Fraser & Neave Holdings Berhad

Maintain BUY

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

Prospects Remain Intact

Unchanged Target Price: RM33.50

KEY INVESTMENT HIGHLIGHTS

- **Better F&B Thailand ahead**
- **Synergizing Cocoaland and Sri Nona**
- **Repairs Completed on Integrated Warehouse**
- **Updates for the Integrated Dairy Farm**
- **Renewable Energy Initiative at 3 Malaysian Manufacturing Plants**
- **Maintain BUY with an unchanged TP of RM33.50**

Analyst briefing. We attended F&N's 1HFY23 analyst briefing and remain bullish about its FY23 outlook. The salient highlights are as follows: -

Better F&B Thailand ahead. F&B Thailand's 1HFY23 operating profit has improved +2.6%yoy to RM145.9m, despite a minor reduction in revenue (-1.9%yoy). This was supported by a better operating profit margin (+4.6ppt yoy) that more than offset the lower sales volume (-2.2%yoy). Moving forward, the sales volume is anticipated to improve owing to the gradual return of Chinese tourists to Thailand following the reopening of China's borders.

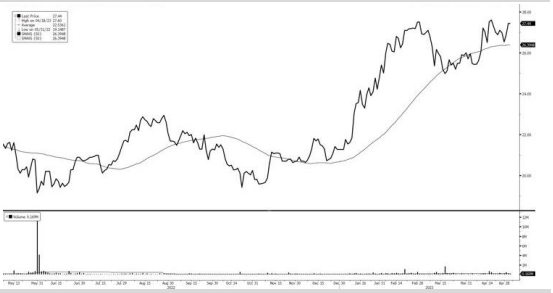
Synergizing Cocoaland and Sri Nona. The group highlighted that the Executive Director of Cocoaland would serve as an advisor until 3 May 2023. Moving forward, F&N targets to relocate the production of Sri Nona products from its original Kepong factory to Cocoaland's Rawang plant by the end of 2023. This was mostly due to synergies between Sri Nona and Cocoaland, both of which fall under the food division, as opposed to other F&N goods, which are mostly beverage and dairy related. Currently, Sri Nona's Ketupat products are manufactured in Cocoaland's Rawang plant, where the production process is fully automated, reducing reliance on labour.

Repairs Completed on Integrated Warehouse. The group completed repairs on the integrated warehouse building with an Automatic Storage and Retrieval System (ASRS) at the Shah Alam Plant, after being damaged by the 2021 flood. Moving forward, F&N intends to purchase skimmed milk powder at spot price and store it in the integrated warehouse, which has a capacity of 50,000 pallets. We are positive about this initiative as it allowed F&N to efficiently control raw material costs by purchasing the commodity when the price is appropriate, reducing the need for 3–6-month forward contracts.

Updates for the Integrated Dairy Farm. F&N submitted the Environmental Impact Assessment (EIA) and remains committed to completing Phase 1 of the integrated dairy farm project by December 2024. The group is currently in the process of appointing strategic partners to design the farm and purchase machinery. The estimated capital expenditure will be determined once the partners have been identified.

RETURN STATISTICS	
Price @ 5th 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	7.9	7.6
3 months	5.5	12.8
12 months	24.2	35.7

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	1,431.04
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

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Renewable Energy Initiative at 3 Malaysian Manufacturing Plants. The group installed a rooftop Solar Photovoltaic (PV) System across all 3 manufacturing plants in Malaysia - Shah Alam, Pulau Indah, and Bentong. The Solar Photovoltaic (PV) System has progressively started generating renewable energy, which is anticipated to reduce electricity costs by RM3–4 million yearly. With the installation, the company is now able to produce 100plus product line using solar energy.

Redesigned product packaging. F&N has redesigned its packaging of various product lines as part of its brand investment plan and to reach a wider consumer base. F&N Fun Flavours now has a more modern and updated look that appeals to young adults and teens, while F&N Magnolia's UHT milk has a more modern and updated design.

Maintain BUY with an unchanged TP of RM33.50. We make no changes to our earnings projections post-analyst briefing. 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) normalizing export sales to China after the reopening of China's border.

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).

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

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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