Briefing Note | Thursday, 10 November 2022

Fraser & Neave Holdings Berhad

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

***Maintain* BUY**

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

First Milking in December 2024

KEY INVESTMENT HIGHLIGHTS

- **Integrated warehouse in Shah Alam**
- **Margin remains compressed for F&B Thailand ahead**
- **More about the integrated dairy farm**
- **More capex in 2023**
- **Maintain BUY with an unchanged TP of RM29.70**

We attended F&N analyst briefing yesterday and we remained positive about the outlook of F&N. The key takeaways are as follows:-

Integrated warehouse in Shah Alam. We gather that the integrated warehouse is only 60% utilized. This is primarily due to the 2021 flash flood in Shah Alam, which destroyed 40% of the integrated warehouse. Also, the global supply chain disruption caused delays in receiving the spare part for the warehouse. Management targets to have the integrated warehouse fully utilized by March 2023, which will benefit the company by reducing the reliant on third party.

Margin remains compressed for F&B Thailand ahead. Given that F&B Thailand's products are on the Thai government price watch list, it has limited room to pass on higher input costs to customers. Hence, the group is wary about the difficulties in maintaining the operating profit margin for F&B Thailand at the current level ahead, in view of growing prices for tin plates (cans), milk, and palm oil. In 4QFY22, F&B Thailand's operating profit margin increased to 13.5% from 13.3% in the previous quarter. However, this is still below the operating profit margin for the period FY19-FY21 at 19%-22%. Moving forward, the group will continue to be on track with its strategies to raise cost efficiency to sustain the margin at least at the current level.

More about the integrated dairy farm. The group successfully acquired the Ladang Permai Damai on October 11, 2022, for RM215.6m. Following the acquisition, the acquired company (Ladang Permai Damai) would operate as an integrated dairy farm and corp plantation. The group targets that all plans will be finalized and approved in 2022, and site construction will commence in 2023, followed by the 1st crop to be planted in 2024 and the commencement of the first milking is expected to be in December 2024. The integrated dairy farm is anticipated to have 5,000 milking cows at the commencement of the first milking, which is equivalent to 50m litres of milk produced under optimum conditions. We do not project the integrated dairy farm into our FY23-24F as it will only be expected to commence in December 2024.

RETURN STATISTICS	
Price @ 9th November 2022 (RM)	20.16
Expected share price return (%)	+44.0
Expected dividend yield (%)	+3.0
Expected total return (%)	**+47.0**

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	1,446.19
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

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More capex in 2023. The group expect a capital expenditure (Capex) of between RM700m and RM800m in 2023, nearly three (3) times RM250m capex for 2022. This is mostly costs associated with the integrated dairy farm.

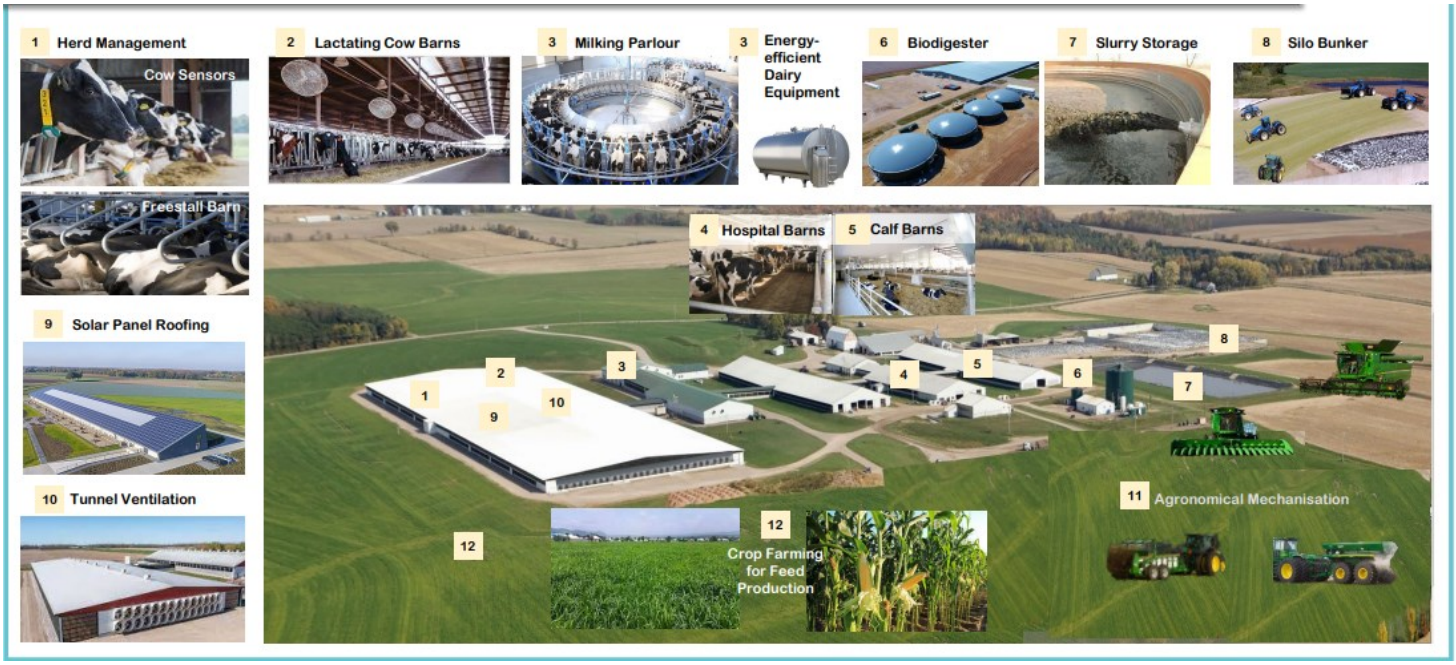
Maintain BUY with an unchanged TP of RM29.70. Post analyst briefing, we make no changes to our earnings forecast for FY23-FY24E. Our TP is unchanged at RM29.70, based on a PER of 25.8x, 2- year historical mean, pegged to FY23F EPS of 115sen. The dividend yield is estimated at 3.0%. F&N continues to be our top pick for the sector. Our **BUY** call is underpinned by its: (1) consistent product innovation to meet consumer demand and taste; (2) diversified portfolio across F&B, halal food, and confectionery (via recently acquired company - Cocoaland), (3) stable demand for the products; and (4) effective cost management to mitigate the impact of high input cost. **Downside risks** are (i) raw material shortage, and (ii) a further increase in commodity prices which could impact the cost and profitability.

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

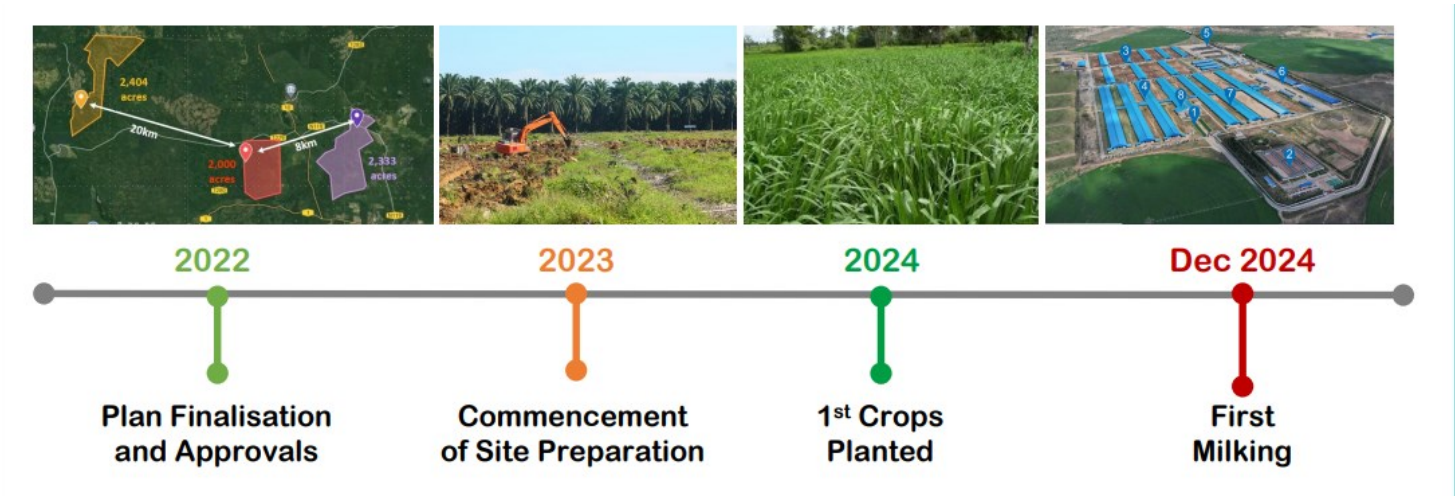
Source: Company, MIDFR

EXHIBIT 1: INTEGRATED DAIRY FARM



Source: Company, MIDFR

EXHIBIT 2: KEY MILESTONES FOR THE INTEGRATED DAIRY FARM



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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