**SEA’S FARM VENTURE**

**BUSINESS PLAN AND ASSUMPTIONS**

**Third Draft**

1. **Background**

The environment we live in is changing with the rapid deterioration in the value of money and change in our value system. New technology will take over and we become a cog in the wheel of the masters of technology. This Farming Venture was conceived with the notion that we should go back to basics. Why not venture into a business where we can literally grow our money.

The Food industry which we are venturing into is ever growing. We have many plots of idle land which if put to good use can provide a fairly decent income if the projection in this paper prove true.

This business proposal is conceived by the Sarawak Eurasian Association who will be the providing the business expertise to Venture Capitalist and or Shareholders who join this venture.

This paper is divided into the following sections

1. Background
2. Capital Expenditure
3. Assumptions with respect to a 1-acre Farming Lot
4. Assumptions with respect to the Livestock Farm
5. Review of Financial Projections and assumptions adopted

* Income Statement
* Balance Sheet
* Cash Flow Statement

1. Capital Funding Assumptions
2. Risk Analysis
3. Other opportunities
4. Summary and Recommendations
5. **Capital Expenditure**
   1. **Land**

This paper is based on the assumption that a 5-acre site (rented at the rate of 1.5 sen per sq. ft.) which will form the nucleus of the Farm is sufficient to house 900 Producing Ewes/Does, 36 Rams and the kids that are produced and ultimately sold.

It is assumed that the cost of feed which is to be bought in items be it grass, grain or soya animal fee be sufficient to attract neighbouring farm to grow grass to sell as animal fees on a contract basis.

* 1. **Land Clearing and Infrastructure**

The idea is to clear 5 acres demarking a 1 to 1.5-acre site for Living accommodation and Greenhouse for Vegetable and/or Chicken farming. The Living accommodation will be sufficiently large to house the various offices and stores necessary. The infrastructure would include the necessary piping and irrigation required.

There will be no perimeter fencing. A fenced up area for the Animals to graze of about an Acre is projected in the Capital Expenditure.

* 1. **Farm Equipment**

The Capex sets aside an allocation for basic farm equipment and a Pick up to be used by the Farm Manager.

* 1. **Projected Capex for the Project**

Set out below is the Capital Expenditure planned for this project:



1. **Assumptions with respect to the 1-acre Farming Lot**

The idea is that the Farm lot can be set almost immediately after land clearing and that it can generate Cash Flow to help in the generation cash for the farm to cover some of the initial labour for the business. The Cash projections are RM10,000 per month for the first three months and then RM15,000 per month for the balance of the lease period.

It is intended that the facility be subcontracted to speciality farmers with the expertise to take this on. SEA’s role will be to source for these farmers.

1. **Assumptions with respect to the Livestock Farm**
   1. **Livestock Breed Choice**

The assumption in this paper is that we go 33:33:33 between Dorper Sheep, Boer Goats and Local Goats. The intention is to build up the herd of 300 each for Dorper, Boer and Local Goats with their rams in the ratio of 1:25. Through good farm management the aim would be build up the herd that is most productive. See this video on the qualities of the Dorper Sheep. <https://www.youtube.com/watch?v=RC8Hv0v9J7c>.

For Boer Goats see this video for its attributes. <https://goats.extension.org/goat-breeds-boer/>

The Plan is to purchase 150/6 Dorper Ewes/Rams for the Sheep, Boer and Local goats herd respectively. The herd is expected to grow to 300/12 for all three herds by the end of Plan Year 1. The purchase/cost of Livestock that will be shown as Inventory/Stock are as follows:



* 1. **Kidding Rate per annum**

The kidding rate is assumed to be 1.5 kids per year per Ewe/Doe. This rates assumed covers mortality. It is believed that the kidding rate can be higher than 2. This will be a bonus if this can be achieved.

* 1. **Cost of Animal Upkeep**

A key success factor is getting the best animals fed at the most economical cost. The costing methodology adopted in this paper is factorise cost based on per “Producing Ewes/Does”. What this means is that cost of feeding the Rams and the kids that are produces are all covered by the cost to feed the Ewes/Does which are classified as Inventory/Stock in the books. These are the figures used in the Projection:

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As mentioned in Paragraph 2.1 the Feed price is fairly high. This is to encourage neighbouring farmer to grew grass as feed for the SEA Livestock Farm. The price of RM1.50 per Producing Ewe/Doe as defined in above is deemed sufficient to cover the more expensive animal feed that can be purchased.

* 1. **Sale of Livestock**

It is assumed that the Livestock are sold live once it reached 40 to 50 Kg in weight. The table below shows the possibilities:



The prices marked above are the prices used in the Projections.

What this table shows is there is a great potential for higher price. Both the Dorper and Boer breed can grow to a larger size than projected but the market may not yet be developed for selling by weight. This is a potential that has to be explored.

* 1. **Farm Management and Manpower Cost**

The Farm will be managed by a Manager and assisted by an Administration Staff to oversee the full operations throughout the Plan period. His role with respects to the Farming lot is to construct the facilities but subcontract the planting to specialist farmers, his concentration to be primarily on the Livestock business.

Once the Sheep are acquired the staff overseeing the Livestock Farm will comprise of a Veterinarian, Supervisors and farmhands to oversee the Goat farm. The Projection are as follows:



The projected salary for the Manager and Admin staff is RM8,000 and RM2,500 respectively. That of the Veterinarian, Supervisor and Farmhands are RM4,500, RM2,000 and RM1,150 in that order. Overtime is projected for Farmhands at 25% of cost uplifted b 1.5. There is a projection for Salary increase at commence of year 2 salary inflation at the rate of 2.5% in Plan Year 2, compounded for the balance of the years.

* 1. **Farm Fixed Overheads**

The Fixed Overheads/Management Cost comprise the Cost of the Manager and his Admin support staff. The cost under this caption also include the cost of Land Rental and SEA’s Management Fees. Other cost includes the Administrative expenses such as tax consultancy/secretarial/audit/accounting to upkeep a corporation, electricity & water charges, vehicle running expenses and miscellaneous expenses.

SEA Management Fees is calculated at the lower of RM500 or half a percent of Saes per month.

1. **Review of the Financial Projections and Assumptions Adopted**
   1. **Income Statement**

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The Business Plan is projected above is over a 10-year period. The Current Year in the above projection is the period prior to start up. The Projection is for an Average Pre-tax profit of RM1 million and an After Tax Profit of RM780K per Year. The Projection is for Profits from Plan Year 2 onwards.

These projections include a salary cost inflation commencing from Plan year 2 at the rate of 2.5%, compounded from that year onwards. For non-salary items, the assumption on Inflation is a 1% increase in selling price and direct cost of sales items from Plan Year 2 and compounded at the same rate thereafter.

* 1. **Balance Sheet**

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The projections assume a very cash oriented business towards sales, i.e. no Trade Debtors in the Balance sheet. This is the same for direct cost, i.e. cash payment. What sticks up as Trade Creditors is the Land rental which is projected to commence once operations begin, payable on a 30-day credit payment term.

Other than salary the other payables are projected to be payable on a 30-day credit payment term.

The Fixed Assets are depreciated off over 10 years. Inventory represents the Livestock Herd. See paragraph 4.1.

* 1. **Cash Flow Statement**

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1. **Capital Funding Assumptions**

The Capital requirement for this Project is RM2,500,000 split RM500,000 as share Capital and RM2,000,000 as interest free Shareholders’ Loan. The shareholder Loan is planned to be settled fully by the end of Plan Year 3**.** Dividend of RM500,000 enough to repay Share capital is planned to be paid in the First Quarter of Plan Year 4.Thereafter there will be sufficient to pay dividend of a least RM1,000,000 per Year. **See the Cash Flow Statement in 5.3 above.**

1. **Risk Analysis**

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| **Risk** | **Mitigation** |
| 1. Livestock are subject to disease and have a high mortality rate. | There is always a risk in any business venture. Animal survival is vital and as such it is planned that we have a Veterinarian on board full time.  **Not in the projections but worth considering is Business Interruption Insurance for catastrophic losses arising from epidemic diseases or any similar event**. |
| 1. Goat meat is not the preferred meat. | It is a perception which can be changed. **Goat meat**, when eaten in the right quantity can be nutritious too. ... **Goat meat** is actually lower in calories, total **fat**, saturated **fat**, and cholesterol **than** not just lamb, pork and **beef meats**, but also turkey and **chicken meat**. This makes **goat meat** the **healthiest** red **meat**, even better **than** turkey and **chicken**.  **Dorpers** are short haired Sheep. One third of the stock is in Sheep. |
| 1. Goats can be easily stolen. | To install CCTV and have workers work in sifts so that these are people 24 hours at the farm. |
| 1. Assumptions in the Projections are just that Assumptions. | We need to visit the Agricultural Department to gather facts on Boer Goats. We also need to find experts to be shareholders.  The Capex figures to be verified by an architect or Civil Engineer. |
| 1. It may be hard to raise the Capital for the Project. | We have to find like-minded people who feel comfortable with investing their money without immediate returns. |

1. **Opportunities**

These are opportunities not in the Projections:

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| **Opportunity** | **Remarks** |
| 1. Animal Dung as Manure | The first priority is supply the Vegetable Farm. Any surplus can be sold to neighbouring farms. |
| 1. Sheep/Boer Skin | The assumption is that the Sheep is sold live. The Yield should increase if the animal is sold as meat. This will involve the setting up an abattoir Service. This is something that can be considered in the future. |
| 1. Milk Sales | It is quite possible to sell milk if there is more than needed by the kids. |
| 1. Getting Assistance from the Agricultural Department | The Local Government has an interest in building up the Agriculture sector and we can always appeal to them for Support. |
| 1. Additional Revenue from the 1 acre Vegetable Farm | With the infrastructure in place there is always possibility of setting mini projects to build up earning in the Vegetable farm like Shitake Mushroom farming for instance. |
| 1. Solar Lighting | With the ample roofing space, there is a possibility for installation of Solar sub-project. This can be considered as a standalone project. |

1. **Summary and Recommendations**

I would have no hesitation in recommending the Project Go-ahead if the assumptions hold true. From a Financial point of view, an investor would have recouped his Loan outlay by the end of Year 3. It is projected that his Share Capital would be fully returned by the first Quarter of Plan Year 4 if not earlier.

In a climate of uncertainty where the whole economic outlook of the country will change tremendously, I believe going back to basics can immunise us from a volatile exchange rate regime that will follow.