



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

26 Aug 2020

Anticipates stronger sales volume as restrictions ease

BUY

(Maintained)

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Rationale for report: Company results

Price	RM0.83
Fair Value	RM0.96
52-week High/Low	RM1.00/RM0.43

Key Changes

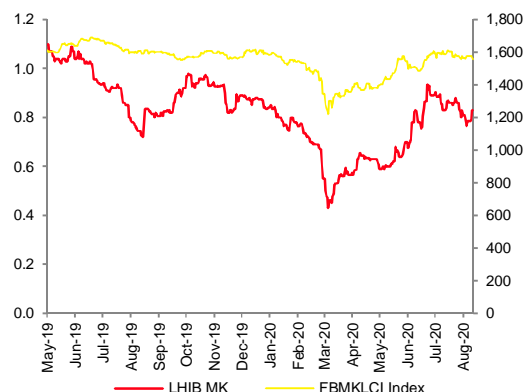
Fair value	U
EPS	U

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	5,044.7	5,985.7	7,057.0
Core net profit (RM mil)	150.6	134.1	173.2	206.0
FD Core EPS (sen)	4.1	3.7	4.7	5.6
FD Core EPS growth (%)	(19.1)	(10.9)	29.1	19.0
Consensus Net Profit (RM mil)	-	143.3	191.9	216.4
DPS (sen)	1.2	1.1	1.4	1.7
PE (x)	20.1	22.6	17.5	14.7
EV/EBITDA (x)	7.3	8.6	7.5	6.8
Div yield (%)	1.5	1.3	1.7	2.0
ROE (%)	10.2	7.9	9.6	10.7
Net Gearing (%)	98.5	105.3	110.5	121.7

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	3,029.5
Book Value (RM/share)	0.45
P/BV (x)	1.8
ROE (%)	10.2
Net Gearing (%)	98.5
Major Shareholders	Emerging Glory (52.8%) Clarinden Inv (9.0%) Amanah Saham Nasional (5.7%)
Free Float	87.3
Avg Daily Value (RM mil)	4.3

Price performance	3mth	6mth	12mth
Absolute (%)	38.3	14.5	11.4
Relative (%)	27.8	10.5	15.3



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a lower fair value (FV) of RM0.96/share (RM1.04/share previously). Our FV is based on an unchanged PE of 17x FY22F EPS.
- LHI's 1HFY20 core net profit of RM38mil (-52% YoY) came in at around 25% of our and 27% of street's full-year earnings estimates, which is below expectations. We cut our earnings forecasts by 13% for FY20F, 8% for FY21F and 8% for FY23F.
- The variance was largely due to lower sales volume and average selling price for several products across the group's operations. We believe demand was largely affected by the Covid-19 pandemic and restrictions on HORECA (hotel, restaurant and café) during the quarter.
- We believe there was a short-term push for selling prices in May due to a temporary closure of a poultry processing plant in Pedas, Negeri Sembilan where some workers contracted Covid-19. The Kerabat Processing House has a slaughtering capacity of 90,000 birds per day. This supported the poultry price in 2QFY20 to grow roughly 6% YoY for broiler chicken and 16% YoY for DOC.
- However, the higher poultry price was insufficient to compensate for the drop in sales volume and ASP for its other products.
- LHI's 1HFY20 revenue shrank 4% YoY while EBITDA tumbled 29% YoY. EBITDA margin fell 3ppt YoY to 8%. 1HFY20 revenue fell in Malaysia (-5%), Singapore (-4%) and Indonesia (-17%).
- In Malaysia, ASP was lower for eggs (-10% YoY) and DOC (-14% YoY) while sales volume of eggs also fell. In Indonesia, sales volume and ASP of eggs were lower while ASP for DOC dropped. Its feedmill segment also took a hit as sales volume of feedmill products slumped in Indonesia. In Singapore, sales volume of fresh chicken and duck was weaker.
- 1HFY20 revenue was slightly buoyed by improved performance in Vietnam (+18%) and the Philippines (+52%). Sales volume and ASP grew for Vietnam's feedmill products. This was partly attributed to the contribution by the aquatic feedmill which was acquired in March 2020.

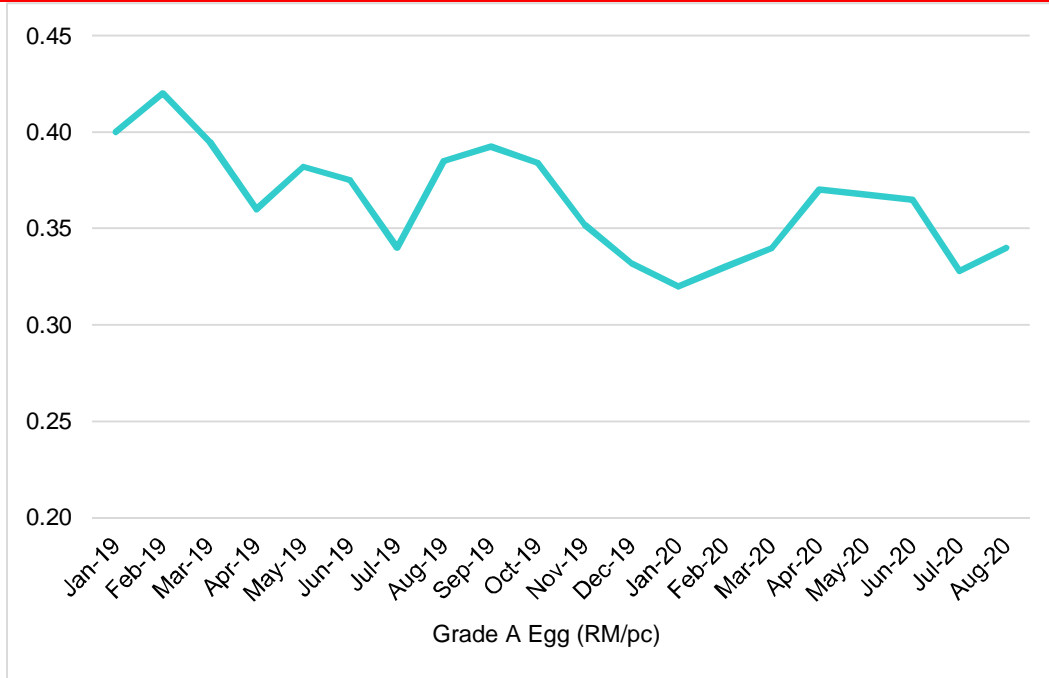
- **The group's EBITDA margin** dropped 3ppt to 8% in 1HFY20. This was attributed to poor performance in its livestock and poultry related segment which saw EBITDA shrinking by 79% to RM35.3mil while EBITDA margin fell 8ppt to 2%. This was partially offset by the feedmill segment that experienced a 4ppt increase in EBITDA margin to 17%.
- **Leong Hup is expecting volatile ASP of broilers and DOC in subsequent quarters due to the fluctuations in demand and adjustments in supply. Consumption patterns are affected by restrictions related to the Covid-19 pandemic. However, we think that Leong Hup's earnings performance will be slightly stronger in 2HFY20 as restrictions on HORECA ease, and improving patronage of restaurants and hotels which should improve the group's sales volume.**
- **We believe that the long-term outlook for LHI is positive due to relatively stable demand of chicken and strong long-term earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.**

EXHIBIT 1: FINANCIAL RESULTS

YE Dec	2QFY19	FY19	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	1,477.2	6,054.8	1,425.4	-76.5	-3.5	2,983.6	2,859.6	-4.2
Operating profit	74.7	425.0	56.0	-86.8	-25.1	222.4	123.7	-44.4
EBITDA	129.8	650.5	113.1	-82.6	-12.8	330.4	234.8	-29.0
Depreciation	55.1	225.5	57.2	-74.7	3.7	108.0	111.1	2.9
EBIT	74.7	425.0	56.0	-86.8	-25.1	222.4	123.7	-44.4
EI								
PBT	39.9	288.8	22.9	-92.1	-42.5	154.8	58.0	-62.5
Tax	-13.3	-75.8	-8.6	-88.6	-35.2	-37.9	-18.4	-51.5
PAT	26.6	213.0	14.3	-93.3	-46.2	116.8	39.6	-66.1
Minority interest	-10.5	-62.4	2.0	-103.2	-118.8	-40.2	-1.6	-96.1
PATAMI	16.1	150.6	16.3	-89.2	1.1	76.7	38.1	-50.4
Core PATAMI	16.1	167.2	16.3	-90.3	1.1	76.7	38.1	-50.4
EPS	0.5	4.2	0.4	-89.5	-5.8	2.3	1.0	-53.8
EBITDA margin (%)	8.8	10.7	7.9	-2.8ppt	-0.9ppt	11.1	8.2	-2.9ppt
PBT margin (%)	2.7	4.8	1.6	-3.2ppt	-1.1ppt	5.2	2.0	-3.2ppt
Effective tax rate (%)	-33.4	-26.2	-37.6	-11.4ppt	-4.2ppt	-24.5	-31.7	-7.2ppt
Core PATAMI margin (%)	1.1	2.8	1.1	-1.6ppt	0.1ppt	2.6	1.3	-1.2ppt
<u>Livestock and poultry related</u>								
Revenue	803.7	3396.0	807.3	-76.2	0.5	1,663.3	1,589.9	-4.41
EBITDA	45.7	257.4	29.3	-88.6	-35.9	164.6	35.3	-78.55
EBITDA margin	5.7	7.6	3.6	-4.0ppt	-2.1ppt	9.9	2.2	-7.7ppt
<u>Feedmill</u>								
Revenue	671.3	2646.7	614.7	-76.78	-8.43	1,314.9	1,262.8	-3.96
EBITDA	84.1	393.1	90.1	-77.08	7.11	165.8	211.2	27.40
EBITDA margin	12.5	14.9	14.7	-0.2ppt	2.1ppt	12.6	16.7	4.1ppt

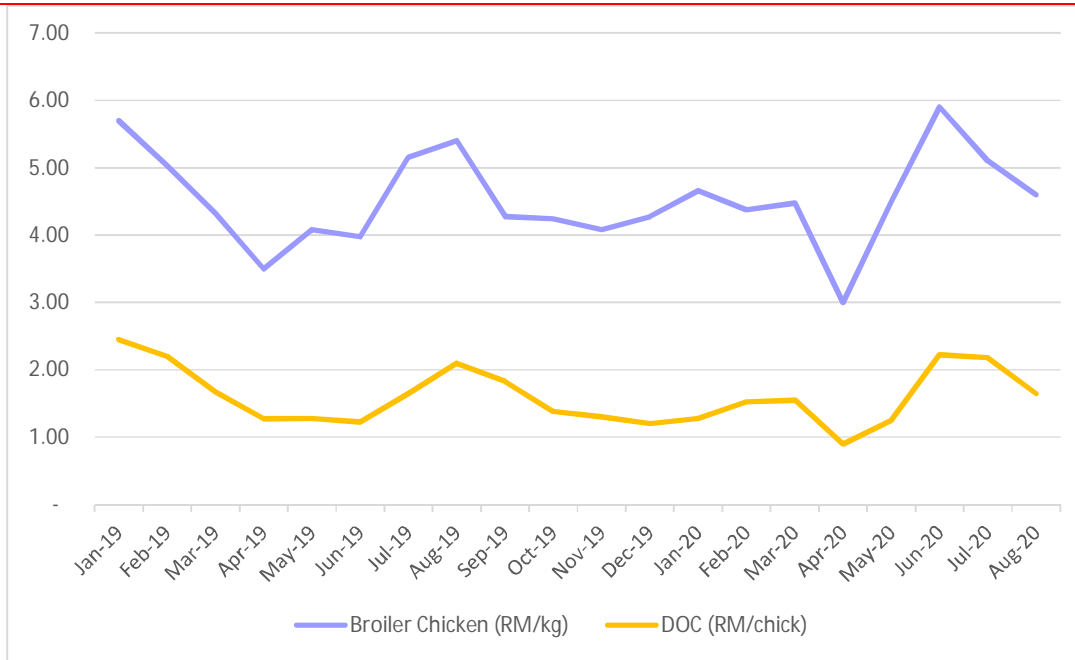
Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PRICE OF EGGS



Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PRICE OF POULTRY



Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: PRICE OF POULTRY

Malaysia			
DOCs per chick	1.58	1.18	1.39
Broiler chickens	4.17	3.08	3.62
Per Egg	0.31	0.25	0.26
Indonesia			
DOCs per chick	1.69	0.98	1.29
Broiler chickens	4.89	2.98	3.86
Eggs	0.35	0.31	0.33
Vietnam			
DOCs per chick	1.67	1.48	1.59
Broiler chickens	4.58	3.48	4.04
Per Egg	0.24	0.28	0.28

Source: Company, AmInvestment Bank Bhd

EXHIBIT 5: PB BAND CHART

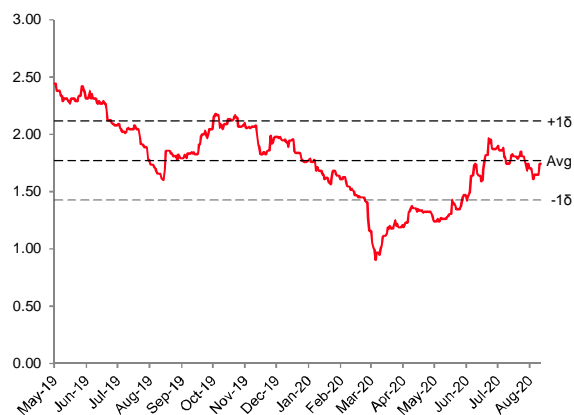


EXHIBIT 6: PE BAND CHART

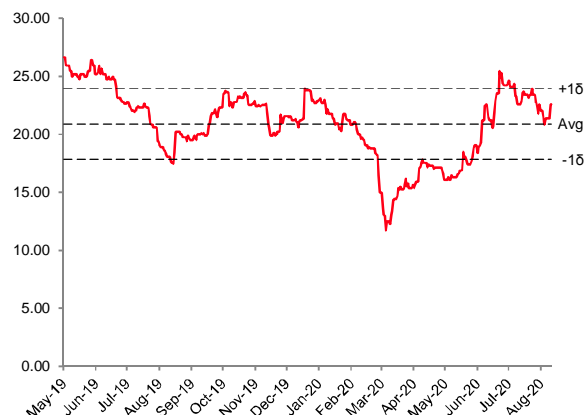


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,044.7	5,985.7	7,057.0
EBITDA	646.8	637.7	564.1	677.3	801.5
Depreciation/Amortisation	(189.9)	(225.5)	(187.9)	(223.0)	(262.9)
Operating income (EBIT)	456.9	412.1	376.2	454.4	538.6
Other income & associates	0.6	0.4	0.5	0.7	1.0
Net interest	(108.9)	(123.8)	(144.9)	(157.0)	(179.2)
Exceptional items	-	-	-	-	-
Pretax profit	348.6	288.8	231.7	298.1	360.4
Taxation	(101.8)	(75.8)	(53.3)	(68.6)	(82.9)
Minorities/pref dividends	(60.7)	(62.4)	(44.3)	(56.3)	(71.5)
Net profit	186.1	150.6	134.1	173.2	206.0
Core net profit	186.1	150.6	134.1	173.2	206.0
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,216.8	2,396.5	2,796.5	3,196.5	3,596.5
Intangible assets	97.3	97.5	97.5	97.5	97.5
Other long-term assets	261.2	85.9	86.1	86.1	86.1
Total non-current assets	2,575.3	2,579.8	2,980.1	3,380.1	3,780.1
Cash & equivalent	458.9	764.8	485.8	519.8	560.2
Stock	575.6	679.6	492.3	594.0	698.1
Trade debtors	649.2	499.3	539.3	648.6	753.8
Other current assets	574.2	561.1	479.9	539.3	600.2
Total current assets	2,257.9	2,504.8	1,997.3	2,301.7	2,612.3
Trade creditors	248.9	273.1	222.7	265.7	315.8
Short-term borrowings	1,326.6	1,508.7	1,561.6	1,670.7	1,800.5
Other current liabilities	309.3	307.6	304.4	307.4	310.8
Total current liabilities	1,884.8	2,089.5	2,088.7	2,243.8	2,427.1
Long-term borrowings	1,044.3	873.1	751.0	900.0	1,193.4
Other long-term liabilities	139.4	144.4	144.4	144.4	144.4
Total long-term liabilities	1,183.8	1,017.5	895.4	1,044.4	1,337.8
Shareholders' funds	1,301.8	1,641.2	1,735.1	1,856.3	2,000.6
Minority interests	463.6	539.3	449.3	533.2	628.6
BV/share (RM)	0.36	0.45	0.48	0.51	0.55
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	348.6	288.8	231.7	298.1	360.4
Depreciation/Amortisation	189.9	225.5	187.9	223.0	262.9
Net change in working capital	(241.8)	38.7	(228.5)	270.4	270.2
Others	52.5	103.9	133.6	(563.6)	(814.5)
Cash flow from operations	349.2	656.9	324.8	227.8	79.0
Capital expenditure	(423.0)	(403.6)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	6.5	(5.0)	(0.3)	-	-
Others	37.9	35.7	-	-	-
Cash flow from investing	(378.6)	(373.0)	(400.3)	(400.0)	(400.0)
Debt raised/(repaid)	178.9	(43.5)	(69.2)	258.1	423.2
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(40.2)	(52.0)	(61.8)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(109.5)	206.2	361.4
Net cash flow	(36.2)	281.1	(185.0)	33.9	40.4
Net cash/(debt) b/f	427.4	390.4	670.8	485.8	519.8
Net cash/(debt) c/f	390.4	670.8	485.8	519.8	560.2
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	(16.7)	18.7	17.9
EBITDA growth (%)	10.9	(1.4)	(11.5)	20.1	18.3
Pretax margin (%)	6.1	4.8	4.6	5.0	5.1
Net profit margin (%)	3.2	2.5	2.7	2.9	2.9
Interest cover (x)	4.2	3.3	2.6	2.9	3.0
Effective tax rate (%)	29.2	26.2	23.0	23.0	23.0
Dividend payout (%)	-	30.0	30.0	30.0	30.0
Debtors turnover (days)	41	30	39	40	39
Stock turnover (days)	35	38	42	33	33
Creditors turnover (days)	16	16	18	15	15

Source: Company, AmInvestment Bank Bhd estimates

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