

# Leong Hup International Berhad

(6633 | LHI B MK) Main | Consumer Products & Services | Agricultural Products

**Maintain BUY**

## Resilient Demand

**Revised Target Price: RM0.70**  
(Previously RM0.83)

### KEY INVESTMENT HIGHLIGHTS

- **Solid Feedmill segment**
- **Stable demand for chicken and egg products**
- **Enhanced debt level with lower net gearing**
- **Capex plans ahead with a focus on specific operations**
- **Revised FY24-25F earnings lower and introduce FY26F**
- **Maintain BUY with a lower TP of RM0.70 (from RM0.83)**

**Virtual Briefing.** We recently attended Leong Hup's (LHI) 4QFY23 analyst briefing and maintain optimism on the company's outlook for FY24. Key highlights from the briefing are as follows:-

**Solid Feedmill segment.** The average utilization rate dropped slightly by -0.5pptoy to 63.4% despite higher group feed sales volume (+1.1%yoy) during the year. This was mainly due to greater production capacity of +2.8%yoy to 4,319k mt in 12MFY23. Internal sales accounted for 63% of the total feedmill sales in 12MFY23.

**Stable demand for chicken and egg products.** Leong Hup reported a higher sales volume of chicken supplied in 12MFY23, which increased +7.3%yoy to 173.6m birds. The sales volume of eggs also rose +9.6% yoy to 1,905.2m eggs, which illustrated the continued growing demand for chicken and egg products. However, the broiler DOC volume supplied dropped marginally by -0.5%yoy to 575.9m chicks primarily due to reduced demand from Indonesia amid an oversupply situation.

**Enhanced debt level with lower net gearing.** With the continuous high-interest rate, the group reduced borrowings by -26.1%yoy to RM2.46b in 12MFY23 to lower the finance cost. The debt ratio improved with the net gearing dropped from 0.8x in 12MFY22 to 0.6x in 12MFY23.

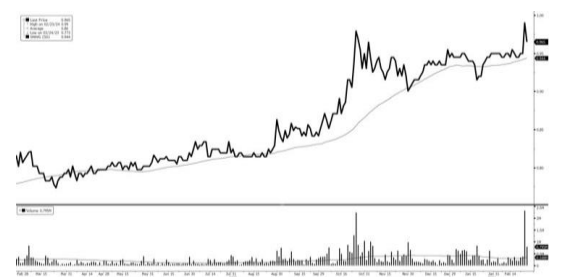
**Capex plans ahead with a focus on specific operations.** The group targets a capex of RM200-300m for FY24 mainly allocated for Malaysia, Indonesia, and the Philippines operations. The group completed 80% of the construction work for the wastewater treatment plant in Serang Layer, West Java, Indonesia. The slaughtering plant in Yong Peng is targeted for completion by 3Q2025, with a production capacity of 24,000 birds per day. Additionally, the construction of the new raw material warehouse at the Tarlac feedmill in the Philippines is set to conclude by 3Q24, with ongoing installation procedures.

**Revised FY24-25F earnings lower and introduce FY26F earnings forecast.** Post-analyst briefing, we revised our FY24-25F earnings forecast lower by -16%/-6.2% given that FY23 earnings missed expectations. This adjustment accounts for increased operating expenses, particularly in staff, utilities, and transportation. Additionally, we introduce FY26F projections.

### RETURN STATISTICS

Price @ 28 <sup>th</sup> Feb 2024 (RM)	0.61
Expected share price return (%)	14.37
Expected dividend yield (%)	4.88
Expected total return (%)	19.25

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	30.9	27.2
3 months	27.4	-4.9
12 months	48.5	39.6

### INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	9,809.1	10,155.3	10,557.7
<b>EBITDA</b>	<b>904.8</b>	<b>979.9</b>	<b>1,065.4</b>
Profit before tax (PBT)	467.3	554.5	628.4
<b>Core PATANCI</b>	<b>303.2</b>	<b>370.0</b>	<b>425.3</b>
Core EPS (sen)	8.3	10.1	11.6
DPS (sen)	3.0	3.5	4.0
Dividend Yield (%)	4.9	5.8	6.6

### KEY STATISTICS

FBM KLCI	1,545.59
Issue shares (m)	3650.00
Estimated free float (%)	17.97
Market Capitalisation (RM'm)	2,646.25
52-wk price range	RM0.47-RM0.74
3-mth average daily volume (m)	6.69
3-mth average daily value (RM'm)	4.09
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
Amanah Saham Nasional Bhd	7.07
CLARINDEN INV PTE	6.21

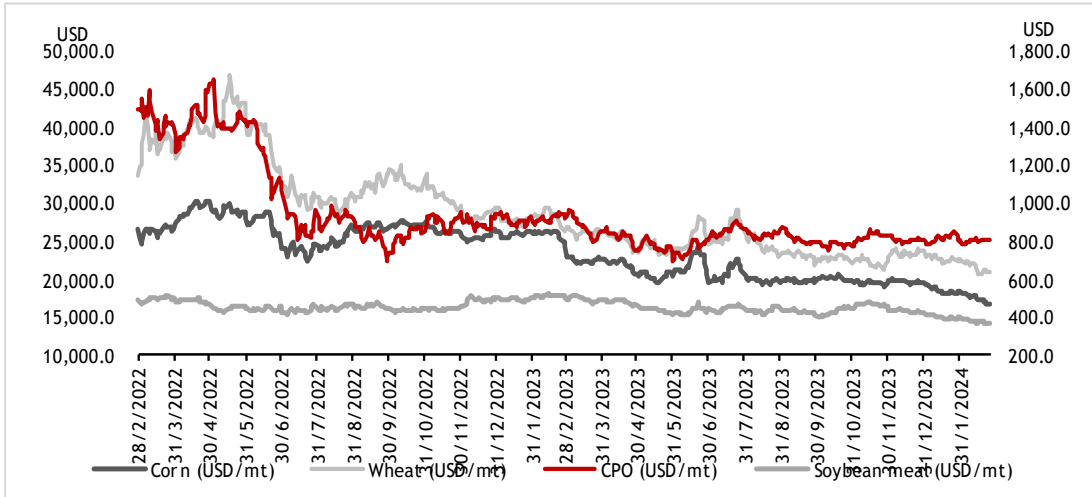
**Analyst**  
**Genevieve Ng** Pei Fen  
genevieve.ng@midf.com.my

**Maintain BUY with a lower TP of RM0.70 (from RM0.83).** Our TP is based on an unchanged PER of 8.4x (5-year historical -1SD PER) pegged to a revised FY24F EPS of 8.31sen (from 9.9sen).

**Outlook.** Despite facing multiple headwinds, we are positive about Leong Hup’s FY24F outlook, underpinned by (1) the resilient demand for poultry products due to the staple food nature of its product and (2) the global softening of commodity prices for livestock feed, thereby reducing the raw material cost for the livestock & poultry-related product segment. Hence, we maintain our BUY call on Leong Hup. **Downside risks include** (1) significant raw material cost increases, (2) adverse regulatory changes like price controls or culling programs, (3) shortages of great-grandparent DOC, and (4) disease outbreaks.



**Chart 1: Raw Material Futures Price Trend for Chicken Feed (USD/mt)**



Sources: MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>9,042.7</b>	<b>9,539.5</b>	<b>9,809.1</b>	<b>10,155.3</b>	<b>10,557.7</b>
Change in biological assets	7.9	67.1	2.9	14.1	15.6
Change in closing inventories	29.6	44.9	5.5	26.9	29.6
Purchase of inventories and livestock	(6,865.4)	(7,205.6)	(7,186.9)	(7,403.4)	(7,619.7)
<b>Gross Profit</b>	<b>2,214.8</b>	<b>2,445.9</b>	<b>2,630.6</b>	<b>2,792.9</b>	<b>2,983.1</b>
Other Income	188.8	287.2	280.5	287.5	297.4
Employee benefit costs including Directors' remuneration	(677.4)	(785.1)	(754.9)	(789.2)	(825.1)
Utilities costs	(221.4)	(320.6)	(324.7)	(334.5)	(346.0)
Repair and maintenance	(91.2)	(116.5)	(100.0)	(106.1)	(112.5)
Transportation expenses	(181.4)	(233.5)	(252.1)	(261.0)	(284.9)
Other operating expenses	(467.0)	(553.3)	(574.7)	(609.8)	(646.7)
<b>EBIT</b>	<b>464.0</b>	<b>724.0</b>	<b>621.5</b>	<b>693.7</b>	<b>764.9</b>
<b>Profit before tax (PBT)</b>	<b>326.6</b>	<b>554.7</b>	<b>467.3</b>	<b>554.5</b>	<b>628.4</b>
Profit After tax (PAT)	243.9	429.8	362.1	429.6	486.9
<b>Core PATANCI</b>	<b>240.6</b>	<b>271.1</b>	<b>303.2</b>	<b>370.0</b>	<b>425.3</b>
Core EPS (sen)	6.6	7.4	8.3	10.1	11.6
DPS (sen)	1.8	3.0	3.0	3.5	4.0

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	2,784.5	2,730.3	2,697.5	2,662.0	2,612.1
<b>Total Non-current assets</b>	<b>3,431.8</b>	<b>3,415.3</b>	<b>3,426.4</b>	<b>3,463.7</b>	<b>3,539.0</b>
Inventories	1,025.9	978.8	984.4	1,011.2	1,040.8
ST - Trade and other receivables	823.2	870.1	902.0	931.3	968.2
Cash and cash equivalents	840.3	699.5	704.9	715.2	728.6
<b>Total current assets</b>	<b>3,160.4</b>	<b>3,111.3</b>	<b>3,158.4</b>	<b>3,240.7</b>	<b>3,338.2</b>
<b>Total Assets</b>	<b>6,592.2</b>	<b>6,526.6</b>	<b>6,584.8</b>	<b>6,704.4</b>	<b>6,877.2</b>
<b>Total Equity</b>	<b>2,589.6</b>	<b>2,955.1</b>	<b>3,042.3</b>	<b>3,171.2</b>	<b>3,347.1</b>
LT Loans and borrowings	1,046.4	870.8	853.4	836.3	819.6
<b>Total Non-current liabilities</b>	<b>1,339.5</b>	<b>1,213.2</b>	<b>1,210.9</b>	<b>1,212.4</b>	<b>1,217.4</b>
ST Trade and other payables	629.8	682.1	686.0	704.7	725.3
ST Loans and borrowings	1,986.3	1,587.3	1,555.6	1,524.4	1,494.0
<b>Total Current Liabilities</b>	<b>2,663.1</b>	<b>2,358.2</b>	<b>2,331.6</b>	<b>2,320.8</b>	<b>2,312.7</b>
<b>Total Liabilities</b>	<b>4,002.6</b>	<b>3,571.5</b>	<b>3,542.4</b>	<b>3,533.2</b>	<b>3,530.1</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	326.6	554.7	467.3	554.5	628.4
Cash flow from operations	620.9	993.1	688.6	627.7	646.2
Cash flow from investing	(277.6)	(164.5)	(294.1)	(294.8)	(295.6)
Cash flow from financing	(362.1)	(773.3)	(316.9)	(322.7)	(337.1)
<b>Net cash flow</b>	<b>(18.8)</b>	<b>55.3</b>	<b>77.6</b>	<b>10.3</b>	<b>13.5</b>
(+/-) Adjustments	(0.3)	15.9	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>575.1</b>	<b>556.1</b>	<b>627.3</b>	<b>704.9</b>	<b>715.2</b>
<b>Net cash/(debt) c/f</b>	<b>556.1</b>	<b>627.3</b>	<b>704.9</b>	<b>715.2</b>	<b>728.6</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	25.3	22.5	22.5	22.5	22.5
PER (x)	10.2	7.4	6.2	5.2	4.6
Net debt/total equity (%)	0.8	0.6	0.6	0.5	0.5

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	24.5	25.6	26.8	27.5	28.3
EBIT Margin (%)	5.1	7.6	6.3	6.8	7.2
Core PATANCI Margin (%)	2.7	2.8	3.1	3.6	4.0

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 <i>rise</i> 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 <i>fall</i> 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