

24 November 2021

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Buy (Maintained)

Worst Is Over; Stay BUY

Target Price (Return): MYR0.83 (48.2%)
 Price (Market Cap): MYR0.56 (USD482m)
 ESG score: 2.80 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.60m/0.14m

- Maintain BUY and MYR0.83 TP, 48% upside.** Leong Hup International's 9M21 results disappointed on the impact of severe lockdown measures, particularly in Indonesia and Vietnam. That said, earnings should rebound strongly in 4Q21 as demand and ASPs normalise, following the easing of lockdown restrictions in most countries. Over the long term, earnings sustainability will be underpinned by continuous capacity expansions and downstream ventures. LHI's established market position in ASEAN poultry markets also places it in a good position to capitalise on demand recovery.
- 9M21 results below expectations.** Core net profit of MYR47m (-22% YoY) met merely 25-26% of our and Street's estimates. The negative deviation could be attributed to the worse-than-expected performance in Indonesia and Vietnam, stemming from the lockdown restrictions. Post results, we slash FY21F earnings by 53%, but keep FY22-23F numbers materially unchanged. *Cukai Makmur* impact to FY22F earnings is immaterial, according to management guidance. Our DCF-derived TP is kept at MYR0.83 (inclusive of a 4% ESG discount), which implies 15x P/E FY22F – close to its 3-year mean.
- Results review.** YoY, 9M21 sales jumped 20% to MYR5.3bn, thanks to growth across all operating markets, on the back of capacity expansions. However, depressed product ASPs – as a result of lockdown restrictions and a rise in raw material costs – eroded profitability, resulting in flattish EBITDA despite robust topline growth. Its Vietnam operations suffered the biggest hit, with 9M21 EBITDA slumping 46% to MYR58m on the impact of severe lockdown restrictions in 3Q21. QoQ, 3Q21 revenue inched down by 2% to MYR1.8bn, primarily due to the weakness in Indonesia, owing to lower DOC ASP and sales volume of livestock feed. Meanwhile, 3Q21 EBITDA fell sharply by 71% to MYR40m on losses recorded in both Indonesia and Vietnam, as product ASPs were way below breakeven levels, due to weak demand during the lockdowns.
- Outlook.** We anticipate earnings to stage a quick rebound from 4Q21F onwards, considering the recovery in ASPs and normalisation in consumption, following the easing of lockdown restrictions in most of its operating countries. Feedmill operation margins should continue to recover on gradual cost pass-through, whilst commodity prices have tapered off from the peak. 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 168 stores currently.
- Risks to our recommendation** include unfavourable demand-supply dynamics and intense competition.

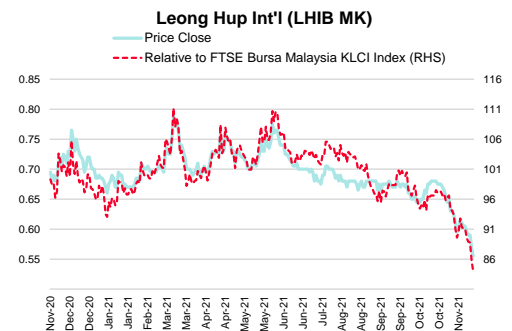
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.0)	(17.8)	(18.4)	(23.5)	(20.2)
Relative	(12.6)	(13.7)	(18.4)	(21.0)	(15.5)
52-wk Price low/high (MYR)	0.56 – 0.79				



Source: Bloomberg

Overall ESG Score: 2.80 (out of 4)

E: GOOD

LHI has not identified any key initiatives in delivering sustainable reductions in GHG emissions. However, the company has a put in place a system to properly manage and treat water, hazardous and non-hazardous wastes from its operations in accordance with local laws and regulations.

S: GOOD

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

G: GOOD

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

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	6,055	6,041	6,980	7,386	7,788
Recurring net profit (MYRm)	151	108	90	206	221
Recurring net profit growth (%)	(31.2)	(28.4)	(16.4)	128.9	6.9
Recurring P/E (x)	13.45	18.80	22.49	9.82	9.19
P/B (x)	1.2	1.2	1.1	1.1	1.0
P/CF (x)	3.08	4.72	8.62	3.71	3.36
Dividend Yield (%)	2.9	1.0	1.3	3.0	3.3
EV/EBITDA (x)	6.39	8.16	8.01	6.24	5.74
Return on average equity (%)	10.2	6.7	5.2	11.2	11.0
Net debt to equity (%)	74.2	83.7	94.2	93.6	91.9

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.04	0.03	0.02	0.06	0.06
Agriculture	DPS	0.02	0.01	0.01	0.02	0.02
Leong Hup International	BVPS	0.45	0.47	0.49	0.53	0.57
LHIB MK	Return on average equity (%)	10.2	6.7	5.2	11.2	11.0
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	13.45	18.80	22.49	9.82	9.19
	P/B (x)	1.2	1.2	1.1	1.1	1.0
	FCF Yield (%)	12.5	(5.7)	(8.2)	2.3	5.1
	Dividend Yield (%)	2.9	1.0	1.3	3.0	3.3
	EV/EBITDA (x)	6.39	8.16	8.01	6.24	5.74
	EV/EBIT (x)	9.79	15.64	15.17	10.25	9.35
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	6,055	6,041	6,980	7,386	7,788
	Gross profit	1,004	879	938	1,130	1,219
	EBITDA	651	542	589	776	861
	Depreciation and amortisation	(226)	(259)	(278)	(304)	(333)
	Operating profit	425	283	311	472	528
	Net interest	(137)	(126)	(104)	(105)	(135)
	Pre-tax profit	289	157	207	367	393
	Taxation	(76)	(40)	(50)	(88)	(94)
	Reported net profit	151	113	90	206	221
	Recurring net profit	151	108	90	206	221
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	39	(66)	(237)	(69)	(85)
	Cash flow from operations	657	429	235	546	603
	Capex	(404)	(546)	(400)	(500)	(500)
	Cash flow from investing activities	(373)	(504)	(400)	(500)	(500)
	Dividends paid	(84)	(24)	(27)	(62)	(66)
	Cash flow from financing activities	(3)	72	(196)	(42)	(201)
	Cash at beginning of period	459	765	758	397	401
	Net change in cash	281	(3)	(361)	4	(99)
	Ending balance cash	740	761	397	401	302
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	765	758	397	401	302
	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	5,728	6,007	6,175
	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	3,417	3,552	3,566
	Total equity	2,181	2,249	2,311	2,455	2,609
	Total liabilities & equity	5,409	5,695	5,728	6,007	6,175
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	5.4	(0.2)	15.5	5.8	5.4
	Recurrent EPS growth (%)	(31.2)	(28.4)	(16.4)	128.9	6.9
	Gross margin (%)	16.6	14.6	13.4	15.3	15.6
	Operating EBITDA margin (%)	10.7	9.0	8.4	10.5	11.1
	Net profit margin (%)	2.5	1.9	1.3	2.8	2.8
	Dividend payout ratio (%)	38.5	17.7	29.9	29.9	29.9
	Capex/sales (%)	6.7	9.0	5.7	6.8	6.4
	Interest cover (x)	3.11	2.25	2.98	4.47	3.91

Source: Company data, RHB

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Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Revenue	1,573.4	1,853.8	1,809.1	(2.4)	15.0	4,433.0	5,339.4	20.4	Growth across all operating markets drove 9M21 growth
EBITDA	127.2	134.6	39.5	(70.6)	(68.9)	373.7	374.2	0.1	
EBITDA margin (%)	8.1	7.3	2.2	(5.1)	(5.9)	8.4	7.0	(1.4)	
EBIT	61.7	64.3	(31.7)	nm	nm	185.4	163.5	(11.8)	Hit by higher raw material costs and severe lockdown impact
EBIT Margin (%)	3.9	3.5	(1.8)			4.2	3.1	(1.1)	
Finance costs	(31.0)	(26.5)	(28.5)			(96.7)	(80.9)		
EI	0.0	0.0	0.0			0.0	0.0		
Profit before tax	30.8	37.8	(60.1)	nm	nm	88.8	82.8	(6.8)	
PBT Margin (%)	2.0	2.0	(3.3)			2.0	1.6	(0.5)	
Tax expense	(9.8)	(9.8)	(5.9)	(39.6)	(39.4)	(28.2)	(38.9)	38.2	
Effective tax rate (%)	(31.7)	(26.0)	9.9	35.8	41.6	(31.7)	(47.0)	(15.3)	
Minority interests	1.5	2.6	(12.6)			(0.1)	(21.7)		
PATAMI	22.5	30.5	(53.4)	nm	nm	60.6	47.4	(21.7)	
Core PATAMI	22.5	30.5	(53.4)	nm	nm	60.6	47.4	(21.7)	Below expectations at 25-26% of forecasts.
Net Margin (%)	1.4	1.6	-3.0			1.4	0.9	(0.5)	

Source: Company data, RHB

Figure 2: LHI's geographical breakdown

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Malaysia	434.5	479.3	482.4	0.7	11.0	1,203.5	1,405.1	16.7	Higher ASP of eggs and contribution from TBC downstream business
Singapore	182.3	197.8	201.3	1.8	10.4	550.4	588.9	7.0	
Vietnam	410.1	438.5	449.1	2.4	9.5	1,154.0	1,272.7	10.3	
Indonesia	520.4	697.3	624.0	(10.5)	19.9	1,452.0	1,934.9	33.3	Higher sales volumes of broiler chicken and favorable ASPs for DOC and broiler chicken
Philippines	26.1	40.9	52.3	28.0	100.5	73.0	137.7	88.6	
Group revenue	1,573.4	1,853.8	1,809.1	(2.4)	15.0	4,433.0	5,339.4	20.4	
Malaysia	45.9	27.5	32.1	16.7	(30.1)	117.4	123.9	5.5	
Singapore	23.9	22.0	16.4	(25.8)	(31.6)	74.5	64.6	(13.3)	
Vietnam	39.6	31.1	(10.7)	nm	nm	108.8	58.4	(46.4)	Severe lockdown in 3Q21
Indonesia	25.1	46.5	(6.6)	nm	nm	80.2	100.8	25.6	
Philippines	(7.3)	7.4	8.5	13.7	nm	(7.2)	26.6	nm	
Group EBITDA	127.2	134.6	39.5	(70.6)	(68.9)	373.7	374.2	0.1	
Malaysia	10.6	5.7	6.6	0.9	(3.9)	9.8	8.8	(0.9)	
Singapore	13.1	11.1	8.1	(3.0)	(5.0)	13.5	11.0	(2.6)	
Vietnam	9.6	7.1	-2.4	nm	nm	9.4	4.6	(4.8)	
Indonesia	4.8	6.7	-1.1	(7.7)	(5.9)	5.5	5.2	(0.3)	
Philippines	-27.9	18.2	16.2	(2.0)	nm	-9.9	19.3	29.2	
G.EBITDA margin (%)	8.1	7.3	2.2	(5.1)	(5.9)	8.4	7.0	(1.4)	

Source: Company data, RHB

Recommendation Chart

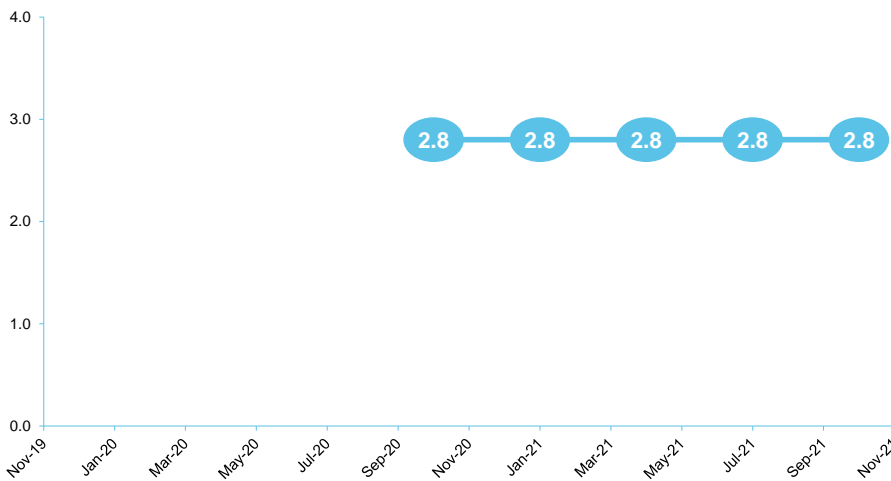


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-13	Buy	0.83	0.66
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

ESG Rating History



Source: RHB

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