

Leong Hup International Berhad

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

Maintain BUY

Poised for recovery

Revised Target Price: RM0.74

(Previously: RM0.92)


KEY INVESTMENT HIGHLIGHTS

- **9MFY21 core net income (CNI) came below our and consensus expectations**
- **3QFY21 core net income (CNI) slipped to -RM78.0m due to higher raw material costs of livestock feed production**
- **Growing revenue from livestock and poultry related products segment**
- **Maintain BUY with a revised TP of RM0.74**

9MFY21 core net income (CNI) came below expectations. Leong Hup International Berhad (LHI)'s cumulative core net income (CNI) of RM42.1m (-34.6%yoy) came below ours and consensus' estimates at 23.6% and 24.5% of full year forecasts respectively as broad-based lockdowns negatively impacted all demand channels after economic activities were significantly scaled back during the quarter.

3QFY21 core net income (CNI) slipped to -RM78.0m. Quarterly, LHI's CNI came in at -RM78.0m. This was due primarily to depressed average selling price (ASP) of broiler chickens in Vietnam, as well as margin compression stemming from the general increase in input cost of feed which could not be passed on due to weaker demand as a result of the Covid-19 pandemic.

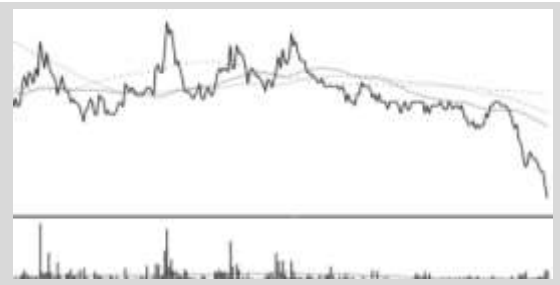
Growing revenue from livestock and poultry related products segment. The Group's revenue reported an increase in sales of livestock and poultry related products by +16.3%yoy to RM2.9b in 9MFY21. This was due to greater revenue from Indonesia, Malaysia and Philippines on the back of better ASP and higher sales volume of DOC and broiler chickens in Indonesia and Malaysia. Locally, the poultry business was also supported by its downstream business, namely *The Baker's Cottage*, which the group has been expanding aggressively since June 2020. In the Philippines, sales were higher due to higher ASP and sales volume of broiler chickens. This resulted in improved EBITDA margin alongside with the higher ASP and sales volume of DOC and broiler chickens in Indonesia, as well as higher average selling price and sales volume of broiler chickens in Philippines. On the other hand, the EBITDA of feedmill division declined -12.4%yoy despite higher sales volume mainly due to the increase in raw material costs, which rose faster than the adjustment in ASP to its customers.

Maintain BUY call with a revised TP of RM0.74. As earnings came in below our expectation, we revised down our revenue and earnings estimates for FY21/22/23F by -2.5% to -8.5% and derived a new TP of RM0.74. Our TP is based on new FY22F EPS of 4.9sen pegged to PER of 15x, which is slightly above the average 2-year multiple of 14.4x. Nonetheless, we reckon LHI is poised for recovery as the economy started to reopen. We continue to like LHI due to its: (i) economies of scale; (ii) vertical integration; and (iii) geographical diversification. 

RETURN STATISTICS

Price @ 23 rd November 2021 (RM)	0.56
Expected share price return (%)	+32.1
Expected dividend yield (%)	+2.3
Expected total return (%)	+34.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-17.8	-14.3
3 months	-14.6	-16.7
12 months	-20.1	-17.2

KEY STATISTICS

FBM KLCI	1522.88
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	14.57
Market Capitalisation (RM'm)	2,025.75
52-wk price range	RM0.55 - RM0.8
Beta vs FBM KLCI (x)	1.04
Monthly volatility (%)	7.56
3-mth average daily volume (m)	0.96
3-mth average daily value (RM'm)	0.63
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	9.01
Amanah Saham Nasional Bhd	5.73

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	6,149.8	6,414.2	6,606.6
Core EBITDA	650.5	542.0	678.4	704.0	762.5
Depreciation & amortisation	(225.5)	(259.4)	(227.6)	(238.4)	(248.4)
Core EBIT	425.0	282.6	450.9	465.6	514.2
Finance costs	(136.6)	0.4	(135.3)	(141.1)	(145.3)
Share of profits of associates	0.4	0.6	0.6	0.7	0.7
PBT	288.8	157.1	316.2	325.1	369.5
PAT	213.0	117.5	237.2	245.1	278.5
PATANCI	150.6	113.1	173.4	177.5	208.9
EPS (sen)	4.2	3.1	4.8	4.9	5.7
EPS growth (%)	(17.1)	(26.7)	53.3	2.3	17.7
Net Dividend (sen)	1.6	0.6	1.9	2.0	2.0
EBITDA margin (%)	10.7	9.0	11.0	11.0	11.5
PATANCI margin (%)	2.5	1.9	2.8	2.8	3.2
Dividend yield (%)	2.5	1.2	2.2	2.4	0.0
PER (x)	16.1	21.9	14.3	14.0	11.9

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 3QFY21 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	3QFY21	2QFY21	3QFY20	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	1,809.10	1,853.80	1,573.42	14.98	-2.4	5,339.4	4,433.0	20.45
Other income	8.65	14.83	10.68	-19.07	-41.7	40.0	40.8	-1.92
Operating expenses	-1,849.47	-1,804.34	-1,522.40	21.48	2.5	-5,216.0	-4,288.4	21.63
Profit from operations	-31.73	64.29	61.71	-151.42	-149.3	163.5	185.4	-11.81
Finance costs	-28.48	-26.52	-30.97	-8.02	7.4	-80.9	-96.7	-16.35
Share of profits of associates	0.11	-0.02	0.06	71.88	-650.0	0.2	0.1	64.71
PBT	-60.10	37.75	30.80	-295.10	-259.2	82.80	88.81	-6.76
Tax expense	-5.92	-9.80	-9.77	-39.40	-39.6	-38.9	-28.2	38.20
PAT	-66.02	27.95	21.03	-413.93	-336.2	43.89	60.65	-27.64
Non-controlling interests	-12.60	-2.55	-1.50	738.95	394.2	-3.5	-0.1	5987.93
PATANCI	-78.62	30.50	19.53	-502.60	-357.8	40.35	60.59	-33.40
One-off items	0.58	0.59	0.88	-34.05	-2.4	1.7	3.8	nm
Normalised PATANCI	-78.04	31.09	20.41	-482.44	-351.0	42.08	64.36	-34.61
				+ / (-) ppts				+ / (-) ppts
Operating margin (%)	-102.2	-97.3	-96.8	5.7	5.0	-97.7	-96.7	12.4
PBT margin (%)	-3.3	2.0	2.0	-269.7	-263.1	1.6	2.0	2.5
PAT margin (%)	-3.6	1.5	1.3	-373.0	-342.0	0.8	1.4	9.1
PATANCI margin (%)	-4.3	1.6	1.2	-450.2	-364.1	0.8	1.4	23.6
Effective Tax rate (%)	9.9	-26.0	-31.7	-131.1	-138.0	-47.0	-31.7	-5.0

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RMm)	Quarterly results					Cumulative results		
	3QFY21	2QFY21	3QFY20	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue								
Malaysia	482.4	479.4	434.5	11.0	0.6	1,405.1	1,203.5	16.7
Singapore	201.3	197.8	182.3	10.4	1.8	588.9	550.4	7.0
Vietnam	449.1	438.5	410.1	9.5	2.4	1,272.7	1,154.0	10.3
Indonesia	624.0	697.3	520.4	19.9	-10.5	1,934.9	1,452.0	33.3
Philippines	52.3	40.8	26.1	100.5	28.1	137.7	73.0	88.6
Total	1,809.1	1,853.7	1,573.4	15.0	-2.4	5,339.4	4,433.0	20.4
EBITDA								
Malaysia	32.1	27.5	45.9	-30.1	16.7	123.9	117.4	5.5
Singapore	16.4	22.0	23.9	-31.6	-25.8	64.6	74.5	-13.3
Vietnam	-10.7	31.1	39.6	-127.1	-134.5	58.4	108.8	-46.4
Indonesia	-6.6	46.6	25.1	-126.4	-114.2	100.8	80.2	25.6
Philippines	8.5	7.5	-7.3	-216.2	13.4	26.6	-7.2	-468.4
Total	39.5	134.7	127.2	-68.9	-70.7	374.2	373.7	0.1

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.
NEUTRAL	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