

Stock Digest

Results Note – Leong Hup International Bhd

Wednesday, 20 May, 2020

M⁺Online
Equipping Traders For The Win

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Overseas Demand To Cushion Lower ASP

Results Highlights

- Leong Hup's (LHI) 1Q2020 net profit sank 64.0% Y.o.Y to RM21.8 mln, dragged down by the weakness in the the livestock and poultry related products segment in the Malaysia, Indonesia and Singapore market that offset the improvement of feedmill segment. Revenue for the quarter declined 4.8% Y.o.Y to RM1.43 bln.
- The reported results came below our expectations, making up to 12.6% of our net profit estimate of RM173.6 mln for 2020. The reported revenue, however, came within our expectations, amounting to 23.8% of our full-year forecast of RM6.04 bln. The variance is mainly due to the lower ASP of DOC, broiler chickens and eggs, coupled with the higher effective tax rate at 27.8% vis-a-vis our estimates of 25.0%.
- Segment wise in 1Q2019, the livestock and poultry related segment's EBITDA sank 94.9% Y.o.Y to RM6.0 mln, bogged down by the decrease in ASP of day old chicks (DOC), broiler chickens and eggs in Malaysia, lower ASP of DOC in Indonesia and broiler chickens in Vietnam. The feedmill segment's EBITDA rose 40.2% Y.o.Y to RM119.4 mln supported by higher sales volume in Vietnam following the group's expansion plans. Geographically, Malaysia accounted to RM383.5 mln or 26.7% (ratio unchanged from 4Q2019) of total revenue, while overseas contribution amounted to RM1.05 bln or 73.3% of the group's total revenue of RM1.43 bln in 1Q2020.
- As of 1Q2020, LHI's gearing stood at 115.4% (up from 114.7% recorded in 4Q2019). Moving forward, we expect LHI's gearing level to remain elevated as the group will hinge on external funding to cater for its overseas expansion.

Financial Highlights					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	5501.4	5732.4	6054.8	6037.0	6185.0
EBITDA	576.6	646.1	637.6	613.8	639.1
Net Profit	192.6	184.7	150.6	137.3	146.3
Revenue Growth (%)	4.6	4.2	5.6	-0.3	2.5
EBITDA Growth (%)	-14.0	12.1	-1.3	-3.7	4.1
Net Profit Growth (%)	-8.1	-4.1	-18.5	-8.8	6.6
EPS (sen)	5.3	5.1	4.1	3.8	4.0
P/E (x)	11.2	11.7	14.3	15.7	14.7
Dividend Yield (%)	1.8	1.7	2.7	2.1	2.1
P/BV (x)	1.8	1.7	1.3	1.3	1.3
ROE (%)	6.7	6.2	4.1	3.6	3.9

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM0.59

Target Price: RM0.60

Expected Return: +2.0%

Expected Dividend Return: +2.1%

Expected Total Return: +4.0%

FBM KLCI: 1,423.97

Key Statistics

Bursa Code: 6633

Bloomberg Ticker: LHIB MK Equity

Stock Information: Principally involved in distribution of animal feed raw materials, food related products and livestock farming

Listing Market: Main Market

Share Issued (bln): 3.65

Market Capital (RM bln): 2.15

Par Value (RM): N/A

52 week high/low: RM1.09/RM0.43

Estimated free float: 85.1%

Beta (x): 1.2

3-month average volume ('000): 2,458.3

Major Shareholders:

Clarinden Investments Pte Ltd 9.0%

Lau Joo Han 2.1%

Lau Eng Guang 1.6%

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Prospects

The recent acquisition of a feedmill in Vietnam earmarked LHI's diversification into the aquatic feed in Vietnam and the group will ramp up the poultry feed production in the country by end-2020. Therefore, we think that contribution from overseas; in Vietnam, Philippines and the recent venture into Myanmar to pick up in subsequent quarters.

Following the implementation of Movement Control Order (MCO) in Malaysia, average selling prices (ASP) has been tapering. Despite that, the stronger demand from the retail segment has provided some alleviation to the slower demand from customers in the food & beverage and hospitality segment. Nevertheless, we expect a recovery in both ASP and demand to only take place in 2H2020, depending on the situation of Covid-19.

In the meantime, we note that feed prices (soybean and corn) have declined over the past quarter. In 1Q2020, soybean prices fell -3.8% Q.o.Q, whilst corn prices declined -3.8% Q.o.Q. Despite the lower feed cost, LHI has maintained their feed inventory at approximately 3-4 months in view of the slowing demand.

At the same time, LHI plans to reduce their CAPEX in view of the challenging operating conditions. Hence, we reduced our earnings forecast by 20.9% and 15.1% to RM137.3 mln and RM146.3 mln for 2020 and 2021 respectively to take account into the lower ASP and demand, coupled with the delay in expansion plans.

Valuation And Recommendation

We maintain our **HOLD** recommendation on LHI, but with a lower fair value of RM0.60 (from RM0.81) as we assigned an unchanged target PER of 16.0x to our revised 2020 estimated EPS of 3.8 sen. The assigned target PER represents a 20.0% discount to its local and regional peers' average of 21.5x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and **QL Resources Bhd** in Malaysia.

Despite the volatile chicken and chicken eggs prices, we continue to like LHI for its position as one of the largest pure-play, vertically integrated poultry player with strong presence in the ASEAN region. We remain positive on the group's expansion plans on ramping up the poultry and feedmill production, particularly in Vietnam, as it is one of the fastest-growing markets in the ASEAN region.

Risks to our recommendation and forecast include fluctuations in raw material prices (corn and soybean) that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

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Quarterly Performance					
FYE Dec (RM mln)	1Q2020	1Q2019	% Change		
			Y.o.Y	Q.o.Q	
Revenue	1434.1	1506.4	-4.8%	1544.0	-7.1%
EBITDA	117.5	194.4	-39.6%	142.8	-17.7%
Depreciation & Amotization	-53.9	-48.7	10.8%	-62.1	-13.1%
Net Interest Income/ (Expe	-28.5	-30.8	-7.5%	-30.5	-6.7%
Profit before Tax	35.1	114.9	-69.5%	50.2	-30.1%
Net Profit	21.8	60.6	-64.0%	29.5	-26.2%
Basic EPS (Sen)	0.6	1.7	-64.0%	0.8	-26.2%

Source: Company Data & MSSB Research

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Income Statement					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	5,501.4	5,732.4	6,054.8	6,037.0	6,185.0
EBITDA	576.6	646.1	637.6	613.8	639.1
Depreciation & Amortisation	199.1	197.1	225.5	257.3	262.9
Net Interest Expense	-85.7	-102.5	-123.8	-111.4	-115.8
Pre-tax Profit	292.3	347.1	288.8	245.6	260.9
Effective Tax Rate	15.3%	29.3%	26.2%	25.0%	25.0%
Net Profit	192.6	184.7	150.6	137.3	146.3
EBITDA Margin	10.5%	11.3%	10.5%	10.2%	10.3%
PreTax Margin	5.3%	6.1%	4.8%	4.1%	4.2%
Net Margin	3.5%	3.2%	2.5%	2.3%	2.4%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Total Assets	4477.5	4834.0	5409.1	5456.6	5536.8
Fixed Assets	2210.1	2396.8	2418.5	2458.5	2319.3
Current Assets	2066.6	2257.9	2520.2	2509.0	2708.9
Other LT Assets	200.8	179.3	470.4	489.1	508.6
Current Liabilities	1940.3	1884.8	2102.9	2136.4	2193.7
LT Liabilities	895.1	1183.8	1125.7	1034.2	1050.1
Share Capital	1230.1	1230.1	1499.7	1499.7	1499.7
Shareholder's Funds	1185.6	1301.8	1641.2	1682.9	1683.5
Minority Interests	456.4	463.6	539.3	603.2	609.5

Source: Company Data & MSSB Research

Per Share Data					
FYE Dec	2017	2018	2019	2020F	2021F
Book Value (sen)	32.5	35.7	45.0	46.1	46.1
Cash Flow (sen)	12.8	7.7	15.7	13.2	13.2
Net Earnings (sen)	5.3	5.1	4.1	3.8	4.0
Dividend (sen)	1.1	1.0	1.6	1.3	1.3
Payout Ratio (%)	19.9	19.8	38.8	33.2	31.2
Dividend Yield (%)	1.8	1.7	2.7	2.1	2.1
PER (x)	11.2	11.7	14.3	15.7	14.7
P/Cash Flow (x)	0.0	0.1	0.0	0.0	0.0
P/Book Value (x)	1.8	1.7	1.3	1.3	1.3
ROE (%)	6.7	6.2	4.1	3.6	3.9
Net Gearing (%)	103.0	108.3	79.6	72.9	66.0

Source: Company Data & MSSB Research

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