

25 November 2020

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

## Neutral (Maintained)

### A Mild Recovery

Target Price (Return): MYR0.73 (7.4%)  
 Price: MYR0.68  
 Market Cap: USD607m  
 Avg Daily Turnover (MYR/USD) 1.09m/0.27m

- **Maintain NEUTRAL with lower DCF-derived TP of MYR0.73 from MYR0.88, offering 7% upside and c.2% FY21F yield.** Leong Hup International's (LHI) 9M20 results disappointed as the recovery in 3Q20 was milder-than-expected. Looking ahead, consumption and product prices could remain depressed given the international border closure which restricts tourism and the movement restriction domestically in the respective operating markets. Essentially, we believe a more palpable earnings and consumption recovery should materialise in FY21 but the potential is largely priced in.

- **LHI's 9M20 result was below expectations** as the core net profit of MYR60.6m (-49.9% YoY) met only 54-56% of our and consensus' estimates. The negative deviation could be attributed to depressed product prices as a result of weak recovery in consumption. Post-results, we cut FY20-22 earnings forecast by 15%, 6% and 5%. Correspondingly, our DCF-derived TP drops to MYR0.73 from MYR0.88, implying 16.5x P/E FY21F which is in line with regional peers' average.

- **Results review.** YoY, 9M20 revenue fell marginally by 1.7% to MYR4.4bn with softness seen across all of its key operating markets including Malaysia, Singapore and Indonesia. This is generally caused by the COVID-19 pandemic impact on consumption which has also disrupted the industry supply-demand dynamics. Consequently, 9M20 EBITDA declined by 25.9% to MYR373.7m with margin slipping by 2.7ppt on the back of depressed product prices. QoQ, 3Q20 sales recovered by 10.4% to MYR1.6bn, following the broader reopening of major economic activities across its operating markets. Similarly, 3Q20 net profit registered 38.5% QoQ growth to MYR22.5m.

- **Not out of the woods yet.** Notwithstanding the mild recovery in 3Q20, we do not expect consumption and product prices to fully normalise in near-term. This is as respective countries continue to shut their borders and restrict movement given the rise in new COVID-19 cases. This will limit both tourism and domestic consumption. Meanwhile, the downstream venture via The Baker's Cottage (TBC) is expected to mitigate the price volatility in poultry business. TBC presently takes up c.7% of LHI's broiler supply in Malaysia and is projected to reach 30-40% once the store count is ramped up to 300 stores in 2023 from 84 stores as at end Oct 2020. Whilst we expect a more palpable recovery to materialise in FY21, we believe the potential is largely reflected in the share price.

- **Risks to our recommendation** include unfavourable changes in regulatory policies and supply-demand dynamics.

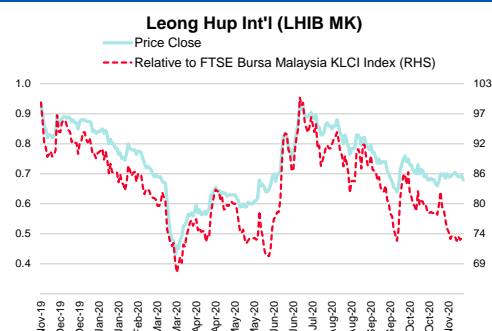
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.7)	0.0	(18.1)	13.3	(26.9)
Relative	(23.2)	(6.9)	(19.9)	2.1	(26.9)
52-wk Price low/high (MYR)				0.43	0.94



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	5,747	6,055	6,142	6,742	7,082
Recurring net profit (MYRm)	219	151	92	162	184
Recurring net profit growth (%)	18.4	(31.2)	(38.9)	76.0	14.0
Recurring P/E (x)	11.33	16.48	26.99	15.34	13.46
P/B (x)	1.9	1.5	1.5	1.4	1.3
P/CF (x)	7.11	3.78	5.84	5.86	4.66
Dividend Yield (%)	2.3	2.3	1.1	2.0	2.2
EV/EBITDA (x)	7.39	7.10	8.20	6.93	6.53
Return on average equity (%)	15.0	10.2	5.5	9.2	9.8
Net debt to equity (%)	108.3	74.2	75.5	78.3	80.4

Source: Company data, RHB

### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.06	0.04	0.03	0.04	0.05
Agriculture	DPS	0.02	0.02	0.01	0.01	0.02
<b>Leong Hup International</b>	BVPS	0.36	0.45	0.47	0.50	0.53
LHIB MK	Return on average equity (%)	15.0	10.2	5.5	9.2	9.8
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
<b>Valuation basis</b>	Recurring P/E (x)	11.33	16.48	26.99	15.34	13.46
Discounted Cash Flow	P/B (x)	1.9	1.5	1.5	1.4	1.3
	FCF Yield (%)	(3.0)	10.2	3.0	0.9	1.3
<b>Key drivers</b>	Dividend Yield (%)	2.3	2.3	1.1	2.0	2.2
i. Regional expansion plan;	EV/EBITDA (x)	7.39	7.10	8.20	6.93	6.53
ii. Favourable product prices.	EV/EBIT (x)	10.57	10.86	14.19	11.23	10.61
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
<b>Key risks</b>	Total turnover	5,747	6,055	6,142	6,742	7,082
i. Unfavourable change in regulatory policy;	Gross profit	953	1,004	927	1,058	1,129
ii. Unfavourable demand-supply dynamics.	EBITDA	655	651	573	699	765
	Depreciation and amortisation	(197)	(226)	(242)	(268)	(294)
	Operating profit	457	425	331	431	471
<b>Company Profile</b>	Net interest	(109)	(137)	(124)	(127)	(130)
LHI is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Pre-tax profit	349	289	207	305	341
	Taxation	(102)	(76)	(47)	(70)	(78)
	Reported net profit	186	151	92	162	184
	Recurring net profit	219	151	92	162	184
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(242)	39	(33)	(133)	(76)
	Cash flow from operations	349	657	425	424	532
	Capex	(423)	(404)	(350)	(400)	(500)
	Cash flow from investing activities	(379)	(373)	(350)	(400)	(500)
	Dividends paid	(66)	(84)	(27)	(48)	(55)
	Cash flow from financing activities	(7)	(3)	(134)	(76)	(185)
	Cash at beginning of period	502	459	765	706	654
	Net change in cash	(36)	281	(59)	(52)	(153)
	Ending balance cash	466	740	706	654	501
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	459	765	706	654	501
	Tangible fixed assets	2,374	2,396	2,505	2,637	2,843
	Total investments	22	22	22	22	22
	Total assets	4,834	5,409	5,500	5,737	5,880
	Short-term debt	1,327	1,509	1,400	1,500	1,500
	Total long-term debt	1,044	873	1,000	1,000	1,000
	Total liabilities	3,069	3,229	3,255	3,380	3,394
	Total equity	1,765	2,181	2,245	2,358	2,486
	Total liabilities & equity	4,834	5,409	5,500	5,737	5,880
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.5	5.4	1.4	9.8	5.0
	Recurrent EPS growth (%)	18.4	(31.2)	(38.9)	76.0	14.0
	Gross margin (%)	16.6	16.6	15.1	15.7	15.9
	Operating EBITDA margin (%)	11.4	10.7	9.3	10.4	10.8
	Net profit margin (%)	3.2	2.5	1.5	2.4	2.6
	Dividend payout ratio (%)	31.2	38.5	29.9	29.9	29.9
	Capex/sales (%)	7.4	6.7	5.7	5.9	7.1
	Interest cover (x)	4.18	3.11	2.66	3.39	3.62

Source: Company data, RHB

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## Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
<b>Revenue</b>	<b>1,527.1</b>	<b>1,425.4</b>	<b>1,573.4</b>	<b>10.4</b>	<b>3.0</b>	<b>4,510.7</b>	<b>4,433.0</b>	<b>(1.7)</b>	Softness across key operating markets
<b>EBITDA</b>	<b>173.7</b>	<b>119.4</b>	<b>127.2</b>	<b>6.6</b>	<b>(26.8)</b>	<b>504.2</b>	<b>373.7</b>	<b>(25.9)</b>	
<i>EBITDA margin (%)</i>	<i>11.4</i>	<i>8.4</i>	<i>8.1</i>	<i>(0.3)</i>	<i>(3.3)</i>	<i>11.2</i>	<i>8.4</i>	<i>(2.7)</i>	Product prices remained depressed
<b>EBIT</b>	<b>118.3</b>	<b>56.0</b>	<b>61.7</b>	<b>10.2</b>	<b>(47.9)</b>	<b>340.8</b>	<b>185.4</b>	<b>(45.6)</b>	
<i>EBIT Margin (%)</i>	<i>7.7</i>	<i>3.9</i>	<i>3.9</i>	<i>(0.0)</i>	<i>(3.8)</i>	<i>7.6</i>	<i>4.2</i>	<i>(3.4)</i>	
Finance costs	(34.6)	(33.1)	(31.0)	(6.4)	(10.5)	(102.4)	(96.7)	(5.6)	
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
<b>Profit before tax</b>	<b>83.8</b>	<b>22.9</b>	<b>30.8</b>	<b>34.4</b>	<b>(63.2)</b>	<b>238.6</b>	<b>88.8</b>	<b>(62.8)</b>	
<i>PBT Margin (%)</i>	<i>5.5</i>	<i>1.6</i>	<i>2.0</i>	<i>0.4</i>	<i>(3.5)</i>	<i>5.3</i>	<i>2.0</i>	<i>(3.3)</i>	
Tax expense	(21.5)	(8.6)	(9.8)	13.4	(54.5)	(59.4)	(28.2)	(52.6)	
<i>Effective tax rate (%)</i>	<i>(25.6)</i>	<i>(37.6)</i>	<i>(31.7)</i>	<i>5.9</i>	<i>(6.1)</i>	<i>(24.9)</i>	<i>(31.7)</i>	<i>(6.8)</i>	
Minority interests	(18.0)	2.0	1.5	nm	nm	(58.1)	(0.1)	nm	
<b>PATAMI</b>	<b>44.4</b>	<b>16.3</b>	<b>22.5</b>	<b>38.5</b>	<b>(49.2)</b>	<b>121.1</b>	<b>60.6</b>	<b>(49.9)</b>	
<b>Core PATAMI</b>	<b>44.4</b>	<b>16.3</b>	<b>22.5</b>	<b>38.5</b>	<b>(49.2)</b>	<b>121.1</b>	<b>60.6</b>	<b>(49.9)</b>	Below expectations at 54-56% of the forecasts
<i>Net Margin (%)</i>	<i>2.9</i>	<i>1.1</i>	<i>1.4</i>	<i>0.3</i>	<i>(1.5)</i>	<i>2.7</i>	<i>1.4</i>	<i>(1.3)</i>	

Source: Company, RHB

Figure 2 : LHI's geographical breakdown

FYE Dec (MYRm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
Malaysia	426.4	385.5	434.5	12.7	1.9	1,236.6	1,203.5	(2.7)	DOC and eggs experienced drop in volume and ASP
Singapore	203.5	182.7	182.3	(0.2)	(10.4)	588.5	550.4	(6.5)	
Vietnam	344.4	387.5	410.1	5.8	19.1	972.8	1,154.0	18.6	Driven by capacity expansion
Indonesia	533.4	447.5	520.4	16.3	(2.4)	1,662.5	1,452.0	(12.7)	
Philippines	19.4	22.3	26.1	17.2	34.6	50.2	73.0	45.4	
<b>Group revenue</b>	<b>1,527.1</b>	<b>1,425.4</b>	<b>1,573.4</b>	<b>10.4</b>	<b>3.0</b>	<b>4,510.7</b>	<b>4,433.0</b>	<b>(1.7)</b>	
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	In line with the robust revenue growth
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)	nm	Affected by forex loss
<b>Group EBITDA</b>	<b>173.7</b>	<b>119.4</b>	<b>127.2</b>	<b>6.6</b>	<b>(26.8)</b>	<b>504.2</b>	<b>373.7</b>	<b>(25.9)</b>	
Malaysia	16.6	9.9	10.6	0.6	(6.0)	14.0	9.8	(4.3)	
Singapore	11.0	16.2	13.1	(3.1)	2.2	13.5	13.5	0.1	
Vietnam	8.8	8.8	9.6	0.8	0.9	9.1	9.4	0.3	
Indonesia	8.8	4.2	4.8	0.6	(4.0)	9.4	5.5	(3.9)	
Philippines	18.8	-7.4	-27.9	(20.5)	(46.7)	14.2	-9.9	(24.0)	
<b>Group EBITDA margin (%)</b>	<b>11.4</b>	<b>8.4</b>	<b>8.1</b>	<b>(0.3)</b>	<b>(3.3)</b>	<b>11.2</b>	<b>8.4</b>	<b>(2.7)</b>	

Source: Company, RHB

Figure 3 : LHI's segmental breakdown

FYE Dec (MYRm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
Livestock and poultry related products	858.2	807.3	865.1	7.2	0.8	2,521.5	2,455.0	(2.6)	Dragged down by Indonesia operation
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)	4.8	8.5	10.1	18.8	
<b>Group revenue</b>	<b>1,527.1</b>	<b>1,425.4</b>	<b>1,573.4</b>	<b>10.4</b>	<b>3.0</b>	<b>4,510.7</b>	<b>4,433.0</b>	<b>(1.7)</b>	
Livestock and poultry related products	41.8	29.3	21.8	(25.7)	(47.9)	206.4	57.1	(72.3)	Depressed product prices Driven by capacity expansion in Vietnam
Feedmill	133.5	101.2	115.7	14.3	(13.3)	306.2	336.3	9.8	
Others	(1.5)	(11.1)	(10.2)			(8.4)	(19.6)		
<b>Group EBITDA</b>	<b>173.7</b>	<b>119.4</b>	<b>127.2</b>	<b>6.6</b>	<b>(26.8)</b>	<b>504.2</b>	<b>373.7</b>	<b>(25.9)</b>	
Livestock and poultry related products	4.9	3.6	2.5	(1.1)	(2.4)	8.2	2.3	(5.9)	
Feedmill	20.0	16.5	16.4	(0.1)	(3.6)	15.5	17.1	1.6	
<b>Group EBITDA margin</b>	<b>11.4</b>	<b>8.4</b>	<b>8.1</b>	<b>(0.3)</b>	<b>(3.3)</b>	<b>11.2</b>	<b>8.4</b>	<b>(2.7)</b>	

Source: Company, RHB

## Recommendation Chart



Date	Recommendation	Target Price	Price
2020-08-26	Neutral	0.88	0.82
2020-07-13	Buy	1.18	0.89
2020-05-20	Buy	0.88	0.59
2020-02-19	Buy	1.16	0.77
2019-11-27	Buy	1.26	0.86
2019-08-13	Buy	1.36	0.80
2019-06-18	Buy	1.53	1.07

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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