Fraser & Neave Holdings Berhad

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

***Maintain* BUY**

***Unchanged* Target Price: RM29.70**

Demand remains robust; better sales ahead

KEY INVESTMENT HIGHLIGHTS

- **Earnings within expectations**
- **Better top-line and bottom-line in 4QFY22**
- **Domestic market demand remained robust in Malaysia and Thailand.**
- **Healthy balance sheet**
- **Maintain BUY with an unchanged TP of RM29.70**

Earnings within expectations. Fraser & Neave Holdings Bhd ("F&N") reported a core PATANCI of RM386.5m for FY22. This came in within our and consensus' FY22 estimates, at 100.5% and 105% respectively.

Better top-line and bottom-line in 4QFY22. In 4QFY22, the group's revenue increased from RM1.12b in 3QFY22 to RM1.14b. The positive momentum was supported by increased sales volume from F&B Thailand despite upward price adjustments. Operating profit margin increased marginally by -0.5ppt to 10.5% mainly due to improved margin from F&B Thailand that offset the rising input costs and higher operational expenses. In 4QFY22, the core earnings improved marginally by +0.3qoq to RM93.1m. On yearly basis, the higher gross profit margin was brought on by a combination of stronger demand and greater margins from upward price adjustments, more than offset the high commodity price. Thus, core PATANCI in 4QFY22 rose +47.2%yoy to RM93.1m.

Domestic market demand remained robust in Malaysia and Thailand. F&N's increased revenue for FY22 of +8.2%yoy was supported by the price adjustment approach, robust demand, and the maiden full-year contribution from the Group's food division. Nevertheless, the operating profit margin decreased marginally by -1.4 ppt to 10% due to the high commodity and freight costs. As such, the core PATANCI for FY22 decreased by -3.6%yoy to RM386.5m, mainly due to elevated production costs.

Healthy balance sheet. The group introduce a new non-current loans and borrowings of RM210m in 4QFY22, of which RM110m was borrowed in Islamic medium-term notes and the remaining in term loans. The proceed will be used to partially finance the acquisition of Ladang Permai Damai. The group's net cash position, however, remained solid, at RM215.1m, or 2.9% of the market capitalization.

Proposed dividend. The group proposed a final single-tier dividend of 33.0sen/share, pending the approval of shareholders at the upcoming AGM. This will bring the total dividends paid out for FY22 to 60 sen/per share, matching the total dividend paid for FY21. This also translates into dividend yield of 3.0%.

RETURN STATISTICS	
Price @ 8th November 2022 (RM)	19.94
Expected share price return (%)	+48.8
Expected dividend yield (%)	+3.0
Expected total return (%)	**+51.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.5	-9.5
3 months	-7.5	-7.8
12 months	-24.9	-19.8

KEY STATISTICS	
FBM KLCI	1,441.35
Syariah compliant	Yes
Issue shares (m)	366.78
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Estimated free float (%)	73.05
Market Capitalisation (RM'm)	7,328.23
52-wk price range	RM19.2 - RM27.5
Beta vs FBM KLCI (x)	0.57
3-mth average daily volume (m)	0.09
3-mth average daily value (RM'm)	1.92
Top Shareholders (%)	
EPF	13.24
Amanah Saham Nasional	8.75
KWAP	2.25

MIDF research
research@midf.com.my

Completion and implementation of several CAPEX projects to effectively control costs. This includes the integrated warehouse in Shah Alam and the regional distribution center in Rojana, Thailand. The projects are anticipated to result in annual savings in logistics costs of more than RM10m, lower the group's carbon footprint, and shorten lead times for client deliveries. The group also debuted a new in-sourced transportation service in Malaysia with five (5) new delivery trucks to better manage supply chain activities and have better control over the service, quality, and pricing.

Introduce plant-based beverages segment in Thailand. The group launched a new factory in Wang Muang, Thailand, which has been fully operational since October 2022. With this factory, F&N will be able to expand its market share in the liquid milk industry and develop its brand in Thailand's plant-based beverage market.

Completed the acquisition of Ladang Permai Damai and Cocoaland Holdings Bhd ("Cocoaland"). On 11 October 2022, F&N successfully acquired Ladang Permai Damai which allow F&N to resume its plan for the upstream fresh milk business for the production and distribution of fresh milk in the downstream segment. The group also completed the acquisition of Cocoaland on 4 November 2022. This will provide a platform for expanding into more Halal food segments and satisfy the growing demand for packaged food products. Also, this will increase the group's portfolio to include several prominent Malaysian snack and confectionery brands.

Maintain BUY with an unchanged TP of RM29.70. We make no changes to our earnings forecast for FY23-FY24E pending analyst briefing. Our TP is unchanged at RM29.70, 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 3.0%. Reiterate **BUY**. We continue to like F&N underpinned by its: (i) consistent product innovation to meet consumer demand and taste; (ii) potential future earnings growth from the acquisition of Ladang Permai Damai and Cocoaland; and (iii) efficient cost management to mitigate the effects of rising commodity and logistics costs. Also, we foresee positive sales ahead supported by the upcoming festive season. **Key downside risks** include: (i) raw material shortage, and (ii) a sharp increase in commodity prices which could impact the cost and profitability of its product.

INVESTMENT STATISTICS

FYE SEPT (RM'm)	2020A	2021A	2022A	2023E	2024E
Revenue	3,988.5	4,130.9	4,470.2	4,812.3	5,105.9
Cost of Sales	(2,758.1)	(2,936.7)	(3,296.1)	(3,441.7)	(3,578.7)
Gross Profit	1,230.4	1,194.2	1,174.1	1,370.6	1,527.3
EBIT	515.2	472.3	447.9	504.3	609.3
Net finance (expenses)/income:	0.2	1.8	(1.5)	2.4	3.0
Profit before tax (PBT)	522.9	479.4	454.1	506.8	612.3
Income tax expense	(112.8)	(84.3)	(71.8)	(94.5)	(108.8)
Profit After tax (PAT)	**410.1**	**395.1**	**382.3**	**412.2**	**503.5**
Core PATANCI	**405.9**	**397.9**	**382.3**	**412.2**	**503.5**
Basic EPS (sen)	111.9	107.8	104.5	112.5	137.4
DPS (sen)	60.0	60.0	60.0	65.0	70.0
Growth & Margin					
Revenue Growth (%)	(2.2)	3.6	8.2	7.7	6.1
Gross Profit Growth (%)	(2.9)	(2.9)	(1.7)	16.7	11.4
Core PATANCI Growth (%)	(4.6)	(2.0)	(3.9)	7.8	22.1
Gross Profit Margin (%)	30.8	28.9	26.3	28.5	29.9
PBT Margin (%)	13.1	11.6	10.2	10.5	12.0
Core PATANCI Margin (%)	10.2	9.6	8.6	8.6	9.9
Ratios & Valuation					
Effective tax rate (%)	21.6	17.6	15.8	18.7	17.8
Dividend Yield (%)	3.0	3.0	3.0	3.3	3.5
PER (x)	17.8	18.5	19.1	17.7	14.5
Cash/share (sen)	134.6	151.4	126.1	183.7	198.9
Cash/Market Capitalisation (sen)	6.7	7.6	6.3	9.2	10.0

Source: Company, MIDFR

F&N: 4QFY22 RESULT SUMMARY

FYE SEPT (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue	1,137.6	1,118.2	896.3	26.9	1.7	4,470.1	4,130.9	8.2
Cost of sales	(829.1)	(826.8)	(672.1)	23.3	0.3	(3,296.1)	(2,936.7)	12.2
Gross profit	**308.6**	**291.4**	**224.1**	**37.7**	**5.9**	**1,174.1**	**1,194.1**	**(1.7)**
Operating expenses	(195.4)	(184.5)	(168.8)	15.7	5.9	(744.6)	(738.8)	0.8
Operating profit (EBIT)	**119.4**	**111.8**	**60.5**	**97.4**	**6.9**	**447.9**	**472.3**	**(5.2)**
Net finance income/(cost)	(1.2)	(0.3)	0.7	(262.7)	310.1	(1.5)	1.7	(184.5)
Profit before tax (PBT)	**119.5**	**114.4**	**62.0**	**92.7**	**4.5**	**454.0**	**479.5**	**(5.3)**
Income tax expense	(21.5)	(16.9)	(3.3)	560.7	27.0	(71.8)	(84.2)	(14.8)
Profit After tax (PAT)	**98.0**	**97.5**	**58.8**	**66.7**	**0.5**	**382.3**	**395.2**	**(3.3)**
One-off items	(4.0)	(4.6)	4.5	(189.6)	(12.5)	4.3	5.6	(24.3)
Core PATANCI	**93.1**	**92.9**	**63.2**	**47.2**	**0.3**	**386.5**	**400.9**	**(3.6)**
Basic EPS (sen)	27.0	26.6	16.0	68.8	1.6	104.5	107.8	(3.1)
DPS (sen)	0.0	27.0	33.0	(100.0)	(100.0)	27.0	60.0	(55.0)
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Revenue Growth	1.7	1.0	(15.4)	17.1	0.8	34.1	27.7	6.4
Operating Profit Growth	6.9	2.0	(48.4)	55.2	4.8	36.4	14.7	21.7
Core PATANCI Growth	0.3	11.7	(33.6)	33.9	(11.5)	32.1	18.7	13.4
Operating Profit Margin	10.5	10.0	6.8	3.7	0.5	10.0	11.4	(1.4)
PBT Margin	10.5	10.2	6.9	3.6	0.3	10.2	11.6	(1.4)
Core PATANCI Margin	8.2	8.3	7.1	1.1	(0.1)	8.6	9.7	(1.1)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	2.9	3.5	7.6	(4.6)	(0.5)	(2.9)	(7.6)	4.6
Effective tax rate (%)	18.0	14.8	5.2	12.8	3.2	15.8	17.6	(1.8)
Inventories (Days)	396.8	386.5	358.3	10.8	2.7	99.8	82.0	21.7

Source: Company, MIDF

F&N: BREAKDOWN BY SEGMENT

FYE SEPT (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue								
F&B Malaysia	600.6	626.8	457.9	31.1	(4.2)	2,418.1	2,130.5	13.5
F&B Thailand	535.8	490.1	436.2	22.8	9.3	2,047.5	1,994.4	2.7
Property	0.2	0.2	0.6	(68.5)	4.1	0.7	0.6	13.7
Others	1.1	1.2	2.1	(48.9)	(5.8)	3.9	5.4	(28.2)
Total	**1,137.6**	**1,118.2**	**896.8**	**26.8**	**1.7**	**4,470.2**	**4,130.8**	**8.2**
Operating Profit:								
F&B Malaysia	49.8	50.4	9.3	435.1	(1.2)	168.0	97.7	71.9
F&B Thailand	75.0	58.7	49.1	52.8	27.7	275.9	369.4	(25.3)
Property	(0.2)	0.3	(0.5)	(58.1)	(182.0)	0.4	0.1	604.8
Others	(5.1)	2.4	0.2	(3,228.7)	(317.0)	3.5	2.1	71.2
Adjustments and eliminations	0.0	0.0	2.4	(100.0)	n.m.	0.0	3.0	(100.0)
Total	**119.4**	**111.8**	**60.4**	**97.7**	**6.9**	**447.9**	**472.3**	**(5.2)**
Operating profit margin:				*+/(-) ppts*		*+/(-) ppts*		
F&B Malaysia	8.3	8.0	2.0	6.3	0.3	6.9	4.6	2.4
F&B Thailand	14.0	12.0	11.3	2.7	2.0	13.5	18.5	(5.0)
Property	(121.8)	154.7	(91.4)	(30.4)	(276.4)	65.9	10.6	55.3
Others	0.0	0.0	111.1	(111.1)	0.0	0.0	55.4	(55.4)
Total	**10.5**	**10.0**	**6.7**	**3.8**	**0.5**	**10.0**	**11.4**	**(1.4)**

Source: Company, MIDF

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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