

# Fraser & Neave Holdings Berhad

(3689 | FNH MK) Consumer Products & Services | Food & Beverages

## Maintain NEUTRAL

### Expecting Gradual Recovery Ahead

**Revised Target Price: RM32.92**

(Previously RM31.59)

#### KEY INVESTMENT HIGHLIGHTS

- **9MFY20 profit of RM324.9m met expectations**
- **Core net earnings for the period declined by 16.2%yoy due to Covid-19 as its main markets are under lockdowns**
- **3QFY20 earnings fell by 16.2%yoy to RM94.3m in-line with sales that dropped by 13.9%yoy**
- **Expect brighter outlook going forward**
- **Maintain NEUTRAL with an adjusted TP of RM32.92**

**9MFY20 profit of RM324.9m met expectations.** Fraser & Neave Holdings Bhd's (F&N) earnings for 9MFY20 were in-line with our expectation at 72% of our full year estimates and 79% of consensus'. No dividend was announced during the quarter.

**Core net earnings for the period declined by -16.2%yoy due to Covid-19 as its main markets are under lockdowns.** Core net income (CNI) of RM324.9m was recorded as revenue slipped by -2.2%yoy to RM3.0b. The subdued consumer demand and the Covid-19 pandemic outbreak dragged F&B Malaysia revenue down by -7.3%. This was, however, mitigated by the +25%yoy growth in the exports for the first half of the financial year. As a result, operating profit for the segment in 9-months declined by -22.5%yoy due to lower sales, higher dairies input costs and higher marketing expenditure for new products such as 100PLUS Zero, Sunkist Pure Juice drink and F&N Ice Mountain Sparkling Water. As for F&B Thailand, revenue improved by +3.6%yoy to RM1.49b due to stronger baht to ringgit exchange rate. Operating profit rose by +2.2%yoy in tandem with the higher segmental revenue. However, in Thai baht terms, sales softened by -1.3%yoy due to Covid-19 while operating profit declined by -2.1%yoy due to lower sales and higher marketing costs for new product launches. During the period, new variants of TEAPOT sweetened condensed milk squeeze tube in Matcha and Mango were launched. It also launched CARNATION and TEAPOT evaporated milk in 1kg pouch, CARNATION Plus 0% Fat sweetened condensed milk and Magnolia Milkies, which are milk tablets made of New Zealand milk.

**3QFY20 earnings fell by -16.2%yoy to RM94.3m in-line with sales that dropped by -13.9%yoy.** Due to the Movement Control Order (MCO) in Malaysia that occurred in 3QFY20, revenue for F&B Malaysia decreased by -19.3%yoy to RM461.4m. Operating profit for the segment plunged by -42.5%yoy to RM30.3m due to lower sales volume, higher raw material costs and higher marketing spend for new product launches. Sales for the domestic operations lost -21.2% due to the muted Hari Raya festive season, which adversely affected beverages sales. Since the easing of the MCO restrictions starting early May, sales and stock movement are improving. That said, the Hotel, Restaurants and Cafes channel are still severely impacted albeit recovering gradually. This is mitigated by its modern trade channel. Marketing and promotional activities were done on F&N Life e-commerce store. In Thailand, export sales growth of +14.9% offset local sales contraction of -11.1% in Thai baht terms.

#### RETURN STATISTICS

Price @ 4 <sup>th</sup> August 2020 (RM)	30.52
Expected share price return (%)	+7.9
Expected dividend yield (%)	+2.2
<b>Expected total return (%)</b>	<b>+10.1</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.0	-6.4
3 months	-6.0	-15.6
12 months	-10.0	-8.0

#### KEY STATISTICS

FBM KLCI	1,575.94
Syariah compliant	Yes
Issue shares (m)	366.78
Estimated free float (%)	18.49
Market Capitalisation (RM'm)	11,194.08
52-wk price range	RM24.1 - RM36
Beta vs FBM KLCI (x)	0.61
Monthly velocity (%)	0.0
Monthly volatility (%)	9.68
3-mth average daily volume (m)	0.14
3-mth average daily value (RM'm)	4.45
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
EPF	11.70
PNB & associated funds	8.60


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**Compared to the preceding quarter, 3QFY20 CNI softened by -7.7%qoq while revenue declined by -8.7%qoq.** This can be attributed to the full quarter impact of the weak consumer sentiment and movement control measures in Malaysia and Thailand. 2QFY20 was stronger due to products front-loaded into the trade prior to the emergency decree implemented in Thailand. Subsequently, pre-tax profit shed -10.5%qoq to RM120.0m due to lower sales, higher input and packaging costs and weaker Thai baht.

**Expect brighter outlook going forward.** As movement restrictions eased further from July onwards, we expect sales to pick up overtime. As such, we believe that 4QFY20 may record better sequential performance. Management noted that recovery in demand are seen in Malaysia, Thailand some export markets after June. Going forward, management will continue to focus on its process enhancements and digitalisation. With a net cash of RM166.3m as of end June, we believe that F&N will be able to capitalise on opportunities that may arise.

**Impact to earnings.** We maintain our FY20E forecast for now as results are in-line.

**Target price.** We adjust our target price of to **RM32.92** from RM31.59 as we roll over our base year to FY21F. Our target price is now based on EPS of 126.6sen pegged to unchanged PER of 26.0x, which its five-year historical average.

**Maintain NEUTRAL.** While we opine that consumer sentiment may remain weak in the coming quarters, we believe that sales will recover over time. Possible risks include new movement restrictions, which may disrupt supply chain and distort raw material prices. On the brighter side, we believe that F&N will withstand these challenges due to its strong branding, agility in addressing new market norms, cost management and a strong balance sheet. As such, we maintain our **NEUTRAL** recommendation on the stock. 

## INVESTMENT STATISTICS

Financial year ending 30th September (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	4,109.9	3,034.8	4,246.3	4,344.9	4,457.3
<b>Operating profit</b>	420.2	407.3	532.5	582.4	599.2
PBT	422.7	414.6	577.5	595.5	611.6
Tax expense	(37.6)	(90.3)	(127.0)	(131.0)	(134.5)
PAT	385.1	324.4	450.5	464.5	477.1
One-off items	(3.2)	0.5	0.0	0.0	0.0
<b>Normalised PAT</b>	381.9	324.9	450.5	464.5	477.1
Normalised EPS (sen)	104.1	88.6	122.8	126.6	130.1
Net Dividend (sen)	57.5	60.0	67.5	68.5	70.5
Operating profit margin (%)	10.2	13.4	12.5	13.4	13.4
Normalised PAT margin (%)	9.3	10.7	10.6	10.7	10.7
<b>EPS Growth (%)</b>	1.5	(14.9)	38.7	3.1	2.7
Dividend yield (%)	1.9	2.0	2.2	2.2	2.3
PER (x)	29.3	34.5	24.9	24.1	23.5

Source: Company, MIDFR

**Table 1: 3QFY20 RESULTS SUMMARY**

FYE Sep (RMm)	Quarterly results					Cumulative results		
	3QFY20	2QFY20	3QFY19	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	918.1	1,005.6	1,066.3	(13.9)	(8.7)	3,034.8	3,102.0	(2.2)
Cost of sales	(639.8)	(692.9)	(739.1)	(13.4)	(7.7)	(2,090.2)	(2,139.6)	(2.3)
<b>Gross profit</b>	<b>278.2</b>	<b>312.7</b>	<b>327.3</b>	<b>(15.0)</b>	<b>(11.0)</b>	<b>944.7</b>	<b>962.5</b>	<b>(1.9)</b>
Other income	0.1	13.0	4.1	(97.6)	(99.3)	15.0	12.3	21.4
Operating expenses	(159.3)	(195.2)	(179.5)	(11.2)	(18.4)	(552.3)	(540.9)	2.1
<b>Operating profit</b>	<b>119.0</b>	<b>130.5</b>	<b>151.9</b>	<b>(21.6)</b>	<b>(8.8)</b>	<b>407.3</b>	<b>433.9</b>	<b>(6.1)</b>
Finance income	0.8	1.6	4.0	(79.2)	(49.3)	4.5	11.2	(59.7)
Finance costs	(1.1)	(1.7)	(1.1)	(2.3)	(32.3)	(3.8)	(3.9)	(2.4)
Share of results of associates	1.4	3.7	2.3	(39.3)	(62.3)	6.9	6.8	0.9
Share of results of a joint venture	(0.1)	(0.1)	(1.5)	(93.9)	63.6	(0.2)	(4.5)	(95.2)
<b>PBT</b>	<b>120.0</b>	<b>134.1</b>	<b>155.5</b>	<b>(22.8)</b>	<b>(10.5)</b>	<b>414.6</b>	<b>443.5</b>	<b>(6.5)</b>
Taxation	(26.2)	(31.9)	(40.6)	(35.5)	(18.0)	(90.3)	(101.3)	(10.9)
<b>PAT</b>	<b>93.8</b>	<b>102.2</b>	<b>114.9</b>	<b>(18.4)</b>	<b>(8.1)</b>	<b>324.4</b>	<b>342.2</b>	<b>(5.2)</b>
One-off item	0.5	0.0	(2.3)	N.M.	-	0.5	(6.0)	N.M.
<b>Normalised PAT</b>	<b>94.3</b>	<b>102.2</b>	<b>112.6</b>	<b>(16.2)</b>	<b>(7.7)</b>	<b>324.9</b>	<b>336.2</b>	<b>(3.4)</b>
Basic EPS (sen)	25.6	27.9	31.3	(18.3)	(8.1)	88.5	93.3	(5.1)
Diluted EPS (sen)	25.7	27.8	31.3	(17.8)	(7.4)	88.4	93.1	(5.0)
DPS (sen)	0.0	27.0	0.0	N.M.	N.M.	27.0	27.0	0.0
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	30.3	31.1	30.7	(0.4)	(0.8)	31.1	31.0	0.1
Operating margin (%)	13.0	13.0	14.2	(1.3)	(0.0)	13.4	14.0	(0.6)
PBT margin (%)	13.1	13.3	14.6	(1.5)	(0.3)	13.7	14.3	(0.6)
PAT margin (%)	10.2	10.2	10.8	(0.6)	0.1	10.7	11.0	(0.3)
Normalised PAT margin (%)	10.3	10.2	10.6	(0.3)	0.1	10.7	10.8	(0.1)
Effective Tax rate (%)	21.8	23.8	26.1	(4.3)	(2.0)	21.8	22.8	(1.1)

Source: Company, MIDFR

**Table 2: BREAKDOWN BY SEGMENT**

FYE Sep (RMm)	Quarterly results					Cumulative results		
	3QFY20	2QFY20	3QFY19	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
<b>Revenue</b>								
F&B Malaysia	461.5	499.2	571.5	(19.3)	(7.6)	1,545.6	1,666.4	(7.2)
F&B Thailand	463.7	508.9	493.9	(6.1)	(8.89)	1,504.5	1,434.0	4.9
Property	0.7	0.8	0.3	130.0	(18.1)	2.4	0.7	239.4
Others	22.0	23.0	0.7	3,038.6	(4.3)	66.5	0.8	8,212.5
<b>Total</b>	<b>947.8</b>	<b>1,031.9</b>	<b>1,066.4</b>	<b>(11.1)</b>	<b>(8.2)</b>	<b>3,119.0</b>	<b>3,101.9</b>	<b>0.6</b>
<b>Operating profit</b>								
F&B Malaysia	30.3	24.3	52.7	(42.5)	24.7	103.3	133.4	(22.5)
F&B Thailand	91.6	105.5	99.1	(7.6)	(13.2)	308.0	297.7	3.5
Property	0.1	0.6	0.2	(70.0)	(89.9)	0.5	0.0	#DIV/0!
Others	(1.7)	3.2	0.3	(676.7)	(154.5)	-0.1	-0.2	(51.0)
Adjustments and eliminations	(1.2)	(3.2)	(0.5)	146.0	N.M.	-4.4	-0.7	529.9
<b>Total</b>	<b>119.0</b>	<b>130.4</b>	<b>151.8</b>	<b>(21.6)</b>	<b>(8.8)</b>	<b>407.3</b>	<b>430.2</b>	<b>(5.3)</b>
<b>Operating profit margin (%)</b>				<i>+ / (-) ppts</i>				
F&B Malaysia	6.6	4.9	9.2	(2.7)	1.7	6.7	8.0	(1.3)
F&B Thailand	19.7	20.7	20.1	(0.3)	(1.0)	20.5	20.8	(0.3)
Property	8.7	70.8	66.7	(58.0)	(62.1)	20.0	0.0	20.0

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.