

Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

Upgrade to BUY

(from NEUTRAL)

Revised Target Price: RM0.80

(from RM0.47)

Stable profit margin ahead

KEY INVESTMENT HIGHLIGHTS

- **Higher utilization rate for the Feedmill segment due to increased sales volume**
- **Greater day-old-chick (DOC) and chicken supply volumes for the Livestock segment in 3QFY22**
- **Delayed certain capital expenditure (CAPEX) projects**
- **Raised our earnings projection for FY22F-24F**
- **Upgrade to BUY (from NEUTRAL) with a higher TP of RM0.80 (previously RM0.47)**

We attended Leong Hup's ("LHIB") 9MFY22 analyst briefing and turned bullish about FY23 outlook. The key highlights are as follows: -

Higher utilization rate for Feedmill segment due to increased sales volume. Sales volume for Feedmill segment increased by +3.5%yoy to 669.8k mt in 3QFY22. As such, utilization rate increased from 63.7% in 2QFY22 to 64.1% in 3QFY22. On yearly basis, the utilization rate is higher than 62.4% in 3QFY21 and hence resulted in a higher total group production capacity of 1.05m mt as compared to 1.04m mt in 3QFY21.

Greater day-old-chick (DOC) and chicken supply volumes for the Livestock segment in 3QFY22. The group broiler DOC volume supplied increased by +18.2%yoy to 144.8m chicks in 3QFY22. Similarly, the volume of group-supplied broiler chicken increased from 35.8m birds in 3QFY21 to 38m birds in 3QFY22. On the other hand, sales volume of group egg dropped by -3.5%yoy to 443.1m eggs.

Delayed certain capital expenditure (CAPEX) projects. Given the uncertain market conditions and rising interest rates, the group has placed some of the regional CAPEX projects on the "keep in view" list. Notably, the group has deferred the construction of a new Feedmill, as part of the stage 2 raw material drying/storage facility in Lampung, Indonesia. Likewise, management expects total CAPEX for FY22 to be less than RM300m. This will be lower than RM345.9m in FY21, RM498.6m in FY20, and RM400.2m in FY219.

CAPEX projects were completed in Indonesia. During the quarter, the group completed the poultry facility in West Jaya, Indonesia. The facility is estimated to process 600k chickens and 300k ducks per month. The group secured Indonesia's veterinary control number (NKV) and Halal certificate for the poultry facility and has applied for the ISO certificate and export permit. This new factory is targeted to support the export process of chicken from Indonesia to Singapore. Besides, the group also completed and commenced operation of the new hatchery farm, which is expected to process 47m eggs per year.

RETURN STATISTICS

Price @ 30 th Nov 2022 (RM)	0.52
Expected share price return (%)	+53.7
Expected dividend yield (%)	+2.5
Expected total return (%)	+56.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.8	6.0
3 months	5.4	2.0
12 months	-7.6	-5.0

KEY STATISTICS

FBM KLCI	1,488.80
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	16.70
Market Capitalisation (RM'm)	1,770.25
52-wk price range	RM0.44 - RM0.62
Beta vs FBM KLCI (x)	0.58
3-mth average daily volume (m)	0.22
3-mth average daily value (RM'm)	0.10
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07


Added 22 new sunny chick stores in Indonesia. LHI operated 51 sunny chick stores throughout Indonesia as of 9MFY22, up from 29 sunny chick stores in 1HFY22. The stores are currently located in Jakarta, Tangerang, and Bekasi. Moving forward, the group targets to expand Sunny chick stores to Surabaya and East Java.

More LH Deli in Philippines. The group introduces LH Deli stores in Philippines, which primarily cater to take-away. The stores are 100% franchise-based and come with a simple and portable small store or kiosk setup. As of 9MFY22, the group expanded LH Deli to a total of 39 stores from 33 stores in 1HFY22. The group target to have a total of 50 outlets for LH Deli by end of 2022.

Lower Bakers' Cottage outlets in Malaysia. As of 9MFY22, the group has 161 Bakers' Cottage outlets across Malaysia. This was 17 stores lower than in 1HFY22. We gather that the group discontinued some of the unprofitable outlets to mitigate the impact of a labour shortage as well as to manage the costs and human resources efficiently. Moving forward, the group is likely to shutdown non-profitable stores and focus more on performing outlets.

Benefit from the shortage of chicken and eggs in Malaysia. We gather that the high spot price for day-old chick (DOC) in Malaysia was mainly due to the increasing demand and shortage of supply caused by the spread of Newcastle disease in chickens. The emergence of Newcastle disease in chickens has a minimal impact on LHI, due to its initiative to construct and/or upgrade to the closed-house farm to better reduce the risk of the livestock contracting the disease. Also, LHI is a market leader in providing DOC (including parent stock DOC, broiler DOC and layer DOC) to small-scale farmers. The group thereby reaps the benefits of the growing demand for DOC delivery to other farmers who are affected by the contagious disease.

Raised our earnings projection for FY22F-24F. Post analyst briefing, we increased our earnings projection for FY22F/FY23F/FY24F by +40.2%/+68.7%/+145.0% to better reflect higher sales and better profit margin ahead. This is after factoring in higher sales volume and average selling prices for the livestock and poultry segment.

Upgrade to BUY (from NEUTRAL) with a higher TP of RM0.80 (previously RM0.47). Our TP is revised to RM0.80, based on an unchanged PER of 16.8x that pegged to FY23F EPS of 4.8sen. We turned **optimistic** about Leong Hup's FY23 outlook underpinned by: (1) higher demand of DOC from other poultry farmers due to the shortage of chicken and eggs, (2) improved revenue in Singapore operations as Malaysia's export ban, being gradually lifted, and (3) its vertical integration of poultry, eggs, and livestock feed and geographic diversification across countries could partially mitigate against the downside. Hence, we upgrade our call from Neutral to **BUY** on LHI. **Downside risks** are (1) a substantial increase in the cost of raw materials; (2) adverse regulatory change; and (3) fierce competition. 

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	6,040.7	7,153.5	8,939.1	9,206.9	9,482.8
Operational Profit	282.6	252.9	348.3	372.8	405.0
Finance costs	(125.9)	(112.4)	(137.2)	(150.5)	(155.0)
Share of profit of associates	0.4	0.4	0.5	0.6	0.6
PBT	157.1	140.8	211.7	222.9	250.6
Income tax	(39.6)	(44.4)	(46.8)	(49.3)	(55.4)
Net Profit	117.5	96.4	164.9	173.7	195.2
Minority interest	4.4	10.5	0.0	0.0	0.0
PATANCI	113.1	85.9	164.9	173.7	195.2
EI	(2.4)	1.7	0.0	0.0	0.0
Core PATANCI	115.5	84.2	164.9	173.7	195.2
Basic EPS (sen)	3.2	2.3	4.5	4.8	5.3
DPS (sen)	0.6	0.7	1.3	1.4	1.5
Growth & Margin (%)					
Revenue Growth	(0.2)	18.4	25.0	3.0	3.0
Core PATANCI Growth	(22.3)	(27.1)	95.8	5.3	12.4
Operating Profit Margin	4.7	3.5	3.9	4.0	4.3
PBT Margin	2.6	2.0	2.4	2.4	2.6
Core PATANCI Margin	1.9	1.2	1.8	1.9	2.1
Effective tax rate	25.2	31.5	22.1	22.1	22.1
Ratios & Valuation					
PER (x)	16.4	22.5	11.5	10.9	9.7
Net debt/Total Equity (%)	83.7	100.0	112.1	109.6	106.9
Dividend yield	1.1	1.3	2.5	2.6	2.9

Source: Company, 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