

Freshest Catch for The World

OCEAN FRESH BERHAD

Fair Value: RM0.45 (+60.71%)

Company Description

Ocean Fresh Berhad ("OFB") is principally involved in the processing and trading of frozen seafood products as well as provision of frozen seafood processing services to its customers in Malaysia, Turkey, China, Thailand, Vietnam and Japan amongst others.

Investment Highlight

- Unlock opportunities in China:** China's appetite for premium and non-premium seafood is growing rapidly over the years. According to Independent Market Research ("IMR") report, China accounted for a significant share of the retail sales volume and value of frozen seafood products in the Asia Pacific region in 2023, contributing 75% of the sales volume and 56% of the sales value. The Group's plans to expand its business in China coincides perfectly, and it is expected to benefit from the strong demand from China.
- Diverse product portfolio:** OFB distinguishes itself in the market by offering both frozen and dried seafood solutions that yield high margins. The company's product lineup features premium items like abalone and sea cucumber, along with other popular seafood products. This broad portfolio boosts its market attractiveness and also enables the Group to meet a wide range of consumer tastes.
- Growing demand trend:** Market Research Future ("MRFR") stated that the frozen seafood industry is projected to grow from USD15.4 billion ("bn") in 2024 to USD22.7bn by 2032, exhibiting a compound annual growth rate ("CAGR") of 5.7% during the forecast period. Consumers worldwide are becoming more aware of the nutritional benefits of seafood, and advancements in freezing technology have improved the quality and shelf life of frozen products. This shift is expected to drive long-term growth for The Group.
- Operational Efficiency and Expansion:** OFB has maximized the use of its current cold room facilities, showcasing the efficiency and success of its operations. To increase capacity and address rising demand, the company is implementing de-bottlenecking strategies funded by proceeds from its recent initial public offering ("IPO"). These measures are anticipated to greatly enhance production capabilities, allowing the Group to be more effectively serve its growing customer base.

Valuation / Recommendation

We derive a fair value of RM0.45 based on 10x multiple to its FYE2025F EPS of 4.52sen. The IPO aims to raise approximately RM14.01 million ("mn") from the issuance of 50.05mn new shares. A total of 57.09% of proceeds will be utilised for repayment of capital expenditure, 17.94% is allocated for general working capital, while the remaining 24.98% of the proceeds will be utilised for listing expenses.

As of FYE2023, the Group's current ratio is above 1x at 3.1x reflecting a strong capacity to repay its current liabilities. In terms of funding ability, it shows healthy ability, given the low gearing ratio below 1x at 0.4x. Coupled with the strong demand of frozen seafood products and huge potential in China market, we see upward trajectory for the group performance in the long run.

IPO TIMELINE

Opening Date	12 Jun 2024
Closing Date	20 Jun 2024
Listing Date	4 Jul 2024

IPO Price (RM)	0.28
Expected Return	60.71%
Market/ Sector	Agricultural Products
Bursa Code	0312

IPO Details

Public Issue	50.05	Shares(mn)
Enlarged share	210.15	

Market Cap	58.84	RM(mn)
Shariah compliant	Yes	

Substantial Shareholders

	Shares(mn)	(%)
Treasure Gain Sdn Bhd	51.84	24.67
Untung Besar Sdn Bhd	34.65	16.49
Sierra Mode Sdn Bhd	13.88	6.61
Dato' Sri Chia Hooi Huak	13.69	6.51
Siang Hai Yong	12.29	5.85

Utilisation of IPO Proceeds

	RM(mn)	(%)
Capital Expenditure	8.00	57.09
Working capital	2.51	17.94
Estimated listing expenses	3.50	24.98
Total	14.01	100.00

Allocation

	Shares(mn)	(%)
Public Issue		
Malaysian Public via balloting process:		
• Public investors	5.26	2.50
• Bumiputera public investors	5.26	2.50
Eligible Parties	1.71	0.81
Placement to selected investors	37.83	18.00
Total	50.05	23.82
Total enlarged share capital upon listing	210.15	

Source: Company Prospectus

Key Financial Summary

FYE Dec (RMmn)	2022A	2023A	2024F	2025F	2026F
Revenue	156.33	159.45	175.40	228.02	296.43
Gross Profit	18.27	21.09	23.20	30.15	39.20
Pre-tax Profit	6.97	6.99	7.69	10.00	13.00
Core Net Profit	5.58	6.95	7.31	9.50	11.70
Core EPS (Sen)	2.67	3.31	3.48	4.52	5.57
P/E (x)	10.49	8.46	8.05	6.19	5.03
DPS (Sen)	0.00	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00

Source: Company Prospectus, Eco Asia Research Estimates

EPS, P/E and DPS from 2022A to 2023A (pre-IPO) are on pro-forma basis for comparative purposes only.

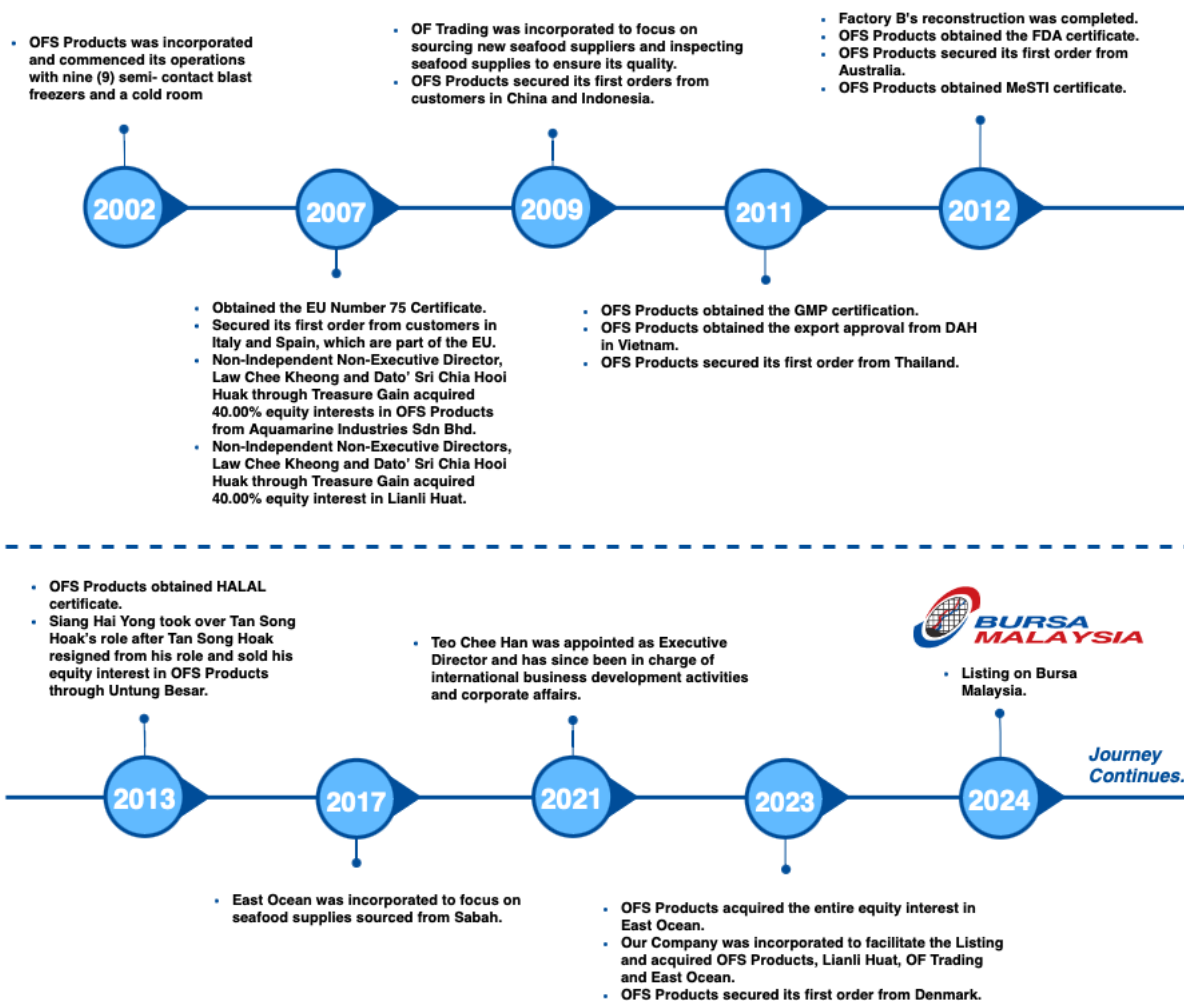


Company Background

OFB history began with the incorporation of Ocean Fresh Seafood ("OFS") Products in 2002 by Tan Song Hoak and Kee Yow Lee (equally held a 50.00% equity shareholding) – before it was incorporated in Malaysia under the Act on 22 May 2023 as a private limited company under the name of Ocean Fresh Sdn Bhd. Subsequently, the Group was converted into a public limited company and assumed its present name on 29 August 2023.

The following illustration shows milestones of the OFB’s history and development.

Key Milestones



Note:

- EU - European Union
- GMP - Good Manufacturing Practice
- DAH - Department of Animal Health
- FDA - United States Food and Drug Administration
- MeSTI - Makanan Selamat Tanggungjawab Industri



Source: Company Prospectus

Product Portfolio

Processing and trading of frozen seafood products: The Group process and trade frozen seafood in bulk. Its customers comprise local and international wholesalers and processing facilities, retailers, importers, Food and beverage ("F&B") service providers and walk-in customer. These frozen seafood products are sold under the its own brand, i.e. "Sea Planet". OFB markets are Malaysia, Turkey, China, Thailand, Vietnam, Japan and others which including but not limited to, Indonesia, Philippines, Singapore, Korea, Italy, Portugal, the US and Australia.

Provision of frozen seafood processing services: The Group also can be engaged to provide frozen seafood processing services. In such instances, it processes frozen seafood products based on the customers' requirement, in term of volume, type and specifications of frozen seafood products – customers for this segment are typically local and international wholesalers and processing facilities as well as importers.

Business Overview

Principal activities		
	Processing and trading of frozen seafood products	Provision of frozen seafood processing services
Products & services	Frozen seafood products	Frozen seafood processing services
Revenue model	Sale of frozen seafood products	Service fee
Customer segment	Wholesalers and processing facilities, retailers, importers, food & beverage service providers and walk-in customers	Wholesalers and processing facilities as well as importers
Markets	Malaysia Turkey China Thailand Vietnam Japan Others (including Indonesia, Philippines, Singapore, Korea, Italy, Portugal, the US, Australia and Denmark)	

Key Products

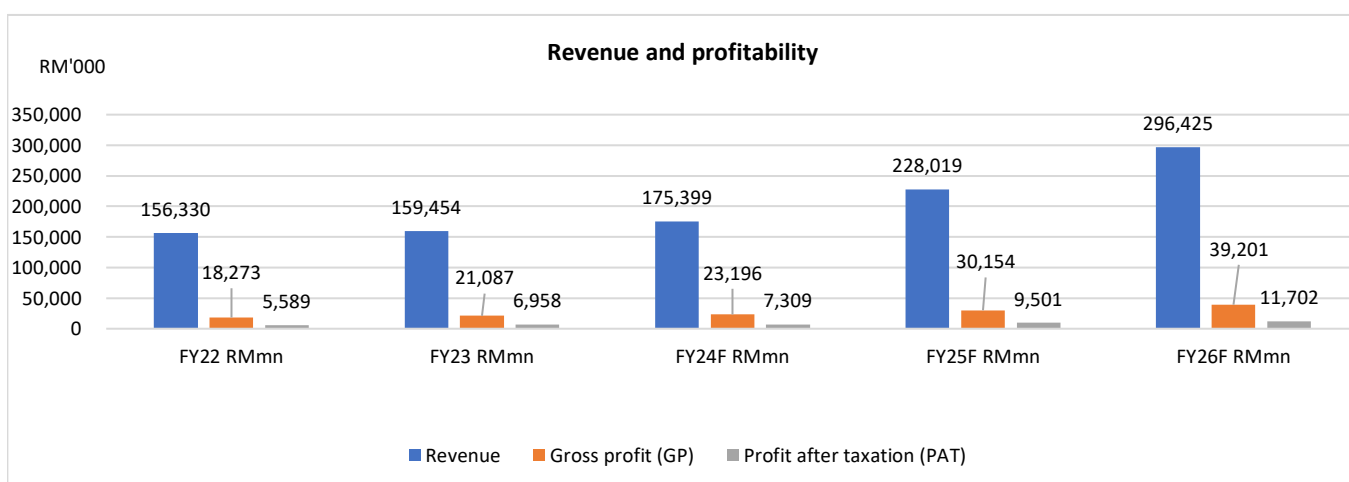
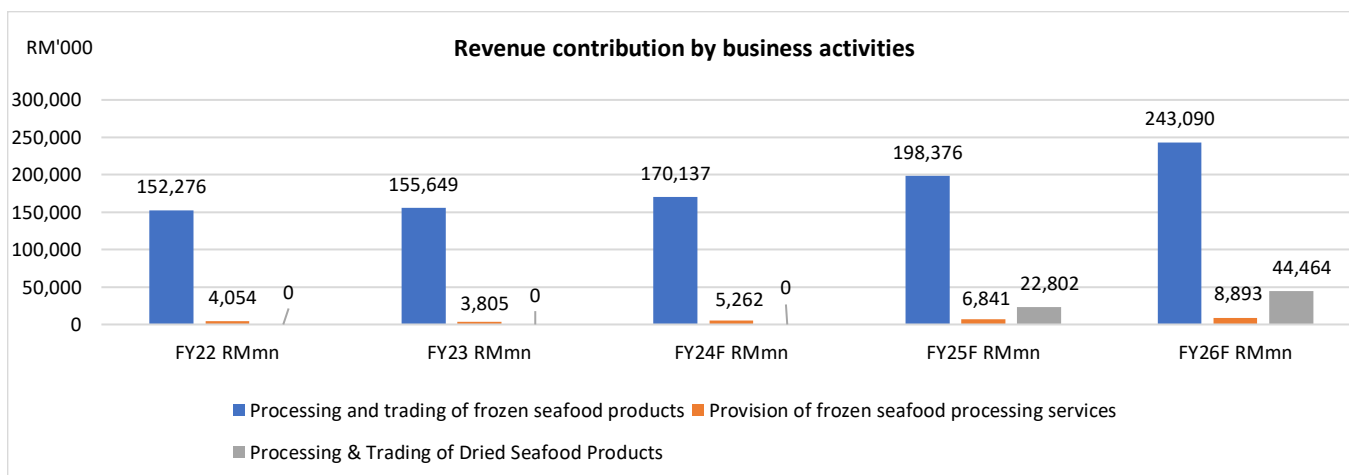


Source: Company Prospectus



Revenue and Profitability

OFB revenue from FYE2022 to FYE2023 was mainly derived from its processing and trading of frozen seafood products that contributed 97.60% of total revenue – as of FYE2023. Revenue contributions by business activities as well as the revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F are as below:



Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

The Group's future plans and business strategies are as below:

1. Setting up new cold storage facilities:

- To construct a new cold storage facility, which include 6 cold rooms and a loading bay, next to their current processing facilities.
- This is expected to increase their storage capacity by 3,000 tonnes ("ton"), from 1,700ton to 4,700ton and it is expected to operate within 18 months from the commencement of construction.

2. Growth in international markets, particularly China:

- Intend to collaborate with local wholesalers in China who have their own network of customers, so that they would be able to tap on their network of customers. The Group will finalise the appointment of a wholesaler to distribute their products in China by Q3 2024.



3. Venture into processing & trading of dried seafood products:

- Intend to venture into processing and trading of dried seafood products as dried seafood has lower storage and transportation cost.
- Began to produce samples of dried seafood products through sun-drying method to ascertain the demand from existing customers and receive feedback.
- Intend to acquire the necessary equipment by Q3 2024 and commence by Q1 2025, and will allocate 3,300 sq. ft. in Factory B for processing activities.

Strategic Competitive Advantages and Strengths

Equipped to produce quality frozen seafood products: Processing Facility is equipped with 18 semi-contact blast freezers. These freezers freeze seafood supplies between -40°C and -42°C, to allow for the preservation of quality and freshness of frozen seafood products in terms of shape, colour and taste. Hence, this enables OFB to consistently provide quality products to meet customers' demand.

Uninterrupted supply of frozen seafood products throughout the year: This is done by extensive network of suppliers comprising local and international wholesalers, local and international processing facilities, as well as local fishing enterprises and thus could fulfil the demand-supply gap created from the seasonal nature of fishing activities. In addition, the Group has cold rooms to store their frozen seafood supplies and products when they are surplus.

Locally and internationally complied for quality and food safety: The processing facility has been designed to meet quality control ("QC") measures for hygiene and food safety and they also undertake quality assurance ("QA") measures to ensure product safety and quality. The Group has certifications such as Hazard Analysis and Critical Control Point ("HACCP"), GMP and MeSTI Secure Food Certification Scheme from Ministry of Health ("MOH"), food that is allowed or permitted by the Islamic laws to be consumed and is in accordance with laws set out by JAKIM ("HALAL") certification from Department of Islamic Development Malaysia – which provided OFB with the capability to expand its presence locally and internationally.

Extensive network of customers: The Group has a wide network of customers from Malaysia, Turkey, China, Thailand, Vietnam and Japan, amongst others, with over 160 local and 190 international customers. Through these business relationships, they are able to understand their preferences, demands and market trends. Thus, enhance customer satisfaction.

Key Risks

Dependent on the availability of foreign workers: A variety of processing activities, such as the defrosting, cleaning, cutting and arranging, glazing and packaging processes, are still being handled manually. Hence, OFB is dependent on labour to perform these processes. Any changes to foreign worker visa policies in Malaysia or in the origin countries of foreign workers will cause the Group to face difficulties in maintaining sufficient labour workforce.

Subject to material issue with product safety and quality: The processing, storage, handling and delivery of frozen seafood products are subject to inherent risk of product deterioration or contamination or damage. The Group may be subject to product liability claims, regulatory enforcement actions, penalties imposed by relevant government agencies, and loss of consumers' confidence if any problems arise.

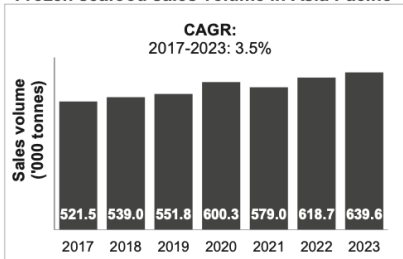
Exposed to foreign exchange rate fluctuations: Some of the overseas revenue and purchases are denominated in US Dollar ("USD") and Chinese Yuan Renminbi ("RMB"). This exposes OFB to the foreign currency exchange risk arising from the fluctuations exchange rate of USD and RMB against Ringgit Malaysia ("RM").



Industry Outlook

Growing frozen seafood demand in Asia Pacific: IMR reported that between 2017 and 2023, frozen seafood retails sales in Asia Pacific increased from 521,500ton to 639,600ton, with the CAGR of 3.5%. During the same period, the sales value rose from RM13.0bn to RM19.2bn, growing at a CAGR of 6.7%. This projection mirrors positive outlook for companies specializing in frozen seafood exports.

Frozen seafood sales volume in Asia Pacific



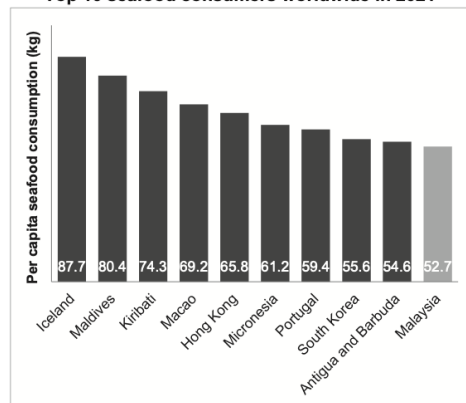
Frozen seafood sales value in Asia Pacific



Source: Euromonitor International

Strong local consumption boosts demand: In 2021, Malaysia had a per capita seafood consumption of 52.7 kilogram (“kg”), ranking it among the world’s top 10 seafood consumers. Seafood is the most commonly consumed animal product in the country, with poultry meat at 49.5 kg per capita and chicken/ duck eggs at 22.4 kg per capita following behind. The strong local demand is expected to drive demand for frozen seafood processing in Malaysia.

Top 10 seafood consumers worldwide in 2021



Note:

(i) Latest publicly available information is as at 2021

Source: Our World in Data

Per capita consumption by animal product in Malaysia in 2022

Type of animal product	Per capita consumption
Seafood (kg)	52.7
Poultry meat (kg)	49.5
Chicken/duck eggs (kg) ^a	22.4
Beef (kg)	6.9
Milk (litres) ^b	2.1
Mutton (kg)	1.4

Notes:

(i) ^a Based on estimated average weight of 60 grams per egg

(ii) ^b Per capita consumption of fresh and imported liquid milk

(iii) Latest publicly available information for seafood is as at 2021

Source: Department of Veterinary Services, Our World in Data

Source: Company Prospectus



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

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