

Leong Hup International Bhd

TP: RM0.79 (+17.9%)

A Stronger FY24

Last Traded: RM0.64

BUY (ESG: ★★★)

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We remain optimistic about Leong Hup International Berhad (LHI)'s FY24 outlook, thanks to improved margins from its operations in Vietnam and the Philippines, driven by higher demand and ASP, coupled with favourable input costs.

Key takeaways from the analyst briefing yesterday include:

- i) 9MFY24 Results Review
- ii) FY25 Outlook Remains Resilient
- iii) Higher Capex of RM350mn for FY25

We have raised our FY24-26 core earnings estimates by 13.0%-31.4% and upgrade our TP to RM0.79/share. Reiterate Buy.

9MFY24 Results Review

For 9MFY24, core earnings surged 26.8% YoY to RM279.0mn, despite a slight decline in revenue to RM7.0bn (-1.9% YoY). The better earnings were mainly due to: i) a lower effective tax rate of 16.9% (-6.3%-pts YoY) and ii) reduced operating expenses of RM6.5bn (-4.8% YoY), which more than offset the revenue contraction. The lower effective tax rate for 9MFY24 was attributed to: i) lower tax expenses in Malaysia and ii) a reduced tax rate of 15% for its F&B operations in Vietnam, due to tax incentives

Raw materials, which account for c.80% of LHI's total cost of sales, also contributed to the earnings improvement in 9MFY24. Soybean meal prices continue to trend downward, hovering at approximately USD291.6/tonne as of 13 November 2024, which is below the pre-pandemic level. Although corn prices rose to USD426.5/100 bushels on 13 November 2024, up from USD397.25/100 bushels in June 2024, they remain favourable, with YTD prices down by 11.2%. All in all, we project an EBITDA margin of 11.9% for FY24 (+1.1%-pts YoY).

FY25 Outlook Remains Resilient

To recap, Vietnam has emerged as the second-largest earnings contributor with an EBITDA of RM63.8mn in 3QFY24 (20.6% of the group's EBITDA), representing a robust 23.6% YoY growth. The growth was driven by higher demand and ASP, along with lower feed costs. On a QoQ basis, the ASP of DOCs in 3QFY24 increased to RM2.35/chick (from RM2.00/chick), broiler chicken prices rose to RM6.1/kg (from RM5.4/kg) and egg ASPs, improved slightly to RM0.35/egg (from RM0.34/egg). Going forward, we expect Vietnam's growth trajectory to continue, supported by higher ASPs and favourable raw material costs.

Moving into FY25, management remains positive about the group's outlook, driven by higher ASPs and growing demand in Vietnam and the Philippines, coupled with stable feed costs, which are expected to offset the normalised

Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3651.7
Market Cap (RMmn)	2337.1
52-wk Hi/Lo (RM)	0.775/0.51
12-mth Avg Daily Vol ('000 shrs)	8014.6
Estimated Free Float (%)	26.6
Beta	1.2

Major Shareholders (%)

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

Forecast Revision

	FY24	FY25
Forecast Revision (%)	31.4	17.4
Net profit (RMm)	380.1	362.4
Consensus	342.0	338.2
TA's / Consensus (%)	111.1	107.2
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	0.87	

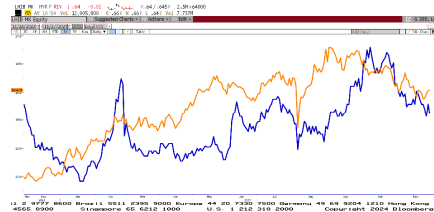
Financial Indicators

	FY24	FY25
Net Debt / Equity (x)	0.4	0.3
ROE (%)	16.0	13.8
ROA (%)	5.7	5.3
NTA/Share (RM)	0.7	0.7
Price/NTA (x)	1.0	0.9

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(13.5)	(0.9)
3 mth	9.4	(2.9)
6 mth	13.3	(0.9)
12 mth	(7.9)	10.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

performance in Malaysia and Indonesia. As a result, we project revenue to grow by 2.0% YoY to RM9.4bn for FY25

Higher Capex of RM350mn for FY25

Management has maintained its FY24 Capex forecast of RM300mn. The group reported an investment of RM1.8mn in a wastewater treatment plant in Indonesia, which is currently undergoing government assessment before operations begin. Additionally, the group has launched 3 new Sunny'chick outlets in Indonesia, bringing the total to 24 outlets. In Malaysia, the group has invested RM18.0mn in a slaughtering plant in Yong Peng and RM9.23mn in a new egg grading machine for Teo Seng's operations. The slaughtering plant is 75% complete and is expected to be fully operational by 3QFY25, while the egg grading machine began operations in October 2024.

Looking ahead, the group plans to increase its Capex to RM350mn for FY25. Of this, RM200mn will be allocated to domestic operations, primarily to expand the Baker's Cottage chain with 25 new outlets (targeting a total of 180 outlets by 2025) and to support Teo Seng's operations. The remaining RM150mn will be directed towards optimizing efficiency in its overseas operations and strengthening its downstream business in Vietnam, Indonesia, and the Philippines.

Impact

We tweaked our FY24-26 core earnings upwards by 31.4%/17.4%/13.0% after lowering our costs assumption by 6.7%/6.7%/4.7%. Additionally, we trimmed our average effective tax rate by 3.3 pts to 21.7%.

Valuation

Following the earnings revision, we raised LHI's target price to RM0.79/share based on 8x CY25 EPS. Reiterate **Buy**.

Appendix I: Geographical Spot Prices

		Malaysia	Philippines	Vietnam	Indonesia
DOC	(RM/chick)	2.4	3.0	2.4	2.1
Broiler	(RM/kg)	6.0	6.1	6.1	5.5
EGG	(RM/egg)	0.4	NA	0.4	0.4

Source: Company, Ta Research

Table I: Earnings Summary

Profit and Loss Statement						Balance Sheet					
FYE 31 Dec (RM mn)	FY22	FY23	FY24E	FY25F	FY26F	FYE 31 Dec (RM mn)	FY22	FY23	FY24E	FY25F	FY26F
Revenue	9,042.7	9,539.5	9,186.6	9,370.3	9,576.4	PPE	2,784.5	2,730.3	2,731.8	2,778.3	2,730.1
EBITDA	752.2	1,028.8	1,093.6	1,028.1	1,027.6	Intangible Asset	99.2	102.5	102.5	102.5	102.5
Depreciation	(301.2)	(319.4)	(298.5)	(303.5)	(298.1)	Associate	1.6	1.7	1.7	1.8	1.8
Net finance cost	(124.8)	(155.1)	(143.9)	(136.8)	(127.1)	Others	546.5	565.1	565.6	566.2	566.8
Associate	0.4	0.3	0.5	0.5	0.5	Non-current assets	3,431.8	3,399.5	3,401.7	3,448.7	3,401.2
EI	0.0	0.0	0.0	0.0	0.0	Inventories	1,025.9	978.8	1,072.8	1,047.4	1,070.5
PBT	326.6	554.7	651.8	588.2	602.9	Trade receivables	649.9	729.4	755.1	770.2	787.1
Taxation	(82.7)	(124.9)	(123.8)	(135.3)	(138.7)	Cash and Bank Balance	840.3	699.5	850.8	987.9	1,195.1
MI	(25.0)	(128.1)	(147.8)	(90.6)	(92.8)	Others	644.4	719.3	719.3	719.3	719.3
Net profit	218.9	301.7	380.1	362.4	371.4	Current assets	3,160.4	3,127.1	3,397.9	3,524.8	3,772.0
Core net profit	218.9	301.7	380.1	362.4	371.4	Total Assets	6,592.2	6,526.6	6,799.6	6,973.5	7,173.2
Core EPS (sen)	6.0	8.3	10.4	9.9	10.2	LT Borrowings	1,046.4	870.8	817.6	764.5	711.4
Diluted EPS (sen)	6.0	8.3	10.4	9.9	10.2	Others	293.1	342.4	342.4	342.4	342.4
DPS (sen)	0.0	2.5	3.1	3.0	3.1	Non-Current liabilities	1,339.5	1,213.2	1,160.1	1,106.9	1,053.8
Book Value (RM)	0.5	0.6	0.7	0.8	0.8	Trade payables	358.9	359.6	379.9	371.0	379.1
NTA (RM)	0.5	0.6	0.7	0.7	0.8	ST Borrowings	1,986.3	1,587.3	1,490.4	1,393.6	1,296.7
						Others	317.9	411.4	411.4	411.4	411.4
Ratios						Current liabilities	2,663.1	2,358.3	2,281.8	2,175.9	2,087.2
FYE 31 Dec (RM mn)	FY22	FY23	FY24E	FY25F	FY26F	Shareholders funds	2,005.0	2,236.7	2,502.8	2,756.4	3,016.4
Valuations						MI	584.5	718.4	855.0	934.3	1,015.8
Core PER (x)	11.2	8.1	6.4	6.7	6.6	Total Equity	2,589.6	2,955.1	3,357.7	3,690.7	4,032.2
Div. Yield (%)	0.0	3.7	4.7	4.4	4.6	Total E&L	6,592.2	6,526.6	6,799.6	6,973.5	7,173.2
P/BV (x)	1.2	1.1	1.0	0.9	0.8						
Profitability ratios						Cash Flow Statement					
EBITDA margin (%)	8.3	10.8	11.9	11.0	10.7	FYE 31 Dec (RM mn)	FY22	FY23	FY24E	FY25F	FY26F
PBT margin (%)	3.6	5.8	7.1	6.3	6.3	Pretax profit	326.6	554.7	651.8	588.2	602.9
Core Net Margin (%)	2.4	3.2	4.1	3.9	3.9	Depreciation	301.2	319.4	298.5	303.5	298.1
Core ROE (%)	11.5	14.2	16.0	13.8	12.9	Net interest	124.8	155.1	143.9	136.8	127.1
Core ROA (%)	3.4	4.6	5.7	5.3	5.3	Associates	(0.4)	(0.3)	(0.5)	(0.5)	(0.5)
Liquidity ratios						Changes in WC	(58.2)	15.3	(99.2)	1.3	(31.8)
Current ratio (x)	1.2	1.3	1.5	1.6	1.8	Tax	(88.9)	(79.0)	(123.8)	(135.3)	(138.7)
Quick ratio (x)	0.8	0.9	1.0	1.1	1.3	Others	15.8	27.3	0.0	0.0	0.0
Leverage ratios						Operational cash flow	620.9	992.5	870.5	894.0	857.1
Equity/total liabilities (x)	0.6	0.8	1.0	1.1	1.3	Capex	(285.9)	(218.8)	(300.0)	(350.0)	(250.0)
Net debt / equity (x)	0.8	0.6	0.4	0.3	0.2	Interest income	13.1	14.5	17.0	17.3	18.3
Growth ratios						Others	(4.9)	40.4	(0.1)	(0.1)	(0.1)
Revenue (%)	26.4	5.5	(3.7)	2.0	2.2	Investing cash flow	(277.6)	(163.8)	(283.1)	(332.8)	(231.8)
PBT (%)	132.7	69.9	17.5	(9.7)	2.5	Net share issue	0.0	0.0	0.0	0.0	0.0
Core Net Profit (%)	156.3	37.8	26.0	(4.7)	2.5	Net borrowings	(197.1)	(526.4)	(150.0)	(150.0)	(150.0)
						Dividend paid	(0.7)	(77.0)	(125.3)	(120.0)	(122.7)
						Interest paid	(133.0)	(169.9)	(160.9)	(154.1)	(145.4)
						Others	(31.2)	0.0	0.0	0.0	0.0
						Financial cash flow	(362.1)	(773.3)	(436.2)	(424.1)	(418.1)
						Net cash flow	(18.8)	55.3	151.2	137.2	207.2
						Beginning Cash	575.1	556.1	627.3	778.5	915.7
						Forex & others	(0.3)	15.9	0.0	0.0	0.0
						Ending Cash	556.1	627.3	778.5	915.7	1,122.9

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Sector Recommendation Guideline

OVERWEIGHT: The total return of the sector, as per our coverage universe, exceeds 12%.

NEUTRAL: The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

UNDERWEIGHT: The total return of the sector, as per our coverage universe, is lower than 7%.

Stock Recommendation Guideline

BUY : Total return of the stock exceeds 12%.

HOLD : Total return of the stock is within the range of 7% to 12%.

SELL : Total return of the stock is lower than 7%.

Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

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.	+5% premium to target price
★★★★ (60-79%)	: Above adequate integration of ESG factors into most aspects of operations, management and future directions.	+3% premium to target price
★★★ (40-59%)	: Adequate integration of ESG factors into operations, management and future directions.	No changes to target price
★★ (20-39%)	: Have some integration of ESG factors in operations and management but are insufficient.	-3% discount to target price
★ (<20%)	: Minimal or no integration of ESG factors in operations and management.	-5% discount to target price

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As of Thursday, November 28, 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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