

Leong Hup International Bhd

Sighting Improvement in 4QFY21

TP: RM0.91 (+66.9%)

Last Traded: RM0.545

Buy (ESG: ★★★)

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Review

- Leong Hup International Bhd's (LHI) FY21 core earnings of RM85.4mn came in within our expectation but was below consensus' full-year forecast.
- No dividend was declared for the quarter under review. Nonetheless, FY21 cumulative dividend declared of 0.66sen/share was higher compared to 0.55sen/share declared in the corresponding period last year.
- LHI returned to the black in 4QFY21 and recorded net profit of RM38.0mn versus net loss of RM53.4mn in 3QFY21. The improvement was led by Livestock segment (significant reduction of LBIT to RM10.0mn in 4QFY21 from RM110.4mn in 3QFY21) owing to improvement in ASP of poultry products across key operating market amid resumption of dine-in services which allowed better past-through of input cost of feed. Moreover, the Feedmill segment registered 29.6% QoQ improvement in EBIT supported by margin expansion (+4.5%-pts to 13.7%) as ASP of feed was sticky after being increased.
- FY21 EBIT slipped 10.7% YoY to RM238.0mn in spite of 18.4% YoY jump in revenue. The subdued earnings performance was caused by earnings drag from Livestock segment during 3QFY21 owing to depressed ASP of poultry products in Vietnam and weak economic activities across key markets amid tight movement restriction control.
- Geographically, Malaysia and Indonesia recorded higher EBITDA in FY21 with growth of 21.1% YoY and 7.0% YoY to RM193.8mn and RM146.7mn respectively. The Philippines' EBITDA surged to RM37.3mn from LBITDA of RM2.3mn in FY20. However, EBITDA in Vietnam and Singapore fell 44.1% YoY and 25.9% YoY to RM78.0mn and RM80.2mn respectively as the supply chain of livestock was severely disrupted no thanks to implementation of lockdown.

Impact

- No change to our earnings estimates pending an analyst briefing today.

Outlook

- Malaysian government's subsidy of 60sen per kg of farm chicken and 5sen per egg throughout the implementation of Keluarga Malaysia Maximum Price Control Scheme (Feb 5 to June 4) is expected to ease LHI off the burden of high input cost of feed while also relief consumers from high food inflation. The estimated sum of subsidy to be distributed to Malaysian farmers throughout the period is c.RM500mn.
- In addition to rolling out new The Baker Cottage stores in FY22, management is focused on raising average store sales by monetizing its brand and popularity alongside introducing more offerings to satisfy customers' demands.

Share Information

Bloomberg Code	LHIB MK
Stock Code	6633
Listing	Main Market
Share Cap (mn)	3650.0
Market Cap (RMmn)	1989.3
52-wk Hi/Lo (RM)	0.80/0.495
12-mth Avg Daily Vol ('000 shrs)	1544
Estimated Free Float (%)	14.7
Beta	0.9

Major Shareholders (%)

Emerging Glory - 52.8%
Clarinden Investment - 8.7%

Forecast Revision

	FY22	FY23
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	169.6	207.8
Consensus	183.2	215.7
TA's / Consensus (%)	92.6	96.3
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY22	FY23
Net Debt / Equity (x)	0.8	0.7
ROE (%)	9.3	10.6
ROA (%)	2.8	3.3
NTA/Share (RM)	0.5	0.5
Price/NTA (x)	1.1	1.0

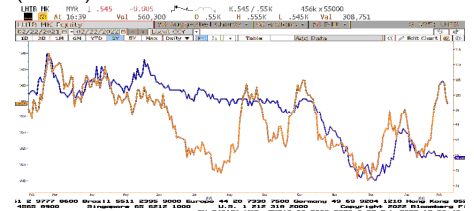
Scorecard

	% of FY
vs TA	100 Within
vs Consensus	74 Below

Share Performance (%)

Price Change	LHI	FBM KLCI
1 mth	(4.4)	3.3
3 mth	(4.4)	3.3
6 mth	(18.7)	3.9
12 mth	(21.6)	0.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- We remain positive that the group would deliver strong results as and when Covid-led movement restrictions are being lifted. This is on the back of continuous volume expansion, value chain integration and vigilant cost control.

Valuation

- Maintain Buy on unchanged TP of RM0.91/share based on unchanged 16x FY23 earnings.

Table 1: Earnings Summary (RMmn)

FYE December (RM mn)	2019	2020	2021	2022E	2023F
Revenue	6,054.8	6,040.7	7,153.5	7,163.6	7,235.3
EBITDA	637.7	525.8	521.7	719.3	798.5
Pretax Profit	288.8	157.1	140.3	301.6	369.4
Reported Net Profit	150.6	113.1	85.4	169.6	207.8
Core Net Profit	150.6	105.7	85.4	169.6	207.8
Core EPS (sen)	4.1	2.9	2.3	4.6	5.7
Core PER (x)	12.3	17.5	21.6	10.9	8.9
DPS (sen)	1.6	0.6	0.7	1.4	1.7
Dividend Yield (%)	3.2	1.2	1.4	2.8	3.4

Table 2: 4QFY21 Results Analysis (RMmn)

FYE 31 Dec	4QFY20	3QFY21	4QFY21	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
Other Income	13.5	8.6	10.0	15.9	(25.7)	43.6	50.0	14.6
Operating Expenses	(1,529.4)	(1,849.5)	(1,738.7)	(6.0)	13.7	(5,817.8)	(6,954.7)	19.5
EBIT	91.7	(35.5)	85.5	nm	(6.8)	266.5	238.0	(10.7)
Adj. EBIT	84.3	(35.5)	85.5	nm	1.4	259.0	238.0	(8.1)
Net Interest	(23.7)	(24.7)	(28.2)	14.2	19.1	(109.7)	(98.1)	(10.5)
Associate	0.3	0.1	0.2	>100	(6.6)	0.4	0.4	16.0
Profit before Tax	68.3	(60.1)	57.5	nm	(15.8)	157.1	140.3	(10.7)
Adj. PBT	60.8	(60.1)	57.5	nm	(5.5)	149.7	140.3	(6.2)
Taxation	(11.4)	(5.9)	(5.5)	(7.0)	(51.9)	(39.6)	(44.4)	12.2
Extraordinary Items	7.5	-	-	nm	(100.0)	7.5	-	(100.0)
Minority Interest	(4.3)	12.6	(14.0)	nm	>100	(4.4)	(10.5)	>100
Net Profit	52.6	(53.4)	38.0	nm	(27.7)	113.1	85.4	(24.5)
Adj. Net Profit	45.1	(53.4)	38.0	nm	(15.7)	105.7	85.4	(19.2)
Basic EPS (sen)	1.4	(1.5)	1.0	nm	(27.8)	4.2	4.2	(0.0)
DPS (sen)	-	-	-	nm	nm	0.6	0.7	20.0
				%-points	%-points			%-points
EBIT Margin (%)	5.7	(2.0)	4.7	6.7	(1.0)	4.4	3.3	(1.1)
PBT Margin (%)	4.2	(3.3)	3.2	6.5	(1.1)	2.6	2.0	(0.6)
Net Margin (%)	3.3	(3.0)	2.1	5.0	(1.2)	1.9	1.2	(0.7)
Adj. Net Margin (%)	2.8	(3.0)	2.1	5.0	(0.7)	1.7	1.2	(0.6)
Tax Rate (%)	16.7	(9.9)	9.6	19.4	(7.2)	25.2	31.7	6.5

Table 3: 4QFY21 Results Analysis (RMmn) – Segment

FYE 31 Dec	4QFY20	3QFY21	4QFY21	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 and Poultry Related	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)
Segment EBIT	97.3	(31.7)	88.9	nm	(8.6)	282.6	252.3	(10.7)
Livestock and Poultry Related	34.9	(110.4)	(10.0)	(90.9)	nm	(54.1)	(25.9)	(52.2)
Feedmill	77.1	79.6	103.2	29.6	33.8	371.9	353.6	(4.9)
Elimination	(14.7)	(0.9)	(4.3)	>100	(70.9)	(35.2)	(75.4)	>100
				%-points	%-points			%-points
Segment EBIT Margin	6.0	(1.8)	4.9	6.7	(1.2)	4.7	3.5	(1.2)
Livestock and Poultry Related	3.9	(11.6)	(0.9)	10.7	(4.8)	(1.6)	(0.7)	1.0
Feedmill	10.9	9.3	13.7	4.5	2.8	13.9	11.0	(3.0)

Table 4: 4QFY21 Results Analysis (RMmn) – Geographical Breakdown

FYE 31 Dec	4QFY20	3QFY21	4QFY21	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
Segment EBITDA	168.3	39.5	161.9	>100	(3.8)	542.0	536.1	(1.1)
Malaysia	42.6	32.1	69.9	>100	64.1	160.0	193.8	21.1
Singapore	33.8	16.4	15.6	(4.3)	(53.8)	108.3	80.2	(25.9)
Vietnam	30.8	(10.7)	19.7	nm	(36.2)	139.7	78.0	(44.1)
Indonesia	56.1	(6.6)	46.0	nm	(18.0)	136.3	146.7	7.7
Philippines	5.0	8.5	10.7	26.0	>100	(2.3)	37.3	nm
				%-points	%-points			%-points
Segment EBITDA Margin	10.5	2.2	8.9	6.7	(1.5)	9.0	7.5	(1.5)
Malaysia	10.3	6.6	12.9	6.2	2.6	9.9	10.0	0.1
Singapore	18.2	8.1	7.5	(0.7)	(10.7)	14.7	10.0	(4.7)
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	16.1	16.2	16.9	0.7	0.8	(2.2)	18.5	20.7

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Compliant towards waste management on both hazardous and non-hazardous waste. However, score is muted owing to absence of quantifiable goal for near future.	Farming and trading of poultry-related products helps to meet protein needs and encourage balance diet.	The board has decent gender diversity though is short of 1 independent director to meet the 50% majority. Leong Hup has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, February 23, 2022, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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