

Team Coverage

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Recommendation: **Subscribe**

IPO Price: **RM 0.28**

Previous Target Price: -

Target Price: **RM 0.34**

Upside/Downside: **21.4%**

Company Brief

Principally involved in processing and trading of frozen seafood products and provision of frozen seafood processing services

Stock Information

| | |
|------------------------|-------------------|
| Board | ACE |
| Sector | Consumer Products |
| Bursa / Bloomberg Code | 0312 / OFS MK |
| Syariah Compliant | No |
| Shares issued (m) | 210.1 |
| Market Cap (RM' m) | 58.8 |
| Free float (%) | 23.0 |

Top 3 Shareholders (%)

| | |
|---------------|------|
| Treasure Gain | 24.7 |
| Untung Besar | 16.5 |
| Sierra Mode | 6.6 |

IPO Timetable Date

| | |
|----------------------------------|-----------|
| Opening of IPO application | 12/6/2024 |
| Closing of IPO application | 20/6/2024 |
| Balloting of IPO application | 24/6/2024 |
| Allotment of IPO shares | 2/7/2024 |
| Listing of IPO on Bursa Malaysia | 4/7/2024 |

Ocean Fresh Bhd

Sustainable seafood solution player

Summary

- OFB is principally involved in the processing and trading of frozen seafood products and the provision of frozen seafood processing services.
- We like OFB with future growth to be supported by (i) rising demand for seafood products, (ii) on-going efforts to capture additional market share in the overseas market, (iii) expansion into processing and trading of dried seafood products and (iv) addition of new cold storage facility.
- We ascribe a **SUBSCRIBE** recommendation to OFB, with a fair value of **RM0.34**, premised to its attractive valuations coupled with promising growth prospects.

Company Background

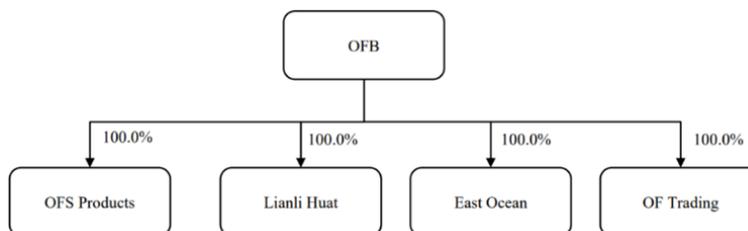
- Ocean Fresh Berhad (OFB) established as a holding company in 2002 formed through the incorporation of OFS Products (2002), Lianli Huat (2003), OF Trading (2009), and East Ocean (2017). Specialising in frozen seafood products under the "Sea Planet" brand, the Group commenced operations in Factory A and expanded with Factory B in 2003, both serving as frozen seafood processing facilities.
- The Group is primarily engaged in the processing and trading of a variety of frozen seafood products, including molluscs, fish, prawns, abalones and sea cucumbers. OFB also provides frozen seafood processing services to customers in Malaysia, Turkey, China, Thailand, Vietnam, Japan and other countries. From FY20 to FY23, the overseas market contributed c.85.0% of the Group's total revenue. OFB's revenue is generated from direct sales of these products and from offering processing services to other companies, fulfilling orders based on specific customer requirements.
- With over 22 years of industry experience, OFB has evolved into one of the leading frozen seafood processors and traders in Malaysia, commanding a 2.6% market share based on total revenue of RM159.5m recorded in FY23 against the total seafood processing industry market size of RM6.1bn. Its processing facilities comprise an annual production capacity of 18,000 tonnes, with cold storage capacity of 1,700 tonnes, positioning OFB as one of the key players in the industry.

IPO Utilisation

| Details of utilisation | Estimated time frame for utilisation | RM 'm (%) |
|---|--------------------------------------|----------------|
| Capital expenditure for a new cold storage facility | Within 24 months | RM8.0m (57.1%) |
| Working capital requirements | Within 6 months | RM2.5m (17.9%) |
| Estimated listing expenses | Immediate | RM3.5m (25.0%) |

Source: OFB, prospectus

Corporate Structure



Source: OFB, prospectus

| Company | Principal Activities |
|--------------|--|
| OFS products | Processes and trades frozen seafood products, managing the supply chain to ensure product quality and availability. |
| Lianli Huat | Processes and trades frozen seafood products. |
| East Ocean | Specialises in quality control and inspection of seafood supplies sourced from Sabah. |
| OF Trading | Sources high-quality seafood from Kuantan, conduct inspections, and maintains supplier relationships for OFS products' supply chain. |

Source: OFB, prospectus

Business Overview

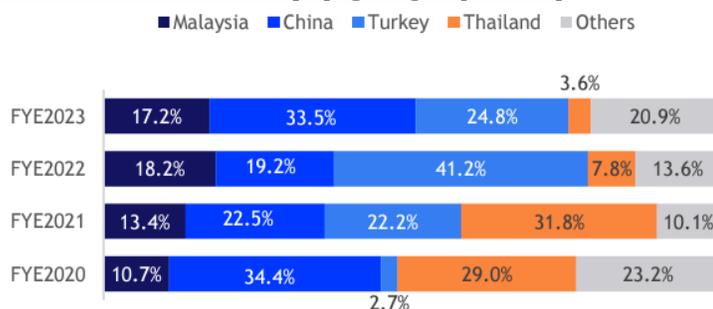
| | | |
|------------------------------|---|--|
| Principal activities |  Processing and trading of frozen seafood products |  Provision of frozen seafood processing services |
| Products and services | Frozen seafood products | Frozen seafood processing services |
| Revenue model | Sale of frozen seafood products | Service fee |
| Customer segment | Wholesalers and processing facilities ⁽¹⁾ , retailers, importers, F&B service providers and walk-in customers | Wholesalers and processing facilities ⁽¹⁾ as well as importers |
| Markets | <ul style="list-style-type: none"> • Malaysia • Turkey • China • Thailand • Vietnam • Japan • Others (including Indonesia, Philippines, Singapore, Korea, Italy, Portugal, the US and Australia) | |

Source: OFB, prospectus

- (i) OFB engages in **processing and bulk trading of frozen seafood products**, serving a diverse customer base ranging from local wholesalers to international importers and retailers. Orders are fulfilled based on specific volumes, types and specifications requested by customers. Activities encompass defrosting, cleaning, cutting, freezing using semi-contact blast freezers, glazing and packaging. Products are primarily sold under the "Sea Planet" brand, with custom branding options available upon request, ensuring product quality and presentation.
- (ii) **Provision of frozen seafood processing services** caters to the specific requirements of customers regarding the volume, type and specifications of frozen seafood products, with the seafood being supplied by the customers themselves. Packaging of the frozen seafood products is accordance to customers' requirements.

- OFB operates frozen seafood processing activities at its advanced processing facility located in Kuantan, Pahang Darul Makmur. Equipped with semi-contact blast freezers, the facility ensures seafood products are frozen to temperatures between -40°C and -42°C, preserving quality in terms of shape, colour and taste. Additionally, the Group’s cold rooms maintain product freshness prior to delivery, with an average storage duration of 36 days.
- OFB employs a comprehensive marketing, distribution and sales strategy. The in-house sales team targets both local and international wholesalers, processing facilities and retailers. The Group also acquire customers through referrals and participating in international seafood exhibitions to create market awareness and fosters business relationships. OFB leverages e-commerce marketplaces such as Shopee and Alibaba and maintains a corporate website to attract customers and showcase its products and capabilities.
- OFB’s revenue landscape demonstrates an interesting dynamic. While the absolute contribution from Malaysia has grown steadily from RM10.0m in FY20 to RM27.4m in FY23, the portion of contribution has fluctuated over the years. This suggests a potential shift in the company's geographic revenue distribution. Overseas markets remained as the largest total revenue contribution, ranging between 82.8% to 89.3% over the same period. OFB serves over 300 clients, ensuring no dependency on any single customer. The Group operates on a purchase-order basis without long-term contracts, leading to annual revenue fluctuations.

Revenue Breakdown (by geographical)



Note: Others market include Vietnam, Japan, Indonesia, Philippines, Singapore, Korea, Italy, Portugal, the US, Australia and Denmark.

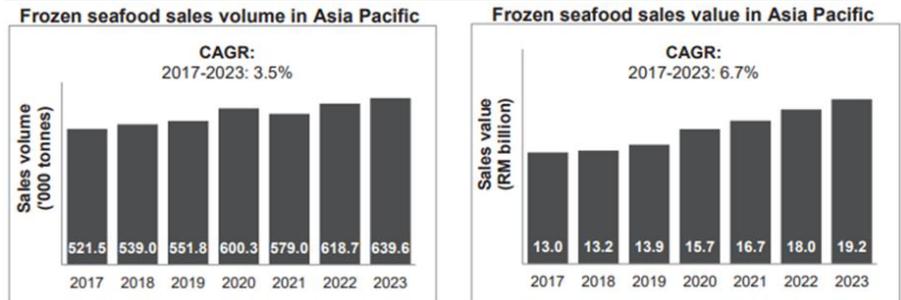
Source: Bursa Malaysia

- Moving forward, OFB plans to expand its storage capacity by constructing a new cold storage facility with a 3,000-tonne capacity. Despite production facilities operating at only 35.0% to 51.9% capacity, current cold storage utilisation has reached up to 99.9% in FY23, highlighting the urgency for additional storage to meet the increasing demand for frozen seafood products and enhance operational efficiency. The new facility covering a total flora read of 3,473m² will support OFB’s expansion into dried seafood products that requires smaller storage area and transportation costs, and enable the Group to secure orders from potential customers requiring suppliers with a minimum storage capacity. The venture into dried seafood is intended to commence by 1Q2025. Also, OFB aims to grow its exports to China, Turkey and other international markets by leveraging onto existing certifications and collaborating with local wholesalers. Investments in equipment and additional personnel will facilitate this new product line, expected to commence by 4QFY24.

Industry Overview

- From 2017 to 2023, the global frozen seafood market saw a steady increase in both retail sales volume and value. Retail sales value rose gradually, with a 6-year CAGR of 6.7% to RM19.2bn in 2023. Growth in the Asia Pacific region was notably strong, with China contributing to the bulk. China retail sales value grew at a 6-year CAGR of 7.8% to RM10.7bn in 2023, driven by growing middle class level which attributed to increase in seafood demand.

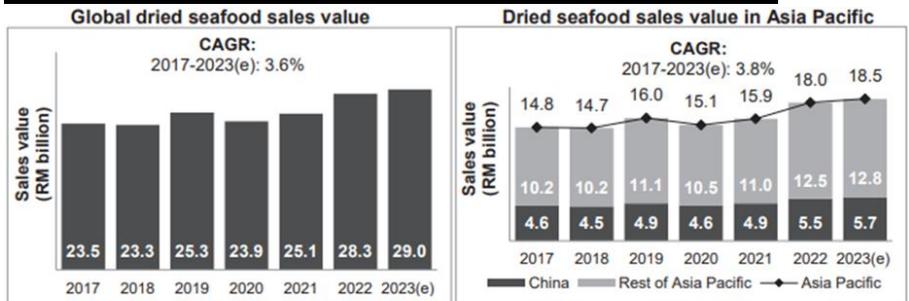
Frozen seafood sales volume and value in Asia Pacific



Source: Euromonitor International

- Over the past six years, the global dried seafood market experience steady growth, with a 6-year CAGR of 3.6% to RM29.0bn in 2023E. The Asia Pacific region recorded slightly better growth rate at a 6-year CAGR of 3.8% to RM18.5bn in 2023E, with China being the dominant contributor. China's dried seafood market grew from RM4.6bn in 2017 to an estimated RM5.7bn in 2023E, achieving a 6-year CAGR of 3.6%. By 2023E, China constituted an estimated 30.8% market share of the Asia Pacific dried seafood sales value.

Global and Asia Pacific dried seafood sales value



Note: (e) – Estimate

Source: Regional Research Reports, PROVIDENCE analysis

- The frozen seafood processing industry in Malaysia has registered significant growth, with industry revenue jumping from RM2.9bn in 2015 to RM6.1bn in 2023, at 8-year CAGR of 9.7%. The industry is projected to grow from RM6.6bn in 2024F to RM7.9bn by 2026F, at a CAGR of 9.4% on the back of rising demand that aligns with the population growth.
- Recent government initiatives aim to further develop the seafood processing industry in bid to sustain long-term food security. In July 2023, the Selangor government announced two key projects under the Sabak Bernam Development Area initiative (an integrated fish landing port in Sekinchan and a downstream tuna processing plant in Sungai Lang). These projects are expected to attract substantial

investment and create thousands of jobs, will enhance fishing capacity and seafood production, promising a brighter outlook for Malaysia's frozen seafood processing industry.

Investment Highlights

- **Advanced processing technology ensures product quality.** OFB employs advanced technology such as semi-contact blast freezers to ensure consistent quality and freshness of their products. The cold storage is able to store frozen seafood for up to 2 years at -18°C.
- **Consistent supply throughout the year.** OFB is able to maintain a reliable supply by having a diverse network of local and international suppliers, utilising farm-raised seafood that are not seasonal and storing surplus in cold storages to meet future demand.
- **Locally and internationally recognised certifications.** Quality and safety are paramount at OFB, as a testament of internationally recognised certifications such as HACCP, EU Number 75, GMP, FDA and GACC. These certifications underscore the group's commitment to meeting rigorous food safety and quality standards, enabling it to export to countries renowned for their strict regulatory frameworks, such as Italy, Spain, Korea, China, Australia and the United States. OFB's HALAL certification ensures compliance with halal processing standards and facilitating entry into international markets, notably in the Middle East.
- **Worldwide network of customers.** OFB boasts a well-established global customer base, comprising 160 local customers in Malaysia and over 170 international customers across multiple countries. This extensive network allows the Group to adapt to different market preferences and trends. It also helps mitigate risks from regional economic fluctuations. With exports accounting for approximately 85.0% of its revenue, OFB demonstrates a strategic focus on international markets, signalling opportunities for growth in current markets and potential expansion into new territories.
- **Exciting expansion plan.** OFB is proactively expanding product portfolio with dried seafood, mitigating dependence on single product lines and potentially boosting margins. The impending increase in cold storage capacity allows the Group to handle larger volumes. This is advantageous for their growing sea cucumber business, a profitable niche market with expansion potential to tap into dried sea cucumber products. Additionally, the Group's large customer base serves as a foundation for cross-selling dried seafood products.

Financial Highlights

- From FY20 to FY23, OFB's revenue from processing and trading frozen seafood products grew steadily, from RM94.1m to RM159.5m, with this core business segment accounting for over 97.0% of total revenue. Although the provision of frozen seafood processing services contributes minimally to overall revenue, it has shown a strong improvement over the past four years, rising at 3-year CAGR of 33.5% to RM3.8m in FY23.
- From FY22 to FY23, overall revenue increased marginally by 2.0% to RM159.5m, primarily driven by higher export sales. Notably sales rose in China (78.3%), the US (86.1%) and the Philippines (321.0%). During the same period, OFB'S PBT from

continuing operations increased marginally by 0.3% to RM7.0m, driven by a higher gross profit and lower selling and distribution expenses. The PAT attributable to owners of the company rose by 24.1% to RM7.0m, primarily due to lower income tax expenses, resulting in an improved PAT margin of 4.4%.

- Going into FY24F, we anticipate further sequential improvement in core net profit, projected to record 9.5% yoy increase to RM7.6m in FY24F. Growth will be anchored by the stability in average selling prices alongside with the increase in production of seafood products that is riding onto the improving demand prospects.
- Looking ahead, FY25F core net profit expected to grow further by 3.6% yoy to RM7.9m on the back of the contribution from new cold storage facility which is expected to commence operations by late 2025.

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 158.5 | 156.3 | 159.5 | 162.0 | 167.8 |
| EBITDA | 5.0 | 7.7 | 7.9 | 8.5 | 8.8 |
| Pre-tax Profit | 4.4 | 7.0 | 7.0 | 7.7 | 8.0 |
| Profit After Tax | 4.0 | 5.6 | 7.0 | 7.6 | 7.9 |
| Net Profit | 4.0 | 5.6 | 7.0 | 7.6 | 7.9 |
| Core Net Profit | 4.1 | 5.6 | 7.0 | 7.6 | 7.9 |
| Core EPS (sen) | 1.9 | 2.7 | 3.3 | 3.6 | 3.8 |
| Core P/E (x) | 14.5 | 10.5 | 8.5 | 7.7 | 7.5 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| P/B (x) | 1.9 | 1.5 | 1.3 | 0.9 | 0.8 |
| ROE (%) | 13.3 | 14.6 | 15.3 | 11.2 | 10.4 |
| Gearing (%) | 14.2 | 6.6 | 12.0 | 3.4 | 2.8 |

Source: Ocean Fresh, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.28, Ocean Fresh's forward PE valuation for FY24F and FY25F are projected at 7.7x and 7.5x, based on our estimated core EPS of 3.6 sen and 3.8 sen respectively. We arrived at our fair value of RM0.34 (21.4% potential upside from its IPO price) by pegging a target PE of 9.0x to FY25F EPS. Our valuation is based with selected peers involve in trading and procession of marine products' forward P/E of 9.7x.
- We like Ocean Fresh for its established position in the wholesale and distribution of fresh seafood products, commanding approximately 2.6% market share in the seafood processing industry in Malaysia. Future growth is expected to emanate from (i) rising demand for seafood products, (ii) on-going efforts to capture additional market share in the overseas market, (iii) expansion into processing and trading of dried seafood products and (iv) addition of new cold storage facility.
- While Ocean Fresh does not adopt a formal dividend policy, we expect the Group to maintain a lean balance sheet as evident in recent years (gearing level hovered below 20.0% threshold).

Peers Comparison

| Company | Market Group | FYE | Price (RM) | Market Cap (RM 'm) | P/E (x) | | Gross DY (%) | Revenue RM 'm | Net Income RM 'm |
|----------------------------------|--------------|------------|-------------|--------------------|-------------|------------|--------------|---------------|------------------|
| | | | | | FY23 | FY24F | | | |
| Ocean Fresh Berhad | ACE | Dec | 0.28 | 58.8 | 8.5 | 7.7 | 0.0 | 162.0 | 7.6 |
| PT Resources Berhad* | ACE | Apr | 0.585 | 313.0 | 8.6 | 5.5 | 0.0 | 554.9 | 56.6 |
| SBH Marine Holdings Berhad | ACE | Dec | 0.265 | 235.3 | 18.8 | 13.7 | 2.2 | 237.5 | 17.2 |
| MAG Holdings Berhad* | ACE | Jun | 0.180 | 299.8 | 8.7 | 9.8 | 0.0 | 191.1 | 12.4 |
| Avg ex-Ocean Fresh Berhad | | | | | 12.0 | 9.7 | 0.7 | 327.8 | 28.7 |

PT Resources Berhad & MAG Holdings Berhad FY24F based on trailing 12-months-data*

Source: Ocean Fresh, Bloomberg, Apex Securities

Key Risks

- **Product safety and quality.** Significant issues could harm OFB's business and reputation, potentially leading to product liability claims and regulatory actions.
- **Dependence on foreign workers.** OFB's reliance on foreign workers might lead to disruptions in processing operations due to foreign worker availability.
- **Foreign exchange rate fluctuations.** OFB's revenue and earnings are impacted by the fluctuations of foreign exchange rate of USD and RMB against RM. While the group uses hedging strategies to mitigate this risk, there is no guarantee of complete protection.

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) Chelsea Chew (ext 2070)</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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