

Leong Hup International Berhad

Lifted by higher feedmill ASP in Vietnam

Summary

- Leong Hup International Bhd's (LHI) 2QFY20 net profit rose 1.1% YoY to RM16.3m, mainly lifted by the better margins from Vietnam from the higher production and average selling prices of livestock feedmill segment. Revenue for the quarter, however, declined 3.5% YoY to RM1.43bn. For 1HFY20, cumulative net profit slipped 50.4% YoY to RM38.1m. Revenue for the period decreased 4.2% YoY to RM2.86bn. An interim dividend of 0.55 sen per share, payable on 30th September 2020 was declared.
- The reported results make up to 28.0% of our net profit estimate of RM135.8m for FY20f and 26.6% of consensus expectations of RM143.3m. The reported revenue amounted to 46.7% of our full-year forecast of RM6.12bn and 47.6% of consensus forecast of RM6.00bn. The bottomline variance is mainly due to the lower ASP of DOC in Indonesia and lower contribution from the sales volume of fresh chickens and duck in Singapore.
- The expansion of downstream segment (The Bakers Cottage) will provide some stability should broiler prices were to trend lower. Demand is expected to remain sound on the back of the relatively cheaper selling prices as oppose to their peers in the F&B space. At the same time, we reckon that the improvement from feedmill segment will cushion any weakness from the livestock segment.
- Regionally, LHI plans to (i) strengthen their ready-to-eat (RTE) and ready-to-cook (RTC) products in Singapore market, (ii) improve production of aquatic feed in Vietnam operations and (iii) capitalise on the stability of poultry prices stemmed by the Indonesia's government effort to enforce aggressive culling activities and improve feed volume to capture additional market share.
- Cost wise, soybean prices edged lower in 2Q2020, falling -4.4% QoQ owing to the Covid-19 pandemic that affected business activities across the globe. Likewise, maize prices was softer, declining -4.1% QoQ, reflecting the dour demand. Despite the lower feed cost, LHI has maintained their feed inventory at approximately 3-4 months as demand has yet to recover towards pre-Covid-19 level.

Quarterly performance								
FYE Dec (RM m)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	6MFY19	6MFY20	YoY (%)
Revenue	1,477.2	1,434.1	1,425.4	(0.6)	(3.5)	2,983.6	2,859.6	(4.2)
EBITDA	126.6	123.0	126.6	2.9	0.0	325.1	249.6	(23.2)
PBT	39.9	35.1	22.9	(34.7)	(42.5)	154.8	58.0	(62.5)
PAT	26.6	25.3	14.3	(43.5)	(46.2)	116.8	39.6	(66.1)
Core PATMI	16.1	21.8	16.3	(25.3)	1.1	76.7	38.1	(50.4)
Reported PATMI	16.1	21.8	16.3	(25.3)	1.1	76.7	38.1	(50.4)
Core EPS (sen)	0.5	0.6	0.5	(25.3)	1.1	2.3	1.1	(50.4)
EBITDA margin (%)	8.6	8.6	8.9			10.9	8.7	
PBT margin (%)	2.7	2.4	1.6			5.2	2.0	
Core PATMI margin (%)	1.1	1.5	1.1			2.6	1.3	

Results Note – 2QFY20

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HOLD

Share price	RM0.83
Target price	RM0.81
Previous TP	RM0.81
Capital upside	-2.4%
Dividend return	1.5%
Total return	-0.9%

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	3,029.5
52W High/Low	0.98/0.45
Est. Free float	21.2%
3-mth avg vol ('000)	5,306.0
Shariah compliant	Yes

Major shareholders

Emerging Glory SB	52.8
Clarinden Investments	9.0
Amanah Saham Nasional	5.7

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-1.2	36.7	10.1
Relative	0.5	25.6	13.3

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI (m)	150.6	135.8	182.8
EPS (sen)	4.1	3.7	5.0
P/E (x)	20.1	22.3	16.6

Relative performance chart



Valuation & Recommendation

- We made no changes to our earnings forecast as we reckon that ASP would improve in subsequent quarters owing to the recovery in demand due to the higher consumer spending in recent months. Hence, we maintain our **HOLD** recommendation on LHI, with a target price of RM0.81. Although its share price has surpassed our fundamentals marginally, we reckon that a re-rating is in the cards should the recovery in ASPs exceed expectations.
- Our target price is based on PE of 16.0x pegged to our FY21f estimated EPS of 5.0 sen. The assigned PE represents a 20.0% discount to its local and regional peers' average of 20.0x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and QL Resources Bhd in Malaysia.
- Risks to our recommendation and forecast include fluctuations in raw material prices that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	3,349.5	3,456.6	3,396.0	3,159.0	3,353.1	Cash	156.6	150.4	305.0	533.2	765.0
EBITDA	576.6	647.6	637.7	612.2	706.8	Receivables	323.8	402.5	429.1	527.5	541.0
EBIT	377.5	450.4	412.1	354.9	439.7	Inventories	291.3	275.5	276.1	321.5	351.6
Net finance income/ (cost)	(85.7)	(102.5)	(123.8)	(123.2)	(127.7)	PPE	1,589.5	1,896.2	2,002.1	2,289.0	2,602.9
Associates & JV	0.5	0.6	0.4	0.5	0.5	Others	270.9	267.4	305.3	333.7	334.5
Profit before tax	292.3	348.6	288.7	232.2	312.5	Assets	2,632.0	2,992.1	3,317.6	4,004.8	4,950.0
Tax	(44.9)	(101.8)	(75.8)	(58.0)	(78.1)	Debts	316.6	343.9	278.5	243.9	193.9
Net profit	247.4	246.8	213.0	174.1	234.4	Payables	104.5	105.7	112.3	178.2	194.9
Minority interest	54.8	60.6	62.4	38.3	51.6	Others	213.5	283.2	382.2	498.0	580.3
Core earnings	192.6	186.2	150.6	135.8	182.8	Liabilities	634.6	732.9	773.0	920.1	969.2
Exceptional items	-	-	-	-	-	Shareholder's equity	1,994.2	2,256.4	2,541.0	3,080.7	3,621.5
Reported earnings	192.6	186.2	150.6	135.8	182.8	Minority interest	3.2	2.8	3.6	4.0	4.3
						Equity	1,997.4	2,259.2	2,544.6	3,084.7	3,625.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Profit before taxation	292.3	348.6	288.7	232.2	312.5	Core EPS (sen)	5.3	5.1	4.1	3.7	5.0
Depreciation & amortisation	70.7	88.4	104.0	125.1	149.4	P/E (x)	15.7	16.3	20.1	22.3	16.6
Changes in working capital	(92.7)	(55.3)	(12.3)	(29.2)	(1.1)	DPS (sen)	11.7	8.2	7.6	18.0	20.0
Share of JV profits	-	-	-	-	-	Dividend yield	14.1%	9.9%	9.1%	21.7%	24.1%
Taxation	(70.1)	(78.3)	(72.7)	(286.8)	(303.8)	BVPS (RM)	0.55	0.62	0.70	0.85	0.99
Others	-	-	-	-	-	P/B (x)	1.5	1.3	1.2	1.0	0.8
Operating cash flow	336.8	403.9	627.4	658.9	1,256.5	EBITDA margin	17.2%	18.7%	18.8%	19.4%	21.1%
Net capex	(300.3)	(466.0)	(280.4)	(482.8)	(528.0)	EBIT margin	11.3%	13.0%	12.1%	11.2%	13.1%
Others	-	-	-	-	-	PBT margin	8.7%	10.1%	8.5%	7.3%	9.3%
Investing cash flow	(260.3)	(428.6)	(250.4)	(434.4)	(475.1)	PAT margin	7.4%	7.1%	6.3%	5.5%	7.0%
Changes in borrowings	6.6	27.3	(50.0)	(50.0)	(50.0)	Core PAT margin	5.7%	5.4%	4.4%	4.3%	5.5%
Issuance of shares	-	-	-	-	-	ROE	9.6%	8.2%	5.9%	4.4%	5.0%
Dividends paid	(198.2)	(286.2)	(249.0)	(609.3)	(677.0)	ROA	7.3%	6.2%	4.5%	3.4%	4.0%
Others	-	-	-	-	-	Net gearing	8.0%	8.6%	-	-	-
Financing cash flow	(106.6)	(206.6)	(253.9)	(584.7)	(650.6)						
Net cash flow	37.0	(7.8)	154.6	237.4	239.4						
Forex	(1.5)	1.7	-	-	-						
Others	-	-	-	-	-						
Beginning cash	121.0	156.6	150.4	305.0	542.4						
Ending cash	156.6	150.4	305.0	542.4	781.8						

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