



## Company report

# LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEQG.KL)

13 Aug 2019

*Expects lower earnings YoY in 2QFY19*

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## BUY

(Maintained)

*Rationale for report: Company update*

Price	RM0.85
Fair Value	RM1.17
52-week High/Low	RM1.19/RM0.84

### Key Changes

Fair value				
EPS				
<b>YE to Dec</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue (RM mil)	5,746.6	5,677.1	6,279.7	6,785.4
Core net profit (RM mil)	186.1	214.0	236.8	256.7
FD Core EPS (sen)	5.1	5.9	6.5	7.0
FD Core EPS growth (%)	(3.4)	15.0	10.6	8.4
Consensus Net Profit (RM mil)	-	243.2	267.6	314.5
DPS (sen)	0.0	1.8	1.9	2.1
PE (x)	16.7	14.5	13.1	12.1
EV/EBITDA (x)	7.8	7.3	7.0	6.9
Div yield (%)	0.0	2.1	2.3	2.5
ROE (%)	15.0	14.1	13.1	12.9
Net Gearing (%)	146.9%	104.6%	112.3%	117.5%

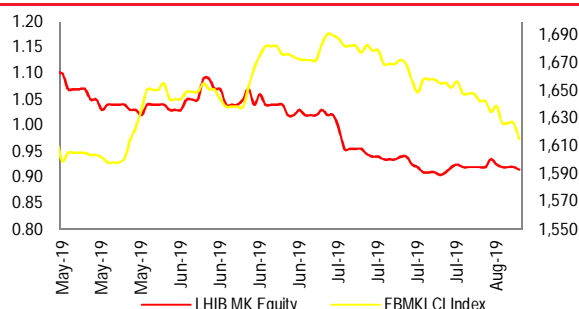
### Stock and Financial Data

Shares Outstanding (million)	3,650.00
Market Cap (RM mil)	3,102.5
Book Value (RM/share)	0.4
P/BV (x)	2.3
ROE (%)	14.3%
Net Gearing (%)	146.9%

Major Shareholders	Clarinden Inv Pte.	8.0%
	Lau Joo Han	1.9%
	Dato' Lau Eng Guang	1.5%
Free Float	87.3%	
Avg Daily Value (RM mil)	4.09	

### Price performance

Absolute (%)			
Relative (%)	(0.2)	-	-



### Investment Highlights

- We cut Leong Hup International's (LHI) FY19–21 net profit forecasts by 11.1%, 9.1% and 8.7% to RM214.0mil, RM236.8mil and RM256.7mil respectively. Our earnings downgrade is in response to the company's announcement on Bursa Malaysia dated 9 Aug 2019 that management expects a significantly lower net profit in 2QFY19 as compared with 2QFY18 due to a significant decline in the average selling prices (ASP) in most of the products sold by the LHI, particularly in Malaysia.
- Following the earnings revision, our fair value is reduced to RM1.17 from RM1.46 based on a PER of 18x over FY20 earnings. Nonetheless, the stock still offers a potential upside of 38%, hence, we are maintaining our BUY recommendation.
- The ASP of LHI's broiler day-old-chicks (DOC) in Malaysia in 2Q2019 was RM1.21 per DOC, representing a decline of 38.6% from RM1.97 per DOC in 2Q2018. Meanwhile, the selling price of broiler DOC in Malaysia tumbled to as low as RM0.90 per DOC in 2Q2019. In comparison, the lowest selling price of the group's broiler DOC in 2Q2018 was RM1.60 per DOC.
- For broiler chicken in Malaysia, the ASP declined by 14.7% to RM3.99 per kg as compared to RM4.68 2Q2018. Selling price of broiler chicken in Malaysia declined to as low as RM2.60 per kg in 2Q2019. In comparison, the lowest selling price of broiler chicken in 2Q2018 was RM3.90 per kg.
- On a positive note, market prices of broiler DOC and broiler chicken have increased to RM2.00 per DOC and RM5.00 per kg respectively on 5 Aug 2019. Meanwhile, management also guided that the group's operating costs are relatively stable while sales volume remain on an uptrend.
- We believe this is a temporary problem as volatility in selling prices are beyond the control of the management; and we shall remain cautious on price movements of broiler DOC and broiler chicken.
- We reckon that the long-term outlook for LHI remains positive given the stable demand of chicken while its source of income outside Malaysia such as Singapore, Vietnam, Indonesia and the Philippines will provide growing potentials for the group.
- Despite our lower fair value, the stock still offers a potential upside of 38% and dividend yield of 2.0%. Hence, we maintain our BUY recommendation on LHI.

## EXHIBIT 1: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	5,501.4	5,746.6	5,677.1	6,279.7	6,785.4
EBITDA	583.1	646.8	673.1	745.6	806.7
Depreciation/Amortisation	(199.1)	(189.9)	(187.6)	(207.5)	(224.3)
Operating income (EBIT)	384.0	456.9	485.4	538.1	582.5
Other income & associates	0.5	0.6	0.6	0.6	0.7
Net interest	(92.2)	(108.9)	(108.2)	(120.7)	(130.4)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>292.3</b>	<b>348.6</b>	<b>377.8</b>	<b>418.0</b>	<b>452.7</b>
Taxation	(44.9)	(101.8)	(86.9)	(96.1)	(104.1)
Minority interests	(54.8)	(60.7)	(76.9)	(85.1)	(91.9)
<b>Net profit</b>	<b>192.6</b>	<b>186.1</b>	<b>214.0</b>	<b>236.8</b>	<b>256.7</b>
Core net profit	192.6	186.1	214.0	236.8	256.7
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
PPE	2,045.8	2,216.8	2,616.8	3,016.8	3,416.8
Intangible assets	106.5	97.3	97.3	97.3	97.3
Other long-term assets	258.6	261.2	261.2	261.2	261.2
<b>Total non-current assets</b>	<b>2,410.9</b>	<b>2,575.3</b>	<b>2,975.3</b>	<b>3,375.3</b>	<b>3,775.3</b>
Cash & equivalent	502.4	458.9	518.0	567.7	621.6
Inventories	516.8	575.6	564.5	612.3	670.8
Trade receivables	564.0	649.2	597.2	671.3	735.2
Other current assets	483.3	574.2	559.5	594.6	628.9
<b>Total current assets</b>	<b>2,066.6</b>	<b>2,257.9</b>	<b>2,239.1</b>	<b>2,446.0</b>	<b>2,656.6</b>
Trade payables	242.2	248.9	258.2	277.0	300.1
Short-term borrowings	1,419.1	1,326.6	1,575.8	1,725.0	1,886.7
Other current liabilities	279.0	309.3	308.9	312.6	315.8
<b>Total current liabilities</b>	<b>1,940.3</b>	<b>1,884.8</b>	<b>2,142.8</b>	<b>2,314.6</b>	<b>2,502.6</b>
Long-term borrowings	774.4	1,044.3	747.5	968.1	1,170.4
Other long-term liabilities	120.7	139.4	139.4	139.4	139.4
<b>Total long-term liabilities</b>	<b>895.1</b>	<b>1,183.8</b>	<b>887.0</b>	<b>1,107.6</b>	<b>1,309.8</b>
<b>Shareholders' funds</b>	<b>1,185.6</b>	<b>1,301.8</b>	<b>1,726.7</b>	<b>1,892.4</b>	<b>2,072.1</b>
Minority interests	456.4	463.6	458.0	506.6	547.4
BV/share (RM)	0.32	0.36	0.47	0.52	0.57
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Pretax profit	292.3	348.6	377.8	418.0	452.7
Depreciation/Amortisation	199.1	189.9	187.6	207.5	224.3
Net change in working capital	11.4	(241.8)	(77.9)	157.1	156.7
Others	21.6	52.5	(124.0)	(631.7)	(666.7)
<b>Cash flow from operations</b>	<b>524.4</b>	<b>349.2</b>	<b>363.6</b>	<b>151.0</b>	<b>167.0</b>
Capital expenditure	(336.1)	(423.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	(32.6)	6.5	0.8	0.0	0.0
Others	2.1	37.9	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(366.7)</b>	<b>(378.6)</b>	<b>(399.2)</b>	<b>(400.0)</b>	<b>(400.0)</b>
Debt raised/(repaid)	549.9	178.9	(47.6)	369.8	363.9
Equity raised/(repaid)	0.0	0.0	275.0	0.0	0.0
Dividends paid	(58.4)	(58.0)	(64.2)	(71.0)	(77.0)
Others	(563.4)	(127.8)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(71.9)</b>	<b>(6.9)</b>	<b>163.2</b>	<b>298.8</b>	<b>286.9</b>
<b>Net cash flow</b>	<b>85.8</b>	<b>(36.2)</b>	<b>127.6</b>	<b>49.7</b>	<b>53.9</b>
<b>Adjustments</b>	<b>8.4</b>	<b>(0.8)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) b/f</b>	<b>333.2</b>	<b>427.4</b>	<b>390.4</b>	<b>518.0</b>	<b>567.7</b>
<b>Net cash/(debt) c/f</b>	<b>427.4</b>	<b>390.4</b>	<b>518.0</b>	<b>567.7</b>	<b>621.6</b>
<b>Key Ratios (YE31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth (%)	4.6	4.5	(1.2)	10.6	8.1
EBITDA growth (%)	(9.8)	10.9	4.1	10.8	8.2
Pretax margin (%)	5.3	6.1	6.7	6.7	6.7
Net profit margin (%)	3.5	3.2	3.8	3.8	3.8
Interest cover (x)	4.2	4.2	4.5	4.5	4.5
Effective tax rate (%)	15.3	29.2	23.0	23.0	23.0
Dividend payout (%)	0.0	0.0	30.0	30.0	30.0
Receivable turnover (days)	37.4	41.2	38.4	39.0	39.6
Inventory turnover (days)	35.3	34.7	36.7	34.2	34.5
Payable turnover (days)	16.6	15.6	16.3	15.6	15.5

Source: AmlInvestment Bank Bhd estimates

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