



AmInvestment Bank

## Company report

## LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

27 Nov 2019

3Q19 net profit up 24.8% YoY but misses expectations

**BUY**

(Maintained)

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Rationale for report: Company results

Price	RM0.90
Fair Value	RM1.04
52-week High/Low	RM1.19/RM0.72

## Key Changes

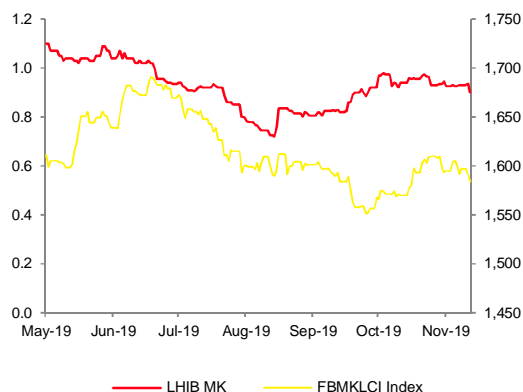
Fair value	⬇️
EPS	⬇️

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,746.6	5,677.1	6,279.7	6,786.9
Core net profit (RM mil)	186.1	172.2	211.6	238.2
FD Core EPS (sen)	5.1	4.7	5.8	6.5
FD Core EPS growth (%)	(3.4)	(7.4)	22.9	12.5
Consensus Net Profit (RM mil)	-	199.9	231.1	267.7
DPS (sen)	-	1.4	1.7	2.0
PE (x)	17.7	19.1	15.5	13.8
EV/EBITDA (x)	8.0	8.3	7.7	7.4
Div yield (%)	-	1.6	1.9	2.2
ROE (%)	15.0	11.5	11.9	12.3
Net Gearing (%)	146.9	108.3	117.7	124.0

## Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	3,285.0
Book Value (RM/share)	0.36
P/BV (x)	2.5
ROE (%)	15.0
Net Gearing (%)	146.9
Major Shareholders	Clarinden Inv Pte. (8.0%) Lau Joo Han (1.9%) Dato' Lau Eng Guang (1.5%)
Free Float	88.6
Avg Daily Value (RM mil)	3.9

Price performance	3mth	6mth	12mth
Absolute (%)	24.1	(13.5)	-
Relative (%)	25.4	(12.7)	-



## Investment Highlights

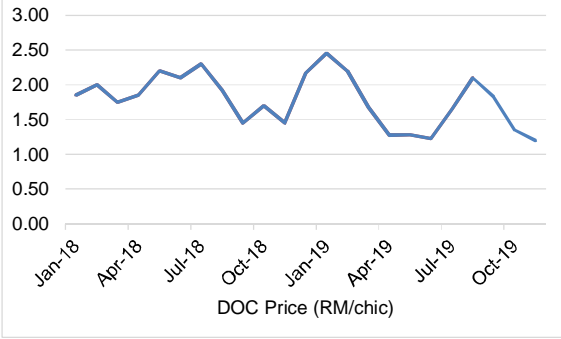
- We maintain our BUY recommendation on Leong Hup International (LHI) with a lower fair value of RM1.04/share. We cut our earnings forecast for FY19F, FY20F and FY21F by 19.5%, 10.6% and 7.2% respectively. This is to account for a lower PBT margin resulting from depressed selling prices for some of its products.
- 9MFY19 core net profit of RM127.2mil (-17.8% YoY) was below our and street's earnings estimates, accounting for 59.4% and 63.6% of full-year forecasts respectively. The variance was largely due to lower-than-expected margins as LHI was hit by weak selling prices for some of its products.
- LHI's 9MFY19 revenue increased 7.6% YoY but EBITDA was flattish at RM410.9mil. EBITDA margin slipped slightly by 0.7ppt to 9.1% in 9MFY19 mainly due to poor ASP in several of its products in Indonesia, Singapore and Vietnam.
- Livestock and poultry-related product segment's 3QFY19 revenue grew 5.3% YoY and 6.8% QoQ. This was on the back of higher ASP and sales volume in Malaysia's eggs and broiler chicken. This was partially offset by a drop in ASP in Indonesia's day-old-chick (DOC) and broiler chicken, and lower broiler chicken price in Vietnam. This resulted in an 8.1ppt YoY and 0.8ppt QoQ drop in EBITDA margin to 4.9%.
- 9MFY19 revenue of the livestock division fell 1.6% YoY to RM2.5bil. This was mainly due to the disposal of a subsidiary in its Singapore operations. The drop in revenue from Singapore was offset by higher revenues in Malaysia, Indonesia and Vietnam.
- LHI's Malaysia operations' ASP and sales volume of eggs grew in 9MFY19. However, this was offset by the lower prices for its broiler chicken and DOC.
- The group's Indonesia operations saw an increase in revenue due to higher ASP and sales volume of DOC but lower broiler chicken prices in 9MFY19. Vietnam recorded an increase in sales volume of broiler but ASP and sales volume of eggs fell.
- 9MFY19 EBITDA margin for the segment fell 4.7ppt to 8.2% due to lower prices of DOC and broiler in Malaysia, broiler in Indonesia and eggs in Vietnam. These were partly cushioned by the higher price of eggs in Malaysia and DOC in Indonesia.
- According to the Department of Veterinary Services (DOVS), in 3QFY19 the selling price of DOC fell 1.7% YoY but up 47.5% QoQ. The selling price of broiler chicken grew 6.6% YoY and 28.3% QoQ while the selling price of eggs grew 4.8% YoY but was flattish QoQ.

- **Feedmill segment's 3QFY19** revenue rose 10.0% YoY due to increased ASP and sales volume in Indonesia and Vietnam with the commencement of operations of the Dong Nai feedmill plant in January 2019. This resulted in a 4.2ppt YoY growth in EBITDA margin. Revenue fell 0.8% QoQ as sales volume dropped in Indonesia but EBITDA margin still inched up 0.9ppt QoQ due to the higher ASP of livestock feed in Malaysia.
- 9MFY19 revenue increased 22.4% due to a higher sales volume and ASP of livestock feed in Indonesia and Vietnam while EBITDA margin grew 2.8ppt to 10.0% primarily on the back of higher sales in Indonesia and higher sales in Vietnam as the group commenced operation in its Dong Nai feedmill plant in January 2019.
- **According to the DOVS, selling prices of DOC, broiler chicken and eggs have declined in November 2019 as shown in Exhibits 2–3. We reckon selling prices for LHI's products will be depressed in 4QFY19 as it is a seasonally weak quarter for livestock prices.**
- **However, we believe the long-term outlook for LHI is positive due to the stable demand of chicken and strong long-term earnings growth underpinned by expansions of the feed mill and livestock businesses in Malaysia, Vietnam, the Philippines and Myanmar.**

## EXHIBIT 1: FINANCIAL RESULTS

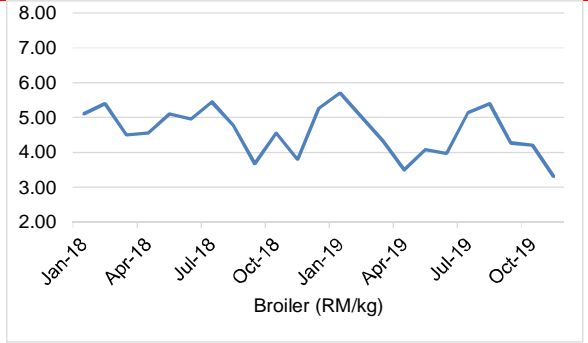
YE Dec	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	9MFY18	9MFY19	YoY (%)
<b>Revenue</b>	<b>1,422.5</b>	<b>1,477.2</b>	<b>1,527.1</b>	<b>3.38</b>	<b>7.35</b>	<b>4,192.0</b>	<b>4,510.7</b>	<b>7.60</b>
Operating profit	106.4	74.7	118.3	58.39	11.25	335.7	340.8	1.52
<b>EBITDA</b>	<b>128.6</b>	<b>98.1</b>	<b>143.0</b>	<b>45.75</b>	<b>11.16</b>	<b>410.9</b>	<b>410.9</b>	<b>0.01</b>
Depreciation	48.8	55.1	55.4	0.56	13.59	146.7	163.4	11.40
<b>EBIT</b>	<b>79.8</b>	<b>43.0</b>	<b>87.6</b>	<b>103.69</b>	<b>9.68</b>	<b>264.2</b>	<b>247.5</b>	<b>-6.32</b>
EI								
<b>PBT</b>	<b>77.9</b>	<b>39.9</b>	<b>83.8</b>	<b>110.28</b>	<b>7.57</b>	<b>258.1</b>	<b>238.6</b>	<b>-7.55</b>
Tax	-22.2	-13.3	-21.5	61.38	-3.48	-66.6	-59.4	-10.79
<b>PAT</b>	<b>55.7</b>	<b>26.6</b>	<b>62.3</b>	<b>134.78</b>	<b>11.98</b>	<b>191.5</b>	<b>179.2</b>	<b>-6.42</b>
Minority interest	-20.5	-10.5	-18.0	71.60	-12.25	-37.9	-58.1	53.27
PATAMI	35.2	16.1	44.4	175.89	26.06	153.6	121.1	-21.17
<b>Core PATAMI</b>	<b>38.6</b>	<b>20.6</b>	<b>48.2</b>	<b>133.77</b>	<b>24.78</b>	<b>154.6</b>	<b>127.2</b>	<b>-17.75</b>
EPS	1.55	1.78	0.47			3.48	3.26	
EBITDA margin (%)	9.0	6.6	9.4	2.7ppt	0.3ppt	9.8	9.1	-0.7ppt
PBT margin (%)	5.5	2.7	5.5	2.8ppt	0.0ppt	6.2	5.3	-0.9ppt
Effective tax rate (%)	-28.5	-33.4	-25.6	7.8ppt	2.9ppt	-25.8	-24.9	0.9ppt
Core PATAMI margin (%)	2.7	1.4	3.2	1.8ppt	0.4ppt	3.7	2.8	-0.9ppt
<b><u>Livestock and poultry related</u></b>								
Revenue	814.9	803.7	858.2	6.79	5.32	2,562.8	2,521.5	-1.61
EBITDA	105.8	45.7	41.8	-8.62	-60.53	329.9	206.4	-37.44
EBITDA margin	13.0	5.7	4.9	-0.8ppt	-8.1ppt	12.9	8.2	-4.7ppt
<b><u>Feedmill</u></b>								
Revenue	605.3	671.3	665.8	-0.82	9.99	1,618.4	1,980.7	22.38
EBITDA	66.7	87.6	133.5	52.45	100.24	177.4	306.2	72.59
EBITDA margin	6.6	9.9	10.8	0.9ppt	4.2ppt	7.2	10.0	2.8ppt

**EXHIBIT 2: DOC (RM/CHIC)**



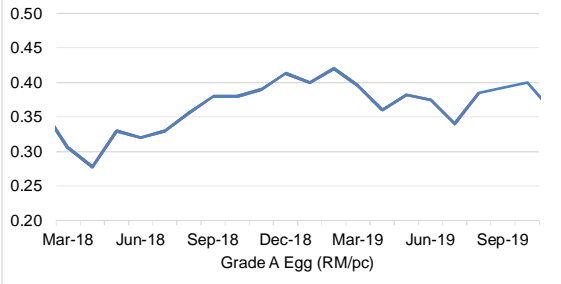
Source: AmInvestment Bank Bhd, Company

**EXHIBIT 3: BROILER (RM/KG)**



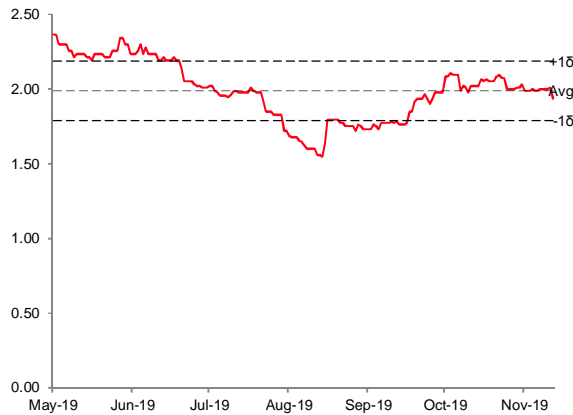
Source: AmInvestment Bank Bhd, Company

**EXHIBIT 4: EGG (RM/PIECE)**

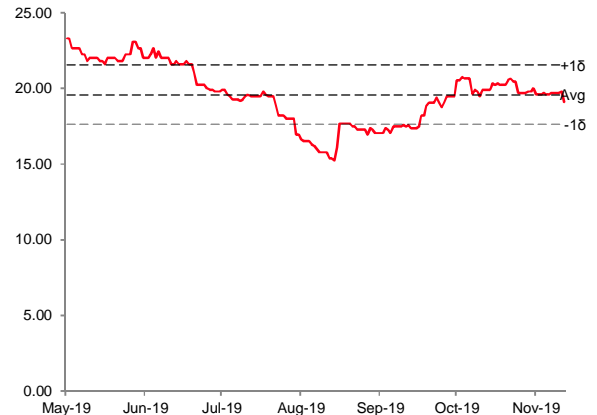


Source: AmInvestment Bank Bhd, Company

**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	6,786.9
EBITDA	583.1	646.8	618.8	713.0	782.8
Depreciation/Amortisation	(199.1)	(189.9)	(187.6)	(207.5)	(224.3)
Operating income (EBIT)	384.0	456.9	431.2	505.4	558.5
Other income & associates	0.5	0.6	0.6	0.6	0.7
Net interest	(92.2)	(108.9)	(108.2)	(120.7)	(130.5)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	292.3	348.6	323.6	385.3	428.7
Taxation	(44.9)	(101.8)	(74.4)	(88.6)	(98.6)
<b>Minorities/pref dividends</b>	<b>(54.8)</b>	<b>(60.7)</b>	<b>(76.9)</b>	<b>(85.1)</b>	<b>(92.0)</b>
Net profit	192.6	186.1	172.2	211.6	238.2
Core net profit	192.6	186.1	172.2	211.6	238.2
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
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
<b>Other long-term assets</b>	<b>258.6</b>	<b>261.2</b>	<b>261.2</b>	<b>261.2</b>	<b>261.2</b>
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	509.2	553.7	603.7
Stock	516.8	575.6	569.8	612.3	671.0
Trade debtors	564.0	649.2	597.2	671.3	735.4
<b>Other current assets</b>	<b>483.3</b>	<b>574.2</b>	<b>559.5</b>	<b>594.6</b>	<b>629.0</b>
Total current assets	2,066.6	2,257.9	2,235.7	2,431.9	2,639.0
Trade creditors	242.2	248.9	260.6	277.0	300.1
Short-term borrowings	1,419.1	1,326.6	1,549.5	1,682.8	1,832.8
<b>Other current liabilities</b>	<b>279.0</b>	<b>309.3</b>	<b>308.9</b>	<b>312.6</b>	<b>315.8</b>
Total current liabilities	1,940.3	1,884.8	2,119.0	2,272.4	2,448.8
Long-term borrowings	774.4	1,044.3	797.2	1,043.1	1,266.3
<b>Other long-term liabilities</b>	<b>120.7</b>	<b>139.4</b>	<b>139.4</b>	<b>139.4</b>	<b>139.4</b>
<b>Total long-term liabilities</b>	<b>895.1</b>	<b>1,183.8</b>	<b>936.7</b>	<b>1,182.6</b>	<b>1,405.8</b>
Shareholders' funds	1,185.6	1,301.8	1,697.4	1,845.6	2,012.3
Minority interests	456.4	463.6	458.0	506.6	547.5
BV/share (RM)	0.32	0.36	0.47	0.51	0.55
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Pretax profit	292.3	348.6	323.6	385.3	428.7
Depreciation/Amortisation	199.1	189.9	187.6	207.5	224.3
Net change in working capital	11.4	(241.8)	(72.5)	151.7	157.1
<b>Others</b>	<b>21.6</b>	<b>52.5</b>	<b>(119.8)</b>	<b>(615.9)</b>	<b>(661.9)</b>
Cash flow from operations	524.4	349.2	318.9	128.7	148.2
Capital expenditure	(336.1)	(423.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	(32.6)	6.5	0.8	-	-
<b>Others</b>	<b>2.1</b>	<b>37.9</b>	-	-	-
Cash flow from investing	(366.7)	(378.6)	(399.2)	(400.0)	(400.0)
Debt raised/(repaid)	549.9	178.9	(24.2)	379.2	373.2
Equity raised/(repaid)	-	-	275.0	-	-
Dividends paid	(58.4)	(58.0)	(51.7)	(63.5)	(71.4)
<b>Others</b>	<b>(563.4)</b>	<b>(127.8)</b>	-	-	-
<b>Cash flow from financing</b>	<b>(71.9)</b>	<b>(6.9)</b>	<b>199.1</b>	<b>315.7</b>	<b>301.8</b>
<b>Net cash flow</b>	<b>85.8</b>	<b>(36.2)</b>	<b>118.8</b>	<b>44.4</b>	<b>50.0</b>
<b>Net cash/(debt) b/f</b>	<b>333.2</b>	<b>427.4</b>	<b>390.4</b>	<b>509.2</b>	<b>553.7</b>
Net cash/(debt) c/f	427.4	390.4	509.2	553.7	603.7
<b>Key Ratios (YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth (%)	4.6	4.5	(1.2)	10.6	8.1
EBITDA growth (%)	(9.8)	10.9	(4.3)	15.2	9.8
Pretax margin (%)	5.3	6.1	5.7	6.1	6.3
Net profit margin (%)	3.5	3.2	3.0	3.4	3.5
Interest cover (x)	4.2	4.2	4.0	4.2	4.3
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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