

HLIB Research

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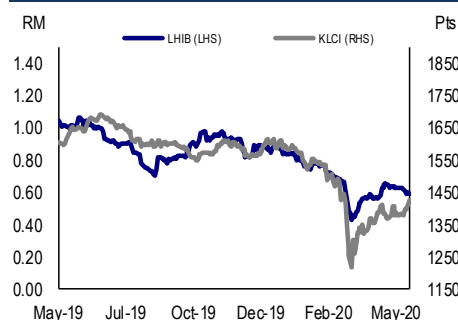
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HOLD (Maintain)**Target Price:** RM0.56**Previously:** RM0.56**Current Price:** RM0.59

Capital upside	-5.1%
Dividend yield	2.5%
Expected total return	-2.6%

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	-6.3	-21.3	-44.9
Relative	-7.1	-15.2	-37.8

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,154
3-mth average volume ('000)	2,458
SC Shariah compliant	No

Major shareholders

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

Earnings summary

FYE Dec (RMm)	FY19	FY20f	FY21f
PATMI - core	157.1	135.5	175.9
EPS - core (sen)	4.3	3.7	4.8
P/E (x)	13.7	15.9	12.2

Leong Hup International**Hit by lower prices**

LHI's 1Q20 core net profit of RM23.3m (QoQ: -44.7%; YoY: -61.3%) accounted for 13.9-17.2% of consensus and our full-year forecast. We consider the results within our expectation, as we anticipate earnings to come in stronger in 2H20, on the back of recent recovery in broiler prices (particularly, in Malaysia). Maintain earnings forecasts and TP of RM0.56 (based on 15x FY20 core EPS of 3.7 sen) and HOLD rating for now, pending more update with management.

Within our expectation. 1Q20 core net profit of RM23.3m (QoQ: -44.7%; YoY: -61.3%) accounted for 13.9-17.2% of consensus and our full-year forecast. We consider the results within our expectation, as we anticipate earnings to come in stronger in 2H20, on the back of recent recovery in broiler prices (particularly, in Malaysia).

QoQ. 1Q20 core net profit fell 44.7% to RM23.3m, dragged mainly by (i) lower livestock feed sales volume and egg prices in Malaysia, (ii) lower livestock feed sales volume and day-old-chick (DOC) prices in Indonesia, and (iii) lower broiler chicken prices in Vietnam. Geographically, Singapore and Indonesia recorded higher EBITDA, and we believe this was due mainly to higher broiler chicken prices in Indonesia (which more than mitigated lower livestock feed sales volume and DOC prices).

YoY. 1Q20 core net profit fell 61.3% to RM23.3m, as higher contribution from livestock feed segment (arising from higher sales volume in Vietnam) was more than negated by (i) lower poultry product prices in Malaysia (including DOC, broiler chickens, and eggs), (ii) lower DOC sales volume and prices in Indonesia, and (iii) lower broiler chicken prices in Indonesia. Geographically, we note that most countries recorded lower earnings, with the exception of Vietnam, and this was due mainly to higher livestock feed sales volume.

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

Maintain HOLD with unchanged TP of RM0.56. We maintain our **HOLD** rating with an unchanged TP of RM0.56 (based on 15x FY20 core EPS of 3.7 sen, pending more update from management. At current level, LHI is trading at FY20-21 P/E of 15.9x and 12.2x, respectively. We believe re-rating catalyst would re-emerge when ASP for broiler products recovers, which hinges on Covid-19 outbreak subsiding and potentially more stimulus packages being announced.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	458.9	764.8	739.4	698.1	794.3
Receivables	825.5	670.0	671.6	705.6	740.3
Inventories	575.6	679.6	665.1	698.9	733.4
PPE	2,216.8	2,396.5	2,572.8	2,734.9	2,792.1
Others	757.2	898.2	894.2	913.5	933.1
Assets	4,834.0	5,409.1	5,543.0	5,751.1	5,993.3
Payables	519.9	560.2	557.1	585.5	614.3
Debt	2,370.9	2,381.8	2,381.8	2,381.8	2,381.8
Others	177.8	282.9	282.9	282.9	282.9
Liabilities	3,068.6	3,228.6	3,225.6	3,253.9	3,282.8
Shareholders' equity	1,301.8	1,641.2	1,732.9	1,854.0	1,995.8
Non-controlling interests	463.6	539.3	584.5	643.1	714.7
Equity	1,765.4	2,180.5	2,317.4	2,497.2	2,710.5

Cash Flow Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Profit before tax	348.6	288.8	244.2	316.9	387.0
D&A	199.4	197.4	224.0	238.1	243.0
Working capital	-241.8	38.7	14.2	-58.6	-59.7
Tax paid	-75.7	-57.0	-63.5	-82.4	-100.6
Others	118.8	189.1	124.5	116.3	102.7
CFO	-378.6	-373.0	-400.0	-400.0	-300.0
Capex	-423.0	-403.6	-400.0	-400.0	-300.0
Others	44.4	30.7	0.0	0.0	0.0
CFI	-378.6	-373.0	-400.0	-400.0	-300.0
Changes in debt	178.9	-43.5	0.0	0.0	0.0
Shares issued	0.0	269.6	0.0	0.0	0.0
Dividends	-66.3	-84.5	-43.8	-54.8	-73.0
Others	-119.5	-144.3	-125.0	-116.8	-103.2
CFF	-6.9	-2.7	-168.8	-171.6	-176.2
Net cash flow	-36.2	281.1	-25.4	-41.3	96.2
Beginning cash	427.4	390.4	670.8	645.4	604.1
Forex	-0.8	-0.7	0.0	0.0	0.0
Ending cash	390.4	670.8	645.4	604.1	700.3

Income Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,986.0	6,290.5	6,600.6
EBITDA	654.6	650.5	592.7	671.3	732.8
EBIT	457.5	425.0	368.7	433.2	489.7
Finance cost	-109.5	-136.6	-125.0	-116.8	-103.2
Associates	0.6	0.4	0.5	0.5	0.5
Profit before tax	348.6	288.8	244.2	316.9	387.0
Tax	-101.8	-75.8	-63.5	-82.4	-100.6
PAT	246.8	213.0	180.7	234.5	286.4
Non-controlling interests	-60.6	-62.4	-45.2	-58.6	-71.6
Reported PATMI	186.2	150.6	135.5	175.9	214.8
Exceptionals	33.4	6.5	0.0	0.0	0.0
Core PATMI	219.6	157.1	135.5	175.9	214.8
Consensus core PATMI			167.9	200.8	224.7
HLIB/ Consensus			80.7%	87.6%	95.6%

Ratios

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Core EPS (sen)	6.0	4.3	3.7	4.8	5.9
P/E (x)	9.8	13.7	15.9	12.2	10.0
EV/EBITDA (x)	5.8	5.8	6.4	5.6	5.1
DPS (sen)	1.6	1.2	1.5	2.0	2.0
Dividend yield	2.7%	2.0%	2.5%	3.4%	3.4%
BVPS (RM)	0.4	0.4	0.5	0.5	0.5
P/B (x)					
EBITDA margin	18.9%	19.2%	17.6%	19.2%	20.3%
EBIT margin	6.6%	5.7%	4.8%	5.4%	5.8%
PBT margin	5.0%	3.9%	3.2%	3.9%	4.6%
Net margin	3.2%	2.1%	1.8%	2.2%	2.6%
ROE	17.7%	10.7%	8.0%	9.8%	11.2%
ROA	4.7%	3.1%	2.5%	3.1%	3.7%
Net gearing	108.3%	74.2%	70.9%	67.4%	58.6%

Assumptions

FYE Dec	FY20F	FY21F	FY22F
Feedmill			
- Production volume ('000 mt)	2,453.6	2,588.2	2,731.2
- Utilisation rate	72%	73%	77%
Livestock			
- Broiler DOC supplied (m chicks)	179.6	185.0	190.5
- Broiler supplied (m birds)	119.6	122.6	125.2
- Eggs supplied (m eggs)	1,804.7	1,851.8	1,900.4

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Revenue	1,506.4	1,544.0	1,434.1	-7.1	-4.8
- Livestock & poultry related products	859.7	874.5	782.6	-10.5	-9.0
- Feedmill	643.6	666.0	648.1	-2.7	0.7
- Others	3.1	3.5	3.4	-4.6	8.7
EBITDA	200.6	146.3	127.2	-13.1	-36.6
- Livestock & poultry related products	118.9	51.0	6.0	-88.2	-94.9
- Feedmill	85.2	96.9	119.4	23.3	40.2
- Others	-3.5	-1.6	1.7	>100	>100
Profit from operations	147.7	84.2	67.7	-19.7	-54.2
- Livestock & poultry related products	79.1	4.6	-39.2	NM	NM
- Feedmill	73.0	82.0	105.9	29.1	45.1
- Others	-4.4	-2.4	1.0	>100	>100
Finance costs	-32.9	-34.2	-32.6	-4.6	-0.8
Associates	0.0	0.2	0.0	-82.2	-40.0
PBT	114.9	50.2	35.1	-30.1	-69.5
Tax expense	-24.6	-16.4	-9.8	-40.4	-60.3
PAT	90.3	33.8	25.3	-25.1	-72.0
Non-controlling interests	-29.7	-4.2	-3.5	-	-
Reported net profit	60.6	29.6	21.8	-26.3	-64.0
Core net profit	60.1	42.1	23.3	-44.7	-61.3
Core EPS (sen)	1.6	1.2	0.6	-44.7	-61.3
				%-pts	%-pts
EBITDA margin (%)	13.3	9.5	8.9	-0.6	-4.5
Operating margin (%)	9.8	5.5	4.7	-0.7	-5.1
PBT margin (%)	7.6	3.3	2.4	-0.8	-5.2
Net margin (%)	4.0	2.7	1.6	-1.1	-2.4

Els in 1Q20 include (i) RM0.7m impairment loss on receivables, (ii) RM0.6m disposal gain, and (iii) RM1.3m share option expense

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Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Revenue	1,506.4	1,540.5	1,434.1	-6.9	-4.8
- Malaysia	442.2	411.3	383.5	-6.8	-13.3
- Singapore	193.3	195.4	185.4	-5.1	-4.1
- Vietnam	293.2	374.4	356.5	-4.8	21.6
- Indonesia	563.4	533.4	484.1	-9.2	-14.1
- Philippines	14.1	26.1	24.7	-5.3	74.5
EBITDA	200.6	146.3	127.2	-13.1	-36.6
- Malaysia	78.9	54.1	33.1	-38.8	-58.0
- Singapore	27.8	16.4	21.0	28.3	-24.3
- Vietnam	29.1	41.9	35.1	-16.3	20.4
- Indonesia	63.1	29.6	36.3	22.4	-42.5
- Philippines	1.7	4.3	1.7	-61.1	-2.3

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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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