

COMPANY RESULTS

Farm Fresh (FFB MK)

4QFY22: Cessation Of Sales Masks Decent Performance

Sales were flattish due to the cessation of sales to third parties by Farm Fresh's Australia farm. Margins were lifted by ASP revisions as Farm Fresh delivered on its earnings. Farm Fresh has indicated its willingness to defend its margins amid spiralling input costs. We continue to like Farm Fresh for its exciting earnings growth and attractive valuations that could re-rate further. Maintain BUY with a target price of RM1.82.

4QFY22 RESULTS

Year to 31 Mar (RMm)	4QFY22	qoq % chg	yoy % chg	FY22	yoy % chg	Comments
Revenue	128.1	9.8	0.4	501.9	2.3	Flattish as Malaysia operations (+6.2%) offsets cessation of Australia sales to third parties (-46.6%).
Gross profit	36.7	7.2	4.0	136.3	-3.2	
EBITDA	24.3	0.0	7.7	103.0	4.7	
Pretax profit	16.1	12.1	16.9	65.7	-2.8	
Core PATAMI	39.5	249.4	372.3	85.6	18.2	Accounted for 105% of our and consensus' earnings estimates.

Margins (%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross margin (%)	28.6	-0.7	1.0	27.2
Opex as % of revenue	-16.6	-1.5	1.8	-15.1
EBITDA margin (%)	19.0	-1.9	1.3	0.0
Effective tax rate (%)	7.5	25.6	34.1	19.6
Core margin (%)	30.9	21.2	24.3	17.1

Source: Farm Fresh, UOB Kay Hian

RESULTS

• **4QFY22 earnings largely within expectations.** Farm Fresh registered a 4QFY22 net profit of RM39.5m. Cumulatively, FY22 core profit was +18% yoy at RM85.6m. Headline earnings included RM7.5m of one-off items such as IPO expenses (-RM8.0m), redundancy costs (-RM3.9m) and reallocation of tax reversal (RM10.5m) (FY21: -RM36.2m). Core earnings were largely within expectations, representing 105% of both our and consensus' full-year forecasts.

KEY FINANCIALS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	490	502	621	726	838
EBITDA	90	86	140	167	194
Operating profit	68	61	106	124	147
Net profit (rep./act.)	72	86	97	115	139
Net profit (adj.)	72	86	97	115	139
EPS (sen)	3.9	4.6	5.2	6.2	7.5
PE (x)	43.1	36.5	32.2	27.1	22.5
P/B (x)	13.0	5.1	4.5	4.0	3.5
EV/EBITDA (x)	37.6	39.1	24.2	20.3	17.4
Dividend yield (%)	0.0	0.2	0.8	0.9	1.1
Net margin (%)	14.8	17.1	15.6	15.8	16.6
Net debt/(cash) to equity (%)	95.5	42.0	48.5	41.0	29.8
Interest cover (x)	9.2	9.4	8.7	9.3	11.7
ROE (%)	33.0	20.1	14.9	15.7	16.6
Consensus net profit	-	-	99	120	120
UOBKH/Consensus (x)	-	-	0.98	0.96	-

Source: Farm Fresh, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.68
Target Price	RM1.82
Upside	8.3%
(Previous TP)	RM1.60

COMPANY DESCRIPTION

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

STOCK DATA

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

Price Performance (%)

52-week high/low RM1.79/RM1.35

1mth	3mth	6mth	1yr	YTD
1.8	n.a.	n.a.	n.a.	n.a.

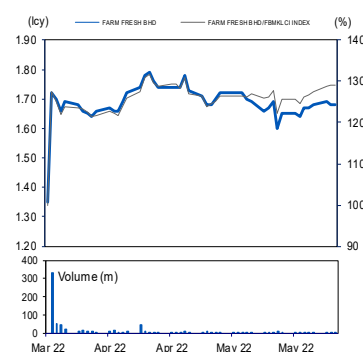
Major Shareholders

Major Shareholders	%
Loi Tuan Ee, family and associates	44.5
Agrifood Resources	11.8
EPF	5.4

FY23 NAV/Share (RM) 0.37

FY23 Net Cash/Share (RM) 0.01

PRICE CHART



Source: Bloomberg

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- Malaysia sales offset absence of third-party sales.** 4QFY22 sales were largely flattish on a yoy basis at 0.4%. This is attributed to Malaysia operations (+6.2% yoy) offsetting a reduction in Australia revenue (-46.7% yoy) due to the ceasing of raw milk sales to third parties and the downsizing of its fruit jam business (that was completed in 3QFY22). We expect its fortified fresh milk to make headways into the untapped powdered milk segment to supplement its organic growth within its existing ready-to-drink (RTD) segment.
- Margins improve off ASP hike in the preceding quarter.** 4QFY22 gross margin improved by 1.0ppt to 28.6% on a yoy basis. This was largely due to the ASP hike of 5% in its RTD products in 3QFY22. Farm Fresh has indicated that it is looking to raise its ASPs for its chilled RTD products sold in Malaysia and Singapore by an average of 5-8% as it attempts to counter higher input prices. We believe this should help sustain its margins going forward.

STOCK IMPACT

- Product launch aimed at entry into yet-to-be-tapped and sizeable market.** Farm Fresh is due to launch growing-up milk based on a fortified fresh milk formula for children aged 3 to 12 years old. This would take aim at the currently untapped RM2.3b powdered milk segment (existing presence in RTD milk segment is valued at RM2.1b). Although the new fortified fresh milk is not in powder form, it aims to serve the same purpose as specialty milk for children.
- Raised ASP alleviates input cost concerns.** Alfalfa hay and maize appears to have remained elevated, bucking the trend of other soft commodities softening over the months, which has been in part due to the Russia-Ukraine war. This has been two quarters of elevated input cost post Farm Fresh's ASP hike in 4QCY21 (3QFY22). But Farm Fresh has already indicated it is looking to raise its ASPs by 5-8% for its chilled RTD products. Given Farm Fresh's superior operating margins despite its products being priced at a discount to its peers, we are confident over its ability to defend its market share and maintain overall competitiveness going forward.

EARNINGS REVISION/RISK

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

VALUATION/RECOMMENDATION

- Maintain BUY but with a higher target price of RM1.82** (from RM1.60) as we roll over our valuations to 2023 from FY23. Our target price is pegged to 30.5x FY23F PE. The PE peg is derived from the overall Asia dairy average PE to a growth ratio of 1.7x Farm Fresh's three-year earnings CAGR of 17.9%. We like Farm Fresh for its: a) attractive growth outlook with a three-year earnings CAGR (FY20-23) of 17.9% vs Malaysia – Consumer (7.2%) and Asia Developed – Dairy (3.1%); and b) far superior operating efficiency – average operating margins of 20.6% for FY19-21 far outperformed its direct peer Dutch Lady's 13.6%.
- We believe should Farm Fresh be able to make headway into key export markets and sustain its margins amid spiraling costs, it could re-rate to command premium valuations closer to those of consumer darlings such as Nestle (51.6x) and QL Resources (48.8x).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

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

KEY ASSUMPTIONS

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

Source: UOB Kay Hian

PROFIT & LOSS

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

CASH FLOW

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

BALANCE SHEET

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

KEY METRICS

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

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