

**HLIB** Research

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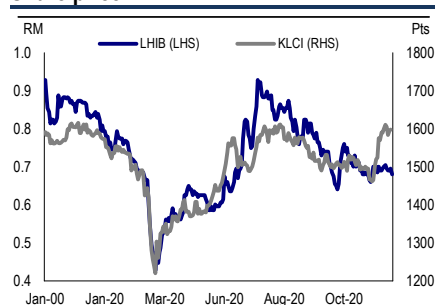
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**HOLD** (Maintain)**Target Price:** **RM0.76****Previously:** **RM0.87****Current Price:** **RM0.68**

Capital upside	11.8%
Dividend yield	2.9%
Expected total return	14.7%

**Sector coverage:** Poultry

**Company description:** LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

**Share price**

Historical return (%)	1M	3M	12M
Absolute	0.0	-18.1	-26.9
Relative	-5.3	-18.6	-26.0

**Stock information**

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,482
3-mth average volume ('000)	1,579
SC Shariah compliant	No

**Major shareholders**

Emerging Glory	52.8%
Clarinden	9.0%
Amanah Saham Nasional	5.7%

**Earnings summary**

FYE Dec (RMm)	FY19	FY20f	FY21f
PATMI - core	157.1	97.6	154.8
EPS - core (sen)	4.3	2.7	4.2
P/E (x)	15.8	25.4	16.0

# Leong Hup International

## Hit by lower livestock product prices

LHI's 3Q20 core net profit of RM22.5m (QoQ: +25.8%; YoY: -54.4%) took 9M20's sum to RM67.1m (-49.2%). The results missed expectations, accounting for only 51.9-59.6% of our and consensus estimates, due to weaker-than-expected livestock prices, in particular, lower-than-expected egg prices in Malaysia, and DOC prices lower-than-expected egg prices in Malaysia, and DOC prices in Indonesia, we believe. We cut our FY20-22 core net profit forecasts by 24.5%, 12.7% and 10.7%, mainly to reflect lower ASP assumptions for DOC in Indonesia and eggs in Malaysia. Following the downward revision in our core net profit forecasts, we maintain our HOLD rating on LHI with a lower of RM0.76 (from RM0.87 earlier) based on 18x revised FY21 core EPS of 4.2 sen.

**Missed expectations.** 3Q20 core net profit of RM22.5m (QoQ: +25.8%; YoY: -54.4%) took 9M20's sum to RM67.1m (-49.2%). The results missed expectations, accounting for only 51.9-59.6% of our and consensus estimates. We believe the earnings shortfall came largely from weaker-than-expected livestock prices, in particularly, lower-than-expected egg prices in Malaysia, and DOC prices in Indonesia. .

**Exceptional items (EIs) in 9M20.** Core net profit of RM67.1m in 9M20 was derived after adjusting for (i) RM6.3m impairment, (ii) RM3.0m disposal gain, and (iii) RM3.1m share option expense.

**QoQ.** Core net profit recovered by 25.8% to RM22.5m in 3Q20, driven mainly by improved prices of broiler and DOC in Malaysia, (ii) reduced losses in Indonesia, and improved revenue in Vietnam. During the quarter, EBITDA at livestock feed segment improved by 14.3% to RM115.7m, and this was due to higher livestock feed sales volume in Indonesia and Vietnam.

**YoY.** Despite a marginal increase in revenue (+3.0%, driven mainly by higher sales volume and ASP of livestock feed in Vietnam), 3Q20 core net profit declined by 54.4% to RM22.5m, dragged by (i) lower feedmill earnings in Indonesia (due to lower livestock feed prices), (ii) lower sales volume and ASP of DOC and eggs in Malaysia, and (iii) lower broiler price in Philippines.

**YTD.** Core net profit declined by 49.2% to RM67.1m in 9M20, dragged mainly by lower sales volume and ASP of eggs and DOC in Malaysia, (ii) lower sales volume of fresh chickens and duck, as well as lower sales volume and ASP of processed food in Singapore, and (iii) lower sales volume and ASP of livestock feed in Indonesia. Despite a marginal 0.6% decline in revenue at livestock feed segment, EBITDA at the segment increased by 9.8% to RM336.3m in 9M20, as lower sales volume and ASP of livestock feed in Indonesia was more than mitigated by higher sales volume and ASP of livestock feed in Vietnam.

**Forecast.** We cut our FY20-22 core net profit forecasts by 24.5%, 12.7% and 10.7%, mainly to reflect lower ASP assumptions for DOC in Indonesia and eggs in Malaysia.

**Maintain HOLD, with lower TP of RM0.76.** Following the downward revision in our core net profit forecasts, we lower our TP on LHI by 12.6% to RM0.76 (from RM0.87 earlier) based on 18x revised FY21 core EPS of 4.2 sen. Maintain **HOLD** rating.

# Financial Forecast

All items in (RM m) unless otherwise stated

## Balance Sheet

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	458.9	764.8	702.0	626.8	694.3
Receivables	825.5	670.0	663.9	701.4	736.0
Inventories	575.6	679.6	657.5	694.7	729.1
PPE	2,216.8	2,396.5	2,572.8	2,734.9	2,792.1
Others	757.2	898.2	889.9	911.1	930.7
<b>Assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,486.1</b>	<b>5,669.0</b>	<b>5,882.2</b>
Payables	519.9	560.2	550.8	582.0	610.7
Debt	2,370.9	2,381.8	2,381.8	2,381.8	2,381.8
Others	177.8	282.9	282.9	282.9	282.9
<b>Liabilities</b>	<b>3,068.6</b>	<b>3,228.6</b>	<b>3,219.2</b>	<b>3,250.4</b>	<b>3,279.1</b>
Shareholders' equity	1,301.8	1,641.2	1,695.0	1,795.1	1,915.2
Non-controlling interests	463.6	539.3	571.9	623.5	687.8
<b>Equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,266.9</b>	<b>2,418.6</b>	<b>2,603.0</b>

## Cash Flow Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Profit before tax	348.6	288.8	175.9	279.0	347.9
D&A	199.4	197.4	224.0	238.1	243.0
Working capital	-241.8	38.7	27.3	-64.5	-59.5
Tax paid	-75.7	-57.0	-45.7	-72.5	-90.5
Others	118.8	189.1	124.5	116.3	102.7
CFO	-378.6	-373.0	-400.0	-400.0	-300.0
Capex	-423.0	-403.6	-400.0	-400.0	-300.0
Others	44.4	30.7	0.0	0.0	0.0
CFI	-378.6	-373.0	-400.0	-400.0	-300.0
Changes in debt	178.9	-43.5	0.0	0.0	0.0
Shares issued	0.0	269.6	0.0	0.0	0.0
Dividends	-66.3	-84.5	-43.8	-54.8	-73.0
Others	-119.5	-144.3	-125.0	-116.8	-103.2
CFF	-6.9	-2.7	-168.8	-171.6	-176.2
Net cash flow	-36.2	281.1	-62.8	-75.2	67.5
Beginning cash	427.4	390.4	670.8	608.0	532.8
Forex	-0.8	-0.7	0.0	0.0	0.0
Ending cash	390.4	670.8	608.0	532.8	600.3

## Income Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,917.7	6,252.6	6,561.5
EBITDA	654.6	650.5	524.4	633.4	693.7
EBIT	457.5	425.0	300.4	395.3	450.7
Finance cost	-109.5	-136.6	-125.0	-116.8	-103.2
Associates	0.6	0.4	0.5	0.5	0.5
Profit before tax	348.6	288.8	175.9	279.0	347.9
Tax	-101.8	-75.8	-45.7	-72.5	-90.5
PAT	246.8	213.0	130.1	206.5	257.5
Non-controlling interests	-60.6	-62.4	-32.5	-51.6	-64.4
Reported PATMI	186.2	150.6	97.6	154.8	193.1
Exceptionals	33.4	6.5	0.0	0.0	0.0
Core PATMI	219.6	157.1	97.6	154.8	193.1
Consensus core PATMI			112.5	172.5	208.3
HLIB/ Consensus			86.8%	89.8%	92.7%

## Ratios

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Core EPS (sen)	6.0	4.3	2.7	4.2	5.3
P/E (x)	11.3	15.8	25.4	16.0	12.9
EV/EBITDA (x)	6.3	6.3	7.8	6.5	5.9
DPS (sen)	1.6	1.2	1.5	2.0	2.0
Dividend yield	2.4%	1.8%	2.2%	2.9%	2.9%
BVPS (RM)	0.4	0.4	0.5	0.5	0.5
P/B (x)					
EBITDA margin	18.9%	19.2%	15.9%	18.3%	19.4%
EBIT margin	6.6%	5.7%	4.0%	4.9%	5.4%
PBT margin	5.0%	3.9%	2.3%	3.5%	4.2%
Net margin	3.2%	2.1%	1.3%	1.9%	2.3%
ROE	17.7%	10.7%	5.9%	8.9%	10.4%
ROA	4.7%	3.1%	1.8%	2.8%	3.3%
Net gearing	108.3%	74.2%	74.1%	72.6%	64.8%

## Assumptions

FYE Dec	FY20F	FY21F	FY22F
<b>Feedmill</b>			
- Production volume ('000 mt)	2,453.6	2,588.2	2,731.2
- Utilisation rate	72%	73%	77%
<b>Livestock</b>			
- Broiler DOC supplied (m chicks)	179.6	185.0	190.5
- Broiler supplied (m birds)	119.6	122.6	125.2
- Eggs supplied (m eggs)	1,804.7	1,851.8	1,900.4

**Figure #1** Quarterly results comparison

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)
Revenue	1,527.1	1,425.4	1,573.4	10.4	3.0	4,510.7	4,433.0	-1.7
- Livestock & poultry related products	858.2	807.3	865.1	7.2	0.8	2,521.5	2,455.0	-2.6
- Feedmill	665.8	614.7	705.1	14.7	5.9	1,980.7	1,967.9	-0.6
- Others	3.1	3.5	3.3	-5.4	4.7	8.5	10.1	18.8
EBITDA	173.7	119.4	127.2	6.6	-26.8	504.2	373.7	-25.9
- Livestock & poultry related products	41.8	29.3	21.8	-25.7	-47.9	206.4	57.1	-72.3
- Feedmill	133.5	101.2	115.7	14.3	-13.3	306.2	336.3	9.8
- Others	-1.5	-11.1	-10.2	NM	NM	-8.4	-19.6	132.5
Profit from operations	118.3	56.0	61.7	10.2	-47.9	340.8	185.4	-45.6
- Livestock & poultry related products	1.9	-19.0	-30.7	NM	NM	85.5	-89.0	NM
- Feedmill	118.8	86.8	102.1	17.7	-14.1	266.4	294.8	10.7
- Others	-2.4	-11.8	-9.7	NM	NM	-11.1	-20.5	84.1
Finance costs	-34.6	-33.1	-31.0	-6.4	-10.5	-102.4	-96.7	-5.6
Associates	0.1	0.0	0.1	>100	-7.2	0.3	0.1	-53.0
PBT	83.8	22.9	30.8	34.4	-63.2	238.6	88.8	-62.8
Tax expense	-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
Non-controlling interests	-18.0	2.0	1.5	-	-	-58.2	-0.1	-
Reported net profit	44.3	16.3	22.5	38.5	-49.2	121.0	60.6	-49.9
Core net profit	49.4	17.9	22.5	25.8	-54.4	132.1	67.1	-49.2
Core EPS (sen)	1.4	0.5	0.6	25.8	-54.4	3.6	1.8	-49.2
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	11.4	8.4	8.1	-0.3	-3.3	11.2	8.4	-2.7
Operating margin (%)	7.7	3.9	3.9	0.0	-3.8	7.6	4.2	-3.4
PBT margin (%)	5.5	1.6	2.0	0.4	-3.5	5.3	2.0	-3.3
Net margin (%)	3.2	1.3	1.4	0.2	-1.8	2.9	1.5	-1.4

Els in 9M20 include for (i) RM6.3m impairment, (ii) RM3.0m disposal gain, and (iii) RM3.1m share option expense.

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**Figure #2** Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)
Revenue	1,524.0	1,425.4	1,573.4	10.4	3.2	4,502.2	4,433.0	-1.5
- Malaysia	426.3	385.5	434.5	12.7	1.9	1,236.5	1,203.5	-2.7
- Singapore	201.8	182.7	182.3	-0.2	-9.6	583.7	550.4	-5.7
- Vietnam	344.4	387.5	410.1	5.8	19.1	972.8	1,154.0	18.6
- Indonesia	532.1	447.5	520.4	16.3	-2.2	1,658.9	1,452.0	-12.5
- Philippines	19.4	22.3	26.1	17.2	34.6	50.2	73.0	45.4
EBITDA	173.7	119.4	127.2	6.6	-26.8	504.2	373.7	-25.9
- Malaysia	70.6	38.4	45.9	19.7	-35.0	173.5	117.4	-32.3
- Singapore	22.3	29.6	23.9	-19.1	7.2	79.4	74.5	-6.1
- Vietnam	30.2	34.2	39.6	15.6	30.9	88.4	108.8	23.1
- Indonesia	47.0	18.9	25.1	33.0	-46.6	155.9	80.2	-48.5
- Philippines	3.7	-1.6	-7.3	NM	NM	7.1	-7.2	-201.5

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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