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# Leong Hup International Bhd

**TP: RM0.67 (+9.8%)**
*Growth Remains Intact*

Last Traded: RM0.61

**BUY (ESG: ★★★)**

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We came away from LHI virtual analyst briefing with the following key takeaways:

1. Indonesia would remain the key contributor to LHI's revenue growth.
2. Price experiences time-lag effect from the easing in raw materials.
3. Chicken price stabilised post removal of subsidies

Maintain Buy with an unchanged target price of RM0.67/share based on 9x CY25 EPS (k: 6.4%; g: 3.0%).

### Indonesia remains the key contributors to LHI's revenue growth.

The outlook about the poultry sector in Indonesia remains strong due to ease of oversupply in the market. To recap, the Indonesian government decided to conduct mandatory culling to intervene the chicken price as the market experienced excessive supply in 2H23. However, the government detached from its initial plan while reducing the quota for grandparent stocks, which are crucial for the supply chain as it will translate to lower production of DOCs and broiler chickens. At this juncture, the market supply and demand are stable, and we foresee market players would enhance profitability from the stable broiler chicken price based on the market demand and supply (**Appendix 1**).

### Price experience time-lag effect from the easing in raw materials

The raw materials cost (Corn and Soybean) has been declining from the peak in 2022. 4QFY23 EBITDA margin represents a record high of 14.7% over the past 5 years. Moving forward, we expect the margin to sustain at c.14% for 1HFY24 bearing there is no significant surge in raw material price. Meanwhile, management guided the share of savings from feedmill cost decline will not be immediate. According to management, the EBITDA margin would normalise further to c.9.5% to 10% over the long term on stable market conditions.

### Chicken price stabilised post removal of subsidies

Management guided that the egg subsidies remain and there are no further guidelines from the government on the removal. With that, we foresee the subsidies would continue to support its PBT, albeit minimal. On the removal of chicken subsidy, the rise in ASP has softened to RM5.90/kg, below the previous ceiling price of RM6.00/kg, and we expect this to provide a stable EBIT in FY24.

### Impact

No change to our FY24-26 earnings projections.

### Valuation

We maintain Buy with an unchanged target price of **RM0.67/share** based on 9x CY25 EPS.

#### Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2226.5
52-wk Hi/Lo (RM)	0.745/0.475
12-mth Avg Daily Vol ('000 shrs)	4005.4
Estimated Free Float (%)	33.9
Beta	0.6

#### Major Shareholders (%)

Emerging Glory	52.8%
Amanah Saham Nasional	7.1%
Clarinden Investment	6.2%

#### Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	271.0	293.6
Consensus	282.2	300.0
TA's / Consensus (%)	96.0	97.9
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	0.82	

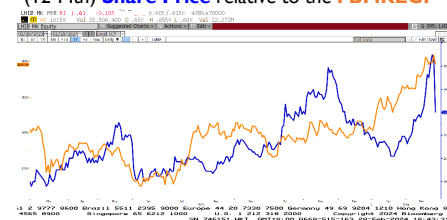
#### Financial Indicators

	FY24	FY25
Net Debt / Equity (x)	0.6	0.5
ROE (%)	12.2	12.1
ROA (%)	4.1	4.4
NTA/Share (RM)	0.6	0.7
Price/NTA (x)	1.2	1.1

#### Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	10.9	2.6
3 mth	(11.6)	6.7
6 mth	15.1	7.0
12 mth	23.2	6.3

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Table I: Earnings Summary**

Profit and Loss Statement						Balance Sheet					
FYE 31 Dec (RM mn)	FY22	FY23	FY24F	FY25F	FY26F	FYE 31 Dec (RM mn)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	9,042.7	9,539.5	9,132.9	9,333.8	9,539.2	PPE	2,784.5	2,730.3	2,642.4	2,603.2	2,567.9
EBITDA	752.2	1,029.0	857.0	876.2	895.9	Intangible Asset	99.2	102.5	99.2	99.2	99.2
EI	0.0	0.0	0.0	0.0	0.0	Associate	1.6	1.7	1.7	1.8	1.8
PBT	326.6	554.7	412.5	450.6	483.9	Others	546.5	580.8	557.8	563.4	569.0
Taxation	(82.7)	(120.4)	(111.4)	(124.4)	(133.6)	<b>Non-current assets</b>	<b>3,431.8</b>	<b>3,415.3</b>	<b>3,301.1</b>	<b>3,267.6</b>	<b>3,237.9</b>
MI	(25.0)	(32.1)	(30.1)	(32.6)	(35.0)	Inventories	1,025.9	978.8	1,026.9	1,049.5	1,072.6
Net profit	218.9	301.7	271.0	293.6	315.3	Trade receivables	649.9	729.4	750.7	767.2	784.0
<b>Core net profit</b>	<b>218.9</b>	<b>301.7</b>	<b>271.0</b>	<b>293.6</b>	<b>315.3</b>	Cash and Bank Balance	840.3	699.5	939.7	1,029.6	1,132.5
Core EPS (sen)	6.0	8.3	7.4	8.0	8.6	Others	644.4	703.6	644.4	644.4	644.4
Diluted EPS (sen)	6.0	8.3	7.4	8.0	8.6	<b>Current assets</b>	<b>3,160.4</b>	<b>3,111.3</b>	<b>3,361.6</b>	<b>3,490.6</b>	<b>3,633.5</b>
DPS (sen)	0.0	3.0	2.2	2.4	2.6	<b>Total Assets</b>	<b>6,592.2</b>	<b>6,526.6</b>	<b>6,662.8</b>	<b>6,758.2</b>	<b>6,871.4</b>
<b>Ratios</b>						<b>Non-Current liabilities</b>	<b>1,339.5</b>	<b>1,213.2</b>	<b>1,236.0</b>	<b>1,184.2</b>	<b>1,132.5</b>
<b>Valuations</b>						Trade payables	358.9	359.6	363.7	371.7	379.9
Core PER (x)	11.9	8.7	9.6	8.9	8.3	ST Borrowings	1,986.3	1,587.3	1,789.8	1,691.6	1,593.3
Div. Yield (%)	0.0	7.4	3.1	3.4	3.6	Others	317.9	411.3	317.9	317.9	317.9
<b>Profitability ratios</b>						<b>Current liabilities</b>	<b>2,663.1</b>	<b>2,358.2</b>	<b>2,471.4</b>	<b>2,381.1</b>	<b>2,291.1</b>
EBITDA margin (%)	8.3	10.8	9.4	9.4	9.4	Shareholders funds	2,005.0	2,236.7	2,310.2	2,515.7	2,736.4
PBT margin (%)	3.6	5.8	4.5	4.8	5.1	<b>Total Equity</b>	<b>2,589.6</b>	<b>2,236.7</b>	<b>2,955.4</b>	<b>3,192.8</b>	<b>3,447.8</b>
Core Net Margin (%)	2.4	3.2	3.0	3.1	3.3	<b>Total E&amp;L</b>	<b>6,592.2</b>	<b>5,808.2</b>	<b>6,662.8</b>	<b>6,758.2</b>	<b>6,871.4</b>
Core ROE (%)	11.5	12.5	12.2	12.2	12.0	<b>Cash Flow Statement</b>					
Core ROA (%)	3.4	4.6	4.1	4.4	4.6	<b>FYE 31 Dec (RM mn)</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24F</b>	<b>FY25F</b>	<b>FY26F</b>
<b>Liquidity ratios</b>						Pretax profit	326.6	554.7	412.5	450.6	483.9
Current ratio (x)	1.2	1.8	1.4	1.5	1.6	Depreciation	301.2	319.4	293.6	289.2	285.3
Quick ratio (x)	0.8	2.4	0.9	1.0	1.1	Net interest	124.8	(184.3)	151.5	136.8	127.1
						Associates	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
						Changes in WC	(58.2)	129.1	(0.3)	(31.1)	(31.8)
						Tax	(88.9)	(120.4)	(111.4)	(124.4)	(133.6)
						Others	15.8	0.0	0.0	0.0	0.0
						<b>Operational cash flow</b>	<b>620.9</b>	<b>698.0</b>	<b>745.4</b>	<b>720.7</b>	<b>730.5</b>
						Capex	(285.9)	(221.5)	(250.0)	(250.0)	(250.0)
						Interest income	13.1	14.4	17.0	17.3	18.3
						Others	(4.9)	42.6	(5.2)	(5.2)	(5.2)
						<b>Investing cash flow</b>	<b>(277.6)</b>	<b>(164.5)</b>	<b>(238.2)</b>	<b>(237.9)</b>	<b>(236.9)</b>
						Net share issue	0.0	0.0	0.0	0.0	0.0
						Net borrowings	(197.1)	(150.0)	(150.0)	(150.0)	(150.0)
						Dividend paid	(0.7)	(77.0)	(82.0)	(88.8)	(95.3)
						Interest paid	(133.0)	(169.9)	(168.5)	(154.1)	(145.4)
						Others	(31.2)	0.0	0.0	0.0	0.0
						<b>Financial cash flow</b>	<b>(362.1)</b>	<b>(627.3)</b>	<b>(400.5)</b>	<b>(393.0)</b>	<b>(390.8)</b>
						<b>Net cash flow</b>	<b>(18.8)</b>	<b>(93.8)</b>	<b>106.7</b>	<b>89.9</b>	<b>102.9</b>
						Beginning Cash	575.1	556.1	462.3	569.0	658.9
						Forex & others	(0.3)	0.0	0.0	0.0	0.0
						<b>Ending Cash</b>	<b>556.1</b>	<b>462.3</b>	<b>569.0</b>	<b>658.9</b>	<b>761.7</b>

**Appendix I: Geographical spot price**

Spot price (RM)	Broilers	DOCs	Eggs
Malaysia	5.90	2.20	0.41
Indonesia	5.90	1.70	0.52
Vietnam	6.00	1.60	0.30
Philippines	8.70	2.10	na

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, February 29, 2024, the analyst, Liew Yi Jiet, who prepared this report, has interest in the following securities covered in this report:  
 (a) nil

**Kaladher Govindan – Head of Research**

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