

HLIB Research

PP 9484/12/2012 (031413)

Chye Wen Fei

wfchye@hlib.hongleong.com.my

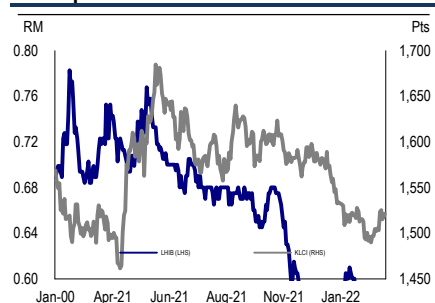
(603) 2083 1712

BUY (Maintain)**Target Price: RM0.66****Previously: RM0.67****Current Price: RM0.545**

Capital upside	21.1%
Dividend yield	3.7%
Expected total return	24.8%

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	-9.2	-9.9	-22.1
Relative	-12.6	-14.3	-22.5

Stock information

Bloomberg ticker	LHIB MK
Bursa code	6633
Issued shares (m)	3,650.0
Market capitalisation (RM m)	1,989
3-mth average volume ('000)	1,449
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★

Major shareholders

Emerging Glory	52.8%
Clarinden	8.7%
Amanah Saham Nasional	5.7%

Earnings summary

FYE Dec	FY21	FY22f	FY23f
PATMI - core (RM m)	89.5	134.7	155.4
EPS - core (sen)	2.5	3.7	4.3
P/E (x)	22.2	14.8	12.8

Leong Hup International

Improved, but still a miss

FY21 core net profit of RM89.5m (-24.1% YoY) missed expectations, accounting for only 77.7-88.0% of consensus and our estimates, due mainly to higher-than-expected feed prices at livestock and poultry segment. We trim FY22-23 core net profit forecasts by 19.0% and 15.2%, mainly to account for higher feed cost assumptions. Post downward earnings forecast revision and roll-forward of our valuation base year (from mid FY21-22 to FY22), we lower our TP on LHI by 1.5% to RM0.66, based on 18x revised FY22 core EPS of 3.7 sen. We maintain our BUY rating on LHI, as we view LHI a 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.

Missed expectations. 4Q21 core net profit of RM36.0m (vs. core net loss of -RM50.1m in 3Q21 and core net profit of RM50.8m in 4Q20) took FY21 total sum to RM89.5m (-24.1% YoY). The results missed expectations, accounting for only 77.7-88.0% of consensus and our estimates, due mainly to higher-than-expected feed prices at livestock and poultry segment.

Exceptional items (EIs) in FY21. Core net profit of RM89.5m in FY21 was arrived after adjusting for (i) RM5.2m impairment loss on PPE and receivables, (ii) RM2.7m disposal gains, and (iii) RM1.5m share option expense.

QoQ. 4Q21 performance returned to black, with a net profit of RM36.0m (from a core net loss of -RM50.1m in 3Q21), boosted by turnaround at livestock and poultry segment and improved earnings contribution from feedmill segment. EBITDA at livestock and poultry segment swung back to positive territory (RM37.3m vs. a negative EBITDA of -RM54.5m in 3Q21), due mainly to higher poultry product prices in Malaysia and higher ASP and sales volume of broiler chickens in Vietnam. EBITDA at feedmill segment, on the other hand, improved for the second consecutive quarter (by 33.9% QoQ) to RM126.2m in 4Q21, due mainly to higher ASPs, we believe.

YoY. 4Q21 core net profit declined by 29.1% to RM36.0m, as improved earnings contribution from feedmill segment was more than offset by lower earnings contribution from livestock and poultry segment. Despite higher livestock product prices and sales volumes at the livestock and poultry segment (particularly in Malaysia, Vietnam and Philippines, which have in turned resulted boosted the segment's revenue by 17.9%), EBITDA at the segment fell 56.0% to RM84.7m, as higher selling prices and volumes were more than negated by elevated livestock feed costs. EBITDA at livestock feed segment, on the other hand, increased by 29.9% to RM97.2m, primarily due to improvement in margin contribution from Vietnam.

YTD. Core net profit fell 24.1% to RM89.5m in FY21, as higher livestock product prices and sales volumes were more than offset by margin erosion at livestock feedmill segment and higher tax expense.

Forecast. We trim our FY22-23 core net profit forecasts by 19.0% and 15.2%, mainly to account for higher feed cost assumptions.

Maintain BUY with lower TP of RM0.66. Post downward earnings forecast revision and roll-forward of our valuation base year (from mid FY21-22 to FY22), we lower our TP on LHI by 1.5% to RM0.66, based on 18x revised FY22 core EPS of 3.7 sen. We maintain our BUY rating on LHI, as we view LHI a 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 its Malaysia operations.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19A	FY20A	FY21	FY22F	FY23F
Cash	764.8	757.8	764.6	669.4	691.8
Receivables	670.0	601.6	740.1	737.2	774.8
Inventories	679.6	721.9	973.5	730.9	768.2
PPE	2,396.5	2,656.5	2,773.4	2,863.0	2,910.0
Others	898.2	957.1	1,081.3	1,004.1	1,025.3
Assets	5,409.1	5,694.8	6,332.9	6,004.6	6,170.1
Payables	560.2	489.8	534.7	612.2	643.5
Debt	2,381.8	2,639.3	3,124.7	2,639.3	2,639.3
Others	283.5	314.6	321.2	314.6	314.6
Liabilities	3,228.6	3,446.2	3,980.5	3,568.7	3,600.0
Shareholders' equity	1,641.2	1,713.4	1,802.8	1,822.0	1,904.4
Non-controlling interests	539.3	535.1	549.6	613.9	665.7
Equity	2,180.5	2,248.6	2,352.3	2,435.9	2,570.1

Cash Flow Statement

FYE Dec	FY19A	FY20A	FY21	FY22F	FY23F
Profit before tax	288.8	157.1	140.3	242.6	280.0
D&A	204.6	230.2	283.7	249.2	253.3
Working capital	50.4	-76.4	-416.4	-59.2	-64.6
Tax paid	-57.0	-55.3	-75.0	-63.1	-72.8
Others	126.9	111.2	101.2	102.7	100.8
CFO	668.2	415.8	83.8	472.3	496.7
Capex	-404.7	-513.9	-332.8	-300.0	-300.0
Others	0.8	23.4	-50.6	0.0	0.0
CFI	-403.9	-490.5	-383.4	-300.0	-300.0
Changes in debt	-42.9	121.4	456.2	0.0	0.0
Shares issued	269.6	0.0	0.0	0.0	0.0
Dividends	-58.4	-20.1	-26.3	-73.0	-73.0
Others	-168.0	-128.2	-157.8	-103.2	-101.3
CFF	0.3	73.1	272.1	-176.2	-174.3
Net cash flow	264.6	-1.6	-77.4	-4.0	22.4
Beginning cash	390.4	654.2	645.8	561.4	557.5
Forex	-0.8	-6.8	13.4	0.0	0.0
Ending cash	654.2	645.8	581.8	557.5	579.8

Income Statement

FYE Dec	FY19A	FY20A	FY21	FY22F	FY23F
Revenue	6,054.8	6,040.7	7,153.5	6,578.1	6,914.0
EBITDA	650.5	542.0	536.1	594.6	634.1
EBIT	425.0	282.6	252.3	345.4	380.8
Finance cost	-136.6	-125.9	-112.4	-103.2	-101.3
Associates	0.4	0.4	0.4	0.5	0.5
Profit before tax	288.8	157.1	140.3	242.6	280.0
Tax	-75.8	-39.6	-44.4	-63.1	-72.8
PAT	213.0	117.5	95.9	179.5	207.2
Non-controlling interests	-62.4	-4.4	-10.5	-44.9	-51.8
Reported PATMI	150.6	113.1	85.4	134.7	155.4
Exceptionals	6.5	4.7	4.1	0.0	0.0
Core PATMI	157.1	117.9	89.5	134.7	155.4
Consensus core PATMI				183.2	215.7
HLIB/ Consensus				73.5%	72.1%

Ratios

FYE Dec	FY19A	FY20A	FY21	FY22F	FY23F
Core EPS (sen)	4.3	3.2	2.5	3.7	4.3
P/E (x)	12.7	16.9	22.2	14.8	12.8
EV/EBITDA (x)	5.5	6.7	6.7	6.1	5.7
DPS (sen)	0.6	0.6	1.5	2.0	2.0
Dividend yield	1.0%	1.0%	2.8%	3.7%	3.7%
BVPS (RM)	0.4	0.5	0.5	0.5	0.5
P/B (x)	1.2	1.2	1.1	1.1	1.0
EBITDA margin	19.2%	16.2%	7.5%	16.6%	17.1%
EBIT margin	5.7%	3.9%	3.5%	4.1%	4.3%
PBT margin	3.9%	2.1%	2.0%	2.9%	3.2%
Net margin	2.1%	1.6%	1.3%	1.6%	1.8%
ROE	10.7%	7.0%	5.0%	7.5%	8.3%
ROA	3.1%	2.1%	1.4%	2.3%	2.6%
Net gearing	74.2%	83.7%	100.3%	80.9%	75.8%

Assumptions

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

Figure #1 Quarterly results comparison

FYE Dec (RMm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	1,607.7	1,809.1	1,814.1	0.3	12.8	6,040.7	7,153.5	18.4
- Livestock & poultry related products	899.5	947.6	1,060.2	11.9	17.9	3,354.5	3,915.4	16.7
- Feedmill	704.9	859.0	750.8	-12.6	6.5	2,672.8	3,227.0	20.7
- Others	3.2	2.6	3.1	21.9	-3.4	13.3	11.2	-16.3
EBITDA	168.2	39.2	161.9	>100	-3.8	542.0	536.1	-1.1
- Livestock & poultry related products	88.1	-54.5	37.3	>100	-57.6	145.1	185.8	28.0
- Feedmill	93.2	94.3	126.2	33.9	35.4	429.5	420.7	-2.1
- Others	-13.0	-0.6	-1.7	NM	NM	-32.7	-70.4	NM
Profit from operations	97.3	-31.7	88.9	>100	-8.6	282.6	252.3	-10.7
- Livestock & poultry related products	34.9	-110.4	-10.0	NM	NM	-54.1	-25.9	NM
- Feedmill	77.1	79.6	103.2	29.6	33.8	371.9	353.6	-4.9
- Others	-14.7	-1.2	-4.3	NM	NM	-35.2	-75.4	NM
Finance costs	-29.2	-28.5	-31.6	10.9	8.2	-125.9	-112.4	-10.7
Associates	0.3	0.1	0.2	>100	-6.6	0.4	0.4	16.0
PBT	68.3	-60.1	57.5	>100	-15.8	157.1	140.3	-10.7
Tax expense	-11.4	-5.9	-5.5	-7.0	-51.9	-39.6	-44.4	12.2
PAT	56.9	-66.0	52.0	>100	-8.6	117.5	95.9	-18.4
Non-controlling interests	-4.3	12.6	-14.0	-	-	-4.4	-10.5	-
Reported net profit	52.6	-53.4	38.0	>100	-27.7	113.1	85.4	-24.5
Core net profit	50.8	-50.1	36.0	>100	-29.1	117.9	89.5	-24.1
Core EPS (sen)	1.4	-1.4	1.0	>100	-29.1	3.2	2.5	-24.1
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	10.5	2.2	8.9	6.8	-1.5	9.0	7.5	-1.5
Operating margin (%)	6.0	-1.8	4.9	6.7	-1.2	4.7	3.5	-1.2
PBT margin (%)	4.2	-3.3	3.2	6.5	-1.1	2.6	2.0	-0.6
Net margin (%)	3.2	-2.8	2.0	4.8	-1.2	2.0	1.3	-0.7

HLIB Research

Figure #2 Geographical breakdown on revenue and EBITDA

FYE Dec (RMm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	1,607.7	1,809.1	1,814.1	0.3	12.8	6,040.7	7,153.5	18.4
- Malaysia	413.4	482.4	542.3	12.4	31.2	1,617.0	1,947.4	20.4
- Singapore	186.0	201.3	209.6	4.1	12.7	736.4	798.5	8.4
- Vietnam	409.6	449.1	476.1	6.0	16.2	1,563.7	1,748.8	11.8
- Indonesia	567.8	624.0	523.0	-16.2	-7.9	2,019.8	2,458.0	21.7
- Philippines	30.8	52.3	63.1	20.6	104.5	103.9	200.8	93.3
EBITDA	168.2	39.5	161.9	309.5	-3.8	542.0	536.1	-1.1
- Malaysia	42.8	32.1	69.9	118.0	63.5	160.2	193.8	21.0
- Singapore	33.7	16.4	15.6	-4.3	-53.5	108.2	80.2	-25.8
- Vietnam	30.7	-10.7	19.7	-283.3	-35.9	139.5	78.0	-44.1
- Indonesia	56.1	-6.6	46.0	-793.7	-18.0	136.3	146.7	7.7
- Philippines	5.0	8.5	10.7	26.0	NM	-2.2	37.3	>100

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 23 February 2022, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 23 February 2022, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.