



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

10 Mar 2020

Acquires aqua feedmill factory in Vietnam

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.68
Fair Value	RM0.92
52-week High/Low	RM1.19/RM0.66

Key Changes

Fair value	↑
EPS	↑

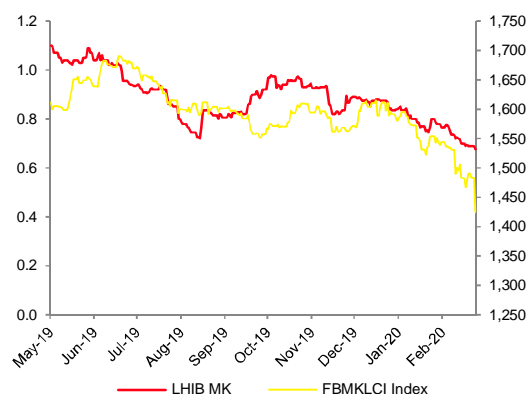
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	6,403.2	7,026.2	7,839.9
Core net profit (RM mil)	180.0	194.6	223.5	238.2
FD Core EPS (sen)	4.6	5.3	6.1	6.5
FD Core EPS growth (%)	(10.2)	16.4	14.8	6.6
Consensus Net Profit (RM mil)	-	187.3	213.9	227.8
DPS (sen)	1.4	1.6	1.8	2.0
PE (x)	14.7	12.7	11.0	10.3
EV/EBITDA (x)	6.3	6.0	5.7	5.6
Div yield (%)	2.0	2.4	2.7	2.9
ROE (%)	11.1	11.4	12.0	11.8
Net Gearing (%)	98.5	104.3	108.5	116.2

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,463.8
Book Value (RM/share)	0.45
P/BV (x)	1.5
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)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	(24.6)	(17.2)	-
Relative (%)	(17.2)	(6.7)	-



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a higher FV of RM0.92 (vs. RM0.89/share previously). We have raised our FY20F, FY21F and FY22F earnings forecasts by 1%, 4% and 4% respectively.

- Leong Hup has proposed to acquire a feedmill factory in Vietnam for a total cash consideration of VND369,272.1mil (circa RM67.0mil). The proposed acquisition is expected to be fully completed within 6 months from 28 Feb 2020.

- The rationale given behind the proposed acquisition is as follows:

- The strategic location of the feedmill factory, which is surrounded by active livestock farming and aqua farming activities, would allow the group to penetrate the Vietnam market while remaining competitive. It would also result in **cost savings** as raw materials and finished products (like rice base ingredients and other local raw materials) can be transported using the canal system.

- The acquisition is also positive as it would have taken the group at least two years to source for suitable land and construct a new feed mill. The feedmill factory is fully functioning and is ready for immediate production upon handover.

- The acquisition offers further diversification of its Vietnam operations (venturing in to aqua feed market) and further market share expansion in the Southern Region of Vietnam.

- The acquired feedmill factory will be used for producing aqua feed, poultry feed and other animal feed. The group plans to add another poultry line to begin production by end-2020. We expect the factory's capacity of 118.8K MT per annum will be doubled after the expansion (+17.5% to a combined capacity in Vietnam).

- Leong Hup believes that the acquisition will contribute positively to its earnings. The acquisition is expected to help drive the group's feed sales volume further and result in synergistic benefits through cost and capital efficiencies.

- We are positive on the news as we expect the acquisition to boost LHI's net profit for FY21F by 4–6%. We assume that the acquisition would be funded largely through cash. The fall in cash is envisaged to result in an estimated net gearing of 1.04x in FY20F.

- LHI's long-term outlook is positive due to the stable demand for poultry and strong earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.

EXHIBIT 1: CHANGES IN FY19 ASP

<u>FY19 ASP Changes YoY</u>	<u>DOCs per chick</u>	<u>Broiler chickens per kg</u>	<u>Per Egg</u>	<u>Livestock feed per kg</u>
Malaysia	-14.1%	-4.6%	6.9%	-8.5%
Indonesia	-3.6%	-10.3%	-2.5%	3.4%
Singapore	-3.0%			
Vietnam	1.3%	1.3%	-14.3%	3.0%
Philippines	-6.1%	13.3%		

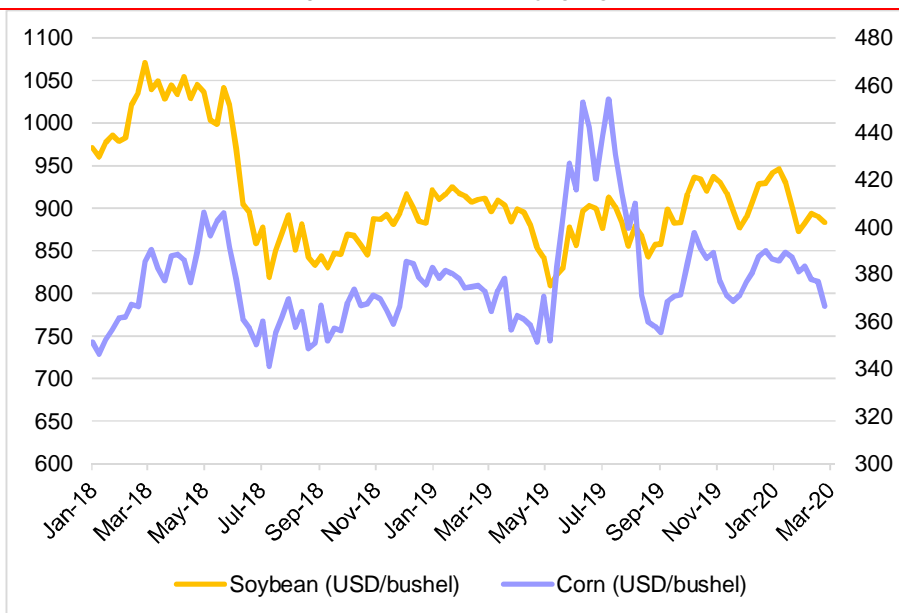
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: CHANGES IN FY19 SALES VOLUME

<u>FY19 Sales Volume Changes YoY</u>	<u>Broiler DOC (chicks)</u>	<u>Broiler chickens (birds)</u>	<u>Eggs</u>	<u>Livestock feed (MT)</u>
Malaysia	2.0%	2.1%	6.0%	1.4%
Indonesia	7.8%	11.8%	10.9%	13.1%
Singapore	-40.3%			-25.9%
Vietnam	11.5%	10.7%	-15.6%	16.1%
Philippines	65.6%	18.4%		

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: RAW MATERIAL PRICES MOVEMENT



Source: Bloomberg, AmlInvestment Bank Bhd

EXHIBIT 4: ONGOING EXPANSION PLANS

(2) On-going projects⁽¹⁾:

Location	Segment	Project	Commencement date	Targeted Completion Date	Total investment
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	1Q2021	RM0.9 million
Vietnam	Livestock	Installation and fitting of equipment in new Layer farms to be rented in Southern Vietnam	1Q2020	4Q2020	RM20.5 million
Vietnam	Feedmill	Additional pelleting line at Dong Nai feedmill	4Q2019	4Q2020	RM2.6 million
Philippines	Feedmill	Construction of first feedmill plant at Central Luzon	3Q2019	4Q2020	RM59.2 million
Philippines	Livestock	Construction of 2 new Broiler farms @ Central Luzon	3Q2019	3Q2020	RM20.5 million
Philippines	Livestock	Construction of new GPS farm at South Luzon	3Q2019	4Q2020	RM6.4 million

Note:

(1) Funded via IPO proceeds, details of which are set out in the company's prospectus dated 25 April 2019.

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PRESENTATION DECK

Source: Company

EXHIBIT 5: DELAYED EXPANSION PLANS

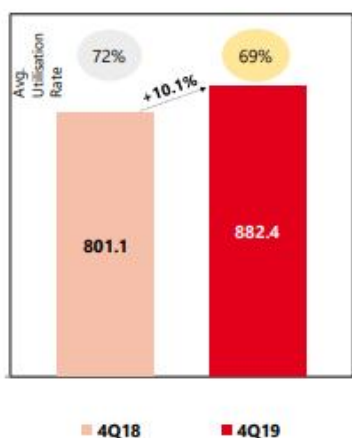
(3) Delayed projects:

Location	Segment	Project	Expected commencement date	Total investment
Vietnam	Feedmill	Installation of automatic bagging & robotic pelletiser at Tien Giang and Bau Bang feedmill	FY21	RM4.6 million
Vietnam	Feedmill	Construction of animal medicine injection line @ Bau Bang	FY21	RM4.9 million
Vietnam	Feedmill	Dong Nai - Silo expansion and construction of a soybean meal flat warehouse discharging system	FY21	RM5.1 million
Vietnam	Feedmill	Construction of centralised premix machineries @ Dong Nai	FY21	RM6.8 million
Philippines	Livestock	Construction of new PS farm at Central Luzon	FY21	RM19.2 million

Source: Company

EXHIBIT 6: TOTAL FEEDMILL CAPACITY

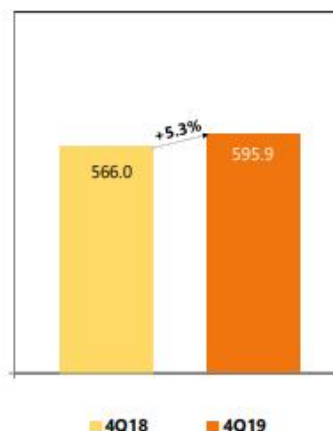
Group Production Capacity ('000 MT)



Source: Company

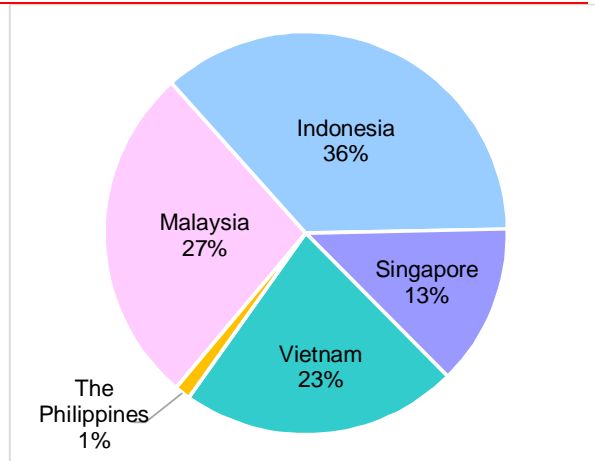
EXHIBIT 7: FEEDMILL SALES VOLUME

Group Feed Sales⁽¹⁾ ('000 MT)



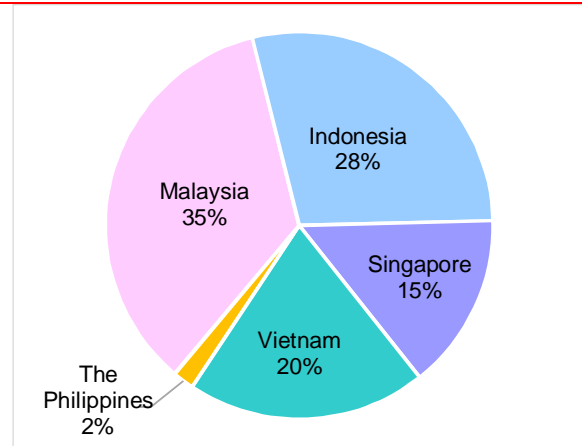
Source: Company

EXHIBIT 8: FY19 REVENUE BREAKDOWN BY COUNTRY



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 9: FY19 EBITDA BREAKDOWN BY COUNTRY



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 10: PB BAND CHART

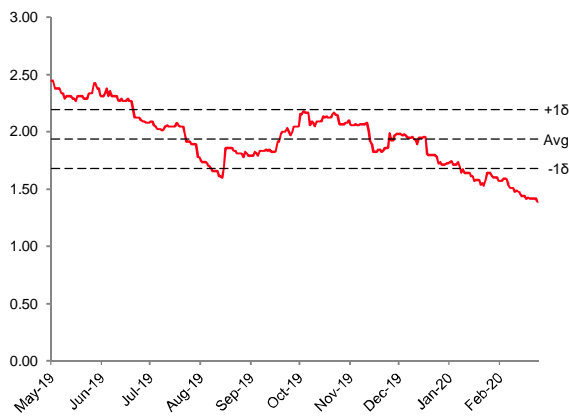


EXHIBIT 11: PE BAND CHART

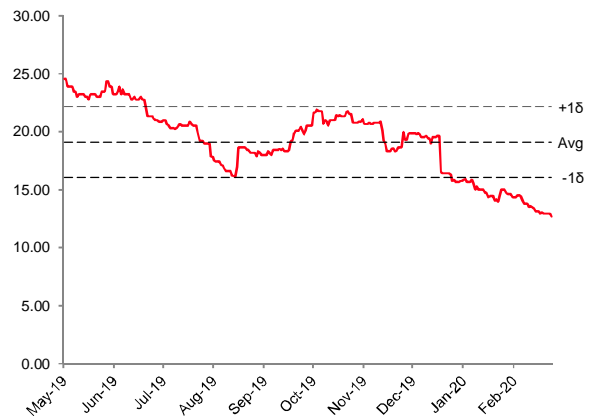


EXHIBIT 12: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	6,403.2	7,026.2	7,839.9
EBITDA	646.8	650.5	716.0	795.1	877.7
Depreciation/Amortisation	(189.9)	(225.5)	(238.5)	(261.7)	(292.0)
Operating income (EBIT)	456.9	425.0	477.5	533.4	585.6
Other income & associates	0.6	0.4	0.5	0.8	1.1
Net interest	(108.9)	(123.8)	(145.0)	(157.8)	(177.5)
Exceptional items	-	(16.6)	-	-	-
Pretax profit	348.6	301.6	333.0	376.4	409.2
Taxation	(101.8)	(75.8)	(76.6)	(86.6)	(94.1)
Minorities/pref dividends	(60.7)	(62.4)	(61.8)	(66.3)	(76.9)
Net profit	186.1	163.4	194.6	223.5	238.2
Core net profit	186.1	180.0	194.6	223.5	238.2
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	497.7	541.5	588.2
Stock	575.6	679.6	624.9	697.2	775.6
Trade debtors	649.2	496.1	684.5	761.3	837.4
Other current assets	574.2	564.3	563.1	604.5	649.7
Total current assets	2,257.9	2,504.8	2,370.2	2,604.6	2,850.8
Trade creditors	248.9	273.5	282.7	311.9	350.8
Short-term borrowings	1,326.6	1,508.7	1,599.7	1,740.5	1,890.6
Other current liabilities	309.3	306.4	307.5	309.4	312.0
Total current liabilities	1,884.8	2,088.6	2,189.8	2,361.8	2,553.4
Long-term borrowings	1,044.3	873.1	751.0	900.0	1,137.6
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	1,282.0
Shareholders' funds	1,301.8	1,641.2	1,777.4	1,933.9	2,100.6
Minority interests	463.6	539.3	570.4	625.9	698.3
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	333.0	376.4	409.2
Depreciation/Amortisation	189.9	225.5	238.5	261.7	292.0
Net change in working capital	(241.8)	38.7	132.5	190.5	199.6
Others	52.5	91.0	(387.4)	(607.6)	(770.3)
Cash flow from operations	349.2	656.9	316.6	221.0	130.5
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)	(31.1)	289.8	387.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(58.4)	(67.1)	(71.4)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(89.5)	222.8	316.2
Net cash flow	(36.2)	281.1	(173.1)	43.8	46.7
Net cash/(debt) b/f	427.4	390.4	670.8	497.7	541.5
Net cash/(debt) c/f	390.4	670.8	497.7	541.5	588.2
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	5.8	9.7	11.6
EBITDA growth (%)	10.9	0.6	10.1	11.0	10.4
Pretax margin (%)	6.1	5.0	5.2	5.4	5.2
Net profit margin (%)	3.2	2.7	3.0	3.2	3.0
Interest cover (x)	4.2	3.4	3.3	3.4	3.3
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	37	34	34
Creditors turnover (days)	16	16	16	15	15

Source: Company, AmInvestment Bank Bhd estimates

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