

# Leong Hup International Bhd

Support from Vietnam Operations

**TP: RM0.84** (+23.5%)

Last Traded: RM0.68

**Buy**

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### Review

- Leong Hup International Bhd's (LHI) 9MFY20 adjusted net profit of RM60.6mn was below expectation, accounting for 46% and 54% of ours and consensus' full-year forecast. The negative variation was due to weaker-than-expected earnings recovery as ASP of livestock products remained weak amid covid-19 pandemic.
- No dividend was declared for the quarter under review.
- 9MFY20 revenue slipped 1.7% YoY to RM4.43bn mainly drag by reduced Livestock revenue (-2.6% YoY to RM2.46bn) as ASP and volume of Malaysian and Indonesian livestock products, especially day-old-chick, weakened. 9MFY20 EBIT fell to RM174.7mn (-47.3% YoY) as the dismal Livestock segment recorded loss before interest of RM89.0mn (against RM85.5mn EBIT recorded in 9MFY19), overshadowing the improved EBIT from Feedmill segment (+10.7% YoY to RM294.8mn) backed by stronger volume and ASP registered in Vietnam's feed sales.
- Geographical-wise, Vietnam is the single outperforming operating country throughout 9MFY20, as it recorded revenue and EBITDA growth of 18.6% YoY and 23.1% YoY underpinned by maiden contribution from the aquatic feedmill, robust feed demand and better livestock sales. Conversely, EBITDA from Malaysia and Indonesia operations dropped by 32.3% YoY and 48.5% YoY as operations were plagued by weaker livestock ASP and reduced feed sales.

### Impact

- We cut our FY20/21/22 earnings by 22.9/8.1/4.3% to account for lower ASP and volume estimate for DOC and Broiler (specifically in FY20 by c.2% and c.3% respectively) in view of ongoing movement control order in Malaysia alongside a c.5% reduction in revenue from the Feedmill segment considering that lower demand for poultry may affect sales volume of feed.

### Outlook

- Geographical diversity and value chain integration of LHI has enabled the group to weather through fluctuations in livestock prices, which are expected to remain volatile. Based on channel check, Indonesian Livestock's broiler price has recovered by c.40%, from August/September's depressed levels, corresponding to government's interventions in adjusting the supply of broiler DOCs. The improvement should mitigate immediate price weakness from Malaysian operations owing to the ongoing movement control order.
- The Baker Cottage outlets have been scaled to c.90 outlets, progressing towards LHI's strategy of moving downstream to improve margin stability.

### Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2482.0
52-wk Hi/Lo (RM)	0.960/0.430
12-mth Avg Daily Vol ('000 shrs)	2935
Estimated Free Float (%)	15.5
Beta	nm

### Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 9.0%

### Forecast Revision

	FY20	FY21
Forecast Revision (%)	(22.9)	(8.1)
Net profit (RMm)	100.9	169.7
Consensus	112.5	172.5
TA's / Consensus (%)	89.7	98.4
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY20	FY21
Net Debt / Equity (x)	0.8	0.8
ROE (%)	6.0	9.6
ROA (%)	1.8	3.0
NTA/Share (RM)	0.4	0.5
Price/NTA (x)	1.5	1.4

### Scorecard

	% of FY
vs TA	46 Below
vs Consensus	54 Below

### Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	0.0	5.6
3 mth	(18.1)	0.6
6 mth	13.3	9.9
12 mth	(26.9)	(1.2)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

### Valuation

- Maintain Buy with a revised target price of RM0.84/share (previously RM0.91/share) based on unchanged 18x FY21 earnings.

**Table 1: Earnings Summary (RMmn)**

FYE December (RM mn)	2018	2019	2020E	2021F	2022F
Revenue	5,746.6	6,054.8	5,971.4	6,572.7	7,021.5
EBITDA	646.1	637.7	520.4	695.7	775.6
Pretax Profit	348.6	288.8	152.1	306.8	372.8
Reported Net Profit	186.2	150.6	100.9	169.7	206.2
Core Net Profit	215.2	150.6	100.9	169.7	206.2
Core EPS (sen)	5.9	4.1	2.8	4.7	5.7
Core PER (x)	11.5	16.5	24.6	14.6	12.0
DPS (sen)	0.0	1.6	0.8	1.4	1.7
Dividend Yield (%)	0.0	2.4	1.2	2.1	2.5

**Table 2: 3QFY20 Results Analysis (RMmn)**

FYE 31 Dec	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
Revenue	1,527.1	1,425.4	1,573.4	10.4	3.0	4,510.7	4,433.0	(1.7)
Other Income	6.6	8.0	7.2	(9.2)	9.6	17.7	30.2	70.5
Operating Expenses	(1,419.2)	(1,380.5)	(1,522.4)	10.3	7.3	(4,196.8)	(4,288.4)	2.2
EBIT	114.5	53.0	58.3	10.0	(49.1)	331.6	174.7	(47.3)
Adj. EBIT	114.5	53.0	58.3	10.0	(49.1)	331.6	174.7	(47.3)
Net Interest	(30.8)	(30.1)	(27.5)	(8.4)	(10.6)	(93.3)	(86.1)	(7.7)
Associate	0.1	0.0	0.1	>100	(7.2)	0.3	0.1	(53.0)
Profit before Tax	83.8	22.9	30.8	34.4	(63.2)	238.6	88.8	(62.8)
Adj. PBT	83.8	22.9	30.8	34.4	(63.2)	238.6	88.8	(62.8)
Taxation	(21.5)	(8.6)	(9.8)	13.4	(54.5)	(59.4)	(28.2)	(52.6)
Extraordinary Items	-	-	-	nm	nm	-	-	nm
Minority Interest	(18.0)	2.0	1.5	(23.7)	nm	(58.1)	(0.1)	(99.9)
Net Profit	44.4	16.3	22.5	38.5	(49.2)	121.1	60.6	(49.9)
Adj. Net Profit	44.4	16.3	22.5	38.5	(49.2)	121.1	60.6	(49.9)
Basic EPS (sen)	1.2	0.5	0.6	37.8	(49.2)	3.5	1.7	(51.8)
DPS (sen)	-	0.6	-	(100.0)	nm	1.6	0.6	(65.6)
				%-points	%-points			%-points
EBIT Margin (%)	7.5	3.7	3.7	(0.0)	(3.8)	7.4	3.9	(3.4)
PBT Margin (%)	5.5	1.6	2.0	0.4	(3.5)	5.3	2.0	(3.3)
Net Margin (%)	2.9	1.1	1.4	0.3	(1.5)	2.7	1.4	(1.3)
Adj. Net Margin (%)	2.9	1.1	1.4	0.3	(1.5)	2.7	1.4	(1.3)
Tax Rate (%)	25.6	37.6	31.7	(5.9)	6.1	24.9	31.7	6.8

**Table 3: 3QFY20 Results Analysis (RMmn) – Segment**

FYE 31 Dec	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
<b>Revenue</b>	<b>1,527.1</b>	<b>1,425.4</b>	<b>1,573.4</b>	<b>10.4</b>	<b>3.0</b>	<b>4,510.7</b>	<b>4,433.0</b>	<b>(1.7)</b>
Livestock and Poultry Related	858.2	807.3	865.1	7.2	0.8	2,521.5	2,455.0	(2.6)
Feedmill	665.8	614.7	705.1	14.7	5.9	1,980.7	1,967.9	(0.6)
Others	3.1	3.5	3.3	(5.4)	4.7	8.5	10.1	18.8
<b>Segment EBIT</b>	<b>118.3</b>	<b>56.0</b>	<b>61.7</b>	<b>10.2</b>	<b>(47.9)</b>	<b>340.8</b>	<b>185.3</b>	<b>(45.6)</b>
Livestock and Poultry Related	1.9	(19.0)	(30.7)	61.8	nm	85.5	(89.0)	nm
Feedmill	118.8	86.8	102.1	17.7	(14.1)	266.4	294.8	10.7
Elimination	(2.4)	(11.8)	(9.7)	(17.9)	>100	(11.1)	(20.5)	84.1
				%-points	%-points			%-points
<b>Segment EBIT Margin</b>	<b>7.7</b>	<b>3.9</b>	<b>3.9</b>	<b>(0.0)</b>	<b>(3.8)</b>	<b>7.6</b>	<b>4.2</b>	<b>(3.4)</b>
Livestock and Poultry Related	0.2	(2.4)	(3.6)	(1.2)	(3.8)	3.4	(3.6)	(7.0)
Feedmill	17.8	14.1	14.5	0.4	(3.4)	13.4	15.0	1.5

**Table 4: 3QFY20 Results Analysis (RMmn) – Geographical Breakdown**

FYE 31 Dec	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
<b>Revenue</b>	<b>1,527.1</b>	<b>1,425.4</b>	<b>1,573.4</b>	<b>10.4</b>	<b>3.0</b>	<b>4,510.7</b>	<b>4,433.0</b>	<b>(1.7)</b>
Malaysia	426.4	385.5	434.5	12.7	1.9	1,236.7	1,203.5	(2.7)
Singapore	203.5	182.7	182.3	(0.2)	(10.4)	588.5	550.4	(6.5)
Vietnam	344.4	387.5	410.1	5.8	19.1	972.8	1,154.0	18.6
Indonesia	533.4	447.5	520.4	16.3	(2.4)	1,662.5	1,452.0	(12.7)
Philippines	19.4	22.3	26.1	17.2	34.6	50.2	73.0	45.4
<b>Segment EBITDA</b>	<b>173.7</b>	<b>119.4</b>	<b>127.2</b>	<b>6.6</b>	<b>(26.8)</b>	<b>504.2</b>	<b>373.7</b>	<b>(25.9)</b>
Malaysia	70.6	38.4	45.9	19.7	(35.0)	173.5	117.4	(32.3)
Singapore	22.3	29.6	23.9	(19.1)	7.2	79.4	74.5	(6.1)
Vietnam	30.2	34.2	39.6	15.6	30.9	88.4	108.8	23.1
Indonesia	47.0	18.9	25.1	33.0	(46.6)	155.9	80.2	(48.5)
Philippines	3.7	(1.6)	(7.3)	>100	nm	7.1	(7.2)	nm
				%-points	%-points			%-points
<b>Segment EBITDA Margin</b>	<b>11.4</b>	<b>8.4</b>	<b>8.1</b>	<b>(0.3)</b>	<b>(3.3)</b>	<b>11.2</b>	<b>8.4</b>	<b>(2.7)</b>
Malaysia	16.6	9.9	10.6	0.6	(6.0)	14.0	9.8	(4.3)
Singapore	11.0	16.2	13.1	(3.1)	2.2	13.5	13.5	0.1
Vietnam	8.8	8.8	9.6	0.8	0.9	9.1	9.4	0.3
Indonesia	8.8	4.2	4.8	0.6	(4.0)	9.4	5.5	(3.9)
Philippines	18.8	(7.4)	(27.9)	(20.5)	(46.7)	14.2	(9.9)	(24.0)

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, November 25, 2020, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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