



AmInvestment Bank

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

28 Aug 2024

Optimistic outlook for 2HFY24 performance

Company Report

BUY

(Maintained)

AmInvestment Bank

Team Coverage

+603 2036 2284

Rationale for report: Company Result

Price	RM0.58
Fair Value	RM0.95
52-week High/Low	RM0.75/RM0.51

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)	-	290.8	316.8	337.8
DPS (sen)	-	2.4	2.5	2.7
PE (x)	7.0	6.7	6.4	6.1
EV/EBITDA (x)	3.7	5.0	4.7	4.5
Div yield (%)	-	4.2	4.4	4.6
ROE (%)	14.2	13.3	12.3	11.4
Net Gearing (%)	78.6	89.4	72.1	65.7

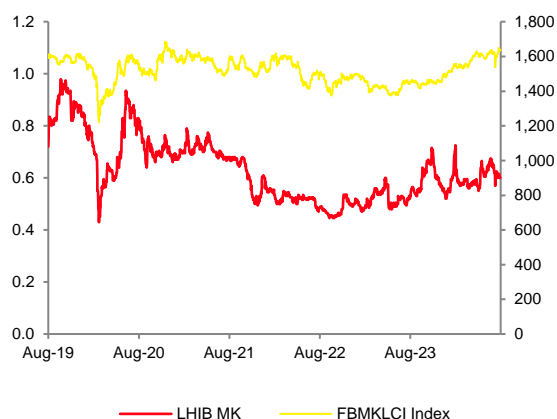
Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RMmil)	2,190.0
Book Value (RM/Share)	0.61
P/BV (x)	1.0
ROE (%)	14.2
Net Gearing (%)	78.6

Major Shareholders	Emerging Glory (52.8%) Amanah Saham Nasional (7.1%) Clarinden Inv Pte. (6.2%)
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Free Float	33.9
Avg Daily Value (RMmil)	4.8

Price performance	3mth	6mth	12mth
Absolute (%)	5.3	(17.2)	15.4
Relative (%)	4.0	(21.9)	1.7



Investment Highlights

- We maintain BUY call on Leong Hup International (LHI) with an unchanged fair value of RM0.95/share, pegged to FY25F P/E of 11x, slightly above its 5-year mean of 10x. We make no adjustment to our neutral ESG rating of 3 stars.
- We deem LHI's 1HFY24 earnings of RM153mil as within our expectations, reflecting 49% of our full-year estimate and 53% of consensus forecast. Hence, we made no changes to our FY24F-FY26F earnings.
- YoY, 1HFY24 revenue improved by 3% on the back of higher revenue contribution from improved livestock & poultry operation (+6%), mainly caused by higher average selling price (ASP) and sales volume of day-old-chicks (DOC) and broiler chickens in Indonesia and the Philippines.
- Together with the higher revenue, 1HFY24 core net profit increased by 76% YoY in tandem with a 37% EBITDA growth, thanks to better EBITDA from livestock & poultry (+2.5x YoY) segments from the higher product prices coupled with lower raw material costs from the feedmill division.
- QoQ, 2QFY24 revenue declined by 2% due to lower feed revenue (-10% QoQ) in all countries as the group passed on lower raw material costs to customers. Despite the decrease in revenue, 2QFY24 PBT rose by 48% QoQ, driven by higher margins from increased ASP of DOC and broiler chickens in Indonesia, coupled with improved feedmill margins.
- Moving forward, we expect earnings growth to be driven by continuous improvement in Indonesia, Vietnam and the Philippines while Malaysia and Singapore earnings are expected to normalise after last year's exceptional results.
- From a valuation perspective, the stock currently trades at an attractive CY25F PE of 6x vs. its 3-year average of 11x while offering a fair dividend yield of 4%.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Revenue	2,413.9	2,411.0	2,355.1	(2.3)	(2.4)	4,610.1	4,766.0	3.4
EBITDA	238.6	240.6	296.4	23.2	24.2	391.0	537.0	37.3
D&A	79.4	79.5	77.7	(2.3)	(2.1)	156.8	157.3	0.3
EBIT	159.2	161.1	218.7	35.7	37.3	234.2	379.8	62.2
Operating profit	113.5	124.9	184.5	47.7	62.6	143.8	309.4	115.2
PBT	113.6	124.9	184.6	47.7	62.4	143.9	309.5	115.0
Tax	(22.9)	(30.0)	(40.4)	34.7	76.7	(36.2)	(70.4)	94.5
PAT	90.8	94.9	144.1	51.9	58.8	107.7	239.1	121.9
MI	(25.7)	(38.3)	(47.7)	24.3	85.1	(20.6)	(86.0)	318.3
Net profit	65.0	56.6	96.5	70.5	48.4	87.2	153.1	75.6
Core net profit	65.0	56.6	96.5	70.5	48.4	87.2	153.1	75.6
FD EPS (sen)	1.78	1.55	2.64	70.5	48.4	2.39	4.19	75.6
Gross DPS (sen)	1.80	1.30	0.00	(100.0)	(100.0)	1.80	1.30	(27.8)
EBITDA margin (%)	9.9	10.0	12.6	2.6ppt	2.7ppt	8.5	11.3	2.8ppt
PBT margin (%)	4.7	5.2	7.8	2.7ppt	3.1ppt	3.1	6.5	3.4ppt
Effective tax rate (%)	-20.1	-24.0	-21.9	2.1ppt	-1.8ppt	-25.1	-22.7	2.4ppt
Core net profit margin (%)	2.7	2.3	4.1	1.8ppt	1.4ppt	1.9	3.2	1.3ppt
Livestock and poultry								
Revenue	1,323.1	1,315.8	1,367.99	4.0	3.4	2,522.5	2,683.8	6.4
EBITDA	84.8	78.9	145.31	84.1	71.3	90.7	224.3	147.2
EBITDA margin (%)	6.4	6.0	10.6	4.6ppt	4.2ppt	3.6	8.4	4.8ppt
Feedmill								
Revenue	1,087.5	1,092.3	984.2	(9.9)	(9.5)	2,081.0	2,076.5	(0.2)
EBITDA	142.5	164.6	151.9	(7.7)	6.6	291.7	316.5	8.5
EBITDA margin (%)	13.1	15.1	15.44	0.4ppt	2.3ppt	14.0	15.2	1.2ppt
Geographical Revenue								
Malaysia	587.4	584.2	571.6	-2.2	-2.7	1181.6	1155.8	-2.2
Singapore	210.1	210.0	204.3	-2.7	-2.8	414.7	414.3	-0.1
Vietnam	561.5	471.7	467.2	-1.0	-16.8	1048.4	938.9	-10.4
Indonesia	912.2	974.9	942.7	-3.3	3.3	1692.5	1917.6	13.3
Philippines	139.4	167.3	166.3	-0.6	19.3	266.3	333.6	25.3
Geographical EBITDA								
Malaysia	125.2	104.6	101.3	-3.2	-19.1	247.1	205.9	-16.7
Singapore	27.4	19.7	15.6	-20.9	-43.0	48.4	35.4	-26.9
Vietnam	21.7	29.9	43.8	46.5	101.7	45.8	73.8	61.2
Indonesia	51.2	65.9	108.6	64.7	111.9	22.3	174.5	681.2
Philippines	13.1	20.4	27.1	32.7	106.6	27.5	47.5	72.8

Source: Leong Hup International, AmlInvestment Bank

EXHIBIT 2: PB BAND CHART

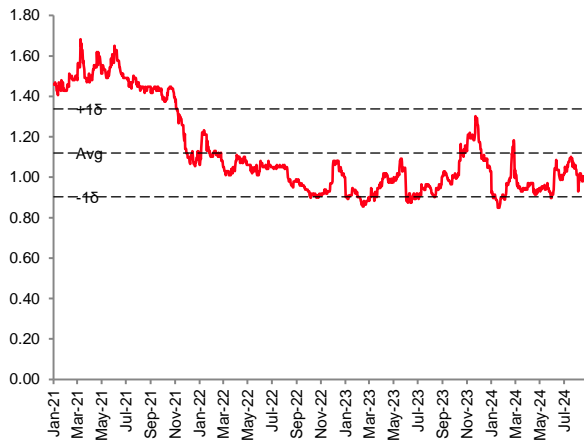


EXHIBIT 3: PE BAND CHART



Source: AmlInvestment Bank

EXHIBIT 4: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating				Rationale
1	Flock management	& of flocks managed in CHS	33%	*	*	*	*	99.2%, 1% decrease from 2021
2	Air, noise & water quality	on-site water treatment plans	33%	*	*	*		remove harmful chemical prior disposal
3	Waste management	disposed in accordance with local laws and regulations	33%	*	*	*		cleaned and reused plastic container
	Weighted score for environmental assessment		100%	*	*	*		
	Social assessment							
1	Health, safety & well-being	Recorded injuries	25%	*	*	*		0 injury recorded
2	Women in workforce	% of total workforce	25%	*	*	*		27%
3	Investment in employee training	Hours	25%	*	*	*		188,523 hours
4	CSR programmes	No. of school bags donated	25%	*	*	*	*	5,900 units of school bags to support 17 elementary schools
	Weighted score for social assessment		100%	*	*	*		
	Governance assessment							
1	Board age diversity	% under 60 years old	20%	*	*	*		36%
2	Board women representation	% of total board directors	20%	*	*	*		27% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*	64%
4	Independent board directors	% of total board directors	20%	*	*	*		45.5% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*	RM33.5mil - 5.2% of 2022 staff costs
	Weighted score for governance assessment		100%	*	*	*		
	Environmental score		40%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		30%	*	*	*		
	Overall ESG Score		100%	*	*	*		

We 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-star.

Source: AmlInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, 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	-	-	-	-	-
Pretax profit	326.6	554.7	453.2	480.2	528.3
Taxation	(82.7)	(124.9)	(109.0)	(115.3)	(137.4)
Minorities/pref dividends	(25.0)	(128.1)	(30.0)	(36.0)	(43.2)
Net profit	218.9	301.7	314.2	329.0	347.8
Core net profit	218.9	301.7	314.2	329.0	347.8
Balance Sheet (RMmil, 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
Total non-current assets	3,431.8	3,415.3	3,585.7	3,882.0	4,196.9
Cash & equivalent	840.3	699.5	304.4	332.2	168.8
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	762.1	768.2	775.9
Total current assets	3,160.4	3,111.3	3,040.3	2,986.5	2,956.1
Trade creditors	358.9	359.6	398.5	425.7	434.5
Short-term borrowings	1,986.3	1,587.3	1,619.1	1,431.8	1,293.8
Other current liabilities	317.9	411.3	322.5	338.7	355.6
Total current liabilities	2,663.1	2,358.2	2,340.1	2,196.1	2,083.9
Long-term borrowings	1,046.4	870.8	914.3	960.0	1,008.0
Other long-term liabilities	293.1	342.5	190.3	202.0	203.0
Total long-term liabilities	1,339.5	1,213.2	1,104.6	1,162.0	1,211.0
Shareholders' funds	2,005.0	2,236.7	2,492.9	2,857.9	3,248.8
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 (RMmil, 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)
Cash flow from operations	620.9	993.1	537.9	884.3	688.1
Capital expenditure	(291.1)	(227.0)	(200.0)	(200.0)	(199.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	13.5	62.5	-	-	-
Cash flow from investing	(277.6)	(164.5)	(200.0)	(200.0)	(199.0)
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)	(299.0)	(298.6)	(299.9)
Cash flow from financing	(362.1)	(773.0)	(661.1)	(656.5)	(652.5)
Net cash flow	(18.8)	55.6	(323.2)	27.9	(163.4)
Net cash/(debt) b/f	575.1	556.1	627.5	304.4	332.2
Net cash/(debt) c/f	556.1	627.5	304.4	332.2	168.8
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, AmlInvestment Bank Bhd estimates

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