

## Leong Hup International Berhad

### Improving outlook

#### Summary

- Leong Hup International Bhd's (LHI) 4Q21 net profit declined 27.7% YoY to RM38.0m, bringing the FY21 net profit to RM85.4m (YoY: -24.5%). Key reason being the lower bottom line contribution from the feedmill segment as the increase in raw material costs outpaced the increase in average selling price (ASP). The results came largely in line with our expectations, amounting to 96.5% of our full year consensus of RM88.5m.
- QoQ, LHI's net profit stood at RM38.0m, vs. core net losses of RM53.4m reported in 3Q21, mainly due to the higher revenue resulted from the higher ASP of broiler chickens and day-old-chick (DOC) in Malaysia, as well as higher ASP and sales volume of broiler chickens in Vietnam.
- Cost wise, soybean prices continued to trend downwards, falling 7.8% QoQ, while the maize price increased 9.4% QoQ. LHI saw margin improvement QoQ, primarily due to the improved ASP of poultry products in the group's operating market. YoY, however, LHI saw margin compression stemming from the elevated feed cost despite the increase in ASP of poultry products.
- Moving forward, we believe the improved economic environment, driven by pent-up demand should drive consumer consumption. Despite the recent resurgence in Covid-19 infections on the back of Omicron variant, the demand for essential goods should remain robust amid the high vaccination rate above 90% among the adult populations in Malaysia. Meanwhile, the end of the pricing control scheme by the Malaysia's government bodes well for the industry players.
- For geographical segments, albeit most of the country's bottom line has been impacted by elevated feed costs, revenue rose in all countries except for Indonesia, indicating an encouraging economic outlook and demand for poultry products.
- The group remained committed to its expansion plan, as well as the continued integration of the "Farm-to-Plate" business. Ongoing projects include the installation of equipment in new layer farms to be rented in Southern Vietnam and the construction of centralized premix machineries in Dong Nai feedmill. By end of FY22, LHI is targeting 220 Bakers' Cottage outlet in Malaysia, along with increase of menu offerings.

Quarterly performance								
FYE Dec (RM m)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	12MFY20	12MFY21	YoY (%)
Revenue	1,607.7	1,809.1	1,814.1	0.3	12.8	6,040.7	7,153.5	18.4
EBITDA	162.7	35.7	158.4	343.3	(2.7)	525.8	521.6	(0.8)
PBT	68.3	(60.1)	57.5	NM	(15.8)	157.1	140.3	(10.7)
PAT	56.9	(66.0)	52.0	NM	(8.6)	117.5	95.9	(18.4)
Core PATMI	52.6	(53.4)	38.0	NM	(27.7)	113.1	85.4	(24.5)
Reported PATMI	52.6	(53.4)	38.0	NM	(27.7)	113.1	85.4	(24.5)
Core EPS (sen)	1.4	(1.5)	1.0	NM	(27.7)	3.1	2.3	(24.5)
EBITDA margin (%)	10.1	2.0	8.7			8.7	7.3	
PBT margin (%)	4.2	(3.3)	3.2			2.6	2.0	
Core PATMI margin (%)	3.3	(3.0)	2.1			1.9	1.2	

#### Results Note – 4QFY21

Ng Hui Yee  
hyng@msec.com.my  
(603) 2201 2100

#### BUY

Share price	RM0.54
Target price	RM0.62
Previous TP	RM0.67
Capital upside	14.8%
Dividend return	2.2%
Total return	17.0%

#### Company profile

Distribution of animal feed raw materials, food related products and livestock farming

#### Stock information

Bursa Code	6633
Bloomberg ticker	LHIB MK
Listing market	Main
Share issued (m)	3,650.0
Market Cap (m)	1989.3
52W High/Low	0.8/0.495
Est. Free float	14.7%
Beta (X)	0.4
3-mth avg vol ('000)	1480.9
Shariah compliant	No

#### Major shareholders

Emerging Glory SB	52.8
Clarinden Investments	8.7
Amanah Saham Nasional	5.7

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-5.3	-2.7	-22.9
Relative	-7.4	-5.2	-22.7

#### Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	85.4	140.7	170.5
EPS (sen)	2.3	3.9	4.7
P/E (x)	23.1	14.0	11.6

#### Relative performance chart



## Valuation & Recommendation

- Although the reported earnings came in line with our expectations, we trimmed our FY22f earnings forecast by 7.3% to RM140.7m, taking into account the delayed expansion projects in Malaysia and Philippines due to the Covid-19 pandemic. Meanwhile, FY23f earnings is projected at RM170.5m.
- We retained our **BUY** recommendation on LHI with a lower target price of RM0.62 (from RM0.67). Our target price is derived by ascribing a target PER of 16.0x to its FY22f EPS of 3.9 sen. We continue to like LHI for its 'Farm-to-Plate' strategy while looking forward to the expansion plan in Malaysia, Vietnam and Philippines upon normalisation of business activities.
- However, risks to our recommendation and forecast include fluctuations in raw material prices which may potentially dampen the group's margin. The recent resurgence in Covid-19 cases due to Omicron variant may post uncertainties to the economic recovery and affect the demand for poultry products.

## Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	6,054.8	6,040.7	7,153.5	7,106.1	7,213.7	Cash	764.8	757.8	764.6	811.3	795.3
EBITDA	637.7	525.8	521.6	637.2	700.2	Receivables	499.3	489.6	624.7	567.5	576.1
EBIT	412.1	266.5	237.9	338.6	386.1	Inventories	679.6	721.9	973.5	825.7	830.7
Net finance income/ (cost)	(123.8)	(109.7)	(98.0)	(118.2)	(119.0)	PPE	2,418.5	2,656.5	2,773.4	2,929.5	3,078.1
Associates & JV	0.4	0.4	0.4	0.4	0.4	Others	1,046.9	1,069.1	1,196.7	1,198.9	1,230.4
<b>Profit before tax</b>	<b>288.8</b>	<b>157.1</b>	<b>140.3</b>	<b>220.8</b>	<b>267.5</b>	<b>Assets</b>	<b>5,409.1</b>	<b>5,694.8</b>	<b>6,332.9</b>	<b>6,333.0</b>	<b>6,510.6</b>
Tax	(75.8)	(39.6)	(44.4)	(62.8)	(76.1)	Debits	2,500.3	2,795.5	3,270.9	3,156.2	3,175.4
<b>Net profit</b>	<b>213.0</b>	<b>117.5</b>	<b>95.9</b>	<b>158.0</b>	<b>191.5</b>	Payables	273.1	229.4	284.2	273.1	274.7
Minority interest	62.4	4.4	10.5	17.3	21.0	Others	455.2	421.4	425.4	415.8	416.4
<b>Core earnings</b>	<b>150.6</b>	<b>113.1</b>	<b>85.4</b>	<b>140.7</b>	<b>170.5</b>	<b>Liabilities</b>	<b>3,228.6</b>	<b>3,446.2</b>	<b>3,980.5</b>	<b>3,845.1</b>	<b>3,866.5</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	1,641.2	1,713.4	1,802.8	1,901.2	2,020.6
Reported earnings	150.6	113.1	85.4	140.7	170.5	Minority interest	539.3	535.1	549.6	586.7	623.5
						<b>Equity</b>	<b>2,180.5</b>	<b>2,248.6</b>	<b>2,352.3</b>	<b>2,487.9</b>	<b>2,644.1</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	288.8	157.1	140.3	220.8	267.5	Core EPS (sen)	4.1	3.1	2.3	3.9	4.7
Depreciation & amortisation	225.5	259.4	283.7	298.6	314.0	P/E (x)	13.1	17.4	23.1	14.0	11.6
Changes in working capital	41.3	(62.5)	(373.5)	183.8	(18.3)	DPS (sen)	1.6	0.6	0.7	1.2	1.4
Share of JV profits	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Dividend yield	3.0%	1.0%	1.3%	2.1%	2.6%
Taxation	(75.8)	(39.6)	(44.4)	(62.8)	(76.1)	BVPS (RM)	0.45	0.47	0.49	0.52	0.55
Others	188.7	101.8	28.1	34.3	6.9	P/B (x)	1.2	1.2	1.1	1.0	1.0
<b>Operating cash flow</b>	<b>668.2</b>	<b>415.8</b>	<b>33.8</b>	<b>674.3</b>	<b>493.7</b>	EBITDA margin	10.5%	8.7%	7.3%	9.0%	9.7%
Net capex	(453.4)	(595.0)	(418.5)	(470.6)	(477.8)	EBIT margin	6.8%	4.4%	3.3%	4.8%	5.4%
Others	49.5	104.5	35.2	-	-	PBT margin	4.8%	2.6%	2.0%	3.1%	3.7%
<b>Investing cash flow</b>	<b>(403.9)</b>	<b>(490.5)</b>	<b>(383.4)</b>	<b>(470.6)</b>	<b>(477.8)</b>	PAT margin	2.5%	1.9%	1.2%	2.0%	2.4%
Changes in borrowings	129.4	295.1	475.4	(114.7)	19.2	Core PAT margin	2.5%	1.9%	1.2%	2.0%	2.4%
Issuance of shares	269.6	-	-	-	-	ROE	10.2%	6.7%	4.9%	7.6%	8.7%
Dividends paid	(58.4)	(20.1)	(26.3)	(42.2)	(51.1)	ROA	2.9%	2.0%	1.4%	2.2%	2.7%
Others	(340.3)	(202.0)	(177.0)	-	-	Net gearing	152.3%	163.2%	181.4%	166.0%	157.2%
<b>Financing cash flow</b>	<b>0.3</b>	<b>73.1</b>	<b>272.1</b>	<b>(156.9)</b>	<b>(32.0)</b>						
<b>Net cash flow</b>	<b>264.6</b>	<b>(1.6)</b>	<b>(77.4)</b>	<b>46.7</b>	<b>(16.0)</b>						
Forex	(0.8)	(6.8)	13.4	-	-						
Others	110.6	1.3	70.9	-	-						
Beginning cash	390.4	764.8	757.8	764.6	811.3						
Ending cash	764.8	757.8	764.6	811.3	795.3						