

# Leong Hup International Bhd

*Business Diversity being a Saving Grace*

**TP: RM1.15** (+33.7%)

Last Traded: RMO.860

**Buy**

Jeff Lye Zhen Xiong

Tel: +603-2167 9730

jefflye@ta.com.my

www.taonline.com.my

*Following con-call with management, we remain sanguine of LHI's prospect given i) Feedmill's expansion is on track with robust external sales demands, ii) Livestock recovery is in sight with LHI gaining market share, and iii) addition of a growing geographical market - Myanmar. Maintain Buy with an unchanged target price of RM1.15/share.*

## Feedmill Feeding the Flock

Feedmill business had its EBIT doubled in 3QFY19 underpinned by revenue growth of 10.0% YoY and expansion in margin. The rise in revenue was attributed to i) new feedmill facility in Dong Nai, Vietnam and ii) the group's persistent effort in expanding its sales network; whilst margin improvement was due to i) group's effective hedging efforts and ii) tailwind from higher feed ASP. With a higher quarterly production capacity of 882.4kMT (+13.0% YoY), the group managed to ramp up its quarterly feed sales volume to 588.5kMT (+7.4% YoY). Notably the feed sales improvement is largely driven by external sales (+13% YoY in 3QFY19), resulting in 3%-pts increase in external sales split to 59% of group's feed sale volume.

In term of capacity expansion, the group is expected to increase its feed capacity by additional 500kT (from current capacity of c.3.5mnMT) during FY19-FY21 through new feedmills in Lampung, Indonesia and Central Luzon, Philippines alongside additional line in Dong Nai, Vietnam. In the near term, we are excited about the expansion in Dong Nai's facility through installation of third pelleting line (capable of increasing Dong Nai's capacity by 50% to 428kMT/annum – expected completion by 1QFY20) and grain facilities, which would improve production efficiency and scales without exerting substantial incremental operating cost.

## Gaining Market Share when Prices are in the Doldrums

3QFY19 Livestock revenue was up 5.3% YoY, yet EBIT dived 57.0% YoY as ASP of poultry in Indonesia and Vietnam fell due to surge in supply. Looking forward, management shared that ASP has recovered strongly following Indonesian government's directive to discard millions of hatchery eggs in September, while Vietnamese ASP improved as the market digested the overhang situation. That said, Malaysian Livestock ASP is entering into a seasonally weak fourth quarter. We expect the effect from this weak Malaysian ASP to be less severe than 2QFY19 and anticipate significant ASP improvement prior to Chinese New Year 2020.

While dismal prices are undesirable as a whole, the brighter side of such overhang situation is opportunity to gain market share, primarily from small-sized farmers which have weaker balance sheet and considerably higher breakeven point. Note that, during 3QFY19, the group has shown improvement in its total sales volume of broiler DOCs (+2.8% YoY), broilers (+5.0% YoY) and eggs (+2.1% YoY).

### Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	3139.0
52-wk Hi/Lo (RM)	1.19/0.72
12-mth Avg Daily Vol ('000 shrs)	nm
Estimated Free Float (%)	25.68%-29.54%
Beta	nm
Major Shareholders (%)	
Emerging Glory	Emerging Glory - 52.8%
Clarinden Investment	Clarinden Investment - 8.0%

### Forecast Revision (%)

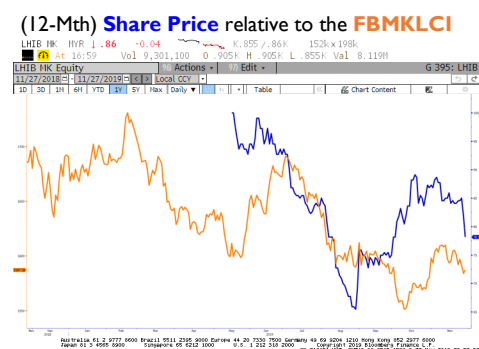
	FY19	FY20
Forecast Revision (%)	-	-
Net Profit (RM mn)	191.0	220.8
Consensus	175.3	215.3
TA/Consensus (%)	109.0	102.6
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY19	FY20
Net debt/equity (%)	0.8	0.7
ROE (%)	13.0	12.9
ROA (%)	3.8	4.2
NTA/Share (RM)	0.4	0.5
Price/ NTA (x)	2.0	1.8

### Share Performance

Price Change (%)	LHI	FBM KLCI
1 mth	(8.5)	1.1
3 mth	19.4	(0.2)
6 mth	(16.5)	(1.7)
12 mth	nm	(5.9)



### *Tapping on Myanmar's Growing Economy*

The group has established a subsidiary in Myanmar as a mean to tap on the country which has lately opened up for foreign investment, and also to further expand LHI's ASEAN coverage. Myanmar has 53.9mn population and annual per capita meat consumption of 39kg (Vietnam: 57kg, Malaysia: 53kg, Philippines: 36kg, Indonesia: 16kg). Its meat consumption is estimated to have grown at c.10% yearly, riding on stronger economy and improving income level. Similar to the group's expansion into Philippines, management would first penetrate via its Livestock segments and eventually set plans for Feedmill segment in the future. Note that, Philippines took three years before it managed to record over RM50mn in revenue. Hence, we do not expect significant contribution in its preliminary stage despite being positive of LHI's move to expand its coverage.

### *Impact*

We make no changes to our earnings forecast.

### *Valuation*

Maintain Buy on Leong Hup with an unchanged TP of RM1.15/share (based on an unchanged PE multiple of 19x).

## Earnings Summary

### Profit and Loss Statement

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
Revenue	5,501.4	5,746.6	6,025.8	6,581.6	7,162.6
EBITDA	576.6	646.1	674.0	742.1	814.0
Depreciation	(199.1)	(197.1)	(213.8)	(233.1)	(250.9)
Net finance cost	(85.7)	(101.0)	(127.7)	(124.6)	(125.7)
Associate	0.5	0.6	0.6	0.7	0.8
EI	0.0	(22.9)	0.0	0.0	0.0
PBT	292.3	348.6	333.1	385.1	438.2
Taxation	(44.9)	(101.8)	(79.9)	(92.4)	(105.2)
MI	(54.8)	(60.6)	(62.1)	(71.8)	(81.8)
Net profit	192.6	186.2	191.0	220.8	251.3
<b>Core net profit</b>	<b>172.1</b>	<b>215.2</b>	<b>191.0</b>	<b>220.8</b>	<b>251.3</b>

Core EPS (sen)	5.3	5.9	5.2	6.1	6.9
Diluted EPS (sen)	5.3	5.9	5.2	6.1	6.9
DPS (sen)	0.0	0.0	3.2	1.8	2.1
Book Value (RM)	0.4	0.5	0.6	0.7	0.7
NTA (RM)	0.3	0.3	0.4	0.5	0.5

### Ratios

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
<b>Valuations</b>					
Core PER (x)	16.3	14.6	16.4	14.2	12.5
Div. Yield (%)	0.0	0.0	3.7	2.1	2.4
P/BV (x)	1.9	1.8	1.5	1.3	1.2

### Profitability ratios

EBITDA margin (%)	10.5	11.6	11.2	11.3	11.4
PBT margin (%)	5.3	6.5	5.5	5.9	6.1
Core Net Margin (%)	3.1	3.7	3.2	3.4	3.5
Core ROE (%)	13.8	17.3	13.0	12.9	13.3
Core ROA (%)	3.9	4.6	3.8	4.2	4.6

### Liquidity ratios

Current ratio (x)	1.1	1.2	1.3	1.3	1.3
Quick ratio (x)	0.8	0.9	0.9	0.9	0.9

### Leverage ratios

Equity/total liabilities (x)	0.6	0.6	0.7	0.8	0.9
Net debt / equity (x)	1.0	1.1	0.8	0.7	0.7

### Growth ratios

Revenue (%)	4.6	4.5	4.9	9.2	8.8
PBT (%)	(15.8)	19.3	(4.5)	15.6	13.8
Core Net Profit (%)	(5.7)	25.0	(11.2)	15.6	13.8

### Balance Sheet

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
PPE	2,045.8	2,216.8	2,403.0	2,619.8	2,819.0
Intangible Asset	106.5	97.3	97.3	97.3	97.3
Associate	1.6	1.7	1.8	1.9	1.9
Others	257.0	260.3	260.3	260.3	260.3
<b>Non-current assets</b>	<b>2,410.9</b>	<b>2,576.1</b>	<b>2,762.3</b>	<b>2,979.2</b>	<b>3,178.5</b>
Inventories	516.8	575.6	610.0	651.3	723.2
Trade receivables	564.0	649.2	633.9	703.5	776.1
Cash and Bank Balance	502.4	458.9	526.4	482.3	366.9
Others	483.3	574.2	574.2	574.2	574.2
<b>Current assets</b>	<b>2,066.6</b>	<b>2,257.9</b>	<b>2,344.5</b>	<b>2,411.4</b>	<b>2,440.5</b>
<b>Total Assets</b>	<b>4,477.5</b>	<b>4,834.0</b>	<b>5,106.8</b>	<b>5,390.7</b>	<b>5,618.9</b>
LT Borrowings	745.3	1,016.0	950.3	972.2	950.3
Others	149.9	167.8	167.8	167.8	167.8
<b>Non-Current liabilities</b>	<b>895.1</b>	<b>1,183.8</b>	<b>1,118.1</b>	<b>1,140.0</b>	<b>1,118.1</b>
Trade payables	242.2	248.9	279.0	294.7	323.5
ST Borrowings	1,398.6	1,304.8	1,220.5	1,248.6	1,220.5
Others	299.5	331.1	331.1	331.1	331.1
<b>Current liabilities</b>	<b>1,940.3</b>	<b>1,884.8</b>	<b>1,830.6</b>	<b>1,874.4</b>	<b>1,875.1</b>
Shareholders funds	1,185.6	1,301.8	1,640.7	1,795.3	1,971.2
MI	456.4	463.6	517.4	581.0	654.5
<b>Total Equity</b>	<b>1,642.0</b>	<b>1,765.4</b>	<b>2,158.1</b>	<b>2,376.3</b>	<b>2,625.7</b>
<b>Total E&amp;L</b>	<b>4,477.5</b>	<b>4,834.0</b>	<b>5,106.8</b>	<b>5,390.7</b>	<b>5,618.9</b>

### Cash Flow Statement

FYE 31 Dec (RMmn)	2017	2018	2019E	2020F	2021F
Pretax profit	292.3	348.6	333.1	385.1	438.2
Depreciation	199.1	197.1	213.8	233.1	250.9
Net interest	85.7	101.0	127.7	124.6	125.7
Associates	(0.5)	(0.6)	(0.6)	(0.7)	(0.8)
Changes in WC	11.4	(225.5)	11.0	(95.3)	(115.6)
Tax	(76.2)	(75.7)	(79.9)	(92.4)	(105.2)
Others	12.6	20.7	0.0	0.0	0.0
<b>Operational cash flow</b>	<b>524.4</b>	<b>365.5</b>	<b>605.1</b>	<b>554.4</b>	<b>593.2</b>
Capex	(336.2)	(363.7)	(400.0)	(450.0)	(450.0)
Interest income	6.5	1.4	7.0	7.2	6.0
Others	(37.0)	0.8	0.6	0.6	0.7
<b>Investing cash flow</b>	<b>(366.7)</b>	<b>(361.5)</b>	<b>(392.4)</b>	<b>(442.2)</b>	<b>(443.3)</b>
Net share issue	0.0	0.0	263.6	0.0	0.0
Net borrowings	549.9	170.8	(150.0)	50.0	(50.0)
Dividend paid	(58.4)	(66.3)	(124.0)	(74.5)	(83.7)
Interest paid	(92.2)	(108.6)	(134.7)	(131.7)	(131.7)
Others	(471.2)	(36.2)	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>(71.9)</b>	<b>(40.3)</b>	<b>(145.2)</b>	<b>(156.3)</b>	<b>(265.4)</b>
<b>Net cash flow</b>	<b>85.8</b>	<b>(36.2)</b>	<b>67.5</b>	<b>(44.1)</b>	<b>(115.4)</b>
Beginning Cash	333.2	427.4	390.4	457.9	413.9
Forex & others	8.4	(0.8)	0.0	0.0	0.0
<b>Ending Cash</b>	<b>427.4</b>	<b>390.4</b>	<b>457.9</b>	<b>413.9</b>	<b>298.4</b>

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

### Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Thursday, November 28, 2019, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my