

15 April 2014 | Sector update

## Consumer Sector (F&B) Spoiled for milk, intensified competition?

*Maintain* **NEUTRAL**

- **Etika International Holdings Limited announced on Friday the disposal of its Malaysian based dairies and packaging business to Asahi Group Holdings Ltd for a purchase consideration of RM1.06 billion.**
- **The dairies and packaging business is priced at 25x of its FY13 earnings of RM42.67 million and at 2.5x of its book value.**
- **Marked Asahi's second foray into Malaysia's F&B after its acquisition of Permanis in 2011.**

**M&A deal to drive competition.** Asahi's acquisition of Etika International Holdings Ltd's dairies is another indication yet of the Japanese company's resolve to build on its F&B market presence in this growing region after its (first) acquisition of Permanis, which is involved in the production and sale of soft drinks with notable brands including Tropicana, Revive, 7-Up, and Mountain Dew.

**Strong brand presence in Malaysia.** The dairies business of Etika is involved in the manufacturing and distribution of milk product, comprising mainly sweetened condensed and evaporated milk which are distributed under the brand name of Dairy Champ. Another notable brand in its dairies business stable is the UHT milk which is produced and distributed under the brand name of Goodday, a well-known brand in Malaysia which has since the commencement of its commercial production in 2012 slowly positioned itself among the consumer's choice for UHT milk.

**High quality product with international reach.** Not just a popular domestic brand, its Dairy Champ is being exported to more than 60 countries around the world, including ASEAN, North and Central Asia, Middle East, Asia Pacific region, North, South and Central America, the Caribbean and Africa.

**Overall impact is inevitable but not immediate.** The dairies business of Etika had seen a healthy growth in revenue with a CAGR of 10% over the period 2009-2013. It is still early to gauge the earnings and market share impact of Asahi's acquisition on the other F&B players in Malaysia, but Asahi is expected to continue investing in its newly acquired dairies business to sustain the level of growth and achieve a better future margin.

**Dairy Champ as platform for growth.** Competition is expected to be the stiffest in this segment of dairies product. We are of the view that the strength of Asahi's new dairy business lies in its Dairy Champ's product arrays. Dairy Champ commands the second largest share in Malaysia's condensed and evaporated milk market in 2013. At this point of time, we believe that Dairy Champ would provide a stiffer direct competition to F&N's own condensed and evaporated product arrays.

**Challenging growth ahead for its UHT milk.** Etika's UHT milk product arrays are still relatively new in the market compared to Dutch Lady and Nestle. As such, we are of the view that it will take longer period for Etika's UHT milk to make further impact on this segment.

**Flavoured milk as the industry key growth driver.** Flavoured milk is fast becoming popular choice among Malaysian consumer for their daily milk intake. According to TetraPak, ready-to-drink ambient flavoured milk has achieved a CAGR of more than 13% between 2009 and 2012. It is expected that dairy companies will be keen to explore and launch new and different taste of flavoured milk which appeal to that demand, but we believe that Dutch Lady and Nestle are well positioned to capitalize and capture the flavoured milk segment as they already have the right product arrays to cater for this segment.

**Positive outlook for Malaysia's dairies industry.** According to Euromonitor, Malaysia's per capita milk consumption remained relatively low compared with other Asian countries. On this note, we believe there is room for F&B players to expand their presence. We are of the long term view that Malaysia's dairies industry will continue to sustain its growth, driven by higher milk consumption as the population becomes more health conscious.



## Snapshot of revenues contribution from F&B segment

Companies (RM'm)	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	CAGR (%)
Dutch Lady	711.6	691.9	696.6	810.7	882.2	982.7	7
F&N <sup>1</sup>	3,177.7	3,208.2	3,564.4	3,853.6	3,238.3	3,507.5	2
Nestle <sup>2</sup>	2,958.2	2,948.4	3,347.6	3,500.5	3,740.7	3,904.4	6
Etika's dairies business	391.6	412.3	478.1	609.1	705.7	661.0	10

Source: Bloomberg

1. Revenue contribution from its dairies and soft drinks segment only
2. Revenue contribution from its F&B segments only

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

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