

26 August 2020

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Neutral (from Buy)

Recovery Prospects In Share Price, D/G NEUTRAL

Target Price (Return):	MYR0.88 (+6%)
Price:	MYR0.83
Market Cap:	USD726m
Avg Daily Turnover (MYR/USD)	3.98m/0.93m

- **Downgrade to NEUTRAL from Buy with new TP of MYR0.88 from MYR1.18, 6% upside and c.2% FY21F yield.** Leong Hup International's 1H20 results were below expectations due to worse-than-expected impact from COVID-19 and regional lockdown initiatives on consumption. We believe the situation will improve gradually given the normalisation in consumption and tighter supply dynamics. However, a sharp rebound in share price (+38% in three months) may have reflected most of the recovery prospects.

- **1H20 core net profit of MYR38.1m (-50.4% YoY) was below expectations,** having only met 25% and 27% of our and consensus forecasts. The negative deviation could be mainly attributed to worse-than-expected consumption disruption arising from the COVID-19 pandemic and ensuing lockdowns regionally. Also, we could have been too aggressive with our margin assumptions. Post-results, we cut FY20F-22F earnings by 30%, 18% and 18%. Correspondingly, our DCF-derived TP is lowered to MYR0.88 from MYR1.18, implying 19x FY21F P/E, which is in line with the regional peer average.

- **Results review.** YoY, 1H20 sales moderated by 4.2% to MYR2.9bn, with all key operating markets, including Malaysia, Indonesia and Singapore, recording decline in sales. Meanwhile, encouraging growth in emerging markets, ie Vietnam and the Philippines, were unable to offset the weakness. 1H20 EBITDA fell by 25.4% YoY as the lower volume and ASP from the restricted mobility caused EBITDA margins to slip across all operating markets, except Vietnam. By segment, strong growth in feedmill (EBITDA +27.7%) thanks to capacity expansion was insufficient to mitigate the sharp drop in feedstock EBITDA (-78.5%), which was significantly affected by the fall in volume and ASP.

- **Seeing gradual recovery.** Consumption has started to recover from May as most countries eased their respective lockdown initiatives. Industry supply has been unable to adjust accordingly, with smaller farmers struggling with finances and facing labour constraints. Hence, we believe the situation could benefit bigger-scale players like LHI. Meanwhile, its downstream venture via The Baker's Cottage (TBC) is expected to mitigate the price volatility in the poultry business. TBC presently takes up c.7% of LHI's broiler supply in Malaysia and is projected to reach 30-40% once the store count is ramped up to 300 stores in 2023 from 71 stores currently.

- **Risks to our recommendation** include unfavourable changes in regulatory policies and supply-demand dynamics.

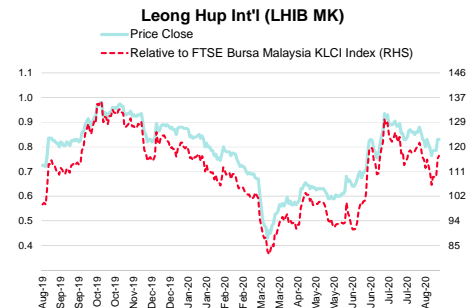
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.7)	0.0	38.3	14.5	11.4
Relative	(3.6)	2.2	30.1	10.9	14.8
52-wk Price low/high (MYR)				0.43 – 0.98	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	5,747	6,055	6,142	6,742	7,082
Recurring net profit (MYRm)	219	151	108	171	193
Recurring net profit growth (%)	18.4	(31.2)	(28.1)	57.6	13.4
Recurring P/E (x)	13.83	20.12	28.00	17.77	15.66
P/B (x)	2.3	1.8	1.8	1.7	1.5
P/CF (x)	8.67	4.61	6.82	7.03	5.60
Dividend Yield (%)	1.9	1.9	1.1	1.7	1.9
EV/EBITDA (x)	8.22	7.94	8.80	7.56	7.11
Return on average equity (%)	15.0	10.2	6.4	9.6	10.2
Net debt to equity (%)	108.3	74.2	74.4	76.9	78.6

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.06	0.04	0.03	0.05	0.05
Agriculture	DPS	0.02	0.02	0.01	0.01	0.02
Leong Hup International	BVPS	0.36	0.45	0.47	0.50	0.54
LHIB MK	Return on average equity (%)	15.0	10.2	6.4	9.6	10.2
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	13.83	20.12	28.00	17.77	15.66
	P/B (x)	2.3	1.8	1.8	1.7	1.5
	FCF Yield (%)	(2.4)	8.4	3.1	1.0	1.4
	Dividend Yield (%)	1.9	1.9	1.1	1.7	1.9
	EV/EBITDA (x)	8.22	7.94	8.80	7.56	7.11
	EV/EBIT (x)	11.77	12.15	14.86	12.14	11.44
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	5,747	6,055	6,142	6,742	7,082
	Gross profit	953	1,004	949	1,069	1,141
	EBITDA	655	651	594	711	777
	Depreciation and amortisation	(197)	(226)	(242)	(268)	(294)
	Operating profit	457	425	352	443	483
	Net interest	(109)	(137)	(124)	(127)	(130)
	Pre-tax profit	349	289	228	316	353
	Taxation	(102)	(76)	(52)	(73)	(81)
	Reported net profit	186	151	108	171	193
	Recurring net profit	219	151	108	171	193
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(242)	39	(30)	(134)	(76)
	Cash flow from operations	349	657	444	431	541
	Capex	(423)	(404)	(350)	(400)	(500)
	Cash flow from investing activities	(379)	(373)	(350)	(400)	(500)
	Dividends paid	(66)	(84)	(32)	(51)	(58)
	Cash flow from financing activities	(7)	(3)	(138)	(78)	(188)
	Cash at beginning of period	502	459	765	721	673
	Net change in cash	(36)	281	(44)	(48)	(147)
	Ending balance cash	466	740	721	673	526
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	459	765	721	673	526
	Tangible fixed assets	2,374	2,396	2,505	2,637	2,843
	Total investments	22	22	22	22	22
	Total assets	4,834	5,409	5,510	5,754	5,903
	Short-term debt	1,327	1,509	1,400	1,500	1,500
	Total long-term debt	1,044	873	1,000	1,000	1,000
	Total liabilities	3,069	3,229	3,254	3,379	3,393
	Total equity	1,765	2,181	2,256	2,375	2,510
	Total liabilities & equity	4,834	5,409	5,510	5,754	5,903
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.5	5.4	1.4	9.8	5.0
	Recurrent EPS growth (%)	18.4	(31.2)	(28.1)	57.6	13.4
	Gross margin (%)	16.6	16.6	15.4	15.9	16.1
	Operating EBITDA margin (%)	11.4	10.7	9.7	10.5	11.0
	Net profit margin (%)	3.2	2.5	1.8	2.5	2.7
	Dividend payout ratio (%)	31.2	38.5	29.9	29.9	29.9
	Capex/sales (%)	7.4	6.7	5.7	5.9	7.1
	Interest cover (x)	4.18	3.11	2.83	3.48	3.71

Source: Company data, RHB

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Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)	Comments
Revenue	1,477.2	1,434.1	1,425.4	(0.6)	(3.5)	2,983.6	2,859.6	(4.2)	Weakness across all key operating markets on the back of lockdown enforcement
EBITDA	129.8	127.2	119.4	(6.1)	(8.0)	330.4	246.6	(25.4)	
<i>EBITDA margin (%)</i>	8.8	8.9	8.4	(0.5)	(0.4)	11.1	8.6	(2.5)	
EBIT	74.7	67.7	56.0	(17.3)	(25.1)	222.4	123.7	(44.4)	Fall in volume and ASP compressed margin
<i>EBIT Margin (%)</i>	5.1	4.7	3.9	(0.8)	(1.1)	7.5	4.3	(3.1)	
Finance costs	(35.0)	(32.6)	(33.1)	1.5	(5.4)	(67.9)	(65.7)	(3.2)	
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Profit before tax	39.9	35.1	22.9	(34.7)	(42.5)	154.8	58.0	(62.5)	
<i>PBT Margin (%)</i>	2.7	2.4	1.6	(0.8)	(1.1)	5.2	2.0	(3.2)	
Tax expense	(13.3)	(9.8)	(8.6)	(11.8)	(35.2)	(37.9)	(18.4)	(51.5)	
<i>Effective tax rate (%)</i>	(33.4)	(27.8)	(37.6)	(9.8)	(4.2)	(24.5)	(31.7)	(7.2)	
Minority interests	(10.5)	(3.5)	2.0	nm	nm	(40.2)	(1.6)	nm	
PATAMI	16.1	21.8	16.3	(25.3)	1.1	76.7	38.1	(50.4)	
Core PATAMI	16.1	21.8	16.3	(25.3)	1.1	76.7	38.1	(50.4)	At 25-27% of the forecasts.
<i>Net Margin (%)</i>	1.1	1.5	1.1	(0.4)	0.1	2.6	1.3	(1.2)	1H20 DPS of 0.55 sen vs 1H19:1.6 sen

Source: Company data, RHB

Figure 2 : LHI's geographical breakdown

FYE Dec (MYRm)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)	Comments
Malaysia	368.0	383.5	385.5	0.5	4.8	810.3	769.0	(5.1)	Higher ASP for broiler in 2Q20
Singapore	191.1	185.4	182.7	(1.5)	(4.4)	384.5	368.1	(4.3)	
Vietnam	335.2	356.5	387.5	8.7	15.6	628.4	744.0	18.4	
Indonesia	563.9	484.1	447.5	(7.6)	(20.7)	1,127.3	931.6	(17.4)	Fall in feedstock volume
Philippines	16.7	24.7	22.3	(9.8)	33.4	30.8	46.9	52.2	
Group revenue	1,474.9	1,434.1	1,425.4	(0.6)	(3.4)	2,981.3	2,859.6	(4.1)	
Malaysia	24.0	33.1	38.4	15.8	60.1	102.9	71.5	(30.5)	2Q19 was a low base affected by sharp fall in poultry prices
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)	(196.8)	(194.5)	3.5	0.1	(98.4)	
Group EBITDA	129.8	127.2	119.4	(6.1)	(8.0)	330.4	246.6	(25.4)	
Malaysia	6.5	8.6	9.9	1.3	3.4	12.7	9.3	(3.4)	
Singapore	15.3	11.4	16.2	4.8	0.9	14.8	13.7	(1.1)	
Vietnam	8.7	9.8	8.8	(1.0)	0.2	9.3	9.3	0.1	Driven by capacity expansion
Indonesia	8.1	7.5	4.2	(3.3)	(3.9)	9.7	5.9	(3.7)	
Philippines	10.4	6.8	-7.4	(14.2)	(17.7)	11.2	0.1	(11.1)	
Group EBITDA margin (%)	8.8	8.9	8.4	(0.5)	(0.4)	11.1	8.6	(2.5)	

Source: Company data, RHB

Figure 3 : LHI's segmental breakdown

FYE Dec (MYRm)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)	Comments
Livestock and 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)	Dragged down by Indonesia
Others	2.3	3.4	3.5	3.2	51.9	5.4	6.8	27.0	
Group revenue	1,477.2	1,434.1	1,425.4	(0.6)	(3.5)	2,983.6	2,859.6	(4.2)	
Livestock and poultry related products	45.7	6.0	29.3	385.3	(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	Driven by Vietnam
Others	(3.5)	1.7	(11.1)	nm	nm	(6.9)	(9.4)	nm	
Group EBITDA	129.8	127.2	119.4	(6.1)	(8.0)	330.4	246.6	(25.4)	
Livestock and poultry related products	5.7	0.8	3.6	2.9	(2.1)	9.9	2.2	(7.7)	
Feedmill	13.0	18.4	16.5	(2.0)	3.4	13.1	17.5	4.3	Driven by Vietnam
Group EBITDA margin	8.8	8.9	8.4	(0.5)	(0.4)	11.1	8.6	(2.5)	

Source: Company, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-13	Buy	1.18	0.89
2020-05-20	Buy	0.88	0.59
2020-02-19	Buy	1.16	0.77
2019-11-27	Buy	1.26	0.86
2019-08-30	Buy	1.36	0.84
2019-06-18	Buy	1.53	1.07

Source: RHB, Bloomberg

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