

Leong Hup International (LHIB MK)

Don't count your chickens before they hatch

Maintain HOLD with lower TP of MYR0.74

LHIB's overall poultry and feedmill demand have remained stable but given the resurgence of new COVID-19 cases within LHIB's regional operations (Malaysia & Indonesia), we believe that subdued poultry ASPs may spill over to FY21 and drag potential uplift in group earnings in the immediate term. Our FY20-FY21 earnings estimates are lowered by 5%-15% but we leave our FY22 earnings estimates unchanged for now. Our TP is reduced to MYR0.74 (-15%; based on 17x FY21 PER). Maintain HOLD.

Relatively stable poultry demand...

Following our call with management, we understand that poultry industry volume has declined by 10%-15% since the global pandemic began. That said, LHIB is currently operating at full production capacity as it was able to fill in the supply gap left by smaller independent farmers that exited the business. We believe that 3Q20 poultry demand has also gradually improved in Malaysia since the conditional-MCO was announced on 4 May and business activity resumed.

...But volatile poultry ASPs expected to continue

We expect 3Q20 broiler and day-old chick (DOC) ASPs in Malaysia to improve slightly by c.4% QoQ and c.10% QoQ respectively, in tandem with easing social distancing regulations. However, with the resurgence of Malaysia's COVID-19 cases in October, we caution that poultry ASPs could soften in 4Q20 as lockdowns are imposed in affected districts. Separately, Indonesia's poultry ASPs are also expected to remain weak in 3Q20 (broiler ASPs: c.-37% QoQ; DOC ASPs: c.-15% QoQ) and is likely to continue into 4Q20 if COVID-19 is not contained and consumer sentiment does not improve.

Lower FY20-FY21 earnings estimates by 5%-15%

Our FY20/FY21 earnings estimates are lowered by 5%/15% upon adjusting for weaker broiler and DOC ASPs for both Malaysia and Indonesia in light of slower-than-expected ASPs recovery post-MCO and risks of further ASP weakness from new COVID-19 cases. However, feedmill demand is expected to be stable going forward which will partially mitigate earnings downside from volatile poultry ASPs.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,747	6,055	6,364	6,935	7,432
EBITDA	655	651	537	712	822
Core net profit	225	151	94	159	215
Core EPS (sen)	6.2	4.1	2.6	4.3	5.9
Core EPS growth (%)	16.8	(33.0)	(37.6)	68.9	35.4
Net DPS (sen)	0.0	1.6	0.4	1.3	1.8
Core P/E (x)	na	21.3	27.6	16.3	12.1
P/BV (x)	na	2.0	1.5	1.4	1.3
Net dividend yield (%)	na	1.8	0.5	1.8	2.5
ROAE (%)	15.0	10.2	5.6	8.9	11.2
ROAA (%)	4.8	2.9	1.7	2.6	3.2
EV/EBITDA (x)	7.6	8.4	9.6	7.4	6.6
Net gearing (%) (incl perps)	108.3	79.6	88.9	82.3	80.5
Consensus net profit	-	-	110	187	209
MKE vs. Consensus (%)	-	-	(14.3)	(15.2)	3.0

Jade Tam
jade.tam@maybank-ib.com
(603) 2297 8687

Desmond Ch'ng, BFP,FCA
desmond.chng@maybank-ib.com
(603) 2297 8680

HOLD

Share Price MYR 0.71
12m Price Target MYR 0.74 (+5%)
Previous Price Target MYR 0.87

Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

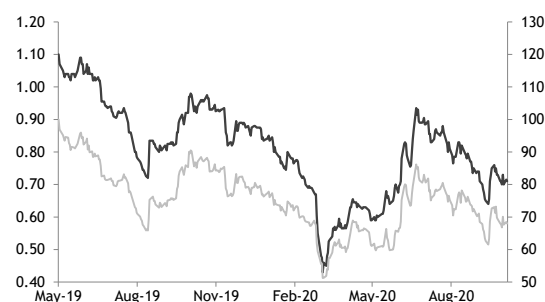
Statistics

52w high/low (MYR)	0.98/0.43
3m avg turnover (USDm)	0.4
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.6B USD626M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

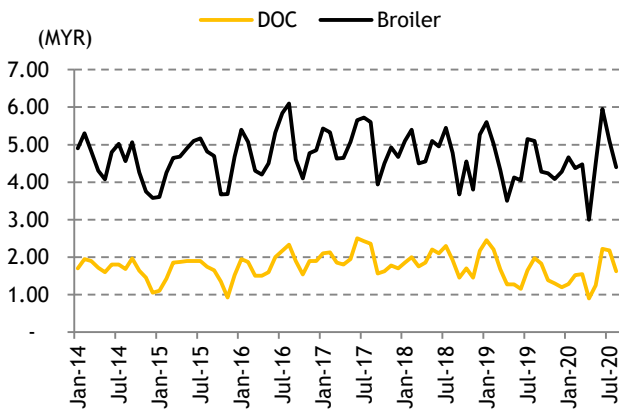
Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(21)	(27)
Relative to index (%)	(1)	(17)	(25)

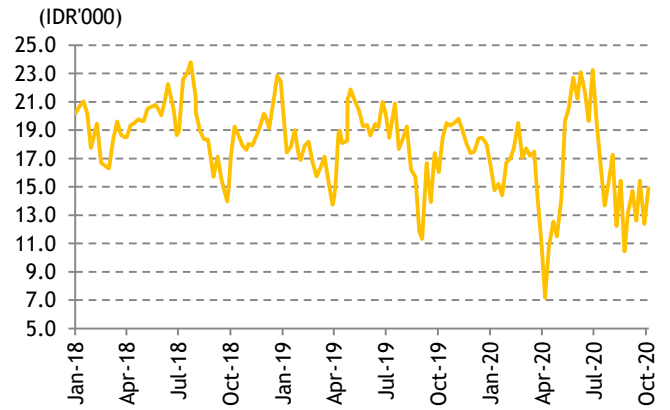
Source: FactSet

Fig 1: Malaysia broiler & DOC price trend



Source: DVS

Fig 2: Indonesia broiler price trend



Source: Pinsar

Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	na	22.1	27.6	16.3	12.1
Core P/E (x)	na	21.3	27.6	16.3	12.1
P/BV (x)	na	2.0	1.5	1.4	1.3
P/NTA (x)	na	2.1	1.6	1.5	1.4
Net dividend yield (%)	na	1.8	0.5	1.8	2.5
FCF yield (%)	na	8.5	nm	3.0	nm
EV/EBITDA (x)	7.6	8.4	9.6	7.4	6.6
EV/EBIT (x)	10.9	12.9	17.1	11.4	9.8
INCOME STATEMENT (MYR m)					
Revenue	5,746.6	6,054.8	6,364.3	6,934.7	7,432.3
Gross profit	1,005.8	940.2	879.2	1,068.2	1,196.3
EBITDA	654.6	650.5	537.4	711.9	821.9
Depreciation	(189.9)	(204.6)	(227.8)	(244.0)	(258.7)
Amortisation	(7.2)	(20.9)	(7.2)	(7.2)	(7.2)
EBIT	457.5	425.0	302.3	460.7	555.9
Net interest income / (exp)	(109.5)	(136.6)	(148.2)	(164.2)	(180.3)
Associates & JV	0.6	0.4	0.4	0.4	0.4
Pretax profit	348.6	288.8	154.6	296.8	376.0
Income tax	(101.8)	(75.8)	(40.6)	(77.9)	(98.7)
Minorities	(60.6)	(62.4)	(20.0)	(60.2)	(62.4)
Reported net profit	186.2	150.6	94.0	158.8	215.0
Core net profit	224.9	150.6	94.0	158.8	215.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	458.9	764.8	810.8	1,103.4	1,258.9
Accounts receivable	649.2	496.1	707.8	604.0	801.9
Inventory	575.6	679.6	666.5	773.2	757.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,216.8	2,396.5	2,592.9	2,749.1	2,890.7
Intangible assets	97.3	97.5	97.2	96.9	96.6
Investment in Associates & JVs	1.7	1.6	1.6	1.6	1.6
Other assets	834.5	973.1	1,014.0	1,078.7	1,136.7
Total assets	4,834.0	5,409.1	5,890.8	6,406.9	6,943.6
ST interest bearing debt	1,326.6	1,522.7	1,622.8	1,790.4	1,958.0
Accounts payable	248.9	273.5	286.7	312.5	324.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,044.3	977.7	1,221.3	1,336.5	1,451.7
Other liabilities	449.0	455.0	473.0	510.0	539.0
Total Liabilities	3,068.6	3,228.6	3,604.1	3,949.0	4,272.8
Shareholders Equity	1,301.8	1,641.2	1,727.3	1,838.4	1,988.9
Minority Interest	463.6	539.3	559.3	619.5	681.9
Total shareholder equity	1,765.4	2,180.5	2,286.6	2,457.9	2,670.8
Total liabilities and equity	4,834.0	5,409.1	5,890.8	6,406.9	6,943.6
CASH FLOW (MYR m)					
Pretax profit	348.6	288.8	154.6	296.8	376.0
Depreciation & amortisation	197.1	225.5	235.0	251.2	265.9
Cash taxes paid	(75.7)	(57.0)	(40.6)	(77.9)	(98.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	349.2	656.9	153.8	477.1	356.9
Capex	(393.4)	(385.4)	(400.0)	(400.0)	(400.0)
Free cash flow	(44.2)	271.5	(246.2)	77.1	(43.1)
Dividends paid	(66.3)	(84.5)	(13.3)	(47.6)	(64.5)
Equity raised / (purchased)	0.0	269.6	5.4	0.0	0.0
Change in Debt	59.4	(187.8)	343.7	282.8	282.8
Other invest/financing cash flow	14.8	12.4	(19.4)	(19.4)	(19.4)
Effect of exch rate changes	(0.8)	(0.7)	na	na	na
Net cash flow	(37.0)	280.4	70.2	292.9	155.8

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.5	5.4	5.1	9.0	7.2
EBITDA growth	12.3	(0.6)	(17.4)	32.5	15.4
EBIT growth	19.1	(7.1)	(28.9)	52.4	20.7
Pretax growth	19.3	(17.2)	(46.5)	92.0	26.7
Reported net profit growth	(3.3)	(19.1)	(37.6)	68.9	35.4
Core net profit growth	16.8	(33.0)	(37.6)	68.9	35.4
Profitability ratios (%)					
EBITDA margin	11.4	10.7	8.4	10.3	11.1
EBIT margin	8.0	7.0	4.8	6.6	7.5
Pretax profit margin	6.1	4.8	2.4	4.3	5.1
Payout ratio	0.0	38.8	14.2	30.0	30.0
DuPont analysis					
Net profit margin (%)	3.2	2.5	1.5	2.3	2.9
Revenue/Assets (x)	1.2	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.7	3.3	3.4	3.5	3.5
ROAE (%)	15.0	10.2	5.6	8.9	11.2
ROAA (%)	4.8	2.9	1.7	2.6	3.2
Liquidity & Efficiency					
Cash conversion cycle	60.8	59.8	59.8	59.8	59.8
Days receivable outstanding	38.0	34.0	34.0	34.0	34.0
Days inventory outstanding	41.5	44.2	44.2	44.2	44.2
Days payables outstanding	18.6	18.4	18.4	18.4	18.4
Dividend cover (x)	nm	2.6	7.0	3.3	3.3
Current ratio (x)	1.2	1.2	1.2	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	108.3	79.6	88.9	82.3	80.5
Net gearing (%) (excl. perps)	108.3	79.6	88.9	82.3	80.5
Net interest cover (x)	4.2	3.1	2.0	2.8	3.1
Debt/EBITDA (x)	3.6	3.8	5.3	4.4	4.1
Capex/revenue (%)	6.8	6.4	6.3	5.8	5.4
Net debt/ (net cash)	1,912.1	1,735.5	2,033.2	2,023.4	2,150.7

Source: Company; Maybank

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore | Thailand
(65) 6231 5844
leejuye@maybank-ke.com.sg

Linda LIU
Singapore | Vietnam
(65) 6231 5847
lindaliu@maybank-ke.com.sg

Dr Zamros DZULKAFI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh@maybank-ib.com

William POH
(603) 2297 8683
william.poh@maybank-ib.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, ACA
(65) 6812 8807
winsonphoon@maybank-ke.com.sg

SE THO Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional
• Automotive

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Glove • Ports • Shipping • Healthcare
• Petrochemicals

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Technology

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank-ke.com.sg
• Banking & Finance - Regional
• Consumer

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs - Regional

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology • Healthcare

Kareen CHAN
(65) 6231 5926 kareench@maybank-ke.com.sg
• Transport

TAN Chin Poh *Head of Retail Research*
(65) 6231 5928 chinpoh@maybank-ke.com.sg

Eric ONG
(65) 6231 5924 ericong@maybank-ke.com.sg
• Retail Research

Matthew SHIM
(65) 6231 5929
matthewshim@maybank-ke.com.sg
• Retail Research

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigars@maybank.com
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 4223 2606 neerav@maybank.com
• Software Technology • Telcos

Kshitiz PRASAD
(91) 22 4223 2607
kshitiz@maybank.com
• Banks

Vikram RAMALINGAM
(91) 22 4223 2607
vikram@maybank.com
• Automobile • Media

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement
• Autos • Consumer • Utility

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank-ke.co.id
• Consumer

PHILIPPINES

Jacqui De JESUS
(63) 2 8849 8844
jacquiannekelly.dejesus@maybank-atrke.com
• Conglomerates

Romel LIBO-ON
(63) 2 8849 8844
romel_libo-on@maybank-atrke.com
• Property

Fredrick De GUZMAN
(63) 2 8849 8847
fredrickdaniel.deguzman@maybank.com
• Consumer • Banking & Finance

Bernadine B BAUTISTA
(63) 2 8849 8847
bernadine.bautista@maybank.com
• Utilities

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Services

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

Kaushal LADHA, CFA
(66) 2658 6300 ext 1392
Kaushal.l@maybank-ke.co.th
• Oil & Gas - Regional
• Petrochemicals - Regional

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank-ke.co.th
• Property

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P@maybank-ke.co.th
• Services

Ekachai TARAPORN TIP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Food & Beverage • Commerce

Jaroontan WATTANAWONG
(66) 2658 5000 ext 1404
jaroontan.w@maybank-ke.co.th
• Transportation • Small cap

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanatphat.s@maybank-ke.co.th
• Media • Electronics

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Theerasate PROMPONG
(66) 2658 5000 ext 1400
theerasate.p@maybank-ke.co.th
• Equity Portfolio Strategist

Apiwat TAVESIRIVATE
(66) 2658 5000 ext 1310
apiwat.t@maybank-ke.co.th
• Chartist and TFE

VIETNAM

Quan Trong Thanh
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8180
dung.nguyen@maybank-kimeng.com.vn
• Utilities • Property

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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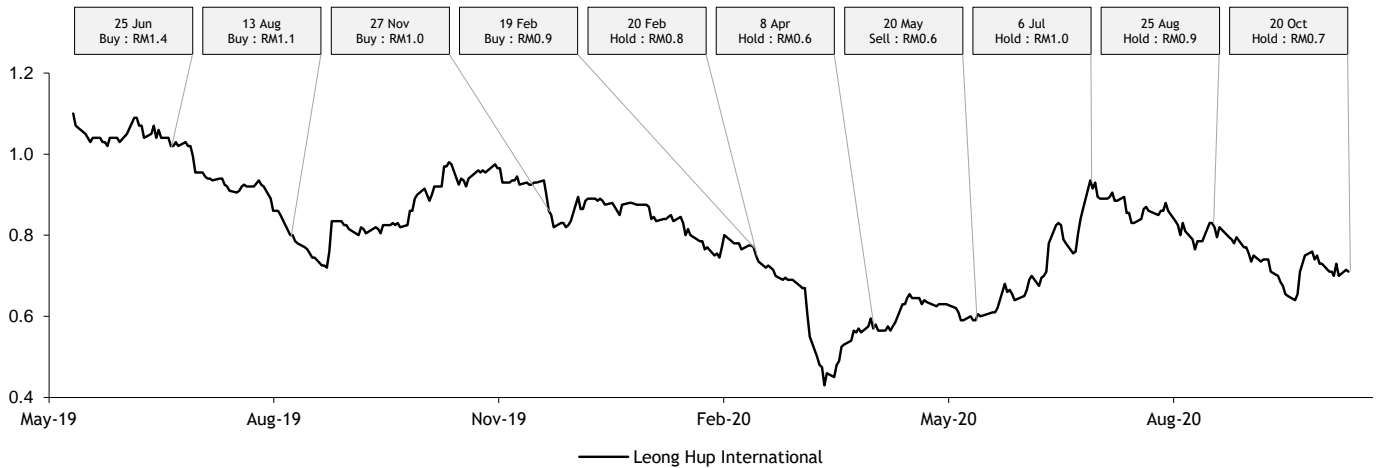
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Historical recommendations and target price: Leong Hup International (LHIB MK)



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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136


Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090


Hong Kong

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104


London

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302


Indonesia

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189


New York

Maybank Kim Eng Securities USA
Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500


India

Kim Eng Securities India Pvt Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604


Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738


Thailand

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)


Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030


Saudi Arabia

In association with
Anfaal Capital
Ground Floor, KANOO Building
No.1 - Al-Faisalayah, Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423


South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447


North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Indonesia

Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

London

Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629