



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

20 Feb 2020

Softer near-term outlook due to Covid-19

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.77
Fair Value	RM0.89
52-week High/Low	RM1.19/RM0.72

Key Changes

Fair value	⬇️
EPS	⬇️

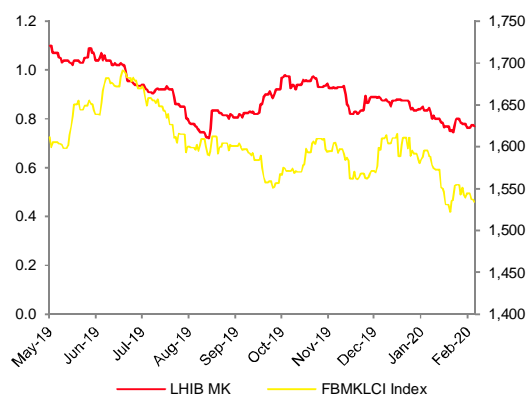
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	6,360.9	6,881.9	7,652.9
Core net profit (RM mil)	180.0	192.4	215.7	229.4
FD Core EPS (sen)	4.6	5.3	5.9	6.3
FD Core EPS growth (%)	(10.2)	15.1	12.1	6.4
Consensus Net Profit (RM mil)	-	201.6	231.7	235.2
DPS (sen)	1.4	1.6	1.8	1.9
PE (x)	16.8	14.6	13.0	12.2
EV/EBITDA (x)	6.8	6.4	6.3	6.1
Div yield (%)	1.8	2.1	2.3	2.4
ROE (%)	11.1	11.3	11.6	11.4
Net Gearing (%)	98.5	99.7	109.5	116.4

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,810.5
Book Value (RM/share)	0.45
P/BV (x)	1.7
ROE (%)	11.1
Net Gearing (%)	98.5
Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Lau Eng Guang (1.6%)
Free Float	87.3
Avg Daily Value (RM mil)	2.3

Price performance

	3mth	6mth	12mth
Absolute (%)	(16.8)	-	-
Relative (%)	(12.9)	4.1	-

Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a lower FV of RM0.89. We have cut our earnings forecasts for FY20F, FY21F and FY22F by 9.1%, 9.4% and 5.9% respectively to account for soft selling prices expectations.
- We roll over our valuation period from FY20F to FY21F EPS, which is now pegged to a lower P/E of 15x (18x previously) to reflect the tougher market conditions.
- Key takeaways from LHI's teleconference are:
 1. FY20F and FY21F performance is expected to be driven by sales volume growth in emerging markets;
 2. The group is expecting near-term consumption patterns to be disrupted by Covid-19;
 3. Raw material prices could see downward pressure from the uncertainty in the global economic outlook.
- The group expects FY20F performance to be driven by sales volume growth in its overseas operations. Leong Hup's operations in Vietnam enjoyed a higher selling price for its day-old-chicks (DOC), broiler chicken and livestock feed. This was on the back of heightened demand for chicken meat.
- Consumers in Vietnam substituted pork with chicken meat after supply fell due to the swine fever. Moving forward, we expect selling prices of poultry-related products in Vietnam to remain strong due to the shortage of pork.
- The group has recently completed the construction of its new hatchery in the Philippines in 3QFY19. We believe the full contribution from the Philippines in FY20F will help alleviate the downward pressure on group margins (the country's EBITDA margin in FY19 was 15.0%, which is higher compared to total group's 10.7% EBITDA margin).
- Leong Hup said that poultry prices were soft in February 2020, post-Chinese New Year festivities as well as due to the Covid-19 outbreak.
- Recall that selling prices were already under pressure in FY19 (Exhibit 1) due to a higher market supply of DOC and broiler chicken. This was partly attributed to the cooler weather, which stimulated the growth of livestock.

- According to the group, although Malaysia's broiler chicken price grew to around RM4.30/kg by end-Jan 2020 (from around RM4.10/kg at the start of the year, up 5%), prices are expected to decline in February.
- The brunt of the Covid-19 impact is expected to be felt in Leong Hup's Singapore operations, which is already facing soft poultry-related demand. We have reduced our selling price expectations in Malaysia and Singapore by 5–10% in our earnings model to reflect the softer outlook.
- **Leong Hup's raw material prices could see downward pressure from the uncertainty in the global economic outlook. The group typically purchases its raw materials 2 to 3 months ahead.** However, its feedmill segment is a cost-plus business and changes in input cost are usually passed on to its customers.
- Nonetheless, we still expect the drop in raw material prices to benefit Leong Hup during the time lag of 1 to 2 months which will slightly mitigate the expected pressure on margins from depressed selling prices in the near term. As shown in Exhibit 3, FY19 corn and soybean prices were mixed (corn up 4.6% YoY while soybean dropped 5.4% YoY). YTD, these prices have slid slightly (corn down 3.1% and soybean dropped 3.8%).
- **We believe that the long-term outlook for LHI is positive due to the stable demand of poultry as a staple product and strong long-term earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.**

EXHIBIT 1: CHANGES IN FY19 ASP

<u>FY19 ASP Changes YoY</u>	DOCs per chick	Broiler chickens per kg	Per Egg	Livestock feed per kg
Malaysia	-14.1%	-4.6%	6.9%	-8.5%
Indonesia	-3.6%	-10.3%	-2.5%	3.4%
Singapore	-3.0%			
Vietnam	1.3%	1.3%	-14.3%	3.0%
Philippines	-6.1%	13.3%		

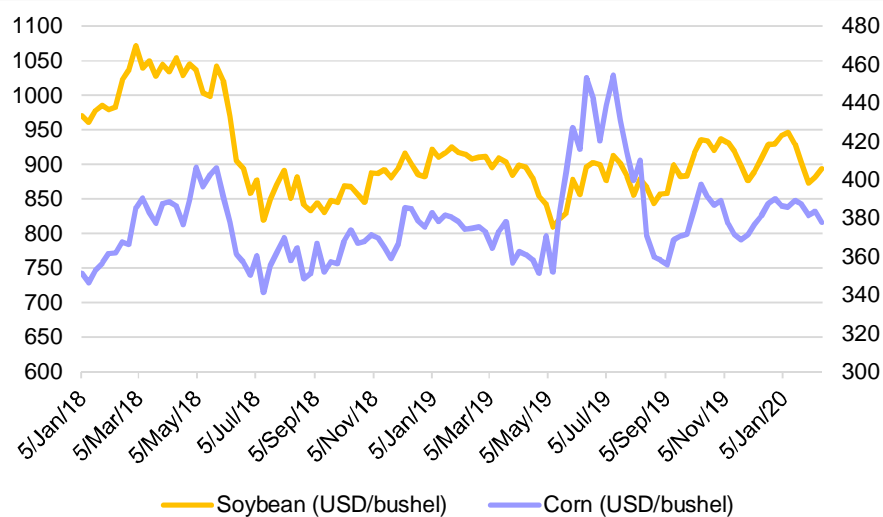
Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: CHANGES IN FY19 SALES VOLUME

<u>FY19 Sales Volume Changes YoY</u>	Broiler DOC (chicks)	Broiler chickens (birds)	Eggs	Livestock feed (MT)
Malaysia	2.0%	2.1%	6.0%	1.4%
Indonesia	7.8%	11.8%	10.9%	13.1%
Singapore	-40.3%			-25.9%
Vietnam	11.5%	10.7%	-15.6%	16.1%
Philippines	65.6%	18.4%		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: RAW MATERIAL PRICES MOVEMENT



Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: ONGOING EXPANSION PLANS

(2) On-going projects⁽¹⁾:

Location	Segment	Project	Commencement date	Targeted Completion Date	Total investment
Malaysia	Livestock	Expansion of closed-house broiler farms	1Q2019	4Q2020	RM86.8 million
Vietnam	Livestock	Construction of additional 3 parent stock ("PS") closed-house farms and machinery at Dong Nai farm	3Q2019	1Q2021	RM0.9 million
Vietnam	Livestock	Installation and fitting of equipment in new Layer farms to be rented in Southern Vietnam	1Q2020	4Q2020	RM20.5 million
Vietnam	Feedmill	Additional pelleting line at Dong Nai feedmill	4Q2019	4Q2020	RM2.6 million
Philippines	Feedmill	Construction of first feedmill plant at Central Luzon	3Q2019	4Q2020	RM59.2 million
Philippines	Livestock	Construction of 2 new Broiler farms @ Central Luzon	3Q2019	3Q2020	RM20.5 million
Philippines	Livestock	Construction of new GPS farm at South Luzon	3Q2019	4Q2020	RM6.4 million

Note:

(1) Funded via IPO proceeds, details of which are set out in the company's prospectus dated 25 April 2019.

PRESENTATION DECK

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Source: Company

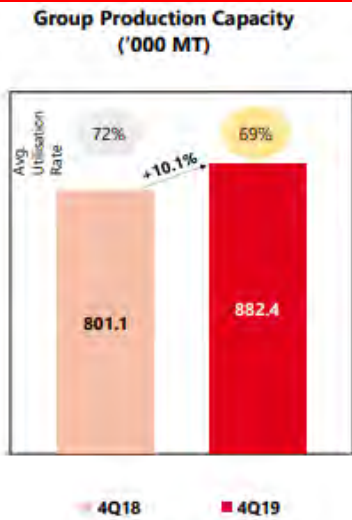
EXHIBIT 5: DELAYED EXPANSION PLANS

(3) Delayed projects:

Location	Segment	Project	Expected commencement date	Total investment
Vietnam	Feedmill	Installation of automatic bagging & robotic pelletiser at Tien Giang and Bau Bang feedmill	FY21	RM4.6 million
Vietnam	Feedmill	Construction of animal medicine injection line @ Bau Bang	FY21	RM4.9 million
Vietnam	Feedmill	Dong Nai - Silo expansion and construction of a soybean meal flat warehouse discharging system	FY21	RM5.1 million
Vietnam	Feedmill	Construction of centralised premix machineries @ Dong Nai	FY21	RM6.8 million
Philippines	Livestock	Construction of new PS farm at Central Luzon	FY21	RM19.2 million

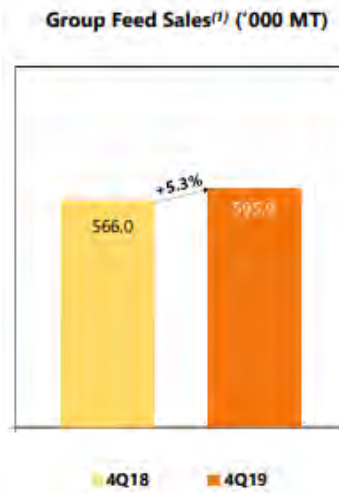
Source: Company

EXHIBIT 6: TOTAL FEEDMILL CAPACITY



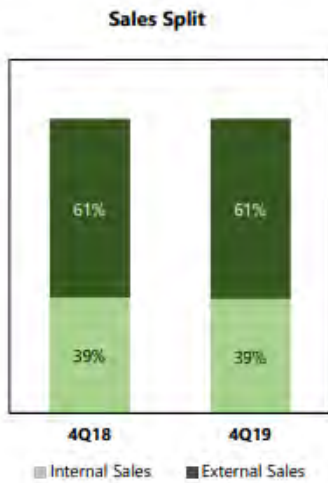
Source: Company

EXHIBIT 7: FEEDMILL SALES VOLUME



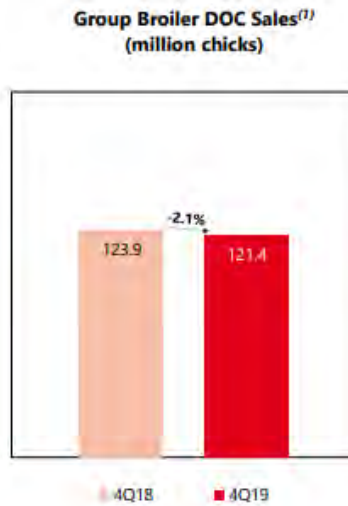
Source: Company

EXHIBIT 8: FEEDMILL SALES SPLIT



Source: Company

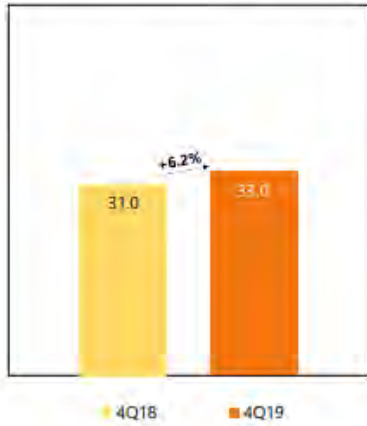
EXHIBIT 9: BROILER DOC SALES VOLUME



Source: Company

EXHIBIT 10: TOTAL BROILER CHICKEN CAPACITY

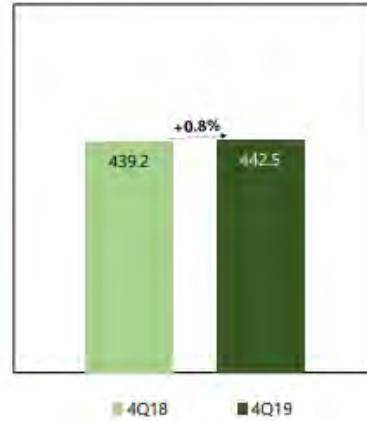
Group Broiler Sales⁽¹⁾
(million birds)



Source: Company

EXHIBIT 11: EGGS SALES VOLUME

Group Eggs Sales⁽²⁾
(million eggs)



Source: Company

EXHIBIT 12: PB BAND CHART

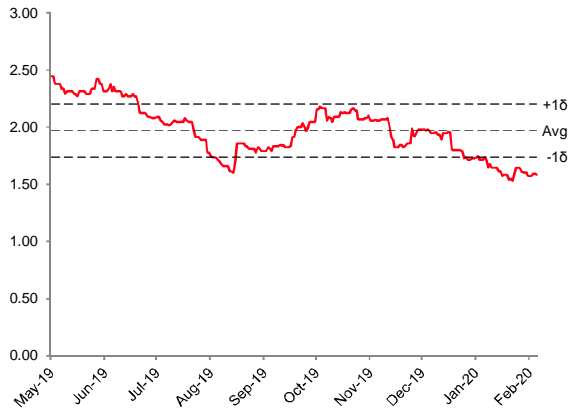


EXHIBIT 13: PE BAND CHART



EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	6,360.9	6,881.9	7,652.9
EBITDA	646.8	650.5	711.2	778.8	856.7
Depreciation/Amortisation	(189.9)	(225.5)	(236.9)	(256.3)	(285.0)
Operating income (EBIT)	456.9	425.0	474.3	522.4	571.7
Other income & associates	0.6	0.4	0.4	0.5	0.5
Net interest	(108.9)	(123.8)	(144.6)	(156.4)	(174.0)
Exceptional items	-	(16.6)	-	-	-
Pretax profit	348.6	301.6	330.1	366.5	398.2
Taxation	(101.8)	(75.8)	(75.9)	(84.3)	(91.6)
Minorities/pref dividends	(60.7)	(62.4)	(61.9)	(66.5)	(77.2)
Net profit	186.1	163.4	192.4	215.7	229.4
Core net profit	186.1	180.0	192.4	215.7	229.4
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,216.8	2,396.5	2,796.5	3,196.5	3,596.5
Intangible assets	97.3	97.5	97.5	97.5	97.5
Other long-term assets	261.2	85.9	86.1	86.1	86.1
Total non-current assets	2,575.3	2,579.8	2,980.1	3,380.1	3,780.1
Cash & equivalent	458.9	764.8	532.8	578.0	626.2
Stock	575.6	679.6	620.8	682.9	757.1
Trade debtors	649.2	496.1	680.0	745.7	817.5
Other current assets	574.2	564.3	560.7	595.9	638.6
Total current assets	2,257.9	2,504.8	2,394.1	2,602.6	2,839.4
Trade creditors	248.9	273.5	280.8	305.5	342.5
Short-term borrowings	1,326.6	1,508.7	1,598.3	1,734.1	1,878.7
Other current liabilities	309.3	306.4	307.3	309.0	311.4
Total current liabilities	1,884.8	2,088.6	2,186.4	2,348.6	2,532.6
Long-term borrowings	1,044.3	873.1	704.4	953.2	1,176.8
Other long-term liabilities	139.4	144.4	144.4	144.4	144.4
Total long-term liabilities	1,183.8	1,017.5	848.7	1,097.6	1,321.2
Shareholders' funds	1,301.8	1,641.2	1,775.9	1,926.8	2,087.4
Minority interests	463.6	539.3	566.6	613.0	681.7
BV/share (RM)	0.36	0.45	0.49	0.53	0.57
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	348.6	301.6	330.1	366.5	398.2
Depreciation/Amortisation	189.9	225.5	236.9	256.3	285.0
Net change in working capital	(241.8)	38.7	121.4	163.1	188.6
Others	52.5	91.0	(289.3)	(660.6)	(723.0)
Cash flow from operations	349.2	656.9	399.1	125.3	148.9
Capital expenditure	(423.0)	(403.6)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	6.5	(5.0)	(0.3)	-	-
Others	37.9	35.7	-	-	-
Cash flow from investing	(378.6)	(373.0)	(400.3)	(400.0)	(400.0)
Debt raised/(repaid)	178.9	(43.5)	(79.2)	384.7	368.1
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(57.7)	(64.7)	(68.8)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(136.9)	320.0	299.3
Net cash flow	(36.2)	281.1	(138.0)	45.3	48.2
Net cash/(debt) b/f	427.4	390.4	670.8	532.8	578.0
Net cash/(debt) c/f	390.4	670.8	532.8	578.0	626.2
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	5.1	8.2	11.2
EBITDA growth (%)	10.9	0.6	9.3	9.5	10.0
Pretax margin (%)	6.1	5.0	5.2	5.3	5.2
Net profit margin (%)	3.2	2.7	3.0	3.1	3.0
Interest cover (x)	4.2	3.4	3.3	3.3	3.3
Effective tax rate (%)	29.2	25.1	23.0	23.0	23.0
Dividend payout (%)	-	30.7	30.0	30.0	30.0
Debtors turnover (days)	41	30	39	40	39
Stock turnover (days)	35	38	37	35	34
Creditors turnover (days)	16	16	16	16	15

Source: Company, AmInvestment Bank Bhd estimates

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