

HLIB Research

PP 9484/12/2012 (031413)

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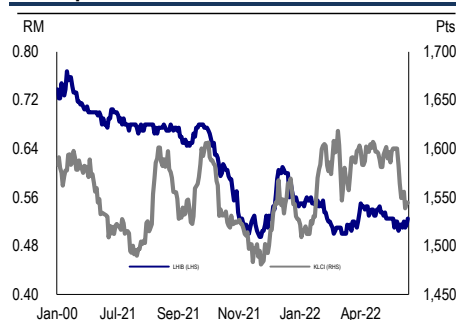
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HOLD (from Buy)**Target Price: RM0.56****Previously: RM0.66****Current Price: RM0.505**

Capital upside	10.9%
Dividend yield	1.8%
Expected total return	12.7%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price

Historical return (%)	1M	3M	12M
Absolute	-7.3	-5.6	-32.2
Relative	-3.8	-1.9	-30.2

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650.0
Market capitalisation (RM m)	1,843
3-mth average volume ('000)	693
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

Emerging Glory	52.8%
Clarinden	8.6%
Amanah Saham Nasional	5.7%

Earnings summary

FYE Dec	FY21	FY22f	FY23f
PATMI - core (RM m)	89.5	108.2	114.4
EPS - core (sen)	2.5	3.0	3.1
P/E (x)	20.6	17.0	16.1

Leong Hup International

Hit by higher feed costs

1Q22 core net profit of RM23.5m (-34.7% QoQ; -67.3% YoY) missed expectations, accounting for only 14.2-17.5% of consensus and our full-year estimates, due mainly to higher-than-expected feed, depreciation and finance costs. We cut our FY22-23 core earnings forecasts by 19.7% and 26.4%, mainly to account for higher feed cost, finance and depreciation charges. Post earnings revision, we downgrade our rating on LHI to HOLD with a lower TP of RM0.56 (from RM0.66 earlier) based on 18x revised 2023 core EPS of 3.1 sen.

Missed expectations. 1Q22 core net profit of RM23.5m (-34.7% QoQ; -67.3% YoY) missed expectations, accounting for only 14.2-17.5% of consensus and our full-year estimates, due mainly to higher-than-expected feed, depreciation and finance costs.

Exceptional items (EIs) in 1Q22. Core net profit of RM23.5m was arrived after adjusting for (i) RM3.3m net impairment loss, (ii) RM0.4m disposal gain, and (iii) RM0.2m share option expense.

QoQ. Core net profit fell by 34.7% to RM23.5m in 1Q22, dragged by weaker earnings from both feedmill and livestock product segments. During the quarter, higher sales volume and ASP of broiler chickens and DOC, as well as sales volume of livestock feed were more than weighed down by margin erosion arising from escalating cost of livestock feed.

YoY. Core net profit shrunk by 67.3% to RM23.5m in 1Q22, as higher livestock sales volume and ASPs were more than negated by sharply higher feed costs.

Outlook: Near-term headwinds remain. We believe near-term headwinds remain for LHI, on the back of (i) recent government's move to ban the exports of chicken (starting from 1 Jun 2022, in an attempt to manage food inflation and ensure food security in the country) will likely hurt its bottomline, and (ii) prices of key inputs (in particularly, soybean meal and corn) will likely remain escalated (arising from high fertiliser prices and tight supply of corn and soybean).

We believe near-term headwinds remain. Despite the weak 1Q22 showing, we believe LHI's performance will improve from 3Q22, as prices of key inputs (in particularly, soybean meal and corn) have weakened since 1Q22, and this will result in lower feed costs. Besides, we believe demand for poultry products will remain robust, as economic activities in all LHI's operating countries have resumed with minimal restrictions.

Forecast. We cut our FY22-23 core earnings forecasts by 19.7% and 26.4%, mainly to account for higher feed cost, finance and depreciation charges.

Downgrade to HOLD with lower TP of RM0.56. Post earnings revision, we lower our TP on LHI to RM0.56 (from RM0.66 earlier) based on 18x revised 2023 core EPS of 3.1 sen. We downgrade our rating on LHI to HOLD (from Buy earlier).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Cash	757.8	764.6	1,200.4	1,234.4	1,271.3
Receivables	601.6	779.4	760.7	797.8	836.3
Inventories	721.9	973.5	716.2	753.1	791.3
PPE	2,656.5	2,770.3	2,794.0	2,815.5	2,835.1
Others	957.1	1,042.0	1,038.9	1,059.8	1,081.6
Assets	5,694.8	6,329.8	6,510.2	6,660.7	6,815.6
Payables	489.8	534.7	600.0	630.8	662.8
Debt	2,639.3	3,124.7	3,124.7	3,124.7	3,124.7
Others	314.6	309.0	309.0	309.0	309.0
Liabilities	3,446.2	3,970.0	4,035.3	4,066.1	4,098.1
Shareholders' equity	1,713.4	1,807.1	1,886.1	1,967.6	2,050.6
Non-controlling interests	535.1	552.8	588.8	627.0	666.8
Equity	2,248.6	2,359.8	2,474.9	2,594.5	2,717.4

Income Statement

FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Revenue	6,040.7	7,153.5	6,446.1	6,777.8	7,121.4
EBITDA	542.0	536.1	602.5	607.5	622.5
EBIT	282.6	252.3	325.9	328.7	341.9
Finance cost	-125.9	-112.4	-131.4	-123.2	-127.0
Associates	0.4	0.4	0.5	0.5	0.5
Profit before tax	157.1	140.3	195.0	206.0	215.4
Tax	-39.6	-44.4	-50.7	-53.6	-56.0
PAT	117.5	95.9	144.3	152.5	159.4
Non-controlling interests	-4.4	-10.5	-36.1	-38.1	-39.9
Reported PATMI	113.1	85.4	108.2	114.4	119.6
Exceptionals	4.7	4.1	0.0	0.0	0.0
Core PATMI	117.9	89.5	108.2	114.4	119.6
Consensus core PATMI			166.1	201.1	230.0
HLIB/ Consensus			65.1%	56.9%	52.0%

Cash Flow Statement

FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Profit before tax	157.1	140.3	195.0	206.0	215.4
D&A	230.2	245.7	276.6	278.7	280.7
Working capital	-76.4	-414.4	344.6	-63.8	-66.1
Tax paid	-55.3	-75.0	-50.7	-53.6	-56.0
Others	111.2	119.1	130.9	122.7	126.5
CFO	415.8	44.2	896.4	490.0	500.4
Capex	-513.9	-345.9	-300.0	-300.0	-300.0
Others	23.4	-46.7	0.0	0.0	0.0
CFI	-490.5	-392.6	-300.0	-300.0	-300.0
Changes in debt	121.4	400.6	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-20.1	-24.1	-29.2	-32.9	-36.5
Others	-128.2	-112.2	-131.4	-123.2	-127.0
CFF	73.1	264.3	-160.6	-156.0	-163.5
Net cash flow	-1.6	-84.1	435.8	34.0	36.9
Beginning cash	654.2	645.8	575.1	1,010.9	1,044.9
Forex	-6.8	13.4	0.0	0.0	0.0
Ending cash	645.8	575.1	1,010.9	1,044.9	1,081.9

Ratios

FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Core EPS (sen)	3.2	2.5	3.0	3.1	3.3
P/E (x)	15.6	20.6	17.0	16.1	15.4
EV/EBITDA (x)	6.4	6.5	5.7	5.7	5.6
DPS (sen)	0.6	0.7	0.8	0.9	1.0
Dividend yield	1.1%	1.3%	1.6%	1.8%	2.0%
BVPS (RM)	0.5	0.5	0.5	0.5	0.6
P/B (x)	1.1	1.0	1.0	0.9	0.9
EBITDA margin	16.2%	13.7%	16.8%	16.4%	16.2%
EBIT margin	3.9%	3.0%	3.9%	3.8%	3.7%
PBT margin	2.1%	1.7%	2.3%	2.4%	2.3%
Net margin	1.6%	1.1%	1.3%	1.3%	1.3%
ROE	7.0%	5.1%	5.9%	5.9%	6.0%
ROA	2.1%	1.5%	1.7%	1.7%	1.8%
Net gearing	83.7%	100.0%	77.8%	72.9%	68.2%

Assumptions

FYE Dec	FY22F	FY23F	FY24F
Feedmill			
- Production volume ('000 mt)	2,731.2	2,883.2	3,044.7
- Utilisation rate	77%	81%	86%
Livestock			
- Broiler DOC supplied (m chicks)	190.5	196.3	202.1
- Broiler supplied (m birds)	125.2	127.9	130.7
- Eggs supplied (m eggs)	1,900.4	1,950.4	2,002.0

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
Revenue	1,676.5	1,814.1	2,087.2	15.1	24.5
- Livestock & poultry related products	915.2	1,060.2	1,152.0	8.7	25.9
- Feedmill	758.4	750.8	931.8	24.1	22.9
- Others	3.0	3.1	3.4	7.8	11.5
EBITDA	200.1	161.9	135.0	-16.6	-32.5
- Livestock & poultry related products	94.2	37.3	34.8	-6.6	-63.0
- Feedmill	111.7	126.2	100.7	-20.2	-9.9
- Others	-5.9	-1.7	-0.6	NM	NM
Profit from operations	130.9	88.9	61.1	-31.2	-53.3
- Livestock & poultry related products	40.8	-10.0	-18.6	NM	NM
- Feedmill	97.0	103.2	86.0	-16.7	-11.4
- Others	-6.9	-4.3	-1.6	NM	NM
Finance costs	-25.9	-31.6	-29.3	-7.4	13.1
Associates	0.1	0.2	0.1	-62.3	-10.9
PBT	105.1	57.5	31.9	-44.5	-69.6
Tax expense	-23.2	-5.5	-8.0	46.0	-65.3
PAT	82.0	52.0	23.9	-54.1	-70.9
Non-controlling interests	-11.6	-14.0	-3.5	-	-
Reported net profit	70.3	38.0	20.4	-46.4	-71.0
Core net profit	72.0	36.0	23.5	-34.7	-67.3
Core EPS (sen)	2.0	1.0	0.6	-34.7	-67.3
				<u>%-pts</u>	<u>%-pts</u>
EBITDA margin (%)	11.9	8.9	6.5	-2.5	-5.5
Operating margin (%)	7.8	4.9	2.9	-2.0	-4.9
PBT margin (%)	6.3	3.2	1.5	-1.6	-4.7
Net margin (%)	4.3	2.0	1.1	-0.9	-3.2

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Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
Revenue	1,676.5	1,814.1	2,083.8	14.9	24.3
- Malaysia	443.3	542.3	552.1	1.8	24.5
- Singapore	189.9	209.6	197.9	-5.6	4.2
- Vietnam	385.1	476.1	468.8	-1.5	21.7
- Indonesia	613.7	523.0	804.8	53.9	31.1
- Philippines	44.6	63.1	60.2	-4.5	35.1
EBITDA	200.1	161.9	135.0	-16.6	-32.5
- Malaysia	64.3	69.9	68.4	-2.2	6.3
- Singapore	26.2	15.6	5.8	-63.0	-77.9
- Vietnam	38.0	19.7	15.7	-20.1	-58.6
- Indonesia	60.8	46.0	35.6	-22.5	-41.4
- Philippines	10.7	10.7	9.4	-11.4	NM

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Published & printed by:

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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