

Farm Fresh Berhad (FFB MK)

4QFY23 results: Fell short

Stay on the sidelines; D/G to HOLD

FFB's 4QFY23 results disappointed. Sequential earnings may still be impacted by high milk inventory costs until its price hikes come into effect in Jul 2023, and input costs begin to ease from 3QFY24 onwards. We cut FY24E earnings by 21% but leave FY25E unchanged and introduce FY26E. With near-term challenges, we D/G FFB to HOLD with a lower MYR1.60 TP, based on an updated Malaysia dairy-related CY24E sector avg. PER of 26x.

Higher COGS dragged FY23 earnings

4QFY23 core net profit of MYR5m (-78% YoY, -75% QoQ) brought FY23 core net profit to MYR52m (-36% YoY), reflecting just 81%/77% of our/consensus full-year earnings estimates. The earnings shortfall was mainly from higher-than-expected dairy raw material costs. FY23 revenue of MYR630m (+26% YoY) was however in-line at 103% of our estimates.

Sharp decline in GP margins

4QFY23 gross profit fell 17% QoQ (GP margin: -4 pts QoQ) mainly due to higher dairy raw material costs led by (i) unfavourable currency hedging strategies (against AUD & USD) which offset the benefits of lower whole milk powder (WMP) ASPs, and (ii) ongoing phase-out of its high milk inventory costs. Note that raw milk and WMP ASPs increased 9% QoQ and 7% QoQ. 4QFY23 EBIT declined by a wider 69% QoQ (EBIT margin: -10ppt QoQ) given higher administrative expenses (+27% QoQ) from increased labour costs and acquisition costs of *The Inside Scoop*.

Another weak quarter ahead

1QFY24E earnings may remain weak as dairy raw material costs are likely to stay elevated given that FFB has not fully pared down its existing (higher cost) milk inventory levels yet. That said, 2QFY24E earnings should improve in tandem with its recently announced price hike for its chilled category products (+5% effective Jul 2023). FFB is also anticipating for 10%-14% lower raw milk ASPs (new contract to be signed end-Jun 2023) but input cost savings are only expected to flow through in Aug 2023 at the earliest. Hence, we only lower FY24E earnings by 21% but keep FY25E.

FYE Mar (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	502	630	788	946	1,083
EBITDA	104	97	149	194	216
Core net profit	82	50	82	120	136
Core FDEPS (sen)	4.4	2.7	4.4	6.4	7.3
Core FDEPS growth (%)	2.2	(38.9)	64.7	44.9	14.1
Net DPS (sen)	1.1	0.7	1.1	1.6	1.8
Core FD P/E (x)	37.2	55.8	35.0	24.1	21.2
P/BV (x)	5.0	4.4	4.2	3.7	3.3
Net dividend yield (%)	0.7	0.4	0.7	1.0	1.2
ROAA (%)	10.0	4.8	7.3	9.4	9.7
EV/EBITDA (x)	31.8	32.0	21.6	16.6	14.9
Net gearing (%) (incl per p	42.0	49.3	47.6	42.5	37.3
Consensus net profit	-	-	103	119	na
MIBG vs. Consensus (%)	-	-	(19.9)	0.1	na

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HOLD

[Prior:BUY]

Share Price	MYR 1.55
12m Price Target	MYR 1.60 (+4%)
Previous Price Target	MYR 1.75

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.

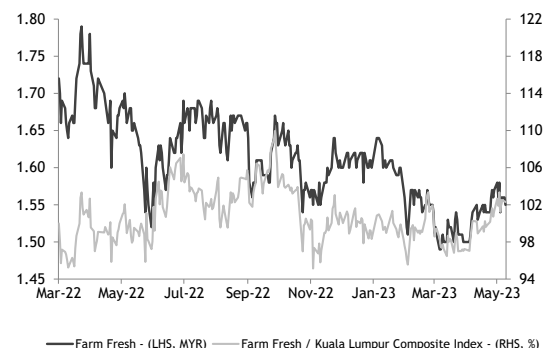
Statistics

52w high/low (MYR)	1.69/1.49
3m avg turnover (USDm)	0.4
Free float (%)	37.9
Issued shares (m)	1,858
Market capitalisation	MYR2.9B USD626M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(1)	(8)
Relative to index (%)	1	2	1

Source: FactSet

Fig 1: Farm Fresh: Results Summary

FYE: Mar (MYR m)	Quarterly					Cumulative		
	4QFY23	4QFY22	% YoY	3QFY23	% QoQ	12MFY23	12MFY22	% YoY
Revenue	161.4	128.1	26.0	162.2	(0.5)	629.7	501.9	25.5
Gross profit	32.8	36.7	(10.7)	39.5	(17.0)	149.7	136.3	9.8
EBITDA	16.0	24.8	(35.6)	32.6	(51.1)	97.1	103.5	(6.1)
Dep & Amort*	(8.6)	(7.1)	20.0	(8.9)	(4.0)	(33.5)	(28.6)	17.2
EBIT	7.4	17.6	(58.2)	23.7	(68.9)	63.6	74.9	(15.0)
Net interest expense	(2.9)	(1.5)	89.5	(3.4)	(14.8)	(11.5)	(9.2)	24.7
Exceptional items	-	(4.0)	n.m.	(0.5)	n.m.	(2.3)	(1.9)	19.7
Pre-tax profit	4.5	16.1	(72.0)	20.4	(77.8)	52.2	65.7	(20.6)
Tax	(0.0)	1.2	n.m.	(1.6)	(98.5)	(2.2)	12.9	n.m.
Minority interest	0.4	0.4	8.5	0.0	>100.0	0.1	1.3	(89.0)
Net profit	4.9	17.7	(72.4)	18.8	(73.9)	50.1	79.9	(37.3)
Core net profit	4.9	21.7	(77.5)	19.2	(74.6)	52.4	81.8	(36.0)
			+/- p.pts YoY		+/- p.ptsQoQ			+/- p.pts YoY
GP margin (%)	20.3	28.6	(8.3)	24.4	(4.1)	23.8	27.2	(3.4)
EBITDA* margin (%)	9.9	19.3	(9.5)	20.1	(10.2)	15.4	20.6	(5.2)
EBIT margin (%)	4.6	13.8	(9.2)	14.6	(10.1)	10.1	14.9	(4.8)
Tax rate (%)	(0.5)	7.5	(8.0)	(7.8)	7.3	(4.3)	19.6	(23.9)

Source: Company

*3QFY23: FV loss on forward exchange contracts of MYR0.5m, 4Q22: IPO expenses of MYR4.0m; 12MFY23: FV loss on forward exchange contracts of MYR2.3m, 12M22: Redundancycosts of MYR3.9m, IPO expenses of MYR8.0m, Reallocation of tax reversal of MYR10.5m, impairment loss on PPE of MYR0.06m, claw back of government grant income of MYR0.5m

Fig 2: Whole milk powder ASP trend (USD/MT)



Source: Global Dairy Trade, Company

Fig 3: Malaysia dairy-related beverage sector peer comparison

Stock	Shr px (Local)	Mkt cap (MYRm)	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	P/B (x) CY24F	EV/EBITDA (x) CY23F	EV/EBITDA (x) CY24F	ROAE (%) CY23F	ROAE (%) CY24F	Yield (%) CY23F
Nestle Malaysia [^]	130.00	30,485	44.3	39.3	48.2	47.6	26.1	23.5	108.8	121.1	2.2
F&N Holdings	25.78	9,456	20.6	19.2	2.8	2.6	13.7	12.6	14.0	14.0	3.6
Dutch Lady Milk	25.50	1,632	37.8	20.0	3.5	3.2	11.1	10.0	17.1	10.7	2.2
Simple average			34.2	26.2	18.1	17.8	17.0	15.4	46.6	48.6	2.3

*As at 30 May 2023 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 costs could adversely affect earnings. Dairy cows are also vulnerable to disease and epidemic outbreaks that could lead to demand-supply imbalances.

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	39.0	60.2	34.9	24.1	21.1
Core P/E (x)	37.2	55.7	34.9	24.1	21.1
Core FD P/E (x)	37.2	55.8	35.0	24.1	21.2
P/BV (x)	5.0	4.4	4.2	3.7	3.3
P/NTA (x)	5.2	4.6	4.3	3.8	3.3
Net dividend yield (%)	0.7	0.4	0.7	1.0	1.2
FCF yield (%)	nm	nm	nm	1.1	1.9
EV/EBITDA (x)	31.8	32.0	21.6	16.6	14.9
EV/EBIT (x)	43.8	48.8	30.6	22.2	19.7
INCOME STATEMENT (MYR m)					
Revenue	501.9	629.7	788.1	946.5	1,082.7
EBITDA	104.1	97.1	149.0	193.8	216.3
Depreciation	(28.3)	(33.0)	(43.5)	(48.3)	(52.7)
Amortisation	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)
EBIT	75.5	63.6	105.1	145.0	163.1
Net interest income / (exp)	(9.8)	(11.5)	(16.2)	(16.6)	(16.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(1.9)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	65.7	52.2	88.8	128.4	146.5
Income tax	12.9	(2.2)	(6.5)	(9.0)	(10.3)
Minorities	1.3	0.1	0.1	0.1	0.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	79.9	50.1	82.5	119.6	136.4
Core net profit	81.8	50.1	82.5	119.6	136.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investment:	28.1	23.0	3.9	1.4	4.3
Accounts receivable	100.2	131.8	165.9	199.3	228.0
Inventory	118.8	173.7	211.4	248.8	286.0
Property, Plant & Equip (net)	339.6	413.9	463.0	507.4	547.3
Intangible assets	20.0	19.3	18.8	18.4	17.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	403.2	301.8	331.0	362.2	394.9
Total assets	1,010.0	1,063.5	1,194.1	1,337.4	1,478.3
ST interest bearing debt	52.3	92.9	92.9	92.9	92.9
Accounts payable	93.1	64.0	77.9	91.7	105.4
LT interest bearing debt	232.3	243.3	243.3	243.3	243.3
Other liabilities	21.0	27.0	27.0	27.0	27.0
Total Liabilities	399.1	427.6	441.5	455.3	469.0
Shareholders Equity	605.9	631.0	692.9	782.5	884.8
Minority Interest	5.0	4.9	4.8	4.6	4.5
Total shareholder equity	611.0	635.9	697.6	787.2	889.3
Total liabilities and equity	1,010.0	1,063.5	1,139.1	1,242.4	1,358.3
CASH FLOW (MYR m)					
Pretax profit	65.7	52.2	88.8	128.4	146.5
Depreciation & amortisation	28.6	33.5	43.9	48.8	53.1
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(15.4)	(114.0)	(57.2)	(56.9)	(52.2)
Cash taxes paid	(29.7)	(2.1)	(6.5)	(9.0)	(10.3)
Other operating cash flow	(11.0)	(1.5)	(5.2)	(6.6)	(8.0)
Cash flow from operations	49.2	(19.9)	80.5	121.3	145.9
Capex	(59.2)	(102.6)	(90.0)	(90.0)	(90.0)
Free cash flow	(10.0)	(122.5)	(9.5)	31.3	55.9
Dividends paid	0.0	(19.9)	(20.6)	(29.9)	(34.1)
Equity raised / (purchased)	292.8	0.5	0.0	0.0	0.0
Change in Debt	88.9	47.4	55.0	40.0	25.0
Other invest/financing cash flow	(340.8)	91.1	(43.9)	(43.9)	(43.9)
Effect of exch rate changes	(0.2)	(1.8)	0.0	0.0	0.0
Net cash flow	30.7	(5.1)	(19.0)	(2.5)	2.8

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.3	25.5	25.2	20.1	14.4
EBITDA growth	5.4	(6.7)	53.4	30.0	11.6
EBIT growth	(2.4)	(15.7)	65.1	38.0	12.5
Pretax growth	(2.8)	(20.6)	70.3	44.5	14.1
Reported net profit growth	120.5	(37.3)	64.7	44.9	14.1
Core net profit growth	2.2	(38.8)	64.7	44.9	14.1
Profitability ratios (%)					
EBITDA margin	20.7	15.4	18.9	20.5	20.0
EBIT margin	15.0	10.1	13.3	15.3	15.1
Pretax profit margin	13.1	8.3	11.3	13.6	13.5
Payout ratio	25.0	25.0	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	15.9	8.0	10.5	12.6	12.6
Revenue/Assets (x)	0.5	0.6	0.7	0.7	0.7
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	na	na	na	na	na
ROAA (%)	10.0	4.8	7.3	9.4	9.7
Liquidity & Efficiency					
Cash conversion cycle	91.3	117.1	142.9	145.5	147.9
Days receivable outstanding	67.8	66.3	68.0	69.5	71.0
Days inventory outstanding	110.2	109.7	118.6	120.5	121.8
Days payables outstanding	86.7	58.9	43.7	44.4	44.9
Dividend cover (x)	4.0	4.0	4.0	4.0	4.0
Current ratio (x)	3.6	3.0	3.1	3.2	3.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.7	2.9	3.2
Net gearing (%) (incl perps)	42.0	49.3	47.6	42.5	37.3
Net gearing (%) (excl. perps)	42.0	49.3	47.6	42.5	37.3
Net interest cover (x)	7.7	5.6	6.5	8.8	9.8
Debt/EBITDA (x)	2.7	3.5	2.3	1.7	1.6
Capex / revenue (%)	11.8	16.3	11.4	9.5	8.3
Net debt/ (net cash)	256.5	313.3	332.3	334.8	332.0

Source: Company; Maybank IBG Research

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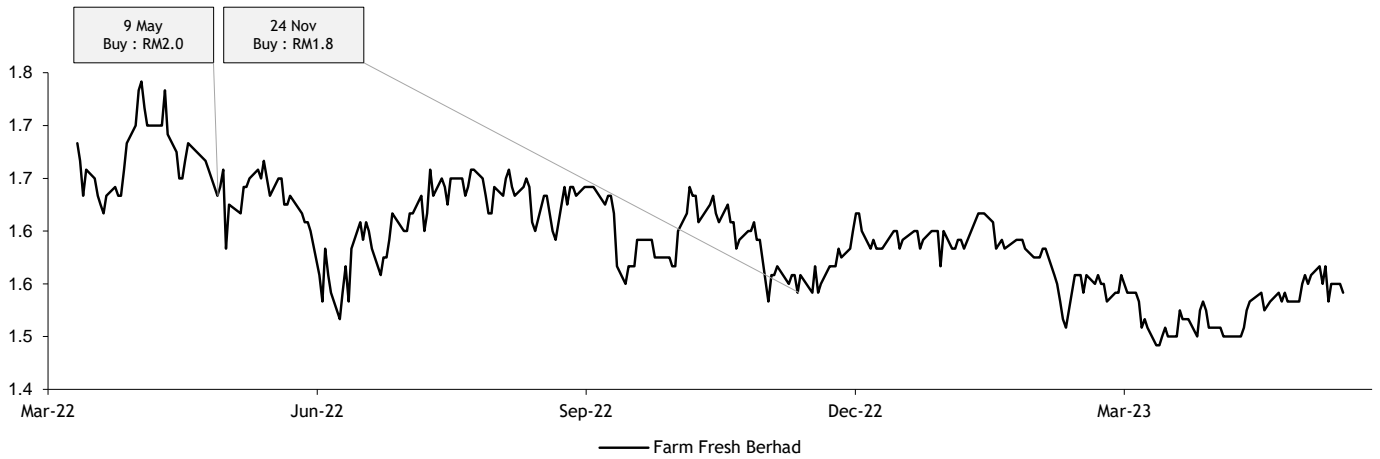
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Historical recommendations and target price: Farm Fresh Berhad (FFB MK)



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