

23 February 2022

Agriculture | Agriculture

Leong Hup International (LHIB MK)

Buy (Maintained)

A Broader Recovery Ahead; Keep BUY

Target Price (Return): MYR0.83 (50.9%)
 Price (Market Cap): MYR0.55 (USD475m)
 ESG score: 2.80 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.76m/0.18m

- **Maintain BUY and MYR0.83 TP, 51% upside, and c.3% yield.** Leong Hup International's FY21 earnings marginally missed our forecast due to a slower-than-expected recovery in Vietnam and Indonesia. We expect a broader base earnings recovery driven by improvements in operating environment across key markets. Over the longer term, earnings sustainability will be underpinned by continuous capacity expansion and downstream ventures. LHI's established market position in ASEAN poultry markets places it in a good position to capitalise on the demand recovery.

- **LHI's FY21 results were below expectations.** Core net profit of MYR85m met 95% and 74% of our and Street's estimates. The negative deviation could be attributed to the milder-than-expected recovery in Vietnam and Indonesia markets on the back of lockdown restrictions. Post results, we make no material change to FY22F-23F earnings and roll out FY24F net profit (+14% YoY). Our DCF-derived TP is kept at MYR0.83 (inclusive of a 4% ESG discount), which implies 15x P/E FY22F – close to its 3-year mean.

- **Results review.** YoY, FY21 revenue rose 18% to MYR7.2bn with all operating markets recording encouraging growth, on the back of higher volumes and ASPs. FY21 EBITDA fell marginally by 1% to MY536m as sharp recovery in Malaysia (+21%) and strong growth in the Philippines mitigated the weakness in Vietnam (-44%) and Singapore (-26%). QoQ, 4Q21 revenue was flattish at MYR1.8bn thanks to a stronger performance in Malaysia (+12%) following the easing of lockdown restrictions, which led to higher product ASPs. 4Q21 EBITDA staged a sharp rebound QoQ with both markets in Indonesia and Vietnam returning to the black as volumes and product ASPs normalised from lows.

- **A broader recovery ahead.** We foresee the recovery momentum to sustain going forward – following the further lifting of lockdown restrictions in most of the operating countries – on the back of high vaccination rates and adapting to a pandemic environment. As a result, feedmill margins should continue to improve, in tandem with the gradual cost pass-throughs to pass on the higher commodity costs. Its poultry division should also see more stable earnings ahead as demand normalises. LHI's downstream venture via The Baker's Cottage or TBC should continue to gain traction as it plans to hit the 200-stores mark by FY22 from 184 currently. This will not only create a new earnings stream for the group but also help to mitigate the fluctuation risk of the poultry business in our view.

- **Risks to our recommendation** include unfavourable demand-supply dynamics and intense competition.

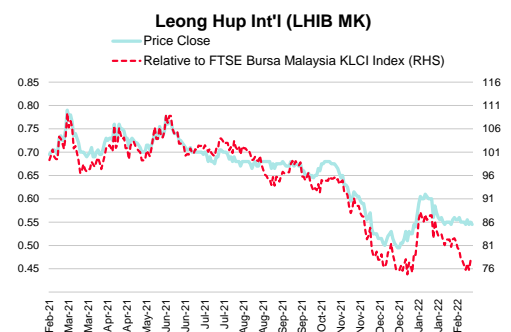
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.8	(4.4)	(4.4)	(18.7)	(21.6)
Relative	3.2	(7.7)	(7.7)	(22.6)	(22.0)
52-wk Price low/high (MYR)	0.50 – 0.79				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	6,041	7,154	7,386	7,788	8,261
Recurring net profit (MYRm)	108	85	205	220	252
Recurring net profit growth (%)	(28.4)	(20.8)	140.3	7.3	14.4
Recurring P/E (x)	18.46	23.29	9.70	9.04	7.90
P/B (x)	1.2	1.1	1.0	0.9	0.9
P/CF (x)	4.63	58.87	3.23	3.22	3.02
Dividend Yield (%)	1.0	1.2	3.1	3.3	3.8
EV/EBITDA (x)	8.09	9.10	6.41	5.92	5.53
Return on average equity (%)	6.7	4.9	10.9	10.9	11.5
Net debt to equity (%)	83.7	100.3	97.4	95.5	91.9

Source: Company data, RHB

Overall ESG Score: 2.80 (out of 4)

E: GOOD

LHI has not identified any key initiatives in delivering sustainable reductions in GHG emissions. However, the company has put in place a system to properly manage and treat water, hazardous and non-hazardous wastes from its operation in accordance with local laws and regulations.

S: GOOD

Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensure a safe and conducive working environment for its people. In addition, LHI also practices good standards in ensuring the safety and quality of food products.

G: GOOD

LHI has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance with independent directors comprising of almost 50% of the board with women making up 30% of it.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.03	0.02	0.06	0.06	0.07
Agriculture	DPS	0.01	0.01	0.02	0.02	0.02
Leong Hup International	BVPS	0.47	0.49	0.53	0.58	0.62
LHIB MK	Return on average equity (%)	6.7	4.9	10.9	10.9	11.5
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	18.46	23.29	9.70	9.04	7.90
Discounted Cash Flow	P/B (x)	1.2	1.1	1.0	0.9	0.9
	FCF Yield (%)	(5.9)	(15.6)	5.8	5.9	7.9
	Dividend Yield (%)	1.0	1.2	3.1	3.3	3.8
Key drivers	EV/EBITDA (x)	8.09	9.10	6.41	5.92	5.53
Regional expansion plan and favourable product prices.	EV/EBIT (x)	15.51	19.33	10.57	9.72	9.09
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	6,041	7,154	7,386	7,788	8,261
Unfavourable change in regulatory policy and unfavourable demand-supply dynamics.	Gross profit	879	879	1,126	1,210	1,288
	EBITDA	542	536	772	852	924
	Depreciation and amortisation	(259)	(284)	(304)	(333)	(362)
	Operating profit	283	252	468	519	563
	Net interest	(126)	(112)	(124)	(152)	(150)
	Pre-tax profit	157	140	345	368	413
	Taxation	(40)	(44)	(89)	(94)	(103)
	Reported net profit	113	85	205	220	252
	Recurring net profit	108	85	205	220	252
Company Profile	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
LHI is on one of the largest fully-integrated producers of poultry, eggs, and livestock feeds in South-East Asia.	Change in working capital	(66)	(290)	(17)	(86)	(105)
	Cash flow from operations	429	34	616	618	658
	Capex	(546)	(344)	(500)	(500)	(500)
	Cash flow from investing activities	(504)	(385)	(500)	(500)	(500)
	Dividends paid	(24)	(24)	(61)	(66)	(75)
	Cash flow from financing activities	72	272	(240)	(288)	(225)
	Cash at beginning of period	765	758	765	640	471
	Net change in cash	(3)	(79)	(124)	(170)	(67)
	Ending balance cash	761	679	640	471	403
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	758	765	640	471	403
	Tangible fixed assets	2,656	2,773	2,970	3,137	3,275
	Total investments	22	22	22	22	22
	Total assets	5,695	6,333	6,421	6,519	6,712
	Short-term debt	1,765	2,070	2,070	2,000	2,000
	Total long-term debt	874	1,055	1,000	1,000	1,000
	Total liabilities	3,446	3,981	3,925	3,869	3,887
	Total equity	2,249	2,352	2,496	2,649	2,825
	Total liabilities & equity	5,695	6,333	6,421	6,519	6,712
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(0.2)	18.4	3.3	5.4	6.1
	Recurrent EPS growth (%)	(28.4)	(20.8)	140.3	7.3	14.4
	Gross margin (%)	14.6	12.3	15.2	15.5	15.6
	Operating EBITDA margin (%)	9.0	7.5	10.5	10.9	11.2
	Net profit margin (%)	1.9	1.2	2.8	2.8	3.0
	Dividend payout ratio (%)	17.7	28.2	29.9	29.9	29.9
	Capex/sales (%)	9.0	4.8	6.8	6.4	6.1
	Interest cover (x)	2.25	2.24	3.78	3.42	3.75

Source: Company data, RHB

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Results At a Glance

Figure 1: LHI's results review

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Revenue	1,607.7	1,809.1	1,814.1	0.3	12.8	6,040.7	7,153.5	18.4	All operating markets recorded encouraging recovery.
EBITDA	168.2	39.5	161.9	309.5	(3.8)	542.0	536.1	(1.1)	
<i>EBITDA margin (%)</i>	10.5	2.2	8.9	6.7	(1.5)	9.0	7.5	(1.5)	On higher feed costs and volatile demand as a result of rolling lockdowns.
EBIT	97.3	(31.7)	88.9	nm	(8.6)	282.6	252.3	(10.7)	
<i>EBIT Margin (%)</i>	6.0	(1.8)	4.9	nm	(1.2)	4.7	3.5	(1.2)	
Finance costs	(29.2)	(28.5)	(32.6)			(125.9)	(113.4)		
EI	(5.4)	0.0	0.0			(5.4)	0.0		
Profit before tax	68.3	(60.1)	57.5	nm	(15.8)	157.1	140.3	(10.7)	
<i>PBT margin (%)</i>	4.2	(3.3)	3.2	nm	(1.1)	2.6	2.0	(0.6)	
Tax expense	(11.4)	(5.9)	(5.5)	(7.0)	(51.9)	(39.6)	(44.4)	12.2	
<i>Effective tax rate (%)</i>	(16.7)	9.9	(9.6)	nm	7.2	(25.2)	(31.7)	(6.5)	
Minority interests	(4.3)	(12.6)	(14.0)			(4.4)	(35.7)		
PATAMI	52.6	(53.4)	38.0	nm	(27.7)	113.1	85.4	(24.5)	
Core PATAMI	47.2	(53.4)	38.0	nm	(19.5)	107.8	85.4	(20.8)	At 95% and 74% of forecasts.
<i>Net margin (%)</i>	2.9	-3.0	2.1	nm	(0.8)	1.8	1.2	(0.6)	

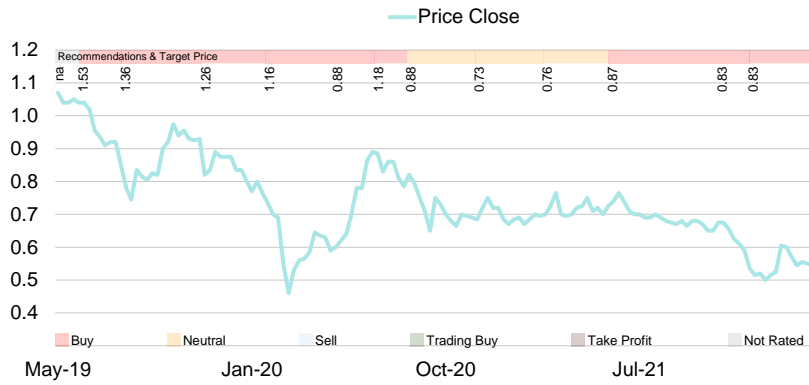
Source: Company data, RHB

Figure 2: LHI's geographical breakdown

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Malaysia	413.4	482.4	542.3	12.4	31.2	1,617.0	1,947.4	20.4	Strong recovery driven by higher product ASPs.
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	Expansion bearing fruits for the newest market in the portfolio.
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	
Group revenue	1,607.7	1,809.1	1,814.1	0.3	12.8	6,040.7	7,153.5	18.4	
Malaysia	42.8	32.1	69.9	118.0	63.5	160.2	193.8	21.0	Severely affected by the country's first-ever lockdown.
Singapore	33.7	16.4	15.6	(4.3)	(53.5)	108.2	80.2	(25.8)	
Vietnam	30.7	(10.7)	19.7	nm	(35.9)	139.5	78.0	(44.1)	
Indonesia	56.1	(6.6)	46.0	nm	(18.0)	136.3	146.7	7.7	
Philippines	5.1	8.5	10.7	26.0	109.6	(2.1)	37.3	nm	
Group EBITDA	168.3	39.5	161.9	309.5	(3.8)	542.0	536.1	(1.1)	
Malaysia	10.3	6.6	12.9	6.2	2.5	9.9	10.0	0.0	Group EBITDA margin (%)
Singapore	18.1	8.1	7.5	(0.7)	(10.6)	14.7	10.0	(4.6)	
Vietnam	7.5	-2.4	4.1	6.5	(3.4)	8.9	4.5	(4.5)	
Indonesia	9.9	-1.1	8.8	9.9	(1.1)	6.7	6.0	(0.8)	
Philippines	16.5	16.2	16.9	0.7	0.4	-2.1	18.5	20.6	
Group EBITDA margin (%)	10.5	2.2	8.9	6.7	(1.5)	9.0	7.5	(1.5)	

Source: Company data, RHB

Recommendation Chart

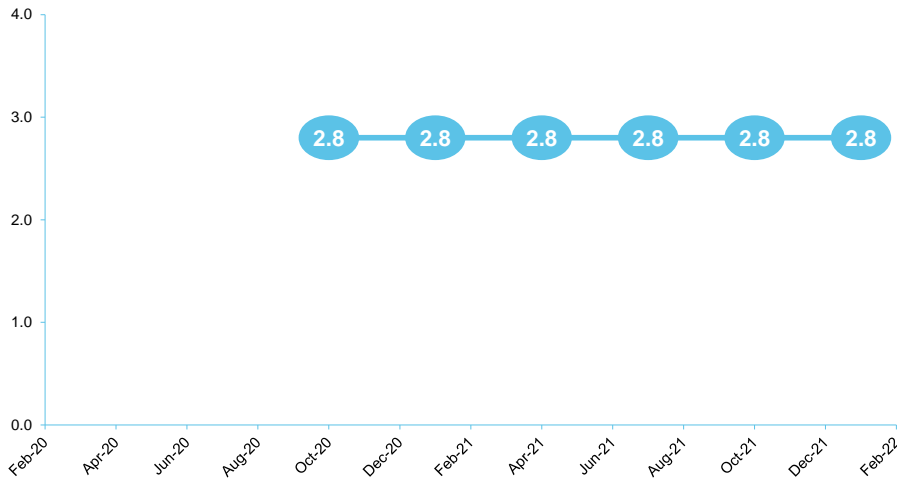


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-13	Buy	0.83	0.66
2021-05-21	Buy	0.87	0.73
2021-02-23	Neutral	0.76	0.70
2020-11-24	Neutral	0.73	0.68
2020-08-26	Neutral	0.88	0.82
2020-07-13	Buy	1.18	0.89
2020-05-20	Buy	0.88	0.59
2020-02-19	Buy	1.16	0.77
2019-11-27	Buy	1.26	0.86
2019-08-13	Buy	1.36	0.80
2019-06-18	Buy	1.53	1.07

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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