

Teo Seng Capital Bhd

Significantly above our earnings expectations

Summary

- **Significantly above our expectations.** 2Q23 core net profit soared 565.9% YoY and 30.4% QoQ, respectively to RM25.4m, bringing the 6MFY23 earnings to RM44.8m. The results came in above expectations, amounting to 91.1% of our full year forecast at RM49.2m. Key deviations were mainly due to the higher-than-expected selling price of chicken eggs as well as softer-than-expected feed costs prices.
- **QoQ.** A drop in revenue by 3.1% was noticed, no thanks to marginally lower selling price of eggs. However, TEOSENG's core net profit increased 30.4% QoQ, amid lower feed costs prices coupled with egg subsidy received from the government's grant.
- **YoY.** Revenue rose 12.9%, while the core net profit soared 565.9% mainly due to higher average selling price of eggs and sales volume.
- **YTD.** Similarly, 6MFY23's results were growing on the back of higher average selling price of eggs and sales quantity, coupled with normalised feed costs prices.
- **Outlook.** We expect TEOSENG's performance to remain steady on an upward trend at least for the near term, with the stabilized maize and soybean meal prices. Meanwhile, the reopening of business activities locally since last year and the China reopening of borders since January 2023 will be able to help the overall demand and expect the chicken egg prices to continue its upward tone. Should the price control ceiling being removed there will be upside earnings potential for TEOSENG. We believe the effort of reducing the electricity costs with the commissioning of the PV system as well as the proactive measures to expand its customer base through e-commerce will be earnings accretive.

Quarterly performance								
FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	157.4	183.4	177.7	(3.1)	12.9	304.7	361.1	18.5
EBITDA	10.3	33.2	31.6	(4.8)	207.5	22.0	64.8	194.9
PBT	2.5	24.4	22.6	(7.3)	819.4	6.2	47.0	659.1
Core PATMI	3.8	19.5	25.4	30.4	565.9	7.9	44.8	468.7
Reported PATMI	3.9	19.7	25.4	29.0	546.0	8.1	45.1	457.1
Core EPS (sen)	1.3	6.6	8.6	30.4	565.9	2.7	15.3	468.7
EBITDA margin (%)	6.5	18.1	17.8			7.2	17.9	
PBT margin (%)	1.6	13.3	12.7			2.0	13.0	
Core PATMI margin (%)	2.4	10.6	14.3			2.6	12.4	

Valuation & Recommendation

- Although TEOSENG's outlook has turned brighter amid the improved outlook on chicken eggs prices, we are ceasing coverage on TEOSENG due to reallocation of internal resources. Our last recommendation on TEOSENG was **BUY** with a fair value of RM1.34, derived by ascribing PER of 8.0x to its FY23f EPS of 16.8 sen.

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BUY

Share price	RM0.88
Target price	-
Previous TP	RM1.34
Capital upside	-
Dividend return	-
Total return	-

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)	317.0
52W High/Low	1.10/0.69
Est. Free float	31.3%
Beta (x)	0.4
3-mth avg vol ('000)	453.6
Shariah compliant	No

Major shareholders

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

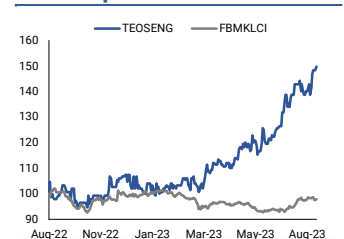
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1M	3M	12M
Absolute	6.0	14.3	9.3
Relative	7.4	19.7	19.1

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	21.2	49.2	57.7
EPS (sen)	7.2	16.8	19.6
P/E (x)	12.2	5.3	4.5

Relative performance chart



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	698.7	744.4	Cash	44.9	49.0	41.1	84.3	117.1
EBITDA	39.5	30.1	61.0	99.8	112.6	Receivables	53.4	67.0	67.0	71.8	76.5
EBIT	16.3	5.9	35.2	72.8	84.3	Inventories	48.2	58.6	71.0	64.9	63.9
Net finance income/ (cost)	(6.2)	(6.0)	(6.3)	(5.8)	(5.7)	PPE	373.6	373.4	375.2	378.6	380.7
Associates & JV	-	-	-	-	-	Others	70.8	74.3	65.9	70.1	74.5
Profit before tax	10.0	(0.2)	28.9	67.1	78.6	Assets	591.0	622.4	620.2	669.7	712.7
Tax	(6.6)	(1.8)	(7.7)	(17.8)	(20.9)	Debts	174.2	205.0	171.3	171.6	169.0
Net profit	3.4	(2.0)	21.2	49.2	57.7	Payables	54.6	62.9	72.1	81.0	79.7
Minority interest	-	-	-	-	-	Others	54.2	43.0	42.1	43.2	43.8
Core earnings	3.4	(2.0)	21.2	49.2	57.7	Liabilities	282.9	310.9	285.6	295.7	292.6
Exceptional items	(0.8)	(5.0)	(0.5)	-	-	Shareholder's equity	308.0	311.5	334.6	374.0	420.2
Reported earnings	4.2	3.0	21.6	49.2	57.7	Minority interest	-	-	-	-	-
						Equity	308.0	311.5	334.6	374.0	420.2
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	67.1	78.6	Core EPS (sen)	1.2	(0.7)	7.2	16.8	19.6
Depreciation & amortisation	23.2	24.3	25.7	26.9	28.3	P/E (x)	75.2	NM	12.2	5.3	4.5
Changes in working capital	3.7	(15.6)	(3.2)	10.1	(4.9)	DPS (sen)	-	-	-	3.4	3.9
Share of JV profits	-	-	-	-	-	Dividend yield	0.0%	0.0%	0.0%	3.8%	4.5%
Taxation	(6.6)	(1.8)	(7.7)	(17.8)	(20.9)	BVPS (RM)	1.05	1.06	1.14	1.27	1.43
Others	1.7	2.8	11.7	(3.2)	(3.7)	P/B (x)	0.8	0.8	0.8	0.7	0.6
Operating cash flow	32.1	9.5	55.4	83.1	77.4	EBITDA margin	8.3%	5.7%	9.3%	14.3%	15.1%
Net capex	(47.5)	(23.8)	(24.9)	(30.4)	(30.4)	EBIT margin	3.4%	1.1%	5.4%	10.4%	11.3%
Others	2.7	3.9	7.1	-	-	PBT margin	2.1%	0.0%	4.4%	9.6%	10.6%
Investing cash flow	(44.8)	(20.0)	(17.8)	(30.4)	(30.4)	PAT margin	0.9%	0.6%	3.3%	7.0%	7.8%
Changes in borrowings	34.6	30.8	(33.7)	0.3	(2.6)	Core PAT margin	0.7%	-0.4%	3.2%	7.0%	7.8%
Issuance of shares	0.0	-	-	-	-	ROE	1.1%	-0.6%	6.6%	13.9%	14.5%
Dividends paid	-	-	-	(9.8)	(11.5)	ROA	0.6%	-0.3%	3.4%	7.6%	8.4%
Others	(19.8)	(14.5)	(11.9)	-	-	Net gearing	42.0%	50.1%	38.9%	23.4%	12.4%
Financing cash flow	14.7	16.3	(45.6)	(9.5)	(14.1)						
Net cash flow	2.0	5.8	(8.0)	43.2	32.9						
Forex	(0.0)	0.1	0.0	-	-						
Others	1.8	(1.8)	0.0	-	-						
Beginning cash	41.1	44.9	49.0	41.1	84.3						
Ending cash	44.9	49.0	41.1	84.3	117.1						

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As of **Wednesday, 23 Aug, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned