



Farm Price Holdings Bhd

Distributing Green

ACE Market
Consumer Products & Services
Sector
SUBSCRIBE
IPO Price: RM0.24
Fair Value: RM0.29

Valuation / Recommendation

We have a **SUBSCRIBE** recommendation on Farm Price Holdings with a **FV of RM0.29 based on 13x FY24F EPS**, translating to 21% upside to IPO price. Our target PE of 13x is pegged to the average PE of FBM Small Cap Index, given no direct comparable listed peers.

Investment Highlights

Localised presence in Johor and Singapore. With its Senai Centralised Distribution Centre (SCDC), Farm Price predominantly serves customers in the Johor market (65% of FY23 sales) and also Singapore (25% of FY23 sales). Over the past three years, the group has managed to consistently achieve positive sales growth, with a 3-year CAGR of 15.8% over FY20-23. This represents resilient demand for fresh vegetables, despite disruptions coming from COVID-19 pandemic during the period. We believe Farm Price could grow its FY24-26 sales by 10-11% p.a., on the back of a robust domestic market and rising contribution from export sales to Singapore.

Healthy margins. Despite weaker Ringgit (>80% of its fresh vegetables are imported), Farm Price maintained healthy gross margins of 14-20% in FY20-23, thanks to inelastic demand and frequent pricing adjustments. The lower margins recorded in FY21-22 were mainly dragged by labour shortages and higher shipping costs during the COVID-19 pandemic. Since then, gross margins have rebounded considerably to 20% in FY23, underpinned by better operation efficiency and favourable supply conditions. In our view, we believe the group can sustain its gross margins at around 19%, with higher margins from Singapore sales (nearly twice the margins of domestic sales) help to mitigate potential cost increases.

Timely and crucial expansion. With the expansion at SCDC, Farm Price will eventually add new cold room space and facilities to handle up to 40k pallets annually by 2026 (from about 30k pallets currently). This expansion will be crucial to support Farm Price's future growth, as its cold room capacity was fully utilised in 2023. Notwithstanding that, we believe the group has some room to maneuver in the near term (i.e. FY24-25) by implementing various storage management measures such as 1) Running extra processing shifts and facilitating additional delivery trips to free up inventory space; or 2) Renting on-site mobile refrigerated containers.

Risk factors for Farm Price include (1) Labour shortages.; (2) Fluctuation in fresh vegetable prices; and (3) Forex risks.

FY Sep	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	94.4	114.2	126.8	139.4	155.4
EBITDA (RM m)	8.2	14.0	15.8	18.6	22.3
PAT (RM m)	4.7	8.7	10.0	11.6	14.1
PAT Margin (%)	5.0	7.6	7.9	8.3	9.1
EPS (sen)	1.4	2.5	2.2	2.6	3.1
EPS Growth (%)	52.4	83.3	15.4	15.4	21.6
BV Per Share (sen)	4.6	7.1	12.5	14.3	15.9
PE (x)	22.7	12.4	10.8	9.3	7.7
Net Gearing (x)	0.7	0.4	Cash	Cash	Cash
ROE (%)	29.9	35.2	17.9	18.0	19.7

Business Overview

Farm Price is primarily involved in the business of wholesale distribution of whole fresh vegetables, prepacked vegetables and fresh-cut vegetables to its customers. Its key markets are mainly in Johor and Singapore.

Listing Details

Listing date	14 May 2024
New shares (m)	102.0
Offer for sale (m)	33.0
Funds raised (RM m)	24.5

Post Listing

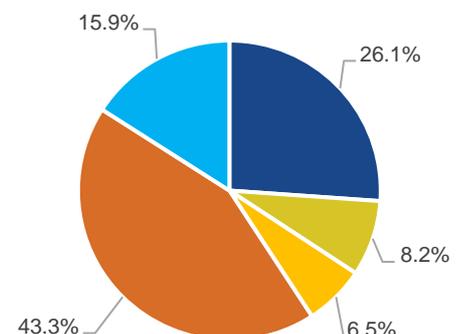
Ordinary shares (m)	450.0
Market cap (RM m)	108.0
Free float	22.7
P/E (FY24F)	10.8

Top 3 Shareholders

TLC Consolidation	60.0%
Dr. Tiong Lee Chian	7.4%
Liew Tsuey Er	2.6%

Utilisation of Proceeds

	RM m
Construction of new facilities (within 24 month)	6.4
Purchase of machinery, equipment and logistics fleet (within 24 month)	2.0
Planned regional distribution and procurement centre (within 18 month)	1.6
Working capital (within 6 month)	10.6
Estimated listing expenses (within 3 month)	3.9



Source: Company, Mercury Securities



Financial Highlights and Valuation

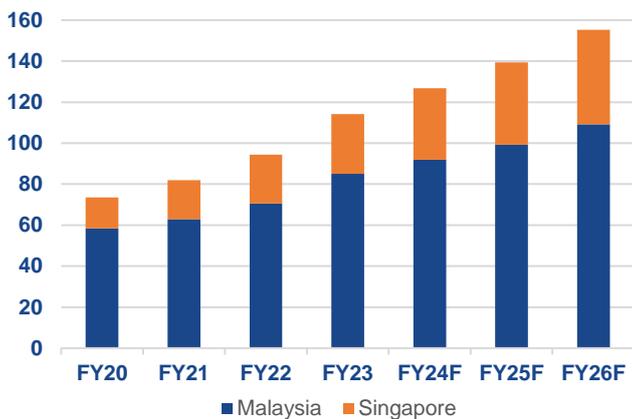
Positive growth trend. Farm Price is based in Johor, with its centralised distribution centre located in Senai. As such, the group predominantly serves customers in the Johor market (65% of FY23 sales) and Singapore (25% of FY23 sales). The remaining sales come from various states in Peninsular Malaysia and Sarawak.

Over the past three years, the group has consistently achieved positive sales growth, with a 3-year CAGR of 15.8% over FY20-23. This represents resilient demand for fresh vegetables despite disruptions from the COVID-19 pandemic during the period. Both the domestic market (still largely Johor) and the Singapore export market contributed to the robust growth. See Figure 1 below.

Healthy margins. Despite the weaker Ringgit (>80% of its fresh vegetables are imported), Farm Price maintained healthy gross margins of 14-20% in FY20-23, thanks to inelastic demand and frequent pricing adjustments for vegetables. The lower margins recorded in FY21-22 were mainly dragged by labour shortages and higher shipping costs during the COVID-19 pandemic. Since then, gross margins have rebounded considerably to 20% in FY23, underpinned by better operation efficiency and favourable supply conditions. See Figure 2 below.

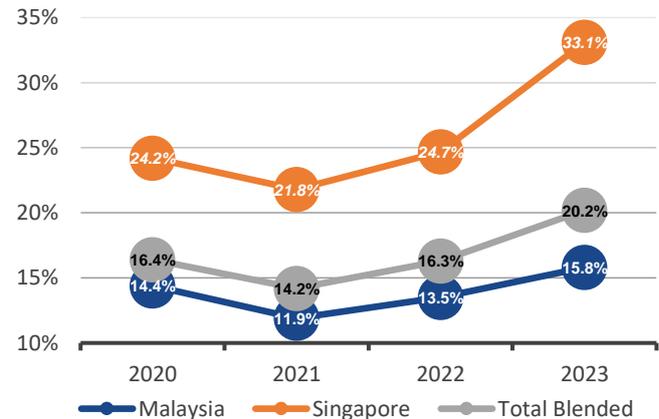
Singapore is a significant market. Despite making up just 20-25% of sales, Singapore is a substantial market for Farm Price, as its margins are nearly twice the margins earned on domestic sales. We believe this is simply due to the stronger purchasing power of the Singapore Dollar. To further grow export sales, Farm Price intends to set up a marketing office in Singapore to help facilitate the market reach of its products to potential new customers.

Figure 1: Geographical sales breakdown (in RM m)



Source: Company, Mercury Securities

Figure 2: Gross margins, by geographic



Source: Company, Mercury Securities

Facility expansion needed to support future growth. With the expansion at SCDC, Farm Price will eventually add new cold room space and facilities to handle up to 40k pallets annually by 2026 (from approximately 30k pallets currently). This expansion will be crucial to support Farm Price's future growth, as its cold room capacity was fully utilised in 2023. Notwithstanding that, we believe the group has some room to maneuver in the near term (i.e. FY24-25) by implementing various storage management measures such as 1) Running extra processing shifts and facilitating additional delivery trips to free up inventory space; or 2) Renting on-site mobile refrigerated containers.

Steady profit growth. We believe Farm Price could grow its FY24-26 sales by 10-11% p.a. on the back of a robust domestic market and rising contribution from Singapore. In our view, its gross margins can be sustained at around 19%, with higher margins from Singapore sales helping to mitigate potential cost increases. Overall, we forecast a higher net profit of RM10-14m for Farm Price over FY24-26F, up from RM8.7m in FY23.



Healthy cash flow to support dividend payout. Post IPO, Farm Price's balance sheet will be stronger, with its net gearing level turning net cash. Given the nature of its business, operating cashflow generation is expected to remain healthy, while capex spending will be funded by the IPO proceeds. As such, we forecast that Farm Price could comfortably adopt a 30-50% dividend payout in FY24-26F.

RM0.29 FV based on 13x FY14 PE. There are no direct comparable listed peers for Farm Price on Bursa Malaysia. The Agricultural Product subsector is also not representative, given that most of its constituents are mainly involved in poultry, seafood produce, or animal health services. As such, we pegged our target PE valuation to 13x, similar to the average PE of the FBM Small Cap Index. Pegging 13x PE to our FY24 EPS forecast, we derive an FV of RM0.29 for Farm Price.



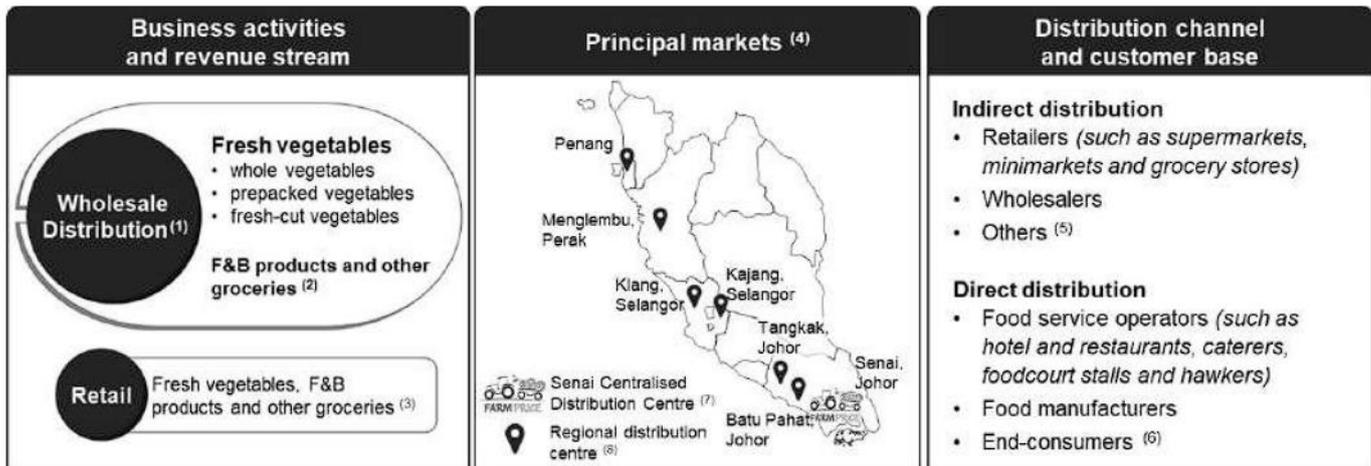
Company Background

Wholesale distributor for vegetables. Farm Price is primarily involved in the wholesale distribution of fresh vegetables (whole fresh, prepacked, and fresh-cut), with over 980 SKUs in their customer base of 800-1,000 active customers. The group also distributes F&B products, packaged beverages and other groceries to retail customers. Its key markets are mainly in Johor and Singapore, with minor contributions from Sarawak and other states in Peninsular Malaysia.

Key markets in Johor and Singapore. In 2023, Farm Price's core market is focused on Johor and Singapore, with Sarawak coming in third. Johor accounted for 65%- 72% of total sales in 2020-2023, respectively. In comparison, exports to Singapore accounted for 20-25% of total sales in the same period.

In-house wholesale distribution infrastructure. Overall, Farm Price's wholesale distribution operations consist of the Senai Centralised Distribution Centre (SCDC), six regional distribution centres, and its transportation fleets. SCDC has a total built-up area of 78,721 sqft, of which 24,066 sqft is dedicated to cold room facilities for storage, processing and packing. The group's regional distribution centres are in Perak, Selangor, Johor, and Penang. Farm Price's distribution network is supported by its transportation fleet, which consists of 39 trucks - 14 refrigerated trucks and 25 delivery trucks.

Figure 3: Business Overview



Source: Company

Husband and wife duo. Farm Price commenced its wholesale distribution business in 2004, led by Dr Tiong Lee Chian and his partner, Mr Liew Chew Lan. Subsequently, Ms Liew Tsuey Er (also Dr Tiong's spouse) took over her father's shares in the same year. Dr Tiong Lee Chian was instrumental in developing the group's international network of suppliers and customers in the early years. Currently, Dr Tiong oversees the overall business and strategic direction of the group, while Ms Liew Tsuey Er is responsible for daily operations, including sourcing/procurement from domestic and overseas suppliers.

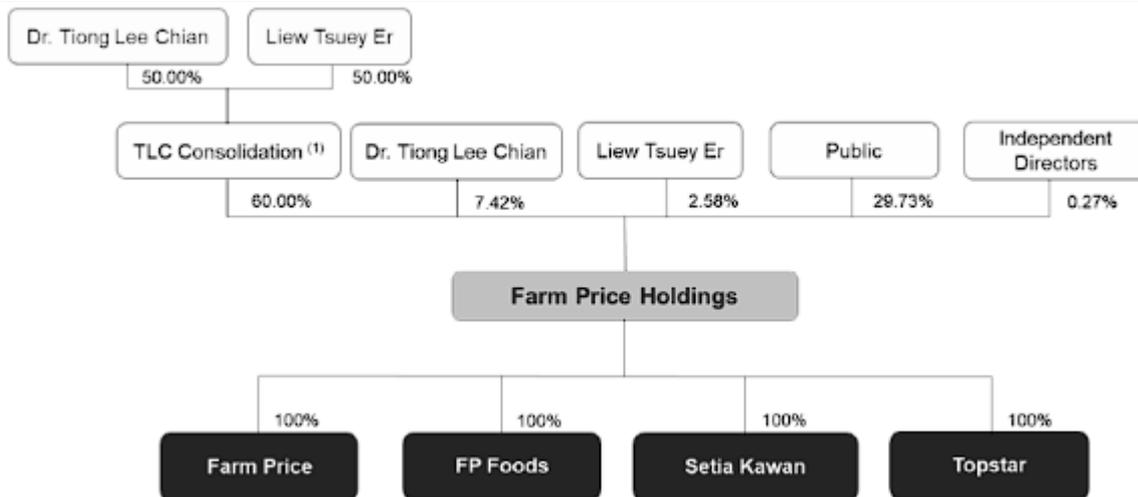


Figure 4: Key Management Team

Name and Designation	Age	Profile
Dr. Tiong Lee Chian Managing Director MD	49	<ul style="list-style-type: none"> Responsible for overall business and strategic direction, growth and development of the Group. Also responsible for sales in Singapore. Masters of Science in Facilities Management at the University of Greenwich, UK. Holds DBA by United Business Institutes Brussels, Belgium.
Liew Tsuey Er Executive Director	49	<ul style="list-style-type: none"> Responsible for the Group's daily operation, overseeing sourcing and procurement from domestic and overseas suppliers. Assists with sales in Singapore. Holds Master of Science in Facilities Management from the University of Greenwich, UK.
Lim Thin Chee Sales Manager	53	<ul style="list-style-type: none"> Oversaw the Group's sales in Malaysia. Contributed to the expansion and growth of the Group's local customer base. 14 years of relevant experience.
Ho Chek Keong Logistics, Operation and Warehouse Manager	43	<ul style="list-style-type: none"> Oversees logistics, operation activities, and inventory at the Senai Centralised Distribution Centre. 8 years of relevant experience.

Source: Company

Figure 5: Group Structure Post Listing



Source: Company, Mercury Securities



Future Plans & Business Strategies

New expansion of Senai Centralised Distribution Centre. Farm Price acquired the land behind SCDC in February 2023, nearly doubling the total combined land size from 78k sqft to 149k sqft. A planned expansion will include a two-story office and additional operating space, boosting cold room annual capacity from about 30k pallets to 40k pallets (+33%) by 2026. The estimated construction cost for new expansion is RM18.3m, funded by RM11.9m internally-generated funds and RM6.4m from IPO proceeds. Additionally, RM0.5m has been earmarked to renovate the old SCDC processing area, which would provide about 4k sqft of additional floor space.

Setting up additional regional distribution centres. Currently, Farm Price operates six regional distribution centres for wholesale F&B distribution in Peninsular Malaysia. The group plans to add two more - one in Nilai, Negeri Sembilan, and one in Cameron Highlands, Penang. The Nilai centre (starting in 4Q24) covers 6,355 sqft and would be able to handle 2,500 pallets annually. This will assist Farm Price in expanding its reach in central Peninsular Malaysia. Meanwhile, the new distribution centre in Cameron Highlands will serve as a procurement centre for fresh vegetables, and operations will begin by 4Q24. RM1.2m from IPO proceeds will be utilised for these expansions.

Purchase of new machinery and equipment. Farm Price has allocated RM2.8m for new machinery—three automated packing machines, three peeling machines, four cutting machines, and one vacuum precooling equipment. These purchases will upgrade both new and old facilities to boost workflow efficiency.

Expansion of transportation fleet. As part of the group's plan to improve its existing distribution infrastructure, the group plans to expand its existing transportation fleet (from 39 to 55 trucks). The group intends to purchase 16 additional trucks (8 refrigerated and eight ambient-temperature trucks), estimated to cost RM3.0m.

Figure 6: Expansion of Senai Centralised Distribution Centre (SCDC)



Source: Company

Figure 7: Farm Price's machinery and transportation fleet expansion

Expansion of Senai Centralised Distribution Centre (Cont'd)



2. Expansion of Value-added Processing Areas



- Additional floor space of **~4,000 sqft.** at existing Senai Centralised Distribution Centre.
- For the expansion of value-added products including prepacked and fresh-cut vegetables.

3. Purchase of Machinery and Equipment For Processing Operations



- x3 Automated packing machines
- x3 Peeling machines
- x4 Cutting machines
- x1 Vacuum precooling equipment

- To cater for the anticipated increase in customers' orders.
- To reduce manual labour for processing operations.

4. Expansion of Transportation Fleet



Current fleet size
39 Trucks

+ 8 refrigerated trucks
+ 8 ambient temperature trucks

New fleet size
55 Trucks



Source: Company

Figure 8: Location of regional distribution centres and future new expansion

Expansion of Regional Distribution and Procurement Centres



1. Set-up Additional Regional Distribution Centres With Cold Room Facilities

Cameron Highlands, Pahang



- To enhance supply chain and wholesale distribution of fresh vegetables sourced from Cameron Highlands.
- To expand geographical coverage for wholesale of F&B products and other groceries.
- Cold room capacity in Cameron Highlands: **~750 pallets/year.**
- Expected commencement of operations: Q4 2024.

Nilai, Negeri Sembilan



- To expand geographical coverage for the wholesale distribution of fresh vegetables, F&B products and other groceries.
- Cold room capacity in Nilai: **~2,500 pallets/year.**
- Expected commencement of operations: Q4 2024.

2. Set-up Sales and Marketing Office In Singapore



- To expand market reach and to better serve existing customers.

Private & Confidential

Existing regional distribution centres

21

Source: Company



Key Risks

Operational risks and labour shortage. Due to the nature of Farm Price's business model, the group needs to ensure the freshness of the vegetables from the time they receive the produce up to the time they deliver it to their customers. Any power shortage or operation disruption may severely impact the business's operations, which relies on manual labour to carry out various activities. As of March 2024, Farm Price employs 120 staff in SCDC, of which 91 are contract foreign workers.

Risk of fluctuations in the price of fresh vegetables. Farm Price's core product is vegetables, which are perishables, of which prices are very dependent on supply and demand conditions, the quality of fresh vegetables, and weather conditions. The group generally revise the pricing of their vegetables on a daily or periodic basis, which allows the group to pass on any of the price increases to its customers. However, in cases where it is not possible to pass on the price costs, then the group may be exposed to such risks.

Risk of changes in economics and politics. The group operates in Malaysia and Singapore; therefore, any policy changes between the two countries would impact the group's trade operations.

Exposure to foreign currency fluctuations. In FY23, 58% of Farm Price's total purchases of input materials were transacted in foreign currencies, mainly USD. On the other hand, 25% of the group's FY23 sales were transacted in SGD. As such, any fluctuation in foreign exchange currencies could adversely impact the group's operations and financial performance.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<u>Retail Offering</u>				
Eligible Persons	-	11.25	11.25	2.5
Malaysian Public	-	22.50	22.50	5.0
<u>Institutional Offering</u>				
Selected investors	33.0	68.25	101.25	22.5
Total	33.0	102.0	135.0	30.0

Source: Company



Disclaimer & Disclosure of Conflict of Interest

The information in this report is based on data obtained from data, and sources believed to be reliable at the time of issue of this report. However, the data and sources have not been independently verified, and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the information or opinions in this report.

This report may contain forward-looking statements, which are often but not always identified by the use of words such as “believe”, “estimate”, “intend”, and “expect”, and statements that an event or result “may”, “will” or “might” occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to Mercury Securities Sdn Bhd. (“Mercury Securities”) and are subject to known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievement to be materially different from any future results, performance, or achievement expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements, and recipients of this report should not place undue reliance on any such forward-looking statements. Mercury Securities expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after this publication or to reflect the occurrence of unanticipated events.

Accordingly, neither Mercury Securities nor any of its holding companies, related companies, directors, employees, agents and/or associates nor person connected to it accept any liability whatsoever for any direct, indirect, or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Mercury Securities has no obligation to update its opinion or the information in this report.

This report does not have regard to the specific investment objectives, financial situation and particular needs of any specific person. Accordingly, investors are advised to make their own independent evaluation of the information contained in this report and seek advice from, amongst others, tax, accounting, financial planner, legal or other business professionals regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you. This report is not intended, and should not under no circumstances be considered as an offer to sell or a solicitation of any offer or a solicitation or expression of views to influence any one to buy or sell the securities referred to herein or any related financial instruments.

Mercury Securities and its holding company, related companies, directors, employees, agents, associates and/or person connected with it may, from time to time, hold any positions in the securities and/or capital market products (including but not limited to shares, warrants and/or derivatives), trade or otherwise effect transactions for its own account or the account of its customers or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment, share margin facility or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests and should exercise their own judgement before making any investment decisions.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Mercury Securities. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted, or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Mercury Securities takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Mercury Securities own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Mercury Securities' website shall be at your own risk.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.



Recommendation Rating

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

Published & Printed By:

MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my