Fraser & Neave Holdings Berhad

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

***Maintain* BUY**

***Revised* Target Price: RM29.70**

(previously RM30.91)

Decent outlook

KEY INVESTMENT HIGHLIGHTS

- **Earnings missed our expectation.**
- **Improved revenue in 3QFY22 at RM1.1b (+5.5%yoy and +1.0qoq)**
- **Mixed result in 9MFY22**
- **Sales momentum in F&B Malaysia is encouraging**
- **F&B Thailand was impacted by higher input costs**
- **Maintain BUY with a revised TP of RM29.70**

Earnings missed our expectation. Fraser & Neave Holdings Bhd's (F&N) 9MFY22 normalized PAT of RM265.1m, after excluding a one-time off expense (-RM4.8m) came in below our projections but within consensus expectation. 9MFY22 met 62.6% of our forecast and 71.1% of the consensus estimate for FY22. The negative variance was attributable to greater-than-expected input costs amid the stronger US dollar and commodities prices along with greater-than-expected flood-related items. As expected, the group did not declare a dividend for the quarter as the dividend is usually declared in 2Q and 4Q.

Improved revenue in 3QFY22 at RM1.1b (+5.5%yoy and +1.0qoq). This was supported by robust Hari Raya sales in Malaysia and pricing modifications that more than compensated for lower revenue in the F&B Thailand and export markets. On the contrary, PBT fell by -4.0%yoy to RM114.4m owing to the elevated input costs amid continuous cost pressure from rising commodity prices and a stronger US dollar.

Mixed result in 9MFY22. The group's top line rose marginally by +3%yoy to RM3.3b, thanks to the stronger festive sales in Malaysia. The normalised PAT declined -26.1%yoy to RM265.1m and normalised PAT margin slid -2.3ppt to 8.4%. This was primarily driven by a rise of RM300m in the cost of products sold (caused by a significant increase in commodity prices), and flood-related cost for damage to the Shah Alam's operations.

Sales momentum in F&B Malaysia is encouraging, at RM626.8m (+16.0%yoy). This was fuelled by boosted sales from the Hari Raya celebrations and border reopening, effective implementation of marketing initiatives and stronger beverage sales because of elevated out-of-home consumption. The operating profit for F&B Malaysia soared by +194%yoy to RM50.4m. This was supported by an improved margin driven by price adjustments to several products to lessen the impact of the steep increase in input costs, and lower transportation cost due to the partial utilisation of the ASRS (automated storage retrieval system) in its warehouses.

RETURN STATISTICS	
Price @ 3 August 2022 (RM)	21.94
Expected share price return (%)	+35.20
Expected dividend yield (%)	+2.70
Expected total return (%)	**+35.20**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.2	1.6
3 months	3.6	2.8
12 months	-9.9	-9.1

KEY STATISTICS	
FBM KLCI	1,490.57
Syariah compliant	Yes
Issue shares (m)	366.78
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Estimated free float (%)	73.20
Market Capitalisation (RM'm)	8,054.46
52-wk price range	RM19.2 – RM28.2
Beta vs FBM KLCI (x)	0.64
Monthly velocity (%)	1.10
Monthly volatility (%)	18.36
3-mth average daily volume (m)	0.48
3-mth average daily value (RM'm)	9.55
Top Shareholders (%)	
EPF	13.09
Amanah Saham Nasional	8.75
KWAP	2.25

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F&B Thailand was impacted by higher input costs. For 3QFY22, F&B Thailand reported a reduced operating profit (-40.5%yoy) of RM58.7m in line with the lower revenue (-5.4%yoy) at RM490.1m. The negative performance was caused by the rise in product price which resulted in poorer domestic sales for evaporated milk and export sales and Thai Baht depreciation which resulted in a less favorable forex conversion. The operating profit plunged to RM200.9m (-37.3%yoy) in 9MFY22 on the back of substantial input costs from the tin can and milk powder along with the limited capacity to completely pass on the cost to customers given that the company's goods are on the Thai government's price monitoring list.

Lower earnings estimate for FY22-23F. We revised our earnings by -9.2% for FY22F and -3.3% for FY23F. After accounting for the decreased operating profit in F&B Thailand because of rising raw material costs and the company's limited ability to fully pass on the higher input cost to the customer as its products are on the Thai government's price control list.

Maintain BUY with a revised TP of RM29.70. Our valuation is based on a revised PER of 25.8x (its 2- year historical mean) pegged to FY23F EPS of 115sen. The dividend yield is estimated at 2.7%. We continue to like F&N underpinned by its: (i) consistent product innovation to meet consumer demand and taste; (ii) recent proposed acquisition of Ladang Permai Damai and Cocoaland, which could fuel its future earnings growth; and (iii) effective cost management to mitigate the effects of rising commodity and logistics costs. **Key downside risks** include: (i) raw material shortage, (ii) further depreciation of RM and Thai Baht against USD which could put more pressure on costs and (iii) a sharp increase in commodity prices which could impact the cost and profitability of its product.

INVESTMENT STATISTICS

FYE SEPT (RM'm)	FY2020	FY2021	FY2022E	FY2023F	FY2024F
Revenue	**3988.5**	**4130.9**	**4515.4**	**4862.5**	**5158.9**
Cost of Sales	(2758.1)	(2936.7)	(3226.1)	(3477.6)	(3615.8)
Gross Profit	**1230.4**	**1194.2**	**1289.3**	**1384.9**	**1543.1**
Profit Before Associates & JV	515.4	474.1	478.9	518.4	625.3
Profit Before Tax (PBT)	522.9	479.4	478.9	518.4	625.3
Income Tax Expenses	(112.8)	(84.3)	(94.3)	(96.7)	(111.1)
Profit After Tax (PAT)	**410.1**	**395.1**	**384.6**	**421.7**	**514.3**
Normalised PAT	**380.9**	**351.4**	**384.6**	**421.7**	**514.3**
EPS (sen)	111.9	107.8	104.9	115.0	140.2
Dividend per share (sen)	60.0	60.0	60.0	65.0	70.0
Growth & Valuation (%)					
Revenue Growth	(2.2)	3.6	9.3	7.7	6.1
Gross Profit Growth	(2.9)	(2.9)	8.0	7.4	11.4
Core PATANCI Growth	(13.4)	(7.7)	9.4	9.7	21.9
Gross Profit Margin	30.8	28.9	28.6	28.5	29.9
PBT Margin	13.1	11.6	10.6	10.7	12.1
Normalised PAT Margin	9.5	8.5	8.5	8.7	10.0
Effective tax rate	21.6	17.6	19.7	18.7	17.8
Ratios & Valuation					
PER (x)	19.6	20.4	20.9	19.1	15.6
Dividend yield (%)	2.7	2.7	2.7	3.0	3.2
Net debt/Total Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
P/B (x)	53.6	55.7	57.2	56.5	49.9
ROE (%)	2.4	2.7	2.4	2.5	2.5
ROA (%)	6.1	6.9	7.7	8.5	9.1

Source: Company, MIDFR

F&N: 3QFY22 RESULT SUMMARY

FYE SEPT (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	1118.2	1107.7	1059.6	5.5	1.0	3332.5	3234.6	3.0
Cost of sales	(826.8)	(831.7)	(751.6)	10.0	(0.6)	(2467.0)	(2264.6)	8.9
Gross profit	**291.4**	**276.0**	**308.0**	(5.4)	5.6	**865.5**	**970.0**	(10.8)
Other income	4.9	5.1	2.7	82.4	(3.6)	13.2	10.1	30.2
Operating expenses	(184.5)	(170.5)	(193.6)	(4.7)	8.2	(549.3)	(383.2)	43.4
Operating profit	**111.8**	**109.5**	**117.2**	(4.6)	2.0	**329.4**	**596.9**	(44.8)
Finance income	0.9	1.2	1.2	(23.9)	(19.0)	3.0	3.4	(11.7)
Finance costs	(1.2)	(1.0)	(0.7)	82.7	17.0	(3.3)	(2.4)	39.0
Share of results of associates	3.0	2.4	1.6	92.2	23.9	6.5	4.8	36.7
Share of results of a JV	(0.0)	(0.1)	(0.1)	(37.1)	(22.8)	(0.1)	(0.2)	(14.1)
PBT	**114.4**	**112.0**	**119.2**	(4.0)	2.2	**334.5**	**417.5**	(19.9)
Taxation	(16.9)	(18.1)	(23.1)	(26.5)	(6.5)	(50.3)	(81.0)	(37.9)
PAT	**97.5**	**93.9**	**96.1**	1.4	3.8	**284.3**	**336.5**	(15.5)
One-off item	(4.6)	2.4	(0.9)	436.8	(291.1)	(19.2)	1.8	(1195.9)
Normalised PAT	**92.9**	**96.3**	**95.3**	(2.5)	(3.5)	**265.1**	**338.2**	(21.6)
Basic EPS (sen)	26.6	25.6	26.3	1.1	3.9	77.5	92.1	(15.8)
Diluted EPS (sen)	25.3	26.2	26.1	(2.8)	(3.5)	72.3	92.6	(21.9)
DPS (sen)	28.0	27.0	0.0	n.a.	3.7	54.0	27.0	n.a.
				+/(-) ppts			*+/(-) ppts*	
Gross profit margin (%)	26.1	24.9	29.1	(3.0)	1.1	26.0	30.0	(4.0)
Operating margin (%)	10.0	9.9	11.1	(1.1)	0.1	9.9	18.5	(8.6)
PBT margin (%)	10.2	10.1	11.2	(1.0)	0.1	10.0	12.9	(2.9)
PAT margin (%)	8.7	8.5	9.1	(0.4)	0.2	8.5	10.4	(1.9)
Normalised PAT margin (%)	8.3	8.7	9.0	(0.7)	(0.4)	8.0	10.5	(2.5)
Effective Tax rate (%)	14.8	16.2	19.3	(4.5)	(1.4)	15.0	19.4	(4.4)

Source: Company, MIDF

F&N: BREAKDOWN BY SEGMENT

FYE SEPT (RM'm)	Quarterly results					Cumulative results		
	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue								
F&B Malaysia	626.8	615.1	540.2	16.0	1.9	1817.5	1672.5	8.7
F&B Thailand	490.1	491.8	517.9	(5.4)	(0.4)	1511.8	1558.2	(3.0)
Property	0.2	0.2	0.2	(12.7)	0.6	0.5	0.6	(16.5)
Others	1.2	0.6	1.3	(12.2)	101.6	2.8	3.3	(16.6)
Total	**1118.2**	**1107.7**	**1059.6**	**5.5**	**1.0**	**3332.5**	**3234.6**	**3.0**
Operating profit								
F&B Malaysia	50.4	45.2	17.1	194.0	11.6	118.2	88.4	33.7
F&B Thailand	58.7	61.8	98.7	(40.5)	(5.0)	200.9	320.3	(37.3)
Property	0.3	0.2	0.2	27.9	65.2	0.7	0.6	13.2
Others	2.4	2.3	0.7	247.6	3.5	8.7	1.9	356.2
Adjustments and eliminations	0.0	0.1	0.4	(100.0)	(100.0)	0.0	0.6	(100.0)
Total	**111.8**	**109.5**	**117.2**	**(4.6)**	**2.0**	**328.5**	**411.9**	**(20.2)**
Operating profit margin (%)				**+/(-) ppts**				**+/(-) ppts**
F&B Malaysia	8.0	7.3	3.2	153.3	(95.2)	6.5	5.3	1.2
F&B Thailand	12.0	12.6	19.1	(37.1)	(133.8)	13.3	20.6	(7.3)
Property	154.7	94.2	105.6	46.5	102.6	133.7	98.7	35.1
Total	**203.3**	**395.7**	**51.3**	**296.1**	**33.6**	**312.6**	**57.2**	**255.4**

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology