

Leong Hup International Bhd

TP: RM0.72 (+48.5%)
Less Capex Expected For 2023
Last Traded: RM0.485
Buy (ESG: ★★★)

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Key takeaways from the virtual analyst briefing:

- i) *Less capex expected for FY23;*
- ii) *Poultry capacity expansion unlikely in the near term;*
- iii) *The group expects a challenging year ahead.*

After factoring in higher sales and lower input costs assumptions, we raise our FY23/FY24/FY25 earnings forecasts by 4.8%/0.3%/4.3% respectively. Reiterate Buy with higher target price of RM0.72/share based on 10x CY24 EPS.

Less Capex Expected for FY23

Leong Hup International Bhd (LHI) plans to reduce its capital expenditure (capex) in FY23 to below RM200mn in view of the increasing uncertainties in the outlook and rising interest rate environment. The latest net gearing ratio stands at 0.85x and we gather that the group is planning to deleverage to mitigate the impact of increasing borrowing costs. The focus of capex will be on few key areas including the Philippines where the growth prospect is bright and downstream capacity expansion in Malaysia (Baker's Cottage).

Poultry Capacity Expansion in Malaysia Unlikely in the Near Term

The revised Budget 2023 has new tax incentives for capex on chicken rearing in closed house system. However, LHI does not expect to carry out capacity expansion in Malaysia in the near term pending more clarity on the outlook, for instance the lifting of broiler chickens' ceiling prices. The farm prices of broiler chickens are still at ceiling price of RM6.00/kg due to high demand.

Challenging Year Ahead

Prices of key raw materials remain volatile with soybean meal prices up c.16.8% while corn prices are down c.5.2% since middle of November 2022. After delivering a stellar performance in 2022 following the lifting of lockdowns, management believes that 2023 will be a challenging year. The Indonesian operation is expected to be tough moving forward but management is upbeat on the growth prospect in the Philippines. We believe the profitability for Malaysia's operations will continue be supported by government subsidies in the near term while the planned lifting of ceiling prices after June 2023 will further improve the group's bottom-line.

Impact

After factoring in higher sales and lower input costs assumptions, we raise our FY23/FY24/FY25 earnings forecasts by 4.8%/0.3%/4.3% respectively.

Valuation

We roll forward the base year to CY24 and lower the P/E valuation to 10x from 12x previously in view of challenging outlook for the group. Reiterate **Buy** with higher target price of **RM0.72/share** (from RM0.70/share previously) based on 10x CY24 EPS.

Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	1770.3
52-wk Hi/Lo (RM)	0.57/0.44
12-mth Avg Daily Vol ('000 shrs)	732.5
Estimated Free Float (%)	16.7
Beta	0.2

Major Shareholders (%)

Emerging Glory	- 52.8%
Clarinden Investment	- 8.6%
Amanah Saham Nasional	- 7.1%

Forecast Revision

	FY23	FY24
Forecast Revision (%)	4.8	0.3
Net profit (RMm)	224.6	262.5
Consensus	191.6	218.4
TA's / Consensus (%)	117.2	120.2
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	0.78	

Financial Indicators

	FY23	FY24
Net Debt / Equity (x)	0.7	0.6
ROE (%)	11.0	12.0
ROA (%)	3.4	4.0
NTA/Share (RM)	0.5	0.6
Price/NTA (x)	0.9	0.8

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(2.0)	(2.4)
3 mth	(8.5)	(2.8)
6 mth	0.0	(2.8)
12 mth	(6.7)	(9.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Earnings Summary

Profit and Loss Statement

FYE 31 Dec (RM mn)	FY21	FY22	FY23E	FY24F	FY25F
Revenue	7,153.5	9,042.7	9,178.3	9,591.4	9,907.9
EBITDA	521.6	752.2	806.8	857.7	870.6
Depreciation	(283.7)	(301.2)	(326.1)	(334.9)	(330.8)
Net finance cost	(98.0)	(124.8)	(143.9)	(129.2)	(114.4)
Associate	0.4	0.4	0.5	0.5	0.6
EI	0.0	0.0	0.0	0.0	0.0
PBT	140.3	326.6	337.3	394.1	426.0
Taxation	(44.4)	(82.7)	(87.7)	(102.5)	(110.8)
MI	(10.5)	(25.0)	(25.0)	(29.2)	(31.5)
Net profit	85.4	218.9	224.6	262.5	283.7
Core net profit	85.4	218.9	224.6	262.5	283.7

Core EPS (sen)	2.3	6.0	6.2	7.2	7.8
Diluted EPS (sen)	2.3	6.0	6.2	7.2	7.8
DPS (sen)	0.7	0.0	3.7	2.2	2.3
Book Value (RM)	0.5	0.5	0.6	0.6	0.7
NTA (RM)	0.5	0.5	0.5	0.6	0.7

Ratios

FYE 31 Dec (RM mn)	FY21	FY22	FY23E	FY24F	FY25F
Valuations					
Core PER (x)	20.7	8.1	7.9	6.7	6.2
Div. Yield (%)	1.4	0.0	7.6	4.4	4.8
P/BV (x)	1.0	0.9	0.8	0.8	0.7

Profitability ratios

EBITDA margin (%)	7.3	8.3	8.8	8.9	8.8
PBT margin (%)	2.0	3.6	3.7	4.1	4.3
Core Net Margin (%)	1.2	2.4	2.4	2.7	2.9
Core ROE (%)	4.9	11.5	11.0	12.0	11.9
Core ROA (%)	1.4	3.4	3.4	4.0	4.4

Liquidity ratios

Current ratio (x)	1.1	1.2	1.3	1.4	1.5
Quick ratio (x)	0.7	0.8	0.8	0.9	1.0

Leverage ratios

Equity/total liabilities (x)	0.6	0.6	0.7	0.8	0.9
Net debt / equity (x)	1.0	0.8	0.7	0.6	0.5

Growth ratios

Revenue (%)	18.4	26.4	1.5	4.5	3.3
PBT (%)	(10.7)	132.7	3.3	16.8	8.1
Core Net Profit (%)	(19.2)	156.3	2.6	16.8	8.1

Balance Sheet

FYE 31 Dec (RM mn)	FY21	FY22	FY23E	FY24F	FY25F
PPE	2,770.3	2,784.5	2,638.4	2,503.4	2,472.6
Intangible Asset	96.1	99.2	99.2	99.2	99.2
Associate	1.7	1.6	1.7	1.7	1.8
Others	543.1	546.5	546.5	546.5	546.5
Non-current assets	3,411.2	3,431.8	3,285.8	3,150.9	3,120.1
Inventories	973.5	1,025.9	1,052.5	1,097.4	1,136.2
Trade receivables	624.7	649.9	754.4	788.3	814.3
Cash and Bank Balance	764.6	840.3	755.7	791.5	752.1
Others	555.7	644.3	644.3	644.3	644.3
Current assets	2,918.6	3,160.3	3,206.9	3,321.5	3,346.9
Total Assets	6,329.8	6,592.1	6,492.7	6,472.4	6,467.1
LT Borrowings	1,054.6	1,033.0	947.8	862.7	777.5
Others	266.9	293.1	293.1	293.1	293.1
Non-Current liabilities	1,321.4	1,326.0	1,240.9	1,155.7	1,070.6
Trade payables	284.2	358.9	394.7	411.5	426.1
ST Borrowings	2,070.1	1,999.7	1,834.9	1,670.0	1,505.2
Others	294.2	317.8	317.8	317.8	317.8
Current liabilities	2,648.5	2,676.5	2,547.4	2,399.4	2,249.1
Shareholders funds	1,807.1	2,005.0	2,094.9	2,278.6	2,477.2
MI	552.8	584.5	609.5	638.7	670.2
Total Equity	2,359.8	2,589.6	2,704.4	2,917.3	3,147.4
Total E&L	6,329.8	6,592.1	6,492.7	6,472.4	6,467.1

Cash Flow Statement

FYE 31 Dec (RM mn)	FY21	FY22	FY23E	FY24F	FY25F
Pretax profit	140.3	326.6	337.3	394.1	426.0
Depreciation	283.7	301.2	326.1	334.9	330.8
Net interest	98.0	124.8	143.9	129.2	114.4
Associates	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Changes in WC	(414.4)	(60.5)	(95.4)	(62.0)	(50.3)
Tax	(75.0)	(88.9)	(87.7)	(102.5)	(110.8)
Others	12.1	22.3	0.0	0.0	0.0
Operational cash flow	44.2	625.2	623.7	693.2	709.6
Capex	(332.8)	(285.9)	(180.0)	(200.0)	(300.0)
Interest income	14.4	13.1	16.0	17.0	18.0
Others	(74.2)	(9.5)	0.4	0.5	0.5
Investing cash flow	(392.6)	(282.2)	(163.6)	(182.5)	(281.5)
Net share issue	0.0	0.0	0.0	0.0	0.0
Net borrowings	426.8	(197.5)	(250.0)	(250.0)	(250.0)
Dividend paid	(26.3)	(0.7)	(134.8)	(78.7)	(85.1)
Interest paid	(110.0)	(133.0)	(159.9)	(146.2)	(132.4)
Others	(26.2)	(31.3)	0.0	0.0	0.0
Financial cash flow	264.3	(362.5)	(544.7)	(474.9)	(467.5)
Net cash flow	(84.1)	(19.5)	(84.6)	35.8	(39.4)
Beginning Cash	645.8	575.1	556.1	471.5	507.3
Forex & others	13.4	0.4	0.0	0.0	0.0
Ending Cash	575.1	556.1	471.5	507.3	467.9

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, March 02, 2023, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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