

28 August 2024

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Buy (Maintained)

Another Strong Year In The Making; Stay BUY

Target Price (Return): MYR0.84 (+43%)
 Price (Market Cap): MYR0.59 (USD491m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.44m/0.95m

- **Maintain BUY, with higher TP of MYR0.84 from MYR0.82, 43% upside and c.4% FY24F yield.** Leong Hup International's 1H24 results beat expectations on better-than-expected profit margin. Its near-term earnings outlook is promising considering the fall in commodity prices, weakening USD and favourable demand-supply dynamics in key markets. Meanwhile, we understand that the private equity shareholder has completely exited which should remove the share overhang. As such, the current valuation is attractive, at below its 5-year mean.
- **LHI's 1H24 results were above expectations.** Net profit of MYR153m (+76% YoY) accounted for 53-55% of our and consensus forecasts. The positive deviation could be attributed to the higher-than-expected profit margin driven by favourable market conditions and easing input costs. Post-results, we raise FY24F earnings by 9%. Correspondingly, our DCF-derived TP rises to MYR0.84 (inclusive of an 8% ESG discount) which implies 10x FY24F P/E or close to the stock's 5-year mean.
- **Results review.** YoY, 1H24 revenue grew 3% to MYR4.8bn primarily driven by robust growth in Indonesia (+13%) and the Philippines (+25%) on the back of better ASPs and rising sales volume. Meanwhile, 1H24 EBITDA surged 37% to MYR537m thanks to the significant turnaround in Indonesia on abovementioned factors as well as easing feed costs. In addition, Vietnam and the Philippines markets also registered encouraging growth thanks to improved market conditions and continuous market penetration. QoQ, 2Q24 revenue eased 2% to MYR2.4bn on lower ASPs with the lower feed costs gradually passed on to customers. That said, 2Q24 EBITDA jumped 36% to MYR219m which we believe is a function of declining input costs outpacing the lower ASPs.
- **Outlook.** We expect the strong momentum to sustain into 3Q24F with market conditions remaining favourable in Indonesia, Vietnam and the Philippines ie balanced demand-supply, lower input costs following the material drop in commodity prices including corn and soybean meals. The weakening of the USD should lend further support to margin expansion as a majority of the raw materials are imported except for Indonesia which has its own domestic corn supply. As such, all these should more than offset the lower contribution from Malaysia from the high 2023 base which was aided by the sizeable amount of government subsidies.
- **Risks to our recommendation include** a sharp rise in feed costs and unfavourable supply-demand dynamics.

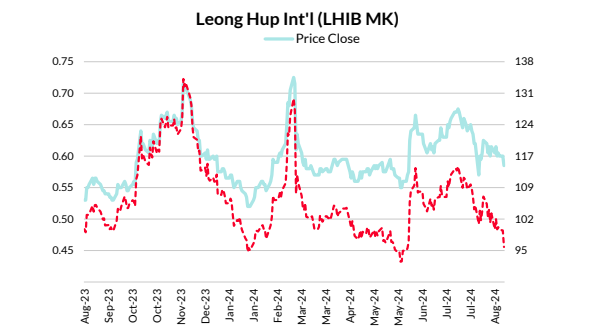
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.5	(8.6)	3.5	(18.2)	12.5
Relative	(10.1)	(11.0)	1.4	(24.2)	(1.9)
52-wk Price low/high (MYR)	0.52 - 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	304	289	292
Recurring net profit growth (%)	138.3	59.3	(6.2)	(4.9)	1.0
Recurring P/E (x)	10.49	6.59	7.02	7.39	7.31
P/B (x)	1.1	1.0	0.9	0.8	0.7
P/CF (x)	3.94	2.46	3.68	3.88	3.71
Dividend Yield (%)	3.1	5.1	4.3	4.1	4.1
EV/EBITDA (x)	6.39	4.38	4.03	3.85	3.62
Return on average equity (%)	11.5	14.2	13.0	11.3	10.6
Net debt to equity (%)	84.7	59.5	49.4	41.3	35.9

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, hazardous and non-hazardous wastes from its operation in accordance with local laws and regulations.

S: GOOD

Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensure a safe and conducive working environment for its people. In addition, LHIB practices good standards in ensuring the safety and quality of 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 of almost 50% of the board with women making up 30% of it.

Note:

Small cap stocks are defined as companies with a market capitalisation 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	0.73	0.78
LHIB MK	Return on average equity (%)	11.5	14.2	13.0	11.3	10.6
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	10.49	6.59	7.02	7.39	7.31
Discounted Cash Flow	P/B (x)	1.1	1.0	0.9	0.8	0.7
	FCF Yield (%)	12.0	30.3	13.1	11.7	8.2
Key drivers	Dividend Yield (%)	3.1	5.1	4.3	4.1	4.1
i. Regional expansion plan;	EV/EBITDA (x)	6.39	4.38	4.03	3.85	3.62
ii. Favourable product prices.	EV/EBIT (x)	10.54	6.31	5.83	5.67	5.40
	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 change in regulatory policy;	Gross profit	1,013	1,484	1,549	1,579	1,638
ii. Unfavourable demand-supply dynamics.	EBITDA	765	1,043	1,086	1,093	1,131
	Depreciation and amortisation	(301)	(319)	(335)	(352)	(373)
Company Profile	Operating profit	464	724	751	741	758
Leong Hup International is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Net interest	(138)	(170)	(150)	(145)	(142)
	Pre-tax profit	327	555	601	596	617
	Taxation	(83)	(125)	(156)	(155)	(160)
	Reported net profit	219	302	304	289	292
	Recurring net profit	204	324	304	289	292
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(3)	(32)	(53)	(82)	(71)
	Cash flow from operations	543	868	580	550	575
	Capex	(286)	(221)	(300)	(300)	(400)
	Cash flow from investing activities	(279)	(140)	(300)	(300)	(400)
	Dividends paid	(1)	(77)	(91)	(87)	(88)
	Cash flow from financing activities	(363)	(773)	(299)	(332)	(230)
	Cash at beginning of period	765	840	700	836	909
	Net change in cash	(99)	(45)	(20)	(82)	(54)
	Ending balance cash	666	795	680	754	855
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	840	700	836	909	1,015
	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	6,688	6,813	7,037
	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	3,520	3,443	3,462
	Total equity	2,590	2,955	3,168	3,370	3,575
	Total liabilities & equity	6,592	6,527	6,688	6,813	7,037
	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	(6.2)	(4.9)	1.0
	Gross margin (%)	11.2	15.6	15.6	15.1	15.0
	Operating EBITDA margin (%)	8.5	10.9	11.0	10.5	10.3
	Net profit margin (%)	2.4	3.2	3.1	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	5.00	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)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue	2,413.9	2,411.0	2,355.1	(2.3)	(2.4)	4,610.1	4,766.0	3.4	YoY growth driven by Indonesia and the Philippines
EBITDA	238.7	240.7	296.4	23.2	24.2	391.1	537.1	37.3	
EBITDA margin (%)	9.9	10.0	12.6	2.6	2.7	8.5	11.3	2.8	YoY margin expansion supported by better product ASPs and declining feed costs
EBIT	159.2	161.1	218.7	35.7	37.3	234.2	379.8	62.2	
EBIT Margin (%)	6.6	6.7	9.3	2.6	2.7	5.1	8.0	2.9	
Finance costs	(45.7)	(36.2)	(34.2)			(90.4)	(70.4)		
EI	0.0	0.0	0.0			0.0	0.0		
Profit before tax	113.6	124.9	184.6	47.7	62.4	143.9	309.5	115.0	
PBT Margin (%)	4.7	5.2	7.8	2.7	3.1	3.1	6.5	3.4	
Tax expense	(22.9)	(30.0)	(40.4)	34.7	76.7	(36.2)	(70.4)	94.5	
Effective tax rate (%)	(20.1)	(24.0)	(21.9)	2.1	(1.8)	(25.1)	(22.7)	2.4	
Minority interests	25.5	38.3	47.7			20.3	86.0		
PATAMI	65.0	56.6	96.5	70.5	48.4	87.2	153.1	75.6	
Core PATAMI	65.0	56.6	96.5	70.5	48.4	87.2	153.1	75.6	At 53-55% of the forecasts
Net Margin (%)	2.7	2.3	4.1	1.8	1.4	1.9	3.2	1.3	

Source: Company data, RHB

Figure 2: LHIB's geographical breakdown

FYE Dec (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Malaysia	587.4	584.2	571.6	(2.2)	(2.7)	1,181.6	1,155.8	(2.2)	On higher volumes and ASPs for DOC and broiler Continuous capacity expansion to penetrate market
Singapore	210.2	210.0	204.3	(2.7)	(2.8)	414.8	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	
Group revenue	2,410.7	2,408.0	2,352.2	(2.3)	(2.4)	4,603.6	4,760.2	3.4	
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	
Group EBITDA	238.7	240.6	296.4	23.2	24.2	391.1	537.1	37.3	
Malaysia	21.3	17.9	17.7	(0.2)	(3.6)	20.9	17.8	(3.1)	
Singapore	13.0	9.4	7.6	(1.8)	(5.4)	11.7	8.5	(3.1)	
Vietnam	3.9	6.3	9.4	3.0	5.5	4.4	7.9	3.5	
Indonesia	5.6	6.8	11.5	4.8	5.9	1.3	9.1	7.8	
Philippines	9.4	12.2	16.3	4.1	6.9	10.3	14.2	3.9	
Group EBITDA margin (%)	9.9	10.0	12.6	2.6	2.7	8.5	11.3	2.8	

Source: Company data, RHB

Emissions And ESG

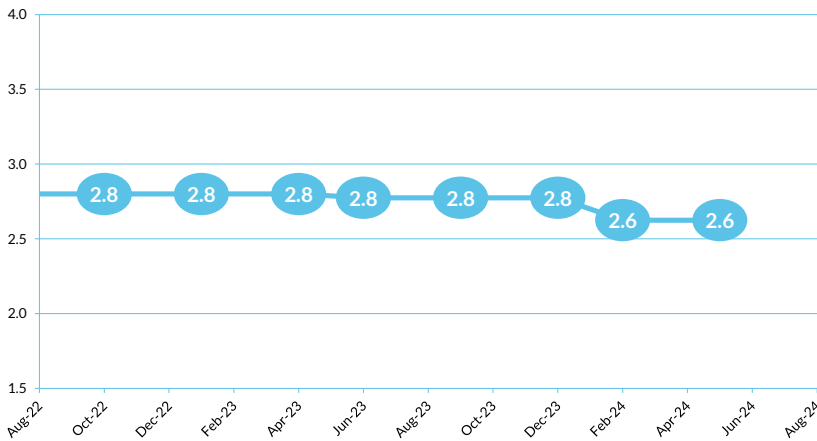
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
na	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

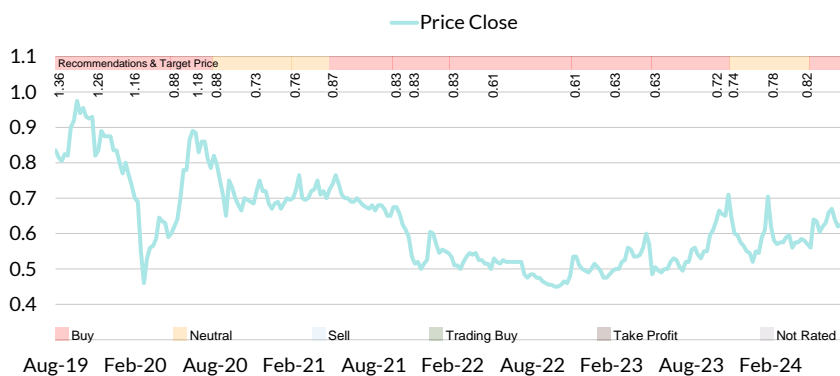
- Invested in the upgrading of facilities for increased capacity for handling manure such as installation of manure belts in layer houses in Malaysia.
- Contracted qualified contractors to clean plastic containers used to contain hazardous chemicals for re-use to generate value from waste.
- Awarded an "A" grade 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
2024-05-30	Buy	0.82	0.55
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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