



AmInvestment Bank

## Company report

# LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

24 Feb 2021

## Recovery in Indonesia in 4QFY20

# BUY

(Maintained)

## AmInvestment Bank

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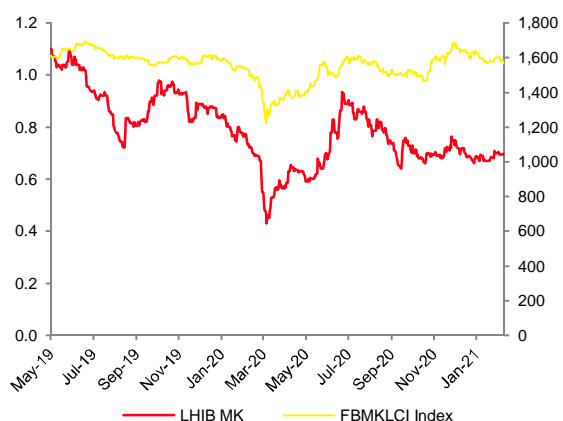
### Rationale for report: Company results

Price	RM0.70			
Fair Value	RM0.86			
52-week High/Low	RM0.96/RM0.43			
<b>Key Changes</b>				
Fair value	⬇️			
EPS	⬆️			
<b>YE to Dec</b>				
	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	6,040.7	6,342.4	6,644.0	6,874.9
Core net profit (RM mil)	109.3	175.1	183.0	193.0
FD Core EPS (sen)	3.0	4.9	5.1	5.3
FD Core EPS growth (%)	(34.6)	62.1	4.4	5.4
Consensus Net Profit (RM mil)	-	-	213.9	227.8
DPS (sen)	0.9	1.5	1.5	1.6
PE (x)	23.4	14.4	13.8	13.1
EV/EBITDA (x)	8.2	6.9	6.6	6.5
Div yield (%)	1.3	2.1	2.2	2.3
ROE (%)	4.5	9.9	9.6	9.5
Net Gearing (%)	109.8	111.0	101.9	95.2

### Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,555.0
Book Value (RM/share)	0.47
P/BV (x)	1.5
ROE (%)	4.5
Net Gearing (%)	109.8
Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Lau Eng Guang (1.6%)
Free Float	87.3
Avg Daily Value (RM mil)	1.3

<b>Price performance</b>	<b>3mth</b>	<b>6mth</b>	<b>12mth</b>
Absolute (%)	0.7	(10.8)	(4.8)
Relative (%)	2.8	(10.1)	(6.8)



### Investment Highlights

- We maintain BUY on Leong Hup International (LHI) with a reduced fair value (FV) of RM0.86/share (vs. RM0.91/share previously). Our FV is based on an unchanged PE of 17x FY22F EPS. We have tweaked LHI's FY22F net profit downwards by 7% to account for lower feed mill income resulting from higher raw material costs.
- LHI's core net profit of RM109mil (-35% YoY) was above expectations, accounting for 117% and 120% of ours and consensus estimates respectively. The variance was largely a result of better margins arising from strong performances in Indonesia in 4QFY20. In Indonesia, ASP of broiler and day-old chicks (DOC) rose while DOC sales volume improved in 4QFY20.
- We have increased our earnings forecasts by 10% for FY21E to factor in a faster-than-expected recovery in poultry prices. However, we have reduced our earnings forecast by 7% for FY22F as we believe that rising feed mill raw material prices will affect the group's feed mill income and increase operating costs.
- Nevertheless, we remain positive on the group's long-term outlook due to the strong long-term earnings growth underpinned by expansions of the feed mill, livestock and processed goods business in Vietnam and the Philippines. We are confident that the recovery in poultry demand will sustain this year and next year as the effects of mass vaccinations drive up HoReCa demand.
- LHI's FY20 revenue was flat at RM6.0bil while EBITDA fell by a steep 17% YoY to RM541mil. This was due to a weak performance by the livestock and poultry product segment. A silver lining is the strong sales in the Vietnamese feed mill segment, which helped bolster the group's EBITDA.
- On a negative note, the livestock and poultry product segment suffered from depressed ASP and sales volume of eggs in Malaysia in FY20. Poor processed food and fresh chicken sales volumes in Singapore also contributed to the weak performance in FY20.
- Higher sales volume and ASP of eggs in Vietnam as well as increased sales volumes of broilers and dressed chickens in the Philippines offset the poor Malaysian and Singaporean showings.
- LHI's 4QFY20 revenue rose by 4% YoY to RM1.6bil, while its EBITDA rose by 15% YoY to RM168mil. This improvement was primarily a result of strong prices and sales volume of DOCs in Indonesia and eggs in Vietnam.

- Geographically, LHI's Vietnam segment had the best showing in FY20, with a 16% YoY increase in revenue to RM1.6bil and 7% YoY increase in EBITDA to RM140mil. This was due to higher sales volume and ASP of eggs and livestock feed.

## EXHIBIT 1: FINANCIAL RESULTS

YE Dec (RM mil)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
<b>Revenue</b>	<b>1,544.0</b>	<b>1,573.4</b>	<b>1,607.7</b>	<b>2.2</b>	<b>4.1</b>	<b>6,054.8</b>	<b>6,040.7</b>	<b>-0.2</b>
Operating profit	84.2	61.7	97.3	57.6	15.5	425.0	282.6	-33.5
<b>EBITDA</b>	<b>146.3</b>	<b>120.2</b>	<b>168.2</b>	<b>40.0</b>	<b>15.0</b>	<b>650.5</b>	<b>542.0</b>	<b>-16.7</b>
Depreciation	62.1	58.5	71.0	21.3	14.3	225.5	259.4	15.0
<b>EBIT</b>	<b>84.2</b>	<b>61.7</b>	<b>97.3</b>	<b>57.6</b>	<b>15.5</b>	<b>425.0</b>	<b>282.6</b>	<b>-33.5</b>
EI								
<b>PBT</b>	<b>50.2</b>	<b>30.8</b>	<b>68.3</b>	<b>121.8</b>	<b>36.1</b>	<b>288.8</b>	<b>157.1</b>	<b>-45.6</b>
Tax	-16.4	-9.8	-11.4	17.1	-30.2	-75.8	-39.6	-47.7
<b>PAT</b>	<b>33.8</b>	<b>21.0</b>	<b>56.9</b>	<b>170.5</b>	<b>68.2</b>	<b>213.0</b>	<b>117.5</b>	<b>-44.8</b>
Minority interest	-4.3	1.5	-4.3	-387.6	1.0	-62.4	-4.4	-93.0
PATAMI	29.5	22.5	52.6	133.3	78.0	150.6	113.1	-24.9
<b>Core PATAMI</b>	<b>40.4</b>	<b>20.4</b>	<b>50.8</b>	<b>148.8</b>	<b>25.9</b>	<b>167.2</b>	<b>109.3</b>	<b>-34.6</b>
EPS	0.8	0.6	1.4	133.3	78.0	4.2	3.1	-26.8
EBITDA margin (%)	9.5	7.6	10.5	2.8ppt	1.0ppt	10.7	9.0	-1.8ppt
PBT margin (%)	3.3	2.0	4.2	2.3ppt	1.0ppt	4.8	2.6	-2.2ppt
Effective tax rate (%)	-32.6	-31.7	-16.7	15.0ppt	15.9ppt	-26.2	-25.2	1.0ppt
Core PATAMI margin (%)	2.6	1.3	3.2	1.9ppt	0.5ppt	2.8	1.8	-1.0ppt
<b>Livestock and poultry related</b>								
Revenue	874.5	865.1	899.5	4.0	2.9	3,396.0	3,354.5	-1.22
EBITDA	51.0	21.8	88.1	304.8	72.5	257.4	145.1	-43.62
EBITDA margin	5.8	2.5	9.8	7.3ppt	4.0ppt	7.6	4.3	-3.3ppt
<b>Feedmill</b>								
Revenue	666.0	705.1	704.9	-0.02	5.84	2,646.7	2,672.8	0.99
EBITDA	95.3	105.4	80.2	-23.97	-15.88	393.1	396.8	0.96
EBITDA margin	14.3	15.0	11.4	-3.6ppt	-2.9ppt	14.9	14.8	0.0ppt

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: PB BAND CHART



## EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,342.4	6,644.0	6,874.9
EBITDA	654.3	542.0	668.9	693.1	704.8
Depreciation/Amortisation	(225.5)	(259.4)	(236.5)	(247.7)	(256.3)
Operating income (EBIT)	428.7	282.6	432.4	445.4	448.5
Other income & associates	0.4	(12.0)	0.7	1.0	1.0
Net interest	(123.8)	(109.7)	(131.8)	(125.8)	(115.2)
<b>Exceptional items</b>	<b>(16.6)</b>	<b>3.8</b>	-	-	-
Pretax profit	305.3	157.1	301.3	320.5	334.3
Taxation	(75.8)	(39.6)	(69.8)	(74.2)	(77.3)
<b>Minorities/pref dividends</b>	<b>(62.4)</b>	<b>(45.3)</b>	<b>(56.4)</b>	<b>(63.4)</b>	<b>(64.0)</b>
Net profit	167.2	113.1	175.1	183.0	193.0
Core net profit	183.8	109.3	175.1	183.0	193.0
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,396.5	2,656.5	2,756.5	2,806.5	2,906.5
Intangible assets	97.5	95.3	95.3	95.3	95.3
<b>Other long-term assets</b>	<b>85.9</b>	<b>85.4</b>	<b>85.9</b>	<b>85.9</b>	<b>85.9</b>
Total non-current assets	2,579.8	2,837.2	2,937.7	2,987.7	3,087.7
Cash & equivalent	764.8	757.8	514.5	550.7	589.0
Stock	679.6	721.9	634.4	662.5	683.1
Trade debtors	499.3	489.6	687.2	709.7	738.1
<b>Other current assets</b>	<b>561.1</b>	<b>497.2</b>	<b>510.4</b>	<b>525.6</b>	<b>539.6</b>
Total current assets	2,504.8	2,466.4	2,346.5	2,448.5	2,549.8
Trade creditors	273.1	229.4	283.8	299.7	307.9
Short-term borrowings	1,508.7	1,764.8	1,653.7	1,770.2	1,893.1
<b>Other current liabilities</b>	<b>307.6</b>	<b>278.0</b>	<b>278.8</b>	<b>279.6</b>	<b>280.2</b>
Total current liabilities	2,089.5	2,272.2	2,216.3	2,349.5	2,481.1
Long-term borrowings	873.1	874.5	900.0	784.6	697.4
<b>Other long-term liabilities</b>	<b>144.4</b>	<b>137.8</b>	<b>137.8</b>	<b>137.8</b>	<b>137.8</b>
<b>Total long-term liabilities</b>	<b>1,017.5</b>	<b>1,012.2</b>	<b>1,037.8</b>	<b>922.4</b>	<b>835.1</b>
Shareholders' funds	1,641.2	1,713.4	1,837.4	1,966.9	2,103.4
Minority interests	539.3	535.1	561.8	588.6	609.0
BV/share (RM)	0.45	0.47	0.50	0.54	0.58
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	305.3	160.9	301.3	320.5	334.3
Depreciation/Amortisation	225.5	259.4	236.5	247.7	256.3
Net change in working capital	52.9	(67.1)	123.4	65.7	63.1
<b>Others</b>	<b>86.8</b>	<b>76.2</b>	<b>(553.3)</b>	<b>(493.4)</b>	<b>(492.6)</b>
Cash flow from operations	670.6	429.4	107.9	140.6	161.1
Capital expenditure	(403.6)	(530.9)	(100.0)	(50.0)	(100.0)
Net investments & sale of fixed assets	3.9	6.5	(0.5)	-	-
<b>Others</b>	<b>(4.1)</b>	<b>22.3</b>	-	-	-
Cash flow from investing	(403.9)	(502.1)	(100.5)	(50.0)	(100.0)
Debt raised/(repaid)	(43.5)	221.7	(85.6)	1.2	35.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(84.5)	(23.8)	(53.1)	(55.5)	(58.5)
<b>Others</b>	<b>125.8</b>	<b>(126.3)</b>	-	-	-
<b>Cash flow from financing</b>	<b>(2.1)</b>	<b>71.6</b>	<b>(138.8)</b>	<b>(54.3)</b>	<b>(22.9)</b>
<b>Net cash flow</b>	<b>264.6</b>	<b>(1.1)</b>	<b>(131.4)</b>	<b>36.3</b>	<b>38.2</b>
<b>Net cash/(debt) b/f</b>	<b>390.4</b>	<b>654.3</b>	<b>645.9</b>	<b>514.5</b>	<b>550.7</b>
Net cash/(debt) c/f	654.3	645.9	514.5	550.7	589.0
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	5.4	(0.2)	5.0	4.8	3.5
EBITDA growth (%)	1.1	(17.2)	23.4	3.6	1.7
Pretax margin (%)	5.0	2.6	4.8	4.8	4.9
Net profit margin (%)	2.8	1.9	2.8	2.8	2.8
Interest cover (x)	3.5	2.6	3.3	3.5	3.9
Effective tax rate (%)	24.8	24.6	23.2	23.1	23.1
Dividend payout (%)	30.0	43.1	30.3	30.3	30.3
Debtors turnover (days)	30	30	40	39	39
Stock turnover (days)	38	42	39	36	36
Creditors turnover (days)	16	15	15	16	16

Source: Company, AmlInvestment Bank Bhd estimates

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