To	Baloy Sdn Bhd (“Baloy”)
From	Markit Valuation Services Limited (“Markit”)
Date	19 April 2021
Valuation Date	31 March 2021
Subject	Fair Value: Equity Value of Baloy

Overview

- **Equity Value (in RM million)** **142.32**
- Valuation Approach: Income Approach, Market Approach
- Valuation Methodology: Discounted Cash Flow, Comparable Company Approach

Company Background

- Baloy Sdn Bhd (“Baloy” or the “Company”), is an investment holding company which provides Online-to-Offline wholesale platform offering variety of daily grocery goods at competitive pricing.
- Baloy’s business model consists of 3 main strategic business units (“SBU”) namely, E-Commerce Marketplace, Members’ Mart and Licensing Program.
- The Company’s marketplace consists of the wholesale trading arm (B2B) and the E-Commerce (B2C) Marketplace (“Marketplace”). The wholesale trading arm (B2B) with 150 existing merchants comprises of FMCG wholesalers and distributors in the market and the marketplace enables them for bulk purchases from manufacturers to create a bigger market within the ecosystem.
- Baloy has entered into the grocery market through their retail outlets named Baloy “Members’ Mart”. Starting with a single outlet in early 2020, Baloy expanded its market reach to 46 outlets (as of February 2021) and is targeting to reach 150 stores by the end of this year (December 2021).
- Baloy also has a licensing program which offers opportunity to prospective investors to become a Baloy Member Mart licensee.

Company Documents Used

- Financial Projections: FY21 to FY25
- Investment presentation: February 2021
- Client Emails: February 2021, March 2021

Investment Details

- The Company is raising growth capital of up to RM30 million from prospective subscribers by offering 300,000 Ordinary Shares (“OS”).
- The Company’s primary objective is to capitalize on the growth of the essential services business during the pandemic period by ramping up its retail operations by opening new owned as well as franchisee stores.

Financial Highlights

— The table below provides an overview of the Company's selected financials for the historical and forecast period as at the Valuation Date:

RM million	FY19A	FY20A	FY21P	FY22P	FY23P	FY24P	FY25P
Trade (B2B)	43	32	13	13	12	13	13
Licensing	-	-	25	36	15	5	0
Member Mart - Membership (B2C)	-	4	38	156	355	573	882
Member Mart - Membership	-	0	2	17	25	57	88
Total revenue	**43**	**36**	**78**	**222**	**407**	**649**	**983**
Revenue growth	*na*	*-15%*	*115%*	*184%*	*83%*	*60%*	*52%*
Gross Profit	**2**	**5**	**15**	**43**	**77**	**132**	**202**
EBIT	**0**	**1**	**6**	**20**	**41**	**76**	**127**
EBIT margin (%)	*0.7%*	*3.2%*	*8.3%*	*8.9%*	*10.1%*	*11.7%*	*13.0%*

— Baloy's main revenue came from B2B business and contributed 88% of the total revenue for the year ending 31 December 2020. Other revenue came from licensing and membership fee from member marts. The Company was profitable in its first full year of operations.

— Baloy's total revenue is projected to grow at a CAGR of 88% from RM 78 million to RM 983 million over the forecast period of FY21 to FY25. The growth is mainly driven by the ramp up in store operations through opening of new owned as well as franchisee stores with the number of stores expected to increase from 46 in February 2021 to 1,234 by FY25.

— EBIT margin is projected to improve from 3.2% in FY20 to 13% in FY25 due to operating leverage through economies of scale as a result of the ramp up in store operations during the forecast period.

Valuation Overview

— In developing the specific procedures and processes used for developing our estimate of fair value ("Fair Value"), Markit has used the industry guidance set forth in the IPEV Valuation Guidelines. In determining the value of an asset, Markit utilises the Fair Value standard defined by the Guidelines:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

— For unquoted investments, the measurement of Fair Value requires the Valuer to assume the underlying business or instrument is realised or sold at the Valuation Date, appropriately allocated to the various interests, regardless of whether the underlying business is prepared for sale or whether its shareholders intend to sell it in the near future.

— The selection of the appropriate valuation technique is at the discretion of our analysts. In determining the appropriate valuation methodology, our analysts will exercise the necessary skill, knowledge, and judgement to select the valuation technique (or techniques) most appropriate for each particular investment. The analyst will consequently make valuation adjustments based on their informed and experienced judgement.

— In assessing whether a technique is most appropriate, our analysts will generally select a valuation methodology which maximises the use of observable market data particular to each investment.

— Where our analysts consider that several valuation techniques are appropriate, the analyst will review the outcome of these different valuation techniques in their determination of fair value.

— In determining the value of the Company, we have considered several methodologies given the information received as well as the nature of the Company's business.

Price of Recent Investment (Market Approach)

— Generally accepted valuation standards state that the method selected for valuation should maximise the use of observable market data. Recent transactions (i.e. less than 6 months old) in illiquid security usually provide a robust initial basis of fair value, especially when external (market) and internal (company-specific) factors that can impact value have not significantly changed in the interim to the Valuation Date.

— Where there have been any recent transactions in the security to be valued, the price of that investment will provide an initial basis of fair value, ensuring that the background to the transaction is taken into account where possible.

— The length of the period for which it would remain appropriate to use the recent transaction price will depend on the specific circumstances of each investment and is subject to the judgement and analysis of our analysts.

— The validity of using the price of the recent investment is inevitably eroded over time. In a dynamic environment, changes in market conditions, the passage of time and other factors will potentially diminish the appropriateness of utilising this valuation technique as a means of determining fair value. In stable market conditions, with little change in the entity or the general external market environment, the length of period for which using the most recent transaction price is likely to be appropriate, will be longer than during a period of rapid change.

Discounted Cash Flow Approach (Income Approach)

— Markit was provided with detailed financial forecasts for the project for the period FY21-25. Accordingly, we have applied the Discounted Cash Flow Approach in our valuation analysis. Our DCF valuation is subject to information provided by Baloy.

— This valuation technique involves deriving the value of a business by calculating the present value of expected future cash flows (or the present value of expected future earnings, as a surrogate for expected future cash flows).

— In using this valuation technique to estimate the Fair Value of an Investment/Company, the Valuer should derive the present value of the cash flows from the Investment using reasonable assumptions and estimations of expected future cash flows, the terminal value or maturity amount, date, and the appropriate risk-adjusted rate that captures the risk inherent to the Investment.

— Risk and the rates of return necessary to compensate for different risk levels are central commercial variables in the making of all private equity investments. Further, the Valuer, derive the Enterprise Value of the company ("EV"), expected future cash flows (or expected future earnings) and the terminal value, and discount to the present by applying the appropriate risk-adjusted rate that captures the risk inherent in the projections.

Comparable Company Approach (Market Approach)

— Markit has analysed the Comparable Company approach as the valuation methodology.

— To determine the Enterprise Value ("EV") for the Company, we have assumed that the underlying business is realised or sold at the Valuation Date, with the proceeds appropriately allocated to the various interests in the Company, regardless of whether the business is prepared for sale, or whether the shareholders intend to sell in the near future.