

18 June 2019

Poultry | Food & Beverages Product

Leong Hup International (LHIB MK)

Buy

Poultry In Motion; Initiate BUY

Target Price (Return)	MYR1.53 (+46%)
Price:	MYR1.05
Market Cap:	USD917m
Avg Daily Turnover (MYR/USD)	25.4m/6.1m

- **Initiate coverage with BUY and MYR1.53 TP, 46% upside plus 2% yield.**

LHI is a comprehensive and unique value proposition, given the integrated and diversified business model. We view ASEAN as a strategic market due to favourable macroeconomic factors, while the poultry industry offers scalable growth, thanks to robust consumption. Hence, LHI's concentrated focus in the said region and industry should provide long-term growth sustainability. Earnings prospects are compelling, driven by expansion initiatives and higher operating efficiency.

- **Eggs in multiple baskets.** Leong Hup International has an integrated and diversified business model in the regional poultry industry. Regional diversification – with balanced revenue contributions from each of the markets – reduces single-country concentration risks. A fully-integrated business model mitigates the inherent industry risks in product price fluctuations and commodity price volatility. Its presence along the entire value chain enables the group to flexibly strategise and react to changes in market dynamics. Consequently, this should enable LHI to maintain a competitive advantage over peers.

- **In the right business...** The poultry business is sustainable and scalable, given the relative affordability and religious neutrality of poultry products – driven further by quick service restaurants (QSR). LHI has tapped into mature markets – including Indonesia, Malaysia, and Singapore – with more sustainable growth on offer in Vietnam and the Philippines. Demand for poultry in the latter two is outstripping other meat alternatives.

- **...and right region.** ASEAN offers ample growth opportunities thanks to robust economic growth, relatively low poultry consumption per capita, and favourable demographics. We believe these positive macroeconomic factors will drive faster consumption growth in this region vis-à-vis other areas, consequently providing a strategic platform for LHI's expansion plans.

- **Exciting growth ahead.** We forecast PATAMI to grow 22.7%, 12.4%, and 11.8% during FY19-21. This growth should be driven by an expansion across all of the group's operating countries, higher economies of scale, and market penetration in line with its broadening network.

Our TP is derived from a DCF valuation, which implies 15-20% discounts from the regional average. We believe the valuation discount may not get wider despite the sizeable gap in terms of market cap and profit base vis-à-vis its regional peers. This is as LHI is the only player in the region that is solely focused in ASEAN and fully concentrated on the poultry business. Hence, a scarcity premium should be accorded to this counter's valuations.

- **Risks to our recommendation include** unfavourable changes in regulatory policies and supply-demand dynamics.

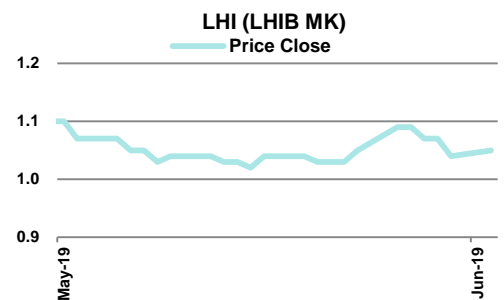
Analyst

Soong Wei Siang
+603 9280 8865
soong.wei.siang@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	-	(1.9)	-	-	-
Relative	-	(4.1)	-	-	-
52-wk Price low/high (MYR)					1.01 - 1.19



Source: Bloomberg

Table of contents

Financial Exhibits	2
Investment Thesis	3
Valuation And Recommendation	6
Financial Overview	9
Future Plans And Strategies	12
Key Risks	13
Company Overview	14
Industry Overview	20
Industry Size And Growth	23
Competitive Landscape	25
Board Of Directors	26
Key Management Team	27

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	5501	5747	6078	6526	7066
Net profit (MYRm)	185.0	219.0	268.7	302.1	337.7
Net profit growth (%)	(18.1)	18.4	22.7	12.4	11.8
Recurring EPS (MYR)	0.05	0.06	0.07	0.08	0.09
Recurring P/E (x)	20.7	17.5	14.3	12.7	11.3
P/B (x)	3.2	2.9	2.2	1.9	1.7
P/CF (x)	7.3	11.0	7.3	6.9	6.3
Dividend Yield (%)	0.4	0.4	2.1	2.4	2.6
EV/EBITDA (x)	10.5	9.8	8.2	7.5	6.9
Return on average equity (%)	15.4	17.6	17.5	16.2	16.1
Net debt to equity (%)	99.8	108.3	78.5	75.3	85.5

Source: Company data, RHB

18 June 2019

Poultry | Food & Beverages Product

Financial Exhibits

Asia		Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Malaysia		Recurring EPS (MYR)	0.05	0.06	0.07	0.08	0.09
Consumer Poultry		DPS (MYR)	0.00	0.00	0.02	0.02	0.03
Leong Hup International		BVPS (MYR)	0.32	0.36	0.48	0.54	0.61
		ROE (%)	15.4	17.6	17.5	16.2	16.1
Major shareholders (%)		Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Emerging Glory	52.80	Recurring P/E (x)	20.7	17.5	14.3	12.7	11.3
Lau Family	9.70	P/B (x)	3.2	2.9	2.2	1.9	1.7
Clarinden Investments	7.96	FCF Yield (%)	5.2	0.7	4.3	5.5	7.2
Valuation basis		Dividend yield (%)	0.4	0.4	2.1	2.4	2.6
Discounted Cash Flow (WACC: 5.6%, TG: 2.0%)		EV/EBITDA (x)	10.2	9.5	8.0	7.3	6.7
		EV/EBIT (x)	15.4	13.6	11.4	10.5	9.7
Key drivers		Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Regional expansion plan;		Total turnover	5,501	5,747	6,078	6,526	7,066
ii. Favourable product prices.		Gross profit	913	1,034	1,127	1,194	1,270
		EBITDA	583	655	759	839	927
Key risks		Depreciation and amortisation	(199)	(197)	(227)	(256)	(287)
i. Unfavourable change in regulatory policy;		Operating profit	384	457	533	582	640
ii. Unfavourable demand-supply dynamics.		Interest expenses	(103)	(92)	(109)	(104)	(104)
		Income from associates & JVs	0	1	1	1	1
Company Profile		Pre-tax profit	292	349	428	478	531
Leong Hup International is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.		Taxation	(45)	(102)	(94)	(105)	(117)
		Recurring net profit	185	219	269	302	338
		Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
		Change in working capital	11	(242)	(76)	(105)	(128)
		Cash flow from operations	524	349	523	557	606
		Capex	(368)	(423)	(450)	(450)	(450)
		Cash flow from investing activities	(367)	(379)	(450)	(450)	(450)
		Proceeds from issue of shares	-	-	275	-	-
		Dividend paid	(58)	(66)	(81)	(91)	(101)
		Cash flow from financing activities	(72)	(7)	(181)	(95)	(111)
		Cash at beginning of period	413	502	459	351	364
		Net change in cash	86	(36)	(107)	12	45
		Ending cash balance	502	459	351	364	409
		Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
		Total cash and equivalents	502	459	351	364	409
		Tangible fixed assets	2,046	2,374	2,598	2,792	2,955
		Total investments	164	22	22	22	22
		Total assets	4,477	4,834	5,035	5,366	5,727
		Short-term debt	1,399	1,327	1,100	1,200	1,300
		Total long-term debt	742	1,044	1,000	1,000	1,000
		Total liabilities	2,835	3,069	2,806	2,926	3,050
		Total equity	1,186	1,302	1,765	1,976	2,213
		Net debt	1,638	1,912	1,749	1,836	1,891
		Total liabilities & equity	4477	4834	5035	5366	5727
		Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
		Revenue growth (%)	4.6	4.5	5.8	7.4	8.3
		Recurring EPS growth (%)	(18.1)	18.4	22.7	12.4	11.8
		Gross margin (%)	16.6	18.0	18.3	18.1	18.0
		EBITDA margin (%)	10.6	11.4	12.5	12.8	13.1
		Operating margin (%)	7.0	8.0	8.8	8.9	9.1
		Recurring net profit margin (%)	3.4	3.8	4.4	4.6	4.8
		Capex/sales (%)	6.7	7.4	7.4	6.9	6.4
		Interest cover (x)	4.2	4.2	5.1	5.6	5.9

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 7767/09/2012 (030475)

Investment Thesis

Eggs in multiple baskets. LHI offers a comprehensive and unique value proposition, given its integrated and diversified business model in the regional poultry industry. The group is one of the largest poultry operators in the area, with a strong foothold in five ASEAN states. This geographical diversification reduces single-country concentration risks, while the resulting wide network enhances its reputation and track record. This, in turn, paves the way for further regional expansion.

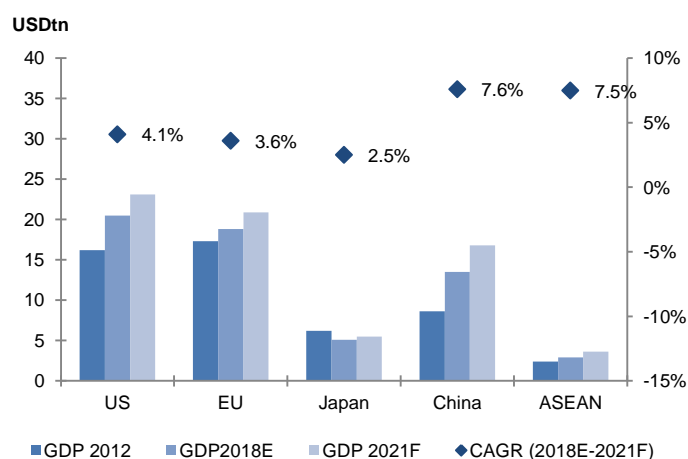
Meanwhile, a fully-integrated business model – with a presence across the entire poultry production value chain – is vital for optimising production costs to stay competitive in the poultry arena. LHI has a compelling investment case in light of its resilient business model and expansion opportunity prospects moving forward. We believe this is a critical success factor for the group, making it fully-deserving of its comparable valuation vis-a-vis the larger regional players, given the lack of peers with a similar geographical presence and concentrated product mix.

An integrated business model is essential in the poultry industry to mitigate the risks of price fluctuations and volatility in commodity prices. By having a fully-integrated supply value chain, LHI is afforded the flexibility to strategise and position itself quickly to react to the latest changes in market dynamics. Hence, it will enjoy a competitive advantage over peers, thanks to the higher economies of scale and operational flexibility. In addition, its presence across the entire value chain allows the group to develop a deep and thorough understanding and expertise within the industry. This also provides LHI with cross-selling opportunities, which is vital in penetrating new markets and strengthening its position in matured ones.

LHI’s operations span over five countries in ASEAN, a region which we believe offers ample growth opportunities. The poultry consumption per capita in the region is currently lagging behind other areas. We expect consumption to catch up moving forward – this should largely be underpinned by resilient economic growth across the region, with ASEAN’s combined GDP forecast to grow at a 3-year CAGR of 7.5%, reaching USD3.6trn by 2021.

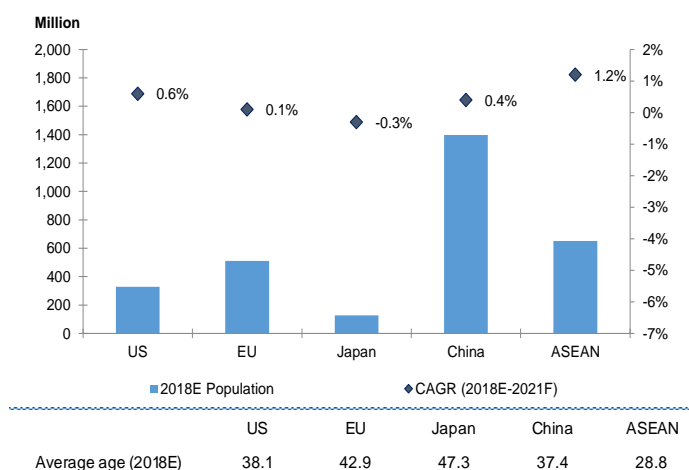
In line with the robust economic development, disposable income growth in ASEAN is also expected to outstrip other key markets. Demographically, the region’s population compares favourably in terms of size, average age, and growth. As such, we believe these positive macroeconomic factors will help drive consumption in this region, consequently providing a strategic platform for LHI’s expansion plans.

Figure 1: GDP for ASEAN and selected markets



Source: Frost & Sullivan

Figure 2: Demographics comparison (2018E)



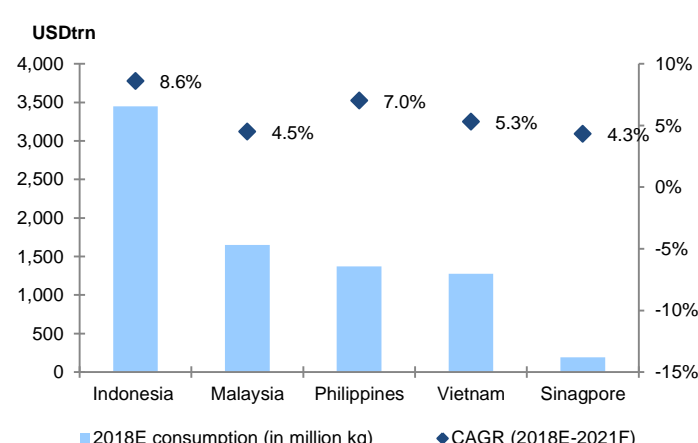
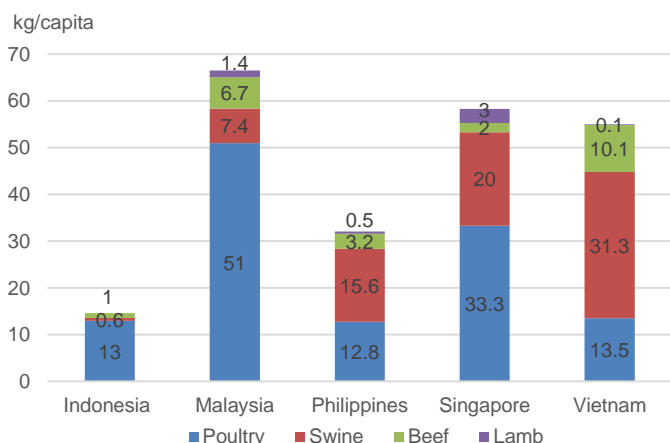
Source: Frost & Sullivan

Poultry business is sustainable and scalable, given the relative affordability of chicken meat vis-à-vis other meats as a source of animal-based protein. This is due to the greater economies of scale and relatively shorter slaughter age. There is also growing preference in favour of chicken meat thanks to its religion neutrality, and rising health awareness amongst consumers. Besides that, the growth in demand should also be driven by the rapid penetration and popularity of QSR outlets due to lifestyle modernisation.

From LHI's perspective, it has tapped into matured markets such as Indonesia, Malaysia, and Singapore, which regard poultry meat as the preferred choice for consumers. Meanwhile, Vietnam and the Philippines could offer more growth opportunities, as demand for poultry meat is growing fast – thanks to rising disposable income (Vietnam) and government initiatives (the Philippines).

Figure 3: Meat consumption by types (2018E)

Figure 4: Poultry consumption per capita and growth



Source: Frost & Sullivan

Source: Frost & Sullivan

Lining up a multi-pronged expansion plan. Looking forward, we believe LHI will accelerate its expansion pace with higher capex of over MYR400m pa in FY19F-21F vs the FY16-18 average of c.MYR350m pa. This expansion initiative should cover all five operating markets, with the aim of consolidating market leadership in Malaysia and Singapore, as well as strengthening the integrated business model in newer markets for stronger penetration.

The ambitious expansion plan bodes well for the group, not only by fuelling and sustaining earnings growth, but also signifying management's confidence and optimism over the long-term growth prospects of LHI's business. FY18 net gearing may have exceeded the 1x threshold that management deems comfortable, but the company has also just raised MYR275m in IPO proceeds of which 75.5% or MYR208m will be utilised as capex. That, together with healthy cash flow generation should see net gearing moderating to 0.79x in FY19, consequently giving LHI more room to embark on its expansion drive.

Figure 5: Planned capex for FY19

Operating country	Capex	% of total
Malaysia	117.7	26.9
Indonesia	121.7	27.9
Singapore	33.1	7.6
Vietnam	80.2	18.4
Philippines	84.3	19.3
Total	437.0	100.0

Source: Company data

Figure 6: Utilisation of IPO proceeds

Proposed utilisation	Value (MYRm)	% of proceeds
Capex	207.7	75.5
Working capital	33.0	12.0
Listing expenses	34.3	12.5
Total	275.0	100.0

Source: Company data

18 June 2019

Poultry | Food & Beverages Product

New generation, old hands. LHI possesses strength in an established management team that has played a pivotal role in steering the group towards consistently-solid performances over the years through organic growth and/or strategic M&A.

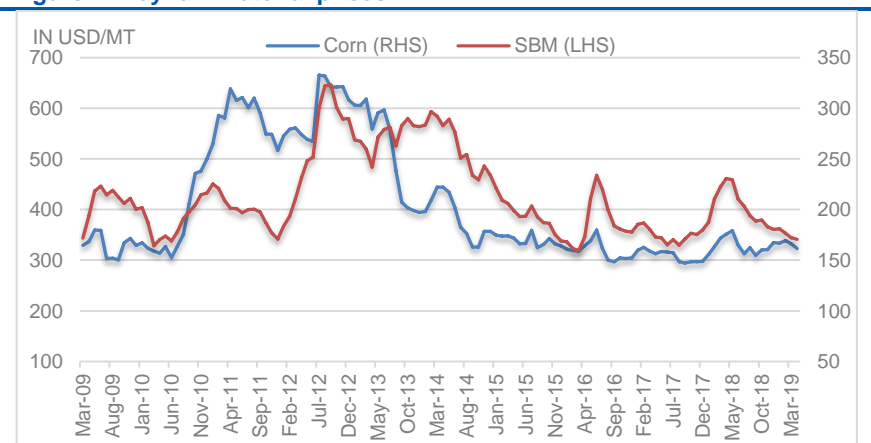
To illustrate, the Vietnam operations were developed from scratch into an entity generating more than MYR1bn in annual revenue in less than 10 years. We believe management's experience and quality is key in mitigating crisis and volatility. This is essential in a competitive business, which commands low margins and allows little room for mistakes and inefficiencies.

All of LHI's country operations are helmed by CEOs that each have between 15 and 20 years of industry experience – we believe this is crucial in ensuring the smooth operations in each country while – at the same time – dovetailing with the overall strategy and direction set by LHI's board.

Note that the founding family collectively owns a 62.5% stake in the group post the IPO listing.

Favourable operating environment. Key commodity prices – including corn and soybean, which account for more than 50% of total raw material costs – have eased since early 2018 and continue to stay subdued in 2019. We believe the slowing global demand, as a result of the ongoing US-China trade war, may have led to the weak commodity prices. The sustained trend of the lower raw material costs could help support LHI's margins in both the feedmill and poultry businesses, moving forward.

Figure 7: Key raw material prices



Source: Indexmundi, RHB

African Swine Fever (ASF) – a wildcard? According to the World Organisation for Animal Health, ASF is now spreading across countries neighbouring China – these include Mongolia, Russia, Cambodia, and Vietnam. The virus, which does not affect humans but is highly contagious to swine has led to the culling of hundreds of thousands of pigs and breeding stock.

Amongst the affected countries, LHI operates in Vietnam through feedmills and livestock businesses. Although it is not involved directly in swine farming, we understand that 30-50% of the feed the group produces are supplied to swine farmers. If ASF continues to spread, the swine herd should be affected, posing downside risks to LHI's feedmill business. On the flipside, the ensuing supply shortage should lead to a spike in pork prices, which ought to benefit poultry farmers – this is because poultry is the substitute product.

Generally, there could be significant changes to the animal farming industry dynamics if the fever spreads further to other countries within the region. While we are unable to ascertain or quantify the potential impact to LHI at this juncture, we highlight the significance of ASF as upside/downside risks, depending on developments going forward.

18 June 2019

Poultry | Food & Beverages Product

Valuation And Recommendation

We initiate coverage with a **BUY** and **TP** of **MYR1.53**, 46% upside from the last closing price. Our TP is derived from DCF valuation (Figure 8 for assumption basis). We believe the growth story – on the aggressive expansion drive – will be the key selling point of the stock. Consequently, DCF valuation will be effective in deriving the group's value by reflecting its multi-year earnings growth profile. We note that the poultry industry is cyclical in nature and product prices can fluctuate sharply between months or weeks, but this is unlikely to undermine the accuracy of the DCF valuation. This is because average product prices, on a yearly basis, have been relatively consistent over the years. (Figure 12).

Figure 8: LHI's DCF valuation

FYE Dec	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY26F	FY27F	FY28F
EBIT	582	640	658	680	708	736	755	780	808	842
EBIT*(1-tax rate)	454	499	513	530	553	574	589	608	630	657
Add: D&A	256	287	314	343	375	410	448	488	529	571
Less: WC investments (WC Inv)	-105	-126	-69	-93	-112	-115	-105	-121	-128	-141
Less: Fixed investments (FC Inv)	-450	-450	-500	-500	-600	-600	-700	-700	-700	-750
FCFF	155	210	259	280	216	269	231	275	331	337
Disc. FCFF	147	188	220	225	164	194	158	178	203	195
Terminal value at T=10	9570									
PV of terminal value	5556									
NPV	1873									
Less debt	-1838									
Equity value of firm	5591									
TP	1.53									
Implied FY20F P/E	18.5									
		Assumption basis								
Rf (a)	3.8%	In line with risk free rate								
Beta (b)	0.96	In line with regional peers average								
Risk premium (c)	5.2%	d-a								
Rm (d)	8.9%	House assumption								
TG (%)	2.0%	Conservatively below ASEAN GDP CAGR of 3.1% (2012-2017)								
CoE	8.7%	b*d+a								
CoD	5.0%	In line with company cost of debt								
WACC	5.6%	Debit to equity ratio of 65:35, FY20F								

Source: RHB

In our view, the comparison against local poultry peers is less relevant, mainly due to the difference in business models and operations scale. LHI is one of the largest integrated poultry players operating in five countries in ASEAN, whilst most of its local peers only operate in the domestic market. This justifies the counter's premium over most of its local peers. Given the different operating market and product offerings, a comparison against international peers is also not too relevant.

We believe the regional peers will be the more suitable and comparable to be benchmarked, in view of the similar integrated business model. Our TP implies 18.5x FY20F P/E, which represents a 15% discount to the regional average. This is justified by LHI's relatively smaller market cap and profit base. The discount range is also similar when we refer to other valuation metrics, such as P/BV and EV/EBITDA.

Figure 9: Corroborative reference for TP

Metrics	Multiple (x)	Regional peer average	Discount
FY20F P/E (x)	18.5	21.8	-15%
1-year forward P/BV (x)	3.2	3.9	-19%
1-year forward EV/EBITDA (x)	10.3	12.3	-16%

Source: RHB

18 June 2019

Poultry | Food & Beverages Product

While we acknowledge the sizeable gap in terms of market cap vis-à-vis regional peers, the discount in valuation should not be wider, as we see intrinsic value to support the valuation given:

- i. **Low concentration risks.** LHI's revenue is well-balanced between four matured markets. Consequently, the group is not heavily dependent on one market and, therefore, is less susceptible to single-country risk. This is a key differentiating factor that sets LHI apart from country-centric peers such as Charoen Pokphand Indonesia, (CPIN IJ, NEUTRAL, TP: IDR5,700), Japfa Comfeed Indonesia (JPFA) (JPFA IJ, BUY, TP: IDR2,600), and Masan Group Corp;
- ii. **Stronger growth prospects.** FY19F-20F earnings growth of 22.7% and 12.4% are more superior to what most of regional peers can offer. PEG of 0.6x is also more attractive when compared to regional peers;
- iii. **Scarcity premium.** Consumer stocks with earnings visibility and resiliency appeal to investors that have turned more risk-averse due to market volatility and global macroeconomic uncertainty. LHI should be accorded a comparable valuation vs larger regional peers, and premium over the smaller similar firms in the domestic market, given its status as the largest pure poultry player in the country;
- iv. **Management longevity.** The group is run by the members of the founding family that resides in each operating country. This gives LHI an edge over peers that include Charoen Pokphand Foods (CP Foods) (CPF TB, BUY, TP: THB31), and JPFA, which are run by professional managers – this is because management rotations can cause transitional disruptions to strategy execution;
- v. **Head-to-Head battle I.** The combination of a fully-integrated value chain and geographical diversification should pit LHI against CP Foods, albeit with the former's relatively smaller profit base and operations scale. However, we believe the former could offer deep investment value to investors, as management is committed – and driven – towards continuing the family legacy over the long term. The group's focus on ASEAN also adds value, given the superior growth prospects in the region. In comparison, CP Food's operations are wider spread across the world. LHI's growth prospects and ROE also compare favourably against the regional giant from Thailand;
- vi. **Head-to-head battle II.** Comparisons with QL Resources (QLG MK, NEUTRAL, TP: MYR6.68) are inevitable, as both are in the regional poultry business and their profit bases are also comparable. However, we highlight that the poultry division only accounted for 3-40% of QL Resources' profits in the last five years and, as a result, it is not considered a pure poultry player.

QL Resources enjoys a scarcity premium over its consumer peers in Malaysia – thanks to its sustainable and scalable business model. LHI's valuation discount to QL is justified, given its proven and consistent track record of earnings delivery on business diversification and stellar performance of its marine products manufacturing unit. The latter enjoys robust demand and high profit margins.

18 June 2019

Poultry | Food & Beverages Product

Figure 10: Peer comparison

Company	FYE	Country	Price	Mkt Cap (USDm)	P/E (x)			Div. Yld (%)	ROE (%)	P/BV (x)	EV/ EBITDA	PEG	NP Growth (%)	
			24 Mar 19 (Local Currency)		Actual	1-yr fwd	2-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd		1-yr fwd	2-yr fwd
Regional														
San Miguel F&B	Dec	PH	106.00	12,006	34.7	31.8	29.0	2.0	20.8	6.2	11.3	2.9	8.9	9.8
Charoen Pokphand Foods	Dec	ID	28.00	7,705	16.0	19.2	18.0	2.4	7.6	1.4	13.6	2.7	-16.6	6.8
Charoen Pokphand Indonesia	Dec	TH	4,410	5,043	15.7	17.8	16.4	2.0	19.3	3.3	13.2	1.9	-11.5	8.8
Masan Group Corp	Dec	VN	83,500	4,159	19.5	19.0	15.7	0.46	16.4	2.8	12.3	0.7	2.3	21.1
Japfa Comfeed Indonesia	Dec	ID	1,415.00	1,157	7.6	8.7	7.8	3.2	17.3	1.5	6.0	0.6	-12.9	12.3
Godrej Agrovet	Mar	IN	501.95	1,380	29.3	32.8	26.7	1.18	16.0	5.2	18.5	1.2	-10.6	22.8
Japfa	Dec	SG	0.55	748	7.4	7.7	7.1	2.0	11.5	0.7	5.5	0.8	-3.5	8.4
Mkt. Cap Weighted Avg.					23.4	23.6	21.3	1.9	16.3	3.8	12.3			
Local														
PPB Group	Dec	MY	18.62	6,344	23.8	22.7	21.3	1.6	5.3	1.2	62.3	3.2	4.7	6.8
QL Resources	Mar	MY	6.75	2,623	49.3	43.8	39.3	0.8	12.2	5.0	24.0	3.5	12.7	11.3
Malayan Flour Mills	Dec	MY	0.72	173	39.2	11.5	9.8	3.4	6.3	1.2	9.9	0.6	>100	16.4
CAB Cakaran	Sep	MY	0.52	81	11.0	-	-	-	-	-	-	-	-	-
CCK Consolidated	Dec	MY	0.50	75	11.7	11.2	9.6	2.9	10.6	1.2	5.7	0.6	4.5	16.8
Lay Hong	Mar	MY	0.43	68	39.4	-	-	2.3	-	0.7	-	-	-	-
Teo Seng Capital	Dec	MY	1.06	76	10.1	7.6	6.7	-	14.4	-	-	0.5	33.8	12.7
LTKM	Mar	MY	1.00	31	6.1	-	-	-	-	-	-	-	-	-
Mkt. Cap Weighted Avg.					30.9	27.7	25.5	1.4	7.2	2.2	48.6			
International														
New Hope Liuhe	Dec	CH	18.70	11,383	44.1	25.7	16.4	1.2	12.6	3.2	19.2	0.3	72.1	56.3
Charoen Pokphand	Dec	HK	0.66	2,029	7.2	8.6	7.4	11.9	16.9	1.4	6.6	0.4	-15.9	16.5
Jiangxi Zhengbang	Dec	CH	17.38	5,952	>100	18.9	6.0	-	25.1	4.9	-	-	>100	>100
Inghams Group	June	AU	4.16	1,063	12.0	14.2	13.4	4.5	52.7	10.7	8.6	2.3	-15.5	5.8
Astral Foods	Sep	SA	16,120	466	4.2	10.5	7.2	5.4	16.3	0.0	6.7	0.2	-59.7	47.1
Tecon Biology	Dec	CH	8.17	1,186	25.0	14.8	8.6	1.5	14.7	2.1	8.6	0.1	68.8	72.7
Baiyang Investment Group	Dec	CH	6.79	388	44.8	10.1	8.2	-	-	-	-	0.4	>100	22.8
Mkt. Cap Weighted Avg.					79.6	20.6	12.0	2.1	18.1	3.7	11.3			
Leong Hup International	Dec	MY	1.05	917	17.5	14.3	12.7	2.1	17.5	2.2	8.2	0.6	22.7	12.4

Source: Bloomberg, RHB

Financial Overview

We project LHI's FY19F-21F revenue to record growth of 5.8%, 7.4%, and 8.3%, reaching MYR7.1bn by FY21F. This should be driven by growth across all operating markets on sustainable consumption growth, capacity expansion, and market penetration. As such, we foresee the diversified and well-balanced revenue mix to be maintained.

Topline growth in each of the group's operating countries is likely to be driven by several factors, including rising disposable income, higher meat consumption, and rapid expansion of QSR or retail food & beverage (F&B) outlets.

As for bottomline, we foresee improvement in margins, mainly driven by the higher economies of scale as a result of aggressive expansion and market penetration. To a certain extent, margins should also be supported by lower raw material costs on subdued commodity prices. Together with the robust topline growth, we project FY19-21 net profit to increase 22.7%, 12.4%, and 11.8% to MYR268.7m, MYR302.1m, and MYR337.7m. This implies net margins of 4.4%, 4.6%, and 4.8%.

Operating cash flow generation is expected to be healthy at MYR521.7-607.4m pa in the aforementioned period, thanks to the robust earnings growth. This should support the commitment in capex and dividends. We assume annual capex of MYR450m pa in FY19F-21F, as LHI should continue to expand its business via capacity expansion.

Meanwhile, we highlight that the group is targeting a payout ratio of 30% of PATAMI, which should translate into yields of 2.1-2.6% in FY19F-21F. As for the balance sheet, we forecast net gearing to moderate to 0.79x, 0.75x, and 0.86x in FY19-21 from 1.1x in FY18. Management is comfortable with gearing up to 1x to support expansion.

FY19F earnings outlook. We forecast core net profit of MYR268.7m in FY19, implying 22.7% YoY growth on 5.8% revenue growth to MYR6.1bn. We foresee growth mainly coming from Vietnam, Indonesia, and Malaysia. There will be additional contributions from new feedmill capacity in Vietnam (+26% or 285,000 tonnes) and Malaysia (+14% or 120,000 tonnes) kicking in, and this – together with the robust volume growth in the livestock business – should anchor topline growth.

FY20F earnings outlook. For FY20, we forecast revenue and core net profit to grow 7.4% and 12.4% to MYR6.5bn and MYR302.1m. The growth projection is premised on additional contributions from capacity expansions, mainly in Vietnam and the Philippines, while other matured market performances remain stable.

Feedmill capacity in Vietnam should be increased 11% or 143,000 tonnes, whereas the Philippines will have new parent stock (PS) and broiler farms ready by 3Q20. That, together with the improving operations efficiency and higher economies of scale, should expand net margin to 4.6% from 4.4% in FY19, in our forecast.

FY21F earnings outlook. For FY21, we forecast core net profit to grow 11.8% to MYR337.7m on 8.3% growth in topline to MYR7.1bn. Barring any unforeseen circumstances, the Philippines will see explosive growth, according to LHI's expansion plan.

The first feedmill in the Philippines should commence operations by then, with construction expected to be completed by end-2020. The plant is estimated to have an initial capacity of 144,000 tonnes before ramping up to full capacity of 244,000 tonnes. Meanwhile, the country's operations should also be boosted by full contribution from new grandparent stock (GPS), PS and broiler farms, scheduled for completion by end-2020.

18 June 2019

Poultry | Food & Beverages Product

Figure 11: Breakdown of earnings forecasts

In MYRm	FY17	FY18	FY19F	FY20F	FY21F
Malaysia	1580.9	1657.5	1720.9	1817.8	1912.2
Indonesia	1737.6	1901.1	2003.7	2156.4	2282.0
Singapore	1088.6	990.0	999.4	1029.4	1060.2
Vietnam	1055.9	1130.4	1256.8	1391.8	1517.5
Philippines	24.2	54.5	97.4	130.3	293.7
Group revenue	5501.4	5746.6	6078.2	6525.6	7065.7
Malaysia	230.2	205.2	237.5	258.1	277.3
Indonesia	105.8	220.3	250.5	280.3	296.7
Singapore	156.5	122.5	134.9	139.0	143.1
Vietnam	88.1	101.5	125.7	146.1	174.5
Philippines	2.5	5.2	10.7	15.0	35.2
Group EBITDA	583.1	654.6	759.3	838.5	926.8

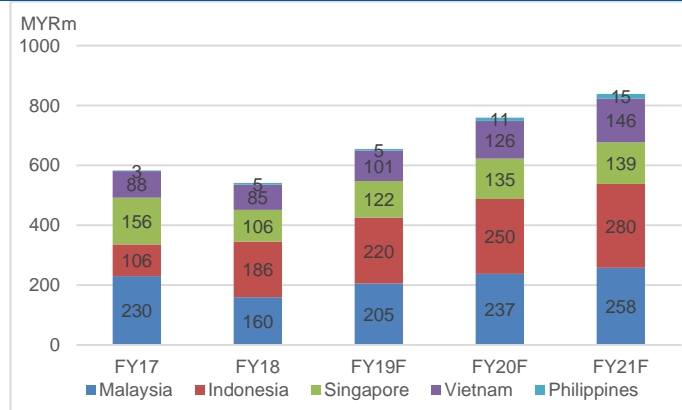
Source: RHB

Figure 12: Key earnings forecast assumptions

	FY16	FY17	10M18	FY19F	FY20F	FY21F
Feedmill capacity (k MT)						
Malaysia	702	702	735	1002	1002	1200
Indonesia	1172	1172	977	1172	1172	1172
Vietnam	653	832	891	1354	1497	1497
Philippines	0	0	0	0	0	144
Group	2527	2705	2603	3528	3671	4013
Utilisation rate						
Malaysia	86%	92%	75%	82%	88%	81%
Indonesia	55%	61%	66%	78%	84%	88%
Vietnam	86%	75%	63%	60%	65%	73%
Philippines	NA	NA	NA	NA	NA	65%
Group	72%	73%	68%	72%	77%	79%
Livestock prices (MYR)						
Malaysia						
Broiler DOC/chick	1.84	1.95	1.86	1.93	1.95	1.97
Broiler/kg	4.67	4.75	4.57	4.70	4.75	4.80
Egg/pcs	0.28	0.26	0.28	0.27	0.28	0.28
Indonesia						
Broiler DOC/chick	1.51	1.45	1.64	1.65	1.67	1.68
Broiler/kg	5.42	5.46	5.24	5.32	5.48	5.64
Vietnam						
Broiler DOC/chick	1.68	1.54	1.60	1.68	1.76	1.85
Broiler/kg	4.50	4.64	4.45	4.74	4.98	5.23
Egg/pcs	0.28	0.21	0.28	0.29	0.31	0.33
The Philippines						
Broiler DOC/chick	NA	2.22	2.18	2.22	2.27	2.31
Broiler/kg	5.91	6.51	6.05	6.18	6.30	6.30

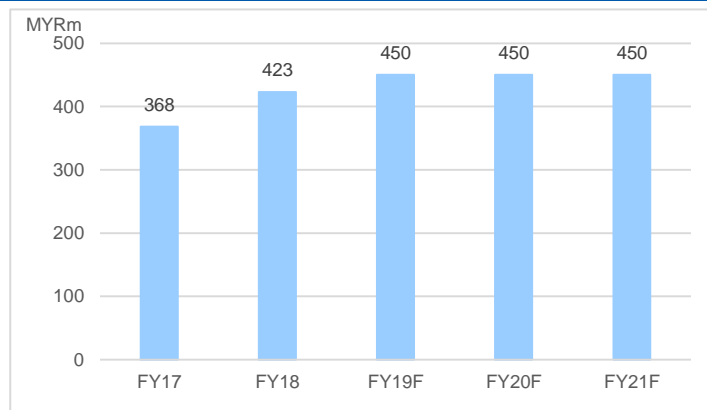
Source: Company data, RHB

Figure 13: LHI's EBITDA by countries



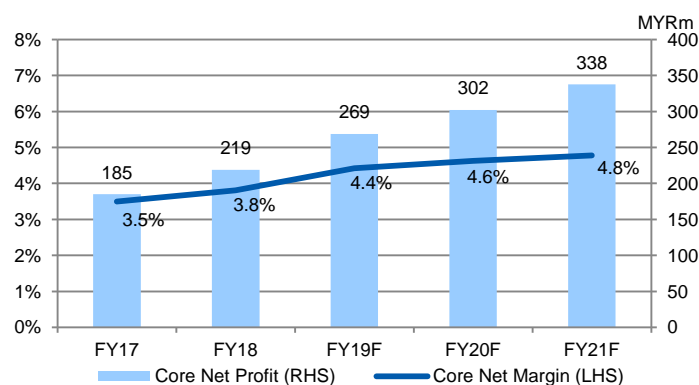
Source: Company data, RHB

Figure 14: LHI's capex



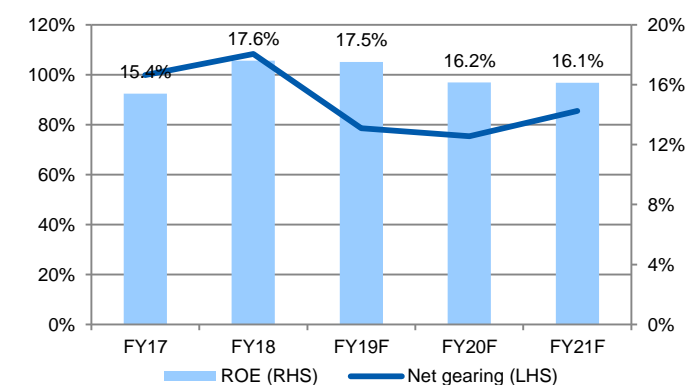
Source: Company data, RHB

Figure 15: LHI's net profit projections



Source: Company data, RHB

Figure 16: LHI's ROE and net gearing



Source: Company data, RHB

Future Plans And Strategies

Consolidate and expand leadership positions in Malaysia and Singapore by driving efficiencies and continuing to grow capacity. The two nations are the two most-developed markets within the group. It has established strong leadership positions in each of the feedmill and livestock segments in these markets. The operations in Malaysia and Singapore provide stability and generate cash to enable LHI to expand into new markets and segments.

Within these developed markets, the group intends to grow its operations by driving efficiencies, continually improving processes and adding capacity where possible – both organic and inorganically. LHI is focused on driving efficiency and utilisation of its feedmills, including through such initiatives as a computerised weighing system – the latter has helped reduce headcount.

In the longer term, LHI is also considering additional feedmills, if and when it reaches full capacity. The group continues to replace existing remaining open-house farms with closed-house farms, which helps to manage headcount and costs, and improve efficiency and output through automated systems. It also expects to buy smaller farms or other poultry producers/feedmills to grow market share.

Increase use of own broiler farms in Malaysia to control quality and increase efficiency, with a view of replicating this approach in Indonesia and Vietnam. Using its own broiler farms provides greater control over the entire poultry value chain. It also increases flexibility in terms of the number of chickens produced, as well as sale of poultry to third parties. It also gives greater control over the quality of broiler chickens.

Using its own farms should also allow LHI to capture additional market share in the broiler farming segment and margins along the entire value chain for chicken production. The group intends to replicate this approach in Vietnam and Indonesia once its operations there mature. When it enters or expand into a new market, it first relies on contract farms because these require significantly less capital expenditure and a smaller amount time to begin or grow its operations.

Continue to grow integrated business model in newer markets, with a focus on expanding upstream operations. For newer markets – eg the Philippines and Vietnam – LHI intends to apply best practices from its existing operations as part of the growth plans. In Vietnam, it intends to expand its operations through the upstream business, as a large portion of economic activity in this country involves household or backyard farming, which generates demand for products such as livestock feeds and day-old chicks (DOCs). The latter two are more capital intensive and involve higher technical complexities than small farmers can manage. In new markets, such as the Philippines and, potentially, Cambodia, LHI plans to increase vertical integration in a systematic manner, in line with the approach of deciding upon entry points that are suitable to the economic configurations of each market.

Invest in processes, technology, people and facilities to meet customer requirements while maintaining low-cost structure. The group expects to increase automation throughout all parts of its value chain, in order to reduce dependency on expensive or scarce labour. It is currently exploring the possibility of increasing automation in a new feedmill in Vietnam, and has begun to implement farmhouse information technology systems in Malaysia, which enables it to monitor the livestock in near real time.

The information is then fed directly into databases and used to schedule more efficient deliveries to customers. If the system proves successful in Malaysia, it will be replicated in other markets. These initiatives are to help the group maintain its low cost base.

LHI will also invest in its workforce through intensified training initiatives and build the relevant work-related infrastructure to increase labour productivity. It will continue to recruit and train the best talents in the market to ensure a strong workforce and competitiveness in the market.

When entering new markets, the group generally recruits senior management personnel, who have gained the relevant experience in established markets – these personnel are transferred into these new markets, while – at the same time – LHI actively sources talent from leading local competitors. This is to gain additional market-based expertise and leverage on local operational expertise.

Key Risks

Key risks to LHI:

- i. **Regulatory or licensing risks** – Any breach of express conditions, land use, and/or failure to obtain the relevant certificate of completion and compliance (CCC) or certificate of feasible function (SLF) for its farms and facilities may adversely affect the business, financial conditions, and result of operations;
- ii. **Government policy risks** – A sudden change in government policy in any of LHI's operating countries could affect business operations. Things could get worse if the compliance window period is too short for the group to make relevant adjustments;
- iii. **Unfavourable outcome from investigations by competition authorities** – LHI was investigated by competition authorities in Indonesia and Singapore, and may be subjected to further investigations in future. Any unfavourable outcome, which results in penalties, could affect the group's profit levels;
- iv. **Outbreak of livestock diseases** – Outbreaks of livestock diseases at poultry farms or facilities could significantly restrict its ability to conduct operations. Avian influenza is highly contagious among birds and can cause sickness or death of domesticated birds, including chickens, geese, ducks and turkeys;
- v. **Breakdown in relationship with key suppliers** – LHI currently imports all broiler GPS and DOCs from Cobb-Vantress and Aviagen. If either party ceases to supply for commercial reasons or because of an adverse event in their own businesses – and LHI is not able to source an alternative supplier of GPS DOC (either in a timely manner, on commercially-acceptable terms, or at all) – it could impair the ability to continue the sales of GPS DOC at the current levels;
- vi. **Loss of key management personnel** – The loss of key personnel that have extensive knowledge and experience in the business may adversely affect the group's ability to maintain or improve the performance of its businesses;
- vii. **FX fluctuations** – LHI is exposed to exchange rate fluctuations, particularly the SGD, USD, and IDR. As its operations grow, it may, from time to time, be exposed to fluctuations in other currencies, namely PHP and VND.

Figure 17: FX sensitivity analysis

Net impact to group PATAMI (MYR'000)				
MYR	FY15	FY16	FY17	10M18
Strengthening of MYR by 5%	-577	117	414	198
Weakening of MYR by 5%	577	-117	-414	-198
SGD				
Strengthening of SGD by 5%	882	160	71	372
Weakening of SGD by 5%	-882	-160	-71	-372
USD				
Strengthening of USD by 5%	352	-3,298	-1,384	-3,319
Weakening of USD by 5%	-352	3,298	1,384	3,319
IDR				
Strengthening of IDR by 5%	72	-7	15	6
Weakening of IDR by 5%	-72	7	-15	-6

Source: Company data

Company Overview

Historical background

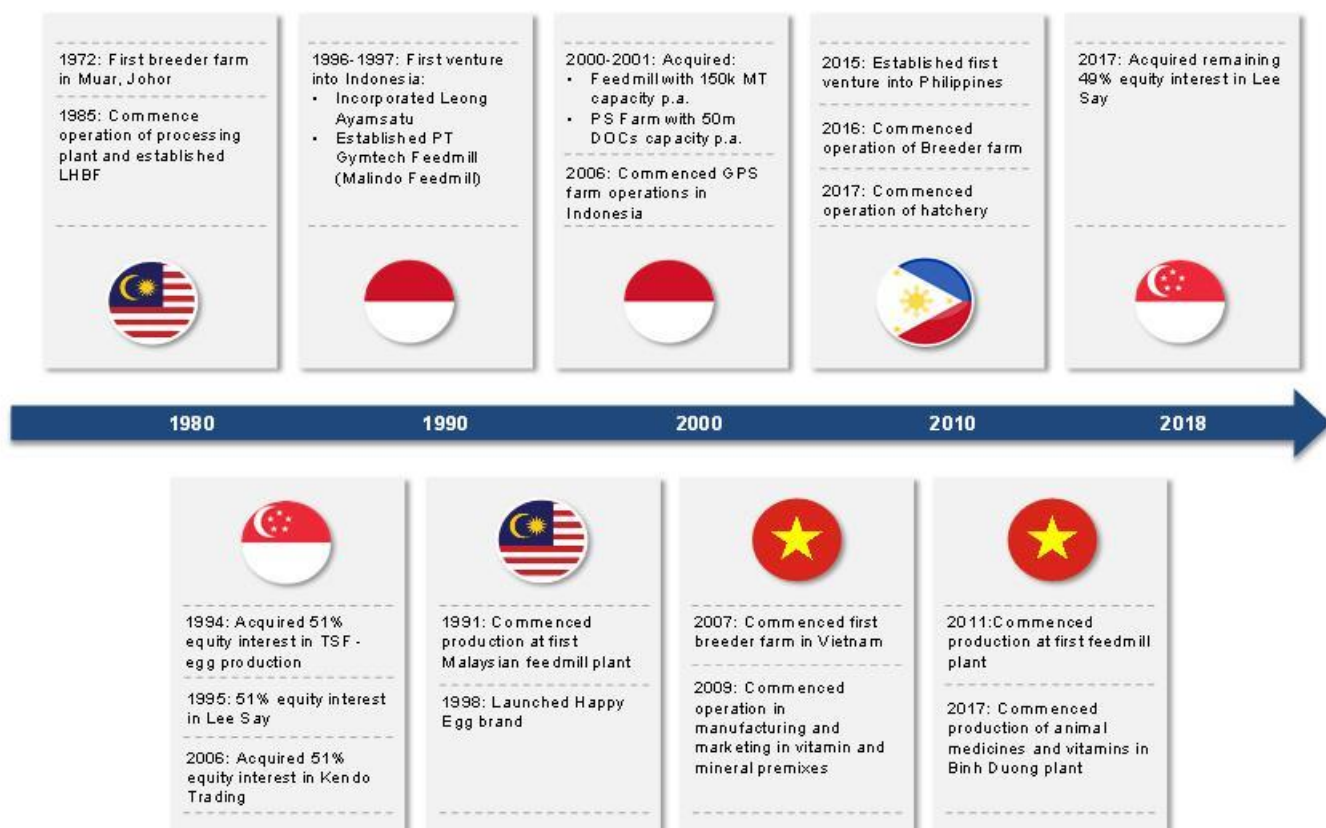
LHI is one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia. Established in Malaysia in 1978, the group now operates in its home country, Singapore, Indonesia, Vietnam, and the Philippines – all are attractive consumer markets with a combined population of almost 500m, and significant growth potential. LHI is the largest integrated poultry producer in Malaysia. It is also one of the Top 3 integrated poultry producers in Indonesia and Vietnam, with a total production of 495m DOCs, 1.7bn eggs, and c.2m tonnes of feed in FY17.

The history of its business can be traced back to the 1960s, when the founding family reared broiler chickens in their backyard in Muar, Johor. In 1972, they started their first breeder farm on Jalan Bakri, Muar, Johor. From the 1980s to 1990s, the family business expanded into broiler and breeder farms, feedmilling, slaughtering plants, and food processing facilities. This led to the listings of some of its units, which include:

- i. LH Holdings on the Main Board of the KLSE on 29 Oct 1990;
- ii. Emivest on the Second Board of the KLSE on 23 Jan 2002 and, subsequently, being transferred to the Main Board on 14 Nov 2003;
- iii. Malindo Feedmill on the Jakarta Stock Exchange (now known as Indonesia Stock Exchange) on 10 Feb 2006;
- iv. Teo Seng Capital on the Second Board of Bursa Securities on 29 Oct 2008 and subsequently migrated to Main Board on 3 Aug 2009.

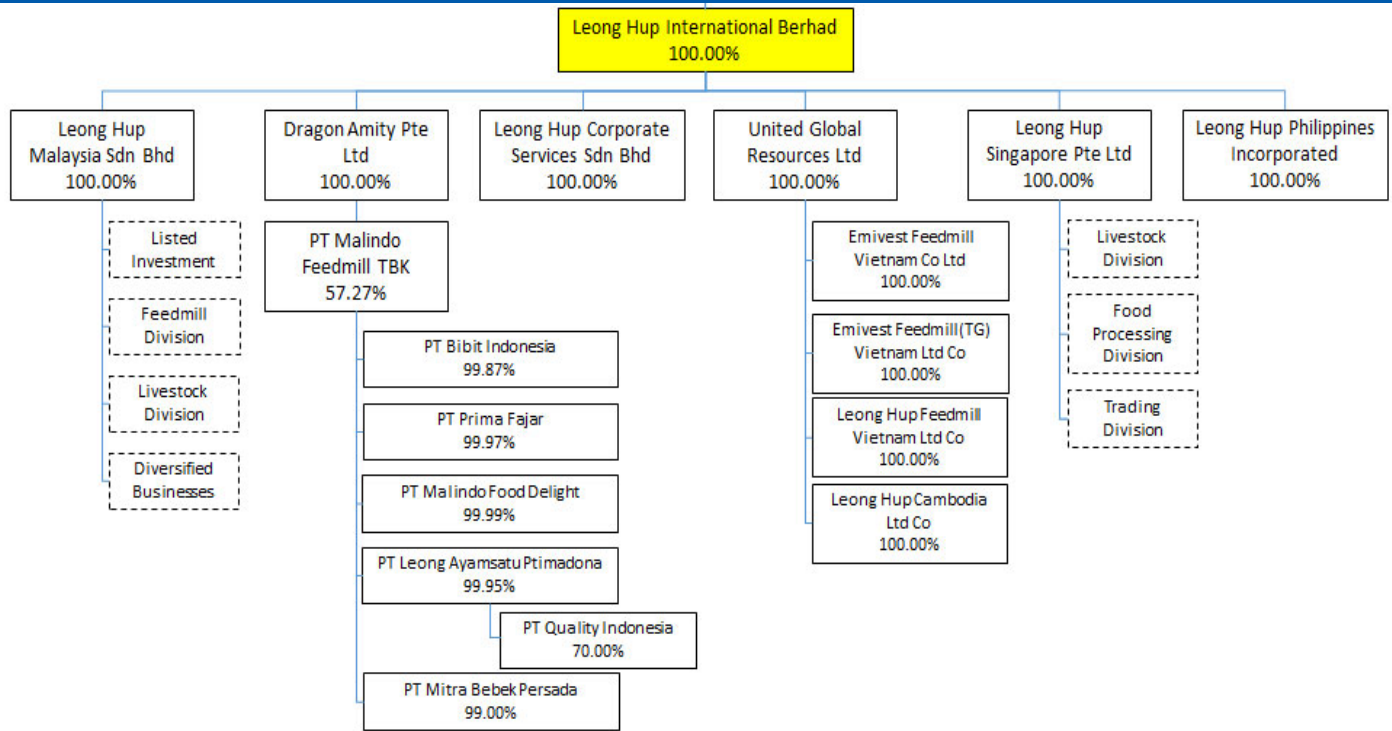
On 18 Nov 2010, Emerging Glory made separate offers to privatise LH Holdings and Emivest for total cash considerations of MYR318.7m and MYR108m. The offers valued the companies at 10.3x and 5.5x P/E. The privatisation acquisitions were initiated by Emerging Glory because the share prices of both entities were consistently trading below their respective net tangible assets.

Figure 18: LHI's key milestones



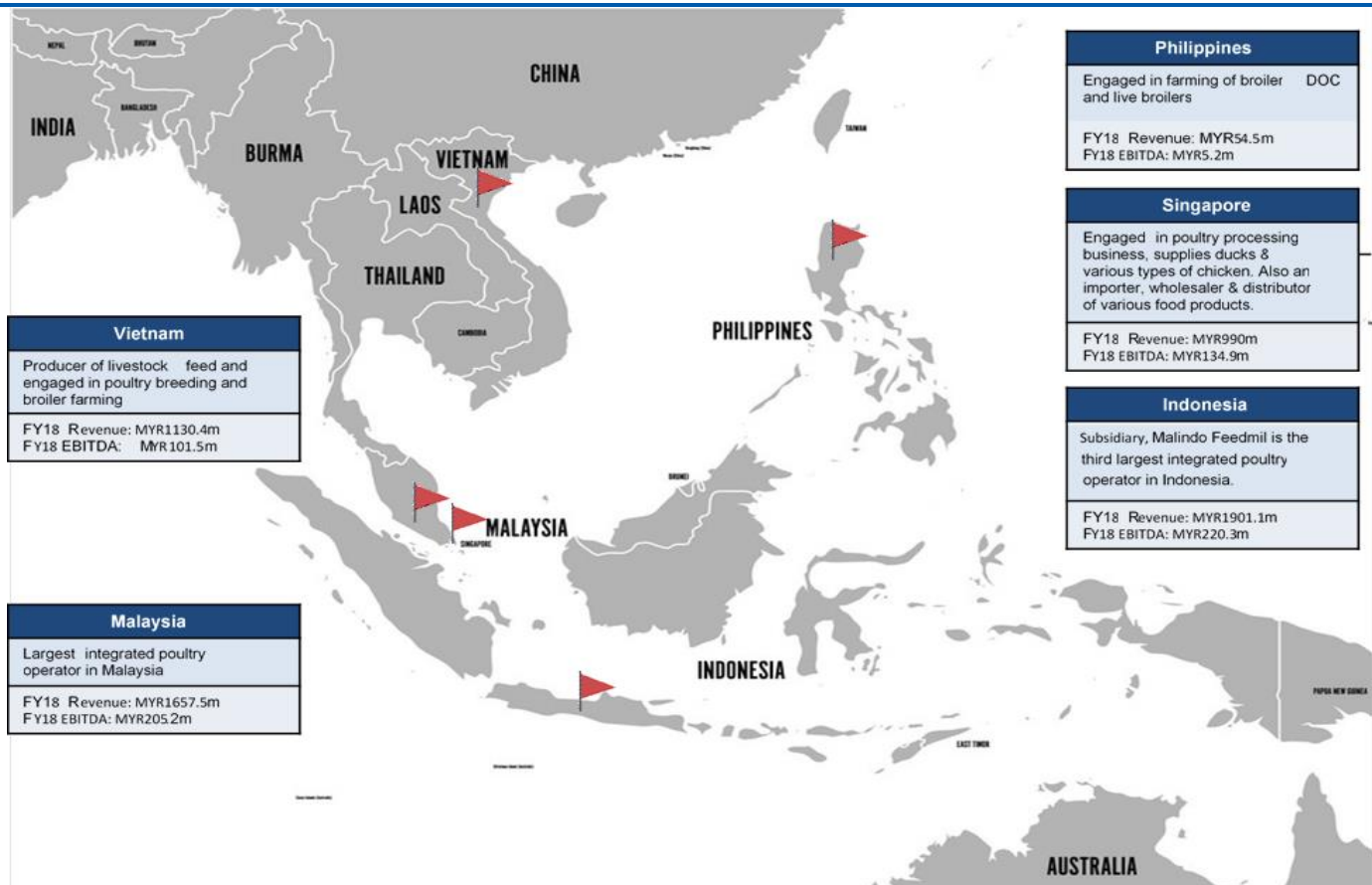
Source: Company

Figure 19: LHI's corporate structure



Source: Company

Figure 20: LHI's regional footprint



Source: Company

18 June 2019

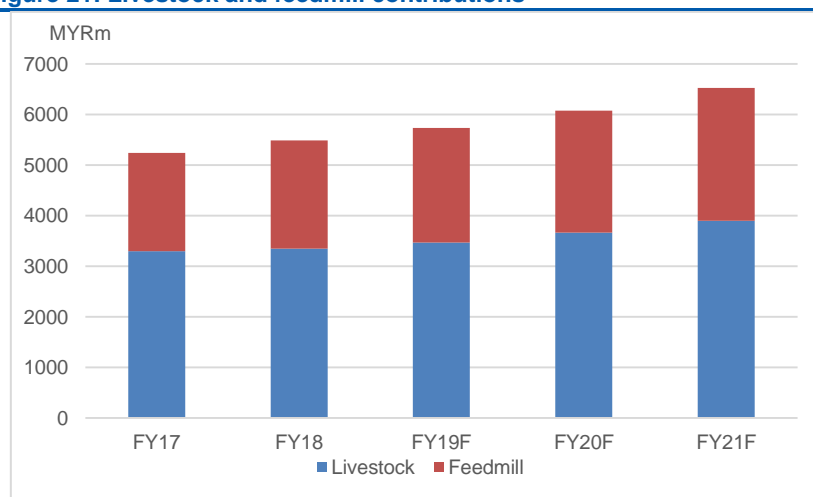
Poultry | Food & Beverages Product

Business overview

LHI focuses on two business segments: feedmill (40% of FY18 revenue – comprising formulation, production, and sale of feed for a variety of livestock), and livestock. The latter accounted for 60% of FY18 revenue, and consists of chicken and egg production.

The group's business model has been to establish successful livestock and feedmill operations in one market – starting in Malaysia throughout the 1980s – then expand into new markets by replicating its original operations there. When entering new markets, LHI first establishes a livestock operation, either organically or through acquisitions. Subsequently, feedmill operations are established once the livestock unit is large enough to ensure that the feedmills run at least at financial breakeven by meeting the demand from its own livestock operations.

As at Sep 2018, LHI operates 13 feedmills, 237 farms and hatcheries, and six slaughtering plants across five countries, with operations largely in Malaysia. 618 contract farms are also available to increase capacity to meet demand. The group currently conducts its feedmill businesses in Malaysia, Indonesia, and Vietnam, while livestock operations can be found in five countries that LHI has a presence.

Figure 21: Livestock and feedmill contributions

Source: Company data

Feedmills

With respect to the feedmills business, the market share in Malaysia is approximately 10.5%, followed by 5.5% in Indonesia and 4% in Vietnam – this is by annual production capacity of livestock feed as at 2017. In FY17, LHI supplied a total of 1,963,297 tonnes of livestock feed, c.57% of which were sold to third parties, while c.43% was supplied internally to entities within the group – this provided the required demand of the livestock business counterparts in Malaysia, Indonesia, and Vietnam.

LHI produces feed for GPS, PS, broiler chicken, layer chicken, broiler duck, swine, quail, aquatic animals, and certain domestic pets. The livestock feed has high nutritional value, tailored to the type of livestock and rearing stage. For example, chicks will consume feed in mashed or crumbled forms, while more mature chicken will consume feed in pellets.

The key brand name used in Malaysia and Vietnam is *Leong Hup*, while the key brand name in Indonesia is *Malindo*. Other livestock feeds brands that LHI markets are *Gymtech* in Vietnam, *Emivest* in Vietnam, and *A88* in Indonesia.

The group owns and operates five feedmills in Malaysia, five feedmills in Indonesia, and three feedmills in Vietnam. These mills are strategically located across the three nations, with transportation links to ports and poultry farming areas – thereby increasing efficiency and reducing transportation costs.

18 June 2019

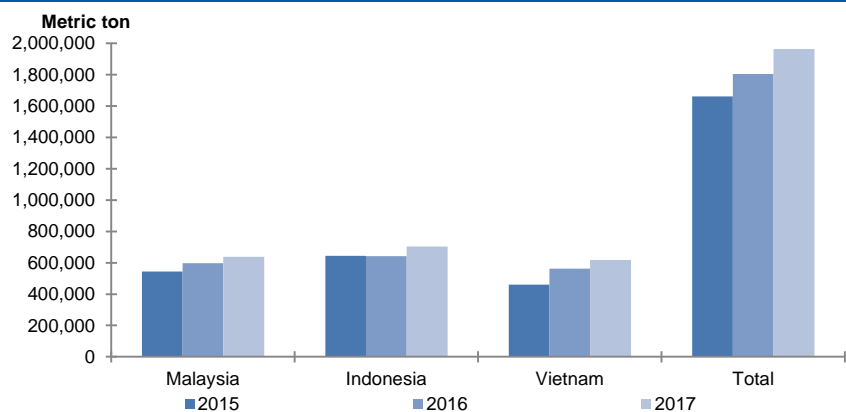
Poultry | Food & Beverages Product

The primary raw materials used in the production of livestock feeds are corn and soybean meals. Most of the corn and all of the soybean meals are imported from South America, except in Indonesia, where the group uses domestically-produced corn.

Each of the raw materials is a commodity that is priced according to local and international prices – therefore, it is subjected to fluctuations. Whether raw materials are imported or sourced locally depends on:

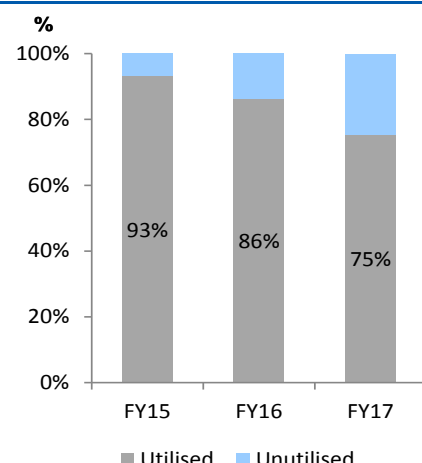
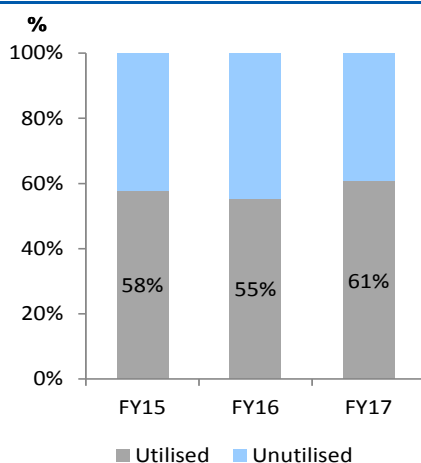
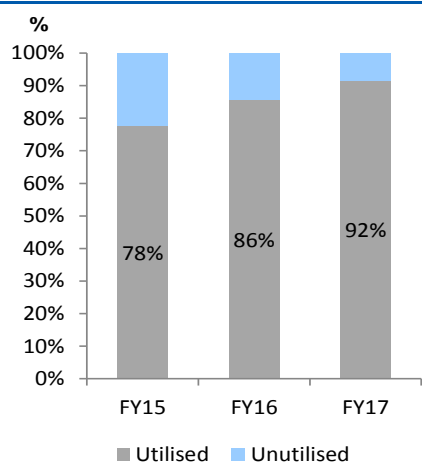
- i. Whether the requisite import permits can be obtained;
- ii. The market price of the raw materials;
- iii. The quality of the raw materials available, both locally and abroad.

Figure 22: Livestock feeds supplied (including internal supply)



Source: Company data

Figure 23: Malaysia capacity utilisation **Figure 24: Indonesia capacity utilisation** **Figure 25: Vietnam capacity utilisation**



Note: Utilisation rates are calculated as actual production divided by production capacity

Sources: Company data

18 June 2019

Poultry | Food & Beverages Product

Livestock business

LHI's livestock business is vertically integrated and, in combination with the feedmill business, covers the entire poultry value chain. The core underlying strategy of upstream expansion pervades across all geographies where the group operates. However, the operations in each country are afforded the flexibility to identify market opportunities and tailor their business strategies in accordance with the maturity and unique features of these individual jurisdictions.

In 2017, LHI was the largest integrated poultry producer in Malaysia and one of the Top 3 integrated poultry producers in Indonesia and Vietnam. The group also had the largest market share of poultry slaughtered in Singapore. LHI undertakes processing activities, which comprises poultry slaughtering and food processing. It produces a number of products under different brands, including *Ayam A1*, *SunnyGold*, and *Ciki Wiki*.

Figure 26: Downstream consumer food products



Source: Company

Regular business activities of the group include the:

- i. Breeding of layer and broiler DOCs;
- ii. Renting of broiler farms;
- iii. Farming of broiler GPS DOC;
- iv. Trading of poultry products, feeds, and medicines;
- v. Slaughtering and processing of poultry;
- vi. Retailing of fresh and roasted chickens.

18 June 2019

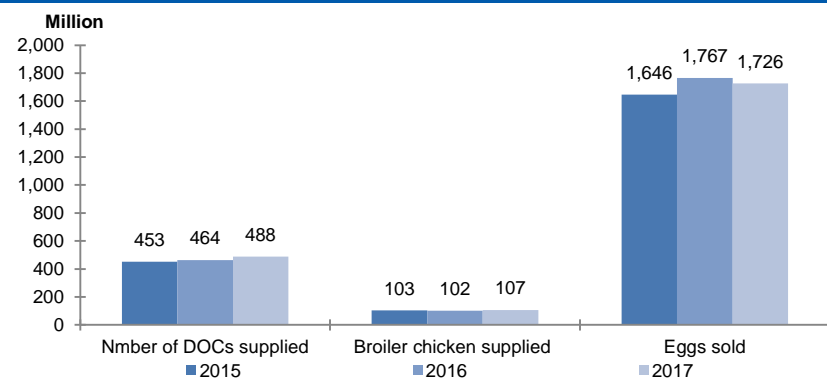
Poultry | Food & Beverages Product

Figure 27: Farms, slaughtering plants, and contract farmers engaged by LHI

Country	GPS DOC farms	PS DOC farms	Broiler chicken farms	Layer DOC farms	Layer chicken farms	PS DOC and broiler duck farms	Hatcheries	Slaughtering plants	Contract farms	Total
Malaysia	6	19	44	3	25	11	8	1	21	138
Indonesia	4	24	25	2	1	1	18	1	317	393
Vietnam	0	4	0	1	3	0	1	0	269	278
Singapore	0	4	27	0	0	0	2	4	1	38
Philippines	0	2	1	0	0	0	1	0	10	14
Total	10	53	97	6	29	12	30	6	618	861

Note: As at Jun 2018
Source: Company data

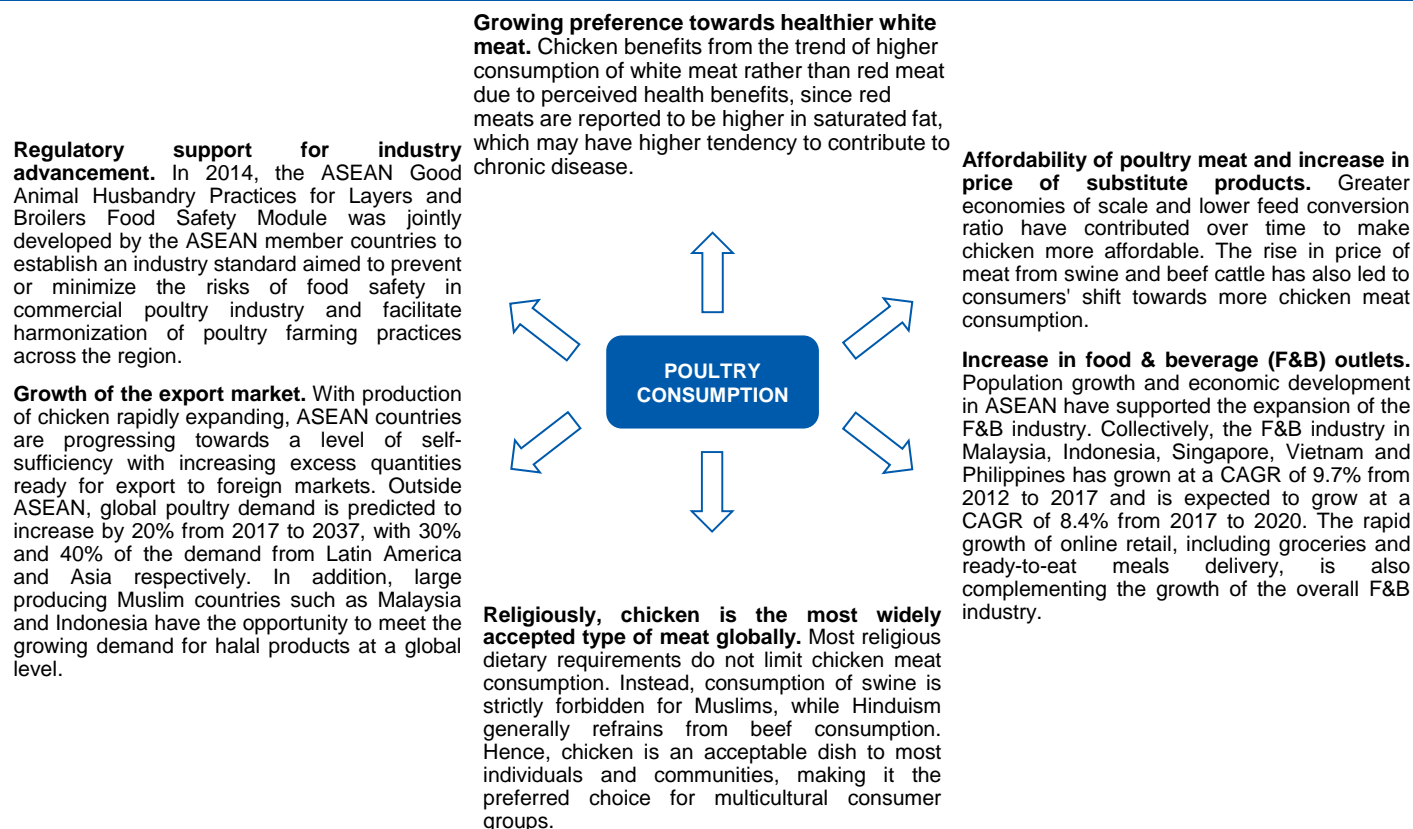
Figure 28: Operational statistics for livestock business



Source: Bloomberg

Industry Overview

Figure 29: Demand drivers



Source: Company

Supply dynamics:

- i. **Capital-intensive model** features an in-house cage system to accommodate internal feed systems, water supply, humidity controls, as well as air and waste management. The shift from free-range to confined poultry operations has allowed farmers to rear larger flocks with less manpower required – this has improved productivity;
- ii. **Growth in industry consolidation within the poultry market** is part of a long-term trend that enables industry players to create fewer but larger farms. These are able to adopt intensive production systems and achieve higher economics of scale. As a result, the industry has seen numerous exits by small and unorganised poultry companies, as well as a series of M&A globally. In 2017, a total of 94 global M&A were recorded in the poultry, swine, and animal feed industries;
- iii. **Vertically integration model allows for better control of the resources required** throughout the value chain. As a result, this supports quality assurance of end products. This model also aids in cost management, as poultry players can better manage fluctuations in commodity prices and currency exchange rates. Beyond that, involvement in multiple business lines allows integrated poultry players to react to changing market demands by maximising on higher-margin products at prevailing market conditions and cross-sell to smaller poultry players;
- iv. **Advancements in superior poultry genetics** have led to the creation of hybrid species that are more efficient, ie faster and larger growth and better quality eggs. This species is characterised by its higher nutrition absorption rate, consequently improving the feed conversion ratio;
- v. **Improvements in veterinary science** has helped farmers curb disease outbreaks through the use of vaccines and other pharmaceutical products to minimise disruptions in production.

Barriers to entry:

- i. **High capital requirements.** Entering the integrated poultry business involves multiple cost considerations, including those for land, construction, and poultry equipment;
- ii. **Importance of vertical integration.** A producer would need to be vertically integrated and achieve significant economies of scale to be cost-efficient and compete successfully in the market. A non-integrated company may experience lower profitability due to limited control on the value chain and be subject to uncertainties in input prices, such as the prices for animal feed;
- iii. **Knowledge and competencies.** To be successful in the integrated poultry industry and minimise operations costs, a company must have very specific knowledge and competencies to have efficient operations and efficiently manage the productivity of superior genetics.

The right mix of raw materials to feed the chickens at different phases of the life cycle, farm management best practices to ensure the health and wellbeing of chickens, and established husbandry operations are only some of the aspects that require precise knowledge. Such “know-how” is a culmination of multiple years of experience and core competencies built over time;

- iv. **Certification and licensing.** To sell its products, a poultry company must have the proper certifications and licences, which take time and investment to be acquired. For example, Muslim populated countries such as Malaysia and Indonesia have defined *halal* requirements for the production and import of poultry products in their respective countries – Indonesia is planning to make the *halal* certification mandatory by 2019.

Furthermore, in Singapore, the Agri-Food & Veterinary Authority (AVA) monitors the entire poultry production chain – only traders with AVA-certified licences are allowed to sell their products.

Constraints:

- i. **Dependency on import of animal feed ingredients.** Many ASEAN states are small producers of raw materials used for animal feed and, therefore, have to rely on imports. On top of limited control over raw materials and higher prices, feed producers and poultry farmers are vulnerable to raw material prices and currency fluctuations, causing prices of feed and final products to be unstable. However, countries such as Indonesia are planning – or already adopting – measures to become more self-sufficient in producing animal feed;
- ii. **Protectionist policies on imports.** In order to develop the local industry to be more self-sufficient in producing animal feed, some ASEAN states – such as Indonesia – are adopting protectionist policies on the import of feed ingredients.

For example, to regulate international agricultural trade, the Indonesian Government appointed the National Food Logistics Agency as the sole authorised corn and poultry importer. It also imposed tight restrictions on feed ingredient imports since 2000. At least in the short term, such protectionist measures may restrict the availability of price-competitive feed ingredients for the local poultry feed industry;

- iii. **Disease outbreaks.** While veterinary science advancements and improvement in farm management are supporting the production of safe poultry meat, the market is at times affected by disease outbreaks.

Among the recent cases, a H5N1 outbreak in Mar 2017 in Kelantan (Malaysia) saw approximately 57,000 chickens culled, and 17,531 eggs destroyed by the authorities, with the outbreak confined to the state. This temporarily impacted the market for Malaysian-produced chickens, both locally and overseas, due to health concerns. To alleviate the farmers' losses, the Kelantan Veterinary Services Department disbursed more than MYR400,000 in compensation to over 1,000 farmers in the state and provided assistance for poultry re-breeding;

iv. **High popularity for swine produce.** Despite the rapid growth in poultry consumption in ASEAN, some countries have historically been larger consumers of swine. As of 2017, swine is the most popular type of livestock for meat consumption in the Philippines and Vietnam. While the consumption of poultry is growing, particularly due to its affordable price, in the event of any disease outbreak involving poultry, consumers may easily switch to alternative meats, including swine;

v. **Land restrictions.** Poultry farming activities are partly restricted to specific geographical areas by the local authorities due to environmental concerns. Livestock farming may produce waste beyond recycling capacities, resulting in inappropriate discharge and deterioration of water and soil quality. This creates a risk not only for the livestock population, but also for public health in the vicinity.

Among recent cases, pollution caused by an illegal poultry farm in Johor (Malaysia) in Oct 2017 – due to non-compliant discharge practices – caused other poultry farms in the surrounding area to temporarily close operations to avoid risks from polluted water;

vi. **Scarcity of land and higher land costs for farming activities.** With poultry activities restricted to specific geographical areas, land for agricultural purposes are likely to become more limited. In Singapore, for example, land scarcity and higher costs are limiting the opportunity to increase local production.

In Malaysia, land costs have been increasing, with the average value of agricultural land transactions increasing 5.6% from 2015 to 2016. This is higher than the 23.5% drop in average development land transactions value and 3.9% rise in the average value of residential properties transactions during the same period. The result: Higher land acquisition costs for local poultry operators;

vii. **Logistics challenges.** While selected ASEAN states are quickly developing their infrastructural systems – in line with economic development – their geographical characteristics may pose a restraint on the logistical front by creating challenges to the import of inputs for production and distribution of end products to the market. Such challenges are particularly prevalent in archipelagic countries such as Indonesia and Philippines, as well as in East Malaysia;

viii. **Reliance on foreign labour.** The ongoing economic development in ASEAN is supporting the transition of economies – away from being agricultural sector-driven towards those led by the industrial and tertiary sectors. Improvements in economic conditions are likely to result in the decline of a local workforce engaged in agricultural activities, which may subsequently result in an increased reliance on foreign labour.

Industry Size And Growth

Feedmill industry

In ASEAN, the majority of raw materials for producing poultry feed – such as corn, wheat, and soybean – are imported from the US and Latin America. This is mainly due to the shortage of domestic production to fulfil growing demand from poultry feed manufacturers in the region.

Nevertheless, ASEAN states like Indonesia and the Philippines have established several protective measures to mitigate market dependence on imported corn through trade regulation enactments and plans to increase domestic production. However, the majority of ASEAN members, including Malaysia, the Philippines, Vietnam, and Indonesia, are still dependent on the import of animal feed raw materials or ingredients as at 2017.

Meanwhile, backed by the entry and expansion of international players, as well as strong regulatory support for the domestic feedmill industry, Vietnam and Indonesia have also become major producers of animal feed in ASEAN. Indonesia's regulation of antibiotic growth promoter usage in commercial farming since Jan 2018, coupled with the Indonesian Government's protectionist policies, are likely to continually driving the growth of local feed production. Vietnam's feedmill industry, on the contrary, experienced slow growth in 2017, caused by weaker swine production due to weakened meat pricing. It is expected to recover gradually towards 2020.

The total number of registered feed producers has increased significantly from 2012 to 2017, as the production of poultry feed grew with an expansion in the livestock industry.

Figure 30: Production of animal feed / import of animal feed ingredients in selected ASEAN states (2017 and 2020F)

Country	2017	CAGR (2012-2017)	2020F	CAGR (2017-2020F)
Animal Feed Production (in million MT)				
Indonesia	12.2	9.3%	16.4	10.2%
Vietnam	15.5	7.0%	17.7	4.5%

Source: Frost & Sullivan

Country	2017	CAGR (2012-2017)	2020F	CAGR (2017-2020F)
Animal Feed Ingredients Import (in million MT)				
Malaysia	5.1	4.7%	5.8	4.2%
Indonesia	10.9	6.6%	12.2	3.6%
Philippines	6.0	13.7%	8.0	10.0%
Vietnam	11.1	22.5%	12.7	4.5%

Source: Frost & Sullivan

Poultry industry

Rapid economic development in the ASEAN region is contributing to the increase in disposable income and changes in consumer preferences towards a higher intake of protein food (including meat).

As of 2017, the consumption of white meat and high-protein products (broiler meats and eggs) is considered mainstream in ASEAN due to their high nutrition content and affordability. The overall broiler meat intake is growing sustainably at present, as well as in the foreseeable future. Accordingly, the total livestock population in selected ASEAN states has been growing consistently.

Figure 31: Poultry meat consumption in selected ASEAN states

In million kg	2018E	CAGR (2012-2018E)	2021F	CAGR (2018E-2021F)
Indonesia	3,450.8	9.0%	4,415.7	8.6%
Malaysia	1,651.4	4.0%	1,884.3	4.5%
Philippines	1,369.8	5.0%	1,678.2	7.0%
Vietnam	1,276.8	2.8%	1,490.3	5.3%
Singapore	189.6	0.2%	215.3	4.3%

Source: Frost & Sullivan

Industry outlook and prospects by country

Malaysia. The poultry industry in Malaysia is among the most developed when compared to the other ASEAN states. It is expected to continue growing, aided by a growing population with rising disposable income and fast expansion in retail stores and food services outlets, including large international QSR brands.

Frost & Sullivan also envisages more broiler sales to be generated from long-term contracts with customers, as poultry operators aim to stabilise selling prices. The poultry industry in Malaysia benefits from a well-established ecosystem of large established organisations, which allows the country to achieve self-sufficiency. It also allows for excess poultry production to be exported. The growth in poultry consumption in ASEAN and overseas, as well as growing demand for *halal* meat globally, provides opportunities for growth in Malaysian poultry exports.

Singapore. Growing demand is being driven by expansion in the F&B sector. At the same time, growth in supply is being driven by continuous efforts by the AVA to diversify the sources of poultry imports. However, due to its geographical proximity, Malaysia is expected to remain a major supplier of poultry products to Singapore in the near future.

Indonesia. As the fourth most populous country globally, Indonesia has a higher birth rate when compared to the average in South-East Asia and Asia overall. This contributes to the favourable population growth and, therefore, to growing demand for meat products. Furthermore, the positive economic environment supports favourable growth in middle-class households and the rise in disposable income. This, in turn, contributes towards higher meat consumption.

Vietnam. Traditionally a second-choice livestock meat when compared to the more widely-consumed swine, poultry consumption has been growing consistently. Growing population and disposable income, as well as affordable prices, are contributing towards the rising consumption of poultry.

The continuous expansion of retail stores in both rural and urban centres, with greater presence of refrigerated environments, is also contributing to the wide availability of meat products. In addition, large local and foreign players in the food services industry (including QSRs) are expanding in the country.

Philippines. While swine is the most preferred livestock for meat consumption in the Philippines, the consumption of poultry is growing at a faster rate, aided also by the Government's initiatives to further develop the industry. Due to its better affordability, poultry is considered the most appropriate type of quality product to fulfil the protein intake demand for the majority of the population.

Competitive Landscape

Market benchmarking

Among public-listed integrated poultry companies (at parent company or subsidiary level) in LHI's countries of operation as of 31 Dec 2017, Charoen Pokphand Group, Japfa, and QL Resources operate in at least two of the countries that the group focuses in, ie Malaysia, Singapore, Indonesia, and Vietnam.

Among the selected companies, LHI is the only firm with significant poultry business operations in Singapore, of which the production of poultry supplies is supported by its operations in Malaysia. The analysis below also excludes the Philippines, since Leong Hup (Philippines) Inc was established in 2015 and – as of FY17 – represented less than 1% of the group's total revenue.

Figure 32: Market share for LHI and public-listed integrated poultry companies (2017)

	Total	LHI	Charoen Pokphand	Japfa	QL Resources
Malaysia					
Annual feedmill production ('000 tonnes)	6,000	10.5%	5.2%	N/P	4.5%
Annual DOCs volume supplied (m)	759	27.1%	7.7%	N/P	2.7%
Indonesia					
Annual feedmill production ('000 tonnes)	12,218	5.5%	30.9%	20.6%	0.7%
Annual DOCs volume supplied (m)	3,447	7.0%	37.2%	20.5%	0.5%
Vietnam					
Annual feedmill production ('000 tonnes)	15,530	4.0%	17.1%	4.4%	0.3%
Annual DOCs volume supplied (m)	285	12.7%	31.0%	9.8%	N/P
Malaysia+Indonesia+Vietnam					
Annual feedmill production ('000 tonnes)	33,748	5.7%	20.0%	9.5%	1.2%
Annual DOCs Volume supplied (m)	4,490	10.8%	31.8%	16.3%	0.8%
Singapore					
Live chicken imported from Malaysia (m)	47	45.3%	N/P	N/P	N/P

Source: Frost & Sullivan

Figure 33: Comparison of LHI and public-listed integrated poultry companies (2017)

	LHI rank	LHI	Charoen Pokphand	Japfa	QL Resources
Malaysia					
Feed mills	N/A	4	3	N/P	N/A
Poultry farms and processing plants	N/A	193	N/A	N/P	N/A
Annual feed mill production ('000 tonnes)	1 st	628	313	N/P	270
Annual egg production (m units)	2 nd	1,293	169	N/P	1,460
Annual DOCs volume supplied (m birds)	1 st	208	59	N/P	21
Annual broilers volume supplied	1 st	70	23	N/P	11
Indonesia					
Feed mills	N/A	4	8	17	N/A
Poultry farms and processing plants	N/A	253	N/A	9,203	N/A
Annual feed mill production ('000 tonnes)	3 rd	670	3,780	2,520	90
Annual egg production (m units)	N/A	56	N/A	N/A	297
Annual DOCs volume supplied (m birds)	3 rd	241	1,281	705	17
Annual broilers volume supplied	N/A	17	N/A	327	7
Vietnam					
Feed mills	3 rd	3	6	5	1
Poultry farms and processing plants	N/A	760	N/A	320	N/A
Annual feed mill production ('000 tonnes)	3 rd	627	2,660	680	40
Annual egg production (m units)	N/A	389	N/A	N/A	297
Annual DOCs volume supplied (m birds)	2 nd	36	88	28	N/P
Annual broilers volume supplied	N/A	21	N/A	N/A	N/P

Note: N/A = Not available

Note 2: N/P = Not present

Source: Frost & Sullivan

Board Of Directors

Lau Chia Nguang, executive chairman, has over 40 years of experience in the integrated livestock industry. He co-founded the group of companies in 1978 and led the expansion of Leong Hup Holdings' poultry business to Jakarta with the incorporation of Leong Ayamsatu. Chia Nguang later founded Malindo Feedmill. He served as the latter's president director from 2014 to 2018 and is currently its president commissioner.

Tan Sri Lau Tuang Nguang, group chief executive officer, has over 35 years of experience in the integrated livestock industry. He oversees the entire business operations of the group covering Malaysia, Singapore, Indonesia, Vietnam, and the Philippines. Tan Sri Lau sat on the board of Teo Seng Capital between 2009 and Aug 2018, and is currently the president director of Malindo Feedmill. Both Teo Seng Capital and Malindo Feedmill are listed subsidiaries.

Dato' Lau Eng Guang, executive director, has over 40 years of experience in the integrated livestock industry. He co-founded the Leong Hup Holdings group of companies in 1978 where he oversaw its finances and corporate affairs. Dato' Lau is responsible for HLI's business strategies and risk management. He served as a director in Leong Hup Holdings and Emivest since 1989 and 2002 respectively.

Lau Joo Hong, executive director, is the non-independent executive director and chief executive officer for the group's Vietnam operations. Mr Joo Hong has over 20 years of experience in the integrated livestock industry and retail market. He has led the expansion of the Vietnam operations since its incorporation.

Lau Joo Keat, executive director, has over 15 years of experience in the integrated livestock industry. He has served as a director of Malindo Feedmill since 2015 and been the country head of the group's Indonesian business since 2017. Currently, Mr Joo Keat also sits on the board of Malindo Feedmill as well as various subsidiaries of the group and several other private limited companies.

Benny Lim Jew Fong, non-independent non-executive director, has over 22 years of experience in private equity, and corporate and investment banking. Lim is currently the managing director of Affinity Equity Partners (S) (Affinity EPS), where he is responsible for originating, executing, and managing investments for Affinity EPS. He also sits on the boards of the portfolio companies as Affinity EPS' representative.

Datin Paduka Rashidah binti Ramli, independent non-executive director, has served at various senior levels at the Ministry of Foreign Affairs, among them being the South-East Asia and Development Divisions, and Chief of Inspectorate. In 2010, she was appointed as the Director General of the South-East Asia Regional Centre for Counter-Terrorism, Ministry of Foreign Affairs until her retirement in 2017.

Lau Joo Han, executive director, has over 19 years of experience in the livestock industry. He was appointed as the chief executive officer of Leong Hup (Malaysia), in charge of overseeing the business and its full operations. Mr Joo Han has extensive expertise in the upstream and downstream activities of livestock production, operations, development, and marketing areas of the poultry industry.

Tee Yock Siong, alternate director to Benny Lim, has almost 12 years of experience in private equity and corporate finance. He is an executive director in Affinity EPS, in charge of originating, executing, and managing investments for the firm.

Other independent non-executive directors include:

- i. Mahani Binti Amat
- ii. Chu Nyet Kim
- iii. Goh Wen Ling
- iv. Low Han Kee
- v. Tay Tong Poh

Key Management Team

Tan Sri Lau, group chief executive officer, has over 35 years of experience in the integrated livestock industry. He oversees the entire business operations of the group covering Malaysia, Singapore, Indonesia, Vietnam, and the Philippines. Tan Sri Lau was on the board of Teo Seng Capital between 2009 and Aug 2018, and is currently president director of Malindo Feedmill. Both Teo Seng Capital and Malindo Feedmill are listed subsidiaries.

Chia Nguang, executive director, has over 40 years of experience in the integrated livestock industry. He co-founded the group of companies in 1978 and led the expansion of Leong Hup Holdings' poultry business to Jakarta with the incorporation of Leong Ayamsatu. Mr Chia later founded Malindo Feedmill. He served as its president director between 2014 and 2018, and is currently the firm's president commissioner.

Dato' Lau Eng Guang, executive director, has over 40 years of experience in the integrated livestock industry. He co-founded the Leong Hup Holdings group of companies in 1978 where he oversaw the group's finances and corporate affairs. Dato' Lau is responsible for the group's business strategies and risk management. He has served as a director in both Leong Hup Holdings and Emivest since 1989 and 2002.

Lau Jui Peng, group breeder chief executive officer, has about 19 years of experience in the production processes and management of poultry companies. He was in charge of the production, operation, and administration of Leong Hup Poultry Farm. Mr Jui Peng was also appointed as director of Leong Hup (GPS) Farm in 2007.

Joo Hong, Vietnam CEO and executive director, has over 20 years of experience in the integrated livestock industry and retail market. He led the expansion of the Vietnam operations since its incorporation.

Joo Han, Malaysia CEO and executive director, has over 19 years of experience in the livestock industry. He was appointed as the chief executive officer of Leong Hup (Malaysia) in 2014, in charge of overseeing the business and its full operations. Mr Joo Han has extensive expertise in the upstream and downstream activities of livestock production, operations, development, and marketing areas of the poultry industry.

Lau Joo Hwa, Singapore CEO, has about 16 years of experience in the operational activities of the integrated livestock industry, as well as exposure in retail and exports. He started as a marketing manager with Malindo Feedmill and was re-designated as operational manager in 2008. MR Joo Hwa was appointed as deputy CEO of KSB Distribution in 2014. He has been the CEO of HLI's Singapore operations since 2017.

Lau Joo Heng, the Philippines CEO, has 15 years of experience in the operational activities of the integrated livestock industry, as well as exposure in retail and exports. He joined the family's livestock business in 2015, expanding the livestock business to the Philippines and has since led the operations there.

Lau Joo Keat, Indonesia country head and executive director, has over 15 years of experience in the integrated livestock industry. He has served as a director of Malindo Feedmill since 2015 and has been the country head of the group's Indonesian business since 2017. Currently, Mr Joo Keat also sits on the board of Malindo Feedmill and various subsidiaries of the group, as well as several other private limited companies.

Chew Eng Loke, group chief financial officer, has over 25 years of experience in management and financial roles at numerous companies. Mr Chew was previously with AirAsia X (AAX MK, NEUTRAL, TP: MYR0.23), but left to join the group in 2015 as chief financial officer, responsible for HLI's overall financial operations.

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

Investment Research Disclaimers

RHB has issued this report for information purposes only. This report is intended for circulation amongst RHB and its affiliates' clients generally or such persons as may be deemed eligible by RHB to receive this report and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not intended, and should not under any circumstances be construed as, an offer or a solicitation of an offer to buy or sell the securities referred to herein or any related financial instruments.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

All the information contained herein is based upon publicly available information and has been obtained from sources that RHB believes to be reliable and correct at the time of issue of this report. However, such sources have not been independently verified by RHB and/or its affiliates and this report does not purport to contain all information that a prospective investor may require. The opinions expressed herein are RHB's present opinions only and are subject to change without prior notice. RHB is not under any obligation to update or keep current the information and opinions expressed herein or to provide the recipient with access to any additional information. Consequently, RHB does not guarantee, represent or warrant, expressly or impliedly, as to the adequacy, accuracy, reliability, fairness or completeness of the information and opinion contained in this report. Neither RHB (including its officers, directors, associates, connected parties, and/or employees) nor does any of its agents accept any liability for any direct, indirect or consequential losses, loss of profits and/or damages that may arise from the use or reliance of this research report and/or further communications given in relation to this report. Any such responsibility or liability is hereby expressly disclaimed.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions by RHB or any other source may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research. The performance of currencies may affect the value of, or income from, the securities or any other financial instruments referenced in this report. Holders of depositary receipts backed by the securities discussed in this report assume currency risk. Past performance is not a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to RHB and are subject to

known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. RHB expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

The use of any website to access this report electronically is done at the recipient's own risk, and it is the recipient's sole responsibility to take precautions to ensure that it is free from viruses or other items of a destructive nature. This report may also provide the addresses of, or contain hyperlinks to, websites. RHB takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to RHB own website material) are provided solely for the recipient's convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or RHB website shall be at the recipient's own risk.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content.

The research analysts responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. The research analysts that authored this report are precluded by RHB in all circumstances from trading in the securities or other financial instruments referenced in the report, or from having an interest in the company(ies) that they cover.

The contents of this report is strictly confidential and may not be copied, reproduced, published, distributed, transmitted or passed, in whole or in part, to any other person without the prior express written consent of RHB and/or its affiliates. This report has been delivered to RHB and its affiliates' clients for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above. By electing to view or accepting a copy of this report, the recipients have agreed that they will not print, copy, videotape, record, hyperlink, download, or otherwise attempt to reproduce or re-transmit (in any form including hard copy or electronic distribution format) the contents of this report. RHB and/or its affiliates accepts no liability whatsoever for the actions of third parties in this respect.

The contents of this report are subject to copyright. Please refer to Restrictions on Distribution below for information regarding the distributors of this report. Recipients must not reproduce or disseminate any content or findings of this report without the express permission of RHB and the distributors.

The securities mentioned in this publication may not be eligible for sale in some states or countries or certain categories of investors. The recipient of this report should have regard to the laws of the recipient's place of domicile when contemplating transactions in the securities or other financial instruments referred to herein. The securities discussed in this report may not have been registered in such jurisdiction. Without prejudice to the foregoing, the recipient is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

The term "RHB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, RHB Investment Bank Berhad and its affiliates, subsidiaries and related companies.

RESTRICTIONS ON DISTRIBUTION

Malaysia

This report is issued and distributed in Malaysia by RHB Investment Bank Berhad ("RHBIB"). The views and opinions in this report are our own as of the date hereof and is subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. RHBIB has no obligation to update its opinion or the information in this report.

Thailand

This report is issued and distributed in the Kingdom of Thailand by RHB Securities (Thailand) PCL, a licensed securities company that is authorised by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is a member of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. RHB Securities (Thailand) PCL does not endorse, confirm nor certify the result of the Corporate Governance Report of Thai Listed Companies.

Indonesia

This report is issued and distributed in Indonesia by PT RHB Sekuritas Indonesia. This research does not constitute an offering document and it should not be construed as an offer of securities in Indonesia. Any securities offered or sold, directly or indirectly, in Indonesia or to any Indonesian citizen or corporation (wherever located) or to any Indonesian resident in a manner which constitutes a public offering under Indonesian laws and regulations must comply with the prevailing Indonesian laws and regulations.

Singapore

This report is issued and distributed in Singapore by RHB Securities Singapore Pte Ltd which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. RHB Securities Singapore Pte Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, RHB Securities Singapore Pte Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact RHB Securities Singapore Pte Ltd in respect of any matter arising from or in connection with the report.

Hong Kong

This report is issued and distributed in Hong Kong by RHB Securities Hong Kong Limited (興業僑豐證券有限公司) (CE No.: ADU220) ("RHBHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact RHBHK. RHBHK is a wholly owned subsidiary of RHB Hong Kong Limited; for the purposes of disclosure under the Hong Kong jurisdiction herein, please note that RHB Hong Kong Limited with its affiliates (including but not limited to RHBHK) will collectively be referred to as "RHBHK." RHBHK conducts a full-service, integrated investment banking, asset management, and brokerage business. RHBHK does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this report as only a single factor in making their investment decision. Importantly, please see the company-specific regulatory disclosures below for compliance with specific rules and regulations under the Hong Kong jurisdiction. Other than company-specific disclosures relating to RHBHK, this research report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

United States

This report was prepared by RHB and is being distributed solely and directly to "major" U.S. institutional investors as defined under, and pursuant to, the requirements of Rule 15a-6 under the U.S. Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, access to this report via Bursa Marketplace or any other Electronic Services Provider is not intended for any party other than "major" US institutional investors, nor shall be deemed as solicitation by RHB in any manner. RHB is not registered as a broker-dealer in the United States and does not offer brokerage services to U.S. persons. Any order for the purchase or sale of the securities discussed herein that are listed on Bursa Malaysia Securities Berhad must be placed with and through Auerbach Grayson ("AG"). Any order for the purchase or sale of all other securities discussed herein must be placed with and through such other registered U.S. broker-dealer as appointed by RHB from time to time as required by the Exchange Act Rule 15a-6. This report is confidential and not intended for distribution to, or use by, persons other than the recipient and its employees, agents and advisors, as applicable. Additionally, where research is distributed via Electronic Service Provider, the analysts whose names appear in this report are not registered or qualified as research analysts in the United States and are not associated persons of Auerbach Grayson AG or such other registered U.S. broker-dealer as appointed by RHB from time to time and therefore may not be subject to any applicable restrictions under Financial Industry Regulatory Authority ("FINRA") rules on communications with a subject company, public appearances and personal trading. Investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States. The financial instruments discussed in this report may not be suitable for all investors. Transactions in foreign markets may be subject to regulations that differ from or offer less protection than those in the United States.

DISCLOSURE OF CONFLICTS OF INTEREST

RHB Investment Bank Berhad, its subsidiaries (including its regional offices) and associated companies, ("RHBIB Group") form a diversified financial group, undertaking various investment banking activities which include, amongst others, underwriting, securities trading, market making and corporate finance advisory.

As a result of the same, in the ordinary course of its business, any member of the RHBIB Group, may, from time to time, have business relationships with or hold positions in the securities (including capital market products) or perform and/or solicit investment, advisory or other services from any of the subject company(ies) covered in this research report.

While the RHBIB Group will ensure that there are sufficient information barriers and internal controls in place where necessary, to prevent/manage any conflicts of interest to ensure the independence of this report, investors should also be aware that such conflict of interest may exist in view of the investment banking activities undertaken by the RHBIB Group as mentioned above and should exercise their own judgement before making any investment decisions.

Malaysia

Save as disclosed below and to the best of our knowledge, RHBIB hereby declares that:

1. RHBIB does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report, save and except for the following:
(a) -
2. RHBIB is not a market maker in the securities or capital market products of the subject company(ies) covered in this report, save and except for the following:
(a) Leong Hup International, QL Resources
3. None of RHBIB's staff or associated person serve as a director or board member* of the subject company(ies) covered in this report, save and except for the following:
(a) -
**For the avoidance of doubt, the confirmation is only limited to the staff of research department*
4. Save as disclosed below, RHBIB did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months, save and except for the following:
(a) Leong Hup International
5. RHBIB did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report, except for the following:
(a) -

Thailand

RHB Securities (Thailand) PCL and/or its directors, officers, associates, connected parties and/or employees, may have, or have had, interests and/or commitments in the securities in subject company(ies) mentioned in this report or any securities related thereto. Further, RHB Securities (Thailand) PCL may have, or have had, business relationships with the subject company(ies) mentioned in this report. As a result, investors should exercise their own judgment carefully before making any investment decisions.

Indonesia

PT RHB Sekuritas Indonesia is not affiliated with the subject company(ies) covered in this report both directly or indirectly as per the definitions of affiliation above. Pursuant to the Capital Market Law (Law Number 8 Year 1995) and the supporting regulations thereof, what constitutes as affiliated parties are as follows:

1. Familial relationship due to marriage or blood up to the second degree, both horizontally or vertically;
2. Affiliation between parties to the employees, Directors or Commissioners of the parties concerned;
3. Affiliation between 2 companies whereby one or more member of the Board of Directors or the Commissioners are the same;
4. Affiliation between the Company and the parties, both directly or indirectly, controlling or being controlled by the Company;
5. Affiliation between 2 companies which are controlled, directly or indirectly, by the same party; or
6. Affiliation between the Company and the main Shareholders.

PT RHB Sekuritas Indonesia is not an insider as defined in the Capital Market Law and the information contained in this report is not considered as insider information prohibited by law. Insider means:

- a. a commissioner, director or employee of an Issuer or Public Company;
- b. a substantial shareholder of an Issuer or Public Company;
- c. an individual, who because of his position or profession, or because of a business relationship with an Issuer or Public Company, has access to inside information; and
- d. an individual who within the last six months was a Person defined in letters a, b or c, above.

Singapore

RHB Securities Singapore Pte Ltd and/or its subsidiaries and/or associated companies do not make a market in any securities covered in this report, except for:

- (a) -

The staff of RHB Securities Singapore Pte Ltd and its subsidiaries and/or its associated companies do not serve on any board or trustee positions of any issuer whose securities are covered in this report, except for:

- (a) -

RHB Securities Singapore Pte Ltd and/or its subsidiaries and/or its associated companies do not have and have not within the last 12 months had any corporate finance advisory relationship with the issuer of the securities covered in this report or any other relationship (including a shareholding of 1% or more in the securities covered in this report) that may create a potential conflict of interest, except for:

- (a) -

Hong Kong

The following disclosures relate to relationships between RHBHK and companies covered by Research Department of RHBSHK and referred to in this research report:

RHBSHK hereby certifies that no part of RHBSHK analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

RHBHK had an investment banking services client relationships during the past 12 months with: -.

RHBHK has received compensation for investment banking services, during the past 12 months from: -.

RHBHK managed/co-managed public offerings, in the past 12 months for: -.

On a principal basis. RHBHK has a position of over 1% market capitalization of: -.

Additionally, please note the following:

Ownership and material conflicts of interest: RHBSHK policy prohibits its analysts and associates reporting to analysts from owning securities of any company covered by the analyst.

Analyst as officer or director: RHBSHK policy prohibits its analysts, and associates reporting to analysts from serving as an officer, director, advisory board member or employee of any company covered by the analyst.

RHBHK salespeople, traders, and other non-research professionals may provide oral or written market commentary or trading strategies to RHB clients that reflect opinions that are contrary to the opinions expressed in this research report.



KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax : +6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

**RHB Securities Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211