

28 February 2024

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Neutral (Maintained)

Earnings Adjusting From a High Base

Target Price (Return): MYR0.78 (9.5%)
 Price (Market Cap): MYR0.72 (USD548m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.15m/0.88m

- **Still NEUTRAL, new MYR0.78 TP from MYR0.74, 6% upside.** FY23 results beat expectations on better-than-expected margins. Whilst we expect the easing feed costs to support the near-term earnings outlook, it may not be enough to propel earnings growth ahead from the exceptional FY23 base. We opt not to stretch our valuation further after considering the uncertainties brought about by the ongoing geopolitical tensions and volatility in the Indonesia market. In addition, further selling pressure from a private equity shareholder (6.2% stake) could cap the share price upside.
- **Leong Hup International's FY23 results were above expectations.** Core earnings of MYR324m (+59% YoY) accounted for 111-115% of our and consensus forecasts. The positive deviation could be attributed to the stronger-than-expected margins on the back of easing raw material costs and favourable industry dynamics. Post results, we raise FY24F earnings by 14% and roll out FY26F earnings (-2% YoY). Correspondingly, our DCF-derived TP rises to MYR0.78. We take this opportunity to bake in a higher ESG discount of 8% on a lower ESG score of 2.6 vs the 3.0 country median for a lack of emissions disclosure. TP implies 11x FY24F P/E, close to the stock's 5-year mean.
- **Results review.** YoY, FY23 revenue grew 6% to MYR9.5bn, with most key operating markets recording positive growth thanks to improvements in market conditions, ie a more balanced demand-supply dynamics. As a result, FY23 EBITDA jumped 36% to MYR1bn, with Malaysia operations contributing the most spectacular growth (+62%) on favourable ASPs and government subsidies. Meanwhile, the feedmill segment benefitted from the fall in commodity prices and reported FY23 EBITDA growth of 46% YoY to MYR707m, with margins expanding to a record high of 16.2%. QoQ, 4Q23 revenue fell 4% to MYR2.4bn on a weaker Indonesia showing, dragged by lower ASPs. Correspondingly, 4Q23 core net profit fell 22% QoQ to MYR104m.
- **Outlook.** Whilst the elevated feedmill margin should taper – with the cost savings to be passed through to customers progressively – the lower feed costs will bode well for the livestock division, in our view. Additionally, we gather that market conditions in Indonesia and Vietnam have improved – this should mitigate the shortfall in earnings from Malaysia operations, which are likely to normalise from the high base, as most of the subsidies have been booked. Meanwhile, the Philippines market should continue to grow rapidly from low base, underpinned by capacity expansion and market penetration.
- **Risks to our recommendation include** a sharp rise in input costs and unfavourable supply-demand dynamics.

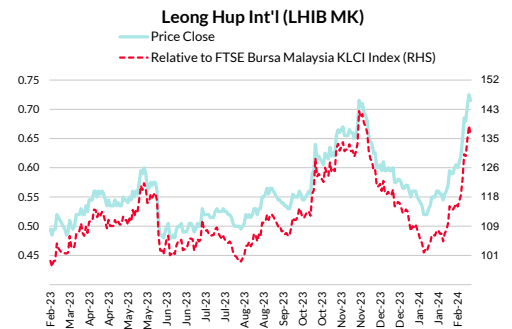
Analyst

Soong Wei Siang
 +603 2302 8130
soong.wei.siang@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	26.5	30.0	2.9	37.5	47.4
Relative	19.3	26.5	(4.7)	29.6	40.3
52-wk Price low/high (MYR)	0.48 – 0.73				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	9,043	9,540	9,909	10,457	10,950
Recurring net profit (MYRm)	204	324	266	260	254
Recurring net profit growth (%)	138.3	59.3	(18.0)	(2.1)	(2.3)
Recurring P/E (x)	12.82	8.05	9.82	10.03	10.26
P/B (x)	1.3	1.2	1.1	1.0	0.9
P/CF (x)	4.81	3.01	4.74	4.90	4.74
Dividend Yield (%)	2.5	4.2	3.1	3.0	2.9
EV/EBITDA (x)	7.01	4.84	4.72	4.48	4.30
Return on average equity (%)	11.5	14.2	11.4	10.4	9.4
Net debt to equity (%)	84.7	59.5	50.8	43.4	38.9

Source: Company data, RHB

Overall ESG Score: 2.6 (out of 4)

E: GOOD

Leong Hup has not identified any key initiatives in delivering sustainable reductions in greenhouse gas (GHG) emissions. However, the company has a put in place a system to properly manage and treat water, hazardous and non-hazardous wastes from its operation in accordance with local laws and regulations.

S: GOOD

Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensure a safe and conducive working environment for its people. In addition, Leong Hup also practices good standard in ensuring the safety and quality of food products.

G: GOOD

Leong Hup has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance with independent directors comprising of almost 50% of the board with women making up 30% of it.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.06	0.09	0.07	0.07	0.07
Agriculture	DPS	0.02	0.03	0.02	0.02	0.02
Leong Hup International	BVPS	0.55	0.61	0.66	0.71	0.76
LHIB MK / 6,633	Return on average equity (%)	11.5	14.2	11.4	10.4	9.4
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	12.82	8.05	9.82	10.03	10.26
Discounted Cash Flow	P/B (x)	1.3	1.2	1.1	1.0	0.9
	FCF Yield (%)	9.8	24.8	9.6	8.9	5.8
Key drivers	Dividend Yield (%)	2.5	4.2	3.1	3.0	2.9
i. Regional expansion plan;	EV/EBITDA (x)	7.01	4.84	4.72	4.48	4.30
ii. Favourable product prices.	EV/EBIT (x)	11.56	6.97	6.98	6.74	6.57
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Unfavourable change in regulatory policies;	Total turnover	9,043	9,540	9,909	10,457	10,950
ii. Unfavourable demand-supply dynamics.	Gross profit	1,013	1,484	1,497	1,540	1,587
	EBITDA	765	1,043	1,034	1,054	1,080
	Depreciation and amortisation	(301)	(319)	(335)	(352)	(373)
	Operating profit	464	724	699	702	707
	Net interest	(138)	(170)	(150)	(145)	(142)
	Pre-tax profit	327	555	549	557	566
	Taxation	(83)	(125)	(143)	(145)	(147)
	Reported net profit	219	302	266	260	254
	Recurring net profit	204	324	266	260	254
Company Profile	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Leong Hup is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Change in working capital	(3)	(32)	(57)	(81)	(72)
	Cash flow from operations	543	868	551	532	550
	Capex	(286)	(221)	(300)	(300)	(400)
	Cash flow from investing activities	(279)	(140)	(300)	(300)	(400)
	Dividends paid	(1)	(77)	(80)	(78)	(76)
	Cash flow from financing activities	(363)	(773)	(288)	(323)	(218)
	Cash at beginning of period	765	840	700	805	859
	Net change in cash	(99)	(45)	(37)	(91)	(68)
	Ending balance cash	666	795	663	714	791
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	840	700	805	859	938
	Tangible fixed assets	2,784	2,730	2,695	2,643	2,670
	Total investments	22	40	40	40	40
	Total assets	6,592	6,527	6,664	6,768	6,966
	Short-term debt	2,000	1,587	1,500	1,500	1,500
	Total long-term debt	1,033	871	900	800	800
	Total liabilities	4,003	3,571	3,523	3,445	3,464
	Total equity	2,590	2,955	3,141	3,323	3,501
	Total liabilities & equity	6,592	6,527	6,664	6,768	6,966
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	26.4	5.5	3.9	5.5	4.7
	Recurrent EPS growth (%)	138.3	59.3	(18.0)	(2.1)	(2.3)
	Gross margin (%)	11.2	15.6	15.1	14.7	14.5
	Operating EBITDA margin (%)	8.5	10.9	10.4	10.1	9.9
	Net profit margin (%)	2.4	3.2	2.7	2.5	2.3
	Dividend payout ratio (%)	30.0	36.3	30.0	30.0	30.0
	Capex/sales (%)	3.2	2.3	3.0	2.9	3.7
	Interest cover (x)	3.36	4.27	4.66	4.84	4.98

Source: Company data, RHB

Results At A Glance

Figure 1: Leong Hup's results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	2,321.9	2,516.4	2,413.0	(4.1)	3.9	9,042.7	9,539.5	5.5	Most key markets recorded positive growth on more favourable industry dynamics. Mainly thanks to a strong performance in Malaysia.
EBITDA	268.2	348.9	303.4	(13.0)	13.1	765.4	1,043.4	36.3	
EBITDA margin (%)	11.6	13.9	12.6	(1.3)	1.0	8.5	10.9	2.5	
EBIT	191.0	270.0	219.8	(18.6)	15.1	464.0	724.0	56.0	
EBIT Margin (%)	8.2	10.7	9.1	(1.6)	0.9	5.1	7.6	2.5	
Finance costs	(40.4)	(42.5)	(36.7)			(137.9)	(169.6)		
EI	(15.4)	0.0	22.5			(15.4)	22.5		
Profit before tax	150.7	227.5	183.3	(19.5)	21.6	326.6	554.7	69.9	
PBT Margin (%)	6.5	9.0	7.6	(1.4)	1.1	3.6	5.8	2.2	
Tax expense	(36.4)	(50.2)	(38.5)	(23.2)	5.9	(82.7)	(124.9)	51.1	
Effective tax rate (%)	(24.2)	(22.1)	(21.0)	1.0	3.1	(25.3)	(22.5)	2.8	
Minority interests	23.5	44.4	63.1			32.2	127.8		
PATAMI	90.7	133.0	81.6	(38.6)	(10.0)	218.9	301.7	37.8	
Core PATAMI	75.3	133.0	104.1	(21.7)	38.2	203.5	324.2	59.3	At 111%-115% of forecasts
Net Margin (%)	3.2	5.3	4.3	(1.0)	1.1	2.3	3.4	1.1	FY23 DPS amounted to 3 sen

Source: Company data, RHB

Figure 2: LHIB's geographical breakdown

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Malaysia	634.1	617.2	587.3	(4.8)	(7.4)	2,357.7	2,386.1	1.2	Aided by favourable ASPs and government subsidies.
Singapore	193.6	209.4	202.0	(3.6)	4.3	796.2	826.2	3.8	
Vietnam	573.6	531.3	534.5	0.6	(6.8)	2,196.6	2,114.2	(3.8)	Volatile QoQ due to government intervention.
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	
Group revenue	2,316.0	2,513.2	2,409.7	(4.1)	4.0	9,028.2	9,526.5	5.5	
Malaysia	126.5	152.1	184.1	21.0	45.5	360.8	583.3	61.6	Aided by favourable ASPs and government subsidies.
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)	Volatile QoQ due to government intervention.
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	
Group EBITDA	268.2	348.9	303.4	(13.0)	13.1	765.3	1,043.4	36.3	
Malaysia	19.9	24.6	31.3	6.7	11.4	15.3	24.4	9.1	Aided by favourable ASPs and government subsidies.
Singapore	10.7	6.1	10.2	4.1	(0.6)	7.5	9.9	2.3	
Vietnam	7.6	9.7	8.2	(1.5)	0.6	6.6	6.7	0.1	Volatile QoQ due to government intervention.
Indonesia	7.6	11.4	3.8	(7.6)	(3.8)	4.2	4.7	0.5	
Philippines	14.1	12.0	12.5	0.5	(1.5)	15.3	11.4	(3.9)	
G.EBITDA margin (%)	11.6	13.9	12.6	(1.3)	1.0	8.5	11.0	2.5	

Source: Company data, RHB

Emissions And ESG

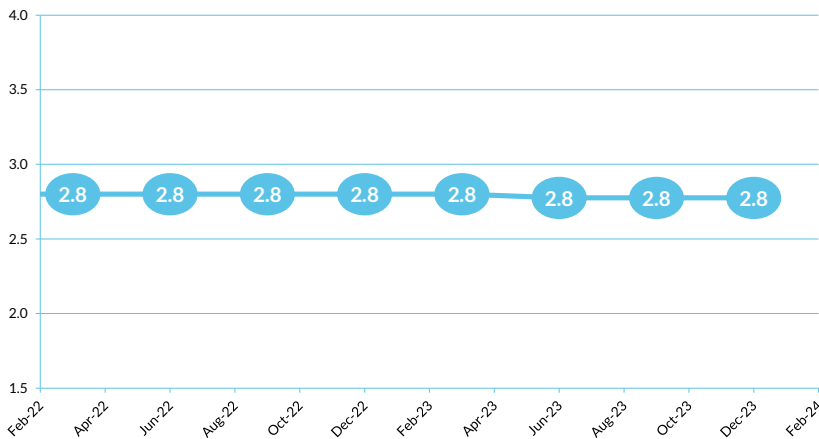
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
N/A	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Invested in the upgrading of facilities for increased capacity for handling manure such as installation of manure belts in layer houses in Malaysia.
- Contracted qualified contractors to clean plastic containers used to contain hazardous chemicals for re-use to generate value from waste.
- Awarded an "A" grade under the Food Safety Excellence Scheme by the Singapore Food Agency for 18 years consecutively.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-29	Neutral	0.74	0.68
2023-10-22	Buy	0.72	0.61
2023-08-29	Buy	0.63	0.53
2023-06-01	Buy	0.63	0.51
2023-02-28	Buy	0.63	0.50
2022-11-29	Buy	0.61	0.49
2022-05-25	Buy	0.61	0.50
2022-02-23	Buy	0.83	0.56
2021-11-24	Buy	0.83	0.56
2021-10-13	Buy	0.83	0.66
2021-05-21	Buy	0.87	0.73
2021-02-23	Neutral	0.76	0.70
2020-11-24	Neutral	0.73	0.68
2020-08-26	Neutral	0.88	0.82
2020-07-13	Buy	1.18	0.89

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470