

Leong Hup International Bhd

TP: RM0.650 (+10.2%)
1QFY20 Profit Dropped Amid Pandemic Outbreak
Last Traded: RM0.590
Under Review

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

Review

- Leong Hup International Bhd's (LHI) 1QFY20 adjusted net profit dropped 64.0% YoY to RM21.8mn. The profit accounted for 17% of our full-year forecast, which was within our expectation as we expect earnings to recover in 2HFY20 when restrictions on movement are further relaxed. No dividend was declared in the quarter under review.
- 1QFY20 revenue decreased 4.8% YoY to RM1.43bn no thanks to lower Livestock revenue (-9.0% YoY to RM782.6mn) as ASP and volume of Malaysian and Indonesian livestock products weakened amid the onset of the Covid-19 pandemic. 1QFY20 EBIT dropped to RM63.5mn (-56.4% YoY) as the weak Livestock division recorded loss before interest of RM39.3mn, overshadowing the higher EBIT from the Feedmill division (+45.1% YoY to RM105.9mn) backed by volume growth in Vietnam feed sales.
- Geographically, Vietnam outshined the other countries after recording 1QFY20 revenue and EBITDA growth of 21.6% YoY and 20.4% YoY underpinned by its increased efficiency in its feedmill production and better livestock environment. EBITDA from Malaysia operations declined the most among all operating countries at 58.0% YoY to RM33.1mn, followed by Indonesia, which declined 42.5% YoY to RM35.1mn.

Impact

- No change to earnings forecasts.

Outlook

- Livestock prices are expected to remain volatile from month-to-month, driven by supply and demand. In 2QFY20, we believe the demand weakness to sustain due to Apr-May closure of commercial businesses in Malaysia, which would take a toll on sales volume and ASP, prior to eventual recovery in 2HFY20 when the restriction on movement is being relaxed further. Meanwhile, Indonesian government's continuous interventions in adjusting the supply of broiler DOCs alongside parent stock broiler shall provide some support to Indonesian Livestock prices.
- Jan-May 2020 CBOT soybean average price has dropped 1.9% YoY against previous corresponding period, while CBOT corn recorded 3.8% YoY decline against previous corresponding period. The low prices of soybean and corn may alleviate some pressure on margins from lower poultry ASP and sales.

Valuation

- We put our target price and stock call Under Review pending further guidance from management in an analyst briefing today.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2153.5
52-wk Hi/Lo (RM)	1.19/0.43
12-mth Avg Daily Vol ('000 shrs)	nm
Estimated Free Float (%)	25.68%-29.54%
Beta	nm

Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 9.0%

Forecast Revision

	FY20	FY21
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	128.0	169.9
Consensus	159.8	196.7
TA's / Consensus (%)	80.1	86.4
Previous Rating	Sell (Under Review)	

Financial Indicators

	FY20	FY21
Net Debt / Equity (x)	0.8	0.8
ROE (%)	7.6	9.5
ROA (%)	2.3	3.0
NTA/Share (RM)	0.4	0.5
Price/NTA (x)	1.3	1.2

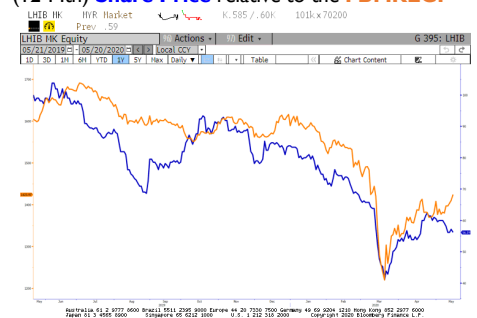
Scorecard

	% of FY
vs TA	17 Within
vs Consensus	14 Below

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	0.9	1.2
3 mth	(23.4)	(7.2)
6 mth	(36.2)	(11.3)
12 mth	(44.9)	(11.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE December (RM mn)	2018	2019	2020E	2021F	2022F
Revenue	5,746.6	6,054.8	6,159.5	6,693.3	7,073.2
EBITDA	646.1	636.9	591.9	684.2	736.3
Pretax Profit	348.6	288.8	234.5	311.3	354.6
Reported Net Profit	186.2	150.6	128.0	169.9	193.5
Core Net Profit	215.2	150.6	128.0	169.9	193.5
Core EPS (sen)	5.9	4.1	3.5	4.7	5.3
Core PER (x)	10.0	14.3	16.8	12.7	11.1
DPS (sen)	0.0	1.6	1.1	1.4	1.6
Dividend Yield (%)	0.0	2.7	1.8	2.4	2.7

Table 2: IQFY20 Results Analysis (RMmn)

FYE 31 Dec	IQFY19	4QFY19	IQFY20	QoQ (%)	YoY (%)
Revenue	1,506.4	1,544.0	1,434.1	(7.1)	(4.8)
Other Income	4.1	4.3	14.9	>100	>100
Operating Expenses	(1,364.8)	(1,467.8)	(1,385.5)	(5.6)	1.5
EBIT	145.6	80.5	63.5	(21.1)	(56.4)
Adj. EBIT	145.6	80.5	63.5	(21.1)	(56.4)
Net Interest	(30.8)	(30.5)	(28.5)	(6.7)	(7.5)
Associate	0.0	0.2	0.0	(82.2)	(40.0)
Profit before Tax	114.9	50.2	35.1	(30.1)	(69.5)
Adj. PBT	114.9	50.2	35.1	(30.1)	(69.5)
Taxation	(24.6)	(16.4)	(9.8)	(40.4)	(60.3)
Extraordinary Items	-	-	-	nm	nm
Minority Interest	(29.7)	(4.3)	(3.5)	(17.5)	(88.1)
Net Profit	60.6	29.5	21.8	(26.2)	(64.0)
Adj. Net Profit	60.6	29.5	21.8	(26.2)	(64.0)
Basic EPS (sen)	1.8	0.8	0.6	(25.9)	(66.3)
DPS (sen)	-	-	-	nm	nm
				%-points	%-points
EBIT Margin (%)	9.7	5.2	4.4	(0.8)	(5.2)
PBT Margin (%)	7.6	3.3	2.4	(0.8)	(5.2)
Net Margin (%)	4.0	1.9	1.5	(0.4)	(2.5)
Adj. Net Margin (%)	4.0	1.9	1.5	(0.4)	(2.5)
Tax Rate (%)	21.4	32.6	27.8	(4.8)	6.4

Table 3: IQFY20 Results Analysis (RMmn) – Segment

FYE 31 Dec	IQFY19	4QFY19	IQFY20	QoQ (%)	YoY (%)
Revenue	1,506.4	1,544.0	1,434.1	(7.1)	(4.8)
Livestock and Poultry Related	859.7	874.5	782.6	(10.5)	(9.0)
Feedmill	643.6	666.0	648.1	(2.7)	0.7
Others	3.1	3.5	3.4	(4.6)	8.7
Segment EBIT	147.7	84.2	67.6	(19.7)	(54.2)
Livestock and Poultry Related	79.1	4.6	(39.3)	nm	nm
Feedmill	73.0	82.0	105.9	29.1	45.1
Elimination	(4.4)	(2.4)	1.0	nm	nm
				%-points	%-points
Segment EBIT Margin	9.8	5.5	4.7	(0.7)	(5.1)
Livestock and Poultry Related	9.2	0.5	(5.0)	(5.5)	(14.2)
Feedmill	11.3	12.3	16.3	4.0	5.0

Table 4: IQFY20 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	IQFY19	4QFY19	IQFY20	QoQ (%)	YoY (%)
Revenue	1,506.4	1,540.5	1,434.1	(6.9)	(4.8)
Malaysia	442.2	411.3	383.5	(6.8)	(13.3)
Singapore	193.3	195.4	185.4	(5.1)	(4.1)
Vietnam	293.2	374.4	356.5	(4.8)	21.6
Indonesia	563.4	533.4	484.1	(9.2)	(14.1)
Philippines	14.1	26.1	24.7	(5.3)	74.5
Segment EBITDA	200.6	146.3	126.6	(13.5)	(36.9)
Malaysia	78.9	54.1	33.1	(38.8)	(58.0)
Singapore	27.8	16.4	21.0	28.3	(24.3)
Vietnam	29.1	41.9	35.1	(16.3)	20.4
Indonesia	63.1	29.6	36.3	22.4	(42.5)
Philippines	1.7	4.3	1.1	(75.4)	(38.2)
				%-points	%-points
Segment EBITDA Margin	13.3	9.5	8.8	(0.7)	(4.5)
Malaysia	17.8	13.2	8.6	(4.5)	(9.2)
Singapore	14.4	8.4	11.4	3.0	(3.0)
Vietnam	9.9	11.2	9.8	(1.3)	(0.1)
Indonesia	11.2	5.6	7.5	1.9	(3.7)
Philippines	12.2	16.6	4.3	(12.3)	(7.9)

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock 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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Wednesday, May 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

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my