



Company report

LEONG HUP INTERNATIONAL

(LHIB MK EQUITY, LEOG.KL)

30 June 2020

Now selling roasted chicken

BUY

(Maintained)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company update

Price	RM0.78
Fair Value	RM0.72
52-week High/Low	RM1.04/RM0.43

Key Changes

Fair value	↕
EPS	↔

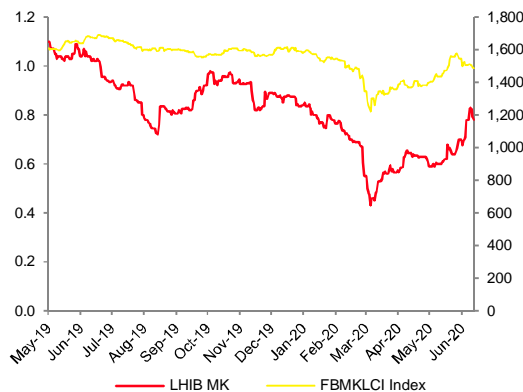
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,054.8	5,565.1	6,295.1	7,426.1
Core net profit (RM mil)	150.6	154.4	188.7	224.2
FD Core EPS (sen)	4.1	4.2	5.2	6.1
FD Core EPS growth (%)	(19.1)	2.5	22.2	18.8
Consensus Net Profit (RM mil)	-	131.4	176.4	202.6
DPS (sen)	1.2	1.3	1.6	1.8
PE (x)	18.9	18.4	15.1	12.7
EV/EBITDA (x)	7.0	7.5	6.9	6.3
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)	2,847.0
Book Value (RM/share)	0.45
P/BV (x)	1.7
ROE (%)	10.2
Net Gearing (%)	98.5

Major Shareholders	Emerging Glory. (52.8%) Clarinden Inv (9.0%) Amanah Saham Nasional (5.7%)
Free Float	87.3
Avg Daily Value (RM mil)	2.5

Price performance	3mth	6mth	12mth
Absolute (%)	47.2	(10.9)	(23.5)
Relative (%)	32.8	(3.5)	(14.1)



Investment Highlights

- We maintain our BUY call on Leong Hup International (LHI) with a higher fair value of RM0.88/share. Our FV is based on a higher PE of 17x FY21F EPS.
- We take this opportunity to raise our PE multiple to 17x from 14x as we believe the worst is over for poultry prices. We believe demand should start to recover 2HFY20 after the ease of MCO as fast-food restaurants reopen. We maintain our earnings forecasts as we think that the impact of the acquisition will be immaterial to the group's performance at the start.
- Leong Hup International has recently acquired 100% of The Bakers Cottage Sdn Bhd (TBC) for RM17.9mil. The group is also acquiring TBC Retail Business, with 6 retail outlets in Melaka, Negeri Sembilan and Johor, from Astaka Shopping Centre (Muar) Sdn Bhd for RM1.5mil. The group is also acquiring TBC Retail Business with 3 retail outlets in Selangor, from Poly-yarn Industries Sdn Bhd for RM0.9mil.
- We think that the valuation is slightly expensive as the purchase price implies a historical PE of 30x, which is much higher than our valuation of Leong Hup at 17x FY21F PE.
- The impact to gearing will be minimal. The RM20.3mil purchase will be funded by internally generated funds and borrowings. It would increase net gearing to 1.03x from 1.02x.
- We are of the view that the acquisition is a long-term positive for the group. However, we think that the impact to earnings will not be material at the start. TBC made a net profit of RM593K in FY19, which is 0.4% of LHI's total net profit in FY19.
- However, the acquisition provides the group with vertical integration in its businesses. We think that this gives the group more control in the movement of its poultry products throughout the whole supply chain as it introduces to the group a B2C business.
- During the movement control order (MCO), the sales of TBC's chicken food products grew exponentially with its successful promotional campaign. As poultry prices were low during the period, TBC was able to offer its products at a low price (whole roast chicken for RM9.90). TBC saw its sales peak at 14.5K birds per day (average daily sales was 4.5K birds pre-MCO). As demand normalises with the easing of the MCO and reopening of restaurants, the group is expecting daily sales to average at around 8–9K birds per day.

- LHI plans for its B2C business to ride on the volume game, mainly competing on affordability of its food products (like chicken rice and roast chicken).
- As such, the group plans on opening around 6 outlets per month with a goal of 300 outlets by 2023 (50 outlets currently). The group targets to achieve RM500mil of revenue with 300 outlets in 2023. Capital expenditure is estimated to be roughly RM500K per store or roughly RM36mil per annum.
- We believe that the long-term outlook for LHI is positive due to the 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: PB BAND CHART

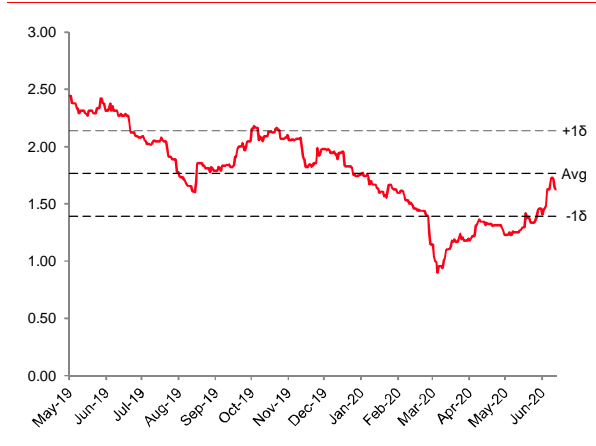


EXHIBIT 2: PE BAND CHART

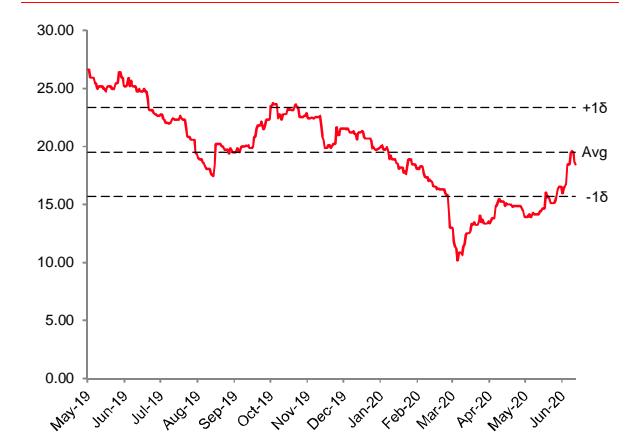


EXHIBIT 3: FINANCIAL DATA

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

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.