

20 May 2020

Agriculture | Agriculture

## Leong Hup International (LHIB MK)

**Buy** (Maintained)

### Seeing Recovery Signs; Stay BUY

Target Price (Return): MYR0.88 (49.2%)  
 Price: MYR0.59  
 Market Cap: USD495m  
 Avg Daily Turnover (MYR/USD) 1.42m/0.33m

- **Keep BUY with a new MYR0.88 TP from MYR1.16, 49% upside and 2.9% FY21F yield.** Leong Hup International's 1Q20 results disappointed on weak product prices and volumes in key markets, as consumption was affected by COVID-19 and lockdown enforcements. Judging from the share price performance, we believe the weakness could have been priced in, and 2Q20 earnings may stage a recovery if price rebounds can be sustained. We like LHI for its regionally diversified presence and poultry products' long-term consumption growth as the cheapest source of proteins.

- **Results disappointed.** LHI's 1Q20 core net profit of MYR23.1m (-60.6% YoY) was below expectations: Meeting only 11% and 16% of our and consensus' forecasts. The negative deviation could mainly be attributed to weaker-than-expected product prices and volumes in key markets like Malaysia and Indonesia. Post results, we cut FY20F-22F earnings by 23%, 13%, and 7%.

- **Results review.** YoY, 1Q20 sales declined 4.8% on weak product prices and volumes in key markets like Malaysia (-13.3%) and Indonesia (-14.1%), but partially mitigated by the strong growth momentum in Vietnam (+21.6%). Correspondingly, 1Q20 PBT fell 69.5%, as low product prices and falling volumes eroded margins (-5.2ppts). By segment, 1Q20 poultry sales and EBITDA dropped 9% and 94.9% due to the abovementioned reasons. Meanwhile, the feedmill division recorded a 40.2% YoY EBITDA jump – thanks to the volume ramp up at LHI's Vietnam plant.

- **Signs of recovery in Malaysia and Indonesia.** COVID-19 and the resultant lockdowns being enforced regionally may have put tremendous pressure on consumption, hence the fall in ASPs and volumes. That said, we gather that product prices recovered in Malaysia and Indonesia in May, probably due to the easing of lockdown initiatives and supply chain adjustments. Additionally, the upcoming *Aidil Fitri* festival could also lift consumption. Should the strong prices sustain and volumes normalise moving forward, 2Q20 could see LHI stage a strong earnings recovery. This should be further underpinned by robust growth in Vietnam, supported by capacity expansion.

- **Our DCF-derived TP drops to MYR0.88,** following the earnings revision and update of DCF assumptions. The new TP implies 15x FY21F P/E, which is in line with the regional average.

- **Risks to our recommendation** include unfavourable changes in regulatory policies and supply-demand dynamics.

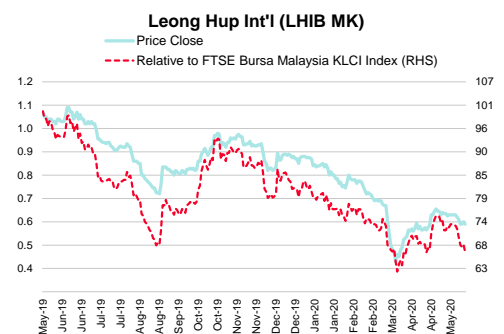
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(33.0)	0.9	(23.4)	(36.2)	(44.9)
Relative	(22.6)	(0.3)	(16.2)	(24.9)	(33.6)
52-wk Price low/high (MYR)				0.43	1.09



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	5,747	6,055	6,168	6,754	7,084
Recurring net profit (MYRm)	219	157	156	210	240
Recurring net profit growth (%)	18.4	(28.3)	(0.4)	34.3	14.2
Recurring P/E (x)	9.83	13.71	13.76	10.25	8.98
P/B (x)	1.7	1.3	1.2	1.1	1.0
P/CF (x)	6.17	3.28	4.33	4.49	3.59
Dividend Yield (%)	2.7	2.7	2.2	2.9	3.3
EV/EBITDA (x)	6.88	6.59	6.69	5.94	5.53
Return on average equity (%)	15.0	10.2	9.2	11.5	12.1
Net debt to equity (%)	108.3	74.2	76.0	78.0	76.9

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.06	0.04	0.04	0.06	0.07
Agriculture	DPS	0.02	0.02	0.01	0.02	0.02
<b>Leong Hup International</b>	BVPS	0.36	0.45	0.48	0.52	0.57
LHIB MK	Return on average equity (%)	15.0	10.2	9.2	11.5	12.1
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
<b>Valuation basis</b>	Recurring P/E (x)	9.83	13.71	13.76	10.25	8.98
DCF.	P/B (x)	1.7	1.3	1.2	1.1	1.0
	FCF Yield (%)	(3.4)	11.8	2.2	1.4	4.6
<b>Key drivers</b>	Dividend Yield (%)	2.7	2.7	2.2	2.9	3.3
i. Regional expansion plan;	EV/EBITDA (x)	6.88	6.59	6.69	5.94	5.53
ii. Favourable product prices.	EV/EBIT (x)	9.85	10.09	10.64	9.25	8.61
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
<b>Key risks</b>	Total turnover	5,747	6,055	6,168	6,754	7,084
i. Unfavourable changes in regulatory policies;	Gross profit	953	1,004	1,011	1,121	1,201
ii. Unfavourable demand-supply dynamics.	EBITDA	655	651	659	769	846
	Depreciation and amortisation	(197)	(226)	(245)	(275)	(303)
<b>Company Profile</b>	Operating profit	457	425	414	494	543
LHI is on one of the largest fully integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Net interest	(109)	(137)	(124)	(127)	(130)
	Pre-tax profit	349	289	291	367	414
	Taxation	(102)	(76)	(67)	(84)	(95)
	Reported net profit	186	151	156	210	240
	Recurring net profit	219	157	156	210	240
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(242)	39	(28)	(132)	(72)
	Cash flow from operations	349	657	497	480	600
	Capex	(423)	(404)	(450)	(450)	(500)
	Cash flow from investing activities	(379)	(373)	(450)	(450)	(500)
	Dividends paid	(66)	(84)	(47)	(63)	(72)
	Cash flow from financing activities	(7)	(3)	(153)	(90)	(202)
	Cash at beginning of period	502	459	765	659	599
	Net change in cash	(36)	281	(106)	(60)	(102)
	Ending balance cash	466	740	659	599	497
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	459	765	659	599	497
	Tangible fixed assets	2,374	2,396	2,602	2,777	2,974
	Total investments	22	22	22	22	22
	Total assets	4,834	5,409	5,542	5,814	5,994
	Short-term debt	1,327	1,509	1,400	1,500	1,500
	Total long-term debt	1,044	873	1,000	1,000	1,000
	Total liabilities	3,069	3,229	3,252	3,377	3,390
	Total equity	1,765	2,181	2,290	2,437	2,604
	Total liabilities & equity	4,834	5,409	5,542	5,814	5,994
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.5	5.4	1.9	9.5	4.9
	Recurrent EPS growth (%)	18.4	(28.3)	(0.4)	34.3	14.2
	Gross margin (%)	16.6	16.6	16.4	16.6	17.0
	Operating EBITDA margin (%)	11.4	10.7	10.7	11.4	11.9
	Net profit margin (%)	3.2	2.5	2.5	3.1	3.4
	Dividend payout ratio (%)	31.2	38.5	29.9	29.9	29.9
	Capex/sales (%)	7.4	6.7	7.3	6.7	7.1
	Interest cover (x)	4.18	3.11	3.33	3.88	4.18

Source: Company data, RHB

## Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>1,506.4</b>	<b>1,544.0</b>	<b>1,434.1</b>	<b>(7.1)</b>	<b>(4.8)</b>	Dragged down by weak poultry prices and volumes.
<b>EBITDA</b>	<b>200.6</b>	<b>146.3</b>	<b>127.2</b>	<b>(13.1)</b>	<b>(36.6)</b>	
<i>EBITDA margin (%)</i>	13.3	9.5	8.9	(0.6)	(4.5)	
<b>EBIT</b>	<b>147.7</b>	<b>84.2</b>	<b>67.7</b>	<b>(19.7)</b>	<b>(54.2)</b>	
<i>EBIT margin (%)</i>	9.8	5.5	4.7	(0.7)	(5.1)	
Finance costs	(32.9)	(34.2)	(32.6)	(4.6)	(0.8)	
EI	0.0	2.6	1.3	nm	nm	
<b>Profit before tax</b>	<b>114.9</b>	<b>50.2</b>	<b>35.1</b>	<b>(30.1)</b>	<b>(69.5)</b>	Hit by the poultry division's lacklustre performance.
<i>PBT margin (%)</i>	7.6	3.3	2.4	(0.8)	(5.2)	
Tax expense	(24.6)	(16.4)	(9.8)	(40.4)	(60.3)	
<i>Effective tax rate (%)</i>	(21.4)	(32.6)	(27.8)	4.8	(6.4)	
Minority interests	(29.7)	(4.3)	(3.5)	nm	nm	
<b>PATAMI</b>	<b>60.6</b>	<b>29.5</b>	<b>21.8</b>	<b>(26.2)</b>	<b>(64.0)</b>	
<b>Core PATAMI</b>	<b>60.6</b>	<b>32.1</b>	<b>23.1</b>	<b>(28.0)</b>	<b>(61.8)</b>	Below expectations, at 11-16% of our and consensus forecasts.
<i>Net margin (%)</i>	4.0	2.1	1.6	(0.5)	(2.4)	

Source: Company data, RHB

Figure 2: LHI's geographical breakdown

FYE Dec (MYRm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Malaysia	442.2	411.3	383.5	(6.8)	(13.3)	Lower ASPs for day-old chicks (DOC), broiler, and eggs.
Singapore	193.3	195.4	185.4	(5.1)	(4.1)	
Vietnam	293.2	374.4	356.5	(4.8)	21.6	Higher sales volume for broiler and eggs.
Indonesia	563.4	533.4	484.1	(9.2)	(14.1)	Drop in volumes and ASPs for DOC.
Philippines	14.1	26.1	24.7	(5.3)	74.5	
<b>Group revenue</b>	<b>1,506.4</b>	<b>1,540.5</b>	<b>1,434.1</b>	<b>(6.9)</b>	<b>(4.8)</b>	
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)	
<b>Group EBITDA</b>	<b>200.6</b>	<b>146.3</b>	<b>127.2</b>	<b>(13.1)</b>	<b>(36.6)</b>	
Malaysia	17.8	13.2	8.6	(4.5)	(9.2)	
Singapore	14.4	8.4	11.4	3.0	(3.0)	
Vietnam	9.9	11.2	9.8	(1.3)	(0.1)	
Indonesia	11.2	5.6	7.5	1.9	(3.7)	
Philippines	12.2	16.6	6.8	(9.8)	(5.4)	
<b>EBITDA margin (%)</b>	<b>13.3</b>	<b>9.5</b>	<b>8.9</b>	<b>(0.6)</b>	<b>(4.5)</b>	

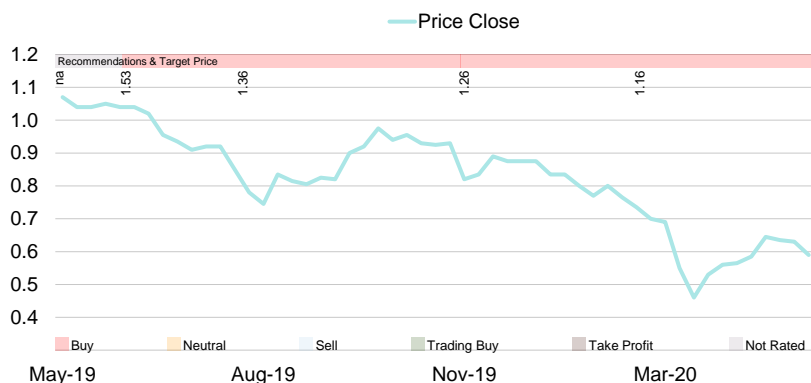
Source: Company data, RHB

Figure 3: LHI's segmental breakdown

FYE Dec (MYRm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Livestock and poultry related products	859.7	874.5	782.6	(10.5)	(9.0)	Mainly due to weak performances from key markets, including Malaysia, Indonesia, and Singapore.
Feedmill	643.6	666.0	648.1	(2.7)	0.7	Higher sales volumes in Vietnam.
<b>Group revenue</b>	<b>1,506.4</b>	<b>1,544.0</b>	<b>1,434.1</b>	<b>(7.1)</b>	<b>(4.8)</b>	
Livestock and poultry related products	118.9	51.0	6.0	(88.2)	(94.9)	
Feedmill	85.2	96.9	119.4	23.3	40.2	Driven by volume ramp ups in Vietnam.
<b>Group EBITDA</b>	<b>200.6</b>	<b>146.3</b>	<b>127.2</b>	<b>(13.1)</b>	<b>(36.6)</b>	
Livestock and poultry related products	13.8	5.8	0.8	(5.1)	(13.1)	
Feedmill	13.2	14.6	18.4	3.9	5.2	
<b>Group EBITDA margin</b>	<b>13.3</b>	<b>9.5</b>	<b>8.9</b>	<b>(0.6)</b>	<b>(4.5)</b>	

Source: Company data, RHB

### Recommendation Chart



Date	Recommendation	Target Price	Price
2020-02-19	Buy	1.16	0.77
2020-02-19	Buy	1.16	0.77
2019-11-27	Buy	1.26	0.86
2019-08-30	Buy	1.36	0.84
2019-08-13	Buy	1.36	0.80

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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