

# Farm Fresh Berhad (FFB MK)

## National dairy champion

# BUY

Share Price MYR 1.69  
12m Price Target MYR 1.95 (+16%)

### Largest integrated dairy producer in Malaysia

Farm Fresh provides exposure to the largest homegrown dairy company and integrated producer of dairy products made from fresh raw milk in the country. It operates six dairy farms in Malaysia and Australia with two processing facilities, one in Malaysia and the other in Australia. Farm Fresh boasts a diverse portfolio of dairy and non-dairy products which totals c.135 SKUs. It also has the largest portfolio of locally manufactured dairy products among the domestic integrated dairy companies. We initiate coverage with a BUY and a TP of MYR1.95 (based on CY23 domestic dairy-related peer simple average of 29x).

### There is more room to grow

As at Sep-2021, Farm Fresh has grown into the second largest player in the total RTD milk (chilled and ambient) category with a market share of 18% of revenue, from a 3% market share in 2015. Leveraging on the quality and popularity of its products amongst consumers, Farm Fresh has devised future expansion plans in its upstream and mid-stream segments to cement its leadership position within the industry while also driving volume growth through new SKUs and product innovations.

### 3-year net profit CAGR of 23%

We estimate a 3-year (FY21-FY24E) core net profit CAGR of 23% largely driven by a 3-year revenue CAGR of 15% and an increase in gross profit margins to 31% in FY23-FY24E, from 28% in FY21-FY22E. This comes on the heels of Farm Fresh's recent 5% product price hike for its chilled RTD and UHT/ambient milk categories which collectively accounted for 76% of revenue in FY21. Top-line growth will also be supported by Farm Fresh's progressive growth in processing milk volume from FY22-FY24E.

### Target price of MYR1.95

Our TP of MYR1.95 pegs Farm Fresh's earnings to CY23 simple weighted average PER of its domestic dairy-related peers of 29x. The group's 3-year (FY21-FY24E) core net profit CAGR of 23% compares favourably against its listed dairy-related peers of -2.3%, as does its PEG of 1.1x at the current price of MYR1.69, relative to its peer average of 3.4x.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	303	490	532	609	740
EBITDA	57	99	108	139	183
Core net profit	35	69	81	103	127
Core EPS (sen)	1.9	3.7	4.3	5.5	6.9
Core EPS growth (%)	28.4	96.6	16.4	27.4	24.2
Net DPS (sen)	0.0	0.0	1.2	1.4	1.7
Core P/E (x)	na	na	39.0	30.6	24.6
P/BV (x)	na	na	5.2	4.6	4.1
Net dividend yield (%)	na	na	0.7	0.8	1.0
ROAE (%)	20.3	17.1	20.7	16.1	17.6
ROAA (%)	10.2	13.4	9.8	9.7	11.0
EV/EBITDA (x)	58.2	34.2	28.3	22.7	17.2
Net gearing (%) (incl perps)	71.4	95.5	net cash	2.7	1.3
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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### Company Description

Farm Fresh Berhad is principally involved in rearing of dairy cows and goats, and the production, marketing and sale of dairy consumer products.

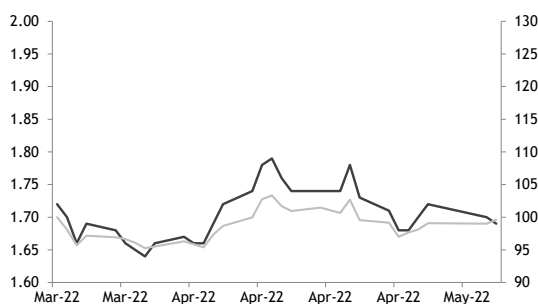
### Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	9.4
Free float (%)	38.2
Issued shares (m)	1,858
Market capitalisation	MYR3.1B USD719M

### Major shareholders:

Rainforest Capital	30.7%
Farmchoice Foods	13.8%
AgriFood Resources	11.8%

### Price Performance



— Farm Fresh - (LHS, MYR) — Farm Fresh / Kuala Lumpur Composite Index - (RHS, %)

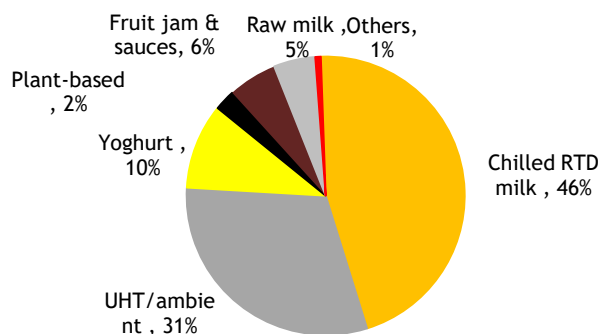
	-1M	-3M	-12M
Absolute (%)	2	na	na
Relative to index (%)	4	na	na

Source: FactSet

## Value Proposition

- Farm Fresh is the largest integrated producer of dairy products made from fresh milk in the country.
- It operates 6 dairy farms and 2 processing facilities located in Malaysia and Australia with an aggregate gross land area of about 5,400 acres.
- As at Jan 2022, it has a diverse product range with over 135 SKUs and the widest locally manufactured portfolio of products.

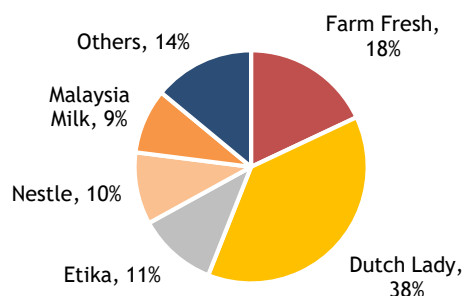
### Sales by product category (FY21)



Source: Company

## Industry outlook

### Key players in the RTD milk market (Sep 2021)



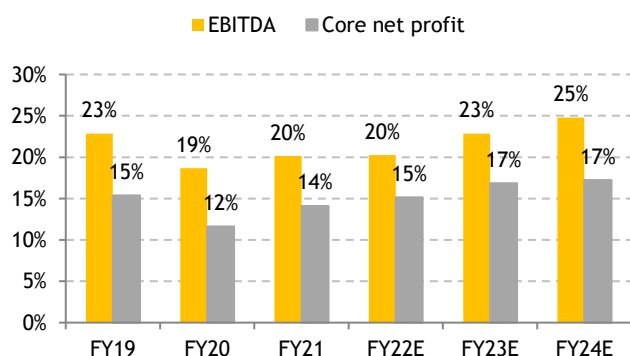
Source: Frost & Sullivan

- Frost & Sullivan believes that Malaysia's milk consumption per capita of 54.3kg/person still lags behind more developed countries (i.e. Australia and the US) but remains ahead of some developing countries in ASEAN such as Indonesia and Philippines.
- Frost & Sullivan projects for a stable 4-year (2021F-2025F) sales CAGR of 8-10% for ambient/chilled RTD milk in Malaysia but a lower 7% for yoghurt and 5-6% for plant-based RTD milk.
- As at Sep 2021, Farm Fresh ranks second largest with a market share of 18% by revenue within the RTD milk market.

## Financial Metrics

- We project a 3-year (FY21-FY24E) revenue CAGR of 15% largely from a progressive increase in processing milk volume coupled with increases in blended product prices.
- Our model has imputed for processing milk volume growth and blended product price growth of 10%-19% and 2%-3% per annum.
- Farm Fresh's profit margins are expected to improve in FY23 given product price hikes for chilled RTD and UHT/ambient products in 2021.
- Targeted dividend payout of 25% notwithstanding expectation of negative FCF generation in FY23 due to planned capital expenditure of MYR47-MYR190m in FY22-FY24E.

### EBITDA and net profit margins (FY19-FY24E)



Source: Company, Maybank IBG Research

## Swing Factors

In our opinion:

### Upside

- Quicker recovery in consumer demand and disposable income post-pandemic would spur product demand through all its distribution channels.
- Better-than-expected sales volume resulting from product innovations and new SKUs.
- Lower-than-expected raw material costs and stronger product mix could lead to improved operating margins.

### Downside

- Supply disruptions and currency volatility especially since Farm Fresh purchases >80% of its raw milk supply from external third-parties in Australia.
- Slower-than-expected growth in processing milk volume capacity due to unforeseen delays in expansion plans.
- Heightened competition amongst its peers which could lead to lower sales volume and curb its ability to launch products with higher price points.

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# Investment thesis

## Introduction

Farm Fresh is a homegrown dairy company and the largest integrated producer of dairy products made from fresh raw milk in the country. It is not only the second largest player within the total RTD milk (chilled and ambient) category as at Sep 2021, it is also among the fastest growing, having expanded its market share from 3% in 2015 to 18% in September 2021. Moreover, it offers the widest portfolio of locally manufactured dairy products among the domestic integrated dairy companies.

## Future plans

Over the next few years, Farm Fresh has laid out capital expenditure plans for both its upstream and mid-stream segments across its Malaysia and Australian operations. A new 828-acre farm in Taiping, Perak, is currently being built which can house an additional 3,100 cattle. It also intends to install additional filling and packaging lines at its existing Muadzam Shah facility along with two new processing facilities in its UPM and Taiping farms. In the longer term, Farm Fresh also has plans to establish a new manufacturing hub in the Central region of Peninsular Malaysia and a new dairy farm and integrated processing facility in East Malaysia.

For its Kyabram facility in Australia, Farm Fresh plans to expand its capabilities beyond its current sole process of raw milk, to manufacture UHT/ambient products for export to the Asia Pacific region. Management hopes to utilise its Kyabram facility as a base for exports into new markets such as Indonesia and Philippines.

## The earnings growth drivers

We estimate a 3-year (FY21-FY24E) core net profit CAGR of 23%. Earnings growth going forward will be driven by a ramp up in processing milk volume of which we ascribed a 10%-19% growth per annum for FY22-FY24E. This is in line with Farm Fresh's various planned capital expenditures in both Malaysia and Australia. In terms of average blended product price, we estimate for a 2%-3% increase in FY22-FY24E after taking into account its recent product price adjustment for its chilled RTD and UHT/ambient products, by +5% each, in Sep and Dec 2021, respectively.

## Risk factors

Main risk factors include (i) failure to maintain the quality of its milk and milk yield, (ii) pandemics or livestock diseases, (ii) revocations or non-renewal of licenses, permits, incentives and exemptions, (iii) lease terminations, (iv) raw materials supply fluctuations, and (v) currency exchange volatility.

## Valuations

We value Farm Fresh at MYR1.95, pegging its earnings to CY23 simple weighted average PER of its domestic dairy-related peers of 29x. The group's 3-year (FY21-FY24E) core net profit CAGR of 23% compares favourably against its listed dairy-related peers of -2.3%, as does its PEG of 1.1x at the current price of MYR1.69, relative to its peer average of 3.4x.

## From goats to cows

Farm Fresh's history dates back to 2009 when founders Loi Tuan Ee and Loi Tuan Kim commenced dairy farming operations under Farm Fresh Milk Sdn Bhd (formerly known as Ladang Anglo Nubian Sdn Bhd). Back then, it was involved in rearing goats and selling goat milk. It was in 2014, with the support of Azmi bin Zainal and investment support from Khazanah, that the Muadzam Shah Farm in Pahang was established in 2014, focusing on rearing dairy cows.

Farm Fresh's growth has been exponential and its operations have since expanded rapidly such that as at 31 Aug 2021, it now operates six dairy farms located in Malaysia and Australia, with an aggregate gross land area of about 5,400 acres, as well as two processing facilities in Malaysia and one in Australia. With its animal husbandry, dairy farm operations, processing facilities and multi-distribution network, Farm Fresh is a fully integrated dairy group across the entire value chain from upstream to downstream activities.

Farm Fresh, through its management expertise, has been able to standardise its operations to consistently produce quality milk with safety standards based on the total plate count test that are comparable to the EU, which is among the world's highest industrial standards for milk and other dairies.

### About the founders

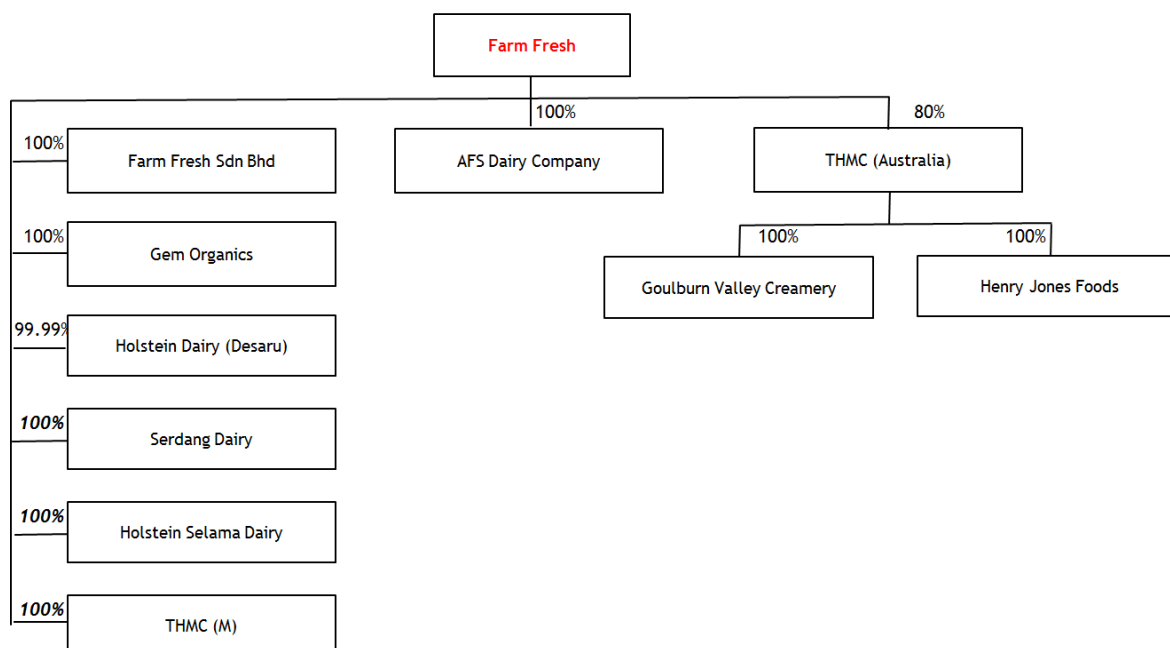
Loi Tuan Ee (aged 58) is the group's Managing Director/CEO, with over 15 years of experience in the dairy industry. With a secondary school education background, he worked in various companies before venturing into farming, his last position being Deputy Managing Director of Century Bond Bhd, before establishing Rainforest Capital in 2005. In 2010, he co-founded The Holstein Milk Company and has been instrumental in expanding the group's operations in the dairy business ever since. Loi Tuan Ee was nominated for Ernst & Young's Malaysia Entrepreneur of the Year in 2016. Under his leadership the group was awarded "Best Dairy Farm" by Asia Livestock in 2015 and received the ASEAN Inclusive Business Award in 2020. He was appointed as a permanent executive committee member of the National Food Security Council on 17 June 2020.

Loi Tuan Kin (aged 57) is Loi Tuan Ee's brother and a co-founder of the group with over 12 years of experience in the dairy industry. With a secondary school education background, he worked at Century Bond Bhd between 1985 and 2005, before leaving to join Rainforest Capital as an Executive Director, overseeing the company's farming operations. He co-founded The Holstein Milk Company with his brother in 2010. Loi Tuan Kin is currently the group's Plant Operations Director and he oversees and manages all operational matters at both the Mawai Farm and Larkin Facility.



## Corporate structure

Fig 1: Current corporate structure



Source: Company,

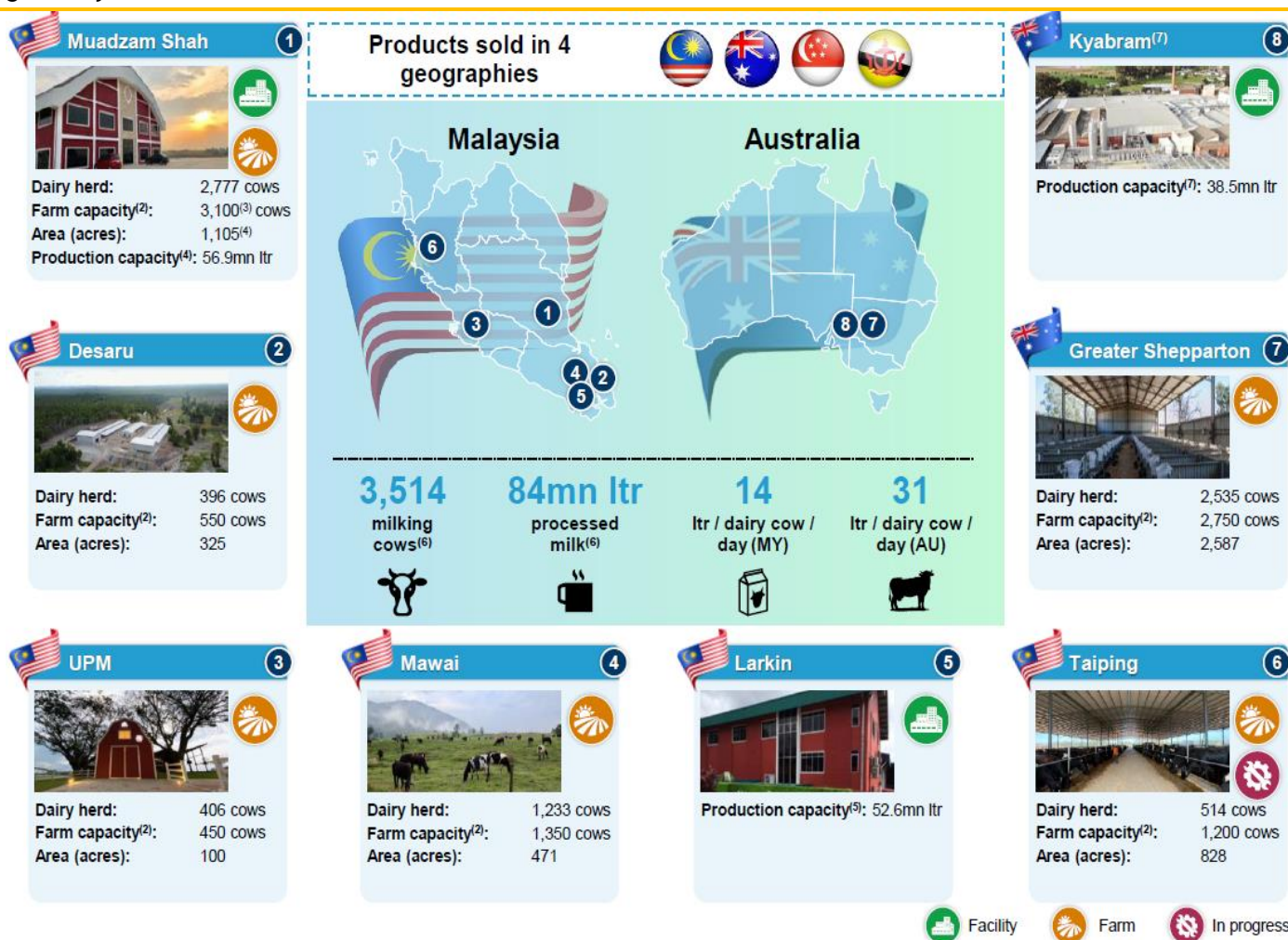
Company	Principal activity and place of business
Farm Fresh Milk Sdn Bhd	Rearing of dairy goats and cows, and the production, marketing and sale of goat’s and cow’s milk, at Kawasan Perindustrian Larkin, Johor Bahru.
Gem Organics	Planters and cultivators at Kawasan Perindustrian Larkin, Johor Bahru
Holstein Dairy (Desaru)	Rearing of dairy cows and sale of cow’s milk at Jalan Sedili Kechil, Kota Tinggi, Johor. 99.99% owned by the group, the remaining 0.01% is held by Loi Tuan Ee and Azmi bin Zainal.
Serdang Dairy	Manufacture of other dairy products N.E.C. and the production of raw milk from cows or buffaloes. Its principal place of business is in Serdang Dairy, Kawasan Perindustrian Larkin, Johor Bahru.
Holstein Selama Dairy	Production of raw milk from cows or buffaloes and the manufacture of other dairy products N.E.C. Principal place of business is in Kawasan Perindustrian Larkin Johor Bahru.
THMC (M)	Production of raw milk from cows or buffaloes in Kawasan Perindustrian Larkin, Johor Bahru.
AFS Dairy Company	Involved in Australian Friesian Sahiwal cow breeding development. The company is located in Kyabram, Victoria, Australia.
THMC (Australia)	Dairy operations in Kyabram, Victoria, Australia. 80% owned by Farm Fresh, the remaining shareholder being Dairy Livestock Exports Pty Ltd.
Goulburn Valley Creamery	Dairy operations in Kyabram, Victoria, Australia.
Henry Jones Foods	Manufacturing of fruit spreads and sauces in Kyabram, Victoria, Australia.

# Business Overview

## 6 dairy farms across Malaysia and Australia

As at 31 Jan 2022, Farm Fresh operates five dairy farms in Malaysia (2,829 acres of gross land area) and one dairy farm in Australia (2,587 acres). The Muadzam Shah Farm commenced operations in 2014, Desaru Farm in 2017, UPM Farm in 2018, Mawai Farm in 2019 and the Taping farm in 2021. In Australia, the Greater Shepparton Farm was acquired in 2017.

Fig 2: Dairy Farms



Source: Company,

- Based on current erected facilities at the respective farms. Capacity of the farm reflects capacity for dairy cows and does not include bulls.
- Not including the additional 500 acres of land sub-leased from Pahang State Government, as it is still in the process of clearing. Upon completion, the 500 acres of land can house an additional 2,500 number of dairy herd.
- Including the additional 500 acres of land from the Pahang State Government which Farm Fresh has agreed to sub-lease for a 30-year period.
- Production capacity is calculated based on effective production capacity i.e. number of days production capacity was available after taking into consideration downtime for cleaning-in-place and replenishment of packaging materials (required for filling and packaging lines), scheduled maintenance and other reasons, multiplied by the number of days during which such production capacity was available.
- Data consists of total from Malaysia and Australia as at 31 August 2021.

## About the Greater Shepparton Farm in Australia

Located in Victoria, Australia, the Greater Shepparton Farm commenced operations in 2017 and it is a large-scale vertically integrated farm with processing and manufacturing facilities on site. Prior to setting up the group's Kyabram Facility, the milk produced at the Greater Shepparton Farm was sold to third parties in Australia. The sale of raw milk to third parties was halted end-Sep 2021 and now, all raw milk from the Greater Shepparton Farm is directed to the group's Kyabram Facility.

## There is room for capacity expansion

Based on available land area, there is still room for capacity expansion at some of the farms. For instance, the Muadzam Shah farm could potentially add more than 50% capacity while the Taiping farm is a new addition, for which land clearing, grass planting and dairy barn construction had been completed as at end-Aug 2021.

**Fig 3: Existing and potential capacity expansion at the farms**

Farms	Muadzam Shah	Desaru	UPM	Mawai	Taiping	Greater Shepparton	Total
Acres	1,105	325	100	471	828	2,587	5,416
<b>No. of dairy herd</b>							
Current capacity	3,100	550	450	1,400	1,400	2,750	9,650
Add'l capacity that can be added	2,500	0	0	534	1,900	200	5,134
<b>Total potential capacity</b>	<b>5,600</b>	<b>550</b>	<b>450</b>	<b>1,934</b>	<b>3,300</b>	<b>2,950</b>	<b>14,784</b>
Current dairy herd	2,999	494	412	1,304	752	2,672	8,633
Excess capacity	2,601	56	38	630	2,548	278	6,151
<b>Excess as % of current</b>	<b>87%</b>	<b>11%</b>	<b>9%</b>	<b>48%</b>	<b>339%</b>	<b>10%</b>	<b>71%</b>

Source: Company

## Milk output and yields

The table below (Fig 4) breaks down the production of raw milk and milk yields from the farms in Malaysia and Australia.

**Fig 4: Raw milk output and yields**

Year end: Mar	FY19	FY20	FY21	1.4.21-31.1.22
<b>Malaysia</b>				
Total milking cows	1,226	1,503	1,767	2,226
Milk output (m litres)	6.8	7.9	8.9	10.0
Milk yield (litres/cow/day)	15.2	14.4	13.8	14.7
<b>Australia</b>				
Total milking cows	1,001	1,296	1,242	1,232
Milk output (m litres)	11.7	15.9	13.8	11.2
Milk yield (litres/cow/day)	32.1	33.7	30.5	29.8

Source: Company



## Owner of one of the largest AFS gene banks globally

As at Jan 2022, Farm Fresh is the owner of one of the largest remaining gene banks of the original Australian Friesian Sahiwal (AFS) cattle globally, according to *Frost & Sullivan*. Access to this gene bank stems from having acquired the AFS Dairy Company in 2012.

The AFS breed combines the genotypes of the temperate Holstein and tropical Sahiwal breeds. It is said to be one of the most resilient and economically viable tropical cattle breeds globally, and AFS cattle are proven to have high resistance to heat, ticks and blood parasites. They also have high tolerance to humidity and benefit from robust fertility rates.

In 2017, Farm Fresh acquired Petabern Dairy and set up its first dairy farm in Australia. The acquisition of Petabern Dairy granted the group access to the Australian Holstein's pure breed herd and genetics. The Holstein dairy cattle, according to *Frost & Sullivan*, is said to be among the highest yielding dairy breeds globally.

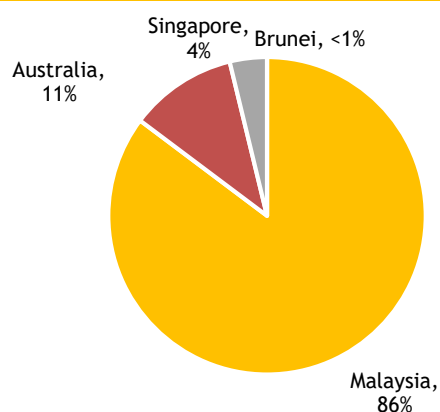
Farm Fresh's pure Holstein breed in Australia offer about 10,000 litres of milk per lactation cycle compared with an average of 7,500 litres recorded in Australia by the Holstein breed. Moreover, it has consistently obtained a total plate count of below 100,000 CFU/ml for the raw milk it produces, which is comparable to the limit of 100,000 CFU/ml imposed by the European Union, which has among the world's highest industrial standards for milk and other dairies.

As at 31 Jan 2022, AFS cows accounted for 40-60% of the group's overall herd size.

## Predominantly for domestic consumption

Geographically, Malaysia is still by far the group's largest market, accounting for 86% of total revenue in FY21, with Australia and Singapore coming in at 11% and 4% respectively, while sales to Brunei were less than 1%.

Fig 5: Net revenue split by region (FY21)



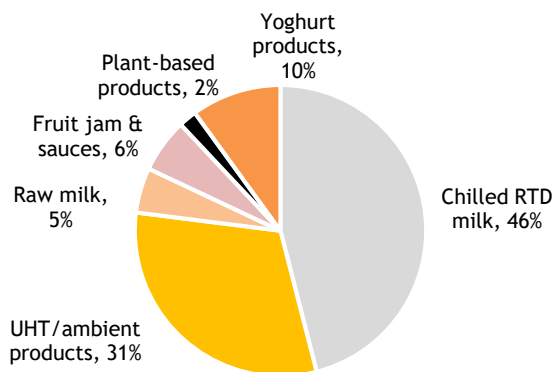
Source: Company

## A diverse product portfolio

The group’s product portfolio is diverse and according to *Frost & Sullivan*, Farm Fresh has the widest portfolio of locally-manufactured dairy products among Malaysian integrated companies producing local dairy brands.

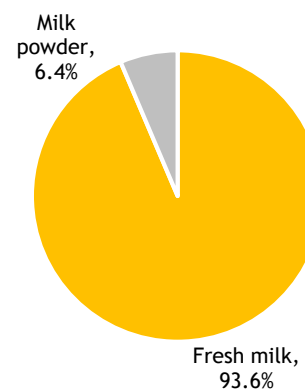
In FY21, the two largest contributors to revenue were chilled ready-to-drink (RTD) milk (46% of revenue) and ultra-high temperature (UHT)/ambient products (31%). Other products include yoghurt products (10%), fruit jam and sauces (6%), raw milk (5%) and plant-based products (2%). Of its dairy products, 93.6% of its sales in FY21 were produced from fresh milk, with the balance of product sales incorporating milk powder during its manufacturing process.

**Fig 6: Net revenue split by region (FY21)**



Source: Company

**Fig 7: Fresh milk & milk powder based sales (FY21)**



Source: Company

Below are examples of just some of the products produced by the group.

### FRESH MILK PRODUCTS



### FLAVOURED MILK PRODUCTS



PLANT-BASED MILK



UHT Soy Milk



UHT Oat Milk



UHT Almond Milk



Unsweetened Soy Milk

YOGURT DRINKS



Original Natural



Mixed Berries



Strawberry



Mango

YOGHURT



Natural Yoghurt



Skinny Natural Yoghurt



Yarra Farm Natural Yoghurt



Authentic Greek Yoghurt

JAMS



IXL Strawberry Jam



IXL Forest Fruits Jam



IXL Apricot Jam



IXL Plum Jam

## A strong emphasis on sustainable farming

Management is committed to the welfare of dairy cows, which contributes to product quality and more sustainable farming. Examples include the following:

- All dairy farms have purpose-built barns with easy access to food and water, as well as clean and comfortable dry sand bedded areas.
- The barns at Muadzam Shah Farm are installed with insulated roofing for better temperatures.
- Industrial fans, tunnel-ventilated barns (for milking cows) and soakers have been installed in certain farms to better manage heat stress.

In June 2021, all operational farms in Malaysia have been certified by HFAC, an international non-profit certification programme aimed at improving the lives of farm animals. The group has received the Certified Humane Raised and Handled certification, which is testament to the humane treatment of its farm animals.

## Production capacity

As at 31 Jan 2022, Farm Fresh has three processing facilities - two in Malaysia with a total of 18 filling and packaging lines, and one in Australia with a raw milk processing line. Its total annual production capacity is 137 million litres of finished products and 84 million litres of processed milk.

In the ten months from April 2021 to January 2022, the average utilization of the plants in Malaysia was 60% and 55% for its facility in Kyabram, Australia. To note that the Kyabram Facility commenced operations in October 2020.

**Fig 8: Production capacity at Farm Fresh's processing facilities**

Processing facility	FY3/21			1.4.21-31.1.22		
	Production capacity ('000 litres)	Actual production ('000 litres)	Utilization (%)	Production capacity ('000 litres)	Actual production ('000 litres)	Utilization (%)
<b>Finished products</b>						
Muadzam Shah	56,936	34,997	61.5%	59,307	34,100	57.5%
Larkin	52,554	35,624	67.8%	52,300	32,958	63.0%
	109,490	70,621	64.5%	111,607	67,058	60.1%
<b>Processed milk</b>						
Kyabram	38,500	21,551	56.0%	70,000	38,184	54.5%

Source: Company

Future plans include expanding the group's production capacity for finished products over the next three years. This will involve a) setting up new processing facilities, b) setting up a new manufacturing hub in the greater central region of Peninsular Malaysia, c) setting up an integrated processing facility dairy farm, d) expanding its Kyabram Facility to include the production of UHT/ambient products and e) installing new filling and packaging lines at its existing processing facilities.

## Distribution network

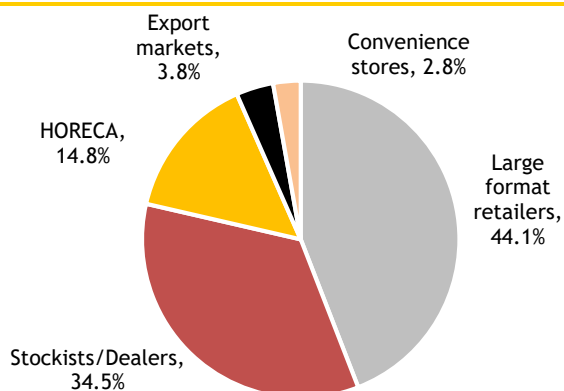
Farm Fresh operates a multi-channel distribution model that enables it to penetrate different customer markets. 100% of its raw milk is sold to industrial dairy companies and it has stopped selling raw milk it produces to third parties since end-Sep 2021.

That aside, its distribution channel in Malaysia comprises mainly large format retailers, stockist/dealers, HORECA (hotels, restaurants & cafes), export markets and convenience stores. In Australia, its fruit jam and sauces are sold mainly through large format retailers, HORECA and export markets.

As at Jan 2022, Farm Fresh sold its products to 15 large format retailers that cumulatively carried its products at more than 630 locations. As at 31 Jan 2022, it had 45 stockists across all states in Malaysia, managing over 906 home dealers who in turn have 1,772 agents selling its products. Most of its sales to HORECA outlets are via distributor agents, of which it has 22, who then on-sell the products to the HORECA outlets. As at 31 Jan 2022, it has partnered with 99 Speedmart, a mini market chain, four major convenience stores i.e. 7-Eleven Malaysia, FamilyMart, myNEWS and KK Mart, as well as five petrol companies - BHP Petrol, Caltex, Mesra, Petron and Shell, which carry its products at more than 7,000 locations.

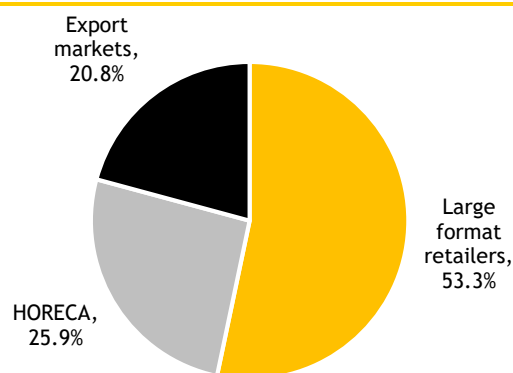
In Nov 2019, Farm Fresh entered into a three-year distribution agreement with a Singapore company that imports and distributes beverages across leading supermarkets and convenience stores in Singapore, to distribute its products. It entered into a distribution agreement with Bahagia Distributors Sdn Bhd back in Oct 2020, a distributor in Brunei.

**Fig 9: Revenue by distribution channel (Malaysia, FY21)**



Source: Company

**Fig 10: Revenue by distribution channel for fruit jam & sauces (Australia, FY21)**



Source: Company

## Major customers and suppliers

In FY21, Farm Fresh's top five customers accounted for 31.5% of total sales. Aside from Lotuss Stores (M) Sdn Bhd, the group does not have long-term contracts with any of the other customers.

**Fig 11: Farm Fresh's major customers in FY21**

Customer	Type of customer	Length of relationship (years)	Sales as % of total
Lotuss Stores (M) Sdn Bhd	Large format retailer	> 9 years	12.3%
Bapak Marketing & Distribution Sdn Bhd	Stockist	> 6 years	5.4%
AYC F&B Sdn Bhd	Distributor	> 4 years	4.8%
Aeon Co (M) Bhd	Large format retailer	> 9 years	4.7%
Fonterra Milk Australia Pty Ltd	Industrial dairy company	> 2 years	4.3%
			<b>31.5%</b>

Source: Company

Its top five suppliers accounted for 60.6% of total purchases in FY21, and they consist mainly of suppliers of raw materials and ingredients for its dairy farming business as well as suppliers of packaging materials for its milk processing business.

Historically, a large portion of the frozen milk for the production of dairy products was purchased in processed form from external suppliers, but since the commencement of the Kyabram processing facility in Australia, Farm Fresh is no longer restricted to purchasing from processed milk suppliers and is able to purchase raw milk from a wider pool of suppliers, to be processed at the Kyabram facility.

Farm Fresh has a long-term supply agreement with Tetra Pak (M) for the supply of packaging materials and equipment, with the packaging for its 200 ml UHT/ambient products being sourced solely from Tetra Pak (M). Aside from this, the group is not dependent on any other supplier for the sourcing of raw materials, ingredients and other packaging materials.

**Fig 12: Farm Fresh's major suppliers in FY21**

Supplier	Type of product	Length of relationship (years)	Purchases as % of total
Burra Foods Pty Ltd	Frozen milk	> 7 years	28.4%
Australian Dairy Farmers Corporation Ltd	Raw milk	< 1 year	12.3%
Tetra Pak (M) Sdn Bhd	Packaging materials	> 3 years	9.2%
Fonterra Ingredients Ltd	Milk powder	> 4 years	7.3%
Min Tien & Co Sdn Bhd	Animal feed & sugar	> 8 years	3.4%
			<b>60.6%</b>

Source: Company

## A commitment to sustainability

As at 31 Jan 2022, Farm Fresh's commitment towards the Social agenda is demonstrated in the examples below, which are not exhaustive:

- The production of fresh and healthy products. All products are free from preservatives and colouring, offer an optimised percentage of total solids, including protein and fat content, and 18.8% of its products comprise alternative milk products e.g. its organic A2 milk, kurma milk, lactose-free varieties and plant-based milk.
- Animal health and welfare. In June 2021, its Muadzam Shah Farm, Mawai Farm, Desaru Farm and UPM Farm were the first farms in Asia to attain the internationally-recognised Certified Humane Raised and Handled Humane certification.
- Food safety and quality. All its production facilities in Malaysia and Australia are operated in accordance with the GMP and HACCP food safety and quality principles.
- 71% of its employees at its farms and processing facilities are recruited from rural and underserved communities, including 11 within the indigenous "Orang Asli" community.
- 87 students from local universities have benefited from its internship programme since 2019;
- 125 of its partner-farmers have generated additional income from its purchase of raw milk from them at market prices.
- Its home dealer programme encompasses 45 stockists throughout Malaysia and more than 906 home dealers who in turn manage 1,772 agents of theirs across the country.

Examples of its commitment towards the Environment are as follows:

- Regenerative agriculture and water management. Since 2014, it has implemented regenerative agriculture processes at its Muadzam Shah and UPM farms, that focus on the treatment of solid and liquid animal waste for reuse in its operations.
- It targets to implement regenerative agriculture practices at all farms within the next three years.
- To reduce its carbon footprint, it targets to establish its first bio-gas plant at the Muadzam Shah Farm, which will use farm-sourced manure to produce biofuel, from 2022.
- It targets to reduce its greenhouse gas emissions by 25% in 5 years, with its planned rooftop solar PV project, biogas plant and other planned carbon reduction initiatives.
- It targets a 21% total Scope 1 and Scope 2 emissions reduction by 2026, primarily through the use of renewable energy.
- The group started working on sustainably sourced packaging in 2018 when it started to purchase recyclable paper packaging from Tetra Pak (M) for its UHT products. The paperboards used in Tetra Pak (M) packaging comes from Forest Stewardship Council certified forests and other controlled sources. The plan is to increase the percentage of its packaging requirements from Tetra Pak (M).

## The dairy industry

The milk market can be segmented into dairy-based and non-dairy based. Of the RTD milk market, the ambient milk (milk that does not need to be chilled e.g. UHT and sterilised milk) segment makes up about 74% (MYR1.5b in 2020). Ambient milk does not require cold chain distribution and storage, and is generally cheaper than chilled milk.

According to *Frost & Sullivan*, the domestic dairy RTD milk market had grown at a fairly rapid pace of 9.5% (chilled) and 10.5% (ambient) between 2015-2019 respectively. The pace of growth would have been faster if 2020 sales were accounted for, but according to the research company, the strong growth in 2020 was driven in part by panic buying by consumers, with the imposition of the first nationwide movement restriction order that took effect in March 2020.

Looking ahead, *Frost & Sullivan* projects a still stable 4-year (2021F-2025F) sales CAGR of 8-10% for ambient/chilled RTD milk in Malaysia. It projects a 4-year CAGR of about 7% for yoghurt and 5-6% for plant-based RTD milk.

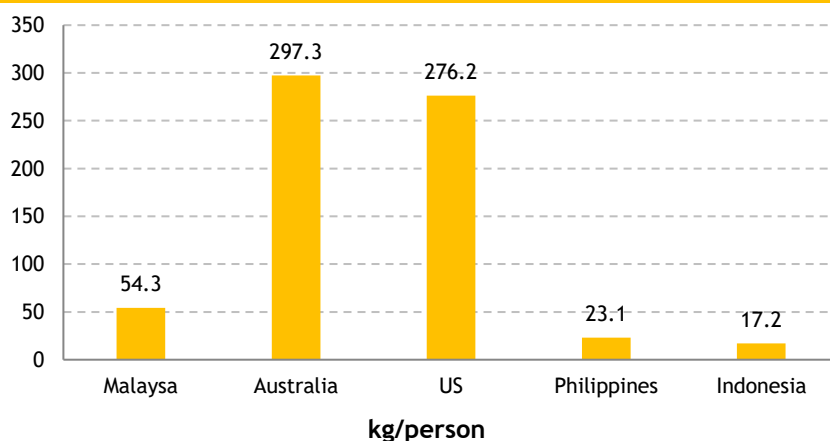
**Fig 13: Retail sales of selected milk products in Malaysia by segment (MYR'm)**

	RTD milk		Yoghurt		RTD milk
	Chilled	Ambient	Drinking	Edible	Plant-based
2015	317	797	155	158	252
2019	457	1,187	195	201	295
2020	540	1,547	211	228	315
2021F	552	1,568	213	229	321
2025F	809	2,155	277	299	398
CAGR 2015-2019	9.5%	10.5%	5.9%	6.2%	4.0%
CAGR 2021F-2025F	10.0%	8.3%	6.8%	7.0%	5.5%

Source: *Frost & Sullivan*

According to *Frost & Sullivan*, Malaysia's milk consumption per capita averaged 54.3kg/person in 2020. This still lags far behind the consumption in other more developed countries such as Australia (297kg/person) and the US (276kg/person) but undoubtedly ahead of some of the developing countries in ASEAN such as the Philippines (23kg/person) and Indonesia (17kg/person).

**Fig 14: Milk and milk products consumption per capita (2020)**



Source: *Frost & Sullivan*

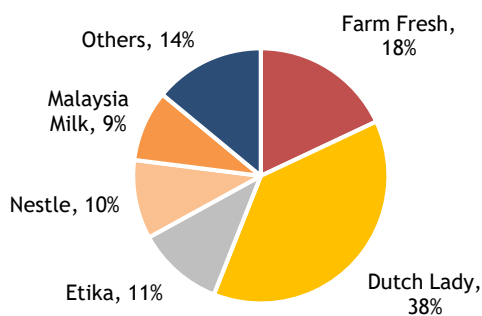


Fresh raw milk production in Malaysia has expanded at a 5-year CAGR of 3.5% from 36.5m litres in 2015 to 43.3m litres in 2020. Even so, the country is a net importer of milk and milk products, with net imports expanding at a CAGR of 2% over the same period. *Frost & Sullivan* points out that there were 801 domestic dairy farms in 2020, of which 615 are small-scale farms, 97 medium-scale and 89 large-scale.

The National Dairy Industry Development Strategic Plan 2021-2025 targets 100% fresh raw milk self-sufficiency by 2025, and this calls for the development of dairy valleys throughout the country. As at Jan 2022, there are five dairy valleys in operation, of which the Muadzam Shah dairy valley is the largest. The other four are the Ulu Bernam, Mualim, Larut Matang Selama and Northern dairy valleys. Upcoming dairy valleys include the South Dairy Valley (Melaka & Johor), the Borneo Dairy Valley (Sabah & Sarawak) and the East Coast Dairy Valley (Kelantan & Terengganu).

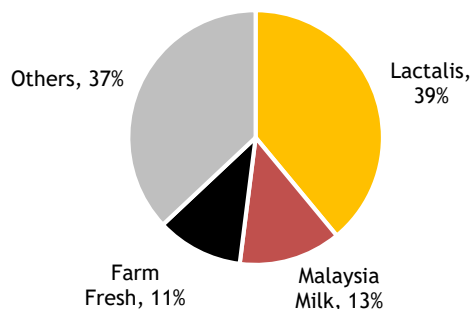
While the milk market in Malaysia is fragmented, there are some large players, nevertheless. Farm Fresh ranks second largest in the RTD milk market with an 18% market share in Sep 2021, the largest being Dutch Lady with a 38% market share. In the yoghurt market, Farm Fresh is the third largest player with an 11% market share after Lactalis (39%) and Malaysia Milk (13%). To note that Lactalis acquired Nestle’s drinking and edible yoghurt businesses in Malaysia, in 2018.

**Fig 15: RTD milk market share of key players (Sep 2021)**



Source: Frost & Sullivan

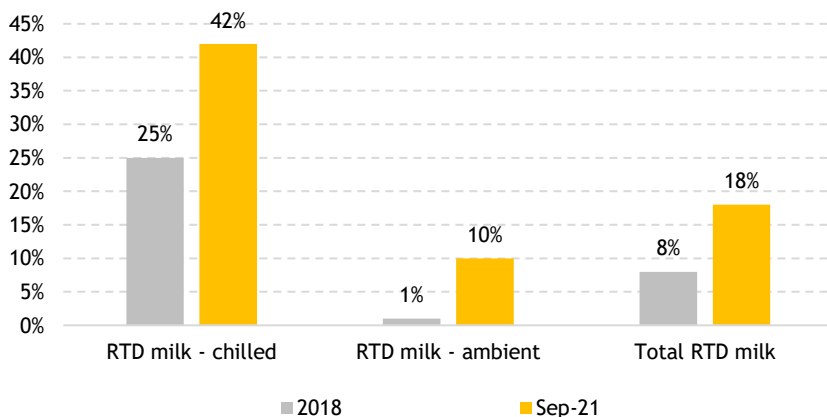
**Fig 16: Yoghurt market share of key players (Sep 2021)**



Source: Frost & Sullivan

Breaking down the RTD milk market further, Farm Fresh’s dominance is in the chilled milk segment, where its market share has since expanded from 25% in 2018 to 42% in Sep 2021.

**Fig 17: Farm Fresh’s RTD milk market share (2018 vs. Sep 2021)**



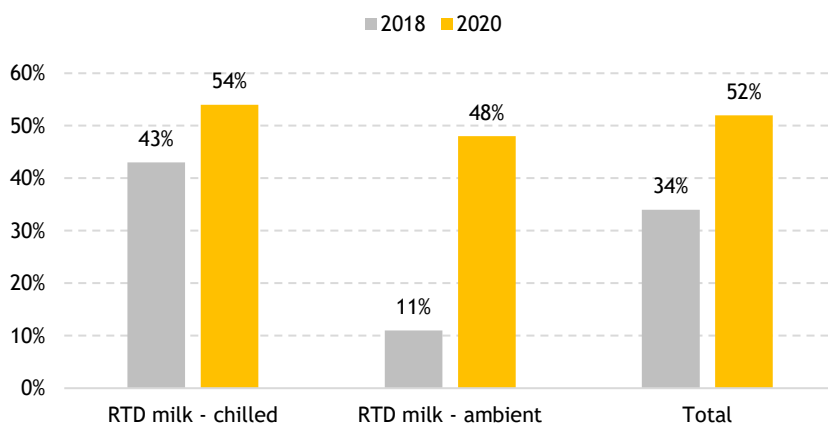
Source: Frost & Sullivan

In fact, Farm Fresh's dominant market share becomes more apparent when the RTD milk market is further differentiated between fresh and reconstituted/recombined milk.

Reconstituted milk is liquid milk obtained by adding water to skim milk powder, whole milk powder or a mixture of both. Recombined milk adds water to skim milk powder and milk fat is added separately to achieve the desired fat and total solids content.

In 2020, products using fresh raw milk are estimated to have accounted for 29% of the RTD milk segment and this percentage is expected to grow at a 5-year CAGR of 11-14% between 2020 and 2025, to 35-39%.

**Fig 18: Farm Fresh's RTD milk market share, using fresh milk (2018 vs. 2020)**



Source: Frost & Sullivan

Frost & Sullivan estimates the following market growth rates in Singapore, Indonesia and the Philippines for RTD milk and yoghurt.

**Fig 19: Market growth estimates for Singapore, Indonesia and the Philippines**

	RTD milk		Yoghurt	
	2015-2020	2020-2025F	2015-2020	2020-2025F
	CAGR	CAGR	CAGR	CAGR
Singapore	2.1%	2.5%	4.5%	4.8%
Indonesia	8.6%	9.3%	8.0%	10.0%
Philippines	10.7%	6.5%	11.3%	7.0%

Source: Frost & Sullivan

Australia is the fourth largest dairy exporter in the world. Nearly 29% of its milk production in 2019/20 was exported, with major export markets being China, Japan, Singapore, Malaysia and Indonesia. Exports to China expanded at a 5-year (2014/2015 - 2019/20) CAGR of 12.4% but at a more subdued pace of 0.8% to Malaysia.

## What Farm Fresh has to offer

From a competitive advantage position perspective, Farm Fresh has the following to offer:

### Largest integrated domestic producer of fresh raw milk

Farm Fresh is a homegrown dairy company and the largest integrated producer of dairy products made from fresh raw milk in the country. In the total RTD milk (chilled and ambient) category, it is the second largest player as at Sep 2021, but among the fastest growing, having expanded its market share from 3% in 2015 to 18% as at Sep 2021.

In the chilled RTD milk segment, Farm Fresh is the market leader with a 40% market share for 9M21. Within the chilled RTD milk segment, *Frost & Sullivan* estimates that 66% of all products were made using fresh milk, and Farm Fresh dominates with a market share of about 54% in 2020.

In the ambient RTD milk segment, Farm Fresh's market share is estimated to be 10% for 9M21. 16% of all products in this segment are made using fresh milk and Farm Fresh again dominates with an estimated 48% market share in 2020.

Farm Fresh is also the third largest player in the yoghurt category in Malaysia for 9M21, with an estimated 11% market share in 9M21.

### A diversified portfolio of proprietary brands

According to *Frost & Sullivan*, as at Jan 2022, Farm Fresh has the widest portfolio of locally manufactured dairy products among the domestic integrated dairy companies. As at 31 Jan 2022, it offers 135 SKUs across the four core dairy product categories i.e. chilled RTD milk products, UHT/ambient RTD milk products, yoghurt products and plant-based RTD milk products.

All the SKUs are produced in-house under widely recognised brands such as Farm Fresh, Master Barista, Henry Jones, Yarra Farm and Nubian Goat's Milk.

The group has strong research and development capabilities, along with a deep understanding of consumer preferences. It was the first to introduce products such as a) kurma (palm dates) RTD milk, b) lactose-free RTD milk, c) A2 organic milk, d) oat and almond milk and e) banana flavoured milk, to the market.

### Vertically integrated "grass-to-glass" model

As the largest integrated producer in the country, Farm Fresh operates a "grass-to-glass" model, with a presence along the upstream, midstream and downstream segments of the dairy industry.

Its upstream segment consists of five operating dairy farms in Malaysia and one in Australia, with a herd size of about 9,000 milking cows, non-milking cows and bulls. In the midstream segment, it operates two dairy processing facilities in Malaysia and one in Australia. The group is capable of producing 137 million litres of finished dairy products and 84 million litres of processed milk annually. In the downstream segment, Farm Fresh has a wide distribution network comprising modern trade channels, stockist and home dealers.

Advantages of an integrated structure include:

- The ability to deliver on the fresh milk proposition through its presence across the value chain;
- Access to a supply of high-yielding breed of dairy cows which enhances cost efficiencies and reduces importation costs;
- The ability to better manage traceability, product quality and consistency;
- Economies of scale that reduce per unit cost of production;
- The ability to optimize the utilisation of its production capacity through a diversified product mix; and
- A cost-effective and highly scalable model for continued growth.

## Gene bank ownership

According to *Frost & Sullivan*, Farm Fresh is the owner of one of the largest remaining gene banks of the original AFS cattle globally. It has the largest herd of AFS breed cattle among dairy players in Malaysia, a breed that is one of the most resilient and economically viable among tropical cattle breeds globally.

The acquisition of Petabern Dairy in 2017 has also granted the group access to top quality pure-bred Australian Holstein genetics, a breed that is said to be one of the highest yielding globally.

## Strong farm management/husbandry practices

That all of Farm Fresh's Malaysian farms were certified by the Humane Farm Animal Care in June 2021, is testimony to the group's superior farm management/animal husbandry practices. Emphasis is placed on areas such as a) feed that is well balanced chemically and nutritionally, b) farm management with a focus on the well-being and comfort of its dairy cows, c) biosecurity to ensure the health of the herd and d) milking, to maintain high milk yields.

## Extensive market penetration

Through its multi-channel distribution network, Farm Fresh has been able to reach out to different customer markets. This network comprises large format retailers, stockists and home dealers, HORECA, convenience stores and distributors. According to *Frost & Sullivan*, Farm Fresh has the largest home dealer network among the vertically integrated dairy companies in Malaysia, that is exclusive to the group. One of the Social benefits of its home dealer programme is that it has encouraged the creation of a micro-entrepreneurial network, with more than 80% of its home dealers being women entrepreneurs.

## An experienced management team with emphasis on ESG

Farm Fresh's founder-led key senior management team have in aggregate over 33 years of experience in the dairy industry. It is through the strength and commitment of this team that the group has prospered and benefited from both organic and inorganic growth over the years.

## Future plans

Future plans of the group include the following:

### Expansion across the domestic value chain

There is still much room for expansion domestically and management intends to capitalize on this. In the upstream segment, the 828-acre farm in Taiping, Perak, once completed, can house an additional 3,100 cattle. In the midstream segment, management plans to expand its production capacity for finished products over the next three years.

It intends to install an additional filling and packaging line at the Muadzam Shah Facility in April 2022. It also intends to set up two new processing facilities at its UPM and Taiping Farm, which are expected to commence operations by Mar 2022 and Jun 2022 respectively.

In the longer term, it intends to establish a new manufacturing hub in the Central Region of Peninsular Malaysia which will increase its production capacity for dairy and plant-based products. The hub will also serve as a base for the development of new product offerings, including ice-cream.

There are plans to set up a new dairy farm and integrated processing facility in East Malaysia, to be completed by the first quarter of 2024.

In light of these expansion plans, production capacity in Malaysia for the manufacturing of finished RTD products is expected to increase by 46.8% from 137m litres as at 31 Jan 2022, to 201.1m litres over the next few years.

**Fig 20: Expansion plans**

	Ann prod capacity 000 litres	Expansion of facility 000 litres	New facility 000 litres	Total estd annual prod capacity 000 litres
Production facility				
Finished products	74,230	5,670		79,900
Muadzam Shah	62,760			62,760
Larkin				-
UPM			3,293	3,293
Taiping			20,790	20,790
New mfg hub			13,608	13,608
New integrated processing facility			20,790	20,790
<b>Total</b>	<b>136,990</b>	<b>5,670</b>	<b>58,481</b>	<b>201,141</b>

Source: Company

## Growing the product portfolio

With strong research and development capabilities, coupled with its knowledge of local preferences and consumer insights, the group will continue to innovate and expand its product portfolio.

The powdered milk market in Malaysia is estimated to be worth MYR2.3b in 2020, according to Frost & Sullivan. Farm Fresh intends to capitalize on this by launching growing up milk for kids aged from three to 12 years old, based on a fortified fresh milk formula without preservatives, artificial flavouring and colouring. This is planned for launch by first quarter 2022.

The schools are an attractive market and the group plans to introduce a 125ml packaging variant and to obtain a licence to launch a new packaging design with characters based on American superhero comic books. On 7 Mar 2022, the group was awarded three contracts under the School Milk Program by the Ministry of Education, to supply a minimum of 42m packs of milk to 3,546 schools in the Northern, Eastern and Southern regions of Peninsular Malaysia from Mar 2022 to Feb 2023. On 27 Jan 2022, the group incorporated a wholly-owned subsidiary, Farm Fresh Milk (HK) Limited in Hong Kong to facilitate product exports to the region.

The group also plans to expand into plant-based yoghurt products in 2021 while evaluating potential entry into the ice cream segment.

## Regional expansion

As it stands, the Kyabram Facility currently solely processes raw milk for use in the groups' Malaysian midstream operations. Phase 2 of the expansion plans at the Kyabram Facility will allow the group to manufacture UHT/ambient products for export to the Asia Pacific region. Phase 2 is expected to start development in 1H22 and the production of UHT/ambient products is expected to commence in 2Q23.

Management hopes to utilise its Kyabram Facility as a base for exports into new markets such as Indonesia and the Philippines. In Indonesia, the group is in the process of securing regulatory approvals including FDA approval, which has been obtained for four its products. It is exploring new production and distribution capabilities in the Philippines.

An estimated 6.6% of the gross proceeds from the Public Issue will be used to establish new production and distribution capabilities in Indonesia and the Philippines. Once the processing facilities in Indonesia and the Philippines are completed, the group will be importing frozen milk from its Kyabram Facility to be used as raw materials to manufacture its products locally.

The new processing facilities in Indonesia and the Philippines are expected to increase the group's total annual production capacity by about 20.8m litres of finished products.

## A review of 3Q22 results

Fig 21: Farm Fresh results summary

FYE: Mar (MYRm)	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Revenue	116.7	128.6	(9.3)	122.4	(4.7)	373.9	363.0	3.0
Cost of sales	(82.4)	(90.0)	(8.4)	(92.3)	(10.6)	(274.2)	(257.4)	6.5
<b>Gross profit</b>	<b>34.2</b>	<b>38.6</b>	<b>(11.2)</b>	<b>30.1</b>	<b>13.5</b>	<b>99.7</b>	<b>105.6</b>	<b>(5.6)</b>
Operating expenses	(17.4)	(19.0)	(8.5)	(9.3)	86.7	(42.4)	(44.7)	(5.1)
<b>EBIT</b>	<b>16.8</b>	<b>19.5</b>	<b>(14.0)</b>	<b>20.8</b>	<b>(19.3)</b>	<b>57.3</b>	<b>61.0</b>	<b>(6.1)</b>
Net interest expense	(2.4)	(3.2)	(24.8)	(2.1)	17.0	(7.7)	(7.1)	7.6
<b>Pre-tax profit</b>	<b>14.4</b>	<b>16.3</b>	<b>(11.8)</b>	<b>18.7</b>	<b>(23.3)</b>	<b>49.6</b>	<b>53.8</b>	<b>(7.9)</b>
Income tax	(2.6)	(2.2)	17.7	14.3	n.m.	11.7	(31.1)	n.m.
<b>Profit after tax</b>	<b>11.8</b>	<b>14.1</b>	<b>(16.4)</b>	<b>33.0</b>	<b>(64.4)</b>	<b>61.3</b>	<b>22.7</b>	<b>&gt;100.0</b>
Minority interest	(0.3)	1.0	n.m.	0.1	n.m.	1.0	1.8	(46.5)
<b>Net profit</b>	<b>11.5</b>	<b>15.1</b>	<b>(24.1)</b>	<b>33.1</b>	<b>(65.4)</b>	<b>62.2</b>	<b>24.5</b>	<b>&gt;100.0</b>
Exceptional items*	(3.9)	(4.1)	(5.7)	5.6	n.m.	2.1	(35.4)	n.m.
<b>Core net profit</b>	<b>15.3</b>	<b>19.2</b>	<b>(20.3)</b>	<b>27.5</b>	<b>(44.4)</b>	<b>60.1</b>	<b>59.9</b>	<b>0.4</b>
			+/- ppts YoY		+/- ppts QoQ			+/- ppts YoY
Gross profit margin	29.3	30.0	(0.7)	24.6	4.7	26.7	29.1	(2.4)
EBIT margin	14.4	15.2	(0.8)	17.0	(2.6)	15.3	16.8	(1.5)
Pre-tax profit margin	12.3	12.7	(0.4)	15.3	(3.0)	13.3	14.8	(1.6)
Tax rate	(18.1)	(13.6)	(4.5)	76.2	(94.3)	23.5	(57.8)	81.3

\*3Q22: IPO expenses of MYR3.9m, redundancy cost of MYR0.03m; 2Q22: Redundancy cost of MYR4.9m, reversal of tax provision of MYR10.5m; 3Q21: impairment loss of PPE of MYR4.1m; 9M22: reallocation of tax reversal of MYR10.5m, IPO expenses of MYR3.9m, redundancy cost of MYR3.9m

Source: Company

3Q22 revenue fell 9% YoY given the absence of raw milk sales (ceased in Sep 2021) and lower sales volume (-6% YoY), particularly in the in-home consumption segment. Note that excluding raw milk sales, 3Q22 revenue fell 5% YoY. We understand that sales volume declined as movement restrictions were eased during the quarter. Although HORECA channel sales increased, we believe this was not enough to offset lower large format retail channel sales. 3Q22 pre-tax profit was also weaker (-12% YoY) given higher operational losses at its IXL fruit jam business in Australia, and higher animal feed and freight costs.

On a QoQ basis, 3Q22 revenue also declined by 5% QoQ (excluding raw milk sales: -1% QoQ), predominantly due to seasonally lower sales in Nov and Dec during the school holidays. Gross profit margins lifted to 29% (+4.7ppts QoQ) due to the product price hikes in the chilled RTD milk and UHT/ambient RTD products by 5% in Sep and Dec 2021 respectively. However, 3Q22 pre-tax profit fell 23% QoQ given lower other income (FV gain of dairy cows). The group's tax rate was 18% versus a positive rate of 76% in 2Q22 as there was a MYR10.5m reversal of tax in the previous quarter relating to a breach in the expansion notification requirement under its agricultural tax incentive at its Larkin facility.

Going forward, sequential earnings are expected to be stronger in anticipation for higher sales volume driven by the resumption of schools, normalisation of F&B business sales post-pandemic and Farm Fresh's milk supply under the "School Milk Program" which began in Mar 2022. We understand that Farm Fresh has also historically experienced higher sales volume in the lead up to/during the Ramadan period (2 Apr - 2 May). That said, raw material costs (eg. raw milk, corn, alfafa) remain elevated and we do not discount the possibility for another product price hike in mid-2022 in order for the group to defend its margins.

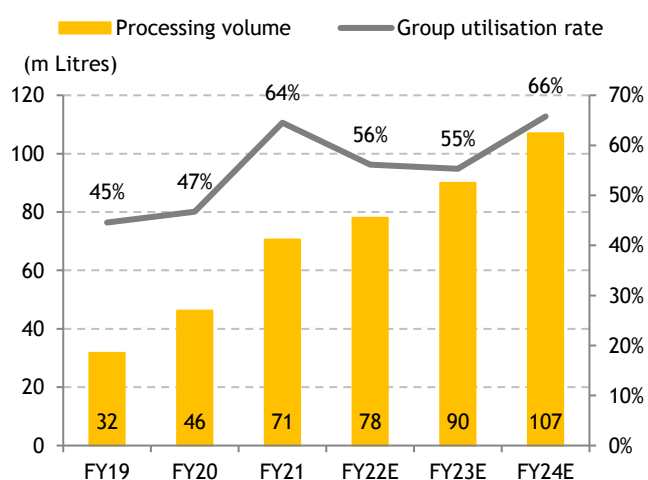
## Looking forward

### 3-year forecast revenue CAGR of 15%

We derive a 3-year (FY21-FY24E) revenue CAGR of 15% primarily from a favourable demand outlook across its range of products. Key assumptions include the following:

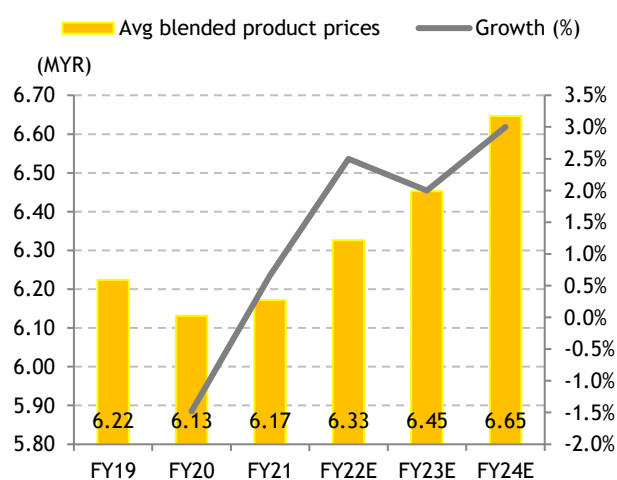
- Processing volume growth to increase annually.** With strong demand expected for its product range of both dairy and non-dairy products, we estimate that its annual processing volume in million litres of milk will increase by 10%/15%/19% in FY22/FY23/FY24E, respectively, in tandem with Farm Fresh’s planned processing facility expansion plans in Malaysia and Australia. With this, we expect group utilisation rate to also grow from 56% to 66% from FY22 to FY24E.
- Average blended product price to move upwards.** In FY22/FY23/FY24E, we are projecting for average blended product prices to grow by 2.5%/2.0%/3.0%, respectively, after accounting for (i) Farm Fresh’s product price hike of 5% for its chilled RTD milk category in Sep 2021, followed by another 5% product price adjustment for its UHT/ambient products in Dec 2021, and (ii) expectations for increased sales volume from higher priced SKUs (eg. plant-based products) going forward.

**Fig 22: Annual processing volume and utilisation rate**



Source: Company, Maybank IBG Research

**Fig 23: Average blended product prices (MYR)**



\*Average blended product price from FY19-20 is derived  
Source: Company, Maybank IBG Research

**Fig 24: Average product price sensitivity analysis to FY23 earnings**

	FY23
Base case (MYR)	6.45
+1% increase in average product price	6.51
MYRm earnings impact (+/-)	MYR2m
% earnings impact (+/-)	2%

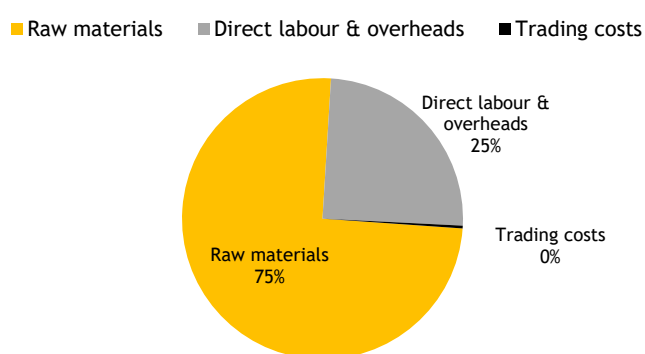
Source: Maybank IBG Research



## Cost of goods sold (COGS)

COGS were 71% of total revenue in FY21 which consisted of raw material costs (76%), direct labour and overheads (25%), and trading costs (0.3%). For raw materials, raw milk accounted for the largest portion at 49%, followed by packaging materials (24%), product ingredients (14%), animal feed and herd health costs (11%) and the remaining 3% from carriage inwards and provision for obsolescence. In line with Farm Fresh's dairy farm and processing facility expansion plans, we project for raw milk costs to grow between 6%-24% over FY22-FY24E. Our FY22-FY24E COGS assumptions are illustrated in the tables below.

**Fig 25: Cost of goods sold components in FY21**



Source: Company, Maybank IBG Research

**Fig 26: Raw material cost breakdown (MYRm)**

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Raw milk	48.0	87.6	126.9	139.7	147.7	182.5
Packaging materials	21.8	37.9	61.8	66.0	71.9	88.8
Product ingredients	4.9	18.7	36.7	39.9	43.2	54.0
Animal feed & herd health costs	17.1	26.4	28.2	30.3	39.6	48.1
Carriage inwards	1.3	1.2	6.5	12.8	14.0	9.6
Others*	0.2	0.5	1.7	1.8	2.1	2.6
<b>Total raw material costs</b>	<b>93.4</b>	<b>172.3</b>	<b>261.7</b>	<b>290.6</b>	<b>318.5</b>	<b>385.5</b>
Growth (%)		84%	52%	11%	10%	21%
As a % of revenue	52%	57%	53%	55%	52%	52%

\*Include provision for obsolescence and others.

Source: Company, Maybank IBG Research

**Fig 27: COGS breakdown (MYRm)**

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Raw materials	93.4	172.3	261.7	290.6	318.5	385.5
Direct labour & overheads	30.4	50.8	86.8	91.6	103.5	124.3
Trading costs	0.0	0.0	1.1	1.2	1.4	1.7
<b>Total COGS</b>	<b>123.8</b>	<b>223.0</b>	<b>349.6</b>	<b>383.4</b>	<b>423.4</b>	<b>511.4</b>
As a % of revenue	69%	74%	71%	72%	70%	69%

Source: Company, Maybank IBG Research

## Selling, distribution & administrative expenses (SGA)

Collectively, SGA expenses accounted for 13% of Farm Fresh's FY21 revenue where the majority of this came from transportation and logistics expenses, and employee benefits (including directors' remuneration). We estimate that SGA expenses will grow 9%-18% over FY22-FY24E which is equivalent to 12%-13% of revenue, similar to its historical average.

## Expecting a tax income in FY22

Farm Fresh's effective tax rate averaged between 3%-5% from FY19-FY20 given benefits from (i) the Agricultural Tax Incentive (ATI) by the Ministry of Agriculture and Agro-based Industry of Malaysia (MOA) for statutory income arising from the rearing of cattle and goat, and milk processing activities, and (ii) a 100% income tax exemption under the East Coast Economic Region Incentive (ECERI) for income earned from dairy milk processing activities. However, it was significantly higher at 51% in FY21 mainly due to an additional tax liability of MYR25.7m (which included a tax penalty of MYR10.5m). This resulted from a breach in the expansion notification requirement under the ATI at its Larkin Facility over the financial periods spanning 2014-2020. Positively, upon subsequent application to the Ministry of Finance (MOF), its Larkin facility has now been approved for a new tax incentive on 24 Dec 2021, where it is allowed to claim income tax exemption on statutory income for 10 (5+5) years commencing from FY21 onwards. Hence, we project for an effective corporate tax rate of 20% for FY22 after taking into account its reversal in tax payable of MYR10.5m. We have also projected for a normalised effective tax rate of c.7% in FY23-FY24E as Farm Fresh continues to benefit from tax incentives from MOA, ECERI and MOF.

## 3-year net profit CAGR of 23%

Taking into account the assumptions that we have illustrated in regards to top-line growth, we project a 3-year (FY21-FY24E) net profit CAGR of 23% for Farm Fresh with expectations for FY22/FY23/FY24E net profit growth to increase by an estimated 16%/27%/24%, respectively.

**Fig 28: Gross profit, EBITDA, EBIT, pretax profit and net profit forecasts**

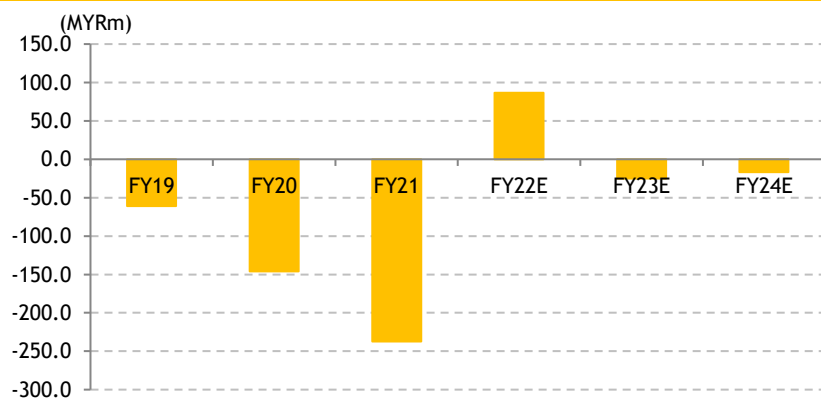
	FY19	FY20	FY21	FY22E	FY23E	FY24E
Gross profit	54.4	80.1	140.9	149.0	185.6	228.3
Gross profit margin	31%	26%	29%	28%	30%	31%
Other operating income/(expenses)	4.7	2.8	9.0	9.7	10.5	11.4
Selling & distribution expenses	(11.6)	(19.8)	(37.5)	(40.7)	(45.1)	(53.3)
Administrative expenses	(14.4)	(20.2)	(27.1)	(29.4)	(32.9)	(38.5)
Other expenses	(0.7)	(0.2)	(8.0)	(10.0)	(10.0)	(10.0)
EBITDA	40.8	56.6	98.8	107.9	139.1	183.4
EBITDA margins	23%	19%	20%	20%	23%	25%
Depreciation & amortisation	(8.3)	(13.9)	(21.4)	(29.3)	(31.0)	(45.4)
EBIT	32.5	42.6	77.3	78.6	108.1	137.9
EBIT margin	18%	14%	16%	15%	18%	19%
Interest income/(expenses)	(4.3)	(6.4)	(9.8)	(9.7)	(0.9)	(4.1)
Pretax profit	28.2	36.2	67.6	68.9	107.2	133.9
Pretax profit margin	16%	12%	14%	13%	18%	18%
Tax	(0.8)	(1.8)	(34.8)	13.8	(7.9)	(9.8)
Tax rate	-3%	-5%	-51%	20%	-7%	-7%
Net profit	27.4	35.2	36.2	86.1	102.7	127.5
Net profit margin	15%	12%	7%	16%	17%	17%
Core net profit	27.4	35.2	69.2	80.6	102.7	127.5
<b>Growth rates</b>						
Gross profit		47%	76%	6%	25%	23%
EBITDA		39%	75%	9%	29%	32%
EBIT		31%	82%	2%	38%	28%
Pretax profit		28%	87%	2%	55%	25%
Net profit		28%	3%	138%	19%	24%
Core net profit		28%	97%	16%	27%	24%

Source: Company, Maybank IBG Research

## Net gearing

As at end-2021, Farm Fresh had a cash balance of MYR12m with a total gross short-term debt of MYR142m and total long-term debt of MYR107m (including total lease liabilities) which resulted in a net debt position of MYR237m. Farm Fresh's net gearing has grown from 39% in FY19 to 98% in FY21 largely from increased borrowings undertaken to fund various expansions in its dairy farms and production facilities. Note that Farm Fresh issued a MYR200m Sukuk in May 2021 where part of the proceeds was used to pay off its term loans, hire purchase liabilities, bank overdraft, revolving credit and the loan from a shareholder totalling MYR130m. Hence, we expect Farm Fresh to turn net cash in FY22, followed by a 2%-4% net gearing in FY23-FY24E.

**Fig 29: Expecting net cash position in FY22E**

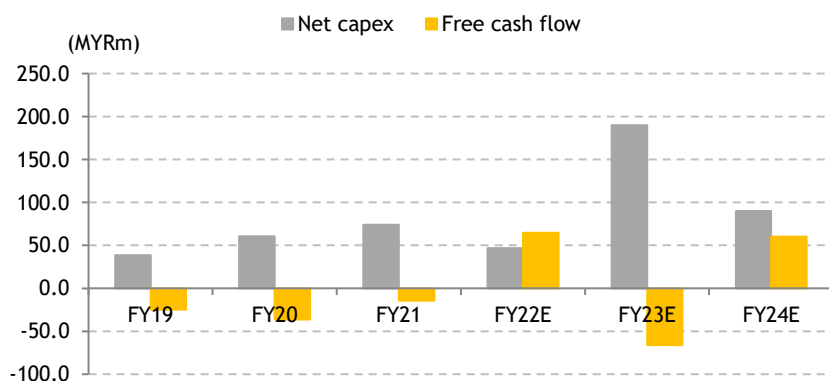


Source: Company, Maybank IBG Research

## Capital expenditure requirements

Farm Fresh's primary capex objectives are to expand both its dairy farm and milk processing facilities. It plans to build a new manufacturing hub, which includes land acquisition, building construction, purchase of machinery and equipment and the establishment of a new dairy farm and integrated processing facility. It also intends to expand its production facility in Australia and lay the foundations for regional expansion in South-East Asia, beginning with Indonesia and Philippines. After accounting for the above, we estimate FY22/FY23/FY24E capex to be MYR47m/MYR190m/MYR90m, respectively.

**Fig 30: Capital expenditure planned for FY22-FY24E**



Source: Company, Maybank IBG Research

Fig 31: Balance sheet summary

FYE: Mar (MYRm)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Inventories	29.7	40.2	105.0	115.2	127.2	153.7
Receivables	42.6	81.0	88.8	97.6	111.6	135.5
Cash/ST investments	3.5	7.5	11.7	361.8	249.9	258.1
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>75.8</b>	<b>128.7</b>	<b>205.6</b>	<b>574.5</b>	<b>488.7</b>	<b>547.3</b>
PPE	129.0	198.9	307.1	326.2	486.9	533.1
Intangible assets	7.6	13.9	19.9	19.6	19.3	19.0
Right-of-use assets	15.1	14.7	15.8	15.8	15.8	15.8
Biological assets	46.9	55.7	69.5	78.3	87.3	96.3
Other non-current assets	-	1.2	4.4	3.4	3.4	3.4
<b>Total non-current assets</b>	<b>198.7</b>	<b>284.4</b>	<b>416.7</b>	<b>443.3</b>	<b>612.6</b>	<b>667.6</b>
<b>Total assets</b>	<b>274.5</b>	<b>413.0</b>	<b>622.3</b>	<b>1,017.9</b>	<b>1,101.3</b>	<b>1,214.9</b>
ST borrowings	(19.7)	(58.5)	(140.9)	(140.9)	(140.9)	(140.9)
Payables	(36.2)	(50.0)	(83.1)	(91.1)	(100.6)	(121.5)
Lease liabilities	(0.3)	(0.4)	(0.9)	(0.9)	(0.9)	(0.9)
Other current liabilities	(0.3)	(0.3)	(36.6)	(36.6)	(36.6)	(36.6)
<b>Total current liabilities</b>	<b>(56.4)</b>	<b>(109.3)</b>	<b>(261.5)</b>	<b>(269.5)</b>	<b>(279.0)</b>	<b>(299.9)</b>
LT borrowings	(40.4)	(90.1)	(101.0)	(127.0)	(127.0)	(127.0)
Lease liabilities	(4.1)	(4.6)	(6.2)	(6.2)	(6.2)	(6.2)
Other non-current liabilities	(9.7)	(11.3)	(12.6)	(12.6)	(12.6)	(12.6)
<b>Total non-current liabilities</b>	<b>(54.2)</b>	<b>(106.0)</b>	<b>(119.7)</b>	<b>(145.7)</b>	<b>(145.7)</b>	<b>(145.7)</b>
<b>Total liabilities</b>	<b>(110.7)</b>	<b>(215.3)</b>	<b>(381.2)</b>	<b>(415.3)</b>	<b>(424.8)</b>	<b>(445.7)</b>
Share Capital	87.8	87.8	87.8	387.8	387.8	387.8
Reserves	69.9	101.5	146.9	211.5	288.5	384.1
<b>Shareholder's equity</b>	<b>157.7</b>	<b>189.3</b>	<b>234.6</b>	<b>599.2</b>	<b>676.2</b>	<b>771.9</b>
Minority interest	6.1	8.5	6.4	3.4	0.3	-2.7
<b>Total equity</b>	<b>163.8</b>	<b>197.8</b>	<b>241.0</b>	<b>602.6</b>	<b>676.6</b>	<b>769.2</b>

Source: Company, Maybank IBG Research

Fig 32: Cash flow summary

FYE: Mar (MYRm)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net cash from operating activities</b>	<b>13.7</b>	<b>24.2</b>	<b>59.7</b>	<b>111.5</b>	<b>124.0</b>	<b>150.2</b>
Net capex	(38.6)	(60.5)	(74.0)	(46.8)	(190.0)	(90.0)
Others	(10.2)	(31.5)	(11.6)	(8.2)	(8.2)	(8.2)
<b>Net cash from investment activities</b>	<b>(48.8)</b>	<b>(92.0)</b>	<b>(85.7)</b>	<b>(55.0)</b>	<b>(198.2)</b>	<b>(98.2)</b>
Dividends	-	-	-	(21.5)	(25.7)	(31.9)
Proceeds from debt	3.1	49.1	50.1	-	-	-
Repayment of debt	(6.7)	(12.1)	(18.7)	-	-	-
Change in debt	(3.6)	37.0	31.5	26.0	-	-
Change in equity	60.0	-	-	300.0	-	-
Payment of lease liabilities	(0.2)	(0.3)	(0.5)	(1.3)	(1.3)	(1.3)
Others	(15.5)	28.1	(6.5)	(9.6)	(10.7)	(10.7)
<b>Net cash from financing activities</b>	<b>40.7</b>	<b>64.8</b>	<b>24.5</b>	<b>293.5</b>	<b>(37.7)</b>	<b>(43.9)</b>
<b>Net increase/(decrease) in cash</b>	<b>5.6</b>	<b>(3.0)</b>	<b>(1.5)</b>	<b>350.0</b>	<b>(111.9)</b>	<b>8.2</b>
<b>Free cash flow</b>	<b>(24.9)</b>	<b>(36.3)</b>	<b>(14.4)</b>	<b>64.7</b>	<b>(66.0)</b>	<b>60.2</b>

Source: Company, Maybank IBG Research

## Imputing a dividend payout ratio of 25%

Farm Fresh is targeting a dividend payout policy of approximately 25% of net profit. Hence our FY22-FY24E forecasts have also assumed a payout ratio of 25%. We estimate a payout of MYR18m/MYR27m/MYR34m for FY22/FY23/FY24E, respectively, which implies yields of just 1% p.a. based on both the low and high end of our equity valuation range estimate of MYR2.8b - MYR3.0b. Farm fresh has not paid dividends to shareholders for the past three financial years.

## Valuations

### Initiate BUY with a target price of MYR1.95

We initiate coverage of Farm Fresh with a BUY rating underpinned by its dominant dairy industry presence, strong management and robust earnings growth potential. The latter will be largely driven by ongoing expansion plans in both dairy farming and processing facilities, which in turn will propel its market share higher within the fresh milk-based product market.

Farm Fresh also has plans to penetrate into new regional markets in the near-term (eg. Indonesia, Philippines, Hong Kong) while expanding its product range to include ice cream and kids growing-up-milk (liquid milk) in order to compete with incumbent powdered-milk products.

### Favouring a PER valuation methodology

With ongoing expansion plans of both its dairy farming and processing facilities in the pipeline, we project for strong earnings growth for Farm Fresh with a 3-year core net profit CAGR of 23%. Taking this growth trajectory into consideration, we believe that a PER valuation methodology would be the most appropriate to value the stock.

In deriving our target price of MYR1.95, we have pegged Farm Fresh's earnings to CY23 simple weighted average PER of the listed Malaysian dairy-related peers of 29x. This peer group consists of Nestle Malaysia (*NESZ MK, SELL, TP: MYR101.20*), Fraser & Neave Holdings (*FNH MK, Not Rated*), and Dutch Lady Malaysia (*DLM MK, Not Rated*).

Note that we have chosen not to use the simple average PER of our existing basket of domestic consumer sector coverage of 23x (Fig. 34) as it includes companies operating in non-dairy related businesses such as home improvement retailers, tobacco, breweries, poultry and fashion retail with a lower cumulative 3-year core net profit CAGR (FY21-FY24E) of 15.8%.

Farm Fresh's 3-year (FY21-FY24E) core net profit CAGR of 23% also compares favourably against its domestic dairy-related beverage sector peer average of -2.3%, as does its PEG of 1.1x at the current share price of MYR1.69, relative to its peer average of 3.4x.

Fig 33: Malaysia dairy-related beverage sector peer comparison

Stock	Shr px (Local)	Mkt cap (MYRm)	PER (x) CY22F	PER (x) CY23F	P/B (x) CY22F	P/B (x) CY23F	EV/EBITDA (x) CY22F	EV/EBITDA (x) CY23F	ROAE (%) CY22F	ROAE (%) CY23F	Yield (%) CY22F
Nestle Malaysia <sup>^</sup>	131.80	30,907	46.5	44.8	52.8	52.5	28.3	26.8	113.8	119.5	2.1
F&N Holdings	22.10	8,106	20.7	18.6	2.6	2.5	12.9	11.5	13.6	14.8	2.7
Dutch Lady Milk	33.70	2,157	24.6	23.3	5.0	4.5	15.6	14.3	42.4	39.3	1.6
Simple avg			30.6	28.9	20.2	19.8	18.9	17.5	56.6	57.9	2.1
Mkt weighted avg			40.3	38.5	40.4	40.2	24.6	23.1	90.3	94.7	2.2

\*As at 06 May 2022 closing prices

Source: Bloomberg, Maybank IBG Research

<sup>^</sup> Nestle Malaysia is based on Maybank IBG Research estimates

Fig 34: Malaysia consumer sector peer comparison

Stock	Shr px (Local)	Mkt cap (MYRm)	PER (x) CY22F	PER (x) CY23F	P/B (x) CY22F	P/B (x) CY23F	EV/EBITDA (x) CY22F	EV/EBITDA (x) CY23F	ROAE (%) CY22F	ROAE (%) CY23F	Yield (%) CY22F
Nestle Malaysia	131.80	30,907	46.5	44.1	52.8	52.5	28.3	26.8	113.8	119.5	2.1
MR D.I.Y. Group (M)	3.52	22,094	33.6	29.0	14.5	11.3	19.2	17.1	49.2	44.0	1.3
QL Resources	4.80	11,682	46.7	41.2	4.5	4.2	21.2	18.9	10.0	10.5	0.9
Heineken Malaysia	23.76	7,178	24.2	20.4	19.3	16.8	14.5	13.4	77.3	88.0	4.1
Carlsberg Malaysia	22.16	6,775	24.8	22.3	20.5	20.5	16.8	15.0	100.9	92.2	4.0
BAT Malaysia	12.70	3,626	12.9	11.8	9.4	9.2	9.9	9.7	72.7	78.9	7.6
AEON Co. (M)	1.63	2,289	18.7	17.7	1.3	1.2	3.5	3.3	6.9	7.0	2.5
Padini Holdings	3.44	2,263	20.9	16.8	2.6	2.4	10.1	7.7	12.9	15.1	2.9
Leong Hup Intl.	0.53	1,916	10.4	8.5	1.0	0.9	6.5	6.2	9.9	11.1	2.9
7-Eleven Malaysia	1.46	1,865	22.7	20.9	13.4	10.4	5.9	6.2	68.3	56.0	2.4
Berjaya Food	3.96	1,543	16.0	16.6	2.9	2.5	4.8	4.9	19.5	16.1	1.0
Mynews Holdings	0.66	447	68.5	21.5	1.8	1.7	8.8	6.7	2.7	8.2	0.4
<b>Simple avg</b>			<b>28.8</b>	<b>22.6</b>	<b>12.0</b>	<b>11.1</b>	<b>12.5</b>	<b>11.3</b>	<b>45.3</b>	<b>45.6</b>	<b>2.7</b>
<b>Mkt weighted avg</b>			<b>35.9</b>	<b>32.3</b>	<b>25.5</b>	<b>24.3</b>	<b>20.1</b>	<b>18.6</b>	<b>69.6</b>	<b>70.6</b>	<b>2.3</b>

\*As at 06 May 2022 closing prices

Source: Bloomberg, Maybank IBG Research

## Key risks and concerns

Key risks and concerns include the following:

### Negative publicity or brand perception

Farm Fresh' brand and reputation are pivotal to the continued success of the group and any negative publicity or negative brand perception from, for example, contamination, spoilage or other adulteration, product misbranding etc. may lead to a loss of consumers' confidence.

### Failure to maintain the quality of the milk and milk yield

Profitability of the group very much rests on the quality of milk and milk yield. Both these issues could be affected by factors such as feed supply quality and volume, breeding problems, power trips which could halt operations of the cooler tanks, improper handling by third parties and disease outbreaks.

### Pandemics, natural disasters and similar disruptive events

As with all livestock companies, Farm Fresh's operations are exposed to the risk of severe weather conditions and/or natural disasters. COVID-19 for instance resulted in an increase in its transportation costs from MYR1.2m in FY20 to MYR6.5m, due to a rise in shipping rates. The various lockdowns have also affected sales to various channels eg HORECA, as well the sales of its stockists and home dealers network.

### Revocation/suspension/non-renewal of licences, permits, incentives and exemptions

Farm Fresh is required to hold certain licences, permits and approvals issued by various government authorities. Non-renewal of such licences/permits could cause disruptions to its operations. It also benefits from several tax incentives such as the Agricultural Tax Incentive from the Ministry of Agriculture and Agro-based Industry Malaysia. In 2020, the group discovered that there were non-compliance issues with the tax incentives granted. As a resolution with the Inland Revenue Board, it recognized additional tax liability of MYR25.7m in respect of its Larkin Facility as a tax expense in FY21.

### One of its leases may be subject to termination risk

Farm Fresh has sub-leased a piece of land in Mukim Bebar, Daerah Pekan, Pahang from the Pahang State Development Corporation for a period of 30 years, for the development of fodder and beef cattle farm. The Pahang State Development Corporation may terminate the sub-lease agreement in the event consent is not obtained in respect of certain restrictions imposed by the Pahang State Government relating to, among others, the issuance of shares and the alteration and amendment to the equity or shareholdings in the company and its Board, which may affect its ability to use the land. Farm Fresh is currently pending the Pahang State Development Corporation's response to its request for a waiver from complying with these restrictions.

## Dependence on certain customers and suppliers

In FY21, sales to its top five customers accounted for 31.5% of total sales, with contributions by Lotuss Stores (M) Sdn Bhd accounting for 12.3%. Separately, purchase from its top five suppliers made up 60.6% of total purchases in FY21. As such, there is significant dependence on certain customers and suppliers, which if compromised, could impact on the group's operations and financials.

## Fluctuations in raw material prices or shortages in supply

Cost of raw materials accounted for 74.9% of total cost of sales in FY21, with raw milk accounting for 48.5% of total cost of raw materials. Fluctuations in raw material prices or supply could, as such, have adverse effect on operations and/or profitability.

## Fluctuations in exchange rates

Farm Fresh's purchases are denominated mainly in MYR and USD while sales are primarily denominated in MYR. Moreover, its sales are also subject to fluctuations in AUD, given its operations in Australia.

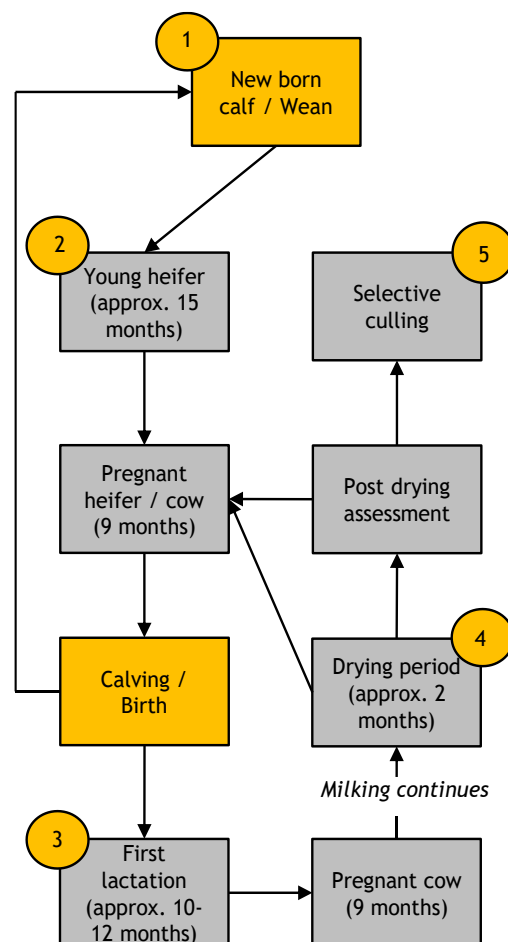
## Competitive pressures

The dairy industry is highly competitive, especially the markets for liquid dairy products, which are experiencing rapid development and increasing competition. Farm Fresh faces competition from large multinational companies, particularly with respect to milk powder products, as well as regional and local companies in each of the regions in which it operates.



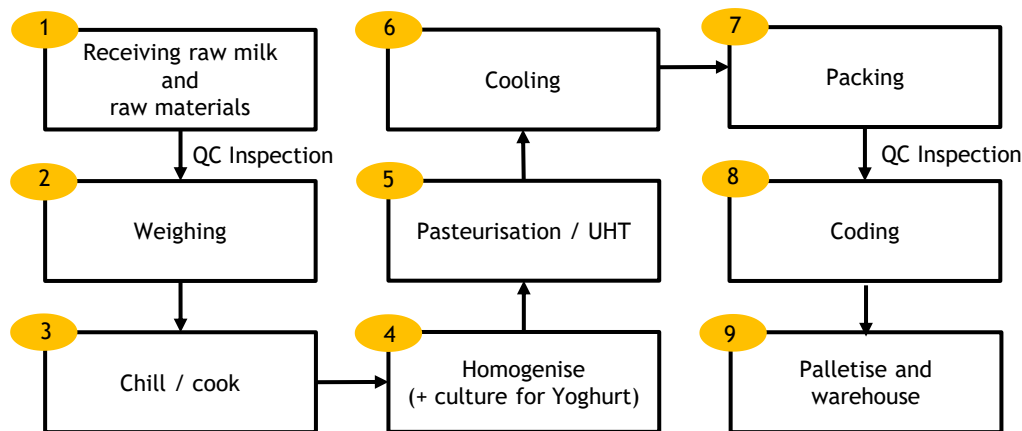
## Appendix 1: Lifecycle of a milking cow

1. **Newborn calves.** Newborn calves are cared for in a separate pen for six months and given special care and diet. The calves are typically fed milk colostrum and calf milk replacement products in the first 10 weeks before being placed on a high protein feed diet. The calf’s mother is separately cared for before being reintroduced to the herd after 45 days of post-partum care.
2. **Heifers.** Heifers generally include dairy cows aged not less than six months until giving birth for the first time, which typically happens around the age of 24 months. The breeding process is initiated when a heifer is around 15 months and impregnated, primarily through artificial insemination of sexed semen to achieve significantly higher female calf birth rates. The pregnancy period typically lasts approximately nine months.
3. **Lactation period.** A heifer’s lactation period begins the day after giving birth for the first time. As such, the heifer becomes a milking cow as early as at the age of 24 months.
  - Initially, colostrum is collected for four days to feed the newborn calf. From the fifth day onwards, fresh milk is collected until the end of the lactation period, which typically lasts about 10-12 months. After the post-partum care period of approximately 45 days ends, the milking cow may be artificially inseminated again while in lactation.
  - Alternatively, after giving birth, the milking cow may be placed under the post-partum care programme for the first 30 days after calving, and not to artificially inseminate the milking cow again until approximately 30-45 days after the postpartum care period to ensure sufficient recovery time for the cow after the last parturition. The period of suspending insemination is commonly referred to as the “voluntary waiting period”. Therefore, it typically takes around two to four months for a milking cow to become pregnant again after giving birth to its calf. Meanwhile, milking starts immediately after giving birth and continues during the voluntary waiting period.
4. **Dry period.** Following the lactation period, milking of the pregnant cow stops for two months ahead of the projected date of calving, generally referred to as the “drying period”. The drying period is essential to ensure proper preparation for labour and a high milk yield for the subsequent lactation period.
5. **Selective culling.** Generally, after the drying period, a post drying assessment is carried out to determine whether or not the dairy cow is fit to be impregnated again. Dairy cows which have been observed with inferior genetics are typically marked as ‘Do Not Breed’ while in lactation to ensure continual genetic progress and improvement, while those which were not pregnant during drying may be culled or sold to third parties subsequently.



## Appendix 2: Process flow for raw milk

Raw milk is processed into different liquid milk products as follows:



1. All raw materials received are kept in a warehouse, cold room or chiller tanks. Raw milk will be delivered by a chiller tanker and will also be subject to quality control checks including on pH levels, composition, methylene blue reduction test and antibiotic residue test.
2. Weighing of raw materials will then be carried out
3. White (i.e. unflavoured) fresh milk is kept chilled in insulated chilled tanks while flavoured, chilled, pasteurised, and white and flavoured UHT go through a cooking process at 80-90°C.
4. Homogenisation then takes place for the milk products. For yoghurt products, cultures are added to the milk mixture and left to undergo a fermentation process before homogenisation.
5. Pasteurisation then takes place at varying temperature levels and time periods depending on the underlying product.
6. The products then go through a cooling process immediately after pasteurisation.
7. The packing of the products is carried out via filling machines. The packed products are also subject to another round of quality control checks involving a packaging integrity check, microbe checks and pH level checks.
8. The final packaged product will be coded with a batch number and a product expiration date.
9. The finished goods are packed and sorted into pallets and wrapped in preparation for transport and distribution.

## Appendix 3: Board of Directors

Name	Designation	Profile
Tan Sri Dato' Seri Haji Megat Najmuddin Bin Datuk Seri Dr Haji Megat Khas (age: 77 years)	Independent Non-Executive Chairman	Tan Sri Dato' Seri Haji Megat Najmuddin has an Honours Degree in Law from the University of Singapore. Upon graduation, he joined First National City Bank (now Citibank) as an executive trainee before moving into legal practice, establishing his own law firm, Megat Najmuddin, Leong & Co. In 1986, he retired from legal practise and commenced his career in politics. Tan Sri Dato' Seri Haji Megat Najmuddin was once the UMNO Chief of Petaling Jaya. He was also elected as the State Assemblyman of Kelana Jaya for two terms from 1986 to 1990 and 1990 to 1995. Presently, he is the Honorary Patron of the Malaysian Institute of Corporate Governance (MICG). He also holds chairmanships in a number of non-listed companies namely, the Malaysian Institute of Management (MIM), Ulink Ascot Sdn Bhd and Kuber Venture Berhad.
Loi Tuan Ee (age: 58 years)	Non-Independent Executive Director, Group Managing Director & Group Chief Executive Officer	Loi Tuan Ee's career began in various sales and marketing roles after he completed his secondary education. In 1991, he joined Century Bond where he was responsible for the development and management of strategic plans for the group. He ventured into the farming business through the establishment of Rainforest Capital in 2005, where he held the Managing Director position. Loi Tuan Ee co-founded The Holstein Milk Company Sdn Bhd in 2010. Under his leadership, the group has been awarded multiple awards recognising the group's expertise in dairy farming. He was also selected as an Endeavour Entrepreneur at the 65 <sup>th</sup> Endeavour International Selection and Ernst & Young's Malaysia Entrepreneur of the year in 2016.
Loi Foon Kion (age: 54 years)	Non-Independent Non-Executive Director	Loi Foon Kion has a Bachelor of Science (First Class Honours) in Food Science and Nutrition from Universiti Kebangsaan Malaysia. In 1991, she worked with Wattie Food Services Sdn Bhd as a food technologist and was subsequently promoted to quality assurance officer. From 1994 to 1997, she was attached to T.A.S. Leisure Sdn Bhd and was involved in procurement, quality assurance and finance matters. She was also a member of the pioneer team of T.A.S. Leisure which established the first two Chilli's Grill & Bar outlets in Kuala Lumpur, Malaysia. In 2006, She joined Rainforest Capital as an Executive Director.
Tan Mei Shwen, Serena (age: 43 years)	Non-Independent Non-Executive Director	Tan Mei Shwen, Serena graduated from Macquarie University in 1999 with a Bachelor of Commerce and subsequently obtained a Master of Business Administration from the Massachusetts Institute of Technology (MIT) Sloan School of Management in 2013. She began her career as an equity research assistant with Bell Securities, Australia and progressed to an equity investment analyst in OSK research upon her return to Malaysia. She also held stints in McKinsey & Company and Boston Consulting Group before she joined Khazanah in 2005 as the Executive Director of Investments, and Head of Private Markets and Financial Institutions Group. She has served on the boards of CIMB Bank, CIMB Group Holdings and is currently the independent non-executive director of Aviva Singlife Holdings Pte Ltd.
Sukanta Kumar Dutt (age: 63 years)	Independent Non-Executive Director	Sukanta Kumar Dutt began his career with Ernst & Young (EY) as a trainee in 1977 and rose up the ranks to audit partner in 1991. He was appointed as Global Risk Management Leader in 2015 until his retirement in 2019 where his responsibilities spanned across enterprise risk management, ethics, compliance, internal audit and business continuity. He was previously a board member of the Malaysian Accounting Standards Board, The Malaysian Auditing and Assurance Standards Board and a two-term board member of the International Auditing and Assurance Standards Board. He has been an independent director of CIMB Bank since October 2019 and assumed the Chair of CIMB Banks's Board Risk and Compliance Committee in January 2021.
Dato' Dr Quaza Nizamuddin Bin A. Hassan Nizam (age: 61 years)	Independent Non-Executive Director	Dato' Dr Quaza Nizamuddin obtained a Doctor of Veterinary Medicine from Universiti Pertanian Malaysia and a Master of Science in Epidemiology and Preventive Veterinary Medicine from Free University of Berlin in 1984 and 1994 respectively. He joined the Department of Veterinary Science (DVS) in 1984 and has since held various positions within the organisation, with his last appointed position as the Director-General of the DVS until his retirement in 2020. He is currently a board member of Lembaga Totalisator Malaysia and a director of the Malaysian Equine Council.
Jocelyn Ng Lai Leng (age: 57 years)	Independent Non-Executive Director	Jocelyn Ng Lai Leong has a Bachelor of Arts from the University of Waterloo, Canada and a Master of Arts in Psychology from Duquesne University. She was a Psychology, Sociology and Philosophy lecturer in Rima College and Stamford College Group from 1987 to 1988. Jocelyn Ng Lai Leng has held multiple roles in the marketing field with stints in Malaysian Tobacco Company, Quality Bakers (M) Sdn Bhd, JT International, Danone Marketing (Malaysia), PepsiCo Malaysia Sdn Bhd and Uniqlo Malaysia Sdn Bhd.

Source: Company

## Appendix 4: Senior Management

Name	Designation	Profile
Loi Tuan Ee (age: 58 years)	Non-Independent Executive Director, Group Managing Director & Group Chief Executive Officer	Loi Tuan Ee's career began in various sales and marketing roles after he completed his secondary education. In 1991, he joined Century Bond where he was responsible for the development and management of strategic plans for the group. He ventured into the farming business through the establishment of Rainforest Capital in 2005, where he held the Managing Director position. Loi Tuan Ee co-founded The Holstein Milk Company Sdn Bhd in 2010. Under his leadership, the group has been awarded multiple awards recognising the group's expertise in dairy farming. He was also selected as an Endeavour Entrepreneur at the 65 <sup>th</sup> Endeavour International Selection and Ernst & Young's Malaysia Entrepreneur of the year in 2016.
Azmi Bin Zainal (age: 55 years)	Group Chief Operating Officer	Azmi Bin Zainal began his career with the Federal Land Development Authority (FELDA) in 1989 as a land planning officer for Felda Lok Heng Barat. Upon leaving FELDA, he set up his own business, Gemilang Packaging Sdn Bhd, where he was involved in the trading and supply of industrial packaging. Azmi Zainal was attached to Nu Moto Sdn Bhd as a sales representative for trading and supply of motorcycles to FELDA and Army co-operatives prior to being appointed to his current role in 2010. At present, he is responsible in operational management and sales of the group along with the distribution and marketing of Farm Fresh's products.
Loi Tuan Kin (age: 57 years)	Plant Operations Director	Loi Tuan Kin began his career as a production supervisor at Century Bond in 1985 before being promoted to plant manager where he was responsible in overseeing plant operations. In 2005, he joined Rainforest Capital as an Executive Director and was charged with overseeing the farming operations of the company. He co-founded The Holstein Milk Company with Loi Tuan Ee in 2010. All operational matters at both the group's Mawai and Larkin facilities are currently under his purview, which includes daily milk transfers from farm to factory, raw material processing to finished goods and the logistics coordination and distribution of Farm Fresh's products within Malaysia & Singapore.
Mohd Khairul Bin Mat Hassan (age: 42 years)	Group Chief Financial Officer	Mohd Khairul graduated with a Bachelor of Commerce from the University of Queensland in 2001 and subsequently obtained a Master of Commerce from the University of New South Wales in 2002. From 2002 to 2006, he was attached to Pricewaterhouse Coopers (Malaysia) and Pricewaterhouse Coopers Americas (Bermuda) with roles within assurance, audit and business advisory. In 2007, Mohd Khairul moved on to UEM World and subsequently UEM Sunrise before pursuing a full-time one-year Masters in Business Administration (MBA) programme in 2012 with INSEAD Business School. Upon completion of his masters, he worked with A.T. Kearney, Inc (Malaysia) and NUR Power Sdn Bhd before joining Farm Fresh as Group Chief Financial Officer.
Adam Graeme Pretty (age: 48 years)	Managing Director of the Australian Business	Adam Graeme Pretty has over 27 years of experience as a livestock manager with Greenham in Victoria, Australia. He established Dairy Livestock Exports Pty Ltd., an Australian based company principally involved in the export of cows to Malaysia, Singapore, Taiwan, UAE, China and Indonesia prior to joining Farm Fresh in 2017. He presently oversees Farm Fresh's Australia farming operations and is actively involved in the day-to-day operations in the groups Australian business.
Jacob a/l Mathan (age: 31 years)	Group Senior Farm Manager	Jacob a/l Mathan holds a Bachelor of Agricultural Science (Hons) in livestock production from Universiti Malaysia Sabah. He graduated in 2014 and joined Farm Fresh as a farm executive at its Mawai farm in the same year. He was instrumental in the setup and development of the group's Muadzam Shah Cattle Research and Innovation Centre in Pahang and was promoted to lead the Muadzam Shah farm in 2015. He was appointed as Group Senior Farm Manager in 2018 and is principally involved in the development and management of all of Farm Fresh's farming operations across Malaysia.

Source: Company

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	na	na	36.5	30.6	24.6
Core P/E (x)	na	na	39.0	30.6	24.6
P/BV (x)	na	na	5.2	4.6	4.1
P/NTA (x)	na	na	5.4	4.8	4.2
Net dividend yield (%)	na	na	0.7	0.8	1.0
FCF yield (%)	na	na	2.1	nm	1.9
EV/EBITDA (x)	58.2	34.2	28.3	22.7	17.2
EV/EBIT (x)	77.2	43.7	38.8	29.2	22.8
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	303.1	490.5	532.4	609.0	739.7
EBITDA	56.6	98.8	107.9	139.1	183.4
Depreciation	(13.9)	(21.2)	(29.0)	(30.7)	(45.1)
Amortisation	0.0	(0.2)	(0.3)	(0.3)	(0.3)
EBIT	42.6	77.3	78.6	108.1	137.9
Net interest income / (exp)	(6.4)	(9.8)	(9.7)	(0.9)	(4.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(33.0)	5.6	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	36.2	67.6	68.9	107.2	133.9
Income tax	(1.8)	(34.8)	13.8	(7.9)	(9.8)
Minorities	0.8	3.4	3.4	3.4	3.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	35.2	36.2	86.1	102.7	127.5
Core net profit	35.2	69.2	80.6	102.7	127.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	7.5	11.7	361.8	249.9	258.1
Accounts receivable	81.0	88.8	97.6	111.6	135.5
Inventory	40.2	105.0	115.2	127.2	153.7
Property, Plant & Equip (net)	198.9	307.1	326.2	486.9	533.1
Intangible assets	13.9	19.9	19.6	19.3	19.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	71.5	89.7	97.5	106.5	115.5
<b>Total assets</b>	<b>413.0</b>	<b>622.3</b>	<b>1,017.9</b>	<b>1,101.3</b>	<b>1,214.9</b>
ST interest bearing debt	58.5	140.9	140.9	140.9	140.9
Accounts payable	50.0	83.1	91.1	100.6	121.5
LT interest bearing debt	90.1	101.0	127.0	127.0	127.0
Other liabilities	17.0	56.0	56.0	56.0	56.0
<b>Total Liabilities</b>	<b>215.3</b>	<b>381.2</b>	<b>415.3</b>	<b>424.8</b>	<b>445.7</b>
Shareholders Equity	189.3	234.6	599.2	676.2	771.9
Minority Interest	8.5	6.4	3.4	0.3	(2.7)
<b>Total shareholder equity</b>	<b>197.8</b>	<b>241.0</b>	<b>602.6</b>	<b>676.6</b>	<b>769.2</b>
<b>Total liabilities and equity</b>	<b>413.0</b>	<b>622.3</b>	<b>1,017.9</b>	<b>1,101.3</b>	<b>1,214.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	36.2	67.6	68.9	107.2	133.9
Depreciation & amortisation	13.9	21.4	29.3	31.0	45.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(30.2)	(40.0)	(9.8)	(16.6)	(29.5)
Cash taxes paid	(0.0)	(0.1)	13.8	(7.9)	(9.8)
Other operating cash flow	(2.2)	0.7	(0.7)	(0.8)	(0.9)
Cash flow from operations	24.2	59.7	111.5	124.0	150.2
Capex	(60.5)	(74.0)	(46.8)	(190.0)	(90.0)
Free cash flow	(36.3)	(14.4)	64.7	(66.0)	60.2
Dividends paid	0.0	0.0	(21.5)	(25.7)	(31.9)
Equity raised / (purchased)	3.4	0.4	300.4	0.4	0.4
Change in Debt	37.0	31.5	26.0	0.0	0.0
Other invest/financing cash flow	(7.0)	(19.0)	(19.5)	(20.6)	(20.6)
Effect of exch rate changes	3.3	(0.6)	0.0	0.0	0.0
Net cash flow	0.3	(2.1)	350.0	(111.9)	8.2

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	70.0	61.8	8.5	14.4	21.5
EBITDA growth	38.8	74.6	9.2	29.0	31.8
EBIT growth	31.3	81.5	1.6	37.6	27.6
Pretax growth	28.4	86.8	2.0	55.5	24.9
Reported net profit growth	28.4	2.9	137.7	19.2	24.2
Core net profit growth	28.4	96.6	16.4	27.4	24.2
<b>Profitability ratios (%)</b>					
EBITDA margin	18.7	20.1	20.3	22.8	24.8
EBIT margin	14.1	15.8	14.8	17.8	18.6
Pretax profit margin	11.9	13.8	12.9	17.6	18.1
Payout ratio	0.0	0.0	25.0	25.0	25.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.6	7.4	16.2	16.9	17.2
Revenue/Assets (x)	0.7	0.8	0.5	0.6	0.6
Assets/Equity (x)	2.2	2.7	1.7	1.6	1.6
ROAE (%)	20.3	17.1	20.7	16.1	17.6
ROAA (%)	10.2	13.4	9.8	9.7	11.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	60.3	68.5	84.6	83.4	80.8
Days receivable outstanding	73.4	62.3	63.0	61.8	60.1
Days inventory outstanding	56.4	74.8	103.4	103.0	98.9
Days payables outstanding	69.6	68.5	81.8	81.5	78.2
Dividend cover (x)	nm	nm	4.0	4.0	4.0
Current ratio (x)	1.2	0.8	2.1	1.8	1.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.6	2.5	2.6	2.7
Net gearing (%) (incl perps)	71.4	95.5	net cash	2.7	1.3
Net gearing (%) (excl. perps)	71.4	95.5	net cash	2.7	1.3
Net interest cover (x)	6.6	7.9	8.1	115.6	33.9
Debt/EBITDA (x)	2.6	2.4	2.5	1.9	1.5
Capex/revenue (%)	20.0	15.1	8.8	31.2	12.2
Net debt/ (net cash)	141.2	230.2	(93.8)	18.1	9.9

Source: Company; Maybank IBG Research

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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