

# Stock Digest

## Results Note – Leong Hup International Bhd

Wednesday, 19 Feb, 2020

**M<sup>+</sup>Online**  
Equipping Traders For The Win

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## Recovery In Store

### Results Highlights

- Leong Hup's (LHI) 4Q2019 net profit fell 9.5% Y.o.Y to RM29.5 mln, dragged down by the lower contribution from the livestock and poultry related products segment in the Malaysia, Indonesia and Singapore market. Revenue for the quarter declined marginally by 0.7% Y.o.Y to RM1.54 bln. For 2019, cumulative net profit declined 19.1% Y.o.Y to RM150.6 mln. Revenue for the year, however, expanded 5.4% Y.o.Y to RM6.05 bln.
- The reported results came below our expectations, making up to 91.8% of our net profit estimate of RM163.9 mln for 2019. The reported revenue, however, came within our expectations, amounting to 101.0% of our full-year forecast of RM6.00 bln.
- Segment wise in 4Q2019, the livestock and poultry related segment's EBITDA slipped 23.9% Y.o.Y to RM51.0 mln, bogged down by the decrease in ASP of day old chicks (DOC) in Malaysia and Indonesia and lower ASP of processed food in Singapore. The feedmill segment's pretax profit, however, gained 9.7% Y.o.Y to RM96.9 mln due to increase sales in Malaysia and Vietnam, which the latter was boosted by the with the contribution from Dong Nai feedmill plant in Vietnam that commenced operations in January 2019. Geographically, Malaysia accounted to RM411.3 mln or 26.7% of total revenue, while overseas contribution amounted to RM1.13 bln or 73.3% of the group's total revenue of RM1.54 bln in 4Q2019.
- As of 2019, LHI's gearing stood at 114.7% (up from 86.8% recorded in 3Q2019). Moving forward, we expect LHI's gearing level to remain elevated as the group will hinge on external funding to cater for its overseas expansion.

Financial Highlights					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	5501.4	5732.4	6054.8	6444.2	6538.6
EBITDA	576.6	646.2	637.6	684.9	728.5
Net Profit	192.6	186.2	150.6	173.6	192.0
Revenue Growth (%)	4.6	4.2	5.6	6.4	1.5
EBITDA Growth (%)	-14.0	12.1	-1.3	7.4	6.4
Net Profit Growth (%)	-8.1	-3.3	-19.1	15.3	10.6
EPS (sen)	5.3	5.1	4.1	4.8	5.3
P/E (x)	14.7	15.2	18.8	16.3	14.7
Dividend Yield (%)	1.4	1.3	2.1	2.1	2.1
P/BV (x)	2.4	2.2	1.7	1.7	1.6
ROE (%)	6.7	6.2	4.1	4.6	5.0

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM0.775

Target Price: RM0.81

Expected Return: +4.5%

Expected Dividend Return: +2.1%

Expected Total Return: +6.6%

FBM KLCI: 1,537.08

### Key Statistics

Bursa Code: 6633

Bloomberg Ticker: LHIB MK Equity

**Stock Information:** Principally involved in distribution of animal feed raw materials, food related products and livestock farming

**Listing Market:** Main Market

**Share Issued (bln):** 3.65

**Market Capital (RM bln):** 2.83

**Par Value (RM):** N/A

**52 week high/low:** RM1.10/RM0.72

**Estimated free float:** 85.1%

**Beta (x):** 0.9

**3-month average volume ('000):** 2,606.9

**Major Shareholders:**

Clarinden Investments Pte Ltd 9.0%

Lau Joo Han 2.1%

Lau Eng Guang 1.6%

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## Prospects

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Moving into 2020, we expect overseas operations will continue to anchor earnings growth, particularly in Vietnam and Philippines, coupled with the penetration into the Myanmar market following the recent setting up of a subsidiary in the aforementioned country.

On the local front, the stabilising in chicken and chicken eggs prices bodes well for the group. We expect prices to remain stable in view of the gradual rising demand, coupled with the rising production.

In the meantime, the downward bias feed prices (soybean and corn) will provide some support to its margins. In 4Q2019, soybean prices fell 1.8% Y.o.Y to an average US\$934/bushel, whilst corn prices declined 4.9% Y.o.Y to an average US\$389/bushel. (see Appendix 1)

With the reported earnings coming below our expectations, we trimmed our earnings forecast by 11.0% and 7.0% to RM173.6 mln and RM192.0 mln for 2020 and 2021 respectively, to reflect the steeper-than-expected decrease in ASP of chicken and chicken eggs in Indonesia and Malaysia.

## Valuation And Recommendation

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We maintain our **HOLD** recommendation on LHI, but with a lower fair value of RM0.81 (from RM0.93) as we assigned an unchanged target PER of 17.0x to our revised 2020 estimated EPS of 4.8 sen. The assigned target PER represents a 20.0% discount to its local and regional peers' average of 21.5x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and **QL Resources Bhd** in Malaysia.

Despite the volatile chicken and chicken eggs prices, we continue to like LHI for its position as one of the largest pure-play, vertically integrated poultry player with strong presence in the ASEAN region. We are also positive on the group's expansion plans on ramping up the poultry and feedmill production, particularly in Vietnam, as it is one of the fastest-growing markets in the ASEAN region.

Risks to our recommendation and forecast include fluctuations in raw material prices (corn and soybean) that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

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Quarterly Performance					
FYE Dec (RM mln)	4Q2019	4Q2018	% Change		
			Y.o.Y	3Q2019	Q.o.Q
Revenue	1544.0	1554.6	-0.7%	1527.1	1.1%
EBITDA	142.8	170.4	-16.2%	170.0	-16.0%
Depreciation & Amotization	-62.1	-50.4	23.2%	-55.4	12.1%
Net Interest Income/ (Expense)	-30.5	-29.5	3.4%	-30.8	-0.9%
Profit before Tax	50.2	90.5	-44.5%	83.8	-40.1%
Net Profit	29.5	32.6	-9.5%	44.4	-33.5%
Basic EPS (Sen)	0.8	0.9	-9.5%	1.2	-33.5%

Source: Company Data & MSSB Research

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Income Statement					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	5,501.4	5,732.4	6,054.8	6,444.2	6,538.6
EBITDA	576.6	646.2	637.6	684.9	728.5
Depreciation & Amortisation	199.1	197.1	225.5	257.6	263.6
Net Interest Expense	-85.7	-101.0	-123.8	-108.6	-112.2
Pre-tax Profit	292.3	348.6	288.8	319.2	353.2
Effective Tax Rate	15.3%	29.2%	26.2%	26.2%	25.0%
Net Profit	192.6	186.2	150.6	173.6	192.0
EBITDA Margin	10.5%	11.3%	10.5%	10.6%	11.1%
PreTax Margin	5.3%	6.1%	4.8%	5.0%	5.4%
Net Margin	3.5%	3.2%	2.5%	2.7%	2.9%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Total Assets	4477.5	4834.0	5409.1	5408.4	5501.5
Fixed Assets	2210.1	2396.8	2418.5	2466.4	2333.6
Current Assets	2066.6	2257.9	2520.2	2459.4	2672.0
Other LT Assets	200.8	179.3	470.4	482.6	495.9
Current Liabilities	1940.3	1884.8	2102.9	1928.2	1964.8
LT Liabilities	895.1	1183.8	1125.7	1179.9	1175.1
Share Capital	1230.1	1230.1	1499.7	1499.7	1499.7
Shareholder's Funds	1185.6	1301.8	1641.2	1706.4	1740.0
Minority Interests	456.4	463.6	539.3	593.9	621.6

Source: Company Data & MSSB Research

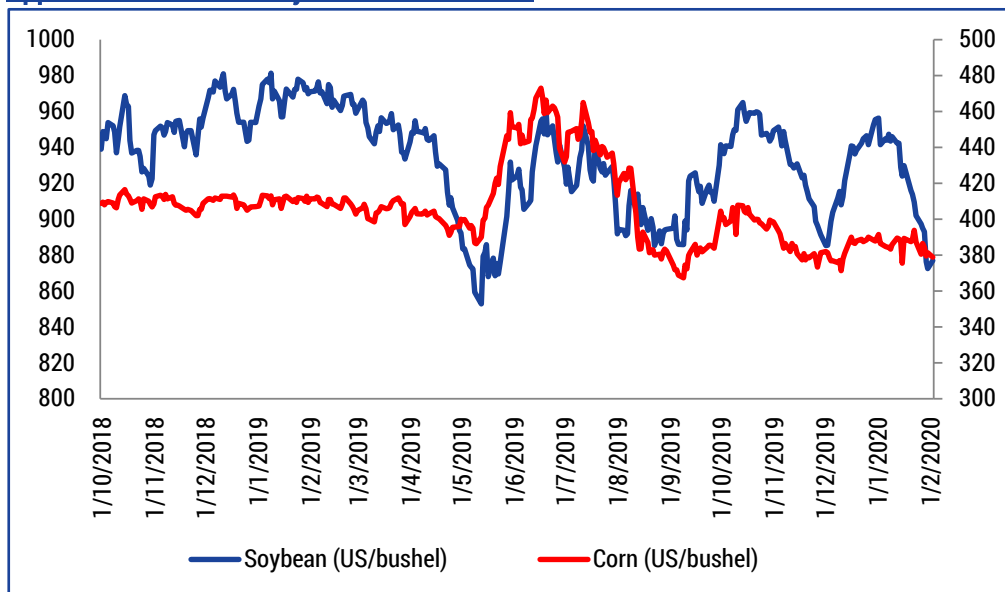
Per Share Data					
FYE Dec	2017	2018	2019	2020F	2021F
Book Value (sen)	32.5	35.7	45.0	46.8	47.7
Cash Flow (sen)	12.8	7.8	16.4	13.2	15.0
Net Earnings (sen)	5.3	5.1	4.1	4.8	5.3
Dividend (sen)	1.1	1.0	1.6	1.6	1.6
Payout Ratio (%)	19.9	19.6	38.8	33.6	30.4
Dividend Yield (%)	1.4	1.3	2.1	2.1	2.1
PER (x)	14.7	15.2	18.8	16.3	14.7
P/Cash Flow (x)	0.1	0.1	0.0	0.1	0.1
P/Book Value (x)	2.4	2.2	1.7	1.7	1.6
ROE (%)	6.7	6.2	4.1	4.6	5.0
Net Gearing (%)	103.0	108.3	79.6	74.8	63.7

Source: Company Data & MSSB Research

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**Appendix 1: Historical Soybean and Corn Price**



Source: Bloomberg

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