

## Re-emergence Of Poultry King

### Investment Highlights

- Leong Hup International (LHI) started off as a small family business, rearing broiler chickens in their own home in Johor. From its humble beginnings, the group evolved into a giant pure-play poultry producer comprising broiler and breeder farms, feedmill production, slaughtering plants and food processing plants. With established geographical presence in the ASEAN region, the group emerged as a top three integrated poultry producer in Malaysia, Indonesia and Vietnam and has the largest market share of slaughtered poultry in Singapore in 2017.
- Meanwhile, LHI has also established itself as one of the key livestock feed player, commanding 10.5% (Malaysia), 5.5% (Indonesia) and 4.0% (Vietnam) market share of feedmill, based on annual production of livestock feed in 2017. As of 31st October 2018, LHI has a total of 13 feedmills with an annual production capacity of 2.6 mln tonnes.
- In bid to expand its operations, the bulk of its IPO proceeds (RM207.7 mln or 75.7%) will be used to expand the production of livestock and feedmill across the existing markets (Malaysia, Indonesia, Singapore, Vietnam and Philippines).
- LHI has delivered a historical three-year (2015-2017) compounded annual growth rate (CAGR) of 32.2% on its net profit to RM191.9 mln, on the back of a historical three-year revenue CAGR of 8.0% to RM5.50 bln in 2017. At an indicative offer price of RM1.10 per share, LHI trades at an estimated 2019 and 2020 PERs of 16.8x and 14.9x, below the average PER of its local and international peers at 21.4x, indicating upside potential, in our view.

Financial Highlights					
FYE Dec (RM mln)	2016	2017	2018E	2019F	2020F
Revenue	5257.4	5501.4	5628.4	5912.4	6379.2
EBITDA	670.4	576.6	651.4	715.5	797.4
Net Profit	209.5	191.9	209.7	239.3	268.8
Revenue Growth (%)	11.5	4.6	2.3	5.0	7.9
EBITDA Growth (%)	46.9	-14.0	13.0	9.8	11.4
Net Profit Growth (%)	90.8	-8.4	9.3	14.1	12.3
EPS (sen)	5.7	5.3	5.7	6.6	7.4
P/E (x)	19.2	20.9	19.1	16.8	14.9
Dividend Yield (%)	0.4	1.0	0.9	1.8	2.0
P/BV (x)	3.1	3.4	3.0	2.4	2.2
ROE (%)	10.5	6.7	6.9	6.6	7.1

Source: Prospectus, MSSB Research

### BUY

**IPO Price: RM1.10**

**Target Price: RM1.40**

### Key Statistics

Stock Information: Principally involved in distribution of animal feed raw materials, food related products and livestock farming

Sector: Consumer Products & Services

Industry: Poultry

Listing: Main Market

Listing Date: 16th May 2019

Share Issued (mln): 3,650.0

Market Capitalisation @ IPO price of RM1.10: RM4.02 bln

Par Value (RM): N/A

Major Shareholders:  
Emerging Glory Sdn Bhd 52.8%  
Clarinden Investments 8.0%  
Lau Joo Han 2.3%

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## Group Background

With close to 60 years of experience in the poultry business, LHI's roots can be traced back to the 1960s when the founding family reared broiler chickens in their own home in Johor. In 1978, LH Poultry Farm took over the family business, which eventually expanded to include broiler and breeder farms, feedmill, slaughter and food processing plants. The poultry business continued to grow and led to the listing of affiliated companies like LH Holdings (Main Board of KLSE, 1990), Emivest (Second Board of KLSE, 2002), Malindo Feedmill (Jakarta Stock Exchange, 2006) and Teo Seng (Second Board of Bursa Securities, 2008).

Emivest's listing was subsequently transferred to the Main Board of KLSE on 14th November, 2003, while Teo Seng was transferred to the Main Board of Bursa Securities on 3rd August 2009, following the merger of the Main Board and Second Board of Bursa Securities to the new Main Market.

On 18th November 2010, both LH Holdings and Emivest received a takeover offer from Emerging Glory for a total sum of RM426.6 mln. Subsequently, both companies were delisted from the Main Market of Bursa Securities on 27th April 2012. Meanwhile, LHI was incorporated on 23th June 2014 under the name of Octagon Bliss Sdn Bhd, which was renamed Leong Hup International Sdn Bhd prior to its conversion into a public company on 17th August 2018.

LHI is the investment vehicle used by Emerging Glory to facilitate the consolidation of businesses previously held by LH Holdings and Emivest, together with other main integrated poultry operations in Indonesia through Malindo Feedmill. Later on, the entire poultry operations in the ASEAN region (i.e.: Malaysia, Indonesia, Singapore and Vietnam) were consolidated under LHI. On 9th September 2014, the group sold a 23.0% stake in LHI to Clarinden Investments, while holding the remaining 77.0% ownership.

Today, the group is one of the largest fully integrated producers of poultry, eggs and livestock feed in Southeast Asia, completely entrenched in regional markets like Malaysia, Indonesia, Singapore, Vietnam and Philippines. As of 2017, LHI is one of the largest pure-play fully integrated producers of poultry, eggs and livestock feeds in ASEAN. On the local front, the group is ranked first in terms of annual feedmill production (10.5% market share) and Day Old Chicks (27.1% market share) supplied in Malaysia.

Elsewhere, LHI is ranked first in terms of live chicken exported from Malaysia to Singapore (45.3% market share), ranked third in terms of annual feedmill production (5.5% market share) and annual Day Old Chicks supplied (7.0% market share) in Indonesia, ranked third in terms of annual feedmill production (4.0% market share) and ranked second in terms of annual Day Old Chicks supplied (12.7% market share) in Vietnam.

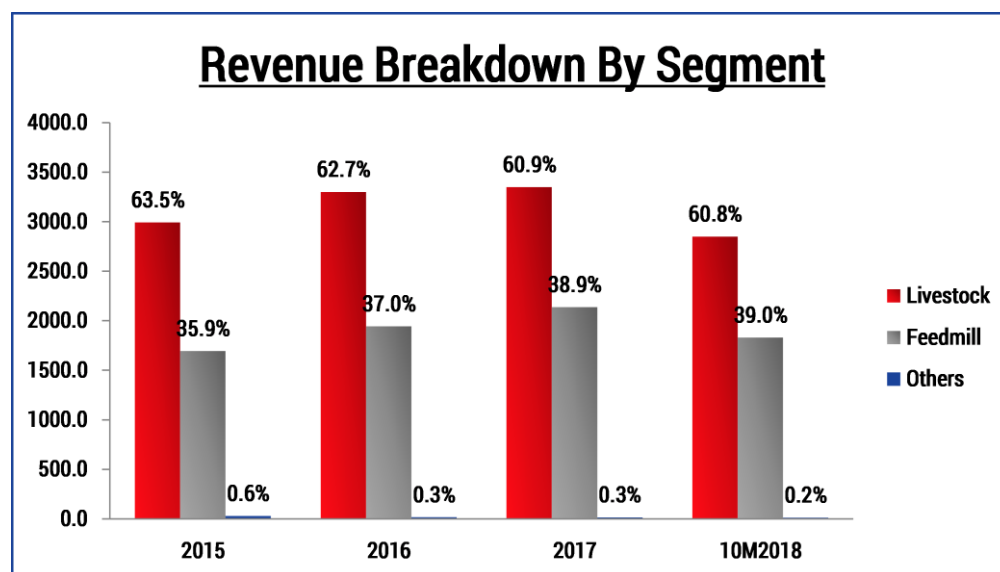
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In 2015, the group entered the Philippines market by establishing Leong Hup Philippines. Two years later in 2017, LHI commenced the first hatchery in Philippines with an annual hatching capacity of 12.0 mln Broilers Day Old Chicks. At the same time, LHI commenced the production of animal medicines and vitamins in Binh Dong plant in Vietnam.

## Business Model

LHI operates in three main business segments, namely: (i) livestock farming business, (ii) feedmill business, and (iii) others. The livestock segment has been the key contributor of the total group revenue over the past years (2015-2017), ranging between 60.0%-64.0% of the total turnover, whilst the feedmill segment, which complements LHI core business, makes up to 35.0%-39.0% of the total revenue during the period. LHI also generates approximately RM10.0-RM15.0 mln per annum from the leasing business.

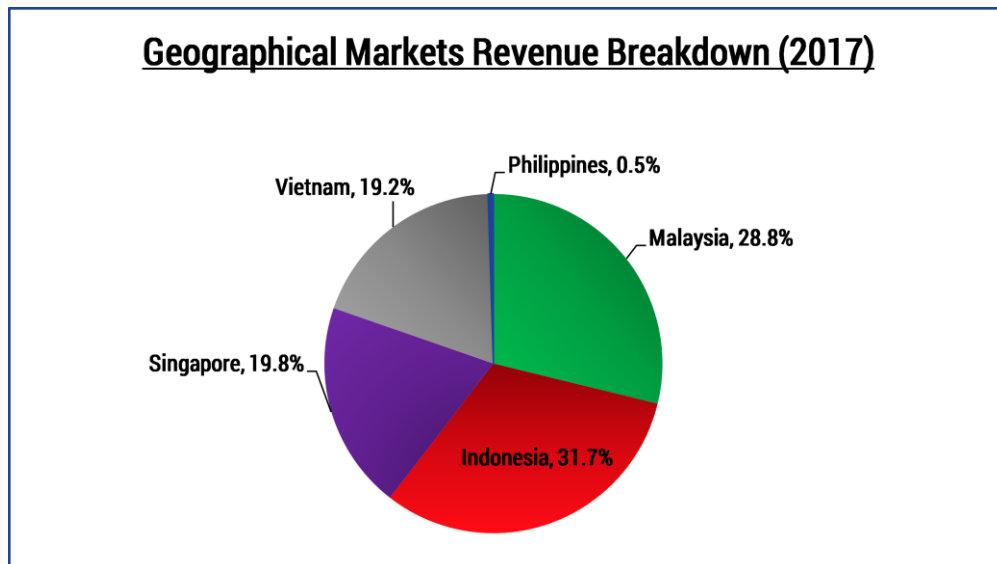


Source: Prospectus

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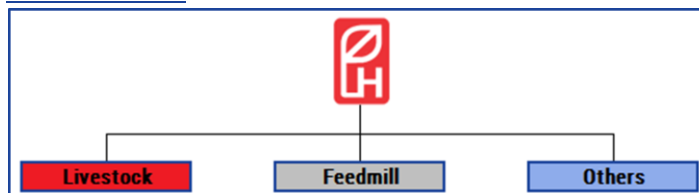
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Geographically, the majority of LHI's businesses are domiciled in Asian countries like Malaysia, Indonesia, Vietnam, Singapore and Philippines. Its regional markets contributed around 71.2% of the total group revenue in 2017.



Source: Prospectus

## **Business Model**



Source: Prospectus

LHI's business activities are divided into three key segments:

### **1. Livestock**

The livestock segment is LHI's core business, making up 60.9% or RM3.35 bln of the total group revenue in 2017. Meanwhile, average EBITDA margins were recorded at around 11.2% from 2015-2017.

The livestock business segment revolves around chicken production, egg production and other related poultry activities.

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The Livestock segment is mainly segregated into;

- (i) **Chicken Production.** The production of Parent Stock (PS), Day Old Chicks (DOC), Broiler DOCs, Broiler chicken, Day Old Ducks (DOD) slaughtering of Broiler chicken and food processing.
- (ii) **Egg Production.** Production of layer DOCs and table eggs.

LHI supplies PS DOCs (PS refers to a type of poultry bird produced from progeny of GPS stock and used for the purpose of systematic breeding of DOCs) and Broiler DOCs (poultry that is bred and raised specifically for meat production) to internal companies and external farmers/distributors, live poultry to wet markets and fresh eggs or processed poultry to supermarkets and quick-service restaurants. LHI also supplies livestock feed to both internal companies and external parties such as distributors, farmers and wholesale agents.

As of end-October 2018, LHI has a total of 241 farms that it operates directly and 656 contracted farms and hatcheries in four countries (Malaysia, Indonesia, Vietnam and the Philippines) and six slaughtering plants across Malaysia, Indonesia and Singapore. The aforementioned farms has a combined housing capacity of 27.1 mln of broiler chickens, 222,000 of GPS DOCs, 5.6 mln PS DOCs, 9.3 mln of layer chickens (poultry that is bred and raised specifically for production of egg), 526,000 of layer DOCs, 34,000 of PS DOCs and 687,000 DODs.

With close to 60 years of experience in the poultry industry, the sizeable business allows LHI to uphold economies of scale against smaller competitors in terms of sourcing for raw materials as well as production and distribution of poultry, in addition to livestock feeds. In 2017, LHI is ranked the largest pure-play integrated poultry producer in Malaysia, top three in Indonesia and Vietnam and commands the largest market share of poultry slaughtered in Singapore.

### LHI Production Ranking and Market Share





Country	Production Ranking	Market Share
<b>Malaysia</b>		
• Annual Feedmill Production (tonnes)	1st	10.5%
• Annual DOCs supplied (mln)	1st	27.1%
<b>Indonesia</b>		
• Annual Feedmill Production (tonnes)	3rd	5.5%
• Annual DOCs supplied (mln)	3rd	7.0%
<b>Vietnam</b>		
• Annual Feedmill Production (tonnes)	3rd	4.0%
• Annual DOCs supplied (mln)	2nd	12.7%
<b>Singapore</b>		
• Live chicken imported from Malaysia (tonnes)	1st	45.3%

Source: Prospectus

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As of end-October 2018, LHI operates in five key markets;

Country	Business	
Malaysia	<ul style="list-style-type: none"> <li>• 6 GPS DOC farms</li> <li>• 19 PS DOC farms</li> <li>• 44 Broiler chicken farms</li> <li>• 3 Layer DOC farms</li> <li>• 25 Layer chicken farms</li> <li>• 11 PS DOD and Broiler duck farms</li> <li>• 8 Hatcheries</li> <li>• 1 Slaughtering plant</li> <li>• 19 Contract farms</li> </ul>	 <p>Grandparent Stock</p>
Indonesia	<ul style="list-style-type: none"> <li>• 4 GPS DOC farms</li> <li>• 24 PS DOC farms</li> <li>• 29 Broiler chicken farms</li> <li>• 2 Layer DOC farms</li> <li>• 1 Layer chicken farm</li> <li>• 1 PS DOD and Broiler duck farm</li> <li>• 18 Hatcheries</li> <li>• 1 Slaughtering plant</li> <li>• 326 Contract farms</li> </ul>	 <p>Breeder</p>
Vietnam	<ul style="list-style-type: none"> <li>• 4 PS DOC farms</li> <li>• 1 Layer DOC farm</li> <li>• 3 Layer chicken farms</li> <li>• 1 Hatchery</li> <li>• 303 Contract farms</li> </ul>	 <p>Broiler</p>
Singapore	<ul style="list-style-type: none"> <li>• 4 PS DOC farms</li> <li>• 26 Broiler chicken farms</li> <li>• 2 Hatcheries</li> <li>• 4 Slaughtering plants</li> <li>• 1 Contract farm</li> </ul>	 <p>Consumer Food Products</p>
Philippines	<ul style="list-style-type: none"> <li>• 2 PS DOC farms</li> <li>• 2 Broiler chicken farms</li> <li>• 1 Hatchery</li> <li>• 7 Contract farms</li> </ul>	

Source: Prospectus, Company Data

## Chicken Production Process

LHI purchases approximately 11,000 GPS DOCs per month from two parties in Europe (Aviagen and Cobb). GPS DOCs are transported to LHI's GPS farms on the day they hatch and will be sorted to genetic lines to prevent complication associated with in-breeding. GPS DOCs are bred for approximately 24 weeks.

Over the course of 24 weeks, GPS DOCs are assessed to ascertain whether it meets the requisition of either: (i) PS for breeding purpose, or (ii) broiler DOC for poultry meat purpose. PS will lay eggs for approximately 42 weeks before transferring to in-house or to third party slaughtering plant operators. In the meantime, broiler DOCs are kept in broiler chicken farms or contract farms between five to seven weeks before being sold to third parties (wholesalers, wet-market traders, slaughtering plants).

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At the slaughtering plants, broiler chickens will undergo the scalding process to facilitate the removal of feathers before the evisceration process (removal of internal organs). Broiler chicken will be chilled to eliminate any pathogens and maintain freshness before undergoing: (i) food processing production (FPP), or (ii) packaging and distribution.

FPP revolves around the separation of chicken based on weight and quality before being processed into ready to cook (RTC), ready to eat (RTE) or further food processing. Both RTC and RTE products are either packaged as a whole or portioned and deboned. Value added process such as marinating, smoking, injecting are undertaken for a number of different products under different brands such as Ayam A1, SunnyGold and Ciki Wiki. Meanwhile, food processing products are refrigerated in trucks and will be sold to various customers including supermarkets, wholesalers, quick-service restaurants, agents and local markets.



Source: Various

## 2. Feedmill

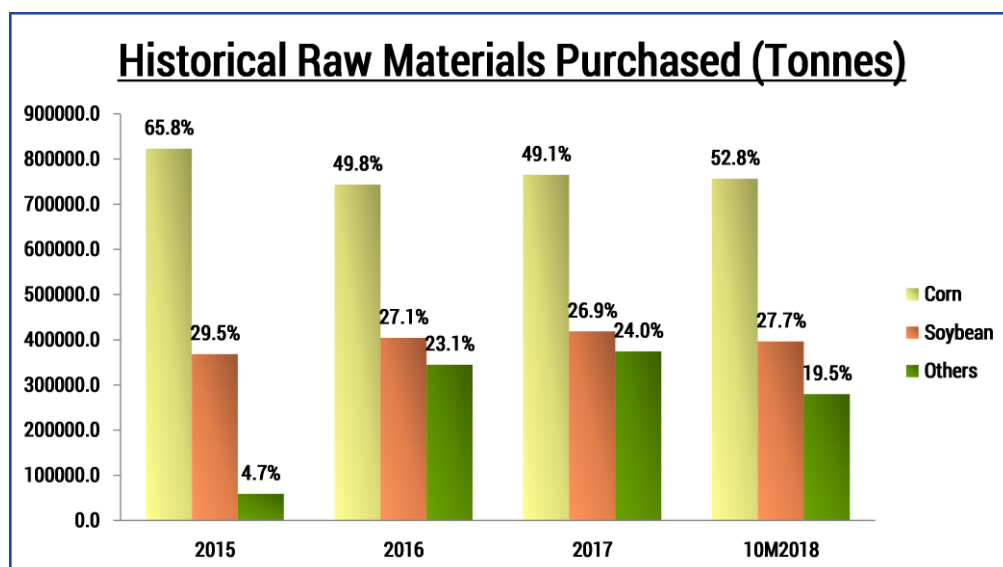
The feedmill segment revolves around the formulation, production and sale of feed for a variety of livestock and complements the livestock segment. In 2017, the feedmill segment contributed to 38.9% or RM2.14 bln to LHI's sales. The three-year (2015-2017) average EBITDA margin is decent at about 11.4%.

As of end-October 2018, LHI owns and operates 13 feedmills across Malaysia, Indonesia and Vietnam with an annual production capacity of 2.6 mln tonnes. In 2017, LHI produced a total of 2.0 mln tonnes of livestock feeds, of which 55.8% or 1.1 mln tonnes of livestock feed were sold to external parties, while the remainder 44.2% or 0.9 mln tonnes were for own consumption. Based on the annual production of livestock feed in 2017, LHI commands 10.5%, 5.5% and 4.0% of market share in Malaysia, Indonesia and Vietnam respectively.

There are two key primary materials in the production of livestock feed – corn and soybean (historically makes up 76%-96.0% of the total raw material cost. LHI mainly import the raw materials from South America, with the exception of its Indonesian operations where it uses domestically produced corn.

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Source: Prospectus

### 3. Others

The others segment contributed RM14.0 mln or 2.5% to the group's total revenue in 2017. This segment comprise of leasing income of between RM14.0 mln-RM29.0 mln over the past years (2015-2017).

### Future Plans

Going forward, LHI will remain focused to expand its business on four key areas:

- (i) **Consolidate and expand leadership position in Malaysia and Singapore.** LHI intends to strengthen the group's leading position in Malaysia and Singapore by replacing open-house farms with closed-house farms with automated systems to manage headcount and costs. LHI also intends to acquire smaller farms to increase market share.
- (ii) **Increase usage of Broiler farms in Malaysia, with a view to replicate the approach in Indonesia and Vietnam.** The usage of own Broiler farms allow greater control over the entire poultry value chain and less dependent on contract farms. LHI's own farms tend to be significantly larger and better equipped which reduces mortality rates and increases both quality and efficiency.
- (iii) **Expansion of upstream operations in overseas markets.** The Vietnam plan entails the expansion of the Dong Nai feedmill in Vietnam that commenced operations in January 2019. The gradual expansion, with RM25.6 mln from the IPO proceeds, will see production capacity in Vietnam rising from 1.0 mln tonnes per annum in 2018 to 1.5 tonnes per annum in 2020. LHI will also construct an aquaculture feedmill

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plant in Vietnam that is expected to commence production in 1Q2021 with a production capacity of 77,760 tonnes per annum. In the Philippines, the expansion plan is to increase its feedmill business with an initial annual production capacity of 144,000 tonnes before upgraded to 240,000 tonnes per annum, funded by RM59.2 mln from its IPO proceeds.

- (iv) **Automation and Technology.** LHI is incorporating a robotic arm in its production line at the Dong Nai feedmill in Vietnam. The adoption of automation will reduce its reliance of labour and subsequently improve efficiency. Meanwhile, a total of RM6.1 mln from its IPO proceeds has been earmarked for the purchase and installation of enterprise resource planning (ERP) system for the offices in the Philippines.

## Industry Outlook

Chicken meat is deemed as one of most affordable source of protein compared to other poultry meat. Historically, the world consumed more white meat compared to red meat as the latter reportedly contain higher saturated fat that can lead to chronic diseases.

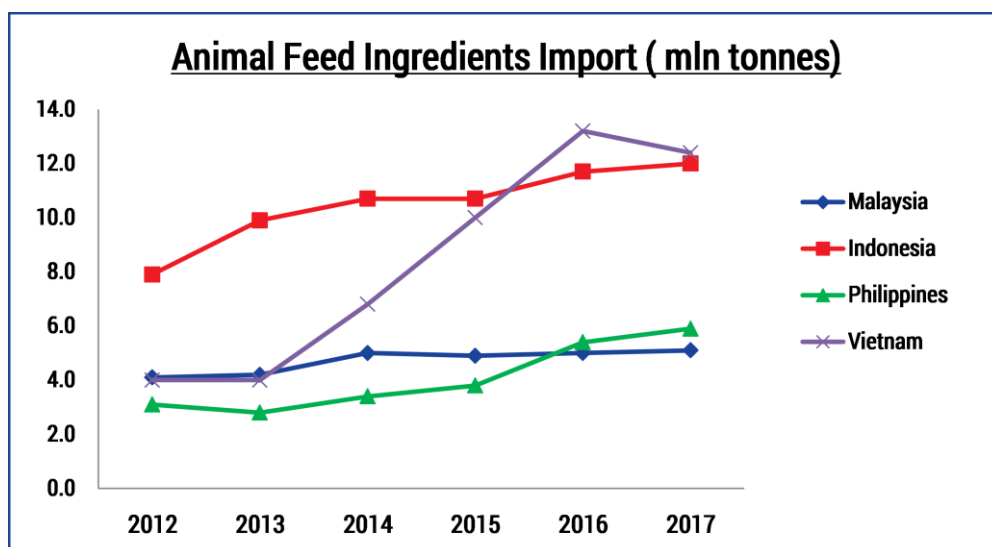
According to an independent market research based on cost price index by Frost & Sullivan, chicken meat is estimated to be 3x-4x more affordable than beef in Indonesia, Malaysia, Singapore and Vietnam and approximately 2x-3x more affordable than meat from swine in Vietnam and Singapore in 2017. This is partly due to the shorter slaughter age of chicken (5-7 weeks) vs. other livestock such as swine (5-6 months) and cattle (18 months).

LHI operates in countries (Malaysia, Indonesia, Philippines, Singapore and Vietnam) that recorded some of the strongest population growth in the ASEAN markets. The five countries are expected to see their population growing at an average three-year CAGR (2018-2021) of 1.6% vs. matured markets such as United States, European Union, Japan and China that will see population growth at an average three-year CAGR (2018-2021) of 0.2%. The rising population is also likely to see the five ASEAN countries likely to record a three-year (2018-2021) poultry meat consumption growing at 5.4%.

The major raw materials for poultry feed (corn, wheat and soybean) are imported from the U.S. and Latin America due to the shortage of domestic production. Over the past years, the imports of animal feed across ASEAN countries have risen significantly to cater for the expansion of the livestock industry. Vietnam and Philippines have recorded animal feed ingredients import at a five year CAGR (2012-2017) of 25.1% and 13.4% to 12.4 mln tonnes and 5.9 mln tonnes respectively. We reckon that LHI's is well positioned to capitalise on the strong growing market demand as it looks to expand its feedmill operations in the two countries.

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Source: Prospectus

## Investment Risk

Risks to our recommendation and forecast include fluctuations in raw material prices (corn and soybean) that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Although the group adopts the cost-pass-through mechanism, the effect of the adjustment will be delayed due to the timing differences.

Any disease outbreak will have a negative effect and may require LHI to temporarily halt operations. Selling prices of affected livestock will drop dramatically as demand tumbles. In order to mitigate the risk that could potentially affect the entire group's operation, LHI farms are spread out across the Asia Pacific region. Over the past ten years, there were no Avian Influenza cases reported within LHI farms and production facilities.

Supply of genetics for grandparent stock (GPS) is the key to high quality livestock. There are a limited number of suppliers of genetics in the market that resulted in the group's dependency on its key suppliers, namely Cobb and Aviagen. Changes or termination of business relationship with key suppliers might affect the future quality of its livestock.

## Financial Performance, Valuation And Recommendation

We expect a modest single digit five-year revenue CAGR of 5.0% to hit a record revenue of RM6.38 bln by 2020, while its net profit is assumed to grow at a slightly higher five-year CAGR of 6.4% to RM268.8 mln over the same period as LHI ramps up its production capacity (both livestock and feedmill) in line with the stable demand growth,

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coupled with additional contribution via the penetration into the Vietnam and Philippines market.

2019 revenue and EBITDA is projected to improve to RM5.91 bln (+5.0% Y.o.Y) and RM715.5 mln (+9.8% Y.o.Y) respectively. Net profit, meanwhile, is expected to improve at a quicker pace of 14.1% Y.o.Y to RM239.3 mln, supported by the higher contribution from the feedmill segment that yields higher margins with the commencement of its fourth feedmill in Dong Nai, Vietnam in January 2019.

For 2020, both revenue and EBITDA growth is expected to climb 7.9% and 11.4% Y.o.Y to RM6.38 bln and RM797.4 mln respectively, while its net profit is set to grow 12.3% Y.o.Y to RM268.8 mln, underpinned by higher production capacity, particularly in Vietnam and Philippines, coupled with the gradual expansion of its feedmill capacity in Vietnam.

We also envisage LHI's balance sheet to be fairly strong, backed by a sizeable war chest of RM562.8 mln in cash and bank balances (post IPO listing). Net gearing is expected trend lower to 0.9x and 0.8x in 2019 and 2020 respectively after the utilisation of the IPO proceeds (from 1.0x in 10M2018). In the meantime, LHI targets to disburse approximately 30% of its net profit as dividends to shareholders. We expect a dividend of 2.0 sen and 2.25 sen – translating to a dividend yield of 1.8% and 2.0% for 2019 and 2020 respectively, based on the IPO price.

We like LHI for its position as one of the largest pure-play vertical integrated poultry player with strong presence in the ASEAN region. We are positive on the group's expansion plans on ramping up the poultry and feedmill production of which the group aims to replicate the success in Malaysia, Singapore and Indonesia into newer markets such as Vietnam and Philippines.

At an IPO offer price of RM1.10, LHI PERs valuation stands at 16.8x and 14.9x, based on our estimated 2019 and 2020 EPS of 6.6 sen and 7.4 sen respectively. We arrived our **BUY** recommendation with a fair value of RM1.40 (27.3% upside from its IPO price) as we assigned a forward PER of 19.0x to our estimated 2020 EPS of 7.4 sen. The assigned target PER is approximately 10.0% discount to its local and regional peers average of 21.5x, after taking into account of the larger market capitalisation of the aforementioned companies (Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore and **QL Resources Bhd** in Malaysia).

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## Peers Comparison

	CPF	THB	JAPFA	QL	LHI	AVERAGE
FYE	Dec	Dec	Dec	Mar	Dec	
Share Price @ 7, May 2019 (RM)	3.64	0.44	1.75	6.79	1.10	
Market Capitalisation (RM mln)	31344.9	2288.1	2392.6	11016.4	4015.0	
P/E 2018 (x)	15.1	26.00	7.7	50.1	19.1	23.6
P/E 2019 (x)	20.0	14.4	6.5	49.3	16.8	21.4
P/B 2018 (x)	1.38	0.45	1.37	5.8	3.0	2.4
ROE (%)	7.1	8.2	2.8	11.1	6.9	7.2
DPS (Sen)	8.5	0.2	3.6	4.0	1.0	3.5
Dividend Yield (%)	2.3	0.4	2.1	0.6	0.9	1.3

Source: Bloomberg, MSSB Research

## Key Management

### I. Non-Independent Executive Chairman

**Lau Chia Nguang** has accumulated over 40 years of experience and expertise in the integrated livestock industry. He joined LH Poultry Farm in 1978 and led the latter from 1985 until 2002. In the interim, he played a crucial role in the expansion of LH Holdings' poultry business into Jakarta (1996) and Indonesia (1997), which ultimately saw the listing of Malindo Feedmill on the Jakarta Stock Exchange in 2006. Mr. Lau served as President Director of Malindo Feedmill from 2014 to June 2018 and is currently the President Commissioner of Malindo Feedmill. He is also on the group's Board since 1st September 2014 and was re-designated as the Executive Chairman on 1st October 2018.

### II. Non-Independent Executive Director

**Dato' Lau Eng Guang** is responsible for LHI's business strategies and risk management, in addition to other various aspects of the group's operations. He first joined LH Poultry Farm in 1978 where he oversaw its finances and corporate affairs. Subsequently, Dato' Lau served as a director in LH Holdings and Emivest from 1989-2002 before the companies were delisted from the Main Board of Bursa Securities.

### III. Non-Independent Executive Director

**Tan Sri Lau Tuang Nguang** started his career as a Director of LH Poultry Farm in 1978 until October 2018. At the same time, he was board member of LH Holdings and LHI, which he still sits until today. He was also appointed as the Group Chief Executive Director (CEO) on 13th June 2018. He sits on the boards of various subsidiaries (i.e.: Teo Seng), President Director of Malindo Feedmill and panel advisor to the MOA (2004) and panel member of National Agriculture Advisory Council. He is mainly responsible for overseeing the entire business including operations in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

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#### IV. Non-Independent Executive Director

**Lau Joo Hong** joined the family poultry business in 1991 when he entered Bintang Lapan Sdn Bhd (now known as A1FC), a subsidiary of LH Holdings previously. He planned and executed the group's venture into Vietnam's poultry business in 2017 and led the Vietnam operations as Deputy Chief Executive Officer until his promotion in 2014 to Chief Executive Officer.

#### V. Non-Independent Executive Director

**Lau Joo Han** began his career at Leong Hup Contract farming Sdn Bhd (now known as LH Agrobusiness) in 2001 before rising through the ranks to the Chief Executive Office of LH Malaysia in 2014. He was appointed to the Board on 1st October 2018. He graduated with a degree in International Trade from Victoria University, Melbourne, Australia in 1999.

#### VI. Non-Independent Executive Director

**Lau Joo Keat** joined Malindo Feedmill as a Production Manager in 2002. He was appointed to the Board on 9th September 2014 and served as the Country Head where he is in charge of LHI's Indonesia business in 2017. He graduated with a Bachelor of Marketing from University of Kentucky in United States in 2002.

#### VII. Non-Independent Non-Executive Director

**Benny Lim Jew Fong** has accumulated over 22 years of experience in various banks before being appointed on the Board on 9th September 2014. He is the current Managing Director of Affinity EPS where he is responsible for originating, executing and managing investments for Affinity EPS. He obtained a Bachelor of Commerce from Monash University, Australia in 1995 and qualified as a Chartered Financial Analyst in 2001.

#### VIII. Independent Non-Executive Director

**Datin Paduka Rashida Binti Ramli** was appointed to the Board on 1st August 2018. Since 1984, she held various senior levels of government positions such as Director General of the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT), Ministry of Foreign Affairs from 2010 to 2017. She obtained a Bachelor of Arts (Honours) in South East Asian Studies from University of Malaysia, Kuala Lumpur in 1982.

#### IX. Independent Non-Executive Director

**Mahani Binti Amat** has accumulated over 27 years of experience in the banking industry. She was also a member of the Association of Banks, Fraud Risk Committee. She was appointed on the Board on 1st August 2018 and is also sits on the board as Independent Director in two public listed companies - Unisem (M) bhd and Scicom (MSC) Bhd since 2016 and 2017 respectively. She obtained her Bachelor in Economics, majoring in Business Administration from University of Malaya in 1977.

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## X. Independent Non-Executive Director

**Chu Nyet Kim** has accumulated over 30 years of experience in the accounting and finance industry. Over the last 27 years where she was in Deloitte, she held various positions, specialising in taxation. She was appointed to the Board on 1st August 2018 and has a Diploma in Accounting (honours) from Algonquin Collage of Applied Arts and Technology, Canada in 1997. She has been a fellow member of Association of Chartered Certified Accountants (ACCA) since 1995 and a member of Malaysian Institute of Accountants (MIA) in 2018.

## XI. Independent Non-Executive Director

**Goh Wen Ling** has accumulated over 14 years of experience in the legal industry encompassing direct real estate acquisitions and divestments, retail banking on financing, corporate and commercial legal practice, before being appointed on the Board on 1st August 2018. She graduate with a Bachelor of Laws (Honours) degree from University of Hull in 2000 and obtained her Postgraduate Diploma from City University London, Inns of Court School of Law in 2001. She was admitted to the High Court of Malaya as an advocate and solicitor in 2002.

## XII. Senior Independent Non-Executive Director

**Low Han Kee** has accumulated over 30 years of experience in financial expertise, having held senior finance positions in public listed companies like Mulpha International Bhd (1985-1990) and Amway (Malaysia) Holdings Bhd (1998-2016) before being appointed to the Board on 1st August 2018. He is a qualified certified public accountant with the Malaysian Institute of Certified Public Accountants (MACPA) since 1984.

## XIII. Independent Non-Executive Director

**Tay Tong Poh** has accumulated 17 years of experience in the banking industry. He joined Afinity EPS in 2011 as the Managing Director and Head of Portfolio Management before retiring in June 2018. He was appointed on the Board on 1st August 2018 and holds a Bachelor of Science in Electrical Engineering from University of Southern California Viterbi School of Engineering, United States in 1984 and a Master of Business Administration (Finance) from University of Chicago Booth School of Business, United States in 1986.

## XIV. Alternate Director

**Tee Yock Siong** has accumulated almost 12 years of experience in the private equity and corporate finance industry. He joined Affinity EPS as an Executive Director in 2012 before being appointed on the Board as an Alternate Director to Benny Lim Jew Fong on 1st August 2018. He holds a Bachelor of Business Management and a Bachelor of Science (Economics) from Singapore Management University in 2006 and Master of Business Administration (MBA) from Wharton School, University of Pennsylvania, United States in 2012.

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## Listing Scheme

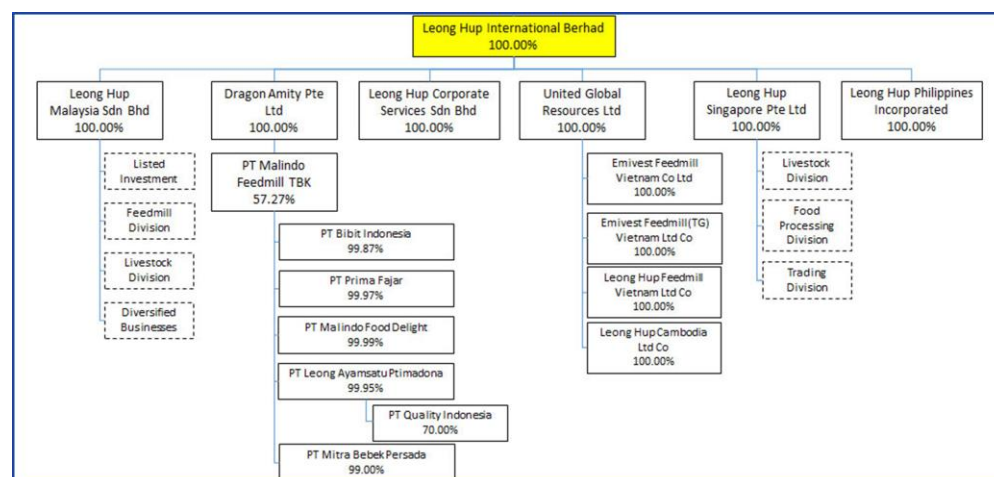
The initial public offering of LHI entails the issuance of 250.0 mln new shares at RM1.10 per share that will raise an additional capital of RM275.0 mln, which will be utilised as follows:

Proposed Utilisation	Amount of Proceeds		Timeframe for Utilisation
	RM (m ln)	%	
Capital expenditure	207.7	75.5	Within 24 months
Working Capital	33.0	12.0	Within 6 months
Defray fees and IPO expenses	34.3	12.5	Within 3 months
<b>Total</b>	<b>275.0</b>	<b>100.0</b>	

Source: Prospectus

Bulk of the IPO proceeds will be utilised as CAPEX for its Malaysia, Vietnam and Philippines operations, comprising of: (i) expansion of broiler farm in Malaysia (RM40.7 mln), (ii) expansion of Dong Nai feedmill plant, equipment for feedmill plant and expansion of layer farm in Vietnam (RM47.0 mln), and (iii) new feedmill plant, new farm and hatchery and installation of Enterprise Resource Planning system in Philippines (RM119.8 mln).

## Group Structure



Source: Company Data

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Income Statement					
FYE Dec (RM mln)	2016	2017	2018E	2019F	2020F
Revenue	5,257.4	5,501.4	5,628.4	5,912.4	6,379.2
EBITDA	670.4	576.6	651.4	715.5	797.4
Depreciation & Amortisation	196.9	199.1	203.5	214.1	251.7
Net Interest Expense	-99.6	-86.4	-92.3	-92.8	-91.1
Pre-tax Profit	374.3	291.6	356.0	409.1	455.0
Effective Tax Rate	20.6%	15.4%	24.5%	24.5%	25.0%
Net Profit	209.5	191.9	209.7	239.3	268.8
EBITDA Margin	12.8%	10.5%	11.6%	12.1%	12.5%
PreTax Margin	7.1%	5.3%	6.3%	6.9%	7.1%
Net Margin	4.0%	3.5%	3.7%	4.0%	4.2%

Source: Prospectus, MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2016	2017	2018E	2019F	2020F
Total Assets	4301.1	4477.5	4779.6	5141.4	5307.6
Fixed Assets	2137.3	2210.1	2288.0	2517.3	2648.4
Current Assets	1989.5	2066.6	2297.1	2425.2	2462.0
Other LT Assets	174.3	200.8	194.6	198.9	197.3
Current Liabilities	1747.1	1940.3	1923.3	1969.0	1986.6
LT Liabilities	563.6	895.1	1040.8	1032.8	1022.2
Share Capital	1.0	1230.1	1230.1	1497.2	1497.2
Shareholder's Funds	1314.6	1185.6	1343.8	1652.2	1788.8
Minority Interests	675.8	456.4	471.7	487.4	510.1

Source: Prospectus, MSSB Research

Per Share Data					
FYE Dec	2016	2017	2018E	2019F	2020F
Book Value (sen)	36.02	32.48	36.82	45.26	49.01
Cash Flow (sen)	11.7	12.8	11.1	13.5	14.3
Net Earnings (sen)	5.7	5.3	5.7	6.6	7.4
Dividend (sen)	0.5	1.1	1.0	2.0	2.3
Payout Ratio (%)	8.2%	20.0%	17.4%	30.5%	30.6%
Dividend Yield (%)	0.4	1.0	0.9	1.8	2.0
PER (x)	19.2	20.9	19.1	16.8	14.9
P/Cash Flow (x)	0.1	0.1	0.1	0.1	0.1
P/Book Value (x)	3.1	3.4	3.0	2.4	2.2
ROE (%)	10.5	6.7	6.9	6.6	7.1
Net Gearing (%)	61.3	103.0	91.3	75.7	70.9

Source: Prospectus, MSSB Research

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