

# Leong Hup International Berhad

(6633 | LHIB MK) | Consumer Products & Services | Agricultural Products

**Maintain NEUTRAL**

## Two capex projects to be completed in 3Q22

**Unchanged Target Price: RM0.47**

### KEY INVESTMENT HIGHLIGHTS

- **Healthy cash conversion cycle**
- **Impact of the chicken's export ban**
- **Multiple ongoing capital expansion (CAPEX) plans at a combined cost of RM225.5m**
- **Maintain NEUTRAL with an unchanged TP of RM0.47**

We joined yesterday's analyst briefing for the 1HFY22 and remain wary of its near-term prospects. The salient highlight is as follows:

**Healthy cash conversion cycle.** Leong Hup reported a strong cash conversion cycle of 81.4 days for 2QFY22 (vs. 84.9-days in 2QFY21). This demonstrates that the company has a good ability to generate cash and more liquidity backed by careful cash flow management.

**Impact of the chicken's export ban.** Following a shortage of chickens in the nation, government implemented an export ban on chickens on 1<sup>st</sup> June 2022 to stabilise output and prices domestically. We believe that this affected sales of Leong Hup as the group exports broiler chickens to Singapore. Subsequently, the Government approved the export of black and kampung chicken on 8<sup>th</sup> June 2022, easing the group's burden to ship the specialised chickens to Singapore. Meanwhile, the recent announcement to lift the ban on chicken exports in October for the selected farmer shows a positive sign of full lift of the export ban on chicken. We opine that Leong Hup will be benefitted from the lifting of export ban as this would increase sales volume and boost top line.

**Multiple ongoing capital expansion (CAPEX) plans at a combined cost of RM225.5m.** Currently, the group is working on 8 CAPEX projects in Malaysia, Indonesia, and the Philippines. Two of the eight projects are anticipated to be finished in 3Q22. Both projects are within the Livestock category and are situated in Indonesia. The first project is an upgraded poultry processing facility in West Java and increases the monthly production of chicken and duck on two different lines to 600k birds and 300k birds, respectively. In addition to that, acquisition of hatchery farm was acquired in 2Q22 for future expansion and to increase production to meet demand. The new facilities are at an investment cost of RM11.5m and are intended to process 47 million eggs a year.

### RETURN STATISTICS

Price @ 1 <sup>st</sup> Sept 2022 (RM)	0.49
Expected share price return (%)	-2.3
Expected dividend yield (%)	+1.9
<b>Expected total return (%)</b>	<b>-0.40</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-5.8	-6.9
3 months	-5.8	-1.9
12 months	-27.9	-23.6

### KEY STATISTICS

FBM KLCI	1491.95
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	16.70
Market Capitalisation (RM'm)	1,770.25
52-wk price range	RM0.47 - RM0.69
Beta vs FBM KLCI (x)	0.60
Monthly volatility (%)	17.36
3-mth average daily volume (m)	1.26
3-mth average daily value (RM'm)	0.66
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07

**Maintain NEUTRAL with an unchanged TP of RM0.47.** Following the analyst briefing, we maintained our profits estimate. Our **TP** is unchanged at **RM0.47**, based on a PER of 16.8x pegged to FY23F EPS of 2.8sen. We are positive about the group's long-term prospects underpinned by its: (i) vertical integration of poultry, eggs, and livestock feed; and (ii) geographic diversification across Malaysia, Singapore, Indonesia, Vietnam, and the Philippines. Nevertheless, we are aware that the margin compression will persist in the near term on the back of the still high raw material cost for livestock & poultry along with the ongoing price controls for chicken and egg in Malaysia. Hence, we are maintaining our **NEUTRAL** call on LHI.

Downside risks are: (i) a substantial increase in the cost of raw materials; (ii) adverse regulatory change; and (iii) fierce competition. Leong Hup is currently trading at an unjustifiable FY22F PE of 15.1x, below the sector average of 39.5x and offers a dividend yield of 1.9%. 

## INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
<b>Revenue</b>	<b>6,040.7</b>	<b>7,153.5</b>	<b>8,224.9</b>	<b>8,478.0</b>	<b>8,727.6</b>
Other income	59.8	53.5	61.6	63.7	65.6
Purchases of inventories and livestock	(4,270.2)	(5,514.4)	(6,353.3)	(6,542.2)	(6,734.9)
Change in fair value of biological assets	(11.9)	42.8	49.2	50.4	50.9
Changes in closing inventories	53.9	228.6	260.2	265.6	267.9
Employee benefit costs	(602.1)	(645.8)	(742.5)	(780.3)	(819.4)
Depreciation	(259.4)	(283.2)	(319.1)	(325.6)	(331.9)
Utilities costs	(171.8)	(185.6)	(217.7)	(224.4)	(228.7)
Repair and maintenane	(80.6)	(80.0)	(90.1)	(92.4)	(98.5)
Transportation expenses	(131.5)	(149.9)	(172.7)	(186.9)	(190.5)
Other expenses	(344.2)	(366.7)	(413.1)	(425.4)	(451.1)
<b>Operational Profit</b>	<b>282.6</b>	<b>252.9</b>	<b>287.4</b>	<b>280.4</b>	<b>257.2</b>
Finance costs	(125.9)	(112.4)	(136.9)	(148.8)	(155.4)
Share of profit of associates	0.4	0.4	0.5	0.5	0.5
<b>PBT</b>	<b>157.1</b>	<b>140.8</b>	<b>151.0</b>	<b>132.1</b>	<b>102.3</b>
Income tax	(39.6)	(44.4)	(33.4)	(29.2)	(22.6)
<b>Net Profit</b>	<b>117.5</b>	<b>96.4</b>	<b>117.6</b>	<b>102.9</b>	<b>79.7</b>
Minority interest	4.4	10.5	0.0	0.0	0.0
<b>PATANCI</b>	<b>113.1</b>	<b>85.9</b>	<b>117.6</b>	<b>102.9</b>	<b>79.7</b>
EI	(2.4)	1.7	0.0	0.0	0.0
<b>Core PATANCI</b>	<b>115.5</b>	<b>84.2</b>	<b>117.6</b>	<b>102.9</b>	<b>79.7</b>
Basic EPS (sen)	3.2	2.3	3.2	2.8	2.2
DPS (sen)	0.6	0.7	0.9	0.8	0.6
<b>Growth &amp; Margin (%)</b>					
Revenue Growth	(0.2)	18.4	15.0	3.1	2.9
Core PATANCI Growth	(22.3)	(27.1)	39.7	(12.5)	(22.6)
Operating Profit Margin	4.7	3.5	3.5	3.3	2.9
PBT Margin	2.6	2.0	1.8	1.6	1.2
Core PATANCI Margin	1.9	1.2	1.4	1.2	0.9
Effective tax rate	25.2	31.5	22.1	22.1	22.1
<b>Ratios &amp; Valuation</b>					
PER (x)	15.3	21.0	15.1	17.2	22.2
Net debt/Total Equity (%)	83.7	100.0	115.9	114.2	116.9
Dividend yield	1.1	1.4	1.9	1.7	1.3

Source: Company, MIDFR

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology