


AmResearch
Company report

TEO SENG CAPITAL

(TSCB MK EQUITY, TSCP.KL)

19 May 2015

A strong start to FY15

BUY

(Maintained)

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Rationale for report: Company result

Price	RM1.87
Fair Value	RM2.70
52-week High/Low	RM2.22/RM0.49

Key Changes

Fair value	↔
EPS	↔

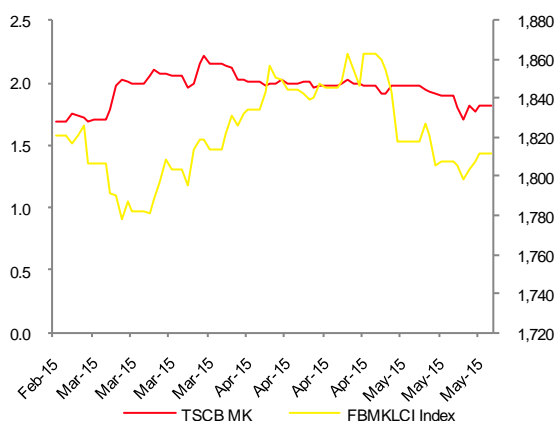
YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	380.9	478.9	542.4	623.1
Core net profit (RM mil)	48.6	70.0	78.6	90.7
FD Core EPS (sen)	16.2	20.8	23.2	26.7
FD Core EPS growth (%)	107.6	28.1	11.8	14.9
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	10.0	5.5	7.5	10.5
PE (x)	11.5	9.0	8.1	7.0
EV/EBITDA (x)	7.4	5.4	4.2	3.2
Div yield (%)	5.0	2.9	4.0	5.6
ROE (%)	33.4	35.9	30.2	28.6
Net Gearing (%)	24.0	6.6	nm	nm

Stock and Financial Data

Shares Outstanding (million)	300.0
Market Cap (RMmil)	561.0
Book Value (RM/share)	0.53
P/BV (x)	3.5
ROE (%)	33.4
Net Gearing (%)	24.0

Major Shareholders	Emerging Glory Sdn Bhd (53.0%) Koperasi Permodalan Felda (5.3%) Lau Joo Kiang (3.1%)
Free Float	47.0
Avg Daily Value (RMmil)	3.0

Price performance	3mth	6mth	12mth
Absolute (%)	29.0	36.2	342.0
Relative (%)	27.9	35.8	356.5


Investment Highlights

- We reaffirm our BUY rating on Teo Seng Capital (TSC) with an unchanged fair value of RM2.70/share. This is based on an unchanged fully-diluted FY15F PE of 13x.
- TSC reported revenue of RM112.6mil and net profit of RM17.4mil for its 1QFY15. The results met 25% of our full-year FY15F earnings estimate of RM70mil.
- The group's 1QFY15 earnings had surged by a commendable 70% YoY on the back of a 30% rise in revenue. The improved performance can be mainly attributed to the availability of new production capacity following the addition of a new farm (~400,000 eggs/day) at end-FY14 as well as higher egg selling prices.
- Sequentially, TSC's net profit had slipped by 3% although its revenue had increased by 4% (in tandem with the higher sales volume and stable ASP). We are however, not too concerned as the decline was mainly due to 1QFY15's higher tax rate. As it is, TSC's PBT was higher by 8% QoQ.
- As usual, no dividends were announced this quarter. At the current price, our FY15F-FY17F gross DPS forecasts (based on payout ratios of 25%-35%) translate into attractive yields of 3% to 5%.
- Looking ahead, we expect TSC to register sequentially softer earnings in 2QFY15 due to the seasonality effect and to a smaller extent, the impact of GST on overall consumer sentiment. That said, we are confident of its earnings picking up in 2HFY15 (as per its historical trend) in view of strong demand during the festive periods (e.g. Hari Raya and Deepavali) and addition of a new farm.
- We also expect the group's EBITDA margins to continue expanding (QoQ: +1ppts; YoY: +5ppts), buoyed in part by the soft commodity prices. According to the USDA, ending global inventory of soybean is forecast to rise by 12.5% from 2014/2015F to 2015F/2016F, underpinned by higher carry-over inventory from the US and Brazil while that of corn is set to grow by 11%.
- Additionally, the group is set to reap potential savings from its various cost management activities beginning FY15F. We understand that its biogas plant-ups are progressing well, with the first (of five) plant on schedule for completion this year (savings of up to RM2mil p.a.). The construction of its new feedmill plant and installation of new paper tray machine are also going on as planned.
- We are leaving our FY15F-FY17F earnings estimates unchanged for now. Valuation-wise, the stock is presently trading at an undemanding fully-diluted forward PE of only 9x - half the sector's average of 18x.

EXHIBIT 1: RESULTS SUMMARY

<u>YE 31 Dec (RM mil)</u>	<u>4Q14</u>	<u>1Q15</u>	<u>QoQ (%)</u>	<u>1Q14</u>	<u>1Q15</u>	<u>YoY (%)</u>
Revenue	108.5	112.6	3.8	87.0	112.6	29.4
Operating Expenses	(82.7)	(84.8)	2.5	(69.8)	(84.8)	21.5
EBITDA	25.8	27.8	7.9	17.3	27.8	61.0
Depreciation	(2.9)	(3.1)		(2.8)	(3.1)	
EBIT	22.9	24.8		14.5	24.8	
Interest income	0.1	0.1		0.0	0.1	
Interest expense	(0.9)	(1.0)		(1.0)	(1.0)	
Exceptional items	0.0	0.0		0.0	0.0	
Pre-Associates Profit	22.0	23.8		13.6	23.8	
Share of Profits of Associates	0.0	0.0		0.0	0.0	
Profit Before Tax	22.0	23.8	8.4	13.6	23.8	75.9
Taxation	(4.1)	(6.2)		(3.1)	(6.2)	
Minority Interest	0.1	(0.1)		(0.1)	(0.1)	
Net Profit	18.0	17.5	(2.7)	10.3	17.5	70.3
Core net profit	18.0	17.5	(2.7)	10.3	17.5	70.3
Basic EPS (sen)	6.0	5.8		3.4	5.8	
FD EPS (sen)	6.0	5.8		3.4	5.8	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
EBITDA margin (%)	23.8	24.7		19.9	24.7	
Pretax margin (%)	20.3	21.2		15.6	21.2	
Effective tax rate (%)	18.7	26.1		23.2	26.1	

Source: Company, AmResearch

EXHIBIT 2: PB BAND CHART

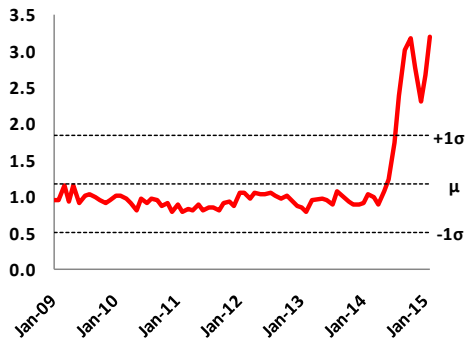


EXHIBIT 3: PE BAND CHART

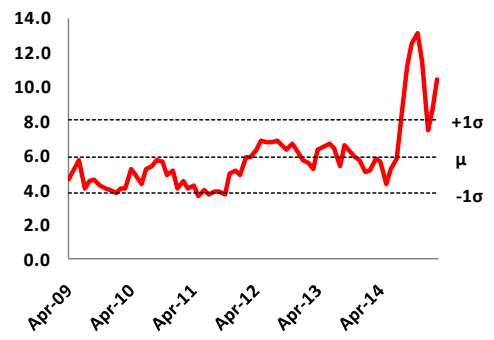


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	330.8	380.9	478.9	542.4	623.1
EBITDA	44.5	81.4	106.5	121.3	140.8
Depreciation/Amortisation	(10.5)	(11.4)	(13.7)	(15.9)	(18.5)
Operating income (EBIT)	34.0	70.0	92.8	105.4	122.3
Other income & associates	-	-	-	-	-
Net interest	(4.0)	(3.6)	(4.0)	(5.7)	(5.9)
Exceptional items	-	-	-	-	-
Pretax profit	30.0	66.4	88.8	99.7	116.4
Taxation	(6.6)	(17.6)	(18.7)	(20.9)	(25.6)
Minorities/pref dividends	-	(0.2)	(0.2)	(0.2)	(0.2)
Net profit	23.4	48.6	70.0	78.6	90.7
Core net profit	23.4	48.6	70.0	78.6	90.7
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	142.9	160.3	215.8	223.9	229.4
Intangible assets	-	-	-	-	-
Other long-term assets	0.3	0.1	(12.9)	(25.7)	(36.8)
Total non-current assets	143.2	160.4	202.9	198.2	192.6
Cash & equivalent	35.7	39.7	64.1	131.7	201.1
Stock	41.2	47.6	51.0	57.7	66.1
Trade debtors	33.2	42.9	43.3	49.0	56.3
Other current assets	4.9	4.5	4.5	4.5	4.5
Total current assets	115.0	134.8	163.0	243.0	328.0
Trade creditors	14.9	21.0	20.4	23.1	26.4
Short-term borrowings	80.9	69.4	70.0	69.6	67.6
Other current liabilities	16.5	27.5	23.6	34.6	48.7
Total current liabilities	112.3	117.8	114.0	127.3	142.7
Long-term borrowings	4.8	8.4	9.4	15.4	20.3
Other long-term liabilities	8.6	10.6	10.6	10.6	10.6
Total long-term liabilities	13.3	18.9	20.0	25.9	30.8
Shareholders' funds	132.6	158.3	231.8	287.9	347.0
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.44	0.53	0.77	0.96	1.16
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	30.0	66.4	88.8	99.7	116.4
Depreciation/Amortisation	10.5	11.4	13.7	15.9	18.5
Net change in working capital	0.1	(4.4)	(4.4)	(9.7)	(12.3)
Others	(3.2)	(9.8)	(8.8)	(11.4)	(24.1)
Cash flow from operations	37.4	63.6	89.3	94.5	98.5
Capital expenditure	(17.5)	(23.6)	(70.0)	(25.0)	(25.0)
Net investments & sale of fixed assets	2.0	1.1	1.1	1.1	1.1
Others	-	-	-	-	-
Cash flow from investing	(15.5)	(22.5)	(68.9)	(23.9)	(23.9)
Debt raised/(repaid)	(9.3)	-	29.0	28.0	23.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(2.0)	(23.0)	(16.5)	(22.5)	(31.5)
Others	7.3	(13.1)	(8.4)	(8.4)	(8.4)
Cash flow from financing	(4.0)	(36.1)	4.1	(2.9)	(16.9)
Net cash flow	17.9	5.0	24.5	67.6	57.6
Net cash/(debt) b/f	16.3	34.2	39.2	63.6	131.3
Net cash/(debt) c/f	34.2	39.2	63.6	131.3	188.9
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	67.4	15.2	25.7	13.3	14.9
EBITDA growth (%)	285.0	82.8	30.8	14.0	16.0
Pretax margin (%)	9.1	17.4	18.5	18.4	18.7
Net profit margin (%)	7.1	12.8	14.6	14.5	14.5
Interest cover (x)	8.4	19.3	23.5	18.5	20.9
Effective tax rate (%)	22.0	26.5	21.0	21.0	22.0
Dividend payout (%)	32.0	61.7	23.6	28.6	34.7
Debtors turnover (days)	34	36	33	31	31
Stock turnover (days)	46	43	38	37	36
Creditors turnover (days)	16	17	16	15	14

Source: Company, AmResearch estimates

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