



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

25 Nov 2020

Hit by lower egg prices, but strong showing in Vietnam

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company results

Price	RM0.68
Fair Value	RM0.91
52-week High/Low	RM0.96/RM0.43

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	5,398.4	6,348.5	7,382.6
Core net profit (RM mil)	150.6	93.5	158.5	196.2
FD Core EPS (sen)	4.1	2.6	4.3	5.4
FD Core EPS growth (%)	(19.1)	(37.9)	69.5	23.8
Consensus Net Profit (RM mil)	-	112.5	172.5	208.3
DPS (sen)	1.2	0.8	1.3	1.6
PE (x)	16.5	26.5	15.7	12.6
EV/EBITDA (x)	6.4	7.6	6.7	6.1
Div yield (%)	1.8	-	-	-
ROE (%)	10.2	5.6	9.0	10.4
Net Gearing (%)	98.5	106.0	111.5	123.9

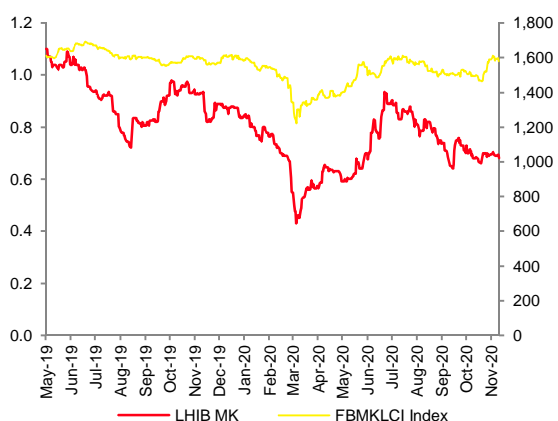
Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,482.0
Book Value (RM/share)	0.45
P/BV (x)	1.5
ROE (%)	10.2
Net Gearing (%)	98.5

Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Lau Eng Guang (1.6%)
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Free Float	87.3
Avg Daily Value (RM mil)	1.2

Price performance	3mth	6mth	12mth
Absolute (%)	(18.1)	13.3	(26.9)
Relative (%)	(18.6)	3.2	(26.0)



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a reduced fair value (FV) of RM0.91/share (vs. RM0.96/share previously). Our FV is based on an unchanged PE of 17x FY22F EPS.
- LHI's 9MFY20 core net profit of RM58mil (-55.1% YoY) came in below expectations, at around 53% and 51% of ours and consensus expectations respectively. We cut our earnings forecasts by 14%, 8% and 5% respectively for FY20E, FY21F and FY22F.
- The variance was largely due to weaker-than-expected egg prices and a slower-than-anticipated recovery in 2HFY20, with weakened demand resulting from the Covid-19 pandemic. We predict that demand would continue to be suppressed until 1HFY21 and have adjusted our earnings forecast accordingly.
- Nevertheless, we still like LHI for its efforts in expanding its downstream business. Also, LHI is a beneficiary from a recovery in poultry demand and prices.
- LHI's 9MFY20 revenue decreased 1.7% YoY to RM4,433mil while EBITDA fell 30% to RM355mil. The group's EBITDA margin shrank by 3.2ppt to 8% in 9MFY20, primarily due to the weaker livestock and poultry products segment though this was slightly offset by a strong feedmill segment.
- EBITDA margin for livestock and poultry dropped by 5.9ppt YoY to 2.3% in 9MFY20 whereas feedmill EBITDA margin rose by 2.1ppt YoY to 17.1%.
- The group's feedmill division posted a strong performance, with EBITDA improving by 9.8% YoY to RM336mil in 9MFY20. The strong earnings were largely driven by higher profits recorded in Vietnam in 9MFY20.
- Livestock and poultry products segment performed weaker, with a 2.6% YoY fall in revenue and a 72.3% YoY plunge in EBITDA in 9MFY20.
- The YoY decrease in revenue and EBITDA in 9MFY20 mainly arose from poor performances in Indonesia, Malaysia and Singapore. Revenue was affected by low ASP of DOC (day-old chicks) in Indonesia, low sales volume and ASP of eggs and DOC in Malaysia and weak sales volume of poultry and processed food in Singapore.

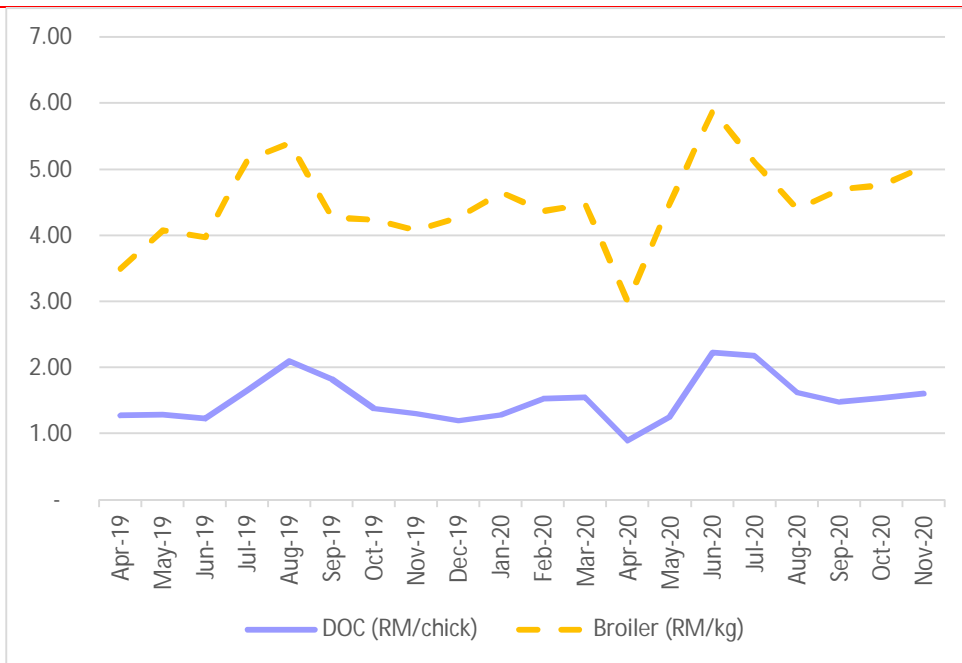
- Geographically, Vietnam is the best performer, boasting a 23% YoY 9MFY20 EBITDA improvement to RM108mil. Indonesia performed the worst, with its 9MFY20 EBITDA falling 48% to RM80mil.
- While egg ASPs in Malaysia remain on a downward trend, broiler and DOC price data has shown gradually rising and optimistic trends over the past months. We believe that prices will largely recover in FY21F on the back of improved demand.
- We remain positive on the feedmill segment, as it has been resilient enough to sustain strong EBITDA margins even in the worst months of the pandemic. With a somewhat improving situation over the next couple of months, we feel confident that this segment will continue to thrive.
- We believe that in the short term, LHI would continue to experience lower earnings dragged by the longer-than-expected effects of the pandemic, pushing down restaurant and catering demand. On a positive note, we believe that the feedmill segment and Vietnam division would continue to record strong earnings.
- In spite of the short-term challenges, we reckon that the long-term outlook for LHI is positive due to the relatively stable demand of chicken, the group's efforts in developing its downstream business and expansions of the feed mill and livestock businesses in multiple countries.

EXHIBIT 1: FINANCIAL RESULTS

YE Dec (RM mil)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
Revenue	1,527.1	1,425.4	1,573.4	10.4	3.0	4,510.7	4,433.0	-1.7
Operating profit	118.3	56.0	61.7	10.2	-47.9	340.8	185.4	-45.6
EBITDA	173.7	113.1	120.2	6.2	-30.8	504.2	355.0	-29.6
Depreciation	55.4	57.2	58.5	2.4	5.6	163.4	169.6	3.8
EBIT	118.3	56.0	61.7	10.2	-47.9	340.8	185.4	-45.6
EI								
PBT	83.8	22.9	30.8	34.4	-63.2	238.6	88.8	-62.8
Tax	-21.5	-8.6	-9.8	13.4	-54.5	-59.4	-28.2	-52.6
PAT	62.3	14.3	21.0	47.1	-66.3	179.2	60.6	-66.2
Minority interest	-18.0	2.0	1.5	-23.7	-108.4	-58.1	-0.1	-99.9
PAT AMI	44.4	16.3	22.5	38.5	-49.2	121.1	60.6	-50.0
Core PATAMI	48.3	16.3	20.4	25.6	-57.7	128.3	57.6	-55.1
EPS	1.3	0.4	0.6	38.5	-52.7	3.6	1.7	-53.4
EBITDA margin (%)	11.4	7.9	7.6	-0.3ppt	-3.7ppt	11.2	8.0	-3.2ppt
PBT margin (%)	5.5	1.6	2.0	0.4ppt	-3.5ppt	5.3	2.0	-3.3ppt
Effective tax rate (%)	-25.6	-37.6	-31.7	5.9ppt	-6.1ppt	-24.9	-31.7	-6.8ppt
Core PATAMI margin (%)	3.2	1.1	1.3	0.2ppt	-1.9ppt	2.8	1.3	-1.5ppt
Livestock and poultry related								
Revenue	858.2	807.3	865.1	7.2	0.8	2,521.5	2,454.9	-2.64
EBITDA	41.8	29.3	21.8	-25.7	-47.9	206.4	57.1	-72.35
EBITDA margin	4.9	3.6	2.5	-1.1ppt	-2.4ppt	8.2	2.3	-5.9ppt
Feedmill								
Revenue	665.8	614.7	705.1	14.70	5.90	1,980.7	1,967.9	-0.65
EBITDA	132.0	90.1	115.7	28.40	-12.36	297.8	336.3	12.93
EBITDA margin	19.8	14.7	16.4	1.7ppt	-3.4ppt	15.0	17.1	2.1ppt

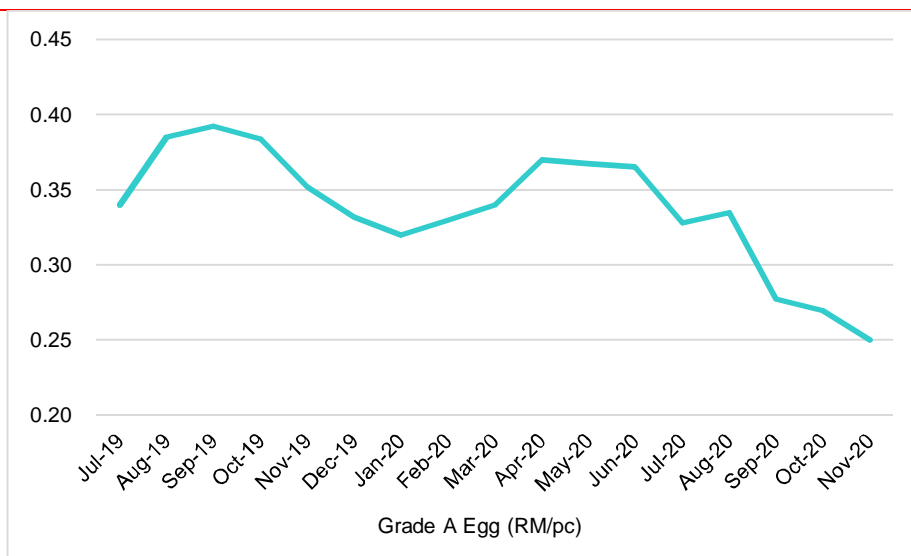
Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: MALAYSIAN POULTRY PRICE TRENDS



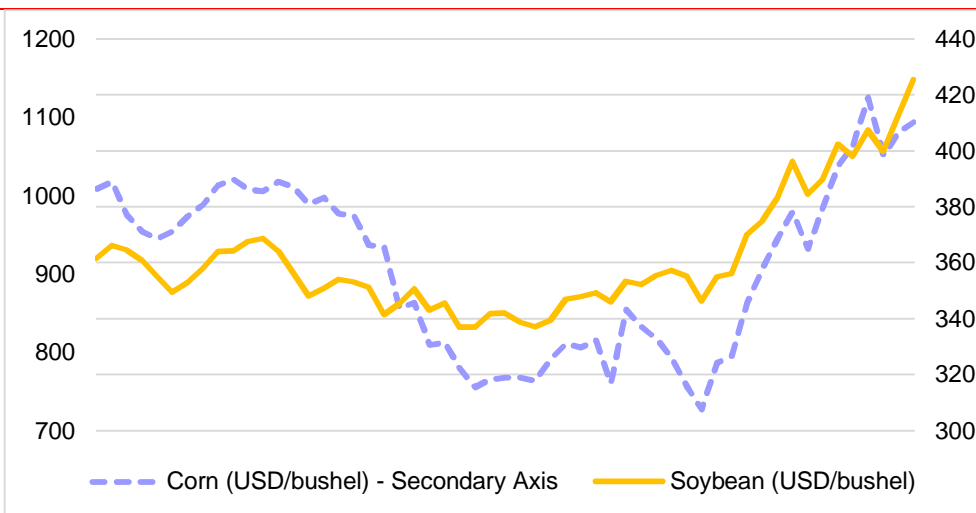
Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 3: MALAYSIAN EGG PRICE TREND



Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 4: CORN AND SOYBEAN PRICES



Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 5: FORECASTED PRICE OF POULTRY PRODUCTS

	FY19	FY20E	FY21F
Malaysia			
DOCs per chick	1.58	1.36	1.55
Broiler chickens per kg	4.17	3.90	4.15
Per Egg	0.31	0.25	0.26
Indonesia			
DOCs per chick	1.69	1.12	1.32
Broiler chickens per kg	4.89	3.29	4.20
Eggs	0.35	0.31	0.35
Vietnam			
DOCs per chick	1.67	1.45	1.55
Broiler chickens per kg	4.58	3.49	4.25
Per Egg	0.24	0.29	0.29

Source: AmInvestment Bank Bhd

EXHIBIT 6: PB BAND CHART

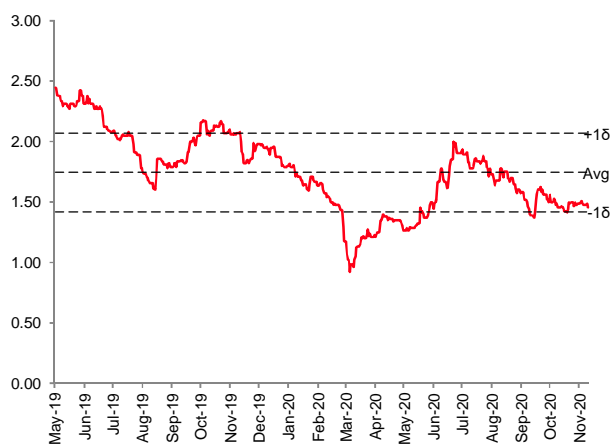


EXHIBIT 7: PE BAND CHART



EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,398.4	6,348.5	7,382.6
EBITDA	646.8	637.7	563.7	672.2	800.4
Depreciation/Amortisation	(189.9)	(225.5)	(231.5)	(236.5)	(275.0)
Operating income (EBIT)	456.9	412.1	332.2	435.7	525.4
Other income & associates	0.6	0.4	0.5	0.7	1.0
Net interest	(108.9)	(123.8)	(145.0)	(157.2)	(179.4)
Exceptional items	-	-	-	-	-
Pretax profit	348.6	288.8	187.7	279.2	347.0
Taxation	(101.8)	(75.8)	(48.8)	(64.2)	(79.8)
Minorities/pref dividends	(60.7)	(62.4)	(45.3)	(56.4)	(70.9)
Net profit	186.1	150.6	93.5	158.5	196.2
Core net profit	186.1	150.6	93.5	158.5	196.2
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,216.8	2,396.5	2,696.5	3,096.5	3,496.5
Intangible assets	97.3	97.5	97.5	97.5	97.5
Other long-term assets	261.2	85.9	86.1	86.1	86.1
Total non-current assets	2,575.3	2,579.8	2,880.1	3,280.1	3,680.1
Cash & equivalent	458.9	764.8	477.9	508.9	547.4
Stock	575.6	679.6	529.7	632.5	732.2
Trade debtors	649.2	499.3	577.1	687.9	788.6
Other current assets	574.2	561.1	500.8	560.9	619.4
Total current assets	2,257.9	2,504.8	2,085.4	2,390.3	2,687.6
Trade creditors	248.9	273.1	239.6	282.9	331.2
Short-term borrowings	1,326.6	1,508.7	1,536.0	1,635.9	1,759.5
Other current liabilities	309.3	307.6	305.6	308.6	311.8
Total current liabilities	1,884.8	2,089.5	2,081.2	2,227.4	2,402.6
Long-term borrowings	1,044.3	873.1	751.0	900.0	1,209.8
Other long-term liabilities	139.4	144.4	144.4	144.4	144.4
Total long-term liabilities	1,183.8	1,017.5	895.4	1,044.4	1,354.2
Shareholders' funds	1,301.8	1,641.2	1,706.7	1,817.6	1,955.0
Minority interests	463.6	539.3	480.8	565.5	657.6
BV/share (RM)	0.36	0.45	0.47	0.50	0.54
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	348.6	288.8	187.7	279.2	347.0
Depreciation/Amortisation	189.9	225.5	231.5	236.5	275.0
Net change in working capital	(241.8)	38.7	(132.4)	273.8	258.9
Others	52.5	103.9	(56.6)	(559.7)	(816.9)
Cash flow from operations	349.2	656.9	230.2	229.8	63.9
Capital expenditure	(423.0)	(403.6)	(300.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	6.5	(5.0)	(0.3)	-	-
Others	37.9	35.7	-	-	-
Cash flow from investing	(378.6)	(373.0)	(300.3)	(400.0)	(400.0)
Debt raised/(repaid)	178.9	(43.5)	(94.8)	248.9	433.5
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(28.1)	(47.6)	(58.9)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(122.9)	201.3	374.6
Net cash flow	(36.2)	281.1	(192.9)	31.1	38.5
Net cash/(debt) b/f	427.4	390.4	670.8	477.9	508.9
Net cash/(debt) c/f	390.4	670.8	477.9	508.9	547.4
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	(10.8)	17.6	16.3
EBITDA growth (%)	10.9	(1.4)	(11.6)	19.2	19.1
Pretax margin (%)	6.1	4.8	3.5	4.4	4.7
Net profit margin (%)	3.2	2.5	1.7	2.5	2.7
Interest cover (x)	4.2	3.3	2.3	2.8	2.9
Effective tax rate (%)	29.2	26.2	26.0	23.0	23.0
Dividend payout (%)	-	30.0	30.0	30.0	30.0
Debtors turnover (days)	41	30	39	40	39
Stock turnover (days)	35	38	41	33	34
Creditors turnover (days)	16	16	17	15	15

Source: Company, AmInvestment Bank Bhd estimates

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