

31 May 2024

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Buy (from Neutral)

Indonesia Picks Up The Baton; U/G To BUY

Target Price (Return): MYR0.82 (+49%)
 Price (Market Cap): MYR0.55 (USD427m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.77m/0.80m

- **Upgrade to BUY from Neutral, new TP of MYR0.82 from MYR0.78, 49% upside with c.4% FY24F yield.** We consider Leong Hup International's 1Q24 results a beat, as we expect it to record stronger quarters ahead. The stock's current below-mean valuation is attractive, considering the exciting growth potential of key overseas markets on the back of improving market conditions and cost tailwinds. Its share price overhang is diminishing, after the exiting private equity investor ceased to be a substantial shareholder.
- **1Q24 results above expectations.** LHIB's core net profit of MYR57m (>2x YoY) accounts for 21% of our and consensus full-year forecasts. As we anticipate stronger quarters ahead on improving conditions in overseas markets, we raise FY24-26F earnings by 5-14%. Correspondingly, our DCF-derived TP ticks up to MYR0.82 (inclusive of an 8% ESG discount as per our in-house proprietary methodology, as LHIB's ESG score is four notches below the country median), which implies 11x P/E FY24F or close to the stock's 5-year mean.
- **Results review.** YoY, 1Q24 revenue rose 10% to MYR2.4bn, primarily spurred by a sharp recovery in Indonesia (+25%), thanks to higher ASPs and sales volume which, in turn, stemmed from more balanced supply-demand market dynamics. Similarly, its Indonesia unit was the star performer after turning around from a LBITDA in 1Q23. On the flip side, its Malaysia operations saw a 14% decline in EBITDA, as earnings normalised from a high base after the subsidy for broiler chickens came to an end. As a result, 1Q24 EBITDA surged 58% YoY to MYR241m. QoQ, 1Q24 revenue was flattish as all operating markets reported stable numbers. That said, 1Q24 EBITDA fell by 21% QoQ from a high 4Q23 base, which was boosted by a heavy recognition of subsidies kicking in, in Malaysia.
- **Outlook.** Whilst we expect earnings contributions from LHIB's Malaysia operations to be adjusted from the high base following the end of the subsidy programme, we gather that the conditions in other overseas markets have continued to improve. The ASP trends in Indonesia and Vietnam are turning more favourable, thanks to the rationalised supply and healthy demand growth. Meanwhile, the Philippines unit is growing strongly, underpinned by capacity expansion to support market penetration. On top of that, the gradual pass-through of lower feed costs to livestock operations should further enhance group profitability ahead.
- **Downside risks to our recommendation** include a sharp rise in feed costs and unfavourable supply-demand dynamics.

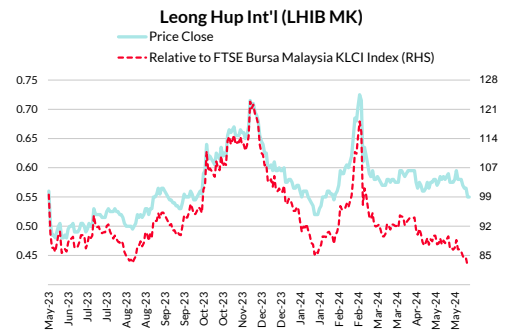
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.7)	(5.2)	(13.4)	(16.0)	(4.4)
Relative	(13.1)	(7.1)	(16.9)	(26.5)	(19.3)
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	278	289	292
Recurring net profit growth (%)	138.3	59.3	(14.1)	3.8	1.0
Recurring P/E (x)	9.86	6.19	7.21	6.95	6.88
P/B (x)	1.0	0.9	0.8	0.8	0.7
P/CF (x)	3.70	2.31	3.58	3.63	3.49
Dividend Yield (%)	3.3	5.5	4.2	4.3	4.4
EV/EBITDA (x)	6.22	4.26	4.06	3.74	3.53
Return on average equity (%)	11.5	14.2	11.9	11.4	10.7
Net debt to equity (%)	84.7	59.5	50.3	42.0	36.6

Source: Company data, RHB

Overall ESG Score: 2.6 (out of 4)

E: GOOD

LHIB has not identified any key initiatives in delivering sustainable reductions in GHG emissions. However, the company has a put in place a system to properly manage and treat water, as well as hazardous and non-hazardous waste from its operations, in accordance with local laws and regulations.

S: GOOD

It has a policy to enhance the awareness of health and safety amongst stakeholders, and put in place a framework that ensures a safe and conducive working environment. In addition, LHIB upholds high standards in ensuring the safety and quality of its food products.

G: GOOD

LHIB has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance with independent directors comprising almost 50% of the Board. Women make up 30% of total directors.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.06	0.09	0.08	0.08	0.08
Agriculture	DPS	0.02	0.03	0.02	0.02	0.02
Leong Hup International	BVPS	0.55	0.61	0.67	0.72	0.78
LHIB MK	Return on average equity (%)	11.5	14.2	11.9	11.4	10.7
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	9.86	6.19	7.21	6.95	6.88
DCF	P/B (x)	1.0	0.9	0.8	0.8	0.7
	FCF Yield (%)	12.8	32.2	13.0	12.6	8.7
Key drivers	Dividend Yield (%)	3.3	5.5	4.2	4.3	4.4
i. Regional expansion plan;	EV/EBITDA (x)	6.22	4.26	4.06	3.74	3.53
ii. Favourable product prices.	EV/EBIT (x)	10.26	6.14	5.96	5.53	5.26
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	9,043	9,540	9,909	10,457	10,950
i. Unfavourable changes in regulatory policies;	Gross profit	1,013	1,484	1,514	1,579	1,638
ii. Unfavourable demand-supply dynamics.	EBITDA	765	1,043	1,051	1,093	1,131
	Depreciation and amortisation	(301)	(319)	(335)	(352)	(373)
	Operating profit	464	724	716	741	758
Company Profile	Net interest	(138)	(170)	(150)	(145)	(142)
Leong Hup International is one of the largest fully integrated producers of poultry, eggs, and livestock feed in South-East Asia.	Pre-tax profit	327	555	567	596	617
	Taxation	(83)	(125)	(147)	(155)	(160)
	Reported net profit	219	302	278	289	292
	Recurring net profit	204	324	278	289	292
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(3)	(32)	(56)	(79)	(71)
	Cash flow from operations	543	868	560	552	575
	Capex	(286)	(221)	(300)	(300)	(400)
	Cash flow from investing activities	(279)	(140)	(300)	(300)	(400)
	Dividends paid	(1)	(77)	(84)	(87)	(88)
	Cash flow from financing activities	(363)	(773)	(292)	(332)	(230)
	Cash at beginning of period	765	840	700	816	891
	Net change in cash	(99)	(45)	(31)	(79)	(54)
	Ending balance cash	666	795	668	736	837
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	840	700	816	891	997
	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	6,672	6,795	7,019
	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	3,522	3,443	3,462
	Total equity	2,590	2,955	3,150	3,352	3,557
	Total liabilities & equity	6,592	6,527	6,672	6,795	7,019
	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	(14.1)	3.8	1.0
	Gross margin (%)	11.2	15.6	15.3	15.1	15.0
	Operating EBITDA margin (%)	8.5	10.9	10.6	10.5	10.3
	Net profit margin (%)	2.4	3.2	2.8	2.8	2.7
	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	4.77	5.10	5.34

Source: Company data, RHB

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Results At a Glance

Figure 1 : LHIB's results review

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	2,196.2	2,413.0	2,411.0	(0.1)	9.8	YoY growth was mainly driven by the sharp recovery in Indonesia. YoY jump was boosted by the strong contribution from Indonesia, on the back of improved market conditions.
EBITDA	152.4	303.4	240.7	(20.7)	57.9	
EBITDA margin (%)	6.9	12.6	10.0	(2.6)	3.0	
EBIT	75.0	219.8	161.1	(26.7)	114.9	
EBIT Margin (%)	3.4	9.1	6.7	(2.4)	3.3	
Finance costs	(44.7)	(36.7)	(36.2)			
EI	0.0	22.5	0.0			
Profit before tax	30.3	183.3	124.9	(31.8)	312.5	
PBT Margin (%)	1.4	7.6	5.2	(2.4)	3.8	
Tax expense	(13.3)	(38.5)	(30.0)	(22.2)	125.1	
Effective tax rate (%)	(44.0)	(21.0)	(24.0)	(3.0)	20.0	
Minority interests	(5.2)	63.1	38.3			
PATAMI	22.1	81.6	56.6	(30.7)	155.5	
Core PATAMI	22.1	104.1	56.6	(45.6)	155.5	At 21% of full-year forecasts.
Net Margin (%)	1.0	4.3	2.3	(2.0)	1.3	

Source: Company data, RHB

Figure 2 : LHIB's breakdown of numbers by geography

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Malaysia	594.2	587.3	584.2	(0.5)	(1.7)	YoY growth supported by volume growth and higher ASPs.
Singapore	204.6	202.0	210.0	4.0	2.6	
Vietnam	486.9	534.5	471.7	(11.8)	(3.1)	
Indonesia	780.2	927.0	974.9	5.2	24.9	
Philippines	126.9	158.9	167.3	5.3	31.8	
Group revenue	2,192.9	2,409.7	2,408.0	(0.1)	9.8	
Malaysia	122.0	184.1	104.6	(43.2)	(14.2)	4Q23 was a high base, boosted by heavy recognition of government subsidies.
Singapore	20.9	20.6	19.7	(4.1)	(5.7)	
Vietnam	24.0	43.7	29.9	(31.5)	24.5	Strong turnaround after market conditions improved.
Indonesia	(28.9)	35.1	65.9	87.7	nm	
Philippines	14.4	19.9	20.4	2.4	41.9	
Group EBITDA	152.4	303.4	240.6	(20.7)	57.9	
Malaysia	20.5	31.3	17.9	(13.4)	(2.6)	
Singapore	10.2	10.2	9.4	(0.8)	(0.8)	
Vietnam	4.9	8.2	6.3	(1.8)	1.4	
Indonesia	-3.7	3.8	6.8	3.0	10.5	
Philippines	11.3	12.5	12.2	(0.3)	0.9	
Group EBITDA margin (%)	7.0	12.6	10.0	(2.6)	3.0	

Source: Company data, RHB

Emissions And ESG

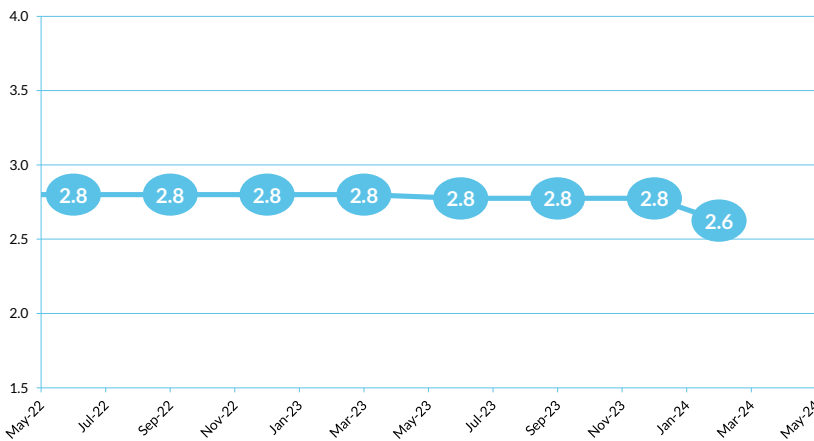
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
N/A	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- LHIB invested in upgrading facilities, to raise capacity for handling manure. This included installing manure belts in layer houses in Malaysia.
- It engaged qualified contractors to clean plastic containers used to contain hazardous chemicals for re-use, to generate value from waste.
- It was awarded Grade A, 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
2024-02-28	Neutral	0.78	0.61
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Not Rated:	Stock is not within regular research coverage

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Analyst	Company
-	-

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