



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

25 Oct 2019

Poultry price recovering

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.94
Fair Value	RM1.17
52-week High/Low	RM1.19/RM0.72

Key Changes

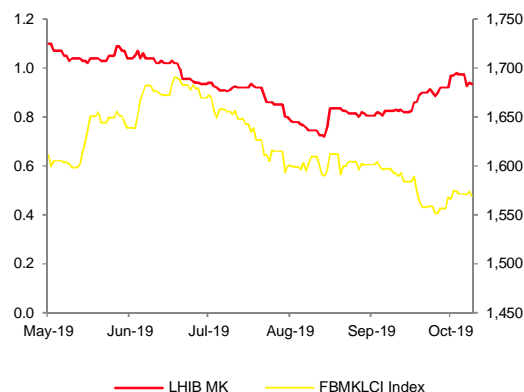
Fair value	↕
EPS	↕

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,746.6	5,677.1	6,279.7	6,785.4
Core net profit (RM mil)	186.1	214.0	236.8	256.7
FD Core EPS (sen)	5.1	5.9	6.5	7.0
FD Core EPS growth (%)	(3.4)	15.0	10.6	8.4
Consensus Net Profit (RM mil)	-	199.9	231.1	267.7
DPS (sen)	-	1.8	1.9	2.1
PE (x)	18.3	15.9	14.4	13.3
EV/EBITDA (x)	8.2	7.8	7.4	7.2
Div yield (%)	-	2.1	2.3	2.5
ROE (%)	15.0	14.1	13.1	12.9
Net Gearing (%)	146.9	104.6	112.3	117.5

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	3,412.8
Book Value (RM/share)	0.36
P/BV (x)	2.6
ROE (%)	15.0
Net Gearing (%)	146.9
Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Dato' Lau Eng Guang (1.6%)
Free Float	88.6
Avg Daily Value (RM mil)	3.1

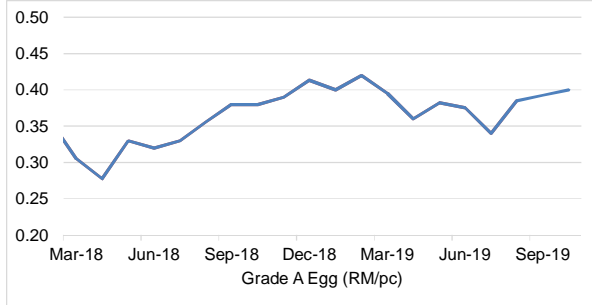
Price performance	3mth	6mth	12mth
Absolute (%)	2.7	-	-
Relative (%)	8.4	-	-



Investment Highlights

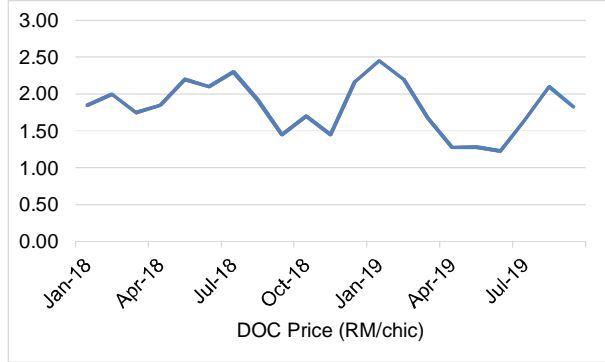
- We maintain our BUY call with an unchanged FV of RM1.17/share based on a PER of 18x over FY20F EPS.
- According to statistics published by the Department of Veterinary Services, since end-June 2019, prices of eggs in Malaysia have risen by 7% while that of broiler chicken and day-old-chic (DOCs) have increased by 12% and 22% respectively (Exhibits 1,2 & 3). These are consistent with our expectations for a better 2H for Leong Hup on the back of improving ASPs for DOC, Broiler and eggs.
- On the other hand, soybean price climbed 4% and there was an uptick in corn price which rose by 24% in 10 weeks from May to July 2019 (Exhibit 4) which we believe contributed to the higher ASPs.
- We opine that the surge in corn price was due to historically low planting levels in the US as a result of widespread flooding.
- Compared to FY18, average YTD prices rose by circa 10% for eggs while for broiler and DOC, they have dropped by 9% and 4% respectively. Soybean and corn prices slipped by 5% and 0.7% respectively.
- We believe the drop in poultry prices in Malaysia was due to the cooler weather YTD which may have led to a higher market supply.
- According to our sensitivity analysis, a 10% increase in prices of Malaysian eggs, DOC and broiler chicken will lift earnings by 0.6%, 0.5% and 0.7% respectively. Malaysian eggs, broiler and DOC made up circa 4%, 6% and 6% respectively of the group's revenue. Corn and soybean account for circa 19% and 17% of Leong Hup's total cost of sales.
- Taking this into consideration, we expect Leong Hup's earnings trajectory and margins to be in line with our forecasts with EBITDA margin of 11.9% in FY19F.
- We remained convinced that the long-term outlook for Leong Hup is still positive given the stable demand of chicken while its source of income outside Malaysia such as Singapore Vietnam, Indonesia and the Philippines will provide growth potentials for the group.

EXHIBIT 1: EGG PRICE



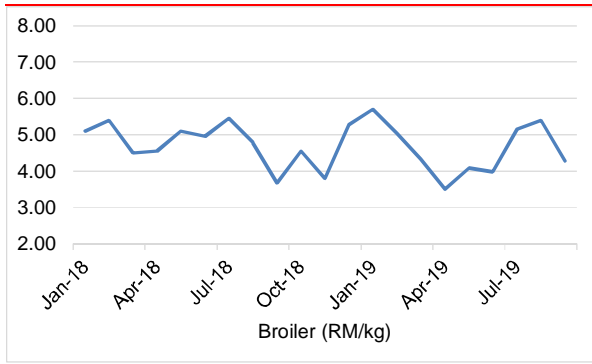
Source: Department of Veterinary Services, AmInvestment Bank Bhd

EXHIBIT 2: DOC PRICE



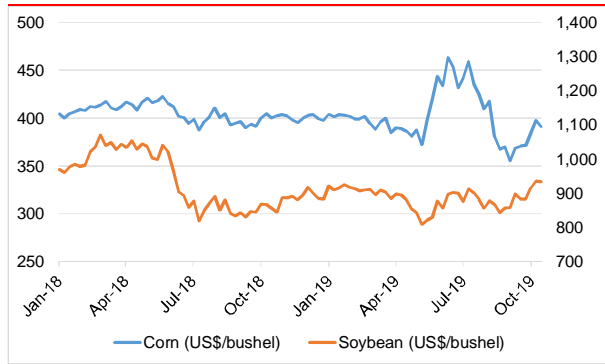
Source: Department of Veterinary Services, AmInvestment Bank Bhd

EXHIBIT 3: BROILER PRICE



Source: Department of Veterinary Services, AmInvestment Bank Bhd

EXHIBIT 4: CORN AND SOYBEAN PRICES



Source: AmInvestment Bank Bhd, Bloomberg

EXHIBIT 5: PB BAND CHART

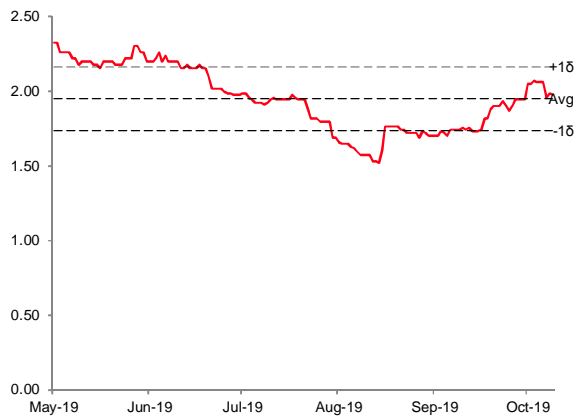


EXHIBIT 6: PE BAND CHART

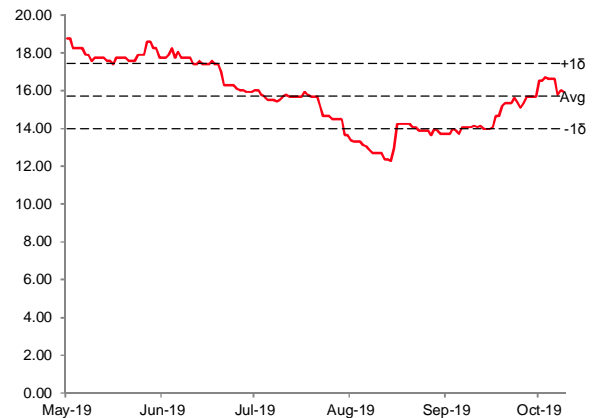


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	5,501.4	5,746.6	5,677.1	6,279.7	6,785.4
EBITDA	583.1	646.8	673.1	745.6	806.7
Depreciation/Amortisation	(199.1)	(189.9)	(187.6)	(207.5)	(224.3)
Operating income (EBIT)	384.0	456.9	485.4	538.1	582.5
Other income & associates	0.5	0.6	0.6	0.6	0.7
Net interest	(92.2)	(108.9)	(108.2)	(120.7)	(130.4)
Exceptional items	-	-	-	-	-
Pretax profit	292.3	348.6	377.8	418.0	452.7
Taxation	(44.9)	(101.8)	(86.9)	(96.1)	(104.1)
Minorities/pref dividends	(54.8)	(60.7)	(76.9)	(85.1)	(91.9)
Net profit	192.6	186.1	214.0	236.8	256.7
Core net profit	192.6	186.1	214.0	236.8	256.7
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	2,045.8	2,216.8	2,616.8	3,016.8	3,416.8
Intangible assets	106.5	97.3	97.3	97.3	97.3
Other long-term assets	258.6	261.2	261.2	261.2	261.2
Total non-current assets	2,410.9	2,575.3	2,975.3	3,375.3	3,775.3
Cash & equivalent	502.4	458.9	518.0	567.7	621.6
Stock	516.8	575.6	564.5	612.3	670.8
Trade debtors	564.0	649.2	597.2	671.3	735.2
Other current assets	483.3	574.2	559.5	594.6	628.9
Total current assets	2,066.6	2,257.9	2,239.1	2,446.0	2,656.6
Trade creditors	242.2	248.9	258.2	277.0	300.1
Short-term borrowings	1,419.1	1,326.6	1,575.8	1,725.0	1,886.7
Other current liabilities	279.0	309.3	308.9	312.6	315.8
Total current liabilities	1,940.3	1,884.8	2,142.8	2,314.6	2,502.6
Long-term borrowings	774.4	1,044.3	747.5	968.1	1,170.4
Other long-term liabilities	120.7	139.4	139.4	139.4	139.4
Total long-term liabilities	895.1	1,183.8	887.0	1,107.6	1,309.8
Shareholders' funds	1,185.6	1,301.8	1,726.7	1,892.4	2,072.1
Minority interests	456.4	463.6	458.0	506.6	547.4
BV/share (RM)	0.32	0.36	0.47	0.52	0.57
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	292.3	348.6	377.8	418.0	452.7
Depreciation/Amortisation	199.1	189.9	187.6	207.5	224.3
Net change in working capital	11.4	(241.8)	(77.9)	157.1	156.7
Others	21.6	52.5	(124.0)	(631.7)	(666.7)
Cash flow from operations	524.4	349.2	363.6	151.0	167.0
Capital expenditure	(336.1)	(423.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	(32.6)	6.5	0.8	-	-
Others	2.1	37.9	-	-	-
Cash flow from investing	(366.7)	(378.6)	(399.2)	(400.0)	(400.0)
Debt raised/(repaid)	549.9	178.9	(47.6)	369.8	363.9
Equity raised/(repaid)	-	-	275.0	-	-
Dividends paid	(58.4)	(58.0)	(64.2)	(71.0)	(77.0)
Others	(563.4)	(127.8)	-	-	-
Cash flow from financing	(71.9)	(6.9)	163.2	298.8	286.9
Net cash flow	85.8	(36.2)	127.6	49.7	53.9
Net cash/(debt) b/f	333.2	427.4	390.4	518.0	567.7
Net cash/(debt) c/f	427.4	390.4	518.0	567.7	621.6
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	4.6	4.5	(1.2)	10.6	8.1
EBITDA growth (%)	(9.8)	10.9	4.1	10.8	8.2
Pretax margin (%)	5.3	6.1	6.7	6.7	6.7
Net profit margin (%)	3.5	3.2	3.8	3.8	3.8
Interest cover (x)	4.2	4.2	4.5	4.5	4.5
Effective tax rate (%)	15.3	29.2	23.0	23.0	23.0
Dividend payout (%)	-	-	30.0	30.0	30.0
Debtors turnover (days)	37	41	38	39	40
Stock turnover (days)	35	35	37	34	35
Creditors turnover (days)	17	16	16	16	16

Source: Company, AmInvestment Bank Bhd estimates

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