

21 May 2021

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

**Buy** (from Neutral)

Favorable Industry Dynamics; U/G To BUY

Target Price (Return): MYR0.87 (20.8%)  
Price: MYR0.72  
Market Cap: USD629m  
Avg Daily Turnover (MYR/USD) 1.67m/0.41m

- **Upgrade to BUY from Neutral with new MYR0.87 TP from MYR0.76, 21% upside.** 1Q21 results were above expectations thanks to recoveries in product volumes and ASPs across key markets. Essentially, we believe the ASP upcycle can sustain – at least – in the near term following supply adjustments, with smaller farmers struggling to raise supply. Current valuation is attractive, as Leong Hup International is trading at below mean – this is despite the favourable industry dynamics and sharp earnings recovery in FY21 (+77% YoY).

- **LHIB's 1Q21 beat expectations.** Core net profit of MYR70m (+223% YoY) accounted for 41-42% of our and consensus' full-year earnings forecasts. The positive deviation could be attributed to better-than-expected margins – the result of a sharp recovery in product ASPs. Post results, we raise FY21F-23F earnings by 3-14%. Correspondingly, our DCF-based TP rises to MYR0.87, which implies 17x FY21F P/E.

- **Results review.** YoY, 1Q21 sales jumped 17% to MYR1.7bn, with key markets – including Malaysia and Indonesia – recording higher contributions: 16% and 27%. This was thanks to favourable ASPs and volume recovery. Operating profit surged 94% YoY to MYR131m, in line with the topline growth, whilst margin expanded by 3.1ppts thanks to the higher product ASPs. Together with lower interest expenses (-21% YoY) on decreased interest rates, 1Q21 PBT almost tripled to MYR105m. Sequentially, sales and operating profit were 4% and 35% higher QoQ – mainly on higher ASPs and volumes in Malaysia and Indonesia.

- **Benefitting from the ASP upcycle.** We believe the supply adjustment may have underpinned the ASP upcycles seen in major operating markets. This is as the smaller farmers struggled to raise supply after being financially hit by the pandemic – such farmers are now facing the issue of higher feed costs. Hence, we believe the favourable industry dynamics might be able to sustain – at least in the short term – until a broader economic recovery can materialise. There could be accelerated market consolidation if more smallholders are phased out permanently by the pandemic, paving the way for larger industry players like LHIB to capitalise and gain market share. Meanwhile, the downstream venture via The Baker's Cottage (TBC) has also yielded positive results, contributing 8% of both Malaysia revenue and EBITDA in 1Q21. TBC is projected to take up 30-40% of LHIB's broiler supply once the store count is ramped up to 300 stores in 2023 from 129 stores currently.

- **Risks to our recommendation** include unfavourable demand-supply dynamics and delays in vaccination progress.

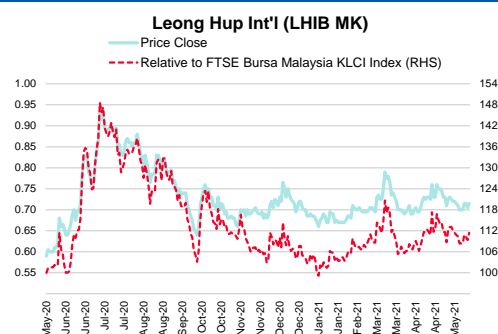
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.4	(2.1)	2.9	3.6	21.2
Relative	7.6	(0.1)	3.5	4.8	11.4
52-wk Price low/high (MYR)	0.60 – 0.94				



Source: Bloomberg

### Overall ESG Score: 2.8 (out of 4)

#### E: Good

LHIB has not identified any key initiatives in delivering sustainable reduction in greenhouse gas emissions. However, the company has a put in place a system to properly manage and treat water, as well as hazardous and non-hazardous wastes from its operations. This is in accordance with local laws and regulations.

#### S: Good

Good policies to enhance the awareness of health and safety amongst its stakeholders as well as putting in place a framework that ensures a safe and conducive working environment for its people. In addition, LHIB practices good standards in ensuring the safety and quality of its food products.

#### G: Good

LHIB has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance, with independent directors comprising almost 50% and women making up 30% of the board.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	6,055	6,041	6,674	7,067	7,455
Recurring net profit (MYRm)	151	108	191	211	219
Recurring net profit growth (%)	(31.2)	(28.4)	77.4	10.2	4.1
Recurring P/E (x)	17.33	24.22	13.65	12.39	11.90
P/B (x)	1.6	1.5	1.4	1.3	1.2
P/CF (x)	3.97	6.08	6.01	4.90	4.32
Dividend Yield (%)	2.2	0.8	2.2	2.4	2.5
EV/EBITDA (x)	7.29	9.23	7.11	6.74	6.24
Return on average equity (%)	10.2	6.7	10.7	11.0	10.6
Net debt to equity (%)	74.2	83.7	84.3	84.8	83.6

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

21 May 2021

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## Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.04	0.03	0.05	0.06	0.06
Agriculture	DPS	0.02	0.01	0.02	0.02	0.02
<b>Leong Hup International</b>	BVPS	0.45	0.47	0.51	0.55	0.59
LHIB MK	Return on average equity (%)	10.2	6.7	10.7	11.0	10.6
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	17.33	24.22	13.65	12.39	11.90
DCF.	P/B (x)	1.6	1.5	1.4	1.3	1.2
	FCF Yield (%)	9.7	(4.5)	1.3	1.2	4.0
	Dividend Yield (%)	2.2	0.8	2.2	2.4	2.5
<b>Key drivers</b>	EV/EBITDA (x)	7.29	9.23	7.11	6.74	6.24
i. Regional expansion plans;	EV/EBIT (x)	11.16	17.71	11.56	11.02	10.19
ii. Favourable product prices.						
	<b>Income statement (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Total turnover	6,055	6,041	6,674	7,067	7,455
i. Unfavourable changes in regulatory policies;	Gross profit	1,004	879	1,071	1,136	1,217
ii. Unfavourable demand-supply dynamics.	EBITDA	651	542	722	782	859
	Depreciation and amortisation	(226)	(259)	(278)	(304)	(333)
	Operating profit	425	283	444	478	526
	Net interest	(137)	(126)	(104)	(105)	(135)
	Pre-tax profit	289	157	340	373	392
	Taxation	(76)	(40)	(82)	(89)	(94)
	Reported net profit	151	113	191	211	219
	Recurring net profit	151	108	191	211	219
<b>Company Profile</b>						
LHIB is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.						
	<b>Cash flow (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	39	(66)	(138)	(87)	(83)
	Cash flow from operations	657	429	434	533	604
	Capex	(404)	(546)	(400)	(500)	(500)
	Cash flow from investing activities	(373)	(504)	(400)	(500)	(500)
	Dividends paid	(84)	(24)	(57)	(63)	(66)
	Cash flow from financing activities	(3)	72	(226)	(43)	(201)
	Cash at beginning of period	459	765	758	566	555
	Net change in cash	281	(3)	(192)	(10)	(97)
	Ending balance cash	740	761	566	555	458
	<b>Balance sheet (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	765	758	566	555	458
	Tangible fixed assets	2,396	2,656	2,779	2,975	3,142
	Total investments	22	22	22	22	22
	Total assets	5,409	5,695	5,780	6,067	6,233
	Short-term debt	1,509	1,765	1,700	1,700	1,700
	Total long-term debt	873	874	874	1,000	1,000
	Total liabilities	3,229	3,446	3,398	3,538	3,551
	Total equity	2,181	2,249	2,382	2,529	2,682
	Total liabilities & equity	5,409	5,695	5,780	6,067	6,233
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	5.4	(0.2)	10.5	5.9	5.5
	Recurrent EPS growth (%)	(31.2)	(28.4)	77.4	10.2	4.1
	Gross margin (%)	16.6	14.6	16.0	16.1	16.3
	Operating EBITDA margin (%)	10.7	9.0	10.8	11.1	11.5
	Net profit margin (%)	2.5	1.9	2.9	3.0	2.9
	Dividend payout ratio (%)	38.5	17.7	29.9	29.9	29.9
	Capex/sales (%)	6.7	9.0	6.0	7.1	6.7
	Interest cover (x)	3.11	2.25	4.26	4.53	3.90

Source: Company data, RHB

## Results At a Glance

Figure 1 : LHIB's results review

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>1,434.1</b>	<b>1,607.7</b>	<b>1,676.5</b>	<b>4.3</b>	<b>16.9</b>	Driven by strong recovery in key markets, including Malaysia and Indonesia, on higher ASPs and/or volume.
<b>EBITDA</b>	<b>127.2</b>	<b>168.2</b>	<b>200.1</b>	<b>18.9</b>	<b>57.3</b>	
<i>EBITDA margin (%)</i>	8.9	10.5	11.9	1.5	3.1	
<b>EBIT</b>	<b>67.7</b>	<b>97.3</b>	<b>130.9</b>	<b>34.6</b>	<b>93.5</b>	Thanks to the topline recovery and higher ASPs.
<i>EBIT margin (%)</i>	4.7	6.0	7.8	1.8	3.1	
Finance costs	(32.6)	(29.2)	(25.9)	(11.4)	(20.7)	
El	0.0	(5.4)	0.0			
<b>Profit before tax</b>	<b>35.1</b>	<b>68.3</b>	<b>105.1</b>	<b>53.9</b>	<b>199.6</b>	
<i>PBT margin (%)</i>	2.4	4.2	6.3	2.0	3.8	
Tax expense	(9.8)	(11.4)	(23.2)	102.7	137.3	
<i>Effective tax rate (%)</i>	(27.8)	(16.7)	(22.1)	(5.3)	5.8	
Minority interests	(3.5)	(4.3)	(11.6)			
<b>PATAMI</b>	<b>21.8</b>	<b>52.6</b>	<b>70.3</b>	<b>33.8</b>	<b>222.8</b>	
<b>Core PATAMI</b>	<b>21.8</b>	<b>47.2</b>	<b>70.3</b>	<b>49.1</b>	<b>222.8</b>	At 41-42% of earnings forecasts.
<i>Net margin (%)</i>	1.5	2.9	4.2	1.3	2.7	

Source: Company data, RHB

Figure 2 : LHIB's geographical breakdown

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
Malaysia	383.5	413.4	443.3	7.2	15.6	Thanks to increase in ASPs for broiler and expansion of the downstream business.
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	Result of favourable ASPs and sales volumes of day-old chicks (DOC) and broilers.
Philippines	24.7	30.8	44.6	44.5	80.6	Higher ASPs and sales volumes of DOC and broilers.
<b>Group revenue</b>	<b>1,434.1</b>	<b>1,607.7</b>	<b>1,676.5</b>	<b>4.3</b>	<b>16.9</b>	
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	5.1	10.7	110.7	533.7	
<b>Group EBITDA</b>	<b>127.2</b>	<b>168.3</b>	<b>200.1</b>	<b>18.9</b>	<b>57.3</b>	
Malaysia	8.6	10.3	14.5	4.2	5.9	
Singapore	11.4	18.1	13.8	(4.3)	2.5	
Vietnam	9.8	7.5	9.9	2.4	0.0	
Indonesia	7.5	9.9	9.9	0.0	2.4	
Philippines	6.8	16.5	24.0	7.5	17.2	
<b>Group EBITDA margin (%)</b>	<b>8.9</b>	<b>10.5</b>	<b>11.9</b>	<b>1.5</b>	<b>3.1</b>	Broad-based margins recovery generally thanks to better ASPs and sales volumes.

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-23	Neutral	0.76	0.70
2020-11-24	Neutral	0.73	0.68
2020-08-26	Neutral	0.88	0.82
2020-07-13	Buy	1.18	0.89
2020-05-20	Buy	0.88	0.59
2020-02-19	Buy	1.16	0.77
2019-11-27	Buy	1.26	0.86
2019-08-13	Buy	1.36	0.80
2019-06-18	Buy	1.53	1.07

Source: RHB, Bloomberg

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Analyst	Company
-	-



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