

26 February 2025

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

**Buy** (Maintained)

### Strong End Record-Breaking FY24; Stay BUY

Target Price (Return): MYR0.98 (60.6%)  
 Price (Market Cap): MYR0.61 (USD501m)  
 ESG score: 2.6 (out of 4)  
 Avg Daily Turnover (MYR/USD) 3.04m/0.68m

- **Stay BUY, higher MYR0.98 TP from MYR0.90, 61% upside and c.FY25F yield.** Leong Hup International's results beat expectations for a sixth quarter in a row thanks to stronger-than-expected profit margins. Notwithstanding the forecasted negative earnings growth ahead, we believe the fundamental improvement in the poultry industry – driven by cost tailwinds and market consolidation – has yet to be priced in. Trading at -1.5SD below its 5-year mean, LHI's valuation is attractive for a player with an established regional presence to capture the resilient poultry consumption situation.
- **FY24 results were significant above expectations.** Core earnings of MYR446m (+38% YoY) exceeded our and consensus forecasts by 27-29% due to the stronger-than-expected profit margins as a result of favourable ASPs and low feed costs. Post results, we raise FY25-26F earnings by 8% and 9% and roll out FY27 estimates (+5% YoY). Correspondingly, our DCF-derived TP rises to MYR0.98 (inclusive of an 8% ESG discount), which implies 10x P/E FY25F – on par with the stock's 5-year mean.
- **Results review.** YoY, FY24 revenue fell marginally by 2% to MYR9.3bn, mainly a function of lower ASPs to take into account the lower commodity prices. That said, FY24 EBITDA jumped 15% to MYR1.2bn thanks to margins expansion brought about by lower feed costs and favourable demand-supply industry dynamics. As a result, Indonesia, the Philippines, and Vietnam all recorded sharp rise in EBITDA contributions. QoQ, 4Q24 revenue rose 4% to MYR2.3bn on better ASPs and sales volumes in Indonesia and Malaysia. Meanwhile, 4Q24 EBITDA surged 16% QoQ to MYR357m, with margin expanding by 1.6ppts, which we believe was due to the stronger year-end demand and reflection of lower feed costs.
- **Outlook.** Essentially, we believe earnings and margins should normalise from the exceptional FY24 base, which was aided by the sharp depreciation of USD and low effective tax rate or ETR. This is considering the USD's rebound and lower tax credits moving forward – on top of the cyclical and volatile nature of the poultry industry, particularly in Indonesia. That said, we believe the overall fundamental of the poultry industry has improved with the pandemic and commodity super-cycle phasing out the smaller and weaker players. This has led to industry consolidation, which is favourable to the large industry players like LHI. Coupled with a sturdier balance sheet (net gearing has shrunk to 0.5x in FY24 from 1.1x in FY22), we believe the company is well positioned to capture more market share and improve on its efficiency level via capacity expansion. Risks to our recommendation include a sharp rise in input costs and unfavourable demand-supply industry dynamics.

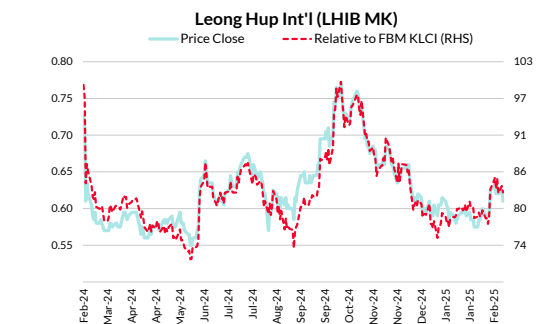
#### Analyst

Soong Wei Siang  
 +603 2302 8130  
[soong.wei.siang@rhbgroup.com](mailto:soong.wei.siang@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.8	3.4	(3.9)	1.7	(13.5)
Relative	5.3	3.8	(2.0)	5.8	(14.7)
52-wk Price low/high (MYR)				0.55	-0.77



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	9,540	9,309	9,786	10,212	10,762
Recurring net profit (MYRm)	324	446	376	360	376
Recurring net profit growth (%)	59.3	37.6	(15.8)	(4.3)	4.7
Recurring P/E (x)	6.87	4.99	5.92	6.19	5.92
P/B (x)	1.0	0.9	0.8	0.8	0.7
P/CF (x)	2.56	2.25	3.99	3.60	3.55
Dividend Yield (%)	4.9	4.5	5.1	4.8	5.1
EV/EBITDA (x)	4.47	3.57	3.44	3.28	3.00
Return on average equity (%)	14.2	18.3	14.6	12.7	12.2
Net debt to equity (%)	59.5	36.8	31.4	25.0	18.9

Source: Company data, RHB

**Overall ESG Score: 2.6 (out of 4)**

**E Score: 2.4 (GOOD)**

**S Score: 2.7 (GOOD)**

**G Score: 3.0 (GOOD)**

Please refer to the ESG analysis on the next page

## Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
na	Scope 1	-	-	-	-
	Scope 2	-	-	-	-
	Scope 3	-	-	-	-
	Total emissions	na	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

**Invested in the upgrading of facilities** for increased capacity for handling manure such as installation of manure belts in layer houses in Malaysia.

**Contracted qualified contractors** to clean plastic containers used to contain hazardous chemicals for re-use to generate value from waste.

**Awarded an "A" grade** under the Food Safety Excellence Scheme by the Singapore Food Agency for 18 years consecutively

## ESG Unbundled

**Overall ESG Score: 2.6 (out of 4)**

**Last Updated: 30 Nov 2024**

**E Score: 2.4 (GOOD)**

LHI has not identified any key initiatives in delivering sustainable reductions in greenhouse gas or GHG emissions. However, the company has a put in place a system to properly manage and treat water, and hazardous and non-hazardous wastes from its operations in accordance with local laws and regulations.

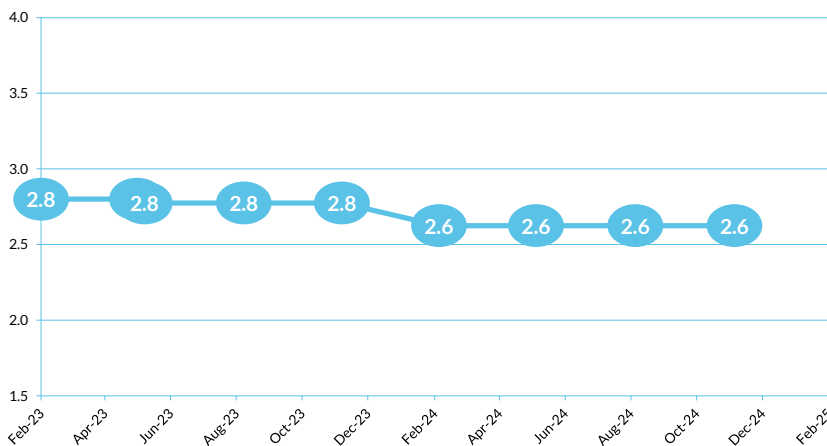
**S Score: 2.7 (GOOD)**

Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensures a safe and conducive working environment for its people. In addition, LHI also practices good standards in ensuring the safety and quality of its food products.

**G Score: 3.0 (GOOD)**

LHI has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance, with independent directors comprising almost 50% of the board with women making up 30% of it.

## ESG Rating History



Source: RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Malaysia	Recurring EPS	0.09	0.12	0.10	0.10	0.10
Agriculture	DPS	0.03	0.03	0.03	0.03	0.03
<b>Leong Hup International</b>	BVPS	0.61	0.67	0.74	0.81	0.88
LHIB MK	Return on average equity (%)	14.2	18.3	14.6	12.7	12.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	6.87	4.99	5.92	6.19	5.92
Discounted Cash Flow	P/B (x)	1.0	0.9	0.8	0.8	0.7
	FCF Yield (%)	29.0	29.9	9.4	12.0	5.7
<b>Key drivers</b>	Dividend Yield (%)	4.9	4.5	5.1	4.8	5.1
i. Regional expansion plan;	EV/EBITDA (x)	4.47	3.57	3.44	3.28	3.00
ii. Favourable product prices.	EV/EBIT (x)	6.44	4.83	4.84	4.72	4.35
	<b>Income statement (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Key risks</b>	Total turnover	9,540	9,309	9,786	10,212	10,762
i. Unfavourable change in regulatory policy;	Gross profit	1,484	1,549	1,625	1,674	1,754
ii. Unfavourable demand-supply dynamics.	EBITDA	1,043	1,204	1,221	1,231	1,285
	Depreciation and amortisation	(319)	(313)	(353)	(377)	(400)
<b>Company Profile</b>	Operating profit	724	891	867	854	884
LHI is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Net interest	(170)	(131)	(114)	(109)	(103)
	Pre-tax profit	555	761	754	746	782
	Taxation	(125)	(130)	(166)	(164)	(172)
	Reported net profit	302	429	376	360	376
	Recurring net profit	324	446	376	360	376
	<b>Cash flow (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Change in working capital	(32)	69	(119)	(63)	(80)
	Cash flow from operations	868	989	559	618	628
	Capex	(221)	(324)	(350)	(350)	(500)
	Cash flow from investing activities	(140)	(345)	(350)	(350)	(500)
	Dividends paid	(77)	(100)	(113)	(108)	(113)
	Cash flow from financing activities	(773)	(720)	(322)	(316)	(316)
	Cash at beginning of period	840	700	771	773	839
	Net change in cash	(45)	(76)	(113)	(48)	(188)
	Ending balance cash	795	623	658	725	651
	<b>Balance sheet (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Total cash and equivalents	700	771	773	839	923
	Tangible fixed assets	2,730	2,683	2,730	2,753	2,753
	Total investments	40	31	31	31	31
	Total assets	6,527	6,444	6,659	6,827	7,011
	Short-term debt	1,587	1,419	1,400	1,300	1,200
	Total long-term debt	871	576	500	500	500
	Total liabilities	3,571	3,117	3,068	2,985	2,905
	Total equity	2,955	3,327	3,591	3,842	4,106
	Total liabilities & equity	6,527	6,444	6,659	6,827	7,011
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Revenue growth (%)	5.5	(2.4)	5.1	4.3	5.4
	Recurrent EPS growth (%)	59.3	37.6	(15.8)	(4.3)	4.7
	Gross margin (%)	15.6	16.6	16.6	16.4	16.3
	Operating EBITDA margin (%)	10.9	12.9	12.5	12.1	11.9
	Net profit margin (%)	3.2	4.6	3.8	3.5	3.5
	Dividend payout ratio (%)	36.3	23.4	30.0	30.0	30.0
	Capex/sales (%)	2.3	3.5	3.6	3.4	4.6
	Interest cover (x)	4.27	6.82	7.59	7.87	8.61

Source: Company data, RHB

## Results At A Glance

Figure 1: LHIB's results review

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Revenue	2,413.0	2,228.3	2,315.1	3.9	(4.1)	9,539.5	9,309.5	(2.4)	FY24 decline a function of lower commodity prices
EBITDA	303.4	309.3	357.4	15.6	17.8	1,043.4	1,203.8	15.4	
EBITDA margin (%)	12.6	13.9	15.4	1.6	2.9	10.9	12.9	2.0	Feed costs fell at a faster pace than ASPs
EBIT	219.8	232.8	278.2	19.5	26.6	724.0	890.8	23.0	
EBIT Margin (%)	9.1	10.4	12.0	1.6	2.9	7.6	9.6	2.0	
Finance costs	(36.7)	(31.0)	(29.3)			(169.6)	(130.6)		
EI	22.5	(10.0)	27.3			22.5	17.3		
Profit before tax	183.3	201.9	249.2	23.5	36.0	554.7	760.5	37.1	
PBT Margin (%)	7.6	9.1	10.8	1.7	3.2	5.8	8.2	2.4	
Tax expense	(38.5)	(16.2)	(43.2)	167.2	12.0	(124.9)	(129.7)	3.8	
Effective tax rate (%)	(21.0)	(8.0)	(17.3)	(9.3)	3.7	(22.5)	(17.1)	5.5	
Minority interests	63.1	50.7	65.2			127.8	201.9		
PATAMI	81.6	135.0	140.8	4.3	72.6	301.7	428.9	42.2	
Core PATAMI	104.1	125.0	168.1	34.5	61.5	324.2	446.2	37.6	At 127-129% of the forecasts
Net Margin (%)	4.3	5.6	7.3	1.7	2.9	3.4	4.8	1.4	

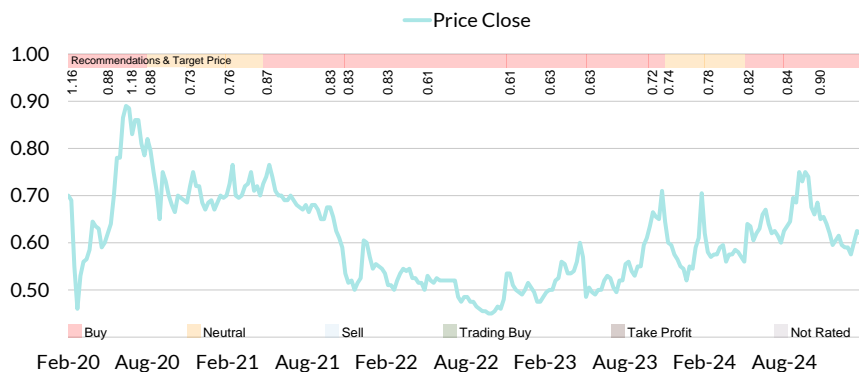
Source: Company data, RHB

Figure 2: LHIB's geographical breakdown

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Malaysia	587.3	567.2	576.4	1.6	(1.8)	2,386.1	2,299.5	(3.6)
Singapore	202.0	209.0	206.3	(1.3)	2.2	826.2	829.7	0.4
Vietnam	534.5	451.2	478.0	5.9	(10.6)	2,114.2	1,868.1	(11.6)
Indonesia	927.0	816.7	855.1	4.7	(7.8)	3,623.5	3,589.4	(0.9)
Philippines	158.9	181.3	196.4	8.3	23.6	576.6	711.3	23.4
<b>Group revenue</b>	<b>2,409.7</b>	<b>2,225.5</b>	<b>2,312.3</b>	<b>3.9</b>	<b>(4.0)</b>	<b>9,526.5</b>	<b>9,298.0</b>	<b>(2.4)</b>
Malaysia	184.1	141.8	160.1	12.9	(13.0)	583.3	507.9	(12.9)
Singapore	20.6	13.5	11.5	(15.0)	(44.2)	81.6	60.4	(26.0)
Vietnam	43.7	63.8	69.4	8.8	58.8	141.1	207.0	46.7
Indonesia	35.1	46.2	83.8	81.4	138.7	171.7	304.5	77.3
Philippines	19.9	43.9	32.6	(25.9)	63.3	65.7	124.0	88.8
<b>Group EBITDA</b>	<b>303.4</b>	<b>309.3</b>	<b>357.4</b>	<b>15.6</b>	<b>17.8</b>	<b>1,043.4</b>	<b>1,203.7</b>	<b>15.4</b>
Malaysia	31.3	25.0	27.8	2.8	(3.6)	24.4	22.1	(2.4)
Singapore	10.2	6.5	5.6	(0.9)	(4.6)	9.9	7.3	(2.6)
Vietnam	8.2	14.1	14.5	0.4	6.3	6.7	11.1	4.4
Indonesia	3.8	5.7	9.8	4.1	6.0	4.7	8.5	3.7
Philippines	12.5	24.2	16.6	(7.6)	4.0	11.4	17.4	6.0
<b>G.EBITDA margin (%)</b>	<b>12.6</b>	<b>13.9</b>	<b>15.5</b>	<b>1.6</b>	<b>2.9</b>	<b>11.0</b>	<b>12.9</b>	<b>2.0</b>

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-27	Buy	0.90	0.64
2024-08-27	Buy	0.84	0.59
2024-05-30	Buy	0.82	0.55
2024-02-28	Neutral	0.78	0.61
2023-11-29	Neutral	0.74	0.68
2023-10-22	Buy	0.72	0.61
2023-08-29	Buy	0.63	0.53
2023-06-01	Buy	0.63	0.51
2023-02-28	Buy	0.63	0.50
2022-11-29	Buy	0.61	0.49
2022-05-25	Buy	0.61	0.50
2022-02-23	Buy	0.83	0.56
2021-11-24	Buy	0.83	0.56
2021-10-13	Buy	0.83	0.66
2021-05-21	Buy	0.87	0.73

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Not Rated:</b>	Stock is not within regular research coverage

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#### **KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 2302 8100  
Fax : +603 2302 8134

#### **JAKARTA**

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 5093 9888  
Fax : +6221 5093 9777

#### **SINGAPORE**

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470