

## Leong Hup International Berhad

### Margin compression resulted from elevated feed cost

#### Summary

- Leong Hup International Bhd's (LHI) 3Q21 net loss stood at -RM53.4m, vs. a core net profit of RM22.5m registered in 3Q20, this has brought the 9M21 net profit to RM47.4m (YoY: -21.7%). The results came in below our expectations, amounting to 22.9% and 28.4% of ours and consensus full year forecast of RM206.7m and RM166.9m, respectively, key deviations were due to (i) lower-than-expected ASP of broiler chickens in Vietnam, and (ii) higher-than-expected feed costs.
- QoQ, LHI's core net profit declined from RM30.5m in 2Q21 to a net loss of -RM53.4m in 3Q21, mainly due to (i) lower contribution from Indonesia on the back of lower ASP of day old chicken (DOC), (ii) lower sales volume of livestock feed and (iii) the increase in raw material costs of livestock feed production. YoY, LHI's registered core net loss of RM-53.4m, mainly due to the depressed ASP of broiler chickens in Vietnam as well as margin compression arising from elevated feed cost.
- Soybean price has declined -9.3% QoQ in 3Q21, while the maize price was relatively flat (+1.7% QoQ). However, YoY the costs remain elevated, where soybean and maize prices increased 45.8% and 17.0%, and this has been difficult for LHI to pass on the elevated feed cost, which resulted in margin compression to the group. The losses in 3Q21 were intensified by the lower ASP of broiler chicken in Vietnam.
- Moving forward, we believe the reopening of business activities following the Covid-19 vaccination should bode well for the group. Nevertheless, ASP of poultry products may continue to fluctuate as recovery pace is expected to be uneven across its operating markets. We remained optimistic on Malaysia and Singapore markets are entering endemic phase, while other countries like Vietnam, Indonesia and Philippines have begun to gradually relax lockdown measures.
- The group's downstream play and volume expansion continue to be its key strategic focus. Ongoing projects include (i) installation of equipment in new layer farms to be rented in Southern Vietnam and (ii) construction of centralized premix machineries in Dong Nai (Vietnam) feedmill. Expansion of closed-house broiler farms in Malaysia will be postponed until FY22 amid Covid-19 pandemic. Meanwhile, LHI remained committed to its target of expanding the Baker's Cottage to 160 outlets in Malaysia by end of FY21.

Quarterly performance								
FYE Dec (RM m)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	1,573.4	1,853.8	1,809.1	(2.4)	15.0	4,433.0	5,339.4	20.4
EBITDA	123.8	131.2	35.7	(72.8)	(71.1)	363.1	363.3	0.0
PBT	30.8	37.8	(60.1)	(259.2)	(295.1)	88.8	82.8	(6.8)
PAT	21.0	27.9	(66.0)	(336.2)	(413.9)	60.6	43.9	(27.6)
Core PATMI	22.5	30.5	(53.4)	(275.1)	(337.1)	60.6	47.4	(21.7)
Reported PATMI	22.5	30.5	(53.4)	(275.1)	(337.1)	60.6	47.4	(21.7)
Core EPS (sen)	0.6	0.8	(1.5)	(275.1)	(337.1)	1.7	1.3	(21.7)
EBITDA margin (%)	7.9	7.1	2.0			8.2	6.8	
PBT margin (%)	2.0	2.0	(3.3)			2.0	1.6	
Core PATMI margin (%)	1.4	1.6	(3.0)			1.4	0.9	

#### Results Note – 3QFY21

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#### BUY

Share price	RM0.555
Target price	RM0.67
Previous TP	RM1.06
Capital upside	20.7%
Dividend return	2.3%
Total return	23.1%

#### 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)	2025.8
52W High/Low	0.8/0.555
Est. Free float	14.6%
Beta (X)	0.6
3-mth avg vol ('000)	997.8
Shariah compliant	No

#### Major shareholders

Emerging Glory SB	52.8
Clarinden Investments	9.0
Amanah Saham Nasional	5.7

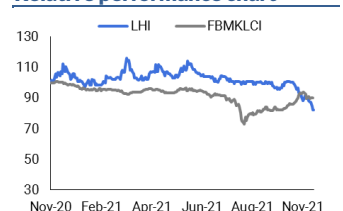
#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-17.8	-18.4	-18.4
Relative	-14.3	-16.7	-15.4

#### Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	112.9	88.5	151.7
EPS (sen)	3.1	2.4	4.2
P/E (x)	18.1	23.1	13.5

#### Relative performance chart



## Valuation & Recommendation

- Given that the reported earnings came below our expectations, we trimmed our earnings forecast by 57.2% and 37.0% to RM88.5m and 151.7m for FY21f and FY22f respectively, taking into account the elevated feed cost, fluctuation in poultry product prices amid Covid-19 pandemic and the lower demand hovering below the pre-Covid-19 levels.
- Following the earnings revision, we retained our **BUY** recommendation on LHI, but with a lower target price of RM0.67 (from RM1.06) after rolling our valuation metrics to FY22f. Our target price is derived by ascribing a target PER of 16.0x to its FY22f EPS of 4.2 sen. We continue to like LHI for its 'Farm-to-Plate' strategy and its fundamentals which remained intact amid Covid-19 headwinds.
- However, risks to our recommendation and forecast include fluctuations in raw material prices and lower demand for poultry products as compared to pre-pandemic level which may weigh on the group's margin.

## 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	6,738.8	6,998.4	Cash	458.9	764.8	757.8	401.6	161.8
EBITDA	647.6	637.7	525.6	581.7	708.8	Receivables	649.2	499.3	489.6	517.0	575.2
EBIT	450.4	412.1	266.3	273.6	372.2	Inventories	575.6	679.6	721.9	705.5	712.3
Net finance income/ (cost)	(102.5)	(130.3)	(109.7)	(146.6)	(154.0)	PPE	2,396.8	2,418.5	2,656.5	3,041.0	3,264.2
Associates & JV	0.6	0.4	0.4	0.5	0.5	Others	753.5	1,046.9	695.2	809.7	838.5
<b>Profit before tax</b>	<b>348.6</b>	<b>282.2</b>	<b>156.9</b>	<b>127.5</b>	<b>218.7</b>	<b>Assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>5,871.0</b>	<b>5,966.6</b>
Tax	(101.8)	(75.8)	(39.6)	(34.4)	(59.1)	Debts	2,370.9	2,500.3	2,795.5	2,732.1	2,780.1
<b>Net profit</b>	<b>246.8</b>	<b>206.5</b>	<b>117.3</b>	<b>93.1</b>	<b>159.7</b>	Payables	248.9	273.1	229.4	283.1	284.6
Minority interest	60.6	62.4	4.4	4.7	8.0	Others	448.7	455.2	418.8	507.3	392.2
<b>Core earnings</b>	<b>186.2</b>	<b>144.0</b>	<b>112.9</b>	<b>88.5</b>	<b>151.7</b>	<b>Liabilities</b>	<b>3,068.6</b>	<b>3,228.6</b>	<b>3,446.2</b>	<b>3,522.4</b>	<b>3,456.8</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	1,301.8	1,641.2	1,713.4	1,760.0	1,862.3
Reported earnings	186.2	144.0	112.9	88.5	151.7	Minority interest	463.6	539.3	535.1	588.6	647.5
						<b>Equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,248.6</b>	<b>2,348.6</b>	<b>2,509.8</b>
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	282.2	156.9	127.5	218.7	Core EPS (sen)	5.1	3.9	3.1	2.4	4.2
Depreciation & amortisation	197.1	225.5	259.4	308.1	336.6	P/E (x)	11.0	14.2	18.1	23.1	13.5
Changes in working capital	220.5	(77.9)	(63.9)	144.3	74.6	DPS (sen)	1.0	1.6	0.6	1.3	1.3
Share of JV profits	-	-	-	-	-	Dividend yield	1.8%	2.9%	1.0%	2.2%	2.2%
Taxation	(75.7)	(57.0)	(55.3)	(39.6)	(34.4)	BVPS (RM)	0.48	0.60	0.62	0.64	0.69
Others	-	-	-	-	-	P/B (x)	1.2	0.9	0.9	0.9	0.8
<b>Operating cash flow</b>	<b>349.2</b>	<b>664.1</b>	<b>415.6</b>	<b>439.2</b>	<b>593.7</b>	EBITDA margin	11.3%	10.5%	8.7%	8.6%	10.1%
Net capex	(418.9)	(400.8)	(524.4)	(568.7)	(590.8)	EBIT margin	7.9%	6.8%	4.4%	4.1%	5.3%
Others	-	-	-	-	-	PBT margin	6.1%	4.7%	2.6%	1.9%	3.1%
<b>Investing cash flow</b>	<b>(378.6)</b>	<b>(403.9)</b>	<b>(502.1)</b>	<b>(613.1)</b>	<b>(641.1)</b>	PAT margin	4.3%	3.4%	1.9%	1.4%	2.3%
Changes in borrowings	177.4	10.9	257.5	(12.2)	68.0	Core PAT margin	3.2%	2.4%	1.9%	1.3%	2.2%
Issuance of shares	-	-	-	-	-	ROE	10.5%	6.6%	5.0%	3.8%	6.0%
Dividends paid	(66.3)	(84.5)	(23.8)	(45.6)	(45.6)	ROA	3.9%	2.7%	2.0%	1.5%	2.5%
Others	-	-	-	-	-	<b>Net gearing</b>	<b>108.3%</b>	<b>79.6%</b>	<b>90.6%</b>	<b>99.2%</b>	<b>104.3%</b>
<b>Financing cash flow</b>	<b>(6.9)</b>	<b>(2.1)</b>	<b>71.6</b>	<b>(110.8)</b>	<b>(157.0)</b>						
<b>Net cash flow</b>	<b>(36.2)</b>	<b>258.1</b>	<b>(14.9)</b>	<b>(284.6)</b>	<b>(204.3)</b>						
Forex	(0.8)	(0.8)	(7.3)	0.5	0.5						
Others	-	-	-	-	-						
Beginning cash	427.4	390.4	647.7	625.5	341.4						
Ending cash	390.4	647.7	625.5	341.4	137.5						

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