

24 June 2025

Global Economics & Market Strategy

Market Perform on Farm Fresh (AA-IS)

- ◆ Fairly priced sukuk given the issuer solid credit metrics
- ◆ Healthy market share in domestic dairy industry
- ◆ The SST base expansion is not expected to have any significant first-order impact on the issuer

Global Economics & Market Strategy

RHB FIC Strategy

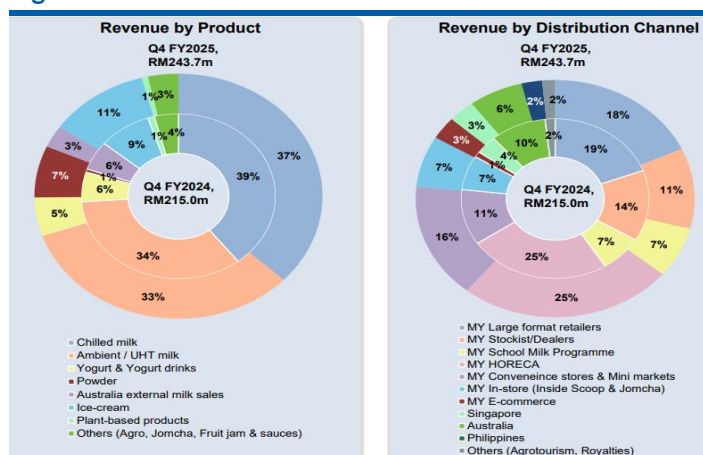
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- ◆ **We are Market Perform on Farm Fresh Berhad (AA-IS).** We think that its Islamic Medium-term Notes (IMTN) paper is fairly priced and offer attractive relative value as well as decent liquidity. Farm Fresh has a solid metrics and commendable earnings performance which we view as positive for the company. Hence, we think that it warrants the paper yields to stand one-notch above its AA3-bond benchmark.
- ◆ **Farm Fresh's business prognosis remains favourable.** Revenue increased 21% YoY to MYR981mn in FY25 (March 2025). This was driven by increased sales of milk, milk powder products, and CPG ice cream, along with new revenue streams from Inside Scoop and Sin Wah following recent stake acquisitions in both companies. Net profit also stood higher during the period at MYR106mn on the back of increased sales of high-margin products, lower costs for dairy raw materials, and smaller losses from its Australian operations. FY25 D/E ratio remains healthy at 0.59x while other credit metrics remain robust as well. According to rating agency, MARC Ratings, the company has primarily used its IPO proceeds to finance expansion and still retains around MYR110.3mn, offering sufficient liquidity for future growth without needing to take on more debt.
- ◆ **We opine that Farm Fresh's products will not see significant first-order negative by the recent SST broadening tax plan.** Farm Fresh products among others include, chilled milk, yogurt, milk powder, raw milk and ice cream (Figure 1). The diversification is part of the company's plan to expand beyond milk offerings. Farm Fresh has also expanded into the hotel, restaurant, and café (HORECA) via chilled milk segment.
- ◆ **Farm Fresh has a healthy market share in domestic dairy industry.** The domestic chilled ready-to-drink segment stood at 60.0% as at December 2024. The company has been listed in Bursa Malaysia since March 2022 with key investors include Khazanah Nasional Berhad. According to MARC Ratings, Farm Fresh's raw milk capacity to stand around 35 million litres in FY25, driven by an increase in its herd to 12,903 cattle (March 2024: 11,852). The company plans to expand its Muadzam Shah farm by 500 acres, adding 3,000 cattle and boosting milk production by 7 million litres, with completion expected in 2026. A new ice cream plant in Bandar Enstek is set to open in late 2025 to meet rising demand.

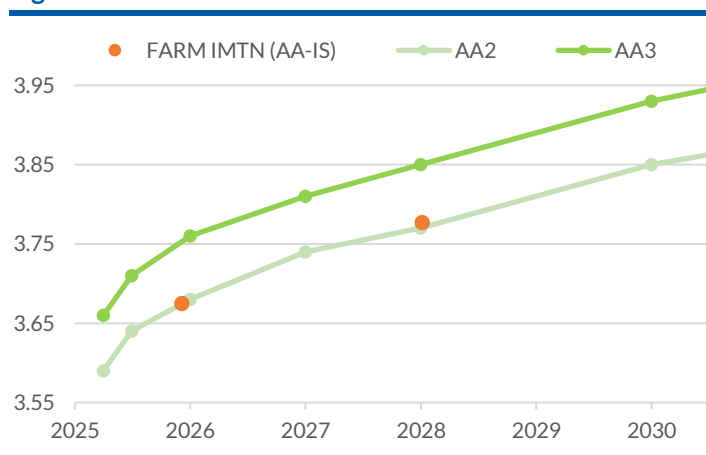
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Figure 1: Farm Fresh revenue breakdown



Source: Farm Fresh, RHB Economics & Market Strategy

Figure 2: Farm Fresh's IMTN YTM



Source: BPAM, RHB Economics & Market Strategy

Note: The AA-IS rating by MARC Ratings is equivalent to AA3 rating

Financial Highlights

FARM FRESH BHD

MYRmn (FYE Mar)	FY21	FY22	FY23	FY24	FY25
Revenue	490	502	630	810	981
EBITDA	77	76	64	85	132
Interest Expense	10	11	11	16	18
Net Income	36	80	50	64	106
CFO	53	41	-32	120	140
FCF	-37	-325	-175	-11	9
Capex	-90	-365	-143	-131	-131
Cash in Bank	12	28	179	158	123
Total Debt	249	291	347	431	427
Total Asset	622	1,010	1,063	1,280	1,348
Total Equity	241	611	636	693	728
Net Margin	7%	16%	8%	8%	11%
ROE*	15%	13%	8%	9%	15%
Debt/Equity	1.03	0.48	0.55	0.62	0.59
Net Debt/Equity	0.98	0.43	0.26	0.39	0.42
CFO/Interest expense (x)	5.3	3.7	-2.7	7.5	7.9
EBITDA/Interest expense (x)	7.7	6.8	5.6	5.3	7.5
CFO/Debt Service (x) ***	1.5	1.0	-0.7	2.0	2.3
EBITDA/Debt Service (x) ***	2.2	1.9	1.4	1.4	2.2

* Non-annual income statement and cash flow items are annualized

** Debt service is interest expense plus 10% of total debt

Source: Bloomberg, RHB Economics and Market Strategy

24 June 2025

RHB Credit Strategy Rating Definitions

Recommendation	Time Horizon	Definition
Outperform	6 to 12 months	A corporate bond's expected relative performance versus a reference (i.e. AA3 curve or sector peers)
Market perform	6 to 12 months	
Underperform	6 to 12 months	
Speculative	Indefinitely	The bond's repayment ability is highly uncertain
Not Rated (NR)	Indefinitely	Not under coverage

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