

# Leong Hup International Bhd

1QFY19 Pathing for a Good Start

**TP: RM1.43** (+30.0%)

Main Market Listing @ RM1.10

**Buy**

Jeff Lye Zhen Xiong

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

## Review

- Leong Hup International Bhd's (LHI) 1QFY19 adjusted net profit of RM60.6mn (+15.0% YoY) came in within our full-year forecasts at 24%. No dividend was declared in the quarter under review.
- 1QFY19 revenue increased 11.9% YoY to RM1.5bn largely driven by i) Feedmill (+27.0 YoY) due to pent up feed sales volume and higher average selling price, especially in Indonesia and Vietnam; and ii) Livestock revenue improved 2.7% YoY to RM859.7mn. EBIT surged 45.9% YoY to RM145.6mn supported by Feedmill (+42.7% YoY) and Livestock (+39.5% YoY) as respective segments' EBIT margin have shown material YoY improvement of 1.2%-pts and 2.5%-pts.
- Geographically, Indonesia recorded remarkable top-line growth of 34.0% YoY, driven by higher livestock feed's contribution and better day-old chicks (DOC) pricing. However, Singapore's revenue declined 28.7% YoY primarily due to loss of revenue from a subsidiary which was disposed in Jun-2018. With regards to earnings, significant EBITDA improvements were made in Malaysia (+32.9% YoY), Vietnam (+56.4% YoY), and Indonesia (+75.3% YoY) as opposed to EBITDA contraction (-20.0% YoY) in Singapore.

## Impact

- No change to earnings forecasts.

## Outlook

- We project FY19-21 earnings to be supported by top-line growth driven by higher production volume from existing markets and aggressive development in new market, Philippines. Segmentally, we expect the Feedmill business to grow in the range of 5.0-11.5% YoY (FY19-21 CAGR of 8.8%), outperforming Livestock's growth, which is estimated to range within 7.1-8.0% YoY (FY19-21 CAGR of 7.4%), underpinned by the robust feed demand in Vietnam and maiden contribution from a new feedmill in Philippines.
- On the back of subdued corn and soybean prices, we think it is timely for LHI to purchase its raw materials forward, thus benefitting from lower raw materials' cost.

## Valuation

- Maintain buy recommendation on LHI on the merits of i) being a fully integrated poultry player with operational flexibility, ii) strong presence and position in ASEAN, iii) tailwind on favourable raw material prices and iv) high quality associated branding with strong track records. LHI's target price is maintained at RM1.43/share based on 19x FY20 earnings.

## Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	4015.0
52-wk Hi/Lo (RM)	nm
12-mth Avg Daily Vol ('000 shrs)	nm
Estimated Free Float (%)	25.68%-29.54%
Beta	nm

## Major Shareholders (%)

Emerging Glory	- 52.8%
Clarinden Investment	- 8.0%

## Forecast Revision

	FY19	FY20
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	252.5	274.5
Consensus	nm	nm
TA's / Consensus (%)	nm	nm
Previous Rating	Buy (Maintain)	

## Financial Indicators

	FY19	FY20
Net Debt / Equity (x)	0.7	0.6
ROE (%)	16.6	14.9
ROA (%)	5.0	5.1
NTA/Share (RM)	0.6	0.7
Price/NTA (x)	1.8	1.6

## Scorecard

	% of FY
vs TA	24 Within
vs Consensus	nm nm

## Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	nm	(1.8)
3 mth	nm	(5.2)
6 mth	nm	(5.2)
12 mth	nm	(13.5)

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

FYE December (RM mn)	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
Pretax Profit	292.3	348.6	440.3	478.7	536.5
Reported Net Profit	192.6	186.2	252.5	274.5	307.7
Core Net Profit	172.1	215.2	252.5	274.5	307.7
Core EPS (sen)	5.3	5.9	6.9	7.5	8.4
Core PER (x)	20.8	18.7	15.9	14.6	13.1
DPS (sen)	1.1	1.6	2.1	2.3	2.5
Dividend Yield (%)	1.0	1.4	1.9	2.1	2.3

**Table 2: IQFY19 Results Analysis (RMmn)**

FYE 31 Dec	IQFY18	IQFY19	YoY (%)
Revenue	1,346.4	1,506.4	11.9
Other Income	7.2	4.1	(43.8)
Operating Expenses	(1,253.8)	(1,364.8)	8.9
EBIT	99.8	145.6	45.9
Adj. EBIT	99.8	145.6	45.9
Net Interest	(22.5)	(30.8)	36.7
Associate	0.1	0.0	(62.8)
Profit before Tax	77.4	114.9	48.4
Adj. PBT	77.4	114.9	48.4
Taxation	(16.4)	(24.6)	50.1
Extraordinary Items	-	-	nm
Minority Interest	(8.3)	(29.7)	>100
Net Profit	52.7	60.6	15.0
Adj. Net Profit	52.7	60.6	15.0
Basic EPS (sen)	1.6	1.8	15.0
DPS (sen)	-	-	nm
			<b>%-points</b>
EBIT Margin (%)	7.4	9.7	2.3
PBT Margin (%)	5.8	7.6	1.9
Net Margin (%)	3.9	4.0	0.1
Adj. Net Margin	3.9	4.0	0.1
Tax Rate (%)	21.2	21.4	0.2

**Table 3: IQFY19 Results Analysis (RMmn) – Segment**

FYE 31 Dec	IQFY18	IQFY19	YoY (%)
<b>Revenue</b>	<b>1,346.4</b>	<b>1,506.4</b>	<b>11.9</b>
Livestock and Poultry Related	837.2	859.7	2.7
Feedmill	506.7	643.6	27.0
Others	2.5	3.1	23.0
<b>Segment EBIT</b>	<b>101.8</b>	<b>147.7</b>	<b>45.1</b>
Livestock and Poultry Related	56.7	79.1	39.5
Feedmill	51.1	73.0	42.7
Elimination	(6.0)	(4.4)	(27.6)
			<b>%-points</b>
<b>Segment EBIT Margin</b>	<b>7.6</b>	<b>9.8</b>	<b>2.2</b>
Livestock and Poultry Related	6.8	9.2	2.4
Feedmill	10.1	11.3	1.2

FYE 31 Dec	IQFY18	IQFY19	YoY (%)
<b>Revenue</b>	<b>1,346.4</b>	<b>1,506.4</b>	<b>11.9</b>
Malaysia	394.3	442.2	12.2
Singapore	271.3	193.3	(28.7)
Vietnam	249.4	293.2	17.6
Indonesia	420.5	563.4	34.0
Philippines	10.9	14.1	30.1
<b>Segment EBITDA</b>	<b>150.9</b>	<b>200.6</b>	<b>33.0</b>
Malaysia	59.4	78.9	32.9
Singapore	34.7	27.8	(20.0)
Vietnam	18.6	29.1	56.4
Indonesia	36.0	63.1	75.3
Philippines	2.2	1.7	(19.7)
			<b>%-points</b>
<b>Segment EBITDA Margin</b>	<b>11.2</b>	<b>13.3</b>	<b>2.1</b>
Malaysia	15.1	17.8	2.8
Singapore	12.8	14.4	1.6
Vietnam	7.5	9.9	2.5
Indonesia	8.6	11.2	2.6
Philippines	19.8	12.2	(7.6)

### Stock Recommendation Guideline

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

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

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

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As of Tuesday, May 14, 2019, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

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