

## Leong Hup International Berhad

### Topline and margin growth

#### Summary

- Leong Hup International Bhd's (LHI) 1QFY21 net profit climbed 222.8% YoY to RM70.3m, primarily resulted from favorable average selling price (ASP) and sales volume of day-old-chicks (DOC) and broiler chickens in Indonesia and Philippines which led to better revenue and margin, coupled with the increase in ASP of broiler chickens in Malaysia, as well as emerging contribution from downstream business focus in the business-to-consumer channel since June 2020. Revenue for the quarter improved 16.9% YoY to RM1.68bn. First interim dividend of 0.66 sen per share was declared for 1QFY21.
- The net profit came in at 44.8% of our previous profit forecast of RM157.1m for FY21f and made up 40.8% of consensus expectations of RM172.4m. The healthy topline and margin growth posted in 1QFY21 underpinned by continuous volume expansion and cost management indicates that the Group is on course to stage a recovery amid improving operating environment.
- Leong Hup remained consistent in expanding capacity in existing businesses which can be translated into further economies of scales. Meanwhile, the group will continue its effort in building an integrated ecosystem in poultry chain with emphasis on downstream expansion (The Bakers Cottage) to improve margin stability amid volatile prices in the poultry market.
- Regionally, LHI plans to (i) enhance capacity and efficiency in production of aquatic feed in Vietnam operations (ii) ramp up its upstream capacities in Philippines through new GPS farm and feedmill and (iii) continue to develop downstream segment in Indonesia with an upcoming new poultry processing plant in West Java.
- Cost wise, soybean prices maintained its upward momentum in 1Q2021, climbing +22.6% QoQ owing to climate change and large demand from China. Likewise, the maize prices climbed 13.6% QoQ on the back of sharp rise in demand which led to poor availability on the market. Despite the higher feed cost, LHI has maintained their feed inventory at approximately 3-4 months.

Quarterly performance								
FYE Dec (RM m)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	3MFY20	3MFY21	YoY (%)
Revenue	1,434.1	1,607.7	1,676.5	4.3	16.9	1,434.1	1,676.5	16.9
EBITDA	123.0	162.7	196.4	20.7	59.6	123.0	196.4	59.6
PBT	35.1	68.3	105.1	53.9	199.6	35.1	105.1	199.6
PAT	25.3	56.9	82.0	44.1	223.7	25.3	82.0	223.7
Core PATMI	21.8	52.6	70.3	33.8	222.8	21.8	70.3	222.8
Reported PATMI	21.8	52.6	70.3	33.8	222.8	21.8	70.3	222.8
Core EPS (sen)	0.6	1.4	1.9	33.8	222.8	0.6	1.9	222.8
EBITDA margin (%)	8.6	10.1	11.7			8.6	11.7	
PBT margin (%)	2.4	4.2	6.3			2.4	6.3	
Core PATMI margin (%)	1.5	3.3	4.2			1.5	4.2	

#### Results Note – 1QFY21

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#### BUY

Share price	RM0.715
Target price	RM0.99
Previous TP	RM0.69
Capital upside	38.5%
Dividend return	1.7%
Total return	40.2%

#### Company profile

Distribution of animal feed raw materials, food related products and livestock farming

#### Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	2609.8
52W High/Low	0.96/0.59
Est. Free float	15.6%
Beta (X)	0.6
3-mth avg vol ('000)	2375.6
Shariah compliant	No

#### Major shareholders

Emerging Glory SB	52.8
Clarinden Investments	9.0
Amanah Saham Nasional	5.7

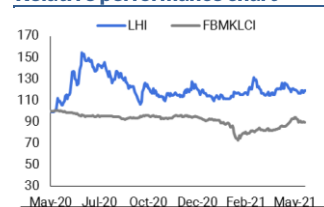
#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.1	2.9	18.2
Relative	-0.7	3.5	8.9

#### Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	113.1	225.7	280.9
EPS (sen)	3.1	6.2	7.7
P/E (x)	23.1	11.6	9.3

#### Relative performance chart



## Valuation & Recommendation

- We increased our earnings forecast to RM225.7m and RM280.9m (from 157.1m and 218.7m) for FY21f and FY22f respectively to account for the higher ASP on DOC and broiler chicken in line with a healthy result posted in 1QFY21, coupled with the lower effective tax rate at 25.2% as compared to the previous rate closed to 30.0%. We upgrade our recommendation from HOLD to BUY on LHI at target price of RM0.99.
- Our target price is based on PE of 16.0x pegged to our revised FY21f estimated EPS of 6.2 sen. The assigned PE represents a 20.0% discount to its local and regional peers' average of 20.0x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and QL Resources Bhd in Malaysia.
- We like Leong Hup for its strategic objectives to enhance vertical integration along the poultry chain and its ability to grow capacities to increase domestic production volume. Moving forward, we are optimistic with the Group's performance as the economies in the countries the Group operates in are forecasted to stage a recovery in 2021, notwithstanding a transitory setback.
- However, risks to our recommendation and forecast include fluctuations in raw material prices that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

## Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
<b>Revenue</b>	5,732.4	6,054.8	6,040.7	7,125.4	7,725.0	Cash	458.9	764.8	757.8	708.0	608.3
EBITDA	647.6	637.7	525.8	754.1	843.6	Receivables	649.2	499.3	489.6	546.6	634.9
EBIT	450.4	412.1	266.5	449.8	531.3	Inventories	575.6	679.6	721.9	705.5	712.3
Net finance income/ (cost)	(102.5)	(123.8)	(109.7)	(124.8)	(126.7)	PPE	2,396.8	2,418.5	2,656.5	2,933.2	3,161.6
Associates & JV	0.6	0.4	0.4	0.5	0.5	Others	753.5	1,046.9	695.2	844.5	903.8
<b>Profit before tax</b>	<b>348.6</b>	<b>288.7</b>	<b>157.1</b>	<b>325.5</b>	<b>405.1</b>	<b>Assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>6,134.0</b>	<b>6,435.6</b>
Tax	(101.8)	(75.8)	(39.6)	(87.9)	(109.4)	Debits	2,370.9	2,500.3	2,795.5	2,420.8	2,441.3
<b>Net profit</b>	<b>246.8</b>	<b>213.0</b>	<b>117.5</b>	<b>237.6</b>	<b>295.7</b>	Payables	248.9	273.1	229.4	282.2	284.6
Minority interest	60.6	62.4	4.4	11.9	14.8	Others	448.7	455.2	418.8	945.2	930.8
<b>Core earnings</b>	<b>186.2</b>	<b>150.6</b>	<b>113.1</b>	<b>225.7</b>	<b>280.9</b>	<b>Liabilities</b>	<b>3,068.6</b>	<b>3,228.6</b>	<b>3,446.2</b>	<b>3,648.2</b>	<b>3,659.3</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	1,301.8	1,641.2	1,713.4	1,897.2	2,128.8
Reported earnings	186.2	150.6	113.1	225.7	280.9	Minority interest	463.6	539.3	535.1	588.6	647.5
						<b>Equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,248.6</b>	<b>2,485.8</b>	<b>2,776.3</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	348.6	288.7	157.1	325.5	405.1	Core EPS (sen)	5.1	4.1	3.1	6.2	7.7
Depreciation & amortisation	197.1	225.5	259.4	304.3	312.3	P/E (x)	14.0	17.3	23.1	11.6	9.3
Changes in working capital	220.5	(77.9)	(63.9)	88.1	115.8	DPS (sen)	1.0	1.6	0.6	1.3	1.3
Share of JV profits	-	-	1.0	-	1.0	Dividend yield	1.4%	2.2%	0.8%	1.7%	1.7%
Taxation	(75.7)	(57.0)	(55.3)	(39.6)	(87.9)	BVPS (RM)	0.48	0.60	0.62	0.68	0.76
Others	-	-	1.0	-	1.0	P/B (x)	1.5	1.2	1.2	1.0	0.9
<b>Operating cash flow</b>	<b>349.2</b>	<b>670.6</b>	<b>415.8</b>	<b>565.2</b>	<b>632.2</b>	EBITDA margin	11.3%	10.5%	8.7%	10.6%	10.9%
Net capex	(418.9)	(400.8)	(524.4)	(449.9)	(570.4)	EBIT margin	7.9%	6.8%	4.4%	6.3%	6.9%
Others	-	-	1.0	-	-	PBT margin	6.1%	4.8%	2.6%	4.6%	5.2%
<b>Investing cash flow</b>	<b>(378.6)</b>	<b>(403.9)</b>	<b>(502.1)</b>	<b>(491.2)</b>	<b>(613.0)</b>	PAT margin	4.3%	3.5%	1.9%	3.3%	3.8%
Changes in borrowings	177.4	10.9	(2,381.8)	18.0	18.0	Core PAT margin	3.2%	2.5%	1.9%	3.2%	3.6%
Issuance of shares	-	-	1.0	-	1.0	ROE	10.5%	6.9%	5.0%	9.1%	10.1%
Dividends paid	(66.3)	(84.5)	(23.8)	(45.6)	(45.6)	ROA	3.9%	2.8%	2.0%	3.7%	4.4%
Others	-	-	1.0	-	1.0	Net gearing	108.3%	79.6%	90.6%	68.9%	66.0%
<b>Financing cash flow</b>	<b>(6.9)</b>	<b>(2.1)</b>	<b>71.6</b>	<b>(104.9)</b>	<b>(104.5)</b>						
<b>Net cash flow</b>	<b>(36.2)</b>	<b>264.6</b>	<b>(14.7)</b>	<b>(31.0)</b>	<b>(85.2)</b>						
Forex	(0.8)	(0.8)	(7.3)	0.5	0.5						
Others	-	-	-	-	-						
Beginning cash	427.4	390.4	654.2	632.2	601.8						
Ending cash	390.4	654.2	632.2	601.8	517.0						

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