

# Leong Hup International (LHIB MK)

# SELL

## Related party transaction

Share Price MYR 0.68  
 12m Price Target MYR 0.56 (-17%)  
 Previous Price Target MYR 0.56

### Maintain SELL with unchanged TP of MYR0.56

The acquisition of TBC is at high valuations of 33x PER (1-year trailing) with neutral earnings impact to LHIB, assuming low borrowing costs. That said, we believe there are positive synergies from this acquisition as it allows LHIB to move downstream and opens up a new revenue stream for its poultry products in tandem with its intention to expand TBC's store network going forward. No change to our earnings estimates. We reiterate SELL on the stock with an unchanged TP of MYR0.56.

### Acquiring *The Bakers Cottage* for MYR20m cash

LHIB has entered into three related party transactions to acquire The Baker's Cottage S/B (TBC) for a total cash consideration of MYR20m: (i) share acquisition agreement with Emerging Glory S/B for the entire issued and paid-up share capital of The Bakers Cottage (TBC) for MYR18m cash, and (ii) two business acquisition agreement's (BAA) with Astaka Shopping Centre (Muar) S/B and Poly-Yarn Industries S/B for TBC's retail bakery business for MYR1.5m and MYR0.9m cash respectively. LHIB plans to fund this acquisition with a combination of borrowings and internally generated funds. Target completion is by 3Q20.

### Earnings neutral to LHIB

The acquisition multiple equates to 33x PER (1-year trailing) which is above LHIB's 17x FY21 PER. Based on our estimates, assuming interest cost of 4% and TBC's FY19 profit after tax of MYR0.6m, this acquisition is earnings neutral to LHIB (refer to Fig.1). LHIB's net gearing will rise marginally to 0.89x (from 0.88x) assuming that the acquisition is fully funded by debt. This acquisition is not subject to shareholders approval.

### Going downstream

With the consolidation of TBC, LHIB will be venturing downstream into the quick-service restaurant (QSR) business which will open up a new demand avenue for its poultry supply, increase its customer base and benefit from economies of scale. We understand that LHIB aims to expand its TBC store network but have not committed to a store opening target yet.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,747	6,055	6,406	6,923	7,329
EBITDA	655	651	575	697	737
Core net profit	225	151	82	146	153
Core EPS (sen)	6.2	4.1	2.2	4.0	4.2
Core EPS growth (%)	16.8	(33.0)	(45.5)	77.5	4.8
Net DPS (sen)	0.0	1.6	0.7	1.2	1.3
Core P/E (x)	na	21.3	30.2	17.0	16.2
P/BV (x)	na	2.0	1.5	1.4	1.3
Net dividend yield (%)	na	1.8	1.0	1.8	1.8
ROAE (%)	15.0	10.2	4.9	8.3	8.2
ROAA (%)	4.8	2.9	1.5	2.4	2.3
EV/EBITDA (x)	7.4	8.4	8.9	7.4	7.3
Net gearing (%) (incl perps)	108.3	79.6	87.9	81.2	82.5
Consensus net profit	-	-	137	178	198
MKE vs. Consensus (%)	-	-	(40.2)	(18.1)	(23.0)

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### Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

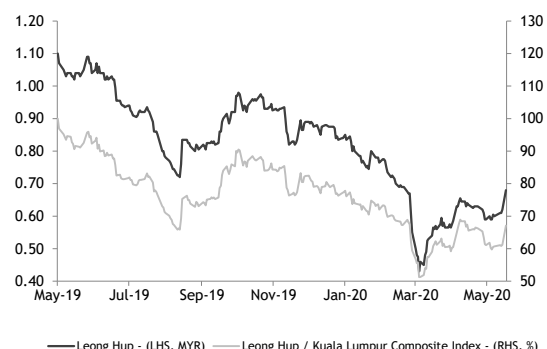
### Statistics

52w high/low (MYR)	1.09/0.43
3m avg turnover (USDm)	0.3
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.5B USD571M

### Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%
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### Price Performance



	-1M	-3M	-12M
Absolute (%)	7	(3)	(35)
Relative to index (%)	2	(2)	(27)

Source: FactSet

**Fig 1: Maybank KE estimate: Impact of acquisition of TBC to LHIB**

Purchase consideration (MYRm)	20.3
Earnings impact from acquisition of TBC	
TBC: FY19 profit after tax (MYRm)	0.6
Less: Interest for the acquisition*	0.6
Total net profit contribution from TBC	0

\*Assuming 4% borrowing cost for LHIB

Source: Company data, Maybank KE

## Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	na	22.1	30.2	17.0	16.2
Core P/E (x)	na	21.3	30.2	17.0	16.2
P/BV (x)	na	2.0	1.5	1.4	1.3
P/NTA (x)	na	2.1	1.5	1.5	1.4
Net dividend yield (%)	na	1.8	1.0	1.8	1.8
FCF yield (%)	na	8.5	nm	3.4	nm
EV/EBITDA (x)	7.4	8.4	8.9	7.4	7.3
EV/EBIT (x)	10.6	12.9	15.0	11.6	11.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	5,746.6	6,054.8	6,405.6	6,923.2	7,328.7
Gross profit	1,005.8	940.2	916.7	1,055.0	1,110.2
EBITDA	654.6	650.5	574.8	696.9	737.0
Depreciation	(189.9)	(204.6)	(227.8)	(244.0)	(258.7)
Amortisation	(7.2)	(20.9)	(7.2)	(7.2)	(7.2)
EBIT	457.5	425.0	339.8	445.6	471.1
Net interest income / (exp)	(109.5)	(136.6)	(148.2)	(164.2)	(180.3)
Associates & JV	0.6	0.4	0.4	0.4	0.4
Pretax profit	348.6	288.8	192.0	281.8	291.2
Income tax	(101.8)	(75.8)	(50.4)	(74.0)	(76.4)
Minorities	(60.6)	(62.4)	(59.5)	(62.1)	(62.0)
Reported net profit	186.2	150.6	82.1	145.8	152.8
Core net profit	224.9	150.6	82.1	145.8	152.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	458.9	764.8	819.2	1,122.5	1,235.5
Accounts receivable	649.2	496.1	715.6	594.0	792.3
Inventory	575.6	679.6	667.5	772.7	753.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,216.8	2,396.5	2,592.9	2,749.1	2,890.7
Intangible assets	97.3	97.5	97.2	96.9	96.6
Investment in Associates & JVs	1.7	1.6	1.6	1.6	1.6
Other assets	834.5	973.1	1,017.8	1,077.6	1,127.3
<b>Total assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,911.6</b>	<b>6,414.4</b>	<b>6,897.4</b>
ST interest bearing debt	1,326.6	1,522.7	1,622.8	1,790.4	1,958.0
Accounts payable	248.9	273.5	287.1	312.3	322.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,044.3	977.7	1,221.3	1,336.5	1,451.7
Other liabilities	449.0	455.0	478.0	508.0	529.0
<b>Total Liabilities</b>	<b>3,068.6</b>	<b>3,228.6</b>	<b>3,608.7</b>	<b>3,947.3</b>	<b>4,261.4</b>
Shareholders Equity	1,301.8	1,641.2	1,704.1	1,806.2	1,913.1
Minority Interest	463.6	539.3	598.8	660.9	722.9
<b>Total shareholder equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,303.0</b>	<b>2,467.1</b>	<b>2,636.0</b>
<b>Total liabilities and equity</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,911.6</b>	<b>6,414.4</b>	<b>6,897.4</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	348.6	288.8	192.0	281.8	291.2
Depreciation & amortisation	197.1	225.5	235.0	251.2	265.9
Cash taxes paid	(75.7)	(57.0)	(50.4)	(74.0)	(76.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	349.2	656.9	173.5	483.9	295.7
Capex	(393.4)	(385.4)	(400.0)	(400.0)	(400.0)
Free cash flow	(44.2)	271.5	(26.5)	83.9	(104.3)
Dividends paid	(66.3)	(84.5)	(24.6)	(43.7)	(45.8)
Equity raised / (purchased)	0.0	269.6	5.4	0.0	0.0
Change in Debt	59.4	(187.8)	343.7	282.8	282.8
Other invest/financing cash flow	14.8	12.4	(19.4)	(19.4)	(19.4)
Effect of exch rate changes	(0.8)	(0.7)	na	na	na
Net cash flow	(37.0)	280.4	78.6	303.6	113.3

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.5	5.4	5.8	8.1	5.9
EBITDA growth	12.3	(0.6)	(11.6)	21.2	5.8
EBIT growth	19.1	(7.1)	(20.0)	31.1	5.7
Pretax growth	19.3	(17.2)	(33.5)	46.7	3.3
Reported net profit growth	(3.3)	(19.1)	(45.5)	77.5	4.8
Core net profit growth	16.8	(33.0)	(45.5)	77.5	4.8
<b>Profitability ratios (%)</b>					
EBITDA margin	11.4	10.7	9.0	10.1	10.1
EBIT margin	8.0	7.0	5.3	6.4	6.4
Pretax profit margin	6.1	4.8	3.0	4.1	4.0
Payout ratio	0.0	38.8	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.2	2.5	1.3	2.1	2.1
Revenue/Assets (x)	1.2	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.7	3.3	3.5	3.6	3.6
ROAE (%)	15.0	10.2	4.9	8.3	8.2
ROAA (%)	4.8	2.9	1.5	2.4	2.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	60.8	59.8	59.8	59.8	59.8
Days receivable outstanding	38.0	34.0	34.0	34.0	34.0
Days inventory outstanding	41.5	44.2	44.2	44.2	44.2
Days payables outstanding	18.6	18.4	18.4	18.4	18.4
Dividend cover (x)	nm	2.6	3.3	3.3	3.3
Current ratio (x)	1.2	1.2	1.3	1.3	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	108.3	79.6	87.9	81.2	82.5
Net gearing (%) (excl. perps)	108.3	79.6	87.9	81.2	82.5
Net interest cover (x)	4.2	3.1	2.3	2.7	2.6
Debt/EBITDA (x)	3.6	3.8	4.9	4.5	4.6
Capex/revenue (%)	6.8	6.4	6.2	5.8	5.5
Net debt/ (net cash)	1,912.1	1,735.5	2,024.8	2,004.4	2,174.2

Source: Company; Maybank

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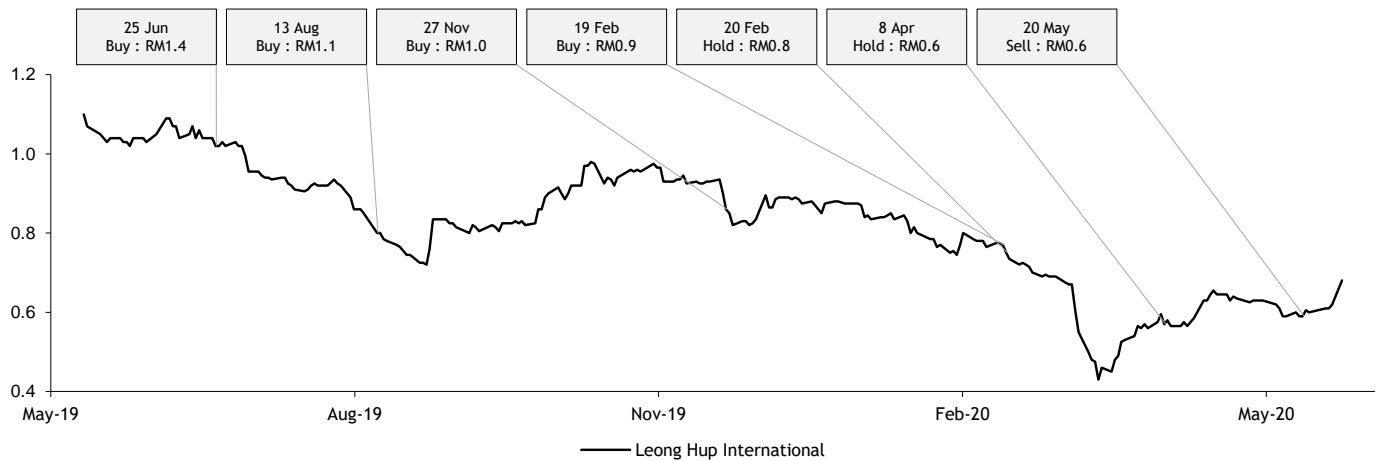
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