

# Leong Hup International (LHIB MK)

## ESG: Work-In-Progress

# BUY

Share Price MYR 0.76  
 12m Price Target MYR 0.82 (+10%)  
 Previous Price Target MYR 0.82

### Additional ESG disclosures needed

LHIB has identified factors of material sustainability to be addressed which involves waste management, biosecurity, food safety and quality control. Although LHIB appears to have internal processes in place, its ESG compliance could strengthen if environmental measures are disclosed in more detail along with long-term ESG commitments.

### All about waste management

As one of the largest poultry farmers in ASEAN, LHIB endeavours to reduce its environmental footprint across all five of its regional operations by performing proper waste management. LHIB engages with third-party contractors to dispose its hazardous waste (eg. acids and alkalines, used oils, coal waste) while non-hazardous waste (poultry manure) are treated and re-sold as fertiliser. LHIB also ensures that all water wastes generated are treated at their on-site water treatment plants to avoid contamination of the public water system.

### Prioritise biosecurity

The best method of overcoming biosecurity risks is prevention. Hence, LHIB has stringent controls on accessibility, sanitisation and safety attire requirements for employees that work at their farms. Moreover, 98% of LHIB's poultry flock are kept in closed-housed systems that add an extra layer of protection against the spread of diseases. It also manages climate factors like temperature, humidity, light and airflow which have an impact on the growth and health of poultry.

### Maintain BUY with unchanged TP of MYR0.82

We remain positive on LHIB given our expectations of strong earnings growth in FY21 on the back of poultry ASP uptrends in both Malaysia and Indonesia, while poultry demand gradually increases alongside easing of social distancing measures across its regional operations. We maintain our forward earnings estimates, projecting for 71% earnings growth in FY21. We reiterate BUY with an unchanged TP of MYR0.82 (based on 17x FY21 PER).

| 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   | 15.7  | 12.9  | 12.1  |
| P/BV (x)                     | 2.0    | 1.5    | 1.5   | 1.4   | 1.3   |
| Net dividend yield (%)       | 1.8    | 0.8    | 1.9   | 2.3   | 2.5   |
| 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    | 7.7   | 6.8   | 6.6   |
| Net gearing (%) (incl perps) | 79.6   | 90.6   | 92.8  | 79.0  | 77.4  |
| Consensus net profit         | -      | -      | 170   | 215   | 212   |
| MKE vs. Consensus (%)        | -      | -      | 4.0   | 0.0   | 8.2   |

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### Company Description

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

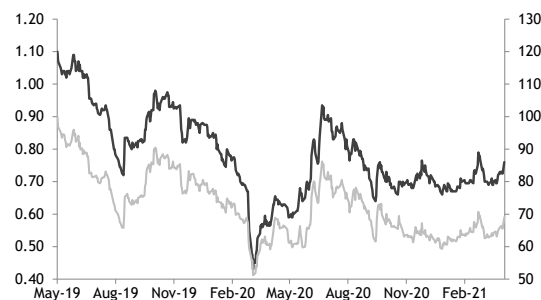
### Statistics

|                        |                    |
|------------------------|--------------------|
| 52w high/low (MYR)     | 0.94/0.59          |
| 3m avg turnover (USDm) | 0.4                |
| Free float (%)         | 27.4               |
| Issued shares (m)      | 3,650              |
| Market capitalisation  | MYR2.8B<br>USD673M |

### Major shareholders:

|                       |       |
|-----------------------|-------|
| Emerging Glory        | 52.8% |
| Clarinden Investments | 9.0%  |

### Price Performance



|                       | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%)          | 9   | 13  | 30   |
| Relative to index (%) | 10  | 13  | 14   |

Source: FactSet

**ESG@MKE**  
 Tear Sheet Insert

# ESG@MKE

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|  |                           |
|--|---------------------------|
| Risk Rating & Score <sup>1</sup>                         | 44.3 (Severe)             |
| Score Momentum <sup>2</sup>                              | N/A                       |
| Last Updated   | 14 Apr 2021               |
| Controversy Score <sup>3</sup><br>(Updated: 14 Apr 2021) | 0 - No reported incidents |

## Business Model & Industry Issues

- As one of the largest poultry producers in ASEAN, LHIB’s main ESG concerns are concentrated around waste management, biosecurity, food safety & quality control. The group actively monitors its waste generation and engages licensed contractors for proper waste disposal while also ensuring that water wastes are treated before being released into public water systems.
- To minimise biosecurity risks, LHIB has stringent biosecurity controls at its poultry farms to prevent the spread and/or outbreak of diseases. LHIB also ensures the health and safety of its food products by adhering to international food safety standards and obtaining all required industry certifications.
- Overall, LHIB’s ESG strategy is comparable to its industry peers; we believe additional ESG-related disclosures within the poultry industry and long-term targets/commitments will allow investors to better monitor LHIB’s progress in improving its ESG factors.

## Material E issues

- LHIB aims to lower its environmental impact by practising responsible waste management across all five of its regional operations.
- For hazardous waste, the group engages with qualified and licensed contractors to handle and safely dispose hazardous materials generated at their farms. Hazardous waste is mostly generated at LHIB’s feedmill operations and includes various types of acids, used oils, coal waste etc.
- The group also uses external contractors to remove/clean hazardous chemicals off selected equipment from their medicine and vitamin plants to be re-used.
- Non-hazardous waste (i.e. poultry manure) is chemically treated and converted into fertiliser to be re-sold and donated to the community. LHIB also manages its poultry flock in closed-house systems to lower odour problems in the surrounding community.
- LHIB has on-site water treatment plants. All waste water generated from its plant operations are treated to remove large particles, harmful chemicals and biological substances that could contaminate that public water system.

## Material S issues

- In FY19, staff gender composition comprised of 80.4% male and 19.6% female out of a total 10,751 staff members. Foreign workers make up 25% of its workforce.
- Being one of the largest poultry producers in Malaysia, health and safety of its food products are critical to uphold consumer confidence. Hence, LHIB implements extensive food safety controls which include risk assessment, hazard analysis, traceability procedures and hygiene controls.
- LHIB adopts stringent biosecurity measures to minimize the risk of disease outbreaks at their farms. The group has imposed restricted access to its poultry farms and feedmills and requires staff members to undergo thorough sanitisation before coming into contact with its livestock.
- For better control over biosecurity and climate factors, 98% of LHIB’s poultry flock are kept in closed-housed systems.
- Relevant staff members involved within LHIB’s livestock and feedmill operations receive training on food safety and quality control on an annual basis, at minimum.

## Key G metrics and issues

- LHIB’s board comprises 13 Directors: 6 independent non-executive directors, 6 non-independent executive directors (including the chairman) and 1 non-independent non-executive director.
- All 6 non-independent executive directors are related and have direct and indirect interest in LHIB through the group’s major shareholder, Emerging Glory (52.8% shareholding).
- The group’s independent director representation is at 46%, below the 50% level recommended by the Malaysian Code on Corporate Governance (MCCG).
- The chairman of the board and CEO positions are held by separate individuals.
- The board has a male:female ratio of 69:31 which is consistent with recommended industry practise of at least 30% female board representation.
- The audit committee is comprised solely of independent non-executive directors.
- LHIB is in the midst of establishing a formal remuneration policy for its board of directors and key senior management after the company was newly listed in 2019.
- The group CEO’s total remuneration package amounted to MYR6.1m in FY19 (2.1% of LHIB’s FY19 pre-tax profit).
- LHIB was listed on KLSE in 2019 and is currently being audited by Pricewaterhouse Coopers PLT.
- LHIB is required to enter into significant recurring related party transactions involving various parts of their poultry farming business (i.e. sale & purchase of animal feed, poultry livestock etc.) for its day-to-day operations, with its subsidiaries and associate companies. This amounted to c.13% of LHIB’s revenue in 2019.
- In 2018, 13 fresh chicken suppliers (including LHIB) were fined a total of SGD27m (LHIB’s portion: SGD11.4m) for anti-competitive practices by the Competition and Consumer Commission of Singapore.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

| FYE 31 Dec                          | FY19A          | FY20A          | FY21E          | FY22E          | FY23E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Key Metrics</b>                  |                |                |                |                |                |
| P/E (reported) (x)                  | 22.1           | 23.2           | 15.7           | 12.9           | 12.1           |
| Core P/E (x)                        | 21.3           | 24.2           | 15.7           | 12.9           | 12.1           |
| P/BV (x)                            | 2.0            | 1.5            | 1.5            | 1.4            | 1.3            |
| P/NTA (x)                           | 2.1            | 1.5            | 1.6            | 1.5            | 1.3            |
| Net dividend yield (%)              | 1.8            | 0.8            | 1.9            | 2.3            | 2.5            |
| FCF yield (%)                       | 8.9            | nm             | nm             | 9.1            | nm             |
| EV/EBITDA (x)                       | 8.4            | 9.4            | 7.7            | 6.8            | 6.6            |
| EV/EBIT (x)                         | 12.9           | 18.0           | 11.6           | 10.0           | 9.7            |
| <b>INCOME STATEMENT (MYR m)</b>     |                |                |                |                |                |
| Revenue                             | 6,054.8        | 6,040.7        | 7,112.0        | 7,538.9        | 7,800.4        |
| 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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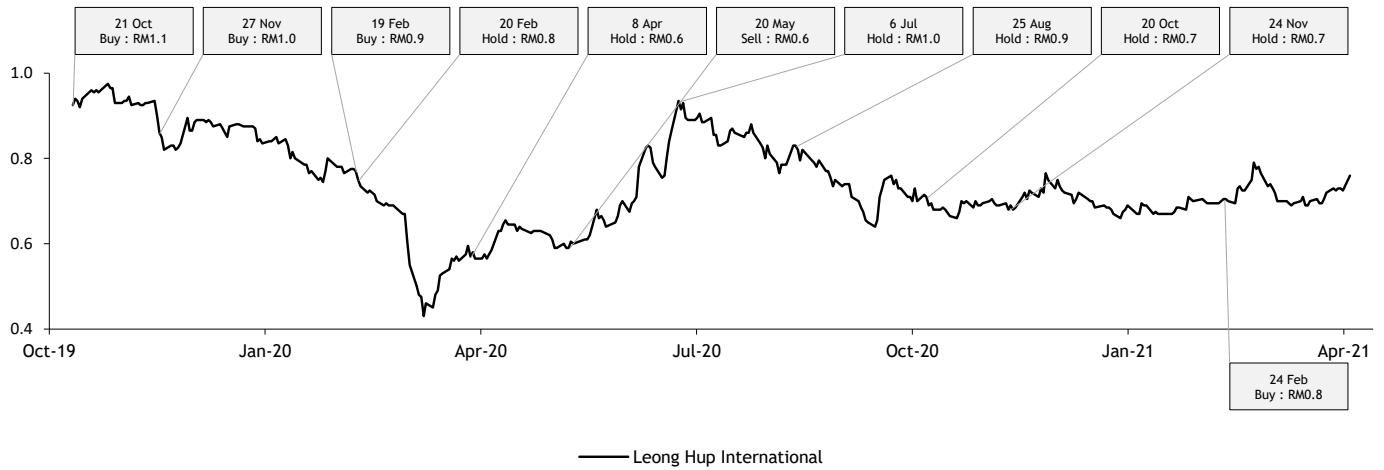
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