# Fraser & Neave Holdings Berhad

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

***Maintain* BUY**

## Benefitting from return of international tourist

***Revised* Target Price: RM33.50**
*(from RM29.70)*

## KEY INVESTMENT HIGHLIGHTS

- **Earnings met expectations**
- **Solid revenue growth**
- **F&B Malaysia outperformed F&B Thailand**
- **Greater loans and borrowing**
- **Revised earnings projection for FY23F-24F**
- **Maintain BUY with a higher TP of RM33.50 (from RM29.70)**

**Earnings met expectations.** Fraser & Neave Holdings Bhd ("F&N") recorded a core PATANCI of RM117.7m for 1QFY23. This was after taking out an RM85.2m one-time item. The result came in within our and consensus full-year FY23F estimation, which accounts for 27.1% of ours and 26.2% of the consensus' full-year projection. No dividend was declared during the quarter.

**Solid revenue growth.** Sequentially, F&N's core PATANCI increased by +20.0%qoq to RM111.7m in 1QFY23, in tandem with higher revenue of RM1.2b in 1QFY23 as compared to RM1.1b in 4QFY22. The upward momentum was contributed by stronger festive sales and export sales from F&B Malaysia (+18.8%qoq) as well as additional revenue contributions from Cocoaland following completion of the acquisition on 4 Nov 2022. On yearly basis, the group's core PATANCI dropped -4.1%yoy to RM111.7m in 1QFY23 despite higher revenue growth of +10.1%yoy to RM1.2b. This was primarily caused by F&B Thailand's reduced operational profit and increased finance costs due to greater borrowing.

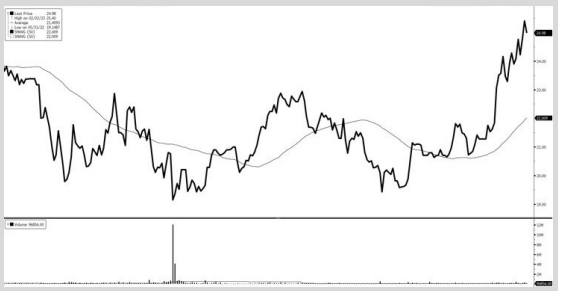
**F&B Malaysia outperformed F&B Thailand.** F&B Malaysia recorded an increased operating profit of RM70.4m (+41.5%qoq and +211.2%yoy). This was mostly caused by a boost in revenue from seasonal sales, export sales, contributions from Cocoaland, and improved margins for dairy and beverage products. On the other hand, F&B Thailand's lower operating profit of RM67.9m (-9.5%qoq and -15.6%yoy) was due to weaker export volume to Indochina.

**Greater loans and borrowings.** The loans and borrowings increased from RM246.8m in 4QFY22 to RM710m in 1QFY23 to fund the acquisition of Cocoaland and Ladang Permai Damai.

**Revised earnings projection for FY23F-24F.** We raised our earnings forecast for FY23F by +5.4% and FY24F by +7.2%. This is after accounting for strong sales brought on by the return of international visitors which could boost out-of-home beverage consumption. We also factor in lower raw material costs due to falling global commodity prices.

| RETURN STATISTICS | |
|---|---|
| Price @ 3rd February 2023 (RM) | 25.00 |
| Expected share price return (%) | +34.0 |
| Expected dividend yield (%) | +2.6 |
| **Expected total return (%)** | **+36.58** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 15.4 | 15.8 |
| 3 months | 15.4 | 20.2 |
| 12 months | 0.8 | 2.3 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,490.47 |
| Syariah compliant | Yes |
| Issue shares (m) | 366.78 |
| F4BGM Index | Yes |
| ESG Grading Band (Star rating) | ☆☆☆☆ |
| Estimated free float (%) | 74.68 |
| Market Capitalisation (RM'm) | 9,132.78 |
| 52-wk price range | RM19.2 - RM25 |
| Beta vs FBM KLCI (x) | 0.69 |
| 3-mth average daily volume (m) | 0.12 |
| 3-mth average daily value (RM'm) | 2.59 |
| Top Shareholders (%) | |
| EPF | 13.33 |
| Amanah Saham Nasional | 7.52 |
| KWAP | 2.58 |

**Analyst(s)**
Genevieve Ng Pei Fen
genevieve.ng@midf.com.my
03-2173 1678

**Maintain BUY with a higher TP of RM33.50 (from RM29.70).** We raised our **TP** to **RM33.50**, based on a revised PER of 23x (5-year historical mean) pegged to FY24F EPS of 146.9sen. We maintain our **BUY** call on F&N. We are optimistic about F&N's outlook underpinned by: (1) the increase in out-of-home consumption benefitting from the return of international tourists to Malaysia and Thailand after the reopening of the border; (2) additional revenue from the integration of Cocoaland; (3) transformation of Ladang Permai Damai into an integrated dairy farm and crop plantation; (4) declining global commodity prices that may improve margin, and (5) normalising export sales to China after the reopening of China's border. F&N is currently trading at a compelling FY24F PER of 17x vs. its 5-year average mean PER of 23x, while offering a dividend yield of 2.6% in FY23F.

**Key downside risks** are (1) raw material shortage, and (2) a sharp increase in commodity prices which could impact the cost and profitability of its product.

## INVESTMENT STATISTICS

| FYE SEPT (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Revenue | 4,130.9 | 4,470.2 | 4,956.6 | 5,459.4 | 5,846.4 |
| Cost of Sales | (2,936.7) | (3,296.1) | (3,545.1) | (3,807.1) | (4,015.8) |
| **Gross Profit** | **1,194.2** | **1,174.1** | **1,411.5** | **1,652.3** | **1,830.6** |
| Other Income | 18.0 | 20.9 | 23.6 | 26.8 | 29.3 |
| Selling and Distribution expenses | (590.0) | (588.4) | (711.2) | (806.8) | (881.3) |
| General & Administrative | (119.4) | (131.5) | (150.2) | (167.0) | (180.7) |
| Other operating expenses | (30.5) | (27.1) | (21.6) | (23.3) | (24.5) |
| **EBIT** | **472.3** | **447.9** | **552.2** | **681.9** | **773.4** |
| **Profit before tax (PBT)** | **479.4** | **454.1** | **531.8** | **660.8** | **758.5** |
| Income tax expense | (84.3) | (71.8) | (97.4) | (121.1) | (138.9) |
| **PATANCI** | **395.2** | **383.2** | **434.4** | **539.7** | **619.5** |
| **Core PATANCI** | **400.0** | **386.6** | **434.4** | **539.7** | **619.5** |
| Basic EPS (sen) | 107.8 | 104.5 | 118.2 | 146.9 | 168.6 |
| DPS (sen) | 60.0 | 60.0 | 65.0 | 70.0 | 75.0 |
| **Growth & Margin (%)** | | | | | |
| Revenue Growth (%) | 3.6 | 8.2 | 10.9 | 10.1 | 7.1 |
| Gross Profit Growth (%) | (2.9) | (1.7) | 20.2 | 17.1 | 10.8 |
| Core PATANCI Growth (%) | (1.5) | (3.3) | 12.4 | 24.2 | 14.8 |
| Gross Profit Margin (%) | 28.9 | 26.3 | 28.5 | 30.3 | 31.3 |
| Core PATANCI Margin (%) | 9.7 | 8.6 | 8.8 | 9.9 | 10.6 |
| **Ratios & Valuation** | | | | | |
| Effective tax rate (%) | 17.6 | 15.8 | 18.3 | 18.3 | 18.3 |
| Dividend Yield (%) | 2.4 | 2.4 | 2.6 | 2.8 | 3.0 |
| PER (x) | 23.2 | 23.9 | 21.1 | 17.0 | 14.8 |
| Cash/Market Capitalisation (sen) | 6.0 | 5.0 | 7.5 | 8.0 | 8.4 |
| Cash/share (sen) | 151.2 | 125.7 | 188.2 | 201.0 | 211.0 |

*Source: Company, MIDFR*

## F&N: 1QFY23 RESULT SUMMARY

| FYE SEPT (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 1QFY23 | 4QFY22 | 1QFY22 | YoY (%) | QoQ (%) | 3MFY23 | 3MFY22 | YoY (%) |
| Revenue | 1,218.5 | 1,137.6 | 1,106.6 | 10.1 | 7.1 | 1,218.5 | 1,106.6 | 10.1 |
| Cost of Sales | (880.5) | (829.1) | (808.5) | 8.9 | 6.2 | (880.5) | (808.5) | 8.9 |
| **Gross Profit** | **338.0** | **308.6** | **298.1** | **13.4** | **9.5** | **338.0** | **298.1** | **13.4** |
| Other income | 98.3 | 7.7 | 3.1 | 3,074.3 | 1,171.5 | 98.3 | 3.1 | 3,074.3 |
| Operating expenses | (211.5) | (195.4) | (194.2) | 8.9 | 8.3 | (211.5) | (194.2) | 8.9 |
| Other expenses | 0.1 | (1.5) | 0.2 | (13.2) | (109.0) | 0.1 | 0.2 | (13.2) |
| Operating profit (EBIT) | 224.9 | 119.4 | 107.2 | 109.8 | 88.2 | 224.9 | 107.2 | 109.8 |
| **Profit before tax (PBT)** | **222.4** | **119.5** | **108.1** | **105.7** | **86.1** | **222.4** | **108.1** | **105.7** |
| Profit After tax (PAT) | 197.9 | 98.0 | 92.9 | 112.9 | 101.9 | 197.9 | 92.9 | 112.9 |
| PATANCI | 196.9 | 97.1 | 92.9 | 111.9 | 102.8 | 196.9 | 92.9 | 111.9 |
| **Core PATANCI** | **111.7** | **93.1** | **116.5** | **(4.1)** | **20.0** | **111.7** | **116.5** | **(4.1)** |
| Basic EPS (sen) | 55.2 | 27.0 | 25.3 | 118.1 | 104.4 | 55.2 | 25.3 | 118.1 |
| DPS (sen) | 0.0 | 0.0 | 0.0 | n.m. | n.m. | 0.0 | 0.0 | n.m. |
| **Growth & Margin (%)** | | | | ***+/(-) ppts*** | ***+/(-) ppts*** | | | ***+/(-) ppts*** |
| Revenue Growth | 7.1 | 1.7 | 23.5 | (16.4) | 5.4 | (72.7) | (73.2) | 0.5 |
| Core PATANCI Growth | 20.0 | 0.3 | 84.3 | (64.3) | 19.8 | (71.0) | (70.9) | (0.1) |
| Operating Profit Margin | 18.5 | 10.5 | 9.7 | 8.8 | 8.0 | 18.5 | 9.7 | 8.8 |
| Core PATANCI Margin | 9.2 | 8.2 | 10.5 | (1.4) | 1.0 | 9.2 | 10.5 | (1.4) |
| **Ratios & Valuation** | | | | ***+/(-) ppts*** | ***+/(-) ppts*** | | | ***+/(-) ppts*** |
| Effective tax rate (%) | 11.0 | 18.0 | 14.1 | (3.0) | (7.0) | 11.0 | 14.1 | (3.0) |
| Inventories (Days) | 382.0 | 396.8 | 318.2 | 20.1 | (3.7) | 382.0 | 318.2 | 20.1 |

*Source: Company, MIDF*

## F&N: BREAKDOWN BY SEGMENT

| FYE SEPT (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 1QFY23 | 4QFY22 | 1QFY22 | YoY (%) | QoQ (%) | 3MFY23 | 3MFY22 | YoY (%) |
| **Revenue (RM'm):** | | | | | | | | |
| F&B Malaysia | 713.3 | 600.6 | 575.6 | 23.9 | 18.8 | 713.3 | 575.6 | 23.9 |
| F&B Thailand | 504.2 | 535.8 | 529.8 | (4.8) | (5.9) | 504.2 | 529.8 | (4.8) |
| Property | 0.2 | 0.2 | 0.2 | 23.7 | 5.0 | 0.2 | 0.2 | 23.7 |
| Others | 0.8 | 1.1 | 1.0 | (18.5) | (22.9) | 0.8 | 1.0 | (18.5) |
| **Total** | **1,218.5** | **1,137.6** | **1,106.6** | **10.1** | **7.1** | **1,218.5** | **1,106.6** | **10.1** |
| **Operating Profit (RM'm):** | | | | | | | | |
| F&B Malaysia | 70.4 | 49.8 | 22.6 | 211.2 | 41.5 | 70.4 | 22.6 | 211.2 |
| F&B Thailand | 67.9 | 75.0 | 80.4 | (15.6) | (9.5) | 67.9 | 80.4 | (15.6) |
| Property | (0.3) | (0.2) | 0.2 | (229.4) | 39.4 | (0.3) | 0.2 | (229.4) |
| Others | 86.8 | (5.1) | 4.0 | 2,054.6 | (1,792.2) | 86.8 | 4.0 | 2,054.6 |
| Adjustments and eliminations | 0.0 | 0.0 | (0.1) | (100.0) | n.m. | 0.0 | (0.1) | (100.0) |
| **Total** | **224.9** | **119.4** | **107.2** | **109.8** | **88.3** | **154.4** | **84.6** | **82.6** |
| **Operating profit margin (%):** | | | | | | | | |
| F&B Malaysia | 9.9 | 8.3 | 3.9 | 5.9 | 1.6 | 170.8 | 192.3 | (11.1) |
| F&B Thailand | 13.5 | 14.0 | 15.2 | (1.7) | (0.5) | 0.0 | 0.0 | n.m. |
| Property | (161.7) | (121.8) | 154.6 | (316.3) | (39.9) | (161.7) | 154.6 | (204.6) |
| Others | 10,287.8 | (468.6) | 389.0 | 9,898.8 | 10,756.4 | 0.0 | (8.9) | (100.0) |
| **Total** | **18.5** | **10.5** | **9.7** | **8.8** | **8.0** | **12.7** | **7.6** | **65.8** |

*Source: Company, MIDF*

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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