

# Stock Digest

## Results Note – Teo Seng Capital Bhd

Tuesday, 22 May, 2018



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## Sustained Egg Price Recovery

### Results Highlights

- Teo Seng's 1Q2018 net profit stood at RM6.3 mln vs. a net loss of RM4.7 mln in the previous corresponding period, lifted by the recovery in the average egg selling prices coupled with the lower feed cost. Revenue for the quarter gained 13.4% Y.o.Y to RM115.1 mln.
- The reported results came above our expectations, making up 32.7% of our estimated net profit estimate of RM20.2 mln. Meanwhile, the reported revenue came within our expectations, amounting to 24.0% of our full-year forecast of RM479.7 mln.
- Segment wise in 1Q2018, the poultry farming segment's pretax profit stood at RM7.2 mln vs. a pretax loss of RM4.9 mln, lifted by recovery in average egg selling prices after the oversupply of eggs faded in 2H2017, coupled with lower feed cost. The trading segment pretax profit was flat at RM1.4 mln as the increase in sales for animal health products were offset by the higher operating cost.
- As of 1Q2018, Teo Seng's gearing is reduced to 69.2% (from 71.5% recorded in 4Q2017) amid the firmer Ringgit against the Singapore Dollar. Moving forward, we expect Teo Seng's gearing level to remain above the 50.0% level as the group continues to hinge on external funds to cater for its expansion plans, targeting production of 5.0 mln eggs per day in 2020.
- No dividend was announced for this quarter as the group traditionally declare dividend in the second half of the financial year.

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	412.8	433.7	422.6	479.7	526.2
EBITDA	68.5	48.3	28.5	51.9	59.0
Net Profit	41.0	20.7	3.5	20.2	24.2
Revenue Growth (%)	8.4	5.1	-2.6	13.5	9.7
EBITDA Growth (%)	-15.9	-29.5	-40.9	81.9	13.9
Net Profit Growth (%)	-15.7	-49.5	-83.3	483.3	19.8
EPS (sen)	13.7	6.9	1.2	6.7	8.1
Diluted EPS (sen) *	N/A	N/A	N/A	5.9	7.0
P/E (x)	6.9	13.6	N/A	14.0	11.7
Diluted P/E (x) *	N/A	N/A	N/A	16.0	13.4
DPS (sen)	2.5	2.5	0.0	1.5	2.0
Dividend Yield (%)	2.7	2.7	0.0	1.6	2.1
P/BV (x)	1.5	1.1	1.1	1.0	1.0
ROE (%)	21.4	8.4	1.4	7.5	8.2

\* Based on enlarged share capital of 350.0 mln outstanding shares (After adjusting for full warrant conversion in 2018)

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM0.94

Target Price: RM1.15

Expected Return: +22.3%

Expected Dividend Return: +1.6%

Expected Total Return: +23.9%

FBM KLCI: 1,847.09

### Key Statistics

Bursa Code: 7252

Bloomberg Ticker: TSCB MK Equity

**Stock Information:** Engaged in layer farming, manufacturing and marketing of animal feeds and paper egg trays, along with the distribution of animal health products.

**Listing Market:** Main Market

**Share Issued (mln):** 300.0

**Market Capital (RM mln):** 282.0

**Par Value (RM):** N/A

**52 week high/low:** RM1.00/RM0.82

**Estimated free float:** 31.5%

**Beta (x):** 1.4

**3-month average volume ('000):** 214

**Major Shareholders:**

Emerging Glory Sdn Bhd 52.1%

Koperasi Permodalan Felda 3.4%

Malaysia Bhd

Public Islamic Opportunities Fund 2.5%

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**BURSA**



## Prospects

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Eggs prices has stabilised since mid-2017 following the recovery from the oversupply condition in 1H2017 as industry players opt to cull the chickens earlier than the usual 85-week life cycle. We anticipate Teo Seng to see continual recovery in its bottom line for the rest of 2018, backed by increases in production and number of eggs sold (potentially higher disposable income arising from the removal of Goods and Services Tax effective 1st June 2018 that could boost consumption), coupled with the rebound in average egg selling prices (see Appendix 1).

Over at the group's major production cost, soybean prices have risen, averaging at RM40.43 per bushel in 1Q2018 (+2.4% Q.o.Q) in response to strong demand coupled with expectation over minimal weather disruptions. On the other hand, Maize prices stabilised an average of RM782.36 per metric tonne (+0.02% Q.o.Q) after free-falling since mid-2017, pressured by the oversupply condition after production hit record high levels. Moving forward, we expect soybean prices to hold steady above RM40.00 per bushel, whilst Maize prices is expected to remain above RM750.00 per metric tonne in 2018 on improved demand for livestock feed and industrial processing.

We also note that the construction of its new feedmill plant was completed and commenced operation in 4Q2017 to cater for the increase in the number of egg production that stood at 3.7 mln eggs per day in 2017 (3.5 mln eggs per day in 2016). Elsewhere, government authorities are seeking ways to tackle the domestic poultry industry's heavy reliance on imported feeds through higher usage of palm kernel cake in chicken rations, coupled with increases in production of corn cultivation. Should the plan materialise, the reduction in the major cost of chickens rearing and eggs production could improve the margins of egg producers.

## Valuation And Recommendation

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Although the reported earnings came ahead of our expectations, we leave our earnings forecast unchanged as we think that the rally in egg prices could taper towards end-2018 as poultry players ramp up their production. Therefore, we maintain our **BUY** recommendation on Teo Seng with an unchanged target price of RM1.15.

We derive our target price by ascribing a target PER of 17.0x to its 2018 EPS of 6.7 sen. The ascribed target PER is at a 15% discount to its peers average of 20.0x due to its smaller market capitalisation. At current price of RM0.94, TSCB is trading at prospective PERs of 14.0x and 11.7x for 2018 respectively, implying further potential upsides, in our view.

Risks to our recommendation include avian influenza – a viral infection that can infect not only birds, but also humans and other animals. Chicken feed (mainly soybean and maize) makes up 70% of production cost. The stronger commodity prices (soybean and maize) will negatively impact its margins and vice versa. A firmer Ringgit against the U.S. Dollar could also impact the group's bottom line. A recovery in the local currency

against the Greenback will have a positive impact on the group's earnings and vice versa, as the commodity purchases are denominated in U.S. Dollars.

Quarterly Performance					
FYE Dec (RM mln)	1Q2018	1Q2017	% Change		
			Y.o.Y	4Q2017	
			% Change		% Change
			Q.o.Q		
Revenue	115.1	101.5	13.4%	118.2	-2.6%
EBITDA	15.3	2.3	561.2%	17.6	-13.0%
Depreciation & Amotization	-4.8	-4.2	15.0%	-3.8	26.9%
Net Interest Income/ (Expense)	-2.0	-1.6	20.6%	-2.0	-2.1%
Profit before Tax	8.6	-3.5	347.3%	11.9	-27.6%
Net Profit	6.6	-4.8	236.7%	12.8	-48.3%
Basic EPS (Sen)	2.2	-1.6	236.7%	4.3	-48.3%

Source: Company Data & MSSB Research

<b>Income Statement</b>					
<b>FYE Dec (RM mln)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
Revenue	412.8	433.7	422.6	479.7	526.2
EBITDA	68.5	48.3	28.5	51.9	59.0
Depreciation & Amortisation	-11.4	-13.2	-15.8	-17.3	-18.5
Net Interest Expense	-13.2	-15.8	-17.3	-18.5	-20.0
Pre-tax Profit	50.7	26.0	4.1	25.2	30.2
<i>Effective Tax Rate</i>	<i>19.0%</i>	<i>20.2%</i>	<i>15.3%</i>	<i>20.0%</i>	<i>20.0%</i>
Net Profit	41.0	20.7	3.5	20.2	24.2
<i>EBITDA Margin</i>	<i>16.6%</i>	<i>11.1%</i>	<i>6.7%</i>	<i>10.8%</i>	<i>11.2%</i>
<i>PreTax Margin</i>	<i>12.3%</i>	<i>6.0%</i>	<i>1.0%</i>	<i>5.3%</i>	<i>5.7%</i>
<i>Net Margin</i>	<i>9.9%</i>	<i>4.8%</i>	<i>0.8%</i>	<i>4.2%</i>	<i>4.6%</i>

Source: Company Data & MSSB Research

<b>Balance Sheet</b>					
<b>FYE Dec (RM mln)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
Total Assets	366.0	468.2	495.0	536.8	579.7
Fixed Assets	222.6	294.4	316.1	345.5	364.9
Current Assets	143.4	173.8	178.9	191.3	214.7
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Current Liabilities	134.5	149.9	177.4	199.2	220.3
LT Liabilities	39.8	72.5	68.8	68.5	66.1
Share Capital	60.0	60.0	60.0	60.0	60.0
Shareholder's Funds	191.7	245.8	248.8	269.0	293.2
Minority Interests	0.1	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

<b>Per Share Data</b>					
<b>FYE Dec</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
Book Value (Sen)	63.9	81.9	82.9	89.7	97.7
Cash Flow (Sen)	14.9	11.4	10.9	2.1	17.8
Net Earnings (sen)	13.7	6.9	1.2	6.7	8.1
Dividend (sen)	2.50	2.50	0.00	1.50	2.00
Payout Ratio (%)	18.3	36.2	0.0	22.3	24.8
Dividend Yield (%)	2.7	2.7	0.0	1.6	2.1
PER (x)	6.9	13.6	N/A	14.0	11.7
P/Cash Flow (x)	6.3	8.3	8.7	44.5	5.3
P/Book Value (x)	1.5	1.1	1.1	1.0	1.0
ROE (%)	21.4	8.4	1.4	7.5	8.2
Net Gearing (%)	44.6	47.3	63.7	66.9	63.3

Source: Company Data & MSSB Research

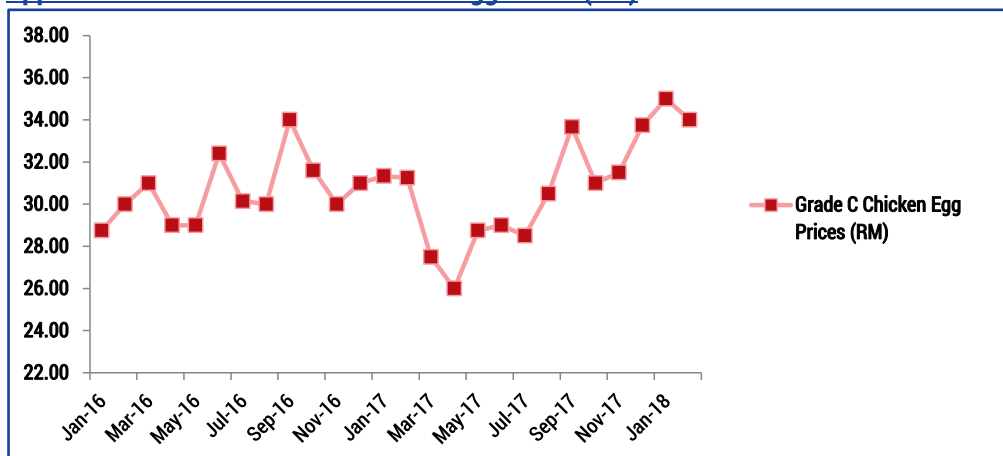
## Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	5.62%	-4.08%	-14.55%
Relative (%)	7.43%	-5.20%	-18.98%

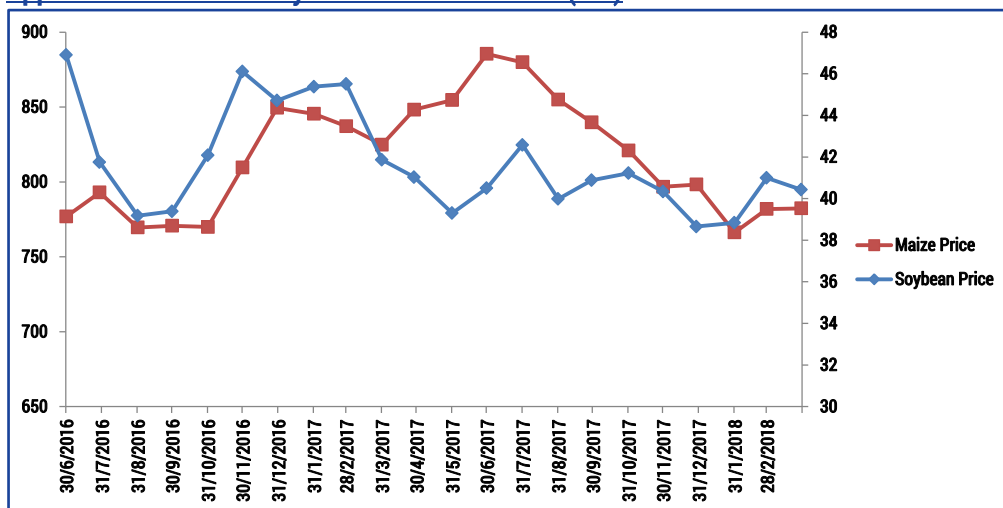
Source: Company Data, Bloomberg

## Appendix 1: Historical Grade C Chicken Egg Prices (RM)



Source: Department of Veterinary, MSSB Research

## Appendix 2: Historical Soybean and Maize Prices (RM)



Source: Bloomberg, MSSB Research

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