The Star Online

Teo Seng allocates RM200mil to grow capacity

(Saturday, 07 March 2015) In the recent run-up of poultry stocks, Teo Seng Capital Bhd seems to have performed the best, going up by 2.8 times in the last 12 months.

Teo Seng, an integrated chicken egg player, producing a three million eggs a day, is among the largest in the country, and has set an ambitious growth target.

It aims to spend RM200mil to grow its capacity by 67% to five million eggs a day in the next four to five years.

Teo Seng, joinly controlled by the Lau family of Leong Hup and the family of managing director Nam Yok San, has been reporting healthy numbers.

It is one of the few poultry players not to have suffered a full-year loss since its listing in 2008.

It also enjoys among the highest profit margins in the industry. For example, it achieved a 12.8% net profit margin for the financial year ended Dec 31, 2014, among the highest of all poultry players for that year.

Leong Hup executive director Tan Sri Francis Lau and Nam point out that the company's operational efficiency and cost prudence have kept the company ahead of the game.

As an integrated player, Teo Seng has its own in-house feedmill to cater to its needs.

It also has a geographical advantage because its farms in Johor are close to Singapore where most of the exports go to.

The company exports 25% to 30% of its production.

While some 90% of its income is derived from selling eggs, it also produces egg trays and animal health products.

It also has low debt levels, with a gearing ratio of a mere 0.5 times, compared with many competitors with high debt levels.

Lau says Teo Seng's low gearing, coupled with its free cash flows enable the company to easily fund its expansion plans.

"There are no plans for a cash call," he says.

Teo Seng has a cash balance of close to RM40mil as of Dec 31, 2014.

Lau says his business philosophy is simple: do only what you know best (in his case, the poultry business) and when you make money, reward all the shareholders.

Teo Seng has a dividend policy of paying out between 25% and 30% of profits.

For FY2014, Teo Seng declared a dividend of 10 sen per share, which is equivalent to around 40% of its net profits for that year.

At its current share price of RM1.70, Teo Seng's shares enjoy a dividend yield of close to 6% – one of the highest in the poultry sector.

Late last year, Teo Seng embarked on another rewarding exercise for shareholders – giving free bonus shares and warrants.

For FY2014, Teo Seng enjoyed a year-on-year 107% jump in its earnings to RM48.62mil from RM23.42mil.

That solid earnings means that despite Teo Seng shares almost tripling in the last 12 months, the company presently trades at an undemanding historical price earnings ratio of 10 times.

Read more at http://www.thestar.com.my/business/business-news/2015/03/07/teo-seng-allocates-rm200mil-to-grow-capacity/#dVJb3jVL1wM8r8oQ.99