

Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

Not spared from Covid-19

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings came in below ours and consensus' expectations at RM21.8m (-64%yoy)**
- **Lower average selling prices (ASP) of livestock products dented revenue and earnings**
- **FY20E/FY21F earnings cut by -27.2%/-9.7%**
- **Maintain NEUTRAL with a revised TP of RM0.60 (previously RM0.82)**

1QFY20 normalised earnings came in at RM21.8m (-64%yoy), which were below ours and consensus' expectations at 10.6% and 13.6% of full year estimates. The lower than expected results can be attributed to lower average selling prices (ASPs) of livestock products.

Lower ASPs of livestock products dented revenue and earnings.

Leong Hup International Berhad (LHI)'s 1QFY20 earnings tumbled -64%yoy to RM21.8m as revenue dipped -4.8%yoy to RM1.43b. The lower on-year performance can be attributed to lower ASPs of day-old-chicks (DOC), broiler chickens and eggs in Malaysia. Similarly, ASP for DOC also declined significantly over the quarter in Indonesia. In Singapore, revenue saw a slight dip of -4.1% due to lower sales volume of fresh chicken and duck. On the flipside, Vietnam and the Philippines saw revenue improved by 21.6% and 74.5% to RM356.5m and RM34.7m respectively. Nonetheless, this was not sufficient to cushion the softer incomes from Malaysia (-13.3%yoy to RM383.5m) and Indonesia (-14.1% to RM484.1m).

Overall demand deteriorated due to Covid-19. Due to lower sales in its major markets, LHI also recorded a steep decline in EBITDA margin for its livestock and poultry segment at 0.77% vs 13.8% in 1QFY19. Although the EBITDA of feedmill operations improved 40.2%yoy to RM119.4m, it was not enough to cushion the steeper -94.9%yoy plunge in the EBITDA of livestock and poultry EBITDA to RM6.0m. The dismal performance at its livestock and poultry segment can be attributed to the Covid-19 pandemic, which dampen overall demand for its products hence resulted in lower selling prices. Despite the upcoming Raya festive season that is celebrated in Indonesia and Malaysia, we expect softer on-year performance due to a more cautious sentiment amid this pandemic.

Impact to earnings. As we think that Covid-19 may continue to impact overall demand for the livestock and poultry, we revised our FY20E and FY21F earnings forecasts downward by -27.2% and -9.7% to RM137.5m and RM185.9m respectively as we lowered our assumptions on the ASP of the group's products.

Maintain NEUTRAL

Revised Target Price: RM0.60
(Previously RM0.82)

RETURN STATISTICS

Price @ 19th May 2020 (RM)	0.59
Expected share price return (%)	+0.9
Expected dividend yield (%)	+1.8
Expected total return (%)	+2.7

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-2.3	-3.1
3 months	-4.3	-0.5
12 months	-16.9	-6.3

KEY STATISTICS

FBM KLCI	1423.97
Syariah compliant	No
Issue shares (m)	3650.00
Estimated free float (%)	85.14
Market Capitalisation (RM'm)	2153.50
52-wk price range	RM0.43 - RM1.1
Beta vs FBM KLCI (x)	N/A
Monthly velocity (%)	0.00
Monthly volatility (%)	0.00
3-mth average daily volume (m)	2.46
3-mth average daily value (RM'm)	1.49
Top Shareholders (%)	
Clarinden Inv Pte	9.01
Lau Joo Han	2.11
Lau Eng Guang	1.63

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Target price. We revised our target price to **RM0.60** (previously RM0.82) per share, pegging its FY20F EPS of 3.8sen to target PER of 15.8x. Our target PER, which is based on the FY20 market cap weighted average PER of LHI's regional peers, is unchanged.

Maintain NEUTRAL. The livestock business is a high-volume, low-margin business as the products can be regarded as a commodity hence subjected to vagaries in demand and supply dynamics. The subdued ASPs for broiler's DOC, chicken and egg were not only impacting LHI but the whole industry players. The impact to LHI is more significant as it is a pure-play poultry producer as compared to some of its bigger competitors which have ventured into other businesses apart from poultry. While we believe that the industry outlook may be challenging in the near-term, we recognise that poultry is a staple commodity and also one of the cheaper sources of protein. Hence, we think that demand may eventually recover. We opine that LHI's earnings will be supported by: (i) economies of scale; (ii) vertical integration; and (iii) geographical diversification. All things considered, we maintain our **NEUTRAL** call on the stock. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	5,746.6	6,054.8	5,856.9	5,974.0	6,260.7
Core EBITDA	654.6	650.5	606.1	682.2	713.7
Depreciation & amortisation	(197.1)	(225.5)	(216.7)	(221.1)	(231.6)
Core EBIT	457.5	425.0	389.4	461.2	482.1
Finance costs	(109.5)	(136.6)	(128.9)	(131.4)	(137.7)
Share of profits of associates	0.6	0.4	0.6	0.6	0.6
PBT	348.6	288.8	261.1	330.3	345.0
PAT	246.8	213.0	195.8	247.8	260.1
PATANCI	186.2	150.6	137.5	185.9	194.1
Normalised PATANCI	188.2	167.2	137.5	185.9	194.1
Normalised EPS (sen)	5.2	4.6	3.8	5.1	5.3
Normalised EPS growth (%)	(2.3)	(11.2)	(19.5)	35.2	4.4
Net Dividend (sen)	-	1.6	1.5	2.0	2.0
EBITDA margin (%)	11.4	10.7	10.3	11.4	11.4
Normalised PATANCI margin (%)	3.2	2.5	2.3	3.1	3.1
Dividend yield (%)	-	2.2	1.8	2.4	2.4
PER (x)	15.1	17.0	15.7	11.6	11.1

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 1QFY20 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results				Cumulative results			
	1QFY20	4QFY19	1QFY19	YoY (%)	QoQ (%)	3MFY20	3MFY19	YoY (%)
Revenue	1,434.1	1,544.0	1,506.4	(4.8)	(7.1)	1,434.1	1,506.4	(4.8)
Other income	19.1	8.0	6.2	209.2	138.4	19.1	6.2	209.2
Operating expenses	(1,385.5)	(1,467.8)	(1,364.8)	1.5	(5.6)	(1,385.5)	(1,364.8)	1.5
Profit from operations	67.7	84.2	147.7	(54.2)	(19.7)	67.7	147.7	(54.2)
Finance costs	(32.6)	(34.2)	(32.9)	(0.7)	(4.6)	(32.6)	(32.9)	(0.7)
Share of profits of associates	0.0	0.2	0.0	(40.0)	(82.2)	0.0	0.0	(40.0)
PBT	35.1	50.2	114.9	(69.5)	(30.1)	35.1	114.9	(69.5)
Tax expense	(9.8)	(16.4)	(24.6)	(60.3)	(40.4)	(9.8)	(24.6)	(60.3)
PAT	25.3	33.8	90.3	(72.0)	(25.1)	25.3	90.3	(72.0)
Non-controlling interests	3.5	4.3	29.7	(88.1)	(17.5)	3.5	29.7	(88.1)
PATANCI	21.8	29.5	60.6	(64.0)	(26.2)	21.8	60.6	(64.0)
One-off items	0.0	10.8	0.0	nm	(100.0)	0.0	0.0	nm
Normalised PATANCI	21.8	40.4	60.6	(64.0)	(46.0)	21.8	60.6	(64.0)
				+ / (-) pts				+ / (-) pts
Operating margin (%)	4.7	5.5	9.8	(5.1)	(0.7)	4.7	9.8	(5.1)
PBT margin (%)	2.4	3.3	7.6	(5.2)	(0.8)	2.4	7.6	(5.2)
PAT margin (%)	1.8	2.2	6.0	(4.2)	(0.4)	1.8	6.0	(4.2)
PATANCI margin (%)	1.5	1.9	4.0	(2.5)	(0.4)	1.5	4.0	(2.5)
Effective Tax rate (%)	27.8	32.6	21.4	6.4	(4.8)	27.8	21.4	6.4

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results				Cumulative results			
	1QFY20	4QFY19	1QFY19	YoY (%)	QoQ (%)	3MFY20	3MFY19	YoY (%)
Malaysia	383.5	411.3	442.2	(13.3)	(6.8)	383.5	442.2	(13.3)
Singapore	185.4	195.4	193.3	(4.1)	(5.1)	185.4	193.3	(4.1)
Vietnam	356.5	374.4	293.2	21.6	(4.8)	356.5	293.2	21.6
Indonesia	484.1	533.4	563.4	(14.1)	(9.2)	484.1	563.4	(14.1)
Philippines	24.7	26.1	14.1	74.5	(5.3)	24.7	14.1	74.5
Total	1,434.1	1,540.5	1,506.4	(4.8)	(6.9)	1,434.1	1,506.4	(4.8)
EBITDA								
Malaysia	33.1	54.1	78.9	(58.0)	(38.8)	33.1	78.9	(58.0)
Singapore	21.0	16.4	27.8	(24.3)	28.3	21.0	27.8	(24.3)
Vietnam	35.1	41.9	29.1	20.5	(16.3)	35.1	29.1	20.5
Indonesia	36.3	29.6	63.1	(42.5)	22.4	36.3	63.1	(42.5)
Philippines	1.7	4.3	1.7	(2.3)	(61.1)	1.7	1.7	0.0
Total	127.2	146.3	200.6	(36.6)	(13.1)	127.2	200.6	(36.6)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.