

Leong Hup International (LHIB MK)

Look towards FY22

BUY

Share Price MYR 0.68
 12m Price Target MYR 0.84 (+26%)
 Previous Price Target MYR 1.15

Maintain BUY with lower TP of MYR0.84

2Q21 results were below our expectations given lower-than-expected feed segment margins. LHIB faces a challenging 2H21 outlook with resurgences in COVID-19 outbreaks in all its regional operations and re-enforcements of lockdowns. Hence, poultry ASPs have sharply declined in Indonesia and Vietnam in the midst of an already high commodity price backdrop. We lower our FY21-FY23 earnings estimates by 5%-28%. Our BUY call is maintained with a lower TP of MYR0.84 (based on lower 15x FY22 PER [17x FY22 PER previously] to better reflect the regional industry peers average) as we look towards LHIB's earnings turnaround potential when the effects of the pandemic wanes.

Below expectations

LHIB's 2Q21 core net profit of MYR31m (+88% YoY, -57% QoQ) brought 1H21 core net profit to MYR103m (-31% YoY), below expectations at 44%/52% of our/consensus full-year earnings estimates. The earnings shortfall was largely attributed to lower-than-expected feed margins. LHIB declared a first interim DPS of 0.66sen/shr (2Q20: 0.55sen/shr).

Earnings marred by high raw material costs

2Q21 revenue grew 11% QoQ led by higher average poultry ASPs (broiler & DOC) in Malaysia along with increased feed ASP and sales volume in Indonesia and Vietnam. Pre-tax profit however fell 64% QoQ given a surge in feed raw material costs and timing differences of its cost-pass through mechanism. On a YoY basis, group revenue reported a 30% YoY growth given a significant recovery in poultry ASPs against the backdrop of MCO1.0 in 2Q20.

Expecting challenging 2H21

While Malaysia's poultry demand and ASPs remain relatively consistent, Indonesia and Vietnam is experiencing sharp declines in broiler and DOC ASPs currently as the respective countries are back in lockdown. Further, we expect feed raw material costs to continue suppressing feed segment margins in sequential quarters. LHIB is looking to expand its feed storage facilities to raise stockpile above its average 2-3 month supply. However, it is only expected to be completed in FY22. Hence, we lower our FY21/FY22/FY23 earnings estimates by 28%/17%/5% after lowering group EBITDA margins by c.1%-2% in FY21.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,055	6,041	7,112	7,539	7,800
EBITDA	651	542	663	760	848
Core net profit	151	103	167	204	250
Core EPS (sen)	4.1	2.8	4.6	5.6	6.8
Core EPS growth (%)	(33.0)	(31.4)	61.3	22.6	22.1
Net DPS (sen)	1.6	0.6	1.4	1.7	2.1
Core P/E (x)	21.3	24.2	14.9	12.1	9.9
P/BV (x)	2.0	1.5	1.3	1.3	1.2
Net dividend yield (%)	1.8	0.8	2.0	2.5	3.0
ROAE (%)	10.2	6.7	9.4	10.7	12.1
ROAA (%)	2.9	1.9	2.8	3.1	3.5
EV/EBITDA (x)	8.4	9.4	8.1	6.9	6.4
Net gearing (%) (incl perps)	79.6	90.6	93.8	79.7	77.6
Consensus net profit	-	-	191	219	223
MKE vs. Consensus (%)	-	-	(12.7)	(6.5)	11.7

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Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

Statistics

52w high/low (MYR)	0.83/0.64
3m avg turnover (USDm)	0.2
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.5B USD589M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



— Leong Hup - (LHS, MYR) — Leong Hup / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(3)	(9)	(18)
Relative to index (%)	(3)	(6)	(16)

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q21	2Q20	% YoY	1Q21	% QoQ	1H21	1H20	% YoY
Revenue	1,853.8	1,425.4	30.1	1,676.5	10.6	3,530.3	2,859.6	23.5
EBITDA	134.6	119.4	12.8	200.1	(32.7)	334.7	246.6	35.7
Depreciation	(70.3)	(63.4)	10.9	(69.1)	1.7	(139.5)	(122.9)	13.5
EBIT	64.3	56.0	14.8	130.9	(50.9)	195.2	123.7	57.9
Interest expense	(26.5)	(33.1)	(19.9)	(25.9)	2.5	(52.4)	(65.7)	(20.3)
Associates	(0.0)	0.0	<i>n.m.</i>	0.1	<i>n.m.</i>	0.1	0.1	56.4
Pretax profit	37.8	22.9	64.8	105.1	(64.1)	142.9	58.0	>100.0
Tax	(9.8)	(8.6)	13.8	(23.2)	(57.7)	(33.0)	(18.4)	79.5
Minority interest	2.6	2.0	29.7	(11.6)	<i>n.m.</i>	(9.1)	(1.6)	>100.0
Net profit	30.5	16.3	87.5	70.3	(56.6)	100.8	38.1	>100.0
Core net profit	30.5	16.3	87.5	70.3	(56.6)	100.8	38.1	>100.0
			<i>+/-</i> <i>p.ptsYoY</i>		<i>+/-</i> <i>p.ptsQoQ</i>			
EBITDA margin (%)	7.3	8.4	(1.1)	11.9	(4.7)	9.5	8.6	0.9
EBIT margin (%)	3.5	3.9	(0.5)	7.8	(4.3)	5.5	4.3	1.2
Tax rate (%)	(26.0)	(37.6)	11.6	(22.1)	(3.9)	(23.1)	(31.7)	8.6
Revenue:			% YoY		% QoQ			
Livestock	992.5	807.3	22.9	915.2	8.4	1,907.6	1,589.9	20.0
Feedmill	858.9	614.7	39.7	758.4	13.3	1,617.2	1,262.8	28.1
Others	2.5	3.5	(29.3)	3.0	(19.0)	5.5	6.8	(19.8)
Total	1,853.8	1,425.4	30.1	1,676.5	10.6	3,530.3	2,859.6	23.5
EBITDA:			% YoY		% QoQ			
Livestock	108.7	29.3	>100.0	94.2	15.4	203.0	35.3	>100.0
Feedmill	88.4	101.2	(12.7)	111.7	(20.9)	200.1	220.6	(9.3)
Others	(62.5)	(11.1)	>100.0	(5.9)	>100.0	(68.4)	(9.4)	>100.0
Total	134.6	119.4	12.8	200.1	(32.7)	334.7	246.6	35.7
EBITDA margin (%):			<i>+/-</i> <i>p.ptsYoY</i>		<i>+/-</i> <i>p.ptsQoQ</i>			
Livestock	11.0	3.6	7.3	10.3	0.7	10.6	2.2	8.4
Feedmill	10.3	16.5	(6.2)	14.7	(4.4)	12.4	17.5	(5.1)
Others	(2,551.3)	(320.3)	(2,231.1)	(196.2)	(2,355.1)	(1,250.3)	(137.6)	(1,112.7)
Total	7.3	8.4	(1.1)	11.9	(4.7)	9.5	8.6	0.9

Source: Company

Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	22.1	23.2	14.9	12.1	9.9
Core P/E (x)	21.3	24.2	14.9	12.1	9.9
P/BV (x)	2.0	1.5	1.3	1.3	1.2
P/NTA (x)	2.1	1.5	1.4	1.3	1.2
Net dividend yield (%)	1.8	0.8	2.0	2.5	3.0
FCF yield (%)	8.9	nm	nm	10.4	nm
EV/EBITDA (x)	8.4	9.4	8.1	6.9	6.4
EV/EBIT (x)	12.9	18.0	13.0	10.6	9.6
INCOME STATEMENT (MYR m)					
Revenue	6,054.8	6,040.7	7,112.0	7,538.9	7,800.4
EBITDA	650.5	542.0	663.1	760.0	848.0
Depreciation	(204.6)	(230.2)	(244.0)	(258.7)	(272.0)
Amortisation	(21.0)	(29.1)	(7.2)	(7.2)	(7.2)
EBIT	425.0	282.6	411.8	494.1	568.8
Net interest income / (exp)	(136.6)	(125.9)	(105.0)	(136.9)	(149.5)
Associates & JV	0.4	0.4	0.4	0.4	0.4
Pretax profit	288.8	157.1	307.2	357.6	419.6
Income tax	(75.8)	(39.6)	(77.4)	(90.1)	(105.8)
Minorities	(62.4)	(4.4)	(63.1)	(63.0)	(64.3)
Reported net profit	150.6	113.1	166.7	204.5	249.6
Core net profit	150.6	103.3	166.7	204.5	249.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	764.8	757.8	775.7	1,236.5	1,391.6
Accounts receivable	499.3	489.6	859.5	570.6	909.1
Inventory	679.6	721.9	782.0	786.4	821.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,396.5	2,656.5	2,749.1	2,890.7	3,019.0
Intangible assets	97.5	95.3	95.0	94.7	94.4
Investment in Associates & JVs	1.6	1.6	1.6	1.6	1.6
Other assets	969.9	972.2	1,152.5	1,203.8	1,240.3
Total assets	5,409.1	5,694.8	6,415.4	6,784.4	7,477.9
ST interest bearing debt	1,522.7	1,783.8	1,734.0	1,901.6	2,069.2
Accounts payable	273.1	229.4	396.0	256.2	412.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	977.7	1,011.6	1,327.7	1,442.9	1,558.1
Other liabilities	455.0	421.0	520.0	540.0	555.0
Total Liabilities	3,228.6	3,446.2	3,977.9	4,140.8	4,595.3
Shareholders Equity	1,641.2	1,713.4	1,839.3	1,982.4	2,157.1
Minority Interest	539.3	535.1	598.2	661.2	725.4
Total shareholder equity	2,180.5	2,248.6	2,437.4	2,643.5	2,882.5
Total liabilities and equity	5,409.1	5,694.8	6,415.4	6,784.4	7,477.9
CASH FLOW (MYR m)					
Pretax profit	288.8	157.1	307.2	357.6	419.6
Depreciation & amortisation	225.5	259.4	251.2	265.9	279.2
Cash taxes paid	(57.0)	(39.6)	(77.4)	(90.1)	(105.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	670.6	282.3	148.8	659.0	366.9
Capex	(383.3)	(477.3)	(400.0)	(400.0)	(400.0)
Free cash flow	287.3	(195.1)	(251.2)	259.0	(33.1)
Dividends paid	(84.5)	(23.8)	(50.0)	(61.3)	(74.9)
Equity raised / (purchased)	269.6	0.0	5.4	0.0	0.0
Change in Debt	(187.2)	95.4	266.2	282.8	282.8
Other invest/financing cash flow	(20.6)	(24.8)	(15.7)	(19.4)	(19.4)
Effect of exch rate changes	(0.8)	na	na	na	na
Net cash flow	263.8	(148.2)	(45.3)	461.1	155.4

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.4	(0.2)	17.7	6.0	3.5
EBITDA growth	(0.6)	(16.7)	22.3	14.6	11.6
EBIT growth	(7.1)	(33.5)	45.7	20.0	15.1
Pretax growth	(17.2)	(45.6)	95.5	16.4	17.4
Reported net profit growth	(19.1)	(24.9)	47.4	22.6	22.1
Core net profit growth	(33.0)	(31.4)	61.3	22.6	22.1
Profitability ratios (%)					
EBITDA margin	10.7	9.0	9.3	10.1	10.9
EBIT margin	7.0	4.7	5.8	6.6	7.3
Pretax profit margin	4.8	2.6	4.3	4.7	5.4
Payout ratio	38.8	17.7	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	2.5	1.9	2.3	2.7	3.2
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.0
Assets/Equity (x)	3.3	3.3	3.5	3.4	3.5
ROAE (%)	10.2	6.7	9.4	10.7	12.1
ROAA (%)	2.9	1.9	2.8	3.1	3.5
Liquidity & Efficiency					
Cash conversion cycle	59.9	59.2	59.9	59.9	59.9
Days receivable outstanding	34.1	29.5	34.1	34.1	34.1
Days inventory outstanding	44.2	46.3	44.2	44.2	44.2
Days payables outstanding	18.4	16.6	18.4	18.4	18.4
Dividend cover (x)	2.6	5.6	3.3	3.3	3.3
Current ratio (x)	1.2	1.1	1.2	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	79.6	90.6	93.8	79.7	77.6
Net gearing (%) (excl. perps)	79.6	90.6	93.8	79.7	77.6
Net interest cover (x)	3.1	2.2	3.9	3.6	3.8
Debt/EBITDA (x)	3.8	5.2	4.6	4.4	4.3
Capex/revenue (%)	6.3	7.9	5.6	5.3	5.1
Net debt/ (net cash)	1,735.5	2,037.7	2,286.0	2,108.0	2,235.7

Source: Company; Maybank

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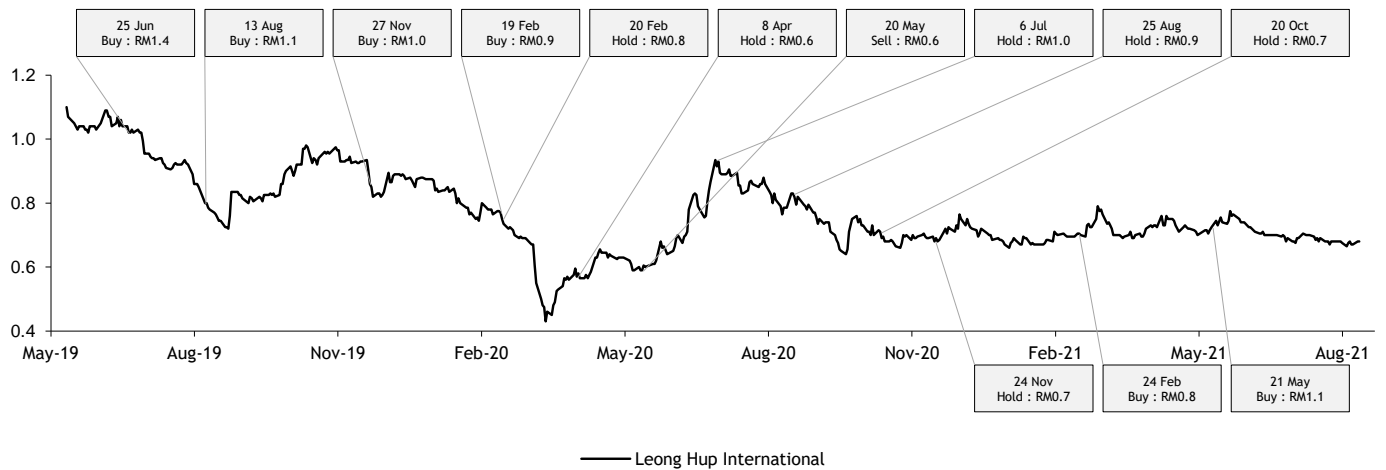
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Historical recommendations and target price: Leong Hup International (LHIB MK)



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