

HLIB Research

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BUY (Maintain)**Target Price:** RM1.00**Previously:** RM1.10**Current Price:** RM0.90

Capital upside	11.1%
Dividend yield	1.8%
Expected total return	12.9%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price

Historical return (%)	1M	3M	12M
Absolute	-4.3	24.1	N/A
Relative	-5.1	25.4	N/A

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	3,285
3-mth average volume ('000)	4,347
SC Shariah compliant	Yes

Major shareholders

Clarinden	9.0%
Lau Joo Han	2.1%
Lau Eng Guang	1.6%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI – core	219.6	162.5	203.7
EPS – core (sen)	6.0	4.5	5.6
P/E (x)	15.0	20.2	16.1

Leong Hup International

Missed despite improvement QoQ

LHI's 3Q19 core net profit of RM49.4m (QoQ: +131.2%; YoY: +33.0%) took 9M19 core net profit to RM132.1m (-20.3%). The results missed expectations, accounting for only 66.1-68% of consensus and our full-year estimates. Weaker-than-expected poultry product prices in Indonesia and Vietnam were the culprits, we believe. We cut our FY19-21 core net profit forecasts by 16.3%, 8.9%, and 5.1% to RM162.5m, RM203.7m and RM244.4m, respectively, largely to account for lower ASP assumptions for DOC in Indonesia, and broiler chickens in Malaysia, Indonesia and Vietnam. Post downward revision of core net profit forecasts, we lower our TP on LHI by 9.1% to RM1.00 (18x revised FY20 core EPS of 5.6 sen) but maintain BUY.

Missed expectations. 3Q19 core net profit of RM49.4m (QoQ: +131.2%; YoY: +33%) took 9M19 core net profit to RM132.1m (-20.3%). The results missed expectations, accounting for only 66.1-68% of consensus and our full-year estimates. Weaker-than-expected poultry product prices in Indonesia and Vietnam was the reason for the results shortfall, we believe.

QoQ. 3Q19 core net profit more than doubled to RM49.4m (from RM21.4m in previous quarter), boosted mainly by higher ASPs for broiler chickens, eggs, DOC and livestock feed in Malaysia.

YoY. 3Q19 core net profit rose 33% to RM49.4m, due mainly to higher ASPs and sales volume of broiler chicken and eggs in Malaysia, higher feedmill sales recorded in Indonesia, as well as the commencement of Dong Nai feedmill plant in Vietnam since Jan-19) which altogether more than offset lower ASP for DOC and broiler chicken in Indonesia, as well as depressed broiler chicken ASP in Vietnam.

YTD. 9M19 core net profit declined by 20.3% to RM132.1m, dragged mainly lower prices of broiler, DOC and eggs in Malaysia in 2Q19, lower selling prices of DOC and broiler chickens in Indonesia, as well as broiler chickens and eggs in Vietnam. All these, however, were partly mitigated by improved feedmill earnings (arising from higher sales recorded in Indonesia and the commencement of Dong Nai feedmill plant in Vietnam since Jan-19).

Outlook. In the results announcement, LHI expects higher sales volume of both livestock and feed to mitigate the seasonally weaker livestock prices in 4Q19.

Forecast. We cut our FY19-21 core net profit forecasts by 16.3%, 8.9%, and 5.1% to RM162.5m, RM203.7m and RM244.4m, respectively, largely to account for lower ASP assumptions for DOC in Indonesia, and broiler chickens in Malaysia, Indonesia and Vietnam.

Maintain BUY but with lower TP of RM1.00. Post downward revision of core net profit forecasts, we lower our TP on LHI by 9.1% to RM1.00 based on 18x revised FY20 core EPS of 5.6 sen.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY17a	FY18a	FY19f	FY20f	FY21f
Cash	502.4	458.9	700.0	729.9	822.7
Receivables	696.1	825.5	819.0	864.3	903.2
Inventories	516.8	575.6	590.9	623.6	651.7
PPE	2,045.8	2,216.8	2,439.0	2,560.3	2,671.6
Others	716.4	756.4	767.3	778.8	787.4
Assets	4,477.5	4,834.0	5,317.0	5,557.8	5,837.5
Payables	498.9	519.9	564.1	595.3	622.0
Debt	2,143.9	2,320.8	2,320.8	2,320.8	2,320.8
Others	192.7	228.0	228.0	228.0	228.0
Liabilities	2,835.5	3,068.6	3,112.8	3,144.0	3,170.8
Shareholder's equity	1,185.6	1,301.8	1,686.4	1,828.1	1,999.6
Minority interest	456.4	463.6	517.8	585.7	667.1
Equity	1,642.0	1,765.4	2,204.2	2,413.8	2,666.7

Cash Flow Statement

FYE Dec	FY17a	FY18a	FY19f	FY20f	FY21f
Profit before taxation	292.3	348.6	288.7	362.0	434.4
D&A	199.1	197.1	227.3	238.1	248.0
Working capital	11.4	(241.8)	15.6	(67.3)	(57.7)
Taxation	(76.2)	(75.7)	(72.1)	(90.4)	(108.5)
Others	97.9	121.2	92.9	79.0	79.0
CFO	524.4	349.3	552.4	521.5	595.3
Capex	(368.1)	(423.0)	(440.0)	(350.0)	(350.0)
Others	1.5	44.4	-	-	-
CFI	(366.7)	(378.6)	(440.0)	(350.0)	(350.0)
Changes in debt	536.6	178.9	-	-	-
Shares issued	-	-	269.6	-	-
Dividends	(38.4)	(58.0)	(47.5)	(62.1)	(73.0)
Others	(570.1)	(127.8)	(93.4)	(79.5)	(79.5)
CFF	(71.9)	(6.9)	128.7	(141.6)	(152.5)
Net cash flow	85.8	(36.2)	241.2	29.9	92.8
Forex	8.4	(0.8)	-	-	-
Others	-	-	-	-	-
Beginning cash	333.2	427.4	390.4	631.5	661.4
Ending cash	427.4	390.4	631.5	661.4	754.2

Income Statement

FYE Dec	FY17a	FY18a	FY19f	FY20f	FY21f
Revenue	5,501.4	5,746.6	5,909.2	6,236.3	6,516.7
EBITDA	583.1	654.6	608.8	679.1	761.4
EBIT	384.0	457.5	381.6	441.0	513.4
Finance cost	(92.2)	(109.5)	(93.4)	(79.5)	(79.5)
Associates	0.5	0.6	0.5	0.5	0.5
Profit before tax	292.3	348.6	288.7	362.0	434.4
Tax	(44.9)	(101.8)	(72.1)	(90.4)	(108.5)
PAT	247.4	246.8	216.7	271.6	325.9
Minority interest	(54.8)	(60.6)	(54.2)	(67.9)	(81.5)
Reported PATMI	192.6	186.2	162.5	203.7	244.4
Exceptionals	(6.1)	33.4	-	-	-
Core PATMI	186.4	219.6	162.5	203.7	244.4
Consensus core PATMI			199.9	231.1	267.7
HLIB/ Consensus			81.3%	88.1%	91.3%

Ratios

FYE Dec	FY17a	FY18a	FY19f	FY20f	FY21f
Core EPS (sen)	5.1	6.0	4.5	5.6	6.7
P/E (x)	17.6	15.0	20.2	16.1	13.4
EV/EBITDA (x)	8.8	7.9	8.5	7.6	6.8
DPS (sen)	-	-	1.3	1.7	2.0
Dividend Yield	-	-	1.4	1.9	2.2
BVPS (RM)	0.3	0.4	0.5	0.5	0.5
P/B (x)	2.8	2.5	1.9	1.8	1.6
EBITDA margin	10.6%	11.4%	10.3%	10.9%	11.7%
EBIT margin	7.0%	8.0%	6.5%	7.1%	7.9%
PBT margin	5.3%	6.1%	4.9%	5.8%	6.7%
Netmargin	3.4%	3.8%	2.7%	3.3%	3.8%
ROE	11.4%	12.4%	7.4%	8.4%	9.2%
ROA	4.2%	4.5%	3.1%	3.7%	4.2%
Netgearing	100.0%	105.5%	73.5%	65.9%	56.2%

Assumptions

FYE Dec	FY19f	FY20f	FY21f
Feedmill			
- Production volume ('000 mt)	2,170.4	2,291.3	2,392.9
- Utilisation rate	65.8%	66.9%	67.4%
- External sales ('000 mt)	1,452.2	1,545.5	1,618.1
Livestock			
- Broiler supplied (m birds)	133.5	150.5	162.1
- Eggs supplied (m eggs)	1,756.7	1,832.6	1,913.1

Figure #1 **Quarterly results comparison**

FY Dec (RMm)	3Q18	2Q19	3Q19	QoQ (%)	YoY (%)	9M18	9M19	YoY (%)
Revenue	1,422.5	1,477.2	1,527.1	3.4	7.4	4,192.0	4,510.7	7.6
- Livestock & poultry related products	814.9	803.7	858.2	6.8	5.3	2,562.8	2,521.5	-1.6
- Feedmill	605.3	671.3	665.8	-0.8	10.0	1,618.4	1,980.7	22.4
- Others	2.3	2.3	3.1	37.2	36.7	10.8	8.5	-21.0
EBITDA	155.2	129.8	173.7	33.8	12.0	482.4	504.2	4.5
- Livestock & poultry related products	105.8	45.7	41.8	-8.6	-60.5	329.9	206.4	-37.4
- Feedmill	66.7	87.6	133.5	52.4	100.2	177.4	306.2	72.6
- Others	-17.3	-3.5	-1.5	-56.5	-91.4	-25.0	-8.4	-66.2
Profit from operations	106.4	74.7	118.3	58.4	11.2	335.7	340.8	1.5
- Livestock & poultry related products	66.7	4.5	1.9	-57.0	-97.1	217.1	85.5	-60.6
- Feedmill	54.2	74.6	118.8	59.3	119.2	143.2	266.4	86.0
- Others	-14.6	-4.4	-2.4	-44.3	-83.3	-24.6	-11.1	-54.8
Finance costs	-28.7	-35.0	-34.6	-1.1	20.7	-78.1	-102.4	31.2
Associates	0.2	0.1	0.1	-50.4	-66.5	0.4	0.3	-43.0
PBT	77.9	39.9	83.8	>100	7.6	258.1	238.6	-7.5
Tax expense	-22.2	-13.3	-21.5	61.4	-3.5	-66.6	-59.4	-10.8
PAT	55.7	26.6	62.3	>100	12.0	191.5	179.2	-6.4
Non-controlling interests	-20.5	-10.5	-18.0	-	-	-37.9	-58.2	-
Reported net profit	35.2	16.1	44.3	>100	25.9	153.6	121.0	-21.2
Core net profit	37.2	21.4	49.4	>100	33.0	165.8	132.1	-20.3
Core EPS (sen)	1.0	0.6	1.4	>100	33.0	4.5	3.6	-20.3
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	10.9	8.8	11.4	2.6	0.5	11.5	11.2	-0.3
Operating margin (%)	7.5	5.1	7.7	2.7	0.3	8.0	7.6	-0.5
PBT margin (%)	5.5	2.7	5.5	2.8	0.0	6.2	5.3	-0.9
Net margin (%)	2.6	1.4	3.2	1.8	0.6	4.0	2.9	-1.0

EIs in 3Q19 include (i) RM4m impairment loss on receivables, (ii) RM0.7m gain on PPE disposal, and (iii) RM1.8m share option expense.

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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