

Teo Seng Capital Bhd

Commodity prices remained elevated

Summary

- Teo Seng Capital Bhd's (TEOSEN) registered core net profit of RM3.8m in 2Q22 against core net losses of -RM14.8m in 2Q21, bringing the 6M22 core net profit to RM7.9m vs. -RM16.2M in 6M21. The results, however, came in below expectations, amounting to 33.9% of our full year forecast of RM23.3m. Key deviations were mainly due to the losses made in poultry farming segment that was resulted from a lower-than-expected margin.
- YoY, the turnaround was largely due to the narrowed losses in the poultry farming segment resulting from the improved eggs' selling price, which has contributed to top line growth. QoQ, however, its core net profit dropped 6.5% to RM3.8m despite a higher revenue, mainly due to the higher production cost in the poultry farming segment.
- On average, the Grade C chicken egg price increased by 41.7% YoY in 2Q22 to average of RM0.35 per, enabling egg producers to pass partial soaring chicken feed costs to end consumers. While such increase has translated to a higher revenue YoY for TEOSEN's poultry farming segment, the segment still record losses as the increase was capped under Government's price control scheme.
- Cost wise, both soybean and maize prices continued its uptrend move QoQ, driven by the supply disruptions arising from Russia-Ukraine conflict, global fertiliser price hike as well as increased freight cost. The continued elevated feed price, coupled with the price control scheme have hit TEOSEN's margin despite the cushion of egg subsidy from the government.
- Moving forward, we think that the chicken eggs prices will linger around RM0.37 per Grade C chicken egg as higher ceiling prices was implemented under the government's price control scheme effective from 1st July 2022.
- TEOSEN's expansion plan to boost its daily chicken eggs production to 4.25m and 4.50m in FY22 and FY23 respectively is on schedule, including modification of existing chicken houses as well as expansion on the layer farming capacity. Meanwhile, the group strives to grow the trading of animal health products which is less impacted by the commodity prices.

Quarterly performance								
FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	118.0	147.4	157.4	6.8	33.4	233.5	304.7	30.5
EBITDA	(10.8)	11.5	10.2	(11.3)	NM	(2.3)	21.8	NM
PBT	(18.2)	3.7	2.3	(35.9)	NM	(17.3)	6.0	NM
PAT	(14.8)	4.1	3.8	(6.5)	NM	(16.2)	7.9	NM
Core PATMI	(14.8)	4.1	3.8	(6.5)	NM	(16.2)	7.9	NM
Reported PATMI	(10.5)	4.2	3.9	(5.5)	NM	(11.3)	8.1	NM
Core EPS (sen)	(3.6)	1.4	1.3	(5.5)	NM	(3.9)	2.8	NM
EBITDA margin (%)	(9.1)	7.8	6.5			(1.0)	7.1	
PBT margin (%)	(15.4)	2.5	1.5			(7.4)	2.0	
Core PATMI margin (%)	(12.6)	2.8	2.4			(6.9)	2.6	

Results Note – 2QFY22

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HOLD (from Sell)

Share price	RM0.785
Target price	RM0.82
Previous TP	RM0.63
Capital upside	4.5%
Dividend return	2.7%
Total return	7.1%

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)	230.7
52W High/Low	0.92/0.695
Est. Free float	32.7%
Beta (x)	0.6
3-mth avg vol ('000)	101.3
Shariah compliant	No

Major shareholders

	%
Emerging Glory Sdn Bhd	54.6
SEB AB for Elvi E	4.4
Leong Hup Sdn Bhd	2.4

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return			
Absolute	0.0	-0.6	9.8
Relative	-6.6	1.3	10.1

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	-2.0	19.7	30.2
EPS (sen)	-0.7	6.7	10.3
P/E (x)	NM	11.7	7.6

Relative performance chart



Valuation & Recommendation

- As business activities continues its progressive recovery, we believe the demand for eggs will remain resilient in both the domestic and overseas markets. Nevertheless, challenges remained in the industry with the chicken feed price staying elevated, as well as the implementation of price control scheme. Although the commodity prices are declining and expect to move lower towards end-2022, we remain cautious on the company's outlook given the margins are sensitive towards any spike in its feed costs.
- Consequently, we slashed our FY22f and FY23f forecasted earnings by 15.5% and 16.3% to RM19.7m and RM30.2m respectively. However, we upgrade TEOSNG to HOLD (from SELL) with a revised target price of RM0.82 as we rolled over to FY23f earnings. The target price is derived from ascribing a target PER of 8.0x to its FY23f EPS of 10.3 sen.
- Risks to our recommendation include the elevated commodity prices of maize and soybean amid the prolonged conflicts between Russia and Ukraine. Any further disruption in supply may increase TEOSNG's production cost and cap its margin. Besides, the group is exposed to the risk associated with the outbreak of poultry diseases.

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	604.7	660.3	Cash	41.1	44.9	49.0	52.9	53.9
EBITDA	106.7	39.5	30.1	57.4	71.7	Receivables	62.5	53.4	67.0	76.1	83.1
EBIT	84.2	16.3	5.9	32.0	44.9	Inventories	46.6	48.2	58.6	63.8	68.9
Net finance income/ (cost)	(7.5)	(6.2)	(6.0)	(7.4)	(7.2)	PPE	348.5	373.6	373.4	378.3	381.8
Associates & JV	-	-	-	-	-	Others	63.8	70.8	74.3	81.4	88.5
Profit before tax	76.8	10.0	(0.2)	24.6	37.8	Assets	562.5	591.0	622.4	652.5	676.1
Tax	(18.2)	(6.6)	(1.8)	(4.9)	(7.6)	Debts	139.6	174.2	205.0	211.7	204.5
Net profit	58.5	3.4	(2.0)	19.7	30.2	Payables	58.4	54.6	62.9	68.4	73.9
Minority interest	-	-	-	-	-	Others	57.9	54.2	43.0	45.1	46.3
Core earnings	58.5	3.4	(2.0)	19.7	30.2	Liabilities	255.9	282.9	310.9	325.3	324.7
Exceptional items	(0.3)	(0.8)	(5.0)	-	-	Shareholder's equity	306.6	308.0	311.5	327.2	351.4
Reported earnings	58.8	4.2	3.0	19.7	30.2	Minority interest	-	-	-	-	-
						Equity	306.6	308.0	311.5	327.2	351.4
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)	24.6	37.8	Core EPS (sen)	19.9	1.2	(0.7)	6.7	10.3
Depreciation & amortisation	22.5	23.2	24.3	25.4	26.7	P/E (x)	3.9	67.1	NM	11.7	7.6
Changes in working capital	(4.3)	3.7	(15.6)	(8.8)	(6.6)	DPS (sen)	6.1	-	-	1.3	2.1
Share of JV profits	-	-	-	-	-	Dividend yield	7.7%	0.0%	0.0%	1.7%	2.6%
Taxation	(18.2)	(6.6)	(1.8)	(4.9)	(7.6)	BVPS (RM)	1.04	1.05	1.06	1.11	1.20
Others	24.2	1.7	2.8	(5.0)	(5.9)	P/B (x)	0.8	0.7	0.7	0.7	0.7
Operating cash flow	100.9	32.1	9.5	31.3	44.4	EBITDA margin	19.5%	8.3%	5.7%	9.5%	10.9%
Net capex	(32.1)	(47.5)	(23.8)	(30.2)	(30.2)	EBIT margin	15.4%	3.4%	1.1%	5.3%	6.8%
Others	1.4	2.7	3.9	-	-	PBT margin	14.0%	2.1%	0.0%	4.1%	5.7%
Investing cash flow	(30.7)	(44.8)	(20.0)	(30.2)	(30.2)	PAT margin	10.8%	0.9%	0.6%	3.3%	4.6%
Changes in borrowings	(11.0)	34.6	30.8	6.7	(7.2)	Core PAT margin	10.7%	0.7%	-0.4%	3.3%	4.6%
Issuance of shares	-	0.0	-	-	-	ROE	20.0%	1.1%	-0.6%	6.2%	8.9%
Dividends paid	(17.8)	-	-	(3.9)	(6.0)	ROA	10.6%	0.6%	-0.3%	3.1%	4.5%
Others	(28.7)	(19.8)	(14.5)	-	-	Net gearing	32.1%	42.0%	50.1%	48.5%	42.9%
Financing cash flow	(57.5)	14.7	16.3	2.8	(13.3)						
Net cash flow	12.8	2.0	5.8	3.9	0.9						
Forex	(0.0)	(0.0)	0.1	-	-						
Others	(1.7)	1.8	(1.8)	-	-						
Beginning cash	30.0	41.1	44.9	49.0	52.9						
Ending cash	41.1	44.9	49.0	52.9	53.9						

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