



AmInvestment Bank

# LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

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## Company Report

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Rationale for Report: Company Result

# BUY

(Maintained)

Price	RM0.715
Fair Value	RM0.95
52-week High/Low	RM0.74/RM0.48

### Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	9,539.5	10,261.4	10,888.9	11,182.3
Core net profit (RM mil)	301.7	314.2	329.0	347.8
FD Core EPS (sen)	8.3	8.6	9.0	9.5
FD Core EPS growth (%)	37.9	4.1	4.7	5.7
Consensus Net Profit (RM mil)	-	270.0	292.2	-
DPS (sen)	3.0	2.4	2.5	2.7
PE (x)	8.5	8.2	7.8	7.4
EV/EBITDA (x)	4.2	5.3	5.1	4.8
Div yield (%)	4.2	3.4	3.5	3.7
ROE (%)	14.2	13.3	12.3	11.4
Net Gearing (%)	78.6	82.4	67.1	60.6

### Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,573.3
Book Value (RM/Share)	0.61
P/BV (x)	1.2
ROE (%)	14.2
Net Gearing (%)	78.6

Major Shareholders	Emerging Glory Sdn Bhd (52.8%) Amanah Saham Nasional Bhd (7.1%) Clarinden Inv Pte. (6.2%)
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Free Float	33.9
Avg Daily Value (RM mil)	4.1

Price performance	3mth	6mth	12mth
Absolute (%)	(0.7)	35.6	45.4
Relative (%)	(6.8)	26.4	36.7



### Investment Highlights

- We reiterate BUY call on Leong Hup International (LHI) with an unchanged fair value of RM0.95/share, pegged to an unchanged FY24F P/E of 11x, in line with its 3-year mean. We make no adjustment to our neutral ESG rating of 3-star.
- We maintain FY24F-FY25F earnings as FY23 core net profit of RM302mil came within expectation, 1% above our forecast and 3% of consensus estimate. We introduce FY26F net profit with a 2% growth premised on revenue expansion of 3%.
- YoY, FY23 revenue improved by 6% on the back of higher contribution from: (i) livestock & poultry operation (+4%) mainly on higher average selling price (ASP) and sales volume of day-old-chicks (DOC)/eggs in Malaysia, dressed chickens in the Philippines and boiler chickens in Indonesia, and (ii) improved feedmill operation (+8%) due to higher ASP and volume in Indonesia, Philippines and Vietnam.
- FY23 core net profit increased by 38% YoY in tandem with a 36% EBITDA growth, thanks to better margins from livestock & poultry (+21% YoY) and feedmill (+46% YoY) segments. This is due to better margin from higher ASP of eggs in Malaysia and reduction of raw material cost.
- QoQ, 4QFY23 revenue declined by 4% due to lower contribution from livestock & poultry (-8%), mainly from weak Indonesian markets. 4QFY23 net profit slid by 39%, due to lower ASP of DOC in Indonesia, in which EBITDA margin dropped significantly by 8%-points to 4%.
- We remain positive on LHI premised on:
  - expectation of the group to continue gaining market share from smaller players exiting the business due to elevated operational costs,
  - gradual increase in revenue from an expansion in production capacities to supply more poultry to Indonesia and Philippines, and
  - better average EBITDA margin with an assumption of 10%-12% from feedmill segment due to easing of its major raw material cost (corn and soybeans meal).
- The stock currently trades at a compelling FY24F PE of 8x, below its 3-year average of 11x.

## Exhibit 1: RESULTS SUMMARY

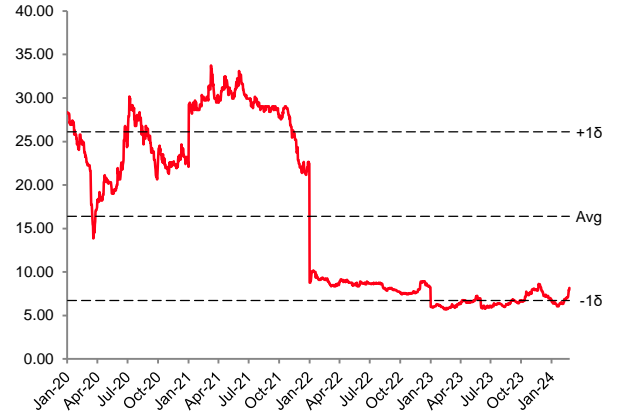
FYE Dec (RM mil)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	2,321.9	2,516.4	2,413.0	(4.1)	3.9	9,042.7	9,539.5	5.5
<b>EBITDA</b>	<b>268.2</b>	<b>348.9</b>	<b>303.4</b>	<b>(13.0)</b>	<b>13.1</b>	<b>765.3</b>	<b>1,043.3</b>	<b>36.3</b>
D&A	77.2	78.9	83.5	5.9	8.2	301.2	319.3	6.0
<b>EBIT</b>	<b>191.0</b>	<b>270.0</b>	<b>219.8</b>	<b>(18.6)</b>	<b>15.1</b>	<b>464.0</b>	<b>724.0</b>	<b>56.0</b>
Operating profit	150.5	227.5	183.2	(19.5)	21.7	332.0	554.4	67.0
<b>PBT</b>	<b>150.7</b>	<b>227.5</b>	<b>183.3</b>	<b>(19.5)</b>	<b>21.6</b>	<b>326.6</b>	<b>554.7</b>	<b>69.9</b>
Tax	(36.4)	(50.2)	(38.5)	(23.2)	5.9	(82.7)	(124.9)	51.1
<b>PAT</b>	<b>114.3</b>	<b>177.4</b>	<b>144.7</b>	<b>(18.4)</b>	<b>26.7</b>	<b>243.9</b>	<b>429.8</b>	<b>76.2</b>
MI	(23.5)	(44.4)	(63.1)	42.2	>100	(25.0)	(128.1)	>100
<b>Net profit</b>	<b>90.7</b>	<b>133.0</b>	<b>81.6</b>	<b>(38.6)</b>	<b>(10.0)</b>	<b>218.9</b>	<b>301.7</b>	<b>37.8</b>
<b>Core net profit</b>	<b>90.7</b>	<b>133.0</b>	<b>81.6</b>	<b>(38.6)</b>	<b>(10.0)</b>	<b>218.9</b>	<b>301.7</b>	<b>37.8</b>
FD EPS (sen)	2.49	3.64	2.24	(38.6)	(10.0)	6.00	8.27	37.8
Gross DPS (sen)	0.00	0.00	1.20	-	-	0.00	3.00	-
EBITDA margin (%)	11.6	13.9	12.6	-1.3ppt	1.0ppt	8.5	10.9	2.5ppt
PBT margin (%)	6.5	9.0	7.6	-1.4ppt	1.1ppt	3.6	5.8	2.2ppt
Effective tax rate (%)	-24.2	-22.1	-21.0	1.0ppt	3.1ppt	-25.3	-22.5	2.8ppt
Core net profit margin (%)	3.9	5.3	3.4	-1.9ppt	-0.5ppt	2.4	3.2	0.7ppt
<b>Livestock and poultry</b>								
Revenue	1,261.5	1,369.4	1,263.71	(7.7)	0.2	4,979.2	5,155.6	3.5
EBITDA	97.6	167.3	83.63	(50.0)	(14.3)	282.8	341.6	20.8
EBITDA margin (%)	7.7	12.2	0.0	-12.2ppt	-7.7ppt	5.7	6.6	0.9ppt
<b>Feedmill</b>								
Revenue	1,054.5	1,143.8	1,146.0	0.2	8.7	4,049.0	4,370.8	7.9
EBITDA	162.2	187.5	228.2	21.7	40.7	483.2	707.4	46.4
EBITDA margin (%)	15.4	16.4	19.91	3.5ppt	4.5ppt	11.9	16.2	4.2ppt
<b>Geographical Revenue</b>								
Malaysia	634.1	617.2	587.3	(4.8)	(7.4)	2,357.7	2,386.1	1.2
Singapore	193.6	209.4	202.0	(3.6)	4.3	796.2	826.1	3.8
Vietnam	573.6	531.3	534.5	0.6	(6.8)	2,196.6	2,114.2	(3.8)
Indonesia	789.1	1,004.0	927.0	(7.7)	17.5	3,282.1	3,623.5	10.4
Philippines	125.6	151.4	158.9	5.0	26.6	395.7	576.6	45.7
<b>Geographical EBITDA</b>								
Malaysia	101.6	152.1	184.1	21.0	81.2	335.9	583.3	73.6
Singapore	20.8	12.7	20.6	62.2	(1.1)	60.1	81.6	35.8
Vietnam	43.6	51.6	43.7	(15.4)	0.3	145.4	141.1	(3.0)
Indonesia	59.7	114.3	35.1	(69.3)	(41.2)	138.3	171.7	24.1
Philippines	17.6	18.2	19.9	9.4	13.0	60.6	65.7	8.3

Source: AmlInvestment Bank Bhd

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



**EXHIBIT 4: ESG MATRIX**

<b>Overall</b>	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmlInvestment Bank Bhd

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	9,042.7	9,539.5	10,261.4	10,888.9	11,182.3
EBITDA	765.3	1,043.4	873.1	884.2	941.5
Depreciation/Amortisation	(301.2)	(319.4)	(297.3)	(290.0)	(308.5)
Operating income (EBIT)	464.0	724.0	575.8	594.2	633.0
Other income & associates	0.4	0.3	0.4	0.4	0.4
Net interest	(137.9)	(169.6)	(123.1)	(114.3)	(105.1)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>326.6</b>	<b>554.7</b>	<b>453.2</b>	<b>480.2</b>	<b>528.3</b>
Taxation	(82.7)	(124.9)	(109.0)	(115.3)	(137.4)
Minorities/pref dividends	(25.0)	(128.1)	(30.0)	(36.0)	(43.2)
<b>Net profit</b>	<b>218.9</b>	<b>301.7</b>	<b>314.2</b>	<b>329.0</b>	<b>347.8</b>
Core net profit	218.9	301.7	314.2	329.0	347.8
Balance Sheet (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	2,784.5	2,730.3	3,027.6	3,317.6	3,626.1
Intangible assets	99.2	102.5	102.5	102.5	102.5
Other long-term assets	548.1	582.5	455.7	461.9	468.3
<b>Total non-current assets</b>	<b>3,431.8</b>	<b>3,415.3</b>	<b>3,585.7</b>	<b>3,882.0</b>	<b>4,196.9</b>
Cash & equivalent	840.3	699.5	480.3	692.4	723.7
Stock	1,025.9	978.8	1,196.7	1,140.2	1,121.3
Trade debtors	649.9	729.4	777.1	745.8	890.1
Other current assets	644.4	703.6	760.6	807.7	827.6
<b>Total current assets</b>	<b>3,160.4</b>	<b>3,111.3</b>	<b>3,214.8</b>	<b>3,386.1</b>	<b>3,562.8</b>
Trade creditors	358.9	359.6	398.5	425.7	434.5
Short-term borrowings	1,986.3	1,587.3	1,619.1	1,651.4	1,684.5
Other current liabilities	317.9	411.3	347.0	338.7	355.6
<b>Total current liabilities</b>	<b>2,663.1</b>	<b>2,358.2</b>	<b>2,364.6</b>	<b>2,415.8</b>	<b>2,474.6</b>
Long-term borrowings	1,046.4	870.8	914.3	960.0	1,008.0
Other long-term liabilities	293.1	342.5	340.3	382.0	419.0
<b>Total long-term liabilities</b>	<b>1,339.5</b>	<b>1,213.2</b>	<b>1,254.6</b>	<b>1,342.0</b>	<b>1,427.0</b>
<b>Shareholders' funds</b>	<b>2,005.0</b>	<b>2,236.7</b>	<b>2,492.9</b>	<b>2,857.9</b>	<b>3,248.8</b>
Minority interests	584.5	718.4	688.4	652.5	609.3
BV/share (RM)	0.55	0.61	0.68	0.78	0.89
Cash Flow (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	326.6	554.7	453.2	480.2	528.3
Depreciation/Amortisation	299.2	316.4	293.3	285.0	302.5
Net change in working capital	(58.2)	20.3	(226.7)	115.0	(116.5)
Others	53.3	101.7	18.1	4.1	(26.2)
<b>Cash flow from operations</b>	<b>620.9</b>	<b>993.1</b>	<b>537.9</b>	<b>884.3</b>	<b>688.1</b>
Capital expenditure	(291.1)	(227.0)	(200.0)	(200.0)	(200.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	13.5	62.5	-	-	-
<b>Cash flow from investing</b>	<b>(277.6)</b>	<b>(164.5)</b>	<b>(200.0)</b>	<b>(200.0)</b>	<b>(199.0)</b>
Debt raised/(repaid)	(297.1)	(496.6)	(450.0)	(450.0)	(450.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(77.0)	88.0	92.1	97.4
Others	(65.0)	(353.4)	52.9	69.9	89.6
<b>Cash flow from financing</b>	<b>(362.1)</b>	<b>(773.0)</b>	<b>(485.1)</b>	<b>(472.2)</b>	<b>(457.8)</b>
<b>Net cash flow</b>	<b>(18.8)</b>	<b>55.6</b>	<b>(147.2)</b>	<b>212.1</b>	<b>31.3</b>
<b>Net cash/(debt) b/f</b>	<b>575.1</b>	<b>556.1</b>	<b>627.5</b>	<b>480.3</b>	<b>692.4</b>
<b>Net cash/(debt) c/f</b>	<b>556.1</b>	<b>627.5</b>	<b>480.3</b>	<b>692.4</b>	<b>723.7</b>
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	26.4	5.5	7.6	6.1	2.7
EBITDA growth (%)	42.8	36.3	(16.3)	1.3	6.5
Pretax margin (%)	3.6	5.8	4.4	4.4	4.7
Net profit margin (%)	2.4	3.2	3.1	3.0	3.1
Interest cover (x)	3.4	4.3	4.7	5.2	6.0
Effective tax rate (%)	25.3	22.5	24.1	24.0	26.0
Dividend payout (%)	-	-	28.0	28.0	28.0
Debtors turnover (days)	26	28	28	25	29
Stock turnover (days)	40	38	39	39	37
Creditors turnover (days)	13	14	13	14	14

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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