

HLIB Research

PP 9484/12/2012 (031413)

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BUY (from Hold)

Target Price: RM0.76
Previously: RM0.76
Current Price: RM0.685

Capital upside	10.9%
Dividend yield	2.9%
Expected total return	13.8%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price


Historical return (%)	1M	3M	12M
Absolute	0.0	-2.1	-11.0
Relative	3.5	-5.8	-12.4

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,500
3-mth average volume ('000)	1,806
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

Emerging Glory Sdn Bhd	52.8%
Clarinden	9.0%
Amanah Saham Nasional	5.7%

Earnings summary

FYE Dec (RMm)	FY19	FY20f	FY21f
PATMI - core	157.1	97.6	154.8
EPS - core (sen)	4.3	2.7	4.2
P/E (x)	15.9	25.6	16.1

Leong Hup International

Near term prospects improving

We are turning more positive on LHI's near term earnings prospects, on the back of the recent improvement in livestock prices in Malaysia and Indonesia (which will more than mitigate higher feed costs) and encouraging performance improvement at its downstream segment. We maintain our FY20-22 core earnings forecasts and TP of RM0.76 (based on 18x FY21 EPS of 4.2 sen), but upgrade our rating to BUY (from Hold earlier), given the improving near-term earnings prospects and more palatable valuation following recent share price retracement.

We are turning more positive on LHI's near term earnings prospects, on the back of the recent improvement in livestock prices in Malaysia and Indonesia (which will more than mitigate higher feed costs) and encouraging performance improvement at its downstream segment (i.e. The Baker's Cottage, TBC).

Improvement in livestock product prices since end-2020. We understand that livestock prices in Malaysia and Indonesia (the key markets for LHI's livestock segment, particularly, day-old-chick and broiler) have been improving since Dec-2020 (which will more than mitigate higher feed costs), due mainly to (i) Indonesian government's ongoing efforts to control day-old-chick supply (by limiting egg hatching and bringing in early culling of parent stocks), (ii) supply chain adjustment among contract farmers (as a result of rising feed costs and depressed poultry product prices in 2020) and (iii) seasonality, as livestock prices are typically stronger in 1Q due to festive season. While it remains to be seen if recent recovery in livestock prices could sustain over the longer term, we believe it is unlikely for poultry product prices to revisit their previous lows (i.e. 2Q20), as (i) economic activities have resumed gradually since then and (ii) high feed cost (mainly corn and soybean meal, which prices have risen considerably since 3Q20) will likely deter smaller scale farmers from expanding capacity.

On track to achieve 150 TBC outlets by end-2021. Having surpassed its target of 80 TBC outlets by end-2020, we understand that LHI has achieved 105 TBC outlets thus far and is on track to achieve 150 outlets by end-2021. Apart from allowing LHI to partly mitigate the volatile poultry product prices (by shifting a portion of its broiler supply from conventional wholesale market into ready-to-eat poultry products, i.e. roasted chicken directly to end consumers via TBC outlets), we understand that this marketing strategy has also boosted sales of its bakery products, which carry more superior margins relative to its ready-to-eat poultry products, which in turn helps stabilising earnings at Malaysian operations over the longer term.

Feedmill segment - will remain as a stable business. Despite having anticipated margin normalisation at feedmill segment to continue in the near term (due to feedmill capacity expansion in Vietnam), we believe bottomline contribution from the segment will remain stable going forward, as lower margin will likely be mitigated by higher sales volume in Vietnam (arising from the ongoing feedmill capacity expansion in Vietnam and Philippines).

Forecast. Maintain, pending results announcement on 23 Feb 2021.

Upgrade to BUY, with unchanged TP of RM0.76. Maintain TP of RM0.76 based on unchanged 18x FY21 EPS of 4.2 sen. We upgrade our rating on LHI to BUY (from Hold earlier), given the improving near-term earnings prospects and more palatable valuation following recent share price retracement (which has declined by >20% since 6 months ago). At RM0.685, LHI is trading at FY20-21 P/E of 25.6x and 16.1x, respectively.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	458.9	764.8	702.0	626.8	694.3
Receivables	825.5	670.0	663.9	701.4	736.0
Inventories	575.6	679.6	657.5	694.7	729.1
PPE	2,216.8	2,396.5	2,572.8	2,734.9	2,792.1
Others	757.2	898.2	889.9	911.1	930.7
Assets	4,834.0	5,409.1	5,486.1	5,669.0	5,882.2
Payables	519.9	560.2	550.8	582.0	610.7
Debt	2,370.9	2,381.8	2,381.8	2,381.8	2,381.8
Others	177.8	282.9	282.9	282.9	282.9
Liabilities	3,068.6	3,228.6	3,219.2	3,250.4	3,279.1
Shareholders' equity	1,301.8	1,641.2	1,695.0	1,795.1	1,915.2
Non-controlling interests	463.6	539.3	571.9	623.5	687.8
Equity	1,765.4	2,180.5	2,266.9	2,418.6	2,603.0

Cash Flow Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Profit before tax	348.6	288.8	175.9	279.0	347.9
D&A	199.4	197.4	224.0	238.1	243.0
Working capital	-241.8	38.7	27.3	-64.5	-59.5
Tax paid	-75.7	-57.0	-45.7	-72.5	-90.5
Others	118.8	189.1	124.5	116.3	102.7
CFO	-378.6	-373.0	-400.0	-400.0	-300.0
Capex	-423.0	-403.6	-400.0	-400.0	-300.0
Others	44.4	30.7	0.0	0.0	0.0
CFI	-378.6	-373.0	-400.0	-400.0	-300.0
Changes in debt	178.9	-43.5	0.0	0.0	0.0
Shares issued	0.0	269.6	0.0	0.0	0.0
Dividends	-66.3	-84.5	-43.8	-54.8	-73.0
Others	-119.5	-144.3	-125.0	-116.8	-103.2
CFF	-6.9	-2.7	-168.8	-171.6	-176.2
Net cash flow	-36.2	281.1	-62.8	-75.2	67.5
Beginning cash	427.4	390.4	670.8	608.0	532.8
Forex	-0.8	-0.7	0.0	0.0	0.0
Ending cash	390.4	670.8	608.0	532.8	600.3

Income Statement

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,917.7	6,252.6	6,561.5
EBITDA	654.6	650.5	524.4	633.4	693.7
EBIT	457.5	425.0	300.4	395.3	450.7
Finance cost	-109.5	-136.6	-125.0	-116.8	-103.2
Associates	0.6	0.4	0.5	0.5	0.5
Profit before tax	348.6	288.8	175.9	279.0	347.9
Tax	-101.8	-75.8	-45.7	-72.5	-90.5
PAT	246.8	213.0	130.1	206.5	257.5
Non-controlling interests	-60.6	-62.4	-32.5	-51.6	-64.4
Reported PATMI	186.2	150.6	97.6	154.8	193.1
Exceptionals	33.4	6.5	0.0	0.0	0.0
Core PATMI	219.6	157.1	97.6	154.8	193.1
Consensus core PATMI			112.5	172.5	208.3
HLIB/ Consensus			86.8%	89.8%	92.7%

Ratios

FYE Dec	FY18A	FY19A	FY20F	FY21F	FY22F
Core EPS (sen)	6.0	4.3	2.7	4.2	5.3
P/E (x)	11.4	15.9	25.6	16.1	12.9
EV/EBITDA (x)	6.3	6.3	7.9	6.5	5.9
DPS (sen)	1.6	1.2	1.5	2.0	2.0
Dividend yield	2.3%	1.8%	2.2%	2.9%	2.9%
BVPS (RM)	0.4	0.4	0.5	0.5	0.5
P/B (x)					
EBITDA margin	18.9%	19.2%	15.9%	18.3%	19.4%
EBIT margin	6.6%	5.7%	4.0%	4.9%	5.4%
PBT margin	5.0%	3.9%	2.3%	3.5%	4.2%
Net margin	3.2%	2.1%	1.3%	1.9%	2.3%
ROE	17.7%	10.7%	5.9%	8.9%	10.4%
ROA	4.7%	3.1%	1.8%	2.8%	3.3%
Net gearing	108.3%	74.2%	74.1%	72.6%	64.8%

Assumptions

FYE Dec	FY20F	FY21F	FY22F
Feedmill			
- Production volume ('000 mt)	2,453.6	2,588.2	2,731.2
- Utilisation rate	72%	73%	77%
Livestock			
- Broiler DOC supplied (m chicks)	179.6	185.0	190.5
- Broiler supplied (m birds)	119.6	122.6	125.2
- Eggs supplied (m eggs)	1,804.7	1,851.8	1,900.4

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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