

**HLIB** Research

PP 9484/12/2012 (031413)

Chye Wen Fei

[wfchye@hlib.hongleong.com.my](mailto:wfchye@hlib.hongleong.com.my)

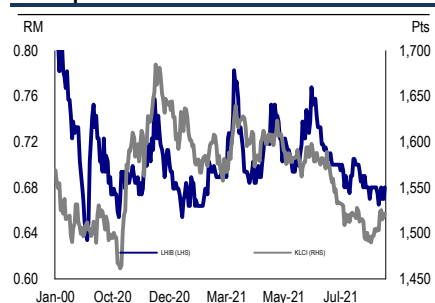
(603) 2083 1712

**BUY** (Maintain)**Target Price: RM0.90****Previously: RM0.90****Current Price: RM0.685**

Capital upside	31.4%
Dividend yield	2.9%
Expected total return	34.3%

**Sector coverage:** Poultry

**Company description:** LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

**Share price**

Historical return (%)	1M	3M	12M
Absolute	-2.9	-8.7	-18.1
Relative	-4.7	-7.3	-18.0

**Stock information**

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650.0
Market capitalisation (RM m)	2,482
3-mth average volume ('000)	1,250
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

**Major shareholders**

Emerging Glory	52.8%
Clarinden	9.0%
Amanah Saham Nasional	5.7%

**Earnings summary**

FYE Dec	FY20	FY21f	FY22f
PATMI - core (RM m)	117.9	160.3	198.9
EPS - core (sen)	3.2	4.4	5.4
P/E (x)	21.2	15.6	12.6

# Leong Hup International

## Inline at the mid-point

1H21 core net profit of RM103.6m (+151.3%) accounted for 53.7-63.1% of consensus and our full-year estimates. We consider the results within our expectation, as we anticipate lockdowns imposed in SEA region (as a result of Covid-19 pandemic) to affect livestock demand and prices in most of LHI's operating countries. Maintain core net profit forecasts, TP of RM0.90 (based on 18x mid FY21-22 EPS of 5 sen), and BUY rating on LHI.

**Within our expectation.** 2Q21 core net profit of RM30.5m (QoQ: -57.6%; YoY: +70.3%) took 1H21's sum to RM103.6m (+151.3%), accounting for 53.7-63.1% of consensus and our full-year estimates. We consider the results within our expectation (but above consensus), as we anticipate lockdowns imposed in SEA region (as a result of Covid-19 pandemic) to affect livestock demand and prices in most of LHI's operating countries.

**Exceptional items (EIs) in 1H21.** Core net profit of RM103.6m in 1H21 was arrived after adjusting for (i) RM3.9m impairment loss, (ii) RM2.2m disposal gain, and (iii) RM1m share option expense.

**QoQ.** Despite a 10.6% increase in revenue, core net profit fell 57.6% to RM30.5m in 2Q21, due mainly to higher livestock feed costs, which more than negated higher sales livestock sales volume and selling prices, as well as higher sales in downstream business in Malaysia.

**YoY.** Core net profit surged 70.3% to RM30.5m in 2Q21, boosted mainly by higher sales volume and selling price of livestock in Malaysia, Indonesia and Philippines, as well as the expansion of its downstream business-to-consumer channel in Malaysia operations, which altogether more than mitigated weaker feedmill segment (as a result of the surge in raw material costs, which outpaced the increase in feed prices).

**YTD.** Core net profit surged 151.3% to RM103.6m in 1H21 (from RM1Q21 core net profit of RM72.0m (QoQ: +41.7%; YoY: +222.8%) beat expectations, m SPLY), boosted mainly by higher sales volume and selling price of livestock in Malaysia, Indonesia and Philippines, as well as the expansion of its downstream business-to-consumer channel in Malaysia operations, which more than mitigated weaker contribution from feedmill segment (as a result of a surge in the costs of raw materials, such as corn and soybean).

**Forecast.** Maintain, pending more details from the virtual briefing.

**Maintain BUY; TP: RM0.90.** Maintain BUY rating on LHI, with an unchanged TP of RM0.90 based on 18x mid FY21-22 EPS of 5 sen.

# Financial Forecast

All items in (RM m) unless otherwise stated

## Balance Sheet

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	764.8	757.8	751.8	833.2	918.1
Receivables	670.0	601.6	702.7	737.2	774.8
Inventories	679.6	721.9	696.6	730.9	768.2
PPE	2,396.5	2,656.5	2,812.0	2,863.0	2,910.0
Others	898.2	957.1	984.5	1,004.1	1,025.3
<b>Assets</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>5,947.5</b>	<b>6,168.4</b>	<b>6,396.5</b>
Payables	560.2	489.8	583.5	612.2	643.5
Debt	2,381.8	2,639.3	2,639.3	2,639.3	2,639.3
Others	283.5	314.6	314.6	314.6	314.6
<b>Liabilities</b>	<b>3,228.6</b>	<b>3,446.2</b>	<b>3,540.0</b>	<b>3,568.7</b>	<b>3,600.0</b>
Shareholders' equity	1,641.2	1,713.4	1,819.0	1,944.9	2,074.2
Non-controlling interests	539.3	535.1	588.6	654.8	722.3
<b>Equity</b>	<b>2,180.5</b>	<b>2,248.6</b>	<b>2,407.6</b>	<b>2,599.7</b>	<b>2,796.5</b>

## Cash Flow Statement

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Profit before tax	288.8	157.1	288.9	358.3	364.6
D&A	204.6	230.2	244.8	249.2	253.3
Working capital	50.4	-76.4	-9.2	-59.5	-64.6
Tax paid	-57.0	-55.3	-75.1	-93.2	-94.8
Others	126.9	111.2	116.3	102.7	100.8
CFO	-403.9	-490.5	-400.0	-300.0	-300.0
Capex	-404.7	-513.9	-400.0	-300.0	-300.0
Others	0.8	23.4	0.0	0.0	0.0
CFI	-403.9	-490.5	-400.0	-300.0	-300.0
Changes in debt	-42.9	121.4	0.0	0.0	0.0
Shares issued	269.6	0.0	0.0	0.0	0.0
Dividends	-58.4	-20.1	-54.8	-73.0	-73.0
Others	-168.0	-128.2	-116.8	-103.2	-101.3
CFF	0.3	73.1	-171.6	-176.2	-174.3
Net cash flow	264.6	-1.6	-6.0	81.4	84.9
Beginning cash	390.4	654.2	645.8	639.9	721.3
Forex	-0.8	-6.8	0.0	0.0	0.0
Ending cash	654.2	645.8	639.9	721.3	806.2

## Income Statement

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,269.1	6,578.1	6,914.0
EBITDA	650.5	542.0	650.0	710.3	718.6
EBIT	425.0	282.6	405.2	461.1	465.4
Finance cost	-136.6	-125.9	-116.8	-103.2	-101.3
Associates	0.4	0.4	0.5	0.5	0.5
Profit before tax	288.8	157.1	288.9	358.3	364.6
Tax	-75.8	-39.6	-75.1	-93.2	-94.8
PAT	213.0	117.5	213.8	265.2	269.8
Non-controlling interests	-62.4	-4.4	-53.4	-66.3	-67.4
Reported PATMI	150.6	113.1	160.3	198.9	202.3
Exceptionals	6.5	4.7	0.0	0.0	0.0
Core PATMI	157.1	117.9	160.3	198.9	202.3
Consensus core PATMI			192.9	216.3	234.0
HLIB/ Consensus			83.1%	91.9%	86.5%

## Ratios

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Core EPS (sen)	4.3	3.2	4.4	5.4	5.5
P/E (x)	15.9	21.2	15.6	12.6	12.4
EV/EBITDA (x)	6.3	7.6	6.3	5.8	5.7
DPS (sen)	0.6	0.6	1.5	2.0	2.0
Dividend yield	0.8%	0.8%	2.2%	2.9%	2.9%
BVPS (RM)	0.4	0.5	0.5	0.5	0.6
P/B (x)	1.5	1.5	1.4	1.3	1.2
EBITDA margin	19.2%	16.2%	18.7%	19.8%	19.4%
EBIT margin	5.7%	3.9%	5.1%	5.5%	5.3%
PBT margin	3.9%	2.1%	3.6%	4.3%	4.2%
Net margin	2.1%	1.6%	2.0%	2.4%	2.3%
ROE	10.7%	7.0%	9.1%	10.6%	10.1%
ROA	3.1%	2.1%	2.8%	3.3%	3.2%
Net gearing	74.2%	83.7%	78.4%	69.5%	61.5%

## Assumptions

FYE Dec	FY21F	FY22F	FY23F
<b>Feedmill</b>			
- Production volume ('000 mt)	2,588.2	2,731.2	2,883.2
- Utilisation rate	73%	77%	81%
<b>Livestock</b>			
- Broiler DOC supplied (m chicks)	185.0	190.5	196.3
- Broiler supplied (m birds)	122.6	125.2	127.9
- Eggs supplied (m eggs)	1,851.8	1,900.4	1,950.4

**Figure #1** Quarterly results comparison

FYE Dec (RMm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)
Revenue	1,425.4	1,676.5	1,853.8	10.6	30.1	2,859.6	3,530.3	23.5
- Livestock & poultry related products	807.3	915.2	992.5	8.4	22.9	1,589.9	1,907.6	20.0
- Feedmill	614.7	758.4	858.9	13.3	39.7	1,262.8	1,617.2	28.1
- Others	3.5	3.0	2.5	-19.0	-29.3	6.8	5.5	-19.8
EBITDA	119.4	200.1	134.9	-32.6	13.0	246.6	335.0	35.9
- Livestock & poultry related products	29.3	94.2	108.7	15.4	>100	35.3	203.0	>100
- Feedmill	101.2	111.7	88.4	-20.9	-12.7	220.6	200.1	-9.3
- Others	-11.1	-5.9	-62.2	NM	NM	-9.4	-68.1	NM
Profit from operations	56.0	130.9	64.3	-50.9	14.8	123.7	195.2	57.9
- Livestock & poultry related products	-19.0	40.8	53.7	31.7	>100	-58.2	94.5	>100
- Feedmill	86.8	97.0	73.9	-23.8	-14.9	192.7	170.9	-11.3
- Others	-11.8	-6.9	-63.0	NM	NM	-10.8	-69.9	NM
Finance costs	-33.1	-25.9	-26.5	2.5	-19.9	-65.7	-52.4	-20.3
Associates	0.0	0.1	0.0	NM	NM	0.1	0.1	56.4
PBT	22.9	105.1	37.8	-64.1	64.8	58.0	142.9	>100
Tax expense	-8.6	-23.2	-9.8	-57.7	13.8	-18.4	-33.0	79.5
PAT	14.3	82.0	27.9	-65.9	95.5	39.6	109.9	>100
Non-controlling interests	2.0	-11.6	2.6	-	-	-1.6	-9.1	-
Reported net profit	16.3	70.3	30.5	-56.6	87.5	38.1	100.8	>100
Core net profit	17.9	72.0	30.5	-57.6	70.3	41.2	103.6	>100
Core EPS (sen)	0.5	2.0	0.8	-57.6	70.3	1.1	2.8	>100
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	8.4	11.9	7.3	-4.7	-1.1	8.6	9.5	0.9
Operating margin (%)	3.9	7.8	3.5	-4.3	-0.5	4.3	5.5	1.2
PBT margin (%)	1.6	6.3	2.0	-4.2	0.4	2.0	4.0	2.0
Net margin (%)	1.3	4.3	1.6	-2.6	0.4	1.4	2.9	1.5

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**Figure #2** Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)
Revenue	1,425.4	1,676.5	1,853.8	10.6	30.1	2,859.6	3,530.3	23.5
- Malaysia	385.5	443.3	479.3	8.1	24.3	769.0	922.7	20.0
- Singapore	182.7	189.9	197.8	4.2	8.3	368.1	387.7	5.3
- Vietnam	387.5	385.1	438.5	13.9	13.2	744.0	823.6	10.7
- Indonesia	447.5	613.7	697.3	13.6	55.8	931.6	1,311.0	40.7
- Philippines	22.3	44.6	40.9	-8.3	83.6	46.9	85.4	82.0
EBITDA	119.4	200.1	134.6	-32.7	12.8	246.6	334.7	35.7
- Malaysia	38.4	64.3	27.5	-57.2	-28.3	71.5	91.8	28.4
- Singapore	29.6	26.2	22.0	-15.9	-25.5	50.6	48.2	-4.7
- Vietnam	34.2	38.0	31.1	-18.2	-9.1	69.3	69.1	-0.3
- Indonesia	18.9	60.8	46.5	-23.5	146.7	55.1	107.4	94.8
- Philippines	-1.6	10.7	7.4	-30.6	NM	0.1	18.1	>100

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**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
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