

# Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

**Maintain NEUTRAL**

**Unchanged Target Price: RM0.80**

## Outlook may still be a bit fuzzy

### KEY INVESTMENT HIGHLIGHTS

- **ASPs may remain weak in the near-term**
- **Low input cost for the feedmill segment**
- **Capex plans will be carried on according based on priority**
- **Growing downstream presence via The Baker's Cottage**
- **Maintain NEUTRAL with an unchanged TP of RM0.80**

**ASPs may remain weak in the near-term.** Leong Hup International Berhad (LHI)'s upcoming quarter may still be subdued as a result of soft average selling prices for its poultry product segment. Recovery is seen but it may still come in below the pre-pandemic level. Via its virtual briefing we understand that average selling prices (ASP) are still volatile and the severity of the Covid-19 situation in Indonesia and the Philippines may continue to add pressure to demand. Topping that is the factor of seasonality where demand is expected to be soft in 3Q before picking up again in 4Q due to the festive season such as Christmas celebration as well as the year-end holiday period. Among others, ASPs are still weak in Indonesia due to the high number of Covid-19 cases that dampen demand. Besides, Vietnam is going through a seasonally weaker month in August- September, in observation of the Hungry Ghost Festival.

**Low input cost for the feedmill segment.** On the flipside, raw material cost is expected to remain favourable for the group as it has secured low prices to fulfill its requirements until end of the year. This is expected to boost its profitability. Prices for commodities are creeping up due to bad weather as well as recovery in demand from China. Corn prices and soybean prices have gone up by as much as ~10% since its lows this year.

**Capex plans will be carried on according based on priority.** Due to the uncertain outlook brought about by the pandemic, LHI has reprioritize its expansion plans. In Vietnam, it will continue with the additional pelleting line in Dong Nai feedmill by year end (RM2.6m). It has also forged on with the construction of 3 additional parent stock closed house farms and machinery in the Dong Nai farm (RM0.9m), installation of equipment in new layer farms in Southern Vietnam (RM20.5m). In the Philippines, it will construct 2 new broiler farms in Central Luzon (RM20.5m), new grandparent stock farm in South Luzon (RM6.4m) and its first feedmill plant in Central Luzon (RM59.2m). The feedmill in Central Luzon is expected to fulfill about 75% of its internal consumption upon completion that is slated for early 2021. Meanwhile the new broiler farm in Central Luzon, Philippine is expected to produce the first bath of DOC in 3Q20 and add up to 3.36 million broiler chickens to its annual capacity. Meanwhile, capex that has been delayed to 2021 amounted to RM103.8m.

### RETURN STATISTICS

Price @ 25 <sup>th</sup> August 2020 (RM)	0.82
Expected share price return (%)	-2.4
Expected dividend yield (%)	+2.4
<b>Expected total return (%)</b>	<b>+0.0</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	0.0	2.2
3 months	9.2	27.8
12 months	11.4	15.3

### KEY STATISTICS

FBM KLCI	1,554.96
Syariah compliant	No
Issue shares (m)	3650.00
Estimated free float (%)	21.24
Market Capitalisation (RM'm)	3,029.50
52-wk price range	RM0.43 - RM0.99
Beta vs FBM KLCI (x)	NA
Monthly velocity (%)	11.02
Monthly volatility (%)	0.00
3-mth average daily volume (m)	5.31
3-mth average daily value (RM'm)	4.33
Top Shareholders (%)	
Clarinden Inv Pte	9.01
Lau Joo Han	2.11
Lau Eng Guang	1.63

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**Growing downstream presence via The Baker's Cottage (TBC).** The group will continue to expand the number TBC outlets to about 100 by end of the year from 75 currently. Next year, it targets to reach 150 outlets. As of July, EBITDA reached RM1m, which is commendable. We believe that the downstream segment bodes well for its integrated strategy in the medium to long run as it is expected to enhance its margins and better manage its inventory.

**Maintain NEUTRAL with an unchanged TP of RM0.80.** We keep our earnings estimates unchanged as we believe that there are pockets of recovery in the second half albeit at an uneven rate across its major markets. Our TP is based on an unchanged PER of 15.8x, which is based on the FY20 market cap weighted average PER of LHI's regional peers, pegged to FY21F EPS of 5.1 sen. 

## INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	5,746.6	6,054.8	5,856.9	5,974.0	6,260.7
<b>Core EBITDA</b>	654.6	650.5	559.2	682.2	713.7
Depreciation & amortisation	(197.1)	(225.5)	(216.7)	(221.1)	(231.6)
<b>Core EBIT</b>	457.5	425.0	342.5	461.2	482.1
Finance costs	(109.5)	(136.6)	(128.9)	(131.4)	(137.7)
Share of profits of associates	0.6	0.4	0.6	0.6	0.6
PBT	348.6	288.8	214.2	330.3	345.0
PAT	246.8	213.0	160.6	247.8	260.1
PATANCI	186.2	150.6	102.4	185.9	194.1
EPS (sen)	5.2	4.6	2.8	5.1	5.3
EPS growth (%)	(2.3)	(11.2)	(40.1)	81.6	4.4
Net Dividend (sen)	-	1.6	1.1	2.0	2.0
EBITDA margin (%)	11.4	10.7	9.5	11.4	11.4
Dividend yield (%)	-	2.2	1.3	2.4	2.4
PER (x)	15.1	17.0	29.6	16.3	15.6

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.