CONSUMER

AmResearch

Company report

TEO SENG CAPITAL

(TSCB MK EQUITY, TSCP.KL) **30 Jun 2015**

Sungai Linggui delay not a concern

BUY

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Price: RM1.50
Fair Value: RM2.70

Rationale for report: Company update

YE to Dec	FY14	FY15F	FY16F	FY17F
FD Core EPS (sen)	16.2	20.8	23.2	26.7
PE (x)	9.3	7.2	6.5	5.6

Source: AmResearch

Quick Take

- **We maintain our BUY call on Teo Seng Capital with an unchanged fair value of RM2.70/share, based on an unchanged fully-diluted FY15F PE of 13x.**
- ***The Star* today reported that the group has put on hold plans to expand its layer farm in Sungai Linggui, Kota Tinggi to focus on developing its five new farms in Yong Peng, Batu Pahat. The decision was made following its recent feasibility study which found that it was no longer cost-effective to develop the land there.**
- **To recap, the group had earlier said that it would be investing RM50mil to open a new 109.3ha farm in Sungai Linggui, which will be developed over four phases.**
- **TSC currently operates a total of 22 farms (categorised into brooding, pullet and layer farms), which are all located in Yong Peng. These farms are located in the same vicinity as its supporting facilities, namely its feedmill and paper tray machineries.**
- **We are not concerned with this delay as this was a longer term plan for the group and our earnings estimates have not yet factored in any contribution from its Sungai Linggui farm. The capex of RM50mil was also not included in management's guidance of the total of RM200mil over the next five years.**
- **Our FY15F-FY17F earnings CAGR of 23% is underpinned by the production capacity expansion from its Yong Peng farms (+400,000 eggs/day p.a. to 5.1mil eggs/day in five years). We understand that the group has sufficient land available for the development.**
- **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 the addition of a new farm.**
- **We also expect the group's EBITDA margins to continue expanding, buoyed in part by the soft commodity prices. 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.**

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TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	330.8	380.9	478.9	542.4	623.1
Core net profit (RM mil)	23.4	48.6	70.0	78.6	90.7
FD Core EPS (sen)	7.8	16.2	20.8	23.2	26.7
FD Core EPS growth (%)	2,929.3	107.6	28.1	11.8	14.9
Consensus Net Profit (RM mil)	-	-	-	-	-
DPS (sen)	2.5	10.0	5.5	7.5	10.5
PE (x)	19.2	9.3	7.2	6.5	5.6
EV/EBITDA (x)	11.2	6.0	4.4	3.3	2.4
Div yield (%)	1.3	5.0	2.8	3.8	5.3
ROE (%)	19.2	33.4	35.9	30.2	28.6
Net Gearing (%)	37.7	24.0	6.6	nm	nm

Source: Company, AmResearch estimates