

HLIB Research

PP 9484/12/2012 (031413)

Chye Wen Feiwfchye@hlib.hongleong.com.my**(603) 2083 1712****BUY** (Maintain)**Target Price: RM0.76****Previously: RM0.76****Current Price: RM0.70**

Capital upside	8.6%
Dividend yield	2.9%
Expected total return	11.4%

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	1.4	0.7	-4.8
Relative	3.5	2.8	-6.8

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650
Market capitalisation (RM m)	2,555
3-mth average volume ('000)	1,827
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

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

Earnings summary

FYE Dec	FY20	FY21f	FY22f
PATMI - core (RM m)	117.9	154.8	193.1
EPS - core (sen)	3.2	4.2	5.3
P/E (x)	21.7	16.5	13.2

Leong Hup International

A strong finish to FY20

LHI's FY20 core net profit of RM117.9m (-31.3%) beat expectations, accounting for 120.7-129.2% of consensus and our estimates, due mainly to stronger-than-expected livestock prices in Indonesia and better-than-expected contribution from Singapore. Maintain core net profit forecasts, TP of RM0.76 (based on 18x FY21 EPS of 4.2 sen), and BUY rating on LHI.

Beat expectations. 4Q20 core net profit of RM50.8m (QoQ: +96.7%; YoY: +20.7%) took FY20's sum to RM117.9m (-31.3% YoY). The results beat expectations, accounting for 120.7-129.2% of consensus and our estimates. The positive results surprise was due mainly to stronger-than-expected livestock prices in Indonesia and better-than-expected contribution from Singapore.

Exceptional items (EIs) in 4Q20. Our core net profit of RM50.8m in 4Q20 was arrived after adjusting for (i) RM6.0m impairment on PPE and receivables, (ii) RM7.5m reversal of provision for claims, and (iii) 0.6m share option expense.

QoQ. Core net profit almost doubled to RM96.7m in 4Q20, boosted by (i) higher DOC sales volume and more favourable ASP of broiler chickens and DOC in Indonesia (evident by a 123.4% surge in EBITDA contribution from Indonesia), and (ii) higher contribution from Singapore.

YoY. Core net profit rose 20.7% to RM50.8m in 4Q20, as weaker contribution from Malaysia (from weaker livestock prices) and weaker feedmill earnings (due to normalisation of feed margins in Indonesia and Vietnam) were more than mitigated by (i) higher earnings contribution from Singapore, (ii) higher ASP and sales volume of DOC in Indonesia, and (iii) higher selling price and sales volume of eggs in Vietnam.

YTD. Core net profit declined by 31.3% to RM117.9m, due mainly to less-than-favourable livestock prices in most operating countries (especially during 1H20, as consumption and prices of livestock products were hit hard by Covid-19 lockdowns), but partly mitigated by improved contribution from feedmill.

Outlook. As highlighted in our update (dated 8 Feb 2021), 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, and 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 the other hand, bottomline contribution from feedmill 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 for now, pending more update from post results briefing on 24 Feb 2021.

Maintain BUY, with unchanged TP of RM0.76. Maintain TP of RM0.76 based on unchanged 18x FY21 EPS of 4.2 sen. We maintain our BUY rating on LHI, given the improving near-term earnings prospects. At RM0.70, LHI is trading at FY21-22 P/E of 16.5x and 13.2x, respectively.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18A	FY19A	FY20A	FY21F	FY22F
Cash	458.9	764.8	757.8	626.8	694.3
Receivables	825.5	670.0	600.5	701.4	736.0
Inventories	575.6	679.6	721.9	694.7	729.1
PPE	2,216.8	2,396.5	2,656.5	2,734.9	2,792.1
Others	757.2	898.2	958.2	911.1	930.7
Assets	4,834.0	5,409.1	5,694.8	5,669.0	5,882.2
Payables	519.9	560.2	489.6	582.0	610.7
Debt	2,370.9	2,381.8	2,639.3	2,381.8	2,381.8
Others	177.8	282.9	317.3	282.9	282.9
Liabilities	3,068.6	3,228.6	3,446.2	3,250.4	3,279.1
Shareholders' equity	1,301.8	1,641.2	1,713.4	1,795.1	1,915.2
Non-controlling interests	463.6	539.3	535.1	623.5	687.8
Equity	1,765.4	2,180.5	2,248.6	2,418.6	2,603.0

Cash Flow Statement

FYE Dec	FY18A	FY19A	FY20A	FY21F	FY22F
Profit before tax	348.6	288.8	157.1	279.0	347.9
D&A	199.4	197.4	259.4	238.1	243.0
Working capital	-241.8	38.7	-67.1	-64.5	-59.5
Tax paid	-75.7	-57.0	-55.3	-72.5	-90.5
Others	118.8	189.1	135.3	116.3	102.7
CFO	-378.6	-373.0	429.4	-400.0	-300.0
Capex	-423.0	-403.6	-483.8	-400.0	-300.0
Others	44.4	30.7	-18.2	0.0	0.0
CFI	-378.6	-373.0	-502.1	-400.0	-300.0
Changes in debt	178.9	-43.5	261.1	0.0	0.0
Shares issued	0.0	269.6	0.0	0.0	0.0
Dividends	-66.3	-84.5	-23.8	-54.8	-73.0
Others	-119.5	-144.3	-165.8	-116.8	-103.2
CFF	-6.9	-2.7	71.6	-171.6	-176.2
Net cash flow	-36.2	281.1	-1.1	-75.2	67.5
Beginning cash	427.4	390.4	654.2	608.0	532.8
Forex	-0.8	-0.7	-7.3	0.0	0.0
Ending cash	390.4	670.8	645.8	532.8	600.3

Income Statement

FYE Dec	FY18A	FY19A	FY20A	FY21F	FY22F
Revenue	5,746.6	6,054.8	6,040.7	6,252.6	6,561.5
EBITDA	654.6	650.5	542.0	633.4	693.7
EBIT	457.5	425.0	282.6	395.3	450.7
Finance cost	-109.5	-136.6	-125.9	-116.8	-103.2
Associates	0.6	0.4	0.4	0.5	0.5
Profit before tax	348.6	288.8	157.1	279.0	347.9
Tax	-101.8	-75.8	-39.6	-72.5	-90.5
PAT	246.8	213.0	117.5	206.5	257.5
Non-controlling interests	-60.6	-62.4	-4.4	-51.6	-64.4
Reported PATMI	186.2	150.6	113.1	154.8	193.1
Exceptionals	33.4	6.5	4.7	0.0	0.0
Core PATMI	219.6	157.1	117.9	154.8	193.1
Consensus core PATMI				158.0	196.4
HLIB/ Consensus				98.0%	98.3%

Ratios

FYE Dec	FY18A	FY19A	FY20A	FY21F	FY22F
Core EPS (sen)	6.0	4.3	3.2	4.2	5.3
P/E (x)	11.6	16.3	21.7	16.5	13.2
EV/EBITDA (x)	6.4	6.4	7.7	6.6	6.0
DPS (sen)	1.6	1.2	0.6	2.0	2.0
Dividend yield	2.3%	1.7%	0.8%	2.9%	2.9%
BVPS (RM)	0.4	0.4	0.5	0.5	0.5
P/B (x)	2.0	1.6	1.5	1.4	1.3
EBITDA margin	18.9%	19.2%	9.0%	18.3%	19.4%
EBIT margin	6.6%	5.7%	4.7%	4.9%	5.4%
PBT margin	5.0%	3.9%	2.6%	3.5%	4.2%
Net margin	3.2%	2.1%	2.0%	1.9%	2.3%
ROE	17.7%	10.7%	5.3%	8.9%	10.4%
ROA	4.7%	3.1%	2.1%	2.8%	3.3%
Net gearing	108.3%	74.2%	83.7%	72.6%	64.8%

Assumptions

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

Figure #1 Quarterly results comparison

FYE Dec (RMm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	1,544.0	1,573.4	1,607.7	2.2	4.1	6,054.8	6,040.7	-0.2
- Livestock & poultry related products	874.5	865.1	899.5	4.0	2.9	3,396.0	3,354.5	-1.2
- Feedmill	666.0	705.1	704.9	0.0	5.8	2,646.7	2,672.8	1.0
- Others	3.5	3.3	3.2	-1.2	-8.0	12.0	13.3	11.0
EBITDA	146.3	127.2	168.2	32.3	15.0	650.5	542.0	-16.7
- Livestock & poultry related products	51.0	21.8	88.1	304.8	72.5	257.4	145.1	-43.6
- Feedmill	96.9	115.7	93.2	-19.4	-3.8	403.1	429.5	6.5
- Others	-1.6	-10.2	-13.0	NM	NM	-10.0	-32.7	225.1
Profit from operations	84.2	61.7	97.3	57.6	15.5	425.0	282.6	-33.5
- Livestock & poultry related products	4.6	-30.7	34.9	NM	NM	90.2	-54.1	NM
- Feedmill	82.0	102.1	77.1	-24.5	-6.0	348.4	371.9	6.7
- Others	-2.4	-9.7	-14.7	NM	NM	-13.6	-35.2	159.7
Finance costs	-34.2	-31.0	-29.2	-5.7	-14.6	-136.6	-125.9	-7.9
Associates	0.2	0.1	0.3	>100	68.4	0.4	0.4	-7.4
PBT	50.2	30.8	68.3	121.8	36.1	288.8	157.1	-45.6
Tax expense	-16.4	-9.8	-11.4	17.1	-30.2	-75.8	-39.6	-47.7
PAT	33.8	21.0	56.9	170.5	68.2	213.0	117.5	-44.8
Non-controlling interests	-4.2	1.5	-4.3	-	-	-62.4	-4.4	-
Reported net profit	29.6	22.5	52.6	133.3	77.7	150.6	113.1	-24.9
Core net profit	42.1	25.8	50.8	96.7	20.7	171.6	117.9	-31.3
Core EPS (sen)	1.2	0.7	1.4	96.7	20.7	4.7	3.2	-31.3
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	9.5	8.1	10.5	2.4	1.0	10.7	9.0	-1.8
Operating margin (%)	5.5	3.9	6.0	2.1	0.6	7.0	4.7	-2.3
PBT margin (%)	3.3	2.0	4.2	2.3	1.0	4.8	2.6	-2.2
Net margin (%)	2.7	1.6	3.2	1.5	0.4	2.8	2.0	-0.9

Els in 4Q20 include (i) RM6.0m impairment on PPE and receivables, (ii) RM7.5m reversal of provision for claims, and (iii) 0.6m share option expense

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Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	1,540.5	1,573.4	1,607.7	2.2	4.4	6,042.7	6,040.7	0.0
- Malaysia	411.3	434.5	413.4	-4.9	0.5	1,647.8	1,617.0	-1.9
- Singapore	195.4	182.3	186.0	2.0	-4.8	779.1	736.4	-5.5
- Vietnam	374.4	410.1	409.6	-0.1	9.4	1,347.2	1,563.7	16.1
- Indonesia	533.4	520.4	567.8	9.1	6.5	2,192.3	2,019.8	-7.9
- Philippines	26.1	26.1	30.8	18.2	18.3	76.3	103.9	36.1
EBITDA	146.3	127.2	168.2	32.3	15.0	650.5	542.0	-16.7
- Malaysia	54.1	45.9	42.8	-6.8	-20.9	227.5	160.2	-29.6
- Singapore	16.4	23.9	33.7	40.9	105.3	95.8	108.2	13.0
- Vietnam	41.9	39.6	30.7	-22.5	-26.7	130.3	139.5	7.1
- Indonesia	29.6	25.1	56.1	123.4	89.2	185.5	136.3	-26.5
- Philippines	4.3	-7.3	5.0	NM	NM	11.5	-2.2	-119.0

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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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