

## COMPANY RESULTS

### Farm Fresh (FFB MK)

1QFY23: Decent Sales Performance Masked By Temporary Lull In Margins

1QFY23 earnings came in largely within expectations. Sales held up relatively well despite growing off a high base. Gross margins were expectedly hit by high input costs. Raised ASPs and completion of mid-stream expansion should drive earnings for the rest of the year. We continue to like Farm Fresh for its exciting earnings growth and attractive valuations that could re-rate further. Maintain BUY with a target price of RM1.82.

#### 1QFY23 RESULTS

Year to 31 Mar (RMm)	1QFY23	qoq % chg	yoy % chg	Comments
Revenue	144.0	12.5	6.9	Malaysia's yoy sales growth of 9.8% more than offsets cessation of Australia sales to third parties (-16.4%).
Gross profit	37.7	2.8	6.8	
EBITDA	23.8	-1.9	-7.6	
Pretax profit	14.2	-11.9	-12.3	
Core PATAMI	19.0	-19.0	-12.7	Accounted for 20% of our and consensus earnings estimates.
Margins	(%)	qoq ppt chg	yoy ppt chg	
Gross margin (%)	26.2	-2.5	0.0	
Opex as % of revenue	-16.8	-0.1	-4.6	
EBITDA margin (%)	16.5	-2.4	-2.6	
Effective tax rate (%)	8.0	0.5	-9.8	Recognition of deferred tax income arising from losses incurred by its Australian subsidiaries.
Core margin (%)	13.2	-5.1	-3.0	

Source: Farm Fresh, UOB Kay Hian

## RESULTS

- 1QFY23 earnings largely within expectations. Farm Fresh registered a 1QFY23 core net profit of RM19.0m (-19.0% qoq, -12.7% yoy). Core earnings have been adjusted for employee share option scheme (ESOS) (RM2.1m) and unrealised forex losses (RM1.5m). Core earnings were largely within expectations, representing 20% of both our and consensus full-year forecasts. We expect raised ASPs in 2QFY23 and completion of its mid-stream expansion in 3QFY23 to lift earnings for the remainder of the year.

## KEY FINANCIALS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	490	502	621	726	838
EBITDA	90	86	140	167	194
Operating profit	68	61	106	124	147
Net profit (rep./act.)	72	86	97	115	139
Net profit (adj.)	72	86	97	115	139
EPS (sen)	3.9	4.6	5.2	6.2	7.5
PE (x)	43.1	36.5	32.2	27.1	22.5
P/B (x)	13.0	5.1	4.5	4.0	3.5
EV/EBITDA (x)	37.6	39.1	24.2	20.3	17.4
Dividend yield (%)	0.0	0.2	0.8	0.9	1.1
Net margin (%)	14.8	17.1	15.6	15.8	16.6
Net debt/(cash) to equity (%)	95.5	42.0	48.5	41.0	29.8
Interest cover (x)	9.2	9.4	8.7	9.3	11.7
ROE (%)	33.0	20.1	14.9	15.7	16.6
Consensus net profit	-	-	97	123	149
UOBKH/Consensus (x)	-	-	1.00	0.93	0.93

Source: Farm Fresh, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.67
Target Price	RM1.82
Upside	9.0%

## COMPANY DESCRIPTION

Homegrown Farm Fresh is the largest integrated dairy producer in Malaysia. Farm Fresh commands more than half of the RTD fresh milk segment. It also looks to expand its exports to the likes of Singapore, Indonesia and the Philippines.

## STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FFB MK
Shares issued (m):	1,858.0
Market cap (RMm):	3,139.9
Market cap (US\$m):	719.1
3-mth avg daily t'over (US\$m):	

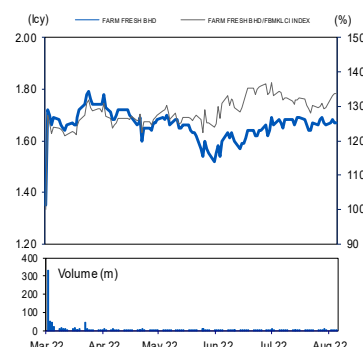
## Price Performance (%)

52-week high/low			RM1.79/RM1.35	
1mth	3mth	6mth	1yr	YTD
1.8	n.a.	n.a.	n.a.	n.a.

## Major Shareholders

	%
Loi Tuan Ee, family and associates	44.5
Agrifood Resources	11.8
EPF	5.4
FY23 NAV/Share (RM)	0.37
FY23 Net Cash/Share (RM)	0.01

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

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- **Decent sales but more yet to come.** 1QFY23 sales were highly encouraging, with Malaysia's sales growing 9.8% yoy. This more than offset the cessation of Australia's sales to third parties (-16.4%) – adjusted overall sales would have grown 8.7% yoy. We expect sales going forward to be lifted by: a) its fortified fresh milk to make further headways into the untapped powdered milk segment, b) milk processing expansion, freeing up capacity for export sales, and c) ASP revision.
- **Margins temporarily decline as input costs bite.** 1QFY23 gross margin declined by 2.5ppt to 26.2% on a qoq basis due to higher input cost. Heading into the remainder of the year, Farm Fresh expects to restore its margins with an ASP revision in 2QFY23. On top of that, management thinks that input cost appears to have peaked. Farm Fresh's tax expense was positive, owing to the recognition of deferred income arising from its business losses of its Australian subsidiaries. Ultimately, PAT margins declined by 3.0ppt and 5.1ppt to 13.2% on a yoy and qoq basis.

### STOCK IMPACT

- **Full cost pass through.** Management previously indicated that with higher raw milk and logistics costs, COGS is estimated to be 5% higher. This effectively translates to 3-4% in terms of Farm Fresh's ASPs. The costs have been fully passed through with Farm Fresh's ASP hike of 5% and 10% on its chilled products in Malaysia and Singapore in July and August respectively. This comes on the back of raised ASPs in 3QFY22. However, Farm Fresh's ASP revision is a laggard to its competitors, having already raised ASPs twice with a possible further revision in Sep/Oct 22. Positively, raw milk prices appear to have peaked for now.
- **Facilities coming on stream to meet demand.** In terms of Farm Fresh's mid-stream expansion (milk-processing), its Taiping Farm is due to be completed by 4Q22. This would allow it to serve the chilled market in the Northern Peninsula region, lowering transportation cost and freeing up capacity at its Larkin facility in Johor, which would allow it to meet demand in Singapore. Meanwhile, Farm Fresh is in the midst of finalising its sale and purchase agreement for land to build a processing plant in the central region that would underpin its medium-term growth (37% of additional capacity). Management aims to commence production by Apr 24.

### EARNINGS REVISION/RISK

- No changes to earnings.
- **Downside risks:** Elevated raw material prices as well as milk quality and yield.

### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.82.** Our target price is pegged to 30.5x FY23F PE. The PE peg is derived from the overall Asia dairy average PE to a growth ratio of 1.7x Farm Fresh's three-year earnings CAGR of 17.9%. We like Farm Fresh for its: a) attractive growth outlook with a three-year earnings CAGR (FY20-23) of 17.9% vs Malaysia – consumer (7.2%) and Asia Developed – dairy (3.1%); and b) far superior operating efficiency – average operating margins of 20.6% for FY19-21 far outperformed its direct peer Dutch Lady's 13.6%.
- We believe should Farm Fresh be able to make headway into key export markets and sustain its margins amid spiraling costs, it could re-rate to command premium valuations closer to those of consumer darlings such as Nestle (51.6x) and QL Resources (48.8x).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Climate action.</b> A target for a reduction of 25% of greenhouse gas emissions in five years. Also a target of 21% total Scope 1 and Scope 2 emissions reduction by 2026, primarily through the use of renewable energy. Scope 3 emissions represent less than 1% of its GHG emissions and therefore its environmental impact is considered less significant.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Animal health and welfare.</b> Farm Fresh is the first dairy farm operator in Asia who has earned the internationally recognised Certified Humane certification by Humane Farm Animal Care for its on-farm operations.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Board balance and composition.</b> 4 of 7 directors are independent directors, amounting to 57% of its board members.</li> </ul> </li> </ul>
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### KEY ASSUMPTIONS

	2023F	2024F	2025F
Revenue (RMm)	621.3	726.4	837.7
Growth yoy (%)	17.3	16.9	15.3
PATAMI (RMm)	96.7	115.0	137.4
Growth yoy (%)	19.9	18.9	19.5
3-yr CAGR (%)	48.8	18.8	19.4
Gross margin (%)	30.6	30.4	30.5
EBITDA margin (%)	23.5	24.0	24.2
ASPs - Malaysia (dairy) (RM/litre)	6.35	6.41	6.47
ASPs - Malaysia (Plant based) (RM/litre)	7.06	7.13	7.21
Volume (m litres)	98	113	129
Growth yoy (%)	15.0	15.8	14.2

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Net turnover	502	621	726	838
EBITDA	86	140	167	194
Deprec. & amort.	26	33	42	47
EBIT	61	106	124	147
Total other non-operating income	14	11	13	14
Associate contributions	0	0	0	0
Net interest income/(expense)	(9)	(16)	(18)	(17)
<b>Pre-tax profit</b>	<b>66</b>	<b>101</b>	<b>120</b>	<b>144</b>
Tax	13	(8)	(10)	(12)
Minorities	1	4	5	6
<b>Net profit</b>	<b>86</b>	<b>97</b>	<b>115</b>	<b>139</b>
Net profit (adj.)	86	97	115	139

### BALANCE SHEET

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Fixed assets	340	487	537	561
Other LT assets	141	160	168	177
Cash/ST investment	28	21	35	40
Other current assets	502	480	513	548
<b>Total assets</b>	<b>1,010</b>	<b>1,147</b>	<b>1,252</b>	<b>1,327</b>
ST debt	52	52	52	52
Other current liabilities	94	83	97	112
LT debt	232	302	302	252
Other LT liabilities	20	21	21	21
Shareholders' equity	611	688	779	889
<b>Total liabilities &amp; equity</b>	<b>1,010</b>	<b>1,147</b>	<b>1,252</b>	<b>1,327</b>

### CASH FLOW

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>49</b>	<b>153</b>	<b>151</b>	<b>176</b>
Pre-tax profit	66	101	120	144
Tax	(28)	(8)	(10)	(12)
Deprec. & amort.	26	33	42	47
Associates	0	0	0	0
Working capital changes	(21)	11	(19)	(21)
Other operating cashflows	8	16	18	17
<b>Investing</b>	<b>(357)</b>	<b>(190)</b>	<b>(90)</b>	<b>(70)</b>
Capex (growth)	(366)	(190)	(90)	(70)
Proceeds from sale of assets	9	0	0	0
Others	0	0	0	0
<b>Financing</b>	<b>339</b>	<b>29</b>	<b>(47)</b>	<b>(102)</b>
Dividend payments	(5)	(24)	(29)	(35)
Issue of shares	293	0	0	0
Proceeds from borrowings	200	0	0	0
Loan repayment	(83)	70	0	(50)
Others/interest paid	(65)	(16)	(18)	(17)
<b>Net cash inflow (outflow)</b>	<b>31</b>	<b>(7)</b>	<b>14</b>	<b>5</b>
Beginning cash & cash equivalent	12	28	21	35
Changes due to forex impact	(14)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>28</b>	<b>21</b>	<b>35</b>	<b>40</b>

### KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	17.2	22.5	23.0	23.2
Pre-tax margin	13.1	16.2	16.5	17.2
Net margin	17.1	15.6	15.8	16.6
ROA	10.5	9.0	9.6	10.8
ROE	20.1	14.9	15.7	16.6
<b>Growth</b>				
Turnover	2.3	23.8	16.9	15.3
EBITDA	(3.8)	61.8	19.4	16.4
Pre-tax profit	(2.8)	53.5	18.6	20.8
Net profit	18.2	13.4	18.5	20.5
Net profit (adj.)	18.2	13.4	18.5	20.5
EPS	18.2	13.4	18.5	20.5
<b>Leverage</b>				
Debt to total capital	31.8	34.0	31.3	25.5
Debt to equity	46.6	51.5	45.5	34.3
Net debt/(cash) to equity	42.0	48.5	41.0	29.8
Interest cover (x)	9.4	8.7	9.3	11.7

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