

Teo Seng Capital Bhd *Subdued egg prices***RESULTS UPDATE****NEUTRAL****Current Price : RM 1.04****Target Price : RM 0.90****Key Statistics**

Bloomberg Ticker	TSCB MK
Bursa Ticker/Stock Code	TEOSEN/ 7252
Shares Issued (m)	300
Market Capitalisation (RM'm)	312
52 Week Hi/Lo Price (RM)	1.42/0.955
Avg Trading Volume (3-mth)	358,658
Est Free Float (m)	99
YTD Returns (%)	-12.27
Beta	0.77

Major Shareholders (%)

Emerging Glory	52.4
----------------	------

1-Year Share Price Performance**Analyst: Research Team****Email: research@interpac.com.my**

We maintain our NEUTRAL call. Sluggish prices and the absence of any rebound in egg prices continued to pressure industry profit margins. On the flip side, the fundamentals of the company remains intact given egg production is expected to grow 13% and 9% in FY17 and FY18 respectively. We downgrade our fair value to RM0.90 from RM1.19, 10x PER pegged to Teo Seng's FY17 EPS of 8.95sen.

◆ Below forecasts

Teo Seng's 4QFY16 net earnings of RM3.8mil were down -11% YoY from RM4.3m due to lower egg prices. Average egg selling prices have continued to trend lower since 2QFY15 from the high of 36.2 sen now down to 31.3sen. Revenue grew at a slower pace of 5% as compared to the previous year's 8% despite the higher volume sold, due to lower egg prices. The company's FY16 earnings of 22.7m represents 70% of our earnings forecast. We trimmed our FY17 earnings forecast to RM26.9m, down 16% for the reason the rebound in egg prices has been slower than expected.

◆ Light at the end of the tunnel

In February CY16, the Home Ministry reportedly suspended recruitment of foreign workers, only to partially allow again in May 2016, the hiring of new foreign workers in four sectors, including Manufacturing. Foreign workers consume a high quantity of eggs due to their affordability as the cheapest source of protein. The rise in the number of new foreign worker hires can be a catalyst for egg prices to rebound.

◆ Fundamentals intact

We continue to highlight the company's efforts to grow egg production where the company envisages volume growth of 13% and 9% respectively in FY17 and FY18. The company raised its gearing in FY16 to accommodate its commitment to increase its market share in commercial egg sales. Net gearing rose to 0.52x in FY16 from 0.35x.

Exhibit1 :Investment Highlights & Earnings Forecasts

FYE Dec	FY13	FY14	FY15	FY16	FY17(F)	FY18(F)
Revenue (m)	330.8	380.9	412.8	433.7	496.2	533.6
PBT (m)	29.9	66.1	50.7	29.1	34.4	37.6
PAT (m)	23.3	48.6	41.1	22.7	26.9	29.3
EPS (sen)	7.77	16.19	13.69	7.58	8.95	9.77
Earnings Growth (%)	36.1	108.3	-15.4	-44.7	18.1	9.2
GP Margin (%)	28.45	38.17	32.50	27.37	25.04	23.87
PBT Margin (%)	9.0	17.4	12.3	6.7	6.9	7.0
PAT Margin (%)	7.0	12.7	10.0	5.2	5.4	5.5
Fully Diluted PER (x)	13.8	6.6	7.8	14.1	12.0	11.0
DPS (sen)	1.7	6.7	3.5	2.0	2.0	2.5
Dividend Yield (%)	1.6	6.2	3.3	1.9	1.9	2.3
ROE (%)	17.6	30.7	21.4	11.0	11.7	11.7
ROA (%)	9.0	16.4	11.4	5.4	5.8	6.0
Net Gearing Ratio (%)	30.9	18.5	34.6	52.4	54.6	55.1
Price/Book Ratio (x)	2.42	2.03	1.67	1.55	1.40	1.28
Key Assumption						
Eggs (mill)	932.5	987.5	1,115.0	1,277.1	1,443.5	1,577.0
Blended egg price	28.1	31.3	29.2	27.4	28.0	28.0

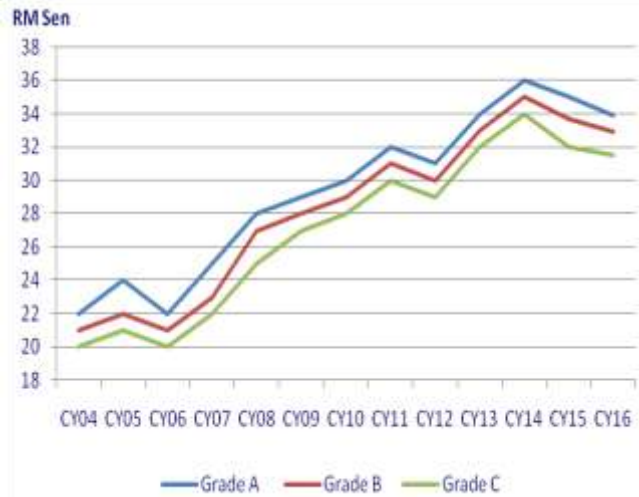
Source: Inter-Pacific

Exhibit2 :Quarterly Income Statement and Comparison

FYE 31st Dec (RM m)	4QFY16	4QFY15	YoY chg (%)	3QFY15	QoQ chg (%)	FY16	FY15	YTD chg (%)
Revenue	111.6	107.2	4.1	112.2	(0.5)	433.7	412.9	5.0
PBT	4.3	6.0	(27.5)	8.1	(46.4)	29.1	50.7	(42.6)
EBITDA	10.1	11.1	(9.5)	13.8	(26.9)	51.6	68.8	(25.0)
Tax Expenses	(0.6)	(1.7)	(68.0)	(2.5)	(77.3)	(6.4)	(9.6)	(33.9)
PAT	3.8	4.3	(11.0)	5.7	(32.9)	22.7	41.1	(44.7)
PBT margin (%)	3.9	5.6	(30.4)	7.2	(46.1)	6.7	12.3	(45.4)
EBITDA margin (%)	9.0	10.4	(14.5)	12.3	(72.4)	11.9	16.7	(28.6)
PAT margin (%)	3.4	4.0	(11.0)	5.0	(74.9)	5.2	10.0	(47.4)
EPS (sen)	1.3	1.4	(11.0)	1.9	(32.9)	7.6	13.7	(44.7)
Dilluted EPS (sen)	1.1	1.2	(11.0)	1.6	(32.9)	6.5	11.7	(44.7)

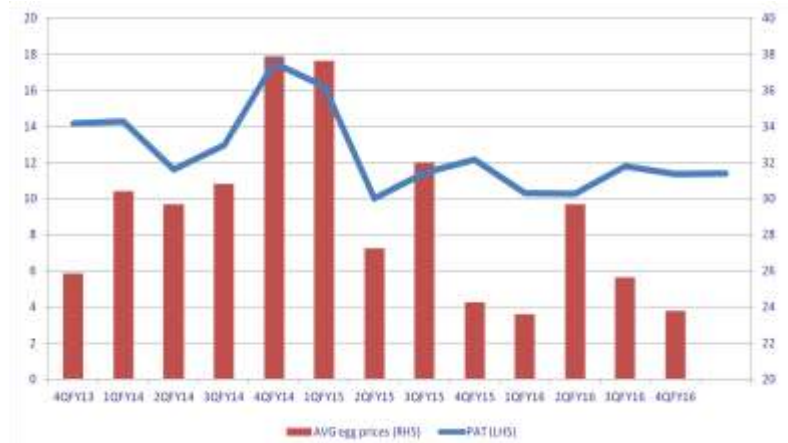
Source: Company

Exhibit 3 :Ex-farm prices



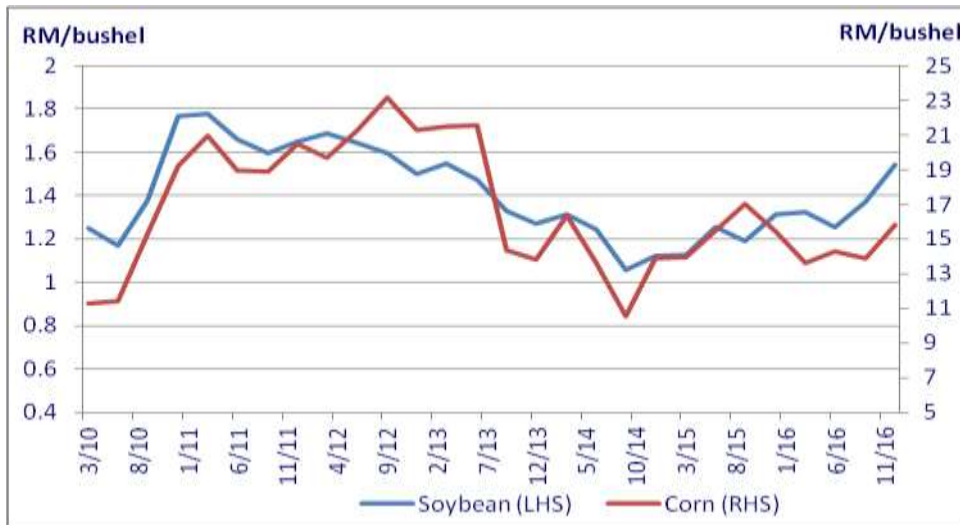
Source: Department of Veterinary

Exhibit 4 :PAT VS Ex-Farm Prices



Source: Department of Veterinary

Exhibit 5: Soybean and Corn prices creeping up



Source: Inter-Pacific

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

IMPORTANT: This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. **Inter-Pacific Research SdnBhd** and or its associates may from time to time have interest and/or underwriting commitments in the company being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

Published and Printed by:

Inter-Pacific Research SdnBhd (449005-X)
West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur
General Line : 03-2117 1888 Fax : 03-2142 7678