

Leong Hup International Berhad

Hit by lower ASP and sales volume

Summary

- Leong Hup International Bhd's (LHI) 3QFY20 net profit dropped 49.2% YoY to RM22.5m, mainly dragged by the slower sales volume of fresh chickens and ducks in Singapore, coupled with a lower sales volume and average selling prices (ASP) of DOC in Indonesia and Malaysia due to the Covid-19 pandemic. Revenue for the quarter, however, improved 3.0% YoY to RM1.57bn. For 9MFY20, cumulative net profit slipped 49.9% YoY to RM60.6m. Revenue for the period declined 1.7% YoY to RM4.43bn. No dividend was declared for 3QFY20.
- The reported results make up to 44.6% of our net profit estimate of RM135.8m for FY20f and 42.3% of consensus expectations of RM143.3m. The reported revenue amounted to 72.4% of our full-year forecast of RM6.12bn and 73.9% of consensus forecast of RM6.00bn. The key variance is mainly due to margin contraction following the lower ASP of eggs and DOC in Leong Hup's global markets.
- Leong Hup remained consistent on the expansion of downstream segment (The Bakers Cottage) amid gradual economic recovery to improve margin stability, targeting 150 outlets in the year end. Meanwhile, we see overall growth in group sales volume across its main products as a sign of recovery from the previous quarter. The improvement from feedmill segment is also expected to cushion any weakness from the livestock segment.
- Regionally, LHI plans to (i) strengthen their ready-to-eat (RTE) and ready-to-cook (RTC) products in Singapore market, (ii) improve production of aquatic feed in Vietnam operations and (iii) capitalise on the stability of poultry prices stemmed by the Indonesia's government effort to enforce aggressive culling activities and improve feed volume to capture additional market share.
- Cost wise, soybean prices moved higher in 3Q2020, climbing +8.4% QoQ owing to the brisk export demand coupled with dry weather conditions in the US Midwest. Likewise, maize prices were up, rising +6.6% QoQ, reflecting the increased demand. Despite the lower feed cost, LHI has maintained their feed inventory at approximately 3-4 months as demand has yet to recover towards pre-Covid-19 level.

Quarterly performance

FYE Dec (RM m)	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)
EBITDA	169.9	116.3	123.8	6.4	(27.2)	495.0	363.1	(26.6)
PBT	83.8	22.9	30.8	34.4	(63.2)	238.6	88.8	(62.8)
PAT	62.3	14.3	21.0	47.1	(66.3)	179.2	60.6	(66.2)
Core PATMI	44.4	16.3	22.5	38.5	(49.2)	121.1	60.6	(49.9)
Reported PATMI	44.4	16.3	22.5	38.5	(49.2)	121.1	60.6	(49.9)
Core EPS (sen)	1.2	0.4	0.6	38.5	(49.2)	3.3	1.7	(49.9)
EBITDA margin (%)	11.1	8.2	7.9			11.0	8.2	
PBT margin (%)	5.5	1.6	2.0			5.3	2.0	
Core PATMI margin (%)	2.9	1.1	1.4			2.7	1.4	

Results Note – 3QFY20

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HOLD

Share price	RM0.68
Target price	RM0.69
Previous TP	RM0.81
Capital upside	1.5%
Dividend return	1.9%
Total return	3.4%

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	2482.0
52W High/Low	0.96/0.43
Est. Free float	15.5%
Beta (X)	0.8
3-mth avg vol ('000)	1562.1
Shariah compliant	No

Major shareholders

Emerging Glory SB	52.8
Clarinden Investments	9.0
Amanah Saham Nasional	5.7

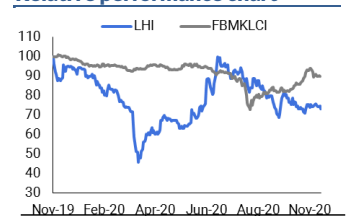
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.0	-18.1	-27.3
Relative	-5.3	-19.3	-26.7

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI (m)	150.6	75.8	156.3
EPS (sen)	4.1	2.1	4.3
P/E (x)	16.5	32.7	15.9

Relative performance chart



Valuation & Recommendation

- We slashed our earnings forecast by 44.2% and 14.5% to RM75.8m and RM156.3m for FY20f and FY21f respectively to account for the margins compression due to the lower ASP, coupled with the higher effective tax rate at 30.0% vs. our previous assumption at 25.0%. Despite that, we maintain our HOLD recommendation on LHI, but with a lower target price of RM0.69 (from RM0.81).
- Our target price is based on PE of 16.0x pegged to revised our FY21f estimated EPS of 4.3 sen. The assigned PE represents a 20.0% discount to its local and regional peers' average of 20.0x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and QL Resources Bhd in Malaysia.
- We like Leong Hup for its strategic objectives to enhance integration along the poultry chain and its ability to grow capacities to increase domestic production volume. However, risks to our recommendation and forecast include fluctuations in raw material prices that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for around two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	5,501.4	5,732.4	6,054.8	5,748.6	6,302.3	Cash	502.4	458.9	764.8	737.9	871.1
EBITDA	576.6	647.6	637.7	518.5	680.0	Receivables	564.0	649.2	499.3	472.5	483.5
EBIT	377.5	450.4	412.1	261.5	413.4	Inventories	516.8	575.6	679.6	705.5	705.5
Net finance income/ (cost)	(85.7)	(102.5)	(123.8)	(123.2)	(127.7)	PPE	2,210.1	2,396.8	2,418.5	2,453.0	2,501.5
Associates & JV	0.5	0.6	0.4	0.5	0.5	Others	684.2	753.5	1,046.9	1,051.3	1,092.8
Profit before tax	292.3	348.6	288.7	138.8	286.2	Assets	4,477.5	4,834.0	5,409.1	5,420.2	5,654.4
Tax	(44.9)	(101.8)	(75.8)	(41.6)	(85.9)	Debts	2,193.5	2,370.9	2,500.3	2,400.3	2,420.8
Net profit	247.4	246.8	213.0	97.2	200.4	Payables	242.2	248.9	273.1	280.8	282.2
Minority interest	54.8	60.6	62.4	21.4	44.1	Others	399.7	448.7	455.2	456.2	498.6
Core earnings	192.6	186.2	150.6	75.8	156.3	Liabilities	2,835.5	3,068.6	3,228.6	3,137.3	3,201.6
Exceptional items	-	-	-	-	-	Shareholder's equity	1,185.6	1,301.8	1,641.2	1,689.6	1,800.3
Reported earnings	192.6	186.2	150.6	75.8	156.3	Minority interest	456.4	463.6	539.3	593.2	652.6
						Equity	1,642.0	1,765.4	2,180.5	2,282.9	2,452.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Profit before taxation	292.3	348.6	288.7	138.8	286.2	Core EPS (sen)	5.3	5.1	4.1	2.1	4.3
Depreciation & amortisation	199.1	197.1	225.5	257.0	266.6	P/E (x)	12.9	13.3	16.5	32.7	15.9
Changes in working capital	(45.0)	220.5	(77.9)	32.6	0.3	DPS (sen)	1.1	1.0	1.6	0.8	1.3
Share of JV profits	-	-	-	-	-	Dividend yield	1.5%	1.5%	2.4%	1.1%	1.8%
Taxation	(76.2)	(75.7)	(57.0)	(75.8)	(41.6)	BVPS (RM)	0.45	0.48	0.60	0.63	0.67
Others	-	-	-	-	-	P/B (x)	1.5	1.4	1.1	1.1	1.0
Operating cash flow	524.4	349.2	670.6	476.5	599.7	EBITDA margin	10.5%	11.3%	10.5%	9.0%	10.8%
Net capex	(361.0)	(418.9)	(400.8)	(110.0)	(310.1)	EBIT margin	6.9%	7.9%	6.8%	4.5%	6.6%
Others	-	-	-	-	-	PBT margin	5.3%	6.1%	4.8%	2.4%	4.5%
Investing cash flow	(366.7)	(378.6)	(403.9)	(95.0)	(299.1)	PAT margin	4.5%	4.3%	3.5%	1.7%	3.2%
Changes in borrowings	561.1	177.4	10.9	18.0	18.0	Core PAT margin	3.5%	3.2%	2.5%	1.3%	2.5%
Issuance of shares	-	-	-	-	-	ROE	11.7%	10.5%	6.9%	3.3%	6.4%
Dividends paid	(58.4)	(66.3)	(84.5)	(27.4)	(45.6)	ROA	4.3%	3.9%	2.8%	1.4%	2.8%
Others	-	-	-	-	-	Net gearing	103.0%	108.3%	79.6%	72.8%	63.2%
Financing cash flow	(71.9)	(6.9)	(2.1)	(408.1)	(186.9)						
Net cash flow	85.8	(36.2)	264.6	(26.5)	113.8						
Forex	8.4	(0.8)	(0.8)	(0.5)	(0.5)						
Others	-	-	-	-	-						
Beginning cash	333.2	427.4	390.4	654.2	627.2						
Ending cash	427.4	390.4	654.2	627.2	740.5						

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