



AmInvestment Bank

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

31 May 2024

Company Report

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Rationale for Report: Company Result

BUY

(Maintained)

Price	RM0.55
Fair Value	RM0.95
52-week High/Low	RM0.75/RM0.48

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	9,539.5	10,261.4	10,888.9	11,182.3
Core net profit (RM mil)	301.7	314.2	329.0	347.8
FD Core EPS (sen)	8.3	8.6	9.0	9.5
FD Core EPS growth (%)	37.9	4.1	4.7	5.7
Consensus Net Profit (RM mil)	-	266.4	295.8	330.6
DPS (sen)	-	2.4	2.5	2.7
PE (x)	6.7	6.4	6.1	5.8
EV/EBITDA (x)	3.6	4.7	4.4	4.2
Div yield (%)	-	3.4	3.5	3.7
ROE (%)	14.2	13.3	12.3	11.4
Net Gearing (%)	78.6	82.4	67.1	60.6

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,007.5
Book Value (RM/Share)	0.61
P/BV (x)	0.9
ROE (%)	14.2
Net Gearing (%)	78.6

Major Shareholders	Emerging Glory (52.8%) Amanah Saham Nasional Bhd (7.1%) Clarinden Inv Pte. (6.2%)
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Free Float	33.9
Avg Daily Value (RM mil)	4.1

Price performance	3mth	6mth	12mth
Absolute (%)	(13.4)	(16.0)	(4.3)
Relative (%)	(16.2)	(24.0)	(16.7)



Investment Highlights

- We reiterate BUY call on Leong Hup International (LHI) with an unchanged fair value of RM0.95/share, pegged to FY24F P/E of 11x, in line with its 3-year mean. We make no adjustment to our neutral ESG rating of 3 stars.
- We deem LHI's 1QFY24 earnings of RM57mil as within our expectations, reflecting 18% of our full-year estimate and 21% of consensus forecast. We expect 2QFY24 earnings to be stronger due to robust demand from Indonesia and Philippines. Hence, we made no changes to FY24F-FY26F earnings.
- YoY, 1QFY24 revenue improved by 10% on the back of higher revenue contribution from: (i) livestock & poultry operation (+10%) mainly on higher average selling price (ASP) and sales volume of day-old-chicks (DOC) in Indonesia, (ii) higher ASP of broiler chickens in Indonesia, Vietnam and increased sales volume of broiler chickens in Philippines, and (iii) improved feedmill operation (+10%) due to higher ASP and volume in Indonesia and Philippines.
- 1QFY24 core net profit increased by 2.6x YoY in tandem with a 58% EBITDA growth, thanks to better margins from livestock/poultry and feedmill (+10% YoY) segments. This is due to better margin from higher ASP of broiler chickens and DOC in Indonesia and Vietnam as well as reduction of raw material cost.
- QoQ, 1QFY24 net profit slid by 31% due to lower government subsidies on chickens (-91% QoQ) and reduced revenue contribution in Vietnam, in which group's EBITDA margin dropped significantly by 2.6%-points to 10%.
- We remain positive on LHI premised on:
 - expectation of the group to continue gaining market share from smaller players exiting the business due to elevated operational costs,
 - gradual increase in revenue from an expansion in production capacities to supply more poultry to Indonesia and Philippines, and
 - better average EBITDA margin with an assumption of 10%-12% from feedmill segment due to easing of major raw material cost (corn and soybeans meal).
- The stock currently trades at a compelling FY24F PE of 6x, below its 3-year average of 11x.

Exhibit 1: RESULTS SUMMARY

FYE Dec (RM mil)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	2,196.2	2,413.0	2,411.0	(0.1)	9.8
EBITDA	152.4	303.4	240.6	(20.7)	57.9
D&A	77.4	83.5	79.5	(4.8)	2.7
EBIT	75.0	219.8	161.1	(26.7)	>100
Operating profit	30.2	183.2	124.9	(31.8)	>100
PBT	30.3	183.3	124.9	(31.8)	>100
Tax	(13.3)	(38.5)	(30.0)	(22.2)	>100
PAT	17.0	144.7	94.9	(34.4)	>100
MI	5.2	(63.1)	(38.3)	(39.3)	(>100)
Net profit	22.1	81.6	56.6	(30.7)	>100
Core net profit	22.1	81.6	56.6	(30.7)	>100
FD EPS (sen)	0.61	2.24	1.55	(30.7)	>100
Gross DPS (sen)	0.00	0.00	1.20	-	-
EBITDA margin (%)	6.9	12.6	10.0	-2.6ppt	3.0ppt
PBT margin (%)	1.4	7.6	5.2	-2.4ppt	3.8ppt
Effective tax rate (%)	-44.0	-21.0	-24.0	-3.0ppt	20.0ppt
Core net profit margin (%)	1.0	3.4	2.3	-1.0ppt	1.3ppt
Livestock and poultry					
Revenue	1,199.4	1,263.7	1,315.8	4.1	9.7
EBITDA	5.9	83.6	79.0	(5.6)	>100
EBITDA margin (%)	0.5	6.6	6.0	-0.6ppt	5.5ppt
Feedmill					
Revenue	993.5	1,146.0	1,092.3	(4.7)	9.9
EBITDA	149.2	228.2	164.6	(27.9)	10.3
EBITDA margin (%)	15.0	19.9	15.07	-4.8ppt	0.1ppt
Geographical Revenue					
Malaysia	594.2	587.3	584.2	-0.5	-1.7
Singapore	204.6	202.0	210.0	4.0	2.6
Vietnam	486.9	534.5	471.7	-11.8	-3.1
Indonesia	780.2	927.0	974.9	5.2	24.9
Philippines	126.9	158.9	167.3	5.3	31.8
Geographical EBITDA					
Malaysia	122.0	184.1	104.6	-43.2	-14.2
Singapore	20.9	20.6	19.7	-4.1	-5.7
Vietnam	24.0	43.7	29.9	-31.5	24.5
Indonesia	-28.9	35.1	65.9	87.7	>100
Philippines	14.4	19.9	20.4	2.4	41.9

Source: AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

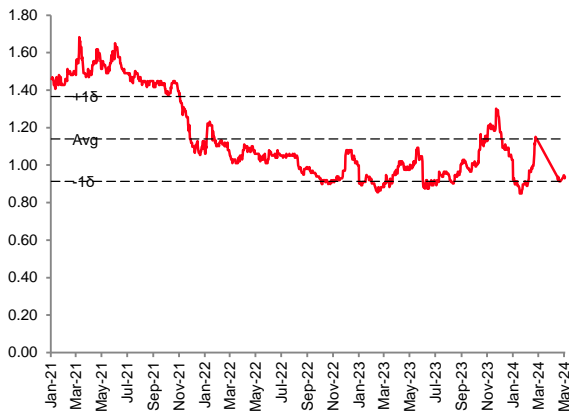


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Flock management	% of flocks managed in CHS	33%	*	*	*	*		99.2%, 1% decrease from 2021
2	Air, noise & water quality	on-site water treatment plans	33%	*	*	*			remove harmful chemical prior disposal
3	Waste management	disposed in accordance with local laws and regulations	33%	*	*	*			cleaned and reused plastic container
	Weighted score for environmental assessment		100%	*	*				
	Social assessment								
1	Health, safety & well-being	Recorded injuries	25%	*	*	*			0 injury recorded
2	Women in workforce	% of total workforce	25%	*	*	*			27%
3	Investment in employee training	Hours	25%	*	*	*			188,523 hours
4	CSR programmes	No. of school bags donated	25%	*	*	*	*		5,900 units of school bags to support 17 elementary schools
	Weighted score for social assessment		100%	*	*	*			
	Governance assessment								
1	Board age diversity	% under 60 years old	20%	*	*	*			36%
2	Board women representation	% of total board directors	20%	*	*	*			27% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*		64%
4	Independent board directors	% of total board directors	20%	*	*	*			45.5% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*		RM33.5mil - 5.2% of 2022 staff costs
	Weighted score for governance assessment		100%	*	*	*			
	Environmental score		40%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		30%	*	*	*			
	Overall ESG Score		100%	*	*	*			

We 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-star.

Source: AmlInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	9,042.7	9,539.5	10,261.4	10,888.9	11,182.3
EBITDA	765.3	1,043.4	873.1	884.2	941.5
Depreciation/Amortisation	(301.2)	(319.4)	(297.3)	(290.0)	(308.5)
Operating income (EBIT)	464.0	724.0	575.8	594.2	633.0
Other income & associates	0.4	0.3	0.4	0.4	0.4
Net interest	(137.9)	(169.6)	(123.1)	(114.3)	(105.1)
Exceptional items	-	-	-	-	-
Pretax profit	326.6	554.7	453.2	480.2	528.3
Taxation	(82.7)	(124.9)	(109.0)	(115.3)	(137.4)
Minorities/pref dividends	(25.0)	(128.1)	(30.0)	(36.0)	(43.2)
Net profit	218.9	301.7	314.2	329.0	347.8
Core net profit	218.9	301.7	314.2	329.0	347.8
Balance Sheet (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	2,784.5	2,730.3	3,027.6	3,317.6	3,626.1
Intangible assets	99.2	102.5	102.5	102.5	102.5
Other long-term assets	548.1	582.5	455.7	461.9	468.3
Total non-current assets	3,431.8	3,415.3	3,585.7	3,882.0	4,196.9
Cash & equivalent	840.3	699.5	304.4	332.2	168.8
Stock	1,025.9	978.8	1,196.7	1,140.2	1,121.3
Trade debtors	649.9	729.4	777.1	745.8	890.1
Other current assets	644.4	703.6	762.1	768.2	775.9
Total current assets	3,160.4	3,111.3	3,040.3	2,986.5	2,956.1
Trade creditors	358.9	359.6	398.5	425.7	434.5
Short-term borrowings	1,986.3	1,587.3	1,619.1	1,431.8	1,293.8
Other current liabilities	317.9	411.3	322.5	338.7	355.6
Total current liabilities	2,663.1	2,358.2	2,340.1	2,196.1	2,083.9
Long-term borrowings	1,046.4	870.8	914.3	960.0	1,008.0
Other long-term liabilities	293.1	342.5	190.3	202.0	203.0
Total long-term liabilities	1,339.5	1,213.2	1,104.6	1,162.0	1,211.0
Shareholders' funds	2,005.0	2,236.7	2,492.9	2,857.9	3,248.8
Minority interests	584.5	718.4	688.4	652.5	609.3
BV/share (RM)	0.5	0.6	0.7	0.8	0.9
Cash Flow (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	326.6	554.7	453.2	480.2	528.3
Depreciation/Amortisation	301.2	319.4	297.3	290.0	308.5
Net change in working capital	-58.2	20.3	-226.7	115.0	-116.5
Others	51.3	98.7	14.1	-0.9	-32.2
Cash flow from operations	620.9	993.1	537.9	884.3	688.1
Capital expenditure	-291.1	-227.0	-200.0	-200.0	-199.0
Net investments & sale of fixed assets	-	-	-	-	-
Others	13.5	62.5	0.0	0.0	0.0
Cash flow from investing	-277.6	-164.5	-200.0	-200.0	-199.0
Debt raised/(repaid)	-297.1	-496.6	-450.0	-450.0	-450.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	0.0	-77.0	-88.0	-92.1	-97.4
Others	-65.0	-353.4	-299.0	-298.6	-299.9
Cash flow from financing	-362.1	-773.0	-661.1	-656.5	-652.5
Net cash flow	-18.8	55.6	-323.2	27.9	-163.4
Net cash/(debt) b/f	575.1	556.1	627.5	304.4	332.2
Net cash/(debt) c/f	556.1	627.5	304.4	332.2	168.8
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	26.4	5.5	7.6	6.1	2.7
EBITDA growth (%)	42.8	36.3	(16.3)	1.3	6.5
Pretax margin (%)	3.6	5.8	4.4	4.4	4.7
Net profit margin (%)	2.4	3.2	3.1	3.0	3.1
Interest cover (x)	3.4	4.3	4.7	5.2	6.0
Effective tax rate (%)	25.3	22.5	24.1	24.0	26.0
Dividend payout (%)	-	-	28.0	28.0	28.0
Debtors turnover (days)	26	28	28	25	29
Stock turnover (days)	40	38	39	39	37
Creditors turnover (days)	13	14	13	14	14

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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