

14 May 2019 | 1QFY19 Results Review

## Leong Hup International Berhad

*An encouraging start to the year*

### INVESTMENT HIGHLIGHTS

- 1QFY19 earnings rose by +14.9%yoy to RM60.5m, well within our expectation
- The strong performance of livestock and poultry segment was attributed to the increase in sales volume and average selling price
- Feedmill operation's earnings was boosted by the commencement of new feedmill plant in Vietnam
- Maintain BUY with a target price of RM1.34

**1QFY19 earnings rose by +14.9%yoy to RM60.5m.** Leong Hup International Berhad (LHI)'s 1QFY19 earnings came in at RM60.5m. This is in line with our expectation, accounting for 31.2% of our full year FY19 as we believe this is seasonally a stronger quarter. Note that historically poultry consumption is the lowest during the third quarter subsequent to the month of Ramadan and Hari Raya. Compared to the corresponding quarter last year, revenue and earnings rose by +11.9%yoy and +14.9%yoy respectively. The commendable 1QFY19 earnings were attributed to the encouraging performance of LHI's main operating segment namely: (i) livestock and poultry related products and; (ii) feedmill operation.

**Livestock and poultry related products.** The livestock and poultry related products' contributed about 57.1% of LHI's 1QFY19 revenue. Operating profit wise, it grew by +25.9%yoy to RM118.9m which was contributed by the: (i) increase in sales volume and average selling price of eggs in Malaysia and; (ii) increase in average selling price of Broiler DOCs in Indonesia. These were mitigated by the loss of revenue from a subsidiary, Jordon International Food Processing Pte. Ltd. following the disposal of this subsidiary on 30 June 2018.

**Feedmill operation.** Feedmill operation's 1QFY19 operating profit rose by +36.3%yoy to RM85.2m. These were attributed to the: (i) increase in sales volume and average selling price of livestock feed in Indonesia and Vietnam and; (ii) commencement of new feedmill plant in Dong Nai, Vietnam in January 2019. The plant is LHI's fourth plant and expected to boost LHI's annual feedmill production to about 1.35m tonnes in 2019.

**Maintain BUY**


**Unchanged Target Price (TP): RM1.34**

RETURN STATS	
IPO Price	RM1.10
Target Price	RM1.34
Expected Share Price Return	+21.8%
Expected Dividend Yield	+1.8%
<b>Expected Total Return</b>	<b>+23.6%</b>

Share Information	
Listing	Main Market
Enlarged Share Capital (Mil)	3,650.0
Market Capitalisation (RM m)	4,015.0
Issue Price	1.10
Tentative Listing Date	16-May-19
Tentative Listing Dates	
Event	Tentative Date
Opening of the IPO	25-April-19
Closing of the IPO	3-May-19
Balloting of Applications	7-May-19
Allotment of Shares	15-May-19
Listing	16-May-19
Major Shareholders (%)	
Emerging Glory	52.80
Clarinden Investment	7.96
Lau Joo Han	1.89

**Impact to earnings.** We maintain our earnings forecast as it still within our expectation.

**Target price.** We value LHI at **RM1.34** per share based on pegging FY20F EPS of 6.0sen to target PER of 24.0x. This is premised on the average historical three-year mean PER of similar companies that engage in poultry operation.

**Reiterate BUY.** Going forward, we expect that earnings growth will be sustained driven by the LHI's: (i) economies of scale; (ii) vertically integrated business model and; (iii) geographically diversified operation. In addition, we are also positive on the group's future plan to consolidate its leading position in Malaysia and Singapore as well as to grow its integrated business model in newer markets especially the Philippines. With these expansion plans in the pipeline, we believe that LHI will be able to achieve a positive result for FY19. 

### INVESTMENT STATISTICS

FYE Dec (RMm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	5,257.4	5,501.4	5,746.6	5,976.4	6,245.4
<b>Core EBITDA</b>	646.8	583.1	654.6	681.1	709.9
Depreciation & amortisation	(196.9)	(199.1)	(197.1)	(210.9)	(220.4)
<b>Core EBIT</b>	449.9	384.0	457.5	470.2	489.5
Finance costs	(103.0)	(92.2)	(109.5)	(107.6)	(112.4)
Share of profits of associates	0.4	0.5	0.6	0.6	0.6
PBT	347.3	292.3	348.6	363.2	377.7
PAT	270.0	247.4	246.8	257.1	271.9
<b>PATANCI</b>	182.5	192.6	186.2	194.1	206.1
EPS (sen)	5.0	5.3	5.1	5.3	5.6
EPS growth (%)	66.2	5.5	(3.3)	4.3	6.2
Net Dividend (sen)	-	-	-	1.9	2.0
EBITDA margin (%)	12.3	10.6	11.4	11.4	11.4
PATANCI margin (%)	3.5	3.5	3.2	3.2	3.3
Dividend yield (%)	-	-	-	1.7	1.8

Source: Company, MIDFR

## FY19 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results		
	1QFY19	1QFY18	YoY (%)
Revenue	1,506.4	1,346.4	11.9
Other income	6.2	9.3	(33.4)
Operating expenses	(1,364.8)	(1,253.8)	8.9
<b>Profit from operations</b>	147.7	101.8	45.1
Finance costs	(32.9)	(24.5)	34.0
Share of profits of associates	0.0	0.1	(96.3)
<b>PBT</b>	114.9	77.4	48.4
Tax expense	(24.6)	(16.4)	50.1
<b>PAT</b>	90.2	61.0	47.9
Non-controlling interests	29.7	8.3	256.3
<b>PATANCI</b>	60.5	52.7	14.9
Basic and diluted EPS (sen)	1.8	1.6	14.8
			<i>+ / (-) pts</i>
Operating margin (%)	9.8	7.6	2.2
PBT margin (%)	7.6	5.8	1.9
PAT margin (%)	6.0	4.5	1.5
PATANCI margin (%)	4.0	3.9	0.1
Effective Tax rate (%)	21.4	21.2	0.2

Source: Company, MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

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

### SECTOR RECOMMENDATIONS

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