

# Leong Hup International (LHIB MK)

## 4Q20 results: Positively surprised

### U/G to BUY with a higher TP of MYR0.82

4Q20 results were ahead of our/consensus expectations on lower-than-expected operating expenses. Going forward, stronger group earnings could materialise from LHIB's Indonesian operations as culling activities put upward pressure on poultry ASPs. Feed operations however may report weaker margins given the rising raw material price environment. We lift our FY21 earnings forecasts by 16% but we leave our FY22 forecasts unchanged. Our TP is raised to MYR0.82 (+11sen) pegged to regional peer average FY21 PER of 17x (unchanged).

### Beat expectations

4Q20 core net profit of MYR43m (+45% YoY, +90% QoQ) brings FY20 core net profit to MYR103m (-31% YoY). The latter was above expectations at 129%/113% of our/consensus full-year earnings forecasts. The earnings surprise is attributed to lower-than-expected operating expenses. FY20 revenue of MYR6b (flat YoY) was however, in-line with expectations at 96% of our full-year revenue forecasts.

### Indonesia poultry ASPs surged

LHIB's 4Q20 revenue grew 4% YoY mainly due to improved sales volume of day-old-chicks (DOC) and feed in Indonesia along with an increase in DOC ASPs. The group's Vietnam operations also benefitted from better egg sales during the quarter. Meanwhile, 4Q20 EBITDA increased by 15% YoY given a surge in livestock segment contribution (+44% YoY, EBIT margins: +4ppts YoY) but partially offset by weaker feedmill segment EBITDA (-4% YoY, EBIT margin: -1.3ppts YoY) on higher corn and soybean costs.

### Raising FY21 earnings by 16%

Sequential earnings may improve with further increases in Indonesia's poultry ASPs as a result of its ongoing government-led culling activities. Malaysian ASPs however are expected to post a slower recovery in light of MCO 2.0. Indonesia's broiler & DOC ASPs in mid-Feb have risen to c.IDR17,300 (4Q20: c.IDR17,500) and c.IDR7,300 (4Q20: c.IDR6,400) respectively. Although feedmill sales are expected to remain stable, we caution that margins could weaken as raw material costs are on an uptrend in FY21. Factoring the strong set of results, our FY21 forecasts are raised by 16% but we leave our FY22 forecasts unchanged.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,055	6,041	7,112	7,539	7,800
EBITDA	651	542	736	818	868
Core net profit	151	103	177	215	229
Core EPS (sen)	4.1	2.8	4.8	5.9	6.3
Core EPS growth (%)	(33.0)	(31.4)	71.2	21.5	6.7
Net DPS (sen)	1.6	0.6	1.5	1.8	1.9
Core P/E (x)	21.3	24.2	14.4	11.9	11.1
P/BV (x)	2.0	1.5	1.4	1.3	1.2
Net dividend yield (%)	1.8	0.8	2.1	2.5	2.7
ROAE (%)	10.2	6.7	9.9	11.2	11.0
ROAA (%)	2.9	1.9	2.9	3.2	3.2
EV/EBITDA (x)	8.4	9.4	7.4	6.5	6.4
Net gearing (%) (incl perps)	79.6	90.6	92.8	79.0	77.4
Consensus net profit	-	-	162	195	na
MKE vs. Consensus (%)	-	-	9.2	10.2	na

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# BUY

[Prior:HOLD]

Share Price MYR 0.70  
12m Price Target MYR 0.82 (+19%)  
Previous Price Target MYR 0.71

### Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

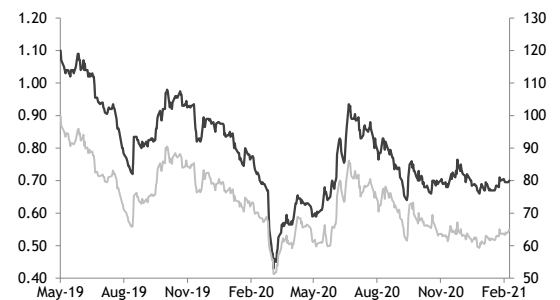
### Statistics

52w high/low (MYR)	0.94/0.43
3m avg turnover (USDm)	0.3
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.6B USD632M

### Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

### Price Performance



— Leong Hup - (LHS, MYR) — Leong Hup / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	1	1	(5)
Relative to index (%)	3	2	(7)

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q20	4Q19	% YoY	3Q20	% QoQ	12M20	12M19	% YoY
Revenue	1,607.7	1,544.0	4.1	1,573.4	2.2	6,040.7	6,054.8	(0.2)
EBITDA	168.2	146.3	15.0	127.2	32.3	542.0	650.5	(16.7)
Depreciation	(71.0)	(62.1)	14.3	(65.5)	8.4	(259.4)	(225.5)	15.0
EBIT	97.3	84.2	15.5	61.7	57.6	282.6	425.0	(33.5)
Interest expense	(29.2)	(34.2)	(14.6)	(31.0)	(5.7)	(125.9)	(136.6)	(7.9)
Associates	0.3	0.1	95.4	0.1	300.0	0.4	0.4	(7.4)
<b>Pretax profit</b>	<b>68.3</b>	<b>50.2</b>	<b>36.2</b>	<b>30.8</b>	<b>121.8</b>	<b>157.1</b>	<b>288.8</b>	<b>(45.6)</b>
Tax	(11.4)	(16.4)	(30.1)	(9.8)	17.1	(39.6)	(75.8)	(47.7)
Minority interest	(4.3)	(4.3)	1.0	1.5	(387.6)	(4.4)	(62.4)	(93.0)
<b>Net profit</b>	<b>52.6</b>	<b>29.5</b>	<b>78.0</b>	<b>22.5</b>	<b>133.3</b>	<b>113.1</b>	<b>150.6</b>	<b>(24.9)</b>
<b>Core net profit*</b>	<b>42.8</b>	<b>29.5</b>	<b>44.8</b>	<b>22.5</b>	<b>89.8</b>	<b>103.3</b>	<b>150.6</b>	<b>(31.4)</b>
			+/- p.ptsYoY		+/- p.ptsQoQ			
EBITDA margin (%)	10.5	9.5	1.0	8.1	2.4	9.0	10.7	(1.8)
EBIT margin (%)	6.0	5.5	0.6	3.9	2.1	4.7	7.0	(2.3)
Tax rate (%)	(16.7)	(32.6)	15.9	(31.7)	15.0	(25.2)	(26.2)	1.0
<b>Revenue:</b>			% YoY		% QoQ			
Livestock	899.5	874.5	2.9	865.1	4.0	3,354.5	3,396.0	(1.2)
Feedmill	704.9	666.0	5.8	705.1	(0.0)	2,672.8	2,646.7	1.0
Others	3.2	3.521	(8.0)	3.3	(1.2)	13.3	12.0	11.0
<b>Total</b>	<b>1,607.7</b>	<b>1,544.0</b>	<b>4.1</b>	<b>1,573.4</b>	<b>2.2</b>	<b>6,040.7</b>	<b>6,054.8</b>	<b>(0.2)</b>
<b>EBITDA:</b>			% YoY		% QoQ			
Livestock	88.1	61.0	44.3	21.8	>100.0	145.1	267.4	(45.7)
Feedmill	93.2	97.0	(3.9)	115.7	(19.4)	429.5	403.2	6.5
Others	(13.0)	(11.7)	11.4	(10.2)	27.5	(32.7)	(20.1)	62.1
<b>Total</b>	<b>168.2</b>	<b>146.3</b>	<b>15.0</b>	<b>127.2</b>	<b>32.3</b>	<b>542.0</b>	<b>650.5</b>	<b>(16.7)</b>
<b>EBITDA margin (%):</b>			+/- p.ptsYoY		+/- p.ptsQoQ			
Livestock	9.8	5.8	4.0	2.5	7.3	4.3	7.9	(3.5)
Feedmill	13.2	14.6	(1.3)	16.4	(3.2)	16.1	15.2	0.8
Others	(402.6)	(45.6)	>100.0	(311.9)	(90.7)	(244.7)	(167.5)	(77.2)
<b>Total</b>	<b>10.5</b>	<b>9.5</b>	<b>1.0</b>	<b>8.1</b>	<b>2.4</b>	<b>9.0</b>	<b>10.7</b>	<b>(1.8)</b>

\*4Q20 & 12M20: Write back of the Competition and Consumer Commission of Singapore's proposed infringement appeal of MYR7.5m, Reversal of benefits accrued of MYR2.3m

Source: Company

## Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	22.1	23.2	14.4	11.9	11.1
Core P/E (x)	21.3	24.2	14.4	11.9	11.1
P/BV (x)	2.0	1.5	1.4	1.3	1.2
P/NTA (x)	2.1	1.5	1.5	1.3	1.2
Net dividend yield (%)	1.8	0.8	2.1	2.5	2.7
FCF yield (%)	8.9	nm	nm	9.9	nm
EV/EBITDA (x)	8.4	9.4	7.4	6.5	6.4
EV/EBIT (x)	12.9	18.0	11.2	9.6	9.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,054.8	6,040.7	7,112.0	7,538.9	7,800.4
Gross profit	940.2	592.8	1,078.6	1,201.5	1,263.1
EBITDA	650.5	542.0	735.9	817.5	867.8
Depreciation	(204.6)	(230.2)	(244.0)	(258.7)	(272.0)
Amortisation	(21.0)	(29.1)	(7.2)	(7.2)	(7.2)
EBIT	425.0	282.6	484.7	551.6	588.6
Net interest income / (exp)	(136.6)	(125.9)	(164.2)	(180.3)	(196.4)
Associates & JV	0.4	0.4	0.4	0.4	0.4
Pretax profit	288.8	157.1	320.8	371.7	392.6
Income tax	(75.8)	(39.6)	(80.9)	(93.7)	(99.0)
Minorities	(62.4)	(4.4)	(63.1)	(63.0)	(64.3)
Reported net profit	150.6	113.1	176.9	215.0	229.4
Core net profit	150.6	103.3	176.9	215.0	229.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	764.8	757.8	892.4	1,343.5	1,496.5
Accounts receivable	499.3	489.6	859.5	570.6	909.1
Inventory	679.6	721.9	758.9	796.5	807.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,396.5	2,656.5	2,749.1	2,890.7	3,019.0
Intangible assets	97.5	95.3	95.0	94.7	94.4
Investment in Associates & JVs	1.6	1.6	1.6	1.6	1.6
Other assets	969.9	972.2	1,152.5	1,203.8	1,240.3
<b>Total assets</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>6,508.9</b>	<b>6,901.4</b>	<b>7,568.8</b>
ST interest bearing debt	1,522.7	1,783.8	1,793.0	1,960.6	2,128.2
Accounts payable	273.1	229.4	386.4	260.4	406.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	977.7	1,011.6	1,368.7	1,483.9	1,599.1
Other liabilities	455.0	421.0	516.0	538.0	552.0
<b>Total Liabilities</b>	<b>3,228.6</b>	<b>3,446.2</b>	<b>4,064.3</b>	<b>4,243.4</b>	<b>4,685.9</b>
Shareholders Equity	1,641.2	1,713.4	1,846.4	1,996.9	2,157.5
Minority Interest	539.3	535.1	598.2	661.2	725.4
<b>Total shareholder equity</b>	<b>2,180.5</b>	<b>2,248.6</b>	<b>2,444.6</b>	<b>2,658.0</b>	<b>2,882.9</b>
<b>Total liabilities and equity</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>6,508.9</b>	<b>6,901.4</b>	<b>7,568.8</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	288.8	157.1	320.8	371.7	392.6
Depreciation & amortisation	225.5	259.4	251.2	265.9	279.2
Cash taxes paid	(57.0)	(39.6)	(80.9)	(93.7)	(99.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	670.6	282.3	168.5	652.6	358.7
Capex	(383.3)	(477.3)	(400.0)	(400.0)	(400.0)
Free cash flow	287.3	(195.1)	(231.5)	252.6	(41.3)
Dividends paid	(84.5)	(23.8)	(53.1)	(64.5)	(68.8)
Equity raised / (purchased)	269.6	0.0	5.4	0.0	0.0
Change in Debt	(187.2)	95.4	366.2	282.8	282.8
Other invest/financing cash flow	(20.6)	(24.8)	(15.7)	(19.4)	(19.4)
Effect of exch rate changes	(0.8)	na	na	na	na
Net cash flow	263.8	(148.2)	71.4	451.5	153.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.4	(0.2)	17.7	6.0	3.5
EBITDA growth	(0.6)	(16.7)	35.8	11.1	6.2
EBIT growth	(7.1)	(33.5)	71.5	13.8	6.7
Pretax growth	(17.2)	(45.6)	104.2	15.8	5.6
Reported net profit growth	(19.1)	(24.9)	56.4	21.5	6.7
Core net profit growth	(33.0)	(31.4)	71.2	21.5	6.7
<b>Profitability ratios (%)</b>					
EBITDA margin	10.7	9.0	10.3	10.8	11.1
EBIT margin	7.0	4.7	6.8	7.3	7.5
Pretax profit margin	4.8	2.6	4.5	4.9	5.0
Payout ratio	38.8	17.7	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.5	1.9	2.5	2.9	2.9
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.0
Assets/Equity (x)	3.3	3.3	3.5	3.5	3.5
ROAE (%)	10.2	6.7	9.9	11.2	11.0
ROAA (%)	2.9	1.9	2.9	3.2	3.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	59.9	59.2	59.9	59.9	59.9
Days receivable outstanding	34.1	29.5	34.1	34.1	34.1
Days inventory outstanding	44.2	46.3	44.2	44.2	44.2
Days payables outstanding	18.4	16.6	18.4	18.4	18.4
Dividend cover (x)	2.6	5.6	3.3	3.3	3.3
Current ratio (x)	1.2	1.1	1.2	1.3	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	79.6	90.6	92.8	79.0	77.4
Net gearing (%) (excl. perps)	79.6	90.6	92.8	79.0	77.4
Net interest cover (x)	3.1	2.2	3.0	3.1	3.0
Debt/EBITDA (x)	3.8	5.2	4.3	4.2	4.3
Capex/revenue (%)	6.3	7.9	5.6	5.3	5.1
Net debt/ (net cash)	1,735.5	2,037.7	2,269.3	2,101.0	2,230.8

Source: Company; Maybank

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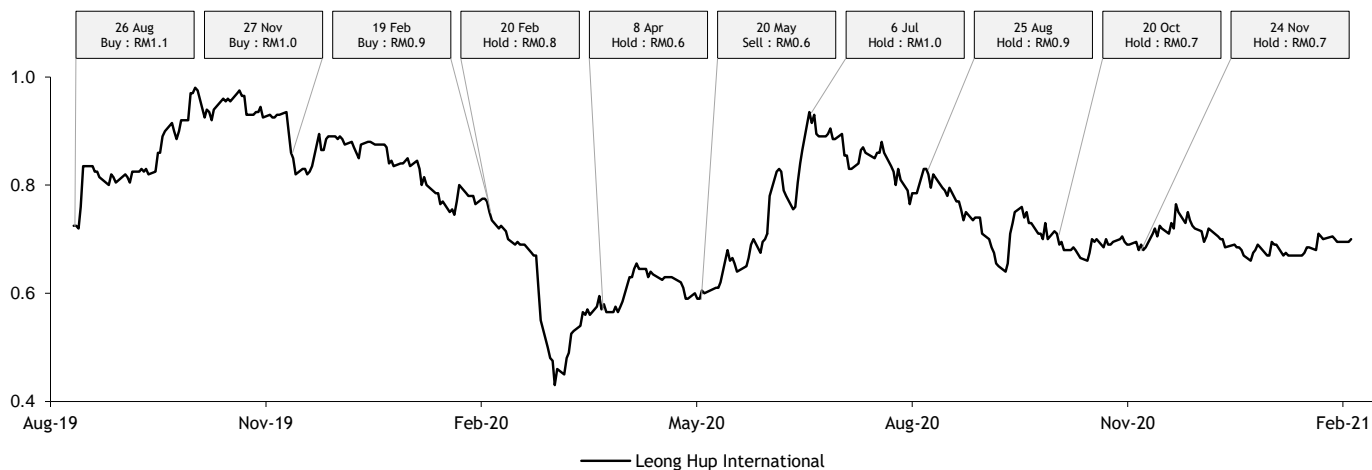
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