

24 February 2021

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

## Neutral (Maintained)

### Healthy Recovery But Valuation Is Uncompelling

Target Price (Return):	MYR0.76 (+9%)
Price:	MYR0.70
Market Cap:	USD632m
Avg Daily Turnover (MYR/USD)	1.19m/0.30m

- **Maintain NEUTRAL, with new MYR0.76 TP from MYR0.73, 9% upside and 2% yield.** FY20 results surprised on the upside following stronger-than-expected ASP recovery in Indonesia. Our FY21F assumes a gradual but reasonable recovery in volume and ASP in view of the broader containment of the pandemic and mass vaccination plans in place. However, Leong Hup International's current valuation may have largely priced in the prospects, and we are wary of a downside risk due to an oversupply situation resurfacing.

- **FY20 results beat expectations.** Core net profit of MYR115.3m (-28.4% YoY) exceeded our and Street estimates by 17-19%. The positive deviation could be attributed to stronger-than-expected price recovery in Indonesia. Post results, we make no material changes to our FY21F-22F and we roll out FY23F (+14% YoY). Our DCF-derived TP is adjusted to MYR0.76 after updating the beta assumption. The TP implies 17x FY21F P/E, which is close to its historical mean.

- **Results review.** YoY, FY20 revenue was flat at MYR6bn, thanks to a gradual recovery in 2H20 following the COVID-19 pandemic disruption in 1H20. Matured markets including Malaysia, Singapore and Indonesia recorded volume decline but newer markets in Vietnam and the Philippines managed to offset the shortfall with expanded capacities. FY20 EBITDA margin slipped by 1.8ppts on depressed product prices as consumption was negatively affected by the pandemic and ensuing lockdown enforcements across operating countries. Sequentially, 4Q20 sales inched up by 2.2% QoQ to MYR1.6bn following a gradual recovery in consumption and higher ASP, particularly in Indonesia. Correspondingly, core net profit more than doubled QoQ to MYR47.2m.

- **Generally product prices have gradually normalised since 4Q20** following the broader reopening of economic activities. However, a full demand recovery may not materialise in the near term as borders remain closed hence restricting tourism activities. Such a situation could potentially cause ASP to weaken again if the oversupply issue resurfaces, especially after a sharp ASP surge. Our FY21F earnings growth has factored in a reasonable recovery in consumption and ASP in view of the better containment of the pandemic and mass vaccination plans in place. Meanwhile, the company's downstream venture via The Baker's Cottage (TBC) is expected to mitigate price volatility in the poultry business. TBC is projected to take up 30-40% of LHIB's broiler supply once the store count is ramped up to 300 stores in 2023 from 103 stores as at 3 Feb 2021.

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

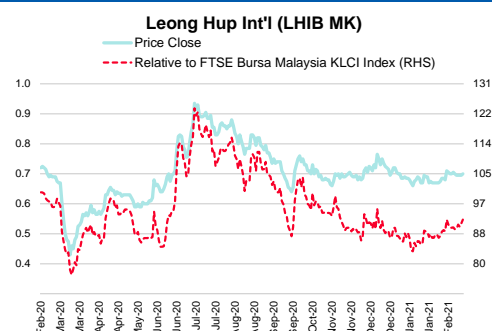
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.2	1.4	0.7	(10.8)	(4.8)
Relative	6.0	3.4	2.7	(10.0)	(7.0)
52-wk Price low/high (MYR)	0.43 – 0.94				



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

#### E: Good

Leong Hup has not identified any key initiatives in delivering sustainable reduction in greenhouse gas (GHG) emissions. However, the company has a put in place a system to properly manage and treat water, hazardous and non-hazardous wastes from its operations, in accordance with local laws and regulations.

#### S: Good

Good policies to enhance the awareness of health and safety amongst its stakeholders as well as putting in place a framework that ensures a safe and conducive working environment for its people. In addition, LHIB also practices good standards in ensuring the safety and quality of its food products.

#### G: Good

LHIB has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance, with independent directors comprising almost 50% of the board, and women making up 30% of it.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	6,055	6,041	6,674	7,067	7,455
Recurring net profit (MYRm)	151	108	167	186	212
Recurring net profit growth (%)	(31.2)	(28.4)	55.1	11.4	14.1
Recurring P/E (x)	16.97	23.71	15.29	13.72	12.02
P/B (x)	1.6	1.5	1.4	1.3	1.2
P/CF (x)	3.89	5.95	5.86	4.78	4.28
Dividend Yield (%)	2.3	0.8	2.0	2.2	2.5
EV/EBITDA (x)	7.21	9.13	7.11	6.76	6.29
Return on average equity (%)	10.2	6.7	9.4	9.8	10.4
Net debt to equity (%)	74.2	83.7	85.7	87.3	86.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.04	0.03	0.05	0.05	0.06
Agriculture	DPS	0.02	0.01	0.01	0.02	0.02
<b>Leong Hup International</b>	BVPS	0.45	0.47	0.50	0.54	0.58
LHIB MK	Return on average equity (%)	10.2	6.7	9.4	9.8	10.4
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
<b>Valuation basis</b>	Recurring P/E (x)	16.97	23.71	15.29	13.72	12.02
Discounted Cash Flow	P/B (x)	1.6	1.5	1.4	1.3	1.2
	FCF Yield (%)	9.9	(4.6)	1.4	1.4	3.8
<b>Key drivers</b>	Dividend Yield (%)	2.3	0.8	2.0	2.2	2.5
i. Regional expansion plan;	EV/EBITDA (x)	7.21	9.13	7.11	6.76	6.29
ii. Favourable product prices.	EV/EBIT (x)	11.03	17.51	11.61	11.11	10.33
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
<b>Key risks</b>	Total turnover	6,055	6,041	6,674	7,067	7,455
i. Unfavourable change in regulatory policy;	Gross profit	1,004	879	1,065	1,130	1,209
ii. Unfavourable demand-supply dynamics.	EBITDA	651	542	716	776	851
	Depreciation and amortisation	(226)	(259)	(278)	(304)	(333)
<b>Company Profile</b>	Operating profit	425	283	439	472	518
Leong Hup International is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Net interest	(137)	(126)	(131)	(132)	(135)
	Pre-tax profit	289	157	308	341	383
	Taxation	(76)	(40)	(74)	(82)	(92)
	Reported net profit	151	113	167	186	212
	Recurring net profit	151	108	167	186	212
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	39	(66)	(139)	(87)	(84)
	Cash flow from operations	657	429	436	535	596
	Capex	(404)	(546)	(400)	(500)	(500)
	Cash flow from investing activities	(373)	(504)	(400)	(500)	(500)
	Dividends paid	(84)	(24)	(50)	(56)	(64)
	Cash flow from financing activities	(3)	72	(246)	(62)	(199)
	Cash at beginning of period	459	765	758	548	520
	Net change in cash	281	(3)	(210)	(28)	(103)
	Ending balance cash	740	761	548	520	418
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	765	758	548	520	418
	Tangible fixed assets	2,396	2,656	2,779	2,975	3,142
	Total investments	22	22	22	22	22
	Total assets	5,409	5,695	5,763	6,033	6,195
	Short-term debt	1,509	1,765	1,700	1,700	1,700
	Total long-term debt	873	874	874	1,000	1,000
	Total liabilities	3,229	3,446	3,398	3,538	3,551
	Total equity	2,181	2,249	2,365	2,495	2,644
	Total liabilities & equity	5,409	5,695	5,763	6,033	6,195
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	5.4	(0.2)	10.5	5.9	5.5
	Recurrent EPS growth (%)	(31.2)	(28.4)	55.1	11.4	14.1
	Gross margin (%)	16.6	14.6	16.0	16.0	16.2
	Operating EBITDA margin (%)	10.7	9.0	10.7	11.0	11.4
	Net profit margin (%)	2.5	1.9	2.5	2.6	2.9
	Dividend payout ratio (%)	38.5	17.7	29.9	29.9	29.9
	Capex/sales (%)	6.7	9.0	6.0	7.1	6.7
	Interest cover (x)	3.11	2.25	3.36	3.57	3.82

Source: Company data, RHB

## Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Revenue	1,544.0	1,573.4	1,607.7	2.2	4.1	6,054.8	6,040.7	(0.2)	Flat after a recovery in 2H20
EBITDA	146.3	127.2	168.2	32.3	15.0	650.5	542.0	(16.7)	
EBITDA margin (%)	9.5	8.1	10.5	2.4	1.0	10.7	9.0	(1.8)	
EBIT	84.2	61.7	97.3	57.6	15.5	425.0	282.6	(33.5)	Strong QoQ momentum driven ASP recovery in Indonesia
EBIT Margin (%)	5.5	3.9	6.0	2.1	0.6	7.0	4.7	(2.3)	
Finance costs	(34.2)	(31.0)	(29.2)	(5.7)	(14.6)	(136.6)	(125.9)	(7.9)	
EI	0.0	0.0	(5.4)			0.0	(5.4)		Goodwill written off
Profit before tax	50.2	30.8	68.3	121.8	36.1	288.8	157.1	(45.6)	
PBT Margin (%)	3.3	2.0	4.2	2.3	1.0	4.8	2.6	(2.2)	
Tax expense	(16.4)	(9.8)	(11.4)	17.1	(30.2)	(75.8)	(39.6)	(47.7)	
Effective tax rate (%)	(32.6)	(31.7)	(16.7)	15.0	15.9	(26.2)	(25.2)	1.0	
Minority interests	(4.3)	1.5	(4.3)			(62.4)	(4.4)		
PATAMI	29.5	22.5	52.6	133.3	78.0	150.6	113.1	(24.9)	
Core PATAMI	29.5	22.5	47.2	109.4	59.8	150.6	107.8	(28.4)	At 117-119% of the forecasts
Net Margin (%)	1.9	1.4	2.9	1.5	1.0	2.5	1.8	(0.7)	

Source: Company data, RHB

Figure 2: LHI's geographical breakdown

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Malaysia	411.3	434.5	413.4	(4.9)	0.5	1,647.9	1,617.0	(1.9)	
Singapore	195.4	182.3	186.0	2.0	(4.8)	783.9	736.4	(6.1)	
Vietnam	374.4	410.1	409.6	(0.1)	9.4	1,347.2	1,563.7	16.1	Thanks to capacity expansion
Indonesia	533.4	520.4	567.8	9.1	6.5	2,195.9	2,019.8	(8.0)	QoQ strength driven by higher ASP
Philippines	26.1	26.1	30.8	18.2	18.3	76.3	103.9	36.1	
Group revenue	1,540.5	1,573.4	1,607.7	2.2	4.4	6,051.2	6,040.7	(0.2)	
Malaysia	54.1	45.9	42.8	(6.8)	(20.9)	227.5	160.2	(29.6)	
Singapore	16.4	23.9	33.7	40.9	105.3	95.8	108.2	13.0	4Q20 boosted by reversal in provision and Government grant
Vietnam	41.9	39.6	30.7	(22.5)	(26.7)	130.3	139.5	7.1	In line with higher volume
Indonesia	29.6	25.1	56.1	123.4	89.2	185.5	136.3	(26.5)	Benefited from higher ASP QoQ
Philippines	4.3	(7.3)	5.1	nm	17.1	11.5	(2.1)	nm	
Group EBITDA	146.3	127.2	168.3	32.3	15.0	650.5	542.0	(16.7)	
Malaysia	13.2	10.6	10.3	(0.2)	(2.8)	13.8	9.9	(3.9)	
Singapore	8.4	13.1	18.1	5.0	9.7	12.2	14.7	2.5	
Vietnam	11.2	9.6	7.5	(2.2)	(3.7)	9.7	8.9	(0.7)	
Indonesia	5.6	4.8	9.9	5.1	4.3	8.4	6.7	(1.7)	
Philippines	16.6	-27.9	16.5	44.4	(0.2)	15.0	-2.1	(17.1)	
G.EBITDA margin (%)	9.5	8.1	10.5	2.4	1.0	10.8	9.0	(1.8)	

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-24	Neutral	0.73	0.68
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

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