

Leong Hup International (LHIB MK)

Looking to 2H19

BUY

Share Price MYR 0.76
 12m Price Target MYR 1.08 (+42%)
 Previous Price Target MYR 1.08

Maintain BUY with TP of MYR1.08

LHIB's 2Q19 results met our expectations. We expect 2H to improve on production volume growth and rebound in poultry ASPs, especially in Malaysia. No change to our net profit estimates. Maintain BUY with an unchanged TP of MYR1.08 pegged to the regional peer average FY20 PER of 17x.

Within expectations

2Q19 core net profit of MYR16m (-76% YoY, -73% QoQ) brought 1H19 core net profit to MYR77m (-35% YoY). The latter represented 39%/36% of our/consensus full-year net profit estimates. LHIB also announced an interim dividend of 1.6sen/share (2Q18: Not listed yet).

Marred by weak Malaysia poultry ASPs

LHIB's 2Q19 revenue grew by 4% YoY due to a YoY increase in sales volume for feed, DOCs, broilers and eggs of 13.9%, 8.1%, 10.7% and 5.9% respectively. Feed growth was also strong on the back of capacity expansion in Malaysia and Vietnam in 2018. That said, this was offset by a significant drop in poultry average selling prices (ASPs), particularly in Malaysia. LHIB's Malaysia day-old-chick (DOC) ASP fell 39% YoY to MYR1.21/DOC in 2Q19 (2Q18: MYR1.97/DOC) while Malaysia broiler ASPs also declined (-15% YoY) to MYR3.99/kg in 2Q19 (2Q18: MYR4.68/kg). With this, 2Q19 operating margins contracted to 5.1%, 3.9ppts lower YoY.

Expecting 2H19 to improve

We leave our net profit estimates unchanged as we have already imputed for a weak 2Q19 after LHIB's profit warning announcement in mid-Aug 2019 [link]. Our FY19 earnings base hinges on better sequential earnings from capacity expansion and a rebound in DOC and broiler ASPs in Malaysia and Indonesia. Note that average Malaysia DOC and broiler ASPs for Jul to Aug 2019 have rebounded by c.50% and c.34%, respectively compared to the average in 2Q19. As at end-Aug 2019, Malaysia DOC and broiler ASPs are MYR1.90/DOC and MYR5.00/kg, respectively.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	5,501	5,747	6,137	6,600	7,094
EBITDA	583	655	696	764	836
Core net profit	193	225	197	232	266
Core EPS (sen)	5.3	6.2	5.4	6.3	7.3
Core EPS growth (%)	5.5	16.8	(12.5)	17.8	14.9
Net DPS (sen)	0.0	0.0	1.6	1.9	2.2
Core P/E (x)	na	na	14.1	12.0	10.4
P/BV (x)	na	na	1.6	1.5	1.3
Net dividend yield (%)	na	na	2.1	2.5	2.9
ROAE (%)	15.4	15.0	13.0	12.9	13.5
ROAA (%)	4.4	4.8	3.8	4.0	4.2
EV/EBITDA (x)	8.4	7.9	7.3	6.9	6.4
Net gearing (%) (incl perps)	103.0	108.3	79.1	73.6	66.4
Consensus net profit	-	-	208	244	281
MKE vs. Consensus (%)	-	-	(5.2)	(5.2)	(5.3)

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Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

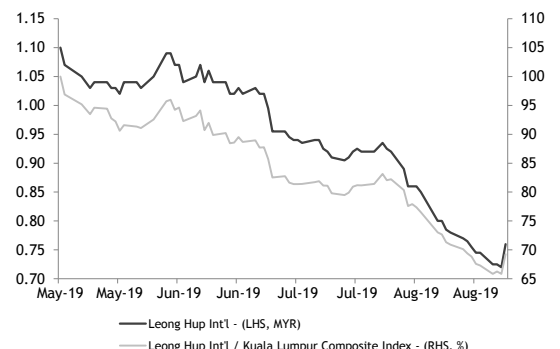
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	1.0
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.8B USD658M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(17)	(26)	na
Relative to index (%)	(15)	(25)	na

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (RM m)	Quarterly					Cumulative		
	2Q19	2Q18	% YoY	1Q19	% QoQ	6M19	6M18	% YoY
Revenue	1,477.2	1,423.1	3.8	1,506.4	(1.9)	2,983.6	2,769.5	7.7
EBITDA	129.8	176.4	(26.4)	200.6	(35.3)	330.4	327.2	1.0
Depreciation	(55.1)	(48.9)	12.7	(52.9)	4.2	(108.0)	(97.9)	10.3
EBIT	74.7	127.5	(41.4)	147.7	(49.4)	222.4	229.3	(3.0)
Interest expense	(35.0)	(24.9)	40.6	(32.9)	6.5	(67.9)	(49.4)	37.4
Associates	0.1	0.1	18.8	0.0	208.9	0.2	0.2	(22.7)
Pretax profit	39.9	102.7	(61.2)	114.9	(65.3)	154.8	180.1	(14.1)
Tax	(13.3)	(27.9)	(52.4)	(24.6)	(46.0)	(37.9)	(44.3)	(14.5)
Minority interest	(10.5)	(9.1)	14.7	(29.7)	(64.8)	(40.2)	(17.5)	130.1
Net profit	16.1	65.7	(75.5)	60.6	(73.4)	76.7	118.3	(35.2)
Core net profit	16.1	65.7	(75.5)	60.6	(73.4)	76.7	118.3	(35.2)
			+/- p.pts		+/- p.pts			+/- p.pts
			YoY		QoQ			YoY
EBITDA margin (%)	8.8	12.4	(3.6)	13.3	(4.5)	11.1	11.8	(0.7)
EBIT margin (%)	5.1	9.0	(3.9)	9.8	(4.7)	7.5	8.3	(0.8)
Tax rate (%)	(33.4)	(27.2)	(6.2)	(21.4)	(11.9)	(24.5)	(24.6)	0.1
Revenue:			% YoY		% QoQ			% YoY
Livestock	803.7	910.7	(11.8)	859.7	(6.5)	1,663.3	1,747.9	(4.8)
Feedmill	671.3	506.4	32.6	643.6	4.3	1,314.9	1,013.1	29.8
Others	2.3	6.0	(61.7)	3.1	(26.2)	5.4	8.5	(36.6)
Total	1,477.2	1,423.1	3.8	1,506.4	(1.9)	2,983.6	2,769.5	7.7
EBITDA:			% YoY		% QoQ			% YoY
Livestock	45.7	129.6	(64.7)	118.9	(61.6)	164.6	224.1	(26.5)
Feedmill	87.6	48.3	81.4	85.2	2.8	172.7	110.8	55.9
Others	(3.5)	(1.5)	129.8	(3.5)	(1.1)	(6.9)	(7.6)	(9.1)
Total	129.8	176.4	(26.4)	200.6	(35.3)	330.4	327.2	1.0
EBITDA margin (%):			+/- p.pts		+/- p.pts			+/- p.pts
			YoY		QoQ			YoY
Livestock	5.7	14.2	(8.5)	13.8	(8.1)	9.9	12.8	(2.9)
Feedmill	13.0	9.5	3.5	13.2	(0.2)	13.1	10.9	2.2
Others	(151.2)	(25.2)	(126.0)	(112.8)	(38.3)	(129.1)	(90.1)	(39.0)
Total	8.8	12.4	(3.6)	13.3	(4.5)	11.1	11.8	(0.7)

Source: Company, Maybank KE

Risk Statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks which could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	na	na	14.1	12.0	10.4
Core P/E (x)	na	na	14.1	12.0	10.4
P/BV (x)	na	na	1.6	1.5	1.3
P/NTA (x)	na	na	1.7	1.6	1.4
Net dividend yield (%)	na	na	2.1	2.5	2.9
FCF yield (%)	na	na	nm	1.3	3.6
EV/EBITDA (x)	8.4	7.9	7.3	6.9	6.4
EV/EBIT (x)	12.8	11.3	10.7	9.9	9.1
INCOME STATEMENT (MYR m)					
Revenue	5,501.4	5,746.6	6,136.9	6,600.3	7,093.9
Gross profit	912.6	1,005.8	1,031.3	1,112.6	1,200.3
EBITDA	583.1	654.6	696.0	763.9	835.6
Depreciation	(189.1)	(189.9)	(208.7)	(227.8)	(244.0)
Amortisation	(10.0)	(7.2)	(7.2)	(7.2)	(7.2)
EBIT	384.0	457.5	480.1	528.9	584.4
Net interest income / (exp)	(92.2)	(109.5)	(116.8)	(126.7)	(134.5)
Associates & JV	0.5	0.6	0.6	0.7	0.7
Pretax profit	292.3	348.6	363.9	402.9	450.5
Income tax	(44.9)	(101.8)	(81.9)	(90.7)	(101.4)
Minorities	(54.8)	(60.6)	(85.3)	(80.7)	(83.0)
Reported net profit	192.6	186.2	196.7	231.6	266.1
Core net profit	192.6	224.9	196.7	231.6	266.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	502.4	458.9	704.5	934.7	1,219.3
Accounts receivable	564.0	649.2	695.9	750.8	804.1
Inventory	516.8	575.6	655.3	667.8	753.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,045.8	2,216.8	2,420.4	2,592.9	2,749.1
Intangible assets	106.5	97.3	97.0	96.7	96.4
Investment in Associates & JVs	1.6	1.7	1.7	1.7	1.7
Other assets	740.3	834.5	928.2	986.9	1,048.5
Total assets	4,477.5	4,834.0	5,503.0	6,031.3	6,672.4
ST interest bearing debt	1,419.1	1,326.6	1,465.4	1,633.0	1,800.6
Accounts payable	242.2	248.9	310.6	290.8	355.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	774.4	1,044.3	1,030.3	1,145.5	1,260.7
Other liabilities	400.0	449.0	433.0	456.0	480.0
Total Liabilities	2,835.5	3,068.6	3,239.5	3,525.1	3,896.8
Shareholders Equity	1,185.6	1,301.8	1,714.5	1,876.6	2,062.9
Minority Interest	456.4	463.6	548.9	629.6	712.6
Total shareholder equity	1,642.0	1,765.4	2,263.4	2,506.2	2,775.6
Total liabilities and equity	4,477.5	4,834.0	5,503.0	6,031.3	6,672.4
CASH FLOW (MYR m)					
Pretax profit	292.3	348.6	363.9	402.9	450.5
Depreciation & amortisation	199.1	197.1	215.9	235.0	251.2
Cash taxes paid	(44.9)	(101.8)	(81.9)	(90.7)	(101.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	405.5	289.0	335.5	436.2	501.1
Capex	(281.8)	(397.1)	(412.0)	(400.0)	(400.0)
Free cash flow	123.7	(108.1)	(76.5)	36.2	101.1
Dividends paid	(459.7)	(50.0)	(59.0)	(69.5)	(79.8)
Equity raised / (purchased)	0.0	(0.0)	275.0	0.0	0.0
Change in Debt	562.8	178.1	124.7	282.8	282.8
Other invest/financing cash flow	(137.4)	(63.6)	(18.6)	(19.4)	(19.4)
Net cash flow	89.4	(43.5)	245.6	230.2	284.7

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.6	4.5	6.8	7.6	7.5
EBITDA growth	(9.8)	12.3	6.3	9.8	9.4
EBIT growth	(14.6)	19.1	5.0	10.2	10.5
Pretax growth	(15.8)	19.3	4.4	10.7	11.8
Reported net profit growth	5.5	(3.3)	5.6	17.8	14.9
Core net profit growth	5.5	16.8	(12.5)	17.8	14.9
Profitability ratios (%)					
EBITDA margin	10.6	11.4	11.3	11.6	11.8
EBIT margin	7.0	8.0	7.8	8.0	8.2
Pretax profit margin	5.3	6.1	5.9	6.1	6.4
Payout ratio	0.0	0.0	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	3.5	3.2	3.2	3.5	3.8
Revenue/Assets (x)	1.2	1.2	1.1	1.1	1.1
Assets/Equity (x)	3.8	3.7	3.2	3.2	3.2
ROAE (%)	15.4	15.0	13.0	12.9	13.5
ROAA (%)	4.4	4.8	3.8	4.0	4.2
Liquidity & Efficiency					
Cash conversion cycle	57.8	60.8	63.1	63.1	63.1
Days receivable outstanding	35.7	38.0	39.5	39.5	39.5
Days inventory outstanding	41.7	41.5	43.4	43.4	43.4
Days payables outstanding	19.6	18.6	19.7	19.7	19.7
Dividend cover (x)	nm	nm	3.3	3.3	3.3
Current ratio (x)	1.1	1.2	1.3	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.7	1.7	1.7
Net gearing (%) (incl perps)	103.0	108.3	79.1	73.6	66.4
Net gearing (%) (excl. perps)	103.0	108.3	79.1	73.6	66.4
Net interest cover (x)	4.2	4.2	4.1	4.2	4.3
Debt/EBITDA (x)	3.8	3.6	3.6	3.6	3.7
Capex/revenue (%)	5.1	6.9	6.7	6.1	5.6
Net debt/ (net cash)	1,691.1	1,912.1	1,791.2	1,843.8	1,841.9

Source: Company; Maybank

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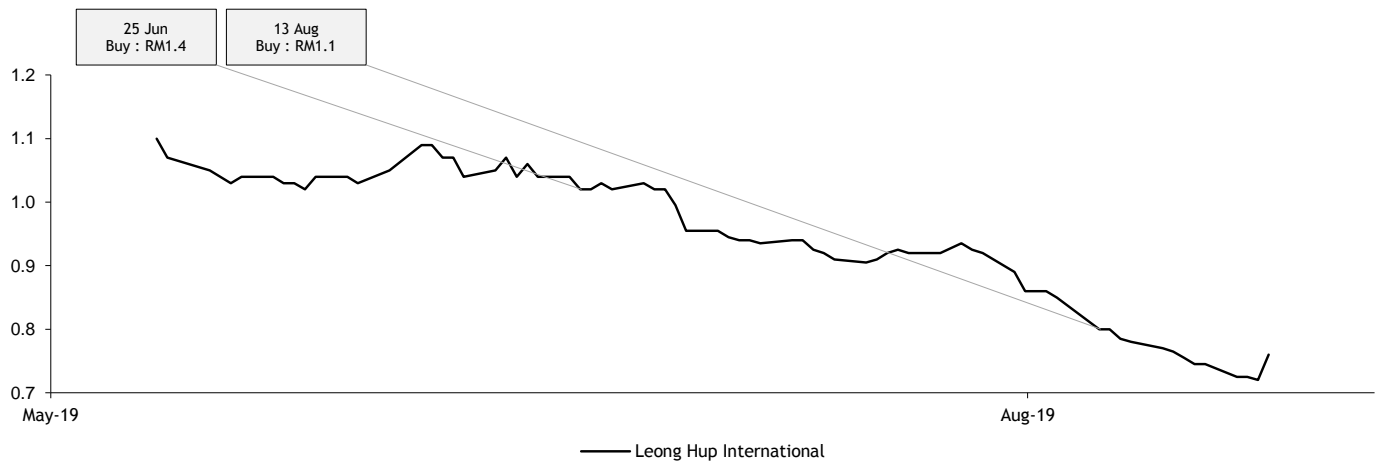
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