

Leong Hup International Bhd

Beat expectation on economic recovery environment

Summary

- Leong Hup International Bhd's (LHI) 4Q22 core net profit jumped 138.8% YoY to RM90.7m, bringing a significant 156.3% surge in 12M22 core net profit to RM218.9m. The results came in above expectations, amounting to 122.3% of our full year forecast of RM179.0m. Key deviations were primarily due to a higher contribution from both the poultry and feedmill segments.
- YoY, the bottomline rocketed as revenue from the poultry segment increased mainly due to (i) higher sales volume of DOC in Malaysia and Indonesia, (ii) higher average selling price (ASP) and sales volume of broiler chickens and eggs in Vietnam, and (iii) subsidies from Malaysia's government on livestock of RM24.9m. Besides, higher contribution from the feedmill segment was primarily attributed to higher ASP and sales volume in Indonesia and Vietnam.
- QoQ, revenue fell 1.7% to RM2.32bn, mainly due to (i) lower ASP and sales volume of DOC and lower ASP of livestock feed Indonesia and (ii) lower ASP and sales volume of broiler chicken in Vietnam, but was cushioned by better sales volume of broiler chickens and DOC in Malaysia. Despite the lower revenue, core net profit improved 34.8% QoQ due to better margin from both the poultry and feedmill segments.
- Cost wise, the prices of soybean meal and maize remained elevated in 4Q22 amid market's irregular supply and demand dynamics. We anticipate the commodities prices will continue to fluctuate amid ongoing conflicts in Ukraine.
- On a side note, Leong Hup Feedmill Malaysia Sdn. Bhd. (LFM), a wholly-owned subsidiary of the group had on 31st January 2023 filed its written representations with the MyCC pertaining to the notice of proposed decision issued by the MyCC, premised on the allegation that LFM has engaged in agreements and/or concerted practices to fix the quantum of poultry. Further announcement will be made when there is material development.
- Moving forward, we expect a higher consumption of LHI's products amid stronger regional economies. Nevertheless, the high cost of raw materials and the attempts by governments to manage inflation may continue to create uncertainties on the group's performance.

Quarterly performance								
FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	1,814.1	2,361.4	2,321.9	(1.7)	28.0	7,153.5	9,042.7	26.4
EBITDA	158.4	208.3	264.4	26.9	67.0	521.6	752.2	44.2
PBT	57.5	100.1	150.7	50.6	162.0	140.3	326.6	132.7
PAT	52.0	72.3	114.3	58.0	119.7	95.9	243.9	154.3
Core PATMI	38.0	67.3	90.7	34.8	138.8	85.4	218.9	156.3
Reported PATMI	38.0	67.3	90.7	34.8	138.8	85.4	218.9	156.3
Core EPS (sen)	1.0	1.8	2.5	34.8	138.8	2.3	6.0	156.3
EBITDA margin (%)	8.7	8.8	11.4			7.3	8.3	
PBT margin (%)	3.2	4.2	6.5			2.0	3.6	
Core PATMI margin (%)	2.1	2.9	3.9			1.2	2.4	

Results Note – 4QFY22

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BUY

Share price	RM0.495
Target price	RM0.97
Previous TP	RM0.85
Capital upside	96.0%
Dividend return	3.6%
Total return	99.6%

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)	1806.8
52W High/Low	0.57/0.44
Est. Free float	16.7%
Beta (X)	0.6
3-mth avg vol ('000)	739.2
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	0.0	-6.6	-4.8
Relative	2.2	-4.2	4.5

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)	8.3	8.2	7.7

Relative performance chart



Valuation & Recommendation

- As the reported earnings came in above our expectations, we upgrade our FY22f and FY23f earnings forecast by 13.7% to RM220.5m. Meanwhile, FY24f earnings forecast was introduced at RM234.3m. The earnings forecast takes into account the rising demand in all LHI's operating countries for both poultry and feedmill segments.
- We maintained our **BUY** recommendation on LHI with a revised target price of RM0.97 (from RM0.85). 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 will increase the commodity prices and lead to margin compression for the group. Besides, the group may face further uncertainties arising from the government's attempts to manage 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	763.6	757.0
EBITDA	525.8	521.6	752.2	784.3	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	346.0	367.7	Assets	5,694.8	6,329.8	6,592.1	6,915.9	7,113.4
Tax	(39.6)	(44.4)	(82.7)	(98.4)	(104.5)	Debits	2,795.5	3,297.2	3,210.5	3,315.5	3,302.7
Net profit	117.5	95.9	243.9	247.6	263.1	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	-	-	0.0	-	-	Shareholder's equity	1,713.4	1,807.1	2,005.0	2,159.4	2,323.3
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	3,000.7
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	346.0	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)	16.0	21.2	8.3	8.2	7.7
Changes in working capital	(62.5)	(373.5)	(16.2)	(158.5)	1.4	DPS (sen)	0.6	0.7	-	1.8	1.9
Share of JV profits	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Dividend yield	1.1%	1.5%	0.0%	3.7%	3.9%
Taxation	(39.6)	(44.4)	(82.7)	(98.4)	(104.5)	BVPS (RM)	0.47	0.50	0.55	0.59	0.64
Others	101.8	38.6	96.7	7.4	24.9	P/B (x)	1.1	1.0	0.9	0.8	0.8
Operating cash flow	415.8	44.2	625.2	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)	-	(66.1)	(70.3)	ROA	2.0%	1.4%	3.4%	3.3%	3.3%
Others	(202.0)	(211.2)	(275.8)	-	-	Net gearing	163.2%	182.5%	160.1%	153.5%	142.2%
Financing cash flow	73.1	264.3	(362.5)	38.9	(83.1)						
Net cash flow	(1.6)	(84.1)	(19.5)	(76.7)	(6.6)						
Forex	(6.8)	13.4	0.4	-	-						
Others	1.3	77.5	94.8	-	-						
Beginning cash	764.8	757.8	764.6	840.3	763.6						
Ending cash	757.8	764.6	840.3	763.6	757.0						

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