



Ocean Fresh Bhd

Certified Fresh

ACE Market
Consumer Product & Service Sector
SUBSCRIBE
IPO Price: RM0.28
Fair Value: RM0.54

Valuation / Recommendation

We have a **SUBSCRIBE** recommendation on Ocean Fresh Berhad (OFB) with **RM0.52 FV based on 8x FY25F EPS**, translating to a 91% potential upside to the IPO price. Our target PE is at 20% discount to comparable peers' average, considering OFB's smaller market capitalisation.

Investment Highlights

Better margins despite flattish revenue. OFB primarily specialises in the processing and trading of frozen seafood products. The company has a strong focus on overseas markets (>80% of sales), exporting to countries such as China, Turkey, and Vietnam. Its revenue has remained flattish over the past three years (at around RM156m-159m) mainly due to maxed-out cold room storage at its Kuantan HQ (1,700-tonne capacity). The company has been renting third-party cold room facilities in Klang Valley for additional storage (up to 400 tonnes), but this isn't sustainable in the long run due to the extra logistics costs. Despite the flattish revenue, OFB was still able to improve its operating margins over these years, largely thanks to the higher ASP realised for its frozen seafood products as well as the stronger USD.

Normalised FY24F earnings. While FY24F revenue is likely to remain flat (due to storage constraints), we expect OFB earnings to normalise to RM9.8m (+41% y-o-y) in the absence of several major one-off items that dragged the previous year's earnings. To be prudent, OFB has previously provided for larger bad debt write-offs and net impairment losses of its receivables in FY23 (even though collections have been decent, with 80% outstanding collected as of May 2024). The company has also incurred sizeable one-off professional fees in 2023 to prepare for its IPO listing.

New cold room facility to drive FY25-26F growth. OFB plans to use funds from its IPO (RM8m) and bank borrowings (RM3.6m) to build a new 3,000-tonne cold room facility in Kuantan. The expanded storage capacity will allow OFB to fulfil more customer orders and store additional seasonal seafood supplies. The new cold room facility is expected to be completed within 12 months, enabling increased frozen seafood production from 2H25 onwards. We project frozen seafood processed by OFB to increase to 11,500 tonnes in FY25F and 14,500 tonnes in FY26F, contributing to higher sales of RM213m-268m. Overall, we anticipate earnings to grow by 28%-44% y-o-y to RM14.1m and RM18.1m in FY25F-26F respectively.

Risk factors for OFB include (1) Product quality risks, (2) Risk of availability of seafood supplies, (3) Foreign labour risks, and (4) Exposure to forex risks.

FY Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	156.3	159.5	166.5	212.8	268.3
EBITDA (RM m)	7.7	7.9	12.5	17.9	22.6
PAT (RM m)	5.6	7.0	9.8	14.1	18.1
PAT Margin (%)	3.6	4.4	5.9	6.6	6.7
EPS (sen)	3.5	4.3	4.7	6.7	8.6
EPS Growth (%)	38.9	24.5	7.3	43.6	28.4
BV Per Share (sen)	24.0	28.3	31.5	36.2	42.2
PE (x)	10.5	8.5	6.0	4.2	3.3
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	14.5	15.3	14.8	18.5	20.4

Business Overview

Ocean Fresh Berhad specializes in processing and trading of frozen seafood products. The company also offers processing services for frozen seafood. Their customer base includes both Malaysian and international markets, with exports to Turkey, China, Thailand, Vietnam, Japan and the United States.

Listing Details

Listing date	4 July 2024
New shares (m)	50.1
Offer for sale (m)	-
Funds raised (RM m)	14.0

Post Listing

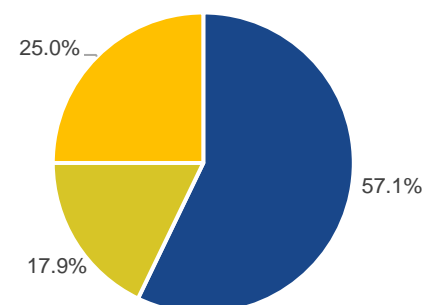
Ordinary shares (m)	210.4
Market cap (RM m)	52.4
Free float	23.8
P/E (FY24F)	6.0

Top 3 Shareholders

Treasure Gain	24.7%
Untung Besar	16.5%
Sierra Mode	6.6%

Utilisation of Proceeds

	RM m
Capital expenditure for a new cold storage facility	8.0
Working capital requirements	2.5
Estimated listing expense	3.5



Source: Company, Mercury Securities



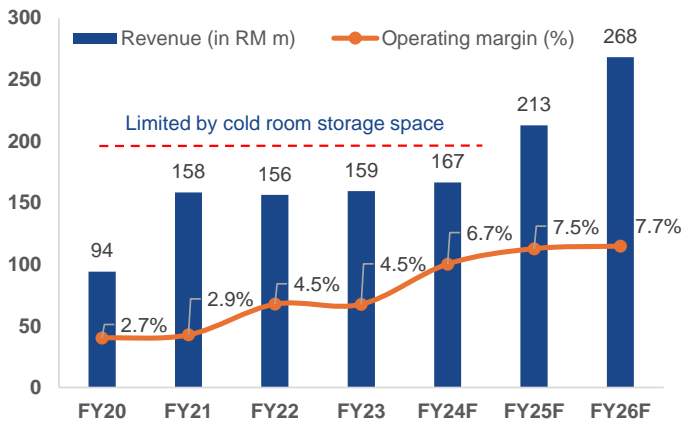
Financial Highlights and Valuation

Flattish revenue... OFB's revenue has been rather flattish over the past three financial years at RM156-159m. The key reason behind this is that the storage space of its cold room facilities in Kuantan HQ (1,700-tonne capacity) was consistently maxed out, hence limiting how much frozen seafood the company can process at a given time. The company has rented third-party cold room facilities (in Klang Valley) to store up to 400 tonnes of processed seafood, but this is clearly not enough nor feasible for the long run given the extra logistics cost involved.

OFB can process up to 18,000 tonnes of frozen seafood annually, assuming two eight-hour shifts per day. However, due to cold room storage constraints, the company currently operates only one eight-hour shift per day. In the past three years, OFB's annual frozen seafood production has varied from 6,300 tonnes to 9,300 tonnes respectively.

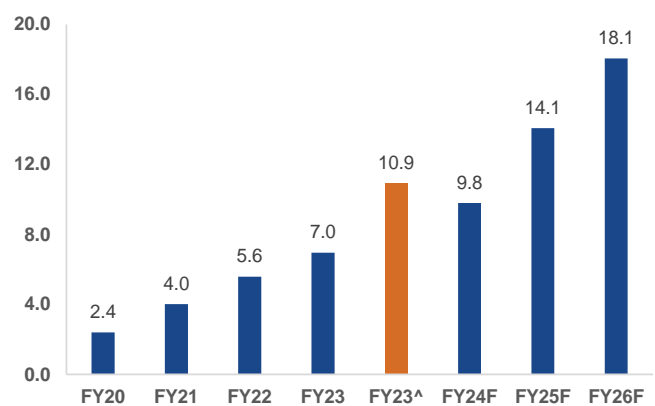
...but margins have been improving. Despite the flattish revenue trend, OFB has managed to improve its operating margins over the years. This was largely thanks to the higher ASP realised for its frozen seafood products, as the company penetrated new customers, especially in China and Turkey over the past two years. OFB has also benefited from the stronger USD, given that its export sales (~83% of revenue) are predominantly denominated in USD.

Figure 1: OFB's revenue & operating margins trend



Source: Company, Mercury Securities

Figure 2: OFB's earnings forecast (in RM m)



[^]adjusted for one-off exceptional items

Source: Company, Mercury Securities

Strong earnings growth in FY25F-26F with new cold room facility. OFB intends to use RM8m from its IPO proceeds and RM3.6m from bank borrowings to build a new 3,000-tonne cold room facility adjacent to its processing facilities in Kuantan. With the increased storage capacity, OFB will be able to fulfil more customer orders and store additional seasonal seafood supplies. We believe this will drive better revenue and earnings growth for OFB from FY25F onwards, helped further by cost-savings from using its own in-house cold room facilities.

While FY24F revenue is likely to remain flat (due to the bottleneck), we expect earnings to normalise to RM9.8m in the absence of several major one-off items that dragged the previous year's results down (see Figure 3 below). To be prudent, OFB has provided for larger bad debt write-offs and net impairment losses of its receivables in FY23 (even though collections have been decent, with 80% outstanding collected as of May 2024). The company has also incurred one-off professional fees in 2023 to prepare for its IPO listing.

We expect the new cold room facility to be completed within 12 months, enabling OFB to ramp up its frozen seafood production from 2H25 onwards. Conservatively, we assume frozen seafood processed will increase to 11,500 tonnes and 14,500 tonnes in 2025 and 2026, respectively, helping OFB achieve higher sales of RM213m-268m. Coupled with slightly better margins, we expect FY25F-26F earnings to grow by 28%-44% to RM14.1m and RM18.1m respectively.



Figure 3: Adjustment of exceptional items for FY23 earnings

	RM m
FY23 PAT	7.0
- Bad debts written off	1.8
- Net impairment loss	1.3
- Professional fees	1.7
- Overprovision of tax in prior years	(0.9)
Adjusted FY23 PAT	10.9
Realised forex gain	1.0

Healthy balance sheet. OFB has a healthy balance sheet with net cash position. The company does not plan to adopt a formal dividend payout policy. Nevertheless, we forecast a modest 30% payout ratio, taking into account that OFB might need additional working capital to support higher production and sales levels from FY25F onwards.

RM0.54 FV based on 8x FY25F EPS. We peg a target PE valuation of 8x for OFB, which is at a 20% discount to comparable peers' average given its smaller market capitalisation.

Peer Comparison – Trailing 12-month basis (as of 18 June 2024)

Company	Bloomberg Ticker	Share price (RM)	Mkt Cap (RM m)	Earnings Growth (%)	P/E (x)	P/B (x)	ROE (%)	Net yield (%)
PT Resources	PTRB MK	0.59	313.0	74.5	7.6	1.8	32.0	2.2
MAG Holdings	MAGH MK	0.18	299.8	47.0	9.1	0.4	4.1	0.6
SBH Marine	SBH MK	0.27	235.3	4.0	14.2	2.1	15.0	n/a
Simple Average				41.8	10.3	1.4	17.0	1.4
Ocean Fresh		0.28	58.8	40.9	6.0	0.9	14.8	5.0

Source: Bloomberg, Mercury Securities



Company Background



Key business segment. Established in 2002, Ocean Fresh Berhad (OFB) primarily deals in the business of processing and trading frozen seafood products (97-98% of FY20-23 sales) while also providing processing of frozen seafood services (1-3% of FY20-23 sales). These processing services are typically performed on an ad-hoc basis, hence their smaller revenue contribution. The company operates from its HQ and 2 processing facilities in Kuantan, Pahang.

Frozen seafood products. OFB's primary revenue driver is its processing and trading of frozen seafood product segment, which includes molluscs, fishes, and other seafood types. The company has experienced strong demand for its mollusc products, particularly from customers in Turkey and China, where there has been consistent growth in demand from FY20 to FY23. The products are sold under the "Sea Planet" brand using various distribution channels such as the group's in-house sales team, referrals, exhibition participation, e-commerce, social media and their website.

Strong growth in overseas markets. OFB has a strong focus on overseas exports, which represent 83% of FY23 sales. The group's biggest exports in FY23 are Turkey and China, representing 25% and 34% of the group's sales, respectively, with Vietnam coming in third at 7%. The group targets both domestic and international wholesalers, retailers, and processing facilities, including in prominent regions like China, Turkey, Thailand, Vietnam, Japan, and the US.

OFB also proactively acquires new customers in case of unexpected tough market conditions (shortage of fish supply and weather conditions) given the nature of the business (customers' demand varies year-to-year). As of October 2023, the group has amassed a network of over 160 local customers and over 170 overseas customers across the globe.

Figure 4: OFB's 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: Company, Mercury Securities



Strong accreditation for exports. OFB holds multiple certificates that ensure compliance with various local and international standards for seafood production and export. These certificates include

- HACCP for food safety
- EU Number 75 for export to the European Union
- HALAL certification for compliance with Islamic law
- GMP for good manufacturing practices
- MeSTI for food safety and quality
- GACC for exporting frozen seafood products to China
- Registration with the FDA for exports to the United States.

These certifications help Ocean Fresh Berhad maintain high-quality standards, ensure product safety, and expand its market reach internationally. Compliance with these certifications involves rigorous inspection, monitoring, and adherence to specific guidelines, ensuring consistent quality and safety of their seafood products.

Figure 5: Key Management Team

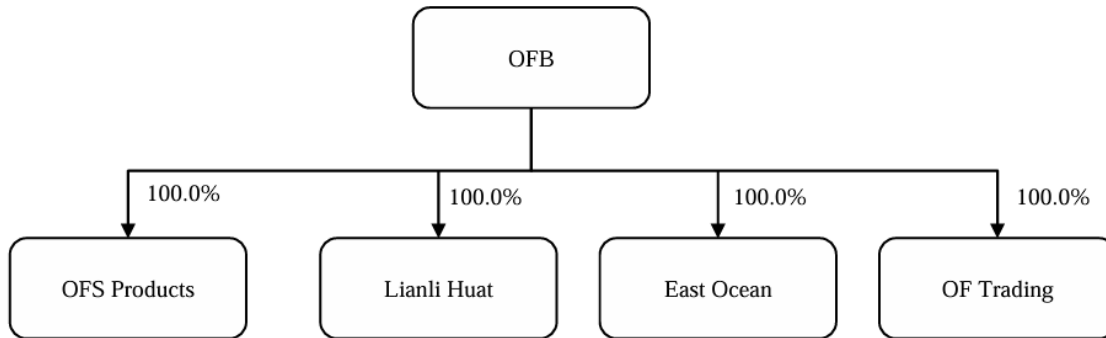
Name and Designation	Age	Profile
Siang Hai Yong Executive Director	61	<ul style="list-style-type: none"> • Appointed in 2002, was in charge of supply chain management. • Took over in 2013 to oversee the Group's strategic planning, development and overall business operations. • Co-founded OF Trading (May 2009) & East Ocean (June 2013) • Experienced in the fishery business since 1995
Kee Wan Chum Executive Director Head of Operations	38	<ul style="list-style-type: none"> • Responsible for Group's daily business operating activities and managing employees to ensure smooth operation of business. • Also responsible for identifying new business opportunities, handling procurement of supplies and developing new systems to improve operational efficiency. • Bachelor of Engineering in Process and Food, UPM.
Teo Chee Han Executive Director	32	<ul style="list-style-type: none"> • Responsible for managing the Group's international business development activities and corporate affairs. • Role involves expanding the company's market reach and securing new business opportunities on a global scale.
Kan Swee Koh Executive Director	47	<ul style="list-style-type: none"> • Responsible in the Group's overall human resources and administrative functions. • Completed her LCCI Group Diploma Studies in Accounting. • Began her career in various administrative and accounting roles before joining OFS Products in 2002 as an Account Executive., becoming Finance Manager in 2008, Assistant General Manager in 2011, and General Manager in 2023.

Source: Company

Leading the way. Leading Ocean Fresh Berhad's senior management team is Siang Hai Yong, who has been a pivotal figure in the company's strategic planning and business operations since its inception. He is supported by Kee Wan Chum, who oversees the group's daily business operations and is responsible for identifying new business opportunities. The team also includes key executives such as Teo Chee Han, an expert in international business development, and Kan Swee Koh, who manages the group's administrative and human resources functions.



Figure 6: Group Structure Post Listing



Source: Company, Mercury Securities

Future Plans & Business Strategies

Expansion of storage capacity. OFB plans to set up a new cold storage facility to accommodate business growth. Currently, OFB stores frozen seafood in its cold rooms, which have reached a utilisation rate of up to 99%. Due to insufficient space, third-party cold rooms were used, holding up to 400 tonnes at times. The new facility, to be built on PSFD Land 1, will include six new cold rooms and a loading bay, with a total storage capacity of 3,000 tonnes and a built-up area of 3,747 m². This will close to triple its total storage capacity from 1,700 to 4,700 tonnes.

Growth of exports to international markets, especially China. OFB is expanding its frozen seafood exports, particularly targeting China, a key market due to its high seafood consumption rates. Already exporting to countries like Turkey, Thailand, and Japan, OFB plans to leverage its GACC certificate to boost sales through local wholesalers. In 2023, China imported USD18.7bn in seafood, with per capita consumption between 16.2 kg and 40.3 kg, far above the Asia Pacific average of 23.5 kg. Notably, China imported 4.1m metric tons of seafood in 2022, including 2.1 MMT of frozen fish. This demand, driven by consumers in cities like Beijing and Shanghai, offers OFB significant growth opportunities.

Venture into dried seafood products. OFB plans to diversify into the processing and trading of dried seafood products, which have lower storage and transportation costs compared to frozen products. The company has received inquiries from potential and existing customers, especially in China, for products like dried fish, sea cucumber, shrimp, and scallops. OFB is currently producing samples using the sun-drying method to gauge demand and feedback. The necessary equipment for this venture, costing approximately RM0.5m, will be acquired by 2Q24, with dried seafood processing activities expected to commence by 4Q24, following certification updates and regulatory approvals.



Key Risks

Product safety and quality risks. The business relies heavily on stringent QA/QC procedures to ensure product safety and quality. However, risks such as employee negligence, unsuitable water or ice quality, and technical malfunctions like machinery breakdowns or temperature control failures could lead to product deterioration or contamination, harming the business and reputation, and potentially leading to product liability claims and regulatory actions.

Risk of availability of seafood supplies. OFB's operations rely on sourcing seafood from local fisheries and wholesalers, both domestically and internationally. Fishing is highly seasonal and influenced by factors such as weather and stock levels, leading to potential shortages of certain wild-caught seafood throughout the year. Insufficient supply of high-demand seafood can impact the company's financial performance.

Foreign labours. OFB relies on foreign workers for various manual processing activities, making up 61.5% of the total production workforce. While local part-time workers supplement this workforce, future restrictions on hiring foreign workers could increase costs, extend hiring times, and impede expansion plans, affecting the company's growth prospects.

Exposure to foreign exchange rate risk. A portion of the group's overseas revenue and purchases is denominated in USD and RMB, exposing OFB to currency exchange risk due to fluctuations in the USD and RMB exchange rates against the RM.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<u>Retail Offering</u>				
Malaysian Public (Bumiputera)	-	5.3	5.3	2.5
Malaysian Public (Non-Bumiputera)	-	5.3	5.3	2.5
Eligible Parties	-	1.7	1.7	0.8
<u>Institutional Offering</u>				
Selected investors	-	37.8	37.8	18.0
<u>Total</u>	-	50.1	50.1	23.8

Source: Company



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