

## Leong Hup International Berhad

(6633 | LHIIB MK) Main | Consumer Products & Services| Agricultural Products

**Maintain BUY**

### Improved Indonesian Operation

**Unchanged Target Price: RM0.70**

#### KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Stronger core PATANCI and revenue in 1QFY24**
- **Absence of chicken subsidies in 1QFY24**
- **Updates on MyCC price-fixing case**
- **Maintain BUY with an unchanged TP of RM0.70**

**Within expectation.** Leong Hup reported a 3MFY24 core PATANCI of RM85.2m (including a one-time off item of RM28.6m). This aligns with our full-year FY24F projection at 28.1% of our full year forecast but exceeds consensus estimates (accounted for 31.3% of consensus forecast). The company declared a first interim single-tier dividend of 1.3sen/share on 25 Apr 2024 (2QFY24) which was paid on 27 May 2024.

**Stronger core PATANCI and revenue in 1QFY24.** On a yearly basis, the revenue rose +9.8%yoy to RM2.4b. This was primarily fueled by (1) improved revenue from feedmill and livestock & poultry-related products in Indonesia due to the national general election and Ramadhan celebration in 1QFY24, (2) elevated ASP of broiler chickens in Vietnam, and (3) increased sales volume of broiler chickens and feedmill in the Philippines. Core PATANCI surged +83.5%yoy to RM85.2m mainly driven by higher revenue, improved margins from Indonesian operations, reduced feedmill costs in the Philippines, and enhanced broiler chicken margins in Vietnam.

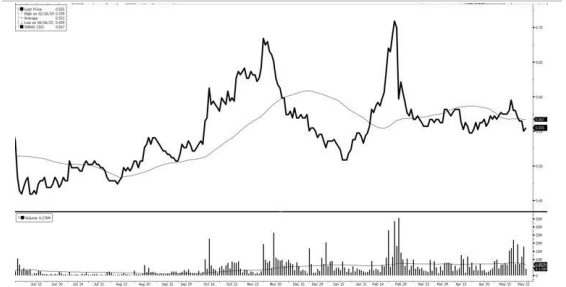
**Absence of chicken subsidies in 1QFY24.** On a quarterly basis, the core PATANCI decreased by -39.1%qoq to RM85.2m. This was mainly due to lower government subsidies of RM9.2m (vs. RM28.6m in 1QFY23) and flattish revenue of RM2.4b in 1QFY24. Recall that the government lifted subsidies for chicken effective 1 Nov 2023, while egg subsidies continue in Malaysia.

**Updates on MyCC price-fixing case.** The tribunal has scheduled a hearing for the stay of the decision on 12 Jun 2024. On 9 January 2024, LHI appealed the MyCC decision by filing a Notice of Appeal with the Competition Appeal Tribunal ("Tribunal") and applied for a stay of the Decision. Recall that MyCC found Leong Hup's subsidiary guilty of price-fixing infringement and imposed a financial penalty of RM157m. We maintain our view that this legal saga will likely persist, given the precedent of parties involved in legal disputes having the right to appeal to higher courts seeking further review/reconsideration of a judgment/decision.

#### RETURN STATISTICS

Price @ 30 <sup>th</sup> May 2024 (RM)	0.55
Expected share price return (%)	+26.9
Expected dividend yield (%)	+6.4
<b>Expected total return (%)</b>	<b>+33.3</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.3	-6.2
3 months	-3.5	-15.7
12 months	-3.5	-16.2

#### INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	9,809.1	10,155.3	10,557.7
<b>EBITDA</b>	<b>943.9</b>	<b>1,036.4</b>	<b>1,127.1</b>
Profit before tax (PBT)	467.3	554.4	628.6
<b>Core PATANCI</b>	<b>303.2</b>	<b>369.9</b>	<b>425.4</b>
Core EPS (sen)	8.3	10.1	11.7
DPS (sen)	3.0	3.5	4.0
Dividend Yield (%)	5.4	6.4	7.3


#### KEY STATISTICS

FBM KLCI	1,604.26
Issue shares (m)	3650.00
Estimated free float (%)	19.26
Market Capitalisation (RM'm)	2,025.75
52-wk price range	RM0.47-RM0.74
3-mth average daily volume (m)	7.05
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	4.91

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**Maintain BUY with an unchanged TP of RM0.70.** We make no changes to our earnings forecast given that earnings within expectations. Our TP is based on an unchanged PER of 8.4x (5-year historical -1SD PER) pegged to an unchanged FY24F EPS of 8.31sen. We remain 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. We are also optimistic that the group is positioned to capture underserved demand in Vietnam and the Philippines. Hence, we maintain our **BUY** call on Leong Hup.

**Downside risks** are (1) greater-than-expected raw material cost, (2) adverse regulatory changes like price controls or culling programs, (3) shortages of great-grandparent DOC, and (4) disease outbreaks. 

### Leong Hup International: 1QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	2,411.0	2,413.0	2,196.2	9.8	(0.1)	2,411.0	2,196.2	9.8
Other income	23.6	129.8	62.6	(62.2)	(81.8)	23.6	62.6	(62.2)
Operating expenses	(2,273.5)	(2,323.0)	(2,183.8)	4.1	(2.1)	(2,273.5)	(2,183.8)	4.1
<b>Operating profit (EBIT)</b>	<b>161.1</b>	<b>219.8</b>	<b>75.0</b>	<b>114.9</b>	<b>(26.7)</b>	<b>161.1</b>	<b>75.0</b>	<b>114.9</b>
Net finance income/(cost)	(36.2)	(36.7)	(44.7)	(19.1)	(1.3)	(36.2)	(44.7)	(19.1)
Profit before tax (PBT)	<b>124.9</b>	<b>183.3</b>	<b>30.3</b>	<b>312.5</b>	<b>(31.8)</b>	<b>124.9</b>	<b>30.3</b>	<b>312.5</b>
Tax expense	(30.0)	(38.5)	(13.3)	125.1	(22.2)	(30.0)	(13.3)	125.1
<b>Profit After tax (PAT)</b>	<b>94.9</b>	<b>144.7</b>	<b>17.0</b>	<b>459.7</b>	<b>(34.4)</b>	<b>94.9</b>	<b>17.0</b>	<b>459.7</b>
PATANCI	56.6	81.6	22.1	155.5	(30.7)	56.6	22.1	155.5
<b>Core PATANCI</b>	<b>85.2</b>	<b>140.0</b>	<b>46.4</b>	<b>83.5</b>	<b>(39.1)</b>	<b>85.2</b>	<b>46.4</b>	<b>83.5</b>
Basic EPS (sen)	1.6	2.2	0.6	154.1	(30.8)	1.6	0.6	154.1
DPS (sen)	0.0	0.0	1.8	(100.0)	n.m.	0.0	1.8	(100.0)
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Operating Profit Margin	6.7	9.1	3.4	3.3	(2.4)	6.7	3.4	3.3
PBT Margin	5.2	7.6	1.4	3.8	(2.4)	5.2	1.4	3.8
Core PATANCI Margin	3.5	5.8	2.1	1.4	(2.3)	3.5	2.1	1.4
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net debt/total equity (%)	1.3	1.2	1.3	(0.0)	0.0	1.3	1.3	(0.0)
Effective tax rate (%)	24.0	21.0	44.0	(20.0)	3.0	24.0	44.0	(20.0)

Source: Company, MIDFR

### Leong Hup International: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
<b>Revenue (External):</b>								
Livestock and poultry	1,315.8	1,263.7	1,199.4	9.7	4.1	1,315.8	1,199.4	9.7
Feedmill	1,092.3	1,146.0	993.5	9.9	(4.7)	1,092.3	993.5	9.9
Others	2.9	3.4	3.3	(11.1)	(12.8)	2.9	3.3	(11.1)
<b>Total</b>	<b>2,411.0</b>	<b>2,413.0</b>	<b>2,196.2</b>	<b>9.8</b>	<b>(0.1)</b>	<b>2,411.0</b>	<b>2,196.2</b>	<b>9.8</b>
<b>EBITDA:</b>								
Livestock and poultry	78.9	83.6	5.9	1,233.8	(5.6)	78.9	5.9	1,233.8
Feedmill	164.6	228.2	149.2	10.3	(27.9)	164.6	149.2	10.3
Others	(2.9)	(8.4)	(2.7)	7.2	(65.7)	(2.9)	(2.7)	7.2
<b>Total</b>	<b>240.6</b>	<b>303.4</b>	<b>152.4</b>	<b>57.9</b>	<b>(20.7)</b>	<b>240.6</b>	<b>152.4</b>	<b>57.9</b>
<b>EBITDA margin:</b>								
Livestock and poultry	6.0	6.6	0.5	5.5	(0.6)	6.0	0.5	5.5
Feedmill	15.1	19.9	15.0	0.1	(4.8)	15.1	15.0	0.1
Others	(98.3)	(250.2)	(81.6)	(16.7)	151.9	(98.3)	(81.6)	(16.7)
<b>Total</b>	<b>10.0</b>	<b>12.6</b>	<b>6.9</b>	<b>3.0</b>	<b>(2.6)</b>	<b>10.0</b>	<b>6.9</b>	<b>3.0</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</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	90.5	22.7	8.2	19.1
Change in closing inventories	29.6	(25.2)	43.1	15.5	36.3
Purchase of inventories and livestock	(6,865.4)	(7,030.1)	(7,279.8)	(7,410.8)	(7,669.8)
<b>Gross Profit</b>	<b>2,214.8</b>	<b>2,574.7</b>	<b>2,595.2</b>	<b>2,768.2</b>	<b>2,943.3</b>
Other Income	175.7	272.7	266.3	273.0	282.4
Employee benefit costs including Directors' remuneration	(677.4)	(781.4)	(824.8)	(862.3)	(901.5)
Utilities costs	(221.4)	(251.6)	(261.3)	(273.2)	(286.9)
Repair and maintenance	(91.2)	(97.0)	(100.8)	(105.4)	(110.7)
Transportation expenses	(181.4)	(201.6)	(248.8)	(252.4)	(257.2)
Other operating expenses	(467.0)	(464.1)	(481.9)	(511.4)	(542.3)
<b>EBIT</b>	<b>450.9</b>	<b>709.5</b>	<b>624.9</b>	<b>714.2</b>	<b>790.5</b>
<b>Profit before tax (PBT)</b>	<b>326.6</b>	<b>554.7</b>	<b>467.3</b>	<b>554.4</b>	<b>628.6</b>
Profit After tax (PAT)	243.9	429.8	362.1	429.5	487.1
<b>Core PATANCI</b>	<b>240.6</b>	<b>324.9</b>	<b>303.2</b>	<b>369.9</b>	<b>425.4</b>
Core EPS (sen)	6.6	8.9	8.3	10.1	11.7
DPS (sen)	1.8	3.0	3.0	3.5	4.0

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	2,784.5	2,730.3	2,713.0	2,693.0	2,659.1
<b>Total Non-current assets</b>	<b>3,431.8</b>	<b>3,399.5</b>	<b>3,421.8</b>	<b>3,470.8</b>	<b>3,558.2</b>
Inventories	1,025.9	978.8	1,022.0	1,037.5	1,073.8
ST - Trade and other receivables	823.2	874.2	906.3	935.7	972.8
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>3,127.1</b>	<b>3,232.0</b>	<b>3,297.6</b>	<b>3,406.0</b>
<b>Total Assets</b>	<b>6,592.2</b>	<b>6,526.6</b>	<b>6,653.9</b>	<b>6,768.4</b>	<b>6,964.2</b>
<b>Total Equity</b>	<b>2,589.6</b>	<b>2,955.1</b>	<b>3,085.3</b>	<b>3,216.9</b>	<b>3,411.1</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>1,210.8</b>	<b>1,212.4</b>	<b>1,217.3</b>
ST Trade and other payables	629.8	682.1	712.2	723.0	748.3
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>2,358.3</b>	<b>2,357.8</b>	<b>2,339.1</b>	<b>2,335.8</b>
<b>Total Liabilities</b>	<b>4,002.6</b>	<b>3,571.5</b>	<b>3,568.6</b>	<b>3,551.5</b>	<b>3,553.1</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	326.6	554.7	467.3	554.4	628.6
Cash flow from operations	620.9	992.5	700.6	656.8	680.2
Cash flow from investing	(277.6)	(163.8)	(288.1)	(288.5)	(289.0)
Cash flow from financing	(362.1)	(773.3)	(334.9)	(358.1)	(377.7)
<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>2023A</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)	9.2	6.7	5.5	4.7	4.1
Net debt/total equity (%)	0.8	0.6	0.6	0.5	0.5

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	24.5	27.0	26.5	27.3	27.9
EBIT Margin (%)	5.0	7.4	6.4	7.0	7.5
Core PATANCI Margin (%)	2.7	3.4	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