

# Leong Hup International Bhd

**TP: RM0.760** (-1.3%)

*Covid-19 Shatters Strong Livestock Price Recovery*

Last Traded: RM0.770

**Sell**

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We attended a conference call with management and gained following takeaways, namely i) Covid-19 dampened immediate term demands and livestock prices, ii) Feedmill margin may normalise downward, and iii) new projects are now phased apart for better execution. As such, we maintain our Sell recommendation with unchanged target price of RM0.760/share as we foresee more weaknesses going into 1QFY20.

### Covid-19 Disrupted Demands; Shatters Livestock Price Recovery

Management shared that news breakout of Covid-19 starting early Jan-20 has disrupted demands for poultry products as consumers altered their consumption patterns. This is in line with our observations, particularly within Malaysian context where there was seemingly less big-scale open house, less corporate gathering, reduced diner's patron and etc. Coupled with the Malaysian poultry structural oversupply environment, we reckon the lower consumption would shatter possibility of a strong price recovery in the near term thus we expect Malaysian livestock ASP to remain unexciting in 1QFY20. Similarly, we believe LHI Singapore's poultry products ASP would also be unfavourable given that i) one-third of Singapore imported chickens are from Malaysia, and ii) the country is also impacted by the wrath of Covid-19.

### Would Feedmill Margin Normalise Downward?

Feedmill's FY19 revenue and EBIT were indeed remarkable, up 17.0% YoY and 58.5% YoY respectively. This was on the back of i) new feedmill facility in Dong Nai, Vietnam which started its operations since early-2019, ii) expanded sales network and iii) group's effort in managing its raw material cost. Zooming into 4QFY19 Feedmill's operational metrics, we observe that the group's quarterly production capacity increased by 10.1% YoY (to 882.4kMT), with the quarterly feed sales volume improved by 5.3% YoY (to 595.9kMT). The external sales split has remained steady at 61% of group's feed sale volume.

Moving forward, while we remain confident on the group to deliver growth in feed sales volume underpinned by its enhanced capacity alongside expanding range of feed products (to include cattle feed, goat feed and higher margin feed products), we reckon the EBIT margin of Feedmill would normalise downward towards the range of 10-12% (FY19 EBIT Margin: 13.2%) because FY19 feed business was boosted by an unusually high 3QFY19 EBIT margin of 17.8%.

### Phasing the Capex Expansion

The group updated that certain Feedmill and Livestock projects would be delayed to ensure effective deployment and optimum use of such new capacity. The projects being delayed include Dong Nai's third pelleting line (capable of increasing Dong Nai's capacity by 50% to 428kMT/annum – delayed to 4QFY20 from 1QFY20), construction of 2 Vietnam PS closed-house farm, construction of the Philippines PS farm and various Feedmill related projects in Vietnam. We like the conservative approach taken by the management to ensure effective

#### Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2810.5
52-wk Hi/Lo (RM)	1.19/0.72
12-mth Avg Daily Vol ('000 shrs)	nm
Estimated Free Float (%)	25.68%-29.54%
Beta	nm
Major Shareholders (%)	
Emerging Glory	Emerging Glory - 52.8%
Clarinden Investment	Clarinden Investment - 8.0%

#### Forecast Revision (%)

	FY20	FY21
Forecast Revision (%)	-	-
Net Profit (RM mn)	179.9	198.4
Consensus	215.3	248.7
TA/Consensus (%)	83.5	79.8
Previous Rating	Sell (Maintained)	

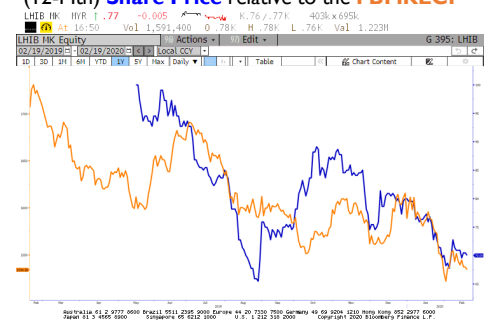
#### Financial Indicators

	FY20	FY21
Net debt/equity (%)	0.7	0.7
ROE (%)	10.6	10.8
ROA (%)	3.3	3.5
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.7	1.6

#### Share Performance

Price Change (%)	LHI	FBM KLCI
1 mth	(8.9)	(3.4)
3 mth	(16.8)	(4.2)
6 mth	0.7	(4.3)
12 mth	nm	(11.1)

#### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

deployment amidst challenging market landscape.

***Impact***

We make no changes to our earnings forecast.

***Valuation***

Maintain Sell on Leong Hup with unchanged TP of RM0.760/share based on 14x FY21 EPS. The targeted PER is pegged to big cap poultry players' average traded CY21 PER of 14.7x.

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## Earnings Summary

### Profit and Loss Statement

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
Revenue	5,746.6	6,054.8	6,442.1	6,892.7	7,209.1
EBITDA	646.1	637.7	719.5	772.2	796.6
Depreciation	(197.1)	(225.5)	(256.4)	(273.8)	(285.0)
Net finance cost	(101.0)	(123.8)	(134.1)	(135.4)	(134.1)
Associate	0.6	0.4	0.4	0.5	0.5
EI	(22.9)	0.0	0.0	0.0	0.0
PBT	348.6	288.8	329.5	363.5	378.0
Taxation	(101.8)	(75.8)	(86.5)	(95.4)	(99.2)
MI	(60.6)	(62.4)	(63.2)	(69.7)	(72.5)
Net profit	186.2	150.6	179.9	198.4	206.3
<b>Core net profit</b>	<b>215.2</b>	<b>150.6</b>	<b>179.9</b>	<b>198.4</b>	<b>206.3</b>

Core EPS (sen)	5.9	4.1	4.9	5.4	5.7
Diluted EPS (sen)	5.9	4.1	4.9	5.4	5.7
DPS (sen)	0.0	1.6	1.5	1.6	1.7
Book Value (RM)	0.5	0.6	0.6	0.7	0.8
NTA (RM)	0.3	0.4	0.5	0.5	0.5

### Ratios

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
<b>Valuations</b>					
Core PER (x)	13.1	18.7	15.6	14.2	13.6
Div. Yield (%)	0.0	2.1	1.9	2.1	2.2
P/BV (x)	1.6	1.3	1.2	1.1	1.0

### Profitability ratios

EBITDA margin (%)	11.6	10.5	11.2	11.2	11.0
PBT margin (%)	6.5	4.8	5.1	5.3	5.2
Core Net Margin (%)	3.7	2.5	2.8	2.9	2.9
Core ROE (%)	17.3	10.2	10.6	10.8	10.4
Core ROA (%)	4.6	2.9	3.3	3.5	3.5

### Liquidity ratios

Current ratio (x)	1.2	1.2	1.2	1.2	1.2
Quick ratio (x)	0.9	0.9	0.9	0.9	0.9

### Leverage ratios

Equity/total liabilities (x)	0.6	0.7	0.7	0.8	0.8
Net debt / equity (x)	1.1	0.7	0.7	0.7	0.6

### Growth ratios

Revenue (%)	4.5	5.4	6.4	7.0	4.6
PBT (%)	19.3	(17.2)	14.1	10.3	4.0
Core Net Profit (%)	25.0	(30.0)	19.4	10.3	4.0

### Balance Sheet

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
PPE	2,216.8	2,396.5	2,590.1	2,766.2	2,878.7
Intangible Asset	97.3	97.5	97.5	97.5	97.5
Associate	1.7	1.6	1.6	1.7	1.7
Others	260.3	393.4	393.4	393.4	393.4
<b>Non-current assets</b>	<b>2,576.1</b>	<b>2,888.9</b>	<b>3,082.6</b>	<b>3,258.8</b>	<b>3,371.3</b>
Inventories	575.6	679.6	659.3	726.3	771.9
Trade receivables	649.2	496.1	638.7	675.6	670.7
Cash and Bank Balance	458.9	764.8	691.4	582.8	654.9
Others	574.2	579.6	579.6	579.6	579.6
<b>Current assets</b>	<b>2,257.9</b>	<b>2,520.2</b>	<b>2,569.0</b>	<b>2,564.3</b>	<b>2,677.1</b>
<b>Total Assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,651.6</b>	<b>5,823.1</b>	<b>6,048.4</b>
LT Borrowings	1,016.0	873.1	891.4	873.1	873.1
Others	167.8	252.6	252.6	252.6	252.6
<b>Non-Current liabilities</b>	<b>1,183.8</b>	<b>1,125.7</b>	<b>1,144.1</b>	<b>1,125.7</b>	<b>1,125.7</b>
Trade payables	248.9	273.5	285.2	306.4	323.0
ST Borrowings	1,304.8	1,508.7	1,540.4	1,508.7	1,508.7
Others	331.1	320.6	320.6	320.6	320.6
<b>Current liabilities</b>	<b>1,884.8</b>	<b>2,102.9</b>	<b>2,146.2</b>	<b>2,135.8</b>	<b>2,152.4</b>
Shareholders funds	1,301.8	1,641.2	1,767.1	1,906.0	2,050.4
MI	463.6	539.3	594.2	655.7	719.9
<b>Total Equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,361.3</b>	<b>2,561.7</b>	<b>2,770.3</b>
<b>Total E&amp;L</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,651.6</b>	<b>5,823.1</b>	<b>6,048.4</b>

### Cash Flow Statement

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
Pretax profit	348.6	288.8	329.5	363.5	378.0
Depreciation	197.1	225.5	256.4	273.8	285.0
Net interest	101.0	123.8	134.1	135.4	134.1
Associates	(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Changes in WC	(241.8)	38.7	(110.6)	(82.8)	(24.0)
Tax	(75.7)	(57.0)	(86.5)	(95.4)	(99.2)
Others	20.7	37.6	0.0	0.0	0.0
<b>Operational cash flow</b>	<b>349.2</b>	<b>656.9</b>	<b>522.5</b>	<b>594.1</b>	<b>673.4</b>
Capex	(363.7)	(387.2)	(450.0)	(450.0)	(397.4)
Interest income	1.4	12.9	10.3	9.0	8.8
Others	(16.3)	1.3	0.4	0.4	0.5
<b>Investing cash flow</b>	<b>(378.6)</b>	<b>(373.0)</b>	<b>(439.3)</b>	<b>(440.5)</b>	<b>(388.1)</b>
Net share issue	0.0	269.6	0.0	0.0	0.0
Net borrowings	204.2	(7.2)	50.0	(50.0)	0.0
Dividend paid	(66.3)	(84.5)	(62.2)	(67.8)	(70.2)
Interest paid	(108.6)	(136.6)	(144.4)	(144.4)	(142.9)
Others	(36.2)	(43.9)	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>(6.9)</b>	<b>(2.7)</b>	<b>(156.6)</b>	<b>(262.2)</b>	<b>(213.1)</b>
<b>Net cash flow</b>	<b>(36.2)</b>	<b>281.1</b>	<b>(73.4)</b>	<b>(108.7)</b>	<b>72.2</b>
Beginning Cash	427.4	390.4	670.8	597.4	488.7
Forex & others	(0.8)	(0.7)	0.0	0.0	0.0
<b>Ending Cash</b>	<b>390.4</b>	<b>670.8</b>	<b>597.4</b>	<b>488.7</b>	<b>560.9</b>

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### Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Thursday, February 20, 2020, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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