

Leong Hup International Berhad

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

Maintain BUY

Recovery in ASP to sustain in FY21

Unchanged Target Price: RM0.80

KEY INVESTMENT HIGHLIGHTS

- **Firmer livestock prices expected in FY21**
- **Feedmill segment expected to support the demand in the livestock segment**
- **Plans to increase the number of Baker's Cottage outlets to 160 by year end**
- **Maintain BUY with an unchanged TP of RM0.80**

Firmer livestock prices expected in FY21. We come away from Leong Hup International's (LHI) virtual briefing feeling affirmed of its improving outlook. We deem 4QFY20 as a turning point where earnings surprised on the upside due to firmer livestock average selling prices (ASPs) in its main markets like Indonesia and Vietnam. Meanwhile, prices in Malaysia is expected to improve further in 2HFY21 with possible upside of broiler prices by c.20% and c.40% for day-old chicks. The brighter prospects are supported by the economic recovery in the region, which is expected to boost consumption of chicken and eggs. On top of that, the challenging landscape in the past one year may have forced smaller players with liquidity issues to reduce its volume or even shut down production, thus limiting a potential surge in supply when the ASPs improve further.

As such, we expect profit margin to improve in tandem with better ASPs anticipated for FY21. This is also supported by the higher value-add products through its downstream expansion and the completion of its feedmill in Central Luzon by 1Q21, which is expected to result in cost savings for the livestock segment in the Philippines. Currently, the group purchases livestock feeds in the archipelago from external parties. As for the new poultry processing plant in West Java, Indonesia the targeted completion of the RM28.5m project is slated towards year-end.

Feedmill sales volume expected to remain resilient in the light of the better poultry industry outlook. Management believes that sales volume for the feedmill segment will remain robust in FY21 driven by the recovery in demand for poultry products. The higher corn and soy bean prices are not expected to have a significant impact on the feedmill segment higher costs will be passed through. That said, management will continue to monitor and manage its cost proactively.

Plans to increase the number of Baker's Cottage outlets to 160 by year end. Currently, there are 103 Baker's Cottage outlets and the segment is contributing positively at pre-tax level. It targets to grow same store sales for the quick-serve restaurant to double-digit and may explore franchise program for the chain. Once mature, the group might expand the business to the regional market.

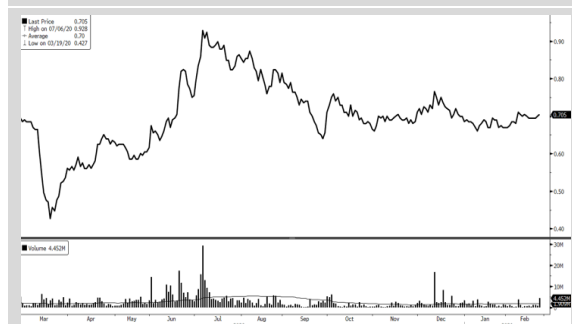
Maintain BUY with an unchanged TP of RM0.80. We make no changed to our earnings estimates following the briefing. We maintain our **BUY** recommendation on the stock with an unchanged **TP of RM0.80** as we expect further recovery in the coming quarters.



RETURN STATISTICS

Price @ 24 th February 2021 (RM)	0.705
Expected share price return (%)	+13.5
Expected dividend yield (%)	+2.2
Expected total return (%)	+15.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.2	4.7
3 months	2.9	5.1
12 months	-2.1	-6.3

KEY STATISTICS

FBM KLCI	1,557.55
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)	2,573.25
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)	1.81
3-mth average daily value (RM'm)	1.29
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.8
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73

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INVESTMENT STATISTICS

Financial year ending 31st Dec	FY2019	FY2020	FY2021E	FY2022F	FY2023F
(in RM'm, unless otherwise stated)					
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

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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