

Leong Hup International Berhad

Sustained momentum in livestock's segment

Summary

- Leong Hup International Bhd's (LHI) 2Q21 net profit grew 30.1% YoY and 10.6% QoQ to RM30.5m, bringing a significant jump of 164.9% in 1H21 net profit as compared to 1H20. However, the results came in slightly below our expectations, amounting to 44.7% our forecast of RM225.7m. Key drivers include better margins arising from (i) higher ASP and sales volume of day-old-chicks (DOC) in Indonesia and Malaysia, (ii) favourable ASP and sales volume of broiler chickens in Philippines and Malaysia and (iii) the expansion of its business-to-consumer (B2C) channel in Malaysia.
- YoY, LHI's net profit rose 87.5% due to higher revenue from Indonesia, Malaysia and Philippines, primarily contributed by the higher ASP and sales volume of DOC in Indonesia, as well as broiler chickens in Philippines. The growth was partially offset by lower ASP of eggs in Malaysia. QoQ, however, LHI's net profit dipped 56.6% despite a higher revenue, mainly due to an increase in raw material costs.
- Soybean price remained elevated in 2Q21, rising 7.6% QoQ owing to prospects of tighter market conditions amid higher foreign demand. Likewise, the maize price increased 10.3% QoQ due to supply concerns over unfavourable weather as well as heightened export demand. Time lags in the pass-through of cost inflation to ASP have caused a transient negative impact on feedmill segment EBITDA (-23.8% QoQ).
- Moving forward, we expect the raw material cost inflation will be gradually priced into ASP, thereby contributing to a relatively stable margin, considering LHI's stockpiling practice on raw material. Meanwhile, while ASP may fluctuate between phases of lockdowns, sales volume should remain stable should the reopening of economic activities go on.
- LHI remained committed to its downstream expansion plan (The Bakers Cottage) despite the disruptions caused by the implementation of movement restriction measures due to Covid-19 outbreak in Malaysia. To date, LHI is running 139 active outlets in Malaysia, targeting 160 outlets by end of FY21. Regionally, LHI's continued its efforts in (i) enhancing capacity in production of aquatic feed in Vietnam (ii) ramping up upstream capacities in Philippines and (iii) developing downstream segment in Indonesia.

Quarterly performance								
FYE Dec (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
Revenue	1,425.4	1,676.5	1,853.8	10.6	30.1	2,859.6	3,530.3	23.5
EBITDA	116.3	196.4	131.2	(33.2)	12.8	239.4	327.5	36.8
PBT	22.9	105.1	37.8	(64.1)	64.8	58.0	142.9	146.4
PAT	14.3	82.0	27.9	(65.9)	95.5	39.6	109.9	177.4
Core PATMI	16.3	70.3	30.5	(56.6)	87.5	38.1	100.8	164.9
Reported PATMI	16.3	70.3	30.5	(56.6)	87.5	38.1	100.8	164.9
Core EPS (sen)	0.4	1.9	0.8	(56.6)	87.5	1.0	2.8	164.9
EBITDA margin (%)	8.2	11.7	7.1			8.4	9.3	
PBT margin (%)	1.6	6.3	2.0			2.0	4.0	
Core PATMI margin (%)	1.1	4.2	1.6			1.3	2.9	

Results Note – 2QFY21

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BUY

Share price	RM0.68
Target price	RM1.06
Previous TP	RM0.99
Capital upside	55.9%
Dividend return	1.8%
Total return	57.7%

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	2482.0
52W High/Low	0.85/0.635
Est. Free float	14.6%
Beta (X)	0.8
3-mth avg vol ('000)	1244.3
Shariah compliant	No

Major shareholders

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

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.9	-6.8	-18.1
Relative	-4.7	-5.4	-18.0

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	113.1	206.7	240.9
EPS (sen)	3.1	5.7	6.6
P/E (x)	23.1	12.6	10.8

Relative performance chart



Valuation & Recommendation

- With the reported earnings coming slightly below our expectations, we trimmed our earnings forecast by 9.2% and 16.6% to RM206.7m and RM240.9m respectively for FY21f and FY22f to account for the elevated raw material costs. Nevertheless, we maintained our **BUY** recommendation on LHI with a revised target price of RM1.06 as we are rolling forward to the FY22f earnings. The target price is arrived by ascribing a target PER of 16.0x to its FY22f EPS of 6.6 sen.
- We like LHI for its “Farm-to-Plate” business model to enhance vertical integration along the poultry chain, backed by the ongoing expansion plans on both local and regional front. Notwithstanding some short-term headwinds amid movement restrictions order, we believe the company is staging a recovery towards the end of FY21f following a gradual reopening of economic activities in the countries the Group operates in.
- However, risks to our recommendation and forecast include fluctuations in raw material prices, as time lags in pass-through of cost inflation could narrow LHI's margins. Besides, demand could be impacted with any implementation of further lockdown measures.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	5,732.4	6,054.8	6,040.7	7,125.4	7,725.0	Cash	458.9	764.8	757.8	675.7	515.6
EBITDA	647.6	637.7	525.8	726.7	785.9	Receivables	649.2	499.3	489.6	546.6	634.9
EBIT	450.4	412.1	266.5	422.4	473.5	Inventories	575.6	679.6	721.9	705.5	712.3
Net finance income/ (cost)	(102.5)	(123.8)	(109.7)	(124.8)	(126.7)	PPE	2,396.8	2,418.5	2,656.5	2,933.2	3,161.6
Associates & JV	0.6	0.4	0.4	0.5	0.5	Others	753.5	1,046.9	695.2	844.5	903.8
Profit before tax	348.6	288.7	157.1	298.1	347.3	Assets	4,834.0	5,409.1	5,694.8	6,101.8	6,342.9
Tax	(101.8)	(75.8)	(39.6)	(80.5)	(93.8)	Debts	2,370.9	2,500.3	2,795.5	2,420.8	2,441.3
Net profit	246.8	213.0	117.5	217.6	253.6	Payables	248.9	273.1	229.4	282.2	284.6
Minority interest	60.6	62.4	4.4	10.9	12.7	Others	448.7	455.2	418.8	931.9	897.2
Core earnings	186.2	150.6	113.1	206.7	240.9	Liabilities	3,068.6	3,228.6	3,446.2	3,634.9	3,625.7
Exceptional items	-	-	-	-	-	Shareholder's equity	1,301.8	1,641.2	1,713.4	1,878.2	2,069.8
Reported earnings	186.2	150.6	113.1	206.7	240.9	Minority interest	463.6	539.3	535.1	588.6	647.5
						Equity	1,765.4	2,180.5	2,248.6	2,466.8	2,717.3
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	348.6	288.7	157.1	298.1	347.3	Core EPS (sen)	5.1	4.1	3.1	5.7	6.6
Depreciation & amortisation	197.1	225.5	259.4	304.3	312.3	P/E (x)	14.0	17.3	23.1	12.6	10.8
Changes in working capital	220.5	(77.9)	(63.9)	88.1	115.8	DPS (sen)	1.0	1.6	0.6	1.3	1.3
Share of JV profits	-	-	-	-	-	Dividend yield	1.4%	2.2%	0.8%	1.7%	1.7%
Taxation	(75.7)	(57.0)	(55.3)	(39.6)	(80.5)	BVPS (RM)	0.48	0.60	0.62	0.68	0.74
Others	-	-	-	-	-	P/B (x)	1.5	1.2	1.2	1.1	1.0
Operating cash flow	349.2	670.6	415.8	537.7	581.9	EBITDA margin	11.3%	10.5%	8.7%	10.2%	10.2%
Net capex	(418.9)	(400.8)	(524.4)	(449.9)	(570.4)	EBIT margin	7.9%	6.8%	4.4%	5.9%	6.1%
Others	-	-	-	-	-	PBT margin	6.1%	4.8%	2.6%	4.2%	4.5%
Investing cash flow	(378.6)	(403.9)	(502.1)	(491.2)	(613.0)	PAT margin	4.3%	3.5%	1.9%	3.1%	3.3%
Changes in borrowings	177.4	10.9	(2,381.8)	18.0	18.0	Core PAT margin	3.2%	2.5%	1.9%	2.9%	3.1%
Issuance of shares	-	-	-	-	-	ROE	10.5%	6.9%	5.0%	8.4%	8.9%
Dividends paid	(66.3)	(84.5)	(23.8)	(45.6)	(45.6)	ROA	3.9%	2.8%	2.0%	3.4%	3.8%
Others	-	-	-	-	-	Net gearing	108.3%	79.6%	90.6%	70.7%	70.9%
Financing cash flow	(6.9)	(2.1)	71.6	(104.9)	(105.5)						
Net cash flow	(36.2)	264.6	(14.7)	(58.4)	(136.6)						
Forex	(0.8)	(0.8)	(7.3)	0.5	0.5						
Others	-	-	-	-	-						
Beginning cash	427.4	390.4	654.2	632.2	574.4						
Ending cash	390.4	654.2	632.2	574.4	438.3						

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