

19 February 2020

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Buy (Maintained)

Encouraging Growth In Emerging Markets; BUY

Target Price (Return): MYR1.16 (48.7%)
 Price: MYR0.78
 Market Cap: USD681m
 Avg Daily Turnover (MYR/USD) 2.17m/0.52m

- **Keep BUY with a new MYR1.16 TP from MYR1.26, 49% upside with c.2% FY20F yield.** Leong Hup International's FY19 results trailed expectations, mainly on depressed product prices in Indonesia. 2Q20 should be boosted by higher product prices on seasonality in Malaysia and Singapore, whilst government actions to stabilise prices may improve the situation in Indonesia. We note that emerging markets like Vietnam and Philippines continue to grow due to market penetration and capacity expansion, and expect this momentum to be sustained.

- **FY19 results below expectations.** FY19 core net profit of MYR157.1m (-28.3% YoY) missed both our and Street's expectations, after accounting for only 91% of full-year forecasts. The negative deviation can be attributed to weaker-than-expected product prices, particularly in Indonesia. Post results, we trim our FY20F-21F earnings by 11-12% after pencilling in more prudent product price assumptions. Correspondingly, our DCF-derived TP is trimmed to MYR1.16. The TP implies 21x FY20F P/E, which is in line with the regional peer average.

- **Results review.** YoY, LHI's FY19 revenue grew 5.4% to MYR6.1bn, mainly driven by robust growth in the Indonesian and Vietnamese markets, thanks to capacity expansion and higher sales volumes. Meanwhile, its FY19 EBITDA margins slipped by 0.6ppts to 10.7%, dragged down by depressed product prices – particularly in Indonesia. Breaking down the numbers by segment, the feedmill business contributed higher YoY revenue and EBITDA – by 17% and 51.7%. This was driven by capacity expansion and higher selling prices, which helped to offset most of the weakness in the livestock business. The latter had been affected by weak product prices.

- **Favourable seasonality ahead.** 1Q20 earnings should be boosted by seasonally higher product prices, driven by the Lunar New Year festivities in Malaysia and Singapore. Meanwhile, Indonesia could see improvements, given the price stabilisation measures undertaken by the Indonesian Government. We note that emerging markets such as Vietnam and Philippines have continued to grow as a result of market penetration and capacity expansion. Consequently, we expect the momentum to be sustained. Over a longer run, we believe LHI's earnings growth should be underpinned by capacity expansion across its operating markets and the robust consumption of poultry products, given that the latter is the cheapest source of protein, as well as its religious neutrality.

- **Downside risks to our recommendation** include unfavourable changes in regulatory policies and supply-demand dynamics.

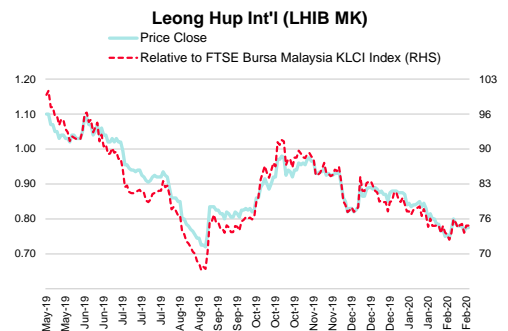
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.9)	(7.2)	(16.7)	(0.7)	0.0
Relative	(8.6)	(3.5)	(12.5)	3.2	0.0
52-wk Price low/high (MYR)					0.72 – 1.10



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	5,747	6,055	6,349	6,945	7,284
Recurring net profit (MYRm)	219	157	202	242	258
Recurring net profit growth (%)	18.4	(28.3)	28.6	19.8	6.7
Recurring P/E (x)	12.92	18.01	14.01	11.70	10.96
P/B (x)	2.2	1.7	1.6	1.4	1.3
P/CF (x)	8.10	4.31	5.59	5.59	4.60
Dividend Yield (%)	2.1	2.1	2.1	2.6	2.7
EV/EBITDA (x)	7.92	7.63	7.09	6.46	6.18
Return on average equity (%)	15.0	10.2	11.8	13.0	12.6
Net debt to equity (%)	108.3	74.2	75.2	75.9	76.1

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.06	0.04	0.06	0.07	0.07
Agriculture	DPS	0.02	0.02	0.02	0.02	0.02
Leong Hup International	BVPS	0.36	0.45	0.49	0.53	0.58
LHIB MK	Return on average equity (%)	15.0	10.2	11.8	13.0	12.6
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.92	18.01	14.01	11.70	10.96
DCF.	P/B (x)	2.2	1.7	1.6	1.4	1.3
	FCF Yield (%)	(2.6)	9.0	2.0	2.0	2.3
Key drivers	Dividend Yield (%)	2.1	2.1	2.1	2.6	2.7
i. Regional expansion plan;	EV/EBITDA (x)	7.92	7.63	7.09	6.46	6.18
ii. Favourable product prices.	EV/EBIT (x)	11.33	11.68	10.75	9.78	9.49
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	5,747	6,055	6,349	6,945	7,284
i. Unfavourable change in regulatory policies;	Gross profit	953	1,004	1,070	1,162	1,224
ii. Unfavourable demand-supply dynamics.	EBITDA	655	651	718	811	871
	Depreciation and amortisation	(197)	(226)	(245)	(275)	(304)
	Operating profit	457	425	474	535	567
Company Profile	Net interest	(109)	(137)	(124)	(127)	(130)
LHI is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Pre-tax profit	349	289	350	409	437
	Taxation	(102)	(76)	(80)	(94)	(100)
	Reported net profit	186	151	202	242	258
	Recurring net profit	219	157	202	242	258
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(242)	39	(65)	(137)	(77)
	Cash flow from operations	349	657	506	506	615
	Capex	(423)	(404)	(450)	(450)	(550)
	Cash flow from investing activities	(379)	(373)	(450)	(450)	(550)
	Dividends paid	(66)	(84)	(60)	(72)	(77)
	Cash flow from financing activities	(7)	(3)	(167)	(100)	(207)
	Cash at beginning of period	502	459	765	654	611
	Net change in cash	(36)	281	(111)	(43)	(142)
	Ending balance cash	466	740	654	611	468
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	459	765	654	611	468
	Tangible fixed assets	2,374	2,396	2,602	2,777	3,022
	Total investments	22	22	22	22	22
	Total assets	4,834	5,409	5,580	5,875	6,070
	Short-term debt	1,327	1,509	1,400	1,500	1,500
	Total long-term debt	1,044	873	1,000	1,000	1,000
	Total liabilities	3,069	3,229	3,259	3,385	3,399
	Total equity	1,765	2,181	2,322	2,491	2,671
	Total liabilities & equity	4,834	5,409	5,580	5,875	6,070
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.5	5.4	4.9	9.4	4.9
	Recurrent EPS growth (%)	18.4	(28.3)	28.6	19.8	6.7
	Gross margin (%)	16.6	16.6	16.9	16.7	16.8
	Operating EBITDA margin (%)	11.4	10.7	11.3	11.7	12.0
	Net profit margin (%)	3.2	2.5	3.2	3.5	3.5
	Dividend payout ratio (%)	31.2	38.8	29.9	29.9	29.9
	Capex/sales (%)	7.4	6.7	7.1	6.5	7.6
	Interest cover (x)	4.18	3.11	3.81	4.20	4.36

Source: Company data, RHB

Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	1,554.6	1,527.1	1,544.0	1.1	(0.7)	5,746.6	6,054.8	5.4	Driven by robust growth in Vietnam and Indonesia. Growth in Malaysia and Vietnam more than offset by the weak showings in Indonesia and Singapore.
EBITDA	172.2	173.7	146.3	(15.8)	(15.0)	654.6	650.5	(0.6)	
<i>EBITDA margin (%)</i>	<i>11.1</i>	<i>11.4</i>	<i>9.5</i>	<i>(1.9)</i>	<i>(1.6)</i>	<i>11.4</i>	<i>10.7</i>	<i>(0.6)</i>	
EBIT	121.8	118.3	84.2	(28.8)	(30.8)	457.5	425.0	(7.1)	
<i>EBIT Margin (%)</i>	<i>7.8</i>	<i>7.7</i>	<i>5.5</i>	<i>(2.3)</i>	<i>(2.4)</i>	<i>8.0</i>	<i>7.0</i>	<i>(0.9)</i>	
Finance costs	(31.4)	(34.6)	(34.2)	(1.2)	8.8	(109.5)	(136.6)	24.8	
EI	23.1	1.8	2.6	nm	nm	32.8	6.5	nm	
Profit before tax	90.5	83.8	50.2	(40.1)	(44.5)	348.6	288.8	(17.2)	
<i>PBT Margin (%)</i>	<i>5.8</i>	<i>5.5</i>	<i>3.3</i>	<i>(2.2)</i>	<i>(2.6)</i>	<i>6.1</i>	<i>4.8</i>	<i>(1.3)</i>	
Tax expense	(35.2)	(21.5)	(16.4)	(23.7)	(53.5)	(101.8)	(75.8)	(25.6)	
<i>Effective tax rate (%)</i>	<i>(38.9)</i>	<i>(25.6)</i>	<i>(32.6)</i>	<i>(7.0)</i>	<i>6.3</i>	<i>(29.2)</i>	<i>(26.2)</i>	<i>3.0</i>	
Minority interests	(22.6)	(18.0)	(4.3)	nm	nm	(60.6)	(62.4)	nm	
PATAMI	32.6	44.4	29.5	(33.5)	(9.5)	186.2	150.6	(19.1)	Below expectations, at 91% of our and Street's full-year forecasts.
Core PATAMI	55.8	46.2	32.1	(30.4)	(42.4)	219.0	157.1	(28.3)	
<i>Net Margin (%)</i>	<i>3.6</i>	<i>3.0</i>	<i>2.1</i>	<i>(0.9)</i>	<i>(1.5)</i>	<i>3.8</i>	<i>2.6</i>	<i>(1.2)</i>	

Source: Company data, RHB

Figure 2: LHI's geographical breakdown

FYE Dec (MYRm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments	
Malaysia	446.2	426.3	411.3	(3.5)	(7.8)	1,657.6	1,647.9	(0.6)	Dragged down by lower product prices.	
Singapore	233.9	201.8	195.4	(3.2)	(16.5)	991.4	781.6	(21.2)		
Vietnam	323.8	344.4	374.4	8.7	15.6	1,130.4	1,347.2	19.2	Loss of revenue from the disposal of a subsidiary.	
Indonesia	532.3	532.1	533.4	0.2	0.2	1,901.1	2,192.8	15.3		
Philippines	15.1	19.4	26.1	34.5	72.5	54.5	76.3	39.9		
Group revenue	1,551.2	1,524.0	1,540.5	1.1	(0.7)	5,734.9	6,045.8	5.4	Higher broiler prices and volumes, offset by lower DOC price and volumes.	
Malaysia	58.5	70.6	54.1	(23.4)	(7.6)	205.2	227.5	10.9		
Singapore	26.1	22.3	16.4	(26.4)	(37.1)	122.5	95.8	(21.8)		
Vietnam	26.2	30.2	41.9	38.6	59.6	101.5	130.3	28.4		
Indonesia	60.8	47.0	29.6	(37.0)	(51.3)	220.3	185.5	(15.8)		
Philippines	0.6	3.7	4.3	18.9	668.1	5.2	11.5	120.0		
Group EBITDA	172.2	173.7	146.3	(15.8)	(15.0)	654.6	650.5	(0.6)		
Malaysia	13.1	16.6	13.2	(3.4)	0.0	12.4	13.8	1.4		Driven by higher egg prices. Lower ASPs for processed food. In line with sales growth and driven by capacity expansion.
Singapore	11.2	11.0	8.4	(2.7)	(2.8)	12.4	12.3	(0.1)		
Vietnam	8.1	8.8	11.2	2.4	3.1	9.0	9.7	0.7		
Indonesia	11.4	8.8	5.6	(3.3)	(5.9)	11.6	8.5	(3.1)		
Philippines	3.7	18.8	16.6	(2.2)	12.9	9.5	15.0	5.5		
Group margins (%)	11.1	11.4	9.5	(1.9)	(1.6)	11.4	10.8	(0.7)		

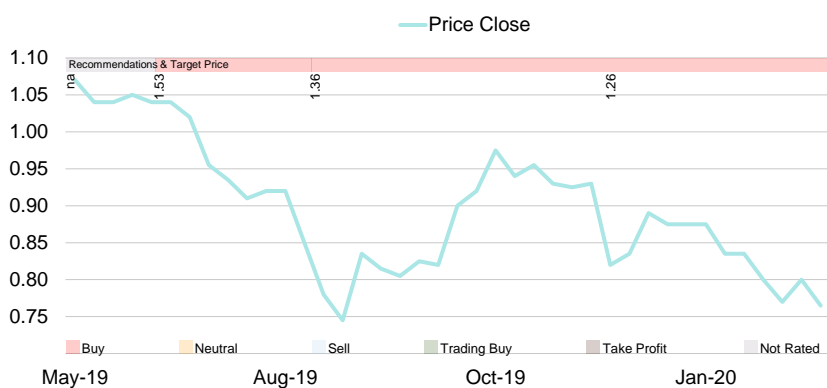
Source: Company data, RHB

Figure 3: LHI's segmental breakdown

FYE Dec (MYRm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Livestock	907.8	858.2	874.5	1.9	(3.7)	3,470.6	3,396.0	(2.1)	Driven by higher sales in Vietnam and Indonesia.
Feedmill	643.4	665.8	666.0	0.0	3.5	2,261.9	2,646.7	17.0	
Others	3.4	3.1	3.5	12.5	4.2	14.1	12.0	(15.0)	
Group revenue	1,554.6	1,527.1	1,544.0	1.1	(0.7)	5,746.6	6,054.8	5.4	
Livestock	67.1	41.8	51.0	22.2	(23.9)	397.0	257.4	(35.2)	In line with higher sales volumes and prices.
Feedmill	88.3	133.5	96.9	(27.4)	9.7	265.7	403.1	51.7	
Others	16.8	(1.5)	(1.6)	7.1	(109.5)	(8.2)	(10.0)	23.2	
Group EBITDA	172.2	173.7	146.3	(15.8)	(15.0)	654.6	650.5	(0.6)	
Livestock	7.4	4.9	5.8	1.0	(1.6)	11.4	7.6	(3.9)	Margins normalised on lower sales in Indonesia and Vietnam on seasonality.
Feedmill	13.7	20.0	14.6	(5.5)	0.8	11.7	15.2	3.5	
Group margin (%)	11.1	11.4	9.5	(1.9)	(1.6)	11.4	10.7	(0.6)	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-27	Buy	1.26	0.86
2019-08-30	Buy	1.36	0.84
2019-08-13	Buy	1.36	0.80

Source: RHB, Bloomberg

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