

Teo Seng Capital Berhad

Sky-high commodity prices hit margins

Summary

- Teo Seng Capital Bhd's (TEOSEN) booked core net profit of RM4.1m in 1Q22 against core net losses of -RM1.4m in 1Q21. QoQ, however, TEOSEN's core net profit declined 65.9% to RM4.1m. The results came in below expectations and it missed our full year consensus of RM39.8m. Key deviations were mainly due to the significant margin-hit arising from the higher-than-expected chicken feed cost.
- TEOSEN reported a turnaround YoY, mainly boosted by higher contribution from the poultry farming segment on the back of improved ASP of eggs along with the increased market demand. QoQ, however, the lower sales quantity of eggs coupled with the higher production costs have dragged the group's net profit lower by 65.9%.
- On average, the chicken egg price increased by 29.2% YoY in 1Q22 to average of RM0.35 per egg as the soaring chicken feed cost was passed to end consumers amid rising demand in the market. The increase in chicken egg prices has translated to higher revenue YoY for TEOSEN in the poultry farming segment.
- Cost wise, soybean prices continued to surge in 1Q22, rising 24.3% QoQ as Russia-Ukraine tensions exacerbated supply risks on global supplies. Likewise, the maize price soared 34.6% QoQ due to concerns over crop conditions in Argentina and Brazil amid prolonged dry spells, as well as the suspension of maize export from Ukraine. The rise in feed price that outpaced the marginal increase in chicken egg price has hit the group's margins.
- Moving forward, we think that the chicken eggs prices will linger around RM0.35 per Grade C chicken egg as ceiling prices will be enforced on chicken eggs under the government's price control scheme until 5th June 2022.
- TEOSEN intends to expand its downstream business by offering a range of pasteurised processed egg products. Meanwhile, the group remained committed to increase its daily chicken eggs production to 4.25m and 4.50m in FY22 and FY23 respectively, by improving the utilisation rate of production line and resuming its expansion plan.

Results Note – 1QFY22

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SELL (from Buy)

Share price	RM0.865
Target price	RM0.63
Previous TP	RM1.08
Capital upside	-27.2%
Dividend return	1.8%
Total return	-25.3%

Company profile

Layer farming, manufacturing and marketing of animal feeds and paper egg trays, along with the distribution of animal health products.

Stock information

Bursa Code	7252
Bloomberg ticker	TSCB MK
Listing market	Main
Share issued (m)	293.9
Market Cap (m)	254.2
52W High/Low	0.92/0.695
Est. Free float	32.3%
Beta (x)	0.7
3-mth avg vol ('000)	304.8
Shariah compliant	No

Major shareholders

	%
Emerging Glory Sdn Bhd	54.6
SEB AB for Elvi E	4.4
Management Public Islamic Fund	2.4

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	2.4	6.8	14.6
Relative	6.3	9.6	17.8

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	-2.0	23.3	36.1
EPS (sen)	-0.7	7.9	12.3
P/E (x)	NM	10.9	7.0

Relative performance chart



Quarterly performance FYE Dec (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)	3MFY21	3MFY22	YoY (%)
Revenue	115.5	152.1	147.4	(3.1)	27.6	115.5	147.4	27.6
EBITDA	8.5	19.1	11.6	(39.3)	36.0	8.5	11.6	36.0
PBT	0.9	11.4	3.7	(67.9)	313.0	0.9	3.7	313.0
PAT	(1.4)	12.0	4.1	(65.9)	NM	(1.4)	4.1	NM
Core PATMI	(1.4)	12.0	4.1	(65.9)	NM	(1.4)	4.1	NM
Reported PATMI	(0.8)	12.0	4.2	(65.5)	NM	(0.8)	4.2	NM
Core EPS (sen)	(0.3)	4.1	1.4	(65.5)	NM	(0.3)	1.4	NM
EBITDA margin (%)	7.4	12.6	7.9			7.4	7.9	
PBT margin (%)	0.8	7.5	2.5			0.8	2.5	
Core PATMI margin (%)	(1.2)	7.9	2.8			(1.2)	2.8	

Valuation & Recommendation

- As a fully integrated poultry farming company, TEOSNG enjoys economies of scale which enable the group to meet the rising demand for chicken eggs amid business resumption and gain market share from the local farmers. Nevertheless, we foresee the uncertainty over commodity prices which may prevail over FY22 on the back of inflation as well as the unresolved Russia-Ukraine tensions to pose challenge to the group.
- Consequently, we slashed our FY22f forecasted earnings by 41.5% to RM23.3m. The FY23f earnings is projected at RM36.1m. We downgrade TEOSNG to SELL (from BUY) with a revised target price of RM0.63. The target price is derived from ascribing a target PER of 8.0x to its FY22f EPS of 7.9 sen.
- Risks to our recommendation include the elevated commodity prices of maize and soybean which may continue to hamper the group's margin. Another business risk for TEOSNG is the risk associated with the outbreak of poultry diseases which may impact the group's productivity.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	546.5	478.3	530.1	582.6	620.1	Cash	41.1	44.9	49.0	49.1	51.8
EBITDA	106.7	39.5	30.1	61.5	78.4	Receivables	62.5	53.4	67.0	73.3	78.1
EBIT	84.2	16.3	5.9	36.1	51.7	Inventories	46.6	48.2	58.6	60.3	62.6
Net finance income/ (cost)	(7.5)	(6.2)	(6.0)	(7.0)	(6.5)	PPE	348.5	373.6	373.4	378.3	381.8
Associates & JV	-	-	-	-	-	Others	63.8	70.8	74.3	78.5	83.3
Profit before tax	76.8	10.0	(0.2)	29.1	45.1	Assets	562.5	591.0	622.4	639.6	657.6
Tax	(18.2)	(6.6)	(1.8)	(5.8)	(9.0)	Debts	139.6	174.2	205.0	200.2	186.0
Net profit	58.5	3.4	(2.0)	23.3	36.1	Payables	58.4	54.6	62.9	64.7	67.2
Minority interest	-	-	-	-	-	Others	57.9	54.2	43.0	44.6	45.3
Core earnings	58.5	3.4	(2.0)	23.3	36.1	Liabilities	255.9	282.9	310.9	309.4	298.6
Exceptional items	(0.3)	(0.8)	(5.0)	-	-	Shareholder's equity	306.6	308.0	311.5	330.1	359.0
Reported earnings	58.8	4.2	3.0	23.3	36.1	Minority interest	-	-	-	-	-
						Equity	306.6	308.0	311.5	330.1	359.0
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	76.8	10.0	(0.2)	29.1	45.1	Core EPS (sen)	19.9	1.2	(0.7)	7.9	12.3
Depreciation & amortisation	22.5	23.2	24.3	25.4	26.7	P/E (x)	4.3	73.5	NM	10.8	7.0
Changes in working capital	(4.3)	3.7	(15.6)	(6.3)	(4.6)	DPS (sen)	6.1	-	-	1.6	2.5
Share of JV profits	-	-	-	-	-	Dividend yield	7.0%	0.0%	0.0%	1.8%	2.9%
Taxation	(18.2)	(6.6)	(1.8)	(5.8)	(9.0)	BVPS (RM)	1.04	1.05	1.06	1.12	1.22
Others	24.2	1.7	2.8	(2.7)	(4.0)	P/B (x)	0.8	0.8	0.8	0.8	0.7
Operating cash flow	100.9	32.1	9.5	39.7	54.2	EBITDA margin	19.5%	8.3%	5.7%	10.6%	12.6%
Net capex	(32.1)	(47.5)	(23.8)	(30.2)	(30.2)	EBIT margin	15.4%	3.4%	1.1%	6.2%	8.3%
Others	1.4	2.7	3.9	-	-	PBT margin	14.0%	2.1%	0.0%	5.0%	7.3%
Investing cash flow	(30.7)	(44.8)	(20.0)	(30.2)	(30.2)	PAT margin	10.8%	0.9%	0.6%	4.0%	5.8%
Changes in borrowings	(11.0)	34.6	30.8	(4.8)	(14.1)	Core PAT margin	10.7%	0.7%	-0.4%	4.0%	5.8%
Issuance of shares	-	0.0	-	-	-	ROE	20.0%	1.1%	-0.6%	7.3%	10.5%
Dividends paid	(17.8)	-	-	(4.7)	(7.2)	ROA	10.6%	0.6%	-0.3%	3.7%	5.6%
Others	(28.7)	(19.8)	(14.5)	-	-	Net gearing	32.1%	42.0%	50.1%	45.8%	37.4%
Financing cash flow	(57.5)	14.7	16.3	(9.5)	(21.4)						
Net cash flow	12.8	2.0	5.8	0.1	2.7						
Forex	(0.0)	(0.0)	0.1	-	-						
Others	(1.7)	1.8	(1.8)	-	-						
Beginning cash	30.0	41.1	44.9	49.0	49.1						
Ending cash	41.1	44.9	49.0	49.1	51.8						