



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

19 Feb 2020

Stronger performance in Vietnam

BUY

(Maintained)

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Rationale for report: Company results

Price	RM0.78
Fair Value	RM1.02
52-week High/Low	RM1.19/RM0.72

Key Changes

Fair value	⬇️
EPS	⬇️

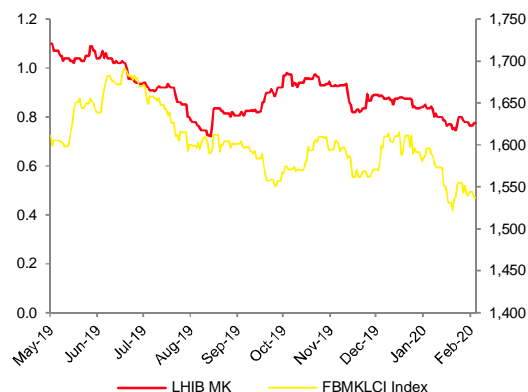
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	6,147.4	6,677.2	7,406.1
Core net profit (RM mil)	180.0	206.7	230.0	243.8
FD Core EPS (sen)	4.6	5.7	6.3	6.7
FD Core EPS growth (%)	(10.2)	23.6	11.3	6.0
Consensus Net Profit (RM mil)	-	215.3	248.7	-
DPS (sen)	1.4	1.7	1.9	2.0
PE (x)	16.9	13.7	12.3	11.6
EV/EBITDA (x)	6.8	6.3	6.2	6.0
Div yield (%)	1.8	2.2	2.4	2.6
ROE (%)	11.1	12.1	12.3	12.0
Net Gearing (%)	98.5	97.0	105.9	111.8

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,828.8
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 (%)	(16.7)	(0.6)	-
Relative (%)	(13.0)	3.4	-



Investment Highlights

- We maintain our BUY recommendation on Leong Hup International (LHI) with a lower fair value of RM1.02/share (vs. RM1.04 previously). Our valuation is pegged to a P/E of 18x FY20F EPS.
- LHI's FY19 core net profit of RM167.2mil (after excluding impairment loss on receivables of RM16.6mil) was in line with our and consensus' earnings estimates, accounting for 97.1% and 96.6% of full-year forecasts respectively. However, we have trimmed our earnings forecast for FY20F and FY21F by 2.4% and 3.4% as we expect soft selling prices to persist in the near term. We introduce our FY22F earnings forecast of RM243.8mil.
- LHI's FY19 revenue increased 5% YoY but EBITDA was flattish at RM650.5mil. EBITDA margin slipped 0.6ppts to 10.7% mainly due to depressed selling prices of several products in Indonesia, Vietnam, Singapore and Malaysia.
- The livestock and poultry-related product segment's 4QFY19 revenue fell 3.7% YoY. This was on the back of lower selling prices for Malaysia's DOC, eggs and broiler chicken. Sales volume of DOC fell YoY. Indonesia's selling price and sales volume for DOC declined as well. This was partially offset by its higher broiler chicken's selling price and sales volume. Singapore's processed food suffered a lower selling price.
- Revenue contribution from Leong Hup's poultry operation in Vietnam improved (+16% YoY to RM374mil) on the back of higher selling prices and sales volume of broiler chicken due to the robust demand of chicken meat. We believe this was due to the swine fever in Vietnam, which resulted in consumers substituting pork meat with chicken meat.
- Feedmill segment's 4QFY19 revenue rose 1.7% YoY primarily due to increase in sales volume of livestock feed in Vietnam.
- EBITDA in 4QFY19 slid 15% to RM146.3mil. EBITDA margin dropped 2ppts to 9.5% largely dragged by its Singapore and Indonesia operations.
- FY19 revenue of the livestock division dipped 2% YoY to RM3.4bil. This was mainly due to the disposal of a subsidiary in its Singapore operations. The drop in revenue from Singapore (-17% YoY to RM779.1mil) was offset by higher revenues in Indonesia and Vietnam.
- Indonesia recorded increased sales volume of DOC and broiler chicken. While Vietnam enjoyed higher selling price and sales volume of its broiler chickens, these were offset by lower selling price and sales volume of eggs.

- **The livestock division's FY19 EBITDA tumbled 35% to RM257.4mil due to lower selling prices of Indonesia's broiler chickens and DOC, eggs in Vietnam, processed food and fresh chickens in Singapore as well as broiler chickens and DOC in Malaysia.**
- **The feedmill segment's FY19 revenue climbed by 17% YoY primarily due to higher sales volume and selling price of livestock feed in Indonesia and Vietnam. The EBITDA for the segment surged 53% YoY to RM393.1mil on the back of better performance in Indonesia as well as higher sales contribution from Vietnam following commencement of its Dong Nai feedmill plant in January 2019 (which added 285K MT of capacity).**
- **Moving into FY20F, we anticipate poultry prices in Malaysia to remain subdued. We believe that growth in FY20F will be driven largely by LHI's expansion plans (Exhibit 2). We also expect higher selling prices in Vietnam as demand for chicken meat continues to rise due to a shortage of pork meat. We remain convinced that the long-term outlook for LHI is positive due to the stable demand of chicken and strong long-term earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.**

EXHIBIT 1: FINANCIAL RESULTS

YE Dec	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	1,554.6	1,527.1	1,544.0	1.1	-0.7	5,746.6	6,054.8	5.4
Operating profit	121.8	118.3	84.2	-28.8	-30.8	457.5	425.0	-7.1
EBITDA	172.2	173.7	146.3	-15.8	-15.0	654.6	650.5	-0.6
Depreciation	50.4	55.4	62.1	12.1	23.2	197.1	225.5	14.4
EBIT	121.8	118.3	84.2	-28.8	-30.8	457.5	425.0	-7.1
El								
PBT	90.5	83.8	50.2	-40.1	-44.5	348.6	288.8	-17.2
Tax	-35.2	-21.5	-16.4	-23.7	-53.5	-101.8	-75.8	-25.6
PAT	55.3	62.3	33.8	-45.8	-38.8	246.8	213.0	-13.7
Minority interest	-22.6	-18.0	-4.3	-76.2	-81.1	-60.6	-62.4	3.0
PATAMI	32.6	44.4	29.5	-33.5	-9.5	186.2	150.6	-19.1
Core PATAMI	32.1	48.3	40.4	-16.5	25.6	188.2	167.2	-11.2
EPS	1.0	1.3	0.8	-38.0	-15.7	5.5	4.2	-22.7
EBITDA margin (%)	11.1	11.4	9.5	-1.9ppt	-1.6ppt	11.4	10.7	-0.6ppt
PBT margin (%)	5.8	5.5	3.3	-2.2ppt	-2.6ppt	6.1	4.8	-1.3ppt
Effective tax rate (%)	-38.9	-25.6	-32.6	-7.0ppt	6.3ppt	-29.2	-26.2	3.0ppt
Core PATAMI margin (%)	2.1	3.2	2.6	-0.6ppt	0.5ppt	3.3	2.8	-0.5ppt
<u>Livestock and poultry related</u>								
Revenue	907.8	858.2	874.5	1.9	-3.7	3,470.8	3,396.0	-2.15
EBITDA	67.1	41.8	51.0	22.2	-23.9	397.0	257.4	-35.15
EBITDA margin	7.4	4.9	5.8	1.0ppt	-1.6ppt	11.4	7.6	-3.9ppt
<u>Feedmill</u>								
Revenue	955.9	1,237.1	971.9	-21.44	1.67	3,434.1	4,038.0	17.58
EBITDA	88.3	133.5	96.9	-27.40	9.73	265.7	403.1	51.70
EBITDA margin	9.2	10.8	10.0	-0.8ppt	0.7ppt	7.5	10.0	2.5ppt

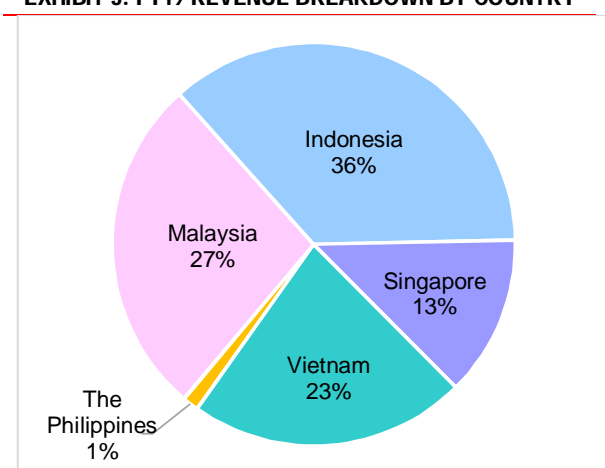
EXHIBIT 2: EXPANSION PLANS

(2) On-going projects:

Location	Segment	Project	Commencement date	Target completion date	Total investment
Philippines	General	Purchase of new ERP system	1Q2019	4Q2019	RM6.4 million
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	4Q2019	RM0.9 million
Vietnam	Feedmill	Third pelleting line at Dong Nai feedmill	3Q2019	1Q2020	RM2.6 million
Vietnam	Feedmill	Installation of automatic bagging & robotic pelletiser at Tien Giang feedmill	4Q2019	4Q2019	RM4.6 million

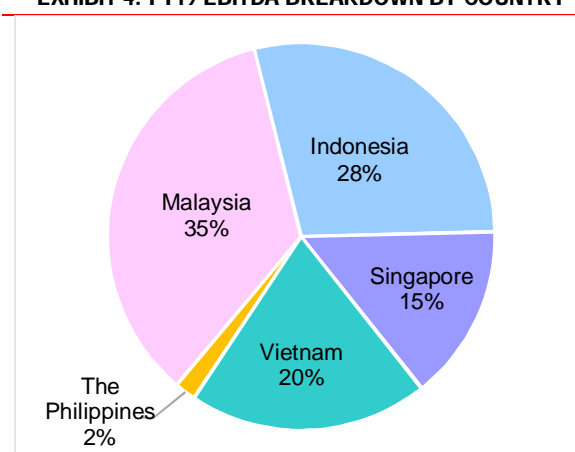
Source: Company

EXHIBIT 3: FY19 REVENUE BREAKDOWN BY COUNTRY



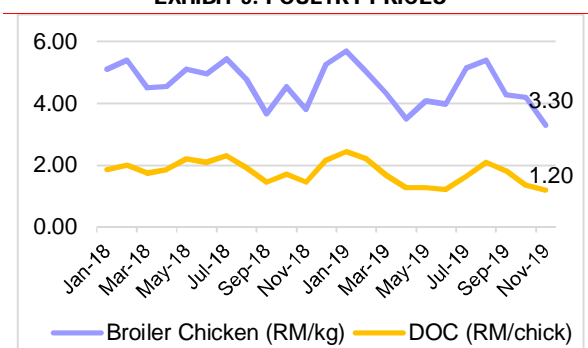
Source: Bloomberg, AmlInvestment Bank Bhd

EXHIBIT 4: FY19 EBITDA BREAKDOWN BY COUNTRY



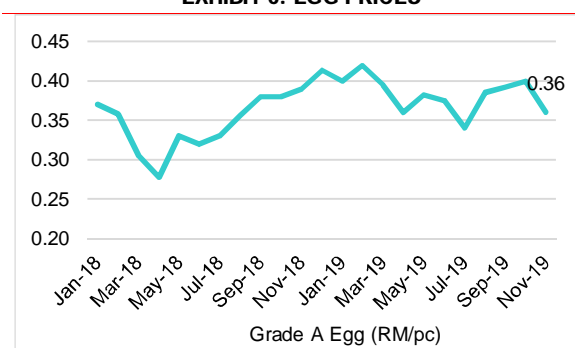
Source: Bloomberg, AmlInvestment Bank Bhd

EXHIBIT 5: POULTRY PRICES



Source: Department of Veterinary Services

EXHIBIT 6: EGG PRICES



Source: Bloomberg, AmlInvestment Bank Bhd

EXHIBIT 7: SELLING PRICE TREND

	DOC	Broiler	Egg
Malaysia	4Q19 YoY: ↓	4Q19 YoY: ↓	4Q19 YoY: ↓
	4Q19 YoY: ↓	4Q19 YoY: ↓	
	FY19 YoY: ↓	FY19 YoY: ↓	
Indonesia	4Q19 YoY: ↓	4Q19 YoY: ↑	
	4Q19 YoY: ↑	4Q19 YoY: ↑	
	FY19 YoY: ↓	FY19 YoY: ↓	
Vietnam		4Q19 YoY: ↑	
		4Q19 YoY: ↑	
		FY19 YoY: ↑	FY19 YoY: ↓

Source: Company, AmInvestment Bank Bhd

EXHIBIT 8: PB BAND CHART

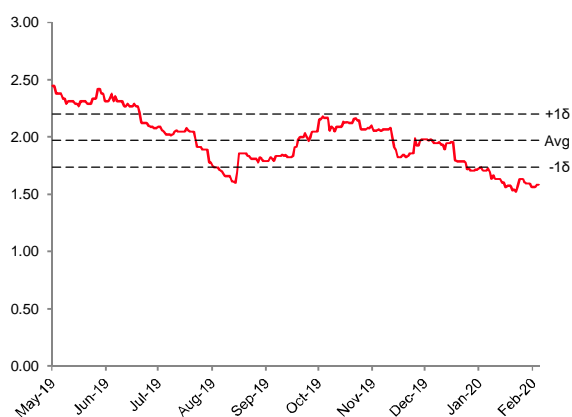


EXHIBIT 9: PE BAND CHART



EXHIBIT 10: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	6,147.4	6,677.2	7,406.1
EBITDA	646.8	650.5	719.0	788.2	859.5
Depreciation/Amortisation	(189.9)	(225.5)	(229.0)	(248.7)	(275.8)
Operating income (EBIT)	456.9	425.0	490.0	539.5	583.7
Other income & associates	0.6	0.4	0.4	0.4	0.5
Net interest	(108.9)	(123.8)	(139.8)	(151.8)	(168.4)
Exceptional items	-	(16.6)	-	-	-
Pretax profit	348.6	301.6	350.7	388.1	415.8
Taxation	(101.8)	(75.8)	(80.7)	(89.3)	(95.6)
Minorities/pref dividends	(60.7)	(62.4)	(63.4)	(68.8)	(76.3)
Net profit	186.1	163.4	206.7	230.0	243.8
Core net profit	186.1	180.0	206.7	230.0	243.8
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	535.8	584.1	635.3
Stock	575.6	679.6	599.4	660.1	732.0
Trade debtors	649.2	496.1	657.1	723.5	791.1
Other current assets	574.2	564.3	548.1	583.7	624.0
Total current assets	2,257.9	2,504.8	2,340.4	2,551.4	2,782.4
Trade creditors	248.9	273.5	271.2	295.3	331.1
Short-term borrowings	1,326.6	1,508.7	1,607.3	1,752.2	1,905.8
Other current liabilities	309.3	306.4	306.6	308.3	310.6
Total current liabilities	1,884.8	2,088.6	2,185.1	2,355.8	2,547.6
Long-term borrowings	1,044.3	873.1	661.0	893.1	1,096.7
Other long-term liabilities	139.4	144.4	144.4	144.4	144.4
Total long-term liabilities	1,183.8	1,017.5	805.3	1,037.4	1,241.1
Shareholders' funds	1,301.8	1,641.2	1,785.9	1,946.9	2,117.5
Minority interests	463.6	539.3	547.6	594.8	659.7
BV/share (RM)	0.36	0.45	0.49	0.53	0.58
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	348.6	301.6	350.7	388.1	415.8
Depreciation/Amortisation	189.9	225.5	229.0	248.7	275.8
Net change in working capital	(241.8)	38.7	64.6	162.7	179.8
Others	52.5	91.0	(203.5)	(659.2)	(704.4)
Cash flow from operations	349.2	656.9	440.8	140.3	167.1
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)	(113.6)	377.0	357.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(62.0)	(69.0)	(73.1)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(175.6)	308.0	284.1
Net cash flow	(36.2)	281.1	(135.0)	48.3	51.2
Net cash/(debt) b/f	427.4	390.4	670.8	535.8	584.1
Net cash/(debt) c/f	390.4	670.8	535.8	584.1	635.3
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	1.5	8.6	10.9
EBITDA growth (%)	10.9	0.6	10.5	9.6	9.1
Pretax margin (%)	6.1	5.0	5.7	5.8	5.6
Net profit margin (%)	3.2	2.7	3.4	3.4	3.3
Interest cover (x)	4.2	3.4	3.5	3.6	3.5
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	38	34	34
Creditors turnover (days)	16	16	16	15	15

Source: Company, AmInvestment Bank Bhd estimates

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