

HLIB Research

PP 9484/12/2012 (031413)

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HOLD (Downgrade)

Target Price: RM0.55

Previously: RM1.24

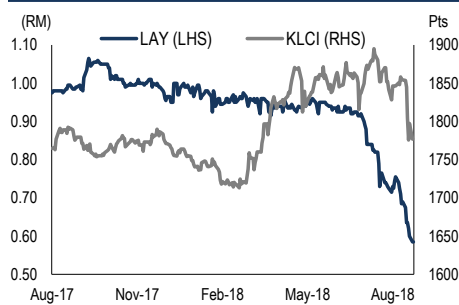
Current Price: RM0.585

| | |
|-----------------------|-------|
| Capital upside | -6.0% |
| Dividend yield | 0.9% |
| Expected total return | -5.1% |

Sector coverage: Consumer

Company description: Through its subsidiaries, Lay Hong provides poultry and layer farming, processes and markets poultry and egg products.

Share price



| Historical return (%) | 1M | 3M | 12M |
|-----------------------|-------|-------|-------|
| Absolute | -23.5 | -38.4 | -40.3 |
| Relative | -25.3 | -39.6 | -41.7 |

Stock information

| | |
|------------------------------|--------|
| Bloomberg ticker | LAY MK |
| Bursa code | 9385 |
| Issued shares (m) | 657 |
| Market capitalisation (RM m) | 384 |
| 3-mth average volume ('000) | 6,444 |
| SC Shariah compliant | Yes |

Major shareholders

| | |
|-------------------------|-------|
| Innofarm Sdn Bhd | 28.8% |
| NH Foods Ltd | 20.2% |
| Kenanga Investment Bank | 4.5% |

Earnings summary

| FYE (Mar) | FY18 | FY19f | FY20f |
|---------------------|------|-------|-------|
| PATMI - core (RM m) | 36.4 | 33.2 | 46.8 |
| EPS - core (sen) | 4.0 | 3.6 | 5.1 |
| P/E (x) | 14.7 | 16.1 | 11.4 |

Lay Hong

Dragged by higher cost and lower egg prices

Lay Hong's 1QFY19 core net profit of RM2.2 (QoQ: -77.2%; YoY: -45.7%) disappointed, accounting for only 4.3% of our full-year forecasts. Key variances against our forecast include (i) lower-than-expected table egg prices, and (ii) higher than-expected feed costs (in particularly, soybean meal and coal meal). We cut our FY19-21 core net profit forecasts by 25.4-34.1%, to account for higher feed cost and lower table egg selling price assumptions. We cut our SOP-derived TP on Lay Hong by 55.6% to RM0.55 to reflect (i) the downward revision in our core net profit forecasts (ii) lower P/E (as the company no longer deserves high valuation given its weaker earnings prospects), and (iii) valuation parameter update (post release of annual report). Downgrade to HOLD.

A disappointing quarter. 1QFY19 core net profit of RM2.2m (QoQ: -77.2%; YoY: -45.7%) disappointed, accounting for only 4.3% of our full-year forecasts. Lower-than-expected table egg prices and higher-than-expected feed cost (particularly soybean meal and corn meal prices) were the main culprits to the weaker-than-expected performance.

QoQ. 1QFY19 core net profit declined by 77.2% to RM2.2m, mainly on the back of lower egg prices, lower processed product and egg sales volume, as well as higher feed costs (which have collectively resulted in PBT at the integrated livestock farming segment declining by 91.7% to RM1.4m).

YoY. Although revenue was higher by 8.9% (at RM199.3, mainly on the back of higher table eggs output, higher sales volumes and selling prices for processed frozen products and pasteurised eggs), 1QFY19 core net profit declined by 45.7% to RM2.2m, dragged mainly by higher feed costs (arising from higher soybean meal and corn meal prices) and lower selling prices of table eggs.

Forecast. We cut our FY19-21 core net profit forecasts by 34.1%, 26.7% and 25.4% respectively, largely to account for higher feed cost and lower table egg selling price assumptions.

Downgrade to HOLD, TP: RM0.55. We cut our SOP-derived TP on Lay Hong by 55.6% to RM0.55 to reflect (i) the downward revision in our core net profit forecasts (ii) lower P/E (from 20x previously to 12x, as we believe the company no longer deserves higher valuation given its weaker earnings prospects), and (iii) valuation parameter update (in particular, issued shares, following the recent release of FY18 annual report).

While we expect subsequent quarters to come in stronger (relative to 1QFY19) and its on-going expansion plans (for its broiler, pasteurised eggs, and processed frozen product capacities) to translate to better performance from FY20 onwards, we believe it would take a while before earnings recover to previous level, (given the high feed costs). We downgrade our rating on stock from Buy to **HOLD**.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

| FYE Mar | FY17 | FY18 | FY19f | FY20f | FY21f |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 9.7 | 15.7 | 18.3 | 47.3 | 124.5 |
| Receivables | 109.1 | 174.6 | 165.1 | 174.8 | 175.6 |
| Inventories | 82.2 | 91.7 | 95.3 | 100.9 | 101.3 |
| PPE | 368.3 | 442.0 | 463.5 | 474.3 | 446.8 |
| Others | 44.6 | 67.3 | 69.0 | 71.6 | 74.2 |
| Assets | 613.9 | 791.2 | 811.2 | 868.8 | 922.3 |
| Payables | 121.9 | 166.0 | 152.3 | 161.2 | 161.9 |
| Debt | 156.8 | 230.5 | 230.5 | 230.5 | 230.5 |
| Others | 33.0 | 37.8 | 37.8 | 37.8 | 37.8 |
| Liabilities | 311.7 | 434.3 | 420.7 | 429.6 | 430.3 |
| Shareholder's equity | 276.0 | 317.5 | 347.4 | 390.9 | 438.1 |
| Minority interest | 26.1 | 39.5 | 43.1 | 48.3 | 53.9 |
| Equity | 302.2 | 356.9 | 390.5 | 439.2 | 492.0 |

Cash Flow Statement

| FYE Mar | FY17 | FY18 | FY19f | FY20f | FY21f |
|------------------------|---------------|---------------|---------------|---------------|--------------|
| Profit before taxation | 21.9 | 52.2 | 48.5 | 68.5 | 73.9 |
| D&A | 23.4 | 27.3 | 28.6 | 29.2 | 27.6 |
| Working capital | (8.8) | (41.2) | (7.7) | (6.4) | (0.5) |
| Taxation | (5.8) | (5.5) | (11.7) | (16.5) | (17.8) |
| Others | 0.3 | 1.3 | (1.8) | (2.6) | (2.6) |
| CFO | 31.0 | 34.1 | 55.9 | 72.2 | 80.4 |
| Capex | (50.8) | (70.5) | (50.0) | (40.0) | - |
| Others | (9.2) | (4.4) | - | - | - |
| CFI | (60.1) | (74.9) | (50.0) | (40.0) | - |
| Changes in debt | (18.1) | 47.4 | - | - | - |
| Shares issued | 17.8 | 8.4 | - | - | - |
| Dividends | (3.0) | (3.0) | (3.3) | (3.3) | (3.3) |
| Others | (0.0) | (0.0) | - | - | - |
| CFF | (3.5) | 52.7 | (3.3) | (3.3) | (3.3) |
| Net cash flow | (32.5) | 11.9 | 2.7 | 28.9 | 77.2 |
| Forex | (0.0) | (0.3) | - | - | - |
| Others | - | - | - | - | - |
| Beginning cash | 32.1 | (0.5) | 11.1 | 13.8 | 42.7 |
| Ending cash | (0.5) | 11.1 | 13.8 | 42.7 | 119.9 |

Income Statement

| FYE Mar | FY17 | FY18 | FY19f | FY20f | FY21f |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 676.0 | 847.8 | 762.1 | 806.8 | 810.5 |
| EBITDA | 53.4 | 90.6 | 85.4 | 103.0 | 102.5 |
| EBIT | 30.0 | 63.3 | 56.8 | 73.8 | 74.9 |
| Finance cost | (7.6) | (10.1) | (10.0) | (8.0) | (3.7) |
| Associates & JV | (0.5) | (1.0) | 1.8 | 2.6 | 2.6 |
| Profit before tax | 21.9 | 52.2 | 48.5 | 68.5 | 73.9 |
| Tax | (2.5) | (12.4) | (11.7) | (16.5) | (17.8) |
| PAT | 19.4 | 39.8 | 36.8 | 52.0 | 56.1 |
| Minority interest | (1.2) | (3.2) | (3.7) | (5.2) | (5.6) |
| Reported PATMI | 18.3 | 36.7 | 33.2 | 46.8 | 50.5 |
| Exceptionals | (0.5) | (0.3) | - | - | - |
| Core PATMI | 17.8 | 36.4 | 33.2 | 46.8 | 50.5 |

Valuation & Ratios

| FYE Mar | FY17 | FY18 | FY19f | FY20f | FY21f |
|-------------------|-------|-------|-------|-------|-------|
| Core EPS (sen) | 2.9 | 5.6 | 5.1 | 7.2 | 7.8 |
| Core FD EPS (sen) | 1.9 | 4.0 | 3.6 | 5.1 | 5.5 |
| P/E (x) | 20.0 | 10.4 | 11.5 | 8.1 | 7.5 |
| FD P/E (x) | 30.1 | 14.7 | 16.1 | 11.4 | 10.6 |
| EV/EBITDA (x) | 11.2 | 6.6 | 7.0 | 5.8 | 5.8 |
| DPS (sen) | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Dividend yield | NM | 1.2 | 1.2 | 1.2 | 1.2 |
| BVPS (RM) | 0.5 | 0.5 | 0.5 | 0.6 | 0.7 |
| P/B (x) | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 |
| EBITDA margin | 7.9% | 10.7% | 11.2% | 12.8% | 12.6% |
| EBIT margin | 4.4% | 7.5% | 7.5% | 9.1% | 9.2% |
| PBT margin | 3.2% | 6.2% | 6.4% | 8.5% | 9.1% |
| Net margin | 2.6% | 4.3% | 4.4% | 5.8% | 6.2% |
| ROE | 5.9% | 10.2% | 8.5% | 10.7% | 10.3% |
| ROA | 2.9% | 4.6% | 4.1% | 5.4% | 5.5% |
| Net gearing | 53.3% | 67.7% | 61.1% | 46.9% | 24.2% |

Assumptions

| FYE Mar | FY19f | FY20f | FY21f |
|----------------------------|-------|---------|---------|
| Table eggs output (m eggs) | 960.7 | 1,025.7 | 1,039.2 |
| Broiler output (m birds) | 21.9 | 23.9 | 23.9 |
| MYR:US\$ | 4.2 | 4.2 | 4.2 |

Figure #1 Quarterly results comparison

| FYE Sep (RM m) | 1Q18 | 4Q18 | 1Q19 | QoQ (%) | YoY (%) | 3M18 | 3M19 | YoY (%) |
|--------------------------------|-------|-------|-------|--------------|--------------|-------|-------|--------------|
| Revenue | 183.0 | 224.6 | 199.3 | -11.3 | 8.9 | 183.0 | 199.3 | 8.9 |
| - Integrated livestock farming | 146.3 | 190.1 | 160.5 | -15.6 | 9.7 | 146.3 | 160.5 | 9.7 |
| - Retail supermarket | 36.7 | 34.5 | 38.8 | 12.3 | 5.5 | 36.7 | 38.8 | 5.5 |
| EBIT | 10.5 | 18.5 | 5.4 | -71.0 | -49.1 | 10.5 | 5.4 | -49.0 |
| Finance cost | -2.1 | -2.7 | -3.1 | 13.8 | 43.1 | -2.1 | -3.1 | 43.1 |
| Share of JVs and associates | -0.2 | -0.3 | -0.3 | -12.5 | 59.1 | -0.2 | -0.3 | 59.1 |
| PBT | 8.2 | 15.5 | 2.0 | -87.0 | -75.6 | 8.2 | 2.0 | -75.6 |
| - Integrated livestock farming | 6.9 | 16.3 | 1.4 | -91.7 | -80.4 | 6.9 | 1.4 | -80.4 |
| - Retail supermarket | 1.3 | -0.8 | 0.6 | >100 | -49.7 | 1.3 | 0.6 | -49.7 |
| Tax expense | -2.0 | -4.5 | 0.3 | NM | -113.3 | -2.0 | 0.3 | NM |
| PAT | 6.2 | 11.0 | 2.3 | -79.3 | -63.3 | 6.2 | 2.3 | -63.2 |
| Minority interests | -1.8 | 0.0 | 0.0 | NM | NM | -1.8 | 0.0 | NM |
| Reported PATMI | 4.4 | 11.0 | 2.3 | -79.2 | -48.4 | 4.4 | 2.3 | -48.4 |
| Exceptional items | 0.0 | 0.5 | -0.1 | NM | NM | 0.0 | -0.1 | NM |
| Core PATMI | 4.4 | 10.5 | 2.4 | -77.2 | -45.7 | 4.4 | 2.2 | -51.0 |
| Core EPS (sen) | 0.7 | 1.6 | 0.4 | -77.2 | -45.7 | 0.7 | 0.3 | -51.0 |
| | | | | %-pts | %-pts | | | %-pts |
| EBIT margin (%) | 5.8 | 8.2 | 2.7 | -5.5 | -3.1 | 5.8 | 2.7 | -3.1 |
| PBT margin (%) | 4.5 | 6.9 | 1.0 | -5.9 | -3.5 | 4.5 | 1.0 | -3.5 |
| PATMI margin (%) | 2.4 | 4.7 | 1.2 | -3.5 | -1.2 | 2.4 | 1.1 | -1.3 |

Bursa, HLIB Research

- EIs in 1QFY19 include mainly RM115k unrealised forex gain.

Figure #2 Sum-of-parts valuation

| | RMm |
|---|------------------------|
| TP based on 12x FY03/19 core net profit | 397.9 |
| Proceeds from warrants conversion | 103.9 |
| | <hr/> 501.8 |
| Fully diluted shares (m) | 913.1 |
| RM/share | <hr/> 0.55 <hr/> <hr/> |

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Published & printed by:

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Stock rating definitions

| | |
|---------------------|---|
| BUY | Expected absolute return of +10% or more over the next 12 months. |
| HOLD | Expected absolute return of -10% to +15% over the next 12 months. |
| SELL | Expected absolute return of -10% or less over the next 12 months. |
| UNDER REVIEW | Rating on the stock is temporarily under review which may or may not result to a change from the previous rating. |
| NOT RATED | Stock is not or no longer within regular coverage. |

Sector rating definitions

| | |
|--------------------|---|
| OVERWEIGHT | Sector expected to outperform the market over the next 12 months. |
| NEUTRAL | Sector expected to perform in-line with the market over the next 12 months. |
| UNDERWEIGHT | Sector expected to underperform the market over the next 12 months. |