

HLIB Research

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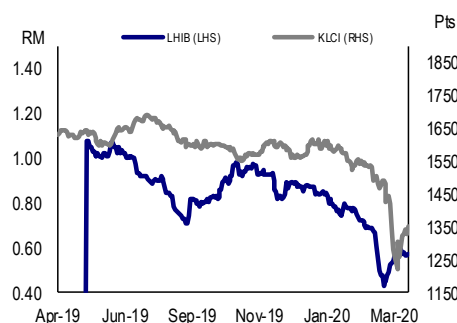
HOLD (from Buy)

Target Price: **RM0.56**
Previously: **RM0.92**
Current Price: **RM0.575**

Capital upside	-2.6%
Dividend yield	2.6%
Expected total return	0.0%

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	4.5	-32.0	N/A
Relative	2.5	-21.4	N/A

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,099
3-mth average volume ('000)	2,032
SC Shariah compliant	No

Major shareholders

Clarinden	9.0%
Lau Joo Han	2.1%
Lau Eng Guang	1.6%

Earnings summary

FYE Dec (RMm)	FY19	FY20f	FY21f
PATMI - core	157.1	135.5	175.9
EPS - core (sen)	4.3	3.7	4.8
P/E (x)	13.4	15.5	11.9

Leong Hup International

Weak earnings to persist for a while

We downgrade our rating on LHI to **HOLD** with a lower TP of RM0.56 (from RM0.92 earlier), based on revised 15x FY20 EPS of 3.7 sen, as the imposition of lockdowns in Southeast Asia region (where LHI operates in) arising from Covid-19 pandemic have resulted in weaker demand and prices for poultry products (in particularly, DOC and broiler). It is unlikely for demand and ASPs to recover swiftly to pre-lockdown level (even if lockdowns are to be lifted soon), as we believe social distancing practices will likely remain for a while, resulting in persistent weak demand from institutional customers.

Key highlights from our recent conversation with LHI's management include:

Impact from Covid-19 pandemic. The imposition of lockdowns in Southeast Asia region (where LHI operates in) arising from Covid-19 pandemic has resulted in weaker demand and prices for poultry products (in particular, DOC and broiler), as stronger poultry demand from retail market (for fresh chickens and further processed products) is more than offset by weaker demand from institutional customers (such as full-service restaurants, hotels, and F&B outlets). While demand for livestock feed, eggs and further processed products remains resilient so far, we note that these are insufficient to mitigate weaker demand and prices for DOC and broiler.

Demand and ASP recovery unlikely be soon and swift. It is unlikely for demand and ASPs to recover swiftly to pre-lockdown levels (even if lockdowns are to be lifted soon), as we believe social distancing practices will likely remain for a while, resulting in persistent weak demand from institutional customers. Indonesian government had historically instructed poultry players to cull hatching eggs, in a move to support poultry prices. However, such move is unlikely to happen in the near term in our view, in order to ensure ample food supplies.

Forward purchase policy remains intact. Although corn prices (the key feed materials) have declined by more than 15% since Oct-19, management is maintaining its feed inventory of 3 months, and will not engage in more aggressive inventory replenishing activities.

Potential delays to current expansion plan. While expansion plans remain intact for now, management shared that completion dates of the current expansion projects will likely be delayed, as the lockdown has resulted construction activities being suspended. Besides, we do not discount the possibility of LHI scaling back some of its regional expansion plans (which have yet to be embarked on), in an attempt to conserve cash flow amidst challenging operating environment.

Forecast. Given the weak demand and prices (which will likely persist until beyond 1H20, depending on how soon Covid-19 cases will subside), we slash our FY20-21 core net profit forecasts by 27.6% and 22.8% to RM135.5-175.9m, largely to account for lower ASP and sales volume assumptions for DOC and broiler.

Downgrade to HOLD, with lower TP of RM0.56. Lower profit forecasts aside, we also lower our target P/E on LHI to 15x (from 18x previously), as we believe it would take a while for earnings recovery to happen. Our new TP of RM0.56 (vs RM0.92 earlier) is based on revised 15x FY20 EPS of 4.8 sen. We downgrade our rating on LHI to **HOLD** (from Buy earlier) in anticipation of weak near-to-medium term earnings prospects.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	458.9	764.8	739.4	698.1	794.3
Receivables	825.5	670.0	671.6	705.6	740.3
Inventories	575.6	679.6	665.1	698.9	733.4
PPE	2,216.8	2,396.5	2,572.8	2,734.9	2,792.1
Others	757.2	898.2	894.2	913.5	933.1
Assets	4,834.0	5,409.1	5,543.0	5,751.1	5,993.3
Payables	519.9	560.2	557.1	585.5	614.3
Debt	2,370.9	2,381.8	2,381.8	2,381.8	2,381.8
Others	177.8	282.9	282.9	282.9	282.9
Liabilities	3,068.6	3,228.6	3,225.6	3,253.9	3,282.8
Shareholders' equity	1,301.8	1,641.2	1,732.9	1,854.0	1,995.8
Non-controlling interests	463.6	539.3	584.5	643.1	714.7
Equity	1,765.4	2,180.5	2,317.4	2,497.2	2,710.5

Cash Flow Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Profit before tax	348.6	288.8	244.2	316.9	387.0
D&A	199.4	197.4	224.0	238.1	243.0
Working capital	-241.8	38.7	14.2	-58.6	-59.7
Tax paid	-75.7	-57.0	-63.5	-82.4	-100.6
Others	118.8	189.1	124.5	116.3	102.7
CFO	-378.6	-373.0	-400.0	-400.0	-300.0
Capex	-423.0	-403.6	-400.0	-400.0	-300.0
Others	44.4	30.7	0.0	0.0	0.0
CFI	-378.6	-373.0	-400.0	-400.0	-300.0
Changes in debt	178.9	-43.5	0.0	0.0	0.0
Shares issued	0.0	269.6	0.0	0.0	0.0
Dividends	-66.3	-84.5	-43.8	-54.8	-73.0
Others	-119.5	-144.3	-125.0	-116.8	-103.2
CFF	-6.9	-2.7	-168.8	-171.6	-176.2
Net cash flow	-36.2	281.1	-25.4	-41.3	96.2
Beginning cash	427.4	390.4	670.8	645.4	604.1
Forex	-0.8	-0.7	0.0	0.0	0.0
Ending cash	390.4	670.8	645.4	604.1	700.3

Income Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,986.0	6,290.5	6,600.6
EBITDA	654.6	650.5	592.7	671.3	732.8
EBIT	457.5	425.0	368.7	433.2	489.7
Finance cost	-109.5	-136.6	-125.0	-116.8	-103.2
Associates	0.6	0.4	0.5	0.5	0.5
Profit before tax	348.6	288.8	244.2	316.9	387.0
Tax	-101.8	-75.8	-63.5	-82.4	-100.6
PAT	246.8	213.0	180.7	234.5	286.4
Non-controlling interests	-60.6	-62.4	-45.2	-58.6	-71.6
Reported PATMI	186.2	150.6	135.5	175.9	214.8
Exceptionals	33.4	6.5	0.0	0.0	0.0
Core PATMI	219.6	157.1	135.5	175.9	214.8
Consensus core PATMI			180.1	209.4	224.7
HLIB/ Consensus			75.2%	84.0%	95.6%

Ratios

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Core EPS (sen)	6.0	4.3	3.7	4.8	5.9
P/E (x)	9.6	13.4	15.5	11.9	9.8
EV/EBITDA (x)	5.7	5.7	6.3	5.5	5.1
DPS (sen)	1.6	1.2	1.5	2.0	2.0
Dividend yield	2.8%	2.1%	2.6%	3.5%	3.5%
BVPS (RM)	0.4	0.4	0.5	0.5	0.5
P/B (x)					
EBITDA margin	18.9%	19.2%	17.6%	19.2%	20.3%
EBIT margin	6.6%	5.7%	4.8%	5.4%	5.8%
PBT margin	5.0%	3.9%	3.2%	3.9%	4.6%
Net margin	3.2%	2.1%	1.8%	2.2%	2.6%
ROE	17.7%	10.7%	8.0%	9.8%	11.2%
ROA	4.7%	3.1%	2.5%	3.1%	3.7%
Net gearing	108.3%	74.2%	70.9%	67.4%	58.6%

Assumptions

FYE Dec	FY20F	FY21F	FY22F
Feedmill			
- Production volume ('000 mt)	2,453.6	2,588.2	2,731.2
- Utilisation rate	72%	73%	77%
Livestock			
- Broiler DOC supplied (m chicks)	179.6	185.0	190.5
- Broiler supplied (m birds)	119.6	122.6	125.2
- Eggs supplied (m eggs)	1,804.7	1,851.8	1,900.4

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Stock rating guide

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.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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