

20 November 2023

Hong Leong Industries

New Models Drive Sales and Margins

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HLIND's 1QFY24 results met our expectation. Its 1QFY24 core net profit rose 7% YoY driven by higher sales and margins from the new-generation Y15ZR SE, XMax 250 and Ego Gear. We like HLIND as its popular motorised two-wheelers are a good proxy to the booming gig economy. We maintain our forecasts, TP of RM11.40 and OUTPERFORM call.

HLIND's 1QFY24 results met our expectation at 28% of full-year forecast (there is insufficient coverage by the market to form consensus estimates). It declared an interim NDPS of 20.0 sen (ex-date: 4 Dec; payment date: 21 Dec 2023) in 1QFY24 vs. 20.0 sen paid in 1QFY23, within expectation.

YoY, its 1QFY24 revenue fell 5% mainly due to weaker motorcycles sales affected by the credit tightening in motorcycles financing to avoid non-performing loans. Its plant utilisation level at both Yamaha Motor and Guocera production plants remained stable at 80%-90%. Its core net profit grew slightly stronger at 7% as higher margins from the new-generation Y15ZR SE, XMax 250 and Ego Gear, were partially offset by a lower contribution from associate Yamaha Motor Vietnam (YMVN).

QoQ, its 1QFY24 revenue rose 9% driven by overwhelming demand for the new-generation Y15ZR SE, XMax 250 and Ego Gear (launched in July 2023). Its core net profit increased by a sharper 27% underpinned by higher margins from the new models and a lower effective tax rate.

Forecasts. Maintained.

We also keep our TP at RM11.40 based on FY24F PER of 12x, at a 1x multiple premium to passenger vehicle sector's average forward PER of 11x given its strong market position in the local motorcycle segment which prospects are buoyed the booming gig economy. There is no adjustment to our target price based on ESG given a 3-star rating as appraised by us (see Page 4).

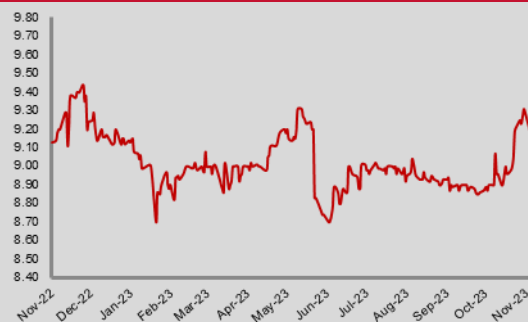
We like HLIND: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, and (iii) for its strong war chest with a net cash of RM1.6b which could be deployed for earnings-accretive acquisitions. Its dividend yield is attractive at 7%. Maintain **OUTPERFORM**.

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new motorcycles) amidst high inflation, (ii) supply chain disruptions, (iii) escalating input costs, and (iv) a global recession hurting demand for the export of its motorcycles and tiles.

OUTPERFORM ↔

Price: RM9.25
Target Price: RM11.40 ↔

Share Price Performance



KLCI 1,460.67
YTD KLCI chg -2.3%
YTD stock price chg 0.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HLI MK EQUITY
Market Cap (RM m)	2,955.1
Shares Outstanding	319.5
52-week range (H)	9.46
52-week range (L)	8.70
3-mth avg daily vol	41,367
Free Float	17%
Beta	0.6

Major Shareholders

Hong Leong Co Malaysia	74.6%
Hong Leong Industries	1.5%
Public Mutual-PB Smallcap Growth Fund	1.5%

Summary Earnings Table

FY June (RM m)	2023A	2024F	2025F
Revenue	3,416.4	3,496.1	3,705.9
EBIT	411.7	591.5	642.9
PBT	512.1	488.3	523.0
Net Profit	290.6	311.7	337.9
Core Net Profit	290.6	311.7	337.9
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	88.6	95.1	103.0
Core EPS (%)	53.3	7.3	8.4
NDPS (sen)	57.0	62.0	67.0
BVPS (RM)	6.18	6.52	6.88
PER (x)	10.4	9.7	9.0
PBV (x)	1.5	1.4	1.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.2	6.7	7.2



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Results Highlights								
FYE June (RM m)	1QFY24	4QFY23	QoQ	1QFY23	YoY	1QFY24	1QFY23	YoY
Revenue	835.9	767.0	9%	884.4	-5%	835.9	884.4	-5%
EBIT	136.3	102.8	33%	108.9	25%	136.3	108.9	25%
PBT	151.9	125.2	21%	134.0	13%	151.9	134.0	13%
Tax Expense	(33.7)	(30.8)	9%	(28.4)	19%	(33.7)	(28.4)	19%
Net Profit	87.7	69.3	27%	81.9	7%	87.7	81.9	7%
Core Net Profit	87.7	69.3	27%	81.9	7%	87.7	81.9	7%
NDPS (sen)	20.0	0.0		20.0		20.0	20.0	
EBIT Margin	16.3%	13.4%		12.3%		16.3%	12.3%	
PBT Margin	18.2%	16.3%		15.1%		18.2%	15.1%	
CNP Margin	10.5%	9.0%		9.3%		10.5%	9.3%	
Effective Tax Rate	22.2%	24.6%		21.2%		22.2%	21.2%	

Source: Company, Bursa Malaysia, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.48	3.22	29.8%	2,879.3	Y	04/2024	24.5	25.2	-6.2%	2.9%	10.1	9.8	3.6	36.2%	20.9	8.4%
DRB-HICOM BHD	MP	1.45	1.45	0.0%	2,802.9	Y	12/2023	16.5	17.7	4.9%	7.5%	8.8	8.2	0.3	3.6%	2.0	1.4%
HIL INDUSTRIES BHD	UP	0.930	0.870	-6.5%	308.7	Y	12/2023	9.2	12.9	28.0%	39.5%	10.1	7.2	0.7	7.0%	2.0	2.2%
HONG LEONG INDUSTRIES BHD	OP	9.25	11.40	23.2%	3,033.1	Y	06/2024	95.1	103.0	7.3%	8.4%	9.7	9.0	1.3	16.5%	62.0	6.7%
MBM RESOURCES BHD	OP	4.17	4.85	16.3%	1,630.1	Y	12/2023	67.7	69.2	18.2%	2.3%	6.2	6.0	0.8	12.6%	48.0	11.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.03	0.800	-22.3%	692.2	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.9%
SECTOR AGGREGATE					1,891.0					-30.0%	-17.3%	9.0	8.0	1.1	12.4%		5.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	★
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Engine Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★		
	Training & Education	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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