

Leong Hup International (LHIB MK)

Solid beginning

BUY

Share Price MYR 0.72
 12m Price Target MYR 1.15 (+63%)
 Previous Price Target MYR 0.82

Maintain BUY with a higher TP of MYR1.15

1Q21 results beat our/consensus expectations on lower-than-expected interest expense. Earnings growth is expected to remain strong in sequential quarters driven by stable poultry ASPs and gradual recovery in poultry demand in LHIB's regional operations. We raise our FY21-FY23 earnings estimates by 14%-30%. Rolling forward our valuation base year to FY22, our TP is lifted to MYR1.15 (based on unchanged 17x FY22 PER).

Above expectations

LHIB's core net profit of MYR70m (+223% YoY, +65% QoQ) came in above expectations at 40%/41% of our/consensus full-year earnings estimates. The earnings surprise was largely due to lower-than-expected interest expense. 1Q21 revenue of MYR1.7b was however in-line at 24% of our full-year revenue estimates.

Strong livestock & feedmill segment performance

Key takeaways from 1Q21 results: (i) recovery in poultry ASPs and sales volume in Indonesia, Malaysia and Philippines led to livestock segment revenue growth of 17% YoY and 10x higher EBITDA YoY, (ii) feedmill segment revenue similarly increased 17% YoY on higher feed ASPs and sales volume from Vietnam and Indonesia. On a QoQ basis, despite rising feed raw material prices (corn & soybean), feedmill EBITDA margins lifted 1.5 ppts QoQ due to timing differences in LHIB's forward contracts.

Positive outlook

Strong earnings are expected to persist in sequential quarters. While poultry demand has not recovered to pre-pandemic levels, demand-supply has balanced out, in our view, given the exit of small-independent farmers during the peak of the pandemic. Based on our channel checks, domestic poultry ASPs have also sustained above MYR5.00 (broiler) and MYR2.00 (day-old-chicks) in 2Q21 thus far. That said, feedmill segment margins are expected to taper off in FY21 in light of rising raw material prices. We raise our FY21/FY22/FY23 earnings estimates by 30%/14%/15% after adjusting for lower interest expense and higher other income.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,055	6,041	7,112	7,539	7,800
EBITDA	651	542	748	816	867
Core net profit	151	103	230	246	263
Core EPS (sen)	4.1	2.8	6.3	6.7	7.2
Core EPS growth (%)	(33.0)	(31.4)	123.0	6.7	7.1
Net DPS (sen)	1.6	0.6	1.9	2.0	2.2
Core P/E (x)	21.3	24.2	11.3	10.6	9.9
P/BV (x)	2.0	1.5	1.4	1.3	1.2
Net dividend yield (%)	1.8	0.8	2.6	2.8	3.0
ROAE (%)	10.2	6.7	12.8	12.5	12.3
ROAA (%)	2.9	1.9	3.8	3.7	3.7
EV/EBITDA (x)	8.4	9.4	7.3	6.5	6.3
Net gearing (%) (incl perps)	79.6	90.6	89.7	74.9	72.3
Consensus net profit	-	-	170	217	228
MKE vs. Consensus (%)	-	-	35.5	13.4	15.6

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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)	0.94/0.60
3m avg turnover (USDm)	0.4
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.6B USD629M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



— Leong Hup - (LHS, MYR) — Leong Hup / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(2)	3	21
Relative to index (%)	(0)	3	10

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	1Q20	1Q19	Quarterly		
			% YoY	4Q19	% QoQ
Revenue	1,676.5	1,434.1	16.9	1,607.7	4.3
EBITDA	200.1	127.2	57.3	168.2	18.9
Depreciation	(69.1)	(59.5)	16.2	(71.0)	(2.6)
EBIT	130.9	67.7	93.5	97.3	34.6
Interest expense	(25.9)	(32.6)	(20.7)	(29.2)	(11.4)
Associates	0.1	0.0	>100.0	0.3	(60.5)
Pretax profit	105.1	35.1	199.6	68.3	53.9
Tax	(23.2)	(9.8)	>100.0	(11.4)	>100.0
Minority interest	(11.6)	(3.5)	>100.0	(4.3)	>100.0
Net profit	70.3	21.8	>100.0	52.6	33.8
Core net profit	70.3	21.8	>100.0	42.8	64.5
			+/-		+/-
			p.ptsYoY		p.ptsQoQ
<i>EBITDA margin (%)</i>	11.9	8.9	3.1	10.5	1.5
<i>EBIT margin (%)</i>	7.8	4.7	3.1	6.0	1.8
<i>Tax rate (%)</i>	(22.1)	(27.8)	5.8	(16.7)	(5.3)
Revenue:			% YoY		% QoQ
Livestock	915.2	782.6	16.9	899.5	1.7
Feedmill	758.4	648.1	17.0	704.9	7.6
Others	3.0	3.360	(10.0)	3.2	(6.6)
Total	1,676.5	1,434.1	16.9	1,607.7	4.3
EBITDA:			% YoY		% QoQ
Livestock	94.2	6.0	>100.0	88.1	7.0
Feedmill	111.7	119.4	(6.4)	93.2	19.9
Others	(5.9)	1.7	n.m.	(13.0)	(54.5)
Total	200.1	127.2	57.3	168.2	18.9
EBITDA margin (%):			+/-		+/-
			p.ptsYoY		p.ptsQoQ
Livestock	10.3	0.8	9.5	9.8	0.5
Feedmill	14.7	18.4	(3.7)	13.2	1.5
Others	(196.2)	50.9	(247.1)	(402.6)	206.4
Total	11.9	8.9	3.1	10.5	1.5

Source: Company

Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	22.1	23.2	11.3	10.6	9.9
Core P/E (x)	21.3	24.2	11.3	10.6	9.9
P/BV (x)	2.0	1.5	1.4	1.3	1.2
P/NTA (x)	2.1	1.5	1.5	1.3	1.2
Net dividend yield (%)	1.8	0.8	2.6	2.8	3.0
FCF yield (%)	8.9	nm	nm	10.8	nm
EV/EBITDA (x)	8.4	9.4	7.3	6.5	6.3
EV/EBIT (x)	12.9	18.0	10.9	9.7	9.3
INCOME STATEMENT (MYR m)					
Revenue	6,054.8	6,040.7	7,112.0	7,538.9	7,800.4
EBITDA	650.5	542.0	748.3	815.5	866.6
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	497.0	549.6	587.4
Net interest income / (exp)	(136.6)	(125.9)	(105.0)	(136.9)	(149.5)
Associates & JV	0.4	0.4	0.4	0.4	0.4
Pretax profit	288.8	157.1	392.4	413.1	438.2
Income tax	(75.8)	(39.6)	(98.9)	(104.1)	(110.5)
Minorities	(62.4)	(4.4)	(63.1)	(63.0)	(64.3)
Reported net profit	150.6	113.1	230.5	246.0	263.5
Core net profit	150.6	103.3	230.5	246.0	263.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	764.8	757.8	836.3	1,308.2	1,482.9
Accounts receivable	499.3	489.6	859.5	570.6	909.1
Inventory	679.6	721.9	761.1	794.3	810.1
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
Total assets	5,409.1	5,694.8	6,455.1	6,863.9	7,557.4
ST interest bearing debt	1,522.7	1,783.8	1,734.0	1,901.6	2,069.2
Accounts payable	273.1	229.4	387.3	259.5	407.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	977.7	1,011.6	1,327.7	1,442.9	1,558.1
Other liabilities	455.0	421.0	524.0	543.0	556.0
Total Liabilities	3,228.6	3,446.2	3,973.0	4,146.7	4,591.4
Shareholders Equity	1,641.2	1,713.4	1,883.9	2,056.1	2,240.5
Minority Interest	539.3	535.1	598.2	661.2	725.4
Total shareholder equity	2,180.5	2,248.6	2,482.0	2,717.2	2,965.9
Total liabilities and equity	5,409.1	5,694.8	6,455.1	6,863.9	7,557.4
CASH FLOW (MYR m)					
Pretax profit	288.8	157.1	392.4	413.1	438.2
Depreciation & amortisation	225.5	259.4	251.2	265.9	279.2
Cash taxes paid	(57.0)	(39.6)	(98.9)	(104.1)	(110.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	670.6	282.3	228.5	682.6	390.6
Capex	(383.3)	(477.3)	(400.0)	(400.0)	(400.0)
Free cash flow	287.3	(195.1)	(171.5)	282.6	(9.4)
Dividends paid	(84.5)	(23.8)	(69.1)	(73.8)	(79.0)
Equity raised / (purchased)	269.6	0.0	5.4	0.0	0.0
Change in Debt	(187.2)	95.4	266.2	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)	15.3	472.2	175.0

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.4	(0.2)	17.7	6.0	3.5
EBITDA growth	(0.6)	(16.7)	38.1	9.0	6.3
EBIT growth	(7.1)	(33.5)	75.9	10.6	6.9
Pretax growth	(17.2)	(45.6)	149.7	5.3	6.1
Reported net profit growth	(19.1)	(24.9)	103.7	6.7	7.1
Core net profit growth	(33.0)	(31.4)	123.0	6.7	7.1
Profitability ratios (%)					
EBITDA margin	10.7	9.0	10.5	10.8	11.1
EBIT margin	7.0	4.7	7.0	7.3	7.5
Pretax profit margin	4.8	2.6	5.5	5.5	5.6
Payout ratio	38.8	17.7	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	2.5	1.9	3.2	3.3	3.4
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.0
Assets/Equity (x)	3.3	3.3	3.4	3.3	3.4
ROAE (%)	10.2	6.7	12.8	12.5	12.3
ROAA (%)	2.9	1.9	3.8	3.7	3.7
Liquidity & Efficiency					
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	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.7	1.6	1.7	1.6
Net gearing (%) (incl perps)	79.6	90.6	89.7	74.9	72.3
Net gearing (%) (excl. perps)	79.6	90.6	89.7	74.9	72.3
Net interest cover (x)	3.1	2.2	4.7	4.0	3.9
Debt/EBITDA (x)	3.8	5.2	4.1	4.1	4.2
Capex/revenue (%)	6.3	7.9	5.6	5.3	5.1
Net debt/ (net cash)	1,735.5	2,037.7	2,225.4	2,036.3	2,144.4

Source: Company; Maybank

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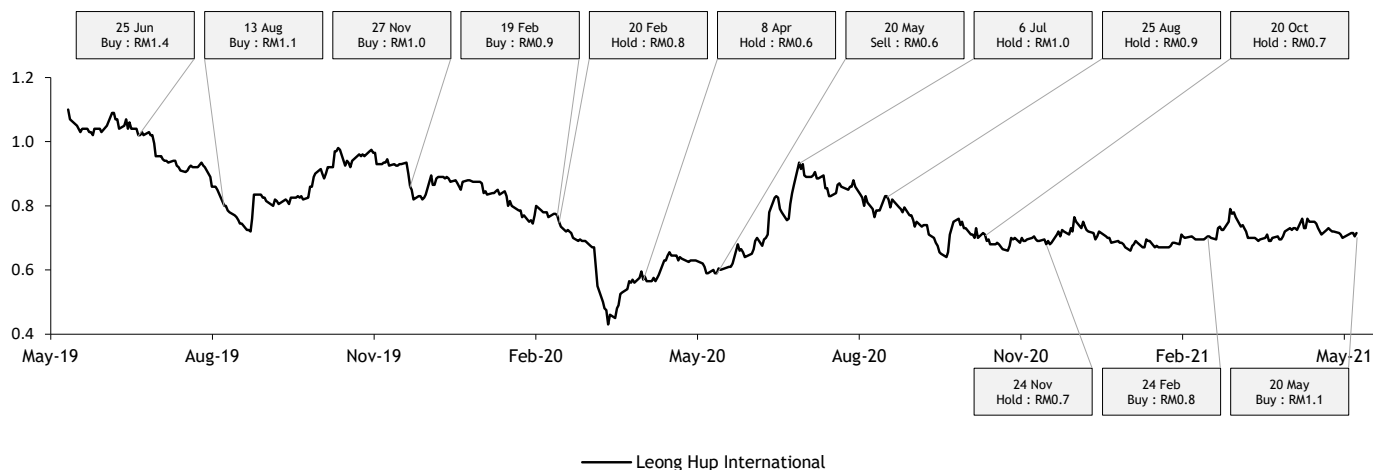
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