



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

30 Aug 2019

Expecting a better 2HFY19

BUY

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Rationale for report: Company results

(Maintained)

Price	RM0.76
Fair Value	RM1.17
52-week High/Low	RM1.19/RM0.72

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY18	FY19F	FY20F	FY21F
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)	-	211.6	240.4	281.8
DPS (sen)	-	1.8	1.9	2.1
PE (x)	14.9	13.0	11.7	10.8
EV/EBITDA (x)	7.2	6.8	6.6	6.5
Div yield (%)	-	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

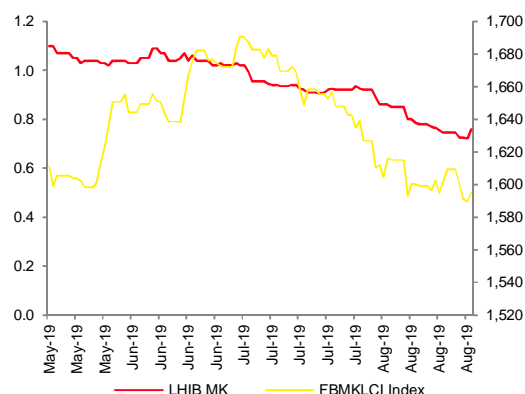
Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,774.0
Book Value (RM/share)	0.36
P/BV (x)	2.1
ROE (%)	15.0
Net Gearing (%)	146.9

Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Dato' Lau Eng Guang (1.6%)
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Free Float	88.6
Avg Daily Value (RM mil)	4.6

Price performance	3mth	6mth	12mth
Absolute (%)	(26.2)	-	-
Relative (%)	(24.9)	-	-



Investment Highlights

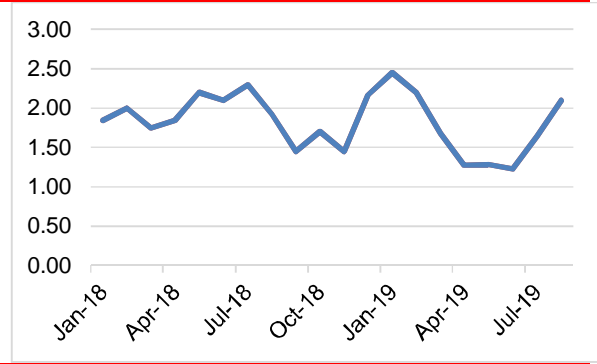
- We maintain our BUY recommendation on Leong Hup International (LHI) with an unchanged fair value of RM1.17/share.
- 1HFY19 core net profit of RM110.98mil (-6.2% YoY) was in line our and street's earnings estimates, accounting for 51.9–52.4% of full-year forecasts respectively.
- LHI's 1HFY19 revenue increased 7.7% YoY to RM2,983.6mil resulting in a 5.3% rise in core EBITDA to RM293.5mil (after excluding RM34.3mil in IPO expenses). Core EBITDA margin slipped 0.2ppt to 9.8% mainly due to a significant drop in ASP in several of its products.
- Livestock and poultry related products segment's 1HFY19 revenue fell 4.8% to RM1,663.3mil. This was mainly due to the disposal of a subsidiary in its Singapore operations.
- There was also a decrease in Malaysia's contribution due to a drop in ASP of broiler and day-old-chick (DOC) although it was slightly mitigated by a higher ASP and sales volume of eggs.
- Its Indonesia operations saw an increase in revenue due to higher ASP and sales volume of DOC while Vietnam recorded an increase in sales volume of broiler. This was partly offset by lower ASP and sales volume of eggs in Vietnam.
- 1HFY19 EBITDA margin for the segment fell 2.9ppts to 9.9%, mainly due to lower margin from lower price of DOC and broiler in Malaysia, broiler in Indonesia and eggs in Vietnam. These were partly cushioned by higher prices of eggs in Malaysia and DOC in Indonesia.
- Feedmill segment's 1HFY19 revenue increased 29.8% to RM1,314.9mil due to a higher sales volume and ASP of livestock feed in Indonesia and Vietnam.
- 1HFY19 EBITDA margin grew 2ppts to 13.1% primarily on the back of higher sales in Indonesia and higher sales in Vietnam as the groups commenced operation in its Dong Nai feedmill plant in January 2019.
- The ASP of LHI's broiler DOC in Malaysia in 2QFY19 fell 38.6% YoY to RM1.21 per DOC while the selling price of broiler chicken dropped 14.7% YoY to RM3.99 per kg.
- On a positive note, the market prices for DOC and broiler have increased to RM2.10 per DOC and RM5.40 per kg respectively on 16 Aug 2019 as shown in Exhibits 2–3.

- We remain convinced 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 Phillipines will provide growth potential for the group.

EXHIBIT 1: RESULTS SUMMARY

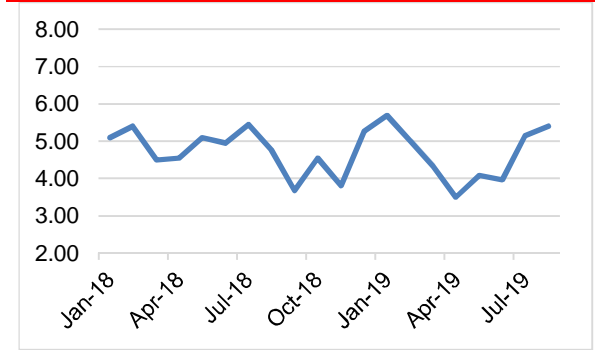
YE Dec	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	1H18	1H19	YoY (%)
Revenue	1,423.1	1,506.4	1,477.2	-1.94	3.80	2,769.5	2,983.6	7.73
Operating profit	127.5	147.7	74.7	-49.42	-41.39	229.3	222.4	-3.00
Core EBITDA	152.1	165.6	93.5	-43.53	-38.50	278.7	293.5	5.31
Depreciation	47.1	48.7	50.6	3.83	7.44	94.3	99.2	5.19
EBIT	105.0	117.0	43.0	-63.25	-59.08	184.3	159.9	-13.24
EI							34.3	
PBT	102.7	114.9	39.9	-65.31	-61.20	180.1	154.8	-14.09
Tax	-27.9	-24.6	-13.3	-45.98	-52.38	-44.3	-37.9	-14.46
PAT	74.8	90.3	26.6	-70.59	-64.49	135.8	116.8	-13.97
Minority interest	-9.1	-29.7	-10.5			-17.5	-40.2	
PATAMI	65.7	60.6	16.1	-73.45	-75.50	118.3	76.7	-35.22
Core PATAMI	65.7	60.6	16.1	-73.45	-75.50	118.3	111.0	-6.23
EPS	1.55	1.78	0.47			3.48	3.26	
Core EBITDA margin (%)	10.7	11.0	6.3	-4.7ppt	-4.4ppt	10.1	9.8	-0.2ppt
PBT margin (%)	7.2	7.6	2.7	-4.9ppt	-4.5ppt	6.5	5.2	-1.3ppt
Effective tax rate (%)	-27.2	-21.4	-33.4	-11.9ppt	-6.2ppt	-24.6	-24.5	0.1ppt
Core PATAMI margin (%)	4.6	4.0	1.1	-2.9ppt	-3.5ppt	4.3	3.7	-0.6ppt
<u>Livestock and poultry related</u>								
Revenue	910.7	859.7	803.7	-6.51	-11.76	1,747.9	1,663.3	-4.84
EBITDA	129.6	118.9	45.7	-61.56	-64.72	224.1	164.6	-26.53
EBITDA margin	14.2	13.8	5.7	-8.1ppt	-8.5ppt	12.8	9.9	-2.9ppt
<u>Feedmill</u>								
Revenue	709.9	942.2	886.8	-5.88	24.92	1,013.1	1,314.9	29.79
EBITDA	48.3	85.2	87.6	2.77	81.36	110.8	172.7	55.94
EBITDA margin	6.8	9.0	9.9	0.8ppt	3.1ppt	10.9	13.1	2.2ppt

EXHIBIT 2: DOC (RM/CHIC)



Source: AmInvestment Bank Bhd, Company

EXHIBIT 3: BROILER (RM/CHICKEN)



Source: AmInvestment Bank Bhd, Company

EXHIBIT 4: PB BAND CHART

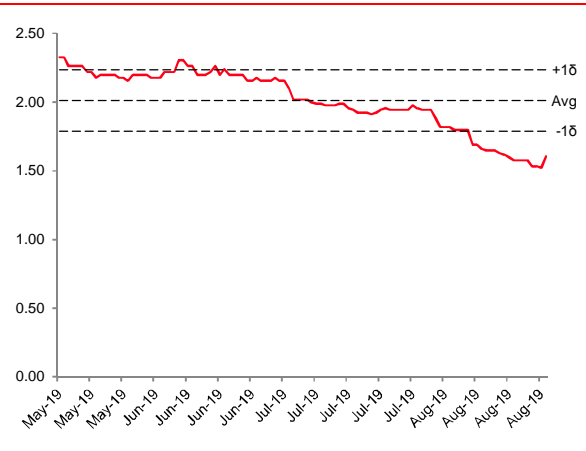


EXHIBIT 5: PE BAND CHART

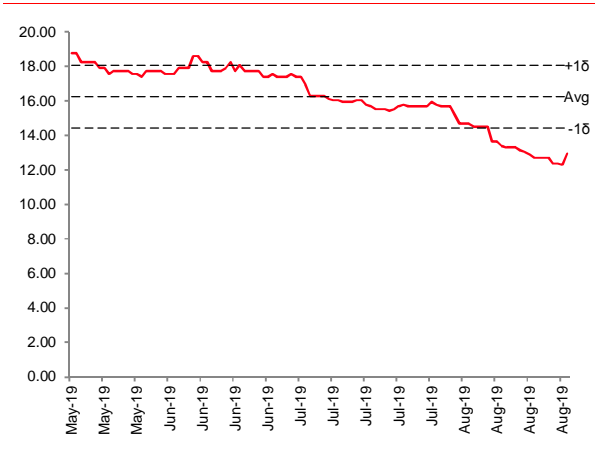


EXHIBIT 6: FINANCIAL DATA

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	-	-	-	-	-
Pretax profit	292.3	348.6	377.8	418.0	452.7
Taxation	(44.9)	(101.8)	(86.9)	(96.1)	(104.1)
Minorities/pref dividends	(54.8)	(60.7)	(76.9)	(85.1)	(91.9)
Net profit	192.6	186.1	214.0	236.8	256.7
Core net profit	192.6	186.1	214.0	236.8	256.7
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	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
Total non-current assets	2,410.9	2,575.3	2,975.3	3,375.3	3,775.3
Cash & equivalent	502.4	458.9	518.0	567.7	621.6
Stock	516.8	575.6	564.5	612.3	670.8
Trade debtors	564.0	649.2	597.2	671.3	735.2
Other current assets	483.3	574.2	559.5	594.6	628.9
Total current assets	2,066.6	2,257.9	2,239.1	2,446.0	2,656.6
Trade creditors	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
Total current liabilities	1,940.3	1,884.8	2,142.8	2,314.6	2,502.6
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
Total long-term liabilities	895.1	1,183.8	887.0	1,107.6	1,309.8
Shareholders' funds	1,185.6	1,301.8	1,726.7	1,892.4	2,072.1
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
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
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)
Cash flow from operations	524.4	349.2	363.6	151.0	167.0
Capital expenditure	(336.1)	(423.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	(32.6)	6.5	0.8	-	-
Others	2.1	37.9	-	-	-
Cash flow from investing	(366.7)	(378.6)	(399.2)	(400.0)	(400.0)
Debt raised/(repaid)	549.9	178.9	(47.6)	369.8	363.9
Equity raised/(repaid)	-	-	275.0	-	-
Dividends paid	(58.4)	(58.0)	(64.2)	(71.0)	(77.0)
Others	(563.4)	(127.8)	-	-	-
Cash flow from financing	(71.9)	(6.9)	163.2	298.8	286.9
Net cash flow	85.8	(36.2)	127.6	49.7	53.9
Net cash/(debt) b/f	333.2	427.4	390.4	518.0	567.7
Net cash/(debt) c/f	427.4	390.4	518.0	567.7	621.6
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
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 (%)	-	-	30.0	30.0	30.0
Debtors turnover (days)	37	41	38	39	40
Stock turnover (days)	35	35	37	34	35
Creditors turnover (days)	17	16	16	16	16

Source: Company, AmInvestment Bank Bhd estimates

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