

# Leong Hup International Bhd

2QFY19 Dragged by Weak Malaysian Poultry ASP

**TP: RM1.15** (+51.6%)

Last Traded: RM0.760

**Buy**

Jeff Lye Zhen Xiong

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

### Review

- Leong Hup International Bhd's (LHI) 1HFY19 adjusted net profit of RM76.7mn accounted for 30% and 36% of our and consensus' forecast. The lower-than-expected result was due to weaker-than-expected ASP of livestock and higher-than-expected finance cost, though the weak 2QFY19 results was widely expected given that a profit guidance was made by LHI in early-August. The group declared a first interim dividend of 1.6sen/share within the quarter which was a surprise to us.
- 1HFY19 revenue increased 7.7% YoY to RM2.98bn largely underpinned by Feedmill (+29.8 YoY) due to pent up sales volume and higher average selling price, especially in Indonesia and Vietnam, however dragged by the Livestock (-4.8% YoY to RM1.66bn) as ASP for broilers and DOCs in Malaysia dived in 2QFY19. As a result of the weak ASP in the lion share Livestock segment, EBIT dropped 3.5% YoY to RM217.1mn. EBIT of Livestock dived 44.4% YoY to RM83.6mn, overshadowed the improved Feedmill (+65.8% YoY to RM147.6mn). Net interest was higher by 39.0% YoY partly due to change in accounting standard, which lead to a bigger drop in PBT (-14.1% YoY).
- Geographically, Indonesia and Vietnam recorded double digits revenue and EBITDA growth in 1HFY19. However, Singapore and Malaysia were dragging the group's revenue and EBITDA primarily due to loss of revenue from a disposed subsidiary attributed to Singaporean operation and depressed Malaysian poultry's ASP. Note that 2QFY19 ASP of the Group's DOCs in Malaysia declined by 38.6% YoY to RM1.21/DOC, while ASP of broiler declined by 14.7% to RM3.99/kg.

### Impact

- We cut our FY19/20/21 earnings by 24.4/19.6/18.3% as we cut our average ASP estimate for DOC and broiler. Specifically, for FY19, we cut them by 9% and 2% respectively given that 2QFY19 has been a major drag. Meanwhile, we also raise our interest cost. Correspondingly, we have increase our FY19 DPS to account for the surprise dividend (we opine is to reward shareholders using strong cashflow generated in FY18), though reduce FY20 and FY21 DPS, tracking the lowered earnings expectation and in line with the company dividend policy of paying out 30%.

### Outlook

- Tracking on the market price for Malaysian DOCs and fresh chicken meat, we observe that ASP for DOCs and fresh chicken meat has rebounded from average of RM1.26/DOC and RM3.87/kg during Apr-Jun period to average of RM1.81/DOC and RM5.27/kg during Jul-Aug period, respectively. The recovery in market ASP was steep where ASP of fresh chicken meat is now higher than the 2-year average of RM4.72/kg, though

### Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2774.0
52-wk Hi/Lo (RM)	1.19/0.72
12-mth Avg Daily Vol ('000 shrs)	2613
Estimated Free Float (%)	25.68%-29.54%
Beta	nm
<b>Major Shareholders (%)</b>	
Emerging Glory	52.8%
Clarinden Investment	8.0%

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	(24.4)	(19.6)
Net profit (RMm)	191.0	220.8
Consensus	211.6	240.4
TA's / Consensus (%)	90.3	91.9
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY19	FY20
Net Debt / Equity (x)	0.8	0.7
ROE (%)	13.0	12.9
ROA (%)	3.8	4.2
NTA/Share (RM)	0.4	0.5
Price/NTA (x)	1.8	1.6

### Scorecard

	% of FY
vs TA	30 Below
vs Consensus	36 Within

### Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(17.4)	(2.9)
3 mth	(25.5)	(2.5)
6 mth	nm	(6.6)
12 mth	nm	(12.3)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

we note that sustainability of the price is still the key to LHI's profitability.

- As for Feedmill, we believe volume of feed sales is the key for growth and observing LHI's ability in scaling up its production alongside increasing third party sales, the Feedmill would likely be able to provide some support to group's earnings.

### Valuation

- We remain sanguine on the overall growth prospect of Leong Hup with expectation that short-term pricing volatility is inherent in its business. Maintain Buy with a lower target price of RM1.15/share based on unchanged 19x FY20 earnings.

**Table 1: Earnings Summary (RMmn)**

FYE December (RM mn)	2017	2018	2019E	2020F	2021F
Revenue	5,501.4	5,746.6	6,025.8	6,581.6	7,162.6
EBITDA	576.6	646.1	674.0	742.1	814.0
Pretax Profit	292.3	348.6	333.1	385.1	438.2
Reported Net Profit	192.6	186.2	191.0	220.8	251.3
Core Net Profit	172.1	215.2	191.0	220.8	251.3
Core EPS (sen)	5.3	5.9	5.2	6.1	6.9
Core PER (x)	14.4	12.9	14.5	12.6	11.0
DPS (sen)	0.0	0.0	3.2	1.8	2.1
Dividend Yield (%)	0.0	0.0	4.2	2.4	2.7

**Table 2: 2QFY19 Results Analysis (RMmn)**

FYE 31 Dec	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	1HFY18	1HFY19	YoY (%)
Revenue	1,423.1	1,506.4	1,477.2	(1.9)	3.8	2,769.5	2,983.6	7.7
Other Income	4.5	4.1	7.0	71.8	54.7	11.8	11.1	(5.9)
Operating Expenses	(1,302.6)	(1,364.8)	(1,412.8)	3.5	8.5	(2,556.4)	(2,777.6)	8.7
EBIT	125.1	145.6	71.5	(50.9)	(42.9)	224.9	217.1	(3.5)
Adj. EBIT	125.1	145.6	71.5	(50.9)	(42.9)	224.9	217.1	(3.5)
Net Interest	(22.5)	(30.8)	(31.7)	3.1	41.3	(45.0)	(62.5)	39.0
Associate	0.1	0.0	0.1	>100	18.8	0.2	0.2	(22.7)
Profit before Tax	102.7	114.9	39.9	(65.3)	(61.2)	180.1	154.8	(14.1)
Adj. PBT	102.7	114.9	39.9	(65.3)	(61.2)	180.1	154.8	(14.1)
Taxation	(27.9)	(24.6)	(13.3)	(46.0)	(52.4)	(44.3)	(37.9)	(14.5)
Extraordinary Items	-	-	-	nm	nm	-	-	nm
Minority Interest	(9.1)	(29.7)	(10.5)	nm	14.7	(17.5)	(40.2)	>100
Net Profit	65.7	60.6	16.1	(73.4)	(75.5)	118.3	76.7	(35.2)
Adj. Net Profit	65.7	60.6	16.1	(73.4)	(75.5)	118.3	76.7	(35.2)
Basic EPS (sen)	1.9	1.8	0.5	(73.4)	(75.5)	3.5	2.2	(35.2)
DPS (sen)	-	-	1.6	nm	nm	-	1.6	nm
				%-points	%-points			%-points
EBIT Margin (%)	8.8	9.7	4.8	(4.8)	(4.0)	8.1	7.3	(0.8)
PBT Margin (%)	7.2	7.6	2.7	(4.9)	(4.5)	6.5	5.2	(1.3)
Net Margin (%)	4.6	4.0	1.1	(2.9)	(3.5)	4.3	2.6	(1.7)
Adj. Net Margin (%)	4.6	4.0	1.1	(2.9)	(3.5)	4.3	2.6	(1.7)
Tax Rate (%)	27.2	21.4	33.4	11.9	6.2	24.6	24.5	(0.1)

**Table 3: 2QFY19 Results Analysis (RMmn) – Segment**

FYE 31 Dec	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	1HFY18	1HFY19	YoY (%)
<b>Revenue</b>	<b>1,423.1</b>	<b>1,506.4</b>	<b>1,477.2</b>	<b>(1.9)</b>	<b>3.8</b>	<b>2,769.5</b>	<b>2,983.6</b>	<b>7.7</b>
Livestock and Poultry Related	910.7	859.7	803.7	(6.5)	(11.8)	1,747.9	1,663.3	(4.8)
Feedmill	506.4	643.6	671.3	4.3	32.6	1,013.1	1,314.9	29.8
Others	6.0	3.1	2.3	(26.2)	(61.7)	8.5	5.4	(36.6)
<b>Segment EBIT</b>	<b>127.5</b>	<b>147.7</b>	<b>74.7</b>	<b>(49.4)</b>	<b>(41.4)</b>	<b>229.3</b>	<b>222.4</b>	<b>(3.0)</b>
Livestock and Poultry Related	93.6	79.1	4.5	(94.3)	(95.2)	150.3	83.6	(44.4)
Feedmill	37.9	73.0	74.6	2.2	97.0	89.0	147.6	65.8
Elimination	(4.0)	(4.4)	(4.4)	0.1	8.5	(10.0)	(8.7)	(13.2)
				%-points	%-points			%-points
<b>Segment EBIT Margin</b>	<b>9.0</b>	<b>9.8</b>	<b>5.1</b>	<b>(4.7)</b>	<b>(3.9)</b>	<b>8.3</b>	<b>7.5</b>	<b>(0.8)</b>
Livestock and Poultry Related	10.3	9.2	0.6	(8.6)	(9.7)	8.6	5.0	(3.6)
Feedmill	7.5	11.3	11.1	(0.2)	3.6	8.8	11.2	2.4

**Table 4: 2QFY19 Results Analysis (RMmn) – Geographical**

FYE 31 Dec	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	1HFY18	1HFY19	YoY (%)
<b>Revenue</b>	<b>1,417.1</b>	<b>1,503.3</b>	<b>1,474.9</b>	<b>(1.9)</b>	<b>4.1</b>	<b>2,761.0</b>	<b>2,978.2</b>	<b>7.9</b>
Malaysia	426.5	442.2	368.0	(16.8)	(13.7)	820.7	810.2	(1.3)
Singapore	256.1	190.8	191.1	0.2	(25.4)	525.0	381.9	(27.3)
Vietnam	269.1	293.2	335.2	14.3	24.6	518.5	628.4	21.2
Indonesia	453.1	562.9	563.9	0.2	24.5	873.5	1,126.8	29.0
Philippines	12.3	14.1	16.7	18.0	35.2	23.2	30.8	32.8
<b>Segment EBITDA</b>	<b>176.4</b>	<b>200.6</b>	<b>129.8</b>	<b>(35.3)</b>	<b>(26.4)</b>	<b>327.2</b>	<b>330.4</b>	<b>1.0</b>
Malaysia	57.9	78.9	24.0	(69.6)	(58.6)	117.2	102.9	(12.2)
Singapore	32.7	27.8	29.3	5.3	(10.6)	67.5	57.1	(15.4)
Vietnam	31.4	29.1	29.1	(0.2)	(7.4)	50.0	58.2	16.4
Indonesia	53.5	63.1	45.8	(27.4)	(14.4)	89.5	108.9	21.6
Philippines	0.9	1.7	1.7	0.2	92.7	3.1	3.5	13.4
				%-points	%-points			%-points
<b>Segment EBITDA Margin</b>	<b>12.4</b>	<b>13.3</b>	<b>8.8</b>	<b>(4.5)</b>	<b>(3.6)</b>	<b>11.9</b>	<b>11.1</b>	<b>(0.8)</b>
Malaysia	13.6	17.8	6.5	(11.3)	(7.1)	14.3	12.7	(1.6)
Singapore	12.8	14.6	15.3	0.8	2.5	12.9	14.9	2.1
Vietnam	11.7	9.9	8.7	(1.3)	(3.0)	9.6	9.3	(0.4)
Indonesia	11.8	11.2	8.1	(3.1)	(3.7)	10.2	9.7	(0.6)
Philippines	7.3	12.2	10.4	(1.8)	3.1	13.2	11.2	(1.9)

### 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.

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As of Friday, August 30, 2019, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my