

Leong Hup International Bhd

TP: RM1.05 (+54.4%)

1HFY21 Buoyed by Livestock Turnaround

Last Traded: RM0.680

Buy (ESG: ★★★)

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Review

- Leong Hup International Bhd's (LHI) 1HFY21 adjusted net profit of RM100.8mn came in within expectation at 54% and 52% of ours and consensus' full-year forecast.
- No dividend was declared for the quarter under review. Nonetheless, YTD dividend declared of 0.66sen/share was higher compared to 0.55sen/share declared in the corresponding period last year.
- 1HFY21 EBIT jumped 61.5% to RM188.1mn, outpacing the 23.5% YoY growth in revenue. The remarkable performance was underpinned by EBIT turnaround of the Livestock segment to RM94.5mn (versus 1HFY20's LBIT of RM58.3mn) due to favourable ASP and higher sales volume of day-old-chick and broiler in Indonesia, Philippines and Malaysia alongside the expansion of The Baker Cottage network. Conversely, the Feedmill segment registered an 11.3% YoY dip in EBIT despite a 28.1% YoY jump in revenue owing to the downward normalisation of feed margins, especially in Indonesia and Vietnam.
- Geographically, Indonesia and Malaysia recorded higher EBITDA in 1HFY21 with the growth of 94.8% YoY and 28.4% YoY to RM107.4mn and RM91.8mn respectively. In addition, The Philippines' EBITDA spiked to RM18.1mn from RM0.1mn 1HFY20. These were mainly attributed to an upswing in ASP of poultry products.

Impact

- No change to our earnings estimates.

Outlook

- Elevated covid-19 cases and movement restriction to varying extent in LHI's operating markets such as the ban on Malaysian dine-in services from June till mid-August, would present some near-term headwinds in 3QFY21. Nonetheless, we remain optimistic that the group would deliver strong results as and when the covid-19 subsides. This is on the back of continuous volume expansion, value chain integration and vigilant cost control.
- Based on our channel check, Malaysian Livestock's broiler price was soft in June due to the re-imposition of lockdown. However, it has recovered up to 20% in price by August as supply and demand find its equilibrium coupled with the re-opening of dine-in services.
- LHI now operates close to 140 The Baker Cottage outlets. The group is confident of achieving a total of 160 outlets by the end of FY21. LHI intends to scale up further in the subsequent years as the brand has garnered popularity among budget-conscious consumers.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2482.0
52-wk Hi/Lo (RM)	0.85/0.635
12-mth Avg Daily Vol ('000 shrs)	1787
Estimated Free Float (%)	14.6
Beta	1.1

Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 9.0%

Forecast Revision

	FY21	FY22
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	187.2	213.2
Consensus	192.9	216.3
TA's / Consensus (%)	97.1	98.6
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net Debt / Equity (x)	0.8	0.7
ROE (%)	10.5	11.1
ROA (%)	3.2	3.6
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.4	1.3

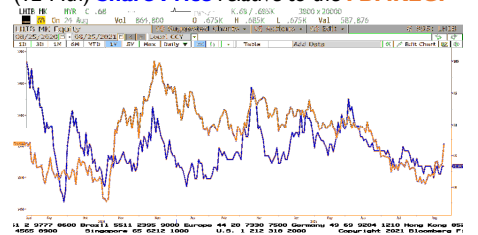
Scorecard

	% of FY
vs TA	54 Within
vs Consensus	52 Within

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(2.9)	1.6
3 mth	(8.7)	(1.5)
6 mth	(3.5)	(0.6)
12 mth	(18.1)	(1.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- Reiterate Buy with an unchanged target price of RM1.05/share based on unchanged 18x FY22 earnings.

Table 1: Earnings Summary (RMmn)

FYE December (RM mn)	2019	2020	2021E	2022F	2023F
Revenue	6,054.8	6,040.7	6,649.0	6,914.9	7,191.3
EBITDA	637.7	525.8	736.6	797.3	852.6
Pretax Profit	288.8	157.1	333.9	380.3	421.1
Reported Net Profit	150.6	113.1	187.2	213.2	236.1
Core Net Profit	150.6	105.7	187.2	213.2	236.1
Core EPS (sen)	4.1	2.9	5.1	5.8	6.5
Core PER (x)	16.5	23.5	13.3	11.6	10.5
DPS (sen)	1.6	0.6	1.5	1.8	1.9
Dividend Yield (%)	2.4	0.9	2.3	2.6	2.9

Table 2: 2QFY21 Results Analysis (RMmn)

FYE 31 Dec	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	1,425.4	1,676.5	1,853.8	10.6	30.1	2,859.6	3,530.3	23.5
Other Income	8.0	16.5	14.8	(10.2)	85.7	22.9	31.3	36.8
Operating Expenses	(1,380.5)	(1,562.1)	(1,804.3)	15.5	30.7	(2,766.0)	(3,366.5)	21.7
EBIT	53.0	127.2	60.9	(52.1)	15.0	116.5	188.1	61.5
Adj. EBIT	53.0	127.2	60.9	(52.1)	15.0	116.5	188.1	61.5
Net Interest	(30.1)	(22.2)	(23.1)	4.3	(23.1)	(58.5)	(45.3)	(22.6)
Associate	0.0	0.1	(0.0)	nm	nm	0.1	0.1	56.4
Profit before Tax	22.9	105.1	37.8	(64.1)	64.8	58.0	142.9	>100
Adj. PBT	22.9	105.1	37.8	(64.1)	64.8	58.0	142.9	>100
Taxation	(8.6)	(23.2)	(9.8)	(57.7)	13.8	(18.4)	(33.0)	79.5
Extraordinary Items	-	-	-	nm	nm	-	-	nm
Minority Interest	2.0	(11.6)	2.6	nm	29.7	(1.6)	(9.1)	>100
Net Profit	16.3	70.3	30.5	(56.6)	87.5	38.1	100.8	>100
Adj. Net Profit	16.3	70.3	30.5	(56.6)	87.5	38.1	100.8	>100
Basic EPS (sen)	0.5	1.9	0.8	(56.5)	86.7	1.1	2.8	>100
DPS (sen)	0.6	0.7	-	(100.0)	(100.0)	0.6	0.7	20.0
				%-points	%-points			%-points
EBIT Margin (%)	3.7	7.6	3.3	(4.3)	(0.4)	4.1	5.3	1.3
PBT Margin (%)	1.6	6.3	2.0	(4.2)	0.4	2.0	4.0	2.0
Net Margin (%)	1.1	4.2	1.6	(2.5)	0.5	1.3	2.9	1.5
Adj. Net Margin (%)	1.1	4.2	1.6	(2.5)	0.5	1.3	2.9	1.5
Tax Rate (%)	37.6	22.1	26.0	3.9	(11.6)	31.7	23.1	(8.6)

Table 3: 2QFY21 Results Analysis (RMmn) – Segment

FYE 31 Dec	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	1,425.4	1,676.5	1,853.8	10.6	30.1	2,859.6	3,530.3	23.5
Livestock and Poultry Related	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)
Segment EBIT	56.0	130.9	64.3	(50.9)	14.8	123.6	195.2	57.9
Livestock and Poultry Related	(19.0)	40.8	53.7	31.7	(382.9)	(58.3)	94.5	nm
Feedmill	86.8	97.0	73.9	(23.8)	(14.9)	192.7	170.9	(11.3)
Elimination	(11.8)	(6.9)	(63.3)	>100	>100	(10.8)	(70.2)	>100
				%-points	%-points			%-points
Segment EBIT Margin	3.9	7.8	3.5	(4.3)	(0.5)	4.3	5.5	1.2
Livestock and Poultry Related	(2.4)	4.5	5.4	1.0	7.8	(3.7)	5.0	8.6
Feedmill	14.1	12.8	8.6	(4.2)	(5.5)	15.3	10.6	(4.7)

Table 4: 2QFY21 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	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
Segment 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)	>100	55.1	107.4	94.8
Philippines	(1.6)	10.7	7.4	(30.6)	nm	0.1	18.1	>100
				%-points	%-points			%-points
Segment EBITDA Margin	8.4	11.9	7.3	(4.7)	(1.1)	8.6	9.5	0.9
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

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.

★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.

★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.

★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.

★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, August 25, 2021, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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