Is Farm Fresh really that worth it?

Farm Fresh has become **Malaysia's leading dairy company** that offers affordable dairy products for all to enjoy.

However, *inflation costs = less profitability*.

Market Summary > Farm Fresh Bhd

1.93 MYR

+ Follow

+0.24 (14.20%) ↑ all time

25 Aug, 11:29 am MYT • Disclaimer

| 1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max |

Open	1.92	Mkt cap	3.62B	52-wk high	1.98
High	1.95	P/E ratio	34.07	52-wk low	1.55
Low	1.91	Div yield	1.04%	Qtrly Div Amt	0.01

Does this price reflect Farm Fresh's true intrinsic value?

Or is it just overvalued?

The **Discounted Cash Flow** Model

$$DCF = \frac{\text{Cash Flow}_{Y1}}{(1 + DR)^{Y1}} \quad \frac{\text{Cash Flow}_{Y2}}{(1 + DR)^{Y2}} \quad \frac{\text{Cash Flow}_{Yn}}{(1 + DR)^{Yn}}$$

- **Y1** — Year 1
- **Y2** — Year 2
- **Y*n*** — Year *n (year number)*
- **DR** — Discount Rate

In this valuation model,

- Projected cash flows: **2025–2030**
- Discounted using WACC of **6.17%**
- Perpetual growth rate of **5.5%**

MILK

Key Assumptions

Used in **DCF** & **WACC** Calculations

Driver	Assumption	Justification
Revenue CAGR *(Growth Rate)*	8.96%	Derived from Statista. This shows the annual growth of the dairy sector in Malaysia
Perpetual Growth Rate	5.50%	Derived from Bank Negara Report. Reflects long-term GDP/inflation outlook in Malaysia.
Risk Free Rate	3.38%	Derived from Malaysian Government Securities (MGS), tradings yields closing price.
Market Return	12.90%	Derived from Focus Ecnomics. They showed the var. of FTSE BM KLCI %.

Color Key:

⬤ **Used in DCF**
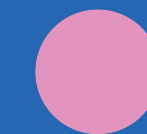
⬤ **Used in WACC**

The DCF Model Result

So is it overvalued or undervalued?

DCF Valuation:

RM2.15

Current Stock Price:

RM1.90

Upside Change:

+13.11%

As of August 20th, 2025

The DCF suggests Farm Fresh is modestly **undervalued** with a 13.11% upside.

Sensitivity Analysis

Perpetual Growth Rate & Weighted Average Cost of Capital

Sensitivity Table

	5.00%	5.50%	6.00%	6.17%	6.50%
4.00%	1.48	0.93	0.65	0.59	0.49
4.50%	3.07	1.44	0.9	0.79	0.63
5.00%		2.99	1.41	1.18	0.88
5.50%	-3.27		2.92	**2.15**	1.37
6.00%	-1.69	-3.2		8.71	2.85

Key Colors:

- WACC
- Perpetual Growth Rate

Base Case

Implied valuation is **RM2.15**

Bear Case

If growth weakens or the discount rate is higher, the valuation falls closer to **RM0.59 – RM1.48**.

Downside: -22.11% – -68.95%

Bull Case

If growth is stronger, the valuation jumps to **RM2.85 – RM8.71**.

Upside: +50% – +358.42%

Sensitivity Analysis

Revenue Compound Annual Growth Rate (CAGR)

Revenue CAGR Table					
	5.00%	**5.50%**	**6.00%**	**6.17%**	**6.50%**
6.00%	-2.87		2.53	1.84	1.18
7.00%	-3		2.65	1.94	1.24
8.00%	-3.14		2.79	2.03	1.31
9.00%	-3.27		2.92	**2.15**	1.37
10.00%	-3.42		3.07	2.24	1.44
11.00%	-3.58		3.21	2.35	1.52

Key Colors:

● WACC ● CAGR (Growth Rate)

Base Case

Implied valuation is **RM2.15**

Bear Case

At low growth (6–7% CAGR) and higher discount rates (6.5%), the fair value falls to **~RM1.18 – RM1.24**.

Downside: -34.74% – -37.89%

Bull Case

If CAGR is 10–11% and WACC is on the low side (<=6.0%), valuations move into the **RM3.0+ range**.

Upside: 2.11% – +68.95%

So What?

What does the Bear and Bull Cases mean?

WACC:

Highly sensitive

Tied to macro conditions: *interest rates, equity risk premium, beta, debt cost*

Small shifts in WACC have an outsized impact on valuation

PGR:

Extremely sensitive

Drives terminal value: largest portion of DCF comes from PGR.

Small changes = big swings

CAGR:

Moderately sensitive

Affects forecasted periods of company's **revenue growth**.

More stable. However, Missed growth targets can compress valuation & credibility

External factors (WACC) and terminal growth (PGR) drive valuation swings far more than forecast growth (CAGR). In essence, while company execution matters, ***broader market conditions and long-term growth expectations ultimately drive the biggest swings*** in valuation.

Investment Thesis

Farm Fresh Berhad

Rating:

BUY

Target Price:

RM2.15

13.11% from current price of RM1.90

Upside Drivers

- Strong demand in Malaysia's dairy sector (8.95% CAGR);
- Farm Fresh is expanding opportunity in regional markets

Downside Risks

- Rising costs of capital (WACC)
- Weaker long-term growth (PGR <5%)

Catalyst

- Product innovation
- Regional expansion

Farm Fresh appears modestly **undervalued** on a DCF basis. While our base case suggests upside, valuation is highly sensitive to WACC and terminal growth. We recommend a **BUY**, contingent on management defending margins and sustaining ~9% growth.

Thank You!