Fraser & Neave Holdings Berhad

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

Stable Demand

***Maintain* BUY**

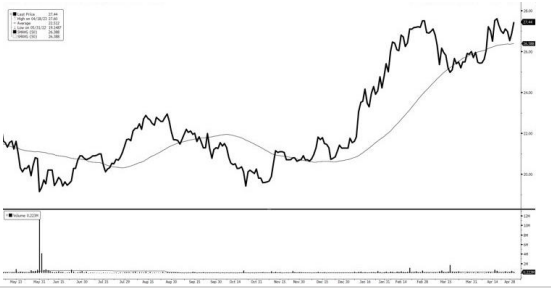
***Unchanged* Target Price: RM33.50**

KEY INVESTMENT HIGHLIGHTS

- **Within expectations**
- **Better revenue and core PATANCI in 2QFY23**
- **Higher revenue contribution from F&B Malaysia in 1HFY23.**
- **Maintain BUY with an unchanged TP of RM33.50**

RETURN STATISTICS	
Price @ 3rd May 2023 (RM)	27.44
Expected share price return (%)	+22.10
Expected dividend yield (%)	2.70
Expected total return (%)	**+24.83**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.8	7.0
3 months	5.5	14.7
12 months	19.3	33.9

Within expectations. Fraser & Neave Holdings ("F&N") reported a core PATANCI of RM219.4m for 1HFY23, after excluding a one-time-off item of RM80.6m. The earnings came in within our and consensus' full-year projections for FY23F, accounting for 50.5% of ours and 48.7% of streets'. The group declared a single-tier interim dividend of 27sen/share for 2QFY23 (entitlement date: 18 May 2023).

Better revenue and core PATANCI in 2QFY23. On yearly basis, the group's top line increased +8.9%yoy to RM1.21b due to additional revenue from Cocoaland and festive sales for F&B Malaysia. The operating profit margin increased marginally throughout the quarter from 9.9% in 2QFY22 to 10.4% during the quarter. This was mainly driven by better price, margin, and cost management. As such, core PATANCI rose +27.3%yoy to RM105.8m. On quarterly basis, the core PATANCI decreased -6.9%qoq to RM105.8m, which was in line with lower revenue of RM1.21b (-1%qoq). This was primarily caused by the reduced revenue, higher brand investment as well as more advertising & promotional spending during the quarter.

Higher revenue contribution from F&B Malaysia in 1HFY23. Cumulatively, the revenue rose +9.5%yoy to RM2.4b mostly owing to the festive season and additional Cocoaland contributions from F&B Malaysia, which more than offset reduced revenue from F&B Thailand. Operating profit increased +61.9%yoy to RM350.9m thanks to higher operating profit from both F&B Malaysia and F&B Thailand. As such, the core PATANCI increased +9.9%yoy to RM219.4m.

Maintain BUY with an unchanged TP of RM33.50. We make no changes to our earnings projections in view of earnings came in within our estimation. Our TP is based on a 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; and (4) normalising export sales to China after the reopening of China's border.

INVESTMENT STATISTICS

FYE Sept (RM'm)	2023F	2024F	2025F
Revenue	4,956.6	5,459.4	5,846.4
EBITDA	651.9	788.9	891.0
Profit before tax (PBT)	531.9	661.1	758.5
Core PATANCI	434.4	540.0	619.5
Core EPS (sen)	118.2	146.9	168.6
DPS (sen)	65.0	70.0	75.0
Dividend Yield (%)	2.4	2.6	2.7

KEY STATISTICS	
FBM KLCI	1,425.99
Issue shares (m)	366.78
Estimated free float (%)	75.28
Market Capitalisation (RM'm)	10,064.40
52-wk price range	RM19 – RM27
3-mth average daily volume (m)	0.24
3-mth average daily value (RM'm)	6.35
Top Shareholders (%)	
Employees Provident Fund Board	12.72
Amanah Saham Nasional Bhd	7.52
Kumpulan Wang Persaraan	2.58

Analyst(s)
Genevieve Ng Pei Fen
Genevieve.ng@midf.com.my

Valuation. 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.

Downside risk is a further increase in commodity prices (tin plates, milk, palm oil, sugar, pet resin, gum Arabic).

Fraser & Neave Holdings: 2QFY23 Results Summary

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	1,206.6	1,218.5	1,107.7	8.9	(1.0)	2,425.1	2,214.3	9.5
Cost of Sales	(876.1)	(880.5)	(831.7)	5.3	(0.5)	(1,756.6)	(1,640.2)	7.1
Gross Profit	**330.5**	**338.0**	**276.0**	**19.8**	**(2.2)**	**668.5**	**574.1**	**16.4**
Other income	4.4	98.3	5.1	(14.9)	(95.6)	102.6	8.2	1,148.2
Operating expenses	(208.4)	(211.5)	(170.5)	22.2	(1.5)	(420.0)	(364.7)	15.1
Other expenses	(0.4)	0.1	(1.0)	(57.2)	(435.9)	(0.3)	(0.9)	(64.8)
Operating profit (EBIT)	126.0	224.9	109.5	15.1	(44.0)	350.9	216.7	61.9
Profit before tax (PBT)	**119.7**	**222.4**	**112.0**	**6.9**	**(46.2)**	**342.1**	**220.1**	**55.4**
Profit After tax (PAT)	102.0	197.9	93.9	8.6	(48.5)	299.8	186.8	60.5
PATANCI	101.2	198.8	93.9	7.8	(49.1)	300.0	186.8	60.6
Core PATANCI	**105.8**	**113.6**	**83.1**	**27.3**	**(6.9)**	**219.4**	**199.7**	**9.9**
Basic EPS (sen)	27.6	55.2	25.6	7.9	(50.0)	82.8	50.9	62.7
DPS (sen)	27.0	0.0	0.0	n.m.	n.m.	27.0	0.0	n.m.
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	(1.0)	7.1	0.1	(1.1)	(8.1)	99.0	100.1	(1.1)
Core PATANCI Growth	(6.9)	19.7	(28.7)	21.8	(26.6)	93.1	71.3	21.8
Operating Profit Margin	10.4	18.5	9.9	0.6	(8.0)	14.5	9.8	4.7
Core PATANCI Margin	8.8	9.3	7.5	1.3	(0.6)	9.0	9.0	0.0
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net debt/total equity (%)	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Effective tax rate (%)	14.8	11.0	16.2	(1.4)	3.8	12.4	15.1	(2.8)

Source: Company, MIDFR

Fraser & Neave Holdings: Breakdown by operating segment

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue (RM'm):								
F&B Malaysia	707.6	713.3	615.1	15.0	(0.8)	1,420.9	1,190.7	19.3
F&B Thailand	498.1	504.2	491.8	1.3	(1.2)	1,002.3	1,021.7	(1.9)
Property	0.2	0.2	0.2	10.5	0.5	0.4	0.3	16.7
Others	0.7	0.8	0.6	22.5	(16.2)	1.6	1.6	(3.8)
Total	**1,206.6**	**1,218.5**	**1,107.7**	**8.9**	**(1.0)**	**2,425.1**	**2,214.3**	**9.5**
Operating Profit (RM'm):								
F&B Malaysia	48.2	70.4	45.2	6.7	(31.6)	118.6	67.8	75.0
F&B Thailand	78.1	67.9	61.8	26.3	15.0	145.9	142.2	2.6
Property	(0.4)	(0.3)	0.2	(322.4)	17.8	(0.7)	0.4	(267.2)
Others	0.1	86.8	2.3	(94.9)	(99.9)	86.9	6.3	1,277.2
Adjustments and eliminations	0.0	0.0	0.1	(100.0)	n.m.	0.0	0.0	n.m.
Total	**126.0**	**224.9**	**109.5**	**15.1**	**(44.0)**	**232.2**	**148.9**	**55.9**
Operating profit margin (%):								
F&B Malaysia	6.8	9.9	7.3	(0.5)	(3.1)	170.7	186.0	(8.2)
F&B Thailand	15.7	13.5	12.6	3.1	2.2	0.0	0.0	n.m.
Property	(189.4)	(161.7)	94.2	(283.6)	(27.7)	(175.6)	122.6	(243.2)
Others	16.4	10,287.8	395.7	(379.3)	(10,271.4)	0.0	0.0	n.m.
Total	**10.4**	**18.5**	**9.9**	**0.6**	**(8.0)**	**9.6**	**6.7**	**42.4**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (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)	(877.8)
General & Administrative	(119.4)	(131.5)	(150.5)	(168.2)	(181.2)
Other operating expenses	(30.5)	(27.1)	(21.6)	(23.3)	(24.5)
EBITDA	**612.3**	**577.6**	**651.9**	**788.9**	**891.0**
EBIT	**472.3**	**447.9**	**551.9**	**680.7**	**776.3**
Profit before tax (PBT)	**479.4**	**454.1**	**531.9**	**661.1**	**758.5**
Income tax expense	(84.3)	(71.8)	(97.4)	(121.1)	(138.9)
PATANCI	**395.2**	**383.2**	**434.4**	**540.0**	**619.5**
Core PATANCI	**400.0**	**386.6**	**434.4**	**540.0**	**619.5**
Basic EPS (sen)	107.8	104.5	118.2	146.9	168.6
Core EPS (sen)	108.9	105.2	118.2	146.9	168.6
DPS (sen)	60.0	60.0	65.0	70.0	75.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Property, plant, and equipment	1,372.2	1,458.3	1,555.8	1,660.9	1,770.0
Intangible assets	88.3	91.9	495.7	502.3	527.1
Total Non-current assets	**1,866.9**	**1,960.9**	**2,470.1**	**2,602.1**	**2,750.0**
Inventories	659.7	901.4	864.7	882.2	884.0
ST - Trade and other receivables	545.9	866.4	806.5	866.1	904.3
Cash and cash equivalents	555.4	461.9	691.4	738.7	775.2
Total current assets	**1,764.8**	**2,229.7**	**2,363.6**	**2,488.0**	**2,564.7**
Total Assets	**3,631.7**	**4,190.6**	**4,833.7**	**5,090.1**	**5,314.7**
Total Equity	**2,818.8**	**2,984.4**	**3,113.2**	**3,325.9**	**3,596.4**
LT Loans and borrowings	0.0	210.0	700.0	707.0	714.0
Total Non-current liabilities	**157.1**	**372.9**	**878.3**	**901.6**	**921.9**
ST Trade and other payables	558.3	693.0	693.1	759.2	816.8
ST Loans and borrowings	1.0	36.8	3.5	3.6	3.6
Total Current Liabilities	**655.9**	**833.3**	**842.2**	**862.6**	**796.5**
Total Liabilities	**813.0**	**1,206.2**	**1,720.5**	**1,764.2**	**1,718.3**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Pretax profit	479.4	454.1	531.9	661.1	758.5
Cash flow from operations	617.1	107.0	232.7	534.3	548.7
Cash flow from investing	(180.7)	(195.1)	(183.0)	(201.3)	(213.1)
Cash flow from financing	(339.4)	(0.2)	179.8	(285.7)	(299.1)
Net cash flow	**97.0**	**(88.3)**	**229.5**	**47.3**	**36.5**
(+/-) Adjustments	(35.2)	(5.2)	0.0	0.0	0.0
Net cash/(debt) b/f	**493.6**	**555.4**	**461.9**	**691.4**	**738.7**
Net cash/(debt) c/f	**555.4**	**461.9**	**691.4**	**738.7**	**775.2**

Key Metrics	2021A	2022A	2023E	2024F	2025F
PER (x)	25.5	26.3	23.2	18.7	16.3
ST-Account receivables (Days)	50.2	57.7	59.4	57.9	56.5
Inventories (Days)	81.8	86.4	89.0	84.6	80.4
Account payable (Days)	66.8	69.3	71.4	72.8	74.2

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross Profit Margin (%)	28.9	26.3	28.5	30.3	31.3
EBITDA Margin (%)	14.8	12.9	13.2	14.5	15.2
Core PATANCI Margin (%)	9.7	8.6	9.1	10.2	10.8

Source: Bloomberg, MIDFR

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 BNM 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 BNM 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