

Stock Digest

Results Note – Teo Seng Capital Bhd

Tuesday, 19 May, 2020

M⁺Online
Equipping Traders For The Win

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Down, But Not Out

Results Highlights

- Teo Seng's 1Q2020 net profit slumped 91.4% Y.o.Y to RM1.9 mln, dragged down by the weakness in the poultry farming segment due to decline in average selling price (ASP) of chicken eggs, coupled with decrease in sales quantities of eggs. Revenue for the quarter decreased 22.9% Y.o.Y to RM116.0 mln.
- The reported net profit came below our expectations, making only 3.4% of our previous estimated net profit of RM56.5 mln. Meanwhile, the reported revenue only amounted to 20.0% of our previous revenue forecast of RM579.9 mln for the year.
- Segment wise in 1Q2020, the poultry farming segment reported a pretax loss of RM0.3 mln vs. a pretax profit of RM28.7 mln recorded in the previous corresponding quarter due to lower sales of chicken eggs. The investment and trading segment's pretax profit, however, surged 527.1% Y.o.Y to RM3.1 mln on stronger demand for animal health products.
- As of 1Q2020, Teo Seng's gearing remained relatively stable at 54.2% (slightly higher from 52.5% recorded in 4Q2019). 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	486.9	556.7
EBITDA	28.5	69.2	107.4	59.4	76.7
Net Profit	3.5	30.4	58.8	20.2	32.8
Revenue Growth (%)	-2.6	16.0	11.6	-11.0	14.3
EBITDA Growth (%)	-40.9	142.7	55.3	-44.7	29.1
Net Profit Growth (%)	-83.3	777.5	93.8	-65.7	62.2
EPS (sen)	1.2	10.1	19.6	6.7	10.9
P/E (x)	97.9	11.2	5.8	16.8	10.3
DPS (sen)	0.0	3.0	5.0	2.0	3.0
Dividend Yield (%)	0.0	2.7	4.4	1.8	2.7
P/BV (x)	1.4	1.2	1.1	1.0	0.9
ROE (%)	1.4	10.9	19.2	6.2	9.1

Source: Company Data & MSSB Research

Recommendation: SELL

Share Price: RM1.13

Target Price: RM0.87

Expected Return: -22.7%

Expected Dividend Return: +1.8%

Expected Total Return: -21.2%

FBM KLCI: 1,410.16

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): 339.0

Par Value (RM): N/A

52 week high/low: RM1.39/RM0.665

Estimated free float: 29.6%

Beta (x): 1.4

3-month average volume ('000): 664.2

Major Shareholders:

Emerging Glory Sdn Bhd 55.4%

Elvi Fund Management Co Ltd 4.4%

Public Islamic Opportunities Fund 2.6%

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Prospects

We gather that the rally in ASP of chicken eggs have tapered since the end of last year, before recovering only in March 2020. At the same time, demand has also turned weaker, particularly from the food & beverage and hospitality segment following the implementation of Movement Control Order (MCO), which offset the pickup in retail segment that has been relatively robust given that eggs are one of the fastest moving consumer goods off supermarket shelves. This is mainly because chicken eggs are one of the most affordable alternatives to source of protein and their long shelf life attributed strong sales.

Cost wise, soybean prices has been tapering, since the start of the year, falling -3.8% Q.o.Q in 1Q2020 as demand turned sluggish owing to the Covid-19 pandemic that affected business activities across the globe last year. Likewise, maize prices turned softer, declining -3.0% Q.o.Q, reflecting the dour demand. We see the lower feed prices as a boost for Teo Seng with chicken feed makes up to approximately 70% of its feed cost.

Despite the weaker 1Q2020 results, we continue to like Teo Seng for its established presence in the certain Asia Pacific countries like Malaysia, Singapore and Hong Kong. Moving into subsequent months of 2020, Teo Seng remains committed on their long term expansion plan, targeting production of 5.0 mln chicken eggs per day by end-2022.

Valuation And Recommendation

We reckon that the weakness may prolong and will only recover towards 2H2020. Consequently, we slashed our earnings forecast by 64.3% and 49.3% to RM20.2 mln and RM32.8 mln for 2020 and 2021 respectively.

Given that the share price has made a decent recovery since end-March 2020, we think that Teo Seng's valuations are already beyond their fundamentals. Hence, we downgrade Teo Seng Capital to **SELL** (from BUY) with a lower target price of RM0.87 (from RM1.32). We arrive our target price by ascribing a target PER of 8.0x to its 2021 EPS of 10.9 sen.

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.

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Quarterly Performance					
FYE Dec (RM mln)	1Q2020	1Q2019	% Change		
			Y.o.Y	Q.o.Q	
Revenue	116.0	150.5	-22.9%	137.0	-15.3%
EBITDA	10.1	36.4	-72.2%	26.7	-62.0%
Depreciation & Amotization	-5.6	-5.1	9.4%	-7.0	-20.3%
Net Interest Income/ (Expense)	-1.7	-2.1	-17.9%	-1.4	19.1%
Profit before Tax	2.8	29.2	-90.4%	18.2	-84.6%
Net Profit	1.9	22.1	-91.4%	13.6	-86.0%
Basic EPS (Sen)	0.6	7.4	-91.4%	4.5	-86.0%

Source: Company Data & MSSB Research

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Income Statement					
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EBITDA	28.5	69.2	107.4	59.4	76.7
Depreciation & Amortisation	-15.8	-17.3	-19.8	-22.5	-25.7
Net Interest Expense	-17.3	-19.8	-22.5	-25.7	-26.5
Pre-tax Profit	4.1	41.2	77.4	26.6	43.1
Effective Tax Rate	15.3%	26.4%	24.0%	24.0%	24.0%
Net Profit	3.5	30.4	58.8	20.2	32.8
EBITDA Margin	6.7%	14.1%	19.6%	12.2%	13.8%
PreTax Margin	1.0%	8.4%	14.2%	5.5%	7.7%
Net Margin	0.8%	6.2%	10.8%	4.1%	5.9%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Total Assets	495.0	543.3	563.9	586.5	644.7
Fixed Assets	316.1	338.7	348.8	362.1	380.1
Current Assets	178.9	204.6	208.7	224.4	264.5
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	94.7	117.2
Share Capital	60.0	60.0	60.0	60.0	60.0
Shareholder's Funds	248.8	277.8	306.6	326.5	359.2
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	108.8	119.7
Cash Flow (Sen)	10.9	2.1	24.6	25.1	15.0
Net Earnings (sen)	1.2	10.1	19.6	6.7	10.9
Dividend (sen)	0.0	3.0	5.0	2.0	3.0
Payout Ratio (%)	0.0	29.6	25.5	29.7	27.5
Dividend Yield (%)	0.0	2.7	4.4	1.8	2.7
PER (x)	97.9	11.2	5.8	16.8	10.3
P/Cash Flow (x)	10.4	53.5	4.6	4.5	7.5
P/Book Value (x)	1.4	1.2	1.1	1.0	0.9
ROE (%)	1.4	10.9	19.2	6.2	9.1
Net Gearing (%)	63.7	52.2	38.8	37.6	32.0

Source: Company Data & MSSB Research

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Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	5.61%	-6.61%	-3.42%
Relative (%)	5.41%	1.65%	8.74%

Source: Bloomberg, MSSB Research

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