

Leong Hup International Berhad

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

Maintain NEUTRAL

Unchanged Target Price: RM0.73

Still cautious but hopeful

KEY INVESTMENT HIGHLIGHTS

- **Poultry prices still subdued**
- **Feedmill business may continue to outshine the poultry segment**
- **Growing downstream segment to ensure better offering**
- **Maintain NEUTRAL with an unchanged TP of RM0.73**

Poultry prices still subdued. Leong Hup International (LHI) management held a post-results briefing yesterday and we gather that poultry prices may remain subdued for some of its major markets such as Malaysia. This is largely due to the spike in Covid-19 cases and the extended conditional movement control order, which has in turn dampened demand. Elsewhere, in Indonesia and the Philippines, demand is expected to improve and hence we expect better selling prices for its major poultry products there. We think that demand in Vietnam will continue to remain robust as the country is the least affected by the pandemic thus far.

Feedmill business may continue to outshine the poultry segment. Although raw material prices have gone up since end of 3Q, we understand that the management has secured supplies up to next year and will continue to monitor price trends in order to preserve margins. We think that margin for this segment may improve if the company managed to secure raw material prices as lower cost. Notably, about 62% of the feed sales is to external parties, up from 60% a year ago. Volume has also increased by 10.9%yoy to 652,000 metric tonnes with improving utilization rate of 71% compared to 67% a year ago.

Growing downstream segment to ensure better offering. The group will continue to expand The Baker's Cottage in Malaysia and targets to increase the number of outlets to 150 by end 2021. It will be opening its 100th outlet by end of this year. The chain is contributing positively to its EBITDA and management targets that contribution from Baker's Cottage to Malaysia's sales to increase to 10% from about 8% now. In West Java, Indonesia, it is building a new poultry processing plant. The cost of the plant is estimated at RM28.5m with targeted completion by end-2021. It will be for the processing for chickens (600,000 birds per month) and ducks (300,000 birds per month). On top that that, the group plans to increase its retail channels, B2B channels, improve distribution, further develop export markets to countries such as Japan and Timor Leste.

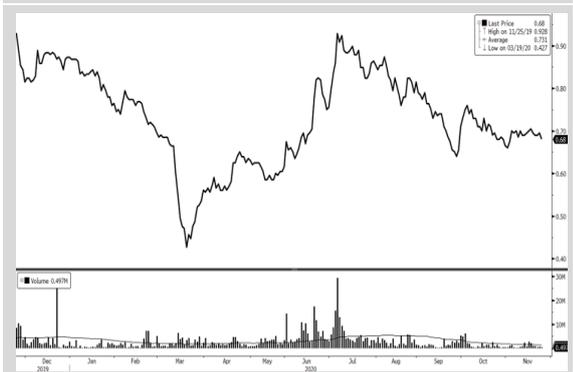
Maintain NEUTRAL with an unchanged TP of RM0.73. Post-briefing, we make no changes to our earnings estimates. Our TP is based on PER 15.8x pegged to FY21F EPS of 4.6sen. We are NEUTRAL on the stock now due to the volatility of major poultry products. That said, we believe that the group will be able to weather through the uncertainties with its scale, integrated infrastructures and diversified markets.



RETURN STATISTICS

Price @ 25 th November 2020 (RM)	0.69
Expected share price return (%)	+5.8
Expected dividend yield (%)	+2.2
Expected total return (%)	+8.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.5	-5.1
3 months	-2.8	-19.1
12 months	-26.2	-26.5

KEY STATISTICS

FBM KLCI	1,597.58
Syariah compliant	No
Issue shares (m)	3650.00
Estimated free float (%)	15.52
Market Capitalisation (RM'm)	2,518.50
52-wk price range	RM0.43 - RM0.96
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	NA
Monthly volatility (%)	NA
3-mth average daily volume (m)	1.58
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73

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INVESTMENT STATISTICS

Financial year ending 31st Dec	FY2018	FY2019	FY2020E	FY2021F	FY2022F
(in RM'm, unless otherwise stated)					
Revenue	5,746.6	4,433.0	5,856.9	5,974.0	6,260.7
Core EBITDA	654.6	650.5	547.5	659.0	713.7
Depreciation & amortisation	(197.1)	(225.5)	(216.7)	(221.1)	(231.6)
Core EBIT	457.5	425.0	330.8	438.0	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	202.5	307.2	345.0
PAT	246.8	213.0	151.9	230.4	260.1
PATANCI	186.2	167.2	93.6	168.5	194.1
EPS (sen)	5.1	4.6	2.6	4.6	5.3
EPS growth (%)	(3.3)	(8.2)	(45.2)	80.0	15.2
Net Dividend (sen)	0.0	1.6	1.0	1.8	2.0
EBITDA margin (%)	11.4	14.7	9.3	11.0	11.4
PATANCI margin (%)	3.2	3.8	1.6	2.8	3.1
Dividend yield (%)	3.2	2.5	1.2	2.2	2.4
PER (x)	13.5	15.0	26.9	15.0	13.0

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.