

Farmers' Best Mate

CROPMATE BERHAD

Fair Value: RM0.23 (+15%)

Company Description

Cropmate Berhad ("Cropmate") is principally an investment holding company and through its Subsidiary, the Group is principally involved in the formulation and blending of conventional and specialty fertilisers as well as trading of straight fertilisers and related products. Cropmate market and sell its products using brands of "Cropmate-Dua Daun" and "Cropmate-Kincir Angin", and sub-brand "CM Miracle".

Investment Highlight

- Government policies and initiatives boost agriculture industry:** In 2019, the government enforced a cap on the total oil palm cultivated area in Malaysia to 6.5 million ("mn") hectares ("ha") by 2023, aimed at enhancing the sustainability of the oil palm industry. Under Budget 2024, a total of RM2.6 billion ("bn") was allocated for various subsidies and incentives for farmers and fishermen. RM50mn was allocated to supply 50,000 farmers with bioorganic fertilisers to increase soil fertility. Under Budget 2025, a total of RM2.8bn was allocated for various subsidies and incentives for farmers and fishermen.
- Strategic market coverage:** Cropmate is operating in Malaysia as one of world's major palm oil producers. This gives the Group significant advantage to market its conventional fertilisers – in line with the ongoing demand for fertiliser from palm oil industry. In addition, strong demand from China as the world biggest consumer for fresh durian boosts the demand for its specialty fertilisers from local farmers.
- All-In-One product range:** The Group caters various stages of plant development from nursery stage up to maturity stage to meet customers' requirement. Cropmate has 18 and 14 standard formulations of conventional and specialty fertilisers specifically for nutrient requirements of the plant covering nursery, flowering and maturity stages. It also offers customised formulation based on customers' requirements for the specific stages of plant development.
- Long-term large customer base:** The Group serves customers from diversified sectors including end-users of fertilisers, mainly plantation and orchard owners, fertiliser manufacturers as well as intermediaries namely traders. These enables Cropmate to widen its market reach to a larger long-term user.
- Brand loyalty and market visibility:** The Group markets and sells its products using the Group own brands "Cropmate-Dua Daun" and "Cropmate-Kincir Angin", and sub-brand "CM Miracle". The products received good feedback from durian orchards owner since 2018.

Valuation / Recommendation

We derive a fair value of RM0.23 based on 14.3x multiple to its FYE2025F EPS of 1.65sen. The initial public offering ("IPO") aims to raise approximately RM42mn from the issuance of 210.00mn new shares. A total of 40.80% of proceeds will be utilised for working capital, 47.30% is allocated for capital expenditure, while the remaining 11.9% of it will be utilised for listing expenses.

Cropmate has solid capability to repay its current liabilities, given its healthy current ratio of 2.63x, i.e. above 1x (as of FYE2023). As the gearing ratio is low below 1x at 0.89x, this implies healthy funding ability. Looking forward, we expect to see a long-term sustainable growth for the Group.

IPO TIMELINE

Opening Date	15 Nov 2024
Closing Date	22 Nov 2024
Listing Date	5 Dec 2024

IPO Price (RM)	0.20
Expected Return	15%
Market/ Sector	Agricultural
Bursa Code	0331

IPO Details

Offer for Sale	50.00	Shares(mn)
Public Issue	51.66	
Enlarged share	738.00	

Market Cap	147.60	RM(mn)
Shariah compliant	Yes	

Substantial Shareholders

	Shares(mn)	(%)
Scarecrow Holding	215.10	29.10
Tan Hwong Kuen	95.60	13.00
Lim Young Piau	95.60	13.00

Utilisation of IPO Proceeds

	RM(mn)	(%)
Working capital	17.14	40.80
To part finance the purchase considerations of Factory Lot 8949 and Factory Lot 8950	16.70	39.75
Capital expenditure	3.17	7.55
Estimated listing expenses	5.00	11.90
Total	42.00	100.00

Allocation

	Shares(mn)	(%)
<u>Public Issue</u>		
Malaysian Public via balloting process:		
• Public investors	18.45	2.50
• Bumiputera public investors	18.45	2.50
Eligible Directors	2.00	0.27
Eligible employees	5.48	0.74
Persons who have contributed to the success of Group	7.29	0.99
Subtotal	51.66	7.00

Offer for sale

Bumiputera investors approved by the MITI	50.00	6.78
Subtotal	50.00	6.78
Total	101.66	13.78

Total enlarged share capital upon listing 738.00

Source: Company Prospectus

Key Financial Summary

FYE Jun (RMmn)	2022A	2023A	2024F	2025F	2026F
Revenue	188.30	151.55	166.00	183.65	204.59
Gross Profit	33.74	27.61	30.24	33.46	37.27
Pre-tax Profit	19.27	13.38	14.66	16.22	18.07
Core Net Profit	14.62	10.05	11.01	12.18	13.57
Core EPS (Sen)	1.98	1.36	1.49	1.65	1.84
P/E (x)	10.10	14.68	13.40	12.11	10.87
DPS (Sen)	0.00	0.54	0.54	0.50	0.55
Dividend Yield (%)	0.00	2.71	2.71	2.48	2.76

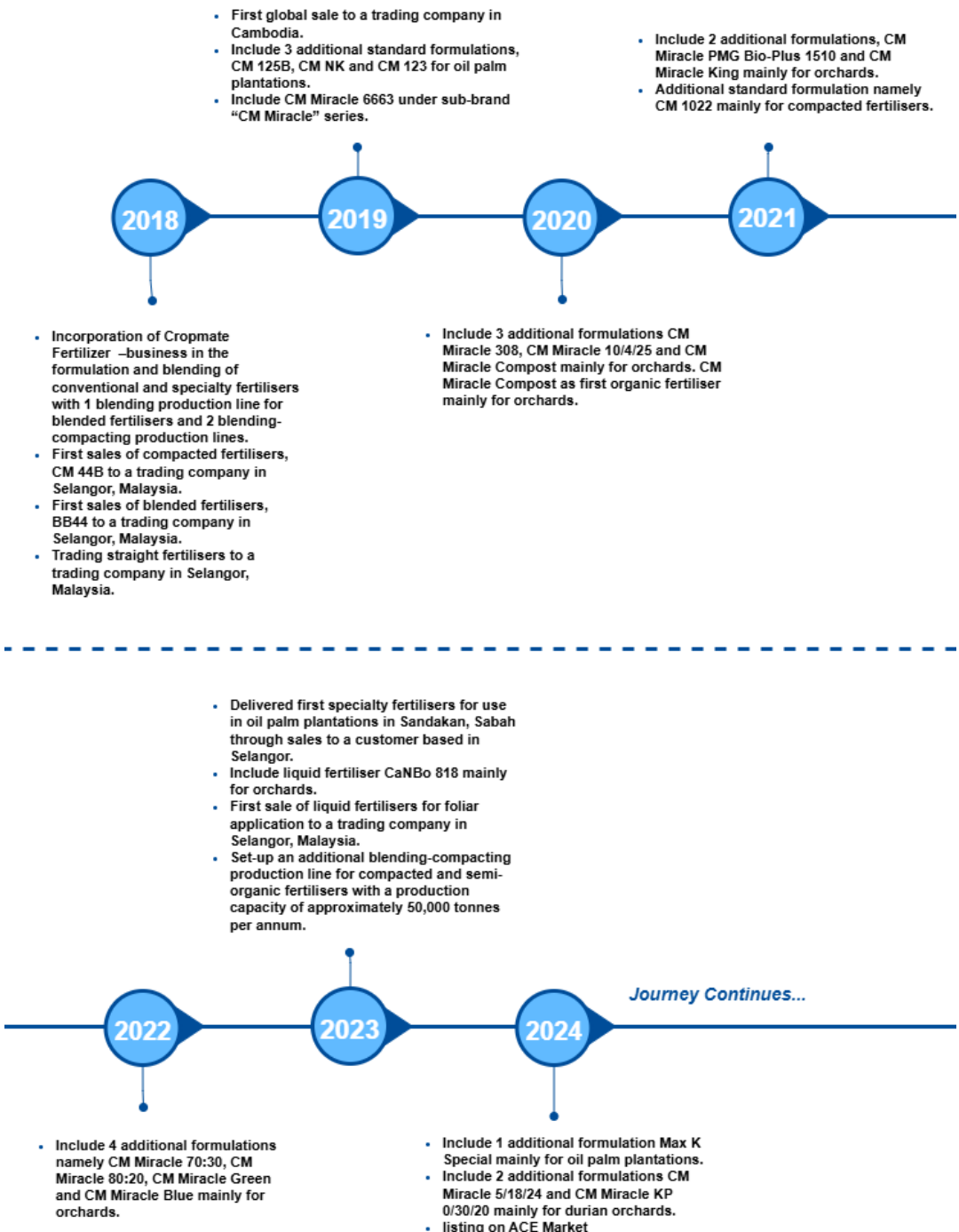
Source: Company Prospectus, S&P Global, Eco Asia Research Estimates
EPS, P/E and DPS from 2023A to 2024A (pre-IPO) are on pro-forma basis for comparative purposes only.



Company Background

Cropmate was incorporated in Malaysia under the Act on 11 September 2023 as a public limited company under the name of Cropmate Berhad. The Group completed the Acquisition of Cropmate Fertilizer on 27 September 2024 as its wholly-owned subsidiary. The Group operates from head office and production facility in Telok Gong, Klang, Selangor. Below is its milestones of history and development.

Key Milestones

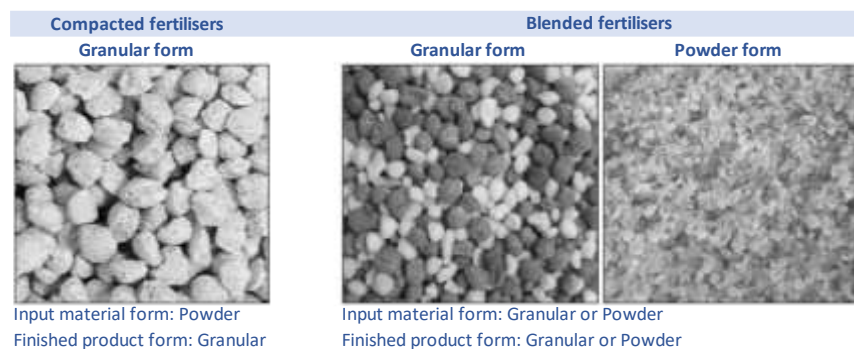


Source: Company Prospectus

Business activities

Formulation and blending of fertilisers: As at 15 October 2024, being the latest practicable date ("LPD"), Cropmate developed 18 and 14 standard formulations for conventional fertilisers and specialty fertilisers respectively. The Group has also developed customised formulas based on customers' requirements, which is based on consideration of soil, environmental and plant conditions. Its standard formula and customised formula fertilisers accounted for 51.3% and 24.0% of the Group total revenue respectively – while the remaining 24.7% was contributed by trading of mainly straight fertilisers and related products – For FPE 2024. Two types formula being developed are as below:

- Conventional fertilisers (compacted and blended):
 - Compacted fertilisers are physically mixed fertilisers comprising mainly two or more straight fertilisers such as N, P and K, plus some secondary macronutrients and micronutrients in powder form which are subsequently compacted into granular form.
 - Blended fertilisers are physically mixed fertilisers comprising mainly two or more straight fertilisers such as N, P and K, plus some secondary macronutrients and micronutrients in their original purchased granular or powder form.



Source: Company Prospectus

- Specialty fertilisers (semi-organic, organic, liquid):
 - Semi-organic fertilisers are based on combining inorganic (mineral and chemical) fertilisers and organic matter (mainly composted empty fruit bunches of oil palm), biostimulants, microbes and other additives including phosphorus acid and ethylenediaminetetraacetic acid ("EDTA"). It comprises approximately 80% inorganic matter and 20% organic matter by weight in each package, while the rest are negligible by weight.
 - Biostimulants are produced during the natural composting of organic matter, identified as living microorganisms which exist naturally in soil and can also be introduced into the soil. Biostimulants and microbes improve plant nutrient uptake, stimulate plant growth, increase plant resilience to adverse environmental factors and improve crop quality. Microbes helps to break down nutrients into a form which can readily be absorbed by plants. Phosphorus acid is mainly for disease control and prevention, and EDTA is to improve the availability of micronutrients to plants.
 - Liquid fertilisers are a mixture of several soluble fertilisers in a solution. The application can be directly to the soil, sprayed onto the leaves of plants or used in fertigation.

Trading of straight and other fertilisers: The single-nutrient fertilisers, which are straight fertilisers N, P or K fertilisers – as well as secondary macronutrients, micronutrients and organic fertilisers. The trading activities include buying fertilisers in bulk and repacking them into smaller bag sizes, and also direct purchase of in small bags for resale in their original packaging. This category of business activities are mainly products without any brand.

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Formulation and Blending Segment

Conventional fertilisers
Comprise various combinations of minerals and chemical macronutrients and micronutrients as follows:
Main Application for Oil Palm Plantations

Macronutrients: Nitrogen (N), Phosphorus (P), Potassium (K)
Secondary: Calcium (Ca), Magnesium (Mg), Sulphur (S)
Micronutrients: Iron (Fe), Boron (B), Manganese (Mn), Zinc (Zn), Copper (Cu), Others

Note: (1) Includes molybdenum (Mo), chlorine (Cl) and silicon (Si)

The Group's conventional fertilisers can be classified into 2 categories as follows:
1 Compacted 12 Standard Formulations
2 Blended 6 Standard Formulations

Specialty fertilisers
Comprise some combination of organic matters, macronutrients, micronutrients and additives as follows:
Main Application for Durian Orchards

Specialty Fertiliser, Micronutrients, Organic Matter, Additives

Note: (1) Includes, among others, molybdenum (Mo), chlorine (Cl) and silicon (Si)
(2) EFB = empty fruit bunches; EDTA = ethylenediaminetetraacetic acid

The Group's specialty fertilisers can be classified into 3 categories as follows:
1 Semi-organic 12 Standard Formulations
2 Organic 1 Standard Formulations
3 Liquid fertiliser 1 Standard Formulations

Notes:- (1) As at LPD – 15 October 2024

Business Overview

Principal Markets

Northern region ⁽¹⁾	Rev. 13.9%
Central region ⁽²⁾	Rev. 26.0%
East coast region ⁽³⁾	Rev. 14.0%
Southern region ⁽⁴⁾	Rev. 24.3%
Sarawak	Rev. 11.3%
Foreign Countries ⁽⁵⁾	Rev. 0.0%

Notes:- (1) Northern region covers Perak, Penang & Kedah (2) Central region covers Selangor, Negeri Sembilan & Kuala Lumpur (3) East coast region covers Pahang, Terengganu & Kelantan (4) Southern region covers Johor & Malacca (5) Foreign countries include Cambodia, Singapore, Sri Lanka & Papua New Guinea.

Type of Customers

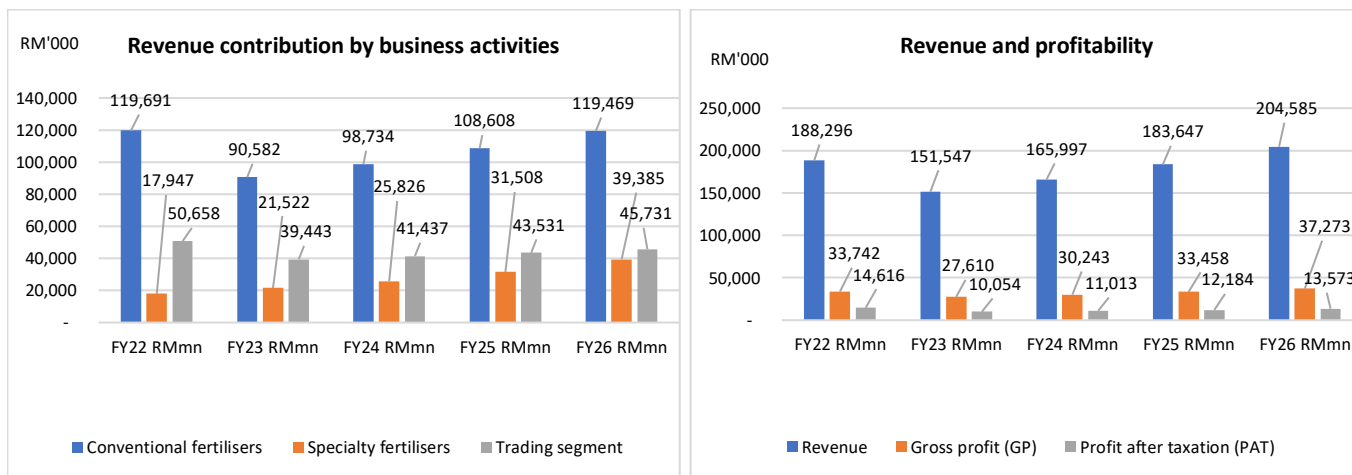
FPE2024

Traders	52.0%
Plantations ⁽¹⁾	36.9%
Orchards ⁽²⁾	8.0%
Fertiliser manufacturers	3.1%

Notes:- (1) Including sales to owners and/or operators of plantations, mainly oil palm plantations (2) Including sales to owners and/or operators of orchards, mainly durian orchards.
Source: Company Prospectus

Revenue and Profitability

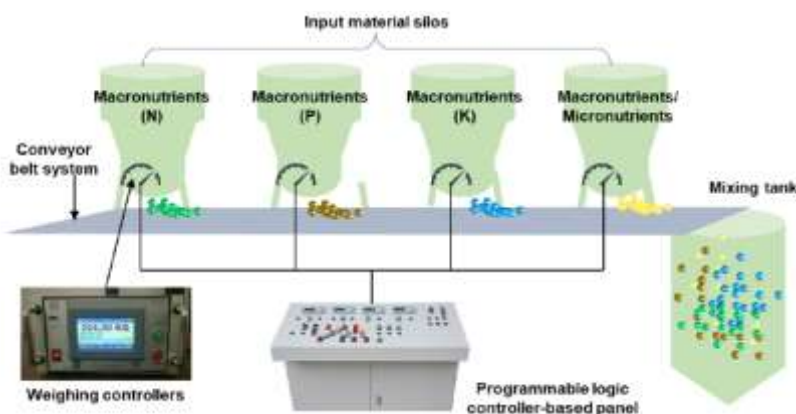
Cropmate revenue from FYE2023 to FYE2024 was mainly derived from the conventional fertilisers, which accounted around 60% of the Group’s total revenue (as of FYE2023). The following shows revenue contributions by business activities as well as the revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F:



Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

- 1) Upgrade of production process:
 - a) Automated weighing process:



Source: Company Prospectus

- i) To purchase and install a process control system (“PCS”) for the accurate weighing of input materials before the blending process. The PCS will be controlling four input material silos which will facilitate the accurate weighing of 4 input materials according to its formulation.
- ii) To purchase and install a conveyor belt system to transport the weighed input materials into a mixing tank.
- iii) The PCS will be installed at Factory Lot 8950 for 1 blending-compacting production line. The total estimation cost is approximately RM1.3 million.
- iv) To be fully funded through IPO proceeds within 18 months from the listing date.



2) Expansion of facility and equipment:

- a) Setting up research and development ("R&D") and test laboratory
 - i) To expand in-house technical facilities and capabilities by setting up an internal testing laboratory to carry out various testing and analysis for product quality assurance including testing and analysis for incoming input materials, in-process products and final products.
 - ii) The total cost for setting up an internal R&D and test laboratory at head office is estimated at RM1.0mn which will be funded through IPO proceeds within 18 months from the listing date.

3) Purchase equipment and vehicles

- i) To purchase five forklifts and a backhoe loader for material handling and transportation within the two-factory premises and warehouse
- ii) To purchase two motor vehicles for sales and technical personnel for marketing and site visits to plantations.

4) Acquisition of existing factories

- i) To acquire existing factories from Super Nine which is related party and the Group Directors.
- ii) Total purchase consideration of the two factories (Factory Lot 8949 and Factory Lot 8950) is RM29.8 million:
 - (1) RM13.1mn will be funded through internally generated fund and bank facilities
 - (2) The remaining RM16.7mn will be funded through IPO proceeds.
- iii) The acquisition cost of RM16.7mn will be funded through IPO proceeds within 12 months from the listing date.

Key Risks

Exposed to risk of material price increase: Any price increases of input materials could affect the Group financial performance – if the cost increases do not pass to customers. Higher product selling price may result to lower sales volumes and potential delay in the purchase of products.

Dependent on the performance of oil palm industry and trade customer: The Group is subject to the risk associated with the oil palm industry performance and trader customer group. Weak industry performance may affect the demand for fertiliser, thus, will negatively impact its financial outcome.

Subject to unfavourable foreign exchange and interest rates fluctuations: The risk mainly arising from the Group purchase of macronutrients, which occurred in United States dollar ("USD"). For FYE 2021, FYE 2022, FYE 2023 and FPE 2024, the Group recorded transaction of 41.3%, 47.4%, 44.2% and 29.5% respectively in USD. Any hikes in interest rates would also affect financial performance, given that its borrowings are based on interest-bearing obligation.

Industry Outlook

The global economic growth could positively impact the consumption of crude palm oil, in order to produce refined palm oil products, that are nowadays essential to user industries to manufacture a variety food and non-food products. The global economy's real gross domestic product ("GDP") grew by 3.3% in 2023. This was fundamentally driven by the steady pace of recovery from the COVID-19 pandemic and falling inflation. Malaysia will benefit from this sentiment, given to its status as one of world's major palm oil producers.



DEFINITION OF RATINGS

Eco Asia Investment Advice uses the following rating system:

STOCK RECOMMENDATION

BUY Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.

TRADING BUY Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.

HOLD Share price may fall within the range of +/- 10% over the next 12 months

TAKE PROFIT Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.

TRADING SELL Share price may fall by more than 15% in the next 3 months.

SELL Share price may fall by more than 10% over the next 12 months.

NOT RATED Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months

NEUTRAL The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months

UNDERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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