

# Stock Digest

## Results Note – Leong Hup International Bhd

Friday, 30 Aug, 2019

**M<sup>+</sup>Online**  
Equipping Traders For The Win

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## Lower ASPs Sap Growth

### Results Highlights

- Leong Hup's (LHI) 2Q2019 net profit sank 75.5% Y.o.Y to RM16.1 mln, dragged down by the sharp downturn in average selling price (ASP) of broiler day old chicks (DOC) and broiler in Malaysia. Revenue for the quarter, however gained 3.8% Y.o.Y to RM1.48 bln. For 1H2019, cumulative net profit decreased 35.2% Y.o.Y to RM76.7 mln. Revenue for the period, however, added 7.7% Y.o.Y to RM2.98 bln.
- The reported results came below our expectations, making up to only 32.0% of our net profit estimate of RM239.3 mln for 2019. The reported revenue, however, came within our expectations, amounting to 50.5% of our full-year forecast of RM5.92 bln.
- Segment wise in 2Q2019, the livestock and poultry related segment's EBITDA slipped 64.7% Y.o.Y to RM45.7 mln, bogged down by the decrease in ASP of DOC and broiler in Malaysia and depressed broiler price in Indonesia and Vietnam. The feedmill segment's pretax profit, however, jumped 81.4% Y.o.Y to RM87.6 mln due to increase sales in Indonesia and contribution from Dong Nai feedmill plant in Vietnam, which commenced operations in January 2019. Geographical wise, Malaysia makes up to RM368.0 mln or 25.0% of total revenue, while overseas contribution amounted to RM1.11 bln or 75.0% of the group's total revenue of RM1.47 bln in 2Q2019.
- As of 2Q2019, LHI's gearing stood at 78.3% (down from 125.1% recorded in 1Q2019). Moving forward, we expect LHI's gearing level to pare down further post-utilisation of IPO proceeds.

Financial Highlights					
FYE Dec (RM mln)	2016	2017	2018	2019F	2020F
Revenue	5257.4	5501.4	5732.4	5912.5	6379.3
EBITDA	670.4	576.6	646.1	534.2	648.1
Net Profit	209.5	192.6	186.2	132.1	176.0
Revenue Growth (%)	11.5	4.6	4.2	3.1	7.9
EBITDA Growth (%)	46.9	-14.0	12.1	-17.3	21.3
Net Profit Growth (%)	90.8	-8.1	-3.3	-29.0	33.2
EPS (sen)	5.7	5.3	5.1	3.6	4.8
P/E (x)	13.2	14.4	14.9	21.0	15.8
Dividend Yield (%)	0.6	1.4	1.3	1.6	2.0
P/BV (x)	2.1	2.3	2.1	1.8	1.7
ROE (%)	10.5	6.7	6.2	3.8	4.9

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM0.76

Target Price: RM0.82

Expected Return: +7.9%

Expected Dividend Return: +1.6%

Expected Total Return: +9.5%

FBM KLCI: 1,595.18

### Key Statistics

Bursa Code: N/A

Bloomberg Ticker: LHIB MK Equity

**Stock Information:** Principally involved in distribution of animal feed raw materials, food related products and livestock farming

**Listing Market:** Main Market

**Share Issued (bln):** 3.65

**Market Capital (RM bln):** 2.77

**Par Value (RM):** N/A

**52 week high/low:** RM1.10/RM0.72

**Estimated free float:** 85.2%

**Beta (x):** N/A

**3-month average volume ('000):** 4,778.1

**Major Shareholders:**

Clarinden Investments 9.0%

Lau Joo Han 2.1%

Lau Eng Guang 1.6%

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## Prospects

On the local front, the overall sales volume of livestock feed, broiler DOC, broiler chicken and eggs increased by 13.9% Y.o.Y, 8.1% Y.o.Y, 10.7% Y.o.Y and 5.9% Y.o.Y to 583,665 tonnes, 123.0 mln broiler DOC, 31.0 mln broiler chickens and 430.0 mln eggs, respectively in 2Q2019. Despite the topline improvement, LHI bottomline were negatively affected by the significant decrease in the ASP of broiler DOC and broiler chicken (see below).

Product	ASP (RM)	Change (Y.o.Y)
Broiler DOC	1.21 per DOC	-38.6%
Broiler Chicken	3.99 per kg	-14.7%

Moving forward, LHI intends to consolidate and expand its leadership position in Malaysia and Singapore by driving efficiencies and continually improving processes and adding capacity. The group will continuously adopt its own broiler farms in Malaysia in order to control quality and increase efficiency and aims to replicate this approach in its Indonesia and Vietnam operations.

Meanwhile, we expect the Vietnam and Philippines contribution to see gradual improvement, backed by the upcoming increases in feedmill production capacity in Vietnam from 1.0 mln tonnes per annum in 2018 to 1.5 mln tonnes per annum in 2020, whilst Philippines' operations will be supported by the expansion plan that revolves the increase in its feedmill business with an initial annual production capacity of 144,000 tonnes before upgraded to 240,000 tonnes per annum. Already, LHI has allocated approximately RM80.0 mln in CAPEX for 2019 (up from RM77.8 mln in 2018).

## Valuation And Recommendation

With the reported earnings coming below our expectations, we slashed our earnings forecast by 44.5% and 34.1% to RM132.1 mln and RM176.0 mln for 2019 and 2020 respectively, to reflect the sharp decrease in ASP of DOCs and broilers. Consequently, we also downgrade our recommendation on LHI to **HOLD** (from BUY) with a lower fair value of RM0.82 (from RM1.40) as we assigned a forward PER of 17.0x to our revised estimated 2020 EPS of 4.8 sen. The assigned target PER represents a 20.0% discount to its local and regional peers average of 21.5x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore and **QL Resources Bhd** in Malaysia.

Nevertheless, we continue to like LHI for its position as one of the largest pure-play vertical integrated poultry player with strong presence in the ASEAN region. We are also positive on the group's expansion plans on ramping up the poultry and feedmill production, particularly in Vietnam as it is one of the fastest-growing markets in the

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ASEAN region.

Risks to our recommendation and forecast include fluctuations in raw material prices (corn and soybean) that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

Quarterly Performance					
FYE Dec (RM mln)	2Q2019	2Q2018	% Change		
			Y.o.Y	Q.o.Q	
Revenue	1477.2	1423.1	3.8%	1506.4	-1.9%
EBITDA	126.7	174.1	-27.2%	197.8	-35.9%
Depreciation & Amotization	-55.1	-48.9	12.7%	-52.1	5.8%
Net Interest Income/ (Expense)	-31.7	-22.5	41.3%	-30.8	3.1%
Profit before Tax	39.9	102.7	-61.2%	114.9	-65.3%
Net Profit	16.1	65.7	-75.5%	60.6	-73.4%
Basic EPS (Sen)	0.4	1.8	-75.5%	1.7	-73.4%

Source: Company Data & MSSB Research

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Income Statement					
FYE Dec (RM mln)	2016	2017	2018	2019F	2020F
Revenue	5,257.4	5,501.4	5,732.4	5,912.5	6,379.3
EBITDA	670.4	576.6	646.1	534.2	648.1
Depreciation & Amortisation	196.9	199.1	197.1	215.2	267.7
Net Interest Expense	-99.6	-85.7	-101.0	-94.6	-94.5
Pre-tax Profit	374.3	292.3	348.6	224.9	286.4
Effective Tax Rate	20.6%	15.3%	29.2%	21.4%	25.0%
Net Profit	209.5	192.6	186.2	132.1	176.0
EBITDA Margin	12.8%	10.5%	11.3%	9.0%	10.2%
PreTax Margin	7.1%	5.3%	6.1%	3.8%	4.5%
Net Margin	4.0%	3.5%	3.2%	2.2%	2.8%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2016	2017	2018	2019F	2020F
Total Assets	4301.1	4477.5	4834.0	5073.6	5215.9
Fixed Assets	2137.3	2210.1	2396.7	2595.4	2742.3
Current Assets	1989.5	2066.6	2257.9	2297.3	2294.4
Other LT Assets	174.3	200.8	179.4	180.9	179.1
Current Liabilities	1747.1	1940.3	1884.8	1895.6	1944.2
LT Liabilities	563.6	895.1	1183.8	1170.7	1187.3
Share Capital	1.0	1230.1	1230.1	1497.2	1497.2
Shareholder's Funds	1314.6	1185.6	1301.8	1530.4	1601.7
Minority Interests	675.8	456.4	463.6	476.8	482.6

Source: Company Data & MSSB Research

Per Share Data					
FYE Dec	2016	2017	2018	2019F	2020F
Book Value (sen)	36.0	32.5	35.7	41.9	43.9
Cash Flow (sen)	11.7	12.8	7.8	9.4	12.8
Net Earnings (sen)	5.7	5.3	5.1	3.6	4.8
Dividend (sen)	0.5	1.1	1.0	1.3	1.5
Payout Ratio (%)	8.2	19.9	19.6	34.5	31.1
Dividend Yield (%)	0.6	1.4	1.3	1.6	2.0
PER (x)	13.2	14.4	14.9	21.0	15.8
P/Cash Flow (x)	0.1	0.1	0.1	0.1	0.1
P/Book Value (x)	2.1	2.3	2.1	1.8	1.7
ROE (%)	10.5	6.7	6.2	3.8	4.9
Net Gearing (%)	61.3	103.0	108.3	94.9	92.9

Source: Company Data & MSSB Research

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