

Leong Hup International (LHIB MK)

2Q20 results: Below expectations

Maintain HOLD with lower TP of MYR0.87

LHIB's 2Q20 results fell below our/consensus expectations due to lower-than-expected poultry ASPs in Indonesia. We believe that poultry ASP volatility will continue in 2H20 (mainly Malaysia & Indonesia) due to imbalances in demand-supply. Hence, our FY20-FY22 earnings estimates are revised downwards by 9%-30% which derives a lower TP of MYR0.87 based on an unchanged FY21 regional peer average PER of 17x.

2Q20 results disappointed

LHIB's 2Q20 core net profit of MYR16m (+1% YoY, -25% QoQ) brought 1H20 core net profit to MYR38m (-50% YoY). The latter was below expectations at 27% of both our/consensus full-year earnings estimates. The shortfall was due to lower-than-expected poultry ASPs from the livestock segment. LHIB declared an interim DPS of 0.55sen (2Q19: 1.6sen).

Weak Indonesia poultry ASPs dragged earnings

LHIB's 2Q20 revenue fell 4% YoY mainly due to (i) weaker DOC ASPs in Indonesia (-33% YoY), (ii) lower sales volume of fresh chicken and duck in Singapore and (iii) softer feedmill sales in Indonesia but (iv) partially mitigated by higher sales volume in Malaysia and Vietnam. Further, 2Q20 EBITDA declined 8% YoY resulting from underperformance at its livestock segment (-36% YoY) where EBITDA margins decreased by -2.1 ppts YoY from lower poultry ASPs in Indonesia. Separately, LHIB's feedmill segment EBITDA increased (+16% YoY) as low raw material costs led to +3.4 ppts YoY lift in EBITDA margins in 2Q20.

Lower FY20-FY21 earnings estimates by 9%-30%

Factoring the weak set of results, we cut our FY20/FY21 earnings estimates by 30%/9% after adjusting our DOC ASPs assumptions to IDR4,100/kg/IDR5,300/kg (from IDR5,800/kg p.a. previously; currently: c.IDR3,100/KG) in Indonesia. Our FY22 earnings are unchanged. We believe LHIB faces a challenging 2H as ongoing demand-supply imbalances in Indonesia are likely to weaken poultry ASPs in 3Q20. To note that Malaysia poultry prices have also been trending down since the beginning of July 20 (Fig. 2).

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,747	6,055	6,371	6,980	7,432
EBITDA	655	651	544	752	822
Core net profit	225	151	99	187	215
Core EPS (sen)	6.2	4.1	2.7	5.1	5.9
Core EPS growth (%)	16.8	(33.0)	(34.5)	89.8	14.8
Net DPS (sen)	0.0	1.6	0.4	1.5	1.8
Core P/E (x)	na	21.3	30.7	16.2	14.1
P/BV (x)	na	2.0	1.7	1.6	1.5
Net dividend yield (%)	na	1.8	0.5	1.9	2.1
ROAE (%)	15.0	10.2	5.8	10.4	11.1
ROAA (%)	4.8	2.9	1.7	3.0	3.2
EV/EBITDA (x)	8.3	8.4	10.3	7.5	7.1
Net gearing (%) (incl perps)	108.3	79.6	88.7	80.8	78.6
Consensus net profit	-	-	142	188	216
MKE vs. Consensus (%)	-	-	(30.7)	(0.4)	(0.4)

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Share Price MYR 0.83
12m Price Target MYR 0.87 (+5%)
Previous Price Target MYR 0.96

Company Description

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

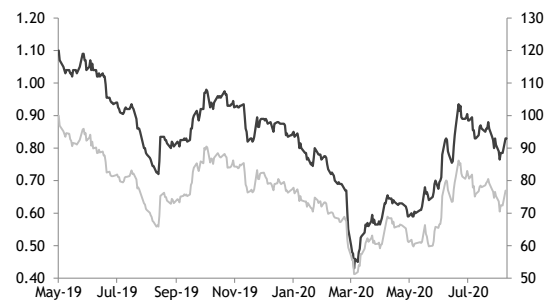
Statistics

52w high/low (MYR)	0.98/0.43
3m avg turnover (USDm)	1.0
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR3.0B USD725M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



— Leong Hup - (LHS, MYR) — Leong Hup / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	0	38	11
Relative to index (%)	1	27	14

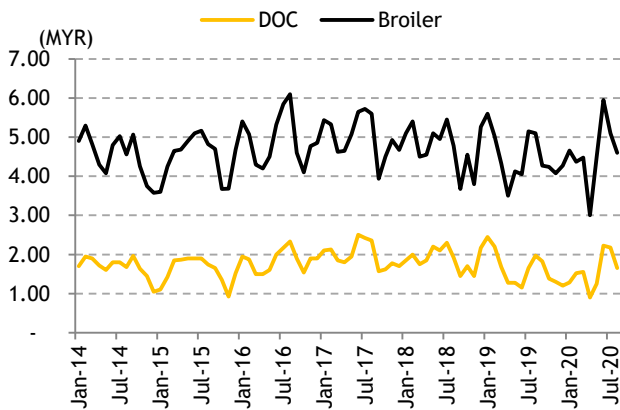
Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q20	2Q19	% YoY	1Q20	% QoQ	1H20	1H19	% YoY
Revenue	1,425.4	1,477.2	(3.5)	1,434.1	(0.6)	2,859.6	2,983.6	(4.2)
EBITDA	119.4	129.8	(8.0)	127.2	(6.1)	246.6	330.4	(25.4)
Depreciation	(63.4)	(55.1)	15.0	(59.5)	6.5	(122.9)	(108.0)	13.8
EBIT	56.0	74.7	(25.1)	67.7	(17.3)	123.7	222.4	(44.4)
Interest expense	(33.1)	(35.0)	(5.4)	(32.6)	1.5	(65.7)	(67.9)	(3.2)
Associates	0.0	0.1	(79.9)	0.0	3.7	0.1	0.2	(70.1)
Pretax profit	22.9	39.9	(42.5)	35.1	(34.7)	58.0	154.8	(62.5)
Tax	(8.6)	(13.3)	(35.2)	(9.8)	(11.8)	(18.4)	(37.9)	(51.5)
Minority interest	2.0	(10.5)	n.m.	(3.5)	n.m.	(1.6)	(40.2)	(96.1)
Net profit	16.3	16.1	1.1	21.8	(25.3)	38.1	76.7	(50.4)
Core net profit	16.3	16.1	1.1	21.8	(25.3)	38.1	76.7	(50.4)
			+/- p.ptsYoY		+/- p.ptsQoQ			
EBITDA margin (%)	8.4	8.8	(0.4)	8.9	(0.5)	8.6	11.1	(2.5)
EBIT margin (%)	3.9	5.1	(1.1)	4.7	(0.8)	4.3	7.5	(3.1)
Tax rate (%)	(37.6)	(33.4)	(4.2)	(27.8)	(9.8)	(31.7)	(24.5)	(7.2)
Revenue:			% YoY		% QoQ			
Livestock	807.3	803.7	0.5	782.6	3.1	1,589.9	1,663.308	(4.4)
Feedmill	614.7	671.3	(8.4)	648.1	(5.2)	1,262.8	1,314.896	(4.0)
Others	3.5	2.282	51.9	3.4	3.2	6.8	5.374	27.0
Total	1,425.4	1,477.2	(3.5)	1,434.1	(0.6)	2,859.6	2,983.6	(4.2)
EBITDA:			% YoY		% QoQ			
Livestock	29.3	45.7	(35.9)	6.0	385.3	35.3	164.6	(78.5)
Feedmill	101.2	87.6	15.6	119.4	(15.3)	220.6	172.7	27.7
Others	(11.1)	(3.5)	221.8	1.7	(749.2)	(9.4)	(6.9)	35.3
Total	119.4	129.8	(8.0)	127.2	(6.1)	246.6	330.4	(25.4)
EBITDA margin (%):			+/- p.ptsYoY		+/- p.ptsQoQ			
Livestock	3.6	5.7	(2.1)	0.8	2.9	2.2	9.9	(7.7)
Feedmill	16.5	13.0	3.4	18.4	(2.0)	17.5	13.1	4.3
Others	(320.3)	(151.2)	(>100.0)	50.9	(>100.0)	(137.6)	(129.1)	(8.5)
Total	8.4	8.8	(0.4)	8.9	(0.5)	8.6	11.1	(2.5)

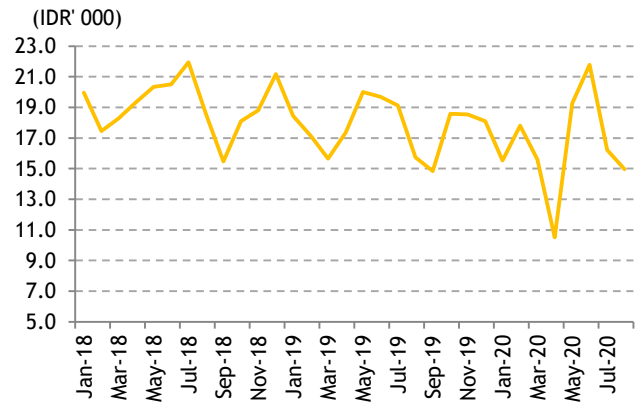
Source: Company

Fig 2: Malaysia broiler & DOC price trend



Source: DVS

Fig 3: Indonesia broiler price trend



Source: Pinsar

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
Key Metrics					
P/E (reported) (x)	na	22.1	30.7	16.2	14.1
Core P/E (x)	na	21.3	30.7	16.2	14.1
P/BV (x)	na	2.0	1.7	1.6	1.5
P/NTA (x)	na	2.1	1.9	1.7	1.6
Net dividend yield (%)	na	1.8	0.5	1.9	2.1
FCF yield (%)	na	8.5	nm	3.3	nm
EV/EBITDA (x)	8.3	8.4	10.3	7.5	7.1
EV/EBIT (x)	11.8	12.9	18.2	11.3	10.5
INCOME STATEMENT (MYR m)					
Revenue	5,746.6	6,054.8	6,371.1	6,979.7	7,432.3
Gross profit	1,005.8	940.2	885.4	1,108.5	1,197.7
EBITDA	654.6	650.5	543.5	751.9	821.6
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	308.5	500.6	555.6
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	160.8	336.8	375.7
Income tax	(101.8)	(75.8)	(42.2)	(88.4)	(98.6)
Minorities	(60.6)	(62.4)	(20.0)	(61.3)	(62.4)
Reported net profit	186.2	150.6	98.6	187.1	214.7
Core net profit	224.9	150.6	98.6	187.1	214.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	458.9	764.8	813.4	1,120.9	1,291.5
Accounts receivable	649.2	496.1	709.0	611.3	794.7
Inventory	575.6	679.6	666.7	774.2	755.9
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	1,014.6	1,082.8	1,136.7
Total assets	4,834.0	5,409.1	5,895.4	6,436.7	6,967.7
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	286.8	312.9	323.9
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	474.0	514.0	539.0
Total Liabilities	3,068.6	3,228.6	3,604.9	3,953.9	4,272.1
Shareholders Equity	1,301.8	1,641.2	1,731.2	1,862.2	2,012.5
Minority Interest	463.6	539.3	559.3	620.6	683.0
Total shareholder equity	1,765.4	2,180.5	2,290.5	2,482.8	2,695.5
Total liabilities and equity	4,834.0	5,409.1	5,895.4	6,436.7	6,967.7
CASH FLOW (MYR m)					
Pretax profit	348.6	288.8	160.8	336.8	375.7
Depreciation & amortisation	197.1	225.5	235.0	251.2	265.9
Cash taxes paid	(75.7)	(57.0)	(42.2)	(88.4)	(98.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	349.2	656.9	157.1	500.5	372.0
Capex	(393.4)	(385.4)	(400.0)	(400.0)	(400.0)
Free cash flow	(44.2)	271.5	(242.9)	100.5	(28.0)
Dividends paid	(66.3)	(84.5)	(14.0)	(56.1)	(64.4)
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	72.8	307.7	171.0

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.5	5.4	5.2	9.6	6.5
EBITDA growth	12.3	(0.6)	(16.4)	38.3	9.3
EBIT growth	19.1	(7.1)	(27.4)	62.3	11.0
Pretax growth	19.3	(17.2)	(44.3)	109.5	11.6
Reported net profit growth	(3.3)	(19.1)	(34.5)	89.8	14.8
Core net profit growth	16.8	(33.0)	(34.5)	89.8	14.8
Profitability ratios (%)					
EBITDA margin	11.4	10.7	8.5	10.8	11.1
EBIT margin	8.0	7.0	4.8	7.2	7.5
Pretax profit margin	6.1	4.8	2.5	4.8	5.1
Payout ratio	0.0	38.8	14.2	30.0	30.0
DuPont analysis					
Net profit margin (%)	3.2	2.5	1.5	2.7	2.9
Revenue/Assets (x)	1.2	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.7	3.3	3.4	3.5	3.5
ROAE (%)	15.0	10.2	5.8	10.4	11.1
ROAA (%)	4.8	2.9	1.7	3.0	3.2
Liquidity & Efficiency					
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	7.0	3.3	3.3
Current ratio (x)	1.2	1.2	1.3	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	108.3	79.6	88.7	80.8	78.6
Net gearing (%) (excl. perps)	108.3	79.6	88.7	80.8	78.6
Net interest cover (x)	4.2	3.1	2.1	3.0	3.1
Debt/EBITDA (x)	3.6	3.8	5.2	4.2	4.2
Capex/revenue (%)	6.8	6.4	6.3	5.7	5.4
Net debt/ (net cash)	1,912.1	1,735.5	2,030.6	2,006.0	2,118.1

Source: Company; Maybank

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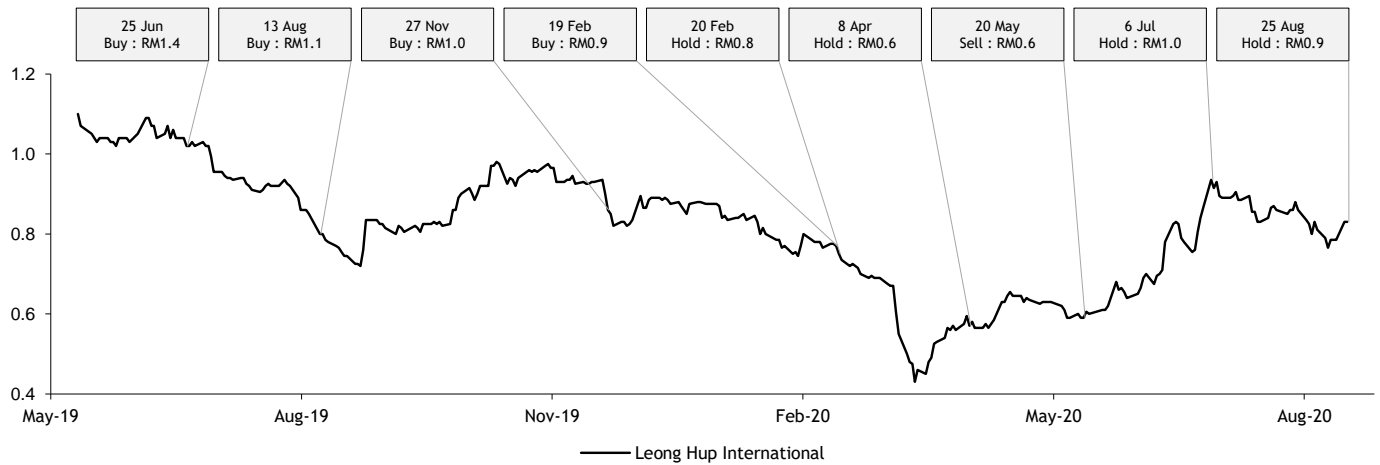
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