

Leong Hup International (LHIB MK)

Staying positive

Maintain BUY with an unchanged TP of MYR0.85

LHIB's 3Q24 results surpassed expectations on group margin expansion from lower feed raw material costs. Given that Indonesia's poultry ASPs continue to be suppressed, 4Q24 earnings may come in weaker QoQ. That said, with feed raw material ASPs hovering at more manageable levels, coupled with favourable FX movements, LHIB's earnings outlook remains positive in the medium term. We keep our earnings estimates. Maintain BUY with an unchanged TP of MYR0.85, based on 9x FY25E PER (mean).

9M24 made up 90% of our FY24E

LHIB's 3Q24 net profit of MYR135m (+2% YoY, +40% QoQ) brought 9M24 net profit to MYR288m (+31% YoY), accounting for 90%/93% of ours/consensus full-year earnings estimates. The earnings outperformance was attributed to stronger-than-expected group EBITDA margins from lower feed raw material costs (corn & soybean).

Improved livestock EBITDA margins

3Q24 group revenue declined -5% QoQ led by: (i) weaker livestock sales (-4% QoQ) from softer poultry ASPs (broilers & day-old-chicks) in Indonesia, and (ii) lower feedmill sales (-7% QoQ) from softer feed ASPs in Vietnam. That said, group EBITDA increased by +4% QoQ (EBITDA margin: +1.3 ppts QoQ) in 3Q24 given stronger livestock margins (+1.9 ppts) from lower feed raw material costs (corn & soybean) and flattish feedmill margins (-0.1 ppts QoQ). Note that LHIB received MYR37m in back payments of government subsidies in 3Q24 (2Q24: Nil). We are unsure if there are remaining subsidy payments due to LHIB at this juncture.

4Q24 earnings may be weaker QoQ

We cautiously maintain our earnings estimates pending LHIB's 3Q24 results briefing. Poultry demand and ASPs are expected to remain stable in Malaysia and Vietnam. However, the continued weakness in Indonesia's poultry ASPs may result in weaker group earnings in 4Q24.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	9,043	9,540	9,084	9,259	9,473
EBITDA	765	1,043	1,004	1,060	1,093
Core net profit	219	302	321	345	353
Core EPS (sen)	6.0	8.3	8.8	9.5	9.7
Core EPS growth (%)	156.3	37.8	6.3	7.7	2.2
Net DPS (sen)	0.0	3.0	2.6	2.8	2.9
Core P/E (x)	8.3	6.8	7.5	7.0	6.8
P/BV (x)	0.9	0.9	1.0	0.9	0.8
Net dividend yield (%)	0.0	5.3	4.0	4.3	4.4
ROAE (%)	11.5	14.2	13.6	13.3	12.4
ROAA (%)	3.4	4.6	4.4	4.1	3.9
EV/EBITDA (x)	6.2	4.5	5.4	4.9	4.7
Net gearing (%) (incl perps)	91.5	65.6	67.7	52.1	46.0
Consensus net profit	-	-	321	346	353
MIBG vs. Consensus (%)	-	-	(0.0)	(0.0)	(0.0)

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BUY

Share Price	MYR 0.66
12m Price Target	MYR 0.85 (+32%)
Previous Price Target	MYR 0.85

Company Description

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

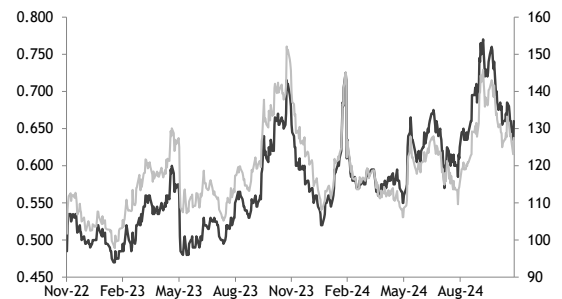
Statistics

52w high/low (MYR)	0.77/0.52
3m avg turnover (USDm)	1.6
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.4B
	USD540M

Major shareholders:

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

Price Performance



— Leong Hup - (LHS, MYR) — Leong Hup / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(11)	10	(7)
Relative to index (%)	(10)	13	(15)

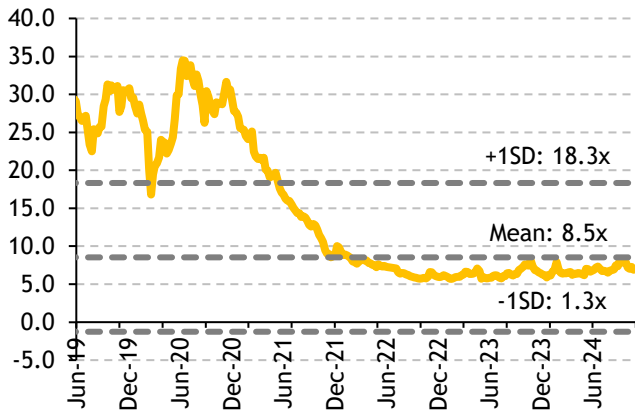
Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q24	3Q23	% YoY	2Q24	% QoQ	9M23	9M22	% YoY
Revenue	2,228.3	2,516.4	(11.4)	2,355.1	(5.4)	6,994.3	7,126.5	(1.9)
EBITDA	309.3	348.9	(11.4)	296.4	4.3	846.3	740.0	14.4
Depreciation	(76.4)	(78.9)	(3.2)	(77.8)	(1.7)	(233.7)	(235.8)	(0.9)
EBIT	232.8	270.0	(13.8)	218.7	6.5	612.6	504.2	21.5
Interest expense	(31.0)	(42.5)	(27.0)	(34.2)	(9.2)	(101.4)	(132.9)	(23.7)
Associates	0.0	0.0	(26.2)	0.0	(29.5)	0.1	0.2	(52.8)
Pretax profit	201.9	227.5	(11.3)	184.6	9.4	511.3	371.5	37.7
Tax	(16.2)	(50.2)	(67.8)	(40.4)	(60.0)	(86.5)	(86.4)	0.2
Minority interest	(50.7)	(44.4)	14.2	(47.7)	6.4	(136.7)	(65.0)	110.4
Net profit	135.0	133.0	1.5	96.5	39.9	288.1	220.1	30.9
Core net profit	135.0	133.0	1.5	96.5	39.9	288.1	220.1	30.9
			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
<i>EBITDA margin (%)</i>	13.9	13.9	0.0	12.6	1.3	12.1	10.4	1.7
<i>EBIT margin (%)</i>	10.4	10.7	(0.3)	9.3	1.2	8.8	7.1	1.7
<i>Tax rate (%)</i>	(8.0)	(22.1)	14.1	(21.9)	13.9	(16.9)	(23.3)	6.3
Revenue:			% YoY		% QoQ			% YoY
Livestock	1,311.7	1,369.4	(4.2)	1,368.0	(4.1)	3,995.5	3,891.9	2.7
Feedmill	913.8	1,143.8	(20.1)	984.2	(7.2)	2,990.2	3,224.8	(7.3)
Others	2.8	3.2	(11.7)	2.9	(3.6)	8.6	9.7	(11.2)
Total	2,228.3	2,516.4	(11.4)	2,355.1	(5.4)	6,994.3	7,126.5	(1.9)
EBITDA:			% YoY		% QoQ			% YoY
Livestock	163.9	167.3	(2.1)	145.3	12.8	388.1	258.0	50.4
Feedmill	140.4	187.5	(25.1)	151.9	(7.6)	456.9	479.2	(4.7)
Others	5.0	(5.8)	n.m.	(0.8)	(738.6)	1.3	2.8	(53.9)
Total	309.3	349.0	(11.4)	296.4	4.3	846.3	740.0	14.4
EBITDA margin (%):			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
Livestock	12.5	12.2	0.3	10.6	1.9	9.7	6.6	3.1
Feedmill	15.4	16.4	(1.0)	15.4	(0.1)	15.3	14.9	0.4
Others	177.6	(184.3)	361.9	(26.8)	204.4	15.1	29.0	(13.9)
Total	13.9	13.9	0.0	12.6	1.3	12.1	10.4	1.7

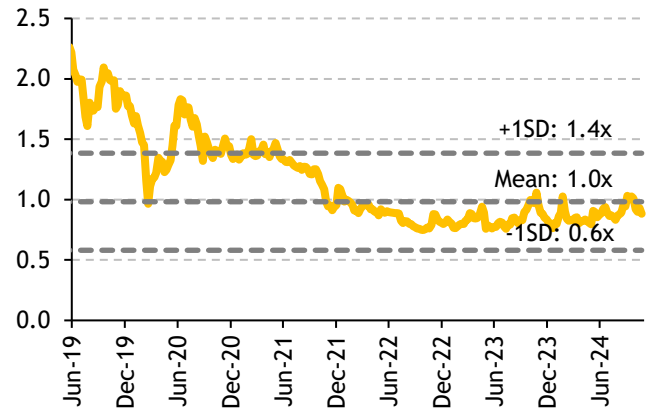
Source: Company

Fig 2: Forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: 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	7.5	7.0	6.8
Core P/E (x)	8.3	6.8	7.5	7.0	6.8
P/BV (x)	0.9	0.9	1.0	0.9	0.8
P/NTA (x)	0.9	1.0	1.0	0.9	0.8
Net dividend yield (%)	0.0	5.3	4.0	4.3	4.4
FCF yield (%)	12.7	33.3	6.9	19.3	8.1
EV/EBITDA (x)	6.2	4.5	5.4	4.9	4.7
EV/EBIT (x)	10.3	6.5	8.0	7.1	6.9
INCOME STATEMENT (MYR m)					
Revenue	9,042.7	9,539.5	9,084.3	9,259.2	9,473.0
EBITDA	765.3	1,043.4	1,003.7	1,060.0	1,093.1
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	676.1	721.5	744.7
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	512.5	545.3	555.9
Income tax	(82.7)	(124.9)	(115.4)	(122.8)	(125.2)
Minorities	(25.0)	(128.1)	(76.3)	(77.0)	(77.8)
Reported net profit	218.9	301.7	320.8	345.5	353.0
Core net profit	218.9	301.7	320.8	345.5	353.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	840.3	699.5	1,755.1	2,379.1	2,731.8
Accounts receivable	649.9	729.4	685.6	756.6	719.0
Inventory	1,025.9	978.8	1,101.5	1,028.0	1,154.3
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	1,267.2	1,256.5	1,248.6
Total assets	6,592.1	6,526.6	8,048.6	8,764.2	9,292.9
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	270.7	374.5	286.7
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	548.0	558.0	567.0
Total Liabilities	4,002.6	3,571.5	4,783.0	5,179.8	5,383.5
Shareholders Equity	2,005.0	2,236.7	2,470.9	2,712.7	2,959.8
Minority Interest	584.5	718.4	794.8	871.8	949.6
Total shareholder equity	2,589.6	2,955.1	3,265.6	3,584.5	3,909.3
Total liabilities and equity	6,592.1	6,526.6	8,048.6	8,764.2	9,292.9
CASH FLOW (MYR m)					
Pretax profit	326.6	554.7	512.5	545.3	555.9
Depreciation & amortisation	301.2	319.4	327.5	338.5	348.4
Cash taxes paid	(82.7)	(124.9)	(115.4)	(122.8)	(125.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	509.4	902.8	567.1	864.5	595.6
Capex	(280.6)	(215.9)	(400.0)	(400.0)	(400.0)
Free cash flow	228.8	686.9	167.1	464.5	195.6
Dividends paid	(0.7)	(77.0)	(96.2)	(103.6)	(105.9)
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)	1,388.5	624.3	353.1

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	26.4	5.5	(4.8)	1.9	2.3
EBITDA growth	42.8	36.3	(3.8)	5.6	3.1
EBIT growth	83.9	56.0	(6.6)	6.7	3.2
Pretax growth	132.7	69.9	(7.6)	6.4	1.9
Reported net profit growth	156.3	37.8	6.3	7.7	2.2
Core net profit growth	156.3	37.8	6.3	7.7	2.2
Profitability ratios (%)					
EBITDA margin	8.5	10.9	11.0	11.4	11.5
EBIT margin	5.1	7.6	7.4	7.8	7.9
Pretax profit margin	3.6	5.8	5.6	5.9	5.9
Payout ratio	0.0	36.3	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	2.4	3.2	3.5	3.7	3.7
Revenue/Assets (x)	1.4	1.5	1.1	1.1	1.0
Assets/Equity (x)	3.3	2.9	3.3	3.2	3.1
ROAE (%)	11.5	14.2	13.6	13.3	12.4
ROAA (%)	3.4	4.6	4.4	4.1	3.9
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	1.5	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	67.7	52.1	46.0
Net gearing (%) (excl. perps)	91.5	65.6	67.7	52.1	46.0
Net interest cover (x)	3.4	4.3	4.1	4.1	3.9
Debt/EBITDA (x)	4.2	2.5	4.0	4.0	4.1
Capex/revenue (%)	3.1	2.3	4.4	4.3	4.2
Net debt/ (net cash)	2,370.2	1,937.8	2,209.6	1,868.5	1,798.5

Source: Company; Maybank IBG Research

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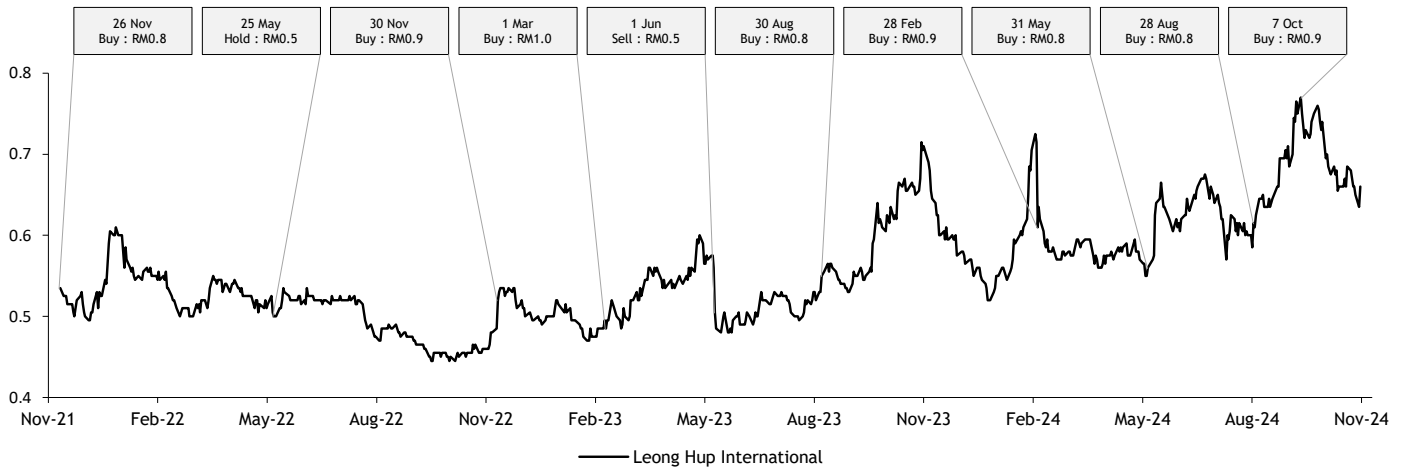
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