

Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

Maintain BUY

Starting FY21 with a bang

KEY INVESTMENT HIGHLIGHTS

- **1QFY21 core net income (CNI) exceeds estimates**
- **1QFY21 CNI soared 222.8%yoy to a record of RM70.3m**
- **Sequential earnings were 33.8% higher compared to 4QFY21**
- **The worst is behind us**
- **Maintain BUY with an unchanged TP of RM0.92**


1QFY21 core net income (CNI) exceeds estimates. Leong Hup International Berhad (LHI)'s core net income (CNI) of RM70.3m had beaten expectations as it made up 41.7% of ours and 40.8% of consensus' full year forecasts. The positive deviation can be attributed to the much better-than-expected average selling prices (ASP) and profit margin.

1QFY21 CNI soared 222.8%yoy to a record of RM70.3m as revenue jumped by 16.9%yoy to RM1.7b. This was mainly due to better ASP and higher sales volume for the poultry segment as well as higher sales volume for its feedmill segment. The notable improvement in the poultry segment in terms of EBITDA can be seen in Indonesia (+67.7%yoy), Malaysia (94.1%yoy) and the Philippines (+533.1%yoy) whereby ASP and sales volume are higher for broiler chicken and day-old-chicks. In Malaysia, the profitability is also lifted by its expansion of *The Baker's Cottage*, which helped it sell directly to consumers.

Sequential earnings were 33.8% higher compared to 4QFY21 as revenue climbed by 4.3%qoq. The better results can be attributed to higher ASP and sales volume of broiler chicken in Malaysia, Indonesia and the Philippines.

The worst is behind us. Barring unforeseen global events, we think that LHI is in a much better position this year compared to last year. This is shown in its business strategies that helped it to manage its cost despite the jump in global commodity prices as well as its down stream strategy to help cushion its profitability when poultry prices were low. The company's future growth also supported by its better operating cash flow and healthy balance sheet.

Impact to earnings. We leave our earnings estimates unchanged for now, pending further clarity on the group's outlook due to the volatile market condition and latest development in the region, which may upend ASP or input cost.

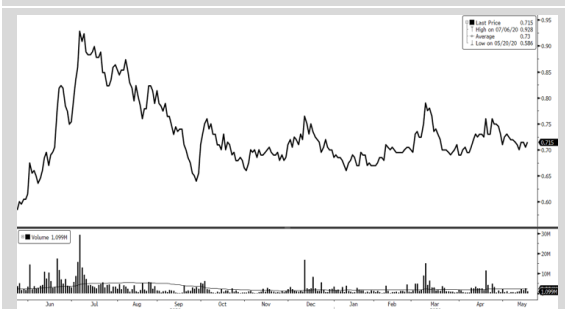
Maintain BUY with an unchanged TP of RM0.92. Our TP is based on unchanged FY22F EPS of 5.3 sen pegged to unvaried PER of 17.3x, which is premised on the median PER of LHI's regional peers. We continue to like LHI due to its: (i) economies of scale; (ii) vertical integration; and (iii) geographical diversification. 

Unchanged Target Price: RM0.92

RETURN STATISTICS

Price @ 20 th May 2021 (RM)	0.715
Expected share price return (%)	+28.6
Expected dividend yield (%)	+2.2
Expected total return (%)	+30.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.1	-0.7
3 months	3.6	3.5
12 months	21.2	11.7

KEY STATISTICS

FBM KLCI	1,575.32
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	15.56
Market Capitalisation (RM'm)	2,609.75
52-wk price range	RM0.58 - RM0.96
Beta vs FBM KLCI (x)	1.09
Monthly volatility (%)	0.00
3-mth average daily volume (m)	2.38
3-mth average daily value (RM'm)	1.75
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.8
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73

ANALYST

Ng BEI SHAN

ng.bs@midf.com.my

03 -2173 8461

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2019	FY2020	FY2021E	FY2022F	FY2023F
Revenue	6,054.7	6,040.7	5,974.0	6,260.7	6,448.5
Core EBITDA	650.5	542.0	659.0	713.7	744.8
Depreciation & amortisation	(225.5)	(259.4)	(221.1)	(231.6)	(242.4)
Core EBIT	425.0	282.6	438.0	482.1	502.5
Finance costs	(136.6)	0.4	(131.4)	(137.7)	(141.9)
Share of profits of associates	0.4	0.6	0.6	0.6	0.7
PBT	288.8	157.1	307.2	345.0	361.2
PAT	213.0	117.5	230.4	260.1	272.3
PATANCI	150.6	113.1	168.5	194.1	204.3
EPS (sen)	4.2	3.1	4.6	5.3	5.6
EPS growth (%)	(17.1)	(26.7)	48.9	15.2	5.3
Net Dividend (sen)	1.6	0.6	1.8	2.0	0.0
EBITDA margin (%)	10.7	9.0	11.0	11.4	11.6
PATANCI margin (%)	2.5	1.9	2.8	3.1	3.2
Dividend yield (%)	2.5	1.2	2.2	2.4	0.0
PER (x)	16.9	23.1	15.5	13.5	12.8

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 1QFY21 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	1QFY21	4QFY20	1QFY20	YoY (%)	QoQ (%)	3MFY21	3MFY20	YoY (%)
Revenue	1,676.5	1,607.7	1,434.1	16.9	4.3	1,676.5	1,434.1	16.9
Other income	16.5	19.0	19.1	(13.4)	(13.1)	16.5	19.1	(13.4)
Operating expenses	(1,562.2)	(1,529.4)	(1,385.5)	12.7	2.1	(1,562.2)	(1,385.5)	12.7
Profit from operations	130.9	97.3	67.7	93.5	34.6	130.9	67.7	93.5
Finance costs	(25.9)	(29.2)	(32.6)	(20.7)	(11.4)	(25.9)	(32.6)	(20.7)
Share of profits of associates	0.1	0.3	0.0	270.4	(60.9)	0.1	0.0	270.4
PBT	105.2	68.3	35.1	199.7	53.9	105.2	35.1	199.7
Tax expense	(23.2)	(11.4)	(9.8)	137.5	102.8	(23.2)	(9.8)	137.5
PAT	81.9	56.9	25.3	223.7	44.1	81.9	25.3	223.7
Non-controlling interests	11.6	4.3	3.5	229.3	169.0	11.6	3.5	229.3
PATANCI	70.3	52.6	21.8	222.8	33.8	70.3	21.8	222.8
One-off items	0.0	3.7	0.0	nm	nm	0.0	0.0	nm
Normalised PATANCI	70.3	56.2	21.8	222.8	25.1	70.3	21.8	222.8
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
Operating margin (%)	7.8	6.0	4.7	3.1	1.8	7.8	4.7	3.1
PBT margin (%)	6.3	4.2	2.4	3.8	2.0	6.3	2.4	3.8
PAT margin (%)	4.9	3.5	1.8	3.1	1.4	4.9	1.8	3.1
PATANCI margin (%)	4.2	3.3	1.5	2.7	0.9	4.2	1.5	2.7
Effective Tax rate (%)	22.1	16.7	27.8	(5.8)	5.3	22.1	27.8	(5.8)

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results					Cumulative results		
	1QFY21	4QFY20	1QFY20	YoY (%)	QoQ (%)	3MFY21	3MFY20	YoY (%)
Revenue								
Malaysia	443.3	413.4	383.5	15.6	7.2	443.3	383.5	15.6
Singapore	189.9	186.0	185.4	2.4	2.1	189.9	185.4	2.4
Vietnam	385.1	409.6	356.5	8.0	(6.0)	385.1	356.5	8.0
Indonesia	613.7	567.8	484.1	26.8	8.1	613.7	484.1	26.8
Philippines	44.6	30.8	24.7	80.7	44.6	44.6	24.7	80.7
Total	1,676.6	1,607.7	1,434.1	16.9	4.3	1,676.6	1,434.1	16.9
EBITDA								
Malaysia	64.3	42.8	33.1	94.1	50.3	64.3	33.1	94.1
Singapore	26.2	33.7	21.0	24.5	(22.2)	26.2	21.0	24.5
Vietnam	38.0	30.7	35.1	8.4	23.9	38.0	35.1	8.4
Indonesia	60.8	56.0	36.3	67.7	8.6	60.8	36.3	67.7
Philippines	10.7	5.1	1.7	533.1	110.6	10.7	1.7	0.0
Total	200.0	168.2	127.2	57.3	18.9	200.0	127.2	57.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology