

Leong Hup International Berhad

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

Upgrade to BUY

(previously NEUTRAL)

Revised Target Price: RM0.80

(Previously RM0.73)

Sharp upturn in 4Q

KEY INVESTMENT HIGHLIGHTS

- **FY20 core net income beat estimates**
- **4QFY20 CNI jumped 39.3%yoy to RM56.2m**
- **FY20 CNI fell by 28.3%yoy to RM118.7m**
- **Things are looking better in FY21**
- **Upgrade to BUY with a revised TP of RM0.80 (previously RM0.73)**

FY20 core net income beat estimates. Leong Hup International Berhad (LHI)'s core net income (CNI) of RM118.7m for the full year surprised on the upside as it made up 126.8% of ours and 130.1% of consensus' full year estimates. The positive deviation can be attributed to the much better than expected 4QFY21 results.

4QFY20 CNI jumped 39.3%yoy to RM56.2m as revenue climbed 4.1% to RM1.61b. During the quarter, the livestock segment saw sales increased by 2.9%yoy to RM899.6m mainly due to higher average selling price (ASP) and sales volume in day-old chicks (DOC) in Indonesia and eggs in Vietnam. Subsequently, the improved ASPs lifted profit margins and EBITDA by 44.3%yoy to RM88.1m. As for the feedmill segment, revenue grew by 5.8%yoy to RM704.9m due to the increase in livestock feed sales volume in Indonesia and Vietnam. However, lower profit margin drove EBITDA south by 3.9% to RM93.2m.

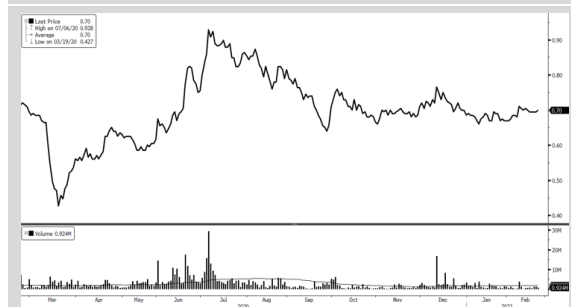
Sequentially, CNI ballooned by 130.5% from the preceding quarter while revenue was up by 2.2% in 3QFY20. This can be attributed to higher ASP of broiler chickens and DOC in Indonesia as well as better broiler chicken prices in Vietnam. This was however mitigated by softer ASP of eggs, broiler chickens and DOC in Malaysia. Overall, the results were better due to higher ASPs in Indonesia compared to 3QFY21.

FY20 CNI fell by 28.3%yoy to RM118.7m although revenue was marginally lower at RM6.0b. During the year, livestock sales was lower in Malaysia, Indonesia and Singapore but that was cushioned by higher revenue from Vietnam and the Philippines. EBITDA for the livestock segment fell 45.7%yoy to RM145.1m due to lower profit margin as a result of low ASPs in most of the countries compared to a year ago. Meanwhile, the feedmill segment saw revenue grew 1%yoy to RM2.7b mainly due to higher sales volume and ASP in Vietnam. Following that, EBITDA for the segment climbed 6.5%yoy to RM429.5m primarily due to the higher sales contribution from Vietnam.

RETURN STATISTICS

Price @ 23 rd February 2021 (RM)	0.70
Expected share price return (%)	+14.3
Expected dividend yield (%)	+2.2
Expected total return (%)	+16.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.4	3.5
3 months	2.2	2.8
12 months	-4.8	-6.8


KEY STATISTICS

FBM KLCI	1,565.05
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	15.25
Market Capitalisation (RM'm)	2,555.00
52-wk price range	RM0.43 - RM0.96
Beta vs FBM KLCI (x)	1.09
Monthly volatility (%)	0.00
3-mth average daily volume (m)	1.83
3-mth average daily value (RM'm)	1.30
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.8
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73

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Things are looking better. We expect the recovery seen in 4QFY20 to continue into FY22. We think that ASPs for the livestock segment is likely to recover in tandem with the improving economic outlook in the region. On the other hand, we expect margin for the feedmill segment to soften mainly due to higher commodity prices and margin normalisation. Notably, corn prices are up by about 15% to-date and soy bean prices are also trending upward. However, this is likely to be cushioned by the higher sales volume in Vietnam and the Philippines.

Impact to earnings. We make no changes to our FY21F earnings estimates as we had previously imputed recovery prospects for the year. Based on the latest set of results, our FY21F EPS represents a 41.9% growth from FY20A CNI.

Upgrade to BUY with a revised TP of RM0.80. Our new TP is based on unchanged FY21F EPS of 4.6 sen pegged to revised PER of 17.3x (previously 15.8x). The new PER of 17.3x is based on the updated median PER of LHI's regional peers. We think that LHI's prospects are brighter going forward as we anticipate better ASPs for the livestock segment, which had been hit by the pandemic last year. We believe that LHI will continue to have a competitive edge after a tough year for some of the smaller poultry companies. We opine that LHI's earnings will be supported by: (i) economies of scale; (ii) vertical integration; and (iii) geographical diversification. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2019	FY2020	FY2021E	FY2022F	FY2023F
Revenue	6,054.7	6,040.7	5,974.0	6,260.7	6,448.5
Core EBITDA	650.5	542.0	659.0	713.7	744.8
Depreciation & amortisation	(225.5)	(259.4)	(221.1)	(231.6)	(242.4)
Core EBIT	425.0	282.6	438.0	482.1	502.5
Finance costs	(136.6)	0.4	(131.4)	(137.7)	(141.9)
Share of profits of associates	0.4	0.6	0.6	0.6	0.7
PBT	288.8	157.1	307.2	345.0	361.2
PAT	213.0	117.5	230.4	260.1	272.3
PATANCI	150.6	113.1	168.5	194.1	204.3
EPS (sen)	4.2	3.1	4.6	5.3	5.6
EPS growth (%)	(17.1)	(26.7)	48.9	15.2	5.3
Net Dividend (sen)	1.6	0.6	1.8	2.0	0.0
EBITDA margin (%)	10.7	9.0	11.0	11.4	11.6
PATANCI margin (%)	2.5	1.9	2.8	3.1	3.2
Dividend yield (%)	2.5	1.2	2.2	2.4	0.0
PER (x)	16.5	22.6	15.2	13.2	12.5

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 4QFY20 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	4QFY20	3QFY20	4QFY19	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	1,607.7	1,573.4	1,544.0	4.1	2.2	6,040.7	6,054.7	(0.2)
Other income	19.0	10.7	8.0	137.7	78.1	59.8	34.9	71.5
Operating expenses	(1,529.4)	(1,522.4)	(1,467.8)	4.2	0.5	(5,817.9)	(5,664.6)	2.7
Profit from operations	97.3	61.7	84.2	15.5	57.6	282.6	425.0	(33.5)
Finance costs	(29.2)	(31.0)	(34.2)	(14.6)	(5.7)	(125.9)	(136.6)	(7.9)
Share of profits of associates	0.3	0.1	0.2	68.4	300.0	0.4	0.4	(6.9)
PBT	68.3	30.8	50.2	36.1	121.8	157.1	288.8	(45.6)
Tax expense	(11.4)	(9.8)	(16.4)	(30.2)	17.1	(39.6)	(75.8)	(47.7)
PAT	56.9	21.0	33.8	68.2	170.5	117.5	213.0	(44.8)
Non-controlling interests	4.3	(1.5)	4.3	1.0	(388.0)	4.4	62.4	(93.0)
PATANCI	52.6	22.5	29.5	78.0	133.3	113.1	150.6	(24.9)
One-off items	3.7	1.9	10.8	nm	nm	5.5	14.8	nm
Normalised PATANCI	56.2	24.4	40.4	39.3	130.5	118.7	165.4	(28.3)
				+ / (-) pts				+ / (-) pts
Operating margin (%)	6.0	3.9	5.5	0.6	2.1	4.7	7.0	(2.3)
PBT margin (%)	4.2	2.0	3.3	1.0	2.3	2.6	4.8	(2.2)
PAT margin (%)	3.5	1.3	2.2	1.3	2.2	1.9	3.5	(1.6)
PATANCI margin (%)	3.3	1.4	1.9	1.4	1.8	1.9	2.5	(0.6)
Effective Tax rate (%)	16.7	31.7	32.6	(15.9)	(15.0)	25.2	26.2	(1.0)

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results					Cumulative results		
	4QFY20	3QFY20	4QFY19	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue								
Malaysia	413.4	434.5	411.3	0.5	(4.9)	1,616.9	1,647.8	(1.9)
Singapore	186.0	182.3	202.5	(8.1)	2.0	736.4	788.6	(6.6)
Vietnam	409.6	410.1	374.4	9.4	(0.1)	1,563.7	1,347.3	16.1
Indonesia	567.8	520.4	529.8	7.2	9.1	2,019.8	2,189.2	(7.7)
Philippines	30.8	26.1	26.1	18.3	18.2	103.9	76.3	36.2
Total	1,607.7	1,573.4	1,544.0	4.1	2.2	6,040.7	6,049.2	(0.1)
EBITDA								
Malaysia	42.8	45.9	54.1	(20.9)	(6.9)	160.2	227.5	(29.6)
Singapore	33.7	23.9	16.4	105.3	40.9	108.2	95.8	13.0
Vietnam	30.7	39.6	41.9	(26.7)	(22.4)	139.5	130.3	7.1
Indonesia	56.0	25.1	29.6	89.0	123.1	136.2	185.5	(26.6)
Philippines	5.1	(7.3)	4.3	17.1	(169.9)	(2.1)	11.5	0.0
Total	168.2	127.2	146.3	14.9	32.2	542.0	650.5	(16.7)

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.
HOLD	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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology