

Stock Digest

Results Note – Leong Hup International Bhd

Wednesday, 27 Nov, 2019

M⁺Online
Equipping Traders For The Win

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Some Good, Some Bad

Results Highlights

- Leong Hup's (LHI) 3Q2019 net profit rose 26.1% Y.o.Y to RM44.4 mln, boosted by stronger feedmill segment that offset the weakness in its livestock & poultry related segment. Revenue for the quarter added 7.4% Y.o.Y to RM1.53 bln. For 9M2019, cumulative net profit decreased 21.2% Y.o.Y to RM121.1 mln. Revenue for the period, however, gained 7.6% Y.o.Y to RM4.51 bln.
- The reported results came below our expectations, making up to only 65.5% of our previous net profit estimate of RM184.9 mln for 2019. The reported revenue, however, came within our expectations, amounting to 75.2% of our full-year forecast of RM6.00 bln.
- Segment wise in 3Q2019, the livestock and poultry related segment's EBITDA sank 60.5% Y.o.Y to RM41.8 mln, bogged down by the decrease in ASP of day old chicks (DOC) and broiler in Indonesia as well as lower broiler chicken prices in both Indonesia and Vietnam. The feedmill segment's pretax profit, however, jumped 100.2% Y.o.Y to RM133.5 mln due to increase sales in Indonesia and Vietnam, coupled with the contribution from Dong Nai feedmill plant in Vietnam that commenced operations in January 2019. Geographically, Malaysia makes up to RM426.3 mln or 28.0% of total revenue, while overseas contribution amounted to RM1.10 bln or 72.0% of the group's total revenue of RM1.52 bln in 3Q2019.
- As of 3Q2019, LHI's gearing stood at 86.8% (up from 78.3% recorded in 2Q2019). Moving forward, we expect LHI's gearing level to remain elevated as the group will be geared to fund its overseas expansion.

Financial Highlights					
FYE Dec (RM mln)	2016	2017	2018	2019F	2020F
Revenue	5257.4	5501.4	5732.4	5995.1	6316.4
EBITDA	670.4	576.6	646.1	588.2	685.1
Net Profit	209.5	192.6	186.2	164.0	199.3
Revenue Growth (%)	11.5	4.6	4.2	4.6	5.4
EBITDA Growth (%)	46.9	-14.0	12.1	-9.0	16.5
Net Profit Growth (%)	90.8	-8.1	-3.3	-11.9	21.5
EPS (sen)	5.7	5.3	5.1	4.5	5.5
P/E (x)	15.7	17.1	17.6	20.0	16.5
Dividend Yield (%)	0.5	1.2	1.1	1.8	2.2
P/BV (x)	2.5	2.8	2.5	2.1	2.0
ROE (%)	10.5	6.7	6.2	4.7	5.5

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM0.90

Target Price: RM0.93

Expected Return: +3.3%

Expected Dividend Return: +1.8%

Expected Total Return: +5.1%

FBM KLCI: 1,583.87

Key Statistics

Bursa Code: 6633

Bloomberg Ticker: LHIB MK Equity

Stock Information: Principally involved in distribution of animal feed raw materials, food related products and livestock farming

Listing Market: Main Market

Share Issued (bln): 3.65

Market Capital (RM bln): 3.29

Par Value (RM): N/A

52 week high/low: RM1.10/RM0.72

Estimated free float: 85.2%

Beta (x): 1.3

3-month average volume ('000): 4,346.8

Major Shareholders:

Clarinden Investments 9.0%

Lau Joo Han 2.1%

Lau Eng Guang 1.6%

Analyst:

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Prospects

Moving forward, LHI intends to consolidate and expand its leadership position in Malaysia and Singapore by driving efficiencies and continually improving processes and adding capacity. In the meantime, LHI has setup a Myanmar subsidiary in mid-October 2019 as the group aims to penetrate into the Myanmar livestock market.

The rising sales across both its livestock and feedmill segments will allow LHI to cushion the volatility of seasonally weaker livestock prices in the final quarter of the year. However, we remain cautious of the soft chicken egg prices in Indonesia despite the Indonesian government's efforts to reduce the supply of chicken and chicken eggs. With no signs of recovery as yet, we reckon that the oversupply condition may persist, given that Indonesia produced 3.6 mln tonnes of chicken meat vs. consumption of 3.1 mln tonnes of chicken meat in 2018, with the oversupply likely to continue in 2019.

On the local front, LHI aims to increase the "ready-to-eat" (RTE) sales of food products amid the growing demand. Already, the group is supplying their RTE products to 7-eleven stores.

With the reported earnings coming below our expectations, we trimmed our earnings forecast by 11.3% and 10.2% to RM164.0 mln and RM199.3 mln for 2019 and 2020 respectively, to reflect the sharp decrease in ASP of chicken and chicken eggs in Indonesia.

Valuation And Recommendation

We maintain our **HOLD** recommendation on LHI, but with a lower fair value of RM0.93 (from RM1.03) as we assigned an unchanged target PER of 17.0x to our revised 2020 estimated EPS of 5.5 sen. The assigned target PER represents a 20.0% discount to its local and regional peers' average of 21.5x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and **QL Resources Bhd** in Malaysia.

Despite the volatile chicken and chicken eggs prices, we continue to like LHI for its position as one of the largest pure-play, vertically integrated poultry player with strong presence in the ASEAN region. We are also positive on the group's expansion plans on ramping up the poultry and feedmill production, particularly in Vietnam, as it is one of the fastest-growing markets in the ASEAN region. The recent inclusion into the MSCI Global Small Cap Indexes' MSCI Malaysia Index is a testament of the LHI's strength in the poultry industry, in our view.

Risks to our recommendation and forecast include fluctuations in raw material prices (corn and soybean) that could impact LHI's margins. LHI purchases raw materials 1-3

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months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

Quarterly Performance					
FYE Dec (RM mln)	3Q2019	3Q2018	% Change		
			Y.o.Y	Q.o.Q	
Revenue	1527.1	1422.5	7.4%	1477.2	3.4%
EBITDA	170.0	153.2	10.9%	126.7	34.2%
Depreciation & Amotization	-55.4	-48.8	13.6%	-55.1	0.6%
Net Interest Income/ (Expense)	-30.8	-26.5	16.0%	-31.7	-3.0%
Profit before Tax	83.8	77.9	7.6%	39.9	110.3%
Net Profit	44.4	35.2	26.1%	16.1	175.9%
Basic EPS (Sen)	1.2	1.0	26.1%	0.4	175.9%

Source: Company Data & MSSB Research

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Income Statement					
FYE Dec (RM mln)	2016	2017	2018	2019F	2020F
Revenue	5,257.4	5,501.4	5,732.4	5,995.1	6,316.4
EBITDA	670.4	576.6	646.1	588.2	685.1
Depreciation & Amortisation	196.9	199.1	197.1	215.2	267.9
Net Interest Expense	-99.6	-85.7	-101.0	-94.3	-93.4
Pre-tax Profit	374.3	292.3	348.6	279.2	324.3
<i>Effective Tax Rate</i>	<i>20.6%</i>	<i>15.3%</i>	<i>29.2%</i>	<i>24.5%</i>	<i>25.0%</i>
Net Profit	209.5	192.6	186.2	164.0	199.3
<i>EBITDA Margin</i>	<i>12.8%</i>	<i>10.5%</i>	<i>11.3%</i>	<i>9.8%</i>	<i>10.8%</i>
<i>PreTax Margin</i>	<i>7.1%</i>	<i>5.3%</i>	<i>6.1%</i>	<i>4.7%</i>	<i>5.1%</i>
<i>Net Margin</i>	<i>4.0%</i>	<i>3.5%</i>	<i>3.2%</i>	<i>2.7%</i>	<i>3.2%</i>

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2016	2017	2018	2019F	2020F
Total Assets	4301.1	4477.5	4834.0	5111.8	5246.8
Fixed Assets	2137.3	2210.1	2396.7	2601.2	2743.9
Current Assets	1989.5	2066.6	2257.9	2329.8	2323.8
Other LT Assets	174.3	200.8	179.4	180.9	179.1
Current Liabilities	1747.1	1940.3	1884.8	1909.4	1952.8
LT Liabilities	563.6	895.1	1183.8	1178.4	1178.1
Share Capital	1.0	1230.1	1230.1	1497.2	1497.2
Shareholder's Funds	1314.6	1185.6	1301.8	1549.5	1625.9
Minority Interests	675.8	456.4	463.6	474.4	490.0

Source: Company Data & MSSB Research

Per Share Data					
FYE Dec	2016	2017	2018	2019F	2020F
Book Value (sen)	36.0	32.5	35.7	42.5	44.5
Cash Flow (sen)	11.7	12.8	7.8	10.1	14.1
Net Earnings (sen)	5.7	5.3	5.1	4.5	5.5
Dividend (sen)	0.5	1.1	1.0	1.6	2.0
Payout Ratio (%)	8.2	19.9	19.6	35.6	36.6
Dividend Yield (%)	0.5	1.2	1.1	1.8	2.2
PER (x)	15.7	17.1	17.6	20.0	16.5
P/Cash Flow (x)	0.1	0.1	0.1	0.1	0.1
P/Book Value (x)	2.5	2.8	2.5	2.1	2.0
ROE (%)	10.5	6.7	6.2	4.7	5.5
Net Gearing (%)	61.3	103.0	108.3	93.4	88.9

Source: Company Data & MSSB Research

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