



## Company report

# LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

21 May 2021

### Best-ever quarterly earnings

## BUY

(Maintained)

### AmInvestment Bank

www.amequities.com.my

03-2036 2290

### Rationale for report: Company results

Price	RM0.72
Fair Value	RM1.02
52-week High/Low	RM0.96/RM0.58

### Key Changes

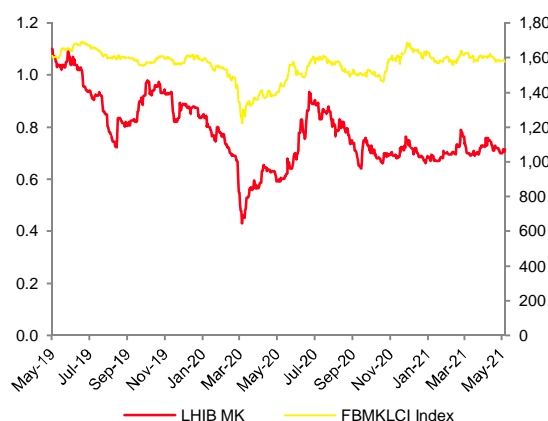
Fair value	↔
EPS	⬇️

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	6,040.7	6,342.4	6,644.0	6,874.9
Core net profit (RM mil)	109.4	209.9	218.7	227.9
FD Core EPS (sen)	3.0	5.8	6.0	6.2
FD Core EPS growth (%)	(27.3)	91.8	4.2	4.2
Consensus Net Profit (RM mil)	-	172.4	204.3	226.5
DPS (sen)	0.6	1.7	1.8	1.9
PE (x)	23.8	12.4	11.9	11.4
EV/EBITDA (x)	8.8	6.4	5.8	5.3
Div yield (%)	0.8	2.4	2.5	2.6
ROE (%)	6.8	11.7	11.2	10.8
Net Gearing (%)	118.9	90.9	73.7	59.6

### Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RMmil)	2,609.8
Book Value (RM/share)	0.47
P/BV (x)	1.5
ROE (%)	6.8
Net Gearing (%)	118.9
Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Lau Eng Guang (1.6%)
Free Float	87.3
Avg Daily Value (RMmil)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	2.9	3.6	21.2
Relative (%)	3.5	4.8	10.4



### Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with an unchanged fair value (FV) of RM1.02/share based on a PER of 17x FY 22F EPS. We make no ESG-related price adjustment for our rating of 3 stars.
- LHI reported its best-ever quarterly net profit of RM70.3mil in 1QFY21. This was above both our and market expectations, making up 35.0% and 40.8% of full-year forecasts respectively. This was due to stronger-than-expected results for the livestock and feed mill segments.
- Hence, we raise our FY21F estimates by 5%. Our FY22F and FY23F forecasts remain unchanged.
- Going forward, we are optimistic that LHI will maintain its streak of strong earnings. This is based on strong and stable broiler and day-old chick (DOC) prices, a local table egg price recovery in 2HFY21 and solid contributions from The Baker's Cottage (TBC).
- We believe that LHI will have a solid 2QFY21 despite MCO 3.0, given the seasonal effects of cold weather and festive seasons driving up poultry average selling price (ASP). Additionally, we reckon that the rising popularity of delivery and take-away will continue to hold HoReCa demand, preventing it from falling to levels of previous lockdown periods.
- However, we note downward pressure from the rising Covid-19 cases in Malaysia, Vietnam and the Philippines. Additionally, feed mill income is likely to normalise following the supernormal margins in the past quarters.
- The group posted an impressive revenue growth of 17% YoY and 4% QoQ, as well as EBITDA growth of 57% YoY and 19% QoQ. Overall, the revenue and earnings in all its geographical segments and both its livestock and feed mill segments largely saw improvements (Exhibit 1).
- Livestock and poultry revenue rose by 17% YoY and 2% QoQ, while EBITDA surged by 14.6x YoY and 7% QoQ. This was due to improved ASP of broiler and DOC in Indonesia, the Philippines and Malaysia (Exhibit 2).
- Feed mill revenue rose by 17% YoY and 8% QoQ, while EBITDA fell by 6% YoY although it climbed 39% QoQ. Revenue was stronger on a YoY basis due to higher sales volume and ASP in Vietnam and Indonesia. However, EBITDA dipped on a YoY basis primarily due to the normalisation of margins in these countries.

- On a geographical basis, all countries mostly saw YoY growth in revenue and EBITDA. Only Vietnam reported a drop in revenue on QoQ basis, while Singapore reported an EBITDA and EBITDA margin shrinkage.
- The group declared an interim dividend of 0.66 sen for the quarter, above its payout policy of 30%.

## EXHIBIT 1: FINANCIAL RESULTS

FYE Dec (RM mil)	1QFY20	2QFY20	3QFY20	4FYQ20	1QFY21	QoQ	YoY
Revenue	1,434.1	1,425.4	1,573.4	1,607.7	1,676.5	4%	17%
<b>EBITDA</b>	<b>127.2</b>	<b>113.1</b>	<b>120.2</b>	<b>168.2</b>	<b>200.1</b>	<b>19%</b>	<b>57%</b>
EBIT	67.7	56.0	61.7	97.3	130.9	35%	93%
Operating profit	39.2	22.9	34.2	73.6	108.8	48%	177%
<b>PBT</b>	<b>35.1</b>	<b>22.9</b>	<b>30.8</b>	<b>68.3</b>	<b>105.1</b>	<b>54%</b>	<b>200%</b>
Tax	(9.8)	(8.6)	(9.8)	(11.4)	(23.2)	103%	137%
PAT	25.3	14.3	21.0	56.9	82.0	44%	224%
Net profit	21.8	16.3	22.5	52.6	70.3	34%	223%
<b>Core net profit</b>	<b>22.0</b>	<b>17.2</b>	<b>25.7</b>	<b>60.7</b>	<b>70.3</b>	<b>16%</b>	<b>220%</b>
<b>FD EPS (sen)</b>	<b>0.60</b>	<b>0.47</b>	<b>0.70</b>	<b>1.66</b>	<b>1.93</b>	<b>16%</b>	<b>220%</b>
EBIT DA margin	8.9%	7.9%	7.6%	10.5%	11.9%	1.5ppt	3.1ppt
PBT margin	2.4%	1.6%	2.0%	4.2%	6.3%	2.0ppt	3.8ppt
Effective tax rate	-27.8%	-37.6%	-31.7%	-16.7%	-22.1%	-5.3ppt	5.8ppt
Core net profit margin	1.5%	1.2%	1.6%	3.8%	4.2%	0.4ppt	2.7ppt

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL RESULTS

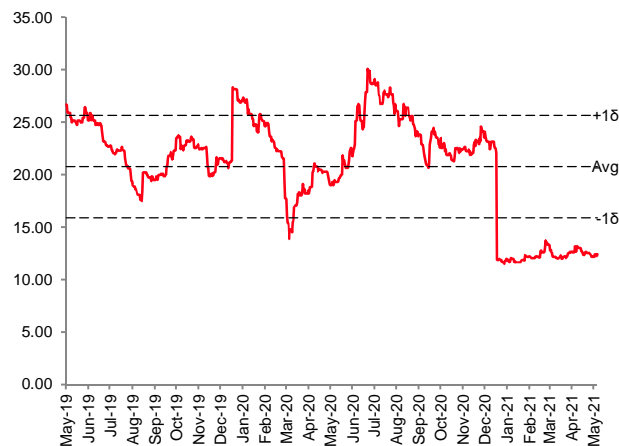
FYE Dec (RM mil)	1QFY20	2QFY20	3QFY20	4FYQ20	1QFY21	QoQ	YoY
<b>Livestock and poultry</b>							
Revenue	782.6	807.3	865.1	899.5	915.2	2%	17%
EBIT DA	6.0	29.3	21.8	88.1	94.2	7%	1462%
EBIT DA margin (%)	0.8%	3.6%	2.5%	9.8%	10.3%	0.5ppt	9.5ppt
<b>Feedmill</b>							
Revenue	648.1	614.7	705.1	704.9	758.4	8%	17%
EBIT DA	119.4	90.1	105.4	80.2	111.7	39%	-6%
EBIT DA margin (%)	18.4%	14.7%	15.0%	11.4%	14.7%	3.4ppt	-3.7ppt
<b>Malaysia</b>							
Revenue	383.5	385.5	434.5	413.4	443.3	7%	16%
EBIT DA	33.1	38.4	45.9	24.8	64.3	160%	94%
EBIT DA margin (%)	8.6%	9.9%	10.6%	6.0%	14.5%	8.5ppt	5.9ppt
<b>Singapore</b>							
Revenue	185.4	182.7	182.3	186.0	189.9	2%	2%
EBIT DA	21.0	29.6	23.9	33.7	26.2	-22%	25%
EBIT DA margin (%)	11.4%	16.2%	13.1%	18.1%	13.8%	-4.3ppt	2.5ppt
<b>Vietnam</b>							
Revenue	356.5	387.5	410.1	409.6	385.1	-6%	8%
EBIT DA	35.1	34.2	39.6	30.7	38.0	24%	8%
EBIT DA margin (%)	9.8%	8.8%	9.6%	7.5%	9.9%	2.4ppt	0.0ppt
<b>Indonesia</b>							
Revenue	484.1	447.5	520.4	567.8	613.7	8%	27%
EBIT DA	36.3	18.9	25.1	56.1	60.8	9%	68%
EBIT DA margin (%)	7.5%	4.2%	4.8%	9.9%	9.9%	0.0ppt	2.4ppt
<b>Philippines</b>							
Revenue	24.7	22.3	26.1	30.8	44.6	45%	81%
EBIT DA	1.7	(1.6)	(7.3)	5.1	10.7	111%	534%
EBIT DA margin (%)	6.8%	-7.4%	-27.9%	16.5%	24.0%	7.5ppt	17.2ppt

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 3: PB BAND CHART**



**EXHIBIT 4: PE BAND CHART**



**EXHIBIT 5: ESG MATRIX**

<b>Overall</b>	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of **-6%**, **-3%**, **0%**, **+3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmInvestment Bank Bhd

## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,342.4	6,644.0	6,874.9
EBITDA	637.7	525.8	678.3	709.9	743.9
Depreciation/Amortisation	(225.5)	(259.4)	(273.4)	(296.3)	(321.2)
Operating income (EBIT)	412.1	266.5	405.0	413.6	422.7
Other income & associates	0.4	0.5	0.4	0.4	0.4
Net interest	(123.8)	(109.7)	(119.7)	(117.0)	(114.1)
<b>Exceptional items</b>	-	<b>3.9</b>	-	-	-
Pretax profit	288.8	157.3	285.6	297.0	309.0
Taxation	(75.8)	(39.6)	(65.7)	(68.3)	(71.1)
<b>Minorities/pref dividends</b>	<b>(62.4)</b>	<b>(4.4)</b>	<b>(10.0)</b>	<b>(10.0)</b>	<b>(10.0)</b>
Net profit	150.6	113.3	209.9	218.7	227.9
Core net profit	150.6	109.4	209.9	218.7	227.9
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,396.5	2,656.5	2,891.5	3,166.5	3,466.5
Intangible assets	97.5	95.3	95.3	95.3	95.3
<b>Other long-term assets</b>	<b>410.4</b>	<b>476.6</b>	<b>461.0</b>	<b>483.4</b>	<b>507.4</b>
Total non-current assets	2,904.3	3,228.4	3,447.8	3,745.2	4,069.2
Cash & equivalent	764.8	757.8	1,064.5	1,244.6	1,403.3
Stock	679.6	721.9	635.5	665.7	688.8
Trade debtors	499.3	489.6	514.0	538.5	557.2
<b>Other current assets</b>	<b>561.1</b>	<b>497.2</b>	<b>508.1</b>	<b>519.4</b>	<b>531.0</b>
Total current assets	2,504.8	2,466.4	2,722.1	2,968.2	3,180.3
Trade creditors	273.1	229.4	503.6	527.5	545.8
Short-term borrowings	1,522.7	1,783.8	1,773.8	1,763.8	1,753.8
<b>Other current liabilities</b>	<b>307.6</b>	<b>278.6</b>	<b>277.3</b>	<b>277.3</b>	<b>277.3</b>
Total current liabilities	2,103.4	2,291.9	2,554.7	2,568.6	2,576.9
Long-term borrowings	977.7	1,011.6	991.7	971.7	951.7
<b>Other long-term liabilities</b>	<b>147.5</b>	<b>142.7</b>	<b>217.9</b>	<b>589.1</b>	<b>957.9</b>
<b>Total long-term liabilities</b>	<b>1,125.2</b>	<b>1,154.4</b>	<b>1,209.6</b>	<b>1,560.7</b>	<b>1,909.6</b>
Shareholders' funds	1,641.2	1,713.4	1,870.7	2,023.8	2,183.4
Minority interests	539.3	535.1	532.0	557.3	576.7
BV/share (RM)	0.45	0.47	0.51	0.55	0.60
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	288.8	157.3	285.6	297.0	309.0
Depreciation/Amortisation	225.5	259.4	273.4	296.3	321.2
Net change in working capital	52.9	(67.1)	223.2	89.9	71.8
<b>Others</b>	<b>103.4</b>	<b>79.9</b>	-	-	-
Cash flow from operations	670.6	429.4	782.1	683.2	702.0
Capital expenditure	(403.6)	(530.9)	(235.0)	(293.7)	(319.6)
Net investments & sale of fixed assets	3.9	6.5	14.5	(3.8)	(4.3)
<b>Others</b>	<b>(4.1)</b>	<b>22.3</b>	-	-	-
Cash flow from investing	(403.9)	(502.1)	(220.5)	(297.5)	(324.0)
Debt raised/(repaid)	(43.5)	221.7	(30.0)	(30.0)	(30.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(84.5)	(23.8)	(63.0)	(65.6)	(68.4)
<b>Others</b>	<b>125.8</b>	<b>(126.3)</b>	<b>(100.0)</b>	<b>(110.0)</b>	<b>(121.0)</b>
<b>Cash flow from financing</b>	<b>(2.1)</b>	<b>71.6</b>	<b>(193.0)</b>	<b>(205.6)</b>	<b>(219.4)</b>
<b>Net cash flow</b>	<b>264.6</b>	<b>(1.1)</b>	<b>368.7</b>	<b>180.1</b>	<b>158.7</b>
<b>Net cash/(debt) b/f</b>	<b>390.4</b>	<b>654.3</b>	<b>645.9</b>	<b>1,014.5</b>	<b>1,194.6</b>
Net cash/(debt) c/f	654.3	645.9	1,014.5	1,194.6	1,353.3
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	5.4	(0.2)	5.0	4.8	3.5
EBITDA growth (%)	(2.5)	(17.5)	29.0	4.7	4.8
Pretax margin (%)	4.8	2.6	4.5	4.5	4.5
Net profit margin (%)	2.5	1.9	3.3	3.3	3.3
Interest cover (x)	3.3	2.4	3.4	3.5	3.7
Effective tax rate (%)	26.2	25.2	23.0	23.0	23.0
Dividend payout (%)	38.8	17.7	30.0	30.0	30.0
Debtors turnover (days)	30	30	30	30	30
Stock turnover (days)	38	42	39	36	36
Creditors turnover (days)	16	15	21	28	28

Source: Company, AmlInvestment Bank Bhd estimates

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