

Leong Hup International Bhd

Navigating a gentle start

Summary

- Leong Hup International Bhd's (LHI) 1Q23 core net profit rose 8.7% YoY to RM22.1m. The reported earnings make up to 10.0% of ours and consensus forecasts of RM220.5m and RM221.5m. However, we believe the core net profit is within expectation and expect to be back loaded amid the declining trend in feed costs prices (soybean and maize).
- YoY, the increase in core net profit was predominantly driven by the feedmill segment, benefiting from increased revenue on the back of higher average selling price (ASP) and sales volume in Vietnam and the Philippines, along with improved ASP in Indonesia. Notably, Vietnam and Indonesia saw better margins.
- The poultry segment saw higher revenue (+4.1% YoY) arising from higher ASP and sales volume of DOC and eggs in Malaysia, as well as favourable sales volume of dressed chickens in Philippines. Nevertheless, EBITDA declined 83.0% YoY for the segment due to margin compression stemming from elevated feed costs coupled with lower ASP of DOC in Indonesia.
- QoQ, core net profit plunged 75.6% mainly due to (i) lower ASP and sales volume of broiler chicken and lower sales volume of livestock feed in Vietnam, and (ii) lower ASP and sales volume of livestock feed and lower sales volume of broiler chickens in Malaysia.
- Cost wise, the prices of soybean and maize declined throughout 1Q23 on the back of (i) ample supplies resulted from favourable weather in growing regions, (ii) easing supply chain disruptions due to the calmer situation in Ukraine, coincided with (iii) expectations of stable demand. Nevertheless, both the commodities prices remained elevated as compared to pre-Covid-19 pandemic.
- Despite the challenges in global economy due to heightened inflation, LHI benefits from its operations situated in the robust ASEAN region. The group remained committed to allocate resources towards its downstream business, including B2C channels such as Sunnychick Store in Indonesia and The Bakers' Cottage in Malaysia, alongside investments in coldrooms.

Quarterly performance								
FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	2,087.2	2,321.9	2,196.2	(5.4)	5.2	2,087.2	2,196.2	5.2
EBITDA	132.1	264.4	148.9	(43.7)	12.8	132.1	148.9	12.8
PBT	31.9	150.7	30.3	(79.9)	(5.2)	31.9	30.3	(5.2)
PAT	23.9	114.3	17.0	(85.2)	(29.0)	23.9	17.0	(29.0)
Core PATMI	20.4	90.7	22.1	(75.6)	8.7	20.4	22.1	8.7
Reported PATMI	20.4	90.7	22.1	(75.6)	8.7	20.4	22.1	8.7
Core EPS (sen)	0.6	2.5	0.6	(75.6)	8.7	0.6	0.6	8.7
EBITDA margin (%)	6.3	11.4	6.8			6.3	6.8	
PBT margin (%)	1.5	6.5	1.4			1.5	1.4	
Core PATMI margin (%)	1.0	3.9	1.0			1.0	1.0	

Results Note – 1QFY22

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BUY

Share price	RM0.56
Target price	RM0.97
Previous TP	RM0.97
Capital upside	73.2%
Dividend return	4.3%
Total return	77.5%

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	2044.0
52W High/Low	0.61/0.44
Est. Free float	17.0%
Beta (X)	0.5
3-mth avg vol ('000)	3,412.3
Shariah compliant	No

Major shareholders

	%
Emerging Glory Sdn Bhd	52.8
Clarinden Investments	8.6
Amanah Saham Nasional	7.1

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1M	3M	12M
Absolute	4.7	15.5	7.7
Relative	6.9	20.7	20.6

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	218.9	220.5	234.3
EPS (sen)	6.0	6.0	6.4
P/E (x)	9.3	9.3	8.7

Relative performance chart



Valuation & Recommendation

- Given the reported earnings are deemed within expectations, we keep our FY23f and FY24f earnings forecast unchanged at RM220.5m and RM234.3m respectively, taking into account the anticipation of sustained downward trajectory in commodities prices, which is expected to propel the group's margin.
- We maintained our **BUY** recommendation on LHI with an unchanged target price of RM0.97. The target price is derived by ascribing a target PER of 16.0x to its FY23f EPS of 6.0 sen.
- Risks to our recommendation and forecast include the volatility of raw material commodity prices. Any draught-driven supply shortage or supply chain disruption may drive up commodity prices, resulting in margin compression for the group. Besides, the group may face additional uncertainties arising from the government's efforts to regulate food inflation.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	6,040.7	7,153.5	9,042.7	9,058.8	9,073.3	Cash	757.8	764.6	840.3	763.7	757.1
EBITDA	525.8	521.6	752.2	784.4	805.5	Receivables	489.6	624.7	649.9	672.0	673.1
EBIT	266.5	237.9	450.9	470.3	491.4	Inventories	721.9	973.5	1,025.9	1,180.9	1,176.3
Net finance income/ (cost)	(109.7)	(98.0)	(124.8)	(124.7)	(124.2)	PPE	2,656.5	2,770.3	2,784.5	2,964.9	3,146.1
Associates & JV	0.4	0.4	0.4	0.4	0.4	Others	1,069.1	1,196.6	1,291.7	1,334.5	1,361.0
Profit before tax	157.1	140.3	326.6	346.1	367.7	Assets	5,694.8	6,329.8	6,592.1	6,915.9	7,113.5
Tax	(39.6)	(44.4)	(82.7)	(98.4)	(104.6)	Debts	2,795.5	3,297.2	3,210.5	3,315.5	3,302.7
Net profit	117.5	95.9	243.9	247.7	263.2	Payables	229.4	284.2	358.9	378.3	376.8
Minority interest	4.4	10.5	25.0	27.2	28.9	Others	421.4	388.5	433.2	433.2	433.3
Core earnings	113.1	85.4	218.9	220.5	234.3	Liabilities	3,446.2	3,970.0	4,002.6	4,127.0	4,112.7
Exceptional items	-	-	-	-	-	Shareholder's equity	1,713.4	1,807.1	2,005.0	2,159.4	2,323.4
Reported earnings	113.1	85.4	218.9	220.5	234.3	Minority interest	535.1	552.8	584.5	629.5	677.3
						Equity	2,248.6	2,359.8	2,589.6	2,788.9	3,000.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	157.1	140.3	326.6	346.1	367.7	Core EPS (sen)	3.1	2.3	6.0	6.0	6.4
Depreciation & amortisation	259.4	283.7	301.2	314.1	314.1	P/E (x)	18.1	23.9	9.3	9.3	8.7
Changes in working capital	(62.5)	(373.5)	(16.2)	(158.5)	1.4	DPS (sen)	0.6	0.7	0.0	1.8	1.9
Share of JV profits	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Dividend yield	1.0%	1.3%	0.0%	3.2%	3.4%
Taxation	(39.6)	(44.4)	(82.7)	(98.4)	(104.6)	BVPS (RM)	0.47	0.50	0.55	0.59	0.64
Others	101.8	38.6	92.4	7.4	24.9	P/B (x)	1.2	1.1	1.0	0.9	0.9
Operating cash flow	415.8	44.2	620.9	410.1	603.0	EBITDA margin	8.7%	7.3%	8.3%	8.7%	8.9%
Net capex	(595.0)	(395.1)	(337.7)	(525.6)	(526.5)	EBIT margin	4.4%	3.3%	5.0%	5.2%	5.4%
Others	104.5	2.5	55.5	-	-	PBT margin	2.6%	2.0%	3.6%	3.8%	4.1%
Investing cash flow	(490.5)	(392.6)	(282.2)	(525.6)	(526.5)	PAT margin	1.9%	1.2%	2.4%	2.4%	2.6%
Changes in borrowings	295.1	501.7	(86.7)	105.0	(12.8)	Core PAT margin	1.9%	1.2%	2.4%	2.4%	2.6%
Issuance of shares	-	-	-	-	-	ROE	6.7%	4.9%	11.5%	10.6%	10.5%
Dividends paid	(20.1)	(26.3)	(0.7)	(66.2)	(70.3)	ROA	2.0%	1.4%	3.4%	3.3%	3.3%
Others	(202.0)	(211.2)	(275.0)	-	-	Net gearing	163.2%	182.5%	160.1%	153.5%	142.1%
Financing cash flow	73.1	264.3	(362.5)	38.9	(83.1)						
Net cash flow	(1.6)	(84.1)	(23.9)	(76.6)	(6.6)						
Forex	(6.8)	13.4	0.4	-	-						
Others	1.3	77.5	99.1	-	-						
Beginning cash	764.8	757.8	764.6	840.3	763.7						
Ending cash	757.8	764.6	840.3	763.7	757.1						