

Farm Fresh Berhad (FFB MK)

Greener pastures ahead

Maintain BUY with unchanged TP of MYR1.95

FFB's 4QFY22 results were within expectations. Despite ongoing cost pressures, we believe that its outlook remains positive alongside steady upstream and mid-stream expansion plans which will support strong demand for its products as it ventures into new product categories (kids growing-up-milk) and regional markets in FY23. We make no changes to our earnings estimates. Maintain BUY with unchanged TP of MYR1.95 (based on the Malaysia dairy-related CY23 sector average of 29x).

In-line

FFB's 4QFY22 core net profit of MYR22m (+48% YoY, +41% QoQ) brought FY22 core net profit to MYR82m (+2% YoY), within expectations at 101% of both our and consensus full-year earnings estimates.

Improved margins on product price adjustments

4QFY22 revenue was flat YoY (+0.4% YoY) driven by higher contribution in Malaysia (+6% YoY) but partially offset by lower sales in Australia (-47% YoY) given the absence of raw milk sales and downsizing of its IXL fruit jam business. EBIT grew by a wider 8% YoY given improved gross profit of +4% YoY (GP margin: +1 ppt YoY) led by its 5% product price hike in Sep and Dec 2021 for its chilled RTD and UHT range respectively. FFB's positive tax rate of 7.5% in 4QFY22 is owed to its various tax incentives.

No change to earnings estimates

We keep our forward earnings estimates unchanged and introduce our FY25E earnings estimates. Our FY23 earnings growth of 27% is on the back of stronger volume sales led by FFB's ongoing upstream and mid-stream capacity expansion; new product launches (eg. Kids growing-up-milk), and foray into regional markets (i.e. Indonesia, Philippines and Hong Kong). In light of cost pressures in raw milk, feed raw materials and freight, FFB is undertaking another round of product price adjustments for its chilled RTD range of 5% in Malaysia (mid-Jul) and Singapore (1 Aug) to avoid potential margin erosion.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	490	502	609	740	888
EBITDA	99	103	151	197	220
Core net profit	80	82	103	127	146
Core EPS (sen)	4.3	4.4	5.5	6.9	7.8
Core EPS growth (%)	127.2	2.2	25.5	24.0	14.3
Net DPS (sen)	0.0	1.1	1.4	1.7	2.0
Core P/E (x)	na	37.2	30.4	24.5	21.5
P/BV (x)	na	5.0	4.6	4.0	3.5
Net dividend yield (%)	na	0.7	0.8	1.0	1.2
ROAA (%)	15.5	10.0	9.3	10.1	10.5
EV/EBITDA (x)	34.0	32.0	23.2	17.8	15.9
Net gearing (%) (incl perps)	95.5	42.0	55.7	49.0	41.6
Consensus net profit	-	-	97	120	na
MKE vs. Consensus (%)	-	-	5.9	5.7	na

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BUY

Share Price	MYR 1.68
12m Price Target	MYR 1.95 (+17%)
Previous Price Target	MYR 1.95

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.

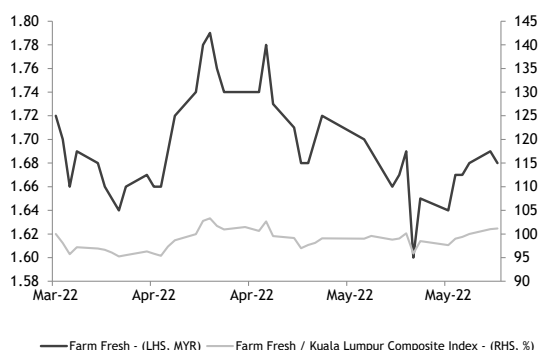
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	7.2
Free float (%)	38.1
Issued shares (m)	1,858
Market capitalisation	MYR3.1B
	USD710M

Major shareholders:

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

Price Performance



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

Source: FactSet

Fig 1: Farm Fresh results summary

FYE: Mar (MYRm)	Quarterly					Cumulative		
	4QFY22	4QFY21	%YoY	3QFY22	%QoQ	12MFY22	12MFY21	% YoY
Revenue	128.1	127.5	0.4	116.7	9.8	501.9	490.5	2.3
Gross profit	36.7	35.2	4.0	34.2	7.2	136.3	140.9	(3.2)
EBITDA	24.8	23.0	7.8	25.3	(2.2)	103.5	98.8	4.8
Depreciation & amortisation	(7.1)	(6.6)	8.6	(8.5)	(16.1)	(28.6)	(21.4)	33.4
EBIT	17.6	16.4	7.5	16.8	4.8	74.9	77.3	(3.2)
Net interest expense	(1.5)	(2.6)	(42.3)	(2.4)	(38.0)	(9.2)	(9.8)	(5.8)
Exceptional items	(4.0)	(2.9)	36.9	(3.9)	2.2	(1.9)	(43.8)	(95.6)
Pretax profit	16.1	13.8	16.9	14.4	12.1	65.7	67.6	(2.8)
Tax	1.2	(3.7)	n.m.	(2.6)	n.m.	12.9	(34.8)	n.m.
Minority interest	0.4	1.6	(77.2)	(0.3)	n.m.	1.3	3.4	(61.1)
Net profit	17.7	11.7	50.6	11.5	54.3	79.9	36.2	>100.0
Core net profit	21.7	14.7	47.9	15.4	41.0	81.8	80.0	2.2
			+/- p.pts YoY		+/- p.pts QoQ			+/- p.pts YoY
Gross profit margin (%)	28.6	27.6	1.0	29.3	(0.7)	27.2	28.7	(1.6)
EBITDA margin (%)	19.3	18.0	1.3	21.7	(2.4)	20.6	20.1	0.5
EBIT margin (%)	13.8	12.9	0.9	14.4	(0.6)	14.9	15.8	(0.9)
Tax rate (%)	7.5	(26.6)	34.1	(18.1)	25.6	19.6	(51.4)	71.0

Source: Company

*4Q22: IPO expenses of MYR4.0m; 3Q22: IPO expenses of MYR3.9m; 4Q21: Redundancy cost of MYR3.1m, government grant income of MYR0.2m, 12MFY22: Reallocation of tax reversal of MYR10.5m, impairment loss on PPE of MYR0.06m, Redundancy costs of MYR3.9m, IPO expenses of MYR8m, claw back of government grant income of MYR0.5m; 12MFY21: Reallocation of additional tax for prior years of MYR25.7m, Reallocation of tax reversal of MYR10.5m, impairment loss of PPE of MYR3.4m, Redundancy cost of MYR2.5m, IPO expenses of MYR3.7m, Government grant income of MYR2m.

Fig 2: Malaysia dairy-related beverage sector peer comparison

Stock	Shr px	Mkt cap	PER	PER	P/B	P/B	EV/EBITDA	EV/EBITDA	ROAE	ROAE	Yield
	(Local)	(MYRm)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)
			CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F
Nestle Malaysia [^]	133.30	31,259	52.9	47.1	53.3	51.1	30.2	28.4	98.9	112.4	1.9
F&N Holdings	20.72	7,600	19.4	17.1	2.5	2.3	12.1	10.8	13.6	14.8	2.9
Dutch Lady Milk	33.60	2,150	24.5	22.9	5.0	4.5	14.9	13.7	42.4	39.3	1.6
Simple avg			32.3	29.0	20.3	19.3	19.1	17.6	51.6	55.5	2.1

*As at 24 May 2022 closing prices

Source: Bloomberg, Maybank IBG Research

[^] Nestle Malaysia is based on Maybank IBG Research estimates

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for FFB. Unfavourable spikes in raw milk and dairy cattle feed could adversely affect earnings. Dairy cows are also vulnerable to disease and epidemic outbreaks that could lead to demand-supply imbalances.

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	na	39.0	30.4	24.5	21.5
Core P/E (x)	na	37.2	30.4	24.5	21.5
P/BV (x)	na	5.0	4.6	4.0	3.5
P/NTA (x)	na	5.2	4.7	4.1	3.6
Net dividend yield (%)	na	0.7	0.8	1.0	1.2
FCF yield (%)	na	nm	nm	2.0	2.6
EV/EBITDA (x)	34.0	32.0	23.2	17.8	15.9
EV/EBIT (x)	43.4	44.2	29.7	23.6	20.8
INCOME STATEMENT (MYR m)					
Revenue	490.5	501.9	609.0	739.7	888.1
EBITDA	98.8	103.5	151.3	196.5	219.7
Depreciation	(21.2)	(28.3)	(33.1)	(47.8)	(51.9)
Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	77.3	74.9	118.0	148.5	167.6
Net interest income / (exp)	(9.8)	(9.2)	(8.5)	(12.5)	(12.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(43.8)	(1.9)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	67.6	65.7	109.5	135.9	155.0
Income tax	(34.8)	12.9	(8.1)	(9.9)	(10.9)
Minorities	3.4	1.3	1.3	1.3	1.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.2	79.9	102.7	127.3	145.5
Core net profit	80.0	81.8	102.7	127.3	145.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	11.7	28.1	2.0	2.1	15.0
Accounts receivable	88.8	100.2	122.5	148.8	178.7
Inventory	105.0	118.8	137.7	166.3	199.7
Property, Plant & Equip (net)	307.1	339.6	498.0	541.6	581.2
Intangible assets	19.9	20.0	19.8	19.5	19.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	89.7	403.2	420.5	438.7	457.1
Total assets	622.3	1,010.0	1,200.4	1,317.0	1,451.0
ST interest bearing debt	140.9	52.3	52.3	52.3	52.3
Accounts payable	83.1	93.1	107.8	130.2	156.4
LT interest bearing debt	101.0	232.3	332.3	332.3	332.3
Other liabilities	56.0	21.0	21.0	21.0	21.0
Total Liabilities	381.2	399.1	513.8	536.2	562.3
Shareholders Equity	234.6	605.9	683.0	778.5	887.6
Minority Interest	6.4	5.0	3.7	2.4	1.1
Total shareholder equity	241.0	611.0	686.7	780.8	888.7
Total liabilities and equity	622.3	1,010.0	1,200.4	1,317.0	1,451.0
CASH FLOW (MYR m)					
Pretax profit	67.6	65.7	109.5	135.9	155.0
Depreciation & amortisation	21.4	28.6	33.3	48.1	52.1
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(40.0)	(21.4)	(25.6)	(32.5)	(37.1)
Cash taxes paid	(0.1)	(29.7)	(8.1)	(9.9)	(10.9)
Other operating cash flow	0.7	(4.5)	(1.0)	(1.1)	(1.3)
Cash flow from operations	59.7	49.1	117.5	153.0	170.5
Capex	(74.0)	(59.7)	(190.0)	(90.0)	(90.0)
Free cash flow	(14.4)	(10.7)	(72.5)	63.0	80.5
Dividends paid	0.0	0.0	(25.7)	(31.8)	(36.4)
Equity raised / (purchased)	0.4	292.8	0.0	0.0	0.0
Change in Debt	31.5	89.4	100.0	0.0	0.0
Other invest/financing cash flow	(19.0)	(340.8)	(27.9)	(31.1)	(31.1)
Effect of exch rate changes	(0.6)	(0.1)	0.0	0.0	0.0
Net cash flow	(2.1)	30.7	(26.1)	0.1	13.0

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	61.8	2.3	21.3	21.5	20.1
EBITDA growth	74.6	4.8	46.3	29.9	11.8
EBIT growth	81.5	(3.2)	57.6	25.8	12.9
Pretax growth	86.8	(2.8)	66.7	24.2	14.0
Reported net profit growth	2.9	120.5	28.6	24.0	14.3
Core net profit growth	127.2	2.2	25.5	24.0	14.3
Profitability ratios (%)					
EBITDA margin	20.1	20.6	24.8	26.6	24.7
EBIT margin	15.8	14.9	19.4	20.1	18.9
Pretax profit margin	13.8	13.1	18.0	18.4	17.5
Payout ratio	0.0	25.0	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	7.4	15.9	16.9	17.2	16.4
Revenue/Assets (x)	0.8	0.5	0.5	0.6	0.6
Assets/Equity (x)	2.7	1.7	1.8	1.7	1.6
ROAE (%)	na	na	na	na	na
ROAA (%)	15.5	10.0	9.3	10.1	10.5
Liquidity & Efficiency					
Cash conversion cycle	68.5	91.3	89.5	89.2	89.6
Days receivable outstanding	62.3	67.8	65.8	66.0	66.4
Days inventory outstanding	74.8	110.2	109.0	107.0	107.2
Days payables outstanding	68.5	86.7	85.4	83.8	84.0
Dividend cover (x)	nm	4.0	4.0	4.0	4.0
Current ratio (x)	0.8	3.6	3.4	3.3	3.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	2.5	2.3	2.5	2.6
Net gearing (%) (incl perps)	95.5	42.0	55.7	49.0	41.6
Net gearing (%) (excl. perps)	95.5	42.0	55.7	49.0	41.6
Net interest cover (x)	7.9	8.1	13.8	11.9	13.4
Debt/EBITDA (x)	2.4	2.8	2.5	2.0	1.8
Capex/revenue (%)	15.1	11.9	31.2	12.2	10.1
Net debt/ (net cash)	230.2	256.5	382.6	382.6	369.6

Source: Company; Maybank IBG Research

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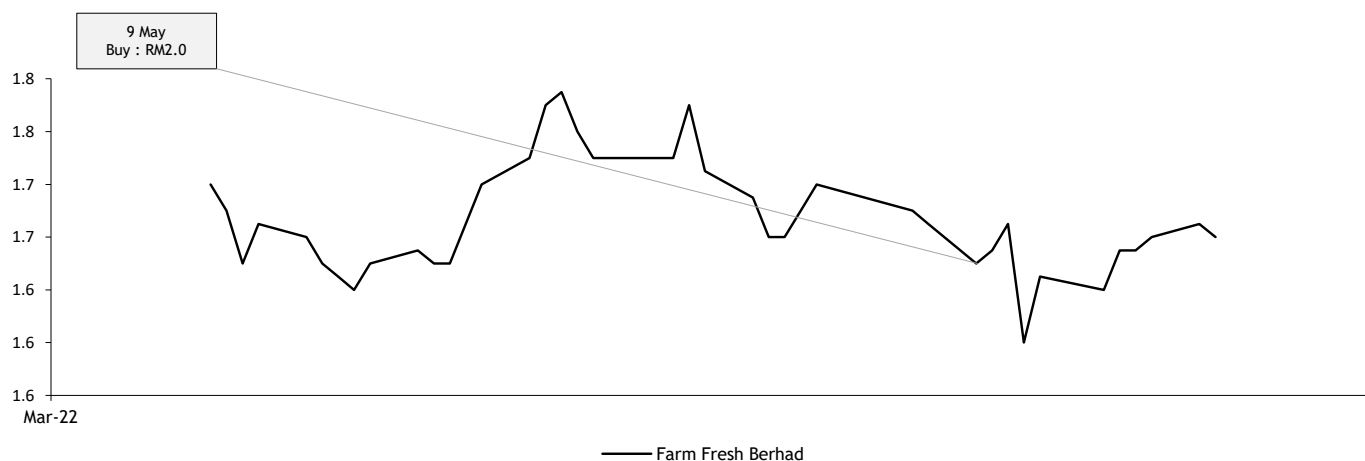
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Historical recommendations and target price: Farm Fresh Berhad (FFB MK)



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