

# Leong Hup International Bhd

**TP: RM1.43 (+30.0%)**
*Returning as an ASEAN Pride*
*Main Market Listing*
**Buy**

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We initiate coverage on Leong Hup International Bhd (LHI) with a Buy recommendation and TP of RM1.43 based on 19x CY20PER. We like LHI for i) being a fully integrated "pure play" poultry player, ii) dominant presence and position in ASEAN, iii) tailwind from favourable raw materials and iv) high quality associated branding with strong track records. We are also positive on LHI's plan on expanding into new market i.e. Philippines, and optimising its value chain through further vertical integrations.

### Background

LHI is primarily involved in i) producing livestock (mainly chickens and eggs) and poultry related products alongside ii) manufacturing animal feeds.

### IPO Statistic

The IPO entails public issue of 250mn new shares, representing 6.8% of the group's enlarged share capital and an offer for sales of up to 687.5mn shares, representing 18.8% of the group's enlarged share capital. Meanwhile, there is an over-allotment option of up to 140.6mn shares, representing 3.85% of group's enlarged share capital. At an issue price of RM1.10/share, the IPO implies a market capitalisation of RM4.0bn.

### New Share Issuance and Offer for Sale:

- 73.0mn shares for application by the Malaysian public;
- 25.0mn shares for application by eligible persons;
- 419.8mn shares by way of private placement to selected investors;
- 419.8mn shares by way of private placement to identified Bumiputera investors approved by MITI.

### Investment Merits

1. "Pure Play" Poultry Player with Fully Integrated Processes;
2. An ASEAN Pride Riding on ASEAN Growth;
3. Tailwind from Favourable Raw Materials; and
4. Quality Associated Branding.

### Earnings Forecast

We estimate the group to record earnings growth of 17.4/8.7/12.1% YoY to RM252.5/274.5/307.7mn for FY19/20/21 (3-year CAGR of 12.7%). The growth is supported by higher production volume from existing markets and aggressive development in new market, the Philippines.

### Valuation

We initiate coverage on LHI with a Buy recommendation and target price of RM1.43/share based on 19x FY20 earnings. We reckon our valuation is fair given that it is within the range of ascribed valuation to its most comparable peers.

At IPO price of RM1.10/share, the stock offers a decent upside potential of 30.0%.

### Share Information

Listing	Main Market
Enlarged Share Capital (mn)	3650.0
Market Cap @ RM1.10 (RM mn)	4015.0
Issue price (RM)	1.10
Oversubscription rate	N/A
Estimated free float (%)	25.68%-29.54%
Tentative listing date	16-May-19

### Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	25-Apr-19
Closing of the IPO	3-May-19
Balloting of Applications	7-May-19
Allotment of Shares	15-May-19
Listing	16-May-19

### Ratio & Analysis

NTA per share (post IPO) (RM)	0.52
Price to NTA (x)	2.1
Proforma Gearing (x)	0.93

### Utilisation of Proceeds

	RM(mn)	%
Capex		
-Malaysian Operations	40.7	14.8
-Vietnam Operations	47.0	17.1
-Philippines Operations	120.0	43.6
Working capital	33.0	12.0
Estimated listing expenses	34.3	12.5
<b>TOTAL</b>	<b>275.0</b>	<b>100.0</b>

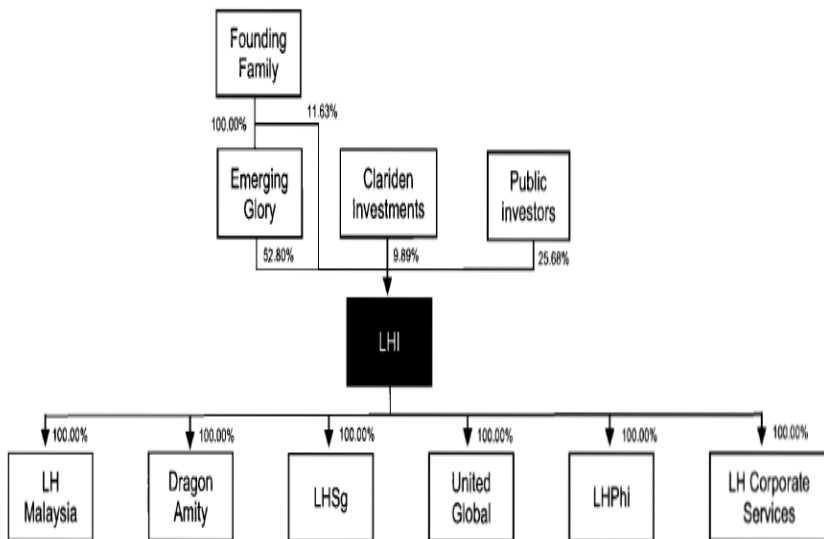
**Business Overview**

LHI is engaged in integrated poultry business that traces back to the 1960s. Presently, it is primarily involved in i) producing livestock and poultry related products alongside ii) manufacturing animal feeds. Historically, the livestock business accounted for >60% of the group’s total revenue, which can be classified into 2 main categories: i) chicken production (inclusive day-old-chick for breeder and broiler, broiler, as well as food processing) and ii) egg production (inclusive day-old-chick for layer and table egg). The balance of <40% came mainly from feedmill business. The group garners strong brand awareness in its countries of operations, where it carries its poultry products under the brand name of Ayam AI, Sunny Gold, Ciki Wiki and others. As for the feedmill business, it manufactures and trades feeds for livestock such as chickens, ducks, swines, aquatic animals and domestic pets. The key brands of its feeds are Leong Hup, Malindo, Gymtech, Emivest and A88.

The group has managed to develop widespread presence in ASEAN region, namely Malaysia, Indonesia, Singapore, Vietnam and the Philippines. As at Oct-2018, it operated 241 farms and hatcheries, 6 slaughtering plants and 13 feedmills across these countries. About 29% of the group’s FY18 revenue was generated in Malaysia, whilst the balance from Indonesia (33%), Singapore (17%), Vietnam (20%) and Others (1%).

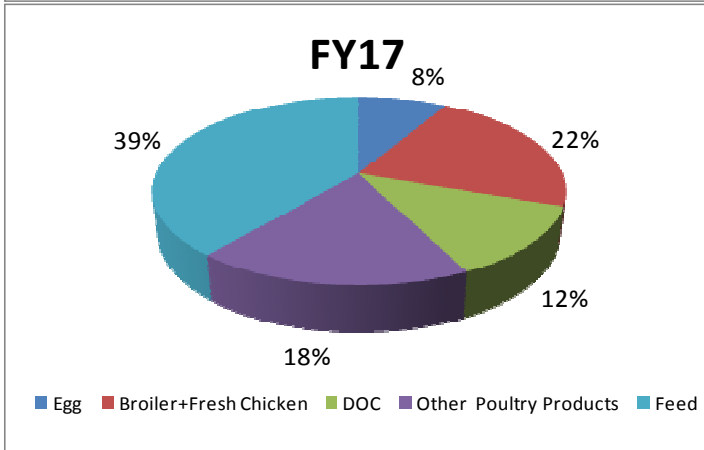
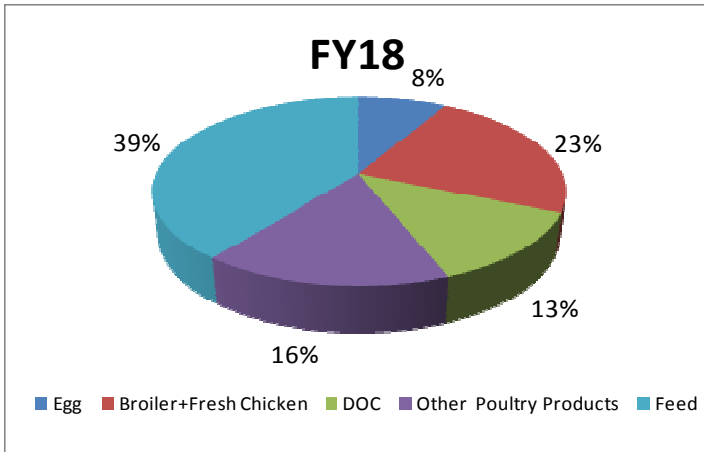
During the course of business, the group has listed several parts of its businesses, such as LH Holdings (subsequently privatised in 2012), Eminvest (subsequently privatised in 2012), Malindo Feedmill (57.1% effective stake) and Teo Seng (26.1% effective stake). Aforementioned privatisations were initiated on the basis of undemanding valuation for both LH Holdings and Eminvest, and to enable greater flexibility in pursuing growth.

**Exhibit 1: Corporate Structure Assuming No Over-Allotment**



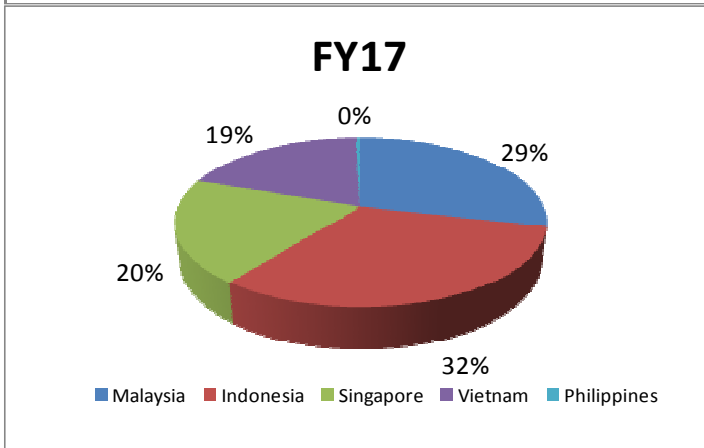
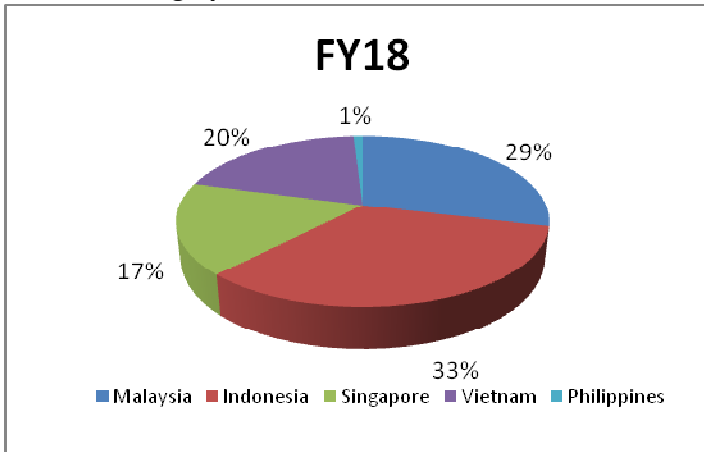
Source: Company

**Exhibit 2: Products Revenue Breakdown**



Source: Company, TA Securities

**Exhibit 3: Geographical Revenue Breakdown**



Source: Company, TA Securities

#### Exhibit 4: Operational Data

Operations	FYE Dec			FPE Oct
	FY15	FY16	FY17	FY18
DOCs supplied ('mn)	452.5	464.0	488.0	422.3
Broiler chickens supplied ('mn)	103.2			102.3
		102.3	107.0	
Eggs sold ('mn)	1645.9	1766.6	1726.1	1391.4
Feeds supplied ('kMT)	1661.0	1804.9	1963.4	1735.6

Source: Company, TA Securities

#### Exhibit 5: IPO Structure

Categories	Number of shares (m)	% of new shares	% of enlarged share cap
<b>Retail Offering</b>			
Malaysian public (for ballot)	36.5	3.9%	1.0%
Bumi allocation (for ballot)	36.5	3.9%	1.0%
Eligible directors and employees	25.0	2.7%	0.7%
<b>Institutional Offering</b>			
Identified Bumi Investors Approved by MITI	419.8	44.8%	11.5%
<b>Total</b>	<b>937.5</b>	<b>100.0%</b>	<b>25.7%</b>
in which:			
<b>New share issuance</b>	<b>250.0</b>	<b>26.7%</b>	<b>6.8%</b>
<b>Existing shares offer for sale</b>	<b>687.5</b>	<b>73.3%</b>	<b>18.8%</b>

Source: Company, TA Securities

#### Utilisation of Proceeds

The estimated gross proceeds of RM275.0mn raised are expected to be utilized in the following manners:

#### Exhibit 6: Utilisation of Proceeds

Details	Amount (RM'mn)	% of Proceed
Expansion of Malaysian Operations		
- Expand Broiler Farm	40.7	14.8
Expansion of Vietnam Operations		
- Expand Dong Nai Feedmill Plant	7.7	2.8
- Equipment for Feedmill Plant	17.9	6.5
- Expand Layer Farm	21.4	7.8
Expansion of Philippines Operations		
- New Feedmill Plant	59.2	21.5
- New Farm and Hatchery	54.6	19.9
- Install ERP System	6.1	2.2
Working Capital	33.0	12.0
Estimated Listing Expense	34.3	12.5
	<b>275.0</b>	<b>100.0</b>

Source: Company, TA Securities

#### Investment Merits

##### 1) "Pure Play" Poultry Player with Fully Integrated Processes

The group's sole focus on the poultry business has enabled it to develop significant expertise along the industry's value chain, from formulation and production of livestock feed to downstream sales of poultry products. This gives the group sufficient size, which can be leveraged for meaningful economies of scales in production process and raw material procurement.

Moreover, LHI's vertically integrated processes enhance the group's flexibility and optionality in managing product mixes i.e. DOCs, broilers/layers and processed poultry products. This empowers LHI with the ability to counter volatilities in products and raw material prices, of which such ability is often not available to many smaller poultry players.

LHI is the largest integrated poultry producer in Malaysia, top three integrated poultry producer in Indonesia alongside Vietnam, and has the largest market share of poultry slaughtered in Singapore.

#### Exhibit 7: LHI Ranking and Market Share

	LHI Ranking	Total	LHI	CP	Japfa	QL
<b>Malaysia</b>						
- Annual Feedmill Production ('kMT)	1st	6,000	10.5%	5.2%	nm	4.5%
- Annual DOCs Supplied ('mn)	1st	759	27.1%	7.7%	nm	2.7%
<b>Indonesia</b>						
- Annual Feedmill Production ('kMT)	3rd	12,218	5.5%	30.9%	20.6%	0.7%
- Annual DOCs Supplied ('mn)	3rd	3,447	7.0%	37.2%	20.5%	0.5%
<b>Vietnam</b>						
- Annual Feedmill Production ('kMT)	3rd	15,518	4.0%	17.1%	4.4%	0.3%
- Annual DOCs Supplied ('mn)	2nd	285	12.7%	31.0%	9.8%	nm
<b>Singapore</b>						
Live Chicken Imported from Malaysia ('mn)	1st	47	45.3%	nm	nm	nm

Source: Company, Frost & Sullivan, TA Securities

#### 2) An ASEAN Pride Riding on ASEAN Growth

LHI has strong ASEAN presence, especially in Malaysia, Indonesia, Singapore and Vietnam; with the Philippines being the next up and coming. Majority of these countries are experiencing growing affluence of consumer groups in the middle and lower-income bracket, hence driving an increase in protein food consumption (particularly poultry products which is relatively affordable and religious neutral) in ASEAN. Such ASEAN growth is expected to be a boon to LHI's performance. Moreover, being a player with diversified geographical markets allows the group to be less reliant on a particular single market for revenue generation.

#### 3) Tailwind from Favourable Raw Materials

Corn and soybean are the core raw materials to poultry business, forming 60%-70% of the raw materials composition. The recent downcycle in prices of aforementioned soft commodities represents a tailwind to the group, which could likely experience a margin upcycle. YTD CBOT Corn price has decreased by 6.1%, and average price has declined 1.9% against previous corresponding period, while CBOT Soybean recorded YTD decline of 3.0%, and average price of 12.0% lower against previous corresponding period.

The decline in corn price is attributed to increased competition from South America region on the back of high crop output (good weather condition that considerably boosted harvest yield), offsetting the concern over flood delaying plantings in the US. Meanwhile, we think a major demand-led rally for corn is unlikely unless China enforces a strict early adoption of E10 blend policy or US increases usage to E15. As for soybean, bumper crop from South American and lowered soybean demand (partly due to African swine flu that hit China late last year along the intention for the country to lower protein in feed rations) have resulted in a dip in soybean price. On the back of the subdued

corn and soybean prices, we believe LHI is able to purchase its raw materials forward, hence benefit from lower raw material cost.

#### ***4) Quality Associated Branding***

LHI's trademark and brands are leading regional brands with industry awards, and they act as testaments to quality of LHI's products. The group has a comprehensive feedback loop, which allows continuing improvement in its productions processes, giving rise to quality products. Moreover, long track records of supplying to many major retailers, QSR operators, food service distributors and wholesalers; alongside farmers and poultry players are a reflection of LHI's reliability, trustworthiness and excellence. Certifications achieved by LHI's operations include Good Manufacturing Practice (GMP), Hazard Analysis Critical Control Point (HACCP), ISO Food Safe Management System (ISO FSMS), ISO Quality Management (ISO QMS), halal and among others.

### ***Industry Outlook***

#### ***1) Robust Poultry Meat Demand Growth in ASEAN***

Demand for poultry meat is expected to be robust underpinned by above-average population CAGR in ASEAN (+1.2%, against average of +0.3% in the top four world economies) and increasing consumption per capita at CAGR of 5.4% in countries which LHI operates (based on Frost & Sullivan's projection). Such solid growth prospect arises largely due to affordability of poultry meat (more affordable than beef by 3-4x; whilst swine by 2-3x), favourable change in dietary habits toward higher white meat consumption, and mushrooming F&B outlets specifically quick service restaurants that have high requirements for poultry meat.

#### ***2) Improving Operational Environment for Poultry Player***

Advancement in superior poultry genetics alongside technology in facilities and veterinary science will continue to improve operational environment for poultry players. Historically, it is observed that stronger genetics have improved the productivity of both broilers (lower feed conversion ratio) and layers (higher egg productivity); whilst improvement in facilities and veterinary science has enhanced farmer's abilities to curb disease outbreak. Nevertheless, outbreaks of diseases do occur in small unorganised farms where biosecurity is given little priority. We believe eventual consolidation of the industry would minimise outbreak and improve the operational environment.

#### ***3) High Demand Requirement on Feed***

In order to support expansion of ASEAN livestock industry, demand requirement on feed is expected to grow in tandem. According to Frost & Sullivan, animal feed ingredient imports, which are deemed to be a proxy of feed consumption is projected to grow across Malaysia, Indonesia, Philippines and Vietnam. Philippines is expected to experience the highest growth rate (3-year CAGR of 10%) throughout the 2017-2020 period, while Vietnam is anticipated to become the country with highest feed requirement. We laud LHI for positioning itself in the countries which are expected to experience high growth.

**Exhibit 8: Feed Production and Feed Ingredient Import**

Country	2012	2013	2014	2015	2016	2017	CAGR (2012-2017)	2020F	CAGR (2017-2020)
<b>Animal Feed Production (mnMT)</b>									
- Indonesia	7.8	8.6	9.0	10.0	11.0	12.2	9.3%	16.4	10.2%
- Vietnam	11.1	11.7	12.2	13.3	15.0	15.5	7.0%	17.7	4.5%
<b>Animal Feed Ingredient Import (mnMT)</b>									
- Malaysia	4.1	4.2	5.0	4.9	5.0	5.1	4.7%	5.8	4.2%
- Indonesia	7.9	9.9	10.7	10.7	11.7	12.0	8.5%	13.3	3.6%
- Philippines	3.1	2.8	3.4	3.8	5.4	5.9	13.4%	7.9	10.0%
- Vietnam	4.0	4.0	6.8	10.0	13.2	12.4	25.1%	14.2	4.5%

Source: Company, Frost & Sullivan, TA Securities

**Key Risks Relating to Business and Industry**

**1) Foreign Exchange Risk**

Given majority of the group's raw materials i.e. corn and soybean meals are linked to international commodity index prices which are in USD, and about 70% of sales are from foreign operations, the fluctuation of foreign currency could significantly affect the bottom line of the group. The fluctuation in foreign exchange rates is monitored closely by LHI, in which forward contract is strategically used to manage its net exposure.

**2) Price Fluctuation and Availability of Raw Materials**

The raw materials that are being used to produce livestock feeds are mainly corn and soybean meals. Their prices are largely subject to dynamic of supply and demand. Any unfavorable fluctuations in the price or shortage of raw materials in the global market will exert upward pressure on production cost.

**3) Dependency on Supply of Genetics**

Supply of genetics for grandparent stock (GPS) is the key to high quality livestock. Limited suppliers of genetics in the market resulted in the group's dependency on its genetic suppliers (Cobb and Aviagen). Any disruption in the relationship with genetics suppliers or poor supply of genetics could adversely affect group's performance.

**4) Vulnerability to Livestock Diseases**

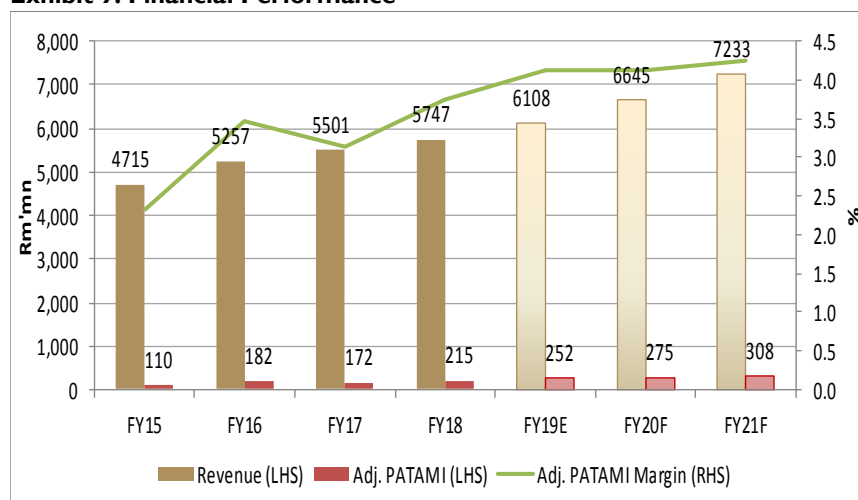
Outbreak of Avian Influenza could affect productivity of farm alongside consumers' demand for chickens and eggs. Moreover, insurance coverage against outbreak of livestock disease is unavailable commercially. Nevertheless, the group implements various biosecurity measures within the group's farm and production facilities to minimize possibility of diseases outbreak and minimize severity of potential diseases outbreak.

**5) Dependency on Labour**

The livestock business is labour intensive where LHI has >10k employees across the countries. Any unfavourable change in labour policy or possible disruption in the supply of foreign workers may result in difficulties for the group to maintain sufficient labour workforce.

**Financial Highlights**  
**Profit and Loss Statement**

**Exhibit 9: Financial Performance**



Source: Company, TA Securities

LHI's adjusted PATAMI recorded 2015-2018 CAGR of 25.1%, nearly doubled to RM215.2mn in FY18 from RM109.8mn in FY15 boosted by growth in revenue and expansion of margins. Revenue of LHI registered a 3-year CAGR of 6.8% underpinned by the capacity growth from livestock and double-digit volume growth of feed (3-year CAGR of 5.1% and 10.1% respectively). With regards to GP Margin, it has improved despite some fluctuation in FY16 and FY17. The heightened GP margin of 20.0% in FY16 was mainly due to overall increase in average selling prices of products, whilst FY17 dip in GP margin to 16.6% was a result of normalizing selling price (particularly in Indonesia and Vietnam) that was further dragged by eventual impact from the Indonesian restriction on corn importation, which have unfavorably changed the group's cost composition. As a result, adjusted PBT took a hit in FY17 to RM292.3mn (-15.8% YoY), before recovering to RM371.5mn (+27.1%) in FY18 (PBT 3-year CAGR at +19.7%).

Historical effective tax rate is steady in the range of 22-25% upon adjusting for a one-off recognition of Indonesian tax revaluation incentive in FY17 amounting RM20.5mn, a RM6.1mn tax adjustment accounting for change of Malaysian real property gain tax in FY18 and listing expenses in FY18. Percentage of minority interest to PAT has shrunk significantly from 33.9% in FY15 to 24.5%, largely due to the purchase of minorities' shares (Lee Say and ES Food) in FY17. Going forward, we forecast FY19 to FY21 revenue and PATAMI to grow steadily, backed by higher production volumes.

**Balance Sheet**

On the balance sheet front, the group's FY18 net gearing increased to 1.05x (against a range of 0.59-1.00x during FY15-FY17) mainly attributed to higher term loan drawdown in FY17 for the purchase of shares in Lee Say and ES Food alongside higher working capital financing. We remain comfortable on the gearing level given the group's interest coverage remains healthy at 6.0 times. On a pro forma basis, post-listing with utilization of IPO proceeds, the net gearing is expected to reduce to 0.93x.

With regards to liquidity, both current ratio and quick ratio improved to 1.20x and 0.89x in FY18 from 1.10x and 0.82x in FY15.



Overall asset turnover remained steady at 1.19x in FY18 (against a range of 1.17-1.23x during FY15-17), However, cash conversion cycle is seemingly increasing, to c.66 days in FY18 from 56 days in FY15, mainly due to higher days of sales outstanding and lower days of payables outstanding.

**Exhibit 10: Financial Position Ratio**

	FY15	FY16	FY17	FY18	FY19E	FY20F	FY21F
Net Gearing (x)	0.71	0.59	1.00	1.05	0.67	0.61	0.55
Current Ratio (x)	1.10	1.14	1.07	1.20	1.35	1.38	1.43
Quick Ratio (x)	0.82	0.83	0.80	0.89	1.01	1.03	1.04
Asset Turnover (x)	1.17	1.22	1.23	1.19	1.17	1.19	1.24
Cash Conversion Cycle (days)	55.6	61.5	59.2	66.3	62.3	62.6	63.7

Source: Company, TA Securities

**Future Plans and Business Strategies**

**1) Expansion on Production Capacity of Livestock**

Part of the proceeds is expected to be allocated for expanding production capacity of livestock by constructing several new hatcheries and farms (GPS, PS and broilers). We estimate annual capacity of livestock business to increase steadily between FY18 to FY21 (eggs capacity: +19%; broilers capacity: +15%; and DOCs capacity: +10%). Meanwhile, the group also plans to further reduce its reliance on contract farmer so as to better control quality of its products and capture more margins along the value chain of poultry.

**2) Integrate Business Model**

The group aims to expand upstream production capacities in Vietnam and the Philippines. 3 existing Vietnam plants (Bau Bang, Tien Giang and Dong Nai feedmill) will be expanded to reap 40% increase in Vietnam’s annual feed capacity (to 1.5bn MT), 1 aquaculture feedmill plant to be built in Vietnam and to introduce feedmill business into Philippines. Meanwhile, downstream food processing operations in Malaysia and Singapore would also be further streamlined. By integrating the operations and capture greater parts of the value chain in respective countries, it enhances the group’s flexibility and optionality in managing product mixes and empowers LHI with the ability to counter volatilities in products and raw material prices.

**3) Engage with Automation and Technology**

LHI seeks to adopt new technologies, particularly those which could increase automation of its feedmills and farmhouses such as automated pelleting technique by Buhler Group, robotic arms for packaging of feed, real-time data input via ERP system and etc. These are anticipated to reduce its dependency over labour and eventually transform its business toward capital-based business. Essentially, should automation proved to be successful, improved efficiencies and better management of cost would substantially improve the group’s performance in the future.

**Dividend Policy**

The group has a target payout ratio of 30%, which we deem sustainable considering its high and stable operating cash flow. Based on our forecast, LHI is expected to reward DPS of 2.1/2.3/2.5sen to shareholders in FY19/20/21, translating into 1.9/2.1/2.3% dividend yield.

### *Earnings Forecast*

We estimate the group to record earnings growth of 17.4/8.7/12.1% YoY to RM252.5/274.5/307.7mn for FY19/20/21 (3-year CAGR of 12.7%). The growth is supported by top-line growth driven by higher production volume from existing markets and aggressive development in new market, the Philippines. Segmentally, we expect the feedmill business to grow in the range of 5.0-11.5% YoY (3-year CAGR of 8.8%), outperforming livestock growth which is estimated to range within 7.1-8.0% YoY (3-year CAGR of 7.4%), mainly driven by the robust feed demand in Vietnam and commencement of feedmill business in Philippines.

Our projections are premised on the assumptions below:

- Total feedmill capacity to increase to 3.8mn MT by FY21 with utilization rate ranging between 60-70% across FY19-FY21; and third-party sales to remain at c.56%.
- Broiler and fresh chicken are forecast to lead growth in livestock business given its rapid farm expansion and robust industry demand.
- Eventual but gradual pick up in raw materials cost from a low base. FY19/20/21 soybean meal price per MT to average at USD417/459/482 from USD426 in FY18 and corn price per MT to average USD239/263/275 from USD239.

### *Valuation*

There are multiple listed poultry players in Bursa Malaysia and other stock exchange in ASEAN and Asia. We categorise these players as large cap poultry players i.e. QL Resources, Japfa Comfeed, Charoen Pokphand Indonesia, Thaifoods, etc.; and small cap poultry players i.e. Cab Cakaran, Lay Hong, PWF Consolidated, LTKM, TPC Plus and CCK Consolidated, etc.

Among these stocks, we deem large cap poultry players, particularly Japfa Comfeed and Charoen Pokphand Indonesia as the most comparable to LHI owing to similarities such as: i) size of company with revenue >USD1bn equivalent, ii) multiple countries of operations with diverse customer base, and iii) nature of business operations.

We understand that Japfa Comfeed and Charoen Pokphand Indonesia are valued at forward PER in the range of 14x-21x, with an average of 17.5x. Thus, we believe LHI should be valued at 19x CY20 PER. The 19x CY20PER also implies a c.2.0x PER higher than the average traded CY20 PER of big cap poultry player being compared.

We reckon such valuation is justified given LHI's i) higher growth momentum (double-digit earnings CAGR), ii) clear production capacity expansion plan, and iii) strategic exposure to ASEAN (up to 5 ASEAN countries). Based on IPO price of RM1.10/share, LHI will be listed at a forward CY20 PER of 14.6x, a 23% discount to our targeted PER of 19x.

As such, we initiate coverage on LHI with a Buy recommendation and a target price of RM1.43 (based on 19x CY20 PER).

**Exhibit I I: Peer Comparison - Historical Data**

Company	Last FYE	Local Cury.	Share Price (LC)	Mkt Cap (US\$ m)	Revenue (US\$ m)	GP Margin (%)	PBT Margin (%)	PAT Margin (%)	Net Gearing (x)	Cur. Ratio (x)	ROA (%)	ROE (%)
Leong Hup International	12/2018	MYR	1.10	972.0	1424.2	17.1	6.5	4.8	1.1	1.2	4.6	17.3
<b>Big Cap</b>						<b>17.0</b>	<b>9.0</b>	<b>7.1</b>	<b>0.3</b>	<b>1.5</b>	<b>9.1</b>	<b>21.1</b>
<b>ASEAN</b>												
QL Resources	03/2018	MYR	6.82	2,676.3	783.4	18.6	7.8	6.3	0.4	1.6	6.1	11.9
Charoen Pokphand Indonesia	12/2018	IDR	5,150.00	5,947.6	3793.8	16.9	10.9	8.4	0.1	3.0	17.5	26.0
Japfa Comfeed	12/2018	IDR	1,595.00	1,317.3	2391.5	21.2	9.1	6.4	0.5	1.8	10.1	24.5
Thaifoods	12/2018	THB	3.36	544.8	866.3	8.1	2.2	2.3	1.3	0.8	3.1	8.5
<b>Greater China</b>												
Henan Huaying Agricultural	12/2018	CNY	7.53	597.6	804.4	10.5	4.4	2.2	0.9	1.1	1.5	4.9
Jiangxi Huangshanghuang	12/2018	CNY	13.50	1,030.5	284.1	nm	11.8	9.2	-0.4	4.1	7.6	10.0
Liaoning Wellhope	12/2018	CNY	12.90	1,767.3	2379.2	nm	4.4	3.5	0.1	1.3	8.8	16.1
New Hope Liuhe	12/2018	CNY	15.74	9,857.0	10427.8	8.5	4.3	2.5	0.3	0.7	3.8	8.0
Shandong Minhe Animal	12/2018	CNY	36.69	1,646.1	274.6	34.2	21.0	21.0	0.4	0.7	30.1	70.1
Shenzhen Kondarl	12/2018	CNY	21.61	1,254.3	453.0	nm	20.2	14.6	-1.2	1.1	10.4	45.9
<b>Korea</b>												
Harim	12/2018	KRW	13,050.00	1,052.7	6688.9	17.8	3.1	1.3	0.9	0.8	1.3	6.4
<b>Small Cap</b>						<b>13.8</b>	<b>4.5</b>	<b>3.2</b>	<b>0.5</b>	<b>1.2</b>	<b>3.6</b>	<b>7.5</b>
Cab Cakaran	09/2018	MYR	0.59	93.0	434.2	8.8	2.3	1.7	0.6	1.0	2.1	5.7
DBE Gurney Resources	12/2018	MYR	0.03	19.4	26.8	2.0	-23.6	-24.4	0.0	1.1	-21.3	-37.6
CCK Consolidated	12/2018	MYR	0.62	93.5	154.4	19.6	5.8	4.5	0.0	1.7	7.4	10.7
Lay Hong	03/2018	MYR	0.45	71.9	203.5	18.8	6.2	4.3	0.6	1.0	0.7	1.6
LTKM	03/2018	MYR	1.15	36.2	42.0	13.2	4.0	1.8	0.3	1.9	4.7	6.8
PWF Consolidated	12/2018	MYR	0.78	32.5	87.2	20.1	6.5	4.3	0.3	0.9	3.1	4.8
TPC Plus	12/2018	MYR	0.41	23.2	52.8	3.7	2.1	1.5	0.5	1.1	1.9	4.2
Sierad Produce	12/2018	IDR	750.00	70.7	219.4	16.2	1.1	0.8	0.7	1.1	1.2	3.2
Vitarich	12/2018	PHP	1.44	84.4	156.8	7.4	0.9	0.8	0.4	1.1	1.7	4.5
Daboco	12/2018	VND	22,500.00	88.0	289.9	16.2	5.9	5.4	1.3	0.9	4.7	14.0
<b>Total</b>						<b>14.5</b>	<b>5.3</b>	<b>3.7</b>	<b>0.4</b>	<b>1.4</b>	<b>5.1</b>	<b>11.9</b>

Source: Bloomberg, TA Securities

**Exhibit I2: Peer Comparison - Forward Data – Bloomberg Consensus**

Company	Share Price (LC)	Mkt Cap (US\$ m)	Fw. EPS Growth (%)		Fw. P/E (x)		Fw. P/B		Fw. ROE (%)		Fw. Dividend Yield		Fw. EV/EBITDA	
			2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Leong Hup International	1.10	972.0	17.4	8.7	15.9	14.6	1.8	1.6	16.6	14.9	1.9	2.1	7.3	6.9
<b>Big Cap</b>			<b>68.0</b>	<b>16.8</b>	<b>19.8</b>	<b>17.1</b>	<b>3.4</b>	<b>2.9</b>	<b>19.3</b>	<b>17.8</b>	<b>2.0</b>	<b>2.1</b>	<b>14.2</b>	<b>12.4</b>
<b>ASEAN</b>														
QL Resources	6.82	2,676.3	12.5	11.1	44.6	40.1	5.2	4.8	12.2	12.2	0.8	0.9	24.6	22.1
Charoen Pokphand Indonesia	5,150.00	5,947.6	-0.8	5.5	18.7	17.7	3.8	3.4	21.3	20.0	1.9	2.1	12.2	11.5
Japfa Comfeed	1,595.00	1,317.3	8.9	6.4	7.8	7.4	1.6	1.4	21.1	19.8	3.6	3.9	4.9	4.6
Thaifoods	3.36	544.8	87.1	8.5	14.4	13.2	2.0	1.8	14.2	14.9	2.9	3.1	10.1	9.3
<b>Greater China</b>														
Henan Huaying Agricultural	7.53	597.6	276.7	11.9	9.0	8.0	nm	nm	nm	nm	nm	nm	nm	nm
Jiangxi Huangshanghuang	13.50	1,030.5	29.4	47.7	30.7	20.8	3.3	2.9	11.0	13.0	nm	nm	nm	nm
Liaoning Wellhope	12.90	1,767.3	14.7	10.3	17.0	15.4	2.4	2.1	14.5	13.7	1.0	1.1	17.3	14.4
New Hope Liuhe	15.74	9,857.0	86.8	71.9	21.1	12.3	2.7	2.3	12.6	17.1	1.5	1.9	16.0	12.2
Shandong Minhe Animal	36.69	1,646.1	96.5	-22.5	14.8	19.1	5.9	4.2	47.4	31.6	nm	nm	nm	nm
<b>Small Cap</b>			<b>15.9</b>	<b>9.8</b>	<b>12.2</b>	<b>11.1</b>	<b>1.3</b>	<b>1.3</b>	<b>11.1</b>	<b>11.3</b>	<b>2.4</b>	<b>2.6</b>	<b>6.7</b>	<b>6.2</b>
CCK Consolidated	0.62	93.5	15.9	9.8	12.2	11.1	1.3	1.3	11.1	11.3	2.4	2.6	6.7	6.2
<b>Total</b>			<b>62.8</b>	<b>16.1</b>	<b>19.0</b>	<b>16.5</b>	<b>3.1</b>	<b>2.7</b>	<b>18.4</b>	<b>17.1</b>	<b>2.0</b>	<b>2.2</b>	<b>13.1</b>	<b>11.5</b>

Source: Bloomberg, TA Securities

### Exhibit 13: Earnings Summary

#### Profit and Loss Statement

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
Revenue	5,501.4	5,746.6	6,107.6	6,645.1	7,232.7
EBITDA	576.6	646.1	755.9	809.7	885.4
Depreciation	(199.1)	(197.1)	(213.8)	(233.1)	(250.9)
Net finance cost	(85.7)	(101.0)	(102.4)	(98.5)	(98.9)
Associate	0.5	0.6	0.6	0.7	0.8
EI	0.0	(22.9)	0.0	0.0	0.0
PBT	292.3	348.6	440.3	478.7	536.5
Taxation	(44.9)	(101.8)	(105.7)	(114.9)	(128.8)
MI	(54.8)	(60.6)	(82.1)	(89.3)	(100.1)
Net profit	192.6	186.2	252.5	274.5	307.7
<b>Core net profit</b>	<b>172.1</b>	<b>215.2</b>	<b>252.5</b>	<b>274.5</b>	<b>307.7</b>

Core EPS	(sen)	5.3	5.9	6.9	7.5	8.4
Diluted EPS	(sen)	5.3	5.9	6.9	7.5	8.4
DPS	(sen)	1.1	1.6	2.1	2.3	2.5
Book Value	(RM)	0.4	0.5	0.6	0.7	0.8
NTA	(RM)	0.4	0.5	0.6	0.7	0.8

#### Ratios

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F	
<b>Valuations</b>						
Core PER	(x)	20.8	18.7	15.9	14.6	13.1
Div. Yield	(%)	1.0	1.4	1.9	2.1	2.3
P/BV	(x)	2.4	2.3	1.8	1.6	1.4

#### Profitability ratios

EBITDA margin	(%)	10.5	11.6	12.4	12.2	12.2
PBT margin	(%)	5.3	6.5	7.2	7.2	7.4
Core Net Margin	(%)	3.1	3.7	4.1	4.1	4.3
Core ROE	(%)	13.8	17.3	16.6	14.9	15.1
Core ROA	(%)	3.9	4.6	5.0	5.1	5.4

#### Liquidity ratios

Current ratio	(x)	1.1	1.2	1.3	1.4	1.4
Quick ratio	(x)	0.8	0.9	1.0	1.0	1.0

#### Leverage ratios

Equity/total liabilities	(x)	0.6	0.6	0.8	0.8	1.0
Net debt / equity	(x)	1.0	1.1	0.7	0.6	0.6

#### Growth ratios

Revenue	(%)	4.6	4.5	6.3	8.8	8.8
PBT	(%)	(15.8)	19.3	26.3	8.7	12.1
Core Net Profit	(%)	(5.7)	25.0	17.4	8.7	12.1

#### Balance Sheet

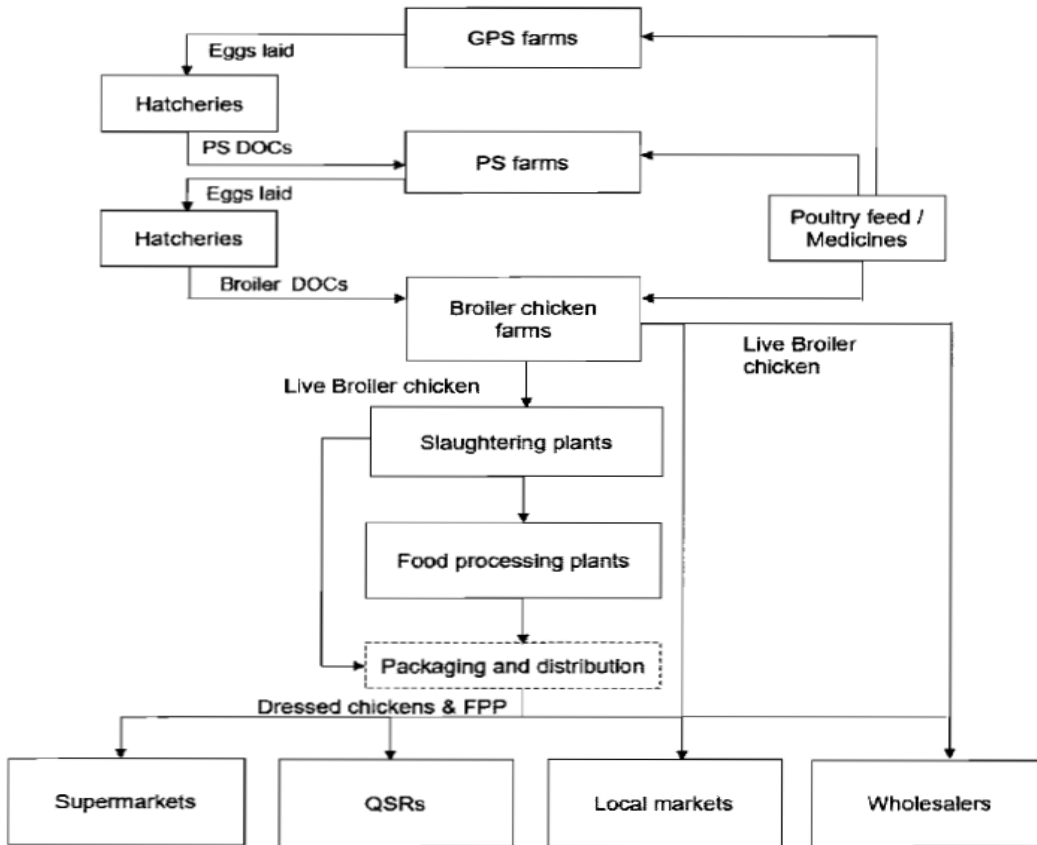
FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
PPE	2,045.8	2,216.8	2,403.0	2,619.8	2,819.0
Intangible Asset	106.5	97.3	97.3	97.3	97.3
Associate	1.6	1.7	1.8	1.9	1.9
Others	257.0	260.3	260.3	260.3	260.3
<b>Non-current assets</b>	<b>2,410.9</b>	<b>2,576.1</b>	<b>2,762.3</b>	<b>2,979.2</b>	<b>3,178.5</b>
Inventories	516.8	575.6	610.0	651.3	723.2
Trade receivables	564.0	649.2	642.5	710.3	783.7
Cash and Bank Balance	502.4	458.9	639.2	652.0	593.6
Others	483.3	574.2	574.2	574.2	574.2
<b>Current assets</b>	<b>2,066.6</b>	<b>2,257.9</b>	<b>2,466.0</b>	<b>2,587.9</b>	<b>2,674.7</b>
<b>Total Assets</b>	<b>4,477.5</b>	<b>4,834.0</b>	<b>5,228.3</b>	<b>5,567.1</b>	<b>5,853.2</b>
LT Borrowings	745.3	1,016.0	950.3	972.2	950.3
Others	149.9	167.8	167.8	167.8	167.8
<b>Non-Current liabilities</b>	<b>895.1</b>	<b>1,183.8</b>	<b>1,118.1</b>	<b>1,140.0</b>	<b>1,118.1</b>
Trade payables	242.2	248.9	279.0	294.7	323.5
ST Borrowings	1,398.6	1,304.8	1,220.5	1,248.6	1,220.5
Others	299.5	331.1	331.1	331.1	331.1
<b>Current liabilities</b>	<b>1,940.3</b>	<b>1,884.8</b>	<b>1,830.6</b>	<b>1,874.4</b>	<b>1,875.1</b>
Shareholders funds	1,185.6	1,301.8	1,742.2	1,934.3	2,149.7
MI	456.4	463.6	537.4	618.5	710.3
<b>Total Equity</b>	<b>1,642.0</b>	<b>1,765.4</b>	<b>2,279.6</b>	<b>2,552.8</b>	<b>2,859.9</b>
<b>Total E&amp;L</b>	<b>4,477.5</b>	<b>4,834.0</b>	<b>5,228.3</b>	<b>5,567.1</b>	<b>5,853.2</b>

#### Cash Flow Statement

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
Pretax profit	292.3	348.6	440.3	478.7	536.5
Depreciation	199.1	197.1	213.8	233.1	250.9
Net interest	85.7	101.0	102.4	98.5	98.9
Associates	(0.5)	(0.6)	(0.6)	(0.7)	(0.8)
Changes in WC	11.4	(225.5)	2.4	(93.5)	(116.4)
Tax	(76.2)	(75.7)	(105.7)	(114.9)	(128.8)
Others	12.6	20.7	0.0	0.0	0.0
<b>Operational cash flow</b>	<b>524.4</b>	<b>365.5</b>	<b>652.6</b>	<b>601.3</b>	<b>640.3</b>
Capex	(336.2)	(363.7)	(400.0)	(450.0)	(450.0)
Interest income	6.5	1.4	7.8	9.2	8.8
Others	(37.0)	0.8	0.6	0.6	0.7
<b>Investing cash flow</b>	<b>(366.7)</b>	<b>(361.5)</b>	<b>(391.6)</b>	<b>(440.2)</b>	<b>(440.5)</b>
Net share issue	0.0	0.0	263.6	0.0	0.0
Net borrowings	549.9	170.8	(150.0)	50.0	(50.0)
Dividend paid	(58.4)	(66.3)	(84.0)	(90.6)	(100.6)
Interest paid	(92.2)	(108.6)	(110.2)	(107.7)	(107.7)
Others	(471.2)	(36.2)	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>(71.9)</b>	<b>(40.3)</b>	<b>(80.6)</b>	<b>(148.3)</b>	<b>(258.3)</b>
<b>Net cash flow</b>	<b>85.8</b>	<b>(36.2)</b>	<b>180.4</b>	<b>12.8</b>	<b>(58.5)</b>
Beginning Cash	333.2	427.4	390.4	570.8	583.6
Forex & others	8.4	(0.8)	0.0	0.0	0.0
<b>Ending Cash</b>	<b>427.4</b>	<b>390.4</b>	<b>570.8</b>	<b>583.6</b>	<b>525.1</b>

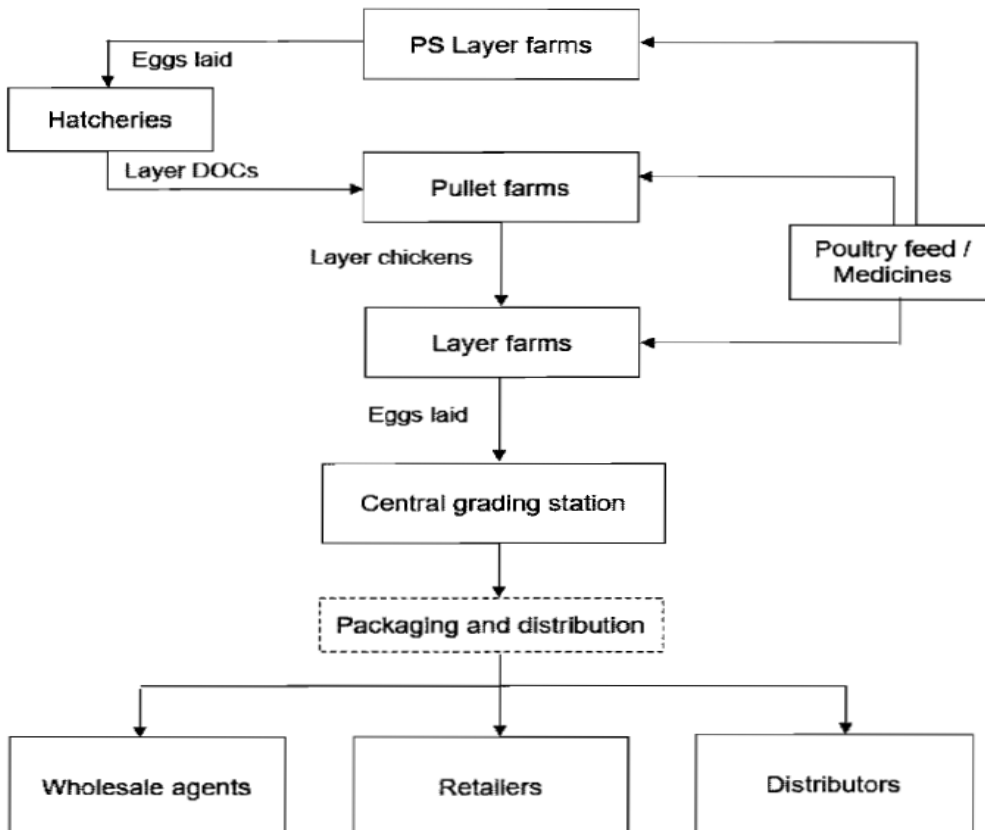
**Appendix**

**Appendix 1: Operational Structure of Chicken Production**



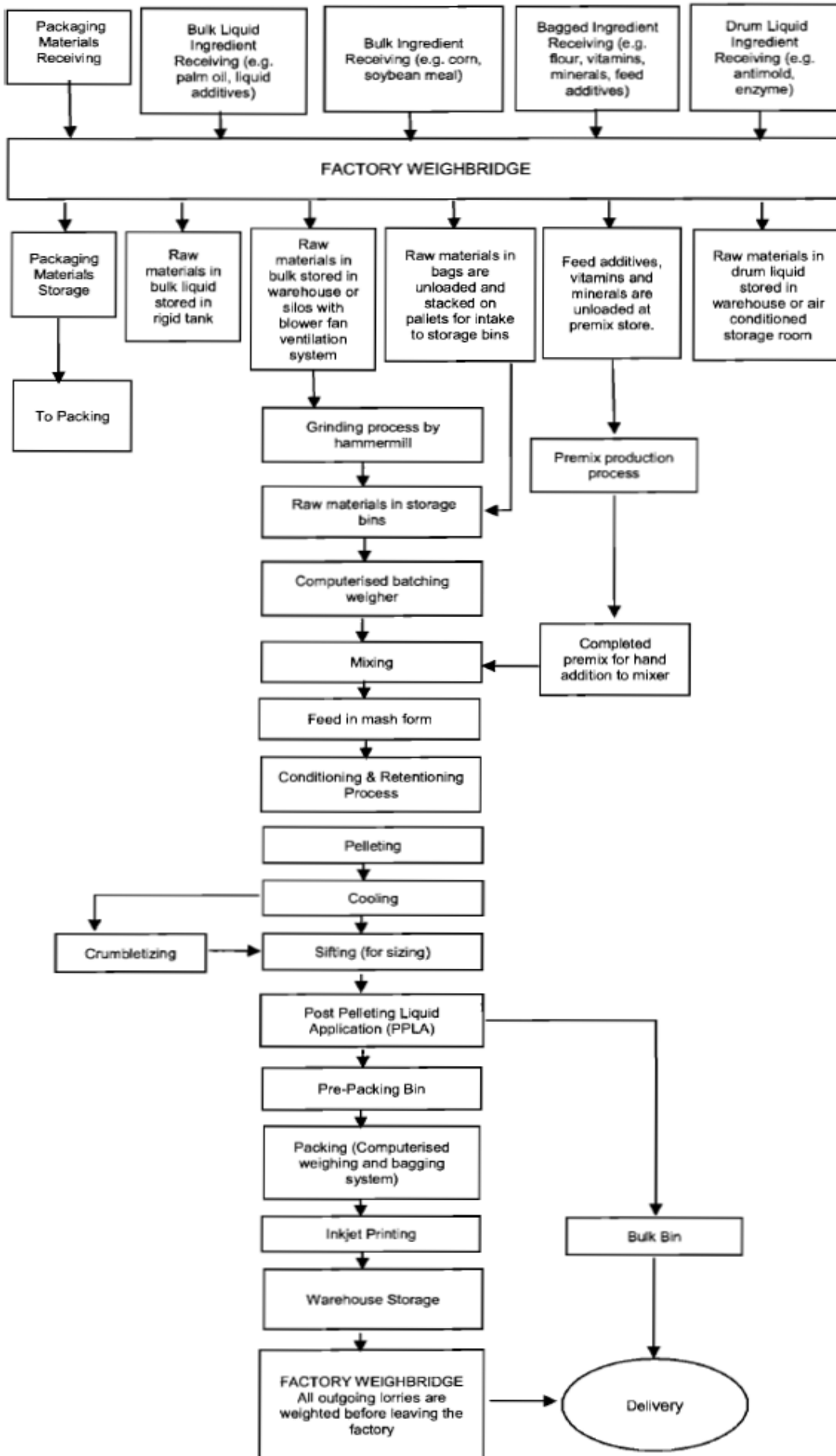
Source: Company

**Appendix 2: Operational Structure of Egg Production**



Source: Company

**Appendix 3: Operational Structure of Livestock Feed**



Source: Company

## Glossary of Technical Terms

African Swine Flu	: A severe viral disease affecting domestic and wild pigs, and may disrupt productions
Avian Influenza	: A severe viral disease affecting birds, and may disrupt productions
Biosecurity	: Procedures or measures designed to protect the population against harmful biological or biochemical substances
Breeder	: Poultry that is bred and raised specifically for breeding purposes
Broiler	: Poultry that is bred and raised specifically for meat production
CBOT	: Refer to Chicago Board of Trade, a futures and options exchange
DOC	: Day-old-chick, which refers to newly hatched chick
E10	: E10 is gasoline blended with 10% ethanol by volume to form a finished gasoline
E15	: E15 is gasoline blended with 15% ethanol by volume to form a finished gasoline
Ethanol	: Ethanol is a renewable fuel made from corn and other plant materials.
GPS	: Grandparent stock, a poultry bird, produced from pregnancy of the pedigree stock, and is used for the production of parent stock (PS)
Hatchery	: An installation or building in which the hatching of poultry eggs is controlled for commercial purposes
Layer	: Poultry that is bred and raised specifically for egg production
Livestock	: Domesticated animals raised in an agricultural setting to produce labor and/or commodities
PS	: Parent stock, a poultry bird, produced from pregnancy of the GPS stock, and is used for the purpose of systematic breeding
Vertical Integration	: The combination in one firm of two or more stages of production normally operated by separate firms

## Stock Recommendation Guideline

<b>BUY</b>	: Total return within the next 12 months exceeds required rate of return by 5%-point.
<b>HOLD</b>	: Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
<b>SELL</b>	: Total return is lower than the required rate of return.
<b>Not Rated:</b>	The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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

**Kaladher Govindan – Head of Research**

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