



Farm Fresh Berhad

“IPO Note – A distinctive dairy products specialist”

Main Market

Consumer

Subscribe

IPO Price: RM1.35

Fair Value: RM1.53

Valuation / Recommendation

We have a SUBSCRIBE recommendation on Farm Fresh Berhad with a target price of RM1.53 based on peers average PE of 28.8x and FY23F EPS of 5.3 sen. We like Farm Fresh for its strong market presence in Malaysia’s dairy industry, local and regional expansion plans. The company has a dividend policy of 25%. The target price represents a potential return of 13.3% over the IPO price.

Investment Insights

Strong market presence. Farm Fresh is one of the biggest and fastest growing players in Malaysia’s dairy industry. The company has a strong market presence across various dairy categories in Malaysia as of 9M21, commanding (1.) 42% market share in Chilled RTD Milk (54% in Chilled RTD Milk products manufactured with fresh milk), (2.) 10% in Ambient RTD Milk (48% in Ambient RTD Milk products manufactured with fresh milk), and (3.) 11% in Yoghurt. We think that the company is well-positioned to expand its presence locally on the backdrop of a growing Malaysian dairy industry which is projected by Frost & Sullivan to grow at a 5-year CAGR of 10%, 8%, 7% for the Chilled RTD Milk, Ambient RTD Milk, and Yoghurt industry from 2020 to 2025.

New dairy farm and integrated processing facility to spur growth. As at LPD, Farm Fresh is exploring with a company to utilise its existing land spanning 500-1,000 acres for the establishment of an integrated dairy project, with the first heifer expected to arrive by 1Q24. The new farm is expected to have a capacity of 3,000 dairy cows, increasing the aggregate capacity by 25.4% to 14,834 dairy cows. Completion of the new manufacturing hub is expected to increase total annual production capacity of finished chilled RTD products by 20.8m litres with the additional 2 filling and packaging lines.

Regional expansion. The company plans to increase production capabilities in Australia through the expansion of the Kyabram Facility, which will allow the Group to manufacture UHT/ambient products to serve as an export hub to the Asia-Pacific region. Expansion is expected to begin in 1H22 and production expected to commence in 2Q23. The company also seeks to expand its presence in Indonesia and the Philippines by establishing new production and distribution capabilities, which will increase total annual production capacity by approximately 20.8m litres of finish products. RTD milk segment in Indonesia and Philippines is expected to grow at a 5-year CAGR of 9.3% and 6.5% from 2020 to 2025 as forecasted by Frost & Sullivan.

Experienced management team. The company has an experienced management team spearheaded by managing director Mr Loi Tuan Ee who has more than 15 years of experience in the dairy industry.

Risk factors. (1) Fluctuation of feed prices. (2) Labour shortages. (3) Unexpected pandemics of infectious disease.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	303.1	490.5	612.8	703.4	813.0
EBITDA	56.6	99.0	138.1	165.0	194.9
EBITDA Margin (%)	18.7	20.2	22.5	23.5	24.0
PAT	34.4	32.8	82.3	101.5	123.4
EPS (sen)	1.7	1.5	4.3	5.3	6.4
EPS Growth (%)	1.7	-17.0	194.8	23.1	21.8
BV Per Share (sen)	10.6	13.0	32.2	24.6	20.3
PE (x)	72.7	76.2	30.4	24.6	20.3
Net gearing/ (net cash) (%)	Net Debt	Net Debt	Net Cash	Net Debt	Net Debt
ROA (%)	8.3	5.3	9.6	11.8	13.8
ROE (%)	17.4	13.6	13.8	17.8	21.5

Sources: Company, Mercury Securities

Business Overview

Farm Fresh Berhad incorporated its dairy farming operations in 2009. Since then, Farm Fresh has become one of Malaysia’s largest homegrown dairy companies. Through its subsidiaries, the Group engages in the business activities of farming, manufacturing, and distributing various dairy products and plant-based products.

Listing Details

Listing Date	22 Mar 22
New Shares (m)	223.0
Offer For Sale (m)	520.2
Funds Raised (Rm m)	301.0

Post Listing

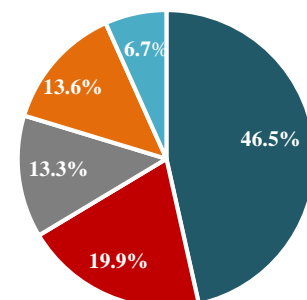
Ordinary shares (m)	1,858.0
Market Cap (RM m)	2,500.0
Free Float	12.0%
P/E (FY23F)	24.6x

Major Shareholders

Rainforest Capital	30.73%
Farmchoice Foods	13.79%
Cahaya Bintang	1.27%

Utilization of IPO Proceeds

	(RM m)
Expansion in Malaysia (Within 24 months)	140.0
Expansion of production facility in Australia (within 18 months)	60.0
Regional expansion outside of Malaysia (within 24 months)	40.0
Working capital (within 12 months)	40.8
Listing expenses (within 3 months)	20.2



- Expansion in Malaysia
- Expansion of production facility in Australia
- Regional expansion outside of Malaysia
- Working capital
- Listing expenses

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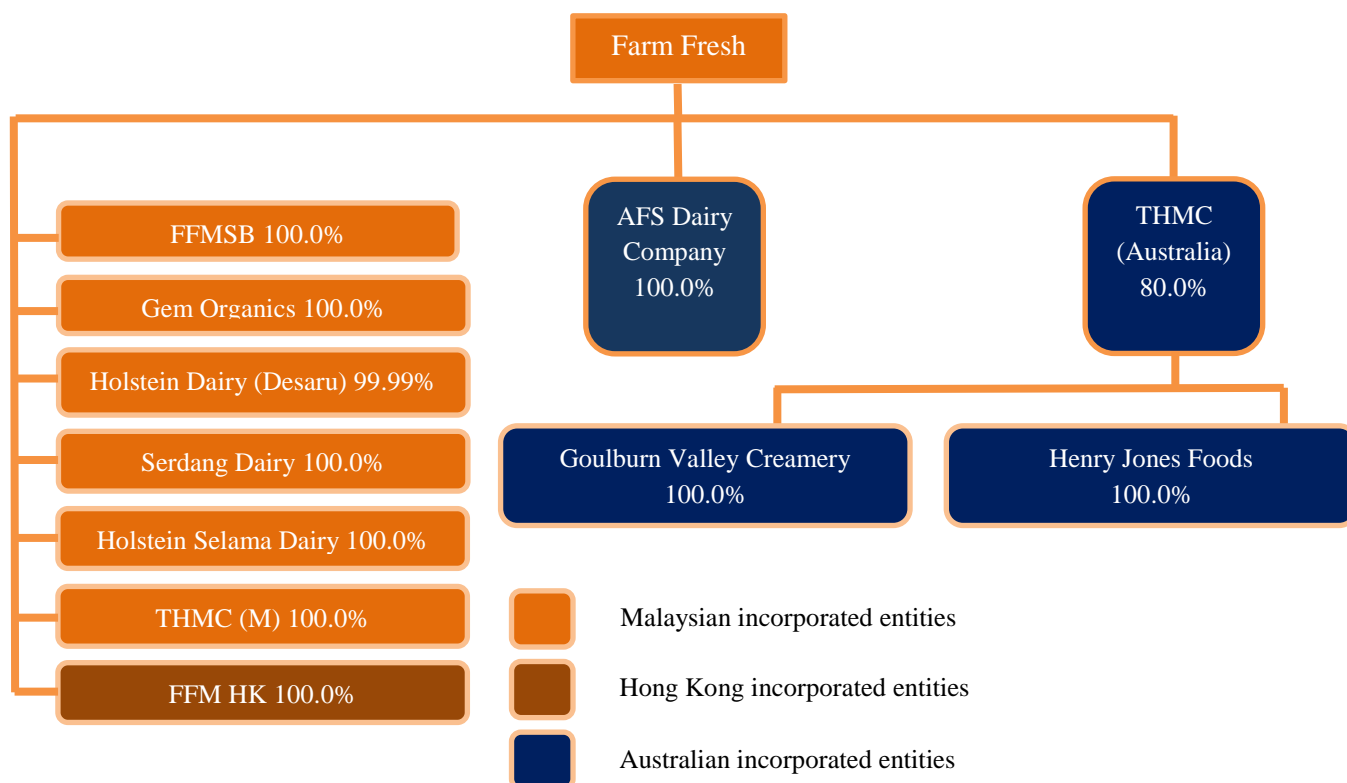


IPO Details

	Offer for sale (m)	Public issue (m)	Total (m)	(%)
(i) Malaysian Public via Balloting	-	37.2	37.2	2.0%
(ii) Eligible Directors and employees as well as persons who have contributed to the success of the Group	-	18.6	18.6	1.0%
(iii) Private placement to Bumiputera investors approved by MITI	65.0	167.2	232.2	12.5%
(iv) Private placement to selected investors	455.2	-	455.2	24.5%
Total	520.2	223.0	743.2	40.0%

Source: Company

Group structure post listing



Source: Company

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Dutch lady	DLM MK	32.50	2,080.0	23.7	22.3	137.0	146.0	-64.7%	6.6%	4.9	4.3
F&N	FNH MK	22.72	8,333.2	23.4	18.0	97.0	126.0	-10.2%	29.9%	2.8	2.6
Nestle	NESZ MK	136.2	31,938.9	53.0	46.2	257.0	295.0	-3.9%	14.8%	54.4	53.7
Average				33.4	28.8						

Sources : Mercury Securities, Bloomberg

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Published and printed by:

MERCURY SECURITIES SDN BHD

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