

Leong Hup International (LHIB MK)

1Q24: Undershot expectations

Maintain BUY with a lower TP of MYR0.75

LHIB's 1Q24 results were slightly below expectations on lower-than-expected feedmill segment margins. As the group continues to pass on feed cost savings to customers, feedmill margins could ease further but group sequential earnings will be supported by consistent domestic poultry demand and better performance in Indonesia, Vietnam and the Philippines. Our FY24E-FY26E earnings estimates are cut by 13%-15%. Rolling forward valuation, we derive a lower TP of MYR0.75 based on 11x FY24E PER (updated mean, 13x previously).

1Q24 earnings made up 21% of our FY24E

LHIB's 1Q24 net profit of MYR57m (+156% YoY, -31% QoQ) accounted for 21% of both our and consensus full-year earnings estimates. The underperformance was largely due to weaker feedmill segmental margins. 1Q24 revenue of MYR2.4b (+10% YoY, flattish QoQ) was however in-line at 27% of our FY24E revenue estimate.

Robust livestock and feedmill sales YoY

Group revenue grew 10% YoY given stronger sales contribution from: (i) the livestock segment (+10% YoY) where Indonesia, Vietnam, and the Philippines experienced higher sales volume and poultry ASPs (broiler and DOC), and (ii) the feedmill segment (+10% YoY) given better feed ASPs and sales volume in Indonesia and the Philippines. Group EBITDA increased by a wider 58% YoY on the back of higher livestock EBITDA margins (+5.5 ppts YoY), particularly in Indonesia.

Lowered FY24E-FY26E estimates by 13%-15%

Factoring in current feedmill segment run rates, we reduce our FY24E/FY25E/FY26E earnings estimates by -15%/-14%/-13%. We understand that domestic poultry ASPs (broiler & DOC) have normalised but sales volume should remain relatively stable in sequential quarters given balanced supply and demand. Improving poultry ASPs in Indonesia, Vietnam and Philippines may also support LHIB's earnings growth going forward. Feedmill margins, on the other hand, could ease further as LHIB gradually passes on feed raw material cost savings to its customers.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	9,043	9,540	9,062	9,235	9,448
EBITDA	765	1,043	877	947	984
Core net profit	219	302	224	258	269
Core EPS (sen)	6.0	8.3	6.1	7.1	7.4
Core EPS growth (%)	156.3	37.8	(25.9)	15.5	4.3
Net DPS (sen)	0.0	3.0	1.8	2.1	2.2
Core P/E (x)	8.3	6.8	9.0	7.8	7.5
P/BV (x)	0.9	0.9	0.8	0.8	0.7
Net dividend yield (%)	0.0	5.3	3.3	3.9	4.0
ROAE (%)	11.5	14.2	9.6	10.4	10.1
ROAA (%)	3.4	4.6	3.1	3.1	3.0
EV/EBITDA (x)	6.2	4.5	5.8	5.2	5.0
Net gearing (%) (incl perps)	91.5	65.6	71.9	57.9	54.0
Consensus net profit	-	-	290	299	329
MIBG vs. Consensus (%)	-	-	(22.8)	(13.7)	(18.2)

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BUY

Share Price	MYR 0.55
12m Price Target	MYR 0.75 (+40%)
Previous Price Target	MYR 0.93

Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

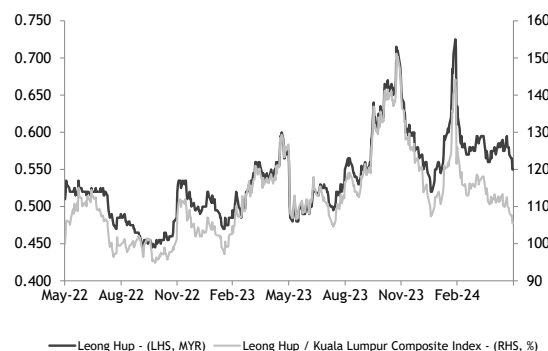
Statistics

52w high/low (MYR)	0.73/0.48
3m avg turnover (USDm)	0.8
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.0B USD427M

Major shareholders:

Emerging Glory Sdn. Bhd.	52.8%
Concordant Investments Pte Ltd.	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(13)	(4)
Relative to index (%)	(7)	(16)	(17)

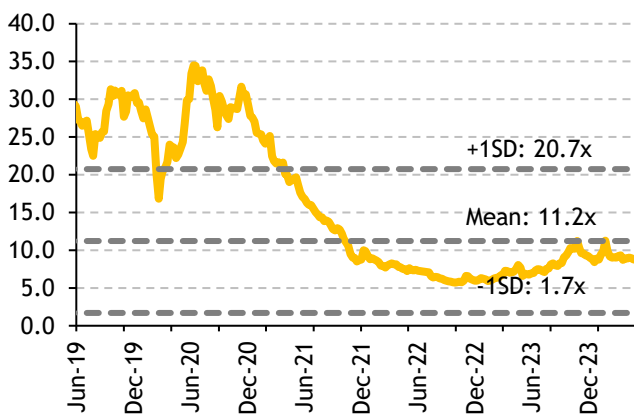
Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly				
	1Q24	1Q23	% YoY	4Q23	% QoQ
Revenue	2,411.0	2,196.2	9.8	2,413.0	(0.1)
EBITDA	240.6	152.4	57.9	303.4	(20.7)
Depreciation	(79.5)	(77.4)	2.7	(83.5)	(4.8)
EBIT	161.1	75.0	>100.0	219.8	(26.7)
Interest expense	(36.2)	(44.7)	(19.1)	(36.7)	(1.3)
Associates	0.0	0.0	(25.0)	0.1	(76.3)
Pretax profit	124.9	30.3	>100.0	183.3	(31.8)
Tax	(30.0)	(13.3)	>100.0	(38.5)	(22.2)
Minority interest	(38.3)	5.2	n.m.	(63.1)	(39.3)
Net profit	56.6	22.1	>100.0	81.6	(30.7)
Core net profit	56.6	22.1	>100.0	81.6	(30.7)
			+/- p.ptsYoY		+/- p.ptsQoQ
EBITDA margin (%)	10.0	6.9	3.0	12.6	(2.6)
EBIT margin (%)	6.7	3.4	3.3	9.1	(2.4)
Tax rate (%)	(24.0)	(44.0)	20.0	(21.0)	(3.0)
Revenue:			% YoY		% QoQ
Livestock	1,315.8	1,199.4	9.7	1,263.7	4.1
Feedmill	1,092.3	993.5	9.9	1,146.0	(4.7)
Others	2.9	3.3	(11.1)	3.4	(12.8)
Total	2,411.0	2,196.2	9.8	2,413.0	(0.1)
EBITDA:			% YoY		% QoQ
Livestock	78.9	5.9	>100.0	83.6	(5.6)
Feedmill	164.6	149.2	10.3	228.2	(27.9)
Others	(2.9)	(2.7)	7.2	(8.4)	(65.7)
Total	240.6	152.4	57.9	303.4	(20.7)
EBITDA margin (%):			+/- p.ptsYoY		+/- p.ptsQoQ
Livestock	6.0	0.5	5.5	6.6	(0.6)
Feedmill	15.1	15.0	0.1	19.9	(4.8)
Others	(98.3)	(81.6)	(16.7)	(250.2)	151.9
Total	10.0	6.9	3.0	12.6	(2.6)

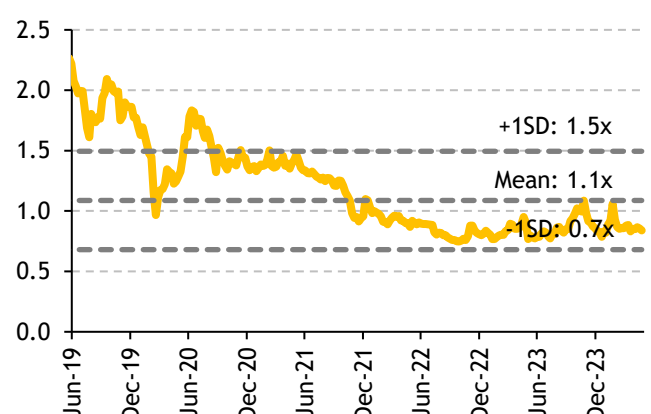
Source: Company

Fig 1: 12M forward PER



Source: Bloomberg, Maybank IBG Research

Fig 2: 12M forward PBV



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	8.5	6.6	9.0	7.8	7.5
Core P/E (x)	8.3	6.8	9.0	7.8	7.5
P/BV (x)	0.9	0.9	0.8	0.8	0.7
P/NTA (x)	0.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	0.0	5.3	3.3	3.9	4.0
FCF yield (%)	12.7	33.3	2.4	19.8	4.7
EV/EBITDA (x)	6.2	4.5	5.8	5.2	5.0
EV/EBIT (x)	10.3	6.5	9.3	8.0	7.8

INCOME STATEMENT (MYR m)

Revenue	9,042.7	9,539.5	9,061.5	9,235.2	9,447.9
EBITDA	765.3	1,043.4	877.4	946.6	984.4
Depreciation	(260.4)	(276.2)	(284.1)	(295.0)	(304.9)
Amortisation	(40.9)	(43.2)	(43.5)	(43.5)	(43.5)
EBIT	464.0	724.0	549.9	608.1	636.1
Net interest income / (exp)	(137.9)	(169.6)	(163.9)	(176.5)	(189.1)
Associates & JV	0.4	0.3	0.3	0.3	0.3
Pretax profit	326.6	554.7	386.3	432.0	447.3
Income tax	(82.7)	(124.9)	(87.0)	(97.3)	(100.7)
Minorities	(25.0)	(128.1)	(75.7)	(76.4)	(77.1)
Reported net profit	218.9	301.7	223.5	258.3	269.4
Core net profit	218.9	301.7	223.5	258.3	269.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	840.3	699.5	1,664.8	2,247.0	2,523.1
Accounts receivable	649.9	729.4	682.1	756.5	715.2
Inventory	1,025.9	978.8	1,129.8	1,023.6	1,180.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,784.5	2,730.3	3,135.2	3,240.5	3,335.9
Intangible assets	99.2	102.5	102.2	101.9	101.6
Investment in Associates & JVs	1.6	1.7	1.7	1.7	1.7
Other assets	1,190.8	1,284.4	1,265.5	1,254.7	1,246.8
Total assets	6,592.1	6,526.6	7,981.3	8,625.9	9,104.8
ST interest bearing debt	2,022.9	1,615.3	2,262.2	2,429.8	2,597.4
Accounts payable	358.9	359.6	279.3	373.2	294.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,187.6	1,022.0	1,702.6	1,817.8	1,933.0
Other liabilities	433.0	575.0	540.0	551.0	560.0
Total Liabilities	4,002.6	3,571.5	4,784.3	5,171.7	5,384.9
Shareholders Equity	2,005.0	2,236.7	2,402.8	2,583.6	2,772.2
Minority Interest	584.5	718.4	794.2	870.6	947.7
Total shareholder equity	2,589.6	2,955.1	3,197.0	3,454.2	3,719.9
Total liabilities and equity	6,592.1	6,526.6	7,981.3	8,625.9	9,104.8

CASH FLOW (MYR m)

Pretax profit	326.6	554.7	386.3	432.0	447.3
Depreciation & amortisation	301.2	319.4	327.5	338.5	348.4
Cash taxes paid	(82.7)	(124.9)	(87.0)	(97.3)	(100.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	509.4	902.8	447.6	796.7	493.8
Capex	(280.6)	(215.9)	(400.0)	(400.0)	(400.0)
Free cash flow	228.8	686.9	47.6	396.7	93.8
Dividends paid	(0.7)	(77.0)	(67.1)	(77.5)	(80.8)
Equity raised / (purchased)	0.0	0.0	5.4	0.0	0.0
Change in Debt	(361.8)	(696.3)	1,327.5	282.8	282.8
Other invest/financing cash flow	(1.6)	51.3	(15.2)	(19.4)	(19.4)
Net cash flow	(135.4)	(35.0)	1,298.2	582.6	276.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	26.4	5.5	(5.0)	1.9	2.3
EBITDA growth	42.8	36.3	(15.9)	7.9	4.0
EBIT growth	83.9	56.0	(24.1)	10.6	4.6
Pretax growth	132.7	69.9	(30.4)	11.8	3.5
Reported net profit growth	156.3	37.8	(25.9)	15.5	4.3
Core net profit growth	156.3	37.8	(25.9)	15.5	4.3
Profitability ratios (%)					
EBITDA margin	8.5	10.9	9.7	10.3	10.4
EBIT margin	5.1	7.6	6.1	6.6	6.7
Pretax profit margin	3.6	5.8	4.3	4.7	4.7
Payout ratio	0.0	36.3	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	2.4	3.2	2.5	2.8	2.9
Revenue/Assets (x)	1.4	1.5	1.1	1.1	1.0
Assets/Equity (x)	3.3	2.9	3.3	3.3	3.3
ROAE (%)	11.5	14.2	9.6	10.4	10.1
ROAA (%)	3.4	4.6	3.1	3.1	3.0
Liquidity & Efficiency					
Cash conversion cycle	56.9	56.9	62.3	62.3	62.3
Days receivable outstanding	25.4	26.0	28.0	28.0	28.0
Days inventory outstanding	46.5	48.2	49.2	49.2	49.2
Days payables outstanding	15.0	17.3	14.9	14.9	14.9
Dividend cover (x)	nm	2.8	3.3	3.3	3.3
Current ratio (x)	1.2	1.3	1.4	1.5	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.8	1.7	1.7	1.7
Net gearing (%) (incl perps)	91.5	65.6	71.9	57.9	54.0
Net gearing (%) (excl. perps)	91.5	65.6	71.9	57.9	54.0
Net interest cover (x)	3.4	4.3	3.4	3.4	3.4
Debt/EBITDA (x)	4.2	2.5	4.5	4.5	4.6
Capex/revenue (%)	3.1	2.3	4.4	4.3	4.2
Net debt/ (net cash)	2,370.2	1,937.8	2,299.9	2,000.5	2,007.3

Source: Company; Maybank IBG Research

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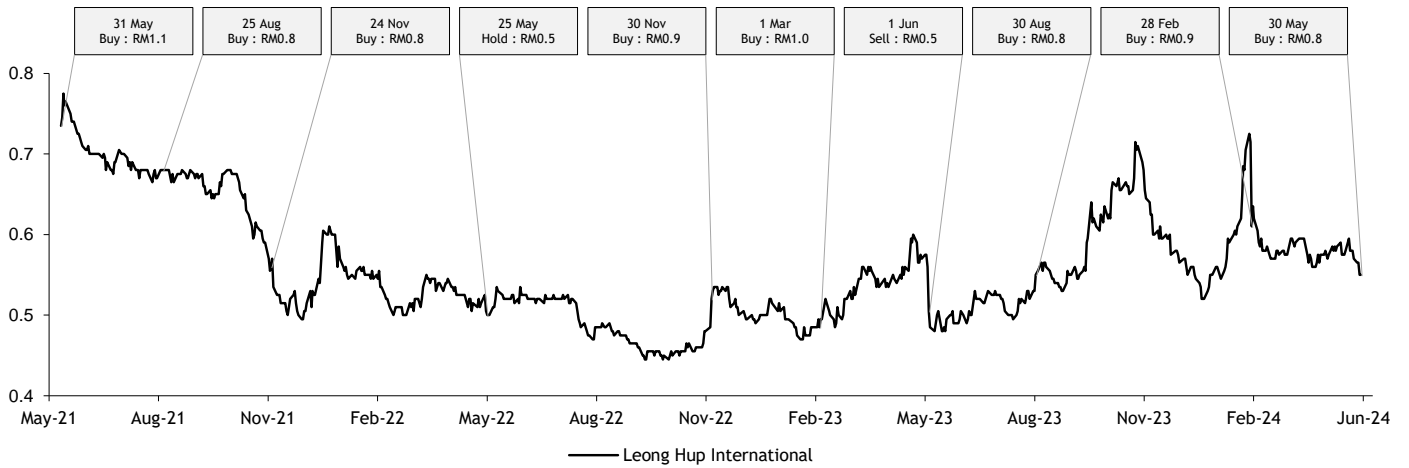
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