

HLIB Research

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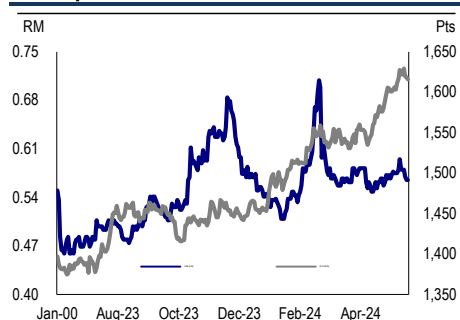
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BUY (from Hold)**Target Price:****RM0.76****Previously:****RM0.74****Current Price:****RM0.55**

Capital upside	38.2%
Dividend yield	2.4%
Expected total return	40.6%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price

Historical return (%)	1M	3M	12M
Absolute	-5.2	-13.4	-4.3
Relative	-6.8	-16.2	-17.3

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650.0
Market capitalisation (RM m)	2,008
3-mth average volume ('000)	7,046
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

Emerging Glory	52.8%
Amanah Saham Nasional	7.1%
Clarinden	4.9%

Earnings summary

FYE Dec	FY23	FY24F	FY25F
PATMI - core (RM m)	321.4	252.8	259.7
EPS - core (sen)	8.8	6.9	7.1
P/E (x)	6.2	7.9	7.7

Leong Hup International

A good start

1Q24 core net profit of RM60.3m (-40.9% QoQ; 2.8x YoY) beat our expectation, accounting for 27.4% of our full-year estimates, due mainly to better-than-expected performance at the livestock segment in Malaysia and Indonesia. We raise our FY24/25/26 core net profit forecasts by 16.5%/16.4%/9.5%, mainly to account for higher average selling prices assumptions for broiler chickens in Malaysia and DOCs in Indonesia. Post earnings revision and update of valuation parameters, we raise our TP on LHI to RM0.76 (from RM0.74 earlier) based on revised 11x FY24 core EPS of 6.9 sen. Upgrade to BUY (from Hold earlier), as valuations have turned more attractive following recent share price underperformance (fallen by ~20% since our downgrade in late Nov-23).

Beat our expectation; within consensus. 1Q24 core net profit of RM60.3m (-40.9% QoQ; 2.8x YoY) beat our expectation, accounting for 27.4% of our full-year estimates (but within consensus at 22.6%), due mainly to better-than-expected performance at the livestock segment in Malaysia and Indonesia.

EIs in 1Q24. Core net profit of RM60.3m in 1Q24 was arrived after adjusting for (i) RM0.7m loss on disposal, (ii) RM2.2m impairment losses, and (lii) RM0.7m PPE written off.

QoQ. 1Q24 core net profit fell -40.9% to RM60.3m, dragged mainly by significantly lower government subsidies recognised in Malaysia (RM9.2m vs, RM103.0m in previous quarter) and lower contribution from Singapore and Vietnam. These were however, partly mitigated by significantly higher contribution from Indonesia (arising from the recovery in DOC prices, we believe).

YoY. 1Q24 core net profit almost tripled to RM60.3m (from RM21.2m in SPLY), as lower subsidies recognised in Malaysia was more than mitigated by (i) significantly higher sales volume and average selling prices of DOC in Indonesia, (ii) higher broiler chicken prices in Vietnam, (iii) higher feed prices in Indonesia, and (iv) lower costs in Philippines.

Outlook. The decent set of performance registered in 1Q24 will likely be sustained into the near term, supported by stabilised DOC prices in Indonesia (arising from tighter supply of grand parent stocks), stable feed prices, and continued volume growth in Philippines.

Forecast. We raise our FY24-26 core net profit forecasts by 16.5%/16.4%/9.5%, mainly to account for higher average selling prices assumptions for broiler chickens in Malaysia and DOCs in Indonesia.

Upgrade to BUY with higher TP of RM0.76. Post earnings revision and update of valuation parameters, we raise our TP on LHI to RM0.76 (from 0.74 earlier) based on revised 11x FY24 core EPS of 6.9 sen. Upgrade to **BUY** (from Hold earlier), as valuations have turned more attractive following recent share price underperformance (which has fallen by ~20% since our downgrade in late Nov-23). At RM0.55, LHI is trading at undemanding FY24-26 P/E of 7.9x, 7.7x, and 7.4x, respectively.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Cash	840.3	699.5	1,067.9	1,285.5	1,515.3
Receivables	839.7	892.4	954.7	1,003.5	1,055.3
Inventories	1,025.9	978.8	929.9	978.3	1,029.7
PPE	2,784.5	2,730.3	2,727.2	2,724.5	2,722.1
Others	1,101.9	1,225.6	1,233.2	1,260.6	1,289.6
Assets	6,592.2	6,526.6	6,913.0	7,252.4	7,612.0
Payables	629.8	682.1	778.9	819.5	862.6
Debt	3,032.7	2,458.1	2,458.1	2,458.1	2,458.1
Others	338.8	430.2	430.2	430.2	430.2
Liabilities	4,002.6	3,571.5	3,668.2	3,708.8	3,751.9
Shareholders' equity	2,005.0	2,236.7	2,442.1	2,654.4	2,879.9
Non-controlling interests	584.5	718.4	802.7	889.3	980.3
Equity	2,589.6	2,955.1	3,244.8	3,543.6	3,860.1

Cash Flow Statement

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Profit before tax	326.6	554.7	443.5	455.7	478.9
D&A	260.4	276.4	303.4	303.1	302.9
Working capital	-58.2	15.3	75.9	-83.9	-89.1
Tax paid	-88.9	-80.5	-106.4	-109.4	-114.9
Others	144.5	173.6	154.2	131.4	131.4
CFO	620.9	992.5	870.6	696.9	709.1
Capex	-291.5	-219.6	-300.0	-300.0	-300.0
Others	13.9	55.8	0.0	0.0	0.0
CFI	-277.6	-163.8	-300.0	-300.0	-300.0
Changes in debt	-328.3	-526.4	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	-65.7	-47.5	-47.5	-47.5
Others	-133.8	-181.2	-154.7	-131.9	-131.9
CFF	-362.1	-773.3	-202.1	-179.3	-179.3
Net cash flow	-18.8	55.3	368.4	217.6	229.8
Beginning cash	575.1	556.1	627.3	995.7	1,213.3
Forex	-0.3	15.9	0.0	0.0	0.0
Ending cash	556.1	627.3	995.7	1,213.3	1,443.1

Income Statement

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Revenue	9,042.7	9,539.5	8,368.6	8,804.5	9,267.5
EBITDA	765.3	1,043.4	901.2	890.2	913.1
EBIT	464.0	724.0	597.7	587.0	610.2
Finance cost	-137.9	-169.6	-154.7	-131.9	-131.9
Associates	0.4	0.3	0.5	0.5	0.5
Profit before tax	326.6	554.7	443.5	455.7	478.9
Tax	-82.7	-124.9	-106.4	-109.4	-114.9
PAT	243.9	429.8	337.1	346.3	363.9
Non-controlling interests	-25.0	-128.1	-84.3	-86.6	-91.0
Reported PATMI	218.9	301.7	252.8	259.7	273.0
Exceptionals	26.4	19.6	0.0	0.0	0.0
Core PATMI	245.3	321.4	252.8	259.7	273.0
Consensus core PATMI			266.4	296.8	330.6
HLIB/ Consensus			94.9%	87.5%	82.6%

Ratios

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Core EPS (sen)	6.7	8.8	6.9	7.1	7.5
P/E (x)	8.2	6.2	7.9	7.7	7.4
EV/EBITDA (x)	4.7	3.5	4.0	4.1	4.0
DPS (sen)	0.8	3.0	1.3	1.3	1.3
Dividend yield	1.5%	5.5%	2.4%	2.4%	2.4%
BVPS (RM)	0.5	0.6	0.7	0.7	0.8
P/B (x)	1.0	0.9	0.8	0.8	0.7
EBITDA margin	15.4%	20.2%	23.2%	22.2%	22.0%
EBIT margin	4.4%	6.4%	5.7%	5.4%	5.3%
PBT margin	3.1%	4.9%	4.2%	4.2%	4.2%
Net margin	2.3%	2.8%	2.4%	2.4%	2.4%
ROE	12.9%	15.2%	10.8%	10.2%	9.9%
ROA	3.8%	4.9%	3.8%	3.7%	3.7%
Net gearing	84.7%	59.5%	42.8%	33.1%	24.4%

Assumptions

FYE Dec	FY24F	FY25F	FY26F
Feedmill			
- Production volume ('000 mt)	2,981.6	3,150.1	3,329.4
- Utilisation rate	84%	89%	94%
Livestock			
- Broiler DOC supplied (m chicks)	202.1	208.2	214.5
- Broiler supplied (m birds)	164.4	169.4	174.5
- Eggs supplied (m eggs)	2,002.0	2,055.1	2,109.7

LHI; HLIB Research

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Revenue	2,196.2	2,413.0	2,411.0	-0.1	9.8
- Livestock & poultry related products	1,199.4	1,263.7	1,315.8	4.1	9.7
- Feedmill	993.5	1,146.0	1,092.3	-4.7	9.9
- Others	3.3	3.4	2.9	-12.8	-11.1
EBITDA	152.4	303.4	246.4	-18.8	61.7
- Livestock & poultry related products	5.9	83.6	78.9	-5.6	>100
- Feedmill	149.2	228.2	164.6	-27.9	10.3
- Others	-2.7	-8.4	2.9	>100	>100
Profit from operations	75.0	219.8	161.1	-26.7	>100
- Livestock & poultry related products	-53.4	19.0	16.6	-12.9	>100
- Feedmill	132.4	211.8	146.9	-30.7	11.0
- Others	-4.0	-11.0	3.4	>100	>100
Finance costs	-44.7	-36.7	-36.2	-1.3	-19.1
Associates	0.0	0.1	0.0	-76.3	-25.0
PBT	30.3	183.3	124.9	-31.8	>100
Tax expense	-13.3	-38.5	-30.0	-22.2	>100
PAT	17.0	144.7	94.9	-34.4	>100
Non-controlling interests	5.2	-63.1	-38.3	-	-
Reported net profit	22.1	81.6	56.6	-30.7	>100
Core net profit	21.2	101.9	60.3	-40.9	>100
Core EPS (sen)	0.6	2.8	1.7	-40.9	>100
				%-pts	%-pts
EBITDA margin (%)	6.9	12.6	10.2	-2.4	3.3
Operating margin (%)	3.4	9.1	6.7	-2.4	3.3
PBT margin (%)	1.4	7.6	5.2	-2.4	3.8
Net margin (%)	1.0	4.2	2.5	-1.7	1.5

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Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Revenue	2,192.9	2,409.7	2,408.0	-0.1	9.8
- 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
EBITDA	152.4	303.4	240.6	-20.7	57.9
- 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

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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