

COMPANY UPDATE

Farm Fresh (FFB MK)

Moo-ving Capacity Along At Its Taiping Farm

We come away buoyant from visiting Farm Fresh's slated processing facility at its Taiping Farm. It will relieve capacity constraint that has largely muted Farm Fresh's FY23 sales performance. Combined with additional capacity at Muadzam Shah Farm and the launch of its Philippines' operations, it underpins exciting near-term growth. Plans are also afoot to target the untapped RM2.2b powder milk segment as well. Maintain HOLD as prospects appear to be fairly priced-in. Target price: RM1.57.

WHAT'S NEW

- **Taiping Farm visit with influx of processing capacity.** Farm Fresh hosted a site visit to its Taiping Farm. The farm is home to 2,200 cows currently. Its landbank could eventually support up to 3,000 cows. On top of that, the farm is retrofitting a processing facility as well, which it is due for completion in Apr 23. The expansion would add up to its processing capacity of 20m litres of chilled milk per annum. The farm has been granted a 10-year tax-free status, commencing in FY24.
- **Relieves capacity constraint and lifts margins.** The additional processing capacity, at 14% of Farm Fresh's current overall processing capacity, will remove Farm Fresh's capacity-constrained sales (stemming from its obligations to satisfy its school milk programme requirements with the government). Apart from that, it would allow its Taiping facilities to serve the chilled market in the Northern Peninsula region. This would free up capacity at its Larkin facility in Johor, in order to meet demand in Singapore and thus lowering transportation cost in the process as well. We gather that it could realise cost savings of up to 1-2ppt of gross margins of sales out of its Taiping farm as a result.
- **Muadzam Shah Farm and Philippines coming on stream as well.** Apart from that, Farm Fresh is commissioning a processing line for UHT products at its Muadzam Shah Farm this month. Resolving this bottleneck would see 25% increased throughput. We gather this effectively adds close to 12% of existing overall milk output. Its expansion to Philippines is underway as well and could be operational in 2Q23. The facility has a processing capacity of 20m litres of milk per annum.

KEY FINANCIALS

| Year to 31 Mar (RMm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 490 | 502 | 621 | 726 | 838 |
| EBITDA | 90 | 86 | 116 | 150 | 175 |
| Operating profit | 68 | 61 | 82 | 108 | 127 |
| Net profit (rep./act.) | 72 | 86 | 75 | 99 | 120 |
| Net profit (adj.) | 72 | 86 | 75 | 99 | 120 |
| EPS (sen) | 3.9 | 4.6 | 4.0 | 5.4 | 6.5 |
| PE (x) | 40.3 | 34.1 | 39.0 | 30.5 | 24.2 |
| P/B (x) | 12.1 | 4.8 | 4.3 | 3.9 | 3.4 |
| EV/EBITDA (x) | 35.4 | 36.8 | 27.4 | 21.1 | 18.2 |
| Dividend yield (%) | 0.0 | 0.2 | 0.6 | 0.9 | 1.0 |
| Net margin (%) | 14.8 | 17.1 | 12.0 | 13.7 | 14.4 |
| Net debt/(cash) to equity (%) | 95.5 | 42.0 | 52.3 | 46.4 | 36.3 |
| Interest cover (x) | 9.2 | 9.4 | 7.1 | 8.2 | 10.2 |
| ROE (%) | 33.0 | 20.1 | 11.7 | 14.0 | 15.1 |
| Consensus net profit | - | - | 90 | 113 | 136 |
| UOBKH/Consensus (x) | - | - | 0.83 | 0.88 | 0.88 |

Source: Farm Fresh, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|--------------|--------|
| Share Price | RM1.57 |
| Target Price | RM1.57 |
| Upside | +0.0% |

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): | 2,917.0 |
| Market cap (US\$m): | 637.6 |
| 3-mth avg daily t'over (US\$m): | 0.7 |

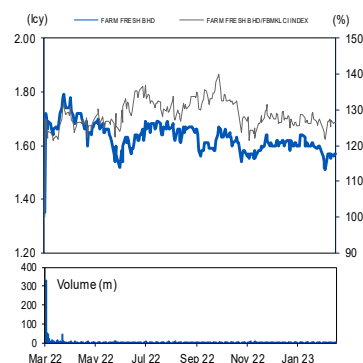
Price Performance (%)

| | | | | |
|------------------|-------|-------|---------------|------|
| 52-week high/low | | | RM1.79/RM1.35 | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (3.7) | (6.5) | (7.1) | n.a. | n.a. |

Major Shareholders

| | |
|--------------------------|------|
| | % |
| Loi Tuan Ee and family | 44.5 |
| Agrifood Resources | 11.8 |
| EPF | 5.4 |
| FY23 NAV/Share (RM) | 0.36 |
| FY23 Net Debt/Share (RM) | 0.19 |

PRICE CHART



Source: Bloomberg

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- **New capacity underpins robust volume sales.** The combined mid-stream expansions will allow Farm Fresh to meet its sales demand, which had seen a stockout with various SKUs ranging from UHT milk to its plant-based milk. Now that the facilities are due to be onstream anytime soon, the enlarged capacity underlines our FY24 volume growth assumption of 17.7%.
- **Limited school milk programme success but positions GUM powder ready for a lucrative untapped segment.** While the school milk programme inadvertently occupied precious and limited capacity previously while commanding lower margins as opposed to Farm Fresh's comparable SKUs, the programme (existing contract expires in June and Farm Fresh is currently awaiting for a new tender to be floated in May) allowed Farm Fresh inroads to acclimatising school children with its brand and products. Furthermore, it encouraged parallel sales for its products for its liquid growing up milk (GUM). A product extension, GUM powder, is due to be launched in 4Q23. This would be in direct competition to Dutch Lady and a crack at a currently untapped RM2.2b segment for Farm Fresh.

STOCK IMPACT

- **Competition on the horizon.** F&N and a JV by Baladna (largest dairy group in Qatar), FGV Holdings and Touch Group are expected to make significant investments into upstream dairy activity. Over the next 10 years, both these initiatives are aiming to produce 200m and 300m litres of fresh milk, a combined 500m litres of fresh milk locally.
- **Inside track to success.** Farm Fresh expects to complete its Inside Scoop acquisition in May 23. Apart from targeting a one store a month expansion that would bring its store count to 50 by end-23, underpinning a target revenue growth of 15% a year, Farm Fresh intends to roll out consumer packaged goods (CPG) ice cream by end-23. It intends to achieve a 5% market share in two years for the projected RM1.3b CPG ice cream market. Farm Fresh hopes that CPG could contribute RM55m-65m in sales by 2025 (or 7% of our FY25 revenue estimates).

EARNINGS REVISION/RISK

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

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.57.** While Farm Fresh offers a decent three-year earnings CAGR (FY22-25) of 11.8% and has superior operating efficiency relative to its domestic peers, we opine that it is fairly priced-in by its valuations at this juncture. Our target price is pegged to 30.5x FY24F PE. The PE peg was derived from the overall Asia dairy average PE to a growth ratio of 1.7x to Farm Fresh's earnings CAGR.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

| |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Climate action. Targeting a reduction of 25% of greenhouse gas emissions in five years. Also targeting 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. • Social <ul style="list-style-type: none"> - Animal health and welfare. Farm Fresh is the first dairy farm operator in Asia to earn the internationally recognised Certified Humane certification by Humane Farm Animal Care for its on-farm operations. • Governance <ul style="list-style-type: none"> - Board balance and composition. 4 of 7 directors are independent directors, amounting to 57% of its board members. |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

KEY ASSUMPTIONS

| | 2023F | 2024F | 2025F |
|------------------------------------------|-------|-------|-------|
| Revenue (RMm) | 501.9 | 621.3 | 738.6 |
| Growth yoy (%) | 23.8 | 18.9 | 16.0 |
| PATAMI (RMm) | 74.8 | 102.2 | 124.7 |
| Growth yoy (%) | -12.6 | 36.6 | 22.1 |
| 3-yr CAGR (%) | 36.6 | 13.1 | 13.4 |
| Gross margin (%) | 26.8 | 28.2 | 28.4 |
| EBITDA margin (%) | 20.3 | 22.5 | 22.6 |
| 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 | 115 | 132 |
| Growth yoy (%) | 15.0 | 17.7 | 14.9 |

Source: UOB Kay Hian

FULLY COMPLETED BARN WITH EXHAUST FANS, HOUSING UP TO 400 COWS



Source: UOB Kay Hian

FLOORSPACE EARMARKED FOR PROCESSING FACILITY INSTALLATION



Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Mar (RMm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-----------|-----------|------------|------------|
| Net turnover | 502 | 621 | 726 | 838 |
| EBITDA | 86 | 116 | 150 | 175 |
| Deprec. & amort. | 26 | 33 | 42 | 47 |
| EBIT | 61 | 82 | 108 | 127 |
| Total other non-operating income | 14 | 11 | 13 | 14 |
| Associate contributions | 0 | 0 | 0 | 0 |
| Net interest income/(expense) | (9) | (16) | (18) | (17) |
| Pre-tax profit | 66 | 77 | 103 | 125 |
| Tax | 13 | (6) | (8) | (10) |
| Minorities | 1 | 4 | 5 | 6 |
| Net profit | 86 | 75 | 99 | 120 |
| Net profit (adj.) | 86 | 75 | 99 | 120 |

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 | 14 | 16 | 8 |
| Other current assets | 502 | 485 | 517 | 552 |
| Total assets | 1,010 | 1,145 | 1,237 | 1,298 |
| ST debt | 52 | 62 | 62 | 62 |
| Other current liabilities | 94 | 88 | 101 | 116 |
| LT debt | 232 | 302 | 302 | 252 |
| Other LT liabilities | 20 | 21 | 21 | 21 |
| Shareholders' equity | 611 | 671 | 751 | 847 |
| Total liabilities & equity | 1,010 | 1,145 | 1,237 | 1,298 |

CASH FLOW

| Year to 31 Mar (RMm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------------|--------------|--------------|-------------|-------------|
| Operating | 49 | 131 | 136 | 158 |
| Pre-tax profit | 66 | 77 | 103 | 125 |
| Tax | (28) | (6) | (8) | (10) |
| 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 |
| Investing | (357) | (190) | (90) | (70) |
| Capex (growth) | (366) | (190) | (90) | (70) |
| Proceeds from sale of assets | 9 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| Financing | 339 | 45 | (43) | (97) |
| Dividend payments | (5) | (19) | (25) | (30) |
| Issue of shares | 293 | 0 | 0 | 0 |
| Proceeds from borrowings | 200 | 0 | 0 | 0 |
| Loan repayment | (83) | 70 | 0 | (50) |
| Others/interest paid | (65) | (7) | (19) | (17) |
| Net cash inflow (outflow) | 31 | (14) | 3 | (9) |
| Beginning cash & cash equivalent | 12 | 28 | 14 | 16 |
| Changes due to forex impact | (14) | 0 | 0 | 0 |
| Ending cash & cash equivalent | 28 | 14 | 16 | 8 |

KEY METRICS

| Year to 31 Mar (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|-------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 17.2 | 18.6 | 20.7 | 20.9 |
| Pre-tax margin | 13.1 | 12.3 | 14.1 | 14.9 |
| Net margin | 17.1 | 12.0 | 13.7 | 14.4 |
| ROA | 10.5 | 6.9 | 8.3 | 9.5 |
| ROE | 20.1 | 11.7 | 14.0 | 15.1 |
| Growth | | | | |
| Turnover | 2.3 | 23.8 | 16.9 | 15.3 |
| EBITDA | (3.8) | 34.1 | 29.9 | 16.3 |
| Pre-tax profit | (2.8) | 16.7 | 33.9 | 21.4 |
| Net profit | 18.2 | (12.6) | 32.9 | 21.1 |
| Net profit (adj.) | 18.2 | (12.6) | 32.9 | 21.1 |
| EPS | 18.2 | (12.6) | 32.9 | 21.1 |
| Leverage | | | | |
| Debt to total capital | 31.8 | 35.2 | 32.7 | 27.1 |
| Debt to equity | 46.6 | 54.3 | 48.6 | 37.1 |
| Net debt/(cash) to equity | 42.0 | 52.3 | 46.4 | 36.3 |
| Interest cover (x) | 9.4 | 7.1 | 8.2 | 10.2 |

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