Fraser & Neave Holdings Berhad

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

***Maintain* BUY**

Strategic partnership with Nestle S.A.

***Unchanged* Target Price: RM33.50**

DEVELOPMENT

- Fraser & Neave Holdings Bhd ("F&N") obtained extended rights from Société Des Produits Nestlé S.A. and Nestec S.A. (Nestlé) as the exclusive manufacturer and distributor for Nestlé's BEAR BRAND sterilised milk in Cambodia, effective 1 March 2023 through to 2037.
- We gather that the contract expansion is part of license agreements originally granted by Nestlé in 2007 and subsequently renewed in 2015.

OUR VIEW

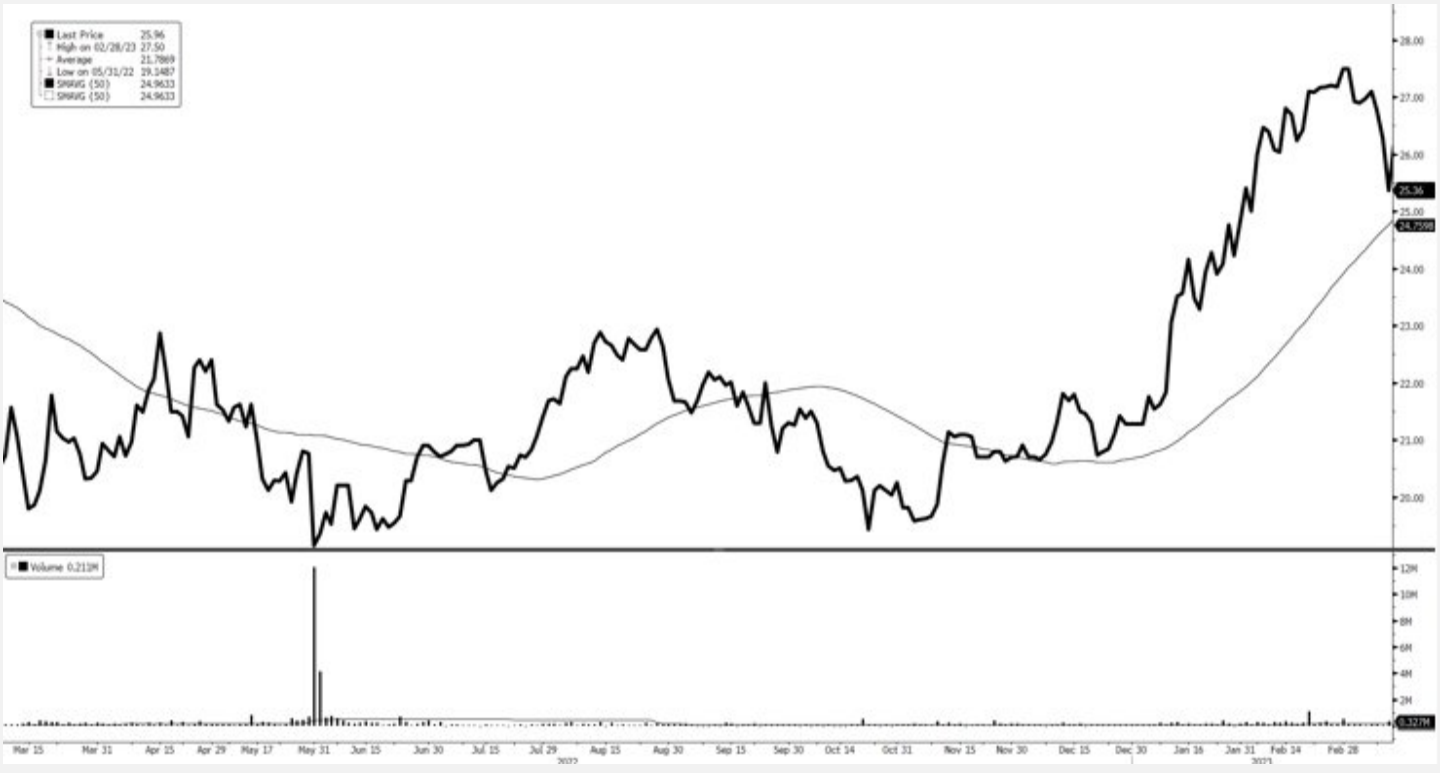
- We are optimistic about the extended right to allow the company to increase its market share in the liquid milk segment. Note that F&N currently manufactures and distributes the BEAR BRAND sterilised milk and BEAR BRAND Gold beverages for Thailand and Laos.
- Based on the news statement, the group announced that BEAR BRAND sterilised milk would continue to be manufactured at F&N's Rojana factory. We are optimistic that manufacturing BEAR BRAND sterilised milk at Rojana Factory would result in economies of scale given that Rojana Factory is the largest canned liquid milk factory in Thailand and the ASEAN region. The Rojana Distribution Center in Thailand also connects the factory to a vast Southeast Asian supply chain network, reducing transit time and promoting effective manufacturing.
- Overall, we are positive about the announcement will broaden F&N's geographical footprint, thereby mitigating downside risk. We believe that the announcement, along with the recently completed milk and plant-based beverages factory in Wang Muang, Thailand, would allow F&N to expand its revenue portfolio in the liquid milk segment and capture a larger market share, thereby supporting top line growth going forward. Given that the demand for liquid milk products is rising in the ASEAN region, and yet the region is not self-sufficient in milk production.
- We do not adjust our earnings estimate for FY23F-25F pending for more details from the management.
- Overall, we continue to like F&N as the medium to long-term outlook remains intact, underpinned by: (1) emerging out-of-home beverage consumption fuelled by tourists' returns to Malaysia and Thailand after the border reopened; (2) an expansion of the company's revenue base by expanding its liquid milk segment which would benefit from the growing demand for liquid milk in ASEAN region; and (3) a return to normalcy in export sales after the border reopened.
- F&N is currently trading at a compelling FY24F PER of 18x vs. its 5-year average mean PER of 23x, while offering a dividend yield of 2.6% in FY23F.
- We maintain our **BUY** stance on F&N with an unchanged **target price of RM33.50.** Our target price is based on PER of 23x (5-year historical mean) pegged to FY24F EPS of 146.9sen.

INVESTMENT STATISTICS

FYE Sept (RM'm)	2021A	2022A	2023F	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**
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**
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
Profitability Margin (%)					
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 (%)	2.3	2.3	2.5	2.7	2.9
PER (x)	24.1	24.8	22.0	17.7	15.4
Cash/Market Capitalisation (sen)	5.8	4.8	7.2	7.7	8.1
Cash/share (sen)	151.2	125.7	188.2	201.0	211.0

Source: Company, MIDFR

SHARE PRICE CHART



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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