

Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

Maintain NEUTRAL

Softer-than-expected recovery

Revised Target Price: RM0.73
(Previously RM0.80)

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 core net income was below expectation**
- **Lower 9MFY20 earnings due to softer poultry prices**
- **3QFY20 net profit is almost half of that recorded last year but it has improved by 50%qoq**
- **Recovery might be softer than expected**
- **Maintain NEUTRAL with a revised TP of RM0.73 (previously RM0.80)**

9MFY20 core net income was below expectation. Leong Hup International Berhad (LHI)'s core net income of RM62.4m for the period missed our and consensus estimates as it only made up 61.0% and 55.5% of full year forecast respectively. No dividend was announced for the quarter.

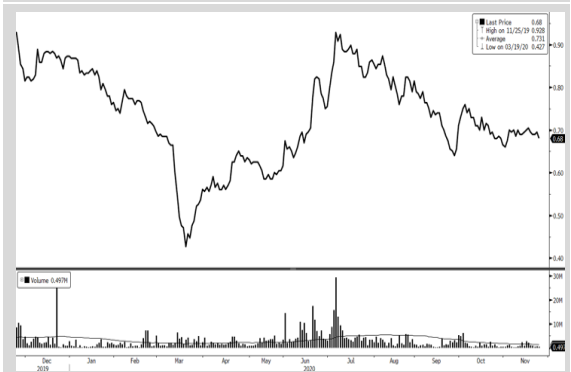
Lower 9MFY20 earnings due to softer poultry prices. Due to the softer demand for poultry products as a result of the pandemic, prices was suppressed almost across the major markets that LHI operates in. Core net profit (CNP) fell by -50%yoy to RM50.2m while revenue dipped by -1.7%yoy to RM4.4b. During the period, the livestock and poultry segment saw revenue declined by -2.6%yoy to RM2.5b due to lower average selling price (ASP) of day-old-chick (DOC) in Indonesia, lower ASP of DOC and eggs in Malaysia and lower sales volume in Singapore. This was mitigated by the increase in sales from Vietnam and the Philippines where volume of eggs and broiler chickens increase in Vietnam. However, EBITDA from the segment plugged by 72.3%yoy due to lower sales and unfavourable ASP. On the other hand, its feedmill segment offset the softness of its poultry business. Although revenue for feedmill fell marginally to RM1.97b, EBITDA increased by 9.8%yoy to RM336.3m due to higher earnings from Vietnam.

3QFY20 net profit was almost half of that recorded last year. 3QFY20 net profit of RM24.4m was almost halved from a year ago although revenue improved by 3.0%yoy to RM1.6b. This was mainly due to higher sales contribution from Vietnam and the Philippines. However, this was offset by the significant drop in sales volume of fresh chicken, duck and processed food in Singapore. Meanwhile in Malaysia, sales were higher on-year due to better contribution from processed food and inclusion of The Baker's Cottage into the group. Net profit did not catch up with sales growth during the quarter due to unfavourable ASP of DOC and eggs in Malaysia and lower broiler prices in the Philippines. Meanwhile, its feedmill segment saw revenue grew 5.9%yoy to RM665.8m due to higher volume and ASP of livestock feed in Vietnam. Nonetheless, feedmill EBITDA for the quarter fell by 13.3%yoy due to compressed margins in Indonesia.

RETURN STATISTICS

Price @ 24 th November 2020 (RM)	0.68
Expected share price return (%)	+7.2
Expected dividend yield (%)	+2.2
Expected total return (%)	+9.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-5.3
3 months	-4.2	-18.6
12 months	-26.9	-26.0

KEY STATISTICS

FBM KLCI	1,578.39
Syariah compliant	No
Issue shares (m)	3650.00
Estimated free float (%)	15.52
Market Capitalisation (RM'm)	2,482.00
52-wk price range	RM0.43 - RM0.96
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	NA
Monthly volatility (%)	NA
3-mth average daily volume (m)	1.58
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73


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Sequentially, CNP rose by 50.2%qoq to RM24.4m as revenue improved by 10.4%qoq to RM1.6b. The better sequential results can be attributed to higher sales volume of livestock feed in Indonesia and Vietnam. Profit increased more than sales mainly due to improving sales in Vietnam and smaller losses from its Indonesia unit.

Recovery might be softer than expected. While the qoq improvement is commendable, we are of the view that LHI's recovery in sales and profitability has not met street's expectation. With the resurgence in number of Covid-19 cases in Malaysia and Indonesia, we expect recovery to be slightly-slower than previous expectation. However, this may be cushioned by demand growth in Vietnam, which is likely to resume post Hungry Ghost Festival and in the Philippines where the Covid-19 situation seems to be improving and in junction with Christmas celebration. On the other hand, we note that soy bean prices and corn prices have increased by 12% to 15% since the end of September, which might add input pressure to its feedmill division.

Impact to earnings. We are revising our FY20E earnings estimates downward by -8.6% due to the softer than expected recovery in 3Q. We also trim our FY21F earnings estimates by -9.3%.

Target price. Due to the changes in our earnings estimates, our TP is adjusted to **RM0.73** (previously RM0.80) which is based on FY21F EPS of 4.6 sen pegged to PER of 15.8x. The PER of 15.8x is based on market cap weighted average of LHI's regional peers.

Maintain NEUTRAL. The livestock business is a high-volume, low-margin business as the products can be regarded as a commodity and hence, subjected to demand and supply dynamic. Due to the pandemic, the shift in demand and supply trends are increasingly volatile and harder to predict, which then result in ASPs swings. Due to the varying level of new active Covid-19 cases in the countries that LHI operates in, sales volume and ASPs may also be affected accordingly. That said, poultry products is still one of the cheaper sources of protein so demand should recover quickly when the infection rate is under control. All in all, we opine that LHI's earnings will be supported by: (i) economies of scale; (ii) vertical integration and; (iii) geographical diversification. As such, we maintain our **NEUTRAL** call on the stock. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	5,746.6	4,433.0	5,856.9	5,974.0	6,260.7
Core EBITDA	654.6	650.5	547.5	659.0	713.7
Depreciation & amortisation	(197.1)	(225.5)	(216.7)	(221.1)	(231.6)
Core EBIT	457.5	425.0	330.8	438.0	482.1
Finance costs	(109.5)	(136.6)	(128.9)	(131.4)	(137.7)
Share of profits of associates	0.6	0.4	0.6	0.6	0.6
PBT	348.6	288.8	202.5	307.2	345.0
PAT	246.8	213.0	151.9	230.4	260.1
PATANCI	186.2	167.2	93.6	168.5	194.1
EPS (sen)	5.1	4.6	2.6	4.6	5.3
EPS growth (%)	(3.3)	(8.2)	(45.2)	80.0	15.2
Net Dividend (sen)	0.0	1.6	1.0	1.8	2.0
EBITDA margin (%)	11.4	14.7	9.3	11.0	11.4
PATANCI margin (%)	3.2	3.8	1.6	2.8	3.1
Dividend yield (%)	3.2	2.5	1.2	2.2	2.4
PER (x)	13.3	14.8	26.5	14.7	12.8

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 3QFY20 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	3QFY20	2QFY20	3QFY19	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	1,573.4	1,425.4	1,527.1	3.0	10.4	4,433.0	4,510.7	(1.7)
Other income	10.7	11.0	10.4	2.5	(3.1)	40.8	26.9	51.8
Operating expenses	(1,522.4)	(1,380.5)	(1,419.2)	7.3	10.3	(4,288.4)	(4,196.8)	2.2
Profit from operations	61.7	56.0	118.3	(47.9)	10.3	185.3	340.8	(45.6)
Finance costs	(31.0)	(33.1)	(34.6)	(10.5)	(6.4)	(96.7)	(102.4)	(5.6)
Share of profits of associates	0.1	0.0	0.1	(7.2)	113.3	0.1	0.3	(52.2)
PBT	30.8	22.9	83.8	(63.3)	34.5	88.8	238.6	(62.8)
Tax expense	(9.8)	(8.6)	(21.5)	(54.5)	13.3	(28.2)	(59.4)	(52.6)
PAT	21.0	14.3	62.3	(66.3)	47.3	60.6	179.2	(66.2)
Non-controlling interests	(1.5)	(2.0)	18.0	(108.4)	(23.9)	0.1	58.1	(99.9)
PATANCI	22.5	16.2	44.4	(49.2)	38.7	60.6	121.1	(50.0)
One-off items	1.9	0.0	4.0	nm	nm	1.9	4.0	nm
Normalised PATANCI	24.4	16.2	48.3	(49.5)	50.2	62.4	125.0	(50.1)
				+ / (-) pts				+ / (-) pts
Operating margin (%)	3.9	3.9	7.7	(3.8)	(0.0)	3.9	7.7	(3.8)
PBT margin (%)	2.0	1.6	5.5	(3.5)	0.4	2.0	5.5	(3.5)
PAT margin (%)	1.3	1.0	4.1	(2.7)	0.3	1.3	4.1	(2.7)
PATANCI margin (%)	1.4	1.1	2.9	(1.5)	0.3	1.4	2.9	(1.5)
Effective Tax rate (%)	31.7	37.7	25.6	6.1	(5.9)	31.7	25.6	6.1

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results					Cumulative results		
	3QFY20	2QFY20	3QFY19	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue								
Malaysia	434.5	385.5	426.3	1.9	12.7	1,203.5	1,236.5	(2.7)
Singapore	182.3	182.7	201.8	(9.6)	(0.2)	550.4	584.7	(5.9)
Vietnam	410.1	387.5	344.4	19.1	5.8	1,154.0	972.8	18.6
Indonesia	520.4	447.5	532.1	(2.2)	16.3	1,452.0	1,658.9	(12.5)
Philippines	26.1	22.3	19.4	34.6	17.3	73.0	50.2	45.5
Total	1,573.4	1,425.4	1,524.0	3.2	10.4	4,433.0	4,503.2	(1.6)
EBITDA								
Malaysia	38.4	33.1	24.0	60.1	15.8	71.5	102.9	(30.5)
Singapore	29.6	21.0	29.3	1.0	40.4	50.6	57.1	(11.3)
Vietnam	34.2	35.1	29.1	17.8	(2.4)	69.3	58.2	19.1
Indonesia	18.9	36.3	45.8	(58.8)	(48.0)	55.1	108.9	(49.4)
Philippines	(1.6)	1.7	1.7	(194.8)	(197.0)	0.1	3.5	0.0
Total	119.4	127.2	129.8	(8.0)	(6.1)	246.6	330.4	(25.4)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.