

Leong Hup International Bhd

Indonesian Ops Recovered Strongly in 4QFY20

TP: RM0.84 (+20.0%)

Last Traded: RM0.70

Buy (ESG: ★★★)

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Review

- Leong Hup International Bhd's (LHI) FY20 adjusted net profit of RM105.7mn was within our expectation but above consensus, at 105% and 116% respectively.
- No dividend was declared for the quarter under review. YTD DPS declared was 0.6 sen/share, a decline from 1.6 sen/share a year ago.
- FY20 revenue was flattish at RM6.40bn as the drop in Livestock revenue (-1.2% YoY to RM3.35bn) owing to the decline in ASP and volume of its Malaysian and Indonesian livestock products, especially day-old-chick was mitigated by improvement in Feedmill revenue (+1.0% YoY to RM2.67bn). Meanwhile, FY20 EBIT slid to RM266.5mn (-35.3% YoY) as the lacklustre Livestock segment registered a loss before interest of RM54.1mn (against RM100.1mn EBIT recorded in FY19), offsetting the stronger EBIT from the Feedmill segment (+6.7% YoY to RM371.9mn), which supported by increased volume and higher ASP of Vietnam's feed sales.
- Sequentially, the Livestock segment has returned to the black with EBIT of RM34.9mn as a result of 4.0% QoQ growth in revenue underpinned by increase in ASP of broiler and DOC in Indonesia alongside improved ASP of broiler in Vietnam. Meanwhile, Feedmill EBIT declined by 24.5% QoQ as feed margin normalised downward in Indonesia and Vietnam.

Impact

- We make marginal adjustments to FY21/22 earnings forecasts after incorporating the full-year figures. Moreover, we introduce FY23 earnings forecast of RM235.8mn.

Outlook

- Management believes that the economic tailwind in Indonesia is expected to sustain the recovery momentum for LHI and expect operating markets in general to demonstrate resilience in FY21 as regional countries have started rolling out respective vaccination programmes.
- Based on channel check, Indonesian Livestock's broiler and DOC price remained at a favourable level, corresponding to government's interventions in adjusting the supply of broiler DOCs.
- LHI is now operating more than 100 The Baker Cottage outlets, tracking well towards LHI's strategy of moving downstream to improve margin stability.

Valuation

- Maintain Buy with an unchanged target price of RM0.84/share based on unchanged 18x FY21 earnings.

Share Information

Bloomberg Code	LHI MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	2555.0
52-wk Hi/Lo (RM)	0.960/0.430
12-mth Avg Daily Vol ('000 shrs)	2768
Estimated Free Float (%)	15.3
Beta	1

Major Shareholders (%)

Emerging Glory	- 52.8%
Clarinden Investment	- 9.0%

Forecast Revision

	FY21	FY22
Forecast Revision (%)	0.4	0.1
Net profit (RMm)	170.3	206.4
Consensus	158.1	196.4
TA's / Consensus (%)	107.7	105.1
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net Debt / Equity (x)	0.8	0.7
ROE (%)	9.6	10.8
ROA (%)	2.9	3.5
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.5	1.4

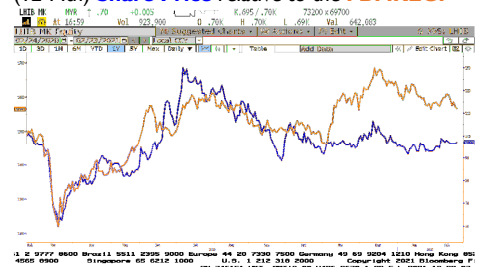
Scorecard

	% of FY
vs TA	105 Within
vs Consensus	116 Above

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	1.3	(2.0)
3 mth	0.7	(2.0)
6 mth	(10.8)	(0.8)
12 mth	(4.8)	2.2

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE December (RM mn)	2019	2020	2021E	2022F	2023F
Revenue	6,054.8	6,040.7	6,572.7	7,021.5	7,302.1
EBITDA	637.7	525.8	710.8	791.5	860.5
Pretax Profit	288.8	157.1	307.9	373.0	426.2
Reported Net Profit	150.6	113.1	170.3	206.4	235.8
Core Net Profit	150.6	105.7	170.3	206.4	235.8
Core EPS (sen)	4.1	2.9	4.7	5.7	6.5
Core PER (x)	17.0	24.2	15.0	12.4	10.8
DPS (sen)	1.6	0.6	1.4	1.7	1.9
Dividend Yield (%)	2.3	0.9	2.0	2.4	2.8

Table 2: 4QFY20 Results Analysis (RMmn)

FYE 31 Dec	4QFY19	3QFY20	4QFY20	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)
Other Income	4.3	7.2	13.5	86.2	213.3	22.0	43.6	98.4
Operating Expenses	(1,467.8)	(1,522.4)	(1,529.4)	0.5	4.2	(5,664.6)	(5,817.8)	2.7
EBIT	80.5	58.3	91.7	57.4	13.9	412.1	266.5	(35.3)
Adj. EBIT	80.5	58.3	84.3	44.6	4.6	412.1	259.0	(37.2)
Net Interest	(30.5)	(27.5)	(23.7)	(14.0)	(22.4)	(123.8)	(109.7)	(11.4)
Associate	0.2	0.1	0.3	>100	68.4	0.4	0.4	(7.4)
Profit before Tax	50.2	30.8	68.3	>100	36.1	288.8	157.1	(45.6)
Adj. PBT	50.2	30.8	60.8	97.5	21.2	288.8	149.7	(48.2)
Taxation	(16.4)	(9.8)	(11.4)	17.1	(30.2)	(75.8)	(39.6)	(47.7)
Extraordinary Items	-	-	7.5	nm	nm	-	7.5	nm
Minority Interest	(4.3)	1.5	(4.3)	nm	1.0	(62.4)	(4.4)	(93.0)
Net Profit	29.5	22.5	52.6	>100	78.0	150.6	113.1	(24.9)
Adj. Net Profit	29.5	22.5	45.1	>100	52.7	150.6	105.7	(29.8)
Basic EPS (sen)	0.8	0.6	1.4	>100	77.8	4.2	4.2	(0.0)
DPS (sen)	-	-	-	nm	nm	1.6	0.6	(65.6)
				%-points	%-points			%-points
EBIT Margin (%)	5.2	3.7	5.7	2.0	0.5	6.8	4.4	(2.4)
PBT Margin (%)	3.3	2.0	4.2	2.3	1.0	4.8	2.6	(2.2)
Net Margin (%)	1.9	1.4	3.3	1.8	1.4	2.5	1.9	(0.6)
Adj. Net Margin (%)	1.9	1.4	2.8	1.4	0.9	2.5	1.7	(0.7)
Tax Rate (%)	32.6	31.7	16.7	(15.0)	(15.9)	26.2	25.2	(1.0)

Table 3: 4QFY20 Results Analysis (RMmn) – Segment

FYE 31 Dec	4QFY19	3QFY20	4QFY20	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 and Poultry Related	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
Segment EBIT	84.2	61.7	97.3	57.6	15.5	425.0	282.6	(33.5)
Livestock and Poultry Related	14.6	(30.7)	34.9	nm	138.6	100.1	(54.1)	nm
Feedmill	82.1	102.1	77.1	(24.5)	(6.1)	348.5	371.9	6.7
Elimination	(12.5)	(9.7)	(14.7)	51.7	17.5	(23.7)	(35.2)	48.8
				%-points	%-points			%-points
Segment EBIT Margin	5.5	3.9	6.0	2.1	0.6	7.0	4.7	(2.3)
Livestock and Poultry Related	1.7	(3.6)	3.9	7.4	2.2	2.9	(1.6)	(4.6)
Feedmill	12.3	14.5	10.9	(3.5)	(1.4)	13.2	13.9	0.7

Table 4: 4QFY20 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	4QFY19	3QFY20	4QFY20	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)
Malaysia	411.3	434.5	413.4	(4.9)	0.5	1,648.0	1,617.0	(1.9)
Singapore	202.5	182.3	186.0	2.0	(8.2)	791.0	736.4	(6.9)
Vietnam	374.4	410.1	409.6	(0.1)	9.4	1,347.2	1,563.7	16.1
Indonesia	529.8	520.4	567.8	9.1	7.2	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
Segment EBITDA	146.3	127.2	168.3	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	>100	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	>100	89.2	185.5	136.3	(26.5)
Philippines	4.3	(7.3)	5.1	nm	17.1	11.5	(2.1)	nm
				%-points	%-points			%-points
Segment EBITDA Margin	9.5	8.1	10.5	2.4	1.0	10.7	9.0	(1.8)
Malaysia	13.2	10.6	10.3	(0.2)	(2.8)	13.8	9.9	(3.9)
Singapore	8.1	13.1	18.1	5.0	10.0	12.1	14.7	2.6
Vietnam	11.2	9.6	7.5	(2.2)	(3.7)	9.7	8.9	(0.7)
Indonesia	5.6	4.8	9.9	5.1	4.3	8.5	6.7	(1.7)
Philippines	16.6	(27.9)	16.5	44.4	(0.2)	15.0	(2.1)	(17.1)

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations and management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations and management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, February 24, 2021, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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