

Leong Hup International Berhad

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

Maintain NEUTRAL

Dampened by demand in Indonesia

Revised Target Price: RM0.80
(Previously RM0.60)

KEY INVESTMENT HIGHLIGHTS

- **1HFY20 normalised earnings missed expectation**
- **2QFY20 net profit improved 0.9%yoy to RM16.2m**
- **Earnings are likely to pick up in the coming quarters although recovery may be uneven across different markets**
- **FY20E earnings cut by 25.5% but FY21F earnings are unchanged**
- **Maintain NEUTRAL with a revised TP of RM0.80 (previously RM0.60)**

1HFY20 normalised earnings missed expectation. Leong Hup International Berhad (LHI)'s core net income of RM38.0m made up only 27.7% of our full year estimates and 26.5% of consensus'. An interim dividend of 0.55 sen was announced, which is also below our full year forecast of 1.5 sen. The lower than expected results can be attributed to lower than expected operating margin.

2QFY20 net profit improved 0.9%yoy to RM16.2m even though revenue dipped by 3.5%yoy. This was mainly due to higher other income, lower finance costs as well as lower tax expenses. During the quarter, sales from Indonesia declined by 20.6%yoy to RM447.5m due to lower ASP and sales volume of day-old-chicks (DOC). Revenue from Singapore fell 3.7%yoy to RM182.7m. The decrease in sales from these two markets are offset by the higher revenue from Malaysia (+4.8%yoy to RM385.5m), Vietnam (+15.6%yoy to RM387.5m) and the Philippines (+33.4%yoy to RM22.3m). However, the unfavourable ASP and sales volume of DOC in Indonesia negatively affected its operating margin. On the other hand, the aquatic feedmill in Vietnam the group bought in March this year has contributed to higher sales in the country.

Sequentially, earnings fell 25.5%qoq due to sales that dipped by 0.6% compared to 1QFY20. This is primarily due to lower sales volume of livestock feed and broiler chickens in Indonesia. Subsequently, the lower contribution from Indonesia resulted in lower earnings.

Earnings are likely to pick up in the coming quarters although recovery may be uneven across different markets. We believe that ASPs should be stabilise for Malaysia and Vietnam in the coming quarters as number of new active Covid-19 cases are considerably low. On the flipside, we think that the recovery in Indonesia may be uncertain as the number of active cases in the Republic is still elevated. We note that ASPs for broilers are holding up well in Malaysia but the same cannot be said for Indonesia. As such we think that near-term blended ASP may be affected by the weaker performance in Indonesia.

Impact to earnings. We are revising our FY20E earnings estimates downward by -25.5% as we lower our assumptions on the blended ASP due to the varying degree of Covid-19 impact across the markets LHI are in. That said, we believe that a recovery in FY21F is very likely as due the quest to find cure for Covid-19 is sped up.

RETURN STATISTICS

| | |
|---|-------------|
| Price @ 25 th August 2020 (RM) | 0.83 |
| Expected share price return (%) | -3.6 |
| Expected dividend yield (%) | +2.4 |
| Expected total return (%) | -1.2 |

SHARE PRICE CHART




| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 0.0 | 2.2 |
| 3 months | 9.2 | 27.8 |
| 12 months | 11.4 | 15.3 |

KEY STATISTICS

| | |
|----------------------------------|-----------------|
| FBM KLCI | 1,554.96 |
| Syariah compliant | No |
| Issue shares (m) | 3650.00 |
| Estimated free float (%) | 21.24 |
| Market Capitalisation (RM'm) | 3,029.50 |
| 52-wk price range | RM0.43 - RM0.99 |
| Beta vs FBM KLCI (x) | NA |
| Monthly velocity (%) | 11.02 |
| Monthly volatility (%) | 0.00 |
| 3-mth average daily volume (m) | 5.31 |
| 3-mth average daily value (RM'm) | 4.33 |
| Top Shareholders (%) | |
| Clarinden Inv Pte | 9.01 |
| Lau Joo Han | 2.11 |
| Lau Eng Guang | 1.63 |

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Target price. We are revising our target price to **RM0.80** (previously RM0.60) per share as we roll over our base year to FY21F. Our new TP is now based on an unchanged PER of 15.8x, which is based on the FY20 market cap weighted average PER of LHI's regional peers, pegged to FY21F EPS of 5.1 sen.

Maintain NEUTRAL. The livestock business is a high-volume, low-margin business as the products can be regarded as a commodity and hence, subjected to demand and supply dynamic. Due to the pandemic, the shift in demand and supply trends are increasingly volatile and harder to predict, which then result in ASPs swings. Due to the varying level of new active Covid-19 cases in the countries that LHI operates in, sales volume and ASPs may also be affected accordingly. That said, poultry products is still one of the cheaper sources of protein so demand should recover quickly when the infection rate is under control. All in all, we opine that LHI's earnings will be supported by: (i) economies of scale; (ii) vertical integration and; (iii) geographical diversification. As such, we maintain our **NEUTRAL** call on the stock. 

INVESTMENT STATISTICS

| Financial year ending 31st Dec (in RM'm, unless otherwise stated) | FY2018 | FY2019 | FY2020E | FY2021F | FY2022F |
|--|---------|---------|---------|---------|---------|
| Revenue | 5,746.6 | 6,054.8 | 5,856.9 | 5,974.0 | 6,260.7 |
| Core EBITDA | 654.6 | 650.5 | 559.2 | 682.2 | 713.7 |
| Depreciation & amortisation | (197.1) | (225.5) | (216.7) | (221.1) | (231.6) |
| Core EBIT | 457.5 | 425.0 | 342.5 | 461.2 | 482.1 |
| Finance costs | (109.5) | (136.6) | (128.9) | (131.4) | (137.7) |
| Share of profits of associates | 0.6 | 0.4 | 0.6 | 0.6 | 0.6 |
| PBT | 348.6 | 288.8 | 214.2 | 330.3 | 345.0 |
| PAT | 246.8 | 213.0 | 160.6 | 247.8 | 260.1 |
| PATANCI | 186.2 | 150.6 | 102.4 | 185.9 | 194.1 |
| EPS (sen) | 5.2 | 4.6 | 2.8 | 5.1 | 5.3 |
| EPS growth (%) | (2.3) | (11.2) | (40.1) | 81.6 | 4.4 |
| Net Dividend (sen) | - | 1.6 | 1.1 | 2.0 | 2.0 |
| EBITDA margin (%) | 11.4 | 10.7 | 9.5 | 11.4 | 11.4 |
| Dividend yield (%) | - | 2.2 | 1.3 | 2.4 | 2.4 |
| PER (x) | 15.1 | 17.0 | 29.6 | 16.3 | 15.6 |

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 2QFY20 RESULTS SUMMARY

| FYE Dec (RMm) | Quarterly results | | | | | Cumulative results | | |
|--------------------------------|-------------------|-----------|-----------|--------------|---------|--------------------|-----------|--------------|
| | 2QFY20 | 1QFY20 | 2QFY19 | YoY (%) | QoQ (%) | 6MFY20 | 6MFY19 | YoY (%) |
| Revenue | 1,425.4 | 1,434.1 | 1,477.2 | (3.5) | (0.6) | 2,859.6 | 2,983.6 | (4.2) |
| Other income | 11.0 | 19.1 | 10.3 | 7.3 | (42.2) | 30.1 | 16.4 | 83.1 |
| Operating expenses | (1,380.5) | (1,385.5) | (1,412.8) | (2.3) | (0.4) | (2,766.0) | (2,777.6) | (0.4) |
| Profit from operations | 56.0 | 67.7 | 74.7 | (25.1) | (17.3) | 123.6 | 222.4 | (44.4) |
| Finance costs | (33.1) | (32.6) | (35.0) | (5.4) | 1.5 | (65.7) | (67.8) | (3.1) |
| Share of profits of associates | 0.0 | 0.0 | 0.1 | (78.4) | 11.1 | 0.1 | 0.2 | (69.0) |
| PBT | 22.9 | 35.1 | 39.9 | (42.6) | (34.8) | 58.0 | 154.8 | (62.5) |
| Tax expense | (8.6) | (9.8) | (13.3) | (35.2) | (11.8) | (18.4) | (37.9) | (51.5) |
| PAT | 14.3 | 25.3 | 26.6 | (46.3) | (43.6) | 39.6 | 116.9 | (66.1) |
| Non-controlling interests | (2.0) | 3.5 | 10.5 | (118.8) | (155.8) | 1.6 | 40.2 | (96.1) |
| PATANCI | 16.2 | 21.8 | 16.1 | 0.9 | (25.5) | 38.0 | 76.7 | (50.4) |
| One-off items | 0.0 | 0.0 | 0.0 | nm | nm | 0.0 | 0.0 | nm |
| Normalised PATANCI | 16.2 | 21.8 | 16.1 | 0.9 | (25.5) | 38.0 | 76.7 | (50.4) |
| | | | | | | | | |
| | | | | + / (-) ppts | | | | + / (-) ppts |
| Operating margin (%) | 3.9 | 4.7 | 5.1 | (1.1) | (0.8) | 3.9 | 5.1 | (1.1) |
| PBT margin (%) | 1.6 | 2.4 | 2.7 | (1.1) | (0.8) | 1.6 | 2.7 | (1.1) |
| PAT margin (%) | 1.0 | 1.8 | 1.8 | (0.8) | (0.8) | 1.0 | 1.8 | (0.8) |
| PATANCI margin (%) | 1.1 | 1.5 | 1.1 | 0.0 | (0.4) | 1.1 | 1.1 | 0.0 |
| Effective Tax rate (%) | 37.7 | 27.8 | 33.4 | 4.3 | 9.8 | 37.7 | 33.4 | 4.3 |

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

| FYE Dec (RMm) | Quarterly results | | | | | Cumulative results | | |
|---------------|-------------------|---------|---------|---------|---------|--------------------|---------|---------|
| | 2QFY20 | 1QFY20 | 2QFY19 | YoY (%) | QoQ (%) | 6MFY20 | 6MFY19 | YoY (%) |
| Malaysia | 385.5 | 383.5 | 368.0 | 4.8 | 0.5 | 769.0 | 810.2 | (5.1) |
| Singapore | 182.7 | 185.4 | 189.6 | (3.7) | (1.5) | 368.1 | 383.0 | (3.9) |
| Vietnam | 387.5 | 356.5 | 335.2 | 15.6 | 8.7 | 744.0 | 628.4 | 18.4 |
| Indonesia | 447.5 | 484.1 | 563.4 | (20.6) | (7.6) | 931.6 | 1,126.8 | (17.3) |
| Philippines | 22.3 | 24.7 | 16.7 | 33.4 | (9.8) | 46.9 | 30.8 | 52.3 |
| Total | 1,425.4 | 1,434.1 | 1,472.9 | (3.2) | (0.6) | 2,859.6 | 2,979.2 | (4.0) |
| EBITDA | | | | | | | | |
| Malaysia | 38.4 | 33.1 | 24.0 | 60.1 | 15.8 | 71.5 | 102.9 | (30.5) |
| Singapore | 29.6 | 21.0 | 29.3 | 1.0 | 40.4 | 50.6 | 57.1 | (11.3) |
| Vietnam | 34.2 | 35.1 | 29.1 | 17.8 | (2.4) | 69.3 | 58.2 | 19.1 |
| Indonesia | 18.9 | 36.3 | 45.8 | (58.8) | (48.0) | 55.1 | 108.9 | (49.4) |
| Philippines | (1.6) | 1.7 | 1.7 | (194.8) | (197.0) | 0.1 | 3.5 | 0.0 |
| Total | 119.4 | 127.2 | 129.8 | (8.0) | (6.1) | 246.6 | 330.4 | (25.4) |

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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. |