



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

21 May 2020

Improved ASP in May expected to be short term

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.59
Fair Value	RM0.72
52-week High/Low	RM1.10/RM0.43

Key Changes

Fair value	↕
EPS	↕

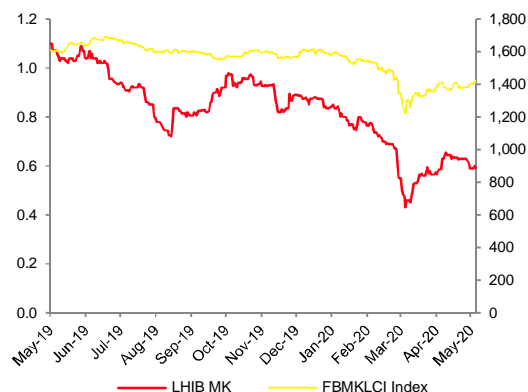
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	5,565.1	6,295.1	7,426.1
Core net profit (RM mil)	150.6	154.4	188.7	224.2
FD Core EPS (sen)	4.1	4.2	5.2	6.1
FD Core EPS growth (%)	(19.1)	2.5	22.2	18.8
Consensus Net Profit (RM mil)	-	137.0	181.4	207.4
DPS (sen)	1.2	1.3	1.6	1.8
PE (x)	14.3	13.9	11.4	9.6
EV/EBITDA (x)	5.9	6.4	5.9	5.5
Div yield (%)	2.2	2.2	2.7	3.3
ROE (%)	10.2	9.1	10.4	11.4
Net Gearing (%)	98.5	104.9	109.8	119.9

Stock and Financial Data

Shares Outstanding (million)	3,650.0
Market Cap (RM mil)	2,153.5
Book Value (RM/share)	0.45
P/BV (x)	1.3
ROE (%)	10.2
Net Gearing (%)	98.5

Major Shareholders	Emerging Glory (52.8%) Clarinden Investments (9.0%) Amanah Saham Bumiputera (4.9%)
Free Float	87.3
Avg Daily Value (RM mil)	1.5

Price performance	3mth	6mth	12mth
Absolute (%)	(23.4)	(36.2)	(44.9)
Relative (%)	(17.4)	(28.1)	(37.8)

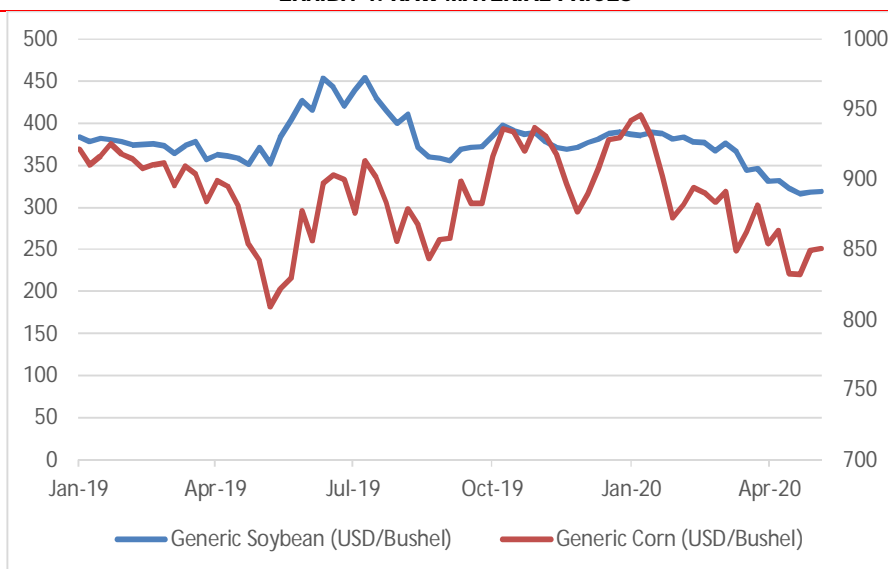


Investment Highlights

- We maintain our BUY call on Leong Hup international (LHI) with an unchanged fair value of RM0.72/share. Our FV is based on 14x FY21Fx EPS.
- Key takeaways from LHI's teleconference are:
 1. Since the start of the Covid-19 pandemic, there has been a shift in shopping patterns for food products.
 2. LHI's expansion plans were recalibrated and projects were delayed due to unfavourable market conditions.
 3. Costs of raw materials are expected to remain low in FY20F due to weak global demand for wheat products.
 4. Poultry prices are expected to be volatile as small farmers are expected to ramp up broiler production as ASP increases in May 2020.
- Since the start of the Covid-19 pandemic, there has been a shift in shopping patterns from fresh food items to long shelf-life food products (i.e. nuggets, egg, processed meats) affecting demand for the group's offerings.
- We believe this pattern will continue to persist in FY20F. Demand for fresh food items is expected to gradually recover once the pandemic is contained.
- LHI's expansion plans have been recalibrated with some delays due to unfavourable market conditions. The group deferred five expansion projects as shown in Exhibit 3.
- LHI experienced minimal disruption in its production and supply chain from the onset of Covid-19 pandemic as poultry production is considered an essential service. The group is not expecting any significant impact to overhead and operating expenses in relation to the movement control order (MCO).
- LHI experienced improved sales volume in its feedmill segment, which grew 5.2% YoY, +1.3% YoY to 120.4mil of DOC chickens, +9.8% YoY to 32.6 mil broiler chickens and +1.7% YoY to 434.9mil eggs.
- COGS was lower at 73% where it dropped 2.4ppt YoY as raw material prices were favourable. Corn price fell 18% YTD while soybean slid 9% YTD. These raw material prices are expected to remain low in FY20 due to weak global demand. However, gross margin expansion arising from lower raw material pricing is only temporary as the cost savings will eventually be passed on to the customers.

- LHI is seeing improved demand for its broiler chicken in May. We believe there was a short-term push for selling prices in May due to a temporary closure of a poultry processing plant in Pedas, Negeri Sembilan where some workers contracted Covid-19. The Kerabat Processing House has a slaughtering capacity of 90,000 birds per day.
- However, we believe the increase in selling price will be short-lived as supply of poultry returns when the plant resumes operation. The group is already seeing better DOC sales which we believe will be used to rear broiler chicken which takes roughly 35–40 days to grow. Hence, we believe the ASP for its livestock and poultry-related products will be volatile in coming months.
- Moving on to subsequent quarters, we believe poultry prices will be slightly lifted by demand from restaurants as dine-in operations restart. We believe the growth for FY20F will be largely driven by LHI's expansion plans (Exhibit 2). We believe that the long-term outlook for LHI is positive due to relatively stable demand of chicken and strong long-term earnings growth underpinned by expansions of the feedmill and livestock businesses in Malaysia, Vietnam and the Philippines.

EXHIBIT 1: RAW MATERIAL PRICES



Source: Bloomberg

EXHIBIT 2: ON GOING PROJECTS

(2) On-going projects⁽¹⁾:

Location	Segment	Project	Commencement date	Targeted Completion Date	Total investment
Malaysia	Livestock	Expansion of closed-house broiler farms	1Q2019	4Q2020	RM86.8 million
Vietnam	Livestock	Construction of additional 3 parent stock ("PS") closed-house farms and machinery at Dong Nai farm	3Q2019	1Q2021	RM0.9 million
Vietnam	Feedmill	Additional pelleting line at Dong Nai feedmill	4Q2019	2Q2020	RM2.6 million
Vietnam	Livestock	Installation and fitting of equipment in new Layer farms to be rented in Southern Vietnam	1Q2020	4Q2020	RM20.5 million
Philippines	Feedmill	Construction of first feedmill plant at Central Luzon	3Q2019	4Q2020	RM59.2 million
Philippines	Livestock	Construction of 2 new broiler farms at Central Luzon	3Q2019	3Q2020	RM20.5 million
Philippines	Livestock	Construction of new GPS farm at South Luzon	3Q2019	4Q2020	RM6.4 million

Note:

(1) Funded via IPO proceeds, details of which are set out in the company's prospectus dated 25 April 2019.

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PRESENTATION DECK

Source: Company

EXHIBIT 3: DELAYED PROJECTS

- Certain feedmill projects in Vietnam and both livestock and feedmill projects in Philippines (see below) will be implemented, but at a later date, to ensure effective deployment and optimum use of such new capacity arising
- Project economics of these affected projects still intact

(3) Delayed projects:

Location	Segment	Project	Expected commencement date	Total investment
Vietnam	Feedmill	Installation of automatic bagging & robotic pelletiser at Tien Giang and Bau Bang feedmill	FY21	RM4.6 million
Vietnam	Feedmill	Construction of animal medicine injection line at Bau Bang	FY21	RM4.9 million
Vietnam	Feedmill	Dong Nai - Silo expansion and construction of a soybean meal flat warehouse discharging system	FY21	RM5.1 million
Vietnam	Feedmill	Construction of centralised premix machineries at Dong Nai feedmill	FY21	RM6.8 million
Philippines	Livestock	Construction of new PS farm at Central Luzon	FY21	RM19.2 million

Source: Company

EXHIBIT 4: PB BAND CHART

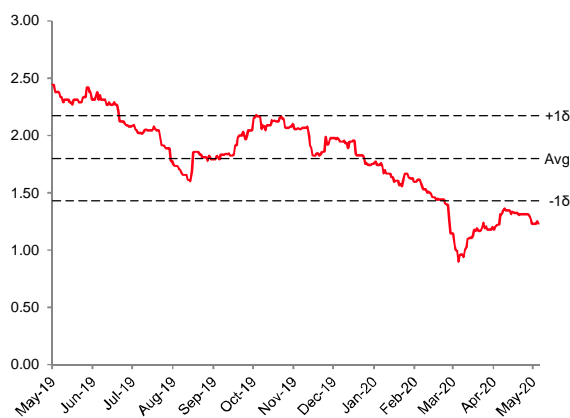


EXHIBIT 5: PE BAND CHART

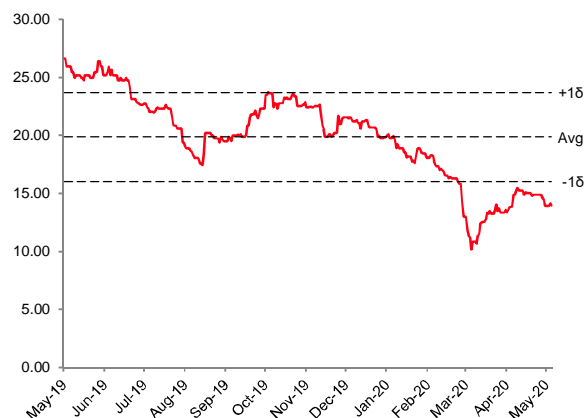


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,746.6	6,054.8	5,565.1	6,295.1	7,426.1
EBITDA	646.8	637.7	622.3	712.4	843.4
Depreciation/Amortisation	(189.9)	(225.5)	(207.3)	(234.5)	(276.6)
Operating income (EBIT)	456.9	412.1	415.0	477.9	566.8
Other income & associates	0.6	0.4	0.5	0.7	1.0
Net interest	(108.9)	(123.8)	(144.8)	(156.9)	(179.0)
Exceptional items	-	-	-	-	-
Pretax profit	348.6	288.8	270.7	321.7	388.9
Taxation	(101.8)	(75.8)	(62.3)	(74.0)	(89.4)
Minorities/pref dividends	(60.7)	(62.4)	(54.0)	(59.1)	(75.2)
Net profit	186.1	150.6	154.4	188.7	224.2
Core net profit	186.1	150.6	154.4	188.7	224.2
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,216.8	2,396.5	2,796.5	3,196.5	3,596.5
Intangible assets	97.3	97.5	97.5	97.5	97.5
Other long-term assets	261.2	85.9	86.1	86.1	86.1
Total non-current assets	2,575.3	2,579.8	2,980.1	3,380.1	3,780.1
Cash & equivalent	458.9	764.8	489.8	526.8	570.7
Stock	575.6	679.6	543.1	624.7	734.6
Trade debtors	649.2	499.3	594.9	682.1	793.2
Other current assets	574.2	561.1	510.6	557.7	622.0
Total current assets	2,257.9	2,504.8	2,138.4	2,391.3	2,720.6
Trade creditors	248.9	273.1	245.7	279.4	332.3
Short-term borrowings	1,326.6	1,508.7	1,574.4	1,693.2	1,834.5
Other current liabilities	309.3	307.6	306.1	308.4	312.0
Total current liabilities	1,884.8	2,089.5	2,126.1	2,281.1	2,478.8
Long-term borrowings	1,044.3	873.1	751.0	900.0	1,179.4
Other long-term liabilities	139.4	144.4	144.4	144.4	144.4
Total long-term liabilities	1,183.8	1,017.5	895.4	1,044.4	1,323.8
Shareholders' funds	1,301.8	1,641.2	1,749.3	1,881.4	2,038.3
Minority interests	463.6	539.3	495.7	560.7	661.5
BV/share (RM)	0.36	0.45	0.48	0.52	0.56
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	348.6	288.8	270.7	321.7	388.9
Depreciation/Amortisation	189.9	225.5	207.3	234.5	276.6
Net change in working capital	(241.8)	38.7	(91.4)	216.0	285.3
Others	52.5	103.9	(64.5)	(546.5)	(860.2)
Cash flow from operations	349.2	656.9	322.0	225.7	90.5
Capital expenditure	(423.0)	(403.6)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	6.5	(5.0)	(0.3)	-	-
Others	37.9	35.7	-	-	-
Cash flow from investing	(378.6)	(373.0)	(400.3)	(400.0)	(400.0)
Debt raised/(repaid)	178.9	(43.5)	(56.5)	267.9	420.7
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(84.5)	(46.3)	(56.6)	(67.3)
Others	(127.8)	125.2	-	-	-
Cash flow from financing	(6.9)	(2.7)	(102.8)	211.3	353.4
Net cash flow	(36.2)	281.1	(181.0)	37.0	43.9
Net cash/(debt) b/f	427.4	390.4	670.8	489.8	526.8
Net cash/(debt) c/f	390.4	670.8	489.8	526.8	570.7
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	4.5	5.4	(8.1)	13.1	18.0
EBITDA growth (%)	10.9	(1.4)	(2.4)	14.5	18.4
Pretax margin (%)	6.1	4.8	4.9	5.1	5.2
Net profit margin (%)	3.2	2.5	2.8	3.0	3.0
Interest cover (x)	4.2	3.3	2.9	3.0	3.2
Effective tax rate (%)	29.2	26.2	23.0	23.0	23.0
Dividend payout (%)	-	30.0	30.0	30.0	30.0
Debtors turnover (days)	41	30	39	40	39
Stock turnover (days)	35	38	40	34	33
Creditors turnover (days)	16	16	17	15	15

Source: Company, AmInvestment Bank Bhd estimates

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