

# Leong Hup International (LHIB MK)

## Below expectations

# BUY

Share Price MYR 0.56  
 12m Price Target MYR 0.76 (+38%)  
 Previous Price Target MYR 0.84

### Maintain BUY with lower TP of MYR0.76

LHIB's 3Q21 results were below our/consensus expectations given weaker-than-expected operating margins. Our FY21-FY23 earnings estimates are cut by 10%-51%. We expect sequential earnings to improve alongside relaxed movement restrictions in Malaysia and Vietnam but earnings recovery could be dampened if high feed raw material cost persists going forward. Maintain BUY with a lower TP of MYR0.76 (based on unchanged regional peer average of 15x FY22 PER).

### Weaker-than-expected margins

3Q21 net loss of MYR53m (3Q20 net profit: MYR23m, 2Q21 net profit: MYR31m) brought 9M21 net profit to MYR47m (-22% YoY). The latter accounted for just 28%/26% of our/consensus full-year earnings estimates. The earnings shortfall was predominantly due to weaker operating margins resulting from high raw material costs. 9M21 revenue of MYR5.3b was however in-line, at 75% of our full-year estimate.

### Indonesia & Vietnam ops underperformed

LHIB's 3Q21 revenue declined 3% QoQ (Livestock segment: -5% QoQ, Feedmill segment: 0% QoQ) mainly due to (i) lower day-old-chick (DOC) ASPs and feed sales volume in Indonesia, and (ii) weaker broiler ASPs and demand in Vietnam led by the country's total lockdown until end-Sep 2021. Meanwhile, group pre-tax profit fell into losses in 3Q21 on the back of a surge in feed raw material cost, particularly in Indonesia given existing restrictions on feed corn imports.

### Cut FY21-FY23 earnings estimates by 10%-51%

With the easing of lockdowns in Malaysia and Vietnam, we expect sequential earnings to be back in the black as poultry ASPs rise in tandem with higher consumer demand. That said, LHIB's earnings recovery will continue to be limited as long as feed raw material costs remain high. Factoring in the weak results, we revise our FY21/FY22/FY23 earnings estimates by -51%/-10%/-10% upon lowering EBIT margins by c.2%/1%/1%. Note that our earnings estimates have not imputed for Cukai Makmur yet pending LHIB's analyst briefing today.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,055	6,041	7,112	7,539	7,800
EBITDA	651	542	550	734	816
Core net profit	151	103	82	185	225
Core EPS (sen)	4.1	2.8	2.2	5.1	6.2
Core EPS growth (%)	(33.0)	(31.4)	(20.8)	125.7	22.0
Net DPS (sen)	1.6	0.6	0.7	1.5	1.9
Core P/E (x)	21.3	24.2	24.8	11.0	9.0
P/BV (x)	2.0	1.5	1.1	1.1	1.0
Net dividend yield (%)	1.8	0.8	1.2	2.7	3.3
ROAE (%)	10.2	6.7	4.7	10.0	11.3
ROAA (%)	2.9	1.9	1.4	2.8	3.2
EV/EBITDA (x)	8.4	9.4	9.1	6.6	6.2
Net gearing (%) (incl perps)	79.6	90.6	99.5	84.4	84.0
Consensus net profit	-	-	178	214	237
MKE vs. Consensus (%)	-	-	(54.1)	(13.5)	(5.1)

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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)	0.79/0.56
3m avg turnover (USDm)	0.1
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.0B USD482M

### Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%
na	na

### Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(18)	(18)	(20)
Relative to index (%)	(14)	(19)	(16)

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q21	3Q20	% YoY	2Q21	% QoQ	9M21	9M20	% YoY
Revenue	1,809.1	1,573.4	15.0	1,853.8	(2.4)	5,339.4	4,433.0	20.4
<b>EBITDA</b>	<b>39.5</b>	<b>127.2</b>	<b>(68.9)</b>	<b>134.6</b>	<b>(70.6)</b>	<b>374.2</b>	<b>373.7</b>	<b>0.1</b>
Depreciation	(71.3)	(65.5)	8.8	(70.3)	1.3	(210.7)	(188.4)	11.8
EBIT	(31.7)	61.7	n.m.	64.3	n.m.	163.5	185.4	(11.8)
Interest expense	(28.5)	(31.0)	(8.0)	(26.5)	7.4	(80.9)	(96.7)	(16.4)
Associates	0.1	0.1	71.9	(0.0)	n.m.	0.2	0.1	64.7
<b>Pretax profit</b>	<b>(60.1)</b>	<b>30.8</b>	<b>n.m.</b>	<b>37.8</b>	<b>n.m.</b>	<b>82.8</b>	<b>88.8</b>	<b>(6.8)</b>
Tax	(5.9)	(9.8)	(39.4)	(9.8)	(39.6)	(38.9)	(28.2)	38.2
Minority interest	12.6	1.5	>100.0	2.6	>100.0	3.5	(0.1)	n.m.
<b>Net profit</b>	<b>(53.4)</b>	<b>22.5</b>	<b>n.m.</b>	<b>30.5</b>	<b>n.m.</b>	<b>47.4</b>	<b>60.6</b>	<b>(21.7)</b>
<b>Core net profit</b>	<b>(53.4)</b>	<b>22.5</b>	<b>n.m.</b>	<b>30.5</b>	<b>n.m.</b>	<b>47.4</b>	<b>60.6</b>	<b>(21.7)</b>
			+/- p.ptsYoY		+/- p.ptsQoQ			
<i>EBITDA margin (%)</i>	2.2	8.1	(5.9)	7.3	(5.1)	7.0	8.4	(1.4)
<i>EBIT margin (%)</i>	(1.8)	3.9	(5.7)	3.5	(5.2)	3.1	4.2	(1.1)
<i>Tax rate (%)</i>	9.9	(31.7)	41.6	(26.0)	35.8	(47.0)	(31.7)	(15.3)
<b><u>Revenue:</u></b>			% YoY		% QoQ			
Livestock	947.6	865.1	9.5	992.5	(4.5)	2,855.2	2,455.0	16.3
Feedmill	859.0	705.1	21.8	858.9	0.0	2,476.2	1,967.9	25.8
Others	2.6	3,279	(21.7)	2.5	4.7	8.0	10.1	(20.4)
<b>Total</b>	<b>1,809.1</b>	<b>1,573.4</b>	<b>15.0</b>	<b>1,853.8</b>	<b>(2.4)</b>	<b>5,339.4</b>	<b>4,433.0</b>	<b>20.4</b>
<b><u>EBITDA:</u></b>			% YoY		% QoQ			
Livestock	(54.5)	21.8	n.m.	108.7	n.m.	148.5	57.1	>100.0
Feedmill	94.3	115.7	(18.5)	88.4	6.7	294.4	336.3	(12.4)
Others	(0.3)	(10.2)	(97.4)	(62.5)	(99.6)	(68.7)	(19.6)	>100.0
<b>Total</b>	<b>39.5</b>	<b>127.2</b>	<b>(68.9)</b>	<b>134.6</b>	<b>(70.6)</b>	<b>374.2</b>	<b>373.7</b>	<b>0.1</b>
<b><u>EBITDA margin (%):</u></b>			+/- p.ptsYoY		+/- p.ptsQoQ			
Livestock	(5.8)	2.5	(8.3)	11.0	(16.7)	5.2	2.3	2.9
Feedmill	11.0	16.4	(5.4)	10.3	0.7	11.9	17.1	(5.2)
Others	(10.2)	(311.9)	301.7	(2,551.3)	2,541.1	(854.5)	(194.2)	(660.4)
<b>Total</b>	<b>2.2</b>	<b>8.1</b>	<b>(5.9)</b>	<b>7.3</b>	<b>(5.1)</b>	<b>7.0</b>	<b>8.4</b>	<b>(1.4)</b>

Source: Company

Fig 2: Regional poultry peer comparison

Stock	Shr px*	Mkt cap	PER	PER	PER	PBV	PBV	ROE	ROE	Net Yield
			(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)
	(LCY)	(USD m)	FY21E	FY22E	FY23E	FY21E	FY22E	FY21E	FY22E	FY21E
CP Foods	25.00	6,344	13.1	11.3	10.7	1.1	1.0	7.5	8.5	2.6
CP Indo	5,900.00	6,774	23.9	20.9	18.1	3.8	3.4	16.9	16.6	1.7
Japfa Ltd	0.63	944	n.a.	11.0	8.2	0.7	0.6	11.0	10.0	1.7
Japfa Comfeed	1,655.00	1,359	9.3	9.2	8.6	1.5	1.4	16.6	14.7	1.8
GFPT	12.70	480	75.2	16.9	13.8	1.1	1.0	1.4	6.3	0.5
<b>Simple avg</b>			<b>30.4</b>	<b>13.9</b>	<b>11.9</b>	<b>1.6</b>	<b>1.5</b>	<b>10.7</b>	<b>11.2</b>	<b>1.7</b>
<b>Mkt cap weighted avg</b>			<b>19.6</b>	<b>15.4</b>	<b>13.6</b>	<b>2.2</b>	<b>2.0</b>	<b>12.3</b>	<b>12.5</b>	<b>2.0</b>

\*As at 23 Nov 2021 closing prices

Source: Bloomberg, Maybank KE

## 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
<b>Key Metrics</b>					
P/E (reported) (x)	22.1	23.2	24.8	11.0	9.0
Core P/E (x)	21.3	24.2	24.8	11.0	9.0
P/BV (x)	2.0	1.5	1.1	1.1	1.0
P/NTA (x)	2.1	1.5	1.2	1.1	1.0
Net dividend yield (%)	1.8	0.8	1.2	2.7	3.3
FCF yield (%)	8.9	nm	nm	13.4	nm
EV/EBITDA (x)	8.4	9.4	9.1	6.6	6.2
EV/EBIT (x)	12.9	18.0	16.7	10.4	9.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,054.8	6,040.7	7,112.0	7,538.9	7,800.4
EBITDA	650.5	542.0	549.5	733.6	815.5
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	298.3	467.7	536.3
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	193.7	331.1	387.2
Income tax	(75.8)	(39.6)	(48.8)	(83.5)	(97.6)
Minorities	(62.4)	(4.4)	(63.1)	(63.0)	(64.3)
Reported net profit	150.6	113.1	81.8	184.7	225.3
Core net profit	150.6	103.3	81.8	184.7	225.3
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	764.8	757.8	694.9	1,174.8	1,282.5
Accounts receivable	499.3	489.6	859.5	570.6	909.1
Inventory	679.6	721.9	809.8	764.4	851.4
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
<b>Total assets</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>6,362.4</b>	<b>6,700.6</b>	<b>7,398.3</b>
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	407.6	247.1	424.8
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	515.0	539.0	554.0
<b>Total Liabilities</b>	<b>3,228.6</b>	<b>3,446.2</b>	<b>3,984.4</b>	<b>4,130.3</b>	<b>4,606.0</b>
Shareholders Equity	1,641.2	1,713.4	1,779.8	1,909.1	2,066.8
Minority Interest	539.3	535.1	598.2	661.2	725.4
<b>Total shareholder equity</b>	<b>2,180.5</b>	<b>2,248.6</b>	<b>2,378.0</b>	<b>2,570.3</b>	<b>2,792.3</b>
<b>Total liabilities and equity</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>6,362.4</b>	<b>6,700.6</b>	<b>7,398.3</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	288.8	157.1	193.7	331.1	387.2
Depreciation & amortisation	225.5	259.4	251.2	265.9	279.2
Cash taxes paid	(57.0)	(39.6)	(48.8)	(83.5)	(97.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	670.6	282.3	42.5	672.2	312.3
Capex	(383.3)	(477.3)	(400.0)	(400.0)	(400.0)
Free cash flow	287.3	(195.1)	(357.5)	272.2	(87.7)
Dividends paid	(84.5)	(23.8)	(24.5)	(55.4)	(67.6)
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)	(126.1)	480.2	108.1

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.4	(0.2)	17.7	6.0	3.5
EBITDA growth	(0.6)	(16.7)	1.4	33.5	11.2
EBIT growth	(7.1)	(33.5)	5.6	56.8	14.7
Pretax growth	(17.2)	(45.6)	23.3	70.9	16.9
Reported net profit growth	(19.1)	(24.9)	(27.7)	125.7	22.0
Core net profit growth	(33.0)	(31.4)	(20.8)	125.7	22.0
<b>Profitability ratios (%)</b>					
EBITDA margin	10.7	9.0	7.7	9.7	10.5
EBIT margin	7.0	4.7	4.2	6.2	6.9
Pretax profit margin	4.8	2.6	2.7	4.4	5.0
Payout ratio	38.8	17.7	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.5	1.9	1.2	2.4	2.9
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.3	3.3	3.6	3.5	3.6
ROAE (%)	10.2	6.7	4.7	10.0	11.3
ROAA (%)	2.9	1.9	1.4	2.8	3.2
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	79.6	90.6	99.5	84.4	84.0
Net gearing (%) (excl. perps)	79.6	90.6	99.5	84.4	84.0
Net interest cover (x)	3.1	2.2	2.8	3.4	3.6
Debt/EBITDA (x)	3.8	5.2	5.6	4.6	4.4
Capex/revenue (%)	6.3	7.9	5.6	5.3	5.1
Net debt/ (net cash)	1,735.5	2,037.7	2,366.8	2,169.7	2,344.8

Source: Company; Maybank

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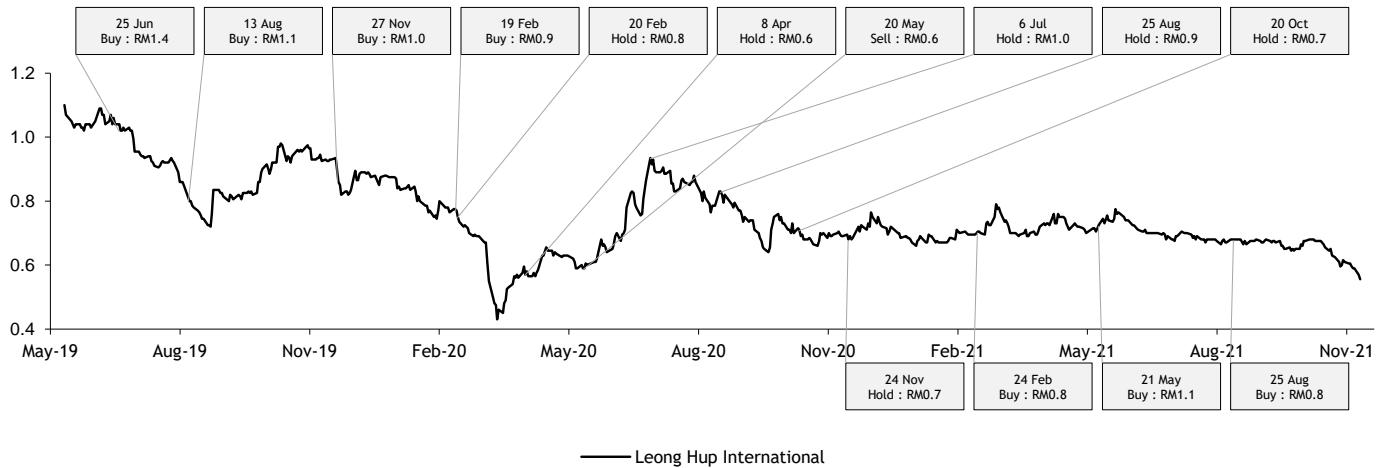
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