

## Ocean Fresh Bhd

### Netting Bigger Catches in the International Markets

- **Growing exports of frozen seafood products to international markets.**
- **Venturing into the processing and trading of dried seafood products.**
- **Expanding cold storage capabilities to cater to increasing demand.**
- **We expect the core net profit to grow at 14.9% and 8.0% to RM9.5m & RM10.2m, respectively for FY24-25f, underpinned by the higher sales from the expansion of the overseas market, with better procurement margins from suppliers as production scale improves.**
- **We derived a fair value of RM0.51 for OFB, upside of 82.1% against IPO price of RM0.28. The fair value is derived by pegging a P/E of 10.4x to the FY25f EPS of 4.9 sen. We believe a forward P/E of 10.4x is justified as it is in line with the average P/E of selected peers.**

### Investment Highlights

**Growing exports of frozen seafood products to international markets.** From FY20 to FY23, Ocean Fresh Berhad's (OFB) revenue from international markets grew from RM84m to RM132m (+57.1%). Currently, OFB exports to China through importers. Going forward, OFB plans to collaborate with local wholesalers with the relevant import licenses to tap into their extensive network of customers. OFB hopes to secure the appointment of a wholesaler in China by 3QFY24, and strives to continue growing its exports to existing international markets such as Turkey to increase revenue.

**Venturing into the processing and trading of dried seafood products.** As of LPD, OFB's revenues are solely generated from frozen seafood products. OFB plans to capture the demand for dried seafood on top of existing frozen seafood offerings as dried seafood requires lower production and distributions costs. Assuming the successful rollout of the dried seafood products by tapping along the existing customer networks, we expect it to provide meaningful topline and bottom line to OFB going forward.

**Expanding cold storage capabilities to cater to increasing demand.** OFB plans to utilise a part of the IPO proceeds to set up a new cold storage facility. The current cold storage facility can only house up to 1,700 tonnes and the new facility will increase the maximum capacity to 4,700 tonnes. The increase in cold storage capabilities allows OFB to store more products which maintains the freshness of products, as well as to preserve product availability during low harvest seasons, to ensure earnings stability.

### Company Background

OFB commenced operations in 2002, processing and trading frozen seafood products with an annual production capacity of 9,000 tonnes. Currently, OFB has expanded its capacity to cater to 18,000 tonnes of frozen seafood products and a cold room storage capacity of 1,700 tonnes. OFB has obtained numerous certifications HACCP and GMP, HALAL from JAKIM etc.

#### IPO Note

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#### Non-Rated

Share price	RM0.28
Target price	RM0.51
Previous TP	-
Capital upside	82.1%
Dividend return	-
Total return	82.1%

#### Company profile

Principally involved in processing and trading of frozen seafood products, as well as the provision of frozen seafood processing services

#### Stock information

Bursa Code	0312
Bloomberg ticker	OFS MK
Listing market	ACE
Share issued (m)	210.1
Market Cap (m)	58.8
Shariah compliant	Yes

#### Major shareholders

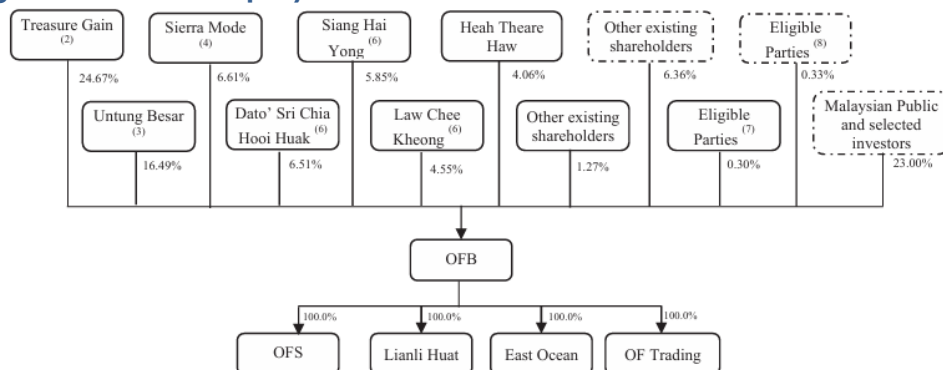
	%
Treasure Gain	24.7
Untung Besar	16.5
Sierra Mode	6.6

#### Earnings snapshot

FYE (Sep)	FY23	FY24f	FY25f
PATMI (m)	8.2	9.5	10.2
EPS (sen)	3.3	4.0	4.6
P/E (x)	7.1	6.2	5.8



**Fig #1 Post-IPO company structure**



Source: OFB

**Fig #2 Utilisation of Proceeds**

Utilisation of Proceeds	RM 'm	%	Estimated time frame for utilisation
Capital expenditure for a new cold storage facility	8.00	57.09	Within 24 months
Working capital requirements	2.51	17.94	Within 24 months
Estimated listing expenses	3.50	24.97	Immediate
<b>Total</b>	<b>14.01</b>	<b>100.00</b>	

Source: OFB

## Business Segments

### 1. Processing and trading of frozen seafood products (97.6% of Revenue)

OFB processes and trades frozen seafood products in bulk. The frozen seafood products such as molluscs, fishes and others are purchased from wholesalers and fishing enterprises. After purchasing the products, they are then processed through methods such as defrosting, cleaning and cutting, freezing using semi-contact blast freezers, glazing and packaging. After the processing, the products are packaged and labelled with OFB's "Sea Planet" brand unless the customers have other specifications and requirements. OFB earns a margin from the sale of the products and mainly serve customers such as retailers, wholesalers, F&B service providers, as well as walk-in customers.

### 2. Provision of frozen seafood processing services (2.4% of Revenue)

OFB also provides frozen seafood processing services. The seafood supply is procured by the customers, where OFB only processes and packages it. OFB charges a service fee to customers.





**Fig #3 Examples of seafood products**



Source: OFB

**Fig #4 OFB's business overview summary**

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

Source: OFB

## Financials

In FY23, OFB's core PATMI increased **+46.4% YoY to RM8.2m** despite a smaller topline improvement to RM159.5m (+2.0% YoY). The revenue increase is mainly due to the higher ASP of frozen seafood products with the relatively unchanged cost of sales which led OFB to enjoy better profit margins.

For FY24f, we project the topline to see further improvement to **RM175.2m (+9.8% YoY)**, supported by the planned expansion into overseas exports. Meanwhile, we expect core net profit to grow to RM9.5m (+14.9%) & RM10.2m (+8.0%) for FY24-25f, in line with the potentially higher sales from the expansion of exports to the overseas market, assuming better procurement margins from suppliers as production scale improves.



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## Fig #5 Financial Highlights

FYE Dec (RM'm)	FY21	FY22	FY23	FY24f	FY25f
Revenue	158.5	156.3	159.5	175.2	192.5
EBITDA	5.2	7.7	9.2	13.4	14.7
EBIT	4.7	7.0	8.5	12.7	13.8
PBT	4.5	7.0	8.3	12.5	13.5
PAT	4.2	5.6	8.2	9.5	10.2
PATMI - Core	4.2	5.6	8.2	9.5	10.2
% change YoY - Core PATI	69.8	33.8	48.2	14.9	8.0
Core EPS (sen)	2.0	2.6	3.9	4.5	4.9
P/E (x)	14.2	10.6	7.1	6.2	5.8
EV/EBITDA (x)	5.7	3.9	3.2	2.2	2.0
BVPS (RM/share)	0.1	0.18	0.22	0.45	0.50
P/B (x)	1.9	1.5	1.3	0.6	0.6
ROE (%)	14.9%	16.1%	19.7%	13.6%	10.3%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Prospectus, M+ Research

## Valuations

**We derived a fair value of RM0.51 for OFB.** Our fair value of RM0.51 (upside of 82.1% against IPO price of RM0.28) is derived by pegging a P/E of 10.4x to the FY25f EPS of 4.9 sen. We believe a forward P/E of 10.4x is justified as it is in line with the average current P/E of selected peers.

## Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	P/E (x)
<b>Ocean Fresh Bhd</b>	<b>ACE</b>	<b>Dec</b>	<b>0.280</b>	<b>58.8</b>	<b>6.2*</b>
PT Resources Holdings Bhd	ACE	Nov	0.575	307.6	7.5
SBH Marine Holdings Bhd	ACE	Nov	0.270	239.8	14.5
Mag Holdings Bhd	ACE	Jun	0.180	300.2	9.1
<b>Avg ex-OFB</b>					<b>10.4</b>

\*FYE24f

## Investment risks

**Exposed to foreign exchange fluctuations.** OFB has suppliers which are transacted in USD & RMB, and OFB may be unable to pass on increased costs to its customers, therefore a weakening ringgit may affect profit margins.

**Strong competition from other industry players.** The frozen seafood products industry in Malaysia is competitive and fragmented with a large number of industry players. The barrier of entry of the industry is low and if OFB is unable to adapt to industry demand they may lose market share to the competitors.

**Any issue with product safety and quality.** If OFB's product safety and quality are compromised, it will cause OFB to receive liability and regulatory claims, as well as damage OFB's branding and recognition

**Dependent on Key senior management.** Discontinuation of service of the key senior management may disrupt key decision making within OFB's business operations.



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As of **Thursday, 20 Jun, 2024**, the analyst(s), **Chiang Fong Kai**, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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## Stock recommendation guide

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<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
<b>TRADING SELL</b>	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
<b>NOT RATED</b>	No recommendation is assigned

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