

Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

Earnings dragged by the overseas operations

KEY INVESTMENT HIGHLIGHTS

- **3QFY19 earnings came in at RM44.4m (+26.1%yoy) which lagged our and consensus' expectation**
- **Earnings was lifted by the recovery in average selling price of products sold in Malaysia**
- **However, this was mitigated by the subdued performance of livestock and poultry related segment in other countries**
- **Growing feedmill operation to support 4QFY19 earnings growth**
- **Downgrade to NEUTRAL with a revised TP of RM0.85**

Earnings lagged expectations. Leong Hup International Berhad (LHI)'s 3QFY19 earnings improved by +26.1%yoy to RM44.4m. Nevertheless, its cumulative 9MFY19 earnings of RM121.1m still lagged our and consensus expectation, accounting for 62.4% and 60.6% of full year FY19 forecast respectively. The 3QFY19 earnings was lifted by the recovery in average selling price (ASP) of products sold in Malaysia. Nonetheless, this was partially mitigated by the subdued performance of livestock and poultry related segment in other countries. During the quarter, there was a significant reduction in average selling price (ASP) of the livestock products sold by the group, particularly in Indonesia and Vietnam.

Livestock and poultry related products. The livestock and poultry related products' 3QFY19 revenue rose by +5.3%yoy. However, the segment's EBITDA suffered significant decline of -60.5%yoy. The poor performance was primarily due to the: (i) lower EBITDA margin arising from subdued prices of day-old-chicks (DOC) in Indonesia and; (ii) depressed broiler chicken prices in both Indonesia and Vietnam. However, these were partially mitigated by the increase in ASP of broiler chickens and eggs in Malaysia. The ASP of local live broiler chicken rose to RM5.20 per kg (+12.5%yoy) while ASP of eggs was up +4.6%yoy to 35.0sen per egg.

Feedmill operation. Meanwhile, the feedmill operation's 3QFY19 revenue rose by +10.0%yoy while EBITDA had doubled in comparison to the last corresponding quarter. These were attributable to the increase in sales volume and ASP of livestock feed in Indonesia and Vietnam. Note that the new feedmill plant in Dong Nai, Vietnam has begun operation since January 2019. Consequently, 3QFY19 EBITDA margin for the segment expanded +9.0ppts to 20.0%. While livestock and poultry related products remain the main revenue driver, the feedmill segment's EBITDA contribution has significantly surpassed that of the former with 77.0% contribution.

Impact to earnings. We are revising our FY19F and FY20 earnings forecasts downward by -12.0% and -4.8% to take into account the depressed ASP of livestock products in Indonesia and Vietnam.

Downgrade to NEUTRAL

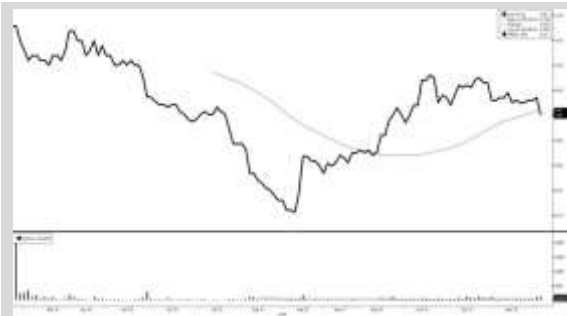
(Previously BUY)

Revised Target Price: RM0.85
(Previously RM0.88)

RETURN STATISTICS

Price @ 26 st November 2019 (RM)	0.90
Expected share price return (%)	-5.6
Expected dividend yield (%)	+2.5
Expected total return (%)	-3.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.3	-5.1
3 months	9.1	24.7
12 months	NA	NA


KEY STATISTICS

FBM KLCI	1,583.87
Syariah compliant	No
Issue shares (m)	0.96
Estimated free float (%)	85.14
Market Capitalisation (RM'm)	3,285.00
52-wk price range	RM0.72 – RM1.19
Beta vs FBM KLCI (x)	NA
Monthly velocity (%)	11.02
Monthly volatility (%)	0.0
3-mth average daily volume (m)	4.44
3-mth average daily value (RM'm)	4.03
Top Shareholders (%)	
Clariden Inv	9.01
Lau Joo Han	2.11
Lau Eng Guang	1.63

ANALYST

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Target price. We are revising our target price to **RM0.85** (previously RM0.88) per share based on pegging FY20F EPS of 5.4sen to target PER of 15.8x. The target PER is based on the FY20 market cap weighted average PER of LHI's regional peers.

Downgrade to NEUTRAL. The livestock business is a high-volume, low-margin business as the products can be regarded as a commodity and hence, subjected to demand and supply dynamic. Historically, the 4Q is a seasonally weaker quarter for livestock and poultry related products. Hence, we do not expect the strong recovery in ASP of local broiler chickens and eggs in the 3QFY19 will continue to the subsequent quarter. However, we expect the higher sales volume of feed will provide a cushion to the seasonally weaker livestock prices. As a result, we are expecting 4QFY19 earning growth to taper off. In the long term, we believe that LHI's earnings growth will be sustained driven by its strategy to focus on: (i) economies of scale; (ii) vertically integration and; (iii) geographically diversifying its operation. The stock has risen by more than +18.0% since we upgraded our recommendation to BUY. Hence, we believe that all positivity has been priced. All things considered, we downgrade our call recommendation to **NEUTRAL** from buy previously. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2017	FY2018	FY2019E	FY2020F	FY2021F
Revenue	5,501.4	5,746.6	5,976.4	6,245.4	6,538.9
EBITDA	583.1	654.6	648.3	696.2	739.6
Depreciation & amortisation	(199.1)	(197.1)	(210.9)	(220.4)	(230.8)
EBIT	384.0	457.5	437.3	475.7	508.8
Finance costs	(92.2)	(109.5)	(107.6)	(112.4)	(117.7)
Share of profits of associates	0.5	0.6	0.6	0.6	0.7
PBT	292.3	348.6	330.4	364.0	391.8
PAT	247.4	246.8	233.9	262.0	282.1
PATANCI	192.6	186.2	170.9	196.2	213.2
EPS (sen)	5.3	5.1	4.7	5.4	5.8
EPS growth (%)	5.5	(3.3)	(8.2)	14.8	8.6
Net Dividend (sen)	-	-	1.9	2.2	2.3
EBITDA margin (%)	10.6	11.4	10.8	11.1	11.3
PATANCI margin (%)	3.5	3.2	2.9	3.1	3.3
Dividend yield (%)	-	-	2.2	2.5	2.7
PER (x)	17.1	17.6	19.2	16.7	15.4

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 3QFY19 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results				Cumulative results			
	3QFY19	2QFY19	3QFY18	YoY (%)	QoQ (%)	9MFY19	9MFY18	YoY (%)
Revenue	1,527.1	1,477.2	1,422.5	7.4	3.4	4,510.7	4,192.0	7.6
Other income	10.4	10.3	10.7	(2.2)	1.5	26.9	26.9	(0.1)
Operating expenses	(1,419.2)	(1,412.8)	(1,326.8)	7.0	0.5	(4,196.8)	(3,883.2)	8.1
Profit from operations	118.3	74.7	106.4	11.2	58.4	340.8	335.7	1.5
Finance costs	(34.6)	(35.0)	(28.7)	20.7	(1.1)	(102.4)	(78.1)	31.2
Share of profits of associates	0.1	0.1	0.2	(66.5)	(50.4)	0.3	0.4	(43.0)
PBT	83.8	39.9	77.9	7.6	110.3	238.6	258.1	(7.5)
Tax expense	(21.5)	(13.3)	(22.2)	(3.5)	61.4	(59.4)	(66.6)	(10.8)
PAT	62.3	26.6	55.7	12.0	134.8	179.2	191.5	(6.4)
Non-controlling interests	18.0	10.5	20.5	(12.2)	71.6	58.1	37.9	53.3
PATANCI	44.4	16.1	35.2	26.1	175.9	121.1	153.6	(21.2)
Basic and diluted EPS (sen)	1.2	0.5	1.0	17.3	165.2	3.4	4.5	(24.1)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	7.7	5.1	7.5	0.3	2.7	7.6	8.0	(0.5)
PBT margin (%)	5.5	2.7	5.5	0.0	2.8	5.3	6.2	(0.9)
PAT margin (%)	4.1	1.8	3.9	0.2	2.3	4.0	4.6	(0.6)
PATANCI margin (%)	2.9	1.1	2.5	0.4	1.8	2.7	3.7	(278.4)
Effective Tax rate (%)	25.6	33.4	28.5	(2.9)	(7.8)	24.9	25.8	(0.9)

Source: Company, MIDFR

APPENDIX

Table 1: Breakdown by operating segment

FYE Dec (RMm)	Quarterly results				Cumulative results			
	3QFY19	2QFY19	3QFY18	YoY (%)	QoQ (%)	9MFY19	9MFY18	YoY (%)
Revenue								
Livestock and poultry related	858.2	803.7	814.9	5.3	6.8	2,521.5	2,562.8	(1.6)
Feedmill	665.8	671.3	605.3	10.0	-0.82	1,980.7	1,618.4	22.4
Others	3.1	2.3	2.3	36.7	37.20	8.5	10.8	(21.0)
Total	1,527.1	1,477.2	1,422.5	7.4	3.4	4,510.7	4,192.0	7.6
EBITDA								
Livestock and poultry related	41.8	45.7	105.8	(60.5)	(8.6)	206.4	329.9	(37.4)
Feedmill	133.5	87.6	66.7	100.2	52.4	306.2	177.4	72.6
Others	(1.5)	(3.5)	(17.3)	(91.4)	(56.5)	(8.4)	(25.0)	(66.2)
Total	173.7	129.8	155.2	12.0	33.8	504.2	482.4	4.5
EBITDA margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Livestock and poultry related	4.9	5.7	13.0	(8.1)	(0.8)	8.2	12.9	(4.7)
Feedmill	20.0	13.0	11.0	9.0	7.0	15.5	11.0	4.5

Source: Company, MIDF

Table 2: Breakdown by geographical segment

FYE Dec (RMm)	Quarterly results				Cumulative results			
	3QFY19	2QFY19	3QFY18	YoY (%)	QoQ (%)	9MFY19	9MFY18	YoY (%)
Revenue								
Malaysia	426.3	368.0	390.6	9.1	15.8	1,236.5	1,211.3	2.1
Singapore	202.2	191.1	230.0	(12.1)	5.8	583.7	755.1	(22.7)
Vietnam	344.4	335.2	288.1	19.5	2.8	972.8	806.6	20.6
Indonesia	532.1	563.9	495.3	7.4	(5.6)	1,658.9	1,368.8	21.2
Philippines	19.4	16.7	16.2	19.6	16.2	50.2	39.4	27.4
Total	1,524.5	1,474.9	1,420.2	7.3	3.4	4,502.2	4,181.2	7.7
EBITDA								
Malaysia	70.6	24.0	57.9	22.0	194.6	173.5	146.6	18.3
Singapore	22.3	29.3	32.7	(31.9)	(23.9)	79.4	96.4	(17.7)
Vietnam	30.2	29.1	31.4	(3.7)	4.0	88.4	75.2	17.5
Indonesia	47.0	45.8	53.5	(12.2)	2.6	155.9	159.5	(2.3)
Philippines	3.7	1.7	0.9	>100	110.7	7.1	4.6	53.3
Total	173.7	129.8	176.4	(1.5)	33.8	504.2	482.4	4.5

Source: Company, MIDF

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.