

HLIB Research

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BUY (Maintain)

Target Price: RM1.00

Previously: RM1.00

Current Price: RM0.775

Capital upside 29.0%

Dividend yield 2.2%

Expected total return 31.2%

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	-7.2	-16.7	N/A
Relative	-3.6	-13.0	N/A

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,829
3-mth average volume ('000)	2,643
SC Shariah compliant	Yes

Major shareholders

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

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core	171.6	203.7	244.4
EPS – core (sen)	4.7	5.6	6.7
P/E (x)	16.5	13.9	11.6

Leong Hup International

Vietnam the saviour in 4Q19

LHI's 4Q19 core net profit of RM42.1m (QoQ: -14.9%; YoY: +29.1%) took FY19 core net profit to RM171.6m (-12.9%). The results beat our expectation (accounting for 105.6% of our estimate) but came in within market consensus (accounting for 99.2% of consensus estimate). Better-than-expected performance at the feedmill was the key reason to the deviation against our estimate. We maintain our earnings forecasts, TP of RM1.00, and BUY rating for now, pending more update from the upcoming conference call. At RM0.775, LHI is trading at FY20-21 P/E of 13.9x and 11.6x, respectively.

Beats our estimates, but within consensus. 4Q19 core net profit of RM42.1m (QoQ: -14.9%; YoY: +29.1%) took FY19 core net profit to RM171.6m (-12.9%). The results beat our expectation (accounting for 105.6% of our estimate) but came in within market consensus (accounting for 99.2% of consensus estimate). Better-than-expected performance at the feedmill was the key reason to the deviation against our estimate.

QoQ. 4Q19 core net profit declined by 14.9% to RM42.1m (from RM49.4m in 3Q19) as higher ASPs of broiler chickens and DOC in Indonesia and broiler chickens in Vietnam were more than negated by lower ASPs of broiler chickens and DOC in Malaysia, and weaker performance in Singapore.

YoY. 4Q19 core net profit rose 29.1% to RM42.1m, as weaker contributions from Malaysia (due to lower ASPs of broiler chickens, DOC and eggs), Singapore (due to lower ASP for processed food) and Indonesia (due to lower ASP for DOC) were more than mitigated by higher earnings contribution from Vietnam (arising from higher ASP and sales volume of broiler chickens and higher feed sales volume).

YTD. Despite a 5.4% increase in revenue, FY19 core net profit declined by 12.9% to RM171.6m (from RM196.9m in FY18), as higher poultry products sales volume in Indonesia and Vietnam and higher feed sales and broiler chicken ASP in Vietnam were more than negated by (i) depressed broiler chickens and DOC prices in Malaysia and Indonesia, (ii) lower egg prices in Vietnam, and lower processed food and fresh chicken prices in Singapore, and (iii) the absence of earnings contribution from Jordon International (which was disposed in end 1H18).

Forecast. Maintain, pending more updates from the upcoming conference call.

Maintain BUY with unchanged TP of RM1.00. We maintain our **BUY** rating with an unchanged TP of RM1.00 for now (based on 18x revised FY20 core EPS of 5.6 sen), pending more update from management. At RM0.775, LHI is trading at FY20-21 P/E of 13.9x and 11.6x, respectively.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY17a	FY18a	FY19	FY20f	FY21f
Cash	502.4	458.9	764.8	729.9	822.7
Receivables	696.1	825.5	668.3	864.3	903.2
Inventories	516.8	575.6	679.6	623.6	651.7
PPE	2,045.8	2,216.8	2,396.5	2,560.3	2,671.6
Others	716.4	756.4	899.9	778.8	787.4
Assets	4,477.5	4,834.0	5,409.1	5,557.8	5,837.5
Payables	498.9	519.9	560.2	595.3	622.0
Debt	2,143.9	2,320.8	2,381.8	2,320.8	2,320.8
Others	192.7	228.0	286.6	228.0	228.0
Liabilities	2,835.5	3,068.6	3,228.6	3,144.0	3,170.8
Shareholder's equity	1,185.6	1,301.8	1,641.2	1,828.1	1,999.6
Minority interest	456.4	463.6	539.3	585.7	667.1
Equity	1,642.0	1,765.4	2,180.5	2,413.8	2,666.7

Cash Flow Statement

FYE Dec	FY17a	FY18a	FY19	FY20f	FY21f
Profit before taxation	292.3	348.6	288.8	362.0	434.4
D&A	199.1	197.1	225.5	238.1	248.0
Working capital	11.4	(241.8)	38.7	(67.3)	(57.7)
Taxation	(76.2)	(75.7)	(57.0)	(90.4)	(108.5)
Others	97.9	121.2	160.9	79.0	79.0
CFO	524.4	349.3	656.9	521.5	595.3
Capex	(368.1)	(423.0)	(387.2)	(350.0)	(350.0)
Others	1.5	44.4	14.2	-	-
CFI	(366.7)	(378.6)	(373.0)	(350.0)	(350.0)
Changes in debt	536.6	178.9	(43.5)	-	-
Shares issued	-	-	(8.0)	-	-
Dividends	(38.4)	(58.0)	(84.5)	(62.1)	(73.0)
Others	(570.1)	(127.8)	133.2	(79.5)	(79.5)
CFE	(71.9)	(6.9)	(2.7)	(141.6)	(152.5)
Net cash flow	85.8	(36.2)	281.1	29.9	92.8
Forex	8.4	(0.8)	(0.7)	-	-
Others	-	-	-	-	-
Beginning cash	333.2	427.4	390.4	631.5	661.4
Ending cash	427.4	390.4	670.8	661.4	754.2

Income Statement

FYE Dec	FY17a	FY18a	FY19	FY20f	FY21f
Revenue	5,501.4	5,746.6	6,054.8	6,236.3	6,516.7
EBITDA	583.1	654.6	650.5	679.1	761.4
EBIT	384.0	457.5	425.0	441.0	513.4
Finance cost	(92.2)	(109.5)	(136.6)	(79.5)	(79.5)
Associates	0.5	0.6	0.4	0.5	0.5
Profit before tax	292.3	348.6	288.8	362.0	434.4
Tax	(44.9)	(101.8)	(75.8)	(90.4)	(108.5)
PAT	247.4	246.8	213.0	271.6	325.9
Minority interest	(54.8)	(60.6)	(62.4)	(67.9)	(81.5)
Reported PATMI	192.6	186.2	150.6	203.7	244.4
Exceptionals	(6.1)	33.4	21.0	-	-
Core PATMI	186.4	219.6	171.6	203.7	244.4
Consensus core PATMI				231.1	267.7
HLIB/ Consensus				88.1%	91.3%

Ratios

FYE Dec	FY17a	FY18a	FY19	FY20f	FY21f
Core EPS (sen)	5.1	6.0	4.7	5.6	6.7
P/E (x)	15.2	12.9	16.5	13.9	11.6
EV/EBITDA (x)	8.0	7.2	7.2	6.9	6.2
DPS (sen)	-	-	1.6	1.7	2.0
Dividend Yield	-	-	2.1	2.2	2.6
BVPS (RM)	0.3	0.4	0.4	0.5	0.5
P/B (x)	2.4	2.2	1.7	1.5	1.4
EBITDA margin	10.6%	11.4%	10.7%	10.9%	11.7%
EBIT margin	7.0%	8.0%	7.0%	7.1%	7.9%
PBT margin	5.3%	6.1%	4.8%	5.8%	6.7%
Net margin	3.4%	3.8%	2.8%	3.3%	3.8%
ROE	11.4%	12.4%	7.9%	8.4%	9.2%
ROA	4.2%	4.5%	3.2%	3.7%	4.2%
Net gearing	100.0%	105.5%	74.2%	65.9%	56.2%

Assumptions

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

Figure #1 **Quarterly results comparison**

FY Dec (RMm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	1,554.6	1,527.1	1,544.0	1.1	-0.7	5,746.6	6,054.8	5.4
- Livestock & poultry related products	907.8	858.2	874.5	1.9	-3.7	3,470.6	3,396.0	-2.1
- Feedmill	643.4	665.8	666.0	0.0	3.5	2,261.9	2,646.7	17.0
- Others	3.4	3.1	3.5	12.5	4.2	14.1	12.0	-15.0
EBITDA	169.2	173.7	146.3	-15.8	-13.5	651.6	650.5	-0.2
- Livestock & poultry related products	64.1	41.8	51.0	22.2	-20.3	394.0	257.4	-34.7
- Feedmill	88.3	133.5	96.9	-27.4	9.7	265.7	403.1	51.7
- Others	16.8	-1.5	-1.6	7.1	-109.5	-8.2	-10.0	23.2
Profit from operations	121.8	118.3	84.2	-28.8	-30.8	457.5	425.0	-7.1
- Livestock & poultry related products	25.1	1.9	4.6	140.0	-81.6	242.2	90.2	-62.8
- Feedmill	76.6	118.8	82.0	-31.0	7.0	219.9	348.4	58.5
- Others	17.0	-2.4	-2.4	-0.3	-114.2	-7.6	-13.6	78.7
Finance costs	-31.4	-34.6	-34.2	-1.2	8.8	-109.5	-136.6	24.8
Associates	0.1	0.1	0.2	120.3	7.0	0.6	0.4	-30.9
PBT	90.5	83.8	50.2	-40.1	-44.5	348.6	288.8	-17.2
Tax expense	-35.2	-21.5	-16.4	-23.7	-53.5	-101.8	-75.8	-25.6
PAT	55.3	62.3	33.8	-45.8	-38.8	246.8	213.0	-13.7
Non-controlling interests	-22.6	-18.0	-4.2	-	-	-60.6	-62.4	-
Reported net profit	32.6	44.3	29.6	-33.3	-9.4	186.2	150.6	-19.1
Core net profit	32.6	49.4	42.1	-14.9	29.1	196.9	171.6	-12.9
Core EPS (sen)	0.9	1.4	1.2	-14.9	29.1	5.4	4.7	-12.9
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	10.9	11.4	9.5	-1.9	-1.4	11.3	10.7	-0.6
Operating margin (%)	7.8	7.7	5.5	-2.3	-2.4	8.0	7.0	-0.9
PBT margin (%)	5.8	5.5	3.3	-2.2	-2.6	6.1	4.8	-1.3
Net margin (%)	2.1	3.2	2.7	-0.5	0.6	3.4	2.8	-0.6

EIs in 4Q19 include (i) RM10.8m impairment loss on receivables, (ii) RM0.9m gain on disposal, and (iii) RM2.6m 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.

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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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