



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

25 Aug 2021

Higher commodity costs cut into earnings

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company results

Price	RM0.68
Fair Value	RM0.99
52-week High/Low	RM0.85/RM0.64

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	6,040.7	6,342.4	6,644.0	6,874.9
Core net profit (RM mil)	109.4	166.0	213.6	225.3
FD Core EPS (sen)	3.0	4.5	5.9	6.2
FD Core EPS growth (%)	(27.3)	51.6	28.7	5.5
Consensus Net Profit (RM mil)	-	192.9	216.3	234.0
DPS (sen)	0.6	1.4	1.8	1.9
PE (x)	22.7	15.0	11.6	11.0
EV/EBITDA (x)	8.6	6.8	5.7	5.2
Div yield (%)	0.8	2.0	2.6	2.7
ROE (%)	6.8	9.3	11.2	10.9
Net Gearing (%)	118.9	94.8	77.4	63.1

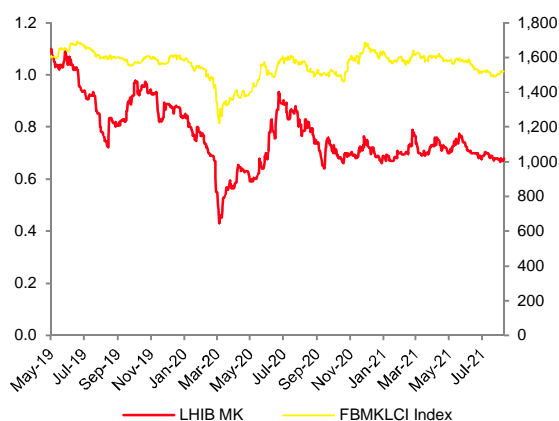
Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,482.0
Book Value (RM/share)	0.47
P/BV (x)	1.4
ROE (%)	6.8
Net Gearing (%)	118.9

Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Lau Eng Guang (1.6%)
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Free Float	87.3
Avg Daily Value (RM mil)	1.0

Price performance	3mth	6mth	12mth
Absolute (%)	(6.2)	(2.9)	(13.4)
Relative (%)	(3.8)	(0.1)	(10.3)



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a reduced fair value (FV) of RM 0.99/share (vs. RM1.02/share previously) based on an unchanged PER of 17x FY22F EPS. We make no ESG-related price adjustment for our rating of 3 stars.
- LHI's 1HFY21 earnings of RM98.9 mil came in below expectations, making up 47% and 51% of our full-year forecast and the full-year consensus estimates respectively. We were expecting stronger 2Q results before a dip in 3Q. Higher commodity costs in feedmeal production affected the group's earnings deeper than expected.
- With inventory of lower cost raw materials running out, the group can no longer maintain the sale of feedmeal at high prices without being subject to higher input costs. Hence, we doubt that the company will be able replicate 1QFY21's supernormal feedmeal earnings in the next 12 months.
- With the SEA region experiencing a flare-up of Covid-19 cases, we expect 2HFY21's earnings to be heavily affected by pandemic lockdowns as poultry demand plummets. As a result, we cut our earnings forecast for FY21E/FY22F/FY23F by 21%/3%/1% respectively.
- Nevertheless, on a longer term, LHI's earnings outlook remains intact, premised on a recovery in hotel, restaurant and café (HoReCa) demand and stable poultry average selling prices (ASP) notwithstanding delays in capacity expansion that are likely to affect the following year's earnings. Additionally, corn and soybean prices have been trending downward, boding well for the group.
- LHI posted a revenue of RM1.85bil in 2QFY21, showing a growth of 11% QoQ and 30% YoY. Higher sales volume and ASP in poultry and feedmeal as well as an expansion in The Baker's Cottage (TBC) downstream channels contributed to the stronger revenue.
- However, EBITDA fell sharply by 33% QoQ in 2QFY21 with EBITDA margins falling by 4.7ppt mostly due to fluctuations in the commodity market weighing heavily on feedmill segment's earnings. Improvements in livestock contributions and margins did little to offset these effects.
- Apart from the Philippines, the group performed better revenue wise on a QoQ basis in each of its geographical segments. Rising Covid-19 cases in the Philippines dragged down feedmeal sales, though livestock contributions saw improvements.

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM mil)	2QFY20	3QFY20	4FYQ20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	1,425.4	1,573.4	1,607.7	1,676.5	1,853.8	11%	30%	2,859.6	3,530.3	23%
EBITDA	113.1	120.2	168.2	200.0	134.6	-33%	19%	234.8	334.5	42%
EBIT	56.0	61.7	97.3	130.9	64.3	-51%	15%	123.7	195.2	58%
Operating profit	25.9	34.2	73.6	108.8	41.2	-62%	59%	58.0	149.9	158%
PBT	22.9	30.8	68.3	105.1	37.8	-64%	65%	58.0	142.9	146%
Tax	(8.6)	(9.8)	(11.4)	(23.2)	(9.8)	-58%	14%	(18.4)	(33.0)	79%
PAT	14.3	21.0	56.9	82.0	27.9	-66%	95%	39.6	109.9	177%
MI	2.0	1.5	(4.3)	(11.6)	2.6			(1.6)	(9.1)	
Net profit	16.3	22.5	52.6	70.3	30.5	-57%	87%	38.1	100.8	165%
Core net profit	17.2	25.7	60.7	69.1	29.8	-57%	74%	37.7	98.9	163%
FD EPS (sen)	0.47	0.70	1.66	1.89	0.82	-57%	74%	1.03	2.71	163%
Gross DPS (sen)	0.55	0.00	0.00	0.66	0.00			0.55	0.66	
EBITDA margin (%)	7.9%	7.6%	10.5%	11.9%	7.3%	-4.7ppt	-0.7ppt	8.2%	9.5%	1.3ppt
PBT margin (%)	1.6%	2.0%	4.2%	6.3%	2.0%	-4.2ppt	0.4ppt	2.0%	4.0%	2.0ppt
Effective tax rate (%)	-37.6%	-31.7%	-16.7%	-22.1%	-26.0%	-3.9ppt	11.6ppt	-31.7%	-23.1%	8.6ppt
Core net profit margin (%)	1.2%	1.6%	3.8%	4.1%	1.6%	-2.5ppt	0.4ppt	1.3%	2.8%	1.5ppt
Livestock and poultry										
Revenue	807	865	900	915	992	8%	23%	1,590	1,908	20%
EBITDA	29.3	21.8	88.1	94.2	108.7	15%	271%	35.3	203.0	475%
EBITDA margin (%)	3.6%	2.5%	9.8%	10.3%	11.0%	0.7ppt	7.3ppt	2.2%	10.6%	8.4ppt
Feedmill										
Revenue	615	705	705	758	859	13%	40%	1,263	1,617	28%
EBITDA	90.1	105.4	80.2	111.7	88.4	-21%	-2%	209.5	200.1	-4%
EBITDA margin (%)	14.7%	15.0%	11.4%	14.7%	10.3%	-4.4ppt	-4.4ppt	16.6%	12.4%	-4.2ppt

Source: Leong Hup International, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

Overall	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of **-6%**, **-3%**, **0%**, **+3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,342.4	6,644.0	6,874.9
EBITDA	637.7	525.8	621.2	703.3	740.5
Depreciation/Amortisation	(225.5)	(259.4)	(273.4)	(296.3)	(321.2)
Operating income (EBIT)	412.1	266.5	347.9	407.0	419.3
Other income & associates	0.4	0.5	0.4	0.4	0.4
Net interest	(123.8)	(109.7)	(119.7)	(117.0)	(114.1)
Exceptional items	-	3.9	-	-	-
Pretax profit	288.8	157.3	228.5	290.4	305.6
Taxation	(75.8)	(39.6)	(52.6)	(66.8)	(70.3)
Minorities/pref dividends	(62.4)	(4.4)	(10.0)	(10.0)	(10.0)
Net profit	150.6	113.3	166.0	213.6	225.3
Core net profit	150.6	109.4	166.0	213.6	225.3
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,396.5	2,656.5	2,891.5	3,166.5	3,466.5
Intangible assets	97.5	95.3	95.3	95.3	95.3
Other long-term assets	410.4	476.6	461.0	483.4	507.4
Total non-current assets	2,904.3	3,228.4	3,447.8	3,745.2	4,069.2
Cash & equivalent	764.8	757.8	1,020.6	1,195.6	1,351.7
Stock	679.6	721.9	635.5	665.7	688.8
Trade debtors	499.3	489.6	514.0	538.5	557.2
Other current assets	561.1	497.2	508.1	519.4	531.0
Total current assets	2,504.8	2,466.4	2,678.2	2,919.2	3,128.6
Trade creditors	273.1	229.4	503.6	527.5	545.8
Short-term borrowings	1,522.7	1,783.8	1,773.8	1,763.8	1,753.8
Other current liabilities	307.6	278.6	277.3	277.3	277.3
Total current liabilities	2,103.4	2,291.9	2,554.7	2,568.6	2,576.9
Long-term borrowings	977.7	1,011.6	991.7	971.7	951.7
Other long-term liabilities	147.5	142.7	207.7	577.3	945.4
Total long-term liabilities	1,125.2	1,154.4	1,199.4	1,549.0	1,897.0
Shareholders' funds	1,641.2	1,713.4	1,840.0	1,989.5	2,147.2
Minority interests	539.3	535.1	532.0	557.3	576.7
BV/share (RM)	0.45	0.47	0.50	0.55	0.59
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	288.8	157.3	228.5	290.4	305.6
Depreciation/Amortisation	225.5	259.4	273.4	296.3	321.2
Net change in working capital	52.9	(67.1)	223.2	89.9	71.8
Others	103.4	79.9	-	-	-
Cash flow from operations	670.6	429.4	725.1	676.5	698.6
Capital expenditure	(403.6)	(530.9)	(235.0)	(293.7)	(319.6)
Net investments & sale of fixed assets	3.9	6.5	14.5	(3.8)	(4.3)
Others	(4.1)	22.3	-	-	-
Cash flow from investing	(403.9)	(502.1)	(220.5)	(297.5)	(324.0)
Debt raised/(repaid)	(43.5)	221.7	(30.0)	(30.0)	(30.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(84.5)	(23.8)	(49.8)	(64.1)	(67.6)
Others	125.8	(126.3)	(100.0)	(110.0)	(121.0)
Cash flow from financing	(2.1)	71.6	(179.8)	(204.1)	(218.6)
Net cash flow	264.6	(1.1)	324.8	175.0	156.0
Net cash/(debt) b/f	390.4	654.3	645.9	970.6	1,145.6
Net cash/(debt) c/f	654.3	645.9	970.6	1,145.6	1,301.7
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	5.4	(0.2)	5.0	4.8	3.5
EBITDA growth (%)	(2.5)	(17.5)	18.1	13.2	5.3
Pretax margin (%)	4.8	2.6	3.6	4.4	4.4
Net profit margin (%)	2.5	1.9	2.6	3.2	3.3
Interest cover (x)	3.3	2.4	2.9	3.5	3.7
Effective tax rate (%)	26.2	25.2	23.0	23.0	23.0
Dividend payout (%)	38.8	17.7	30.0	30.0	30.0
Debtors turnover (days)	30	30	30	30	30
Stock turnover (days)	38	42	39	36	36
Creditors turnover (days)	16	15	21	28	28

Source: Company, AmInvestment Bank Bhd estimates

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