

# Leong Hup International (LHIB MK)

## D/G to HOLD

# HOLD

[Prior:BUY]

Share Price MYR 0.77  
 12m Price Target MYR 0.83 (+9%)  
 Previous Price Target MYR 0.90

### D/G to HOLD with lower TP of MYR0.83

Given a weaker FY20 outlook for the livestock segment, we prudently lower our FY20-FY22 net profit estimates by 8%-11% upon adjusting for slower recovery in Malaysia's poultry ASPs and demand concerns from the COVID-19 outbreak. Hence, we lower our TP to MYR0.83 (-7sen), pegged to an unchanged 17x FY20 PER. With narrowed upside to our TP, LHIB is now a HOLD.

### 4Q19 dragged by weak Malaysia poultry ASPs

LHIB held a post-results call with sell-side analysts yesterday where they shared that the 10% decline in 4Q19 net profit was due to a combination of lower poultry ASPs (both day-old chicks [DOC] & broiler) in Malaysia and higher operating expenses from transport, utilities and other expenses. That said, the feedmill segment offered some reprieve with a 10% YoY increase in EBITDA as higher plant utilisation in Vietnam drove feedmill sales volume in 4Q19.

### Poultry ASPs fell in core regions

LHIB reported lower poultry ASPs YoY in all its operational regions with the exception of Vietnam in FY19. Malaysia's DOC and broiler ASPs fell 14% YoY and 5% YoY respectively due to industry oversupply, while Indonesia also reported weaker poultry ASPs YoY (DOC: -3% YoY; broiler: -10% YoY) (Refer to fig 1). To note that the largest contributors to LHIB's group revenue come from Malaysia (27%) and Indonesia (36%).

### Cut FY20-FY22 net profit estimates by 8%-11%

Into FY20, we understand that poultry ASPs in Malaysia have remained suppressed and will unlikely stage a significant rebound in 1Q20 as LHIB is currently experiencing a slowdown in demand led by consumer concerns over the COVID-19 outbreak. Additionally, Indonesia broiler ASPs have also fallen c.13-15% in Jan 2020 YTD according to our channel checks. That said, we expect robust feedmill sales from Vietnam and new capacity from Philippines to partially buffer downside in the weaker livestock segment. Nevertheless, we revise our FY20/FY21/FY22 net profit estimates downwards by 8%/11%/11% after adjusting our Malaysia poultry ASPs by -8% p.a. (to MYR1.80/kg) and -6% p.a. (to MYR4.25/kg) for DOC and broiler chicks respectively.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,747	6,055	6,555	7,048	7,455
EBITDA	655	651	709	791	839
Core net profit	225	151	179	214	227
Core EPS (sen)	6.2	4.1	4.9	5.9	6.2
Core EPS growth (%)	16.8	(33.0)	19.1	19.4	6.0
Net DPS (sen)	0.0	1.6	1.5	1.8	1.9
Core P/E (x)	na	21.3	15.7	13.1	12.4
P/BV (x)	na	2.0	1.6	1.5	1.4
Net dividend yield (%)	na	1.8	1.9	2.3	2.4
ROAE (%)	15.0	10.2	10.5	11.6	11.3
ROAA (%)	4.8	2.9	3.1	3.4	3.3
EV/EBITDA (x)	7.9	8.4	7.6	6.8	6.6
Net gearing (%) (incl perps)	108.3	79.6	83.6	72.8	72.4
Consensus net profit	-	-	244	281	na
MKE vs. Consensus (%)	-	-	(26.6)	(23.8)	na

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### Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

### Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.5
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.8B USD675M

### Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%
na	na

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(8)	(17)	na
Relative to index (%)	(4)	(13)	na

Source: FactSet

**Fig 1: LHIB's historical poultry average selling prices (ASPs) by country**

Regional poultry ASPs (FYE 31 Dec)	FY17	FY18	FY19
<b>Malaysia (MYR)</b>			
Broiler DOC per chick	1.95	1.84	1.58
Broiler chickens per kg	4.75	4.37	4.17
Per egg	0.26	0.29	0.31
Livestock feed per kg	1.93	1.99	1.82
<b>Singapore (SGD)</b>			
Broiler DOC per chick	0.63	0.66	0.64
Livestock feed per kg	0.51	0.55	0.53
<b>Indonesia (IDR)</b>			
Broiler DOC per chick	4,431	5,980	5,767
Broiler chickens per kg	16,648	18,612	16,704
Per egg	1,120	1,241	1,210
Livestock feed per kg	6,173	6,431	6,649
<b>Vietnam (VND)</b>			
Broiler DOC per chick	8,017	9,229	9,352
Broiler chickens per kg	24,932	25,339	25,678
Per egg	1,307	1,579	1,353
Livestock feed per kg	7,920	8,620	8,879
<b>Philippines (PHP)</b>			
Broiler DOC per chick	26.14	27.91	26.22
Broiler chickens per kg	76.71	77.64	87.99

Source: Company data, Maybank Kim Eng

## Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	na	22.1	15.7	13.1	12.4
Core P/E (x)	na	21.3	15.7	13.1	12.4
P/BV (x)	na	2.0	1.6	1.5	1.4
P/NTA (x)	na	2.1	1.7	1.5	1.4
Net dividend yield (%)	na	1.8	1.9	2.3	2.4
FCF yield (%)	na	8.5	nm	6.6	nm
EV/EBITDA (x)	7.9	8.4	7.6	6.8	6.6
EV/EBIT (x)	11.3	12.9	11.4	9.9	9.7
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	5,746.6	6,054.8	6,555.2	7,047.6	7,455.5
Gross profit	1,005.8	940.2	1,052.3	1,157.7	1,216.6
EBITDA	654.6	650.5	708.6	791.2	839.1
Depreciation	(189.9)	(204.6)	(227.8)	(244.0)	(258.7)
Amortisation	(7.2)	(20.9)	(7.2)	(7.2)	(7.2)
EBIT	457.5	425.0	473.5	539.9	573.2
Net interest income / (exp)	(109.5)	(136.6)	(148.2)	(164.2)	(180.3)
Associates & JV	0.6	0.4	0.4	0.4	0.4
Pretax profit	348.6	288.8	325.8	376.1	393.3
Income tax	(101.8)	(75.8)	(85.5)	(98.7)	(103.2)
Minorities	(60.6)	(62.4)	(61.0)	(63.4)	(63.3)
Reported net profit	186.2	150.6	179.3	214.0	226.8
Core net profit	224.9	150.6	179.3	214.0	226.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	458.9	764.8	859.6	1,244.5	1,376.9
Accounts receivable	649.2	496.1	743.9	589.3	821.0
Inventory	575.6	679.6	670.9	774.6	756.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,216.8	2,396.5	2,592.9	2,749.1	2,890.7
Intangible assets	97.3	97.5	97.2	96.9	96.6
Investment in Associates & JVs	1.7	1.6	1.6	1.6	1.6
Other assets	834.5	973.1	1,031.4	1,089.0	1,138.8
<b>Total assets</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,997.4</b>	<b>6,544.8</b>	<b>7,082.2</b>
ST interest bearing debt	1,326.6	1,522.7	1,622.8	1,790.4	1,958.0
Accounts payable	248.9	273.5	288.6	313.1	324.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,044.3	977.7	1,221.3	1,336.5	1,451.7
Other liabilities	449.0	455.0	492.0	519.0	541.0
<b>Total Liabilities</b>	<b>3,068.6</b>	<b>3,228.6</b>	<b>3,624.9</b>	<b>3,959.2</b>	<b>4,274.5</b>
Shareholders Equity	1,301.8	1,641.2	1,772.2	1,922.0	2,080.8
Minority Interest	463.6	539.3	600.3	663.6	726.9
<b>Total shareholder equity</b>	<b>1,765.4</b>	<b>2,180.5</b>	<b>2,372.4</b>	<b>2,585.6</b>	<b>2,807.7</b>
<b>Total liabilities and equity</b>	<b>4,834.0</b>	<b>5,409.1</b>	<b>5,997.4</b>	<b>6,544.8</b>	<b>7,082.2</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	348.6	288.8	325.8	376.1	393.3
Depreciation & amortisation	197.1	225.5	235.0	251.2	265.9
Cash taxes paid	(75.7)	(57.0)	(85.5)	(98.7)	(103.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	349.2	656.9	243.0	586.0	337.4
Capex	(393.4)	(385.4)	(400.0)	(400.0)	(400.0)
Free cash flow	(44.2)	271.5	(157.0)	186.0	(62.6)
Dividends paid	(66.3)	(84.5)	(53.8)	(64.2)	(68.0)
Equity raised / (purchased)	0.0	269.6	5.4	0.0	0.0
Change in Debt	59.4	(187.8)	343.7	282.8	282.8
Other invest/financing cash flow	14.8	12.4	(19.4)	(19.4)	(19.4)
Effect of exch rate changes	(0.8)	(0.7)	na	na	na
Net cash flow	(37.0)	280.4	119.0	385.2	132.7

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.5	5.4	8.3	7.5	5.8
EBITDA growth	12.3	(0.6)	8.9	11.7	6.1
EBIT growth	19.1	(7.1)	11.4	14.0	6.2
Pretax growth	19.3	(17.2)	12.8	15.5	4.6
Reported net profit growth	(3.3)	(19.1)	19.1	19.4	6.0
Core net profit growth	16.8	(33.0)	19.1	19.4	6.0
<b>Profitability ratios (%)</b>					
EBITDA margin	11.4	10.7	10.8	11.2	11.3
EBIT margin	8.0	7.0	7.2	7.7	7.7
Pretax profit margin	6.1	4.8	5.0	5.3	5.3
Payout ratio	0.0	38.8	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.2	2.5	2.7	3.0	3.0
Revenue/Assets (x)	1.2	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.7	3.3	3.4	3.4	3.4
ROAE (%)	15.0	10.2	10.5	11.6	11.3
ROAA (%)	4.8	2.9	3.1	3.4	3.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	60.8	59.8	59.8	59.8	59.8
Days receivable outstanding	38.0	34.0	34.0	34.0	34.0
Days inventory outstanding	41.5	44.2	44.2	44.2	44.2
Days payables outstanding	18.6	18.4	18.4	18.4	18.4
Dividend cover (x)	nm	2.6	3.3	3.3	3.3
Current ratio (x)	1.2	1.2	1.3	1.3	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.7	1.7	1.7	1.7
Net gearing (%) (incl perps)	108.3	79.6	83.6	72.8	72.4
Net gearing (%) (excl. perps)	108.3	79.6	83.6	72.8	72.4
Net interest cover (x)	4.2	3.1	3.2	3.3	3.2
Debt/EBITDA (x)	3.6	3.8	4.0	4.0	4.1
Capex/revenue (%)	6.8	6.4	6.1	5.7	5.4
Net debt/ (net cash)	1,912.1	1,735.5	1,984.4	1,882.4	2,032.8

Source: Company; Maybank

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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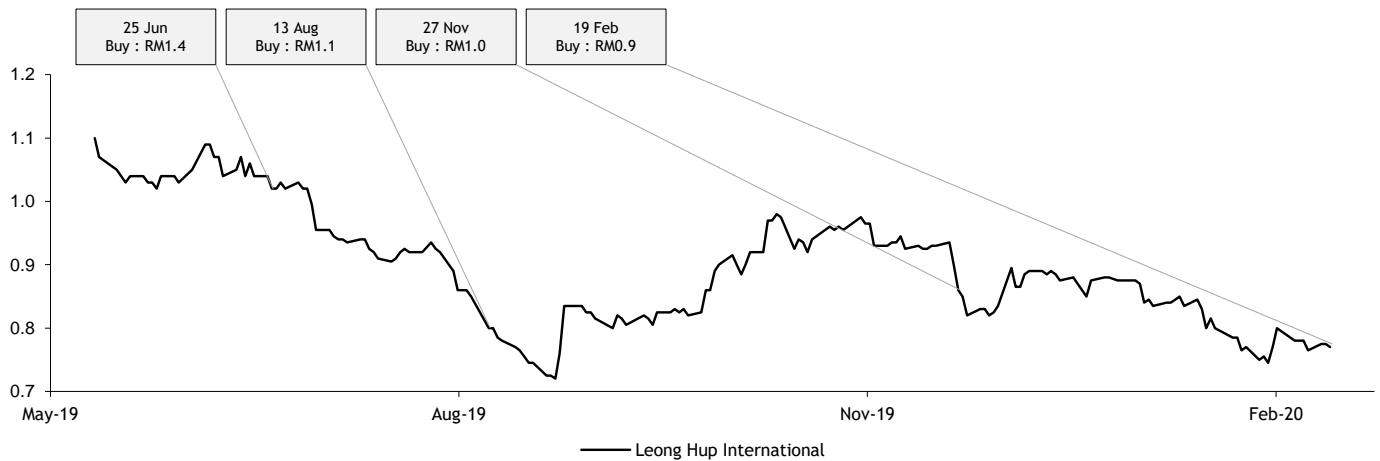
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