

Consumer Sector

Overweight (ESG: ★★★)

Upswing of Livestock Prices

(Maintained)

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We believe the upswing of livestock's average selling price (ASP) remains intact despite Malaysian government allowing import of frozen chickens (from December 2021 to February 2022) and enforcing price ceiling (from December 7, 2021 to December 31, 2021). This is because average price of imported frozen chicken from Thailand is higher compared to local fresh chicken; whereas price ceiling was well discussed with local producers and was set at a price near to market equilibrium price. Separately, we gathered that Leong Hup and QL Resources were not directly affected by recent flooding. In fact, ASP of local poultry products could remain well supported owing to supply tightness that is now further aggravated by recent flood. Reiterate Buy on LHI and QL with respective target price of RM0.91/share and RM5.90/share.

Malaysian Government Allowed Import of Frozen Chickens

Malaysian government has allowed companies to import frozen chickens starting from December 2021 to February 2022 to cover temporal shortages of chicken supply and to curb excessive inflation in Malaysian chicken prices. It was stated that up to 10kMT of frozen chicken could be imported per month - this is akin to 3-days' worth of Malaysian broiler consumption that is estimated at c.3.8kMT per day. Although we laud government's agile move in permitting imports to ensure food sufficiency in Malaysia, we reckon chicken prices are not likely to reduce and profitability of local producers such as Leong Hup and QL Resources would remain intact.

Based on the statement by Malaysian government, the import of frozen chickens would primarily come from Thailand and China. The aforementioned countries are among the top poultry exporters globally (Figure 1) and are close to our homeland. However, we understand the average imported frozen chickens from these countries may be more expensive than Malaysian fresh chicken. According to Thailand Ministry of Commerce, Thailand exported 343.6kMT of frozen chickens worth THB28.3bn in 2020, which translates to average price of THB82/kg or c.RM10.3/kg. Even prior to account for widespread price inflation across 2021 and elevated freight charges, the average price of Thailand's exported frozen chickens in 2020 is already higher compared to the ceiling price of wholesale super chicken (slaughtered and dressed without leg, head, liver and gizzard) set at RM9.30/kg for Peninsula Malaysia during December 2021 festive season. Hence, we believe imports could help to ease shortage in supply but may not necessarily reduce prices given that food cost increase is a global phenomenon.

Figure 1: World Frozen Chicken Exporters in 2020

Rank	Frozen Chicken Exporters	Value (USD'bn)	% Share
1	Brazil	5.5	35.5%
2	United States	2.8	18.1%
3	Netherlands	1.1	7.1%
4	Thailand	0.9	5.7%
5	Poland	0.8	5.1%
13	China	0.2	1.2%
	Others	4.4	28.5%
	Total	15.5	100.0%

Source: Trademap, TA Securities

Enforcement of Keluarga Malaysia Maximum Price Control Scheme

The Domestic Trade and Consumer Affairs Ministry implemented the Keluarga Malaysia Maximum Price Control Scheme between December 7, 2021 till December 31, 2021 with price control imposed on 12 daily essentials, inclusive of chickens and eggs. The end-year festive price control in 2021 has a longer duration of 25-days compared to 10-days in the prior years. Nonetheless, in our opinion, the ceiling price was well discussed with local producers with ceiling price of live chicken set at RM6.20/kg (+21.6/+29.2% against the corresponding period in 2020/2019) to account for higher price of animal feed. Noteworthy, the ceiling price was set close to the market equilibrium price of RM6.10/kg to RM6.30/kg – price during September 2021 to November 2021 period where price discovery was primarily driven by supply and demand. As such, we believe the price ceiling is fair and is sufficient for Leong Hup and QL Resources to pass-through the increase in input cost of feed.

Figure 2: Ceiling Price in Peninsula Malaysia (Ex. Kedah - Langkawi) during Christmas

Festival	Duration	Days	Producer	Wholesaler	
			Live Chicken (RM/kg)	Standard Chicken (RM/kg)	Super Chicken (RM/kg)
Christmas 2021	7/12/2021-31/12/2021	25	6.20	8.00	9.30
Christmas 2020	22/12/2020-31/12/2020	10	5.10	6.60	7.40
Christmas 2019	22/12/2019-31/12/2019	10	4.80	6.60	7.30

Source: KPDNHEP, FLFAM, TA Securities

Widespread Flooding Could Aggravate Supply Tightness of Domestic Poultry Products

The widespread flooding seen in many Malaysian states over the last one week has displaced tens of thousands of people and has affected many towns, manufacturing facilities and even farms. While it is still too early to quantify exactly how much damage the flood has done to the poultry farming industry, news has reported that some broiler farms were flooded with tens and hundreds of thousands of broilers being drowned. Correspond to the situation, we have sought comments from management of Leong Hup and QL Resources, who both stated that their farms were not directly affected by the recent downpour and flood but commented that supply chain could be partly disrupted if land transportation continue to be affected by flood. In all, we reckon the widespread flood could aggravate near-term supply tightness of domestic fresh chicken given that typical broiler farming cycle could take up to 7 weeks. Therefore, ASP of local poultry products is likely to remain elevated.

Upswing of Profitability in CY22

Considering the situations, we reckon CY22 would be a seller's market with local poultry producers having better pricing ability to pass-through any changes in feed cost. We do not think producers would irresponsibly raise prices in a profiteering manner following the end of aforementioned Keluarga Malaysia Maximum Price Control Scheme but believe prices would remain favourable to producers in generating decent profitability barring unforeseen circumstance such as another full-blown domestic lock-down. In our forecast, we estimate Leong Hup's FY22 EBITDA margin to improve by c.2.5%-pts YoY to 10%, being a level closer to pre-pandemic environment; similarly, QL's FY23 (ending March) EBITDA margin is expected to improve by c.2.0%-pts YoY to 13%.

Sanguine on Leong Hup and QL Resources

We remain sanguine on Leong Hup and QL Resources given that upswing in the livestock's ASP would provide a boost to profitability of their livestock segment. Moreover, volume expansion and value chain integration would allow them to better serve the consumers amid pick-up in economic activities and dine-in services.

We reiterate our Buy recommendation on LHI with a target price of RM0.91/share based on 16x FY23 EPS, along with a Buy recommendation on QL Resources with a DCF valuation of RM5.90/share (k: 6.2%; g: 3.5%).

Figure 3: ESG Scoring – Leong Hup International

	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%.	

Source: Company, TA Research

Figure 4: ESG Scoring – QL Resources

	Environmental	Social	Governance	Average
Scoring	★★★	★★★★	★★★★	★★★★
Remark	Visible efforts in tracking and managing wastes (hazardous waste, mixed papers, plastic, food waste, manure and metal scrap) and pursuing usage of renewable energy. However, score is muted owing to absence of quantifiable goal for near future.	Notable efforts in enriching communities, and has extensive training over OSHA alongside emphasis on safety. Prompt work restructuring amid unexpected major catastrophe.	The board is well represented by 55% independent directors and has decent gender diversity. QL has also been consistent in returning >30% of profit to shareholders.	

Source: Company, TA Research

Peers Comparison Valuation

Company	Call	ESG	Price	Target Price	PER (x)		P/BV (x)		EPS Growth (%)		ROE (%)		Div Yield (%)	
					CY22	CY23	CY22	CY23	CY22	CY23	CY22	CY23	CY22	CY23
Brewery														
Carlsberg	Buy	★★★★	19.70	27.50	25.0	19.4	26.3	25.2	24.6	28.5	115.7	148.6	4.0	5.1
Heineken	Buy	★★★★	20.60	28.20	25.7	19.0	17.1	16.7	9.9	35.4	67.3	89.1	3.8	5.1
Retail														
Aeon	Buy	★★★	1.29	1.75	16.6	13.4	1.0	1.0	73.3	24.3	6.3	7.5	3.1	3.5
Amway	Buy	★★★	5.35	7.05	12.7	12.5	3.5	3.3	3.1	1.6	28.1	26.8	6.1	6.1
Padini	Hold	★★★	2.78	3.00	16.0	13.0	2.1	1.9	47.1	23.4	11.6	15.2	3.4	4.1
Focus Point	Buy	★★★	0.66	1.03	14.7	13.1	1.7	1.6	30.7	12.1	17.8	18.0	3.1	3.4
F&B														
Able Global	Buy	★★★	1.59	2.30	9.2	8.4	1.2	1.1	25.5	9.5	13.6	13.8	4.7	5.3
Hup Seng	Hold	★★★	0.87	0.98	16.6	15.3	5.0	5.1	29.8	8.3	30.5	33.1	5.8	6.9
F&N	Buy	★★★★★	25.10	37.50	21.2	18.5	3.0	2.8	7.3	14.7	14.2	15.6	2.5	2.9
QL Resources	Buy	★★★★	4.59	5.90	40.8	33.6	3.9	3.6	31.8	21.5	8.4	11.8	0.8	1.0
Nestle	Sell	★★★★★	132.50	124.00	59.9	48.5	52.5	51.9	(12.9)	23.5	88.6	107.5	1.6	2.0
Leong Hup	Buy	★★★	0.51	0.91	10.9	8.9	0.7	0.7	99.1	22.5	9.3	10.6	2.8	3.4
Tobacco														
BAT	Hold	★★★★	13.92	15.50	14.6	13.3	9.8	9.5	(6.0)	9.9	68.3	72.3	6.5	7.1
Industrial														
Scientex	Buy	★★★	4.69	5.40	13.9	12.7	2.0	1.8	10.9	9.4	16.1	16.3	2.2	2.4
Signature	Hold	★★★	1.34	1.35	22.3	22.9	1.6	1.5	7.1	(2.5)	7.6	7.9	4.6	1.7
Poh Huat	Buy	★★	1.37	1.84	6.7	6.4	0.6	0.6	6.7	5.1	12.0	11.8	5.4	6.6

Earnings Summary – Leong Hup International

Profit and Loss Statement

FYE 31 Dec (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
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
Depreciation	(225.5)	(259.4)	(280.7)	(295.1)	(308.9)
Net finance cost	(123.8)	(109.7)	(120.0)	(123.1)	(120.6)
Associate	0.4	0.4	0.4	0.5	0.5
EI	0.0	7.5	0.0	0.0	0.0
PBT	288.8	157.1	141.3	301.6	369.4
Taxation	(75.8)	(39.6)	(46.6)	(78.4)	(96.0)
MI	(62.4)	(4.4)	(9.5)	(53.6)	(65.6)
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
Diluted EPS (sen)	4.1	2.9	2.3	4.6	5.7
DPS (sen)	1.6	0.6	0.7	1.4	1.7
Book Value (RM)	0.6	0.6	0.6	0.7	0.7
NTA (RM)	0.4	0.4	0.5	0.5	0.5

Ratios

FYE 31 Dec (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
Valuations					
Core PER (x)	12.3	17.5	21.7	10.9	8.9
Div. Yield (%)	3.2	1.2	1.4	2.8	3.4
P/BV (x)	0.8	0.8	0.8	0.7	0.7

Profitability ratios

EBITDA margin (%)	10.5	8.6	7.6	10.0	11.0
PBT margin (%)	4.8	2.5	2.0	4.2	5.1
Core Net Margin (%)	2.5	1.7	1.2	2.4	2.9
Core ROE (%)	10.2	5.1	4.9	9.3	10.6
Core ROA (%)	2.9	1.5	1.5	2.8	3.3

Liquidity ratios

Current ratio (x)	1.2	1.1	1.1	1.1	1.1
Quick ratio (x)	0.9	0.8	0.7	0.8	0.8

Leverage ratios

Equity/total liabilities (x)	0.7	0.7	0.6	0.7	0.7
Net debt / equity (x)	0.7	0.8	0.9	0.8	0.7

Growth ratios

Revenue (%)	5.4	(0.2)	18.0	0.5	1.0
PBT (%)	(17.2)	(45.6)	(10.1)	113.4	22.5
Core Net Profit (%)	(30.0)	(29.8)	(19.4)	99.1	22.5

Balance Sheet

FYE 31 Dec (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
PPE	2,396.5	2,656.5	2,725.7	2,837.7	2,942.3
Intangible Asset	97.5	95.3	95.3	95.3	95.3
Associate	1.6	1.6	1.6	1.7	1.7
Others	408.8	475.0	475.0	475.0	475.0
Non-current assets	2,904.3	3,228.4	3,297.7	3,409.7	3,514.4
Inventories	679.6	721.9	858.3	839.0	837.5
Trade receivables	499.3	489.6	527.3	529.9	535.2
Cash and Bank Balance	764.8	757.8	837.6	896.5	997.0
Others	561.1	497.2	497.2	497.2	497.2
Current assets	2,504.8	2,466.4	2,720.3	2,762.6	2,866.9
Total Assets	5,409.1	5,694.8	6,018.1	6,172.3	6,381.3
LT Borrowings	873.1	874.5	940.7	934.1	930.8
Others	252.1	279.9	279.9	279.9	279.9
Non-Current liabilities	1,125.2	1,154.4	1,220.6	1,214.0	1,210.7
Trade payables	273.1	229.4	291.8	302.0	318.3
ST Borrowings	1,508.7	1,764.8	1,898.6	1,885.2	1,878.5
Others	321.6	297.7	297.7	297.7	297.7
Current liabilities	2,103.4	2,291.9	2,488.0	2,484.9	2,494.4
Shareholders funds	1,641.2	1,713.4	1,773.1	1,891.8	2,037.2
MI	539.3	535.1	536.3	581.6	638.9
Total Equity	2,180.5	2,248.6	2,309.4	2,473.4	2,676.2
Total E&L	5,409.1	5,694.8	6,018.1	6,172.3	6,381.3

Cash Flow Statement

FYE 31 Dec (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
Pretax profit	288.8	157.1	141.3	301.6	369.4
Depreciation	225.5	259.4	280.7	295.1	308.9
Net interest	123.8	109.7	120.0	123.1	120.6
Associates	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Changes in WC	52.9	(67.1)	(111.7)	26.9	12.4
Tax	(57.0)	(55.3)	(46.6)	(78.4)	(96.0)
Others	37.1	26.0	0.0	0.0	0.0
Operational cash flow	670.6	429.4	383.3	667.7	714.8
Capex	(387.2)	(483.8)	(350.0)	(407.0)	(413.6)
Interest income	12.9	16.2	16.9	18.4	20.1
Others	(29.6)	(34.4)	0.4	0.4	0.4
Investing cash flow	(403.9)	(502.1)	(332.7)	(388.2)	(393.1)
Net share issue	269.6	0.0	0.0	0.0	0.0
Net borrowings	(7.2)	140.7	200.0	(20.0)	(10.0)
Dividend paid	(84.5)	(23.8)	(33.8)	(59.2)	(70.6)
Interest paid	(136.6)	(125.9)	(137.0)	(141.5)	(140.7)
Others	(43.3)	80.5	0.0	0.0	0.0
Financial cash flow	(2.1)	71.6	29.2	(220.6)	(221.3)
Net cash flow	264.6	(1.1)	79.8	58.9	100.4
Beginning Cash	390.4	654.2	645.8	725.7	784.6
Forex & others	(0.8)	(7.3)	0.0	0.0	0.0
Ending Cash	654.2	645.8	725.7	784.6	885.0

Earnings Summary – QL Resources

PROFIT & LOSS

FYE Mar 31 (RMmn)	FY20	FY21	FY22E	FY23F	FY24F
Revenue	4,155.9	4,378.8	5,056.4	5,379.0	5,838.2
EBIT	354.4	472.2	343.0	462.9	515.4
EBITDA	540.3	679.1	570.6	713.3	790.8
Reported PBT	306.9	432.6	296.8	417.9	471.5
Reported Net Profit	239.3	311.4	199.7	298.7	344.1
Adj net profit	239.3	232.4	199.7	298.7	344.1
Adj EPS (sen)	9.8	9.5	8.2	12.3	14.1
GDPS (sen)	3.0	3.5	3.5	4.0	4.5

CASH FLOW

FYE Mar 31 (RMmn)	FY20	FY21	FY22E	FY23F	FY24F
PBT	306.9	432.6	296.8	417.9	471.5
Adjustments for:					
Depreciation & amortisation	185.9	206.9	227.6	250.4	275.4
Interest expense	67.0	56.4	53.4	56.8	59.4
Share of JV & associates	(10.8)	(9.3)	(1.0)	(1.0)	(1.1)
Others	(13.9)	(76.9)	(6.3)	(10.8)	(14.5)
CFO before WC	535.3	609.7	570.6	713.3	790.8
Inventories	76.5	(111.9)	(100.9)	(48.0)	(62.5)
Receivables	(63.4)	(2.4)	(74.6)	(35.5)	(23.9)
Payables	24.1	91.7	72.0	34.3	36.1
Tax	(31.9)	(87.7)	(82.1)	(103.5)	(109.2)
Others	(12.3)	89.7	-	-	-
CFO	528.2	589.2	385.1	560.5	631.2
Acquisition & capex	(359.0)	(325.6)	(350.0)	(325.0)	(325.0)
Disposal	4.7	-	-	-	-
Others	(54.1)	60.3	6.3	10.8	14.5
CFI	(408.4)	(265.3)	(343.7)	(314.2)	(310.5)
Net borrowing	(5.8)	37.9	30.0	30.0	30.0
Interest paid	(47.4)	(39.2)	(53.4)	(56.8)	(59.4)
Dividend to shareholders	(73.0)	(73.0)	(85.2)	(97.3)	(109.5)
Others	25.9	(30.6)	-	-	-
CFF	(100.4)	(104.9)	(108.6)	(124.2)	(138.9)
Net cash flow	19.5	219.0	(67.3)	122.2	181.8

BALANCE SHEET

FYE Mar 31 (RMmn)	FY20	FY21	FY22E	FY23F	FY24F
PPE	2,006.4	2,211.1	2,333.5	2,408.1	2,457.7
Intangible assets	10.1	129.2	129.2	129.2	129.2
Investment in associates	142.2	2.3	3.3	4.3	5.4
Others	412.4	528.4	528.4	528.4	528.4
Non-Current Assets	2,571.1	2,871.0	2,994.4	3,070.0	3,120.7
Inventories	496.3	652.2	753.1	801.2	863.7
Receivables	358.6	481.9	556.5	592.0	615.8
Cash & equivalents	308.2	486.5	419.2	541.4	723.2
Others	332.2	343.8	343.8	343.8	343.8
Current assets	1,495.3	1,964.4	2,072.6	2,278.3	2,546.5
Assets	4,066.4	4,835.4	5,067.0	5,348.4	5,667.2
Loans & borrowings	650.4	608.3	620.3	632.3	644.3
Others	248.2	300.0	300.0	300.0	300.0
Non Current liabilities	898.6	908.3	920.3	932.3	944.3
Payables	368.1	465.4	537.5	571.7	607.8
Borrowings	655.5	783.5	801.5	819.5	837.5
Others	53.2	132.7	132.7	132.7	132.7
Current liabilities	1,076.8	1,381.7	1,471.7	1,524.0	1,578.0
Share capital	620.0	620.0	620.0	620.0	620.0
Reserves	1,397.5	1,694.2	1,808.7	2,010.1	2,244.7
Others	-	-	-	-	-
Total (ex MI)	2,017.5	2,314.2	2,428.7	2,630.1	2,864.7
Minority interest	73.5	231.3	246.4	262.1	280.2
Equity	2,091.0	2,545.5	2,675.1	2,892.2	3,144.9
Equity & Liabilities	4,066.4	4,835.4	5,067.0	5,348.4	5,667.2

FINANCIAL RATIOS

FYE Mar 31 (RMmn)	FY20	FY21	FY22E	FY23F	FY24F
PER (x)	46.7	48.1	55.9	37.4	32.5
P/NTA (x)	5.6	5.1	4.9	4.5	4.1
Dividend yield (%)	0.7	0.8	0.8	0.9	1.0
ROE (%)	12.1	10.7	8.4	11.8	12.5
ROA (%)	6.2	5.2	4.0	5.7	6.2
EBIT margin (%)	8.5	10.8	6.8	8.6	8.8
PBT margin (%)	7.4	9.9	5.9	7.8	8.1
Net margin (%)	5.8	5.3	4.0	5.6	5.9

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Sector Recommendation Guideline

OVERWEIGHT : The industry, as per our coverage universe, is expected to outperform the FBMKLCI over the next 12 months.

NEUTRAL : The industry, as per our coverage universe, is expected to perform in line with the FBMKLCI over the next 12 months.

UNDERWEIGHT: The industry, as per our coverage universe, is expected to underperform the FBMKLCI over the next 12 months.

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 Guideline

★★★★★ (≥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 Friday, December 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

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