

30 August 2019 | 2QFY19 Results Review

Leong Hup International Berhad

Expecting earnings recovery in 2HFY19

INVESTMENT HIGHLIGHTS

- **2QFY19 earnings dropped by -75.5%yoy to RM16.1m in view of significant reduction in ASP**
- **Nonetheless, the feedmill operation registered an encouraging earnings growth**
- **Recovery seen in ASP from June 2019 onwards, indicating revival in profitability in the subsequent quarters**
- **An interim dividend declared of 1.6sen per share**
- **Upgrade to BUY with an unchanged target price of RM0.88**

Significant drop in earnings. Leong Hup International Berhad (LHI)'s 2QFY19 earnings dropped by -75.5%yoy to RM16.1m. This brings its cumulative 1HFY19 earnings to RM76.7m, which is in line with our but lagged consensus expectation, accounting for 40.0% and 36.0% of our full year FY19 forecast respectively. The poor 2QFY19 earnings was driven by the subdued performance of livestock and poultry related segment. During the quarter, there was a significant reduction in average selling price (ASP) of the products sold by the group, particularly in Malaysia. Nonetheless, we expect better earnings going forward due to the recent price recovery.

Livestock and poultry related products. The livestock and poultry related products' 2QFY19 revenue and EBITDA declined by -11.8%yoy and -64.7%yoy respectively. The poor performance was primarily due to the: (i) reduction in selling price of broiler's day-old-chicks (DOC) in Malaysia to RM1.21 per DOC (-38.6%yoy) and broiler chicken to RM3.99 per kg (-14.7%yoy); (ii) depressed broiler price in Indonesia and Vietnam and; (iii) absence of revenue from a subsidiary in Singapore, Jordon International Food Processing Pte. Ltd. following the disposal of this subsidiary on 30 June 2018. However, these were partially mitigated by the higher sales volume of DOC and broiler in Indonesia and Vietnam respectively. Consequently, the group's sales volume of broiler's DOC and chicken rose by +8.1%yoy and +10.7%yoy respectively.

Feedmill operation. Meanwhile, Feedmill operation's 2QFY19 revenue and EBITDA rose by +32.6%yoy and +81.4%yoy respectively. These were attributable to the increase in sales volume and average selling price of livestock feed in Indonesia and Vietnam. Note that the new feedmill plant in Dong Nai, Vietnam has begun operation since January 2019. In view of this, sales of livestock feed grew by +13.9%yoy to 583,664 metric tonnes during the quarter.

Upgrade to BUY
(Previously **NEUTRAL**)

Unchanged Target Price (TP): RM0.88

RETURN STATS	
Price (29 th August 2019)	RM0.76
Target Price	RM0.88
Expected Share Price Return	+15.8%
Expected Dividend Yield	+2.6%
Expected Total Return	+18.4%


STOCK INFO	
KLCI	1,589.82
Bursa / Bloomberg	6633 / LHIB MK
Syariah Compliant	No
Issued shares (mil)	3,650.0
Market cap. (RM'm)	2,774.0
Price over NA	1.91
52-wk price Range	RM0.72 – RM1.19
Beta (against KLCI)	NA
3-mth Avg Daily Vol	4.76m
3-mth Avg Daily Value	RM4.55m
Major Shareholders (%)	
Clariden Inv	9.01%
Lau Joo Han	2.11%
Lau Eng Guang	1.61%
Joo Hong Lau	0.76%

First interim dividend declared. The group has declared its first interim dividend of 1.6sen per share for FY19. At the current price, this represents a dividend yield of 2.1%. Note that LHI has a dividend policy of at least 30.0% payout ratio.

Outlook. From June 2019 onward, we observed that selling prices of broiler DOC and broiler chicken are on a recovery trend in Malaysia. The latest ASP for broiler DOC and broiler chicken have recovered to about RM2.00 per DOC (+33.5qoq) and RM5.00 per kg (+32.7%qoq) respectively. Hence, we expect margins and profitability of the livestock segment will improve in the subsequent quarters. Furthermore, the group earnings is supported by the strong performance of its feedmill segment and this is expected to continue given the recent ramp-up of feedmill operation in Vietnam and the Philippines.

Impact to earnings. We are maintaining our FY19F and FY20 earnings forecasts as our earnings projections are still within expectations as we have already imputed lower ASP. Note that the reduction in ASP was partially mitigated by a higher sales volume.

Target price. Our target price remains unchanged at **RM0.88** per share based on pegging FY20F EPS of 5.6sen to target PER of 15.8x. The target PER is based on the FY20 market cap weighted average PER of LHI's regional peers.

Upgrade to BUY. The livestock business is a high-volume, low-margin business as the products can be regarded as a commodity and hence, subjected to demand and supply dynamic. The subdued ASP for broiler's DOC and chicken in 2QFY19 was not only impacting LHI but the whole industry players. The impact to LHI is more significant as it is a pure-play poultry producer as compared to some of its bigger competitors which have ventured into other businesses apart from poultry. Moving forward, we expect the recent ASP recovery is expected to boost profitability of the livestock segment. In addition, we believe that LHI's earnings growth will be sustained driven by its strategy to focus on: (i) economies of scale; (ii) vertically integration and; (iii) geographically diversifying its operation. The stock has rationalised by more than -44.7% since its IPO and is currently trading at an attractive PER of 12.0x. All things considered, we are upgrading our call recommendation to **BUY** from neutral previously, considering the share price have decline -13.6% since our last report on 13 Aug 2019. Based on out TP of RM0.88, we are now seeing an 18.4% upside from the last traded price of RM0.76. 

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
Core EBITDA	646.8	583.1	654.6	681.1	709.9
Depreciation & amortisation	(196.9)	(199.1)	(197.1)	(210.9)	(220.4)
Core EBIT	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
PATANCI	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)	NA	NA	NA	3.2	3.5
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 (%)	NA	NA	NA	2.4	2.6
PER (x)	15.2	14.4	14.9	14.3	13.5

Source: Company, MIDFR

LEONG HUP INTERNATIONAL: 2QFY19 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	2QFY19	1QFY19	2QFY18	YoY (%)	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue	1,477.2	1,506.4	1,423.1	3.8	(1.9)	2,983.6	2,769.5	7.7
Other income	10.3	6.2	7.0	47.6	66.5	16.4	16.2	1.4
Operating expenses	(1,412.8)	(1,364.8)	(1,302.6)	8.5	3.5	(2,777.6)	(2,556.4)	8.7
Profit from operations	74.7	147.7	127.5	(41.4)	(49.4)	222.4	229.3	(3.0)
Finance costs	(35.0)	(32.9)	(24.9)	40.6	6.5	(67.9)	(49.4)	37.4
Share of profits of associates	0.1	0.0	0.1	18.8	2,988.9	0.2	0.2	(22.7)
PBT	39.9	114.9	102.7	(61.2)	(65.3)	154.8	180.1	(14.1)
Tax expense	(13.3)	(24.6)	(27.9)	(52.4)	(46.0)	(37.9)	(44.3)	(14.5)
PAT	26.6	90.2	74.8	(64.5)	(70.6)	116.8	135.8	(14.0)
Non-controlling interests	10.5	29.7	9.1	14.7	(64.8)	40.2	17.5	130.1
PATANCI	16.1	60.5	65.7	(75.5)	(73.4)	76.7	118.3	(35.2)
Basic and diluted EPS (sen)	0.5	1.8	1.9	(76.2)	(74.2)	2.2	3.5	(36.5)
				+ / (-) ppts				+ / (-) ppts
Operating margin (%)	5.1	9.8	9.0	(3.9)	(4.7)	7.5	8.3	(0.8)
PBT margin (%)	2.7	7.6	7.2	(4.5)	(4.9)	5.2	6.5	(1.3)
PAT margin (%)	1.8	6.0	5.3	(3.5)	(4.2)	3.9	4.9	(1.0)
PATANCI margin (%)	1.1	4.0	4.6	(3.5)	(2.9)	2.6	4.3	(455.5)
Effective Tax rate (%)	33.4	21.4	27.2	6.2	11.9	24.5	24.6	(0.1)

Source: Company, MIDFR

BREAKDOWN BY OPERATING SEGMENT

FYE Dec (RMm)	Quarterly results					Cumulative results		
	2QFY19	1QFY19	2QFY18	YoY (%)	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue								
Livestock and poultry related	803.7	859.7	910.7	(11.8)	(6.5)	1,663.3	1,747.9	(4.8)
Feedmill	671.3	643.6	506.4	32.6	4.30	1,314.9	1,013.1	29.8
Others	2.3	3.1	6.0	(61.7)	(26.20)	5.4	8.5	(36.6)
Total	1,477.2	1,506.4	1,423.1	3.8	(1.9)	2,983.6	2,769.5	7.7
EBITDA								
Livestock and poultry related	45.7	118.9	129.6	(64.7)	(61.6)	164.6	224.1	(26.5)
Feedmill	87.6	85.2	48.3	81.4	2.8	172.7	110.8	55.9
Others	(3.45)	(3.49)	(1.50)	129.8	(1.1)	-6.9	-7.6	(9.1)
Total	129.8	200.6	176.4	(26.4)	(35.3)	330.4	327.2	1.0
EBITDA margin (%)				+ / (-) ppts				
Livestock and poultry related	5.7	13.8	14.2	(8.5)	(8.1)	9.9	12.8	(2.9)
Feedmill	13.0	13.2	9.5	3.5	(0.2)	13.1	10.9	2.2

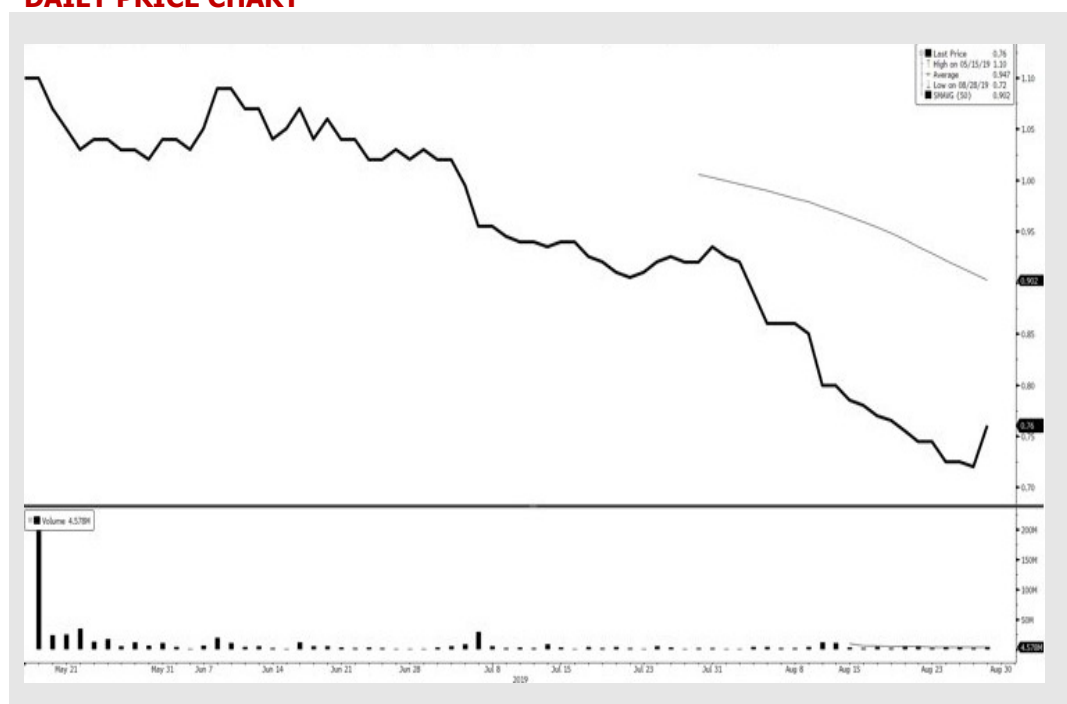
Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results				Cumulative results			
	2QFY19	1QFY19	2QFY18	YoY (%)	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue								
Malaysia	368.0	442.2	426.5	(13.7)	(16.8)	810.2	820.7	(1.3)
Singapore	191.1	193.3	256.1	(25.4)	(1.1)	381.5	525.0	(27.3)
Vietnam	335.2	293.2	269.1	24.6	14.3	628.4	518.5	21.2
Indonesia	563.9	563.4	453.1	24.5	0.1	1126.8	873.5	29.0
Philippines	16.7	14.1	12.3	35.2	18.0	30.8	23.2	32.8
Total	1474.9	1506.4	1417.1	4.1	(2.1)	2977.7	2761.0	7.9
EBITDA								
Malaysia	24.0	78.9	57.9	(58.6)	(69.6)	102.9	117.2	(12.2)
Singapore	29.3	27.8	32.7	(10.6)	5.3	57.1	67.5	(15.4)
Vietnam	29.1	29.1	31.4	(7.4)	(0.2)	58.2	50.0	16.4
Indonesia	45.8	63.1	53.5	(14.4)	(27.4)	108.9	89.5	21.6
Philippines	1.7	1.7	0.9	92.7	0.2	3.5	3.1	13.4
Total	129.8	200.6	176.4	(26.4)	(35.3)	330.4	327.2	1.0

Source: Company, MIDFR

DAILY PRICE CHART



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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.