

Leong Hup International Bhd

TP: RM0.91 (+9.7%)

Strength in Diversity

Last Traded: RM0.83

Buy

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Review

- Leong Hup International Bhd's (LHI) 1HFY20 adjusted net profit of RM38.1mn accounted for 29% and 27% of ours and consensus' full-year forecast. We deem the results to be within expectations as we expect earnings to recover in 2HFY20 when restrictions on movement is further relaxed.
- The group declared a first single-tier interim dividend of 0.55sen/share (1HFY19: 1.60sen/share).
- 1HFY20 revenue declined 4.2% YoY to RM2.86bn mainly drag by reduced Livestock revenue (-4.4% YoY to RM1.59bn) as ASP and volume of Malaysian and Indonesian livestock products, especially day-old-chick weakened. 1HFY20 EBIT decreased to RM123.6mn (-44.4% YoY) as the lacklustre Livestock segment registered loss before interest of RM58.3mn, eclipsing the higher EBIT from the Feedmill segment (+30.6% YoY to RM192.7mn) backed by greater volume and ASP recorded in Vietnam's feed sales.
- Geographically, Vietnam outperformed the other countries, as it recorded 1HFY20 revenue and EBITDA growth of 18.4% YoY and 19.1% YoY underpinned by its recent acquired aquatic feedmill and better livestock sales. Conversely, EBITDA from Malaysia and Indonesia operations declined by 30.5% YoY and 49.4% YoY as operations were plagued by lower livestock ASP and reduced feed sales.

Impact

- No change to earnings forecasts.

Outlook

- Geographical diversity and value chain integration of LHI has enabled the group to weather through fluctuations in livestock prices, which are expected to remain volatile from month-to-month, driven by supply and demand. Meanwhile, the Malaysian operation is seen to have rebounded from the dismal April-2020 price environment, thus giving support to its 2HFY20 performance.
- The Baker Cottage outlets have been scaled to c.70 outlets with introduction of mooncakes in celebration of the mooncake festival.
- Jan-Aug 2020 CBOT soybean average price has dropped 1.4% YoY against previous corresponding period, while CBOT corn recorded 11.6% YoY decline against previous corresponding period. The low prices of soybean and corn should help alleviate some pressure on margins.

Valuation

- Maintain Buy with an unchanged target price of RM0.91/share based on unchanged 18x FY20 earnings.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	3029.5
52-wk Hi/Lo (RM)	0.995/0.430
12-mth Avg Daily Vol ('000 shrs)	3618
Estimated Free Float (%)	21.2
Beta	nm

Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 9.0%

Forecast Revision

	FY20	FY21
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	130.9	184.7
Consensus	143.3	191.9
TA's / Consensus (%)	91.3	96.2
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net Debt / Equity (x)	0.8	0.8
ROE (%)	7.8	10.3
ROA (%)	2.4	3.3
NTA/Share (RM)	0.4	0.5
Price/NTA (x)	1.9	1.7

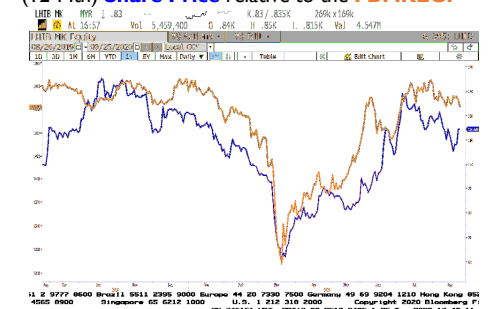
Scorecard

	% of FY
vs TA	29 Within
vs Consensus	27 Within

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	0.0	(2.2)
3 mth	38.3	8.2
6 mth	15.3	4.0
12 mth	14.5	(2.8)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE December (RM mn)	2018	2019	2020E	2021F	2022F
Revenue	5,746.6	6,054.8	6,195.4	6,828.6	7,288.7
EBITDA	646.1	636.9	607.9	726.9	797.4
Pretax Profit	348.6	288.8	239.8	338.3	395.0
Reported Net Profit	186.2	150.6	130.9	184.7	215.6
Core Net Profit	215.2	150.6	130.9	184.7	215.6
Core EPS (sen)	5.9	4.1	3.6	5.1	5.9
Core PER (x)	14.1	20.1	23.2	16.4	14.1
DPS (sen)	0.0	1.6	1.1	1.5	1.8
Dividend Yield (%)	0.0	1.9	1.3	1.8	2.1

Table 2: 2QFY20 Results Analysis (RMmn)

FYE 31 Dec	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	1,477.2	1,434.1	1,425.4	(0.6)	(3.5)	2,983.6	2,859.6	(4.2)
Other Income	7.0	14.9	8.0	(46.5)	14.0	11.1	22.9	>100
Operating Expenses	(1,412.8)	(1,385.5)	(1,380.5)	(0.4)	(2.3)	(2,777.6)	(2,766.0)	(0.4)
EBIT	71.5	63.5	53.0	(16.6)	(25.9)	217.1	116.5	(46.3)
Adj. EBIT	71.5	63.5	53.0	(16.6)	(25.9)	217.1	116.5	(46.3)
Net Interest	(31.7)	(28.5)	(30.1)	5.7	(5.2)	(62.5)	(58.5)	(6.4)
Associate	0.1	0.0	0.0	3.7	(79.9)	0.2	0.1	(70.1)
Profit before Tax	39.9	35.1	22.9	(34.7)	(42.5)	154.8	58.0	(62.5)
Adj. PBT	39.9	35.1	22.9	(34.7)	(42.5)	154.8	58.0	(62.5)
Taxation	(13.3)	(9.8)	(8.6)	(11.8)	(35.2)	(37.9)	(18.4)	(51.5)
Extraordinary Items	-	-	-	nm	nm	-	-	nm
Minority Interest	(10.5)	(3.5)	2.0	nm	nm	(40.2)	(1.6)	(96.1)
Net Profit	16.1	21.8	16.3	(25.3)	1.1	76.7	38.1	(50.4)
Adj. Net Profit	16.1	21.8	16.3	(25.3)	1.1	76.7	38.1	(50.4)
Basic EPS (sen)	0.5	0.6	0.5	(25.0)	(2.2)	2.2	1.0	(53.2)
DPS (sen)	1.6	-	0.6	nm	(65.6)	1.6	0.6	(65.6)
				%-points	%-points			%-points
EBIT Margin (%)	4.8	4.4	3.7	(0.7)	(1.1)	7.3	4.1	(3.2)
PBT Margin (%)	2.7	2.4	1.6	(0.8)	(1.1)	5.2	2.0	(3.2)
Net Margin (%)	1.1	1.5	1.1	(0.4)	0.1	2.6	1.3	(1.2)
Adj. Net Margin (%)	1.1	1.5	1.1	(0.4)	0.1	2.6	1.3	(1.2)
Tax Rate (%)	33.4	27.8	37.6	9.8	4.2	24.5	31.7	7.2

Table 3: 2QFY20 Results Analysis (RMmn) – Segment

FYE 31 Dec	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
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	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
Segment EBIT	74.7	67.6	56.0	(17.2)	(25.1)	222.4	123.6	(44.4)
Livestock and Poultry Related	4.5	(39.3)	(19.0)	(51.6)	nm	83.6	(58.3)	nm
Feedmill	74.6	105.9	86.8	(18.0)	16.4	147.6	192.7	30.6
Elimination	(4.4)	1.0	(11.8)	nm	>100	(8.7)	(10.8)	24.1
				%-points	%-points			%-points
Segment EBIT Margin	5.1	4.7	3.9	(0.8)	(1.1)	7.5	4.3	(3.1)
Livestock and Poultry Related	0.6	(5.0)	(2.4)	2.7	(2.9)	5.0	(3.7)	(8.7)
Feedmill	11.1	16.3	14.1	(2.2)	3.0	11.2	15.3	4.0

Table 4: 2QFY20 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	1,477.2	1,434.1	1,425.4	(0.6)	(3.5)	2,983.6	2,859.6	(4.2)
Malaysia	368.1	383.5	385.5	0.5	4.7	810.3	769.0	(5.1)
Singapore	191.6	185.4	182.7	(1.5)	(4.7)	385.0	368.1	(4.4)
Vietnam	335.2	356.5	387.5	8.7	15.6	628.4	744.0	18.4
Indonesia	565.7	484.1	447.5	(7.6)	(20.9)	1,129.1	931.6	(17.5)
Philippines	16.7	24.7	22.3	(9.8)	33.4	30.8	46.9	52.2
Segment 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)
				%-points	%-points			%-points
Segment EBITDA Margin	8.8	8.9	8.4	(0.5)	(0.4)	11.1	8.6	(2.5)
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
Indonesia	8.1	7.5	4.2	(3.3)	(3.9)	9.6	5.9	(3.7)
Philippines	10.4	6.8	(7.4)	(14.2)	(17.7)	11.2	0.1	(11.1)

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, August 26, 2020, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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