

Stock Digest

Results Note – Teo Seng Capital Bhd

Friday, 14 Feb, 2020

M⁺Online
Equipping Traders For The Win

MALACCA SECURITIES SDN. BHD.
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Hotline: 1300 22 1233
Email: support@mplusonline.com.my
Website: www.mplusonline.com.my

Still On Track

Results Highlights

- Teo Seng's 4Q2019 net profit fell 21.2% Y.o.Y to RM13.6 mln, lifted by higher production and sale of chicken eggs, higher average selling prices (ASP) of chicken eggs and improved demand for animal health products. Revenue for the quarter declined 7.0% Y.o.Y to RM137.0 mln, due to lower turnover from the poultry farming segment.
- For 2019, cumulative net profit jumped 93.8% Y.o.Y to RM58.8 mln. Revenue for the year gained 11.6% Y.o.Y to RM547.1 mln. Both the reported earnings and revenue came in line with our expectations, making up to 101.6% and 97.8% of our forecast of RM57.9 mln and RM559.3 mln respectively.
- Segment wise in 4Q2019, the poultry farming segment's pretax profit dipped 24.2% Y.o.Y to RM15.6 mln, dragged down by the lower ASP of chicken eggs that offset the increase in sales quantity. The trading segment's pretax profit slipped 38.4% Y.o.Y to RM2.6 mln on higher operational costs that offset the stronger sales performance due to additional products being added.
- As of 4Q2019, Teo Seng's gearing is reduced to 52.5% (from 54.7% recorded in 3Q2019). Moving forward, we expect Teo Seng's gearing level to stable as the group continues to hinge on external funding for its long-term expansion plans, targeting production of 5.0 mln eggs per day by end-2022.

Financial Highlights					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	422.6	490.3	547.1	586.8	601.3
EBITDA	28.5	69.2	107.4	114.3	118.8
Net Profit	3.5	30.4	58.8	61.8	64.7
Revenue Growth (%)	-2.6	16.0	11.6	7.2	2.5
EBITDA Growth (%)	-40.9	142.7	55.3	6.4	4.0
Net Profit Growth (%)	-83.3	777.5	93.8	5.0	4.7
EPS (sen)	1.2	10.1	19.6	20.6	21.6
P/E (x)	99.6	11.4	5.9	5.6	5.3
DPS (sen)	0.0	3.0	5.0	5.5	6.0
Dividend Yield (%)	0.0	2.6	4.3	4.8	5.2
P/BV (x)	1.4	1.2	1.1	0.9	0.8
ROE (%)	1.4	10.9	19.2	16.8	14.9

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM1.15

Target Price: RM1.65

Expected Return: +43.5%

Expected Dividend Return: +4.8%

Expected Total Return: +48.3%

FBM KLCI: 1,539.16

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): 345.0

Par Value (RM): N/A

52 week high/low: RM1.39/RM1.03

Estimated free float: 29.6%

Beta (x): 1.0

3-month average volume ('000): 1423.3

Major Shareholders:

Emerging Glory Sdn Bhd 55.4%

Elvi Fund Management Co Ltd 4.4%

Public Islamic Opportunities Fund 2.6%

Analyst:

Kenneth Leong

kennethleong@msec.com.my

+603 2201 2100

BURSA
MIDS

www.bursamids.com

Disclaimer

This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.

Prospects

We gather that the rally in ASP of chicken eggs have tapered since mid-October 2019 (see Appendix 1) to approximately RM0.34 per Grade C chicken egg as at end-4Q2019 vs. approximately RM0.35 per egg recorded in 3Q2019. Cost wise, soybean prices (see trended slightly higher, hitting the highest level since May 2018. Maize prices, however, remained soft, falling -2.1% Q.o.Q, reflecting the potentially favorable production in 2020 following the rainfall deficits in October 2019 and November 2019 (see Appendix 2).

The recent renewed volatility of the Ringgit against the Greenback bodes well for Teo Seng in terms of feed cost and its' export segment. We reckon that that Ringgit may remain downbeat in view of the poor economic data performance as demonstrated in 4Q2019 GDP. In the meantime, demand is widely to remain stable as Malaysia remains free of Avian flu for the time being. We continue to like Teo Seng for its established presence in the Hong Kong and Singapore market. As of 2019, Malaysia exported a total of 48.0 mln eggs, of which 42.4% or 20.3 mln eggs were exported to Hong Kong.

Moving into 2020, Teo Seng aims to produce approximately 4.1 mln eggs per day by end-2020 as the completion of feedmill plant expansion in 2018 will cater for the increasing number of chickens.

Valuation And Recommendation

With the reported earnings coming within our expectations, we made no changes to our earnings. Consequently, we maintained our **BUY** recommendation on Teo Seng with an unchanged higher target price of RM1.65. We arrive our target price by ascribing an unchanged target PER of 8.0x to its 2020 EPS of 20.6 sen.

We continue to like Teo Seng as it is one of the largest vertically integrated chicken egg players in Malaysia, backed by its gradual production expansion plans. We reckon that the recent weakness of share price has already reflected the potential dilution of warrants and the pullback of chicken eggs prices. Current prospective PERs trading at 5.6x and 5.3x for 2020 and 2021 respectively are also relatively attractive.

Risks to our recommendation include avian influenza outbreak – 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 its feed cost. Stronger commodity prices (soybean and maize) will negatively impact its margins and vice versa. A firmer Ringgit against the U.S. Dollar could also affect the group's bottom line as 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.

Disclaimer

This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.

Quarterly Performance					
FYE Dec (RM mln)	4Q2019	4Q2018	% Change		
			Y.o.Y	Q.o.Q	
Revenue	137.0	147.2	-7.0%	138.4	-1.0%
EBITDA	26.7	32.0	-16.8%	29.7	-10.2%
Depreciation & Amotization	-7.0	-5.2	34.7%	-5.2	35.7%
Net Interest Income/ (Expense)	-1.4	-2.1	-30.0%	-1.9	-24.8%
Profit before Tax	18.2	24.8	-26.5%	22.6	-19.4%
Net Profit	13.6	17.3	-21.2%	18.0	-24.5%
Basic EPS (Sen)	4.5	5.8	-21.2%	6.0	-24.5%

Source: Company Data & MSSB Research

Disclaimer

This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.

Income Statement					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	422.6	490.3	547.1	586.8	601.3
EBITDA	28.5	69.2	107.4	114.3	118.8
Depreciation & Amortisation	-15.8	-17.3	-19.8	-22.5	-25.8
Net Interest Expense	-17.3	-19.8	-22.5	-25.8	-26.7
Pre-tax Profit	4.1	41.2	77.4	81.3	85.1
Effective Tax Rate	15.3%	26.4%	24.0%	24.0%	24.0%
Net Profit	3.5	30.4	58.8	61.8	64.7
EBITDA Margin	6.7%	14.1%	19.6%	19.5%	19.8%
PreTax Margin	1.0%	8.4%	14.2%	13.9%	14.1%
Net Margin	0.8%	6.2%	10.8%	10.5%	10.8%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Total Assets	495.0	543.3	563.9	627.9	677.4
Fixed Assets	316.1	338.7	348.8	369.9	391.4
Current Assets	178.9	204.6	208.7	258.0	276.0
Other LT Assets	0.0	0.0	0.1	0.0	0.0
Current Liabilities	177.4	185.8	161.5	165.3	168.2
LT Liabilities	68.8	79.6	95.8	94.6	76.5
Share Capital	60.0	60.0	60.0	60.0	60.0
Shareholder's Funds	248.8	277.8	306.6	368.0	432.7
Minority Interests	0.0	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

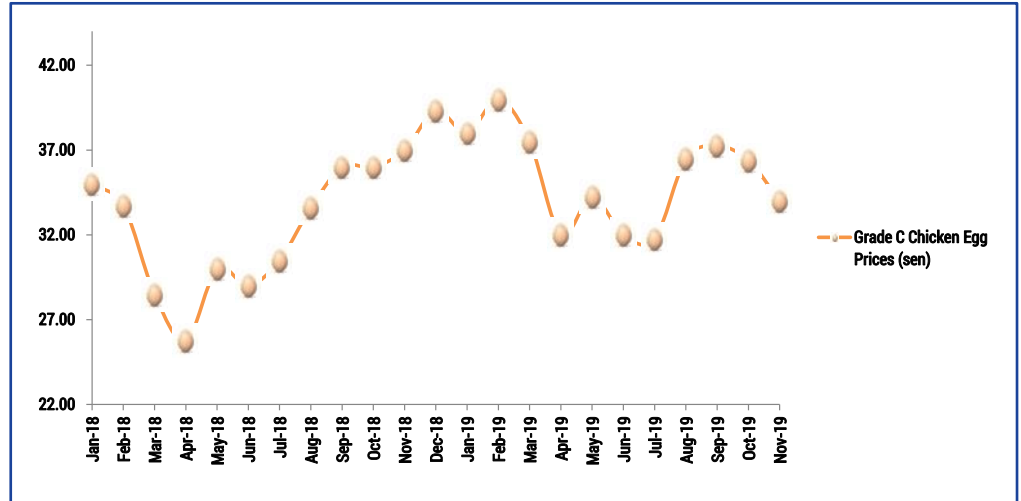
Per Share Data					
FYE Dec	2017	2018	2019	2020F	2021F
Book Value (Sen)	82.9	92.6	102.2	122.7	144.2
Cash Flow (Sen)	10.9	2.1	24.6	25.1	33.0
Net Earnings (sen)	1.2	10.1	19.6	20.6	21.6
Dividend (sen)	0.0	3.0	5.0	5.5	6.0
Payout Ratio (%)	0.0	29.6	25.5	26.7	27.8
Dividend Yield (%)	0.0	2.6	4.3	4.8	5.2
PER (x)	99.6	11.4	5.9	5.6	5.3
P/Cash Flow (x)	10.6	54.4	4.7	4.6	3.5
P/Book Value (x)	1.4	1.2	1.1	0.9	0.8
ROE (%)	1.4	10.9	19.2	16.8	14.9
Net Gearing (%)	63.7	52.2	38.8	31.3	26.6

Source: Company Data & MSSB Research

Disclaimer

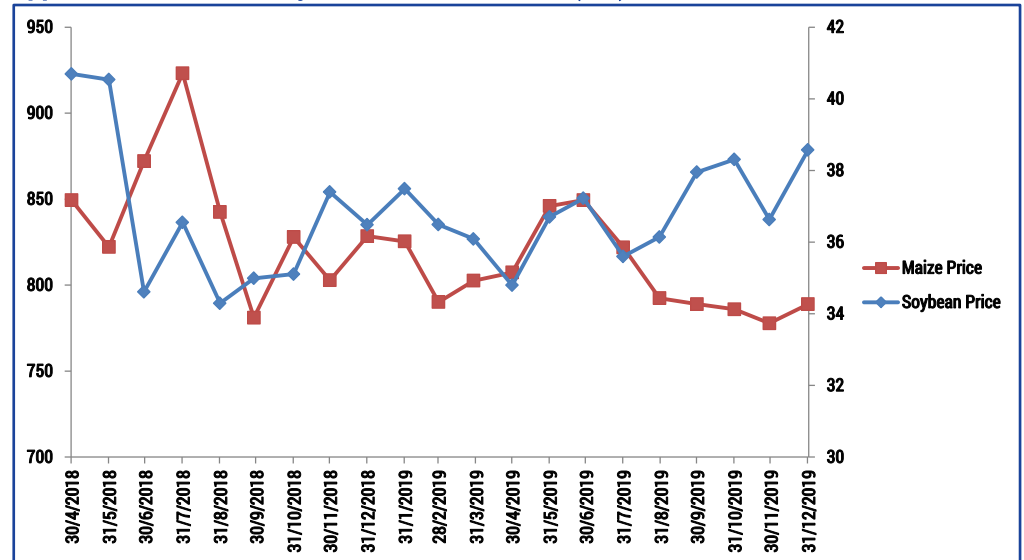
This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.

Appendix 1: Historical Grade C Chicken Egg Prices (sen)



Source: Department of Veterinary, Department of Statistics Malaysia, MSSB Research

Appendix 2: Historical Soybean and Maize Prices (RM)

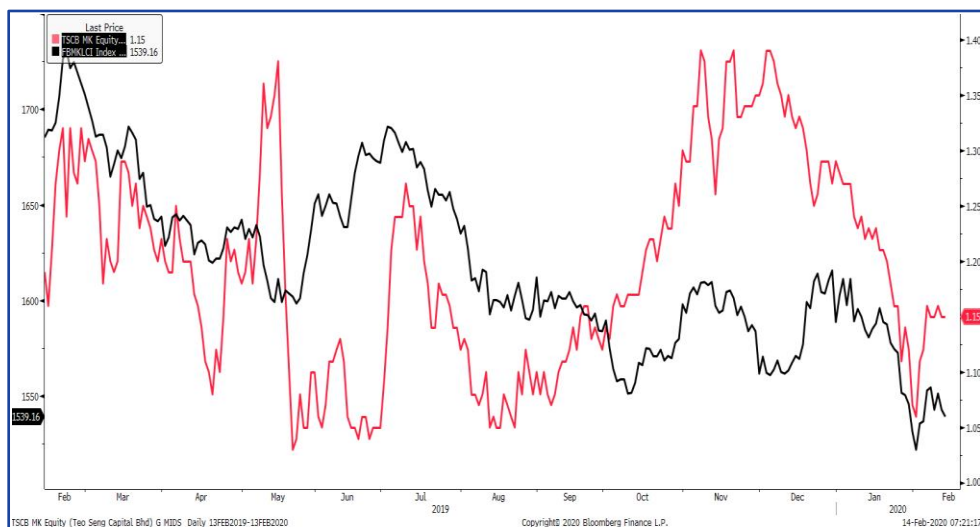


Source: Bloomberg, MSSB Research

Disclaimer

This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.

Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	-5.74%	-12.21%	-3.36%
Relative (%)	-2.86%	-8.58%	5.31%

Source: Bloomberg, MSSB Research

Disclaimer

This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.