

Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

Maintain BUY

Lifted by higher ASP and volume

Unchanged Target Price: RM0.92

KEY INVESTMENT HIGHLIGHTS

- **1HFY21 core net income (CNI) within expectation**
- **2QFY21 CNI surged by 87.8%yoy to RM30.5m as revenue jumped by 30.1%yoy to RM1.85b.**
- **Sequential net profit was lower by 56.6%qoq due to higher input cost for the feedmill division**
- **1HFY21 CNI swelled by 177.6%yoy to RM100.8m as revenue grew by 23.5%yoy to RM3.53b**
- **Maintain BUY with an unchanged TP of RM0.92**

1HFY21 core net income (CNI) within expectation. Leong Hup International Berhad (LHI)'s core net income (CNI) of RM100.8m was largely within ours and consensus' estimates at 56.5% and 52.3% of full year forecasts respectively. We deem the results to be within expectation as we anticipate a seasonally weaker 3Q ahead.

2QFY21 CNI surged by 87.8%yoy to RM30.5m as revenue jumped by 30.1%yoy to RM1.85b. This was mainly due to better average selling price (ASP) and higher sales volume of day-old-chicks (DOC) and broiler chickens in Indonesia and Malaysia. Locally, the poultry business was also supported by its downstream business, in the form of *The Baker's Cottage*, which the group has been expanding aggressively since mid-2020. In the Philippines, sales were higher due to higher ASP and sales volume of broiler chickens. As a result, EBITDA margin improved along the better ASP and higher volume, which was slightly offset by the lower ASP of eggs in Malaysia. Meanwhile, feedmill division EBITDA declined by 12.7%yoy mainly due to the increase in raw material costs, which rose faster than the adjustment in ASP to its customers despite the higher sales volume.

Sequential net profit was lower by 56.6%qoq even though revenue climbed by 10.6%qoq. The higher sales can be attributed to the higher ASP of broiler chickens and DOC. It was also supported by higher volume of livestock feed and higher sales in its downstream business. However, higher raw material costs resulted in margin compression for the feedmill division and lower profitability during the quarter.

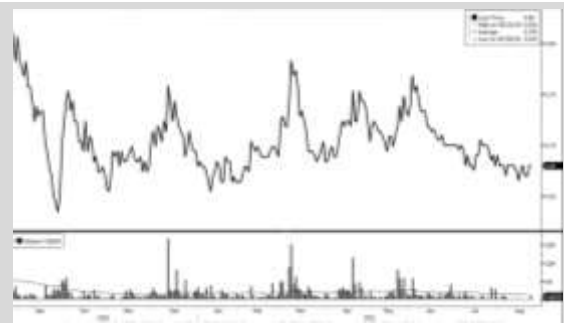
1HFY21 CNI swelled by 177.6%yoy to RM100.8m as revenue grew by 23.5%yoy to RM3.53b. The improved results for the period can be attributed to better ASP, higher volume for its poultry products mainly in Indonesia, Malaysia and the Philippines. This result in better EBITDA margin and profitability.

Maintain BUY with an unchanged TP of RM0.92. As earnings are in-line, we make no changes to our estimates. Our TP is based on unchanged FY22F EPS of 5.3 sen pegged to PER of 17.3x, which is premised on the median PER of LHI's regional peers. We believe that LHI is poised for further recovery when the pandemic improves. We like LHI for its: (i) economies of scale; (ii) vertical integration; and (iii) geographical diversification.

RETURN STATISTICS

Price @ 24 th August 2021 (RM)	0.68
Expected share price return (%)	+35.2
Expected dividend yield (%)	+2.3
Expected total return (%)	+37.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.9	-4.7
3 months	-2.9	-7.3
12 months	-18.1	-18.0

KEY STATISTICS

FBM KLCI	1,553.37
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	14.57
Market Capitalisation (RM'm)	2,482.00
52-wk price range	RM0.63 - RM0.85
Beta vs FBM KLCI (x)	1.07
Monthly volatility (%)	0.00
3-mth average daily volume (m)	1.25
3-mth average daily value (RM'm)	0.90
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.8
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73

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INVESTMENT STATISTICS

Financial year ending 31st Dec	FY2019	FY2020	FY2021E	FY2022F	FY2023F
(in RM'm, unless otherwise stated)					
Revenue	6,054.7	6,040.7	6,325.5	6,613.3	6,811.7
Core EBITDA	650.5	542.0	697.8	740.0	786.5
Depreciation & amortisation	(225.5)	(259.4)	(234.1)	(245.2)	(256.0)
Core EBIT	425.0	282.6	463.7	494.7	530.4
Finance costs	(136.6)	0.4	(139.2)	(145.5)	(149.9)
Share of profits of associates	0.4	0.6	0.6	0.7	0.7
PBT	288.8	157.1	325.2	349.9	381.3
PAT	213.0	117.5	243.9	263.8	287.4
PATANCI	150.6	113.1	178.4	194.0	215.6
EPS (sen)	4.2	3.1	4.9	5.3	5.9
EPS growth (%)	(17.1)	(26.7)	57.6	8.8	11.1
Net Dividend (sen)	1.6	0.6	2.0	2.0	2.0
EBITDA margin (%)	10.7	9.0	11.0	11.2	11.5
PATANCI margin (%)	2.5	1.9	2.8	2.9	3.2
Dividend yield (%)	2.5	1.2	2.3	2.4	0.0
PER (x)	16.1	21.9	13.9	12.8	11.5

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 2QFY21 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	2QFY21	1QFY21	2QFY20	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
Revenue	1,853.8	1,676.5	1,425.4	30.1	10.6	3,530.3	2,859.6	23.5
Other income	14.8	16.5	11.0	34.6	(10.2)	31.4	30.1	4.2
Operating expenses	(1,804.3)	(1,562.2)	(1,380.5)	30.7	15.5	(3,366.5)	(2,766.0)	21.7
Profit from operations	64.3	130.9	56.0	14.9	(50.9)	195.2	123.6	57.9
Finance costs	(26.5)	(25.9)	(33.1)	(19.9)	2.6	(52.4)	(65.7)	(20.3)
Share of profits of associates	(0.0)	0.1	0.0	(166.7)	(120.0)	0.1	0.1	40.4
PBT	37.8	105.2	22.9	64.9	(64.1)	142.9	58.0	146.5
Tax expense	(9.8)	(23.2)	(8.6)	13.7	(57.8)	(33.0)	(18.4)	79.4
PAT	28.0	81.9	14.3	95.9	(65.9)	109.9	39.6	177.6
Non-controlling interests	(2.6)	11.6	(2.0)	29.4	(121.9)	9.1	1.6	481.8
PATANCI	30.5	70.3	16.2	87.8	(56.6)	100.8	38.0	165.1
One-off items	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Normalised PATANCI	30.5	70.3	16.2	87.8	(56.6)	100.8	38.0	165.1
				+ / (-) pts				+ / (-) pts
Operating margin (%)	3.5	7.8	3.9	(0.5)	(4.3)	5.5	4.3	1.2
PBT margin (%)	2.0	6.3	1.6	0.4	(4.2)	4.0	2.0	2.0
PAT margin (%)	1.5	4.9	1.0	0.5	(3.4)	3.1	1.4	1.7
PATANCI margin (%)	1.6	4.2	1.1	0.5	(2.5)	2.9	1.3	1.5
Effective Tax rate (%)	26.0	22.1	37.7	(11.7)	3.9	23.1	31.7	(8.6)

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results					Cumulative results		
	2QFY21	1QFY21	2QFY20	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
Revenue								
Malaysia	479.4	443.3	385.5	24.3	8.1	922.7	769.0	20.0
Singapore	197.8	189.9	182.7	8.3	4.1	387.7	368.1	5.3
Vietnam	438.5	385.1	387.5	13.2	13.9	823.6	744.0	10.7
Indonesia	697.3	613.7	447.5	55.8	13.6	1,311.0	931.6	40.7
Philippines	40.8	44.6	22.3	83.4	(8.5)	85.4	46.9	82.0
Total	1,853.7	1,676.6	1,425.4	30.0	10.6	3,530.3	2,859.6	23.5
EBITDA								
Malaysia	27.5	64.3	38.4	(28.3)	(57.2)	91.8	71.5	28.4
Singapore	22.0	26.2	29.6	(25.5)	(15.9)	48.2	50.6	(4.7)
Vietnam	31.1	38.0	34.2	(9.1)	(18.2)	69.1	69.3	(0.3)
Indonesia	46.6	60.8	18.9	147.1	(23.4)	107.4	55.1	94.8
Philippines	7.5	10.7	(1.6)	(554.3)	(30.4)	18.2	0.1	0.0
Total	134.7	200.0	119.4	12.8	(32.7)	334.7	246.6	35.7

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology