dependency, while soybean and soybean meal are effectively 100% imported, mainly from Brazil, Argentina and the US.
- Feed is the industry's largest cost exposure. For Leong Hup International (BUY, TP RM1.03), raw materials account for 83%-85% of feedmill production costs, while corn and soybean meal together represent around 70% of poultry feed costs.
- Demand is defensive given chicken's position as Malaysia's main affordable protein, but earnings can remain volatile when imported feed costs rise faster than selling prices.
- Integrated operators are structurally better placed through procurement scale, feed-milling capacity, breeder and hatchery control, farming integration, hedging and stronger working-capital access.
- Companies mentioned in this report: Leong Hup (BUY, TP: RM1.03), QL Resources (NEUTRAL, TP: RM4.11)

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Industry Overview

Strong domestic output masks an upstream dependency. Malaysia has built a relatively strong domestic poultry production base. Chicken self-sufficiency is around 91%-93%, while egg output exceeds domestic requirements at approximately 107%. This places poultry among Malaysia's more resilient food categories at the final-product level and compares favourably with beef, mutton and dairy, where import dependency remains substantially higher. However, poultry self-sufficiency does not mean the production chain is domestically self-sufficient. Feed remains heavily imported. Malaysia's maize self-sufficiency stands at only 0.2%, while soybean and soybean meal are effectively entirely imported. The main sourcing markets are Brazil, Argentina and the US, exposing local poultry production to global crop conditions, export policies, freight disruption and currency movements. This is the core structural feature of the industry.

Poultry remains a core affordable protein. Chicken is one of Malaysia's highest-consumption food categories and remains the most accessible mass-market protein for many households. This supports defensive underlying demand and gives the sector stronger volume visibility than most discretionary food categories. The sector therefore benefits from a relatively stable demand base. The main earnings volatility typically comes from the cost side rather than a structural absence of consumption.

SWOT Analysis

Strengths

High self-sufficiency in chicken and eggs. Malaysia's strongest advantage is its domestic production base. Chicken self-sufficiency is around 91%-93%, while egg production is in surplus at about 107%, reducing immediate dependence on imported finished poultry products. This gives the country a meaningful food-security buffer. In a supply disruption, Malaysia is less exposed to physical shortages of finished chicken and eggs than it is for imported red meat or dairy.

Defensive demand. Chicken remains a staple protein with broad household penetration. Demand is therefore relatively resilient through economic cycles, particularly when consumers trade down from more expensive proteins. This creates a stable underlying market for producers and makes volume risk generally lower than in discretionary food categories.

COMPANY *IN FOCUS*

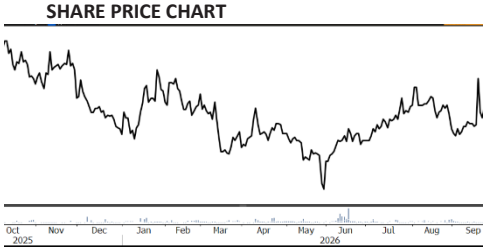
QL Resources

Maintain NEUTRAL| Target Price: RM4.11

Price @ 20 Oct 2026: RM3.77

- Diversified earnings across ILF, marine products, convenience retail and POCE help cushion volatility from feed and commodity cost swings.

SHARE PRICE CHART



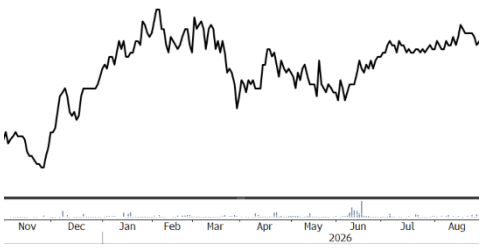
Leong Hup International Berhad

Maintain BUY | Target Price: RM1.03

Price @ 20 Oct 2026: RM0.71

- Defensive exposure to staple protein demand across ASEAN

SHARE PRICE CHART



Integrated production model among major players. Larger operators typically control a greater part of the poultry value chain, including feed milling, breeding, hatcheries, farming, processing and distribution.

Integration provides several advantages:

- better visibility over feed requirements
- greater purchasing scale
- improved control over biological performance
- more consistent supply
- greater ability to manage working capital and inventory
- stronger distribution and customer relationships

Leong Hup's feed-to-poultry model provides greater procurement control, while the group also uses forward purchasing and forward FX contracts to partly manage imported-input exposure.

Scale improves shock absorption. Larger producers have greater capacity to absorb temporary margin compression than smaller independent farmers. They can negotiate supply contracts, maintain inventory, access banking facilities and sustain production even when feed prices rise sharply. **QL Resources (NEUTRAL, TP RM4.11)** margins during the 2021-22 grain shock illustrates this. QL's broader business diversification helped keep group EBIT margins within a narrower range than LHI's more poultry-concentrated earnings profile.

Strong policy relevance. Poultry is strategically important to national food security. This ensures continued policy attention around affordability, producer sustainability and supply continuity. NAP 2.0 targets poultry self-sufficiency of 140% by 2030, implying continued policy support for domestic capacity expansion.

Weaknesses

Structural dependence on imported feed. The sector's biggest weakness is its import dependency. Maize is 99.8% import-dependent, while soybean meal is effectively 100% imported. The reliance is especially important because feed is not a discretionary input. Producers cannot materially reduce feed consumption without affecting growth rates, mortality, egg production and feed-conversion efficiency. Feed dominates the cost base. LHI, raw materials account for around 83%-85% of feedmill production costs, with approximately 90% of feed ingredients sourced internationally. Corn contributes roughly 50% of feed ingredient cost and soybean meal another 20%, together accounting for about 70% of poultry feed costs.

Margin volatility. The 2021-22 commodity shock demonstrated the sensitivity clearly. Corn, soybean meal and wheat prices rose sharply, while producers continued to incur feed, labour, utilities and logistics costs throughout the production cycle. LHI's group EBIT margin fell to 2.9% in 1QFY22, before recovering as pricing, product mix and policy support caught up with costs. Group EBIT margin averaged 3.5% in FY21 and 5.1% in FY22, compared with 7.6% in FY23 once feed costs normalised.

Working-capital intensity. Poultry production requires cash well before revenue is realised. Feed must be purchased continuously, chicks placed, farms maintained and labour paid while livestock progresses through the production cycle. This is especially challenging for smaller operators when feed costs rise because working-capital requirements increase at the same time margins come under pressure.

Biological production cycle. Poultry supply cannot be increased instantly. Breeding stock, hatcheries, chick placements, feed availability, housing capacity and processing infrastructure must all be planned ahead of final output. This means producers may take months to respond to a sudden shortage or price signal.

Policy sensitivity. Poultry is more exposed to intervention than many other consumer categories because chicken and eggs are politically sensitive staples. During the 2022-23 control period, the MYR-adjusted feed index rose much faster than retail chicken and egg prices, showing how intervention can weaken normal cost pass-through.

Opportunities

Continued demand for affordable protein. Population growth, household formation and long-term protein consumption should continue to support poultry demand. Chicken also benefits when households shift away from more expensive proteins, strengthening its role as the default value protein.

Capacity expansion towards NAP 2.0 targets. NAP 2.0's target of 140% poultry self-sufficiency by 2030 creates room for investment across:

- breeder farms
- hatcheries
- closed-house farms
- feed mills
- processing facilities
- cold-chain infrastructure
- halal-certified export capacity

Malaysia's ambition to become a global halal hub. Malaysia's established halal ecosystem creates a structural export opportunity for poultry producers. The country already has a strong institutional framework through JAKIM, HDC and MIDA, while JAKIM certification is widely recognised internationally. This gives Malaysian poultry producers an advantage in accessing Muslim-majority markets and competing in higher-value halal food categories. The opportunity is sizeable. Global halal product demand is projected to reach USD5t by 2030, while Malaysia's halal exports reached RM61.79b in 2024, with food and beverages contributing more than RM34b. Under HIMP 2030, Malaysia aims to raise the halal sector's contribution to GDP to 11%, increase halal exports to RM70b and create around 700,000 skilled jobs. For poultry producers, this supports expansion into processed chicken, ready-to-eat products and other value-added halal foods rather than relying only on commodity poultry. Malaysia's halal parks, investment incentives and established certification infrastructure should also make it easier for larger integrated producers to scale export-oriented capacity. If Malaysia continues to position itself as a trusted halal supply hub, poultry will be one of the clearest beneficiaries given its existing domestic production base and strong halal relevance. The main execution requirement is cost competitiveness. Malaysia's heavy dependence on imported corn and soybean meal means export growth will still depend on keeping feed, logistics and processing costs competitive against regional producers.

Feed localisation. Another structural opportunity is upstream. Domestic production of alternative feed ingredients and other substitutes could reduce reliance on imported feed. Even partial localisation would reduce exposure to freight, FX and exporter-country weather. Given Malaysia's current 99.8% import dependency in maize, even modest domestic substitution could materially improve resilience.

Farming technology and productivity. Greater adoption of closed-house systems, environmental controls, automation, improved genetics and precision feeding can improve:

- feed-conversion ratios
- mortality
- growth rates
- labour productivity
- output consistency.

Industry consolidation. Higher capital requirements and more volatile input costs could accelerate consolidation. Stronger integrators may gain market share as smaller farmers struggle with working capital, compliance and feed procurement. This could lead to a more efficient and professionally managed production base over time.

Value-added products. Industry can continue expanding beyond commodity poultry into:

- Processed chicken
- Ready-to-cook products
- Ready-to-eat meals
- Branded eggs
- Halal-certified packaged foods

Threats

Renewed feed inflation. Feed remains the clearest near-term risk. A sustained increase in corn and soybean meal prices would quickly raise production costs, particularly for smaller operators without procurement scale or hedging capacity.

Currency risk. Feed inputs are largely imported and commonly priced in USD.A weaker Ringgit raises landed feed costs even if global grain prices remain unchanged. Currency risk therefore compounds commodity-price volatility.

Freight and geopolitical disruption. Malaysia's imported-feed structure means poultry production is exposed to shipping disruptions even when domestic farms are operating normally. Higher freight, insurance and longer transit routes increase landed input costs and may also increase the inventory required to protect supply continuity. The food-security report identifies energy, shipping and geopolitical disruptions as important transmission channels into feed and food costs.

Climate risk in supplier countries. Brazil, Argentina and the US are key feed suppliers. Drought, heatwaves or excessive rainfall in those markets can reduce crop output and raise global grain prices. Malaysia therefore carries indirect climate exposure through imported feed even if domestic weather is favourable.

Government price intervention. If food inflation rises, authorities may again prioritise affordability over full producer pass-through. The previous control regime shows the trade-off: consumers are protected in the short term, but producer margins weaken when feed inflation exceeds selling-price increases.

Smaller farmer exits and supply adjustment. If weak economics persist, smaller farmers may reduce chick placements, defer expansion or exit the sector. Because the production cycle cannot be restarted instantly, prolonged margin pressure can eventually tighten national supply.

Biosecurity. Animal disease remains an important tail risk. Disease outbreaks can lead to mortality, culling, movement restrictions and disruption to production. The broader food-security framework identifies biosecurity risks as a potential source of sudden agricultural supply disruption.

Labour, energy and logistics costs. Feed is the dominant cost, but poultry farms, feed mills and processing plants also require:

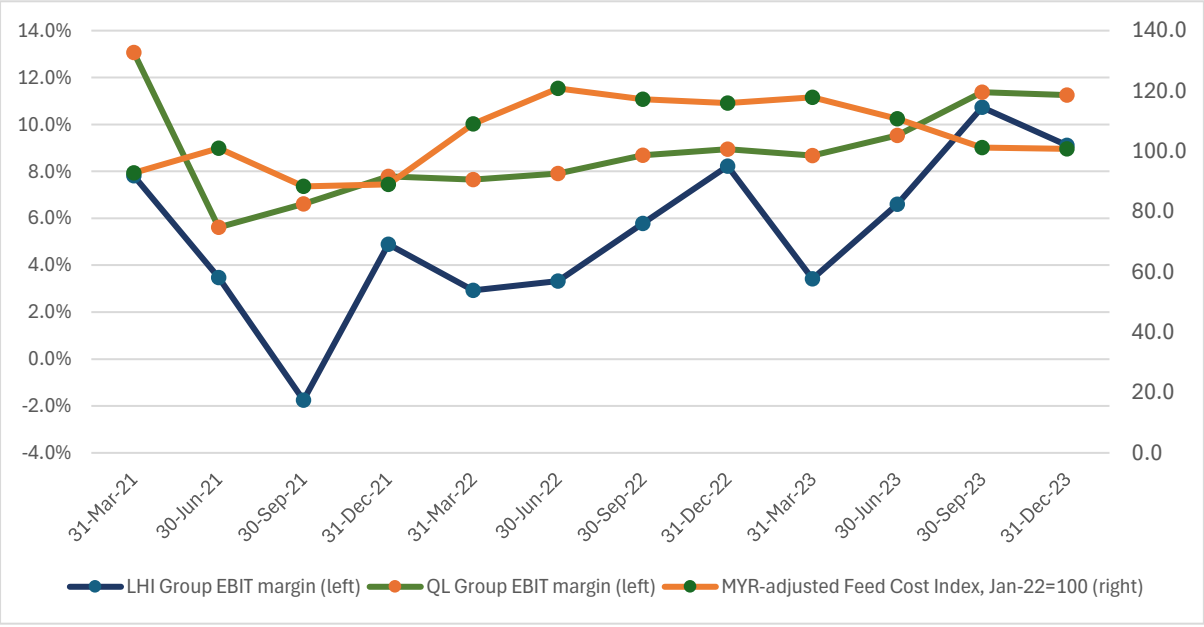
- labour
- electricity
- diesel
- cold-chain logistics
- packaging
- transport

Higher costs across these areas can compound feed inflation and limit margin recovery.

Lessons from the 2021–22 Feed Shock.

Margin compression. The vulnerability becomes more apparent when imported feed costs rise faster than selling prices. The 2021-22 grain shock is the clearest example: CBOT corn reached USD8.18/bushel in Apr-22, its highest since 2012, while soybean meal peaked at USD521.9/short ton in Mar-22 and wheat at USD14.25/bushel in Mar-22. For poultry producers the issue was higher input costs and the inability to reduce feed consumption without affecting biological performance. Feed must be purchased throughout the production cycle while hatcheries, farms and processing operations continue to incur labour, utilities and logistics costs. LHI's experience illustrates the squeeze, though pressure was concentrated in specific quarters rather than across the full year. Group EBIT margin averaged 3.5% in FY21 and 5.1% in FY22, both well below the 7.6% recorded in FY23 as feed costs normalised, even as revenue rose 26% to RM9.04b. The trough came in 1QFY22 at 2.9%, when higher feed, depreciation and finance costs outpaced volume and ASP gains. Margins then recovered through the balance of FY22 even as our MYR-adjusted feed index held within 5% of its 2QFY22 peak, indicating that pricing, mix and policy support eventually caught up with costs rather than that cost pressure had abated. **QL Resources (NEUTRAL, TP RM4.11)** faced the same upstream pressure through its Integrated Livestock Farming division, citing higher corn, soybean and wheat costs alongside logistics and energy inflation. The contrast in outcomes is instructive: QL's group EBIT margin held within a 7.7%-9.0% band through calendar 2022 against LHI's 2.9%-8.2%, and across the twelve quarters to Dec-23 QL's margin was roughly half as volatile. Diversification across ILF, Marine Products Manufacturing, Convenience Store and Palm Oil & Clean Energy gives the group measurably more insulation than a poultry-concentrated model.

Chart 1: Margin Compression in the Grain Shock: LHI vs QL Group EBIT Margin against MYR-Adjusted Feed Cost (Jan-22=100), Mar-21 to Dec-23

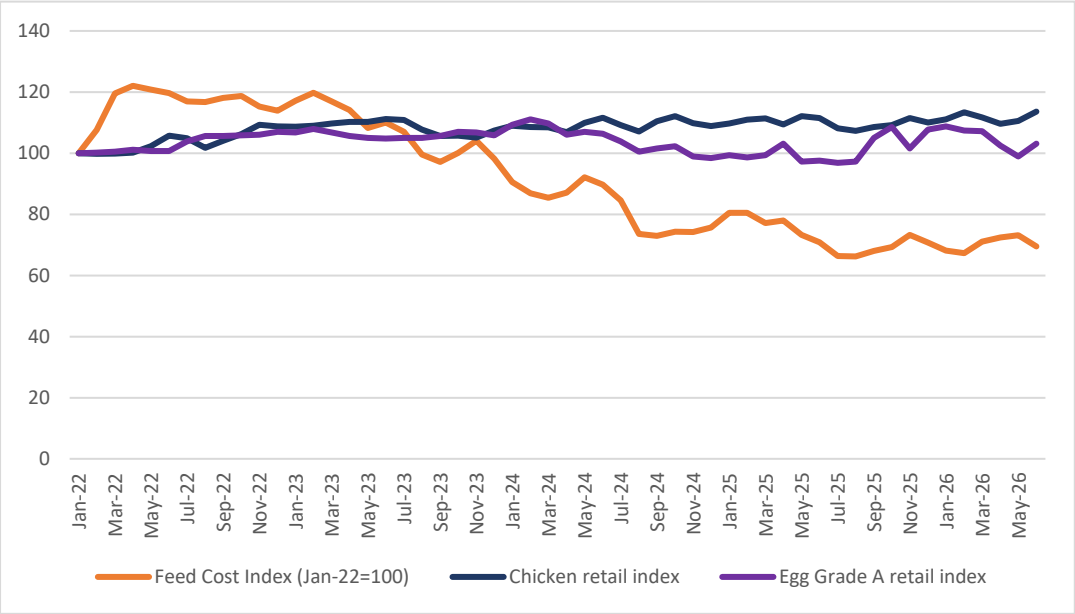


Sources: Companies, MBSBR

Government Intervention: Necessary but Two-Sided

Price-control complications. Poultry is more exposed to government intervention than most consumer categories given its status as a staple protein. As food inflation accelerates, affordability takes precedence over normal cost pass-through. The Malaysian policy response through 2022-23 combined retail price ceilings with producer subsidies, disconnecting domestic selling prices from globally determined input costs. Combining CBOT grain prices with DOSM average retail price data, our MYR-adjusted feed index peaked in Apr-22 at +22% above its Jan-22 level while retail chicken prices rose just +0.2% and retail eggs +1.1%. Across the full control period the feed index averaged +13% above base against a +6% rise in retail chicken. The intervention lowered the immediate consumer burden but transferred it to producers and the fiscal account, the core food-security trade-off. Ceilings stabilise affordability short-term, but if producer compensation is incomplete, it erodes production incentives and discourage capacity expansion. Egg policy provides a more recent example. The subsidy was cut from 10 sen to 5 sen per egg from May-25 and removed entirely from Aug-25. Average retail egg prices fell during the reduction phase, from RM4.57 per 10 eggs in Apr-25 to RM4.29 by Jul-25, then rose to RM4.77 by Dec-25, once prices were fully liberalised, removing the ceiling lifted retail prices.

Chart 2: Policy Timeline: Feed Cost, Chicken and Egg Retail Prices — Control (to Oct-23), Liberalisation, Egg Subsidy Cut (May-25), Removal (Aug-25)



Sources: DOSM, Various

Supply adjustment risks. The longer-term risk is that weak industry economics persist long enough to alter production decisions. Poultry supply cannot be scaled quickly: breeding stock, hatchery capacity, feed supply, farm contracts and processing infrastructure must be in place well before output reaches consumers. Smaller farmers are more exposed, with less purchasing power and less capacity to hold inventory or absorb temporary losses. Where feed remains expensive while selling prices are constrained, the rational response is to reduce placements, defer expansion or exit, tightening supply even where national installed capacity appears adequate. Integrated operators are better placed. LHI uses forward purchasing and forward FX contracts to partially hedge USD exposure, while its feed-to-poultry chain gives greater procurement control. The buffer is partial, LHI's feedmill margins have been comparatively stable at 14-17% over the past two years, while Livestock & Poultry margins ranged 8.6%-19.2%, with the volatility siting downstream. QL's diversification offers a different buffer. Neither model removes the national dependency, and the contrast is stark: Malaysia is 91% self-sufficient in chicken and 107% in eggs, yet 99.8% import-dependent in corn and 100% in soybean meal. High final-output

self-sufficiency rests entirely on imported inputs. Poultry security must therefore be assessed across the whole chain, imported feed availability, producer economics, policy intervention and farmer incentives.

Integrated Producers Are Better Positioned. Larger operators with feed mills, breeder farms, hatcheries, farming capacity, processing and distribution have better control over procurement, production planning and product flow. They also have greater ability to use forward purchasing, supplier diversification and FX hedging to manage short-term volatility. **Leong Hup International (BUY, TP RM1.03)** remains one of the clearest examples of an integrated poultry model. Its feed-to-poultry structure provides procurement and operational control across the value chain, although it does not remove exposure to imported corn and soybean meal. Feed remains the key earnings swing factor. **QL Resources (NEUTRAL, TP RM4.11)** offers a different form of resilience through diversification. Its Integrated Livestock Farming division remains exposed to feed prices, but group earnings are cushioned by Marine Products Manufacturing, Convenience Store and Palm Oil & Clean Energy. During the 2022 grain shock, QL's group EBIT margin was less volatile than LHI's, showing how diversification can reduce group-level earnings sensitivity even when poultry operations remain exposed.

Outlook. We remain constructive on the medium-term fundamentals of Malaysia's poultry industry. Chicken and eggs remain important staple proteins, domestic production capacity is well established and demand should remain defensive. The main challenge is upstream. Malaysia's poultry system remains almost entirely dependent on imported maize and soybean meal, leaving producer economics exposed to global grain prices, FX, freight and climate conditions in major exporting countries. Integrated producers should remain better positioned than smaller operators through scale, procurement, hedging and control across the production chain. Over time, further investment in feed localisation, farming automation, breeder capacity and value-added products could improve industry resilience and reduce earnings volatility. From an equity perspective, we continue to favour operators with stronger integration, balance sheets and earnings diversification. **Leong Hup International (BUY, TP RM1.03)** offers direct exposure to affordable protein demand and an integrated feed-to-poultry model, while **QL Resources (NEUTRAL, TP RM4.11)** provides poultry exposure with greater group-level diversification.

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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