

Leong Hup International (LHIB MK)

3Q19 disappointed

Lowered TP to MYR1.00

3Q19 net profit lagged our/consensus full-year estimates due to higher-than-expected operating and interest expense. But we expect earnings to improve sequentially as we anticipate Indonesia poultry ASPs to rebound. Our FY19-FY21E net profit are cut by 3-14%. Hence, our TP is lowered to MYR1.00 (-7%), pegged to regional peer average FY20E PER of 17x (unchanged). Management will host an analyst call today.

Results fell short

3Q19 net profit of MYR44m (+26% YoY, +176% QoQ) brought 9M19 net profit to MYR121m (-21% YoY), 61% of our and consensus full-year estimates. The shortfall was due to higher-than-expected operating and interest expense. We are unsure on what contributed to the higher opex. 9M19 revenue of MYR4,511m (+8% YoY) however was in line at 74% of our full-year estimate.

Dragged by depressed Indonesia poultry ASPs

LHIB's 3Q19 revenue grew by 7% YoY due to higher ASPs and sales volume for broilers and eggs in Malaysia, but partially offset by weaker day-old-chick (DOC) ASPs in Indonesia. Feedmill sales also increased, by 10% YoY, particularly in Indonesia and Vietnam. 3Q19 group EBITDA also grew by 12% YoY on strong contribution from its feedmill segment (+100% YoY) but moderated by weak DOC and broiler ASPs in Indonesia and Vietnam.

FY19-FY21E net profit estimates lowered

We revise down our FY19/FY20/FY21E net profit by 14%/7%/3%. Our FY19 earnings base depends on sequential earnings improvement from a recovery in Malaysia and Indonesia poultry ASPs and ramp-up in capacity in its feedmill segment in 4Q19. Based on information released by the Indonesian Poultry Farmers Association, average broiler ASPs in Indonesia appear to have rebounded by 12% (Oct to Nov 2019).

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	5,501	5,747	6,137	6,600	7,094
EBITDA	583	655	680	763	835
Core net profit	193	225	169	215	259
Core EPS (sen)	5.3	6.2	4.6	5.9	7.1
Core EPS growth (%)	5.5	16.8	(24.8)	27.2	20.3
Net DPS (sen)	0.0	0.0	1.4	1.8	2.1
Core P/E (x)	na	na	19.4	15.3	12.7
P/BV (x)	na	na	1.9	1.8	1.6
Net dividend yield (%)	na	na	1.5	2.0	2.4
ROAE (%)	15.4	15.0	11.3	12.1	13.4
ROAA (%)	4.4	4.8	3.3	3.7	4.1
EV/EBITDA (x)	9.3	8.6	8.3	7.6	7.0
Net gearing (%) (incl perps)	103.0	108.3	80.9	75.7	68.7
Consensus net profit	-	-	208	244	281
MKE vs. Consensus (%)	-	-	(18.5)	(12.0)	(8.0)

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BUY

Share Price	MYR 0.90
12m Price Target	MYR 1.00 (+13%)
Previous Price Target	MYR 1.08

Company Description

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

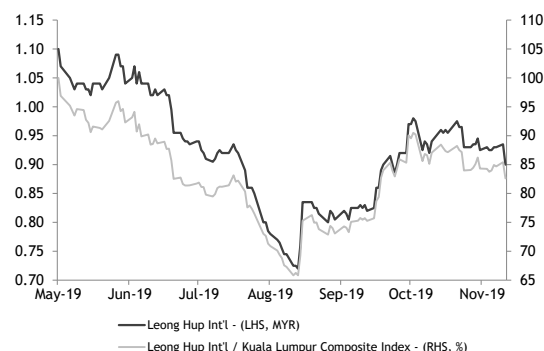
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.9
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR3.3B USD785M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	24	na
Relative to index (%)	(6)	25	na

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q19	3Q18	% YoY	2Q19	% QoQ	9M19	9M18	% YoY
Revenue	1,527.1	1,422.5	7.4	1,477.2	3.4	4,510.7	4,192.0	7.6
EBITDA	173.7	155.2	12.0	129.8	33.8	504.2	482.4	4.5
Depreciation	(55.4)	(48.8)	13.6	(55.1)	0.6	(163.4)	(146.7)	11.4
EBIT	118.3	106.4	11.2	74.7	58.4	340.8	335.7	1.5
Interest expense	(34.6)	(28.7)	20.7	(35.0)	(1.1)	(102.4)	(78.1)	31.2
Associates	0.1	0.2	(66.5)	0.1	(50.4)	0.3	0.4	(43.0)
Pretax profit	83.8	77.9	7.6	39.9	110.3	238.6	258.1	(7.5)
Tax	(21.5)	(22.2)	(3.5)	(13.3)	61.4	(59.4)	(66.6)	(10.8)
Minority interest	(18.0)	(20.5)	(12.2)	(10.5)	71.6	(58.1)	(37.9)	53.3
Net profit	44.4	35.2	26.1	16.1	175.9	121.1	153.6	(21.2)
Core net profit	44.4	35.2	26.1	16.1	175.9	121.1	153.6	(21.2)
			<i>+/- p.pts</i>		<i>+/- p.pts</i>			<i>+/- p.pts</i>
			<i>YoY</i>		<i>QoQ</i>			<i>YoY</i>
<i>EBITDA margin (%)</i>	11.4	10.9	0.5	8.8	2.6	11.2	11.5	(0.3)
<i>EBIT margin (%)</i>	7.7	7.5	0.3	5.1	2.7	7.6	8.0	(0.5)
<i>Tax rate (%)</i>	(25.6)	(28.5)	2.9	(33.4)	7.8	(24.9)	(25.8)	0.9
Revenue:			% YoY		% QoQ			% YoY
Livestock	858.2	814.9	5.3	803.7	6.8	2,521.5	2,562.8	(1.6)
Feedmill	665.8	605.3	10.0	671.3	(0.8)	1,980.7	1,618.4	22.4
Others	3.1	2.3	36.7	2.3	37.2	8.5	10.8	(21.0)
Total	1,527.1	1,422.5	7.4	1,477.2	3.4	4,510.7	4,192.0	7.6
EBITDA:			% YoY		% QoQ			% YoY
Livestock	41.8	105.8	(60.5)	45.7	(8.6)	206.4	329.9	(37.4)
Feedmill	133.5	66.7	100.2	87.6	52.4	306.2	177.4	72.6
Others	(1.5)	(17.3)	(91.4)	(3.5)	(56.5)	(8.4)	(25.0)	(66.2)
Total	173.7	155.2	12.0	129.8	33.8	504.2	482.4	4.5
EBITDA margin (%):			+/- p.pts		+/- p.pts			+/- p.pts
			YoY		QoQ			YoY
Livestock	4.9	13.0	(8.1)	5.7	(0.8)	8.2	12.9	(4.7)
Feedmill	20.0	11.0	9.0	13.0	7.0	15.5	11.0	4.5
Others	n.m.	n.m.	n.m.	(151.2)	n.m.	(99.2)	(232.1)	132.9
Total	11.4	10.9	0.5	8.8	2.6	11.2	11.5	(0.3)

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 that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	na	na	19.4	15.3	12.7
Core P/E (x)	na	na	19.4	15.3	12.7
P/BV (x)	na	na	1.9	1.8	1.6
P/NTA (x)	na	na	2.1	1.9	1.7
Net dividend yield (%)	na	na	1.5	2.0	2.4
FCF yield (%)	na	na	nm	0.7	2.8
EV/EBITDA (x)	9.3	8.6	8.3	7.6	7.0
EV/EBIT (x)	14.1	12.4	12.2	11.0	10.1
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	1,015.0	1,112.6	1,200.3
EBITDA	583.1	654.6	679.6	763.1	834.5
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	463.8	528.1	583.3
Net interest income / (exp)	(92.2)	(109.5)	(135.8)	(147.2)	(143.1)
Associates & JV	0.5	0.6	0.4	0.7	0.7
Pretax profit	292.3	348.6	328.4	381.6	440.9
Income tax	(44.9)	(101.8)	(73.9)	(85.9)	(99.2)
Minorities	(54.8)	(60.6)	(85.3)	(80.7)	(83.0)
Reported net profit	192.6	186.2	169.1	215.1	258.6
Core net profit	192.6	224.9	169.1	215.1	258.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	502.4	458.9	680.7	904.0	1,180.2
Accounts receivable	564.0	649.2	695.9	750.8	804.1
Inventory	516.8	575.6	659.3	663.8	757.1
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	5,483.1	5,996.7	6,637.2
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	312.4	289.0	356.9
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	431.0	454.0	480.0
Total Liabilities	2,835.5	3,068.6	3,238.9	3,521.4	3,897.7
Shareholders Equity	1,185.6	1,301.8	1,695.2	1,845.8	2,026.8
Minority Interest	456.4	463.6	548.9	629.6	712.6
Total shareholder equity	1,642.0	1,765.4	2,244.1	2,475.3	2,739.4
Total liabilities and equity	4,477.5	4,834.0	5,483.1	5,996.7	6,637.2
CASH FLOW (MYR m)					
Pretax profit	292.3	348.6	328.4	381.6	440.9
Depreciation & amortisation	199.1	197.1	215.9	235.0	251.2
Change in working capital	(41.1)	(154.9)	(166.7)	(106.3)	(102.5)
Cash taxes paid	(44.9)	(101.8)	(73.9)	(85.9)	(99.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	405.5	289.0	303.7	424.4	490.4
Capex	(281.8)	(397.1)	(412.0)	(400.0)	(400.0)
Free cash flow	123.7	(108.1)	(108.3)	24.4	90.4
Dividends paid	(459.7)	(50.0)	(50.7)	(64.5)	(77.6)
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)	222.1	223.3	276.2

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	3.8	12.3	9.4
EBIT growth	(14.6)	19.1	1.4	13.9	10.5
Pretax growth	(15.8)	19.3	(5.8)	16.2	15.5
Reported net profit growth	5.5	(3.3)	(9.2)	27.2	20.3
Core net profit growth	5.5	16.8	(24.8)	27.2	20.3
Profitability ratios (%)					
EBITDA margin	10.6	11.4	11.1	11.6	11.8
EBIT margin	7.0	8.0	7.6	8.0	8.2
Pretax profit margin	5.3	6.1	5.4	5.8	6.2
Payout ratio	0.0	0.0	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	3.5	3.2	2.8	3.3	3.6
Revenue/Assets (x)	1.2	1.2	1.1	1.1	1.1
Assets/Equity (x)	3.8	3.7	3.2	3.2	3.3
ROAE (%)	15.4	15.0	11.3	12.1	13.4
ROAA (%)	4.4	4.8	3.3	3.7	4.1
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	80.9	75.7	68.7
Net gearing (%) (excl. perps)	103.0	108.3	80.9	75.7	68.7
Net interest cover (x)	4.2	4.2	3.4	3.6	4.1
Debt/EBITDA (x)	3.8	3.6	3.7	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	1,815.0	1,874.5	1,881.1

Source: Company; Maybank

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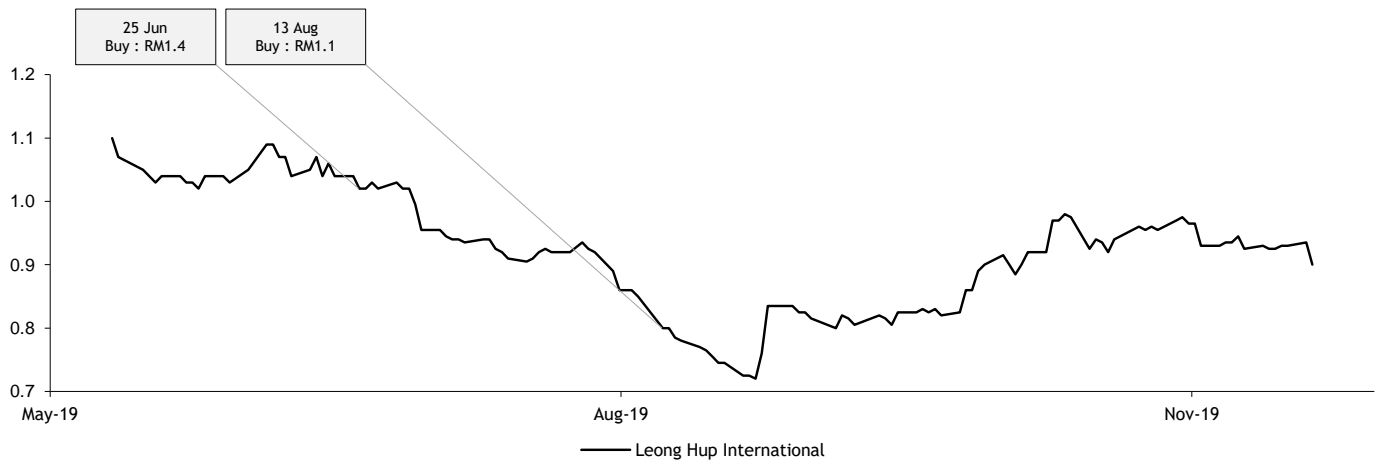
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