

**HLIB Research**

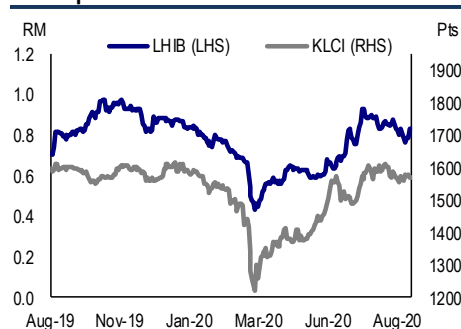
PP 9484/12/2012 (031413)

**Chye Wen Fei**[wfchye@hlib.hongleong.com.my](mailto:wfchye@hlib.hongleong.com.my)**(603) 2083 1712****HOLD** (from Buy)**Target Price: RM0.87****Previously: RM0.90****Current Price: RM0.83**

Capital upside	4.8%
Dividend yield	2.4%
Expected total return	7.2%

**Sector coverage:** Poultry

**Company description:** LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

**Share price**

Historical return (%)	1M	3M	12M
Absolute	0.0	38.3	11.4
Relative	2.2	27.8	15.3

**Stock information**

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	3,030
3-mth average volume ('000)	5,306
SC Shariah compliant	Yes

**Major shareholders**

Emerging Glory Sdn Bhd	52.8%
Clarinden	9.0%
Amanah Saham Nasional	5.7%

**Earnings summary**

FYE Dec (RMm)	FY19	FY20f	FY21f
PATMI - core	157.1	129.3	177.4
EPS - core (sen)	4.3	3.5	4.9
P/E (x)	19.3	23.4	17.1

**Leong Hup International****Hit by lower livestock product prices**

LHI's 2Q20 core net profit of RM16.3m (QoQ: -30.1%; YoY: -23.9%) took 1H20 core net profit to RM41.2m (-49.7%). The results came in below expectations, accounting for just 28.4-28.8% of our and consensus full-year estimates, due to weaker-than-expected livestock product prices (particularly, in Indonesia). We lower our FY20-22 core net profit forecasts by 11%, 2.4% and 2.0%, mainly to account for lower selling prices of DOC and broiler chickens in Indonesia. We downgrade our rating on LHI to HOLD (from Buy earlier) with a lower TP of RM0.87 (from RM0.90 earlier) based on 18x revised FY21 core EPS of 4.9 sen.

**Below expectation.** 2Q20 core net profit of RM16.3m (QoQ: -30.1%; YoY: -23.9%) took 1H20 core net profit to RM41.2m (-49.7%). The results came in below expectations, accounting for just 28.4-28.8% of our and consensus full-year estimates. Weaker-than-expected livestock product prices (particularly, in Indonesia), were the key variances against our estimate, we believe.

**Exceptional items (EI).** We adjusted for RM1.6m worth of EIs from LHI's reported net profit in 2Q20, and these include (i) RM0.8m impairment loss on receivables, (ii) RM0.3m gain on disposals, and (iii) RM1.1m share option expense.

**Dividend.** Declared interim DPS of 0.55 sen, going ex on 14 Sep 2020.

**QoQ.** Core net profit shrank 23.0% to RM17.9m in 2Q20, as improved livestock product prices in Malaysia and better margin in Singapore operation were more than offset by weak livestock product prices in Indonesia and lower earnings contribution from feedmill segment.

**YoY.** Core net profit shrank 16.3% to RM17.9% in 2Q20, as improved earnings contribution from feedmill segment, higher sales volume of broiler chickens in Vietnam, and improved livestock product prices in Malaysia were more than offset by weak selling prices and sales volume of DOCs in Indonesia.

**YTD.** 1H20 core net profit fell 49.7% to RM41.2m, as improved earnings contribution from feedmill segment was more than offset by (i) lower sales volume and selling prices of eggs and DOC in Malaysia, and (ii) lower sales volume of fresh chickens and duck in Singapore.

**Forecast.** We lower our FY20-22 core net profit forecasts by 11%, 2.4% and 2.0%, mainly to account for lower selling prices of DOC and broiler chickens in Indonesia.

**Downgrade to HOLD, with lower TP of RM0.87.** Following the downward revision to our core net profit forecasts, we downgrade our rating on LHI to HOLD (from Buy earlier) with a lower TP of RM0.87 (from RM0.90 earlier) based on 18x revised FY21 core EPS of 4.9 sen.

# Financial Forecast

All items in (RM m) unless otherwise stated

## Balance Sheet

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	458.9	764.8	733.2	691.2	789.5
Receivables	825.5	670.0	670.3	705.9	740.6
Inventories	575.6	679.6	663.9	699.2	733.7
PPE	2,216.8	2,396.5	2,572.8	2,734.9	2,792.1
Others	757.2	898.2	893.5	913.7	933.3
<b>Assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,533.6</b>	<b>5,745.0</b>	<b>5,989.3</b>
Payables	519.9	560.2	556.1	585.7	614.6
Debt	2,370.9	2,381.8	2,381.8	2,381.8	2,381.8
Others	177.8	282.9	282.9	282.9	282.9
<b>Liabilities</b>	<b>3,068.6</b>	<b>3,228.6</b>	<b>3,224.5</b>	<b>3,254.2</b>	<b>3,283.0</b>
Shareholders' equity	1,301.8	1,641.2	1,726.7	1,849.3	1,992.6
Non-controlling interests	463.6	539.3	582.4	641.5	713.6
<b>Equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,309.1</b>	<b>2,490.8</b>	<b>2,706.2</b>

## Cash Flow Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Profit before tax	348.6	288.8	232.9	319.6	389.7
D&A	199.4	197.4	224.0	238.1	243.0
Working capital	-241.8	38.7	16.4	-61.3	-59.7
Tax paid	-75.7	-57.0	-60.6	-83.1	-101.3
Others	118.8	189.1	124.5	116.3	102.7
CFO	-378.6	-373.0	-400.0	-400.0	-300.0
Capex	-423.0	-403.6	-400.0	-400.0	-300.0
Others	44.4	30.7	0.0	0.0	0.0
CFI	-378.6	-373.0	-400.0	-400.0	-300.0
Changes in debt	178.9	-43.5	0.0	0.0	0.0
Shares issued	0.0	269.6	0.0	0.0	0.0
Dividends	-66.3	-84.5	-43.8	-54.8	-73.0
Others	-119.5	-144.3	-125.0	-116.8	-103.2
CFF	-6.9	-2.7	-168.8	-171.6	-176.2
Net cash flow	-36.2	281.1	-31.6	-42.0	98.3
Beginning cash	427.4	390.4	670.8	639.2	597.2
Forex	-0.8	-0.7	0.0	0.0	0.0
Ending cash	390.4	670.8	639.2	597.2	695.5

## Income Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,974.7	6,293.2	6,603.4
EBITDA	654.6	650.5	581.4	674.0	735.5
EBIT	457.5	425.0	357.4	436.0	492.5
Finance cost	-109.5	-136.6	-125.0	-116.8	-103.2
Associates	0.6	0.4	0.5	0.5	0.5
Profit before tax	348.6	288.8	232.9	319.6	389.7
Tax	-101.8	-75.8	-60.6	-83.1	-101.3
PAT	246.8	213.0	172.4	236.5	288.4
Non-controlling interests	-60.6	-62.4	-43.1	-59.1	-72.1
Reported PATMI	186.2	150.6	129.3	177.4	216.3
Exceptionals	33.4	6.5	0.0	0.0	0.0
Core PATMI	219.6	157.1	129.3	177.4	216.3
Consensus core PATMI			143.3	191.9	216.4
HLIB/ Consensus			90.2%	92.5%	99.9%

## Ratios

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Core EPS (sen)	6.0	4.3	3.5	4.9	5.9
P/E (x)	13.8	19.3	23.4	17.1	14.0
EV/EBITDA (x)	7.1	7.1	8.0	6.9	6.3
DPS (sen)	1.6	1.2	1.5	2.0	2.0
Dividend yield	1.9%	1.4%	1.8%	2.4%	2.4%
BVPS (RM)	0.4	0.4	0.5	0.5	0.5
P/B (x)					
EBITDA margin	18.9%	19.2%	17.4%	19.3%	20.4%
EBIT margin	6.6%	5.7%	4.7%	5.4%	5.9%
PBT margin	5.0%	3.9%	3.0%	4.0%	4.6%
Net margin	3.2%	2.1%	1.7%	2.2%	2.6%
ROE	17.7%	10.7%	7.7%	9.9%	11.3%
ROA	4.7%	3.1%	2.4%	3.1%	3.7%
Net gearing	108.3%	74.2%	71.4%	67.9%	58.8%

## Assumptions

FYE Dec	FY20F	FY21F	FY22F
<b>Feedmill</b>			
- Production volume ('000 mt)	2,453.6	2,588.2	2,731.2
- Utilisation rate	72%	73%	77%
<b>Livestock</b>			
- Broiler DOC supplied (m chicks)	179.6	185.0	190.5
- Broiler supplied (m birds)	119.6	122.6	125.2
- Eggs supplied (m eggs)	1,804.7	1,851.8	1,900.4

**Figure #1 Quarterly results comparison**

FYE Dec (RMm)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)
Revenue	1,477.2	1,434.1	1,425.4	-0.6	-3.5	2,983.6	2,859.6	-4.2
- Livestock & poultry related products	803.7	782.6	807.3	3.1	0.5	1,663.3	1,589.9	-4.4
- Feedmill	671.3	648.1	614.7	-5.2	-8.4	1,314.9	1,262.8	-4.0
- Others	2.3	3.4	3.5	3.2	51.9	5.4	6.8	27.0
EBITDA	129.8	127.2	119.4	-6.1	-8.0	330.4	246.6	-25.4
- Livestock & poultry related products	45.7	6.0	29.3	>100	-35.9	164.6	35.3	-78.5
- Feedmill	87.6	119.4	101.2	-15.3	15.6	172.7	220.6	27.7
- Others	-3.5	1.7	-11.1	NM	NM	-6.9	-9.4	35.3
Profit from operations	74.7	67.7	56.0	-17.3	-25.1	222.4	123.7	-44.4
- Livestock & poultry related products	4.5	-39.2	-19.0	NM	NM	83.6	-58.2	NM
- Feedmill	74.6	105.9	86.8	-18.0	16.4	147.6	192.7	30.6
- Others	-4.4	1.0	-11.8	NM	NM	-8.7	-10.8	24.1
Finance costs	-35.0	-32.6	-33.1	1.5	-5.4	-67.9	-65.7	-3.2
Associates	0.1	0.0	0.0	3.7	-79.9	0.2	0.1	-70.1
PBT	39.9	35.1	22.9	-34.7	-42.5	154.8	58.0	-62.5
Tax expense	-13.3	-9.8	-8.6	-11.8	-35.2	-37.9	-18.4	-51.5
PAT	26.6	25.3	14.3	-43.5	-46.2	116.8	39.6	-66.1
Non-controlling interests	-10.5	-3.5	2.0	-	-	-40.2	-1.6	-
Reported net profit	16.1	21.8	16.3	-25.3	1.1	76.7	38.1	-50.4
Core net profit	21.4	23.3	17.9	-23.0	-16.3	81.9	41.2	-49.7
Core EPS (sen)	0.6	0.6	0.5	-23.0	-16.3	2.2	1.1	-49.7
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	8.8	8.9	8.4	-0.5	-0.4	11.1	8.6	-2.5
Operating margin (%)	5.1	4.7	3.9	-0.8	-1.1	7.5	4.3	-3.1
PBT margin (%)	2.7	2.4	1.6	-0.8	-1.1	5.2	2.0	-3.2
Net margin (%)	1.4	1.6	1.3	-0.4	-0.2	2.7	1.4	-1.3

Elts in 2Q20 include (i) RM0.8m impairment loss on receivables, (ii) RM0.3m gain on disposals, and (iii) RM1.1m share option expense.

HLIB Research

**Figure #2 Geographical breakdown on revenue and EBITDA**

FYE Dec (RMm)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)
Revenue	1,471.8	1,434.1	1,425.4	-0.6	-3.2	2,978.2	2,859.6	-4.0
- Malaysia	368.0	383.5	385.5	0.5	4.8	810.2	769.0	-5.1
- Singapore	188.6	185.4	182.7	-1.5	-3.1	381.9	368.1	-3.6
- Vietnam	335.2	356.5	387.5	8.7	15.6	628.4	744.0	18.4
- Indonesia	563.4	484.1	447.5	-7.6	-20.6	1,126.8	931.6	-17.3
- Philippines	16.7	24.7	22.3	-9.8	33.4	30.8	46.9	52.2
EBITDA	129.8	127.2	119.4	-6.1	-8.0	330.4	246.6	-25.4
- Malaysia	24.0	33.1	38.4	15.8	60.1	102.9	71.5	-30.5
- Singapore	29.3	21.0	29.6	40.5	1.0	57.1	50.6	-11.3
- Vietnam	29.1	35.1	34.2	-2.4	17.8	58.2	69.3	19.1
- Indonesia	45.8	36.3	18.9	-48.0	-58.8	108.9	55.1	-49.4
- Philippines	1.7	1.7	-1.6	NM	NM	3.5	0.1	-98.4

HLIB Research

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 26 August 2020, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 26 August 2020, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

## Published & printed by:

### Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damansara,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

## Stock rating guide

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.