



AmResearch

Company report

TEO SENG CAPITAL

(TSCB MK EQUITY, TSCP.KL)

19 Nov 2015

Key takeaways from corporate luncheon

BUY

(Maintained)

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Rationale for report: Company update

Price	RM1.56
Fair Value	RM2.45
52-week High/Low	RM2.22/RM0.99

Key Changes

Fair value	↔
EPS	↔

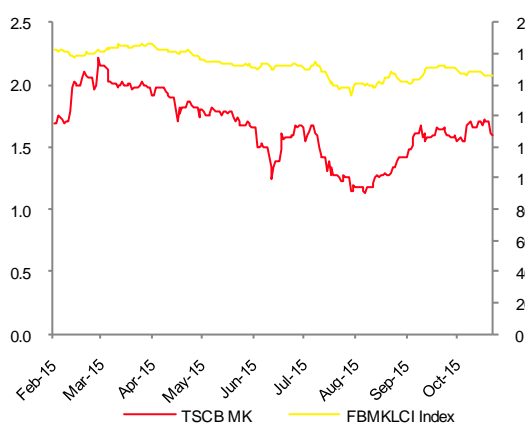
YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	380.9	454.1	524.5	622.0
Core net profit (RM mil)	48.6	54.5	63.0	73.8
FD Core EPS (sen)	16.2	16.3	18.8	21.9
FD Core EPS growth (%)	107.6	0.8	14.9	16.4
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	10.0	4.5	6.5	9.0
PE (x)	9.6	9.5	8.3	7.1
EV/EBITDA (x)	6.2	5.7	4.4	3.4
Div yield (%)	6.2	2.8	4.0	5.6
ROE (%)	33.4	28.9	26.1	25.8
Net Gearing (%)	24.0	12.5	nm	nm

Stock and Financial Data

Shares Outstanding (million)	300.0
Market Cap (RMmil)	468.0
Book Value (RM/share)	0.53
P/BV (x)	3.0
ROE (%)	33.4
Net Gearing (%)	24.0

Major Shareholders	Emerging Glory Sdn Bhd (52.4%) Koperasi Permodalan Felda (5.0%) Lau Joo Kiang (2.2%)
Free Float	47.0
Avg Daily Value (RMmil)	1.9

Price performance	3mth	6mth	12mth
Absolute (%)	27.9	(16.6)	13.6
Relative (%)	21.9	(8.2)	24.7



Investment Highlights

- We reiterate BUY on Teo Seng Capital (TSC) with an unchanged fair value of RM2.45/share. We continue to peg our valuation to a fully-diluted FY16F PE of 13x.
- We hosted a corporate luncheon with key personnel from TSC and institutional funds yesterday, and came away assured of the group's earnings prospects and position as a leading egg producer. We continue to like TSC for its undemanding valuations, robust earnings growth (3-year CAGR: +15%) and expanding dividend payout (historically 25%, policy: 20%-50%).

Key takeaways from the luncheon:

- (1) Management clarified that its flattish YoY PBT for 9MFY15 and corresponding 1.5ppt margin contraction was primarily due to low egg prices (particularly in 2Q and a weaker-than-expected rebound in 3Q). We understand that a 1 sen decline in egg prices results in a RM1mil/month decline in the group's net profit.

Looking ahead, management expects prices to rise in 4QFY15 in tandem with year-end festivities, and to average at 30 sen/egg for FY15F and 31 sen/egg for FY16F.
- (2) The group's expansion plans remain on track. Although it only added one new farm in FY15F (in Nov; target was 2), it still met its production capacity of 3.3mil eggs per day as it had added new 'houses' to its existing farms instead of building a new farm. We understand that land for its FY16F's expansion (1 farm, capacity +13%) has been secured.
- (3) Demand from Singapore, to which it exports 30% of its egg production, remains robust. While the group can still gain from the stronger SGD vs RM, we note that the price differential between the two markets has narrowed to 2 sen/egg from 5 sen/egg just two months ago.
- (4) Feedstock prices are expected to remain low and stable moving forward. In 9MFY15, corn and soybean prices were lower by 20% and 17% YoY, respectively. However, after forex adjustments, they were only lower by 1.2% and 1.5%. The group has bought forward its raw materials up to 1QFY16.
- (5) TSC's superior margins are expected to remain stable. Any price weakness may be offset by energy cost savings from its biogas plant-ups, use of natural gas for egg tray production, and margin enhancements from external sales of paper egg trays (GP margin of 20+%). It foresees no impact from the minimum wage hike next year as most of its workers are paid above that level (at ~RM1,400).

- We leave our FY15F-FY17F earnings estimates unchanged for now in view of our recent downward revision (-19% to -24%) post the release of its 9MFY15 results.

- TSC's present valuations are undemanding. The stock is currently trading at an attractive fully-diluted FY16F PE of only 8x. This is a 47% discount to the average PE of 15x for the consumer companies under our coverage.

EXHIBIT 1: PB BAND CHART

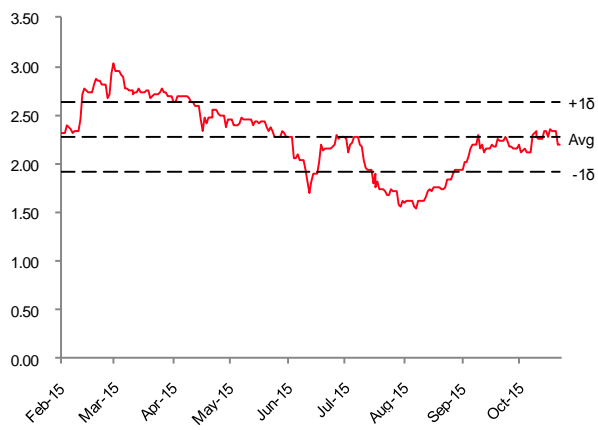


EXHIBIT 2: PE BAND CHART

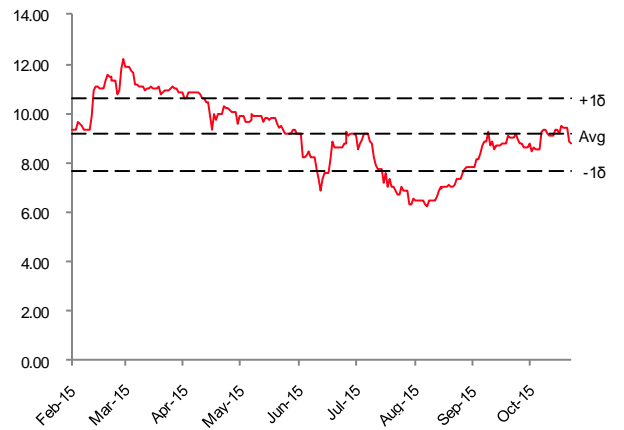


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	330.8	380.9	454.1	524.5	622.0
EBITDA	44.5	81.4	86.6	101.4	119.0
Depreciation/Amortisation	(10.5)	(11.4)	(13.7)	(15.9)	(18.5)
Operating income (EBIT)	34.0	70.0	72.9	85.5	100.5
Other income & associates	-	-	-	-	-
Net interest	(4.0)	(3.6)	(4.0)	(5.7)	(5.9)
Exceptional items	-	-	-	-	-
Pretax profit	30.0	66.4	69.0	79.8	94.6
Taxation	(6.6)	(17.6)	(14.5)	(16.8)	(20.8)
Minorities/pref dividends	-	(0.2)	-	-	-
Net profit	23.4	48.6	54.5	63.0	73.8
Core net profit	23.4	48.6	54.5	63.0	73.8
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	(10.6)	(21.2)	(29.7)
Total non-current assets	143.2	160.4	205.2	202.7	199.7
Cash & equivalent	35.7	39.7	52.0	103.6	155.0
Stock	41.2	47.6	50.3	58.0	68.9
Trade debtors	33.2	42.9	41.1	47.4	56.2
Other current assets	4.9	4.5	4.5	4.5	4.5
Total current assets	115.0	134.8	147.9	213.5	284.7
Trade creditors	14.9	21.0	20.1	23.2	27.6
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	113.8	127.4	143.8
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	219.3	262.8	309.6
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.44	0.53	0.73	0.88	1.03
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	30.0	66.4	69.0	79.8	94.6
Depreciation/Amortisation	10.5	11.4	13.7	15.9	18.5
Net change in working capital	0.1	(4.4)	(1.7)	(10.9)	(15.4)
Others	(3.2)	(9.8)	(6.7)	(9.3)	(21.7)
Cash flow from operations	37.4	63.6	74.2	75.4	76.0
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)	(13.5)	(19.5)	(27.0)
Others	7.3	(13.1)	(8.4)	(8.4)	(8.4)
Cash flow from financing	(4.0)	(36.1)	7.1	0.1	(12.4)
Net cash flow	17.9	5.0	12.4	51.6	39.7
Net cash/(debt) b/f	16.3	34.2	39.2	51.5	103.1
Net cash/(debt) c/f	34.2	39.2	51.5	103.1	142.8
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	67.4	15.2	19.2	15.5	18.6
EBITDA growth (%)	285.0	82.8	6.5	17.1	17.3
Pretax margin (%)	9.1	17.4	15.2	15.2	15.2
Net profit margin (%)	7.1	12.8	12.0	12.0	11.9
Interest cover (x)	8.4	19.3	18.4	15.0	17.2
Effective tax rate (%)	22.0	26.5	21.0	21.0	22.0
Dividend payout (%)	32.0	61.7	24.8	30.9	36.6
Debtors turnover (days)	34	36	34	31	30
Stock turnover (days)	46	43	39	38	37
Creditors turnover (days)	16	17	17	15	15

Source: Company, AmResearch estimates

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