



AmInvestment Bank

Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

17 May 2021

Price recovery in the chicken first, then the egg

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company update

Price	RM0.71
Fair Value	RM1.02
52-week High/Low	RM0.96/RM0.58

Key Changes

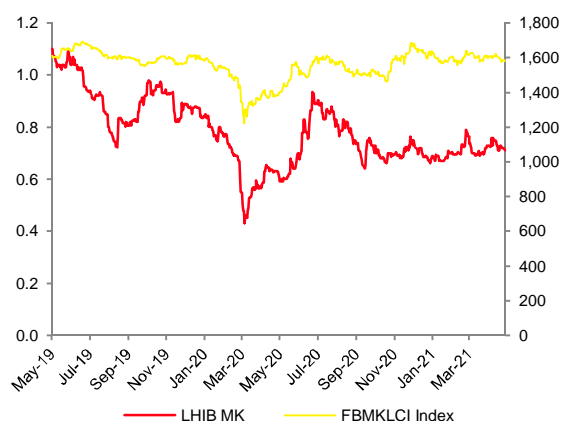
Fair value	⬇️
EPS	⬆️

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	6,040.7	6,342.4	6,644.0	6,874.9
Core net profit (RM mil)	109.4	200.2	218.7	227.9
FD Core EPS (sen)	3.0	5.5	6.0	6.2
FD Core EPS growth (%)	(27.3)	82.9	9.3	4.2
Consensus Net Profit (RM mil)	-	168.9	199.1	227.8
DPS (sen)	0.6	1.6	1.8	1.9
PE (x)	23.7	12.9	11.8	11.4
EV/EBITDA (x)	8.8	6.5	5.8	5.2
Div yield (%)	0.8	2.3	2.5	2.6
ROE (%)	6.8	11.2	11.3	10.9
Net Gearing (%)	118.9	91.8	74.4	60.3

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,591.5
Book Value (RM/share)	0.47
P/BV (x)	1.5
ROE (%)	6.8
Net Gearing (%)	118.9
Major Shareholders	Clarinden Inv Pte. (9.0%) Lau Joo Han (2.1%) Lau Eng Guang (1.6%)
Free Float	87.3
Avg Daily Value (RM mil)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	1.4	2.9	12.7
Relative (%)	2.8	2.4	(1.3)



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a higher fair value (FV) of RM1.02/share (vs. RM0.86/share previously). Our valuation is based on an unchanged PER of 17x FY22F EPS. We make no ESG-related price adjustment for our rating of 3 stars.
- We increase our FY21/FY22/FY23 net profit forecasts by 14%/20%/18% respectively as we have become more optimistic on LHI's near-term and future prospects.
- LHI has posted underwhelming earnings since its listing in May 2019. We believe this is largely due to a downswing in local broiler and day-old-chick (DOC) average selling prices (ASP) at time of listing, before being further hit by the effects of the pandemic.
- We believe that LHI will show a stronger, more consistent set of results in the coming quarters, despite MCO 3.0, for the following reasons:
 1. Local broiler and DOC supply imbalances have largely been corrected (Exhibits 1 & 2).
 2. Local table egg price recovery forecasted in 2HFY21 (Exhibits 3 & 4).
 3. Broiler prices in Indonesia recovered as a result of culling exercises and recovering spending power (Exhibit 5).
 4. The Baker's Cottage (TBC) contributions and consumer's rising preference for takeaway and delivery to dampen effects of MCO 3.0.
 5. The feed mill in Luzon, the Philippines is expected to improve livestock segment margins.
- Nevertheless, we note the following sources of downward pressure:
 1. The feed mill segment will no longer ride on elevated margins as result of rising raw material prices. The success of LHI's Philippines and Vietnam segments in 2HFY20 was a result of supernormal margins from feed mill sales.
 2. Covid-19 case resurgence in any of LHI's geographical segments, most notably in the Philippines, Indonesia and Vietnam.
 3. Further expansion plan delays.

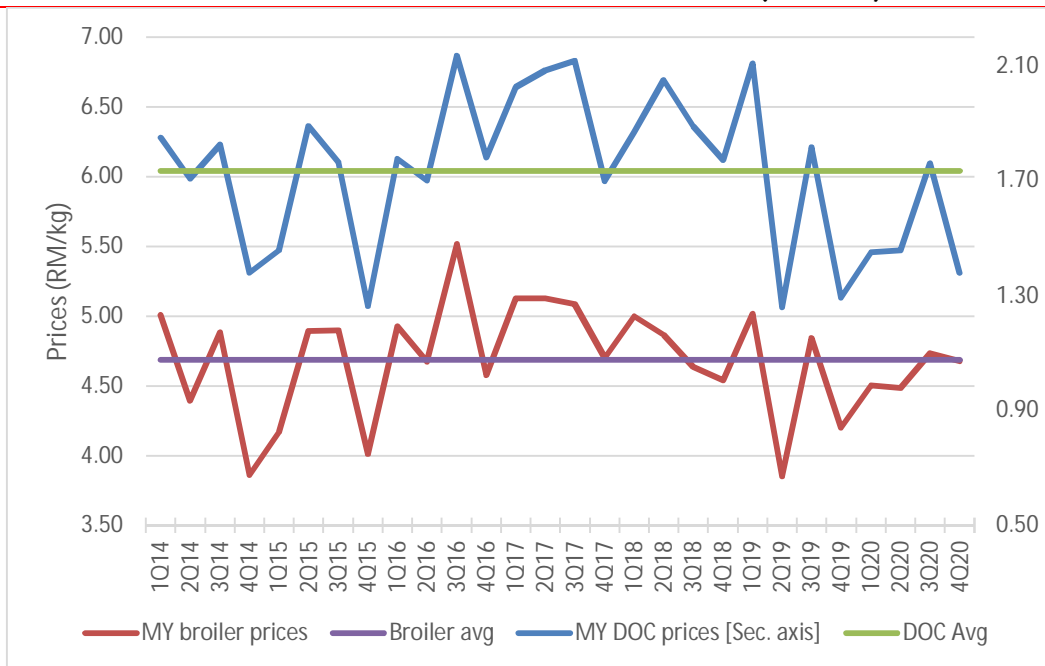
1. **Local broiler and DOC supply imbalances have largely been corrected (Exhibits 1 & 2).**
 - **In the three years prior to LHI's May 2019 listing, broiler prices rarely fell to levels below RM4.50 (Exhibit 1).** Such a conducive price point has led to oversaturation via new entrants and sizeable capacity expansions.
 - **In 2019, poultry ASPs were hit with an influx of poultry meat imports from Brazil, combined with the effects of oversupply.** This led to market quarterly broiler ASP falling to RM3.85 in 1QFY19, the lowest since FY14. Weekly broiler ASP then reached a low of RM3.00 in April 2020, due to pandemic-driven low demand.
 - **ASPs have largely seen a recovery since then, with prices mostly moderating >RM4.50 from 2HFY20 onwards, albeit subject to occasional fluctuations.** We believe that by this time, farms had already adjusted their supply for the MCO-induced weakened demand. Broiler supply can be adjusted quickly given its production cycle of 35 to 37 days.
 - **During this time, demand and high feed costs impacted small-scale farms most significantly, leading to mass closures across Malaysia.** Larger-cap companies, however, are able to maintain their operations.
 - **As a result, broiler ASP is seeing an even stronger recovery in FY21F (Exhibit 2), peaking at RM5.99 in April 2021 for Ramadan, though these have begun to normalise.**
 - **While no official data for DOC ASPs have been released for FY21F so far, we believe that these have also seen a similar uptrend, given that DOC prices largely mirror those of broilers.**
2. **Local table egg price recovery forecasted in 2HFY21 (Exhibits 3 & 4).**
 - **Singaporean retailers are temporarily avoiding importing eggs from Malaysian farms following a Salmonella scare in March 2021.** ~17% of local eggs produced are exported, the majority of which is directed to Singapore.
 - **This has caused already falling egg ASP (Exhibit 3) to further plummet so far in FY21F (Exhibit 4), with grade C egg prices falling to 29 sen currently from 35 sen in February.**
 - **Malaysian egg producers have yet to fully adjust to this swift drop in ASP, given that the layer production cycle lasts for ~74 weeks.** In this case, the growth phase takes 16 weeks, before laying eggs for ~58 weeks. As a result, egg supply takes longer to adjust than broilers.
- **Thus, we anticipate a gradual recovery in egg ASP in 2HFY21 as Singapore resumes its import of local eggs and as the supply lag adjusts.**
3. **Recovery in broiler prices in Indonesia as a result of culling exercises and returning spending power (Exhibit 5).**
 - **Indonesian broiler prices are seeing a more stable recovery since culling exercises in 3QFY20 took place.** Monthly ASPs have risen from lows of IDR14,000 (~RM4.07) to more stable values of >IDR17,000-22,000 (~RM4.95-RM6.40) since.
 - **We believe that meat is not so integral to the standard Indonesian diet, given Indonesia's low meat consumption rate of 11.6kg/capita.** In contrast, Malaysia boasts 52.3kg and Thailand 25.8kg rates.
 - **As a result, we believe that poultry consumption as a whole is significantly more sensitive to reductions in spending power as result of poor economic conditions.**
 - Note that this is contingent on the country's ability to keep Covid-19 cases at check. Daily cases in Indonesia have since moderated to levels of 4,000–6,000 daily cases, from a peak of 14,000 in January.
4. **TBC contributions and consumer's rising preference for takeaway and delivery to dampen effects of MCO 3.0.**
 - **We believe that LHI's TBC segment will provide a strong buffer for possible upcoming volatility in poultry ASP.** It has proven its effectiveness as a channel to offload downstream produce in the first MCO in 2QFY20, selling on average 8–9K birds (in comparison to 4.5K birds pre-MCO).
 - **With added stores and wider product range since the first MCO, we are optimistic that TBC will continue to be a success, should LHI have to rely on it to preserve their earnings.**
 - **Also, we believe that HoReCa demand in MCO 3.0 will be stronger than that of MCO 2.0.** This is due to significant A&P efforts by food retailers and evolved store formats. These have led to widespread adoption of takeaway and delivery-based consumption by consumers. As a proxy, TBC has been able to maintain their revenue levels in 1QFY21 from the previous quarter, despite a tightening in movement controls.

5. Feed mill in Luzon, the Philippines expected to improve livestock segment margins.

- The Luzon feed mill is scheduled to come onstream in 2QFY21. Its anticipated 1QFY21 opening was delayed due to Covid-19 disruptions in the Philippines.

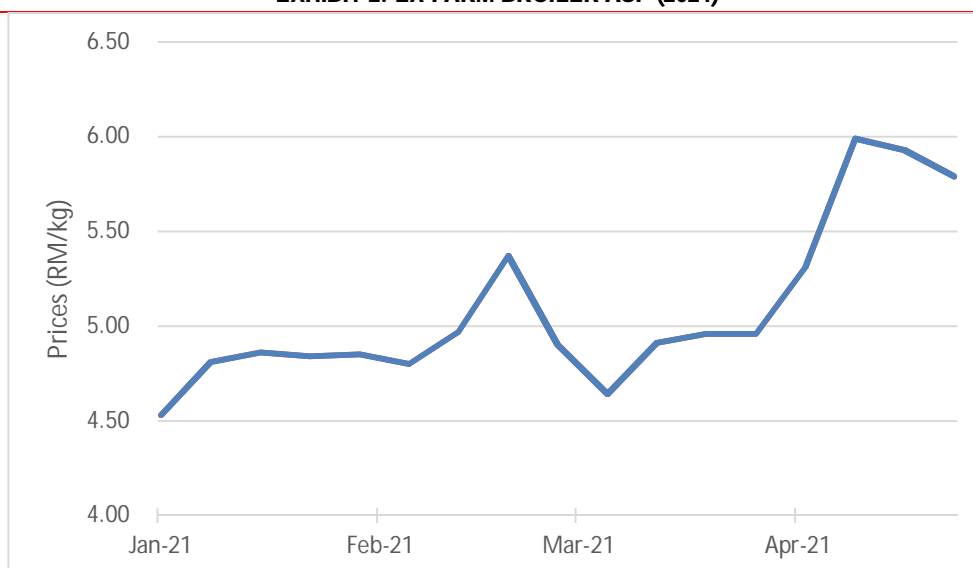
- With an initial capacity of 128,000 MT/annum, the feed mill is expected to help support the operating profit margins of the livestock operations within the country. Full capacity can fetch up to 240,000 MT/annum.
- However, we do not expect a jump in margins to occur until at least a year down the line, as current livestock capacity is still too low.

EXHIBIT 1: QUARTERLY LOCAL BROILER & DOC ASP (2014-2020)



Source: AmInvestment Bank Bhd, DVS

EXHIBIT 2: EX-FARM BROILER ASP (2021)



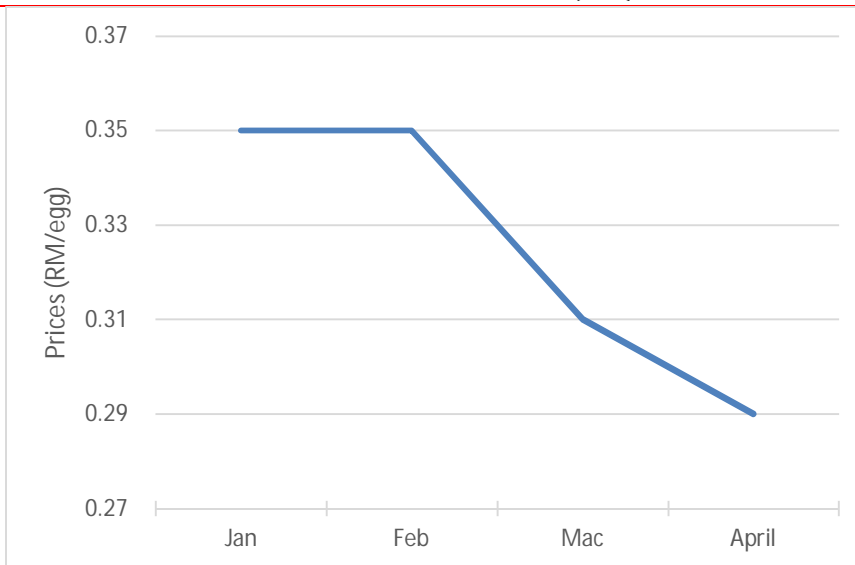
Source: AmInvestment Bank Bhd, DVS

EXHIBIT 3: QUARTERLY LOCAL GRADE C EGG ASP (2014-2020)



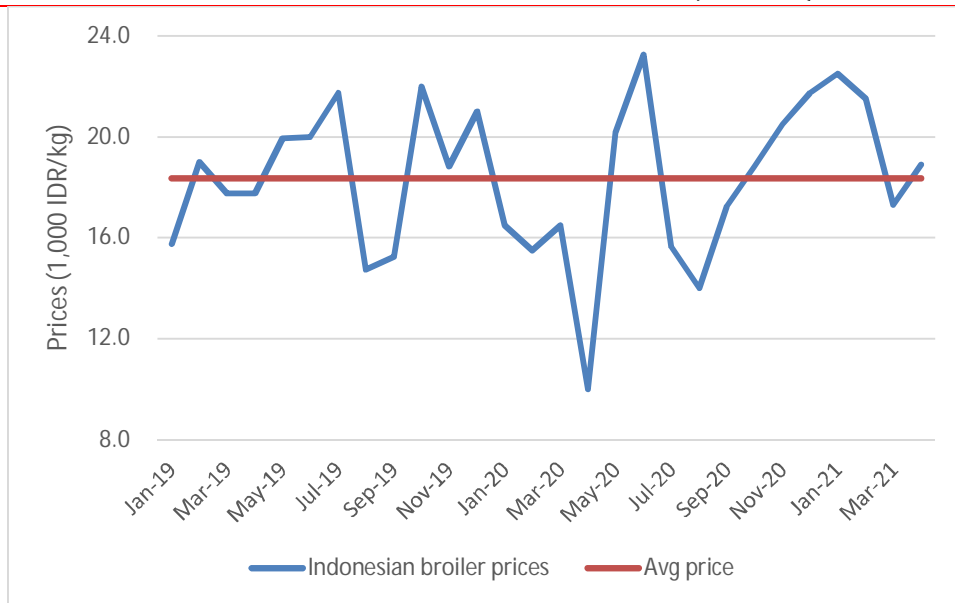
Source: AmInvestment Bank Bhd, DVS

EXHIBIT 4: GRADE C EGG ASP (2021)



Source: AmInvestment Bank Bhd, DVS

EXHIBIT 5: MONTHLY INDONESIAN BROILER ASP (2019–2021)



Source: AmlInvestment Bank Bhd, PINSAR

EXHIBIT 6: PB BAND CHART



EXHIBIT 7: PE BAND CHART

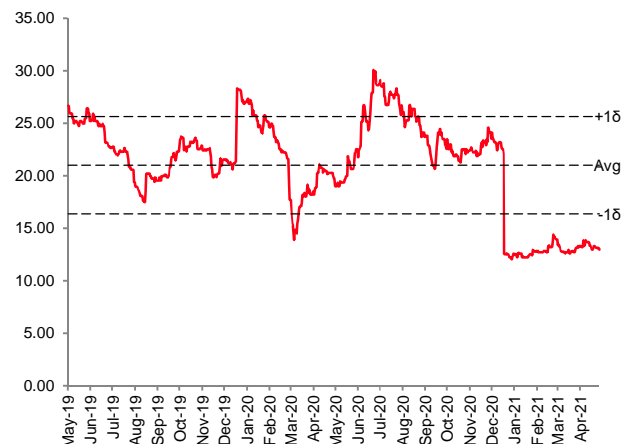


EXHIBIT 8: ESG MATRIX

Overall	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmlInvestment Bank Bhd

EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,342.4	6,644.0	6,874.9
EBITDA	637.7	525.8	665.6	709.9	743.9
Depreciation/Amortisation	(225.5)	(259.4)	(273.4)	(296.3)	(321.2)
Operating income (EBIT)	412.1	266.5	392.3	413.6	422.7
Other income & associates	0.4	0.5	0.4	0.4	0.4
Net interest	(123.8)	(109.7)	(119.7)	(117.0)	(114.1)
Exceptional items	-	3.9	-	-	-
Pretax profit	288.8	157.3	272.9	297.0	309.0
Taxation	(75.8)	(39.6)	(62.8)	(68.3)	(71.1)
Minorities/pref dividends	(62.4)	(4.4)	(10.0)	(10.0)	(10.0)
Net profit	150.6	113.3	200.2	218.7	227.9
Core net profit	150.6	109.4	200.2	218.7	227.9
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,396.5	2,656.5	2,891.5	3,166.5	3,466.5
Intangible assets	97.5	95.3	95.3	95.3	95.3
Other long-term assets	410.4	476.6	461.0	483.4	507.4
Total non-current assets	2,904.3	3,228.4	3,447.8	3,745.2	4,069.2
Cash & equivalent	764.8	757.8	1,054.8	1,234.9	1,393.6
Stock	679.6	721.9	635.5	665.7	688.8
Trade debtors	499.3	489.6	514.0	538.5	557.2
Other current assets	561.1	497.2	508.1	519.4	531.0
Total current assets	2,504.8	2,466.4	2,712.4	2,958.4	3,170.5
Trade creditors	273.1	229.4	503.6	527.5	545.8
Short-term borrowings	1,522.7	1,783.8	1,773.8	1,763.8	1,753.8
Other current liabilities	307.6	278.6	277.3	277.3	277.3
Total current liabilities	2,103.4	2,291.9	2,554.7	2,568.6	2,576.9
Long-term borrowings	977.7	1,011.6	991.7	971.7	951.7
Other long-term liabilities	147.5	142.7	217.9	589.1	957.9
Total long-term liabilities	1,125.2	1,154.4	1,209.6	1,560.7	1,909.6
Shareholders' funds	1,641.2	1,713.4	1,863.9	2,017.0	2,176.6
Minority interests	539.3	535.1	532.0	557.3	576.7
BV/share (RM)	0.45	0.47	0.51	0.55	0.60
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	288.8	157.3	272.9	297.0	309.0
Depreciation/Amortisation	225.5	259.4	273.4	296.3	321.2
Net change in working capital	52.9	(67.1)	223.2	89.9	71.8
Others	103.4	79.9	-	-	-
Cash flow from operations	670.6	429.4	769.4	683.2	702.0
Capital expenditure	(403.6)	(530.9)	(235.0)	(293.7)	(319.6)
Net investments & sale of fixed assets	3.9	6.5	14.5	(3.8)	(4.3)
Others	(4.1)	22.3	-	-	-
Cash flow from investing	(403.9)	(502.1)	(220.5)	(297.5)	(324.0)
Debt raised/(repaid)	(43.5)	221.7	(30.0)	(30.0)	(30.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(84.5)	(23.8)	(60.0)	(65.6)	(68.4)
Others	125.8	(126.3)	(100.0)	(110.0)	(121.0)
Cash flow from financing	(2.1)	71.6	(190.0)	(205.6)	(219.4)
Net cash flow	264.6	(1.1)	358.9	180.1	158.7
Net cash/(debt) b/f	390.4	654.3	645.9	1,004.8	1,184.9
Net cash/(debt) c/f	654.3	645.9	1,004.8	1,184.9	1,343.6
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	5.4	(0.2)	5.0	4.8	3.5
EBITDA growth (%)	(2.5)	(17.5)	26.6	6.6	4.8
Pretax margin (%)	4.8	2.6	4.3	4.5	4.5
Net profit margin (%)	2.5	1.9	3.2	3.3	3.3
Interest cover (x)	3.3	2.4	3.3	3.5	3.7
Effective tax rate (%)	26.2	25.2	23.0	23.0	23.0
Dividend payout (%)	38.8	17.7	30.0	30.0	30.0
Debtors turnover (days)	30	30	30	30	30
Stock turnover (days)	38	42	39	36	36
Creditors turnover (days)	16	15	21	28	28

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.