

Leong Hup International Bhd

TP: RM0.650 (+10.5%)
Swift ASP Recovery amid Volatile Environment
Last Traded: RM0.590
Buy

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We attended a conference call with management and take away the followings: i) livestock prices recovered in May amid heightened volatility as industry adjust supply to match demands, and ii) feed sales volume growth will remain resilient. Following the price retracement, upgrade Leong Hup to Buy from Sell with an unchanged TP of RM0.650/share based on 14x FY21 EPS. Moreover, we take comfort on the swift livestock ASP recovery in May which enable poultry player to yield profit.

Livestock ASP Recovered amid Heightened Volatility Environment

Despite Leong Hup registering higher sales volume of broiler DOCs (+1.3% YoY), broilers (+9.8% YoY) and eggs (+1.7% YoY) in IQFY20, the Livestock division recorded loss before interest of RM39.3mn. This was because ASP of livestock collapsed amid market fear of poultry supply outstripping demands that were disrupted by Covid-19 outbreak.

Moving forward, the poultry ASP remained low in Apr-20 but gradually recovered to a profitable level in early May as the market undergoes consolidation alongside supply chain adjustment. In specific, the Indonesian broiler ASP recovered to high of circa IDR20,500/kg in May-20 from low of circa IDR12,000/kg in Apr-20 while Malaysian broiler captured the high of circa RM5.40/kg in May-20 from low of circa RM2.50/kg in Apr-20. However, management noted that the business environment would remain extremely fluid as it may take several cycles of farming for the industry to realign the supply and demand to lessen the price volatility in livestock. That said, management reiterated that crisis has enabled Leong Hup to gain market share from the smaller farmers.

Resilient Feedmill Growth Support FY20 Performance

The Feedmill division registered a strong 45.1% YoY EBIT growth. This was on the back of i) higher feed sales volume (up 5.3% YoY to 595.9kMT), ii) sustained external sales split of 61%, iii) margin expansion arising from tailwind of cheap raw material costs, and iv) improved cost efficiency.

Looking forward, we remain confident of 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 aquatic feed products). Note that, Leong Hup has concluded a new operating feedmill facility in Vietnam, which has an annual capacity of 118.8kMT aquatic feed and utilisation rate of c.60%. Maiden contributions from the acquisition are expected to be reflected in upcoming 2QFY20 results given that the acquisition was concluded in Apr-20. Meanwhile, an additional line expansion (additional poultry feed line with annual capacity of 118.8kMT) is planned for the said facility, which is targeted for completion by end-2020,

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	Emerging Glory - 52.8%
Clarinden Investment	Clarinden Investment - 8.0%

Forecast Revision (%)

	FY20	FY21
Forecast Revision (%)	-	-
Net Profit (RM mn)	128.0	169.9
Consensus	159.8	196.7
TA/Consensus (%)	80.1	86.4
Previous Rating	Sell (Upgraded)	

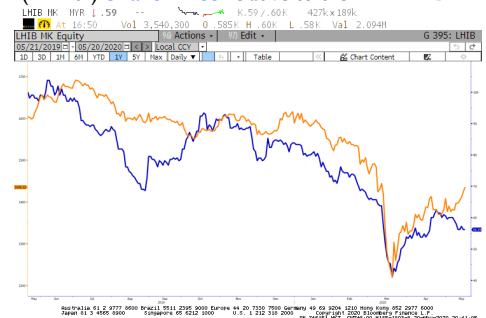
Financial Indicators

	FY20	FY21
Net debt/equity (%)	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

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

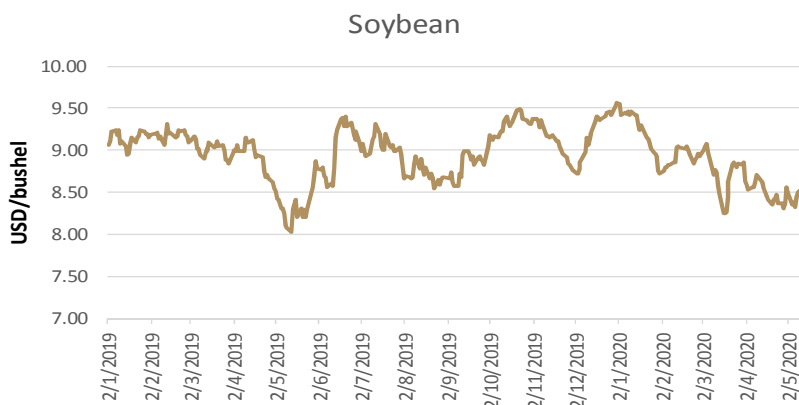
Vietnam Outshined the Others

Vietnam experienced promising revenue and EBITDA growth of 21.6% YoY and 20.4% YoY in 1QFY20 on the back of improved contribution by scaling up Dong Nai's feedmill production, increased DOC sales volume from breeder farm expansion, and higher sales volume of eggs. The Livestock price in Vietnam has been favourable relative to LHI's other operating countries, which we believe is due to increased demands for poultry meat as a protein substitute to pork following the sharp increase in pork price (c.VND89,000/kg now compared to c.VND30,000/kg prior outbreak of African Swine Flu). Moreover, Vietnam was less impacted by Covid-19 with lower rate of infection (324 confirmed cases against thousands in other countries [World Health Organisation]) and shorter movement restriction period of 22 days. We understand that Vietnam's government has substantially relaxed the movement restriction to allow the resumption of most business activities in the economy, inclusive of reopening of schools and restaurants.

Corn and Soy Trending Lower

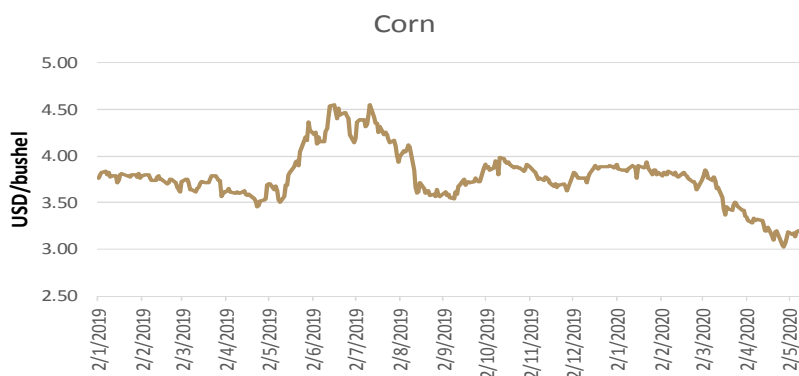
Jan-May 2020 CBOT soybean average price dropped by 1.9% YoY against previous corresponding period, while CBOT corn recorded 3.8% YoY decline. The low prices of soybean and corn may alleviate some pressure on margins from lower poultry ASP and sales.

Figure 1: Price trend of Soybean



Source: Bloomberg, TA Securities

Figure 2: Price trend of Corn



Source: Bloomberg, TA Securities

Impact

We make no changes to our earnings forecast.

Valuation

Following the recent price retracement, upgrade Leong Hup to Buy from Sell with unchanged TP of RM0.650/share based on 14x FY21 EPS. Moreover, we take comfort on the swift livestock ASP recovery in May that enables poultry player to yield profit.

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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	6,159.5	6,693.3	7,073.2
EBITDA	646.1	636.9	591.9	684.2	736.3
Depreciation	(197.1)	(225.5)	(247.4)	(261.1)	(270.7)
Net finance cost	(101.0)	(123.8)	(110.5)	(112.3)	(111.6)
Associate	0.6	0.4	0.4	0.5	0.5
El	(22.9)	0.0	0.0	0.0	0.0
PBT	348.6	288.8	234.5	311.3	354.6
Taxation	(101.8)	(75.8)	(61.5)	(81.7)	(93.0)
MI	(60.6)	(62.4)	(45.0)	(59.7)	(68.0)
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
Diluted EPS (sen)	5.9	4.1	3.5	4.7	5.3
DPS (sen)	0.0	1.6	1.1	1.4	1.6
Book Value (RM)	0.5	0.6	0.6	0.7	0.7
NTA (RM)	0.3	0.4	0.4	0.5	0.5

Ratios

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
Valuations					
Core PER (x)	10.0	14.3	16.8	12.7	11.1
Div. Yield (%)	0.0	2.7	1.8	2.4	2.7
P/BV (x)	1.2	1.0	0.9	0.9	0.8

Profitability ratios

EBITDA margin (%)	11.6	10.5	9.6	10.2	10.4
PBT margin (%)	6.5	4.8	3.8	4.7	5.0
Core Net Margin (%)	3.7	2.5	2.1	2.5	2.7
Core ROE (%)	17.3	10.2	7.6	9.5	10.1
Core ROA (%)	4.6	2.9	2.3	3.0	3.3

Liquidity ratios

Current ratio (x)	1.2	1.2	1.2	1.2	1.3
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	0.8	0.8	0.7

Growth ratios

Revenue (%)	4.5	5.4	1.7	8.7	5.7
PBT (%)	19.3	(17.2)	(18.8)	32.7	13.9
Core Net Profit (%)	25.0	(30.0)	(15.0)	32.7	13.9

Balance Sheet

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
PPE	2,216.8	2,396.5	2,499.1	2,637.9	2,734.6
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
Non-current assets	2,576.1	2,888.9	2,991.6	3,130.5	3,227.3
Inventories	575.6	679.6	717.4	777.0	821.0
Trade receivables	649.2	496.1	675.0	733.5	775.1
Cash and Bank Balance	458.9	764.8	625.3	512.1	543.4
Others	574.2	579.6	579.6	579.6	579.6
Current assets	2,257.9	2,520.2	2,597.3	2,602.2	2,719.1
Total Assets	4,834.0	5,409.1	5,588.9	5,732.7	5,946.4
LT Borrowings	1,016.0	873.1	891.4	873.1	873.1
Others	167.8	252.6	252.6	252.6	252.6
Non-Current liabilities	1,183.8	1,125.7	1,144.1	1,125.7	1,125.7
Trade payables	248.9	273.5	277.0	300.5	319.0
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
Current liabilities	1,884.8	2,102.9	2,138.0	2,129.8	2,148.3
Shareholders funds	1,301.8	1,641.2	1,730.8	1,849.7	1,985.2
MI	463.6	539.3	576.0	627.4	687.1
Total Equity	1,765.4	2,180.5	2,306.8	2,477.2	2,672.3
Total E&L	4,834.0	5,409.1	5,588.9	5,732.7	5,946.4

Cash Flow Statement

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
Pretax profit	348.6	288.8	234.5	311.3	354.6
Depreciation	197.1	225.5	247.4	261.1	270.7
Net interest	101.0	123.8	110.5	112.3	111.6
Associates	(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Changes in WC	(241.8)	38.7	(213.2)	(94.6)	(67.1)
Tax	(75.7)	(57.0)	(61.5)	(81.7)	(93.0)
Others	20.7	37.6	0.0	0.0	0.0
Operational cash flow	349.2	656.9	317.2	507.9	576.1
Capex	(363.7)	(387.2)	(350.0)	(400.0)	(367.4)
Interest income	1.4	12.9	9.9	8.1	7.5
Others	(16.3)	1.3	0.4	0.4	0.5
Investing cash flow	(378.6)	(373.0)	(339.7)	(391.5)	(359.4)
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)	(46.7)	(59.2)	(66.3)
Interest paid	(108.6)	(136.6)	(120.3)	(120.3)	(119.1)
Others	(36.2)	(43.9)	0.0	0.0	0.0
Financial cash flow	(6.9)	(2.7)	(117.0)	(229.6)	(185.4)
Net cash flow	(36.2)	281.1	(139.6)	(113.2)	31.3
Beginning Cash	427.4	390.4	670.8	531.2	418.1
Forex & others	(0.8)	(0.7)	0.0	0.0	0.0
Ending Cash	390.4	670.8	531.2	418.1	449.3

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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, May 21, 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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