

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

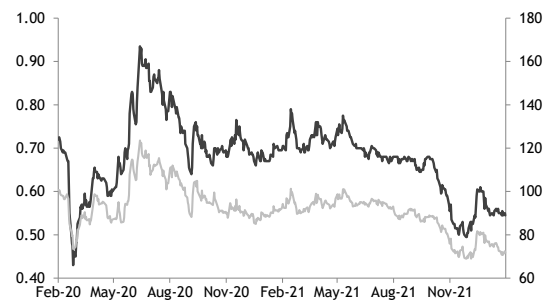
Statistics

| | |
|------------------------|--------------------|
| 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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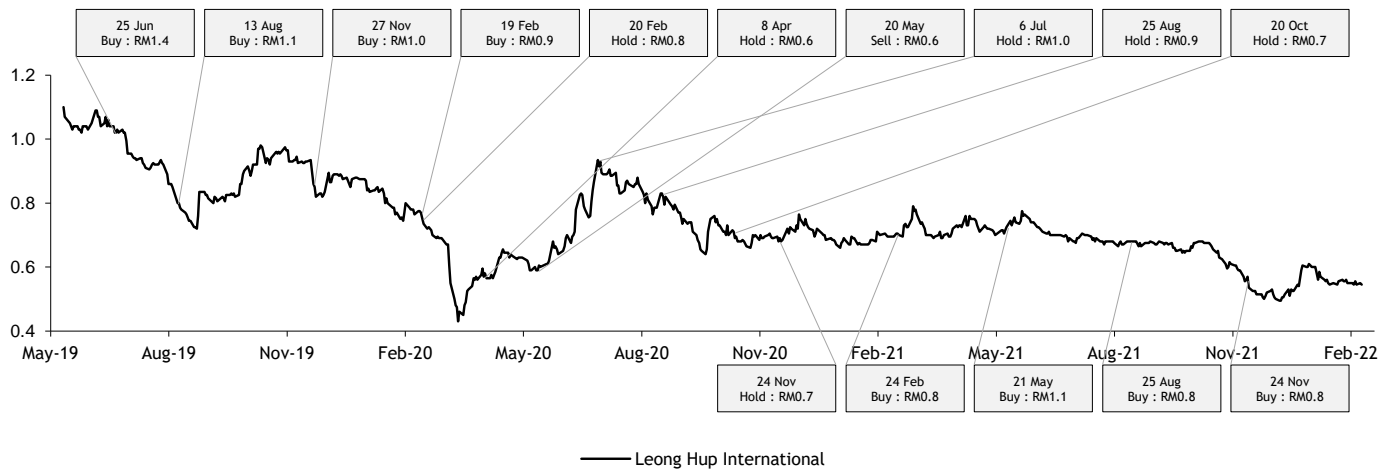
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