

25 May 2022

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

**Buy** (Maintained)

### To Capitalise On The Consumption Recovery; BUY

Target Price (Return):	MYR0.61 (19.6%)
Price (Market Cap):	MYR0.51 (USD419m)
ESG score:	2.80 (out of 4)
Avg Daily Turnover (MYR/USD)	0.33m/0.08m

- **BUY, with new MYR0.61 TP from MYR0.83, 20% upside.** Leong Hup International's 1Q22 results disappointed, as the sharp rise in production costs could not be passed on immediately. That said, we expect margins to normalise going forward, as costs are gradually passed on, and higher consumption – from the broader economic reopening – should also support a quick earnings rebound. We believe LHI is in a good position to capitalise on the regional consumption recovery and potential industry consolidation, judging from its well established presence and solid fundamentals.

- **1Q22 results below expectations.** Core net profit of MYR20m (-71% YoY) met only 10-12% of our and consensus' estimates, as the sharp spike in commodity prices could not immediately be passed on to its customers. Post results, we cut FY22F-24F earnings by 5-29%. Correspondingly, our DCF-derived TP drops to MYR0.61 (inclusive of a 4% ESG discount). The new TP implies 15x P/E FY22F – close to its 3-year mean.

- **Results review.** YoY, 1Q22 revenue jumped 25% on consumption recovery and higher ASPs to partially reflect the higher feed costs following the continuous rise in commodity prices. However, 1Q22 EBITDA fell 33% to MYR135m, with margin slipping by 5.5ppts, as the hike in commodity prices was too sharp (corn and soybean meal prices up c.30% QoQ) to be immediately passed on. As a result, most operating countries recorded material dips in EBITDA contributions. QoQ, 1Q22 revenue was 15% higher, but profitability was significantly dented by the hike in commodity prices which affected the livestock and feedmill businesses.

- **Effects of cost pass-through to be seen going forward.** Following the subdued start to the year, we anticipate a rebound in 2Q22F earnings, underpinned by the effects of the cost pass-through, and stronger consumption recovery from the better containment of the pandemic and the broader reopening of economies across its operating countries. In the longer run, we foresee a consolidation in the regional poultry industry, as the extremely challenging operating environment caused by the pandemic and cost inflation should phase out the financially weaker players. This paves the way for larger-scale regional operators with solid fundamentals and robust expansion plans like LHI to extend its reach and gain market share. Current valuation may suggest that most of the negatives are already priced in, and we think LHI's presence should place it in a good position to capture the region's poultry consumption recovery.

- **Risks to our recommendation** include further hikes in commodity prices and unfavourable regulatory changes.

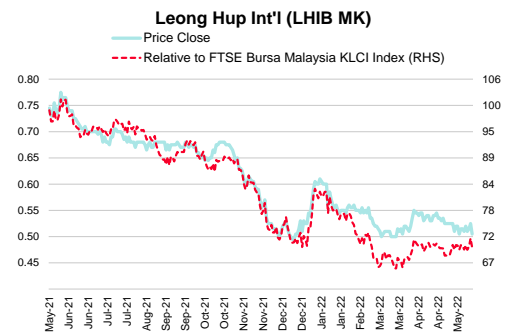
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	(7.3)	(5.6)	(9.8)	(32.2)
Relative	(1.5)	(2.9)	(2.9)	(10.4)	(29.6)
52-wk Price low/high (MYR)	0.50 – 0.78				



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 operation in accordance with local laws and regulations.

##### S: GOOD

Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensure a safe and conducive working environment for its people. In addition, LHI also practices good standard 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 USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	6,041	7,154	8,415	8,888	9,410
Recurring net profit (MYRm)	108	85	146	196	238
Recurring net profit growth (%)	(28.4)	(20.8)	71.3	34.3	21.3
Recurring P/E (x)	17.10	21.58	12.60	9.38	7.73
P/B (x)	1.1	1.0	1.0	0.9	0.8
P/CF (x)	4.29	54.55	6.49	3.20	2.96
Dividend Yield (%)	1.1	1.3	2.4	3.2	3.9
EV/EBITDA (x)	7.82	8.82	7.27	6.22	5.75
Return on average equity (%)	6.7	4.9	7.9	10.0	11.2
Net debt to equity (%)	83.7	100.3	107.7	103.3	100.7

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.03	0.02	0.04	0.05	0.07
Agriculture	DPS	0.01	0.01	0.01	0.02	0.02
<b>Leong Hup International</b>	BVPS	0.47	0.49	0.52	0.56	0.61
LHIB MK	Return on average equity (%)	6.7	4.9	7.9	10.0	11.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	17.10	21.58	12.60	9.38	7.73
Discounted Cash Flow	P/B (x)	1.1	1.0	1.0	0.9	0.8
	FCF Yield (%)	(6.3)	(16.8)	(6.3)	9.5	6.7
	Dividend Yield (%)	1.1	1.3	2.4	3.2	3.9
<b>Key drivers</b>	EV/EBITDA (x)	7.82	8.82	7.27	6.22	5.75
i. Regional expansion plan;	EV/EBIT (x)	15.00	18.75	12.91	10.36	9.45
ii. Favourable product prices.						
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	6,041	7,154	8,415	8,888	9,410
i. Unfavourable changes in regulatory policy;	Gross profit	879	879	1,046	1,178	1,270
ii. Unfavourable demand-supply dynamics.	EBITDA	542	536	689	811	895
	Depreciation and amortisation	(259)	(284)	(301)	(324)	(350)
	Operating profit	283	252	388	487	545
	Net interest	(126)	(112)	(124)	(152)	(150)
	Pre-tax profit	157	140	265	336	395
	Taxation	(40)	(44)	(69)	(86)	(99)
	Reported net profit	113	85	146	196	238
	Recurring net profit	108	85	146	196	238
<b>Company Profile</b>						
LHI is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.						
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	(66)	(290)	(287)	(96)	(115)
	Cash flow from operations	429	34	284	576	624
	Capex	(546)	(344)	(400)	(400)	(500)
	Cash flow from investing activities	(504)	(385)	(400)	(400)	(500)
	Dividends paid	(24)	(24)	(44)	(59)	(71)
	Cash flow from financing activities	72	272	(222)	(281)	(221)
	Cash at beginning of period	765	758	765	427	322
	Net change in cash	(3)	(79)	(338)	(105)	(98)
	Ending balance cash	761	679	427	322	224
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	758	765	427	322	224
	Tangible fixed assets	2,656	2,773	2,872	2,948	3,098
	Total investments	22	22	22	22	22
	Total assets	5,695	6,333	6,428	6,510	6,696
	Short-term debt	1,765	2,070	2,070	2,000	2,000
	Total long-term debt	874	1,055	1,000	1,000	1,000
	Total liabilities	3,446	3,981	3,974	3,919	3,938
	Total equity	2,249	2,352	2,454	2,592	2,758
	Total liabilities & equity	5,695	6,333	6,428	6,510	6,696
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(0.2)	18.4	17.6	5.6	5.9
	Recurrent EPS growth (%)	(28.4)	(20.8)	71.3	34.3	21.3
	Gross margin (%)	14.6	12.3	12.4	13.3	13.5
	Operating EBITDA margin (%)	9.0	7.5	8.2	9.1	9.5
	Net profit margin (%)	1.9	1.2	1.7	2.2	2.5
	Dividend payout ratio (%)	17.7	28.2	29.9	29.9	29.9
	Capex/sales (%)	9.0	4.8	4.8	4.5	5.3
	Interest cover (x)	2.25	2.24	3.14	3.21	3.63

Source: Company data, RHB

## Results At a Glance

Figure 1 : LHI's results review

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	1,676.5	1,814.1	2,087.2	15.1	24.5	On volume recovery and higher ASPs
EBITDA	200.1	161.9	135.0	(16.6)	(32.5)	
EBITDA margin (%)	11.9	8.9	6.5	(2.5)	(5.5)	
EBIT	130.9	88.9	61.1	(31.2)	(53.3)	
EBIT Margin (%)	7.8	4.9	2.9	(2.0)	(4.9)	Sharp rise in commodity prices could not be passed on immediately
Finance costs	(25.9)	(32.6)	(29.3)			
EI	0.0	0.0	0.0			
Profit before tax	105.1	57.5	31.9	(44.5)	(69.6)	
PBT Margin (%)	6.3	3.2	1.5	(1.6)	(4.7)	
Tax expense	(23.2)	(5.5)	(8.0)	46.0	(65.3)	
Effective tax rate (%)	(22.1)	(9.6)	(25.2)	(15.6)	(3.1)	
Minority interests	(11.6)	(14.0)	(3.5)			
PATAMI	70.3	38.0	20.4	(46.4)	(71.0)	
Core PATAMI	70.3	38.0	20.4	(46.4)	(71.0)	Below expectations at 10-12% of forecasts
Net Margin (%)	4.2	2.1	1.0	(1.1)	(3.2)	

Source: Company, RHB

Figure 2 : LHI's geographical breakdown

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Malaysia	443.3	542.3	552.1	1.8	24.5	Higher ASP for eggs and higher contribution from downstream business
Singapore	189.9	209.6	197.9	(5.6)	4.2	
Vietnam	385.1	476.1	468.8	(1.5)	21.7	Higher sales volume of broiler chickens
Indonesia	613.7	523.0	804.8	53.9	31.1	Higher sales volume and ASP of broiler chickens
Philippines	44.6	63.1	60.2	(4.5)	35.1	
Group revenue	1,676.5	1,814.1	2,083.8	14.9	24.3	
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)	(11.8)	
Group EBITDA	200.1	161.9	135.0	(16.6)	(32.5)	
Malaysia	14.5	12.9	12.4	(0.5)	(2.1)	
Singapore	13.8	7.5	2.9	(4.5)	(10.9)	
Vietnam	9.9	4.1	3.4	(0.8)	(6.5)	
Indonesia	9.9	8.8	4.4	(4.4)	(5.5)	
Philippines	24.0	16.9	15.7	(1.2)	(8.4)	
Group EBITDA margin (%)	11.9	8.9	6.5	(2.4)	(5.5)	

Source: Company data, RHB

## Recommendation Chart

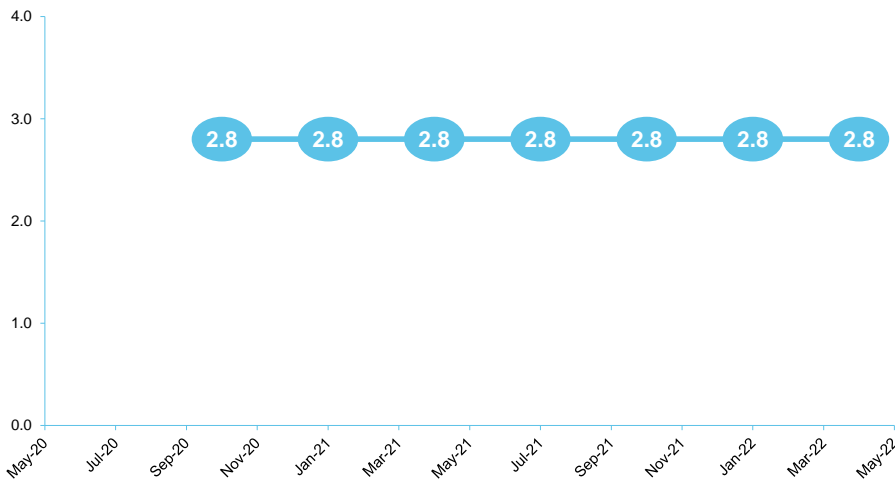


Source: RHB, Bloomberg

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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Analyst	Company
-	-

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