

Leong Hup International Bhd

TP: RM0.67 (+21.8%)

Margin Normalised in FY24

Last Traded: RM0.55

Buy (ESG: ★★★)

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Review

- Leong Hup International Bhd's (LHI) IQFY24 core net profit of RM56.6mn met our expectations, representing 21% of ours and consensus' full year estimates.
- IQFY24 core net profit surged by 2.6-fold YoY to RM56.6mn, in tandem with revenue growth of 9.8% YoY to RM2.4bn. The better performance was driven by improved sales and margin enhancement in both the Livestock and Feedmill segments. However, IQFY24 core net profit declined by 30.7% QoQ, primarily attributed to lower government subsidies recognized in this quarter amounting to RM9.2mn, compared to RM103.0mn recorded in 4QFY23.
- Livestock Segment:** IQFY24 EBIT reached RM16.6mn as compared to the LBIT of RM53.4mn reported a year ago. The improvement spurred by enhanced margins in Indonesia (EBITDA margin +10.5%-pts YoY to 6.8%) and Vietnam (EBITDA margin +1.4%-pts YoY to 6.3%). Meanwhile, revenue grew 9.7% YoY to RM1.3bn, thanks to higher ASP of broiler chicken in Vietnam and Indonesia, increased sales volume of broiler chicken in the Philippines and improved sales volume of Day-Old Chicks (DOC) in Indonesia.
- Feedmill Segment:** Segmental EBIT rose by 11.0% YoY to RM146.9mn, while revenue improved 9.9% YoY to RM1.1bn. Revenue growth was underpinned by volume expansion in both Indonesia and Philippines, ASP hike in Indonesia and improved margin in Philippines due to lower cost incurred in IQFY24.
- No dividend was declared for the quarter under review.

Impact

- We maintain our earnings projections, pending an analyst briefing today.

Outlook

- Management expects an improvement in consumer confidence following the introduction of the new civil servant wage structure and the adjustment in the Employee Provident Fund (EPF) withdrawal scheme.
- To recap, FY23 EBITDA margin has reach a record high of 11% over the past 5 years, primarily due to the easing of raw material costs. Looking ahead, the group expects the EBITDA margin to gradually normalise back to approximately 9.5% to 10% over the long term, supported by stable market conditions.

Valuation

- We reiterate our **Buy** recommendation with an unchanged TP of **RM0.67/share**, based on CY24 PER of 9x.

Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2007.5
52-wk Hi/Lo (RM)	0.745/0.475
12-mth Avg Daily Vol ('000 shrs)	5008.0
Estimated Free Float (%)	19.3
Beta	0.7
Major Shareholders (%)	
Emerging Glory	52.8%
Clarinden Investment	4.9%
Amanah Saham Nasional	7.1%

Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	271.0	293.7
Consensus	266.4	295.8
TA's / Consensus (%)	101.7	99.3
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	0.77	

Financial Indicators

	FY24	FY25
Net Debt / Equity (x)	0.5	0.4
ROE (%)	11.6	11.6
ROA (%)	4.1	4.4
NTA/Share (RM)	0.6	0.7
Price/NTA (x)	0.9	0.8

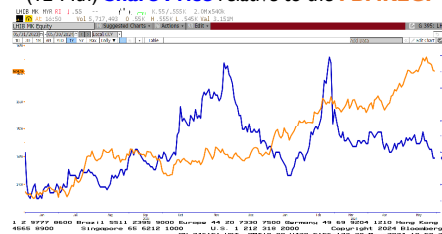
Scorecard

	% of FY	
vs TA	21	Within
vs Consensus	21	Within

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(5.2)	1.8
3 mth	(13.4)	3.4
6 mth	(16.0)	10.4
12 mth	(4.3)	14.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RM'mn)

FYE December (RM mn)	2022	2023	2024F	2025F	2026F
Revenue	9,042.7	9,539.5	9,132.9	9,333.8	9,539.2
EBITDA	752.2	1,028.8	857.1	876.2	895.9
PBT	326.6	554.7	412.5	450.7	484.0
Reported Net Profit	218.9	301.7	271.0	293.7	315.4
Core Net Profit	218.9	301.7	271.0	293.7	315.4
Core EPS (sen)	6.0	8.3	7.4	8.0	8.6
Core PER (x)	9.2	6.7	7.4	6.8	6.4
DPS (sen)	0.0	3.0	2.2	2.4	2.6
Dividend Yield (%)	0.0	5.5	4.1	4.4	4.7

Table 2: IQFY24 Results Analysis (RM'mn)

FYE 31 Dec	IQFY23	4QFY23	IQFY24	QoQ (%)	YoY (%)
Revenue	2,196.2	2,413.0	2,411.0	(0.1)	9.8
Other Income	62.6	129.8	23.6	(81.8)	(62.2)
Operating Expenses	(2,183.8)	(2,323.0)	(2,273.5)	(2.1)	4.1
EBIT	71.5	216.0	157.4	(27.2)	>100
Adj. EBIT	71.5	216.0	157.4	(27.2)	>100
Net Interest	(41.2)	(32.9)	(32.5)	(1.2)	(21.2)
Associate	0.0	0.1	0.0	(76.3)	(25.0)
Profit before Tax	30.3	183.3	124.9	(31.8)	>100
Adj. PBT	30.3	183.3	124.9	(31.8)	>100
Taxation	(13.3)	(38.5)	(30.0)	(22.2)	>100
Extraordinary Items	-	-	-	nm	nm
Minority Interest	5.2	(63.1)	(38.3)	(39.3)	nm
Net Profit	22.1	81.6	56.6	(30.7)	>100
Adj. Net Profit	22.1	81.6	56.6	(30.7)	>100
Basic EPS (sen)	0.6	2.2	1.6	(30.7)	>100
DPS (sen)	-	-	-	nm	nm
				%-points	%-points
EBIT Margin (%)	3.3	9.0	6.5	(2.4)	3.3
PBT Margin (%)	1.4	7.6	5.2	(2.4)	3.8
Net Margin (%)	1.0	3.4	2.3	(1.0)	1.3
Adj. Net Margin (%)	1.0	3.4	2.3	(1.0)	1.3
Tax Rate (%)	44.0	21.0	24.0	3.0	(20.0)

Table 3: IQFY24 Results Analysis (RM'mn) – Segmental Breakdown

FYE 31 Dec	IQFY23	4QFY23	IQFY24	QoQ (%)	YoY (%)
Revenue	2,196.2	2,413.0	2,411.0	(0.1)	9.8
Livestock and Poultry Related	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)
Segment EBIT	75.0	219.8	161.1	(26.7)	>100
Livestock and Poultry Related	(53.4)	19.0	16.6	(12.9)	nm
Feedmill	132.4	211.8	146.9	(30.7)	11.0
Elimination	(4.0)	(11.0)	(2.4)	(78.6)	(40.7)
				%-points	%-points
Segment EBIT Margin	3.4	9.1	6.7	(2.4)	3.3
Livestock and Poultry Related	(4.5)	1.5	1.3	(0.2)	5.7
Feedmill	13.3	18.5	13.4	(5.0)	0.1

Table 4: IQFY24 Results Analysis (RM'mn) – Geographical Breakdown

FYE 31 Dec	1QFY23	4QFY23	1QFY24	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
Segment 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	nm
Philippines	14.4	19.9	20.4	2.4	41.9
				%-points	%-points
Segment EBITDA Margin	7.0	12.6	10.0	(2.6)	3.0
Malaysia	20.5	31.3	17.9	(13.4)	(2.6)
Singapore	10.2	10.2	9.4	(0.8)	(0.8)
Vietnam	4.9	8.2	6.3	(1.8)	1.4
Indonesia	(3.7)	3.8	6.8	3.0	10.5
Philippines	11.3	12.5	12.2	(0.3)	0.9

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Friday, May 31, 2024, the analyst, Liew Yi Jiet, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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