Eroding profits: FBF is affected by low average selling price of broilers, higher operating cost due to the minimum wage policy and thin profit margins from its processed poultry products.

Chicken feed business

Stiff competition and higher operating cost among reasons for the disposal of FBF

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THE recent disposal of Farm's Best Food Industries Sdn Bhd (FBF) for RM9.45mil by Farm's Best Bhd does not come as a surprise, as the poultry farmer and property developer's wholly-owned unit has been suffering losses for two consecutive financial years.

FBF is primarily involved in contract farming, poultry processing, as well as marketing and distribution of poultry products.

Its major clients are those in the quick service restaurant business including Nandos, Marry Brown, Chicken Rice Shop, Texas Chicken and Secret Recipe.

Impacted by low average selling price of broilers, higher operating cost due to the minimum wage policy and thin profit margins from its processed poultry products, Farm's Best has stated that FBF's disposal would allow the company to focus on its existing feed mill operations and property division.

"We have not been able to optimise FBF's plant capacity due to stiff competition from other industry players and we have been managing the plant with high operating cost.

"These are somewhat eating our profits," said Farm's Best general manager for corporate affairs Hoh Koei Teng in a telephone interview. Located on a eight-acre land in Masjid Tanah, Malacca, FBF's plant is now running at 50% capacity.

FBF's installed production capacity for processed products is about 1,000 tonnes per month.

Farm's Best had inked a share sale agreement with Cab Cakaran Corp Bhd, Tong Huat Poultry Processing Factory Pte Ltd, Plant Wealth Holdings Ltd and Brighton Property Pte Ltd on June 3, to acquire the entire stake in FBF for RM9.45mil.

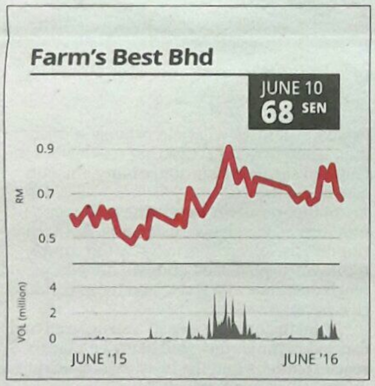
Tong Huat is a 51%-owned subsidiary of Cab Cakaran, while Plant Wealth is a substantial shareholder of Cab Cakaran, with 19.89% interest in the company.

One of the directors of Brighton Property is said to hold a 10% stake in Gourmet Chef Pte Ltd, a 60%-owned subsidiary of Tong Huat.

While the deal was arrived at a willing buyer, willing seller basis, Hoh says the RM9.45mil sale consideration was arrived after taking into account the market value of the plant and assets, net book value of the property, plant and equipment and its net liabilities.

The market value of the land, including the factory and its assets including cold rooms, waste water treatment and office equipment, and machinery were valued at RM70mil.

The RM9.45mil sale consideration was derived after deducting the book value of FBF's property, plant and equipment of RM44.92mil as at Dec 31, 2015 and its net liabilities of RM15.66mil from the RM70mil.



Financial wise, FBF's revenue has been on a declining mode since financial year 2013 (FY13).

And based on Farm's Best announcement, FBF's revenue dropped by 18.2% to RM111.65mil in FY15 from FY14, mainly due to poultry feed sales, which saw a decline of 19% to 92,697 tonnes.

Low selling prices

FBF's loss before tax widened to RM28.07mil in FY15, from RM23.04mil, a year ago, due to low average selling prices of processed poultry products and live broilers as well as compensation made to contract farmers with regard to poor quality of day-old chicks supplied by the company.

On a group level, in FY15 Farm's Best posted a net loss of RM16.69mil from net profit of RM2.23mil in FY14, against a lower revenue of RM345.93mil from RM418.43mil, the previous year.

Loss per share was 27.33 sen from basic earnings per share of 3.65 sen.

FBF's latest audited total assets of RM71.02mil constitutes 17.73% of Farm's Best's latest audited total assets of RM400.61mil as at Dec 31, 2015.

Segment wise, Farm's Best poultry division, which comprises of the integrated poultry operations, made a loss before tax of about RM23.7mil in FY15, from a profit before tax of RM3.24mil in FY14.

Its property division posted a lower profit before tax of RM1.1mil in FY15, from a profit before tax of RM2.9mil in FY14.

Although Hoh declined to comment on whether Farm's Best has intentions to diversify, he notes that potential still exist in the group's feedmill and property divisions.

Its feed mill division has a turnover of over RM100mil per annum, while the property arm sales turnover in FY15 was RM11mil, says Ho, adding that the feedmill segment has a production capacity of 50%.

It plans to expand its network in the feedmill industry by approaching external parties, which may include Cab Cakaran in the future, according to its announcement to the exchange.

On property segment, Farm's Best is considering an expansion into property development projects via joint ventures, and/or may acquire companies and land bank for its property development business.

"Although FBF is a loss-making unit, it has a lot offer in terms of its network of clients. If Cab Cakaran buys it, the company will benefit in terms of logistics and network expansion.

"On Farm's Best side, if the disposal goes through successfully, the group will reduce its debt to about RM190mil," adds Hoh.

As of Dec 31, 2015, Farm's Best borrowings stood at RM250mil.

Datuk Fong Kok Yong, Datuk Fong Kiah Yeow, Fong Ngan Teng and Fong Choon Kai are the controlling shareholders of Farm's Best, with collective interest of 35.14%. They sit on the board as directors.

Why the interest in Farm's Best's assets?

Perceived as the biggest poultry company in northern region of the peninsula, it is clear that Cab Cakaran is eyeing Farm's Best assets in the central and southern regions.

In February, Cab Cakaran sent three letters of intent to acquire the assets of Farm's Best's wholly-owned subsidiaries including FBF, Sinmah Breeders Sdn Bhd and Sinmah Livestocks Sdn Bhd, for up to RM242mil.

These assets include six breeder farms and about 27 broiler farms.

Notably the majority of Farm's Best's assets are located on freehold land in Malacca, Johor and Negri Sembilan.

Excluding its plants and properties, its breeder and broiler farms have combined net book value of about RM50mil.

It was reported that if Cab Cakaran acquired these assets that involve the addition of about 301.43 acres of broiler farms and about 200.22 acres of breeder farms, apart from other poultry facilities and equipment, it could boost the company's broiler production capacity by about 2.11 million to 2.33 million birds per month.

As at February, its broiler production capacity is about 4.50 million birds per month.

Based on Cab Cakaran's statement to the exchange, FBF is one of the leading players in the retail processed food industry.

While the cost of building a new plant with similar equipment will be much higher than RM70mil (based on the FBF's market value) due to inflation and the weak ringgit, FBF provided Cab Cakaran an opportunity to explore exporting frozen dressed chicken and processed food products to Singapore. Cab Cakaran already has an existing network in Singapore.

Cab Cakaran's facility in Segambut, Kuala Lumpur that makes processed products is operating at almost full capacity.

Therefore, the acquisition of FBF creates better economies-of-scale for Cab Cakaran.

The strengthening of the US dollar in the past year had dampened the sentiments on poultry stocks.

As such, should the prices of corn and soybean meal, and other raw materials rise further, market observers think that consolidation could arise. Big poultry players could be acquiring smaller players, who are suffering losses.

In terms of shareholding, noteworthy is Plant Wealth is an investment holding company established in the British Virgin Islands on Jan 8, 2014. Indonesia-based Salim Group is said to be the major shareholder of Plant Wealth.

Should Cab Cakaran follows through with its intent to acquire Farm's Best's other assets, this could see a huge earnings boost for the poultry player.

Shares of Farm's Best closed unchanged at 68 sen yesterday, arriving at a market capitalisation of RM41.23mil.