

Leong Hup International (LHIB MK)

Staying on the sidelines

HOLD

Share Price MYR 0.68
 12m Price Target MYR 0.71 (+6%)
 Previous Price Target MYR 0.74

Maintain HOLD

LHIB's 3Q20 results disappointed. Its feedmill segment is expected to grow steadily in 4Q20 but with the CMCO back in force in Malaysia along with ongoing poultry demand-supply imbalances in Indonesia, poultry ASPs may remain volatile. We lower our FY20-FY21 earnings estimates by 4%-15%. Maintain HOLD with a lower TP of MYR0.71 based on unchanged regional peer average of 17x FY21 PER.

Below expectations

3Q20 net profit of MYR23m (-49% YoY, +39% QoQ) brought 9M20 net profit to MYR61m (-50% YoY), below expectations at 65%/54% of our/consensus full-year earnings estimates. The earnings shortfall was due to lower-than-expected interest expense and weak livestock demand in Singapore.

Dragged by the livestock segment

LHIB's 3Q20 revenue grew 10% QoQ on the back of higher sales contributions from both livestock (+7% QoQ) and feedmill (+15% QoQ) segments. We understand that despite a QoQ improvement in Malaysian poultry ASPs, this was partially offset by weaker broiler and DOC ASPs in Indonesia. Strong feedmill sales were also due to improved operations in Indonesia and Vietnam. 3Q20 group EBITDA grew 7% QoQ given a 14% increase in its feedmill segment but was dragged by underperformance at its livestock segment (-26% QoQ).

Lower FY20-FY21 earnings estimates by 4%-15%

Factoring the weak set of results, we revise our FY20/FY21 earnings estimates by -15%/-4%. Our FY22 earnings estimates are unchanged. We believe that poultry ASP will remain subdued in 4Q20 as the pandemic weighs on poultry demand in Malaysia (re-enforced conditional-MCO from Oct 14 - Dec 6) and demand-supply imbalances continue in Indonesia. LHIB's strategy to move downstream is intact with plans to open its 100th Baker's Cottage store by Dec 2020.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,747	6,055	6,264	6,927	7,432
EBITDA	655	651	485	703	822
Core net profit	225	151	80	153	215
Core EPS (sen)	6.2	4.1	2.2	4.2	5.9
Core EPS growth (%)	16.8	(33.0)	(46.7)	90.4	40.8
Net DPS (sen)	0.0	1.6	0.5	1.3	1.8
Core P/E (x)	na	21.3	30.9	16.3	11.5
P/BV (x)	na	2.0	1.5	1.4	1.3
Net dividend yield (%)	na	1.8	0.8	1.8	2.6
ROAE (%)	15.0	10.2	4.8	8.7	11.4
ROAA (%)	4.8	2.9	1.4	2.5	3.2
EV/EBITDA (x)	7.4	8.4	10.5	7.3	6.5
Net gearing (%) (incl perps)	108.3	79.6	90.9	86.4	82.7
Consensus net profit	-	-	109	179	206
MKE vs. Consensus (%)	-	-	(26.8)	(14.7)	4.4

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Company Description

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

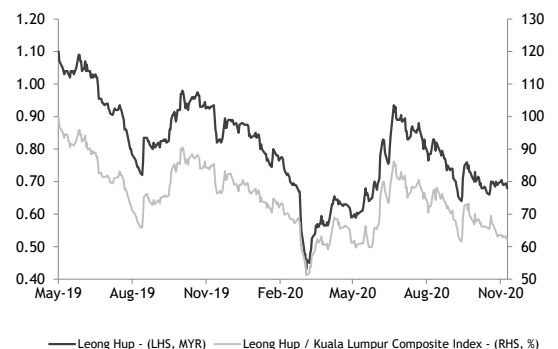
Statistics

52w high/low (MYR)	0.94/0.43
3m avg turnover (USDm)	0.3
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.5B USD607M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(18)	(27)
Relative to index (%)	(6)	(20)	(27)

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q20	3Q19	% YoY	2Q20	% QoQ	9M20	9M19	% YoY
Revenue	1,573.4	1,527.1	3.0	1,425.4	10.4	4,433.0	4,510.7	(1.7)
EBITDA	127.2	173.7	(26.8)	119.4	6.6	373.7	504.2	(25.9)
Depreciation	(65.5)	(55.4)	18.2	(63.4)	3.3	(188.4)	(163.4)	15.3
EBIT	61.7	118.3	(47.9)	56.0	10.2	185.4	340.8	(45.6)
Interest expense	(31.0)	(34.6)	(10.5)	(33.1)	(6.4)	(96.7)	(102.4)	(5.6)
Associates	0.1	0.1	(7.2)	0.0	>100.0	0.1	0.3	(53.0)
Pretax profit	30.8	83.8	(63.2)	22.9	34.4	88.8	238.6	(62.8)
Tax	(9.8)	(21.5)	(54.5)	(8.6)	13.4	(28.2)	(59.4)	(52.6)
Minority interest	1.5	(18.0)	n.a	2.0	(23.7)	(0.1)	(58.1)	(99.9)
Net profit	22.5	44.4	(49.2)	16.3	38.5	60.6	121.1	(49.9)
Core net profit	22.5	44.4	(49.2)	16.3	38.5	60.6	121.1	(49.9)
			+/- p.ptsYoY		+/- p.ptsQoQ			
EBITDA margin (%)	8.1	11.4	(3.3)	8.4	(0.3)	8.4	11.2	(2.7)
EBIT margin (%)	3.9	7.7	(3.8)	3.9	(0.0)	4.2	7.6	(3.4)
Tax rate (%)	(31.7)	(25.6)	(6.1)	(37.6)	5.9	(31.7)	(24.9)	(6.8)
Revenue:			% YoY		% QoQ			
Livestock	865.1	858.2	0.8	807.3	7.2	2,455.0	2,521.5	(2.6)
Feedmill	705.1	665.8	5.9	614.7	14.7	1,967.9	1,980.7	(0.6)
Others	3.3	3.131	4.7	3.5	(5.4)	10.1	8.505	18.8
Total	1,573.4	1,527.1	3.0	1,425.4	10.4	4,433.0	4,510.7	(1.7)
EBITDA:			% YoY		% QoQ			
Livestock	21.8	41.8	(47.9)	29.3	(25.7)	57.1	206.4	(72.3)
Feedmill	115.7	133.5	(13.3)	101.2	14.3	336.3	306.2	9.8
Others	(10.2)	(1.5)	>100.0	(11.1)	(7.9)	(19.6)	(8.4)	>100.0
Total	127.2	173.7	(26.8)	119.4	6.6	373.7	504.2	(25.9)
EBITDA margin (%):			+/- p.ptsYoY		+/- p.ptsQoQ			
Livestock	2.5	4.9	(2.4)	3.6	(1.1)	2.3	8.2	(5.9)
Feedmill	16.4	20.0	(3.6)	16.5	(0.1)	17.1	15.5	1.6
Others	(311.9)	(47.9)	>(100.0)	(320.3)	8.4	(194.2)	(99.2)	(94.9)
Total	8.1	11.4	(3.3)	8.4	(0.3)	8.4	11.2	(2.7)

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
Key Metrics					
P/E (reported) (x)	na	22.1	30.9	16.3	11.5
Core P/E (x)	na	21.3	30.9	16.3	11.5
P/BV (x)	na	2.0	1.5	1.4	1.3
P/NTA (x)	na	2.1	1.5	1.4	1.3
Net dividend yield (%)	na	1.8	0.8	1.8	2.6
FCF yield (%)	na	8.5	nm	0.9	nm
EV/EBITDA (x)	7.4	8.4	10.5	7.3	6.5
EV/EBIT (x)	10.6	12.9	20.3	11.4	9.6
INCOME STATEMENT (MYR m)					
Revenue	5,746.6	6,054.8	6,264.2	6,927.2	7,432.3
Gross profit	1,005.8	940.2	795.5	1,056.2	1,198.3
EBITDA	654.6	650.5	484.6	703.4	822.0
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	249.6	452.2	556.0
Net interest income / (exp)	(109.5)	(136.6)	(129.1)	(164.2)	(180.3)
Associates & JV	0.6	0.4	0.4	0.4	0.4
Pretax profit	348.6	288.8	120.9	288.4	376.1
Income tax	(101.8)	(75.8)	(38.7)	(75.7)	(98.7)
Minorities	(60.6)	(62.4)	(2.0)	(60.0)	(62.4)
Reported net profit	186.2	150.6	80.2	152.7	215.0
Core net profit	224.9	150.6	80.2	152.7	215.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	458.9	764.8	801.0	1,040.0	1,236.7
Accounts receivable	649.2	496.1	688.8	621.5	784.4
Inventory	575.6	679.6	662.5	778.3	751.6
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	1,004.9	1,078.0	1,136.7
Total assets	4,834.0	5,409.1	5,848.9	6,365.5	6,898.3
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	285.1	314.6	322.1
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	472.0	509.0	539.0
Total Liabilities	3,068.6	3,228.6	3,600.8	3,950.5	4,270.4
Shareholders Equity	1,301.8	1,641.2	1,706.8	1,813.7	1,964.2
Minority Interest	463.6	539.3	541.3	601.3	663.7
Total shareholder equity	1,765.4	2,180.5	2,248.1	2,415.0	2,627.9
Total liabilities and equity	4,834.0	5,409.1	5,848.9	6,365.5	6,898.3
CASH FLOW (MYR m)					
Pretax profit	348.6	288.8	120.9	288.4	376.1
Depreciation & amortisation	197.1	225.5	235.0	251.2	265.9
Cash taxes paid	(75.7)	(57.0)	(38.7)	(75.7)	(98.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	349.2	656.9	150.7	421.8	398.0
Capex	(393.4)	(385.4)	(400.0)	(400.0)	(400.0)
Free cash flow	(44.2)	271.5	(249.3)	21.8	(2.0)
Dividends paid	(66.3)	(84.5)	(20.0)	(45.8)	(64.5)
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	60.4	239.3	196.9

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.5	5.4	3.5	10.6	7.3
EBITDA growth	12.3	(0.6)	(25.5)	45.2	16.8
EBIT growth	19.1	(7.1)	(41.3)	81.2	23.0
Pretax growth	19.3	(17.2)	(58.1)	138.6	30.4
Reported net profit growth	(3.3)	(19.1)	(46.7)	90.4	40.8
Core net profit growth	16.8	(33.0)	(46.7)	90.4	40.8
Profitability ratios (%)					
EBITDA margin	11.4	10.7	7.7	10.2	11.1
EBIT margin	8.0	7.0	4.0	6.5	7.5
Pretax profit margin	6.1	4.8	1.9	4.2	5.1
Payout ratio	0.0	38.8	25.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	3.2	2.5	1.3	2.2	2.9
Revenue/Assets (x)	1.2	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.7	3.3	3.4	3.5	3.5
ROAE (%)	15.0	10.2	4.8	8.7	11.4
ROAA (%)	4.8	2.9	1.4	2.5	3.2
Liquidity & Efficiency					
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	4.0	3.3	3.3
Current ratio (x)	1.2	1.2	1.2	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	1.6	1.6	1.6
Net gearing (%) (incl perps)	108.3	79.6	90.9	86.4	82.7
Net gearing (%) (excl. perps)	108.3	79.6	90.9	86.4	82.7
Net interest cover (x)	4.2	3.1	1.9	2.8	3.1
Debt/EBITDA (x)	3.6	3.8	5.9	4.4	4.1
Capex/revenue (%)	6.8	6.4	6.4	5.8	5.4
Net debt/ (net cash)	1,912.1	1,735.5	2,043.0	2,086.8	2,172.9

Source: Company; Maybank

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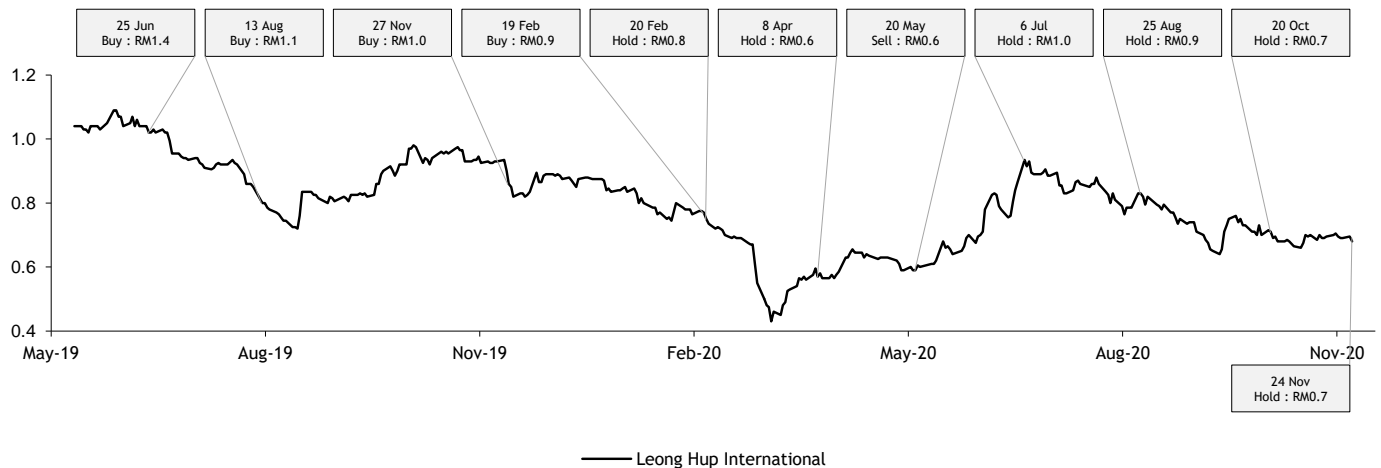
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Historical recommendations and target price: Leong Hup International (LHIB MK)



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