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Leong Hup International Bhd

TP: RM0.70 (+44.3%)
Turnaround in Livestock Segment from Subsidies

Last Traded: RM0.485

Buy (ESG: ★★★)

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Review

- Leong Hup International Bhd's (LHI) registered a stellar performance in 3QFY22. 9MFY22 core profit of RM128.2mn (+170.3% YoY) came in above expectations at 112% of our and 108% of consensus' full-year forecast. The positive variation was mainly due to better-than-expected result in the Livestock segment that turned to EBIT from four consecutive quarters of LBIT, contributed by the RM51.5mn government subsidies recognised in 3QFY22.
- No dividend was declared for the quarter under review.
- LHI's net profit grew 66.2% QoQ to RM67.3mn in 3QFY22. The sequential growth was primarily driven by Livestock segment (EBIT of RM29.1mn in 3QFY22 from LBIT of RM1.1mn in 2QFY22) owing to the higher average selling price (ASP) of DOC in Indonesia. Feedmill segment also recorded a 42.3% QoQ growth in EBIT supported by higher ASP and sales volume of livestock feed in Vietnam as well as higher ASP in Indonesia and Malaysia.
- 9MFY22 EBIT surged 67.0% YoY to RM273.1mn on the back of government subsidies and grant on livestock of RM68.1mn and higher ASP and volume growth in Vietnam for the Livestock segment, as well as better margin from higher ASP and sales volume in Indonesia for the Feedmill segment.
- Geographically, Malaysia, Vietnam and Philippines recorded higher EBITDA in 9MFY22 with YoY growth of 89.2%, 74.5% and 61.5% to RM234.4mn, RM101.8mn and RM43.0mn respectively. Singapore's EBITDA dropped 39.2% YoY, which we believe is due to export ban of broiler chickens imposed by Malaysian government that was only lifted in phases since 11 October 2022.

Impact

- We raise our FY22/23/24 earnings forecast by 51%/32%/35% to account for the outperformance in 3QFY22, softening in commodity prices and the government subsidies.

Outlook

- We expect lifting of export ban of broiler chickens to Singapore to contribute positively to Singapore segment's EBITDA that has underperformed despite resumption of economic activities. Additionally, subsidy for price-controlled chicken eggs was raised to 8sen/egg effective 12 Oct 2022 (from 3sen/egg previously), which should improve the result of 54.6%-owned subsidiary, Teo Seng Capital Bhd.
- Prices of main raw materials such as corn and soybean meal are both down c.18% and c.16% respectively from their peaks and has since

Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	1770.3
52-wk Hi/Lo (RM)	0.62/0.44
12-mth Avg Daily Vol ('000 shrs)	892
Estimated Free Float (%)	16.7
Beta	0.4

Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 8.6%

Forecast Revision

	FY22	FY23
Forecast Revision (%)	51.4	32.4
Net profit (RMm)	173.9	214.4
Consensus	119.2	162.2
TA's / Consensus (%)	145.9	132.2
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	0.53	

Financial Indicators

	FY22	FY23
Net Debt / Equity (x)	1.0	0.9
ROE (%)	9.3	10.7
ROA (%)	2.7	3.3
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.0	0.9

Scorecard

	% of FY22
vs TA	112 Above
vs Consensus	108 Above

Share Performance (%)

Price Change	LHIB	FBM KLCI
1 mth	7.8	2.0
3 mth	0.0	(1.6)
6 mth	(3.0)	(4.5)
12 mth	(7.6)	(2.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

stabilized. We are sanguine that the group would deliver better performance in coming quarters in view of softening of commodity prices and subsidy payments from the government.

Valuation

- We revise our target price to RM0.70/share (RM0.53/share previously) based on 12x FY23 EPS. **Reiterate Buy.**

Table 1: Earnings Summary (RM mn)

FYE December (RM mn)	2020	2021	2022E	2023F	2024F
Revenue	6,040.7	7,153.5	8,426.2	8,610.0	8,868.3
EBITDA	525.8	521.6	655.9	751.7	870.3
Pretax Profit	157.1	140.3	276.4	362.2	465.3
Reported Net Profit	113.1	85.4	173.9	214.4	261.7
Core Net Profit	105.7	85.4	173.9	214.4	261.7
Core EPS (sen)	2.9	2.3	4.8	5.9	7.2
Core PER (x)	16.8	20.7	10.2	8.3	6.8
DPS (sen)	0.6	0.7	1.4	1.8	2.2
Dividend Yield (%)	1.1	1.4	2.9	3.6	4.4

Table 2: 3QFY22 Results Analysis (RM mn)

FYE 31 Dec	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	1,809.1	2,272.2	2,361.4	3.9	30.5	5,339.4	6,720.8	25.9
Other Income	8.6	48.3	65.5	35.6	>100	40.0	124.2	>100
Operating Expenses	(1,849.5)	(2,245.2)	(2,290.4)	2.0	23.8	(5,216.0)	(6,571.9)	26.0
EBIT	(35.5)	72.4	133.1	83.7	>100	152.6	263.7	72.9
Adj. EBIT	(35.5)	72.4	133.1	83.7	>100	152.6	263.7	72.9
Net Interest	(24.7)	(28.6)	(33.2)	15.9	34.4	(70.0)	(88.2)	26.0
Associate	0.1	0.1	0.2	>100	40.9	0.2	0.3	59.2
Profit before Tax	(60.1)	43.9	100.1	>100	>100	82.8	175.9	>100
Adj. PBT	(60.1)	43.9	100.1	>100	>100	82.8	175.9	>100
Taxation	(5.9)	(10.5)	(27.7)	>100	>100	(38.9)	(46.3)	18.9
Extraordinary Items	-	-	-	nm	nm	-	-	nm
Minority Interest	12.6	7.1	(5.0)	>100	>100	3.5	(1.4)	>100
Net Profit	(53.4)	40.5	67.3	66.2	>100	47.4	128.2	>100
Adj. Net Profit	(53.4)	40.5	67.3	66.2	>100	47.4	128.2	>100
Basic EPS (sen)	(1.5)	1.1	1.8	66.2	>100	1.3	3.5	>100
DPS (sen)	-	-	-	nm	nm	0.7	-	(100.0)
				%-points	%-points			%-points
EBIT Margin (%)	(2.0)	3.2	5.6	2.4	7.6	2.9	3.9	1.1
PBT Margin (%)	(3.3)	1.9	4.2	2.3	7.6	1.6	2.6	1.1
Net Margin (%)	(3.0)	1.8	2.9	1.1	5.8	0.9	1.9	1.0
Adj. Net Margin (%)	(3.0)	1.8	2.9	1.1	5.8	0.9	1.9	1.0
Tax Rate (%)	(9.9)	23.9	27.7	3.8	37.6	47.0	26.3	(20.7)

Table 3: 3QFY22 Results Analysis (RM mn) – Segment

FYE 31 Dec	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	1,809.1	2,272.2	2,361.4	3.9	30.5	5,339.4	6,720.8	25.9
Livestock and Poultry Related	947.6	1,270.1	1,295.7	2.0	36.7	2,855.2	3,717.8	30.2
Feedmill	859.0	999.9	1,062.8	6.3	23.7	2,476.2	2,994.5	20.9
Others	2.6	2.2	3.0	34.6	15.7	8.0	8.5	6.3
Segment EBIT	(31.7)	75.4	136.6	81.1	>100	163.5	273.1	67.0
Livestock and Poultry Related	(110.4)	(1.1)	29.1	>100	>100	(15.8)	5.4	>100
Feedmill	79.6	77.9	110.9	42.3	39.3	250.4	274.2	9.5
Elimination	(0.9)	(1.4)	(3.4)	>100	>100	(71.1)	(6.5)	(90.8)
				%-points	%-points			%-points
Segment EBIT Margin	(1.8)	3.3	5.8	2.5	7.5	3.1	4.1	1.0
Livestock and Poultry Related	(11.6)	(0.1)	2.2	2.3	13.9	(0.6)	0.1	0.7
Feedmill	9.3	7.8	10.4	2.6	1.2	10.1	9.2	(1.0)

Table 4: 3QFY21 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	1,809.1	2,270.0	2,358.4	3.9	30.4	5,339.4	6,712.2	25.7
Malaysia	482.4	581.7	589.7	1.4	22.2	1,405.1	1,723.5	22.7
Singapore	201.3	206.8	197.9	(4.3)	(1.7)	588.9	602.6	2.3
Vietnam	449.1	563.9	590.3	4.7	31.5	1,272.7	1,623.0	27.5
Indonesia	624.0	823.2	865.0	5.1	38.6	1,934.9	2,493.0	28.8
Philippines	52.3	94.4	115.4	22.2	>100	137.7	270.1	96.1
Segment EBITDA	39.5	150.3	211.8	40.9	>100	374.2	497.1	32.8
Malaysia	32.1	76.8	89.2	16.2	>100	123.9	234.4	89.2
Singapore	16.4	18.0	15.5	(14.4)	(5.5)	64.6	39.3	(39.2)
Vietnam	(10.7)	35.5	50.6	42.7	571.8	58.4	101.8	74.5
Indonesia	(6.6)	4.8	38.2	>100	>100	100.8	78.6	(22.0)
Philippines	8.5	15.2	18.3	20.0	>100	26.6	43.0	61.5
				%-points	%-points			%-points
Segment EBITDA Margin	2.2	6.6	9.0	2.4	6.8	7.0	7.4	0.4
Malaysia	6.6	13.2	15.1	1.9	8.5	8.8	13.6	4.8
Singapore	8.1	8.7	7.8	(0.9)	(0.3)	11.0	6.5	(4.4)
Vietnam	(2.4)	6.3	8.6	2.3	11.0	4.6	6.3	1.7
Indonesia	(1.1)	0.6	4.4	3.8	5.5	5.2	3.2	(2.1)
Philippines	16.2	16.1	15.8	(0.3)	(0.3)	19.3	15.9	(3.4)

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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 Scoring & Guideline

	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%.	

★★★★★ (≥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 Wednesday, November 30, 2022, the analyst, Ong Tze Hern, 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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