

27 November 2024

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Buy (Maintained)

Fifth Beat On The Trot; Stay BUY

Target Price (Return):	MYR0.90 (36.9%)
Price (Market Cap):	MYR0.66 (USD541m)
ESG score:	2.6 (out of 4)
Avg Daily Turnover (MYR/USD)	6.70m/1.57m

- Maintain BUY with higher MYR0.90 TP (from MYR0.84), 37% upside and c.4% FY25F yield.** Leong Hup International's 9M24 results beat expectations yet again on better-than-expected earnings margin. Conservatively, earnings may taper off from the high base due to a normalisation of market conditions. That said, we maintain our positive stance considering the more stable earnings trends and sturdier balance sheet. Trading at -1.5SD below its 5-year mean, valuation is attractive for a player with established regional presence to capture the resilient poultry consumption.
- 9M24 results above expectations for fifth consecutive quarter.** Core net profit of MYR278m (+26% YoY) accounted for 90-91% of our and consensus' forecasts due to better-than-expected profit margins, thanks to favourable supply-demand dynamics and lower feed costs. Post results, we raise FY24-26F earnings by 22%, 20%, and 13%. Correspondingly, our DCF-derived TP rises to MYR0.90 (inclusive of an 8% ESG discount), implying 10x P/E FY25F or close to the 5-year mean.
- Results review.** YoY, 9M24 revenue inched down by 2% to MYR7bn, reflecting the lower feed ASPs in tandem with the drop in commodity prices. That said, 9M24 EBITDA grew 14% to MYR846m, driven by strong recovery in the Vietnam and Indonesia markets on the back of lower feed costs, whilst the Philippines market continued to be the star performer with EBITDA contribution doubling YoY, underpinned by capacity expansion and deeper market penetration. QoQ, 3Q24 net profit surged 30% to MYR125m, spurred by the jump in Malaysia earnings that were aided by lumpy government subsidies of MYR37m. This was further supported by the robust growth in Vietnam and the Philippines on better profitability, which more than offset the weakness in the volatile Indonesia market.
- Outlook.** We expect the elevated earnings to sustain into 4Q24F as market conditions and feed costs remain favourable in most of the operating countries. In addition, the effects of a weaker USD should flow through more materially in the coming quarters. We highlight that LHI's earnings are now exhibiting a higher degree of stability, which could be a result of industry consolidation, with smaller industry players being gradually phased out due to competitive reasons. LHI is in a good position to capitalise further by expanding its capacity to gain market share, given its healthier balance sheet (net gearing of 0.55x as of 9M24 vs 0.79x in FY23) after years of deleveraging.
- Risks to our recommendation include** a sharp rise in feed costs and unfavourable supply-demand dynamics.

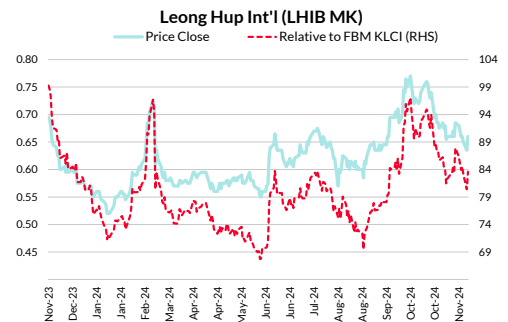
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.8	(10.8)	10.0	15.8	(7.1)
Relative	6.6	(9.9)	12.2	16.8	(17.4)
52-wk Price low/high (MYR)	0.52 - 0.77				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	9,043	9,540	9,413	9,786	10,212
Recurring net profit (MYRm)	204	324	369	347	329
Recurring net profit growth (%)	138.3	59.3	14.0	(6.0)	(5.3)
Recurring P/E (x)	11.84	7.43	6.52	6.94	7.32
P/B (x)	1.2	1.1	1.0	0.9	0.8
P/CF (x)	4.44	2.77	3.54	4.07	4.15
Dividend Yield (%)	2.7	3.8	4.6	4.3	4.1
EV/EBITDA (x)	6.75	4.64	3.92	3.82	3.67
Return on average equity (%)	11.5	14.2	15.6	13.3	11.5
Net debt to equity (%)	84.7	59.5	44.9	37.6	31.3

Source: Company data, RHB

Overall ESG Score: 2.6 (out of 4)

E: GOOD

Leong Hup 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, Leong Hup also practices good standard in ensuring the safety and quality of food products.

G: GOOD

Leong Hup 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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.06	0.09	0.10	0.10	0.09
Agriculture	DPS	0.02	0.03	0.03	0.03	0.03
Leong Hup International	BVPS	0.55	0.61	0.68	0.75	0.81
LHIB MK	Return on average equity (%)	11.5	14.2	15.6	13.3	11.5
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	11.84	7.43	6.52	6.94	7.32
Discounted Cash Flow	P/B (x)	1.2	1.1	1.0	0.9	0.8
	FCF Yield (%)	10.7	26.8	15.8	8.0	7.5
Key drivers	Dividend Yield (%)	2.7	3.8	4.6	4.3	4.1
i. Regional expansion plans;	EV/EBITDA (x)	6.75	4.64	3.92	3.82	3.67
ii. Favourable product prices.	EV/EBIT (x)	11.13	6.69	5.51	5.53	5.46
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	9,043	9,540	9,413	9,786	10,212
i. Unfavourable changes in regulatory policy;	Gross profit	1,013	1,484	1,539	1,582	1,605
ii. Unfavourable demand-supply dynamics.	EBITDA	765	1,043	1,156	1,149	1,155
	Depreciation and amortisation	(301)	(319)	(335)	(355)	(379)
Company Profile	Operating profit	464	724	821	793	776
LHI is one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Net interest	(138)	(170)	(132)	(119)	(110)
	Pre-tax profit	327	555	690	675	667
	Taxation	(83)	(125)	(179)	(175)	(173)
	Reported net profit	219	302	369	347	329
	Recurring net profit	204	324	369	347	329
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(3)	(32)	23	(54)	(64)
	Cash flow from operations	543	868	680	592	581
	Capex	(286)	(221)	(300)	(400)	(400)
	Cash flow from investing activities	(279)	(140)	(300)	(400)	(400)
	Dividends paid	(1)	(77)	(111)	(104)	(99)
	Cash flow from financing activities	(363)	(773)	(601)	(323)	(409)
	Cash at beginning of period	765	840	700	657	702
	Net change in cash	(99)	(45)	(221)	(131)	(228)
	Ending balance cash	666	795	478	526	474
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	840	700	657	702	647
	Tangible fixed assets	2,784	2,730	2,695	2,740	2,761
	Total investments	22	40	40	40	40
	Total assets	6,592	6,527	6,413	6,570	6,618
	Short-term debt	2,000	1,587	1,200	1,200	1,000
	Total long-term debt	1,033	871	900	800	800
	Total liabilities	4,003	3,571	3,199	3,113	2,931
	Total equity	2,590	2,955	3,214	3,457	3,687
	Total liabilities & equity	6,592	6,527	6,413	6,570	6,618
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	26.4	5.5	(1.3)	4.0	4.3
	Recurrent EPS growth (%)	138.3	59.3	14.0	(6.0)	(5.3)
	Gross margin (%)	11.2	15.6	16.4	16.2	15.7
	Operating EBITDA margin (%)	8.5	10.9	12.3	11.7	11.3
	Net profit margin (%)	2.4	3.2	3.9	3.5	3.2
	Dividend payout ratio (%)	30.0	30.2	30.0	30.0	30.0
	Capex/sales (%)	3.2	2.3	3.2	4.1	3.9
	Interest cover (x)	3.36	4.27	6.21	6.67	7.04

Source: Company data, RHB

Results At A Glance

Figure 1: LHIB's results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	2,516.4	2,355.1	2,228.3	(5.4)	(11.4)	7,126.5	6,994.3	(1.9)	9M24 numbers reflected the lower feed ASPs in tandem with the lower commodity prices
EBITDA	348.9	296.4	309.3	4.3	(11.4)	740.0	846.4	14.4	
EBITDA margin (%)	13.9	12.6	13.9	1.3	0.0	10.4	12.1	1.7	Driven by favorable ASPs and declining costs in the poultry division
EBIT	270.0	218.7	232.8	6.5	(13.8)	504.2	612.6	21.5	
EBIT Margin (%)	10.7	9.3	10.4	1.2	(0.3)	7.1	8.8	1.7	
Finance costs	(42.5)	(34.2)	(31.0)			(132.9)	(101.4)		
EI	0.0	0.0	(10.0)			0.0	(10.0)		Gains on disposal and termination of leases
Profit before tax	227.5	184.6	201.9	9.4	(11.3)	371.5	511.3	37.7	
PBT Margin (%)	9.0	7.8	9.1	1.2	0.0	5.2	7.3	2.1	
Tax expense	(50.2)	(40.4)	(16.2)	(60.0)	(67.8)	(86.4)	(86.5)	0.2	
Effective tax rate (%)	(22.1)	(21.9)	(8.0)	13.9	14.1	(23.3)	(16.9)	6.3	
Minority interests	44.4	47.7	50.7			64.7	136.7		
PATAMI	133.0	96.5	135.0	39.9	1.5	220.1	288.1	30.9	
Core PATAMI	133.0	96.5	125.0	29.6	(6.0)	220.1	278.1	26.3	Above expectations at 90-91% of forecasts.
Net Margin (%)	5.3	4.1	5.6	1.5	0.3	3.1	4.0	0.9	DPS of 1.45 sen was declared (9M23: 1.2 sen)

Source: Company data, RHB

Figure 2: LHIB's geographical breakdown

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Malaysia	617.2	571.6	567.2	(0.8)	(8.1)	1,798.8	1,723.1	(4.2)	
Singapore	209.4	204.3	209.0	2.3	(0.2)	624.3	623.4	(0.1)	
Vietnam	531.3	467.2	451.2	(3.4)	(15.1)	1,579.7	1,390.1	(12.0)	
Indonesia	1,004.0	942.7	816.7	(13.4)	(18.7)	2,696.4	2,734.3	1.4	
Philippines	151.4	166.3	181.3	9.0	19.8	417.7	514.9	23.3	Robust growth momentum sustained, underpinned by market penetration
Group revenue	2,513.2	2,352.2	2,225.5	(5.4)	(11.4)	7,116.9	6,985.7	(1.8)	
Malaysia	152.1	101.3	141.8	40.0	(6.8)	399.2	347.7	(12.9)	3Q24 aided by government subsidies of MYR37m
Singapore	12.7	15.6	13.5	(13.4)	6.5	61.0	48.9	(19.9)	
Vietnam	51.6	43.8	63.8	45.5	23.6	97.4	137.6	41.3	Record earnings on improving market conditions
Indonesia	114.3	108.6	46.2	(57.4)	(59.5)	136.6	220.7	61.6	
Philippines	18.2	27.1	43.9	62.0	140.9	45.7	91.4	99.9	Benefitted from volume growth and favorable ASPs
Group EBITDA	348.9	296.4	309.3	4.3	(11.4)	740.0	846.3	14.4	
Malaysia	24.6	17.7	25.0	7.3	0.4	22.2	20.2	(2.0)	
Singapore	6.1	7.6	6.5	(1.2)	0.4	9.8	7.8	(1.9)	
Vietnam	9.7	9.4	14.1	4.8	4.4	6.2	9.9	3.7	
Indonesia	11.4	11.5	5.7	(5.9)	(5.7)	5.1	8.1	3.0	
Philippines	12.0	16.3	24.2	7.9	12.2	10.9	17.8	6.8	
G.EBITDA margin (%)	13.9	12.6	13.9	1.3	0.0	10.4	12.1	1.7	

Source: Company data, RHB

Emissions And ESG

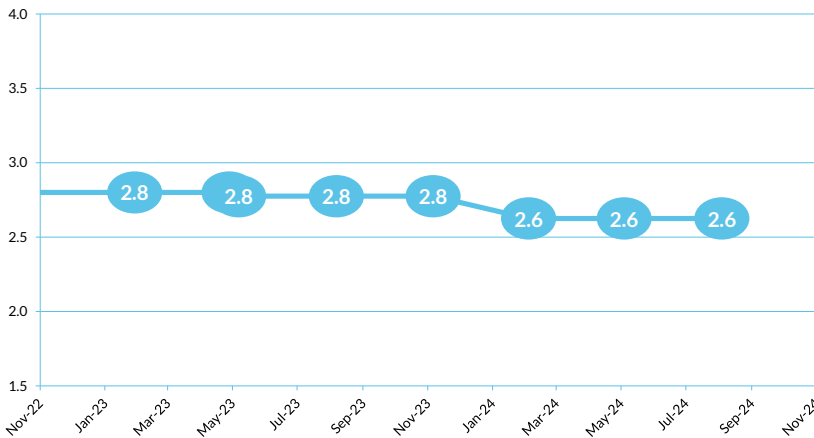
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
na	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

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
2024-08-27	Buy	0.84	0.59
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

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
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