



LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

19 Feb 2024

Company Report

Stable feedmill plant utilisation rate in Malaysia

BUY

(Maintained)

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Rationale for Report: Company Update

Price	RM0.61			
Fair Value	RM0.95			
52-week High/Low	RM0.74/RM0.47			
Key Changes				
Fair value	↔			
EPS	↔			
YE to Dec				
	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	9,042.7	9,329.7	10,261.4	10,888.9
Core net profit (RM mil)	218.9	297.7	315.3	330.1
FD Core EPS (sen)	6.0	8.2	8.6	9.0
FD Core EPS growth (%)	156.2	36.0	5.9	4.7
Consensus Net Profit (RM mil)	-	295.2	270.0	292.2
DPS (sen)	0.7	2.3	2.4	2.5
PE (x)	10.2	7.5	7.1	6.7
EV/EBITDA (x)	5.5	4.1	4.4	3.3
Div yield (%)	-	3.7	4.0	4.2
ROE (%)	11.5	13.8	12.9	9.8
Net Gearing (%)	109.3	83.0	72.1	21.4

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,227
Book Value (RM/Share)	0.55
P/BV (x)	1.0
ROE (%)	11.5
Net Gearing (%)	109.3

Major Shareholders	Emerging Glory Sdn Bhd (52.8%) Clarinden Inv Pte. (8.1%) Amanah Saham Nasional Bhd (7.1%)
Free Float	32.1
Avg Daily Value (RM mil)	3.8

Price performance	3mth	6mth	12mth
Absolute (%)	(18.0)	7.9	10.1
Relative (%)	(21.6)	2.8	8.2



Investment Highlights

- We reiterate our BUY call on Leong Hup International (LHI) with an unchanged fair value of RM0.95/share pegged to an FY24F P/E of 11x, in line with its 3-year historical mean. We make no adjustment to our neutral ESG rating of 3 stars.
- Our earnings forecasts are maintained following our recent visit to the feedmill plant in Port Klang and broiler farm in Sungkai, Perak. The following are the key takeaways:
 - The processing of livestock feed production at the feedmill plant in Port Klang has been automated. The automation covers processes from crushing to packaging. We understand that a production line now only requires 18 staff per shift compared to 24 previously. This helps to reduce dependency on labour, resulting in a 25% reduction in personnel cost.
 - LHI has completed a 2nd pelleting line in Philippines in 3QFY23, which increases the capacity from 14k MT to 28k MT per month.
 - According to Nasdaq commodities data, corn prices have dropped by 38% to US\$418/bushel in Feb 2024 from the peak of US\$678/bushel in April 2023, while soybean meal prices also declined by 27% to USD333/bushel in Feb 2024 from the peak of USD456/bushel in Nov 2023 (Exhibits 1 & 2).
 - We expect the trend for commodity prices to continue to be volatile with corn price declining to below US\$400/bushel while soybean meal prices could hover around US\$330/bushel with sufficient supply in the market.
 - We expect LHI to be able to sustain its profit margin due to the group's ability to pass through the cost increase to customers with an average EBITDA margin assumption of 10%-12% for the feedmill segment from 4QFY23 onwards.
 - In January 2024, the utilisation rate of LHI's Malaysian feedmill plant remained stable at 65%, similar to 3QFY23. We expect the rate to maintained within 60%-70% given the steady local chicken consumption patterns.
 - We also visited its broiler facility which is a closed farm. This closed farm approach enables LHI to control biosecurity measures and environmental changes, which are crucial for the optimal growth and wellbeing of poultry.

- This closed farm concept incorporates better features such as using cooling pads and ventilation systems as well as automated feeding and watering systems, which effectively regulate the temperature and enhances efficiency in broiler management. Moreover, this setup serves as a proactive measure against disease transmission risks, notably mitigating the potential threat of avian influenza outbreaks associated with open-air exposure.
 - We remain positive on LHI premised on: (i) expectation of the group to continue gaining market share from smaller players exiting the business due to elevated operational cost, (ii) gradual increase in revenue from an expansion in production capacities to supply more poultry to Indonesia and Philippines, and (iii) anticipation of more stable average selling prices amidst healthy demand and supply for poultry products.
 - The group will be investing in a slaughtering plant with a capex allocation of RM18mil in Yong Peng, Malaysia. The plant is expected to be completed by 3Q2025 with a capacity of 24k birds per day. It will be partially funded through borrowings. Meanwhile, management also guided for a FY24F capex of RM200mil-RM300mil to utilised in Malaysia, Indonesia, and Philippines for maintenance purposes.
- The stock currently trades at a compelling FY24F PE of 7x, below its 3-year average of 11x.

EXHIBIT 1: CORN PRICE CHART

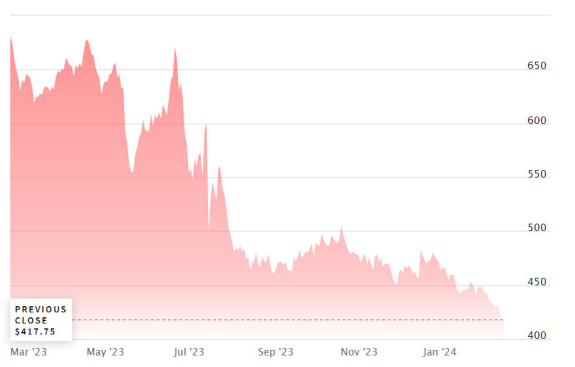
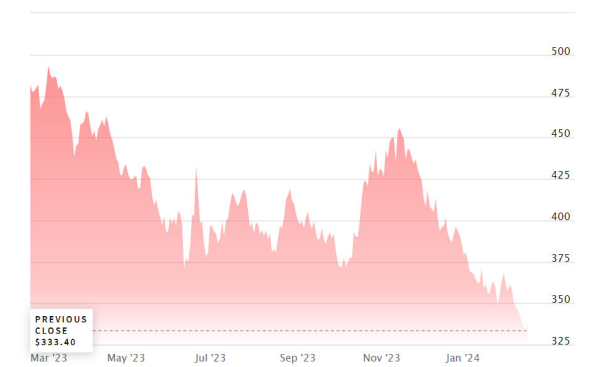


EXHIBIT 2: SOYBEAN MEAL PRICE CHART



Source: Nasdaq

EXHIBIT 3: PB BAND CHART

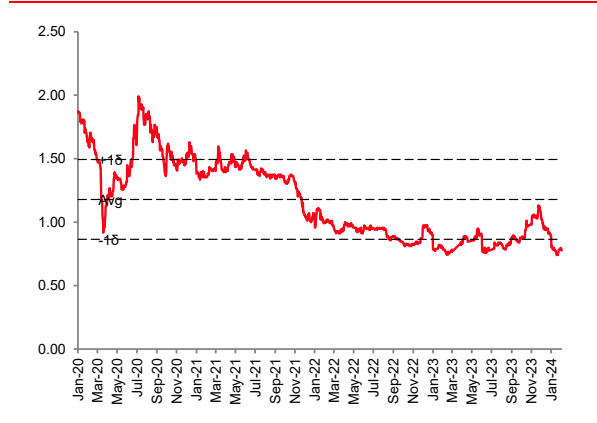


EXHIBIT 4: PE BAND CHART

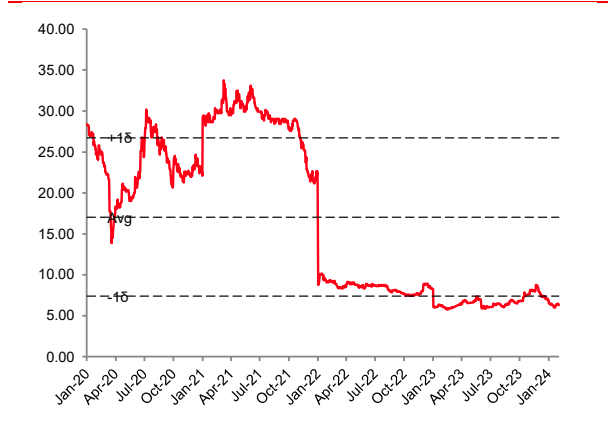


EXHIBIT 5: ESG MATRIX

Overall	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmlInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	7,153.5	9,042.7	9,329.7	10,261.4	10,888.9
EBITDA	536.1	765.3	943.1	873.1	884.2
Depreciation/Amortisation	(283.7)	(301.2)	(303.8)	(295.8)	(288.6)
Operating income (EBIT)	252.3	464.0	639.4	577.3	595.6
Other income & associates	0.4	0.4	0.4	0.4	0.4
Net interest	(112.4)	(137.9)	(133.1)	(123.1)	(114.3)
Exceptional items	-	-	-	-	-
Pretax profit	140.3	326.6	506.7	454.7	481.7
Taxation	(44.4)	(82.7)	(121.6)	(109.3)	(115.6)
Minorities/pref dividends	(10.5)	(25.0)	(87.4)	(30.0)	(36.0)
Net profit	85.4	218.9	297.7	315.3	330.1
Core net profit	85.4	218.9	297.7	315.3	330.1
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	2,770.3	2,784.5	3,088.2	3,384.0	3,672.6
Intangible assets	96.1	99.2	99.2	99.2	99.2
Other long-term assets	544.8	548.1	438.6	447.4	379.3
Total non-current assets	3,411.2	3,431.8	3,626.1	3,930.6	4,151.1
Cash & equivalent	764.6	840.3	918.3	1,184.6	1,544.1
Stock	973.5	1,025.9	1,128.3	1,196.7	1,206.0
Trade debtors	624.7	649.9	742.6	777.1	782.6
Other current assets	555.7	644.4	335.7	208.5	405.0
Total current assets	2,918.6	3,160.4	3,124.9	3,366.9	3,937.7
Trade creditors	284.2	358.9	358.7	398.5	425.7
Short-term borrowings	2,070.1	1,986.3	2,134.5	2,166.3	1,687.3
Other current liabilities	294.2	317.9	295.8	315.1	285.5
Total current liabilities	2,648.5	2,663.1	2,789.0	2,879.9	2,398.5
Long-term borrowings	1,054.6	1,046.4	946.4	1,046.4	747.4
Other long-term liabilities	266.9	293.1	211.6	340.3	265.0
Total long-term liabilities	1,321.4	1,339.5	1,158.0	1,386.7	1,012.4
Shareholders' funds	1,807.1	2,005.0	2,306.8	2,563.8	4,163.4
Minority interests	552.8	584.5	497.1	467.1	431.1
BV/share (RM)	0.50	0.55	0.63	0.70	1.14
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	140.3	326.6	506.7	454.7	481.7
Depreciation/Amortisation	282.7	299.2	300.8	291.8	283.6
Net change in working capital	(414.1)	(58.2)	(10.0)	(63.1)	12.5
Others	35.3	53.3	14.5	17.7	3.7
Cash flow from operations	44.2	620.9	812.0	701.1	781.4
Capital expenditure	(341.0)	(291.1)	(200.0)	(200.0)	(200.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(51.6)	13.5	-	-	-
Cash flow from investing	(392.6)	(277.6)	(200.0)	(200.0)	(200.0)
Debt raised/(repaid)	326.8	(297.1)	(200.0)	(200.0)	(200.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(24.1)	-	83.3	88.3	92.4
Others	(86.6)	(65.0)	33.6	53.5	70.5
Cash flow from financing	264.3	(362.1)	(249.7)	(234.8)	(221.9)
Net cash flow	(84.1)	(18.8)	362.2	266.3	359.5
Net cash/(debt) b/f	645.8	575.1	556.1	918.3	1,184.6
Net cash/(debt) c/f	575.1	556.1	918.3	1,184.6	1,544.1
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	18.4	26.4	3.2	10.0	6.1
EBITDA growth (%)	(1.1)	42.8	23.2	(7.4)	1.3
Pretax margin (%)	2.0	3.6	5.4	4.4	4.4
Net profit margin (%)	1.2	2.4	3.2	3.1	3.0
Interest cover (x)	2.2	3.4	4.8	4.7	5.2
Effective tax rate (%)	31.7	25.3	24.0	24.1	24.0
Dividend payout (%)	28.2	-	28.0	28.0	28.0
Debtors turnover (days)	32	26	29	28	26
Stock turnover (days)	43	40	42	41	40
Creditors turnover (days)	13	13	14	13	14

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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