

25 August 2021

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

**Buy** (Maintained)

### A Regional Proxy To Cyclical Recovery; Keep BUY

Target Price (Return):	MYR0.87 (+28%)
Price:	MYR0.68
Market Cap:	USD587m
Avg Daily Turnover (MYR/USD)	0.84m/0.20m

- Maintain BUY and MYR0.87 TP, 28% upside and c.3% FY22F yield.** 1H21 results met expectations, with the earnings jump propelled by healthy recovery across all key operating markets. Looking ahead, we foresee feedmill margin normalising on further cost pass-through, while the poultry division may benefit from the broader economy reopening regionally. Current valuation is undemanding considering Leong Hup International's established market position to capture the cyclical recovery in the ASEAN region ahead. Longer term growth will be underpinned by continuous capacity expansion and downstream ventures.

- 1H21 results met expectations.** Core net profit of MYR101m (+165% YoY) met 53% and 52% of our and Street estimates. No changes were made to FY21F-23F earnings and DCF-derived TP of MYR0.87, which implies 15x FY22F P/E – close to its 3-year mean.

- Results review.** YoY, 1H21 sales jumped 24% to MYR3.5bn on healthy recovery across all key operating markets as lockdown restrictions were relatively less intense compared to 1H20. 1H21 EBITDA surged 36% to MYR335m thanks to the higher contribution from Malaysia (+28%) and Indonesia (+95%) on the back of higher volumes and improved product ASPs. QoQ, 2Q21 sales grew 11% to MYR1.9bn, primarily due to higher ASP for its poultry and feedmill businesses to pass on higher raw material costs. However, 2Q21 EBITDA dipped 33% to MYR135m as the higher costs could not be fully passed on due to the very sharp rise in commodity costs. Meanwhile, the escalated pandemic situation in most of LHIB's operating countries has also affected consumption and ASPs.

- Things to improve ahead.** Looking forward, we expect more costs to be passed through to mitigate margin pressure whilst commodity prices have also started to moderate from peak levels. Essentially, the gradual economic reopening across all operating countries in tandem with the higher vaccination progress will bode well for consumption and lift ASPs. Meanwhile, we believe there could be an accelerated market consolidation if more small holders are phased out permanently by the pandemic thus paving the way for larger industry players like LHIB to capitalise and gain market share. On a related note, the downstream venture via The Baker's Cottage (TBC) has yielded positive results. TBC is projected to take up 30-40% of LHI's broiler supply once the store count is ramped up to 300 stores in 2023 from 139 stores currently.

- Risks to our recommendation** include unfavourable demand-supply dynamics and delay in vaccination progress.

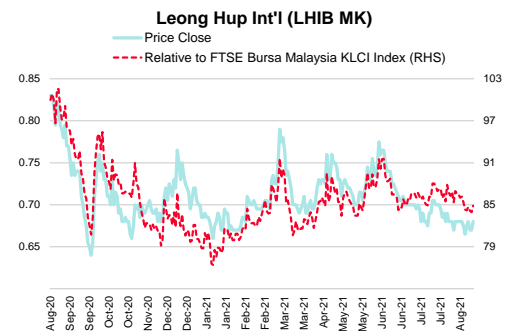
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	(2.9)	(6.2)	(2.9)	(13.4)
Relative	5.7	(2.8)	(3.6)	(0.2)	(9.9)
52-wk Price low/high (MYR)	0.64 – 0.83				



Source: Bloomberg

#### Overall ESG Score: 2.9 (out of 4)

##### E: Good

LHIB has not identified any key initiatives in delivering sustainable reduction in greenhouse gas (GHG) emissions. However, the company has a put in place a system to properly manage and treat water, as well as hazardous and non-hazardous waste from its operations. This is in accordance with local laws and regulations.

##### S: Good

Good policies to enhance the awareness of health and safety amongst its stakeholders as well as putting in place a framework that ensures a safe and conducive working environment for its people. In addition, LHIB practices good standards in ensuring the safety and quality of its food products.

##### G: Excellent

LHIB has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance, with independent directors comprising almost 50% and women making up 30% of the board.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	6,055	6,041	6,674	7,067	7,455
Recurring net profit (MYRm)	151	108	191	211	219
Recurring net profit growth (%)	(31.2)	(28.4)	77.4	10.2	4.1
Recurring P/E (x)	16.48	23.03	12.98	11.78	11.31
P/B (x)	1.5	1.4	1.3	1.2	1.2
P/CF (x)	3.78	5.78	5.71	4.66	4.11
Dividend Yield (%)	2.3	0.8	2.3	2.5	2.6
EV/EBITDA (x)	7.10	9.00	6.93	6.58	6.10
Return on average equity (%)	10.2	6.7	10.7	11.0	10.6
Net debt to equity (%)	74.2	83.7	84.3	84.8	83.6

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.04	0.03	0.05	0.06	0.06
Agriculture	DPS	0.02	0.01	0.02	0.02	0.02
<b>Leong Hup International</b>	BVPS	0.45	0.47	0.51	0.55	0.59
LHIB MK	Return on average equity (%)	10.2	6.7	10.7	11.0	10.6
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	16.48	23.03	12.98	11.78	11.31
	P/B (x)	1.5	1.4	1.3	1.2	1.2
	FCF Yield (%)	10.2	(4.7)	1.4	1.3	4.2
	Dividend Yield (%)	2.3	0.8	2.3	2.5	2.6
	EV/EBITDA (x)	7.10	9.00	6.93	6.58	6.10
	EV/EBIT (x)	10.86	17.26	11.27	10.76	9.95
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	6,055	6,041	6,674	7,067	7,455
	Gross profit	1,004	879	1,071	1,136	1,217
	EBITDA	651	542	722	782	859
	Depreciation and amortisation	(226)	(259)	(278)	(304)	(333)
	Operating profit	425	283	444	478	526
	Net interest	(137)	(126)	(104)	(105)	(135)
	Pre-tax profit	289	157	340	373	392
	Taxation	(76)	(40)	(82)	(89)	(94)
	Reported net profit	151	113	191	211	219
	Recurring net profit	151	108	191	211	219
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	39	(66)	(138)	(87)	(83)
	Cash flow from operations	657	429	434	533	604
	Capex	(404)	(546)	(400)	(500)	(500)
	Cash flow from investing activities	(373)	(504)	(400)	(500)	(500)
	Dividends paid	(84)	(24)	(57)	(63)	(66)
	Cash flow from financing activities	(3)	72	(226)	(43)	(201)
	Cash at beginning of period	459	765	758	566	555
	Net change in cash	281	(3)	(192)	(10)	(97)
	Ending balance cash	740	761	566	555	458
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	765	758	566	555	458
	Tangible fixed assets	2,396	2,656	2,779	2,975	3,142
	Total investments	22	22	22	22	22
	Total assets	5,409	5,695	5,780	6,067	6,233
	Short-term debt	1,509	1,765	1,700	1,700	1,700
	Total long-term debt	873	874	874	1,000	1,000
	Total liabilities	3,229	3,446	3,398	3,538	3,551
	Total equity	2,181	2,249	2,382	2,529	2,682
	Total liabilities & equity	5,409	5,695	5,780	6,067	6,233
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	5.4	(0.2)	10.5	5.9	5.5
	Recurrent EPS growth (%)	(31.2)	(28.4)	77.4	10.2	4.1
	Gross margin (%)	16.6	14.6	16.0	16.1	16.3
	Operating EBITDA margin (%)	10.7	9.0	10.8	11.1	11.5
	Net profit margin (%)	2.5	1.9	2.9	3.0	2.9
	Dividend payout ratio (%)	38.5	17.7	29.9	29.9	29.9
	Capex/sales (%)	6.7	9.0	6.0	7.1	6.7
	Interest cover (x)	3.11	2.25	4.26	4.53	3.90

Source: Company data, RHB

## Results At a Glance

Figure 1: LHIB's results review

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments
<b>Revenue</b>	<b>1,425.4</b>	<b>1,676.5</b>	<b>1,853.8</b>	<b>10.6</b>	<b>30.1</b>	<b>2,859.6</b>	<b>3,530.3</b>	<b>23.5</b>	Healthy recovery across key markets
<b>EBITDA</b>	<b>119.4</b>	<b>200.1</b>	<b>134.6</b>	<b>(32.7)</b>	<b>12.8</b>	<b>246.6</b>	<b>334.7</b>	<b>35.7</b>	
<i>EBITDA margin (%)</i>	8.4	11.9	7.3	(4.7)	(1.1)	8.6	9.5	0.9	
<b>EBIT</b>	<b>56.0</b>	<b>130.9</b>	<b>64.3</b>	<b>(50.9)</b>	<b>14.8</b>	<b>123.7</b>	<b>195.2</b>	<b>57.9</b>	On higher ASPs and volumes
<i>EBIT Margin (%)</i>	3.9	7.8	3.5	(4.3)	(0.5)	4.3	5.5	1.2	
Finance costs	(33.1)	(25.9)	(26.5)			(65.7)	(52.4)		
EI	0.0	0.0	0.0			0.0	0.0		
<b>Profit before tax</b>	<b>22.9</b>	<b>105.1</b>	<b>37.8</b>	<b>(64.1)</b>	<b>64.8</b>	<b>58.0</b>	<b>142.9</b>	<b>146.4</b>	
<i>PBT Margin (%)</i>	1.6	6.3	2.0	(4.2)	0.4	2.0	4.0	2.0	
Tax expense	(8.6)	(23.2)	(9.8)	(57.7)	13.8	(18.4)	(33.0)	79.5	
<i>Effective tax rate (%)</i>	(37.6)	(22.1)	(26.0)	(3.9)	11.6	(31.7)	(23.1)	8.6	
Minority interests	2.0	(11.6)	2.6			(1.6)	(9.1)		
<b>PATAMI</b>	<b>16.3</b>	<b>70.3</b>	<b>30.5</b>	<b>(56.6)</b>	<b>87.5</b>	<b>38.1</b>	<b>100.8</b>	<b>164.9</b>	
<b>Core PATAMI</b>	<b>16.3</b>	<b>70.3</b>	<b>30.5</b>	<b>(56.6)</b>	<b>87.5</b>	<b>38.1</b>	<b>100.8</b>	<b>164.9</b>	Within expectations at 52-53% of forecasts
<i>Net Margin (%)</i>	1.1	4.2	1.6	(2.5)	0.5	1.3	2.9	1.5	

Source: Company data, RHB

Figure 2: LHIB's geographical breakdown

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments
Malaysia	385.5	443.3	479.3	8.1	24.3	769.0	922.7	20.0	Increase in ASP and sales volume of broiler, as well as the expansion of its downstream business
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	Favourable ASP and sales volume of DOC and broiler
Philippines	22.3	44.6	40.9	(8.3)	83.6	46.9	85.4	82.0	
<b>Group revenue</b>	<b>1,425.4</b>	<b>1,676.5</b>	<b>1,853.8</b>	<b>10.6</b>	<b>30.1</b>	<b>2,859.6</b>	<b>3,530.3</b>	<b>23.5</b>	
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	
<b>Group EBITDA</b>	<b>119.4</b>	<b>200.1</b>	<b>134.6</b>	<b>(32.7)</b>	<b>12.8</b>	<b>246.6</b>	<b>334.7</b>	<b>35.7</b>	
Malaysia	9.9	14.5	5.7	(8.8)	(4.2)	9.3	9.9	0.7	
Singapore	16.2	13.8	11.1	(2.7)	(5.0)	13.7	12.4	(1.3)	
Vietnam	8.8	9.9	7.1	(2.8)	(1.7)	9.3	8.4	(0.9)	
Indonesia	4.2	9.9	6.7	(3.2)	2.5	5.9	8.2	2.3	
Philippines	-7.4	24.0	18.2	(5.8)	25.6	0.1	21.2	21.1	
<b>G.EBITDA margin (%)</b>	<b>8.4</b>	<b>11.9</b>	<b>7.3</b>	<b>(4.7)</b>	<b>(1.1)</b>	<b>8.6</b>	<b>9.5</b>	<b>0.9</b>	

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-21	Buy	0.87	0.73
2021-02-23	Neutral	0.76	0.70
2020-11-24	Neutral	0.73	0.68
2020-08-26	Neutral	0.88	0.82
2020-07-13	Buy	1.18	0.89
2020-05-20	Buy	0.88	0.59
2020-02-19	Buy	1.16	0.77
2019-11-27	Buy	1.26	0.86
2019-08-13	Buy	1.36	0.80
2019-06-18	Buy	1.53	1.07

Source: RHB, Bloomberg

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