



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

25 May 2022

High feed costs limit earnings recovery potential

HOLD

(Downgraded)

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Rationale for report: Company results

Price	RM0.51
Fair Value	RM0.50
52-week High/Low	RM0.78/RM0.50

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	7,153.5	7,297.2	7,515.8	7,740.9
Core net profit (RM mil)	83.0	107.4	172.8	238.7
FD Core EPS (sen)	2.3	2.9	4.7	6.5
FD Core EPS growth (%)	(24.1)	29.4	60.9	38.2
Consensus Net Profit (RM mil)	-	166.1	201.1	230.0
DPS (sen)	0.7	0.9	1.4	2.0
PE (x)	22.2	17.2	10.7	7.7
EV/EBITDA (x)	8.4	7.7	6.4	5.5
Div yield (%)	1.3	1.7	2.8	3.9
ROE (%)	4.9	5.8	8.9	11.5
Net Gearing (%)	140.5	132.9	129.8	122.2

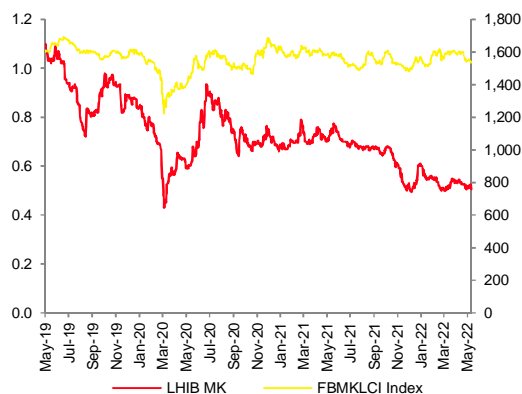
Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	1,843.3
Book Value (RM/share)	0.49
P/BV (x)	1.0
ROE (%)	4.9
Net Gearing (%)	140.5

Major Shareholders	Emerging Glory Sdn Bhd (52.8%) Clarinden Inv Pte. (8.6%) Amanah Saham Nasional Bhd (5.7%)
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Free Float	14.8
Avg Daily Value (RM mil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	(5.6)	(9.8)	(32.2)
Relative (%)	(3.0)	(10.4)	(30.4)



Investment Highlights

- We downgrade Leong Hup International (LHI) to HOLD (from BUY) with a lower fair value (FV) of RM0.50/share (from RM0.72/share) based on revised 2022F EPS with an unchanged target PE of 17x. We cut 2022F by 31% and 2023F by 14%, mainly to account for higher feed costs.
- LHI's 1QFY21 core net profit of RM20mil (-54% QoQ, -71% YoY) accounted for 13% of our FY22F earnings and 12% of consensus. The earnings fell short of our and street's expectations. The earnings gap was mainly attributed to a weaker-than-expected operating margin due to high feed costs. This is despite reporting a stronger revenue of RM2,087mil (+15% QoQ, +25% YoY).
- LHI's sequentially stronger revenue (QoQ, livestock: +9% feed mill: +24%) was mainly driven by higher sales volume and ASP of broiler and day-old chicks (DOC). Higher sales volume of livestock feed in Indonesia also contributed to the improvement in sales.
- However, the livestock segment's EBITDA margin declined 1.7% points while that of feed mill fell 2.2% points sequentially due to the high raw material costs, resulting in lower earnings.
- YoY, all LHI's operating countries reported improvement in sales, contributing to a 25% increase in the group's revenue. Notwithstanding the higher sales, the livestock segment's EBITDA plunged 63% YoY, dragged down by the elevated input costs.
- Despite positive signs of sales recovery premised on returning demand from hotels, restaurants and cafés as the economy reopens, we believe the elevated input costs are likely to cap LHI's earnings recovery potential.
- The government's decision to ban the export of chickens starting 1 June might negatively affect LHI's operation in Singapore which sourced its chicken from Malaysia's farms.
- Key rerating catalysts are the expansion of its downstream business-to-consumer channel to other operating countries beyond Malaysia and the normalisation of raw material prices.
- The stock is currently trading at -1.5 SD of its 3-year historical average. We believe this is justified given the limited near-term earnings upside potential due to the elevated costs and low chicken ceiling price.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ (%)	YoY (%)
Revenue	1,676.5	1,853.8	1,809.1	1,814.1	2,087.2	15.1	24.5
EBITDA	200.0	134.6	39.5	161.9	135.0	(16.6)	(32.5)
EBIT	130.9	64.3	(31.7)	88.9	61.1	(31.2)	(53.3)
Operating profit	108.8	41.2	(56.4)	60.8	34.8	(42.8)	(68.0)
PBT	105.1	37.8	(60.1)	57.5	31.9	(44.5)	(69.6)
Tax	(23.2)	(9.8)	(5.9)	(5.5)	(8.0)	46.0	(65.3)
PAT	82.0	27.9	(66.0)	52.0	23.9	(54.1)	(70.9)
MI	(11.6)	2.6	12.6	14.0	(3.5)		
Net profit	70.3	30.5	(53.4)	66.0	20.4	(69.1)	(71.0)
Core net profit	69.1	29.8	(53.5)	65.6	20.4	(68.9)	(70.5)
FD EPS (sen)	1.89	0.82	-1.47	1.80	0.56	(68.9)	(70.5)
Gross DPS (sen)	0.66	0.00	0.00	0.00	0.00		
EBITDA margin (%)	11.9%	7.3%	2.2%	8.9%	6.5%	-2.5ppt	-5.5ppt
PBT margin (%)	6.3%	2.0%	-3.3%	3.2%	1.5%	-1.6ppt	-4.7ppt
Effective tax rate (%)	-22.1%	-26.0%	9.9%	-9.6%	-25.2%	-15.6ppt	-3.1ppt
Core net profit margin (%)	4.1%	1.6%	-3.0%	3.6%	1.0%	-2.6ppt	-3.1ppt
Livestock and poultry							
Revenue	915	992	948	1,060	1,152	8.7	25.9
EBITDA	94.2	108.7	(54.5)	37.3	34.8	(6.6)	(63.0)
EBITDA margin (%)	10.3	11.0	-5.8	3.5	3.0	-0.5ppt	-7.3ppt
Feedmill							
Revenue	758	859	859	751	932	24.1	22.9
EBITDA	111.7	88.4	94.3	126.2	100.7	(20.2)	(9.9)
EBITDA margin (%)	14.7	10.3	11.0	16.8	10.8	-6.0ppt	-3.9ppt

Source: LHI, AmInvestment Bank

EXHIBIT 2: PB BAND CHART



Source: AmInvestment Bank

EXHIBIT 3: PE BAND CHART

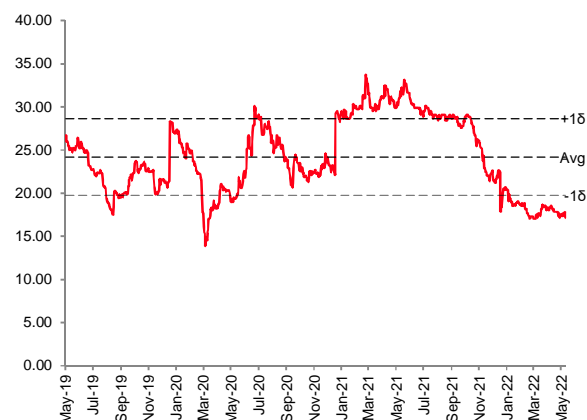


EXHIBIT 4: PB BAND CHART

Overall	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	6,040.7	7,153.5	7,297.2	7,515.8	7,740.9
EBITDA	525.8	521.6	564.3	696.6	816.8
Depreciation/Amortisation	(259.4)	(283.7)	(288.4)	(313.2)	(337.9)
Operating income (EBIT)	266.5	237.9	275.8	383.4	478.9
Other income & associates	0.5	0.4	0.4	0.4	0.4
Net interest	(109.7)	(98.0)	(123.8)	(140.1)	(156.3)
Exceptional items	3.9	2.4	-	-	-
Pretax profit	157.3	140.3	152.5	243.7	323.1
Taxation	(39.6)	(44.4)	(35.1)	(60.9)	(74.3)
Minorities/pref dividends	(4.4)	(10.5)	(10.0)	(10.0)	(10.0)
Net profit	113.3	85.4	107.4	172.8	238.7
Core net profit	109.4	83.0	107.4	172.8	238.7
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,656.5	2,773.4	3,048.4	3,348.4	3,648.4
Intangible assets	95.3	96.1	96.1	96.1	96.1
Other long-term assets	476.6	541.8	575.9	596.5	618.1
Total non-current assets	3,228.4	3,411.2	3,720.4	4,040.9	4,362.5
Cash & equivalent	757.8	764.6	1,286.4	1,672.7	2,106.0
Stock	721.9	973.5	977.4	987.8	995.7
Trade debtors	489.6	624.7	637.3	656.3	676.0
Other current assets	497.2	558.8	568.9	581.4	594.4
Total current assets	2,466.4	2,921.6	3,470.0	3,898.2	4,372.1
Trade creditors	229.4	284.2	627.2	633.9	639.0
Short-term borrowings	1,783.8	2,096.4	2,401.6	2,706.9	3,012.1
Other current liabilities	278.6	271.0	210.4	270.6	270.6
Total current liabilities	2,291.9	2,651.6	3,239.3	3,611.4	3,921.8
Long-term borrowings	1,011.6	1,200.8	1,380.9	1,561.0	1,741.1
Other long-term liabilities	142.7	128.1	122.8	200.1	334.8
Total long-term liabilities	1,154.4	1,329.0	1,503.7	1,761.1	2,075.8
Shareholders' funds	1,713.4	1,802.8	1,878.0	1,998.9	2,166.0
Minority interests	535.1	549.6	560.6	577.4	594.7
BV/share (RM)	0.47	0.49	0.51	0.55	0.59
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	157.3	140.3	152.5	243.7	323.1
Depreciation/Amortisation	259.4	283.7	288.4	313.2	337.9
Net change in working capital	(67.1)	(416.4)	371.6	48.6	45.6
Others	79.9	26.1	-	-	-
Cash flow from operations	429.4	33.8	812.6	605.5	706.6
Capital expenditure	(530.9)	(332.8)	(294.6)	(320.6)	(321.6)
Net investments & sale of fixed assets	6.5	6.4	(14.5)	-	-
Others	22.3	(56.9)	-	-	-
Cash flow from investing	(502.1)	(383.4)	(309.1)	(320.6)	(321.6)
Debt raised/(repaid)	221.7	572.9	485.3	485.3	485.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(23.8)	(26.3)	(32.2)	(51.8)	(71.6)
Others	(126.3)	(274.5)	(302.0)	(332.2)	(365.4)
Cash flow from financing	71.6	272.1	151.1	101.3	48.3
Net cash flow	(1.1)	(77.4)	654.6	386.3	433.3
Net cash/(debt) b/f	654.3	645.9	581.9	1,236.4	1,622.7
Net cash/(debt) c/f	645.9	581.9	1,236.4	1,622.7	2,056.0
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(0.2)	18.4	2.0	3.0	3.0
EBITDA growth (%)	(17.5)	(0.8)	8.2	23.4	17.3
Pretax margin (%)	2.6	2.0	2.1	3.2	4.2
Net profit margin (%)	1.9	1.2	1.5	2.3	3.1
Interest cover (x)	2.4	2.4	2.2	2.7	3.1
Effective tax rate (%)	25.2	31.7	23.0	25.0	23.0
Dividend payout (%)	17.7	28.2	30.0	30.0	30.0
Debtors turnover (days)	30	32	32	32	32
Stock turnover (days)	42	43	49	48	47
Creditors turnover (days)	15	13	23	31	30

Source: Company, AmInvestment Bank Bhd estimates

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