

Leong Hup International Bhd

Strongest Quarterly Earnings Since Listing

TP: RM1.02 (+42.7%)

Last Traded: RM0.715

Buy (ESG: ★★★)

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Review

- Leong Hup International Bhd's (LHI) registered its strongest quarterly earnings since listing on Bursa Malaysia with a core net profit of RM70.3mn in 1QFY21. The performance was above ours and consensus estimate due to stronger-than-expected ASP of livestock products.
- The board declared a first interim single-tier dividend of 0.66sen/share within the quarter to reward shareholders. No dividend was declared in corresponding quarter last year.
- 1QFY21 EBIT doubled to RM 127.2mn, outpacing the 16.9% YoY jump in revenue. The strong quarterly performance was driven by EBIT turnaround of Livestock segment to RM40.8mn (against 1QFY20's LBIT of RM39.3mn) due to favourable ASP and higher sales volume of day-old-chick and broiler in Indonesia, Philippines and Malaysia alongside contribution from The Baker Cottage. Meanwhile, the Feedmill segment registered 8.4% YoY dip in EBIT despite 17.0% YoY jump in revenue owing to downward normalisation of feed margins.
- Geographically, Malaysia and Indonesia delivered remarkable YoY EBITDA growth of 94.1% and 67.8% to RM64.3mn and RM60.8mn respectively; whilst Philippines' EBITDA jumped six-fold YoY to RM10.7mn. These were mainly attributed to upswing in ASP of poultry products.

Impact

- No change to our earnings estimates pending an analyst briefing today.

Outlook

- Management is confident of the group's FY21 earnings recovery on the back of continuous volume expansion and vigilance in cost control. Moreover, we believe that eventual economic recovery could be a tailwind to the group as livestock demands would be supported by social gatherings and events.
- Based on channel check, Malaysian and Indonesian Livestock's broiler and day-old-chick price remained at healthy levels, thus earnings momentum is likely to sustain into 2QFY21.
- LHI now operates close to 130 The Baker Cottage outlets, tracking well towards LHI's strategy of moving downstream to improve margin stability. This represents a remarkable growth against 28 outlets in early-FY20.

Valuation

- Reiterate Buy with an unchanged target price of RM1.02/share based on unchanged 18x FY22 earnings.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2609.8
52-wk Hi/Lo (RM)	0.96/0.43
12-mth Avg Daily Vol ('000 shrs)	2767
Estimated Free Float (%)	15.6
Beta	1.1

Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 9.0%

Forecast Revision

	FY21	FY22
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	170.3	206.4
Consensus	172.4	204.3
TA's / Consensus (%)	98.8	101.0
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net Debt / Equity (x)	0.8	0.7
ROE (%)	9.6	10.8
ROA (%)	2.9	3.5
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.5	1.4

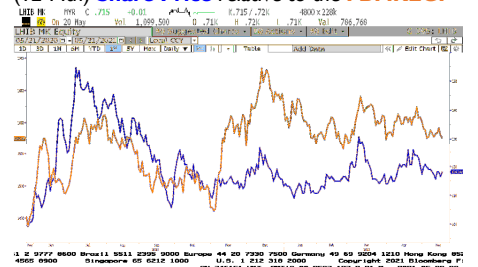
Scorecard

	% of FY
vs TA	41 Above
vs Consensus	41 Above

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(7.2)	(1.2)
3 mth	1.4	(0.3)
6 mth	2.2	(0.2)
12 mth	19.5	11.0

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE December (RM mn)	2019	2020	2021E	2022F	2023F
Revenue	6,054.8	6,040.7	6,572.7	7,021.5	7,302.1
EBITDA	637.7	525.8	710.8	791.5	860.5
Pretax Profit	288.8	157.1	307.9	373.0	426.2
Reported Net Profit	150.6	113.1	170.3	206.4	235.8
Core Net Profit	150.6	105.7	170.3	206.4	235.8
Core EPS (sen)	4.1	2.9	4.7	5.7	6.5
Core PER (x)	17.3	24.7	15.3	12.6	11.1
DPS (sen)	1.6	0.6	1.4	1.7	1.9
Dividend Yield (%)	2.2	0.8	2.0	2.4	2.7

Table 2: IQFY21 Results Analysis (RMmn)

FYE 31 Dec	IQFY20	4QFY20	IQFY21	QoQ (%)	YoY (%)
Revenue	1,434.1	1,607.7	1,676.5	4.3	16.9
Other Income	14.9	13.5	16.0	18.6	7.2
Operating Expenses	(1,385.5)	(1,529.4)	(1,562.1)	2.1	12.7
EBIT	63.5	91.7	127.2	38.7	>100
Adj. EBIT	63.5	84.3	127.2	51.0	>100
Net Interest	(28.5)	(23.7)	(22.2)	(6.4)	(22.1)
Associate	0.0	0.3	0.1	(60.5)	>100
Profit before Tax	35.1	68.3	105.1	53.9	>100
Adj. PBT	35.1	60.8	105.1	72.8	>100
Taxation	(9.8)	(11.4)	(23.2)	>100	>100
Extraordinary Items	-	7.5	-	(100.0)	nm
Minority Interest	(3.5)	(4.3)	(11.6)	>100	>100
Net Profit	21.8	52.6	70.3	33.8	>100
Adj. Net Profit	21.8	45.1	70.3	56.0	>100
Basic EPS (sen)	0.6	1.4	1.9	34.0	>100
DPS (sen)	-	-	0.7	nm	nm
				%-points	%-points
EBIT Margin (%)	4.4	5.7	7.6	1.9	3.2
PBT Margin (%)	2.4	4.2	6.3	2.0	3.8
Net Margin (%)	1.5	3.3	4.2	0.9	2.7
Adj. Net Margin (%)	1.5	2.8	4.2	1.4	2.7
Tax Rate (%)	27.8	16.7	22.1	5.3	(5.8)

Table 3: IQFY21 Results Analysis (RMmn) – Segment

FYE 31 Dec	IQFY20	4QFY20	IQFY21	QoQ (%)	YoY (%)
Revenue	1,434.1	1,607.7	1,676.5	4.3	16.9
Livestock and Poultry Related	782.6	899.5	915.2	1.7	16.9
Feedmill	648.1	704.9	758.4	7.6	17.0
Others	3.4	3.2	3.0	(6.6)	(10.0)
Segment EBIT	67.6	97.3	130.9	34.6	93.6
Livestock and Poultry Related	(39.3)	34.9	40.8	17.0	nm
Feedmill	105.9	77.1	97.0	25.8	(8.4)
Elimination	1.0	(14.7)	(6.9)	(53.3)	nm
				%-points	%-points
Segment EBIT Margin	4.7	6.0	7.8	1.8	3.1
Livestock and Poultry Related	(5.0)	3.9	4.5	0.6	9.5
Feedmill	16.3	10.9	12.8	1.8	(3.6)

Table 4: IQFY21 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	IQFY20	4QFY20	IQFY21	QoQ (%)	YoY (%)
Revenue	1,434.1	1,607.7	1,676.5	4.3	16.9
Malaysia	383.5	413.4	443.3	7.2	15.6
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
Philippines	24.7	30.8	44.6	44.5	80.6
Segment EBITDA	127.2	168.3	200.1	18.9	57.3
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	>100	>100
				%-points	%-points
Segment EBITDA Margin	8.9	10.5	11.9	1.5	3.1
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

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Friday, May 21, 2021, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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