

# Leong Hup International (LHIB MK)

## 2Q24 surpassed expectations

### Maintain BUY with a higher TP of MYR0.82

Improvements in regional poultry ASPs and lower raw material costs were the main drivers behind LHIB's 2Q24 earnings outperformance. Into 2H24, poultry ASPs should sustain at higher levels in key markets (Indonesia & Vietnam) while group margins may also increase further from the recent downtrend in feed raw material ASPs. We raise FY24E-FY26E earnings by 28%-35% to derive a higher TP of MYR0.82 (+7sen), based on an updated mean PER of 9x (vs. 11x previously) on unchanged FY25E earnings. BUY.

### Above expectations

2Q24 net profit of MYR97m (+48% YoY, +71% QoQ) brought 1H24 net profit to MYR153m (+76% YoY). The latter accounted for 69%/53% of our/consensus full-year earnings estimates. The earnings beat was due to higher-than-expected group EBITDA margins.

### Better livestock & feedmill performance YoY

Key takeaways from LHIB's 2Q24 results: (i) Group revenue eased -2% YoY on higher livestock sales (+3% YoY) from broiler and day-old-chick (DOC) ASP improvements in Indonesia and Philippines, but offset by weaker feedmill sales (-10% YoY) given lower feed ASPs and sales volume in Vietnam, Malaysia, and Indonesia, (ii) group EBITDA significantly increased by +24% YoY due to margin expansion in both livestock and feedmill segments from better ASPs and lower raw material costs (corn & soybean).

### Downtrend in corn ASPs, strengthening MYR to help

We lift our FY24E/FY25E/FY26E earnings estimates by 35%/28%/29% after imputing for higher livestock and feedmill segment EBITDA margins. Earnings prospects for LHIB remains positive in 2H24 on expectations for continued improvement in poultry ASPs in Indonesia, Vietnam and Philippines. Cost savings from the downtrend in corn ASPs and strengthening MYR will also help sustain the group's earnings momentum.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	9,043	9,540	9,062	9,235	9,448
EBITDA	765	1,043	978	1,040	1,084
Core net profit	219	302	301	331	346
Core EPS (sen)	6.0	8.3	8.3	9.1	9.5
Core EPS growth (%)	156.3	37.8	(0.1)	9.7	4.8
Net DPS (sen)	0.0	3.0	2.5	2.7	2.8
Core P/E (x)	8.3	6.8	7.1	6.5	6.2
P/BV (x)	0.9	0.9	0.9	0.8	0.7
Net dividend yield (%)	0.0	5.3	4.2	4.6	4.9
ROAE (%)	11.5	14.2	12.8	12.8	12.3
ROAA (%)	3.4	4.6	4.1	3.9	3.9
EV/EBITDA (x)	6.2	4.5	5.3	4.7	4.5
Net gearing (%) (incl perps)	91.5	65.6	68.3	53.2	47.0
Consensus net profit	-	-	314	329	348
MIBG vs. Consensus (%)	-	-	(4.1)	0.5	(0.4)

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# BUY

Share Price	MYR 0.59
12m Price Target	MYR 0.82 (+44%)
Previous Price Target	MYR 0.75

### Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

### Statistics

52w high/low (MYR)	0.73/0.52
3m avg turnover (USDm)	1.1
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.1B USD491M

### Major shareholders:

Emerging Glory Sdn. Bhd.	52.8%
Concordant Investments Pte Ltd.	9.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	4	13
Relative to index (%)	(10)	2	(1)

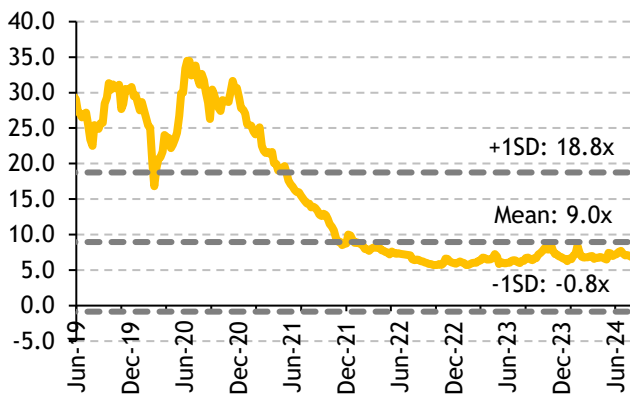
Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly			Cumulative				
	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY
Revenue	2,355.1	2,413.9	(2.4)	2,411.0	(2.3)	4,766.0	4,610.1	3.4
EBITDA	296.4	238.7	24.2	240.6	23.2	537.1	391.1	37.3
Depreciation	(77.8)	(79.4)	(2.1)	(79.5)	(2.2)	(157.3)	(156.9)	0.3
EBIT	218.7	159.2	37.3	161.1	35.7	379.8	234.2	62.2
Interest expense	(34.2)	(45.7)	(25.3)	(36.2)	(5.6)	(70.4)	(90.4)	(22.2)
Associates	0.0	0.1	(68.1)	0.0	63.0	0.1	0.2	(59.2)
Pretax profit	184.6	113.6	62.4	124.9	47.7	309.5	143.9	>100.0
Tax	(40.4)	(22.9)	76.7	(30.0)	34.7	(70.4)	(36.2)	94.5
Minority interest	(47.7)	(25.7)	85.1	(38.3)	24.3	(86.0)	(20.6)	>100.0
Net profit	96.5	65.0	48.4	56.6	70.5	153.1	87.2	75.6
Core net profit	96.5	65.0	48.4	56.6	70.5	153.1	87.2	75.6
			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
EBITDA margin (%)	12.6	9.9	2.7	10.0	2.6	11.3	8.5	2.8
EBIT margin (%)	9.3	6.6	2.7	6.7	2.6	8.0	5.1	2.9
Tax rate (%)	(21.9)	(20.1)	(1.8)	(24.0)	2.1	(22.7)	(25.1)	2.4
<b>Revenue:</b>			% YoY		% QoQ			% YoY
Livestock	1,368.0	1,323.1	3.4	1,315.8	4.0	2,683.8	2,522.5	6.4
Feedmill	984.2	1,087.5	(9.5)	1,092.3	(9.9)	2,076.5	2,081.0	(0.2)
Others	2.9	3.2	(10.7)	2.9	(1.2)	5.8	6.5	(10.9)
Total	2,355.1	2,413.9	(2.4)	2,411.0	(2.3)	4,766.0	4,610.1	3.4
<b>EBITDA:</b>			% YoY		% QoQ			% YoY
Livestock	145.3	84.8	71.3	78.9	84.1	224.3	90.7	147.2
Feedmill	151.9	142.5	6.6	164.6	(7.7)	316.5	291.7	8.5
Others	(0.8)	11.3	n.m.	(2.9)	(73.1)	(3.7)	8.6	n.m.
Total	296.4	238.7	24.2	240.6	23.2	537.1	391.1	37.3
<b>EBITDA margin (%):</b>			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
Livestock	10.6	6.4	4.2	6.0	4.6	8.4	3.6	4.8
Feedmill	15.4	13.1	2.3	15.1	0.4	15.2	14.0	1.2
Others	(26.8)	349.3	(376.1)	(98.3)	71.5	(62.8)	132.1	(194.9)
Total	12.6	9.9	2.7	10.0	2.6	11.3	8.5	2.8

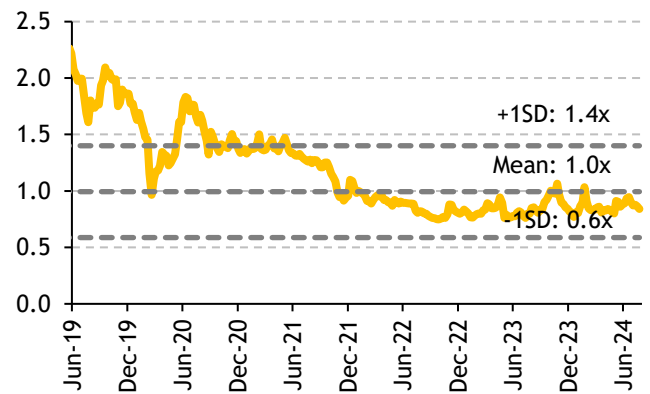
Source: Company

Fig 2: Forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: Forward PBV



Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	8.5	6.6	7.1	6.5	6.2
Core P/E (x)	8.3	6.8	7.1	6.5	6.2
P/BV (x)	0.9	0.9	0.9	0.8	0.7
P/NTA (x)	0.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	0.0	5.3	4.2	4.6	4.9
FCF yield (%)	12.7	33.3	7.0	21.0	9.0
EV/EBITDA (x)	6.2	4.5	5.3	4.7	4.5
EV/EBIT (x)	10.3	6.5	7.9	7.0	6.7

**INCOME STATEMENT (MYR m)**

Revenue	9,042.7	9,539.5	9,061.5	9,235.2	9,447.9
EBITDA	765.3	1,043.4	977.8	1,040.0	1,083.9
Depreciation	(260.4)	(276.2)	(284.1)	(295.0)	(304.9)
Amortisation	(40.9)	(43.2)	(43.5)	(43.5)	(43.5)
EBIT	464.0	724.0	650.3	701.5	735.5
Net interest income / (exp)	(137.9)	(169.6)	(163.9)	(176.5)	(189.1)
Associates & JV	0.4	0.3	0.3	0.3	0.3
Pretax profit	326.6	554.7	486.7	525.3	546.7
Income tax	(82.7)	(124.9)	(109.6)	(118.3)	(123.1)
Minorities	(25.0)	(128.1)	(75.7)	(76.4)	(77.1)
Reported net profit	218.9	301.7	301.3	330.6	346.5
Core net profit	218.9	301.7	301.3	330.6	346.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	840.3	699.5	1,743.3	2,355.0	2,707.2
Accounts receivable	649.9	729.4	682.1	756.5	715.2
Inventory	1,025.9	978.8	1,102.4	1,026.3	1,151.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,784.5	2,730.3	3,135.2	3,240.5	3,335.9
Intangible assets	99.2	102.5	102.2	101.9	101.6
Investment in Associates & JVs	1.6	1.7	1.7	1.7	1.7
Other assets	1,190.8	1,284.4	1,265.5	1,254.7	1,246.8
<b>Total assets</b>	<b>6,592.1</b>	<b>6,526.6</b>	<b>8,032.4</b>	<b>8,736.6</b>	<b>9,260.2</b>
ST interest bearing debt	2,022.9	1,615.3	2,262.2	2,429.8	2,597.4
Accounts payable	358.9	359.6	270.9	374.0	285.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,187.6	1,022.0	1,702.6	1,817.8	1,933.0
Other liabilities	433.0	575.0	545.0	556.0	565.0
<b>Total Liabilities</b>	<b>4,002.6</b>	<b>3,571.5</b>	<b>4,781.0</b>	<b>5,177.3</b>	<b>5,381.3</b>
Shareholders Equity	2,005.0	2,236.7	2,457.2	2,688.6	2,931.2
Minority Interest	584.5	718.4	794.2	870.6	947.7
<b>Total shareholder equity</b>	<b>2,589.6</b>	<b>2,955.1</b>	<b>3,251.4</b>	<b>3,559.2</b>	<b>3,878.9</b>
<b>Total liabilities and equity</b>	<b>6,592.1</b>	<b>6,526.6</b>	<b>8,032.4</b>	<b>8,736.6</b>	<b>9,260.2</b>

**CASH FLOW (MYR m)**

Pretax profit	326.6	554.7	486.7	525.3	546.7
Depreciation & amortisation	301.2	319.4	327.5	338.5	348.4
Cash taxes paid	(82.7)	(124.9)	(109.6)	(118.3)	(123.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	509.4	902.8	549.5	847.8	593.2
Capex	(280.6)	(215.9)	(400.0)	(400.0)	(400.0)
Free cash flow	228.8	686.9	149.5	447.8	193.2
Dividends paid	(0.7)	(77.0)	(90.4)	(99.2)	(103.9)
Equity raised / (purchased)	0.0	0.0	5.4	0.0	0.0
Change in Debt	(361.8)	(696.3)	1,327.5	282.8	282.8
Other invest/financing cash flow	(1.6)	51.3	(15.2)	(19.4)	(19.4)
Net cash flow	(135.4)	(35.0)	1,376.7	612.0	352.6

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	26.4	5.5	(5.0)	1.9	2.3
EBITDA growth	42.8	36.3	(6.3)	6.4	4.2
EBIT growth	83.9	56.0	(10.2)	7.9	4.9
Pretax growth	132.7	69.9	(12.3)	7.9	4.1
Reported net profit growth	156.3	37.8	(0.1)	9.7	4.8
Core net profit growth	156.3	37.8	(0.1)	9.7	4.8
<b>Profitability ratios (%)</b>					
EBITDA margin	8.5	10.9	10.8	11.3	11.5
EBIT margin	5.1	7.6	7.2	7.6	7.8
Pretax profit margin	3.6	5.8	5.4	5.7	5.8
Payout ratio	0.0	36.3	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.4	3.2	3.3	3.6	3.7
Revenue/Assets (x)	1.4	1.5	1.1	1.1	1.0
Assets/Equity (x)	3.3	2.9	3.3	3.2	3.2
ROAE (%)	11.5	14.2	12.8	12.8	12.3
ROAA (%)	3.4	4.6	4.1	3.9	3.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	56.9	56.9	62.3	62.3	62.3
Days receivable outstanding	25.4	26.0	28.0	28.0	28.0
Days inventory outstanding	46.5	48.2	49.2	49.2	49.2
Days payables outstanding	15.0	17.3	14.9	14.9	14.9
Dividend cover (x)	nm	2.8	3.3	3.3	3.3
Current ratio (x)	1.2	1.3	1.5	1.5	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.8	1.7	1.7	1.7
Net gearing (%) (incl perps)	91.5	65.6	68.3	53.2	47.0
Net gearing (%) (excl. perps)	91.5	65.6	68.3	53.2	47.0
Net interest cover (x)	3.4	4.3	4.0	4.0	3.9
Debt/EBITDA (x)	4.2	2.5	4.1	4.1	4.2
Capex/revenue (%)	3.1	2.3	4.4	4.3	4.2
Net debt/ (net cash)	2,370.2	1,937.8	2,221.4	1,892.6	1,823.1

Source: Company; Maybank IBG Research

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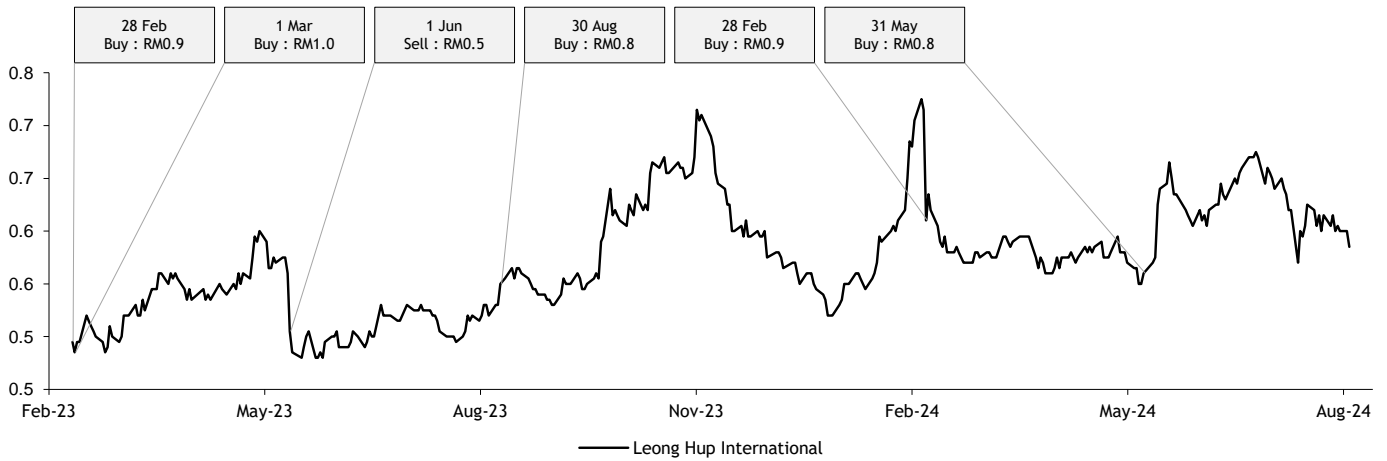
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