

MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

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FARM FRESH'S INITIAL PUBLIC OFFERING

READ THE PROSPECTUS

FARM Fresh Bhd was started by two Perakians — Loi Tuan Ee and Loi Tuan Kin — with 60 Holstein Jersey cows at a little farm in Johor 13 years ago.

It has now emerged as a leading dairy producer in Malaysia. The company owns five dairy farms in Malaysia and one in Australia, with a total herd size of about 9,960 bulls and dairy cows. That is a great accomplishment.

What is even more commendable is that the company is going for an initial public offering (IPO) to raise about RM1 billion. This would be the largest IPO in Malaysia since June last year. It would involve an offer for sale of up to 520.2 million of shares and a public issue of 223 million new shares.

As usual, investors, especially would-be minority shareholders, need to consider some salient points regarding the IPO.

Firstly, Farm Fresh is in the untapped fresh milk market, with a strong presence in the chilled ready-to-drink (RTD) milk and ambient RTD milk segments.

It is also one of the largest and fastest growing dairy producers in Malaysia. From 2015 to 2020, its market share in the chilled and ambient RTD milk category has grown from 3.0 per cent to 15 per cent, and to 18 per cent as of Sept 30, 2021.

On top of this, it is the only integrated dairy company in Malaysia that produces RTD fresh milk (both chilled and ambient), edible yoghurt and yo-

ghurt drinks without using re-constituted or recombined milk or milk from powder sources.

So, in that sense, Farm Fresh is seen to have a niche in the consumer food market. They have managed to differentiate themselves.

Farm Fresh's IPO price is set at the lower of the retail price of RM1.35 or the institutional price. Upon listing, the company will have a market capitalisation of RM2.5 billion.

The group will be valued at 69 times its financial year 2021 profit of RM36.2 million and 36 times its adjusted net profit of RM69 million. The difference is due to a one-off tax expense that is not part of its core earnings.

Since it is a one-off expense, it is not expected to recur regularly.

Investors should have a view on the reasonableness of these valuation figures. They must compare these figures with that of their competitors. The reading of the prospectus will provide immense information to formulate such views.

At the very least, one should read the executive summary.

There will be 30 cornerstone investors taking up shares in the IPO — a record of sorts. These cornerstone investors will be taking up 80 per cent of the institutional offering tranche.

On another note, sovereign wealth fund Khazanah Nasional Bhd has stayed invested in Farm Fresh since 2011 with a 30 per cent stake.

Upon listing, Khazanah's stake

is expected to be diluted to 11.8 per cent, assuming the over-allotment option is fully exercised.

In a way, Khazanah can also be viewed as a cornerstone investor — that makes 31.

Participation from cornerstone investors tend to exude confidence to the market by inference.

The thinking by other potential shareholders will be along the following lines, "if so many cornerstone investors already want a piece of the action, including some mega reputable names, surely they must see some value in the investment".

But cornerstone investors are not guarantees per se. Ultimately, pricing and stock valuation are among the more important factors in determining an IPO's success.

When it comes to skin in the game, Tuan Ee, who currently holds 70 per cent stake, is estimated to hold 43.65 per cent post-IPO.

The founder's holding of such a substantial stake will provide confidence to other potential investors. The entrepreneurial spirit it is seen as being alive and well in leading Farm Fresh to greater heights.

Farm Fresh does not intend to rest on its laurels. Its current markets are Malaysia, Australia, Singapore and Brunei. It plans to expand its presence in markets abroad such as Hong Kong, Indonesia and the Philippines.

Nevertheless, do take note that growth outside of Malaysia may

not necessarily be smooth sailing as there are plenty of competitors as well.

The IPO proceeds from its public issue would be used to further expand its production capacity and to set up a new manufacturing hub, dairy farm and processing facility in Malaysia as well as in Australia. This is money expected to be well spent to spur the growth of the company in the longer term.

Alas, there are always the risk factors. Potential investors should take note of the key risks that may impact the company's brand and reputation such as negative publicity/perception of its brand/products.

Failure to maintain the quality and milk yield may also adversely affect its business. The risk factors that are more temporary and cyclical in nature include pandemics of infectious diseases, labour shortages, fluctuations in feed prices and logistics cost — as the transportation of fresh milk requires special arrangements.

Besides, fresh milk has a short shelf life.

Lastly, there will already be analysts' reports outlining the merits and challenges of Farm Fresh as an IPO investment. There will also be a "subscribe" or otherwise recommendation along with a target price.

And finally, to repeat — read the prospectus.

The writer is chief executive officer of Minority Shareholders Watch Group

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