

02 May 2019 | Initiate Coverage

Leong Hup International Berhad

The Return of the Poultry King

Initiate with BUY

Target Price (TP): RM1.34

INVESTMENT HIGHLIGHTS

- We initiate coverage on Leong Hup International Berhad with a BUY recommendation and TP of RM1.34 per share
- Our valuation is based on EPS20 of 5.6sen pegged to PER of 24.0x
- LHI is the largest integrated producer in Malaysia and the third largest in Indonesia and Vietnam
- It has benefited from economies of scale and we believe that its well-integrated business will continue to sustain earnings

Company Background

Leong Hup International Berhad (LHI) is a fully integrated producer of poultry, eggs and livestock feeds with operations in Malaysia, Singapore, Indonesia, Vietnam and the Philippines. Leong Hup was delisted in April 2012 following the privatisation exercise by Emerging Glory Sdn Bhd, a company owned by the founding Lau family. Based on annual production, LHI is the largest integrated producer in Malaysia and the third largest in Indonesia and Vietnam. The group has the largest market share of poultry slaughtered in Singapore. Overall, the group produced about 495.6m day-old-chicks (DOC), 99.1m of broiler chickens, 1.7b eggs and 2.0m MT of livestock feeds in FY17.

IPO Statistic

Leong Hup relisting to the Main Market of Bursa Malaysia constitutes an issuance of up to 937.5m shares. Through the public issuance, LHI targets to raise gross proceeds of RM275.0m. Upon listing, the enlarged issues share capital is of 3,650.0m shares.

Key investment thesis

- Economies of scale,
- Vertically integrated business model, and
- Geographically diversified operation.

Valuation

We value LHI at **RM1.34** per share based on pegging FY20F EPS of 6.0sen to target PER of 24.0x. This is premised on the average historical three-year mean PER of similar companies that engage in poultry operation. We believe the based PER derived is fair given the: (i) scale and broad presence of LHI's operation; and (ii) vertically-integrated nature of its business.

RETURN STATS

IPO Price	RM1.10
Target Price	RM1.34
Expected Share Price Return	+21.8%
Expected Dividend Yield	+1.8%
Expected Total Return	+23.6%

Share Information

Listing	Main Market
Enlarged Share Capital (Mil)	3,650.0
Market Capitalisation (RM m)	4,015.0
Issue Price	1.10
Tentative Listing Date	16-May-19
Tentative Listing Dates	
Event	Tentative Date
Opening of the IPO	25-April-19
Closing of the IPO	3-May-19
Balloting of Applications	7-May-19
Allotment of Shares	15-May-19
Listing	16-May-19
Major Shareholders (%)	
Emerging Glory	52.80
Clarinden Investment	7.96
Lau Joo Han	1.89

A) BUSINESS OVERVIEW

LHI's operations consist of two main businesses namely; (i) feedmill; and (ii) livestock business. The combination of these two businesses covers the entire poultry value chain. The feedmill business contributed about 40.0% to group's total revenue whilst the remaining is derived from the livestock business. In terms of geographical exposure, the group's revenue largely emanates from Indonesia (33.0%) followed by Malaysia (29.0%), Vietnam (20.0%), Singapore (17.0%), and the Philippines (1.0%).

Figure 1: LHI's operation sites and contribution by country



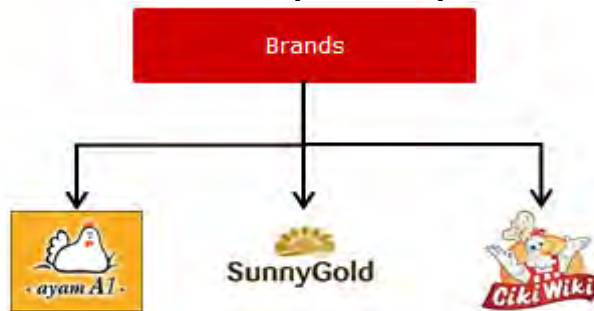
Source: Company, MIDFR

Feedmill Business. The feedmill business consists of the formulation, production and sale of livestock feed. LHI's feeds tailored to different type of livestock and rearing stage such as for grandparent stock, parent stock, broiler chicken, layer chicken, broiler duck, swine, quail, aquatic animals and even some domestic pets. LHI has a total of 13 feedmills across Malaysia, Indonesia and Vietnam with annual production capacity of 2,602.9m MT as of 31st October 2018 with overall utilisation rate of about 80.0%.

Approximately 43.0% of the livestock feeds produced were for its livestock businesses in Malaysia, Indonesia and Vietnam while the rest were sold to third parties. Nearly all of the livestock feeds were sold in the same country they were produced. In January 2019, an additional one feedmill has commenced operation in Dong Nai, Vietnam in line with the group effort to expand its upstream business in the country. LHI's market share by annual production of livestock feeds was in Vietnam was of 4.0% in comparison to 10.5% for Malaysia. Also, its first feedmill plant in the Philippines market is expected to commence in the 4QFY20. LHI do not produce livestock feed in Singapore.

Livestock Business. The livestock business has two sub-operations namely: (i) chicken production; and (ii) egg production. The group operates 241 farms and hatcheries and six slaughtering plants. To further increase its production capacity, LHI has engaged with 656 contract farms across four countries for the rearing of broiler DOCs and day-old ducks (DOD) and layer DOCs. The chicken production operation consists of the rearing of grandparent stock DOCs, parent stock DOCs, and broiler DOCs for internal use and external sale (accounted for 59.0% of the total broiler DOCs produced), the sale of broiler chicken, as well as further food processing.

Figure 2: LHI's brands for its processed product category



Source: Company, MIDFR

The egg production operation consists of the production of layer DOCs and table eggs. Of the layer DOCs produced, about 85.0% was sold to third parties. In Malaysia, LHI operates its egg production segment through Teo Seng Group (Teo Sheng), a public listed company, as it has a strategic partnership with the group since 1994. Teo Sheng is an associate company of LHI as it has an effective ownership interest of 26.8%. In the FY17, Teo Seng Group produced and sold about 1.3b eggs which placed them as the second-highest producers of eggs among the public listed integrated companies in Malaysia. The group primarily sells its eggs as table eggs, but also markets its premium eggs under the brand "Happy Egg".

Figure 3: Operating statistics by country as of 31st October 2018

Country	Feedmill Operation (actual production in mt)	Livestock Operation (m)
Malaysia	551,929	No. of DOCs supplied:170.0* No. of Broiler chicken supplied: 50.0 Eggs sold: 1,115.0
Indonesia	641,157	No. of DOCs supplied:188.0* No. of Broiler chicken supplied: 20.0 Eggs sold: 42.0
Vietnam	564,533	No. of DOCs supplied: 31.0* No. of Broiler chicken supplied: 20.0 Eggs sold: 234.0
Singapore	N/A	No. of DOCs supplied:25.0 No. of Broiler chicken supplied: 8.0 Eggs sold : N/A
Philippines	N/A	No. of DOCs supplied:8.0 No. of Broiler chicken supplied: 3.0 Eggs sold: N/A

*DOCs supplied include parent stock DOCs, broiler DOCs and layer DOCs

Source: Company, MIDFR

B) IPO DETAILS

Figure 4: IPO structure

Categories	No. of shares	% of enlarged share capital
<u>Retail Offering</u>		
Malaysian Public (via balloting)		
- Bumiputera	36,500,000	1.00
- Non-Bumiputera	36,500,000	1.00
Eligible Persons	25,000,000	0.68
Total Retail Offering	98,000,000	2.68
<u>Institutional Offering</u>		
Malaysian institutional and selected investors	419,750,000	11.50
Bumiputra investors approved by MITI	419,750,000	11.50
Total Institutional Offering	839,500,000	23.00
Total Offering	937,500,000	25.68

Source: Company, MIDFR

As per Figure 4, the IPO constitutes a total retail offering of 98.0m shares and institutional offering of 839.5m shares (including offer for sale). The public issue is of 250.0m new shares and this is expected to raise gross proceeds of RM275.0m.

Figure 5: Utilisation of proceed

Details of utilisation	Estimated timeframe for utilisation upon listing	RM mil	%
Capital expenditure	Within 24 months	207.7	75.5
Working capital	Within 6 months	33.0	12.0
Estimated listing expenses	Within 3 months	34.3	12.5
Total		275.0	100.0

Source: Company, MIDFR

From the total proceeds raised, RM207.7m (75.5%) will be used for capital expenditure in which a total allocation of RM167.0m will be used to ramp-up feedmill operation in Vietnam and the Philippines while about RM40.7 is allocated to expand the capacity of poultry production in Malaysia. The balance of its IPO proceeds for working capital and payment of listing expenses of RM33.0m (12.0%) and RM34.3m (12.5%) respectively.

C) THE PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

Figure 6: The direct and indirect shareholdings of the promoters and substantial shareholders before and after IPO:

Name	Before Our IPO		After Our IPO			
			Assuming the Over-allotment Option is not exercise		Assuming the Over-allotment Option is fully exercise	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
	Shares %		Shares %		Shares %	
Promoters and Substantial Shareholders						
Emerging Glory	56.68	N/A	52.80	N/A	52.80	N/A
Lau Joo Hong	1.46	56.68	0.82	52.80	0.68	52.80
Lau Joo Han	4.06	56.58	2.29	52.80	1.89	52.80
Lau Jui Peng	1.30	56.68	0.73	52.80	0.60	52.80
Lau Joo Heng	1.30	56.68	0.73	52.80	0.60	52.80
Promoters						
Lau Chia Nguang	N/A	3.05	N/A	1.74	N/A	1.45
Dato' Lau Eng Guang	3.05	N/A	1.74	N/A	1.45	N/A
Tan Sri Lau Tuang Nguang	N/A	3.05	N/A	1.84	N/A	1.57
Lau Joo Keat	N/A	3.05	N/A	1.74	N/A	1.45
Lau Joo Hwa	N/A	N/A	N/A	N/A	N/A	N/A
Substantial Shareholders						
Clarinden Investment	23.00	N/A	9.89	N/A	7.96	N/A
Concordant Investment	N/A	23.00	N/A	9.89	N/A	7.96
Affinity APF IV	N/A	23.00	N/A	9.89	N/A	7.96
Affinity APF IV2	N/A	23.00	N/A	9.89	N/A	7.96
CWL&S	N/A	56.68	N/A	52.80	N/A	52.80

Source: Company, MIDFR

Figure 7: The profiles of promoters and substantial shareholders:

Shareholders	Position
Emerging Glory	Company owned by the founding Lau family
Lau Joo Hong	Executive Director/Chief Executive Officer of Vietnam operations
Lau Joo Han	Executive Director/Chief Executive Officer of Malaysia operations
Lau Jui Peng	Group Breeder Chief Executive Officer
Lau Joo Heng	Chief Executive Officer of Philippines operations
Lau Chia Nguang	Executive Chairman/President Commissioner of Malindo Feedmill
Dato' Lau Eng Guang	Executive Director/Group's Business Strategist
Tan Sri Lau Tuang Nguang	Executive Director/Group Chief Executive Officer/President Director of Malindo Feedmill
Lau Joo Keat	Executive Director/Country Head of Indonesia operations
Lau Joo Hwa	Chief Executive Officer of Singapore operations

Source: Company, MIDFR

D) INVESTMENT THESIS

Economies of scale. LHI is a pure-play producer which focus mainly on the production of poultry unlike most of its competitors. For instance, **QL Resources Bhd (Neutral; TP: RM7.35)** which is LHI's biggest competitor in Malaysia has ventured into other businesses apart from poultry. The strategy enables LHI to utilise all its resources on growing the business to achieve economies of scale. This also gives them a competitive advantage over smaller competitors in the sourcing of raw materials and the production and distribution of poultry and livestock feeds. In addition, poultry is a high-volume, low-margin business as the products can be regarded as a commodity and consumers are mostly price sensitive. As such, it is important for poultry players to emphasis on volume and manage their cost effectively in order to protect their profit margins. In FY17, LHI supplied 27.1% of total Malaysian market DOCs supply.

Figure 8: Listed poultry related companies in Malaysia

Company	Principal activities	Poultry contribution as a % of total contribution	FY18 PBT (RM m)	PBT margin (%)
Leong Hup International Bhd	Integrated livestock farming	100.0	348.6	6.1
QL Resources Bhd	Integrated livestock farming, marine products manufacturing, palm oil activities and FamilyMart operation	60.4	255.3	7.8
Lay Hong Bhd	Integrated livestock farming and supermarket operation	86.2	52.2	6.2
Teo Seng Capital Bhd	Layer farming and trading of pet food, medicine and other related products	87.4	41.2	8.4
CAB Cakaran Corporation Bhd	Investment holding, Poultry farming, marine products manufacturing, fast food business and supermarket	93.4	40.7	2.3
CCK Consolidated Holding Bhd	Retailing and poultry farming	46.4	36.0	5.8
LTKM Bhd	Layer farming, sand mining, and property development	98.3	7.1	4.0
TPC Plus Bhd	Production, grading, packaging and sale of table eggs and feeds	70.3	4.5	2.1

Source: Various companies, MIDFR

Vertically integrated business model One of LHI's main business strategies is to strengthen its value chain through vertical integration. When entering new markets, livestock operations is first established and subsequently the feedmill operations once the former are large enough to ensure that the latter can run at a break-even level. This has the effect of strengthening its competitive position as well as shielding its business from value chain cyclicality. For instance, the upstream integration reduces fluctuation in supply and raw material prices such corn and soybean meal. For pure layer farming, cost of raw materials makes up 70%-75% of cost of sales. Nonetheless, as a leading producer of animal feed in Malaysia, LHI is benefiting from the economies of scale of procuring the raw material in bulk and hence, minimising the cost of animal feed for internal requirement. As at 31st October 2018, cost of raw materials accounted only 58.8% of total cost of sales.

In addition, LHI presence across the entire poultry production value chain (from grandparent stock farms to broiler chicken/layer farms) gives them the option of selling DOCs at any stage in the production process if the market price is right. If otherwise, LHI will make the decision to monetise further down the value-chain e.g. the broiler stage. This flexibility helps LHI to mitigate products price volatilities and stabilise profit margins.

Geographically diversified operation. With more than 40 years of experience in poultry production, LHI has substantial institutional knowledge and expertise in all phases of the poultry industry. This allows LHI to replicate its vast experience in other markets as they expand their operation. To date, LHI is the only poultry producer that has presence in Malaysia, Singapore, Indonesia, Vietnam and the Philippines. This geographical diversification makes its operation more resilient to any particular country-specific risk which enables them to record a more stable profit margin. Moreover, LHI's facilities within a country are sufficiently spread-out in order to hedge against location-specific risk such as pandemics and fire hazards. In terms of revenue contribution, the Philippines commands the lowest contribution of less than one percent. Nonetheless, we believe that it will be next area of growth for LHI as it replicates the strategies and experience in other markets to the Philippines.

E) FUTURE PLANS

To consolidate its leading position in Malaysia and Singapore. LHI intends to strengthen its leading market positions in Malaysia and Singapore by further expanding its operations. As LHI's most developed markets, these two countries historically contribute about 50.0% of the group's total revenue. Nonetheless, LHI believes that there still room for to improve operating efficiency through: (i) continuously improve feedmills productivities; (ii) takeover of smaller farms and replace remaining open-house farms with closed-house farms; (iii) integration of downstream food processing operations between Malaysia and Singapore; and (iv) exploring acquisition of other poultry producers or feedmills on an opportunistic basis.

Reducing dependency on external broilers farm in Malaysia. LHI aims to reduce its reliance on contract farms in Malaysia through investments in capacity and efficiency of its broilers farm operations. This involves the construction of 32 closed-house farms which will increase production by +10.4m broilers per annum. The group has allocated RM40.7m from the IPO proceeds for this purpose. Initially, contract farms were utilised as they require less capital expenditure. However, as Malaysia is already a mature market for LHI, the group aims to reduce dependency on third-party contract farms and hence, improve its profit margins. As of 31 October 2018, LHI has already reduced its contracted Broiler farms to 18. In the long term, LHI plans to replicate the same approach in Vietnam and Indonesia when the market has reached a critical scale.

To grow its integrated business model in newer markets especially the Philippines. LHI plans to expand their upstream production capacities in the Philippines as it initially entered the market without feedmill operation. A total of RM120.0m (58.0%) of the capital expenditure allocation from the IPO proceeds is allocated for this objective. Of this, RM59.2m is allocated to construct the first feedmill plant in the market with a target annual production capacity of 240.0K mt. This plant is expected to complete in the 4QFY20. Furthermore, LHI is currently exploring Cambodia market through livestock imports and may further increase its presence there if there is sufficient demand from the local customer.

F) KEY RISKS

Prices volatility and availability of raw materials. Corn and soybean meal make up the majority of raw material costs of about 35.0% of total cost of sales. These are mostly sourced from the South America except in Indonesian operation where LHI use domestically produced corn. As these raw materials are commodities, their prices and availability are influenced by various factors including supply-demand dynamic, fluctuation in USD and changes in prices of other commodities such as crude oil. Consequently, any significant change in the aforementioned factors could materially affect LHI's profit margins as the company is unable to immediately fully pass on the increase cost to customers. However, LHI has in the past showed its adaptability in using other cheaper raw materials to manage its costs without sacrificing the nutritional value of the animal feeds.

Foreign currency fluctuations. Fluctuations in foreign currencies may impact LHI's profit margins particularly on the cost of raw materials as a significant portion is denominated in USD. A severe depreciation of RM against USD will increase costs of raw materials. As LHI require at least two months before it can pass on the additional costs to consumer, this will erode their profit margins in the near term. In the case of depreciation of local currencies in which LHI's overseas operation resides such as Indonesia, Singapore, Vietnam and the Philippines against RM, this will result in translation loss which may significantly impact other comprehensive income. For instance, the depreciation in Rupiah of -4.6% as at 31st October 2018 has lowered the profit before tax (PBT) for the period ended by -RM13.3m (4.6% of total PBT).

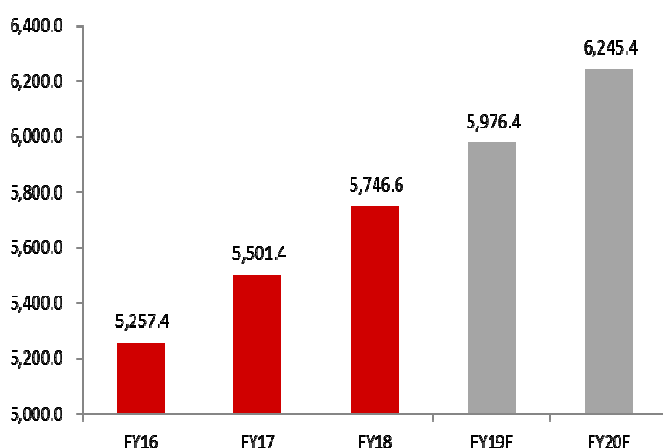
Intense competition. LHI faces significant competition from other poultry producers in the local market it operates. Key factors that affect its competitiveness include price, product quality, and brand identification. Moreover, due to the homogeneous nature of the products, customers can switch to substitute products without incurring significant switching costs. Also, LHI may not able to immediately fully pass on any additional increase in cost of production as consumers are price sensitive. Nevertheless, thanks to LHI integrated operations, it is able to bundle the sale of livestock feed, DOCs and medications to offer a competitive price to its customers.

G) FINANCIALS

Robust historical financial growth. From FY16-FY18, LHI recorded revenue CAGR of +3.0% which was contributed mainly by the stable growth in its three largest markets namely Malaysia, Indonesia and Vietnam. These markets contributed about 80.0% of revenue. In terms of EBITDA margin, Malaysia and Singapore were the highest with about 14.6% in FY18 as LHI. As LHI's most developed markets, the operation in these markets are the most integrated and hence, the higher EBITDA margin. Given the stable profitability, LHI recorded ROE of about 15.0% in the past three financial years. In addition, due to the capital-intensive nature of the poultry business, FY18 net gearing was of 1.4 times. LHI's total borrowings in FY18 was of RM2.3b in which long term borrowings accounted for about 45.0%.

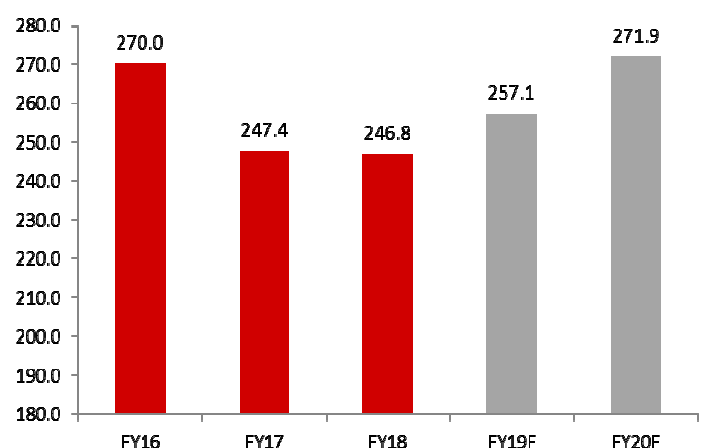
Expecting a better profit margin. We expect the group's revenue to grow at a three-year revenue CAGR of about +2.8% in FY20. This is in line with the growth of animal feed production and poultry meat consumption in the ASEAN region. In addition, we also forecast that net profit margin will gradually improve due to the: (i) reduce reliance on contract farms in Malaysian market; and (ii) venture into upstream business in Vietnam and the Philippines market. Consequently, we expect net profit to grow at a three year CAGR of about +3.3% in FY20. Moreover, as these aforementioned efforts will be finance by the IPO proceeds, we estimate that its net gearing will improve going forward. In regard to dividend policy, LHI has a dividend policy of at least 30.0% payout ratio. Based on our earnings forecast and issue price, this presents a dividend yield of 1.8%.

Figure 9: Historical and Forecasted Revenue (RM m)



Source: Company, MIDFR

Figure 10: Historical and Forecasted Net Profit (RM m)



Source: Company, MIDFR

H) VALUATION


We value LHI at **RM1.34** per share based on pegging FY20F EPS of 5.6sen to target PER of 24.0x. This is premised on the average historical three-year mean PER of similar companies that engage in poultry operation. We believe the based PER derived is fair given the: (i) scale and broad presence of LHI's operation; and (ii) vertically-integrated nature of its business. 

Figure 11: Peer comparison

Company	Principal activities	Market capitalization (RM'm)	Historical 3-year mean PER (x)
QL Resources Bhd	Integrated livestock farming, marine products manufacturing, palm oil activities and FamilyMart operation	11,065.0	37
Lay Hong Bhd	Integrated livestock farming and retail operation	297.1	33
Teo Seng Capital Bhd	Layer farming and trading of pet food, medicine and other related products	362.7	21
CAB Cakaran Corporation Bhd	Integrated livestock farming, marine products manufacturing, fast food business and supermarket	381.0	11
CCK Consolidated Holding Bhd	Retailing and poultry farming	383.4	12
LTKM Bhd	Production and sale of poultry and related products, extraction and sale of sand, investment holding and property development	149.6	27
TPC plus Bhd	Production, grading, packaging and sale of table eggs and feeds	95.9	24
		Average	24

Source: Bloomberg, MIDFR

SUMMARY OF FINANCIAL STATEMENT

Income statement (RM m)	2016	2017	2018	2019F	2020F
Revenue	5,257.4	5,501.4	5,746.6	5,976.4	6,245.4
Core EBITDA	646.8	583.1	654.6	681.1	709.9
Depreciation & amortisation	(196.9)	(199.1)	(197.1)	(210.9)	(220.4)
Core EBIT	449.9	384.0	457.5	470.2	489.5
Finance costs	(103.0)	(92.2)	(109.5)	(107.6)	(112.4)
Share of profits of associates	0.45	0.47	0.59	0.61	0.64
PBT	347.3	292.3	348.6	363.2	377.7
PAT	270.0	247.4	246.8	257.1	271.9
PATAMI	182.5	192.6	186.2	194.1	206.1
EPS (sen)	5.0	5.3	5.1	5.3	5.6
EPS growth (%)	66.2	5.5	(3.3)	4.3	6.2
Dividend/share (sen)	-	-	-	1.9	2.0
Dividend yield (%)	-	-	-	1.7	1.8

Cash flow (RM m)	2016	2017	2018	2019F	2020F
Operating cash flow					
PBT	347.3	292.3	348.6	363.2	377.7
Depreciation & Amortisation	196.9	199.1	197.1	210.9	220.4
Others	129.7	97.9	121.1	107.0	111.8
OP before Δ in WC	674.0	589.2	666.8	681.1	709.9
Δ in working capital	(169.6)	11.4	(225.5)	(13.3)	(1.7)
Cash from operations	504.4	600.6	441.3	667.8	708.2
Tax paid	(72.4)	(76.2)	(75.7)	(106.1)	(105.8)
Net CF to Operations	432.0	524.4	365.5	561.7	602.5

Investing cash flow					
Acquisition of PPE	(251.5)	(336.1)	(363.7)	(437.0)	(450.1)
Others	(5.2)	(30.5)	2.2	(25.8)	(25.8)
Net CF to Investments	(256.7)	(366.7)	(361.5)	(462.8)	(475.9)

Financing cash flow					
Dividends	(32.3)	(58.4)	(66.3)	(67.9)	(72.1)
Net rpmt of term loans	(48.8)	299.9	299.7	158.3	242.4
Others	(179.5)	(313.4)	(273.7)	167.4	(112.4)
Net CF to Financing	(260.6)	(71.9)	(40.3)	257.7	57.8

Balance sheet (RM m)	2016	2017	2018	2019F	2020F
Assets					
PPE	1,952.9	2,045.8	2,216.8	2,450.6	2,688.3
Others	358.6	365.1	359.3	359.3	359.3
Total NCA	2,311.6	2,410.9	2,576.1	2,809.9	3,047.6
Trade Receivables	526.3	564.0	649.2	598.1	625.1
Others	1,050.3	1,000.2	1,149.8	1,140.8	1,182.0
Cash & cash equiv.	413.0	502.4	458.9	747.1	931.4
Total CA	1,989.5	2,066.6	2,257.9	2,485.9	2,738.4
Total assets	4,301.1	4,477.5	4,834.0	5,295.8	5,786.0

Equity					
Share capital	1.0	1,230.1	1,230.1	1,505.1	1,505.1
Share premium	1,229.2	-	-	-	-
Merger reserve	(658.8)	(658.8)	(658.8)	(658.8)	(658.8)
Reserves	743.3	614.3	730.5	902.7	1,085.5
S/holder's funds	1,314.6	1,185.6	1,301.8	1,749.0	1,931.9
Total equity	1,990.4	1,642.0	1,765.4	2,212.6	2,395.4

Liabilities					
Total NCL	563.6	895.1	1,183.8	1,205.7	1,315.1
Bank borrowings	1,171.4	1,398.6	1,304.8	1,332.9	1,473.5
Trade Payables	257.6	242.2	248.9	277.6	290.2
Others	318.1	299.5	331.1	267.0	311.8
Total CL	1,747.1	1,940.3	1,884.8	1,877.5	2,075.5
Total liabilities	2,310.7	2,835.5	3,068.6	3,083.2	3,390.6
Total equity and liab.	4,301.1	4,477.5	4,834.0	5,295.8	5,786.0

Ratios	2016	2017	2018	2019F	2020F
Profitability ratios (%)					
ROE	22.3%	19.8%	19.8%	16.9%	14.8%
ROA	6.5%	5.6%	5.3%	5.1%	4.9%

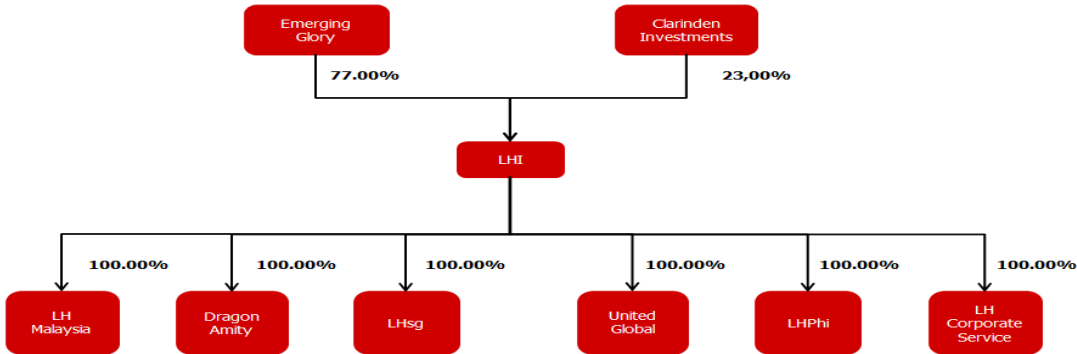
Liquidity ratios (x)					
Current ratio	1.1	1.1	1.2	1.3	1.3
Net gearing	0.9	1.4	1.4	0.9	0.9

Profit margin (%)					
PBT margin	6.6%	5.3%	6.1%	6.1%	6.0%
Net profit margin	5.1%	4.5%	4.3%	4.3%	4.4%

Appendix

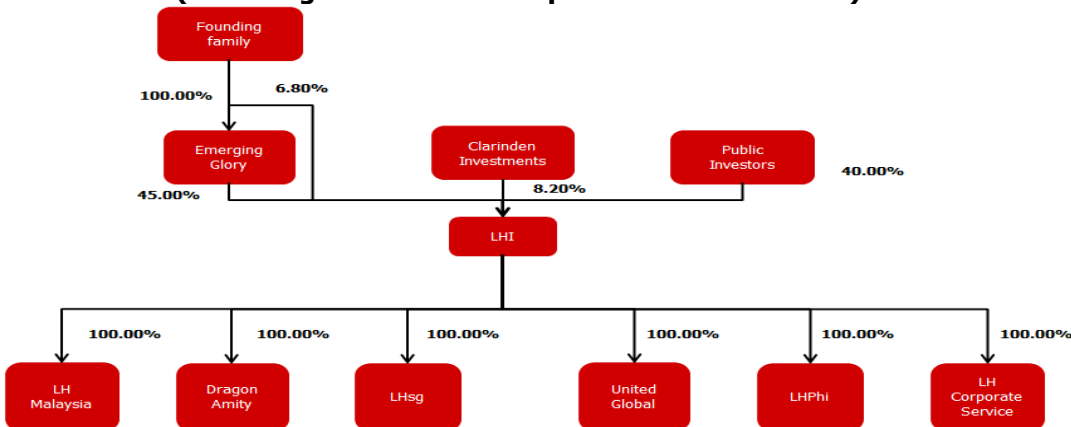
Figure 12: Shareholding structure

Before the IPO:



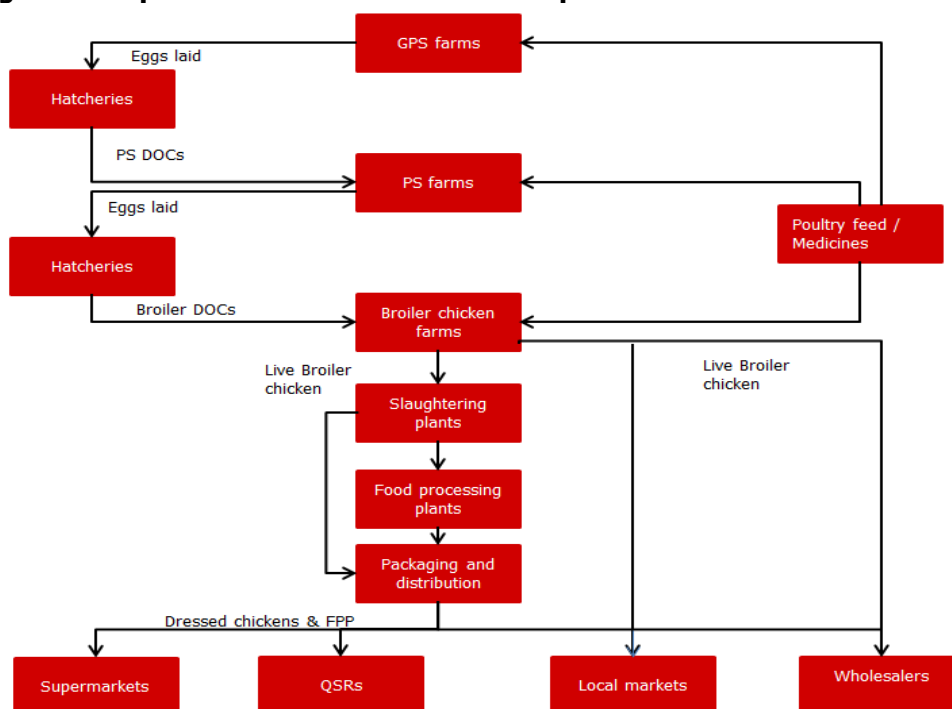
Source: Company, MIDFR

After the IPO (assuming over-allotment option was not exercise):



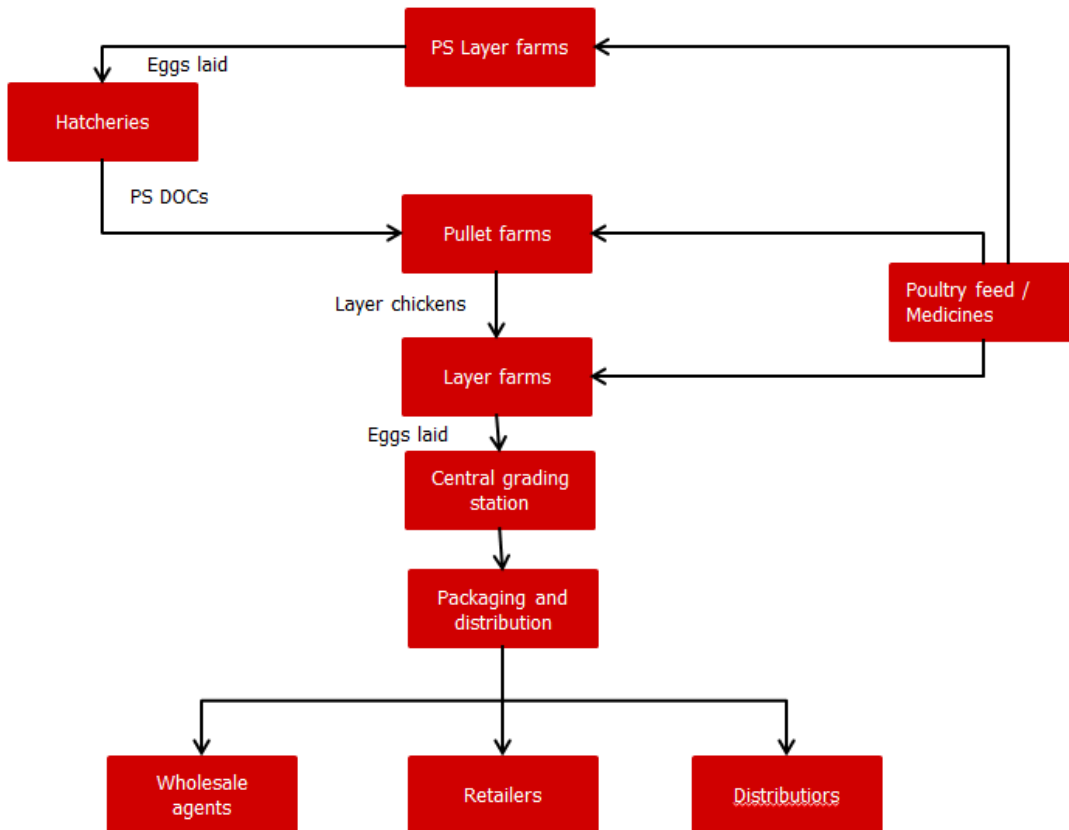
Source: Company, MIDFR

Figure 13: Operational structure of chicken production



Source: Company, MIDFR

Figure 14: Operational structure of egg production



Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.