

HLIB Research

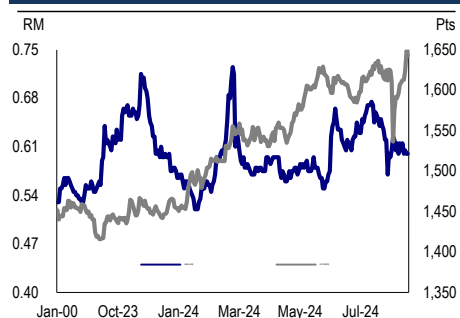
PP 9484/12/2012 (031413)

Chye Wen Feiwfchye@hlib.hongleong.com.my**(603) 2083 1712****BUY** (Maintain)**Target Price: RM0.80****Previously: RM0.76****Current Price: RM0.585**

Capital upside	36.8%
Dividend yield	2.2%
Expected total return	39.0%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price

Historical return (%)	1M	3M	12M
Absolute	-6.2	4.3	16.3
Relative	-6.9	3.5	2.1

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650.0
Market capitalisation (RM m)	2,208
3-mth average volume ('000)	8,140
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★ ★

Major shareholders

Emerging Glory	52.8%
Amanah Saham Nasional	7.1%
Clarinden	4.9%

Earnings summary

FYE Dec	FY23	FY24F	FY25F
PATMI - core (RM m)	321.4	282.6	302.4
EPS - core (sen)	8.8	7.7	8.3
P/E (x)	6.6	7.6	7.1

Leong Hup International

Another strong showing

1H24 core net profit of RM157.6m (+81.3%) beat our expectation, accounting for 62.3% of our full-year estimate, due mainly to better-than-expected performance at livestock segment in Malaysia and Indonesia. We raise our FY24/25/26 core net profit forecasts by 11.8%/16.4%/11.3%, mainly to account for lower feed cost assumptions. Post earnings revision, update of valuation parameter and roll forward of valuation base year, we maintain our BUY rating on LHI with a higher TP of RM0.80 based on 9.7x FY25 core EPS of 8.3 sen.

Beat our expectation; within consensus. 2Q24 core net profit of RM97.4m (+61.6% QoQ; +48.1% YoY) took 1H24's total sum to RM157.6m (+81.3%). The results beat our expectation, accounted for 62.3% of our full-year estimate, due mainly to better-than-expected performance at livestock segment in Malaysia and Indonesia. Against consensus, the results came in within, at 52.2% of full-year estimate.

EIs in 1H24. 1H24's core net profit of RM157.6m was arrived after adjusting for (i) RM4.3m impairment and write-off, and (ii) RM0.3m loss on disposal.

QoQ. 2Q24 core net profit surged 61.6% to RM97.4m, boosted mainly by higher DOC and broiler chicken selling prices in Indonesia, as well as higher feedmill margins. These were however, partly offset by the absence of government subsidies in Malaysia (recall in 1Q24, Malaysia operations recorded government subsidies of RM9.2m).

YoY. 2Q24 core net profit surged 48.1% to RM97.4m, boosted mainly by (i) improved performance at Indonesia and Philippines operations (which in turn were driven by higher selling prices and sales volume of DOC and broiler chickens in Indonesia, and higher selling prices and sales volume of DOC in Philippines), and (ii) margin expansion at feedmill segment across all operating countries (arising from lower input costs).

YTD. Core net profit surged 81.3% to RM157.6m in 1H24, as lower government subsidies recognised in Malaysia operations were more than mitigated by (i) higher selling prices of DOC and broiler chickens in Indonesia, and (ii) margin expansion at feedmill segment (arising from lower input costs).

Outlook. The decent set of performance registered in 1H24 will likely be sustained into 2H, supported by continued strengthening of performance in Indonesia, Vietnam and Philippines.

Forecast. We raise our FY24/25/26 core net profit forecasts by 11.8%/16.4%/11.3%, mainly to account for lower feed cost assumptions.

Maintain BUY with higher TP of RM0.80. Higher core net profit forecasts aside, we took the opportunity to (i) roll forward our valuation base year (from FY24 to FY25), (ii) lower our target P/E to 9.7x (by taking into account of its latest historical average P/E). Correspondingly, we reiterate our BUY rating on LHI with a higher TP of RM0.80 based on revised 9.7x FY25 core EPS of 8.3 sen. At RM0.585, LHI is trading at undemanding FY24-26 P/E of 7.6x, 7.1x, and 7.0x, respectively.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Cash	840.3	699.5	1,107.6	1,382.1	1,652.8
Receivables	839.7	892.4	954.7	1,003.5	1,055.3
Inventories	1,025.9	978.8	929.9	978.3	1,029.7
PPE	2,784.5	2,730.3	2,727.2	2,724.5	2,722.1
Others	1,101.9	1,225.6	1,233.2	1,260.6	1,289.6
Assets	6,592.2	6,526.6	6,952.7	7,349.0	7,749.5
Payables	629.8	682.1	778.9	819.5	862.6
Debt	3,032.7	2,458.1	2,458.1	2,458.1	2,458.1
Others	338.8	430.2	430.2	430.2	430.2
Liabilities	4,002.6	3,571.5	3,668.2	3,708.8	3,751.9
Shareholders' equity	2,005.0	2,236.7	2,471.8	2,726.7	2,983.0
Non-controlling interests	584.5	718.4	812.6	913.4	1,014.6
Equity	2,589.6	2,955.1	3,284.5	3,640.1	3,997.6

Cash Flow Statement

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Profit before tax	326.6	554.7	495.8	530.5	532.7
D&A	260.4	276.4	303.4	303.1	302.9
Working capital	-58.2	15.3	75.9	-83.9	-89.1
Tax paid	-88.9	-80.5	-119.0	-127.3	-127.9
Others	144.5	173.6	154.2	131.4	131.4
CFO	620.9	992.5	910.3	753.7	750.0
Capex	-291.5	-219.6	-300.0	-300.0	-300.0
Others	13.9	55.8	0.0	0.0	0.0
CFI	-277.6	-163.8	-300.0	-300.0	-300.0
Changes in debt	-328.3	-526.4	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	-65.7	-47.5	-47.5	-47.5
Others	-133.8	-181.2	-154.7	-131.9	-131.9
CCF	-362.1	-773.3	-202.1	-179.3	-179.3
Net cash flow	-18.8	55.3	408.1	274.4	270.7
Beginning cash	575.1	556.1	627.3	1,035.4	1,309.8
Forex	-0.3	15.9	0.0	0.0	0.0
Ending cash	556.1	627.3	1,035.4	1,309.8	1,580.5

Income Statement

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Revenue	9,042.7	9,539.5	8,368.6	8,804.5	9,267.5
EBITDA	765.3	1,043.4	953.4	964.9	967.0
EBIT	464.0	724.0	650.0	661.8	664.1
Finance cost	-137.9	-169.6	-154.7	-131.9	-131.9
Associates	0.4	0.3	0.5	0.5	0.5
Profit before tax	326.6	554.7	495.8	530.5	532.7
Tax	-82.7	-124.9	-119.0	-127.3	-127.9
PAT	243.9	429.8	376.8	403.1	404.9
Non-controlling interests	-25.0	-128.1	-94.2	-100.8	-101.2
Reported PATMI	218.9	301.7	282.6	302.4	303.7
Exceptionals	26.4	19.6	0.0	0.0	0.0
Core PATMI	245.3	321.4	282.6	302.4	303.7
Consensus core PATMI			301.7	290.8	316.8
HLIB/ Consensus			93.7%	104.0%	95.8%

Ratios

FYE Dec	FY22A	FY23A	FY24F	FY25F	FY26F
Core EPS (sen)	6.7	8.8	7.7	8.3	8.3
P/E (x)	8.7	6.6	7.6	7.1	7.0
EV/EBITDA (x)	4.9	3.6	3.9	3.9	3.9
DPS (sen)	0.8	3.0	1.3	1.3	1.3
Dividend yield	1.4%	5.1%	2.2%	2.2%	2.2%
BVPS (RM)	0.5	0.6	0.7	0.7	0.8
P/B (x)	1.1	1.0	0.9	0.8	0.7
EBITDA margin	15.4%	20.2%	24.6%	24.1%	23.3%
EBIT margin	4.4%	6.4%	6.2%	6.0%	5.8%
PBT margin	3.1%	4.9%	4.7%	4.8%	4.6%
Net margin	2.3%	2.8%	2.7%	2.8%	2.6%
ROE	12.9%	15.2%	12.0%	11.6%	10.6%
ROA	3.8%	4.9%	4.2%	4.2%	4.0%
Net gearing	84.7%	59.5%	41.1%	29.6%	20.1%

Assumptions

FYE Dec	FY24F	FY25F	FY26F
Feedmill			
- Production volume ('000 mt)	2,981.6	3,150.1	3,329.4
- Utilisation rate	84%	89%	94%
Livestock			
- Broiler DOC supplied (m chicks)	202.1	208.2	214.5
- Broiler supplied (m birds)	164.4	169.4	174.5
- Eggs supplied (m eggs)	2,002.0	2,055.1	2,109.7

LHI; HLIB Research

Figure #1 Quarterly results comparison

FYE Dec (RMm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)
Revenue	2,413.9	2,411.0	2,355.1	-2.3	-2.4	4,610.1	4,766.0	3.4
- Livestock & poultry related products	1,323.1	1,315.8	1,368.0	4.0	3.4	2,522.5	2,683.8	6.4
- Feedmill	1,087.5	1,092.3	984.2	-9.9	-9.5	2,081.0	2,076.5	-0.2
- Others	3.2	2.9	2.9	-1.2	-10.7	6.5	5.8	-10.9
EBITDA	238.7	246.4	290.7	18.0	21.8	391.1	537.1	37.3
- Livestock & poultry related products	84.8	78.9	145.3	84.1	71.3	90.7	224.3	>100
- Feedmill	142.5	164.6	151.9	-7.7	6.6	291.7	316.5	8.5
- Others	11.3	2.9	-6.5	NM	NM	8.6	-3.7	NM
Profit from operations	159.2	161.1	218.7	35.7	37.3	234.2	379.8	62.2
- Livestock & poultry related products	28.8	16.6	84.4	>100	>100	-24.7	101.0	>100
- Feedmill	125.5	146.9	134.5	-8.4	7.2	257.9	281.4	9.1
- Others	5.0	3.4	-6.0	NM	NM	1.0	-2.6	NM
Finance costs	-45.7	-36.2	-34.2	-5.6	-25.3	-90.4	-70.4	-22.2
Associates	0.1	0.0	0.0	63.0	-68.1	0.2	0.1	-59.2
PBT	113.6	124.9	184.6	47.7	62.4	143.9	309.5	>100
Tax expense	-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	>100
Non-controlling interests	-25.7	-38.3	-47.7	-	-	-20.6	-86.0	-
Reported net profit	65.0	56.6	96.5	70.5	48.4	87.2	153.1	75.6
Core net profit	65.7	60.3	97.4	61.6	48.1	86.9	157.6	81.3
Core EPS (sen)	1.8	1.7	2.7	61.6	48.1	2.4	4.3	81.3
				%-pts	%-pts			%-pts
EBITDA margin (%)	9.9	10.2	12.3	2.1	2.5	8.5	11.3	2.8
Operating margin (%)	6.6	6.7	9.3	2.6	2.7	5.1	8.0	2.9
PBT margin (%)	4.7	5.2	7.8	2.7	3.1	3.1	6.5	3.4
Net margin (%)	2.7	2.5	4.1	1.6	1.4	1.9	3.3	1.4

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Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)
Revenue	2,410.6	2,408.0	2,352.2	-2.3	-2.4	4,603.5	4,760.2	3.4
- Malaysia	587.4	584.2	571.6	-2.2	-2.7	1,181.6	1,155.8	-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	1,048.4	938.9	-10.4
- Indonesia	912.2	974.9	942.7	-3.3	3.3	1,692.5	1,917.6	13.3
- Philippines	139.4	167.3	166.3	-0.6	19.3	266.3	333.6	25.3
EBITDA	238.7	240.6	296.4	23.2	24.2	391.1	537.1	37.3
- 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	>100	45.8	73.8	61.2
- Indonesia	51.2	65.9	108.6	64.7	>100	22.3	174.5	>100
- Philippines	13.1	20.4	27.1	32.7	>100	27.5	47.5	72.8

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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