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| | |
|-------------------------------|------------------|
| Recommendation: | Subscribe |
| IPO Price: | RM 0.24 |
| Previous Target Price: | - |
| Target Price: | RM 0.42 |
| Upside/Downside: | 75.0% |

Company Brief

Principally involved in wholesale distribution as well as retail of fresh vegetables, F&B products and other groceries

Stock Information

| | |
|------------------------|-------------------|
| Board | ACE |
| Sector | Consumer Products |
| Bursa / Bloomberg Code | 0304 / FPHB MK |
| Syariah Compliant | Yes |
| Shares issued (m) | 450.0 |
| Market Cap (RM' m) | 108.0 |
| Free float (%) | 30.0 |

Top 3 Shareholders (%)

| | |
|---------------------|------|
| Dr. Tiong Lee Chian | 37.4 |
| Liew Tsuey Er | 32.6 |

IPO Timetable

| | Date |
|----------------------------------|-----------|
| Opening of IPO application | 24/4/2024 |
| Closing of IPO application | 30/4/2024 |
| Balloting of IPO application | 3/5/2024 |
| Allotment of IPO shares | 10/5/2024 |
| Listing of IPO on Bursa Malaysia | 14/5/2024 |

Farm Price Holdings Berhad

Thriving Harvests

Summary

- **Farm Price engages in wholesale distribution and retail of fresh vegetables, F&B products and groceries, commanding approximately 0.8% market share in the fresh vegetables industry in Malaysia.**
- **We project sequential core earnings growth to be supported by (i) increasing value added services particularly towards Singapore market, (ii) ramping up workers shift from 12 to 24 hours to cater for strong demand and (iii) gradual increase in fleet size.**
- **Farm Price is valued by pegging FY25F core EPS of 3.2 sen to PE of 13.0x, leading to a FV of RM0.42 (75.0% potential upside from IPO price).**

Company Background


- Farm Price Holdings Berhad's (Farm Price) history traced back to 2001 following the incorporation of Blue-Doll Marketing Sdn Bhd that was initially engaged in the manufacturing of mannequins before the cessation of its operations due to the opportunities available in the wholesale distribution of fresh vegetable industry in 2004. In the same year, Blue-Doll Marketing Sdn Bhd changed its name to Farm Price and commenced the wholesale distribution of fresh vegetables.
- The Group marked a new milestone following the expansion of operational facilities into an industrial building located at Skudai, Johor with an area of approximately 14,000 sqf in 2009. In 2010, Setia Kawan was incorporated for the retail of fresh vegetables, F&B products and other groceries. In 2021, Farm Price completed the expansion of its operational facilities including the construction of an additional cold room facility for storage and processing of fresh vegetables by 5,406 sqf. Post expansion, Farm Price's Senai Centralised Distribution Centre has a total of 24,066 sqf of cold room facilities for storage and processing space.
- In 2022, Farm Price obtained Halal certification mainly for the wholesale distribution of prepacked and fresh-cut vegetables at Senai Centralised Distribution Centre. To-date, Farm Price engages in wholesale distribution and retail of fresh vegetables, as well as F&B products and other groceries, serving customers principally in Malaysia and Singapore.

IPO Utilisation

| Details of utilisation | Estimated time frame for utilisation | RM 'm (%) |
|---|--------------------------------------|-----------------|
| Construction of new facilities on Lot 55359 | | |
| • Operational Building | Within 24 months | RM6.4m (26.1%) |
| • Other related facilities | | |
| Purchase of machinery, equipment and logistics fleet | | |
| • Purchase of machinery and equipment | Within 24 months | RM2.0m (8.2%) |
| • Expansion of transportation fleet | | |
| Planned regional distribution and procurement centres | | |
| • Planned regional distribution centres | Within 18 months | RM1.6m (6.5%) |
| • Singapore sales and marketing office setup | | |
| Working capital | Within 6 months | RM10.6m (43.2%) |
| Estimated listing expenses | Within 3 months | RM3.9m (15.9%) |

Source: Farm Price, prospectus

Business Overview

| Business activities and revenue stream | Principal Markets | Distribution channel and customer base |
|--|--|---|
| <p>Wholesale Distribution</p> <p>Fresh Vegetables</p> <ul style="list-style-type: none"> • whole vegetables • pre-packed vegetables • fresh-cut vegetables <p>F&B products and other groceries</p> |  | <p>Indirect distribution</p> <ul style="list-style-type: none"> • Retailers (<i>supermarkets, minimarkets and grocery stores</i>) • Wholesalers • Others (<i>ship chandlers and army camp suppliers</i>) <p>Direct distribution</p> <ul style="list-style-type: none"> • Food service operators (<i>hotel and restaurants, caterers, foodcourt stalls and hawkers</i>) • Food manufacturers • End consumers |
| <p>Retail</p> <p>Fresh vegetables, F&B products and other groceries</p> | | |

Source: Farm Price, prospectus

- Farm Price engages in (i) wholesale and distribution of fresh vegetables, F&B products and other groceries as well as (ii) retail of fresh vegetables, F&B products and other groceries.
- Fresh vegetables are typically perishables and is required to be brought to market and sold within a short lead time after harvest. Farm Price plays a vital role in the fresh vegetable supply chain where the Group source fresh vegetables from domestic and foreign growers, distributors and importers to meet the fresh vegetable requirements of customers mainly in Johor and Singapore.
- The wholesale and distribution segment also supplies F&B products and other groceries to retailers including minimarkets and grocery stores. The operations are supported by its Senai Centralised Distribution Centre in Johor which comprises cold room facilities for storage, processing and packing, as well as ambient temperature storage, processing and packing space. This is further supported by an in-house fleet of 39 trucks comprising 14 refrigerated trucks for the daily transportation of fresh vegetables within Johor and Singapore, and 25 other delivery trucks. The Group also has six regional distribution centres in Peninsular Malaysia located at Tangkak, Batu Pahat, Kajang, Klang, Menglembu and Simpang Ampat.
- Over the past four financial years, the wholesale and distribution segment contributed to more than 90% of total revenue.

Wholesale and Distribution



Whole fresh vegetables
(510 SKUs)



Prepacked fresh vegetables
(320 SKUs)



Fresh-cut vegetables
(150 SKUs)



Own brands of packaged beverages
(FULL POWER Extra! & ARIOS)



Third-party brands of packaged beverages

Source: Farm Price, prospectus

Senai Centralised Distribution Centre



Source: Farm Price, prospectus

- The retail segment which makes up to less than 10% of total revenue in recent years operates under a retail store namely Mamaku which involves in selling fresh vegetables, F&B products and other groceries in Puteri Mart in Ulu Tiram, Johor.

Retail



Source: Farm Price, prospectus

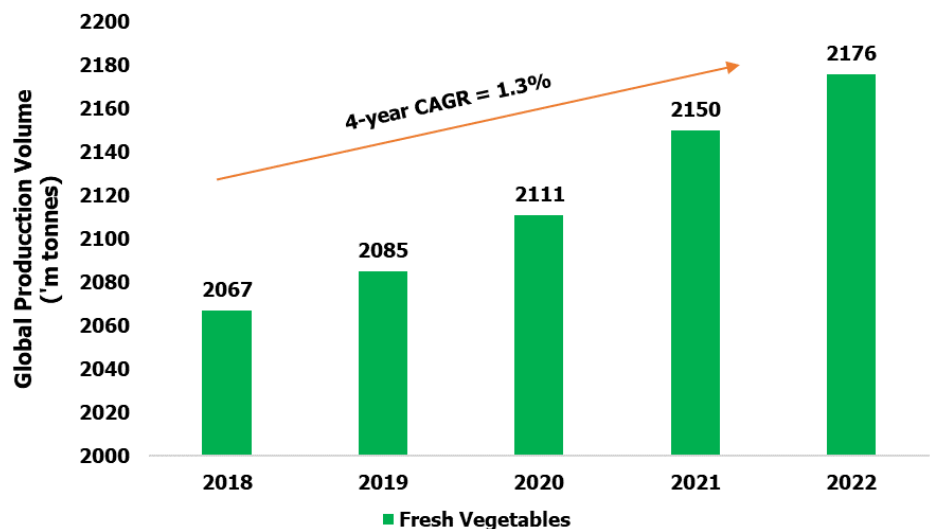
- Moving forward, Farm Price will be constructing new facilities on a parcel of land located behind existing facility to expand the centralised distribution centre. The said expansion will increase total built-up area from 78,721 sqf to 149,548 sqf, with completion tentatively in 4Q 2025 and operational commencement slated for 1Q 2026. The enlarged space will enable the cold room capacity to reach approximately 40,000 pallets/year by 2026.
- In addition to expansion of value-added processing areas and acquiring machinery within the expanded Senai Centralised Distribution Center, Farm Price aims to increase its current fleet size from 39 trucks to 55 trucks. This includes the addition of 8 refrigerated trucks and 8 ambient temperature trucks.
- Geographically, Farm Price will establish two regional distribution centres. One will be situated in Cameron Highlands, Pahang, with a cold room capacity of approximately 750 pallets/annum, while the other will be located in Nilai, Negeri Sembilan, boasting a cold room capacity of approximately 2,500 pallets/annum. Both centres are scheduled to commence operations in 4Q 2024. Furthermore, Farm Price plans to establish a sales and marketing office in Singapore to expand market reach. Revenue from the Singapore market contributed RM29.1 million (25.5%) of the total revenue in FY23. It's noteworthy that revenue from the

Singapore market has experienced exponential growth over the years, registering a three-year compound annual growth rate (CAGR) of 24.8%.

Industry Overview

- Fresh vegetables typically undergo minimal processing, such as trimming and washing, and are often chilled for preservation during transportation and storage, without the addition of extra ingredients. They are widely available in different forms and are easily accessible to consumers, manufacturers, food service operators, distributors, and retailers. Vegetables are classified based on their edible parts, with some categories overlapping, such as celery. Farm Price offers a diverse selection of vegetables, including fruit, leafy greens, bulbs, tubers, flowers, pods and seeds, roots, and stems.
- Global trade in fresh vegetables is common, with nations relying on imports to complement domestic output and provide diversity for consumers. Certain countries benefit from natural advantages such as favorable climates and abundant agricultural land, which enable them to become exporters. Despite potential cost disparities, many prioritize domestic cultivation to ensure food security, often through incentives, subsidies, and trade regulations.
- Given that imports of fresh vegetables typically surpass exports in Malaysia, availability of fresh produce is influenced by global production trends. Farm Price procures supplies from both domestic and international markets, primarily sourcing from Thailand and China to serve customers in Malaysia and Singapore. Between 2018 and 2022, global fresh vegetable production experienced a four-year CAGR of 1.3%, reaching 2.18bn tonnes in 2022.

Global production volume of fresh vegetables

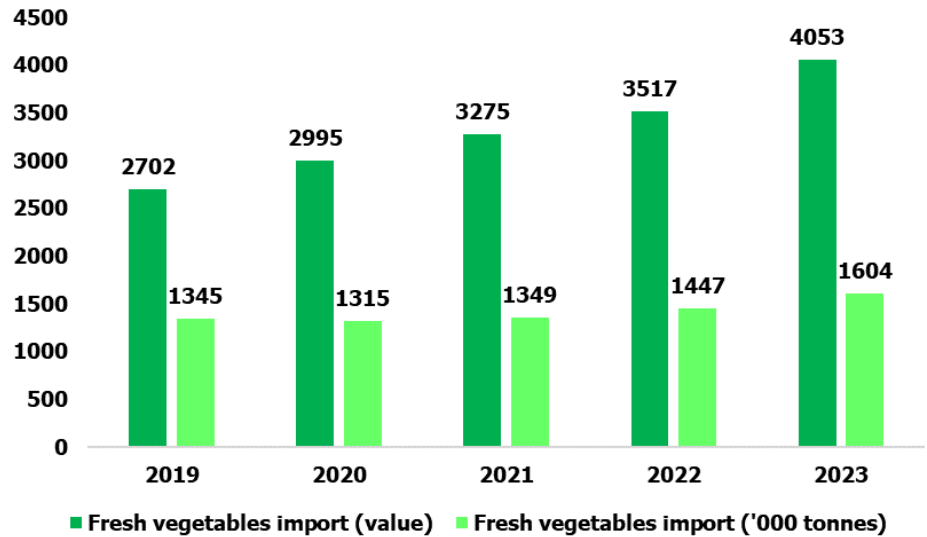


Source: Vital Factor analysis

- In 2022, fresh vegetable production volumes from Thailand and China constituted 1.7% and 35.4%, respectively, of global production. Export volumes accounted for 0.3% and 12.7%, respectively, of global exports. Malaysia was ranked as the primary export destination for Thai fresh vegetables, comprising 45.7% of Thailand's total exports. In contrast, Malaysia accounted for 11.3% of China's fresh vegetable exports.

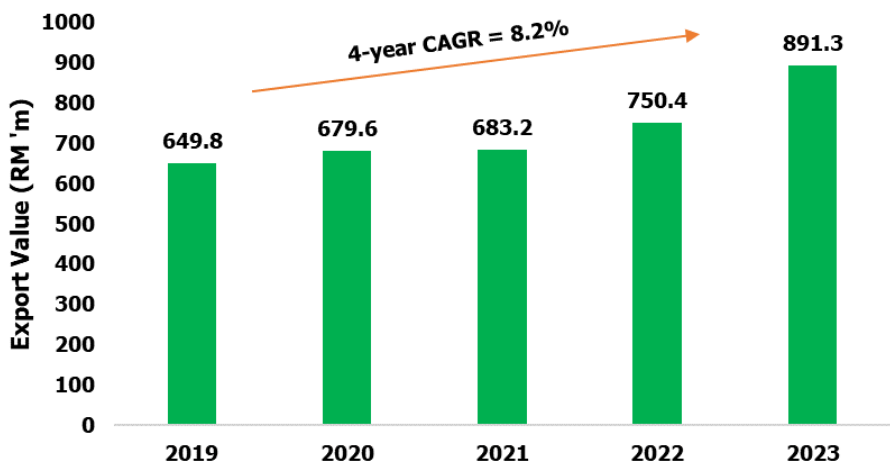
- Supply wise, Malaysia's agriculture sector contributed 7.7% to GDP in 2023, primarily from rubber, palm oil, and livestock industries, with other activities such as vegetable farming. Despite only 13.0% of agricultural land being allocated to food crops such as fresh vegetables, vegetable farming is crucial for food security. Between 2021 and 2023, the production value of fresh vegetables demonstrated a two-year CAGR of 15.3%.
- In 2023, Malaysia recorded total import value and volume of RM4.05bn and 1.6m tonnes, respectively. Fresh vegetable imports grew by 15.3% in 2023, with China, India, and Thailand emerging as the top three import sources, accounting for 64.8%, 13.7%, and 6.5% of the import value, respectively. Meanwhile, fresh vegetable exports experienced an 18.8% growth, with Singapore serving as Malaysia's major export market, representing 83.0% of the total export value.

Import value and volume of fresh vegetables



Source: Vital Factor analysis

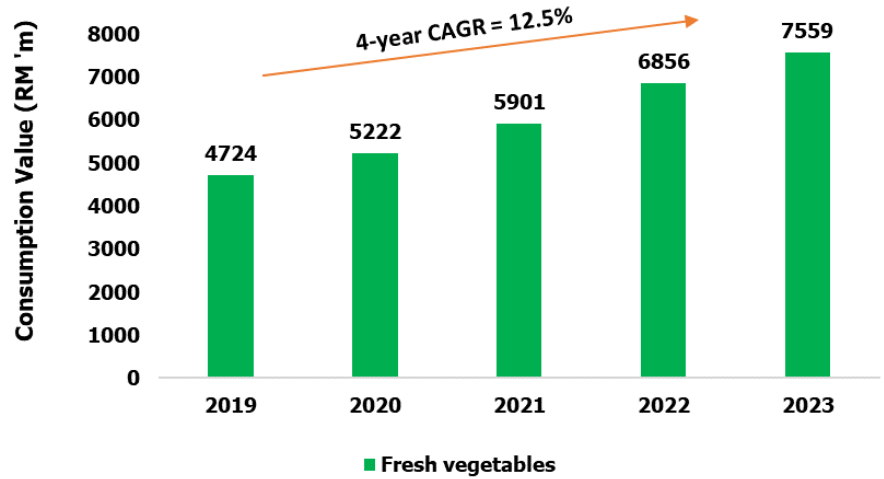
Export value of fresh vegetables



Source: Vital Factor analysis

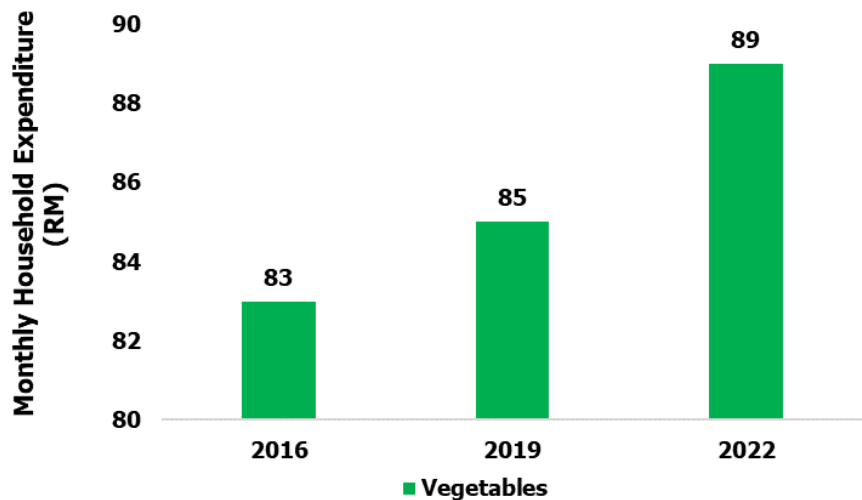
- Demand for fresh vegetables in Malaysia is reflected in both the value of locally consumed produce and the average monthly household expenditure on vegetables. In 2023, local vegetable consumption witnessed a 10.3% yoy increase, reaching RM7.56bn. According to Vital Factor analysis, the average Malaysian household monthly expenditure on vegetables increased from RM83 to RM89 for the period 2016 to 2022.

Malaysia’s consumption of fresh vegetables



Source: Vital Factor analysis

Malaysia’s monthly household expenditure on vegetables



Source: Vital Factor analysis

Investment Highlights

- **Established track record of 20 years in the wholesale distribution of fresh vegetables.** Having initially served customers in Johor before expanding coverage to Singapore in 2006 and Sarawak in 2022, Farm Price now serves a wide range of customer base between approximately 800 to 1,000 active customers in recent

years. The Group's customer base mainly comprises resellers such as supermarkets, minimarkets, grocery stores and wholesalers as well as end-user industries including food manufacturers and food service operators.

- **Variety of fresh vegetables to meet the requirements of customers with value-added services.** Presently, Farm Price operates approximately 980 stock keeping units (SKUs) of fresh vegetables to meet the diverse customer needs. The Group also provides value-added services through customised packaging and processing of fresh vegetables in bid to reduce the preparation time for customers. The abovementioned service also commands better margin.
- **Key supporting infrastructure to facilitate the distribution of fresh vegetables, F&B products and other groceries.** Ability to deliver fresh produce to our customers promptly and on a daily basis is key in retaining customer loyalty. As such, Farm Price's wholesale and distribution of fresh vegetables is supported by a cold chain infrastructure comprising 14 refrigerated trucks that provide daily deliveries customers located at Johor and Singapore as well as 24,066 sqf of cold room facilities utilised for processing and packaging. Furthermore, a fleet of 25 other delivery trucks are used for the delivery of fresh vegetables as well as F&B products and groceries.
- **Extensive network of suppliers in Malaysia and foreign countries.** Farm Price source fresh vegetables from growers of fresh produce and suppliers domestically in Malaysia as well as foreign countries. Over the years, the Group supply channel is supported by approximately 75-80 domestic suppliers and 15-20 foreign suppliers from Thailand, China, Vietnam, Indonesia and India. The diversification reduces the dependency on single source of supply in bid to minimise interruption in supply of certain types of fresh vegetables.

Financial Highlights

- Farm Price recorded consistent growth in terms of core net profit at RM9.3m in FY23 (three-year CAGR +49.9%). The said improvement was primarily attributed to the higher average selling prices for fresh vegetables, stronger demand for whole fresh vegetables increased in sales for prepacked fresh vegetables. We gathered core net margins rose from 2.8% in FY21 to a higher of 8.2% in FY23, anchored by extensive marketing efforts as well as focus onto development of sales for value-added services such as prepacked vegetables and fresh-cut vegetables.
- Moving forward, we anticipate further sequential improvement in core net profit, projected to record 26.8% yoy increase at RM11.8m in FY24F. Growth will be attributed to additions of shifts from 12 hours to 24 hours in bid to reduce delivery and storage time lead in line with the sturdy demand.
- Meanwhile, FY25F core net profit expected to grow 21.8% yoy to RM14.4m on the back of the gradual expansion of machineries and fleet size as well as additions of regional distribution centres and setup of new Singapore sales and marketing office that recorded solid improvement throughout recent years and yields better margins.

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|---------------------------|--------------|-------------|--------------|--------------|--------------|
| Revenue | 82.0 | 94.4 | 114.2 | 129.6 | 143.0 |
| EBITDA | 5.5 | 8.2 | 14.0 | 16.9 | 20.0 |
| Pre-tax Profit | 4.0 | 6.1 | 11.8 | 15.6 | 19.0 |
| Profit After Tax | 3.1 | 4.7 | 8.7 | 11.8 | 14.4 |
| Net Profit | 3.1 | 4.7 | 8.7 | 11.8 | 14.4 |
| Core Net Profit | 2.3 | 4.1 | 9.3 | 11.8 | 14.4 |
| Core EPS (sen) | 0.5 | 0.9 | 2.1 | 2.6 | 3.2 |
| Core P/E (x) | 47.3 | 26.6 | 11.6 | 9.1 | 7.5 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 2.1 | 2.5 |
| P/B (x) | 9.7 | 6.8 | 4.4 | 1.9 | 1.6 |
| ROE (%) | 20.5 | 25.6 | 37.8 | 20.9 | 20.9 |
| Gearing (%) | 167.5 | 97.5 | 52.8 | 23.0 | 18.9 |

Source: Farm Price, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.24, Farm Price's forward PE valuation for FY24F and FY25F are projected at 9.1x and 7.5x, based on our estimated core EPS of 2.6 sen and 3.2 sen respectively. We arrived at our fair value of RM0.42 (75.0% potential upside from its IPO price) by pegging a target PE of 13.0x to FY25F EPS. Our valuation is based on slight discount to Bursa Malaysia's consumer products and services sector forward P/E of 15.0x and 14.3x for FY24F and FY25F respectively, due to Farm Price's smaller market capitalisation.
- We like Farm Price for its established position in the wholesale and distribution of fresh vegetables market, commanding approximately 0.8% market share in the fresh vegetables industry in Malaysia. Future growth is expected to emanate from (i) business expansion of Senai Centralised Distribution Centre, (ii) increasing value added services particularly towards Singapore market and (iii) ramping up workers shift from 12 to 24 hours to cater for strong demand given that existing plant utilisation is already running at approximately 99.0%.
- While Farm Price does not adopt a formal dividend policy, we expect the Group to maintain a leaner balance sheet as evident in recent years (gearing level fell from 167.5% in FY21 to 52.8% in FY23). Still, we do not discount potential reward of dividend of 0.5 sen/share and 0.6/sen share in FY24F and FY25F respectively, representing below 20% pay-out from projected core net profit.

Peers Comparison

| Company | Market Group | FYE | Price (RM) | Market Cap (RM 'm) | P/E (x) | | Revenue RM 'm | Net Income RM 'm |
|--|--------------|------------|-------------|--------------------|-------------|-------------|---------------|------------------|
| | | | | | FY23 | FY24F | | |
| Farm Price Holdings Berhad | ACE | Dec | 0.24 | 108.0 | 11.6 | 9.1 | 114.2 | 9.3 |
| Supreme Consolidated Resources Berhad | LEAP | Sep | 0.645 | 77.4 | 8.4 | - | 199.6 | 9.2 |
| SBH Marine Holdings Berhad | ACE | Dec | 0.265 | 235.3 | 18.8 | 13.7 | 191.3 | 12.5 |
| MAG Holdings Berhad* | ACE | Jun | 0.185 | 306.7 | 8.9 | 9.1 | 191.1 | 12.4 |
| Avg ex-Farm Price Holdings Berhad | | | | | 12.0 | 11.4 | 194.0 | 11.4 |

Source: Farm Price, Bloomberg, Apex Securities

Investment Risk

- **Disruptions in power supply and shortage of labour.** The Group's business relies heavily onto the consistent and uninterrupted supply of electricity to ensure that the freshness of the vegetables.
- **Manpower.** Sufficient manpower ensures various activities such as loading, sorting as well as processing of fresh vegetables (manual washing, peeling, cutting, sorting and packing before delivery) remains uninterrupted.
- **Foreign exchange exposure.** More than 50.0% of total purchases of input materials over the years (FY20 till FY23) were transacted in foreign currencies mainly USD, while more than 20.0% of total revenue were derived from SGD during the aforementioned period.
- **Fluctuations in prices of fresh vegetables.** Natural causes such as weather conditions, pests and natural disasters may affect adequate supply, while changes in consumer behaviour and consumption patterns may affect a degree in fluctuation in prices of fresh vegetables.

APEX SECURITIES BERHAD – CONTACT LIST

| APEX SECURITIES BHD | DEALING TEAM | RESEARCH TEAM |
|--|---|---|
| <p>Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p> | <p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p> | <p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069)</p> |

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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