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Leong Hup International Bhd

TP: RM1.02 (+44.7%)
Firmer ASP to Drive FY21 Earnings Growth

Last Traded: RM0.705

Buy (ESG: ★★★)

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We left Leong Hup International Berhad's (LHI) virtual analyst briefing feeling positive as we believe ASP of poultry products could be firmer in FY21 and the group's ability to invest for the medium and long-term may lead to volume growth and higher market share. Furthermore, TBC has become profitable and can potentially be replicated regionally. We raise LHI target price to RM1.02 as we roll forward the valuation to 18x FY22 earnings. Reiterate Buy.

Gaining Market Share from Market Consolidation

Despite a lower aggregate demand for poultry and livestock products during the pandemic, LHI has successfully gained market share from the on-going market consolidation. LHI registered growth across all key products with the group's sales volume of DOC, broiler and eggs improved by 4.7% YoY, 3.9% YoY and 4.1% YoY respectively. Even though ASP volatility is inherent to the poultry business, we reckon ASP in FY21 could be firmer correspond to commencement of Covid-19 vaccine programme, which would quicken the recovery in economic activities, including dine-in, corporate events, and private functions.

CAPEX: Commitment to Invest

Notwithstanding challenges arising from the Covid-19 pandemic and several decisions in reprioritising capex investment, the management and team were steadfast in carrying out key capex projects whilst minimising delays. LHI has spent a record capex of RM484mn in FY20. We expect the capex to remain high going into FY21 as the group continues enlarging capacity to grow volume and market share alongside strengthening downstream business to improve margin stability.

Some capex projects that are expected to take place in FY21 include constructing Philippine's grandparent stock (GPS) farm with annual capacity of 39k (investment cost of RM6mn), setting up Philippines's feedmill with initial capacity of 128.0kMT (investment cost of RM59mn), enhancing machinery in Vietnam's livestock and feedmill facility (investment cost RM32mn), constructing Indonesian poultry processing plant (investment cost of RM29mn), expansion of The Baker Cottage (TBC) outlets (investment of cost of RM35mn) and others.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2573.3
52-wk Hi/Lo (RM)	0.96/0.43
12-mth Avg Daily Vol ('000 shrs)	2767.0
Estimated Free Float (%)	15.3
Beta	1.1
Major Shareholders (%)	
Emerging Glory	Emerging Glory - 52.8%
Clarinden Investment	Clarinden Investment - 9.0%

Forecast Revision (%)

	FY21	FY22
Forecast Revision (%)	-	-
Net Profit (RM mn)	170.3	206.4
Consensus	164.4	194.9
TA/Consensus (%)	103.6	105.9
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net debt/equity (%)	0.8	0.7
ROE (%)	9.6	10.8
ROA (%)	2.9	3.5
NTA/Share (RM)	0.5	0.5
Price/ NTA (x)	1.5	1.4

Share Performance

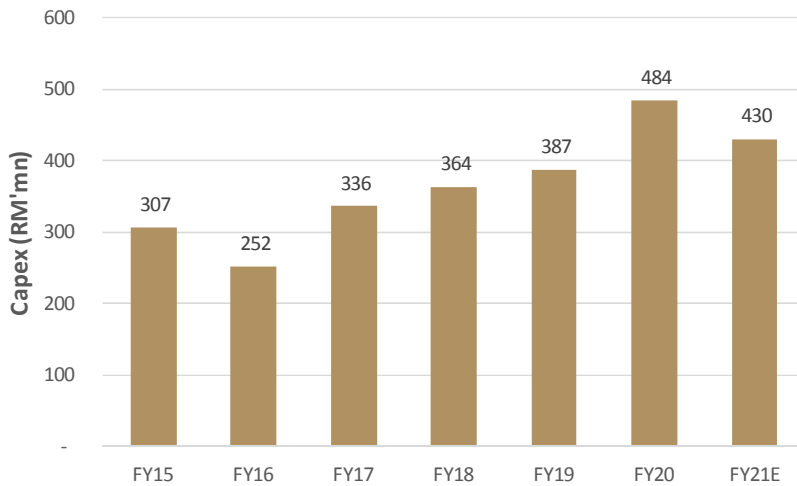
Price Change (%)	LHI	FBM KLCI
1 mth	2.2	(2.1)
3 mth	3.7	(1.0)
6 mth	(15.1)	(0.3)
12 mth	(2.1)	4.9

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure 1: 2015-2021E CAPEX



Source: Company, TA Research

Fast Growing TBC

In FY20, LHI has more than tripled its TBC outlets to a total of 103 units from 28 units in early-FY20. Management shared that TBC contributed c.8% of LHI Malaysia operation's revenue in 4QFY20 and has turned profitable at PBT level.

Underpinned by optimism over the growth trajectory of TBC, the group raises its FY21 targeted outlets to 160 outlets from 150 outlets previously. Moreover, LHI is mulling over the idea of expanding TBC brand within its established South-East Asia market. With careful planning and execution, we believe that the model of affordable ready-to-eat products could be replicated in the wider ASEAN and further enhance profitability of the group.

Impact

We make no changes to our earnings forecast.

Valuation

Reiterate Buy on higher target price of RM1.02/share (previously RM0.84/share) as we roll forward the valuation to 18x FY22 earnings.

Earnings Summary

Profit and Loss Statement

FYE 31 Dec (RMmn)	2019	2020	2021E	2022F	2023F
Revenue	6,054.8	6,040.7	6,572.7	7,021.5	7,302.1
EBITDA	637.7	525.8	710.8	791.5	860.5
Depreciation	(225.5)	(259.4)	(288.2)	(304.4)	(320.8)
Net finance cost	(123.8)	(109.7)	(115.1)	(114.5)	(114.0)
Associate	0.4	0.4	0.4	0.5	0.5
El	0.0	7.5	0.0	0.0	0.0
PBT	288.8	157.1	307.9	373.0	426.2
Taxation	(75.8)	(39.6)	(80.8)	(97.9)	(111.8)
MI	(62.4)	(4.4)	(56.8)	(68.8)	(78.6)
Net profit	150.6	113.1	170.3	206.4	235.8
Core net profit	150.6	105.7	170.3	206.4	235.8

Core EPS (sen)	4.1	2.9	4.7	5.7	6.5
Diluted EPS (sen)	4.1	2.9	4.7	5.7	6.5
DPS (sen)	1.6	0.6	1.4	1.7	1.9
Book Value (RM)	0.6	0.6	0.7	0.7	0.8
NTA (RM)	0.4	0.4	0.5	0.5	0.6

Ratios

FYE 31 Dec (RMmn)	2019	2020	2021E	2022F	2023F
Valuations					
Core PER (x)	17.1	24.4	15.1	12.5	10.9
Div. Yield (%)	2.3	0.9	2.0	2.4	2.7
P/BV (x)	1.2	1.1	1.1	1.0	0.9

Profitability ratios

EBITDA margin (%)	10.5	8.6	10.8	11.3	11.8
PBT margin (%)	4.8	2.5	4.7	5.3	5.8
Core Net Margin (%)	2.5	1.7	2.6	2.9	3.2
Core ROE (%)	10.2	10.2	9.6	10.8	11.4
Core ROA (%)	2.9	3.1	2.9	3.5	3.8

Liquidity ratios

Current ratio (x)	1.2	1.1	1.1	1.1	1.2
Quick ratio (x)	0.9	0.8	0.8	0.8	0.8

Leverage ratios

Equity/total liabilities (x)	0.7	0.7	0.7	0.8	0.8
Net debt / equity (x)	0.7	0.8	0.8	0.7	0.6

Growth ratios

Revenue (%)	5.4	(0.2)	8.8	6.8	4.0
PBT (%)	(17.2)	(45.6)	96.0	21.2	14.3
Core Net Profit (%)	(30.0)	(29.8)	61.2	21.2	14.3

Balance Sheet

FYE 31 Dec (RMmn)	2019	2020	2021E	2022F	2023F
PPE	2,396.5	2,656.5	2,798.3	2,927.5	3,055.8
Intangible Asset	97.5	95.3	95.3	95.3	95.3
Associate	1.6	1.6	1.6	1.7	1.7
Others	408.8	475.0	475.0	475.0	475.0
Non-current assets	2,904.3	3,228.4	3,370.3	3,499.5	3,627.9
Inventories	679.6	721.9	757.2	804.2	829.6
Trade receivables	499.3	489.6	540.2	577.1	600.2
Cash and Bank Balance	764.8	757.8	710.3	699.3	758.5
Others	561.1	497.2	497.2	497.2	497.2
Current assets	2,504.8	2,466.4	2,504.9	2,577.8	2,685.4
Total Assets	5,409.1	5,694.8	5,875.1	6,077.4	6,313.3
LT Borrowings	873.1	874.5	857.9	857.9	857.9
Others	252.1	279.9	279.9	279.9	279.9
Non-Current liabilities	1,125.2	1,154.4	1,137.8	1,137.8	1,137.8
Trade payables	273.1	229.4	292.0	289.2	289.9
ST Borrowings	1,508.7	1,764.8	1,731.4	1,731.4	1,731.4
Others	321.6	297.7	297.7	297.7	297.7
Current liabilities	2,103.4	2,291.9	2,321.0	2,318.3	2,318.9
Shareholders funds	1,641.2	1,713.4	1,832.7	1,977.1	2,142.2
MI	539.3	535.1	583.6	644.1	714.4
Total Equity	2,180.5	2,248.6	2,416.3	2,621.3	2,856.6
Total E&L	5,409.1	5,694.8	5,875.1	6,077.4	6,313.3

Cash Flow Statement

FYE 31 Dec (RMmn)	2019	2020	2021E	2022F	2023F
Pretax profit	288.8	157.1	307.9	373.0	426.2
Depreciation	225.5	259.4	288.2	304.4	320.8
Net interest	123.8	109.7	115.1	114.5	114.0
Associates	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Changes in WC	52.9	(67.1)	(23.3)	(86.7)	(47.8)
Tax	(57.0)	(55.3)	(80.8)	(97.9)	(111.8)
Others	37.1	26.0	0.0	0.0	0.0
Operational cash flow	670.6	429.4	606.7	607.0	700.9
Capex	(387.2)	(483.8)	(430.0)	(433.7)	(449.2)
Interest income	12.9	16.2	15.6	15.0	15.5
Others	(29.6)	(34.4)	0.4	0.4	0.4
Investing cash flow	(403.9)	(502.1)	(414.1)	(418.3)	(433.3)
Net share issue	269.6	0.0	0.0	0.0	0.0
Net borrowings	(7.2)	140.7	(50.0)	0.0	0.0
Dividend paid	(84.5)	(23.8)	(59.4)	(70.2)	(79.0)
Interest paid	(136.6)	(125.9)	(130.7)	(129.5)	(129.5)
Others	(43.3)	80.5	0.0	0.0	0.0
Financial cash flow	(2.1)	71.6	(240.1)	(199.7)	(208.5)
Net cash flow	264.6	(1.1)	(47.4)	(11.0)	59.2
Beginning Cash	390.4	654.2	645.8	598.4	587.4
Forex & others	(0.8)	(7.3)	0.0	0.0	0.0
Ending Cash	654.2	645.8	598.4	587.4	646.6

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations and management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations and management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, February 25, 2021, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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