

Leong Hup International Berhad

High feed costs, margins eroded

Summary

- Leong Hup International Bhd's (LHI) 1Q22 net profit plunged -71.0% YoY to RM20.4m. The results came in below expectations, amounting to 14.5% of our previous full year forecast at RM140.7m and 12.3% of consensus forecast at RM166.1m. Key deviation was due to margin compression arising from the elevated feed costs mainly driven by the Russia-Ukraine conflicts.
- QoQ, core net profit declined -46.4% despite a 15.1% increase in revenue to RM2.09bn contributed from a higher sales volume and ASP of broiler chicken and DOC, as well as a higher sales volume of livestock feed in Indonesia. The lower profit was mainly due to an increase in feed costs that outpaced revision in ASP.
- Cost wise, soybean and maize prices saw spike in 1Q22, rising 24.3% and 12.9% respectively QoQ. Key drivers include: (i) the inflation-driven farming costs, (ii) tightened global supply due to a drought in Brazil that delayed harvesting, and (iii) unresolved Russia-Ukraine tension. The commodity prices may continue to stay elevated due to prolong Russia-Ukraine conflicts, which is likely to continue through the following quarters.
- Geographical wise, 1Q22 saw LHI's revenue increased YoY in all its operating countries amid business recoveries and cost-push inflation. Despite recording higher revenue, all the operating countries' EBITDA declined YoY except for Malaysia.
- Moving forward, we believe the demand for poultry products should remain robust amid recovery in economic activities supported by continued progress of booster shots rollout. However, the industry may continue to face uncertainties stemming from supply chain disruptions and government's attempts to manage food inflation. Such measures include the price control scheme implemented on chicken and egg effective until 5th June 2022 and the chicken exports ban from 1st June 2022.
- LHI remained committed on the volume expansion and downstream integration. As of 31st March 2022, the group operates 184 outlets under The Baker's Cottage restaurants chain, with a goal of reaching 200 outlets by end of 2022. Meanwhile, LHI's upcoming projects include expansion of broiler farms in Malaysia, silo expansion in Vietnam, and construction of new PS farm in Philippines.

| Quarterly performance | | | | | | | | |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| FYE Dec (RM m) | 1QFY21 | 4QFY21 | 1QFY22 | QoQ (%) | YoY (%) | 3MFY21 | 3MFY22 | YoY (%) |
| Revenue | 1,676.5 | 1,814.1 | 2,087.2 | 75.1 | 24.5 | 1,676.5 | 2,087.2 | 24.5 |
| EBITDA | 196.4 | 158.4 | 132.1 | (16.6) | (32.7) | 196.4 | 132.1 | (32.7) |
| PBT | 105.1 | 57.5 | 31.9 | (44.5) | (69.6) | 105.1 | 31.9 | (69.6) |
| PAT | 82.0 | 52.0 | 23.9 | (54.1) | (70.9) | 82.0 | 23.9 | (70.9) |
| Core PATMI | 70.3 | 38.0 | 20.4 | (46.4) | (71.0) | 70.3 | 20.4 | (71.0) |
| Reported PATMI | 70.3 | 38.0 | 20.4 | (46.4) | (71.0) | 70.3 | 20.4 | (71.0) |
| Core EPS (sen) | 1.9 | 1.0 | 0.6 | (46.4) | (71.0) | 1.9 | 0.6 | (71.0) |
| EBITDA margin (%) | 11.7 | 8.7 | 6.3 | | | 11.7 | 6.3 | |
| PBT margin (%) | 6.3 | 3.2 | 1.5 | | | 6.3 | 1.5 | |
| Core PATMI margin (%) | 4.2 | 2.1 | 1.0 | | | 4.2 | 1.0 | |

Results Note – 1QFY22

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SELL (from BUY)

| | |
|-----------------|---------|
| Share price | RM0.505 |
| Target price | RM0.40 |
| Previous TP | RM0.62 |
| Capital upside | -20.8% |
| Dividend return | 1.6% |
| Total return | -19.2% |

Company profile

Distribution of animal feed raw materials, food related products and livestock farming

Stock information

| | |
|----------------------|------------|
| Bursa Code | 6633 |
| Bloomberg ticker | LHIB MK |
| Listing market | Main |
| Share issued (m) | 3,650.0 |
| Market Cap (m) | 1843.3 |
| 52W High/Low | 0.78/0.495 |
| Est. Free float | 14.8% |
| Beta (X) | 0.7 |
| 3-mth avg vol ('000) | 683.3 |
| Shariah compliant | No |

Major shareholders

| | |
|-----------------------|------|
| Emerging Glory SB | 52.8 |
| Clarinden Investments | 8.6 |
| Amanah Saham Nasional | 5.7 |

Share price vs. KLCI (%)

| | | | |
|--------------|------|------|-------|
| Hist. return | 1M | 3M | 12M |
| Absolute | -5.6 | -5.6 | -30.8 |
| Relative | -2.0 | -1.9 | -28.7 |

Earnings summary

| | | | |
|-----------|------|-------|-------|
| FYE (Dec) | FY21 | FY22f | FY23f |
| PATMI (m) | 85.4 | 91.8 | 138.9 |
| EPS (sen) | 2.3 | 2.5 | 3.8 |
| P/E (x) | 21.6 | 20.1 | 13.3 |

Relative performance chart



Valuation & Recommendation

- As the reported earnings came in below our expectations, we trimmed our FY22f and FY23f earnings forecast by 34.8% and 18.5% to RM91.8m and RM138.9m respectively. The earnings forecast takes into account the elevated feed costs which is may pressure LHI's margin going forward.
- We downgrade LHI to **SELL** (from **BUY**) with a revised target price of RM0.40 (from RM0.62). Our target price is derived by ascribing a target PER of 16.0x to its FY22f EPS of 2.5 sen.
- Risks to our recommendation and forecast include the prolonged supply chain disruption arising from the hike in commodity prices. Besides, the group is vulnerable to the risk of selling price volatility, which is subject to market supply and demand as well as the government's price control scheme.

Key Financial Data

All items in (RM m) unless otherwise stated

| Income Statement | | | | | | Balance Sheet | | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------------|----------------|----------------|----------------|----------------|----------------|
| FYE Dec (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f | FYE Dec (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f |
| Revenue | 6,054.8 | 6,040.7 | 7,153.5 | 7,297.7 | 7,374.2 | Cash | 764.8 | 757.8 | 764.6 | 799.9 | 794.4 |
| EBITDA | 637.7 | 525.8 | 521.6 | 568.6 | 656.9 | Receivables | 499.3 | 489.6 | 624.7 | 639.8 | 626.3 |
| EBIT | 412.1 | 266.5 | 237.9 | 269.9 | 342.8 | Inventories | 679.6 | 721.9 | 973.5 | 947.4 | 940.8 |
| Net finance income/ (cost) | (123.8) | (109.7) | (98.0) | (126.3) | (125.3) | PPE | 2,396.5 | 2,656.5 | 2,770.3 | 2,876.5 | 2,972.7 |
| Associates & JV | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | Others | 1,068.9 | 1,069.1 | 1,196.6 | 1,222.4 | 1,254.2 |
| Profit before tax | 288.8 | 157.1 | 140.3 | 144.0 | 217.9 | Assets | 5,409.1 | 5,694.8 | 6,329.8 | 6,486.1 | 6,588.5 |
| Tax | (75.8) | (39.6) | (44.4) | (41.0) | (62.0) | Debts | 2,500.3 | 2,795.5 | 3,297.2 | 3,353.3 | 3,330.1 |
| Net profit | 213.0 | 117.5 | 95.9 | 103.1 | 156.0 | Payables | 273.1 | 229.4 | 284.2 | 288.4 | 286.4 |
| Minority interest | 62.4 | 4.4 | 10.5 | 11.3 | 17.1 | Others | 455.2 | 421.4 | 388.5 | 394.6 | 395.0 |
| Core earnings | 150.6 | 113.1 | 85.4 | 91.8 | 138.9 | Liabilities | 3,228.6 | 3,446.2 | 3,970.0 | 4,036.3 | 4,011.4 |
| Exceptional items | - | - | - | - | - | Shareholder's equity | 1,641.2 | 1,713.4 | 1,807.1 | 1,871.3 | 1,968.5 |
| Reported earnings | 150.6 | 113.1 | 85.4 | 91.8 | 138.9 | Minority interest | 539.3 | 535.1 | 552.8 | 578.4 | 608.5 |
| | | | | | | Equity | 2,180.5 | 2,248.6 | 2,359.8 | 2,449.8 | 2,577.0 |
| Cash Flow Statement | | | | | | Valuation & Ratios | | | | | |
| FYE Dec (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f | FYE Dec (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f |
| Profit before taxation | 288.8 | 157.1 | 140.3 | 144.0 | 217.9 | Core EPS (sen) | 4.1 | 3.1 | 2.3 | 2.5 | 3.8 |
| Depreciation & amortisation | 225.5 | 259.4 | 283.7 | 298.6 | 314.0 | P/E (x) | 12.2 | 16.3 | 21.6 | 20.1 | 13.3 |
| Changes in working capital | 41.3 | (62.5) | (373.5) | (15.7) | 13.5 | DPS (sen) | 1.6 | 0.6 | 0.7 | 0.8 | 1.1 |
| Share of JV profits | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | Dividend yield | 3.2% | 1.1% | 1.4% | 1.5% | 2.3% |
| Taxation | (75.8) | (39.6) | (44.4) | (41.0) | (62.0) | BVPS (RM) | 0.45 | 0.47 | 0.50 | 0.51 | 0.54 |
| Others | 188.7 | 101.8 | 38.6 | 44.5 | 4.2 | P/B (x) | 1.1 | 1.1 | 1.0 | 1.0 | 0.9 |
| Operating cash flow | 668.2 | 415.8 | 44.2 | 430.2 | 487.2 | EBITDA margin | 10.5% | 8.7% | 7.3% | 7.8% | 8.9% |
| Net capex | (453.4) | (595.0) | (395.1) | (423.5) | (427.9) | EBIT margin | 6.8% | 4.4% | 3.3% | 3.7% | 4.6% |
| Others | 49.5 | 104.5 | 2.5 | - | - | PBT margin | 4.8% | 2.6% | 2.0% | 2.0% | 3.0% |
| Investing cash flow | (403.9) | (490.5) | (392.6) | (423.5) | (427.9) | PAT margin | 2.5% | 1.9% | 1.2% | 1.3% | 1.9% |
| Changes in borrowings | 129.4 | 295.1 | 501.7 | 56.1 | (23.2) | Core PAT margin | 2.5% | 1.9% | 1.2% | 1.3% | 1.9% |
| Issuance of shares | 269.6 | - | - | - | - | ROE | 10.2% | 6.7% | 4.9% | 5.0% | 7.2% |
| Dividends paid | (58.4) | (20.1) | (26.3) | (27.5) | (41.7) | ROA | 2.9% | 2.0% | 1.4% | 1.4% | 2.1% |
| Others | (340.3) | (202.0) | (211.2) | - | - | Net gearing | 152.3% | 163.2% | 182.5% | 179.2% | 169.2% |
| Financing cash flow | 0.3 | 73.1 | 264.3 | 28.6 | (64.9) | | | | | | |
| Net cash flow | 264.6 | (1.6) | (84.1) | 35.3 | (5.6) | | | | | | |
| Forex | (0.8) | (6.8) | 13.4 | - | - | | | | | | |
| Others | 110.6 | 1.3 | 77.5 | - | - | | | | | | |
| Beginning cash | 390.4 | 764.8 | 757.8 | 764.6 | 799.9 | | | | | | |
| Ending cash | 764.8 | 757.8 | 764.6 | 799.9 | 794.4 | | | | | | |