Leong Hup International Berhad

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

Maintain NEUTRAL

***Unchanged* Target Price: RM0.47**

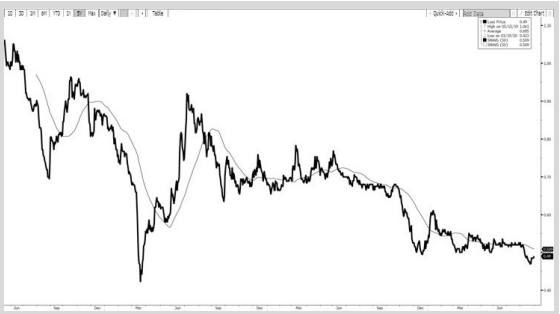
Margin compressed amid higher input costs

KEY INVESTMENT HIGHLIGHTS

- **2QFY22's earnings meet expectations**
- **Margin remained squeezed in 2QFY22**
- **1HFY22's core earnings slumped 51%yoy to RM55m despite higher sales**
- **Maintained NEUTRAL with an unchanged TP of RM0.47**

RETURN STATISTICS	
Price @ 30th Aug 2022 (RM)	0.49
Expected share price return (%)	-2.3
Expected dividend yield (%)	+1.9
Expected total return (%)	**-0.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.8	-6.9
3 months	-5.8	-1.9
12 months	-27.9	-23.6

KEY STATISTICS	
FBM KLCI	1512.05
Syariah compliant	No
Issue shares (m)	3650.00
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Estimated free float (%)	16.70
Market Capitalisation (RM'm)	1,788.50
52-wk price range	RM0.47 - RM0.69
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	#DIV/0!
Monthly volatility (%)	17.36
3-mth average daily volume (m)	1.27
3-mth average daily value (RM'm)	0.67
Top Shareholders (%)	
Emerging Glory Sdn Bhd	52.80
CLARINDEN INV PTE	8.56
Amanah Saham Nasional Bhd	7.07

1HFY22 earnings met expectations. Leong Hup International Berhad (LHI)'s 1HFY22 core PATANCI of RM55m came in within expectations, accounting for 46.8% and 47.4% of our and consensus FY22 projection respectively. This was after excluding a one-time-off item of RM1.3m. There was no dividend announced for the quarter.

Margin remained squeezed in 2QFY22. The group's 2QFY22 revenue increased by 22.6%yoy to RM2.27b, due to better sales of its livestock & poultry-related products and feedmill. In contrast, the operating margin decreased marginally to 3.3% in 2QFY22 from 3.5% in 2QFY21, largely attributed to rising raw material and other operational costs. Meanwhile, segment EBITDA margin for livestock and poultry fell to 4.5% from 11.0%. Similarly, EBITDA margin of feedmill segment was compressed to below 10% for the first time, reflecting the impact of higher commodity costs. On a positive note, the increase in sales had more than enough to offset the margin compression, bringing core PATANCI to increase by 41.9%yoy to RM41.3m. On sequential basis, core PATANCI expanded by +98.1%qoq to RM41.3m due to strong revenue growth brought on by (i) higher broiler chicken ASPs and sales volume in Vietnam, (ii) better livestock feed ASPs in Vietnam and Indonesia, and (iii) greater other income.

1HFY22's core earnings slumped 51%yoy to RM55m despite higher sales. This was primarily caused by a poorer operating margin, which came in at 3.1% in 1HFY22 (vs. 5.5% in 1HFY21) on the back of higher raw material costs and other operating costs that erode the margin. In 1HFY22, Malaysia outperformed other nations to contribute positive earnings at RM145.1m (+58.1%yoy). This was supported by the rising egg ASPs, increased revenue from the downstream business-to-consumer channel, and rising feedmill ASPs and sales volume. Relatively, Malaysia's EBITDA margin increased +2.9ppt yoy to 12.8%.

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Maintain NEUTRAL with an unchanged TP of RM0.47. We kept our earnings estimation pending analyst briefing. Our **TP** is unchanged at **RM0.47**, based on a PER of 16.8x pegged to FY23F EPS of 2.8sen. We are positive about the group's long-term prospects underpinned by its: (i) vertical integration of poultry, eggs, and livestock feed; (ii) geographic diversification across Malaysia, Singapore, Indonesia, Vietnam, and the Philippines and (iii) recent announcement concerning the lifting of the export ban on chicken in October, which could boost sales. Nevertheless, we are aware that the margin compression will persist in the near term on the back of the still high raw material cost for livestock & poultry along with the ongoing price controls for chicken and egg in Malaysia. Hence, we are maintaining our **NEUTRAL** call on LHI.

Downside risks are: (i) a substantial increase in the cost of raw materials; (ii) adverse regulatory change; and (iii) fierce competition. Leong Hup is currently trading at an unjustifiable FY22F PE of 15.1x, below the sector average of 39.5x and offers a dividend yield of 1.9%.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	**6,040.7**	**7,153.5**	**8,224.9**	**8,478.0**	**8,727.6**
Other income	59.8	53.5	61.6	63.7	65.6
Purchases of inventories and livestock	(4,270.2)	(5,514.4)	(6,353.3)	(6,542.2)	(6,734.9)
Change in fair value of biological assets	(11.9)	42.8	49.2	50.4	50.9
Changes in closing inventories	53.9	228.6	260.2	265.6	267.9
Employee benefit costs	(602.1)	(645.8)	(742.5)	(780.3)	(819.4)
Depreciation	(259.4)	(283.2)	(319.1)	(325.6)	(331.9)
Utilities costs	(171.8)	(185.6)	(217.7)	(224.4)	(228.7)
Repair and maintenane	(80.6)	(80.0)	(90.1)	(92.4)	(98.5)
Transportation expenses	(131.5)	(149.9)	(172.7)	(186.9)	(190.5)
Other expenses	(344.2)	(366.7)	(413.1)	(425.4)	(451.1)
Operational Profit	**282.6**	**252.9**	**287.4**	**280.4**	**257.2**
Finance costs	(125.9)	(112.4)	(136.9)	(148.8)	(155.4)
Share of profit of associates	0.4	0.4	0.5	0.5	0.5
PBT	**157.1**	**140.8**	**151.0**	**132.1**	**102.3**
Income tax	(39.6)	(44.4)	(33.4)	(29.2)	(22.6)
Net Profit	**117.5**	**96.4**	**117.6**	**102.9**	**79.7**
Minority interest	4.4	10.5	0.0	0.0	0.0
PATANCI	**113.1**	**85.9**	**117.6**	**102.9**	**79.7**
EI	(2.4)	1.7	0.0	0.0	0.0
Core PATANCI	**115.5**	**84.2**	**117.6**	**102.9**	**79.7**
Basic EPS (sen)	3.2	2.3	3.2	2.8	2.2
DPS (sen)	0.6	0.7	0.9	0.8	0.6
Growth & Margin (%)					
Revenue Growth	(0.2)	18.4	15.0	3.1	2.9
Core PATANCI Growth	(22.3)	(27.1)	39.7	(12.5)	(22.6)
Operating Profit Margin	4.7	3.5	3.5	3.3	2.9
PBT Margin	2.6	2.0	1.8	1.6	1.2
Core PATANCI Margin	1.9	1.2	1.4	1.2	0.9
Effective tax rate	25.2	31.5	22.1	22.1	22.1
Ratios & Valuation					
PER (x)	15.3	21.0	15.1	17.2	22.2
Net debt/Total Equity (%)	83.7	100.0	115.9	114.2	116.9
Dividend yield	1.1	1.4	1.9	1.7	1.3

Source: Company, MIDFR

LEONG HUP INTERNATIONAL BERHAD: 2QFY22 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue	**2,272.2**	**2,087.2**	**1,853.8**	**22.6**	**8.9**	**4,359.4**	**3,530.3**	**23.5**
Other income	48.3	10.3	14.8	226.0	368.8	58.6	31.3	87.1
Operating expenses	(2,245.2)	(2,036.4)	(1,804.3)	24.4	10.3	(4,281.5)	(3,366.5)	27.2
Operating profit	75.4	61.1	64.3	17.3	23.4	136.5	195.2	(30.1)
Finance costs	(31.6)	(29.3)	(26.5)	19.1	7.9	(60.8)	(52.4)	16.1
Share of profits of associates	0.1	0.1	(0.0)	(546.7)	(25.6)	0.2	0.1	82.6
PBT	**43.9**	**31.9**	**37.7**	**16.3**	**37.4**	**75.8**	**142.9**	**(46.9)**
Tax expense	(10.5)	(8.0)	(9.8)	7.0	30.4	(18.5)	(33.0)	(43.8)
PAT	**33.4**	**23.9**	**27.9**	**19.5**	**39.8**	**57.3**	**109.9**	**(47.9)**
Non-controlling interests	(7.1)	3.5	(2.6)	178.1	(302.1)	(3.6)	9.1	(139.6)
PATANCI	**40.5**	**20.4**	**30.5**	**32.8**	**98.8**	**53.7**	**119.0**	**(54.9)**
One-off items	0.8	0.5	(1.4)	(158.6)	68.4	1.3	(6.8)	(119.1)
Core PATANCI	**41.3**	**20.9**	**29.1**	**41.9**	**98.1**	**55.0**	**112.2**	**(51.0)**
Basic EPS (sen)	1.1	0.6	0.8	32.1	98.2	1.7	2.8	(39.7)
Ratios & Margins				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Operating profit margin (%)	3.3	2.9	3.5	(0.1)	0.4	3.1	5.5	(2.4)
PBT margin (%)	1.9	1.5	2.0	(0.1)	0.4	1.7	4.0	(2.3)
PAT margin (%)	1.5	1.1	1.5	(0.0)	0.3	1.3	3.1	(1.8)
Core PATANCI margin (%)	1.8	1.0	1.6	0.2	0.8	1.2	3.4	(2.1)
Effective Tax rate (%)	23.9	25.2	26.0	(2.1)	(1.3)	24.4	23.1	1.3
Segmental Breakdown								
Revenue (RMm)								
Livestock and poultry	1,270.1	1,152.0	992.5	28.0	10.2	2,422.1	1,907.6	27.0
Feedmill	999.9	931.8	858.9	16.4	7.3	1,931.7	1,617.2	19.4
Others	2.2	3.4	2.5	(10.0)	(34.6)	5.6	5.5	1.9
Total	**2,272.2**	**2,087.2**	**1,853.8**	**22.6**	**8.9**	**4,359.4**	**3,530.3**	**23.5**
EBITDA (RMm)								
Livestock and poultry	57.1	34.8	108.7	(47.4)	64.0	92.0	203.0	(54.7)
Feedmill	93.9	100.7	88.4	6.2	(6.8)	194.6	200.1	(2.7)
Others	(0.7)	(0.6)	(62.5)	(98.9)	12.1	(1.3)	(68.4)	(98.1)
Total	**150.3**	**135.0**	**134.6**	**11.7**	**11.4**	**285.3**	**334.7**	**(14.7)**
Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Livestock and poultry	4.5	3.0	11.0	(6.5)	1.5	3.8	10.6	(6.8)
Feedmill	9.4	10.8	10.3	(0.9)	(1.4)	10.1	12.4	(2.3)
Others	(31.5)	(18.4)	(2,551.3)	2,519.8	(13.1)	(23.6)	(1,250.3)	1,226.7
Total	**6.6**	**6.5**	**7.3**	**(0.6)**	**0.1**	**6.5**	**9.5**	**(2.9)**

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL SEGMENT

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue (RM'm)								
Malaysia	581.7	552.1	479.3	21.4	5.4	1,133.8	922.7	22.9
Indonesia	823.2	804.8	697.3	18.1	2.3	1,628.0	1,311.0	24.2
Vietnam	563.9	468.8	438.5	28.6	20.3	1,032.7	823.6	25.4
Philippines	94.4	60.2	40.9	131.2	56.8	154.7	85.4	81.1
Singapore	206.8	197.9	195.3	5.9	4.5	404.7	385.2	5.0
Total	2,270.0	2,083.8	1,851.3	22.6	8.9	4,353.8	3,527.9	23.4
EBITDA (RM'm)								
Malaysia	76.8	68.4	27.5	179.3	12.3	145.1	91.8	58.1
Indonesia	18.0	35.6	46.5	(61.2)	(49.4)	53.7	107.4	(50.0)
Vietnam	35.5	15.7	31.1	14.1	125.8	51.2	69.1	(25.9)
Philippines	4.8	9.4	7.4	(35.7)	(49.4)	14.2	18.1	(21.6)
Singapore	15.2	5.8	22.0	(30.8)	163.0	21.0	48.2	(56.4)
Total	150.3	135.0	134.6	11.7	11.4	285.3	334.7	(14.7)
EBITDA Margin (%)				+/(-) ppts	+/(-) ppts			+/(-) ppts
Malaysia	13.2	12.4	5.7	7.5	0.8	12.8	9.9	2.9
Indonesia	2.2	4.4	6.7	(4.5)	(2.2)	3.3	8.2	(4.9)
Vietnam	6.3	3.4	7.1	(0.8)	2.9	5.0	8.4	(3.4)
Philippines	5.1	15.7	18.2	(13.1)	(10.6)	9.2	21.2	(12.0)
Singapore	7.4	2.9	11.3	(3.9)	4.4	5.2	12.5	(7.3)
Total	6.6	6.5	7.3	(0.6)	0.1	6.6	9.5	(2.9)

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology