

HLIB Research

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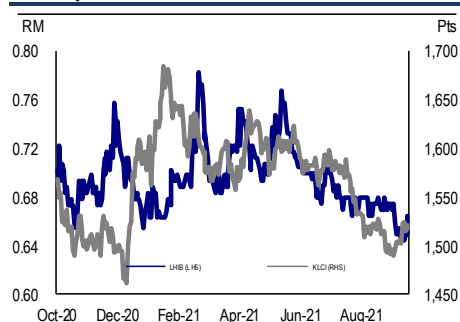
BUY (Maintain)

Target Price: RM0.78
Previously: RM0.90
Current Price: RM0.665

Capital upside	17.3%
Dividend yield	3.0%
Expected total return	20.3%

Sector coverage: Poultry

Company description: LHI offers breeding, egg production, broiler, and livestock feeding solutions, as well as manufactures chicken products in Malaysia, Singapore, Indonesia, Vietnam and Philippines.

Share price


Historical return (%)	1M	3M	12M
Absolute	-2.2	-2.9	-7.0
Relative	-4.1	-7.8	-11.4

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650.0
Market capitalisation (RM m)	2,409
3-mth average volume ('000)	783
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

Emerging Glory Sdn Bhd	52.8%
Clarinden	9.0%
Amanah Saham Nasional	5.7%

Earnings summary

FYE Dec (RMm)	FY20	FY21f	FY22f
PATMI - core	117.9	126.1	191.5
EPS - core (sen)	3.2	3.5	5.2
P/E (x)	20.6	19.3	12.7

Leong Hup International

Proxy to economic reopening

We anticipate LHI's 3Q21 earnings to come in weaker (both QoQ and YoY) due to (i) lower livestock product prices and sales volume in 3Q21, (ii) significantly higher feed prices, and (iii) margin compression at feedmill segment. However, we expect LHI's earnings to improve from 4Q21 onwards, as gradual economic reopening across operating countries augurs well for demand for livestock products. We tweak our FY21-22 core net profit forecasts lower by -21.4% and -3.7%, mainly to reflect higher feed cost assumptions. Post earnings revisions, we maintain our BUY rating on LHI with a lower TP of RM0.78 (based on 18x revised mid FY21-22 EPS of 4.4 sen).

Anticipating weak 3Q21. We anticipate LHI's 3Q21 earnings (due out by end-Nov) to come in weaker (both QoQ and YoY) due to (i) lower livestock product prices and sales volume in 3Q21 (as demand for livestock products was hampered by lockdowns in most operating countries, particularly in Jul-Aug), (ii) significantly higher feed prices (as a result of soaring corn and soybean meal prices), which LHI was unable to pass on to its customers amid weak livestock demand, and (iii) margin compression at feedmill segment (as LHI was only able to pass a fraction of the rising raw material prices to its customers amid weak livestock product demand).

Better fortunes from 4Q21 onwards We expect LHI's earnings to improve from 4Q21 onwards, as gradual economic reopening across operating countries (in particular, Malaysia and Indonesia, which collectively account for more than 50% of LHI's revenue) augurs well for demand for livestock products, hence allowing LHI to have better flexibility in passing on higher feed costs to customers (through higher livestock product prices). Besides, we believe improving demand prospects for livestock products will result in better demand and pricing power at feedmill segment, as better livestock product prices encourages supply of livestock products.

Over the longer term... We understand that LHI is on track to achieve 160 TBC outlets by end-FY21 (200-210 outlets by end-FY22, and 280 outlets by end-FY23). The ongoing expansion in LHI's business-to-consumer (B2C) channel (via the expansion of TBC outlets) will further mitigate the volatile livestock product prices (by channeling a portion of its broiler supply from conventional wholesale market into ready-to-eat poultry products, i.e. roasted chicken directly to end consumers via TBC outlets) over the longer term. Based on our estimates, TBC will consume at least 30% of LHI's broiler supply in Malaysian operations by FY24. Besides, such move will help boosting sales of its bakery products, which carry more superior margins relative to its ready-to-eat poultry products, which in turn helps stabilising earnings at Malaysian operations over the longer term.

Forecast. We tweak our FY21-22 core net profit forecasts lower by -21.4% and -3.7%, mainly to reflect higher feed cost assumptions and lower livestock product prices (for FY21).

Maintain BUY, with lower TP of RM0.78. Post earnings revisions, we maintain our BUY rating on LHI with a lower TP of RM0.78 (based on 18x revised mid FY21-22 EPS of 4.4 sen). At RM0.665, LHI is trading at FY21-22 P/E of 19.3x and 12.7x, which is undemanding in our view, as LHI is a good proxy to economic reopening in the Southeast Asia region (given its exposure in Malaysia, Indonesia, Singapore, Vietnam and Philippines). Over the longer term, we believe further re-rating is warranted, should LHI succeed in replicating its B2C channel beyond Malaysia operations.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	764.8	757.8	705.9	777.8	862.7
Receivables	670.0	601.6	702.8	737.2	774.8
Inventories	679.6	721.9	696.7	730.9	768.2
PPE	2,396.5	2,656.5	2,812.0	2,863.0	2,910.0
Others	898.2	957.1	984.6	1,004.1	1,025.3
Assets	5,409.1	5,694.8	5,902.0	6,113.0	6,341.1
Payables	560.2	489.8	583.6	612.2	643.5
Debt	2,381.8	2,639.3	2,639.3	2,639.3	2,639.3
Others	283.5	314.6	314.6	314.6	314.6
Liabilities	3,228.6	3,446.2	3,540.1	3,568.7	3,600.0
Shareholders' equity	1,641.2	1,713.4	1,784.8	1,903.3	2,032.7
Non-controlling interests	539.3	535.1	577.1	641.0	708.4
Equity	2,180.5	2,248.6	2,361.9	2,544.3	2,741.1

Income Statement

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	6,054.8	6,040.7	6,270.3	6,578.1	6,914.0
EBITDA	650.5	542.0	588.3	697.1	718.6
EBIT	425.0	282.6	343.5	447.9	465.4
Finance cost	-136.6	-125.9	-116.8	-103.2	-101.3
Associates	0.4	0.4	0.5	0.5	0.5
Profit before tax	288.8	157.1	227.2	345.1	364.6
Tax	-75.8	-39.6	-59.1	-89.7	-94.8
PAT	213.0	117.5	168.1	255.4	269.8
Non-controlling interests	-62.4	-4.4	-42.0	-63.8	-67.4
Reported PATMI	150.6	113.1	126.1	191.5	202.3
Exceptionals	6.5	4.7	0.0	0.0	0.0
Core PATMI	157.1	117.9	126.1	191.5	202.3
Consensus core PATMI			192.9	216.3	234.0
HLIB/ Consensus			65.4%	88.6%	86.5%

Cash Flow Statement

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Profit before tax	288.8	157.1	227.2	345.1	364.6
D&A	204.6	230.2	244.8	249.2	253.3
Working capital	50.4	-76.4	-9.5	-59.2	-64.6
Tax paid	-57.0	-55.3	-59.1	-89.7	-94.8
Others	126.9	111.2	116.3	102.7	100.8
CFO	-403.9	-490.5	-400.0	-300.0	-300.0
Capex	-404.7	-513.9	-400.0	-300.0	-300.0
Others	0.8	23.4	0.0	0.0	0.0
CFI	-403.9	-490.5	-400.0	-300.0	-300.0
Changes in debt	-42.9	121.4	0.0	0.0	0.0
Shares issued	269.6	0.0	0.0	0.0	0.0
Dividends	-58.4	-20.1	-54.8	-73.0	-73.0
Others	-168.0	-128.2	-116.8	-103.2	-101.3
CFF	0.3	73.1	-171.6	-176.2	-174.3
Net cash flow	264.6	-1.6	-51.8	71.9	84.9
Beginning cash	390.4	654.2	645.8	594.0	665.9
Forex	-0.8	-6.8	0.0	0.0	0.0
Ending cash	654.2	645.8	594.0	665.9	750.8

Ratios

FYE Dec	FY19A	FY20A	FY21F	FY22F	FY23F
Core EPS (sen)	4.3	3.2	3.5	5.2	5.5
P/E (x)	15.5	20.6	19.3	12.7	12.0
EV/EBITDA (x)	6.2	7.5	6.9	5.8	5.6
DPS (sen)	0.6	0.6	1.5	2.0	2.0
Dividend yield	0.8%	0.8%	2.3%	3.0%	3.0%
BVPS (RM)	0.4	0.5	0.5	0.5	0.6
P/B (x)	1.5	1.4	1.4	1.3	1.2
EBITDA margin	19.2%	16.2%	16.9%	19.4%	19.4%
EBIT margin	5.7%	3.9%	4.3%	5.4%	5.3%
PBT margin	3.9%	2.1%	2.8%	4.1%	4.2%
Net margin	2.1%	1.6%	1.6%	2.3%	2.3%
ROE	10.7%	7.0%	7.2%	10.4%	10.3%
ROA	3.1%	2.1%	2.2%	3.2%	3.2%
Net gearing	74.2%	83.7%	81.9%	73.2%	64.8%

Assumptions

FYE Dec	FY21F	FY22F	FY23F
Feedmill			
- Production volume ('000 mt)	2,588.2	2,731.2	2,883.2
- Utilisation rate	73%	77%	81%
Livestock			
- Broiler DOC supplied (m chicks)	185.0	190.5	196.3
- Broiler supplied (m birds)	122.6	125.2	127.9
- Eggs supplied (m eggs)	1,851.8	1,900.4	1,950.4

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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