



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

13 Apr 2020

Strong enough to weather MCO-induced demand loss

BUY

(Maintained)

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Rationale for report: Company update

| | |
|------------------|---------------|
| Price | RM0.57 |
| Fair Value | RM0.76 |
| 52-week High/Low | RM1.19/RM0.43 |

Key Changes

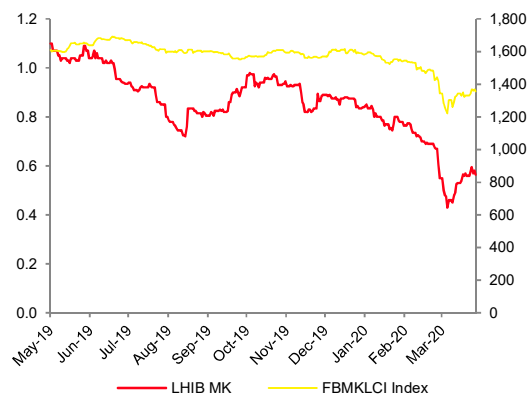
| | |
|------------|----|
| Fair value | ⬇️ |
| EPS | ⬇️ |

| YE to Dec | FY19 | FY20F | FY21F | FY22F |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil) | 6,054.8 | 5,746.2 | 6,479.1 | 7,616.1 |
| Core net profit (RM mil) | 180.0 | 164.2 | 198.7 | 225.1 |
| FD Core EPS (sen) | 4.6 | 4.5 | 5.4 | 6.2 |
| FD Core EPS growth (%) | (10.2) | (1.8) | 21.0 | 13.3 |
| Consensus Net Profit (RM mil) | - | 184.6 | 213.0 | 226.8 |
| DPS (sen) | 1.4 | 1.3 | 1.6 | 1.8 |
| PE (x) | 12.3 | 12.6 | 10.4 | 9.2 |
| EV/EBITDA (x) | 5.7 | 6.1 | 5.6 | 5.3 |
| Div yield (%) | 2.4 | 2.4 | 2.9 | 3.3 |
| ROE (%) | 11.1 | 9.7 | 10.9 | 11.4 |
| Net Gearing (%) | 98.5 | 104.8 | 109.5 | 119.8 |

Stock and Financial Data

| | |
|------------------------------|---|
| Shares Outstanding (million) | 3,650.0 |
| Market Cap (RM mil) | 2,062.3 |
| Book Value (RM/share) | 0.45 |
| P/BV (x) | 1.3 |
| 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) | 1.3 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|--------|--------|-------|
| Absolute (%) | (32.3) | (38.6) | - |
| Relative (%) | (21.0) | (29.6) | - |



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a lower FV of RM0.76 (vs. RM0.86 previously). We have cut our FY20F, FY21F and FY22F earnings forecasts by 16%, 11% and 6% respectively.
- The group's operations are running as usual during the movement control order (MCO) and there has been no disruption to supply chain so far.
- However, poultry demand was impacted by lower restaurant sales and canteen closures in schools and factories. As a result, both sales volume and selling prices took a beating. Average selling prices (ASP) for poultry products have fallen across Leong Hup's operations. Even though prices of eggs have remained steady at around RM0.30 in Malaysia and Indonesia, we expect lower sales volume for the year.
- Increased demand from households was unable to make up for the loss of sales to restaurants and canteens. We believe consumers prefer long shelf life items and instant meals as opposed to fresh poultry.
- The government has extended the MCO for another two weeks to 28 April 2020. We believe this is negative for the group as it will prolong the downward pressure on selling prices and sales volume for poultry products.
- We have lowered our selling price and sales volume assumptions for the group's poultry products. Our new ASP assumptions for FY20F are shown in Exhibit 1. We expect demand to return slowly after the MCO is lifted as consumers remain cautious due to the Covid-19 pandemic. We believe the metrics will recover in FY21F assuming the pandemic is contained within 2020.
- Main raw material prices have continued to decline since the start of the year. Corn prices have tumbled roughly 15% YTD while soybean prices have dropped 8% YTD. We believe this will help alleviate the pressure on margins from lower ASP and volume.
- Moving forward, we expect poultry farming activities will slow down due to lower prices and decreasing supply in the market which will eventually support prices slightly. A slowdown in poultry farming will also lessen the demand for the group's feedmill product.
- We estimate that Leong Hup will face a contraction in earnings of around 2% YoY to RM163mil in FY20F before growing by roughly 21% to RM199mil in FY21F.

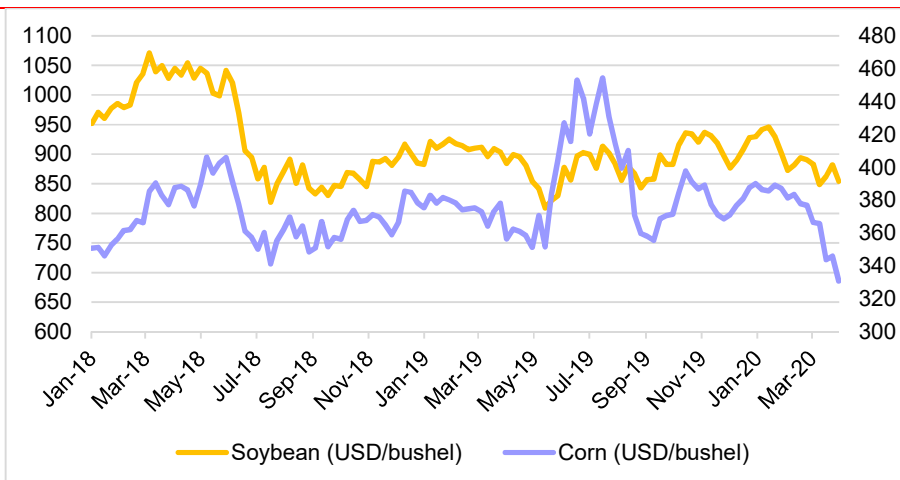
- We continue to like LHI despite the negative impact from the pandemic as we believe the group is big enough to weather the storm. We believe that the long-term outlook for LHI is positive due to the stable demand of poultry as a staple product and strong long-term earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.

EXHIBIT 1: AVERAGE SELLING PRICES ESTIMATES BY COUNTRY

| | FY19 | FY20F | FY21F |
|------------------|------|-------|-------|
| Malaysia | | | |
| DOCs per chick | 1.58 | 1.20 | 1.41 |
| Broiler chickens | 4.17 | 3.10 | 3.63 |
| Per Egg | 0.31 | 0.30 | 0.31 |
| Indonesia | | | |
| DOCs per chick | 1.69 | 1.00 | 1.31 |
| Broiler chickens | 4.89 | 3.00 | 3.87 |
| Eggs | 0.35 | 0.33 | 0.34 |
| Vietnam | | | |
| DOCs per chick | 1.67 | 1.50 | 1.60 |
| Broiler chickens | 4.58 | 3.50 | 4.05 |
| Per Egg | 0.24 | 0.30 | 0.30 |

Source: AmInvestment Bank Bhd, Company

EXHIBIT 2: CORN AND SOYBEAN PRICES



Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

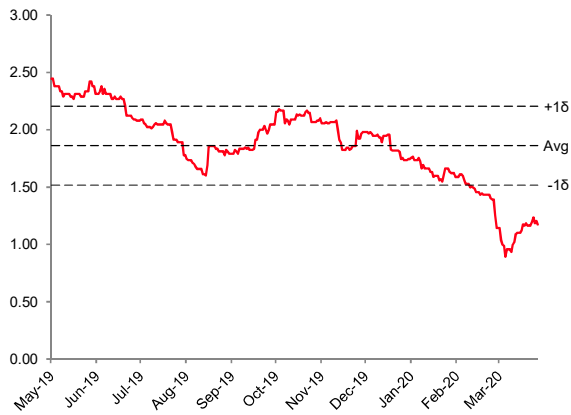


EXHIBIT 4: PE BAND CHART

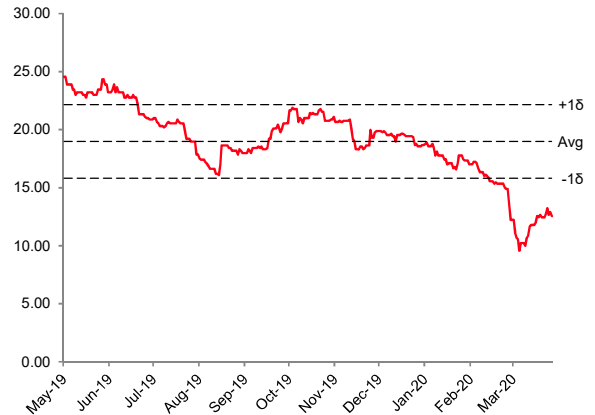


EXHIBIT 5: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 5,746.6 | 6,054.8 | 5,746.2 | 6,479.1 | 7,616.1 |
| EBITDA | 646.8 | 650.5 | 642.5 | 733.2 | 852.6 |
| Depreciation/Amortisation | (189.9) | (225.5) | (214.0) | (241.3) | (283.7) |
| Operating income (EBIT) | 456.9 | 425.0 | 428.5 | 491.9 | 568.9 |
| Other income & associates | 0.6 | 0.4 | 0.5 | 0.7 | 1.1 |
| Net interest | (108.9) | (123.8) | (144.8) | (156.8) | (178.9) |
| Exceptional items | - | (16.6) | - | - | - |
| Pretax profit | 348.6 | 301.6 | 284.2 | 335.8 | 391.1 |
| Taxation | (101.8) | (75.8) | (65.4) | (77.2) | (90.0) |
| Minorities/pref dividends | (60.7) | (62.4) | (54.7) | (59.9) | (76.1) |
| Net profit | 186.1 | 163.4 | 164.2 | 198.7 | 225.1 |
| Core net profit | 186.1 | 180.0 | 164.2 | 198.7 | 225.1 |
| 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 | 491.7 | 530.7 | 574.8 |
| Stock | 575.6 | 679.6 | 560.8 | 643.0 | 753.4 |
| Trade debtors | 649.2 | 496.1 | 614.2 | 702.0 | 813.5 |
| Other current assets | 574.2 | 564.3 | 524.4 | 571.9 | 636.4 |
| Total current assets | 2,257.9 | 2,504.8 | 2,191.2 | 2,447.5 | 2,778.2 |
| Trade creditors | 248.9 | 273.5 | 253.7 | 287.6 | 340.8 |
| Short-term borrowings | 1,326.6 | 1,508.7 | 1,580.5 | 1,705.7 | 1,847.5 |
| Other current liabilities | 309.3 | 306.4 | 305.4 | 307.7 | 311.3 |
| Total current liabilities | 1,884.8 | 2,088.6 | 2,139.6 | 2,301.0 | 2,499.6 |
| Long-term borrowings | 1,044.3 | 873.1 | 751.0 | 900.0 | 1,186.5 |
| Other long-term liabilities | 139.4 | 144.4 | 144.4 | 144.4 | 144.4 |
| Total long-term liabilities | 1,183.8 | 1,017.5 | 895.4 | 1,044.4 | 1,330.8 |
| Shareholders' funds | 1,301.8 | 1,641.2 | 1,756.1 | 1,895.2 | 2,052.8 |
| Minority interests | 463.6 | 539.3 | 511.8 | 577.1 | 678.4 |
| BV/share (RM) | 0.36 | 0.45 | 0.48 | 0.52 | 0.56 |
| Cash Flow (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Pretax profit | 348.6 | 301.6 | 284.2 | 335.8 | 391.1 |
| Depreciation/Amortisation | 189.9 | 225.5 | 214.0 | 241.3 | 283.7 |
| Net change in working capital | (241.8) | 38.7 | (40.5) | 217.4 | 286.5 |
| Others | 52.5 | 91.0 | (137.0) | (570.2) | (877.9) |
| Cash flow from operations | 349.2 | 656.9 | 320.7 | 224.4 | 83.4 |
| 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) | (50.3) | 274.2 | 428.2 |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (58.0) | (84.5) | (49.3) | (59.6) | (67.5) |
| Others | (127.8) | 125.2 | - | - | - |
| Cash flow from financing | (6.9) | (2.7) | (99.6) | 214.6 | 360.7 |
| Net cash flow | (36.2) | 281.1 | (179.1) | 38.9 | 44.1 |
| Net cash/(debt) b/f | 427.4 | 390.4 | 670.8 | 491.7 | 530.7 |
| Net cash/(debt) c/f | 390.4 | 670.8 | 491.7 | 530.7 | 574.8 |
| Key Ratios (YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Revenue growth (%) | 4.5 | 5.4 | (5.1) | 12.8 | 17.5 |
| EBITDA growth (%) | 10.9 | 0.6 | (1.2) | 14.1 | 16.3 |
| Pretax margin (%) | 6.1 | 5.0 | 4.9 | 5.2 | 5.1 |
| Net profit margin (%) | 3.2 | 2.7 | 2.9 | 3.1 | 3.0 |
| Interest cover (x) | 4.2 | 3.4 | 3.0 | 3.1 | 3.2 |
| 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 | 39 | 34 | 33 |
| Creditors turnover (days) | 16 | 16 | 17 | 15 | 15 |

Source: Company, AmlInvestment Bank Bhd estimates

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