

Leong Hup International Bhd

Improved demand amid resumption of economic activities

Summary

- Leong Hup International Bhd's (LHI) 2Q22 core net profit improved 32.8% YoY to RM40.5m. 6M22 core net profit, however, declined 39.6% YoY to RM60.9m as the group's margin was hit by elevated feed cost driven by the Russia-Ukraine conflict. Nevertheless, the results came in above expectations, amounting to 66.3% of our previous full year forecast of RM91.8m and 53.2% of consensus forecast of RM114.5m. Key deviations were mainly due to a higher-than-expected contribution from all operating countries in the current quarter.
- YoY, the bottomline improved due to higher ASP and sales volume of broiler chickens in Vietnam, Indonesia, and Philippines, higher ASP and sales volume of eggs in Vietnam and Malaysia, and increased contribution from processed food in Singapore. Meanwhile, the feedmill segment registered better margin from higher selling price and sales volume in Indonesia, higher selling price in Vietnam, and volume growth from Philippines.
- QoQ, the net profit growth was in line with a higher revenue in the current quarter underpinned by (i) higher average selling price (ASP) and sales volume of broiler chickens in Vietnam, and (ii) higher ASP of livestock feed in Vietnam and Indonesia.
- Cost wise, both soybean and maize prices trended higher QoQ, driven by the supply disruptions due to Russia-Ukraine conflict, global fertiliser price hike as well as increased freight cost. The increase in cost, however, has been partially cushioned by a higher revenue amid economic recovery. We expect the soybean and maize prices to remain steady over the near term, barring any drought-driven shortages.
- As Covid-19 becomes endemic, all the countries that LHI operates in have seen revenue growth in 6M22 as compared to 6M21 due to improved demand amid resumption of economic activities. Nevertheless, high feed costs and the attempts by governments to manage food inflation via price control scheme may continue to create uncertainties for the group's performance moving forward.
- We believe LHI's future growth will be driven by ongoing expansion in hatchery and feedmill in Philippines, as well as upcoming raw material drying facility and poultry processing plant in Indonesia. For Malaysia, LHI remained committed to its downstream expansion plan across Baker's Cottage outlets.

Results Note – 2QFY22

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HOLD (from SELL)

Share price	RM0.49
Target price	RM0.53
Previous TP	RM0.40
Capital upside	8.2%
Dividend return	2.0%
Total return	10.2%

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	1788.5
52W High/Low	0.69/0.47
Est. Free float	16.7%
Beta (X)	0.4
3-mth avg vol ('000)	1257.6
Shariah compliant	No

Major shareholders

	%
Emerging Glory Sdn Bhd	52.8
Clarinden Investments	8.6
Amanah Saham Nasional	7.1

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-5.8	-3.9	-27.9
Relative	-7.0	-0.2	-23.7

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	85.4	120.7	165.2
EPS (sen)	2.3	3.3	4.5
P/E (x)	20.9	14.8	10.8

Relative performance chart



Quarterly performance								
FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	1,853.8	2,087.2	2,272.2	8.9	22.6	3,530.3	4,359.4	23.5
EBITDA	131.2	132.1	147.4	11.6	12.3	327.5	279.4	(14.7)
PBT	37.8	31.9	43.9	37.4	16.2	142.9	75.8	(46.9)
PAT	27.9	23.9	33.4	39.8	19.5	109.9	57.3	(47.9)
Core PATMI	30.5	20.4	40.5	98.8	32.8	100.8	60.9	(39.6)
Reported PATMI	30.5	20.4	40.5	98.8	32.8	100.8	60.9	(39.6)
Core EPS (sen)	0.8	0.6	1.1	98.8	32.8	2.8	1.7	(39.6)
EBITDA margin (%)	7.1	6.3	6.5			9.3	6.4	
PBT margin (%)	2.0	1.5	1.9			4.0	1.7	
Core PATMI margin (%)	1.6	1.0	1.8			2.9	1.4	

Valuation & Recommendation

- As the reported earnings came in above our expectations, we upgrade our FY22f and FY23f earnings forecast by 31.5% and 18.9% to RM120.7m and RM165.2m respectively. The earnings forecast takes into account the improved demand in all LHI's operating countries which will result in a higher selling price and volume growth moving forward.
- We upgrade LHI to **HOLD** (from **SELL**) with a revised target price of RM0.53 (from RM0.40). The target price is derived by ascribing a target PER of 16.0x to its FY22f EPS of 3.3 sen.
- Risks to our recommendation and forecast include the volatility of commodity prices. Any supply shortage caused by drought will drive the commodity prices and lead to margin compression for the group. Besides, the group faces uncertainties arising from the government's intervention to set a ceiling price on poultry products.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	6,054.8	6,040.7	7,153.5	7,408.2	7,578.2	Cash	764.8	757.8	764.6	830.0	866.6
EBITDA	637.7	525.8	521.6	615.2	701.8	Receivables	499.3	489.6	624.7	649.5	643.6
EBIT	412.1	266.5	237.9	316.6	387.8	Inventories	679.6	721.9	973.5	956.5	964.9
Net finance income/ (cost)	(123.8)	(109.7)	(98.0)	(127.7)	(128.9)	PPE	2,396.5	2,656.5	2,770.3	2,882.0	2,988.4
Associates & JV	0.4	0.4	0.4	0.4	0.4	Others	1,068.9	1,069.1	1,196.6	1,229.9	1,269.0
Profit before tax	288.8	157.1	140.3	189.3	259.3	Assets	5,409.1	5,694.8	6,329.8	6,547.8	6,732.6
Tax	(75.8)	(39.6)	(44.4)	(53.8)	(73.7)	Debts	2,500.3	2,795.5	3,297.2	3,385.4	3,415.3
Net profit	213.0	117.5	95.9	135.5	185.6	Payables	273.1	229.4	284.2	291.1	293.7
Minority interest	62.4	4.4	10.5	14.8	20.3	Others	455.2	421.4	388.5	395.1	396.0
Core earnings	150.6	113.1	85.4	120.7	165.2	Liabilities	3,228.6	3,446.2	3,970.0	4,071.6	4,105.0
Exceptional items	-	-	-	-	-	Shareholder's equity	1,641.2	1,713.4	1,807.1	1,891.5	2,007.2
Reported earnings	150.6	113.1	85.4	120.7	165.2	Minority interest	539.3	535.1	552.8	584.7	620.4
						Equity	2,180.5	2,248.6	2,359.8	2,476.2	2,627.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	288.8	157.1	140.3	189.3	259.3	Core EPS (sen)	4.1	3.1	2.3	3.3	4.5
Depreciation & amortisation	225.5	259.4	283.7	298.6	314.0	P/E (x)	11.9	15.8	20.9	14.8	10.8
Changes in working capital	41.3	(62.5)	(373.5)	(38.2)	(10.2)	DPS (sen)	1.6	0.6	0.7	1.0	1.4
Share of JV profits	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Dividend yield	3.3%	1.1%	1.5%	2.0%	2.8%
Taxation	(75.8)	(39.6)	(44.4)	(53.8)	(73.7)	BVPS (RM)	0.45	0.47	0.50	0.52	0.55
Others	188.7	101.8	38.6	47.7	7.1	P/B (x)	1.1	1.0	1.0	0.9	0.9
Operating cash flow	668.2	415.8	44.2	443.2	496.0	EBITDA margin	10.5%	8.7%	7.3%	8.3%	9.3%
Net capex	(453.4)	(595.0)	(395.1)	(429.9)	(439.7)	EBIT margin	6.8%	4.4%	3.3%	4.3%	5.1%
Others	49.5	104.5	2.5	-	-	PBT margin	4.8%	2.6%	2.0%	2.6%	3.4%
Investing cash flow	(403.9)	(490.5)	(392.6)	(429.9)	(439.7)	PAT margin	2.5%	1.9%	1.2%	1.6%	2.2%
Changes in borrowings	129.4	295.1	501.7	88.2	29.9	Core PAT margin	2.5%	1.9%	1.2%	1.6%	2.2%
Issuance of shares	269.6	-	-	-	-	ROE	10.2%	6.7%	4.9%	6.5%	8.5%
Dividends paid	(58.4)	(20.1)	(26.3)	(36.2)	(49.6)	ROA	2.9%	2.0%	1.4%	1.9%	2.5%
Others	(340.3)	(202.0)	(211.2)	-	-	Net gearing	152.3%	163.2%	182.5%	179.0%	170.2%
Financing cash flow	0.3	73.1	264.3	52.0	(19.7)						
Net cash flow	264.6	(1.6)	(84.1)	65.3	36.7						
Forex	(0.8)	(6.8)	13.4	-	-						
Others	110.6	1.3	77.5	-	-						
Beginning cash	390.4	764.8	757.8	764.6	830.0						
Ending cash	764.8	757.8	764.6	830.0	866.6						

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