

# Leong Hup International Berhad

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

**Maintain NEUTRAL**

**Revised Target Price: RM0.82**  
(Previously RM0.85)

## Thinning profit margin

### KEY INVESTMENT HIGHLIGHTS

- **4QFY19 normalised earnings came in at RM40.4m (+25.6%yoy) which met our and consensus' expectations**
- **Earnings was dragged by lower average selling price of livestock products**
- **However, commendable performance of Feedmill operation continue to support earnings**
- **Maintain NEUTRAL with a revised TP of RM0.82**

**Earnings met expectations.** Leong Hup International Berhad (LHI)'s 4QFY19 recorded earnings dropped by -9.5%yoy to RM29.5m. Nevertheless, after excluding one-off item, 4QFY19 normalised earnings came in at RM40.4m (+25.6%yoy). This brings its full year FY19 normalised earnings to RM167.2m which met ours and consensus expectation, accounting for 97.8% and 96.6% of full year FY19 forecast respectively. Overall, the 4QFY19 earnings was impacted by the poor performance of livestock and poultry related segment. During the quarter, there was a significant reduction in average selling price (ASP) of products sold by the group. Nonetheless, this was mitigated by the higher sales volume of livestock feed in Vietnam.

**Livestock and poultry related products.** Despite the positive growth in sales volume for broiler chickens and eggs, the livestock and poultry related products' 4QFY19 EBITDA suffered significant decline of -23.9%yoy to RM51.0m. The poor performance was primarily due to: (i) lower profit margin arising from subdued prices and lower sales volume of day-old-chicks (DOC) and; (ii) depressed ASP of broiler chickens and eggs in Malaysia. These contributed to the subdued EBITDA growth of Indonesia, Singapore and Malaysia operation which dropped by -51.3%yoy, -37.1%yoy and -7.6%yoy respectively.

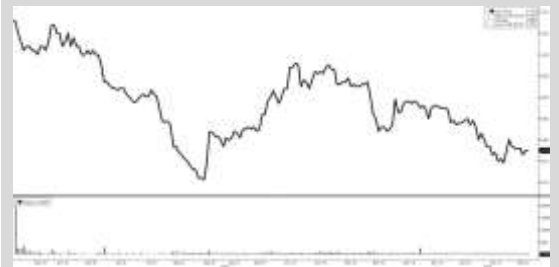
**Feedmill operation.** Meanwhile, Feedmill operation's 4QFY19 revenue rose by +3.5%yoy while EBITDA grew at a faster pace of +9.7%yoy. These were attributable to the increase in sales volume of livestock feed in Vietnam. Consequently, this lifted 4QFY19 EBITDA for Vietnam operation by +59.6%yoy to RM41.9m. Note that the new feedmill plant in Dong Nai, Vietnam has begun operation since January 2019 and it has been supporting group's earnings growth ever since.

**Impact to earnings.** We are revising our FY20F and FY21F earnings forecasts downward by -3.8% and -3.4% to take into account the lower ASP of the group's products. Note that the reduction in ASP was partially mitigated by a higher sales volume.

### RETURN STATISTICS

Price @ 18 <sup>th</sup> February 2020 (RM)	0.78
Expected share price return (%)	+5.1
Expected dividend yield (%)	+2.5
<b>Expected total return (%)</b>	<b>+7.6</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.4	-2.5
3 months	-2.1	0.9
12 months	-2.6	3.8

### KEY STATISTICS

FBM KLCI	1,537.08
Syariah compliant	No
Issue shares (m)	3400.00
Estimated free float (%)	85.14
Market Capitalisation (RM'm)	2,828.75
52-wk price range	RM0.72 - RM1.19
Beta vs FBM KLCI (x)	NA
Monthly velocity (%)	NA
Monthly volatility (%)	0.00
3-mth average daily volume (m)	2.61
3-mth average daily value (RM'm)	2.28
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 **RM0.82** (previously RM0.85) per share based on pegging FY20F EPS of 5.2sen to target PER of 15.8x. The target PER is based on the FY20 market cap weighted average PER of LHI's regional peers.

**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. The subdued ASP for broiler's DOC, chicken and egg was not only impacting LHI but the whole industry players. The impact to LHI is more significant as it is a pure-play poultry producer as compared to some of its bigger competitors which have ventured into other businesses apart from poultry. Moving forward, we expect the recent recovery in ASP will boost profitability of the livestock segment. In addition, we believe that LHI's earnings growth will be sustained, driven by its strategy to focus on: (i) economies of scale; (ii) vertically integration and; (iii) geographically diversifying its operation. All things considered, we are maintaining 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	6,321.2	6,618.3	6,935.9
<b>Core EBITDA</b>	654.6	650.5	701.6	741.2	783.8
Depreciation & amortisation	(197.1)	(225.5)	(233.9)	(244.9)	(256.6)
<b>Core EBIT</b>	457.5	425.0	474.1	510.9	534.1
Finance costs	(109.5)	(136.6)	(139.1)	(145.6)	(152.6)
Share of profits of associates	0.6	0.4	0.6	0.7	0.8
PBT	348.6	288.8	335.7	366.0	382.3
PAT	246.8	213.0	251.7	274.5	286.7
PATANCI	186.2	150.6	188.8	205.9	215.0
<b>Normalised PATANCI</b>	188.2	167.2	188.8	205.9	215.0
Normalised EPS (sen)	5.2	4.6	5.2	5.6	5.9
Normalised EPS growth (%)	(2.3)	(11.2)	12.9	9.0	4.4
Net Dividend (sen)	-	1.6	2.1	2.3	2.4
EBITDA margin (%)	11.4	10.7	11.1	11.2	11.3
Normalised PATANCI margin (%)	3.2	2.5	3.0	3.1	3.1
Dividend yield (%)	-	2.2	2.5	2.7	2.9
PER (x)	15.1	17.0	15.1	13.8	13.2

Source: Company, MIDFR

**LEONG HUP INTERNATIONAL BERHAD: 4QFY19 RESULTS SUMMARY**

FYE Dec (RMm)	Quarterly results				Cumulative results			
	4QFY19	3QFY19	4QFY18	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	1,544.0	1,527.1	1,554.6	(0.7)	1.1	6,054.8	5,746.6	5.4
Other income	8.0	10.4	3.9	104.1	(23.2)	34.9	30.8	13.2
Operating expenses	(1,467.8)	(1,419.2)	(1,436.7)	2.2	3.4	(5,664.6)	(5,319.9)	6.5
<b>Profit from operations</b>	84.2	118.3	121.8	(30.8)	(28.8)	425.0	457.5	(7.1)
Finance costs	(34.2)	(34.6)	(31.4)	8.8	(1.2)	(136.6)	(109.5)	24.8
Share of profits of associates	0.2	0.1	0.1	7.0	120.3	0.4	0.6	(30.9)
<b>PBT</b>	50.2	83.8	90.5	(44.5)	(40.1)	288.8	348.6	(17.2)
Tax expense	(16.4)	(21.5)	(35.2)	(53.5)	(23.7)	(75.8)	(101.8)	(25.6)
<b>PAT</b>	33.8	62.3	55.3	(38.8)	(45.8)	213.0	246.8	(13.7)
Non-controlling interests	4.3	18.0	22.6	(81.1)	(76.2)	62.4	60.6	3.0
<b>PATANCI</b>	29.5	44.4	32.6	(9.5)	(33.5)	150.6	186.2	(19.1)
One-off items	10.8	4.0	(0.5)	nm	>100	16.6	2.0	>100
<b>Normalised PATANCI</b>	40.4	48.3	32.1	25.6	(16.5)	167.2	188.2	(11.2)
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
Operating margin (%)	5.5	7.7	7.8	(2.4)	(2.3)	7.0	8.0	(0.9)
PBT margin (%)	3.3	5.5	5.8	(2.6)	(2.2)	4.8	6.1	(1.3)
PAT margin (%)	2.2	4.1	3.6	(1.4)	(1.9)	3.5	4.3	(0.8)
PATANCI margin (%)	1.9	2.9	2.1	(0.2)	(1.0)	2.5	3.2	(356.6)
Effective Tax rate (%)	32.6	25.6	38.9	(6.3)	7.0	26.2	29.2	(3.0)

Source: Company, MIDFR

**BREAKDOWN BY OPERATING SEGMENT**

FYE Dec (RMm)	Quarterly results				Cumulative results			
	4QFY19	3QFY19	4QFY18	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
<b>Revenue</b>								
Livestock and poultry related	874.5	858.2	907.8	(3.7)	1.9	3,396.0	3,470.6	(2.1)
Feedmill	666.0	665.8	643.4	3.5	0.03	2,646.7	2,261.9	17.0
Others	3.5	3.1	3.4	4.2	12.46	12.0	14.1	(15.0)
<b>Total</b>	1,544.0	1,527.1	1,554.6	(0.7)	1.1	6,054.8	5,746.6	5.4
<b>EBITDA</b>								
Livestock and poultry related	51.0	41.8	67.1	(23.9)	22.2	257.4	397.0	(35.2)
Feedmill	96.9	133.5	88.3	9.7	(27.4)	403.1	265.7	51.7
Others	(1.6)	(1.5)	16.8	(109.5)	7.1	(10.0)	(8.2)	23.2
<b>Total</b>	146.3	173.7	172.2	(15.0)	(15.8)	650.5	654.6	(0.6)
<b>EBITDA margin (%)</b>				<i>+ / (-) ppts</i>				
Livestock and poultry related	5.8	4.9	7.4	(1.6)	1.0	7.6	11.4	(3.9)
Feedmill	14.6	20.0	13.7	0.8	(5.5)	15.2	11.7	3.5

Source: Company, MIDF

**BREAKDOWN BY GEOGRAPHICAL SEGMENT**

FYE Dec (RMm)	Quarterly results				Cumulative results			
	4QFY19	3QFY19	4QFY18	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
<b>Revenue</b>								
Malaysia	411.3	426.3	446.2	(7.8)	(3.5)	1,647.8	1,657.5	(0.6)
Singapore	195.4	201.8	233.9	(16.5)	(3.2)	779.1	989.0	(21.2)
Vietnam	374.4	344.4	323.8	15.6	8.7	1,347.2	1,130.4	19.2
Indonesia	533.4	532.1	532.3	0.2	0.2	2,192.3	1,901.1	15.3
Philippines	26.1	19.4	15.1	72.5	34.5	76.3	54.5	39.9
<b>Total</b>	1,540.5	1,524.0	1,551.2	(0.7)	1.1	6,042.7	5,732.4	5.4
<b>EBITDA</b>								
Malaysia	54.1	70.6	58.5	(7.6)	(23.4)	227.5	205.2	10.9
Singapore	16.4	22.3	26.1	(37.1)	(26.4)	95.8	122.5	(21.8)
Vietnam	41.9	30.2	26.2	59.6	38.6	130.3	101.5	28.4
Indonesia	29.6	47.0	60.8	(51.3)	(37.0)	185.5	220.3	(15.8)
Philippines	4.3	3.7	0.6	>100	18.9	11.5	5.2	>100
<b>Total</b>	146.3	173.7	172.2	(15.0)	(15.8)	650.5	654.6	(0.6)

Source: Company, MIDF

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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