

Teo Seng Capital Bhd

Margin improvement drives growth

Summary

- Teo Seng Capital Bhd's (TEOSEN) 4Q22 core net profit climbed 7.8% YoY to RM12.9m, making up for FY22 net profit of RM21.2m (vs. -RM2.0m for 12M21). The results came in above expectations, amounting to 182.8% of our full year forecast at RM11.6m. Key deviations were mainly due to higher-than-expected margin reported in the current quarter resulted from higher selling price for eggs.
- YoY, TEOSEN's core net profit improved 7.8%, primarily attributed to a higher contribution from the poultry farming segment due to the improved selling price of chicken eggs, coupled with the subsidy from the government that has cushioned the impact of continued higher feed cost. QoQ, core net profit made a significant jump of >100% on the back of the improvement in selling price of chicken eggs and sustainable contribution from animal health products segment.
- On average, the chicken egg price rose 2.0% YoY in 4Q22 to RM0.35 per Grade C chicken egg, in tandem with higher feed cost. The higher egg price has translated to higher revenue YoY for the poultry farming segment.
- Moving forward, we think that the price of Grade C chicken egg will linger around RM0.35. Do note that the ceiling prices are expected to be uplifted after June. An update report will be issued upon upliftment. In the shorter term, operating environment remains challenging in view of the elevated feed cost, as the egg price has been under ceiling price control since November 2022.
- Production wise, daily chicken eggs production stood around 4.0m. Although the group's plan to modify the chicken houses was delayed due to the implementation of Movement Control Order (MCO), TEOSEN is now putting the expansion back on schedule to achieve around 4.50m daily chicken egg production in FY24. Meanwhile, the group remains focus on its trading of animal health products division which can cushion the impact of elevated feed cost.
- Meanwhile, TEOSEN is seeking opportunity to gradually grow their export market to enjoy better margin. The group has also developed more direct sales channels such as distribution center and direct sales team to sell at better pricing. We believe TEOSEN is in a better position as compared to its peers to mitigate the impact from price control mechanism and elevated feed cost.

Quarterly performance								
FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	152.1	166.6	180.6	8.4	18.7	530.1	652.0	23.0
EBITDA	19.0	13.9	25.3	82.4	33.1	30.1	61.0	102.4
PBT	11.4	5.9	17.0	190.9	49.9	(0.2)	28.9	NM
PAT	12.0	0.4	12.9	2,842.9	7.4	(1.9)	21.2	NM
Core PATMI	12.0	0.4	12.9	2,842.9	7.8	(2.0)	21.2	NM
Reported PATMI	12.1	0.5	13.0	2,425.4	7.8	3.0	21.6	610.9
Core EPS (sen)	4.1	0.2	4.4	2,425.4	7.8	1.0	7.4	610.9
EBITDA margin (%)	12.5	8.3	14.0			5.7	9.4	
PBT margin (%)	7.5	3.5	9.4			(0.0)	4.4	
Core PATMI margin (%)	7.9	0.3	7.1			(0.4)	3.3	

Results Note – 4QFY22

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SELL

Share price	RM0.79
Target price	RM0.67
Previous TP	RM0.53
Capital upside	-15.2%
Dividend return	2.2%
Total return	-13.0%

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)	232.1
52W High/Low	0.92/0.69
Est. Free float	32.4%
Beta (x)	0.7
3-mth avg vol ('000)	78.3
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	5.3	3.3	-9.2
Absolute	7.2	1.0	-2.9
Relative			

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	21.2	24.4	27.3
EPS (sen)	7.2	8.3	9.3
P/E (x)	10.9	9.5	8.5

Relative performance chart



Valuation & Recommendation

- Although the supply of eggs in Malaysia market appears to have stabilised, the poultry industry may continue to face uncertainties arising from the price control mechanism, coupled with the elevated cost of raw materials such as maize and soybean. Maize and soybean prices may continue to fluctuate in the upcoming quarters due to irregular demand and supply dynamics on the global front.
- However, we increased our FY23f forecasted earnings by 25.8% to RM24.4m, taking into account the resuming expansion plan which is expected to boost its daily eggs production. Meanwhile, FY24f forecasted earnings is introduced at RM27.3m. We maintained our **SELL** recommendation on TEOSENG, with a revised target price of RM0.67. The target price is derived from ascribing a target PER of 8.0x to its FY23f EPS of 8.3 sen.
- Risks to our recommendation include the fluctuation in commodity prices of maize and soybean amid uncertainties over global supply and demand. Any unfavorable weather conditions that result in lower harvest could increase commodity price and hit the group's 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)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	478.3	530.1	652.0	672.5	700.5	Cash	44.9	49.0	41.1	68.5	84.8
EBITDA	39.5	30.1	61.0	66.1	71.4	Receivables	53.4	67.0	66.4	68.8	71.7
EBIT	16.3	5.9	35.2	39.1	43.1	Inventories	48.2	58.6	71.0	65.3	65.9
Net finance income/ (cost)	(6.2)	(6.0)	(6.4)	(5.8)	(5.9)	PPE	373.6	373.4	375.2	378.5	380.6
Associates & JV	-	-	-	-	-	Others	70.8	74.3	66.5	67.9	70.7
Profit before tax	10.0	(0.2)	28.9	33.3	37.2	Assets	591.0	622.4	620.2	649.0	673.6
Tax	(6.6)	(1.8)	(7.7)	(8.8)	(9.9)	Debts	174.2	205.0	171.3	172.6	174.3
Net profit	3.4	(2.0)	21.2	24.4	27.3	Payables	54.6	62.9	72.1	79.5	80.3
Minority interest	-	-	-	-	-	Others	54.2	43.0	42.1	42.7	43.1
Core earnings	3.4	(2.0)	21.2	24.4	27.3	Liabilities	282.9	310.9	285.6	294.8	297.6
Exceptional items	(0.8)	(5.0)	(0.4)	-	-	Shareholder's equity	308.0	311.5	334.6	354.1	376.0
Reported earnings	4.2	3.0	21.6	24.4	27.3	Minority interest	-	-	-	-	-
						Equity	308.0	311.5	334.6	354.1	376.0
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	10.0	(0.2)	28.9	33.3	37.2	Core EPS (sen)	1.2	(0.7)	7.2	8.3	9.3
Depreciation & amortisation	23.2	24.3	25.8	27.0	28.4	P/E (x)	67.6	NM	10.9	9.5	8.5
Changes in working capital	3.7	(15.6)	(2.6)	10.7	(2.7)	DPS (sen)	-	-	-	1.7	1.9
Share of JV profits	-	-	-	-	-	Dividend yield	0.0%	0.0%	0.0%	2.1%	2.4%
Taxation	(6.6)	(1.8)	(7.7)	(8.8)	(9.9)	BVPS (RM)	1.05	1.06	1.14	1.21	1.28
Others	1.7	2.8	16.8	(0.6)	(2.3)	P/B (x)	0.8	0.7	0.7	0.7	0.6
Operating cash flow	32.1	9.5	61.2	61.6	50.6	EBITDA margin	8.3%	5.7%	9.4%	9.8%	10.2%
Net capex	(47.5)	(23.8)	(27.8)	(30.6)	(30.6)	EBIT margin	3.4%	1.1%	5.4%	5.8%	6.1%
Others	2.7	3.9	4.4	-	-	PBT margin	2.1%	0.0%	4.4%	4.9%	5.3%
Investing cash flow	(44.8)	(20.0)	(23.4)	(30.6)	(30.6)	PAT margin	0.9%	0.6%	3.3%	3.6%	3.9%
Changes in borrowings	34.6	30.8	(33.7)	1.3	1.7	Core PAT margin	0.7%	-0.4%	3.3%	3.6%	3.9%
Issuance of shares	0.0	-	(0.0)	-	-	ROE	1.1%	-0.6%	6.6%	7.1%	7.5%
Dividends paid	-	-	-	(4.9)	(5.5)	ROA	0.6%	-0.3%	3.4%	3.8%	4.1%
Others	(19.8)	(14.5)	(12.0)	-	-	Net gearing	42.0%	50.1%	38.9%	29.4%	23.8%
Financing cash flow	14.7	16.3	(45.7)	(3.6)	(3.8)						
Net cash flow	2.0	5.8	(7.9)	27.4	16.3						
Forex	(0.0)	0.1	-	-	-						
Others	1.8	(1.8)	(0.0)	-	-						
Beginning cash	41.1	44.9	49.0	41.1	68.5						
Ending cash	44.9	49.0	41.1	68.5	84.8						

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