

Initial Public Offering

2 May 2019

Leong Hup International Berhad

Fair Value: RM1.31

A Leading Poultry Producer

(Not Rated)

Listing Price	RM 1.10
Fair Value	RM1.31
Stock Data	
Board/Sector	Main Market
No. of Shares	3650.0m
Market Cap.	RM 4015m

Investment Highlights

- **A leading “pure-play” poultry producer, to be listed in the Main market.** Upon listing, Leong Hup International Berhad (LHI) will have a market capitalisation of RM4.015b. LHI has 59 years of track record in Poultry (livestock and feedmill operations) industry. Also, LHI is the largest integrated poultry producer in Malaysia and the top three integrated poultry producers in Indonesia and Vietnam.
- **Fully integrated business model.** LHI’s operations are fully integrated, for both of its value chain (ie. upstream and downstream). Its businesses are also geographically spread across Southeast Asia. As such, LHI’s vertical integration enables the Group to maintain a complete cost and quality control over the production process and product quality.
- **High barriers of entry and adheres to regulatory restrictions.** LHI’s facilities are certified by the international standards such as ISO FSMS, HACCP. Besides, the Halal Certification is the key element allows the Group to operate in Malaysia and Indonesia as required.
- **Experienced senior management team.** The Group is led by Group CEO, Tan Sri Lau Tuang Nguang and ED, Dato lau Eng Guang. Both of the key personnel have more than 35 years of working experience in the poultry industry. We opine that LNI will continue to perform well in its long-term growth plans.
- **Poultry industry is in growth trajectory across ASEAN consumer markets.** The disposable income per capita in selected ASEAN countries (Indonesia, Malaysia, Vietnam) registered a CAGR of roughly 3-4%. Besides, poultry is the preferred animal based protein across Southeast Asian consumer since it is 3x to 4x more affordable than beef, based on cost price index.
- **Stable future earnings growth underpinned by expansion of operations in newer markets.** We foresee the Group could achieve a revenue of RM5820.1m (+2.9 yoy) and

Financial Forecast (FYE 31 Dec)

(RM’M)	2017	2018F	2019F	2020F
Revenue	5,501.4	5,654.6	5,820.1	6,016.3
Gross Profit	912.6	1002.2	1036.3	1048.2
EBIT	384.0	472.5	495.4	502.1
PBT	292.3	373.2	395.6	395.4
PAT	247.408	273.8	298.6	313.2
EPS (sen)	6.78	7.50	8.18	8.58
P/E (x)	16.2	14.7	13.4	12.8
GP Margin	16.59%	17.72%	17.81%	17.42%
PAT Margin	4.50%	4.84%	5.14%	5.22%
Revenue Growth	4.64%	2.79%	2.93%	3.37%
PAT Growth	-8.38%	10.67%	9.06%	3.35%
ROE	15.07%	15.08%	14.47%	12.64%

Major Shareholder

Emerging Glory	52.8%
Clarinden Investments	9.9%
Founding Family	11.7%

Events (IPO Shares)

Events (IPO Shares)	Tentative dates
Issuance of Prospectus	25 April 2019
Closing of Application	3 May 2019
Allotment to successful applicants	15 May 2019
Date of Listing	16 May 2019

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RM6016.3m (+3.4% yoy) for FY19F and FY20F respectively due to continuous growths of livestock and feedmill businesses mainly in Vietnam, Philippines and Indonesia. As such, FY19F and FY20F earnings growth are expected to increase by 9.1% yoy to RM298.6m and 4.9% yoy to RM313.2m respectively assuming net margin of 5.1-5.2%.

- **Dividend policy in place with minimum 30% dividend payout ratio.** As such, we expect the Group to declare dividend of 2.5 sen and 2.6 sen for FY19F and FY20F respectively, translating into a dividend yield of 2.2-2.3%.

Valuation & Recommendation





- **We derive a fair value of RM1.31 for LHI.** Our valuation is pegged at 16x/17.5x FY19F/FY18F EPS. Our target PER assigned is higher than poultry industry average PER of 13.8x. We feel the valuation is fair as the stock is sector bellwether, and given its strong economies of scale and leading market share in most of their product segments. **Our fair value of the stock renders 19% upside from the listing price of RM1.10.**

Key Risks

- **Outbreaks of livestock disease.**
- **Sudden hike in price of raw materials.**
- **Exchange rate fluctuations.**
- **Unable to renew contracts with the contract farmers.**

Background, Business Activities and Group Structure

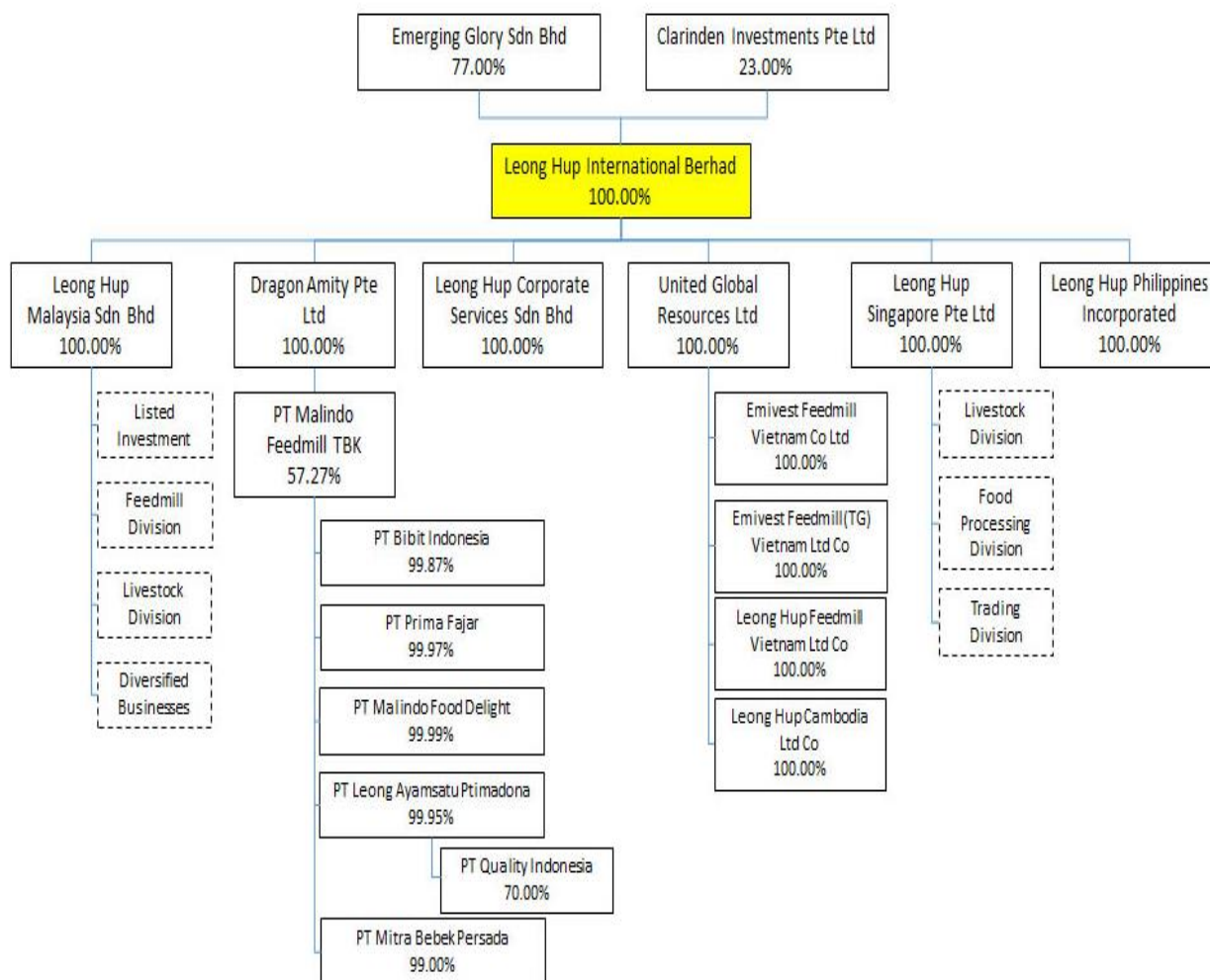
Leong Hup International (LHI) is the largest fully integrated producers of poultry, eggs and livestock feed in Southeast Asia. They now operate in Malaysia, Singapore, Indonesia, Vietnam and the Philippines, all of which are attractive consumer markets with significant growth potential. Business operation included:

<p>01</p> <h3>Livestock Feed</h3>  <p>Leong Hup International ("LHI") produces the best quality feed from our feedmills in Malaysia, Indonesia and Vietnam. Our raw materials for feed productions are selected under a strict quality controlled environment in order to produce feeds of the highest standard.</p>	<p>02</p> <h3>Chicken Breeding</h3>  <p>LHI is amongst the market leaders in South East Asia in breeding stocks of prime quality, including parent stock and day old chicks final stock which are supplied to farms in South East Asia.</p>	<p>03</p> <h3>Broiler Farming</h3>  <p>Sourced directly from our sustainably operated broiler farms, LHI is South East Asia's recognised leading market player in the supply of fresh chicken and chicken parts.</p>
<p>04</p> <h3>Table Egg</h3>  <p>Our award-winning layer farms produce a range of fresh eggs and premium branded eggs enriched with Omega-3 fatty acid and Lutein.</p>	<p>05</p> <h3>Processed Food Products</h3>  <p>LHI's processed food business produces sausages, nuggets, chicken tempura, frozen seafood, frozen meat, marinated meat and duck, under several well-known brands, including Ayam A1 and SunnyGold in Malaysia, SunnyGold and Ciki Wiki in Indonesia and Lee Say in Singapore.</p>	

Source: Company

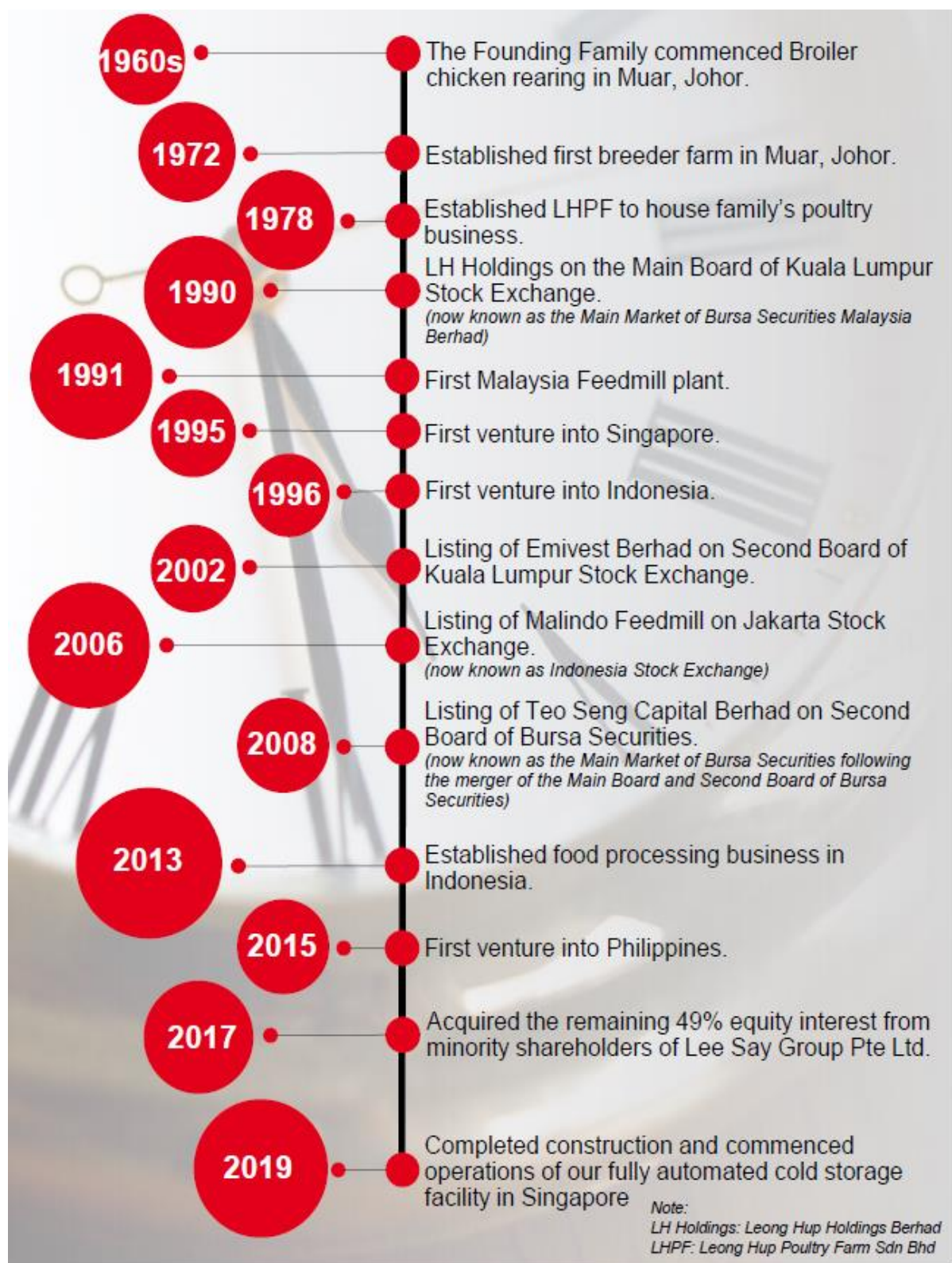
Group Structure

The Group’s subsidiaries are: 1) Leong Hup (Malaysia) Sdn. Bhd; 2) PT Malindo FeedMill Tbk; 3) United Global Resources Ltd; 4) Leong Hup Singapore Pte Ltd; and 5) Leong Hup (Philippines) Inc.



Source: Company

History and Major Milestones of the Group



Source: Company

Experienced Board and Management Team

Board of Directors

<p>LAU CHIA NGUANG Non-Independent Executive Chairman</p>
<p>Lau Chia Nguang, a Malaysian born in 1952, is the Non-Independent Executive Chairman of Leong Hup International Berhad ("LHI") and President Commissioner of PT Malindo Feedmill TBK ("Malindo Feedmill"). He completed his primary school education in 1964. He has over 40 years of experience and expertise in the integrated livestock industry</p> <p>He began his career in the late 1960s as a vegetable wholesaler. In 1978, he joined Leong Hup Poultry Farm ("LH Poultry Farm"). He led the Group's broiler business in Malaysia from 1985 to 2002.</p>
<p>DATO' LAU ENG GUANG Executive Director</p>
<p>Dato' Lau Eng Guang, a Malaysian born in 1955, is the Non-Independent Executive Director. He completed his secondary school education in 1972 and South Australian matriculation in 1974. He has over 40 years of experience and expertise in integrated livestock industry.</p> <p>In 1978, he joined LH Poultry Farm where he oversaw its finances and corporate affairs.</p> <p>He is responsible for the Group's business strategies and risk management and has been involved in various aspects of the Group's operations. He served as a director in LH Holdings and Emivest Sdn Bhd (formally known as Emivest Berhad) ("Emivest") when both companies were listed on the Main Board of Bursa Malaysia Securities Berhad ("Bursa"). He was a director of both companies since 1989 and 2002, respectively.</p>
<p>TAN SRI LAU TUANG NGUANG Group Chief Executive Officer</p>
<p>Tan Sri Lau Tuang Nguang, a Malaysian born in 1958, is the Group Chief Executive Officer. He completed his secondary school education in 1975. He has over 35 years of experience and expertise in integrated livestock industry.</p> <p>He began his career in the family farm business at Leong Hup Poultry Farm ("LH Poultry Farm") in 1978 where he gained experience through the operations and running of the GPS and breeder farms and was a director from 1978 to October 2018. He has been a director of LH Poultry Farm in 1985 to present date. He has been a director of Leong Hup ("LH Holdings") since 11 January 1986 to present date. He sat on the Board of Leong Hup International ("the Board") from 2014 until his resignation on 1 August 2018. He was appointed as the Group Chief Executive Officer on 13 June 2018 and was re-appointed to the Board on 23 November 2018.</p>
<p>LAU JOO HONG Executive Director</p>
<p>Lau Joo Hong, a Malaysian born in 1970, is the Non-Independent Executive Director and Chief Executive Officer for the Group's Vietnam operations. He completed his secondary school education in 1988. He has over 20 years of experience and expertise in the integrated livestock industry and retail market.</p> <p>He began his career in the family poultry business in 1991 when he joined Bintang Lapan Sdn Bhd (now known as Ayam A1 Food Corporation Sdn Bhd ("A1FC")) which was previously a subsidiary of LH Holdings principally involved in processing and marketing of chicken and related products, where he oversaw the entire operations of A1FC. In 1994, he was also assigned the responsibility of overseeing the entire operations of A1FP. He was transferred to Astaka Shopping Centre (Muar) Sdn Bhd ("Astaka"), another family business in 1996 where he was responsible for the overall operations of Astaka until the family's decision to venture into Vietnam's poultry business in 2007 where he planned and executed the expansion plan. He led Vietnam operations as Deputy Chief Executive Officer until his promotion in 2014 to Chief Executive Officer. He also led the expansion of the Vietnam operations since its incorporation.</p>
<p>LAU JOO HAN Executive Director</p>
<p>Lau Joo Han, a Malaysian born in 1975, is the Non-Independent Executive Director and Chief Executive Officer for the Group's Malaysia operations. He has over 19 years of experience in the livestock industry.</p>

He graduated with a degree in International Trade from Victoria University, Melbourne, Australia in 1999.

He began his career in 2001 at Leong Hup Contract Farming Sdn Bhd (now known as Leong Hup Agrobusiness Sdn Bhd ("LH Agrobusiness")) in charge of the marketing and operations of LH Agrobusiness. He rose through the ranks and has been the Chief Executive Officer of Leong Hup (Malaysia) Sdn Bhd ("LH Malaysia") since 2014, in-charge of overseeing the business and full operations of LH Malaysia. He was duly appointed and has served as a director of LH Malaysia since 2014.

LAU JOO KEAT
Executive Director

Lau Joo Keat, a Malaysian born in 1979, is the Non-Independent Executive Director. He has approximately 16 years of experience and expertise in the integrated livestock industry.

In 2002, he obtained his Bachelor of Marketing from University of Kentucky, United States.

He began his career in 2002 when he joined the Malindo Feedmill as Production Manager of the breeding, hatchery and broiler farms. In 2007, he served as Head of Production of the breeding, hatchery and broiler farms. 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.

BENNY LIM JEW FONG
Non-Independent Non-Executive Director

Benny Lim Jew Fong, a Singaporean born in 1972, is the Non-Independent Non-Executive Director. He has over 22 years of experience and expertise in private equity, corporate and investment banking.

He obtained a Bachelor of Commerce from Monash University, Australia in 1995 and qualified as a Chartered Financial Analyst in 2001.

He began his career with Southern Bank Berhad as a corporate banking officer from 1996 to 2000. Thereafter, he joined DBS Bank Ltd in 2001 where he held various positions in corporate and investment banking in Malaysia and Singapore. In 2009, he joined United Overseas Bank Ltd in Singapore where he oversaw the origination activities in Malaysia for the bank's strategic client coverage team until he left in 2011 to join Affinity Equity Partners (S) Pte Ltd ("Affinity EPS") at its Singapore office. He is currently the Managing Director in Affinity EPS where he is responsible for originating, executing and managing investments for Affinity EPS.

DATIN PADUKA RASHIDAH BINTI RAMLI
Independent Non-Executive Director

Datin Paduka Rashidah Binti Ramli, a Malaysian born in 1959, is the Independent Non-Executive Director.

She obtained her Bachelor of Arts (Honours) in South East Asian Studies from University of Malaya, Kuala Lumpur in 1982.

She began her career in 1984 as an Administrative and Diplomatic Officer and served at various senior levels in the Ministry of Foreign Affairs, among them being the Southeast Asia Division, Development Division and Chief of Inspectorate. She also had foreign postings in Singapore and Canada, and was Ambassador (in residence) to the Republic of Ecuador and the Republic of Colombia. In 2010, she was appointed as the Director General of the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT), Ministry of Foreign Affairs until her retirement in 2017.

MAHANI BINTI AMAT
Independent Non-Executive Director

Mahani Binti Amat, a Malaysian born in 1954, is the Independent Non-Executive Director. She has over 27 years of working experience in the banking industry.

She obtained her Bachelor in Economics (majoring in Business Administration) from University of Malaya in 1977.

She began her career with Bank Negara Malaysia ("BNM") in 1977 as an officer in the Foreign Investment and Foreign Loans Division and her last position when she left in 1984 was Section Head of Export Credit Refinancing Facilities. She joined the

Singapore branch of United Malayan Banking Corporation Berhad, the predecessor of RHB Bank Berhad ("RHB") 1984 as Head of Asian Currency Unit, Treasury and thereafter RHB, Head Office in Kuala Lumpur from 2001 until 2004. She held various senior management positions in RHB as head of premium banking, international division and with her last designation as Executive Vice President of operations and services. She went on sabbatical after leaving RHB.

CHU NYET KIM
Independent Non-Executive Director

Chu Nyet Kim, a Malaysian born in 1955, is the Independent Non-Executive Director. She has more than 30 years of working experience in the field of taxation, finance and accounting functions.

She obtained her Diploma in Accounting (Honours) from Algonquin College of Applied Arts and Technology, Canada in 1977. She became an associate member of the Chartered Association of Certified Accountants, United Kingdom (now known as Association of Chartered Certified Accountants, United Kingdom) ("ACCA") in 1995 and she has been a Fellow member of the ACCA since 2000. She became a member of Malaysian Institute of Accountants ("MIA") in 2018.

GOH WEN LING
Independent Non-Executive Director

Goh Wen Ling, a Malaysian born in 1979, is the Independent Non-Executive Director. She has over 14 years of working experience in the legal industry encompassing direct real estate acquisitions and divestments, retail banking and various aspects of financing, various areas of corporate and commercial legal practice.

She graduated with a Bachelor of Laws (Honours) degree from University of Hull in 2000. She obtained her Postgraduate Diploma from City University London, Inns of Court School of Law in 2001. She was called to the Bar of England and Wales in 2001 as a Barrister-at-Law of the Honourable Society of the Middle Temple in 2001. In 2002, she was admitted to the High Court of Malaya as an advocate and solicitor.

LOW HAN KEE
Senior Independent Non-Executive Director

Low Han Kee, a Malaysian born in 1959, is the Independent Non-Executive Director.

He qualified as a certified public accountant with the Malaysian Association of Certified Public Accountants ("MACPA")(now known as Malaysian Institute of Certified Public Accountants) in 1984.

He began his career with Ernst & Whinney (now known as Ernst and Young) in 1980 as an audit trainee by signing a 4 year articleship with the firm to undertake the professional examinations of MACPA. He joined Mulpha International Berhad ("Mulpha"), a group involved in trading, construction and engineering which is a listed company on the KLSE from 1985 until 1990 with his last position as the Group Chief Accountant. In 1990, he joined Amway (Malaysia) Sdn Bhd ("AMSB"). He held various senior management positions whilst at AMSB including as Divisional Manager of the Finance & Administration Division, General Manager responsible for Amway operations in Malaysia and Brunei with his last designation as managing director when he retired in 2016. He has served as managing director and President of Amway South East Asia, Australia & New Zealand where he had led the successful opening of Amway's group business in South East Asia including Singapore, Brunei and Vietnam. He also served as managing director of Amway (Malaysia) Holdings Berhad ("AMHB") which is listed on the Main Market of Bursa Securities from 1998 until his retirement in 2016.

TAY TONG POH
Independent Non-Executive Director

Tay Tong Poh, a Malaysian born in 1961, is the Independent Non-Executive Director.

He obtained a Bachelor of Science in Electrical Engineering from the University of Southern California Viterbi School of Engineering, United States in 1984 and a Master of Business Administration (Finance) from the University of Chicago Booth School of Business, United States in 1986.

He has 17 years of experience in corporate banking, corporate finance, project finance, leveraged finance and debt capital markets in J.P Morgan Securities (Asia Pacific) Limited ("JP Morgan"). He began his career with Chase Manhattan Bank, Singapore ("CMB") as an associate in 1987 and transferred to Chase Manhattan Asia Limited, Hong Kong ("CMAL") in 1993. Both CMB and CMAL were the predecessors of JP Morgan. He held various senior management positions in JP Morgan with his last designation as managing director of Debt Capital Markets, Asia Pacific where he was responsible for the loan syndication business of JP Morgan in Asia Pacific and aided in establishing JP Morgan as one of the market leaders in leveraged finance in the region.

TEE YOCK SIONG**Alternate Director to Mr. Benny Lim Jew Fong**

Tee Yock Siong, a Singaporean born in 1981 is the Alternate Director to Mr. Benny Lim Jew Fong. He holds a Bachelors of Business Management and a Bachelor of Science (Economics) from the Singapore Management University in 2006 and subsequently, a Master of Business Administration ("MBA") from the Wharton School at University of Pennsylvania, United States in 2012.

He has almost 12 years of experience and expertise in private equity, corporate finance. He began his career in 2006 at McKinsey & Company, where he advised clients globally on topics relating to corporate finance and strategy. In 2008, he joined Temasek Holdings Pte Ltd ("Temasek"), state-owned holding company that can be characterised as a national wealth investment company owned by the Government of Singapore.

Source: Company

Senior Management**TAN SRI LAU TUANG NGUANG****Executive Director/ Group Chief Executive Officer/President Director of Malindo Feedmill**

Over 35 years of experience and expertise in integrated livestock industry.

He oversees the entire business operations of Group covering Malaysia, Group covering Malaysia, Singapore, Indonesia, Vietnam and Philippines.

LAU CHIA NGUANG**Executive Chairman/President Executive Chairman/President Commissioner Malindo Feedmill**

Over 40 years of experience in integrated livestock industry.

He led the expansion of LH Holdings' poultry business to Jakarta in 1996.

He founded Malindo Feedmill in 1997 as the vehicle for expanding the Group's poultry business Indonesia.

DATO' LAU ENG GUANG**Executive Director/ Group's Business Strategist**

Over 40 years of experience in integrated livestock industry.

He is responsible for the He is responsible for the Group's business strategies and risk management has been involved in various aspects of the Group's operations.

LAU JOO HONG**Executive Director/Chief Executive Officer of Vietnam operations**

He began his career in the family poultry business in 1991.

He led Vietnam operations as Deputy Chief Executive until his promotion to Chief Executive Officer in 2014. He also led the in 2014. He also led the in 2014. He also led expansion of Vietnam operations since its incorporation.

LAU JOO HAN**Executive Director/Chief Executive Officer of Malaysia operations**

Over 19 years of experience expertise in the livestock industry.

He is in-charge of overseeing the business and full f LH operations of LH Malaysia.

LAU JOO KEAT**Executive Director/Country Head of Indonesia operations**

He began his career in 2002 as production manager in Malindo Feedmill.

He has served as a director Malindo since 2015 and has been the Country Head of the Group's Indonesian business since 2017.

<p style="text-align: center;">LAU JUI PENG Group Breeder Chief Executive Officer</p> <p>19 years of experience and expertise in production processes and management of poultry companies.</p> <p>He was in charge of the production, operations and administration of LHPF.</p>
<p style="text-align: center;">LAU JOO HENG Chief Executive Officer of Philippines Operations</p> <p>15 years of experience in operational activities of livestock industry and exposure in retail and export businesses.</p> <p>He began his career in 1998 when he joined Arab-Malaysian Merchant as Risk Management Officer until he left to join the family business.</p>
<p style="text-align: center;">LAU JOO HWA Chief Executive Officer of Singapore Operations</p> <p>16 years of experience in operational activities of integrated livestock industry and exposure retail and export businesses.</p> <p>He began his career in 2002 as a marketing manager subsequently promoted to Chief Executive of the Group's Singapore operations since 2017.</p>
<p style="text-align: center;">CHEW ENG LOKE Group Chief Financial Officer</p> <p>Over 25 years of experience in management and financial roles at numerous companies.</p> <p>He was previously with Ayamas Food Corporation Food Berhad, Universal Nutribeverage(M) Sdn Bhd, Green Spot Beverage (M) Sdn Bhd, Texchem Resources Berhad, Seapack Food Sdn Bhd, Ogawa World , Ogawa World , Ogawa World , Ogawa World , Ogawa World Berhad and AirAsia X Berhad.</p>

Source: Company

Business overview

LHI is one of the largest fully integrated producers of poultry, eggs and livestock feeds in Southeast Asia. The Group operates in fast-growing ASEAN consumer markets with rising poultry consumption. The Group is also a pure-play poultry producer with a singular focus on the production of poultry and with sufficient size to achieve meaningful economies of scale in the production processes and raw material procurement.



Note:

(1) Further processed products, including ready-to-eat and ready-to-cook items.

Source: Company

<p>FEEDMILL BUSINESS</p> 	<p>Produce feeds for Grandparent Stocks (GPS), Parent Stocks (PS), Broiler chickens, Layer chickens, Broiler ducks, swine, quail, aquatic animals and certain domestic pets. Our livestock feeds have high nutritional values, tailored to the type of livestock and rearing stage.</p> <p>Feedmill Business provides almost all of the livestock feeds required for our Livestock Business in Malaysia, Indonesia and Vietnam.</p>
<p>LIVESTOCK BUSINESS</p> 	<p>Livestock Business has two principal business operations:</p> <ul style="list-style-type: none"> ❖ Chicken production: the production of Parent Stock day-old-chicks ("PS DOCs"), Broiler day-old-chicks ("Broiler DOCs") and Broiler chickens, the slaughtering of Broiler chickens and further food processing; and ❖ Egg production: the production of Layer DOCs and table eggs. <p>As at 31 October 2018, we operate 241 farms and hatcheries and have 656 contract farms across four countries (Malaysia, Indonesia, Vietnam and the Philippines) and six slaughtering plants across three countries (Malaysia, Indonesia and Singapore).</p>

Source: Company

Feedmill Operations

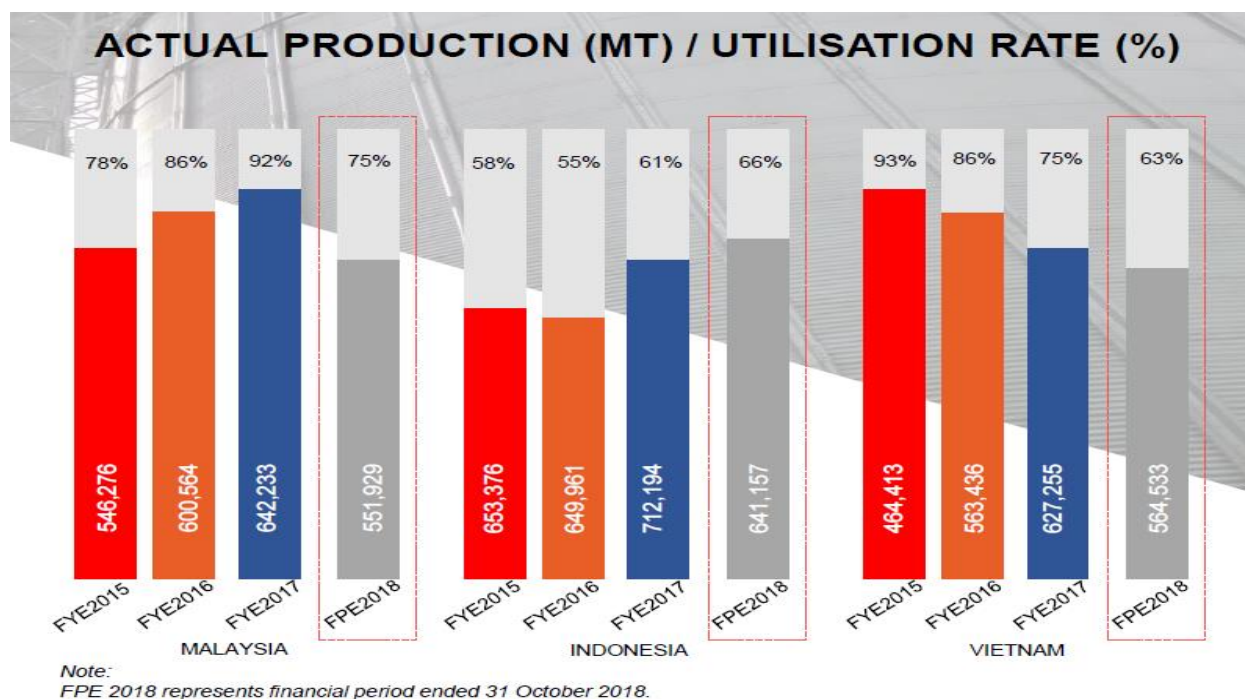
The Group owns and operates five feedmills in Malaysia, five feedmills in Indonesia and three feedmills in Vietnam, and our fourth feedmill in Dong Nai, Vietnam, commencing operations in January 2019. As at 31 October 2018, our total annual production capacity was 2,602,902 MT. In 2017, the market share was approximately 10.5% in Malaysia, 5.5% in Indonesia and 4.0% in Vietnam, by annual production of livestock feeds.

 **57%** Livestock feeds sold to third parties. (As at 31 October 2018)

Raw materials purchased (MT)				
	FYE2015	FYE2016	FYE2017	FPE2018
Corn	823,265	743,718	765,029	756,657
Soybean meal	368,453	404,534	418,821	396,576
Others	59,352	345,071	374,256	279,893

Source: Company

The Group use mostly imported corn from South America, except in Indonesia, where we use domestically produced corn. We import all our soybean meal from South America.



Source: Company

Livestock Operation



Livestock housing capacity ('000)

	Malaysia	Indonesia	Vietnam	Singapore	Philippines
Broiler chickens	10,378	5,741	8,077	2,224	675
GPS DOC	126				96
PS DOC	1,944	2,819	407	328	146
Layer chickens	6,840		288		2,177
Layer DOCs	314		172		40
PS DODs	22				12
Broiler ducks	292	395			

Note: Figures as at 31 October 2018.

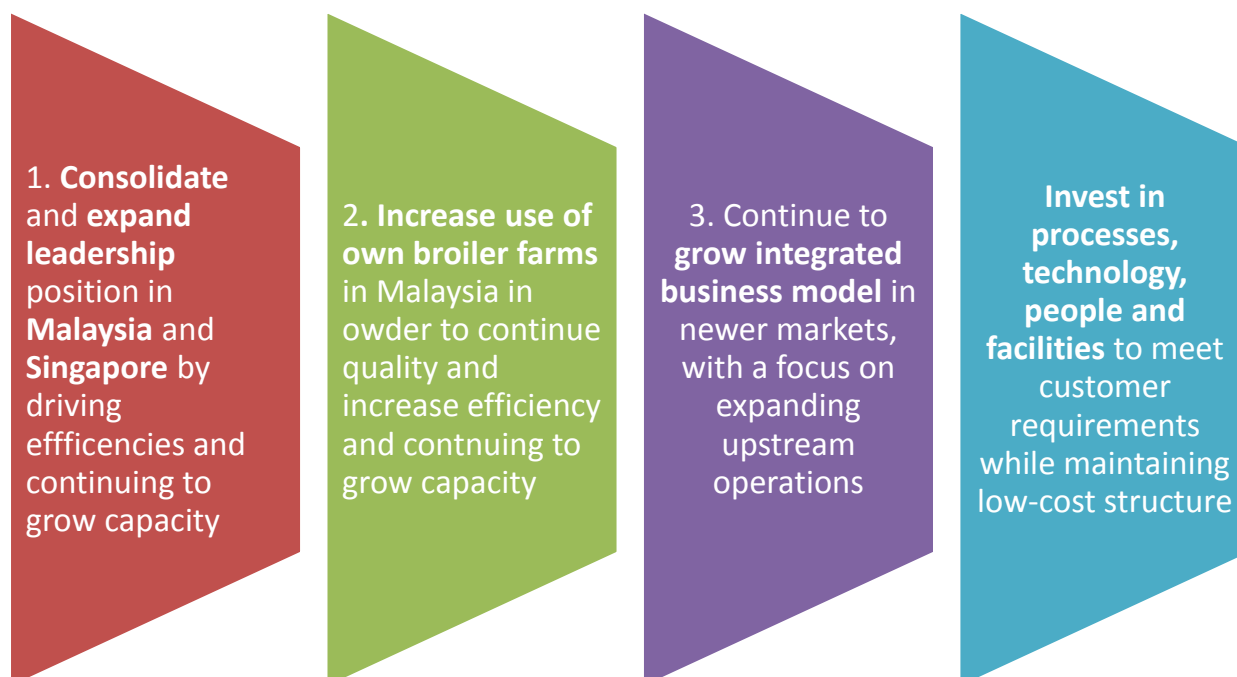
Source: Company

Malaysia	<ul style="list-style-type: none"> • Largest integrated poultry producer by annual sales of DOC in 2017 • 6 GPS DOC farms • 19 PS DOC farms • 44 Broiler chicken farms • 3 Layer DOC farms • 25 Layer chicken farms • 11 PS DOD and Broiler duck farms • 8 Hatcheries • 1 Slaughtering plant • 19 Contract farms 	
	As at 31 October 2018 ('mil)	
	Number of DOCs supplied	170
	Number of Broiler chickens supplied	50
	Eggs sold	1,115

Indonesia	<ul style="list-style-type: none"> Malindo Feedmill, a 57.8% subsidiary of LHI is the third largest integrated poultry operator in Indonesia <i>(as at 31 March 2019)</i> 4 GPS DOC farms 24 PS DOC farms 29 Broiler chicken farms 2 Layer DOC farms 1 Layer chicken farm 1 PS DOD and Broiler duck farm 18 Hatcheries 1 Slaughtering plant 326 Contract farms 	
	As at 31 October 2018 ('mil)	
	Number of DOCs supplied	188
	Number of Broiler chickens supplied	20
	Eggs sold	42
Singapore	<ul style="list-style-type: none"> Importer, wholesaler and distributor of various food products 4 PS DOC farms 26 Broiler chicken farms 2 Hatcheries 4 Slaughtering plants 1 Contract farm 	
	As at 31 October 2018 ('mil)	
	Number of DOCs supplied	25
	Number of Broiler chickens supplied	8
	Eggs sold	-
Philippines	<ul style="list-style-type: none"> Engaged in farming of broiler DOC and live broiler 2 PS DOC farms 2 Broiler chicken farms 1 Hatchery 7 Contract farms 	
	As at 31 October 2018 ('mil)	
	Number of DOCs supplied	8
	Number of Broiler chickens supplied	3
	Eggs sold	-
Vietnam	<ul style="list-style-type: none"> Producer of livestock feeds and engaged in poultry breeding and broiler farming 4 PS DOC farms 1 Layer DOC farm 3 Layer chicken farms 1 Hatchery 303 Contract farms 	
	As at 31 October 2018 ('mil)	
	Number of DOCs supplied	31
	Number of Broiler chickens supplied	20
	Eggs sold	234

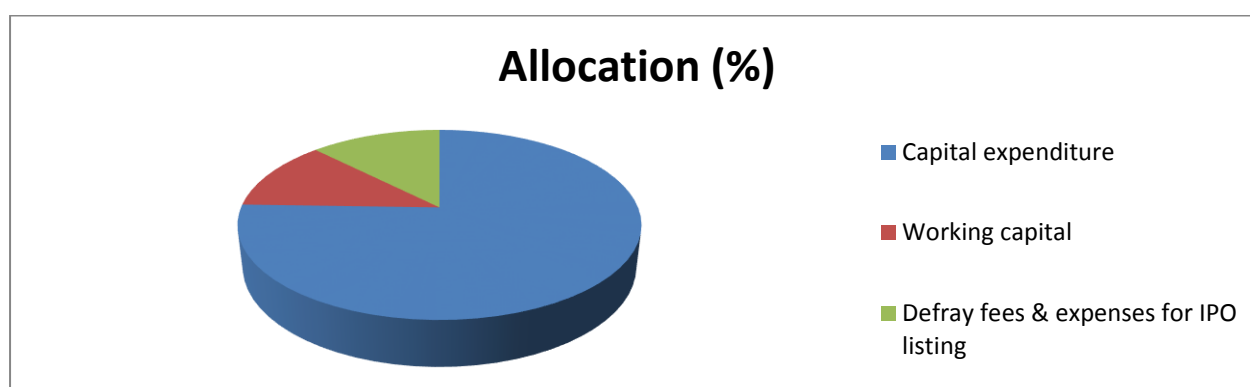
Source: Company

Future Plans



Source: Company

Utilization Proceeds



Source: Company

Details of use of proceeds	Estimated timeframe for use from the date of our Listing	RM'000	%
Capital expenditure	Within 24 months	207,733	75.5
Working capital	Within 6 months	32,959	12.0
Defray fees and expenses for IPO and Listing	Within 3 months	34,308	12.5
Total		275,000	100.0

Source: Company

Financial forecast

FYE 31 Dec	2015	2016	2017	2018F	2019F	2020F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	4,714.6	5,257.4	5,501.4	5,654.6	5,820.1	6,016.3
Gross Profit	775.001	1053.456	912.556	1002.2	1036.3	1048.2
EBITDA	461.135	646.792	583.109	602.2	625.8	652.2
EBIT	311.305	449.891	383.983	472.5	495.4	502.1
PBT	216.599	347.306	292.267	373.2	395.6	395.4
PAT	166.031	270.046	247.408	273.8	298.6	313.2
Margin (%)						
GP margin	16.4%	20.0%	16.6%	17.7%	17.8%	17.4%
EBITDA margin	9.8%	12.3%	10.6%	10.6%	10.8%	10.8%
EBIT margin	6.6%	8.6%	7.0%	8.4%	8.5%	8.3%
PBT margin	4.6%	6.6%	5.3%	6.6%	6.8%	6.6%
PAT margin	3.5%	5.1%	4.5%	4.8%	5.1%	5.2%
Growth (%)						
Revenue growth		11.5%	4.6%	2.8%	2.9%	3.4%
GP growth		35.9%	-13.4%	9.8%	3.4%	1.1%
EBITDA growth		40.3%	-9.8%	3.3%	3.9%	4.2%
EBIT growth		44.5%	-14.6%	23.1%	4.8%	1.4%
PBT growth		60.3%	-15.8%	27.7%	6.0%	-0.1%
PAT growth		62.6%	-8.4%	10.7%	9.1%	4.9%
ROA	4.1%	6.3%	5.5%	5.7%	5.7%	5.4%
ROE	9.8%	13.6%	15.1%	15.1%	14.5%	12.8%
Current ratio	1.1	1.1	1.1	1.2	1.2	1.3
Gearing ratio	1	0.8	1.3	1.15	1.12	1.14
PE	24.2	14.9	16.2	14.7	13.4	12.8
EPS (sen)	4.55	7.40	6.78	7.50	8.18	8.58
DPS (sen)	-	-	-	1.13	2.45	2.57
Dividend payout ratio (%)				15	30	30
Dividend Yield (%)				1.02%	2.23%	2.34%

(Source: Company, JF Apex)

Financial Review and Outlook

For FY2015 to FY2017, LHI recorded CAGR for revenue and net earnings of 8.0% and 21.9% respectively. The Group's revenue from Feedmill Business grew at CAGR of 12.4% whilst Livestock Business grew at CAGR of 5.8% during the period. The strong revenue was mainly contributed by significant topline growth in Indonesia (ie. 16.8% in FY16 and 6.6% in FY17), Singapore (ie. 11.5% in FY16 and 5.5% in FY17) and Vietnam (ie. 18.6% in FY16, and 3.8% in FY17), thanks to increase in average selling price and sales volume of Broiler. However, The Group's bottomline growth for FY17 was not in line with the stellar growth in FY16, dragged by increase in price for the purchase of inventories and livestock as the Indonesian government stopped issuing imports permits for corn used in Feedmills Business.

Moving Forward, we expect LHI to achieve revenue of RM5820m (+2.9% yoy) and RM6014m (+3.4% yoy) for FY2019F and FY2020F respectively banking on continuous growth in most of the countries that the Group operates in especially Philippines, Vietnam and Indonesia. These were supported by consequential increase in purchasing power proportion to the increase of protein consumption. Apart from rising revenue, we expect the Group to deliver better earnings of RM298.9m (+9.1% yoy) and RM313.2 (+4.9% yoy) for FY19F and FY20F respectively, as the Group is able to respond by adapting the formulation of their livestock feed to reduce the amount of corn used and increasing the usage of other raw materials with similar nutritional values. Also, the Group identifies several other local corn suppliers for the purchase of raw materials. As such, the Group is able to mitigate the long-term impact of increase in corn prices on the Feedmill Business in Indonesia.

Valuation & Recommendation

We derive a fair value of RM1.31 for LHI. Our valuation is pegged at 16x/17.5x FY19F/FY18F EPS. Our target PER assigned is higher than poultry industry average PER of 13.8x. We feel the valuation is fair as the stock is sector bellwether, and given its strong economies of scale and leading market share in most of their product segments. **Our fair value of the stock renders 19% upside from the listing price of RM1.10.**

Peer Comparison

Company	Last price @ 30/4/2019	Market Cap RM'm	P/E (x)			P/B	ROE	Div Yield
	RM		2017	2018F	2019F			
LHI	*1.10	4,015	16.2	14.7	13.4	2.5	15.1%	1.0%
LAY HONG	0.45	300	30.0	16.0	11.5	1.9	1.6%	1.1%
CAB	0.58	375	9.3	18.3	-	0.8	5.7%	0.9%
CCK	0.625	394	12.2	8.9	12.4	1.5	10.7%	2.0%
TEO SENG	1.18	354	87.0	9.5	-	1.0	11.5%	2.3%
LTKM	1.16	151	13.4	40.7	-	0.6	6.8%	1.7%

*Listing Price

Source: Bloomberg, Company

Key Risks

- **Outbreaks of livestock disease.**
- **Sudden hike in price of raw materials.**
- **Exchange rate fluctuations.**
- **Unable to renew contracts with the contract farmers.**

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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