

Leong Hup International (LHIB MK)

Expecting outlook improvement in FY22

Maintain BUY with unchanged TP of MYR0.76

4Q21 results met expectations. We believe both livestock and feedmill segment earnings will experience positive momentum in FY22 on the back of improved consumer consumption once movement restrictions ease. High feed raw material costs will however continue to suppress margins if price controls remain in place in Malaysia. Our earnings estimates are unchanged. Maintain BUY with a TP of MYR0.76 (based on regional peer average of 15x FY22 PER).

Within expectations

LHIB's 4Q21 core net profit of MYR38m (-12% YoY, 3Q21 core net loss: MYR53m) brought FY21 core net profit to MYR85m (-18% YoY), accounting for 104%/74% of our/consensus full-year earnings estimates. No dividend was declared in this quarter, as expected (FY21: 0.66sen/shr, DPR: 30%).

Compressed livestock segment margins

4Q21 group revenue grew 13% YoY given improved performance in both livestock (+18% YoY) and feedmill segments (+7% YoY). The livestock segment was driven by higher volume and poultry ASPs in Malaysia, Vietnam and Philippines upon gradual easing in movement restriction. Feedmill sales grew primarily due to higher feed ASPs in Vietnam. Meanwhile, 4Q21 group EBITDA fell 4% YoY due to elevated feed input costs (EBITDA margin: -5.9ppts YoY), partially buffered by better feedmill margins (+3ppts YoY) as its cost-pass through mechanism normalised.

No changes to earnings estimates

Into FY22, we expect both poultry demand and ASPs to trend upwards as its respective countries of operations gradually loosen movement restrictions and consumer consumption improves. Recent poultry supply shortages in Malaysia should also start to balance out despite the price control extension to 4 Jun, in light of government subsidies for live chickens (60sen/kg) and eggs (5sen/egg) from 5 Feb to 4 Jun 2022. We make no changes to our earnings estimates pending LHIB's results briefing today.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,041	7,154	7,536	7,748	7,966
EBITDA	542	536	728	809	855
Core net profit	104	85	185	225	241
Core EPS (sen)	2.8	2.3	5.1	6.2	6.6
Core EPS growth (%)	(31.0)	(17.7)	116.4	21.9	7.1
Net DPS (sen)	0.6	0.7	1.5	1.9	2.0
Core P/E (x)	24.1	22.4	10.8	8.8	8.2
P/BV (x)	1.5	1.1	1.0	0.9	0.9
Net dividend yield (%)	0.8	1.3	2.8	3.4	3.6
ROAE (%)	6.7	4.9	9.9	11.1	11.1
ROAA (%)	1.9	1.4	2.9	3.3	3.3
EV/EBITDA (x)	9.4	9.3	6.6	6.3	5.7
Net gearing (%) (incl perps)	90.6	107.7	87.2	88.3	70.4
Consensus net profit	-	-	178	215	na
MKE vs. Consensus (%)	-	-	4.1	4.8	na

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BUY

Share Price	MYR 0.55
12m Price Target	MYR 0.76 (+41%)
Previous Price Target	MYR 0.76

Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

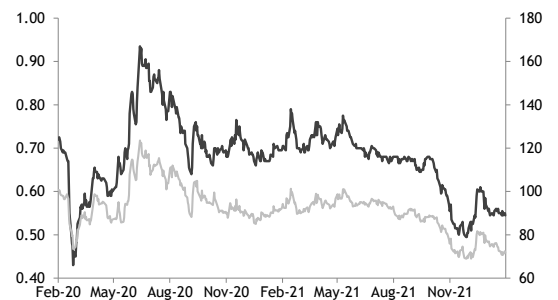
Statistics

52w high/low (MYR)	0.79/0.50
3m avg turnover (USDm)	0.2
Free float (%)	27.4
Issued shares (m)	3,650
Market capitalisation	MYR2.0B USD476M

Major shareholders:

Emerging Glory	52.8%
Clarinden Investments	9.0%

Price Performance



— Leong Hup - (LHS, MYR) — Leong Hup / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(4)	(22)
Relative to index (%)	(8)	(8)	(22)

Source: FactSet

Fig 1: Leong Hup International: Results Summary Table

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	12M21	12M20	% YoY
Revenue	1,814.1	1,607.7	12.8	1,809.1	0.3	7,153.5	6,040.7	18.4
EBITDA	161.9	168.2	(3.8)	39.5	>100.0	536.1	542.0	(1.1)
Depreciation	(73.0)	(71.0)	2.9	(71.3)	2.5	(283.7)	(259.4)	9.4
EBIT	88.9	97.3	(8.6)	(31.7)	n.m.	252.3	282.6	(10.7)
Interest expense	(31.6)	(29.2)	8.2	(28.5)	10.9	(112.4)	(125.9)	(10.7)
Associates	0.2	0.3	(6.6)	0.1	>100.0	0.4	0.4	16.0
Pretax profit	57.5	68.3	(15.8)	(60.1)	n.m.	140.3	157.1	(10.7)
Tax	(5.5)	(11.4)	(51.9)	(5.9)	(7.0)	(44.4)	(39.6)	12.2
Minority interest	(14.0)	(4.3)	224.5	12.6	n.m.	(10.5)	(4.4)	>100.0
Net profit	38.0	52.6	(27.7)	(53.4)	n.m.	85.4	113.1	(24.5)
Core net profit*	38.0	43.2	(12.1)	(53.4)	n.m.	85.4	103.8	(17.7)
			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
EBITDA margin (%)	8.9	10.5	(1.5)	2.2	6.7	7.5	9.0	(1.5)
EBIT margin (%)	4.9	6.0	(1.2)	(1.8)	6.7	3.5	4.7	(1.2)
Tax rate (%)	(9.6)	(16.7)	7.2	9.9	(19.4)	(31.7)	(25.2)	(6.5)
Revenue:			% YoY		% QoQ			% YoY
Livestock	1,060.2	899.5	17.9	947.6	11.9	3,915.4	3,354.5	16.7
Feedmill	750.8	704.9	6.5	859.0	(12.6)	3,227.0	2,672.8	20.7
Others	3.1	3.239	(3.4)	2.6	21.9	11.2	13.3	(16.3)
Total	1,814.1	1,607.7	12.8	1,809.1	0.3	7,153.5	6,040.7	18.4
EBITDA:			% YoY		% QoQ			% YoY
Livestock	37.3	84.7	(56.0)	(54.5)	n.m.	185.8	141.8	31.0
Feedmill	126.2	97.2	29.9	94.3	33.9	420.7	433.4	(2.9)
Others	(1.7)	(13.6)	(87.7)	(0.3)	>100.0	(70.4)	(33.3)	>100.0
Total	161.9	168.2	(3.8)	39.5	309.5	536.1	542.0	(1.1)
EBITDA margin (%):			+/- p.ptsYoY		+/- p.ptsQoQ			+/- p.ptsYoY
Livestock	3.5	9.4	(5.9)	(5.8)	9.3	4.7	4.2	0.5
Feedmill	16.8	13.8	3.0	11.0	5.8	13.0	16.2	(3.2)
Others	(53.6)	(421.0)	367.4	(10.2)	(43.4)	(630.2)	(249.2)	(381.0)
Total	8.9	10.5	(1.5)	2.2	6.7	7.5	9.0	(1.5)

*4Q20 & 12M20: Write back of the Competition and Consumer Commission of Singapore's proposed infringement appeal of MYR7.5m, Reversal of benefits accrued of MYR2.3m

Source: Company

Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	23.2	28.7	10.8	8.8	8.2
Core P/E (x)	24.1	22.4	10.8	8.8	8.2
P/BV (x)	1.5	1.1	1.0	0.9	0.9
P/NTA (x)	1.5	1.1	1.1	1.0	0.9
Net dividend yield (%)	0.8	1.3	2.8	3.4	3.6
FCF yield (%)	nm	nm	17.3	nm	21.4
EV/EBITDA (x)	9.4	9.3	6.6	6.3	5.7
EV/EBIT (x)	18.0	19.8	10.4	9.7	8.6
INCOME STATEMENT (MYR m)					
Revenue	6,040.7	7,153.5	7,535.9	7,747.7	7,965.5
EBITDA	542.0	536.1	728.4	809.2	854.9
Depreciation	(230.2)	(245.7)	(258.7)	(272.0)	(284.1)
Amortisation	(29.1)	(38.0)	(7.2)	(7.2)	(7.2)
EBIT	282.6	252.3	462.5	530.0	563.6
Net interest income / (exp)	(125.9)	(112.4)	(136.9)	(149.5)	(162.1)
Associates & JV	0.4	0.4	0.4	0.4	0.4
Pretax profit	157.1	140.3	326.0	380.9	401.9
Income tax	(39.6)	(44.4)	(78.2)	(91.4)	(96.5)
Minorities	(4.4)	(10.5)	(63.0)	(64.3)	(64.2)
Reported net profit	113.1	85.4	184.8	225.2	241.3
Core net profit	103.8	85.4	184.8	225.2	241.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	757.8	764.6	1,130.0	1,190.9	1,806.4
Accounts receivable	489.6	624.7	549.1	657.7	583.1
Inventory	721.9	973.5	768.5	1,009.9	808.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,656.5	2,773.4	2,890.7	3,019.0	3,135.2
Intangible assets	95.3	96.1	95.8	95.5	95.2
Investment in Associates & JVs	1.6	1.7	1.7	1.7	1.7
Other assets	972.2	1,098.9	1,137.4	1,165.7	1,194.4
Total assets	5,694.8	6,332.9	6,573.3	7,140.4	7,624.7
ST interest bearing debt	1,783.8	2,096.4	1,906.5	2,074.1	2,241.7
Accounts payable	229.4	284.2	243.5	295.3	255.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,011.6	1,200.8	1,451.6	1,566.8	1,682.0
Other liabilities	421.0	399.0	418.0	429.0	437.0
Total Liabilities	3,446.2	3,980.5	4,019.5	4,364.7	4,615.9
Shareholders Equity	1,713.4	1,802.8	1,941.2	2,098.9	2,267.8
Minority Interest	535.1	549.6	612.5	676.8	741.0
Total shareholder equity	2,248.6	2,352.3	2,553.8	2,775.7	3,008.8
Total liabilities and equity	5,694.8	6,332.9	6,573.3	7,140.4	7,624.7
CASH FLOW (MYR m)					
Pretax profit	157.1	140.3	326.0	380.9	401.9
Depreciation & amortisation	259.4	283.7	265.9	279.2	291.3
Cash taxes paid	(39.6)	(44.4)	(78.2)	(91.4)	(96.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	282.3	(15.9)	744.2	265.3	824.8
Capex	(477.3)	(326.3)	(400.0)	(400.0)	(400.0)
Free cash flow	(195.1)	(342.3)	344.2	(134.7)	424.8
Dividends paid	(23.8)	(26.3)	(55.4)	(67.6)	(72.4)
Equity raised / (purchased)	0.0	0.0	5.4	0.0	0.0
Change in Debt	95.4	298.4	60.9	282.8	282.8
Other invest/financing cash flow	(24.8)	(57.0)	(15.7)	(19.4)	(19.4)
Net cash flow	(148.2)	(127.2)	339.3	61.2	615.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(0.2)	18.4	5.3	2.8	2.8
EBITDA growth	(16.7)	(1.1)	35.9	11.1	5.6
EBIT growth	(33.5)	(10.7)	83.3	14.6	6.3
Pretax growth	(45.6)	(10.7)	132.3	16.8	5.5
Reported net profit growth	(24.9)	(24.5)	116.4	21.9	7.1
Core net profit growth	(31.0)	(17.7)	116.4	21.9	7.1
Profitability ratios (%)					
EBITDA margin	9.0	7.5	9.7	10.4	10.7
EBIT margin	4.7	3.5	6.1	6.8	7.1
Pretax profit margin	2.6	2.0	4.3	4.9	5.0
Payout ratio	17.7	28.2	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	1.9	1.2	2.5	2.9	3.0
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.0
Assets/Equity (x)	3.3	3.5	3.4	3.4	3.4
ROAE (%)	6.7	4.9	9.9	11.1	11.1
ROAA (%)	1.9	1.4	2.9	3.3	3.3
Liquidity & Efficiency					
Cash conversion cycle	59.2	62.1	62.1	62.1	62.1
Days receivable outstanding	29.5	28.0	28.0	28.0	28.0
Days inventory outstanding	46.3	48.9	48.9	48.9	48.9
Days payables outstanding	16.6	14.8	14.8	14.8	14.8
Dividend cover (x)	5.6	3.5	3.3	3.3	3.3
Current ratio (x)	1.1	1.1	1.2	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.6	1.6	1.7
Net gearing (%) (incl perps)	90.6	107.7	87.2	88.3	70.4
Net gearing (%) (excl. perps)	90.6	107.7	87.2	88.3	70.4
Net interest cover (x)	2.2	2.2	3.4	3.5	3.5
Debt/EBITDA (x)	5.2	6.2	4.6	4.5	4.6
Capex/revenue (%)	7.9	4.6	5.3	5.2	5.0
Net debt/ (net cash)	2,037.7	2,532.6	2,228.1	2,450.0	2,117.3

Source: Company; Maybank

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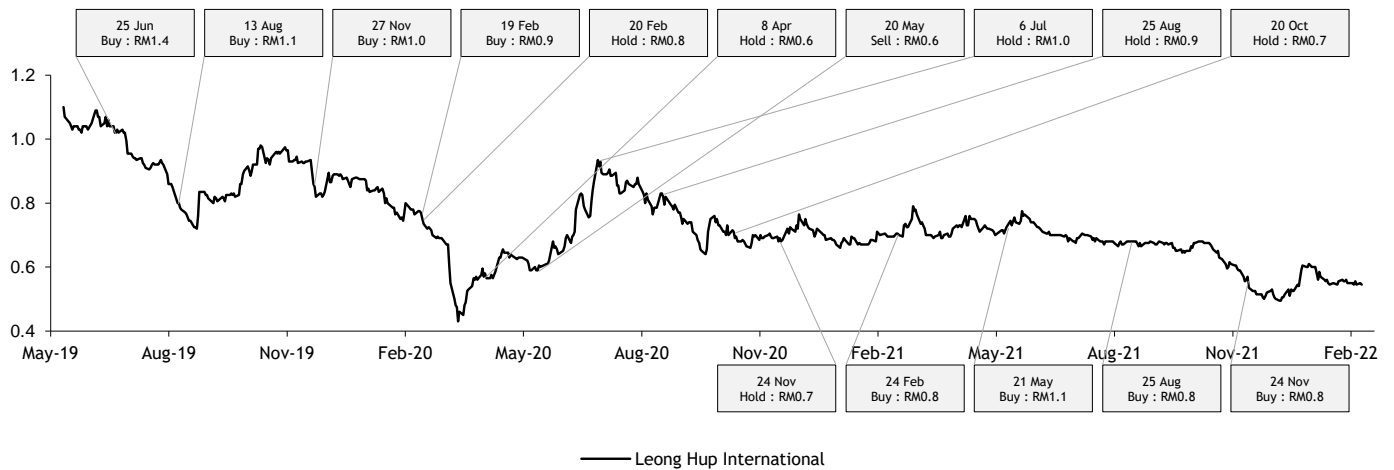
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