

HLIB Research

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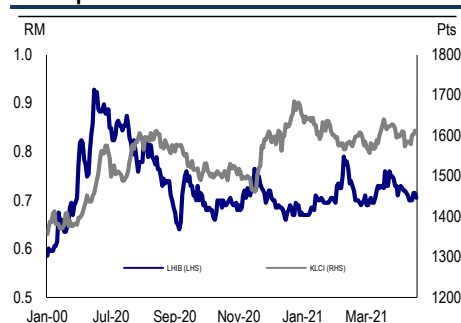
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BUY (Maintain)**Target Price: RM0.90****Previously: RM0.76****Current Price: RM0.715**

Capital upside	25.9%
Dividend yield	2.8%
Expected total return	28.7%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price

Historical return (%)	1M	3M	12M
Absolute	-2.1	2.9	21.2
Relative	-0.7	3.5	11.7

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,610
3-mth average volume ('000)	2,377
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

Emerging Glory	52.8%
Clarinden	9.0%
Amanah Saham Nasional	5.7%

Earnings summary

FYE Dec	FY20	FY21f	FY22f
PATMI - core (RM m)	117.9	164.0	202.3
EPS - core (sen)	3.2	4.5	5.5
P/E (x)	22.1	15.9	12.9

Leong Hup International

A good start to FY21

LHI's 1Q21 core net profit of RM72.0m (QoQ: +41.7%; YoY: +222.8%) beat expectations, accounting for 41.7-46.5% of consensus and our full-year estimates. The positive results surprise was due mainly to stronger-than-expected livestock prices in Malaysia and Indonesia, as well as better-than-expected contribution from Singapore operations. We raise our FY21-22 core net profit forecasts by 5.9% and 4.8%, mainly to account for higher selling price assumptions for broiler chickens and DOC in Malaysia and Indonesia. Maintain BUY rating with a higher TP of RM0.90 (from RM0.76 previously), to reflect an upward revision to our core net profit forecasts and the roll-forward of our valuation base year.

Beat expectations. 1Q21 core net profit of RM72.0m (QoQ: +41.7%; YoY: +222.8%) beat expectations, accounting for 41.7-46.5% of consensus and our full-year estimates. The positive results surprise was due mainly to stronger-than-expected livestock prices in Malaysia and Indonesia, as well as better-than-expected contribution from Singapore operations.

Exceptional items in 1Q21. Core net profit of RM72.0m in 1Q21 was arrived after adjusting for (i) RM1.7m impairment loss, (ii) RM0.6m disposal gain, and (iii) RM0.5m share option expense.

Dividend. Declared 1st interim DPS of 0.66 sen (going ex on 17 Jun 2021). For the full-year, we are projecting a total DPS of 2 sen, translating to a dividend yield of 2.8%.

QoQ. Core net profit surged 41.74% to RM72.0m in 1Q21, boosted by (i) higher selling prices and sales volumes of boiler chickens and higher ASP of DOC in Malaysia, Indonesia and Philippines, (ii) higher earnings contribution from feedmill segment, and lower finance costs.

YoY. Core net profit surged 222.8% to RM72.0m in 1Q21 (from RM21.8m SPLY), boosted mainly by higher DOC prices in Indonesia and Philippines, (ii) higher broiler chicken prices in Malaysia, Indonesia and Philippines, (iii) higher livestock feed sales volume and selling prices in Vietnam and Indonesia, and (iv) lower finance costs.

Outlook. While we are still holding the view that high poultry prices may not sustain (if history is a guide), it is unlikely for poultry product prices to revisit their previous lows (i.e. 2Q20), as high feed cost (mainly corn and soybean meal, which prices have risen considerably since 3Q20) will likely deter smaller scale farmers from expanding capacity. On the other hand, bottomline contribution from feedmill segment will remain stable going forward, as lower margin will likely be mitigated by higher sales volume in Vietnam (arising from the ongoing feedmill capacity expansion in Vietnam and Philippines).

Forecast. We raise our FY21-22 core net profit forecasts by 5.9% and 4.8%, mainly to account for higher selling price assumptions for broiler chickens and DOC in Malaysia and Indonesia.

Maintain BUY, with higher TP of RM0.90. We maintain our BUY rating on LHI, with a higher TP of RM0.90 (based on 18x revised mid FY21-22 EPS of 5 sen) to reflect an upward revision to our core net profit forecasts and the roll-forward of our valuation base year (from FY21 to mid FY21-22).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	764.8	757.8	657.6	737.4	1,114.6
Receivables	670.0	600.5	703.2	737.8	775.4
Inventories	679.6	721.9	696.6	730.9	768.2
PPE	2,396.5	2,656.5	2,734.9	2,792.1	2,568.8
Others	898.2	958.2	912.2	931.7	953.0
Assets	5,409.1	5,694.8	5,704.5	5,930.0	6,180.0
Payables	560.2	489.6	583.5	612.2	643.5
Debt	2,381.8	2,639.3	2,381.8	2,381.8	2,381.8
Others	282.9	317.3	282.9	282.9	282.9
Liabilities	3,228.6	3,446.2	3,251.9	3,280.7	3,311.9
Shareholders' equity	1,641.2	1,713.4	1,820.6	1,949.9	2,095.7
Non-controlling interests	539.3	535.1	632.0	699.4	772.3
Equity	2,180.5	2,248.6	2,452.6	2,649.3	2,868.0

Cash Flow Statement

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Profit before tax	288.8	157.1	157.1	364.5	394.2
D&A	197.4	188.4	259.4	243.0	223.6
Working capital	38.7	-67.1	-67.1	-59.5	-64.6
Tax paid	-57.0	-55.3	-55.3	-94.8	-102.5
Others	189.1	206.3	135.3	102.7	100.8
CFO	-373.0	429.4	429.4	-300.0	0.0
Capex	-403.6	-483.8	-483.8	-300.0	0.0
Others	30.7	-18.2	-18.2	0.0	0.0
CFI	-373.0	-502.1	-502.1	-300.0	0.0
Changes in debt	-43.5	261.1	261.1	0.0	0.0
Shares issued	269.6	0.0	0.0	0.0	0.0
Dividends	-84.5	-23.8	-23.8	-73.0	-73.0
Others	-144.3	-165.8	-165.8	-103.2	-101.3
CFF	-2.7	71.6	71.6	-176.2	-174.3
Net cash flow	281.1	-1.1	-1.1	79.8	377.2
Beginning cash	390.4	654.2	654.2	563.6	643.4
Forex	-0.7	-7.3	-7.3	0.0	0.0
Ending cash	670.8	645.8	645.8	643.4	1,020.6

Income Statement

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,269.1	6,578.1	6,914.0
EBITDA	650.5	542.0	650.0	710.3	718.6
EBIT	425.0	282.6	411.9	467.2	495.0
Finance cost	-136.6	-125.9	-116.8	-103.2	-101.3
Associates	0.4	0.4	0.5	0.5	0.5
Profit before tax	288.8	157.1	295.6	364.5	394.2
Tax	-75.8	-39.6	-76.8	-94.8	-102.5
PAT	213.0	117.5	218.7	269.7	291.7
Non-controlling interests	-62.4	-4.4	-54.7	-67.4	-72.9
Reported PATMI	150.6	113.1	164.0	202.3	218.8
Exceptionals	6.5	4.7	0.0	0.0	0.0
Core PATMI	157.1	117.9	164.0	202.3	218.8
Consensus core PATMI			172.4	204.3	226.5
HLIB/ Consensus			95.1%	99.0%	96.6%

Ratios

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Core EPS (sen)	4.3	3.2	4.5	5.5	6.0
P/E (x)	16.6	22.1	15.9	12.9	11.9
EV/EBITDA (x)	6.5	7.8	6.5	6.0	5.9
DPS (sen)	1.2	0.6	2.0	2.0	0.0
Dividend yield	1.7%	0.8%	2.8%	2.8%	0.0%
BVPS (RM)	0.4	0.5	0.5	0.5	0.6
P/B (x)	1.6	1.5	1.4	1.3	1.2
EBITDA margin	19.2%	9.0%	18.7%	19.8%	19.4%
EBIT margin	5.7%	4.7%	5.1%	5.6%	5.6%
PBT margin	3.9%	2.6%	3.7%	4.4%	4.5%
Net margin	2.1%	2.0%	2.0%	2.4%	2.5%
ROE	10.7%	5.3%	9.3%	10.7%	10.8%
ROA	3.1%	2.1%	2.9%	3.5%	3.6%
Net gearing	74.2%	83.7%	70.3%	62.1%	44.2%

Assumptions

FYE Dec	FY21F	FY22F	FY23F
Feedmill			
- Production volume ('000 mt)	2,588.2	2,731.2	2,883.2
- Utilisation rate	73%	77%	81%
Livestock			
- Broiler DOC supplied (m chicks)	185.0	190.5	196.3
- Broiler supplied (m birds)	122.6	125.2	127.9
- Eggs supplied (m eggs)	1,851.8	1,900.4	1,950.4

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)
Revenue	1,434.1	1,607.7	1,676.5	4.3	16.9
- Livestock & poultry related products	782.6	899.5	915.2	1.7	16.9
- Feedmill	648.1	704.9	758.4	7.6	17.0
- Others	3.4	3.2	3.0	-6.6	-10.0
EBITDA	127.2	168.2	200.1	18.9	57.3
- Livestock & poultry related products	6.0	88.1	94.2	7.0	>100
- Feedmill	119.4	93.2	111.7	19.9	-6.4
- Others	1.7	-13.0	-5.9	NM	NM
Profit from operations	67.7	97.3	130.9	34.6	93.5
- Livestock & poultry related products	-39.2	34.9	40.8	17.0	>100
- Feedmill	105.9	77.1	97.0	25.8	-8.4
- Others	1.0	-14.7	-6.9	NM	NM
Finance costs	-32.6	-29.2	-25.9	-11.4	-20.7
Associates	0.0	0.3	0.1	-60.5	>100
PBT	35.1	68.3	105.1	53.9	>100
Tax expense	-9.8	-11.4	-23.2	>100	>100
PAT	25.3	56.9	82.0	44.1	>100
Non-controlling interests	-3.5	-4.3	-11.6	-	-
Reported net profit	21.8	52.6	70.3	33.8	>100
Core net profit	23.3	50.8	72.0	41.7	>100
Core EPS (sen)	0.6	1.4	2.0	41.7	>100
				%-pts	%-pts
EBITDA margin (%)	8.9	10.5	11.9	1.5	3.1
Operating margin (%)	4.7	6.0	7.8	1.8	3.1
PBT margin (%)	2.4	4.2	6.3	2.0	3.8
Net margin (%)	1.6	3.2	4.3	1.1	2.7

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Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)
Revenue	1,434.1	1,607.7	1,676.5	4.3	16.9
- Malaysia	383.5	413.4	443.3	7.2	15.6
- Singapore	185.4	186.0	189.9	2.1	2.4
- Vietnam	356.5	409.6	385.1	-6.0	8.0
- Indonesia	484.1	567.8	613.7	8.1	26.8
- Philippines	24.7	30.8	44.6	44.5	80.6
EBITDA	127.2	168.2	200.1	18.9	57.3
- Malaysia	33.1	42.8	64.3	50.3	94.1
- Singapore	21.0	33.7	26.2	-22.2	24.5
- Vietnam	35.1	30.7	38.0	23.9	8.4
- Indonesia	36.3	56.1	60.8	8.5	67.8
- Philippines	1.7	5.0	10.7	NM	NM

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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