

Leong Hup International Bhd

Earnings recovery could be at a gradual pace

Summary

- To recap, Leong Hup International Bhd's (LHI) 1Q23 core net profit rose 8.7% YoY to RM22.1m. Despite the reported earnings make up to only 10.0% of ours and consensus forecasts, we expect the recovery may take place in 2H23 given the reopening of international borders in China since January 2023 is likely to boost demand going forward. Also, the declining trend in 1H23 for the feed costs prices (soybean and maize) may provide upside potential in the earnings recovery.
- YoY, the increase of 1Q23 core net profit was driven by the feedmill segment on the back of higher ASP and higher sales volume in Vietnam and the Philippines, along with improving ASP in Indonesia. Also, better margins were noticed in Vietnam and Indonesia.
- Meanwhile, in the poultry segment YoY, higher revenue was arising from improved ASP and sales volume of DOC and eggs in Malaysia, as well as favourable sales volume of dressed chickens in Philippines.
- **Feed costs.** The soybean and maize prices have declined in the 1H2023 on the back of (i) ample supplies resulted from favourable weather, (ii) easing supply chain disruptions due to the calmer situation between Ukraine-Russia, coincided with (iii) stable demand. However, we observed that both the commodities prices are still elevated as compared to pre-Covid-19 levels.
- **Price control mechanism.** Last year, the government has maintained the price control mechanism with an increased price ceiling for chicken prices by 50 sen to RM9.40/kg. Without the floating price mechanism, the earnings for LHI may remain soft under the challenging environment.
- **Outlook.** Feed costs price has been on a declining trend, but remains elevated. Thus, the recovery could be on a gradual pace. Meanwhile, on the demand side, we should be expecting stable demand in tandem with the reopening of business activities overall. LHI stayed committed to allocate resources towards its downstream business, including the B2C channels such as Sunnychick Store in Indonesia and The Bakers' Cottage in Malaysia, alongside the investments in cold-rooms.
- Nonetheless, we are ceasing coverage on LHI due to reallocation of internal resources. Our last recommendation on LHI was **BUY** with a fair value of RM0.97, derived by ascribing a target PER of 16.0x to its FY23f EPS of 6.0 sen.

Cease Coverage

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Share price	RM0.53
Target price	-
Previous TP	RM0.97
Capital upside	-
Dividend return	-
Total return	-

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)	1934.5
52W High/Low	0.61/0.44
Est. Free float	15.4%
Beta (X)	0.7
3-mth avg vol ('000)	2,050.3
Shariah compliant	No

Major shareholders

Emerging Glory Sdn Bhd	52.8
Clarinden Investments	8.6
Amanah Saham Nasional	4.9

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	13.1	3.7	7.7
Relative	2.4	-4.2	4.7

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



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)	Debits	2,795.5	3,297.2	3,210.5	3,315.5	3,302.7
Net profit	117.5	95.9	243.9	247.7	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						

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As of **Friday, 28 Jul, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned