

Leong Hup International Berhad

Improved ASP and sales volume drives growth

Summary

- Leong Hup International Bhd's (LHI) 4QFY20 net profit climbed 78.0% YoY to RM52.6m, mainly due to an increase in average selling price (ASP) and sales volume of DOC in Indonesia and eggs in Vietnam, as well as an increase in sales volume of livestock feed in Indonesia and Vietnam. Revenue for the quarter improved 4.1% YoY to RM1.61bn. For FY20, cumulative net profit slipped 24.9% YoY to RM113.1m. Revenue for the period inched down 0.2% YoY to RM6.04bn. A final dividend of 0.55 sen per share was declared for 4QFY20.
- The net profit came in at 149.2% of our profit forecast of RM75.8 for FY20f and made up 78.9% of consensus expectations of RM143.3m. The healthy result posted by the Group in 4QFY20 indicates an improving operating environment following the reopening economies effort in the region.
- Leong Hup remained consistent on the expansion of downstream segment (The Bakers Cottage) amid gradual economic recovery to improve margin stability. Meanwhile, we see overall growth in group revenue for livestock and poultry related products, as well as the feedmill segments.
- Regionally, LHI plans to (i) strengthen their ready-to-eat (RTE) and ready-to-cook (RTC) products in Singapore market, (ii) improve production of aquatic feed in Vietnam operations and (iii) capitalise on the stability of poultry prices stemmed by the Indonesia's government effort to enforce aggressive culling activities and improve feed volume to capture additional market share.
- Cost wise, soybean prices moved higher in 4Q2020, climbing +21.4% QoQ owing to tightening global supplies and large demand from China. Likewise, maize scarcity pushed to prices to rise +10.1% QoQ. Despite the higher feed cost, LHI has maintained their feed inventory at approximately 3-4 months as demand has yet to recover towards pre-Covid-19 level.

| Quarterly performance | | | | | | | | |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| FYE Dec (RM m) | 4QFY19 | 3QFY20 | 4QFY20 | QoQ (%) | YoY (%) | 12MFY19 | 12MFY20 | YoY (%) |
| Revenue | 1,544.0 | 1,573.4 | 1,607.7 | 2.2 | 4.1 | 6,054.8 | 6,040.7 | (0.2) |
| EBITDA | 142.6 | 123.8 | 162.7 | 31.5 | 14.1 | 637.7 | 525.8 | (17.5) |
| PBT | 50.2 | 30.8 | 68.3 | 121.8 | 36.1 | 288.8 | 157.1 | (45.6) |
| PAT | 33.8 | 21.0 | 56.9 | 170.5 | 68.2 | 213.0 | 117.5 | (44.8) |
| Core PATMI | 29.5 | 22.5 | 52.6 | 133.3 | 78.0 | 150.6 | 113.1 | (24.9) |
| Reported PATMI | 29.5 | 22.5 | 52.6 | 133.3 | 78.0 | 150.6 | 113.1 | (24.9) |
| Core EPS (sen) | 0.8 | 0.6 | 1.4 | 133.3 | 78.0 | 4.1 | 3.1 | (24.9) |
| EBITDA margin (%) | 9.2 | 7.9 | 10.1 | | | 10.5 | 8.7 | |
| PBT margin (%) | 3.3 | 2.0 | 4.2 | | | 4.8 | 2.6 | |
| Core PATMI margin (%) | 1.9 | 1.4 | 3.3 | | | 2.5 | 1.9 | |

Results Note – 4QFY20

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| | |
|-----------------|--------|
| Share price | RM0.70 |
| Target price | RM0.69 |
| Previous TP | RM0.69 |
| Capital upside | -1.4% |
| Dividend return | 1.9% |
| Total return | 0.4% |

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

| | |
|----------------------|-----------|
| Bursa Code | 6633 |
| Bloomberg ticker | LHIB MK |
| Listing market | Main |
| Share issued (m) | 3,650.0 |
| Market Cap (m) | 2555.0 |
| 52W High/Low | 0.96/0.43 |
| Est. Free float | 15.3% |
| Beta (X) | 0.6 |
| 3-mth avg vol ('000) | 1812.5 |
| Shariah compliant | No |

Major shareholders

| | |
|-----------------------|------|
| Emerging Glory SB | 52.8 |
| Clarinden Investments | 9.0 |
| Amanah Saham Nasional | 5.7 |

Share price vs. KLCI (%)

| | | | |
|--------------|-----|-----|------|
| Hist. return | 1M | 3M | 12M |
| Absolute | 1.4 | 2.9 | -2.8 |
| Relative | 3.5 | 3.8 | -7.4 |

Earnings summary

| | | | |
|-----------|-------|-------|-------|
| FYE (Dec) | FY20 | FY21f | FY22f |
| PATMI (m) | 113.1 | 157.1 | 218.7 |
| EPS (sen) | 3.1 | 4.3 | 6.0 |
| P/E (x) | 22.6 | 16.3 | 11.7 |

Relative performance chart



Valuation & Recommendation

- We increased our earnings forecast marginally to RM157.1m for FY21f to account for the higher earning certainty following a healthy result posted for 4QFY20, coupled with the lower effective tax rate at 25.2% as compared to the previous rate closed to 30.0%. We maintain our HOLD recommendation on LHI at target price of RM0.69.
- Our target price is based on PE of 16.0x pegged to our revised FY21f estimated EPS of 4.3 sen. The assigned PE represents a 20.0% discount to its local and regional peers' average of 20.0x, after taking into account of the larger market capitalisation of its peers like Charoen Pokphand Foods PLC and ThaiFoods Group PLC in Thailand, JAPFA Ltd in Singapore, and QL Resources Bhd in Malaysia.
- We like Leong Hup for its strategic objectives to enhance vertical integration along the poultry chain and its ability to grow capacities to increase domestic production volume. Moving forward, we are optimistic with the Group's performance given the expected GDP improvement in the countries the Group operates in.
- However, risks to our recommendation and forecast include fluctuations in raw material prices that could impact LHI's margins. LHI purchases raw materials 1-3 months ahead and stocks are kept for approximately two months. Any drastic fluctuation in ASP of LHI's output (DOCs and broilers) will affect bottomline margins.

Key Financial Data

All items in (RM m) unless otherwise stated

| Income Statement | | | | | | Balance Sheet | | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------------|----------------|----------------|----------------|----------------|----------------|
| FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f | FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f |
| Revenue | 5,732.4 | 6,054.8 | 6,040.7 | 6,302.3 | 6,814.7 | Cash | 458.9 | 764.8 | 757.8 | 802.4 | 718.4 |
| EBITDA | 647.6 | 637.7 | 525.8 | 680.0 | 761.7 | Receivables | 649.2 | 499.3 | 489.6 | 483.5 | 560.1 |
| EBIT | 450.4 | 412.1 | 266.5 | 410.4 | 488.6 | Inventories | 575.6 | 679.6 | 721.9 | 705.5 | 712.3 |
| Net finance income/ (cost) | (102.5) | (123.8) | (109.7) | (123.1) | (121.5) | PPE | 2,396.8 | 2,418.5 | 2,656.5 | 2,561.5 | 2,765.4 |
| Associates & JV | 0.6 | 0.4 | 0.4 | 0.5 | 0.5 | Others | 753.5 | 1,046.9 | 695.2 | 1,092.8 | 1,160.3 |
| Profit before tax | 348.6 | 288.7 | 157.1 | 287.7 | 367.5 | Assets | 4,834.0 | 5,409.1 | 5,694.8 | 5,645.7 | 5,916.6 |
| Tax | (101.8) | (75.8) | (39.6) | (86.3) | (110.3) | Debts | 2,370.9 | 2,500.3 | 2,795.5 | 2,420.8 | 2,441.3 |
| Net profit | 246.8 | 213.0 | 117.5 | 201.4 | 257.3 | Payables | 248.9 | 273.1 | 229.4 | 282.2 | 284.6 |
| Minority interest | 60.6 | 62.4 | 4.4 | 44.3 | 38.6 | Others | 448.7 | 455.2 | 418.8 | 498.6 | 532.0 |
| Core earnings | 186.2 | 150.6 | 113.1 | 157.1 | 218.7 | Liabilities | 3,068.6 | 3,228.6 | 3,446.2 | 3,201.6 | 3,260.5 |
| Exceptional items | - | - | - | - | - | Shareholder's equity | 1,301.8 | 1,641.2 | 1,713.4 | 1,801.1 | 1,970.5 |
| Reported earnings | 186.2 | 150.6 | 113.1 | 157.1 | 218.7 | Minority interest | 463.6 | 539.3 | 535.1 | 652.6 | 717.8 |
| | | | | | | Equity | 1,765.4 | 2,180.5 | 2,248.6 | 2,453.7 | 2,688.3 |
| Cash Flow Statement | | | | | | Valuation & Ratios | | | | | |
| FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f | FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f |
| Profit before taxation | 348.6 | 288.7 | 157.1 | 287.7 | 367.5 | Core EPS (sen) | 5.1 | 4.1 | 3.1 | 4.3 | 6.0 |
| Depreciation & amortisation | 197.1 | 225.5 | 259.5 | 269.6 | 273.1 | P/E (x) | 13.7 | 17.0 | 22.6 | 16.3 | 11.7 |
| Changes in working capital | 220.5 | (77.9) | (63.9) | 0.3 | 101.5 | DPS (sen) | 1.0 | 1.6 | 0.6 | 1.3 | 1.3 |
| Share of JV profits | - | - | 1.0 | - | 1.0 | Dividend yield | 1.4% | 2.3% | 0.8% | 1.8% | 1.8% |
| Taxation | (75.7) | (57.0) | (55.3) | (41.7) | (86.3) | BVPS (RM) | 0.48 | 0.60 | 0.62 | 0.67 | 0.74 |
| Others | - | - | 1.0 | - | 1.0 | P/B (x) | 1.4 | 1.2 | 1.1 | 1.0 | 1.0 |
| Operating cash flow | 349.2 | 670.6 | 429.4 | 599.7 | 568.8 | EBITDA margin | 11.3% | 10.5% | 8.7% | 10.8% | 11.2% |
| Net capex | (418.9) | (400.8) | (524.4) | (373.1) | (472.0) | EBIT margin | 7.9% | 6.8% | 4.4% | 6.5% | 7.2% |
| Others | - | - | 1.0 | - | - | PBT margin | 6.1% | 4.8% | 2.6% | 4.6% | 5.4% |
| Investing cash flow | (378.6) | (403.9) | (502.1) | (357.0) | (453.7) | PAT margin | 4.3% | 3.5% | 1.9% | 3.2% | 3.8% |
| Changes in borrowings | 177.4 | 10.9 | (2,381.8) | 18.0 | 18.0 | Core PAT margin | 3.2% | 2.5% | 1.9% | 2.5% | 3.2% |
| Issuance of shares | - | - | 1.0 | - | 1.0 | ROE | 10.5% | 6.9% | 5.0% | 6.4% | 8.1% |
| Dividends paid | (66.3) | (84.5) | (23.8) | (45.6) | (45.6) | ROA | 3.9% | 2.8% | 2.0% | 2.8% | 3.7% |
| Others | - | - | 1.0 | - | 1.0 | Net gearing | 108.3% | 79.6% | 90.6% | 66.0% | 64.1% |
| Financing cash flow | (6.9) | (2.1) | 71.6 | (187.4) | (187.0) | | | | | | |
| Net cash flow | (36.2) | 264.6 | (1.1) | 55.3 | (71.9) | | | | | | |
| Forex | (0.8) | (0.8) | (7.3) | (0.5) | 0.5 | | | | | | |
| Others | - | - | - | - | - | | | | | | |
| Beginning cash | 427.4 | 390.4 | 654.2 | 627.2 | 682.1 | | | | | | |
| Ending cash | 390.4 | 654.2 | 645.8 | 682.1 | 610.6 | | | | | | |