



## Company report

# LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEQG.KL)

3 Sep 2019

*Demand remains strong*

## BUY

(Maintained)

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*Rationale for report: Company update*

Price	RM0.84
Fair Value	RM1.17
52-week High/Low	RM1.19/RM0.72

### Key Changes

Fair value	↔
EPS	↔

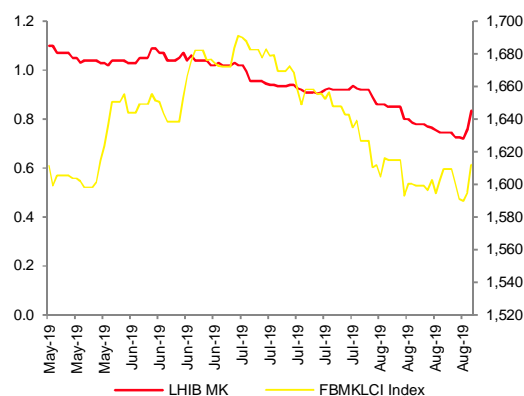
YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,746.6	5,677.1	6,279.7	6,785.4
Core net profit (RM mil)	186.1	214.0	236.8	256.7
FD Core EPS (sen)	5.1	5.9	6.5	7.0
FD Core EPS growth (%)	(3.4)	15.0	10.6	8.4
Consensus Net Profit (RM mil)	-	199.0	229.6	267.5
DPS (sen)	-	1.8	1.9	2.1
PE (x)	16.4	14.2	12.9	11.9
EV/EBITDA (x)	7.7	7.2	6.9	6.8
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 (RMmil)	3,047.8
Book Value (RM/share)	0.36
P/BV (x)	2.3
ROE (%)	15.0
Net Gearing (%)	146.9

Major Shareholders	Clarinden Inv Pte. (8.0%) Lau Joo Han (1.9%) Dato' Lau Eng Guang (1.5%)
Free Float	88.6
Avg Daily Value (RMmil)	4.6

Price performance	3mth	6mth	12mth
Absolute (%)	(19.7)	-	-
Relative (%)	(17.8)	-	-



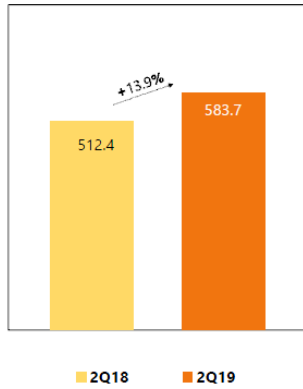
### Investment Highlights

- We maintain our BUY call, forecasts and FV of RM1.17/share based on PER of 18x over FY20F EPS.
- Key takeaways from Leong Hup's tele-conference last Friday are as follows:

1. The group is able to cushion the low prices for its broiler chickens and day-old-chicks (DOC) with effective cost control and economies of scale. To recap, Leong Hup faced a tough 2QFY19 due to the depressed prices of broiler chickens and DOC brought about by a higher market supply of DOC and birds as the cooler weather promotes growth of the livestock. Despite lower market prices for its broiler and DOC, the group's performance was buoyed by increased sales volume across all its product segments as shown in Exhibits 1–4. As such, we anticipate a better 2HFY19 as the demand for the group's products remains strong.
2. The group's feedmill production capacity has increased 12.9% to 882.4K MT in 2QFY19 while its planned expansion is going smoothly. The group is expected to complete the construction of its new hatchery in the Philippines (+14mil eggs) and a spent grain drying facility in Vietnam within a month from now. By the end of FY19, the group expects to complete its construction of additional closed-house farms and machinery (+2.7mil broiler DOCs), a third pelleting line (142.5K MT feedmill) and an automated bagging & robotic pelletiser in Vietnam. The feed production ramp-up in Indonesia and Vietnam is expected to satisfy the anticipated increase in demand from external customers.
3. Leong Hup will continue to focus on further improving its management of costs, modernizing its farms with automation features to further drive cost savings and further explore towards downstream capabilities. The group is looking at setting up a new central kitchen facility in Singapore to expand its ready-to-eat and ready-to-cook segment.

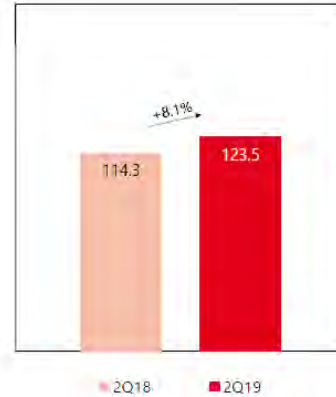
- We anticipate a better 2H for Leong Hup on the back of improved market prices for DOC and broiler which have increased to RM2.10 per DOC and RM5.40 per kg respectively on 16 Aug 2019 as shown in Exhibits 2–3.
- We remain convinced that the long-term outlook for Leong Hup is still positive given the stable demand of chicken while its source of income outside Malaysia such as Singapore, Vietnam, Indonesia and the Philippines will provides growth potentials for the group.

**EXHIBIT 1: FEED SALES ('000 MT)**



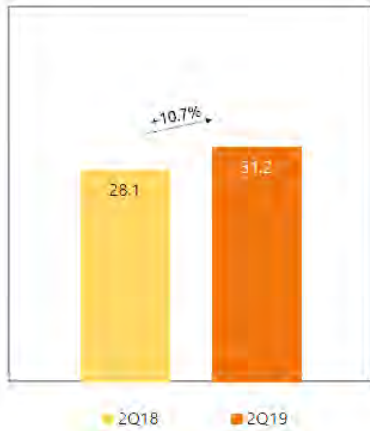
Source: Company

**EXHIBIT 2: DOC SALES (MIL CHICKS)**



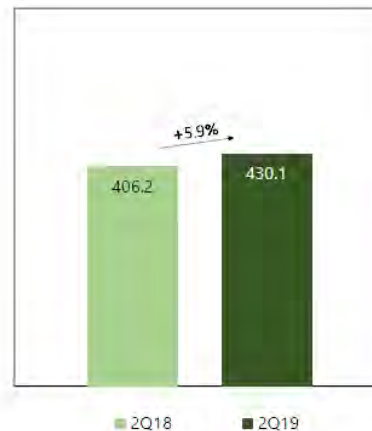
Source: Company

**EXHIBIT 3: BROILER SALES (MIL BIRDS)**



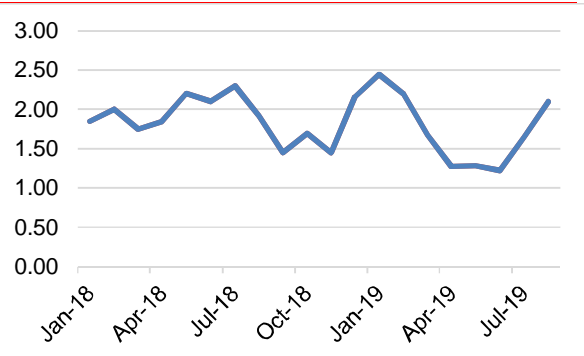
Source: Company

**EXHIBIT 4: EGGS SALES (MIL EGGS)**



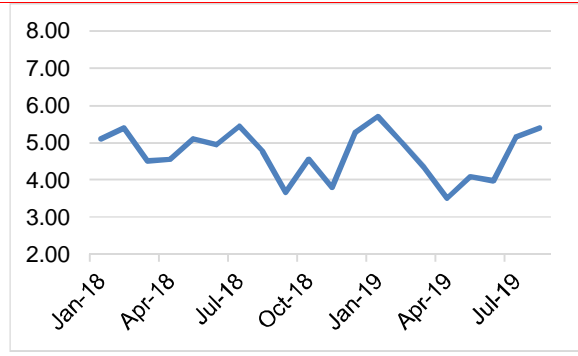
Source: Company

**EXHIBIT 5: DOC (RM/CHIC)**



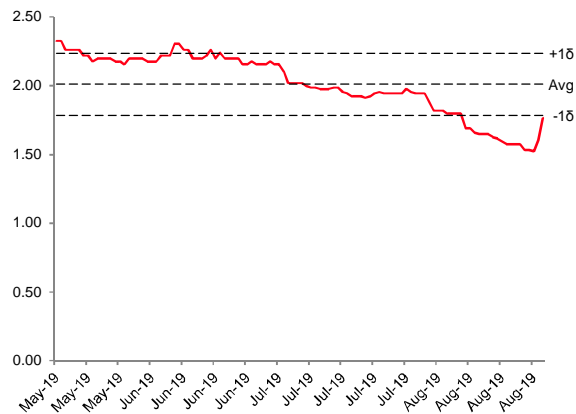
Source: AmlInvestment Bank Bhd, Company

**EXHIBIT 6: BROILER (RM/CHICKEN)**

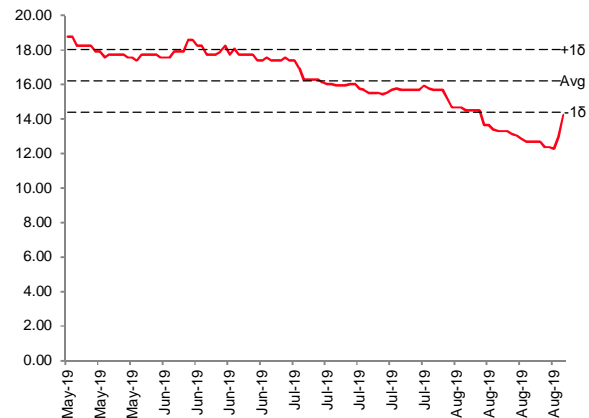


Source: AmlInvestment Bank Bhd, Company

**EXHIBIT 7: PB BAND CHART**



**EXHIBIT 8: PE BAND CHART**



## EXHIBIT 9: 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)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	292.3	348.6	377.8	418.0	452.7
Taxation	(44.9)	(101.8)	(86.9)	(96.1)	(104.1)
<b>Minorities/pref dividends</b>	<b>(54.8)</b>	<b>(60.7)</b>	<b>(76.0)</b>	<b>(85.1)</b>	<b>(91.9)</b>
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
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
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
<b>Other long-term assets</b>	<b>258.6</b>	<b>261.2</b>	<b>261.2</b>	<b>261.2</b>	<b>261.2</b>
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
<b>Other current assets</b>	<b>483.3</b>	<b>574.2</b>	<b>559.5</b>	<b>594.6</b>	<b>628.9</b>
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
<b>Other current liabilities</b>	<b>279.0</b>	<b>309.3</b>	<b>308.9</b>	<b>312.6</b>	<b>315.8</b>
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
<b>Other long-term liabilities</b>	<b>120.7</b>	<b>139.4</b>	<b>139.4</b>	<b>139.4</b>	<b>139.4</b>
<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>
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
<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
<b>Others</b>	<b>21.6</b>	<b>52.5</b>	<b>(124.0)</b>	<b>(631.7)</b>	<b>(666.7)</b>
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	-	-
<b>Others</b>	<b>2.1</b>	<b>37.9</b>	-	-	-
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)
<b>Others</b>	<b>(563.4)</b>	<b>(127.8)</b>	-	-	-
<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>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>
Net cash/(debt) c/f	427.4	390.4	518.0	567.7	621.6
<b>Key Ratios (YE 31 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 (%)	-	-	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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