



Teo Seng Capital Berhad

Normalization Underway, Valuation Still Compelling

We reaffirm our positive outlook on Teo Seng as it navigates the transition into a post-subsidy operating environment. While the exit of the "subsidy super-cycle" (FY23–FY25) naturally leads to a headline profit contraction, our meeting with management confirms a robust fundamental floor. Our positive outlook is underpinned by: (i) margin resilience via proactive forward contracting through 1HFY26, (ii) a strategic downstream pivot (4QFY26 egg mayo launch), and (iii) a stabilized revenue base bolstered by an 18% Singapore market share. No change to our earnings estimation but on housekeeping exercise, we adjust our FY26E/FY27E earnings slightly by -1.5%/+2.6%. Tone down our TP by 2% to RM1.14, ascribing to an unchanged 12.0x target P/E to FY26E EPS of 9.5 sen. Reiterate our BUY call.

We recently held a meeting with Teo Seng's management to discuss the Group's post-subsidy outlook. The key operational insights and outlook takeaways are summarized below:

- Structural Normalization.** During the subsidy period (FY23 – FY25), Subsidy income (government egg subsidies) surged to over RM90m. Excluding the egg subsidies, Management guided that its income from other operations are expected to normalize to a baseline of RM5m–RM6m. Our model has proactively factored in this drop, reflecting a return to pre-pandemic and pre-subsidy PBT and PAT margins in the 7%–11% range. While this implies a core earnings contraction compared to recent super-cycles, it represents a sustainable, market-driven earnings floor supported by increased operational scale and a steady average selling prices of eggs.
- Strategic Insulation via Forward Contracting.** Despite heightened geopolitical volatility in West Asia and subsequent disruptions to global shipping, Teo Seng's cost structure remains remarkably insulated through 1HFY26. As 60%–75% of the group's total cost stems from raw materials (specifically corn and soybean meal – mostly from South America), Teo Seng have secured forward contracts covering the next six months. This proactive hedging strategy effectively de-links the group's cost base from immediate spot-market spikes and energy-related freight surcharges. In an environment where unhedged competitors may face significant margin compression, Teo Seng's locked-in feed costs provide a distinct competitive advantage and earnings predictability for the immediate horizon.

Outlook. Management remains cautiously optimistic amid the macro uncertainties but is pivoting toward value-added segments to stabilize top-line growth. The outlook is cautiously supported by the ongoing ceasefire agreement in West Asia, which has begun to deflate the "geopolitical premium" on global grain and energy prices. This reprieve, coupled with Teo Seng's current hedges, provides a favorable window for the group to navigate second-half input costs. On the operational front, the targeted launch of egg mayo products in 4QFY26 marks the beginning of a broader downstream roadmap, with additional product rollouts slated for FY27 or later. Furthermore, the group is intensifying its ESG-centric initiatives, focusing on operational excellence and waste management to align with institutional investor requirements.

Company Update

BUY (↔)

research@mersec.com.my

Wednesday, April 15, 2026

Price: RM 0.88

Target Price: RM 1.14 (↓)

Share Price Performance



Business Overview

Teo Seng Capital Bhd. is an investment holding company principally involved in poultry farming as well as the manufacture and marketing of paper egg trays and animal feeds, along with the distribution of animal health products. Listed on the Main Market.

Return Information

KLCI (pts)	1,688.12
YTD KLCI chg.	0.5%
YTD Stock Price chg.	(9.7%)

Price Performance	1M	3M	12M
Absolute (%)	(9.7)	(14.6)	1.3
Relative to KLCI (%)	(9.1)	(13.2)	(12.7)

Stock Information

Market Cap (RM m)	508.5
Issued Shares (m)	577.9
52-week High (RM)	1.17
52-week Low (RM)	0.87
Est. Free Float (%)	84
Beta vs FBM KLCI	1.2
3-month Avg Vol. (m)	463,379
Shariah Compliant	Yes
Bloomberg Ticker	TSCB MK Equity

Top 3 Shareholders

	%
Advantage Valuations	53.9
Khing Kong Goon	3.5
Leong Hup Sdn Bhd	2.5

FY Mar (RM m)	FY25A	FY26E	FY27E
Revenue	735.9	762.2	848.1
EBITDA	192.9	109.9	121.7
PBT	156.5	74.0	83.0
Net Profit	142.1	56.3	63.1
Core Net Profit	142.1	56.3	63.1
Consensus Net Profit	-	108.0	117.0
Earnings Revision (%)	-	-1.5	2.6
Core EPS (sen)	24.0	9.5	10.6
Core EPS Growth (%)	(22.5)	(60.4)	12.2
Net DPS (sen)	0.0	0.0	0.0
Net Div. Yield (%)	4.6	2.7	3.0
BV Per Share (sen)	121.7	131.2	141.9
P/E (x)	3.7	9.3	8.3
PBV (x)	0.7	0.7	0.6
ROE (%)	19.7	7.2	7.5



Earnings Revision. No change to our assumptions on: (i) ASP of eggs, (ii) annual sales quantity of eggs and (iii) GP, PBT and PAT margins but earnings revised slightly by -1.5%/+2.6% for FY26E/FY27E on housekeeping.

Valuations. We maintain our 12.0x P/E multiple pegged to the 10-year average P/E of its domestic peers, PWF and LTKM, adjusted to exclude subsidies-related income for a more accurate reflection of a normalised operating condition. This 12.0x multiple also implies a steep 55% discount to Bursa Malaysia Consumer Product Index 10-Year PE multiple average of 26x. We believe our 12.0x target P/E is justifiable and remains conservative, as it stands at a substantial c.55% discount to the Bursa Malaysia Consumer Products & Services Index's 10-year average P/E of 26.0x. We think a higher multiple is warranted given the group's earnings normalisation, defensive demand characteristics, stronger operating scale and emerging downstream catalysts. Reiterate our BUY recommendation.

Investment case. We continue to like Teo Seng for its long-term outlook, driven by: (i) resilient market demand for eggs, (ii) vertically integrated operations, (iii) downstream expansion growth, (iv) expanding market share and (v) de-escalation of global geopolitical tensions.

Risks to our recommendation include: (i) risk of poultry disease outbreaks, (ii) feed cost volatility post-1HFY26, (iii) forex volatility, and (iv) softer average selling price of eggs.

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Key Financial Data

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2024A	2025A	2026E	2027E	2028E	FY Dec	2024A	2025A	2026E	2027E	2028E
Revenue	753.8	735.9	762.2	848.1	996.8	Growth					
EBITDA	229.5	192.9	109.9	121.7	141.9	Turnover	-0.9%	-2.4%	3.6%	11.3%	17.5%
Depreciation & Amortization	(29.4)	(32.0)	(35.1)	(36.9)	(37.5)	EBITDA	16.0%	-16.0%	-43.0%	10.7%	16.7%
Operating Profit	200.1	160.9	74.8	84.8	104.5	Operating Profit	18.3%	-19.6%	-53.5%	13.3%	23.3%
Interest Inc/(Exp)	3.6	0.0	5.0	4.0	4.2	PBT	22.0%	-21.1%	-52.7%	12.2%	24.8%
Profit Before Tax	198.4	156.5	74.0	83.0	103.6	Core Net Profit	17.7%	-22.5%	-60.4%	12.2%	24.8%
Taxation	(15.1)	(14.4)	(17.8)	(19.9)	(24.9)	Profitability					
Net Profit	183.4	142.1	56.3	63.1	78.8	Gross Profit Margin	32.1%	27.0%	27.0%	27.0%	27.0%
PATAMI	183.4	142.1	56.3	63.1	77.8	EBITDA Margin	30.4%	26.2%	14.4%	14.3%	14.2%
Balance Sheet						Operating Margin	26.5%	21.9%	9.8%	10.0%	10.5%
Fixed Assets	438.5	501.5	558.3	561.2	572.9	PBT Margin	26.3%	21.3%	9.7%	9.8%	10.4%
Intangible Assets	0.0	0.0	0.0	0.0	0.0	Core Net Margin	24.3%	19.3%	7.4%	7.4%	7.8%
ROU Assets	1.4	3.5	2.0	2.2	3.3	Effective Tax Rate	7.6%	9.2%	24.0%	24.0%	24.0%
Other Fixed Assets	4.7	0.2	0.2	0.2	0.3	ROA	21.7%	14.6%	5.0%	5.3%	6.1%
Inventories	75.3	61.2	95.3	106.0	124.6	ROE	29.6%	19.7%	7.2%	7.5%	8.6%
Receivables	63.2	74.1	76.2	84.8	99.7	Leverage					
Other Current Assets	136.0	152.3	152.3	152.3	152.3	Debt/Asset (x)	0.12	0.13	0.15	0.11	0.10
Cash	126.8	183.5	230.0	276.7	335.8	Debt/Equity (x)	0.16	0.18	0.22	0.16	0.14
Total Assets	846.1	976.3	1,114.4	1,183.4	1,288.8	Net (Cash)/Debt	0.77	0.72	1.43	1.01	1.00
Payables	91.3	78.5	92.7	103.2	121.3	Net Debt/Equity (x)	0.00	0.00	0.00	0.00	0.00
ST Borrowings	67.4	87.5	87.5	87.5	87.5	Valuations					
Other ST Liability	2.1	2.9	2.1	2.1	2.1	Core EPS (sen)	0.31	0.24	0.09	0.11	0.13
LT Borrowings	30.4	43.8	83.8	43.8	43.8	NDPS (sen)	0.06	0.05	0.02	0.03	0.03
Other LT Liability	36.6	42.0	42.0	42.0	42.0	BV/sh (RM)	1.04	1.22	1.31	1.42	1.55
Net Assets	618.4	721.6	806.3	904.8	992.1	PER (x)	2.9	3.7	9.3	8.3	6.7
Shareholders' Equity	618.4	721.6	777.9	841.0	920.8	Div. Yield (%)	6.0%	4.6%	2.7%	3.0%	3.7%
Minority Interests	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	PBV (x)	0.8	0.7	0.7	0.6	0.6
Total Equity	618.4	721.6	777.9	841.0	920.8						
Cashflow Statement											
FY Mar (RM m)											
Operating CF	167.2	203.7	121.0	118.7	141.7						
Investing CF	(75.3)	(95.0)	(94.9)	(43.2)	(52.1)						
Financing CF	(62.3)	(8.9)	(22.7)	(28.8)	(30.5)						
Change In Cash	29.7	99.8	3.3	46.6	59.1						
Free CF	126.8	226.7	230.0	276.7	335.8						

Source: Mercury Securities, Company



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Published & Printed By:

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