

# Fraser & Neave Holdings Berhad

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

**Maintain NEUTRAL**

## Within expectation amid Covid-19 challenges

### KEY INVESTMENT HIGHLIGHTS

- **1HFY20 profit of RM230.5m met expectations**
- **1HFY20 bottomline improved by +3.1%yoy to RM230.5m**
- **2QFY20 earnings dipped by -2.1%yoy to RM102.2m in tandem with sales as Covid-19 and higher input costs**
- **Second half performance may be impacted by softer consumer sentiment and higher dairies input costs**
- **Maintain NEUTRAL with an unchanged TP of RM31.59**

**1HFY20 profit of RM230.5m met expectations.** Fraser & Neave Holdings Bhd's (F&N) earnings for the first half were in-line with our expectation at 52% of our full year estimates and 56% of consensus'. An interim dividend of 27.0sen was announced, which is also largely within our expectation.

**1HFY20 bottomline recorded RM230.5m, which is an improvement of +3.1%yoy.** This was largely attributed to better sales that rose +4%yoy to RM2.1b. In 1HFY20, F&B Thailand segment recorded sales that grew 9.6%yoy to RM1.0b aided by its successful customer loyalty programme wider outlet coverage, new product launches and a stronger Thai Baht. Operating profit for F&B Thailand was up by +7% to RM216.4m due to net favourable input and packaging costs, which is offset by higher marketing expenses to promote the new products. As for the F&B Malaysia segment, volume was largely unchanged compared to last year although revenue was down marginally by -1% amid more subdued demand and the Covid-19 outbreak. Demand was cushioned by exports growth and new products and variants. Operating profit at F&B Malaysia fell -9.5% to RM73.0m due to higher dairies input costs.

**2QFY20 earnings dipped by 2.1%yoy to RM102.2m in tandem with sales as Covid-19 and higher input costs weigh on.** Revenue fell at a similar quantum, to RM1.0b, primarily caused by the adverse Covid-19 impact and earlier sell-in for Chinese New Year. F&B Malaysia operating profit decreased by -13.7%yoy to RM24.3m as a result of lower income, higher dairies input cost and weaker ringgit. Meanwhile, F&B Thailand revenue climbed +4.3%yoy (+1.3% in Thai Baht) to RM504.2m, contributed by the higher load of shipments delivered ahead for its export OEM business. The higher sales at Thailand was also due to front-loading ahead of the emergency decree implemented in Thailand from March 26 as well as slight growth in the Indochina market. Net favourable input costs and stronger Thai Baht lifted operating profit for F&B Thailand by +2.5% to RM105.5m.

**Compared to 1QFY20, 2QFY20 net profit fell -20.4%qoq** while revenue declined by -9.5%qoq. Covid-19 has affected sales for both Malaysia and Thailand F&B in the second quarter. Higher input costs, increasing packaging costs and a stronger greenback have led to the decline in profitability compared to the preceding quarter.

**Unchanged Target Price: RM31.59**

### RETURN STATISTICS

Price @ 4 <sup>th</sup> May 2020 (RM)	32.10
Expected share price return (%)	-1.6
Expected dividend yield (%)	+1.9
<b>Expected total return (%)</b>	<b>+0.3</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.5	0.1
3 months	3.5	8.3
12 months	-7.9	9.6

### KEY STATISTICS

FBM KLCI	1376.59
Syariah compliant	Yes
Issue shares (m)	366.78
Estimated free float (%)	18.84
Market Capitalisation (RM'm)	11773.59
52-wk price range	RM24.1 - RM36
Beta vs FBM KLCI (x)	0.68
Monthly velocity (%)	11.02
Monthly volatility (%)	9.68
3-mth average daily volume (m)	0.16
3-mth average daily value (RM'm)	5.06
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
EPF	11.42
PNB & associated funds	8.53


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**Second half performance may be impacted by softer consumer sentiment and higher dairies input costs.** Due to Covid-19, F&N's production capacity is expected to decline due to a smaller workforce and more stringent SOP. In addition, consumer demand may soften during the period due to the extended movement control order in Malaysia and the state of emergency declared in Thailand. These are mitigated by F&N's proactive measures to adjust its route-to-market and channel strategies as a result of the movement restriction and to address the changes in consumer behaviour. The change in strategy will also help F&N to be ready for the upcoming Raya festive season. It has hedged a portion of its raw materials to mitigate the impact of higher dairies input cost alongside other cost optimisation plans as part of its cost management. While we commend the management's efforts in containing the impact of the pandemic, we remain cautious of the extent of the adverse impact considering festive celebration may not be the same like before. That said, a sooner-than-expected recovery of the situation may lead to stronger demand for beverages and creamer products.

**Dairy farm plan putting on hold.** During the quarter, the company has announced that it has received the deposit for the Chuping land that it had paid for the development of its integrated dairy farm because the SPA had lapsed. While this is a long-term plan that may enhance its future operations and potential, we are not disappointed at this point as the resources previously allocated for this development can be deployed for other opportunities that may fit the company. We have not imputed any impact from the dairy farm project to our forecast.

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

**Target price.** We are maintain our target price of **RM31.59** based on FY20E EPS of 121.5sen pegged to unchanged PER of 26.0x, which its five-year historical average.

**Maintain NEUTRAL.** We remain cautious on the impact Covid-19 may have on F&N in the coming quarters due to the change in consumer behaviour as well as production capacity which have been impacted due to a smaller workforce and more stringent measures that may affect its production efficiencies. However, we believe that all these may normalise once people adapt to the new norm. Other challenges include rising raw material costs and a stronger USD. 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	2,116.7	4,246.3	4,344.9	4,457.3
<b>Operating profit</b>	420.2	288.3	532.5	582.4	599.2
PBT	422.7	294.6	577.5	595.5	611.6
Tax expense	(37.6)	(64.1)	(127.0)	(131.0)	(134.5)
PAT	385.1	230.5	450.5	464.5	477.1
One-off items	(3.2)	0.0	0.0	0.0	0.0
<b>Normalised PAT</b>	381.9	230.5	450.5	464.5	477.1
Normalised EPS (sen)	104.1	62.8	122.8	126.6	130.1
Net Dividend (sen)	57.5	60.0	67.5	68.5	70.5
Operating profit margin (%)	10.2	13.6	12.5	13.4	13.4
Normalised PAT margin (%)	9.3	10.9	10.6	10.7	10.7
<b>EPS Growth (%)</b>	1.5	(39.6)	95.4	3.1	2.7
Dividend yield (%)	1.6	1.7	1.9	2.0	2.0
PER (x)	33.7	55.8	28.5	27.7	27.0

Source: Company, MIDFR

**Table 1: 2QFY20 RESULTS SUMMARY**

FYE Sep (RM'm)	Quarterly results				Cumulative results			
	2QFY20	1QFY20	2QFY19	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	1,005.6	1,111.1	1,025.4	(1.9)	(9.5)	2,116.7	2,035.7	4.0
Cost of sales	(692.9)	(757.4)	(710.1)	(2.4)	(8.5)	(1,450.3)	(1,400.5)	3.6
<b>Gross profit</b>	312.7	353.7	315.3	(0.8)	(11.6)	666.4	635.2	4.9
Other income	13.0	1.9	5.6	132.3	582.1	14.9	8.2	81.2
Operating expenses	(195.2)	(197.7)	(190.8)	2.3	(1.3)	(393.0)	(361.4)	8.7
<b>Operating profit</b>	130.5	157.9	130.1	0.3	(17.4)	288.3	282.0	2.2
Finance income	1.6	2.1	3.8	(57.3)	(21.1)	3.7	7.2	(49.2)
Finance costs	(1.7)	(1.1)	(1.1)	48.8	55.7	(2.7)	(2.8)	(2.4)
Share of results of associates	3.7	1.8	2.6	40.9	107.3	5.5	4.5	21.3
Share of results of a joint venture	(0.1)	(0.1)	(1.5)	(96.3)	(21.4)	(0.1)	(3.0)	(95.9)
<b>PBT</b>	134.1	160.6	134.0	0.1	(16.5)	294.6	288.0	2.3
Taxation	(31.9)	(32.2)	(29.5)	8.0	(1.1)	(64.1)	(60.7)	5.6
<b>PAT</b>	102.2	128.3	104.4	(2.1)	(20.4)	230.5	227.3	1.4
One-off item	0.0	0.0	(3.7)	N.M.	-	0.0	(3.7)	N.M.
<b>Normalised PAT</b>	102.2	128.3	100.7	1.4	(20.4)	230.5	223.6	3.1
Basic EPS (sen)	27.9	35.0	28.5	(2.1)	(20.5)	62.9	61.9	1.5
Fully Diluted EPS (sen)	27.8	34.9	28.4	(2.1)	(20.3)	62.7	61.8	1.5
DPS (sen)	27.0	0	27.0	0.0	N.M.	27.0	27.0	0.0
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	31.1	30.7	30.7	0.3	0.4	31.5	31.2	0.3
Operating margin (%)	13.0	14.2	12.7	0.3	(1.3)	13.6	13.9	(0.2)
PBT margin (%)	13.3	14.6	13.1	0.3	(1.3)	13.9	14.1	(0.2)
PAT margin (%)	10.2	10.8	10.2	(0.0)	(0.6)	10.9	11.2	(0.3)
Normalised PAT margin (%)	10.2	10.6	9.8	0.3	(0.4)	10.9	11.0	(0.1)
Effective Tax rate (%)	23.8	26.1	22.1	1.7	(2.3)	21.8	21.1	0.7

Source: Company, MIDFR

**Table 2: BREAKDOWN BY SEGMENT**

FYE Sep (RM'm)	Quarterly results				Cumulative results			
	2QFY20	1QFY20	2QFY19	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
<b>Revenue</b>								
F&B Malaysia	499.2	585.0	541.5	(7.8)	(14.7)	1,084.2	1,094.9	(1.0)
F&B Thailand	508.9	532.0	483.6	5.2	(4.34)	1,040.9	940.1	10.7
Property	0.8	0.8	0.2	321.0	(0.2)	1.7	0.4	321.5
Others	23.0	21.6	-	N.M.	6.4	44.5	0.1	44,430.0
<b>Total</b>	1,031.9	1,139.4	1,025.3	0.6	(9.4)	2,171.2	2,035.5	6.7
<b>Operating profit</b>								
F&B Malaysia	24.3	48.7	28.2	(13.8)	(50.1)	73.0	80.7	(9.5)
F&B Thailand	105.5	110.9	99.3	6.3	(4.8)	216.5	198.6	9.0
Property	0.6	(0.2)	(0.4)	(249.0)	(431.1)	0.4	(0.2)	(308.0)
Others	3.2	(1.5)	(0.5)	(734.4)	(306.0)	1.6	(0.5)	(426.4)
Adjustments and eliminations	(3.2)	-	(0.2)	1,489.5	N.M.	-3.2	(0.2)	1,489.5
<b>Total</b>	130.4	157.9	126.4	3.2	(17.4)	288.3	278.4	3.6
<b>Operating profit margin (%)</b>				<i>+ / (-) ppts</i>				
F&B Malaysia	4.9	8.3	5.2	(0.3)	(3.5)	6.7	7.4	(0.6)
F&B Thailand	20.7	20.8	20.5	0.2	(0.1)	20.8	21.1	(0.3)
Property	70.8	(21.3)	(200.0)	270.8	92.1	24.7	(50.0)	74.7

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.