

Leong Hup International Bhd

TP: RM0.910 (+11.0%)

Feedmill Feeding the Peck

Last Traded: RM0.820

Buy

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167 9730

jefflye@ta.com.my

www.taonline.com.my

Following a conference call with management, we gathered followings key takeaways: i) Feedmill business is exciting with various expansions planned, ii) Livestock ASP remain volatile and iii) downstream quick-service-restaurant expanding quicker than initial target. We keep our Buy recommendation with an unchanged target price of RM0.910/share.

Growing Feed Business Underpinned by Capacity Growth

Feedmill division generated IHFY20 EBIT of RM192.7mn (+30.6% YoY) despite a 4.0% slip in revenue. While lower feeds sales volume in Indonesia has resulted the dip in revenue, overall Feedmill division's profitability has improved due to i) expansion in margin arising from cheap raw material costs, ii) cost efficiency and iii) maiden contribution from Vietnam's recent acquired aquatic feedmill.

The management shared that Indonesia feed sales volume has began to recover in 3QFY20 and is confident that Feedmill division would continue to deliver strong results. Feed production capacity is expected to increase as new feedmill comes on line, including additional Dong Nai, Vietnam feedmill capacity of 142.6kMT (slated for completion by 3Q20), additional poultry feed line with annual capacity of 118.8kMT in Dong Thap, Vietnam feedmill (slated for completion by 4Q20), alongside first feedmill in Central Luzon, Philippines with initial annual capacity of 128.0kMT (slated for completion by 1Q21).

Livestock ASP Remains Volatile

Livestock division's IHFY20 performance was poor, recording loss before interest of RM58.3mn as ASP of livestock was largely unfavourable amid disruption by Covid-19 outbreak on dine-in channels. That said, LHI continues to drive volume growth in attempt to gain market share during such crisis. During IHFY20, the group registered improvement in sales volume of broiler (+2.5% YoY) and eggs (+1.6% YoY). Business environment would remain extremely fluid but management are cautiously optimistic that livestock price would normalise upward due to festive demands alongside normalisation of supply and demand.

Strengthening the Downstream

Since acquiring The Baker Cottage (TBC) brand, LHI has been expanding TBC outlets aggressively where it now runs 75 TBC outlets. As such, the group is likely to exceed its initial end-year target of 80 units and has since revised its end-year target to c.95-100 units. Respond for roast chickens remain overwhelming where sales are robust. Moreover, management shared that TBC are already generating positive EBITDA to the group. Overall, we are optimistic of the quick-service restaurant business concept with focus on affordable ready-to-eat products.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2993.0
52-wk Hi/Lo (RM)	0.995/0.430
12-mth Avg Daily Vol ('000 shrs)	3618.0
Estimated Free Float (%)	21.2
Beta	nm
Major Shareholders (%)	
Emerging Glory	Emerging Glory - 52.8%
Clarinden Investment	Clarinden Investment - 9.0%

Forecast Revision (%)

	FY20	FY21
Forecast Revision (%)	-	-
Net Profit (RM mn)	130.9	184.7
Consensus	122.5	181.7
TA/Consensus (%)	106.8	101.6
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net debt/equity (%)	0.8	0.8
ROE (%)	7.8	10.3
ROA (%)	2.4	3.3
NTA/Share (RM)	0.4	0.5
Price/NTA (x)	1.8	1.7

Share Performance

Price Change (%)	LHI	FBM KLCI
1 mth	(2.4)	(2.6)
3 mth	34.4	6.7
6 mth	14.7	2.9
12 mth	13.1	(2.6)

(12-Mth) Share Price relative to the FBMKLCI



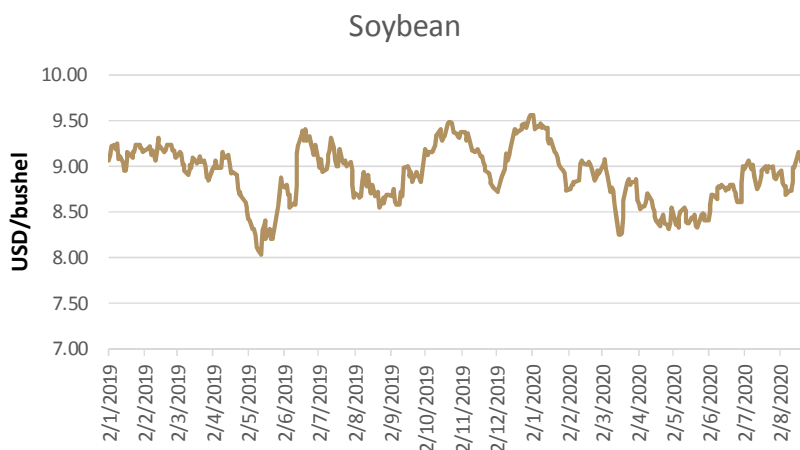
Source: Bloomberg

Meanwhile, LHI is setting plan to construct a poultry processing plant in West Java, Indonesia to integrate its Indonesian operations. Two separate lines would be installed in the plant to process up to 600k chickens/month and 300k ducks/month respectively. The construction is expected to kick-off by end-2020 and is slated for completion by end-2021.

Low Soybean and Corn Price

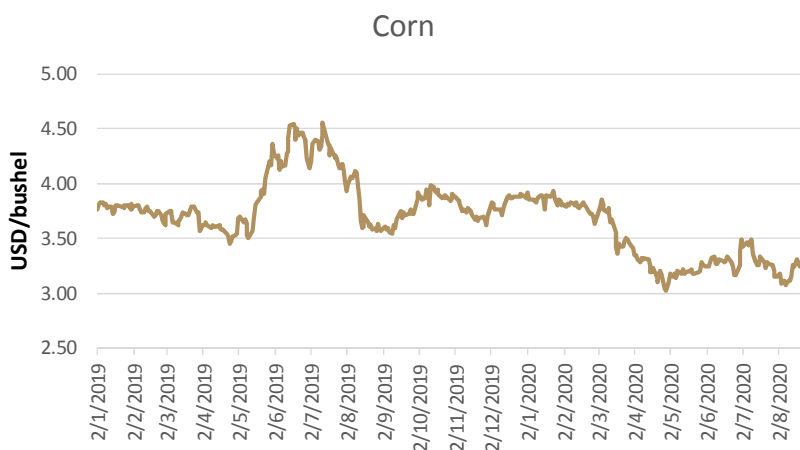
Jan-Aug 2020 CBOT soybean average price has dropped 1.4% YoY against previous corresponding period, while CBOT corn recorded 11.6% YoY decline. The low prices of soybean and corn should alleviate some pressure on margins for we reckon the group has taken opportunity to lock in procurement to meet its requirement up till end-2020.

Figure 1: Price trend of Soybean



Source: Bloomberg, TA Securities

Figure 2: Price trend of Corn



Source: Bloomberg, TA Securities

Impact

We make no changes to our earnings forecast.

Valuation

Maintain Buy with an unchanged target price of RM0.910/share based on unchanged 18xCY21 earnings.

Earnings Summary

Profit and Loss Statement

FYE 31 Dec (RMmn)	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
Depreciation	(197.1)	(225.5)	(257.9)	(276.3)	(290.6)
Net finance cost	(101.0)	(123.8)	(110.7)	(112.8)	(112.3)
Associate	0.6	0.4	0.4	0.5	0.5
EI	(22.9)	0.0	0.0	0.0	0.0
PBT	348.6	288.8	239.8	338.3	395.0
Taxation	(101.8)	(75.8)	(62.9)	(88.8)	(103.7)
MI	(60.6)	(62.4)	(46.0)	(64.9)	(75.8)
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
Diluted EPS (sen)	5.9	4.1	3.6	5.1	5.9
DPS (sen)	0.0	1.6	1.1	1.5	1.8
Book Value (RM)	0.5	0.6	0.6	0.7	0.7
NTA (RM)	0.3	0.4	0.4	0.5	0.5

Ratios

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
Valuations					
Core PER (x)	13.9	19.9	22.9	16.2	13.9
Div. Yield (%)	0.0	2.0	1.3	1.9	2.2
P/BV (x)	1.7	1.4	1.3	1.2	1.1

Profitability ratios

EBITDA margin (%)	11.6	10.5	9.8	10.6	10.9
PBT margin (%)	6.5	4.8	3.9	5.0	5.4
Core Net Margin (%)	3.7	2.5	2.1	2.7	3.0
Core ROE (%)	17.3	10.2	7.8	10.3	11.1
Core ROA (%)	4.6	2.9	2.4	3.3	3.7

Liquidity ratios

Current ratio (x)	1.2	1.2	1.2	1.2	1.3
Quick ratio (x)	0.9	0.9	0.9	0.8	0.9

Leverage ratios

Equity/total liabilities (x)	0.6	0.7	0.7	0.8	0.8
Net debt / equity (x)	1.1	0.7	0.8	0.8	0.7

Growth ratios

Revenue (%)	4.5	5.4	2.3	10.2	6.7
PBT (%)	19.3	(17.2)	(17.0)	41.1	16.8
Core Net Profit (%)	25.0	(30.0)	(13.1)	41.1	16.8

Balance Sheet

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
PPE	2,216.8	2,396.5	2,528.6	2,682.3	2,794.1
Intangible Asset	97.3	97.5	97.5	97.5	97.5
Associate	1.7	1.6	1.6	1.7	1.7
Others	260.3	393.4	393.4	393.4	393.4
Non-current assets	2,576.1	2,888.9	3,021.1	3,174.9	3,286.7
Inventories	575.6	679.6	720.1	787.2	837.1
Trade receivables	649.2	496.1	678.9	748.3	798.8
Cash and Bank Balance	458.9	764.8	593.2	465.1	492.2
Others	574.2	579.6	579.6	579.6	579.6
Current assets	2,257.9	2,520.2	2,571.9	2,580.3	2,707.7
Total Assets	4,834.0	5,409.1	5,592.9	5,755.2	5,994.4
LT Borrowings	1,016.0	873.1	891.4	873.1	873.1
Others	167.8	252.6	252.6	252.6	252.6
Non-Current liabilities	1,183.8	1,125.7	1,144.1	1,125.7	1,125.7
Trade payables	248.9	273.5	278.0	304.4	325.2
ST Borrowings	1,304.8	1,508.7	1,540.4	1,508.7	1,508.7
Others	331.1	320.6	320.6	320.6	320.6
Current liabilities	1,884.8	2,102.9	2,139.1	2,133.8	2,154.6
Shareholders funds	1,301.8	1,641.2	1,732.8	1,862.1	2,013.0
MI	463.6	539.3	577.0	633.6	701.1
Total Equity	1,765.4	2,180.5	2,309.8	2,495.7	2,714.1
Total E&L	4,834.0	5,409.1	5,592.9	5,755.2	5,994.4

Cash Flow Statement

FYE 31 Dec (RMmn)	2018	2019	2020E	2021F	2022F
Pretax profit	348.6	288.8	239.8	338.3	395.0
Depreciation	197.1	225.5	257.9	276.3	290.6
Net interest	101.0	123.8	110.7	112.8	112.3
Associates	(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Changes in WC	(241.8)	38.7	(218.8)	(110.1)	(79.5)
Tax	(75.7)	(57.0)	(62.9)	(88.8)	(103.7)
Others	20.7	37.6	0.0	0.0	0.0
Operational cash flow	349.2	656.9	326.2	528.0	614.2
Capex	(363.7)	(387.2)	(390.0)	(430.0)	(402.4)
Interest income	1.4	12.9	9.6	7.5	6.8
Others	(16.3)	1.3	0.4	0.4	0.5
Investing cash flow	(378.6)	(373.0)	(380.0)	(422.0)	(395.1)
Net share issue	0.0	269.6	0.0	0.0	0.0
Net borrowings	204.2	(7.2)	50.0	(50.0)	0.0
Dividend paid	(66.3)	(84.5)	(47.5)	(63.7)	(73.0)
Interest paid	(108.6)	(136.6)	(120.3)	(120.3)	(119.1)
Others	(36.2)	(43.9)	0.0	0.0	0.0
Financial cash flow	(6.9)	(2.7)	(117.9)	(234.0)	(192.1)
Net cash flow	(36.2)	281.1	(171.7)	(128.0)	27.1
Beginning Cash	427.4	390.4	670.8	499.1	371.1
Forex & others	(0.8)	(0.7)	0.0	0.0	0.0
Ending Cash	390.4	670.8	499.1	371.1	398.2

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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 Thursday, August 27, 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

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my