



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

20 May 2020

1Q net profit down 64%, but long-term outlook positive

BUY

(Maintained)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company results

Price	RM0.59
Fair Value	RM0.72
52-week High/Low	RM1.10/RM0.43

Key Changes

Fair value	⬇️
EPS	⬇️

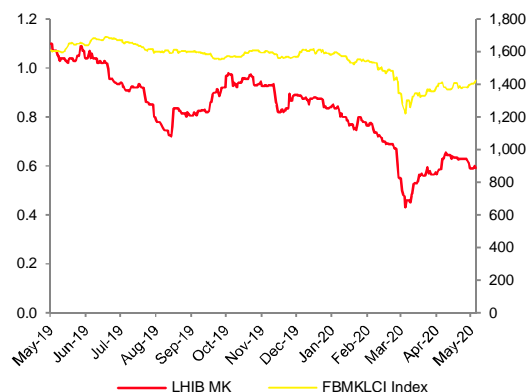
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	5,565.1	6,295.1	7,426.1
Core net profit (RM mil)	150.6	154.4	188.7	224.2
FD Core EPS (sen)	4.1	4.2	5.2	6.1
FD Core EPS growth (%)	(19.1)	2.5	22.2	18.8
Consensus Net Profit (RM mil)	-	-	213.9	227.8
DPS (sen)	1.2	1.3	1.6	1.8
PE (x)	14.3	13.9	11.4	9.6
EV/EBITDA (x)	5.9	6.4	5.9	5.5
Div yield (%)	2.2	2.2	2.7	3.3
ROE (%)	10.2	9.1	10.4	11.4
Net Gearing (%)	98.5	104.9	109.8	119.9

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RMmil)	2,153.5
Book Value (RM/share)	0.45
P/BV (x)	1.3
ROE (%)	10.2
Net Gearing (%)	98.5

Major Shareholders	Emerging Glory (52.8%) Clarinden Investments (9.0%) Amanah Saham Bumiputera (4.9%)
Free Float	87.3
Avg Daily Value (RMmil)	1.5

Price performance	3mth	6mth	12mth
Absolute (%)	(23.4)	(36.2)	(44.9)
Relative (%)	(17.4)	(28.1)	(37.8)



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a lower fair value (FV) of RM0.72/share (RM0.76/share previously). Our FV is based on 14x FY21x EPS.
- LHI's 1QFY20 core net profit of RM21.8mil (-64% YoY; -46% QoQ) missed earnings expectations, coming in at around 13% of ours and street's full-year estimates. Although we believe poultry prices will remain subdued, we do anticipate a slight recovery in selling prices in subsequent quarters as the movement control order (MCO) is relaxed and dine-ins at restaurants are allowed. We also see a gradual improvement in selling prices once the MCO is lifted in June 2020.
- We reduce LHI's net profit by 5.4% for FY20F, 4.9% for FY21F and 4.4% for FY22F to account for weaker EBITDA margins. LHIB was hit by lower selling prices as demand from fast food restaurants fell significantly during the MCO. We lower our selling price and sales volume assumption by roughly 2-5%.
- We believe there was a short-term push for selling prices in May due to a temporary closure of a poultry processing plant in Pedas, Negeri Sembilan where some workers contracted Covid-19. The Kerabat Processing House has a slaughtering capacity of 90,000 birds per day. However, we believe the increase in selling price will be short-lived as supply of poultry returns when the plant resumes operation.
- LHI's 1QFY20 revenue dropped 5% YoY (-7% QoQ) but EBITDA tumbled 38% YoY (-17% QoQ). EBITDA margin fell 5ppt YoY (-1ppt QoQ). This was mainly due to depressed selling prices of several of its products across Indonesia, Vietnam, Singapore and Malaysia.
- The livestock and poultry-related product segment's 1QFY20 revenue fell 9% YoY (-11% QoQ). This was on the back of lower selling prices for Malaysia's DOC, eggs and broiler chicken. Sales volume of DOC also slid YoY. Indonesia experienced lower selling price and sales volume of DOC. Singapore had lower sales volume for fresh chicken and duck. These were partially offset by higher contribution from Vietnam as sales volume improved for its broiler chicken and eggs. The lower selling prices and sales volume have caused EBITDA to plunge 95% YoY (-89% QoQ).
- Feedmill segments's 1QFY20 revenue inched up 1% (-3% QoQ) primarily due to higher sales volume of livestock feed in Vietnam but partially offset by lower selling prices and sales volume of livestock feed in Indonesia. EBITDA for the segment jumped 40%YoY (+25% QoQ). EBITDA margin soared 5ppt YoY (+4ppt QoQ) on the back of higher sales volume in Vietnam.

- According to *The New StraitsTimes*, the maximum price control scheme will be enforced from today till 3 June 2020, throughout Hari Raya Aidilfitri, Pesta Kaamatan and Hari Gawai. The retail prices for Aidilfitri, Pesta Kaamatan and Hari Gawai will be RM6.20–RM6.70 per kg for live chicken, RM7.50–RM9.50 per kg for standard chicken, RM9.80 per kg for super chicken, RM0.39–RM0.41 per grade A egg, RM0.38–RM0.40 per Grade B egg and RM0.37–RM0.39 per Grade C egg. We believe LHI will be minimally impacted as this is a usual practice during festive seasons.
- Moving on to subsequent quarters, we expect poultry prices to recover slightly as restaurants restart operations for dine-ins. We believe the growth for FY20F will be largely driven by LHI's expansion plans (Exhibit 2). We believe that the long-term outlook for LHI is positive due to relatively stable demand of chicken and strong long-term earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.

EXHIBIT 1: FINANCIAL RESULTS

YE Dec	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	1,506.4	1,544.0	1,434.1	-7.1	-4.8
Operating profit	147.7	84.2	67.7	-19.7	-54.2
EBITDA	196.4	146.3	121.6	-16.9	-38.1
Depreciation	48.7	62.1	53.9	-13.1	10.8
EBIT	147.7	84.2	67.7	-19.7	-54.2
	114.9	50.2	35.1	-30.1	-69.5
PBT					
Tax	-24.6	-16.4	-9.8	-40.4	-60.3
PAT	90.3	33.8	25.3	-25.1	-72.0
Minority interest	-29.7	-4.3	-3.5	-17.5	-88.1
PATAMI	60.6	29.5	21.8	-26.2	-64.0
Core PATAMI	60.6	40.4	21.8	-45.9	-64.0
EPS	1.8	0.8	0.6	-26.2	-66.5
EBITDA margin (%)	13.0	9.5	8.5	-1.0ppt	-4.6ppt
PBT margin (%)	7.6	3.3	2.4	-0.8ppt	-5.2ppt
Effective tax rate (%)	-21.4	-32.6	-27.8	4.8ppt	-6.4ppt
Core PATAMI margin (%)	4.0	2.6	1.5	-1.1ppt	-2.5ppt
<u>Livestock and poultry related</u>					
Revenue	859.7	874.5	782.6	-10.5	-9.0
EBITDA	118.9	51.0	6.0	-88.2	-94.9
EBITDA margin	13.8	5.8	0.8	-5.1ppt	-13.1ppt
<u>Feedmill</u>					
Revenue	643.6	666.0	648.1	-2.68	0.70
EBITDA	85.2	95.3	119.4	25.33	40.20
EBITDA margin	13.2	14.3	18.4	4.1ppt	5.2ppt

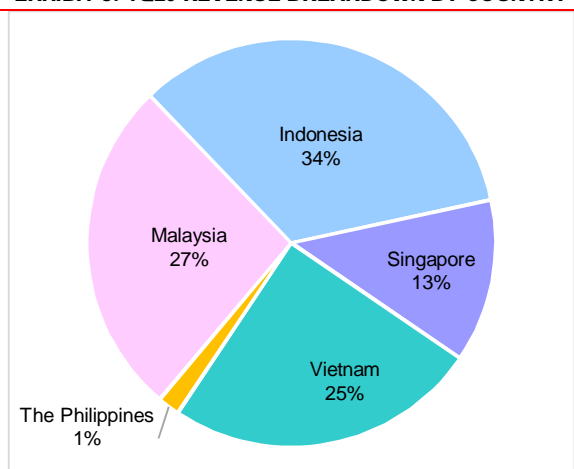
Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: EXPANSION PLANS

(2) On-going projects:

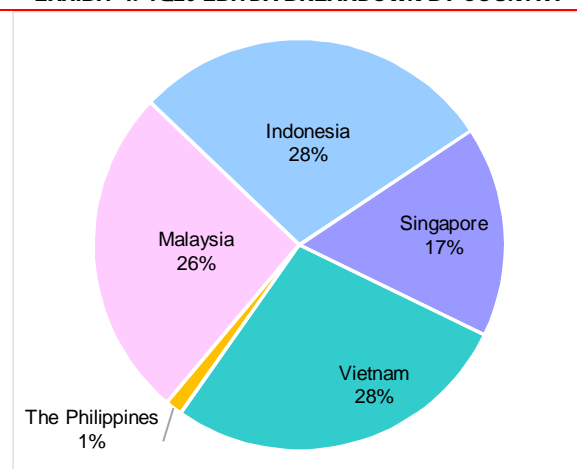
Location	Segment	Project	Commencement date	Target completion date	Total investment
Philippines	General	Purchase of new ERP system	1Q2019	4Q2019	RM6.4 million
Malaysia	Livestock	Expansion of closed-house broiler farms	1Q2019	4Q2020	RM86.8 million
Vietnam	Livestock	Construction of additional 3 parent stock ("PS") closed-house farms and machinery at Dong Nai farm	3Q2019	4Q2019	RM0.9 million
Vietnam	Feedmill	Third pelleting line at Dong Nai feedmill	3Q2019	1Q2020	RM2.6 million
Vietnam	Feedmill	Installation of automatic bagging & robotic pelletiser at Tien Giang feedmill	4Q2019	4Q2019	RM4.6 million

EXHIBIT 3: 1Q20 REVENUE BREAKDOWN BY COUNTRY



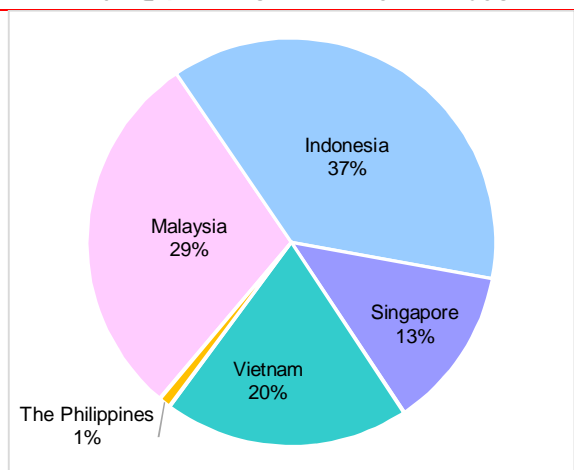
Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 4: 1Q20 EBITDA BREAKDOWN BY COUNTRY



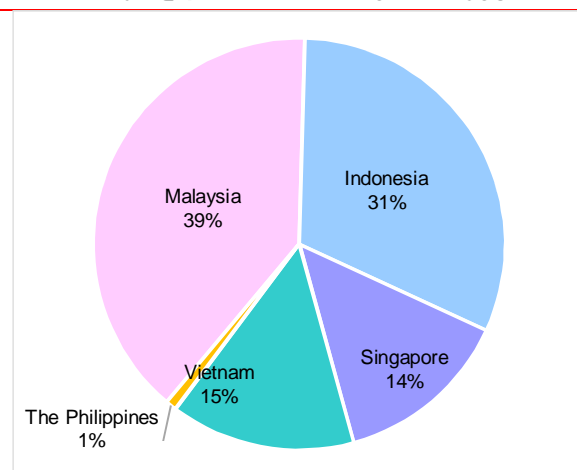
Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 5: 1Q19 REVENUE BREAKDOWN BY COUNTRY



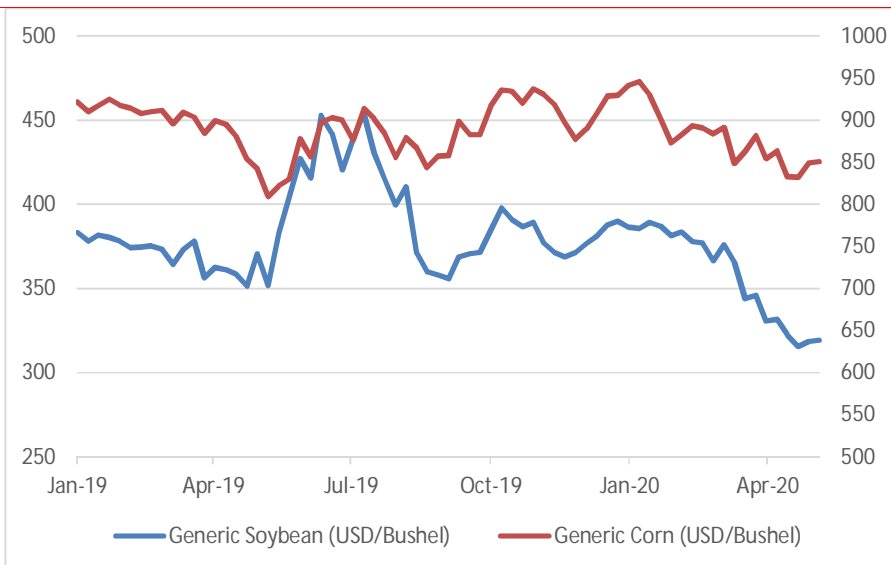
Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 6: 1Q19 EBITDA BREAKDOWN BY COUNTRY



Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 7: CORN AND SOYBEAN PRICES



Source: Company, AmInvestment Bank Bhd

EXHIBIT 8: AVERAGE SELLING PRICES ASSUMPTIONS BY COUNTRY

	FY19	FY20F	FY21F
Malaysia			
DOCs per chick	1.58	1.18	1.39
Broiler chickens per kg	4.17	3.08	3.62
Per Egg	0.31	0.28	0.29
Indonesia			
DOCs per chick	1.69	0.98	1.29
Broiler chickens per kg	4.89	2.98	3.86
Eggs	0.35	0.31	0.33
Vietnam			
DOCs per chick	1.67	1.48	1.59
Broiler chickens per kg	4.58	3.48	4.04
Per Egg	0.24	0.28	0.28

Source: AmInvestment Bank Bhd, Company

EXHIBIT 9: PB BAND CHART

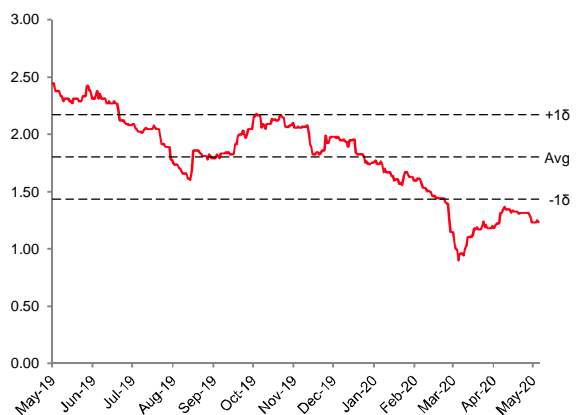


EXHIBIT 10: PE BAND CHART

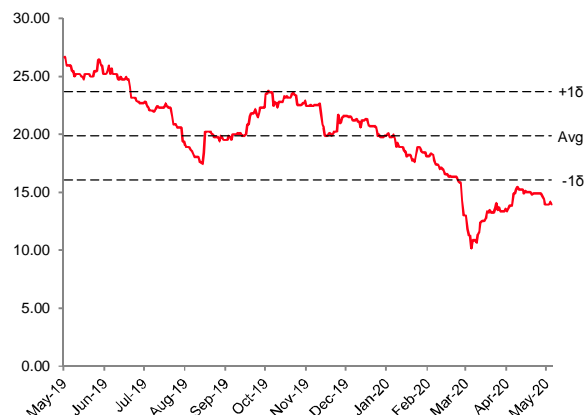


EXHIBIT 11: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,565.1	6,295.1	7,426.1
EBITDA	646.8	637.7	622.3	712.4	843.4
Depreciation/Amortisation	(189.9)	(225.5)	(207.3)	(234.5)	(276.6)
Operating income (EBIT)	456.9	412.1	415.0	477.9	566.8
Other income & associates	0.6	0.4	0.5	0.7	1.0
Net interest	(108.9)	(123.8)	(144.8)	(156.9)	(179.0)
Exceptional items	-	-	-	-	-
Pretax profit	348.6	288.8	270.7	321.7	388.9
Taxation	(101.8)	(75.8)	(62.3)	(74.0)	(89.4)
Minorities/pref dividends	(60.7)	(62.4)	(54.0)	(59.1)	(75.2)
Net profit	186.1	150.6	154.4	188.7	224.2
Core net profit	186.1	150.6	154.4	188.7	224.2
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	489.8	526.8	570.7
Stock	575.6	679.6	543.1	624.7	734.6
Trade debtors	649.2	499.3	594.9	682.1	793.2
Other current assets	574.2	561.1	510.6	557.7	622.0
Total current assets	2,257.9	2,504.8	2,138.4	2,391.3	2,720.6
Trade creditors	248.9	273.1	245.7	279.4	332.3
Short-term borrowings	1,326.6	1,508.7	1,574.4	1,693.2	1,834.5
Other current liabilities	309.3	307.6	306.1	308.4	312.0
Total current liabilities	1,884.8	2,089.5	2,126.1	2,281.1	2,478.8
Long-term borrowings	1,044.3	873.1	751.0	900.0	1,179.4
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	1,323.8
Shareholders' funds	1,301.8	1,641.2	1,749.3	1,881.4	2,038.3
Minority interests	463.6	539.3	495.7	560.7	661.5
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	288.8	270.7	321.7	388.9
Depreciation/Amortisation	189.9	225.5	207.3	234.5	276.6
Net change in working capital	(241.8)	38.7	(91.4)	216.0	285.3
Others	52.5	103.9	(64.5)	(546.5)	(860.2)
Cash flow from operations	349.2	656.9	322.0	225.7	90.5
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)	(56.5)	267.9	420.7
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(46.3)	(56.6)	(67.3)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(102.8)	211.3	353.4
Net cash flow	(36.2)	281.1	(181.0)	37.0	43.9
Net cash/(debt) b/f	427.4	390.4	670.8	489.8	526.8
Net cash/(debt) c/f	390.4	670.8	489.8	526.8	570.7
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	(8.1)	13.1	18.0
EBITDA growth (%)	10.9	(1.4)	(2.4)	14.5	18.4
Pretax margin (%)	6.1	4.8	4.9	5.1	5.2
Net profit margin (%)	3.2	2.5	2.8	3.0	3.0
Interest cover (x)	4.2	3.3	2.9	3.0	3.2
Effective tax rate (%)	29.2	26.2	23.0	23.0	23.0
Dividend payout (%)	-	30.0	30.0	30.0	30.0
Debtors turnover (days)	41	30	39	40	39
Stock turnover (days)	35	38	40	34	33
Creditors turnover (days)	16	16	17	15	15

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.