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# Leong Hup International Bhd

**TP: RM0.91 (+65.0%)**
*Marked the Worst in 3QFY21 but Better Days Ahead*

Last Traded: RM0.555

**Buy (ESG: ★★★)**

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

## Review

- Leong Hup International Bhd's (LHI) 9MFY21 core profit of RM60.6mn was below expectation at 25% of our full-year forecast. The negative variation was mainly due to weaker-than-expected business landscape during 3QFY21 amid worsening of covid-19 situation and inability to fully pass-through increase in input cost of feed.
- 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.
- LHI took a turn for the worse in 3QFY21 and recorded net loss of RM53.4mn versus net profit of RM30.5mn in 2QFY21. The weakness was primarily dragged by Livestock segment (LBIT of RM110.4mn in 3QFY21 from RM53.7mn in 2QFY21) owing to depressed ASP of broiler in Vietnam alongside inability to fully past-through input cost of feed amid worsening of covid-19 situation across most operating countries. Conversely, the Feedmill segment registered 7.7% QoQ improvement in EBIT supported by margin expansion as ASP of feed was sticky after being increased.
- 9MFY21 EBIT slipped 12.7% YoY to RM152.6mn in spite of 20.4% YoY growth in revenue. The weak earnings performance was caused by 15.1% YoY drop in Feedmill's 9MFY21 EBIT contribution owing to downward normalisation of feed margins as well as abovementioned earnings drag from Livestock segment in 3QFY21.
- Geographically, Indonesia and Malaysia recorded higher EBITDA in 9MFY21 with growth of 25.6% YoY and 5.5% YoY to RM100.8mn and RM123.9mn respectively. The Philippines' EBITDA spiked to RM26.6mn from LBITDA of RM7.2mn in 9MFY20. However, EBITDA in Vietnam fell 46.4% YoY to RM58.4mn as the supply chain of livestock was severely disrupted no thanks to imposition of lockdown.

## Impact

- We cut our FY21/22/23 earnings by 55/20/12% to account for the underperformance in 3QFY21, elevated cost of input that may extend into FY22 alongside a slowdown in farm capacity expansion caused by movement restrictions.

## Outlook

- Lifting of movement restrictions to varying extent in LHI's operating markets are expected to drive sequential improvement in 4QFY21. We remain positive 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.

## Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2025.8
52-wk Hi/Lo (RM)	0.85/0.555
12-mth Avg Daily Vol ('000 shrs)	1635
Estimated Free Float (%)	14.6
Beta	1.1

## Major Shareholders (%)

Emerging Glory	- 52.8%
Clarinden Investment	- 9.0%

## Forecast Revision

	FY21	FY22
Forecast Revision (%)	(54.5)	(20.4)
Net profit (RMm)	85.2	169.6
Consensus	181.4	218.3
TA's / Consensus (%)	47.0	77.7
Previous Rating	Buy (Maintained)	

## Financial Indicators

	FY21	FY22
Net Debt / Equity (x)	0.9	0.8
ROE (%)	4.8	9.2
ROA (%)	1.4	2.8
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.2	1.1

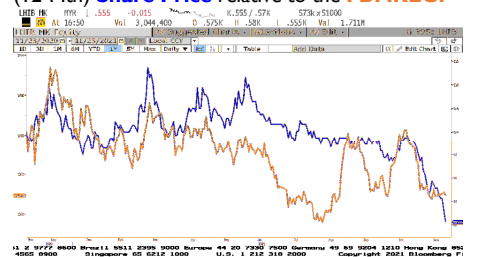
## Scorecard

	% of FY
vs TA	25 Below
vs Consensus	26 Below

## Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(17.8)	(4.1)
3 mth	(18.4)	0.0
6 mth	(23.4)	(2.5)
12 mth	(20.1)	(4.7)

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- Based on our channel check, recent Malaysian Livestock's broiler price has increased c.40% against the price transacted in July as supply and demand found its equilibrium coupled with re-opening of dine-in services.
- Despite delays caused by covid-19 restrictions, we understand LHI has achieved its FY21 target of operating over 160 The Baker Cottage outlets. We expect more rollout in the years ahead as the brand has garnered popularity among budget-conscious consumers and fits into LHI's plan of downstream integration.

### Valuation

- We revise our target price to RM0.91/share (RM1.05/share previously) based on 16x FY23 earnings. **Maintain Buy.**

**Table 1: Earnings Summary (RMmn)**

FYE December (RM mn)	2019	2020	2021E	2022F	2023F
Revenue	6,054.8	6,040.7	7,128.0	7,163.6	7,235.3
EBITDA	637.7	525.8	541.7	719.3	798.5
Pretax Profit	288.8	157.1	141.3	301.6	369.4
Reported Net Profit	150.6	113.1	85.2	169.6	207.8
Core Net Profit	150.6	105.7	85.2	169.6	207.8
Core EPS (sen)	4.1	2.9	2.3	4.6	5.7
Core PER (x)	13.5	19.2	23.8	11.9	9.8
DPS (sen)	1.6	0.6	0.7	1.4	1.7
Dividend Yield (%)	2.9	1.1	1.3	2.5	3.1

**Table 2: 3QFY21 Results Analysis (RMmn)**

FYE 31 Dec	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
Other Income	7.2	14.8	8.6	(41.7)	19.3	30.2	40.0	32.6
Operating Expenses	(1,522.4)	(1,804.3)	(1,849.5)	2.5	21.5	(4,288.4)	(5,216.0)	21.6
EBIT	58.3	60.9	(35.5)	nm	nm	174.7	152.6	(12.7)
Adj. EBIT	58.3	60.9	(35.5)	nm	nm	174.7	152.6	(12.7)
Net Interest	(27.5)	(23.1)	(24.7)	6.8	(10.3)	(86.1)	(70.0)	(18.7)
Associate	0.1	(0.0)	0.1	nm	71.9	0.1	0.2	64.7
Profit before Tax	30.8	37.8	(60.1)	nm	nm	88.8	82.8	(6.8)
Adj. PBT	30.8	37.8	(60.1)	nm	nm	88.8	82.8	(6.8)
Taxation	(9.8)	(9.8)	(5.9)	(39.6)	(39.4)	(28.2)	(38.9)	38.2
Extraordinary Items	-	-	-	nm	nm	-	-	nm
Minority Interest	1.5	2.6	12.6	>100	>100	(0.1)	3.5	>100
Net Profit	22.5	30.5	(53.4)	nm	nm	60.6	47.4	(21.7)
Adj. Net Profit	22.5	30.5	(53.4)	nm	nm	60.6	47.4	(21.7)
Basic EPS (sen)	0.6	0.8	(1.5)	nm	nm	1.7	1.3	(21.7)
DPS (sen)	-	-	-	nm	nm	0.6	0.7	20.0
				%-points	%-points			%-points
EBIT Margin (%)	3.7	3.3	(2.0)	(5.2)	(5.7)	3.9	2.9	(1.1)
PBT Margin (%)	2.0	2.0	(3.3)	(5.4)	(5.3)	2.0	1.6	(0.5)
Net Margin (%)	1.4	1.6	(3.0)	(4.6)	(4.4)	1.4	0.9	(0.5)
Adj. Net Margin (%)	1.4	1.6	(3.0)	(4.6)	(4.4)	1.4	0.9	(0.5)
Tax Rate (%)	31.7	26.0	(9.9)	(35.8)	(41.6)	31.7	47.0	15.3

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

FYE 31 Dec	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
<b>Revenue</b>	<b>1,573.4</b>	<b>1,853.8</b>	<b>1,809.1</b>	<b>(2.4)</b>	<b>15.0</b>	<b>4,433.0</b>	<b>5,339.4</b>	<b>20.4</b>
Livestock and Poultry Related	865.1	992.5	947.6	(4.5)	9.5	2,455.0	2,855.2	16.3
Feedmill	705.1	858.9	859.0	0.0	21.8	1,967.9	2,476.2	25.8
Others	3.3	2.5	2.6	4.7	(21.7)	10.1	8.0	(20.4)
<b>Segment EBIT</b>	<b>61.7</b>	<b>64.3</b>	<b>(31.7)</b>	<b>nm</b>	<b>nm</b>	<b>185.3</b>	<b>163.5</b>	<b>(11.8)</b>
Livestock and Poultry Related	(30.7)	53.7	(110.4)	nm	>100	(89.0)	(15.8)	(82.2)
Feedmill	102.1	73.9	79.6	7.7	(22.1)	294.8	250.4	(15.1)
Elimination	(9.7)	(63.3)	(0.9)	(98.5)	(90.4)	(20.5)	(71.1)	>100
				<b>%-points</b>	<b>%-points</b>			<b>%-points</b>
<b>Segment EBIT Margin</b>	<b>3.9</b>	<b>3.5</b>	<b>(1.8)</b>	<b>(5.2)</b>	<b>(5.7)</b>	<b>4.2</b>	<b>3.1</b>	<b>(1.1)</b>
Livestock and Poultry Related	(3.6)	5.4	(11.6)	(17.1)	(8.1)	(3.6)	(0.6)	3.1
Feedmill	14.5	8.6	9.3	0.7	(5.2)	15.0	10.1	(4.9)

**Table 4: 3QFY21 Results Analysis (RMmn) – Geographical Breakdown**

FYE 31 Dec	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
<b>Revenue</b>	<b>1,573.4</b>	<b>1,853.8</b>	<b>1,809.1</b>	<b>(2.4)</b>	<b>15.0</b>	<b>4,433.0</b>	<b>5,339.4</b>	<b>20.4</b>
Malaysia	434.5	479.3	482.4	0.7	11.0	1,203.5	1,405.1	16.7
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
Philippines	26.1	40.9	52.3	28.0	100.5	73.0	137.7	88.6
<b>Segment EBITDA</b>	<b>127.2</b>	<b>134.6</b>	<b>39.5</b>	<b>(70.6)</b>	<b>(68.9)</b>	<b>373.7</b>	<b>374.2</b>	<b>0.1</b>
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)
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
				<b>%-points</b>	<b>%-points</b>			<b>%-points</b>
<b>Segment EBITDA Margin</b>	<b>8.1</b>	<b>7.3</b>	<b>2.2</b>	<b>(5.1)</b>	<b>(5.9)</b>	<b>8.4</b>	<b>7.0</b>	<b>(1.4)</b>
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)	(9.5)	(12.0)	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)	44.0	(9.9)	19.3	29.2

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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
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	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, November 24, 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**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
 www.ta.com.my