Corporate Update

Fraser & Neave Holdings Berhad

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Briefing Note

AgriValley Site Visit & 2QFY26 Briefing

Maintain NEUTRAL with unchanged target price of RM28.43. We attended F&Ns Agrivalley site visit and 2QFY26 briefing, while near-term earnings remain weighed by persistent Indochina weakness, elevated input costs heading into 3QFY26, and start-up losses at F&N AgriValley, we remain constructive on the group's medium-term drivers, particularly its integrated dairy platform, Cambodia localisation strategy and resilient domestic F&B franchise. Our AgriValley site visit and 2QFY26 briefing reinforced the view that F&N is prioritising long-term supply-chain resilience and dairy self-sufficiency, though meaningful earnings contribution will likely take time to materialise and therefore we maintain our **NEUTRAL** call with an unchanged **target price of RM28.43** based on an unchanged 20x PER pegged to FY26F core EPS of 142.2 sen.

Divergence between Malaysia and Indochina remains the most important near-term operating issue. In 2QFY26, F&B Malaysia revenue eased only -1.0%yoy to RM773.5m, supported by stable core dairy and beverage demand, while F&B Thailand / Indochina revenue declined -16.9%yoy to RM458.2m, affected by prolonged Thailand-Cambodia border closures and softer external demand. Management expects the Cambodia plant to start operations within 1-2 quarters, allowing F&N to localise production and reduce logistics costs. Over time, the plant should support supply continuity, lower reliance on exports from Malaysia, and help restore Cambodia-related revenue, although management indicated that a full recovery to prior revenue levels could take around two years.

Input cost environment challenging heading into 3QFY26. Management highlighted input cost exposure through sugar, skim milk powder, palm oil, fertiliser, PET resin, aluminium, cartons, packaging materials, fuel, natural gas, energy, transportation and logistics. AgriValley machinery also runs on diesel, adding another exposure to elevated fuel prices. The briefing indicated that group-wide cost pressures have intensified due to external disruptions, with high single-digit cost inflation potentially affecting both COGS and logistics. Management estimated that product costs could rise by close to 10% if no mitigation actions are taken. That said, F&N is responding through operational efficiencies, supply-chain optimisation, disciplined cost management, SKU profitability management, and selective price increases.

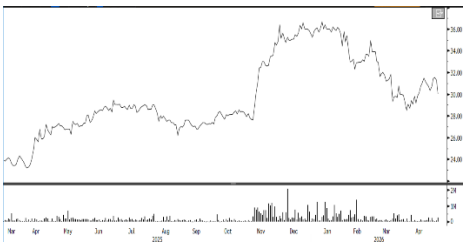
Pricing actions will remain measured. Management said price adjustments will only be implemented gradually and as a last resort. Products with direct cost impact, such as plastic-based products, are the first categories where price increases are being applied, while cans may follow once the cost impact becomes more visible. F&N is also reducing discounts on low-margin SKUs before implementing broader price hikes. Historically, during the post-Covid commodity spike, management noted that F&N raised prices by less than 3%, with limited impact on volume as the business continued to grow. This suggests some pricing power within its core portfolio, although management remains cautious given weaker consumer sentiment and the risk of downtrading.

Maintain NEUTRAL

Unchanged Target Price **RM28.43**

RETURN STATISTICS	
Price @ 4th May 2026 (RM)	30.02
Expected share price return (%)	-5.3
Expected dividend yield (%)	+2.2
Expected total return (%)	-3.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.3	2.7
3 months	0.1	-15.5
12 months	11.6	-1.2

INVESTMENT STATISTICS

FYE SEPT (RM'm)	2026F	2027F	2028F
Revenue	5,436.0	5,685.3	5,952.7
EBITDA	858.2	887.5	1,185.4
PBT	771.3	800.6	1,098.6
Core PATANCI	522.3	576.4	791.0
Core EPS (sen)	142.2	156.9	215.3
DPS (sen)	65.0	65.0	85.0
Dividend Yield (%)	2.2	2.2	2.8

KEY STATISTICS

FBM KLCI	1,739.77
Issue shares (m)	366.78
Estimated free float (%)	34.09
Market Capitalisation (RM'm)	11,010.69
52-wk price range	RM26.0 - RM36.8
3-mth average daily volume (m)	0.19
3-mth average daily value (RM'm)	6.20
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	16.43
Amanah Saham Nasional Bhd	6.10

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On balance sheet and cash flow, F&N remains well supported. Management reiterated that cash flow remains strong, with the group maintaining its 30 sen first-interim dividend, consistent with the prior year. Gearing has improved slightly, and with the bulk of major capex now completed, management intends to focus on debt management, lowering gearing and reducing interest costs. This is important as the group enters a period where AgriValley needs to scale commercially while Cambodia localisation and Indochina recovery remain works in progress.

The key long-term growth pillar remains F&N AgriValley. Management sees the project as a platform to transform Malaysia's dairy market from recombined liquid milk toward locally produced fresh milk, similar to the structural shift seen in Vietnam. Fresh milk remains a low single-digit percentage of F&N's overall business today, with 100PLUS still the group's largest product, followed by Seasons, while condensed milk is also significantly larger than Magnolia. However, management wants Magnolia to eventually become a much more meaningful brand within the portfolio. Magnolia UHT market share has already doubled from last year. F&N has begun expansion plans on Mar-26 and Apr-26 and is targeting relaunches for the pasteurised range in June and July. F&N is also positioning UHT fresh milk as a practical format for HORECA and coffee shop adoption. Management highlighted that UHT fresh milk offers lower cold-chain requirements, ambient storage, reduced electricity needs for outlets, easier operational handling, and taste quality that can be close to pasteurised milk. The group is pushing UHT fresh milk in carton format and has used promotions such as "buy 2 get 1 free" to accelerate trial. HORECA is expected to be an important demand channel, particularly for barista milk, which is mainly sold into foodservice. Management is also looking to expand Magnolia into Singapore.

AgriValley's current operating scale has expanded meaningfully. Based on the latest briefing, the farm has >8,000 total herd, >3,000 lactating cows, >2m litres monthly total milk volume, and average milk yield of >25 litres per cow per day. The farm's long-term target remains 20,000 cows, while the installed Gemas processing facility currently has two lines, including a 1-litre pack line and a 200ml pack line, with annual capacity of around 50m cartons. The factory includes automated warehousing, filling, processing and packaging, and has additional space for future production lines. Management indicated that the factory is roughly three times the size of a football field, with current processing noted at around 75,000 litres of milk per day.

Milk quality a key strength. Comparing F&N AgriValley against global dairy farming benchmarks, AgriValley achieves butterfat of >4%, protein >3.2%, SCC <150,000 cells/mL, and TBC <20,000 cfu/mL. Management explained that SCC reflects under health while TBC reflects milk hygiene, with both SCC and TBC levels on the better side of global benchmarks at Agrivalley. The milking process is highly controlled: teats are sanitised with foaming sanitiser for 15 seconds, followed by cleaning and a 30-second lag period before milking. Cows are then milked for around 8-9 minutes, with software monitoring milk flow speed as an indicator of cow comfort and relaxation. The plant uses infusion technology that pasteurises milk in just 0.09 seconds, with cream and butter identified as future value-added products.

Farm strategy is built around a circular and regenerative model. The farm uses central pivot irrigation covering around 350 hectares, with automated systems controlled via apps. These pivots are used for precise irrigation, fertigation and chemigation. Soil is mapped and tested so that nutrients are applied only where necessary. The farm uses biochar to improve acidic soil and raise pH, humic acid to support soil health, and nitrogen-fixing cover crops to improve soil structure and naturally add nitrogen. Crops grown include sorghum, forage maize, legumes and grass varieties, with the aim of reducing feed dependence over time. Management is targeting 50,000 tonnes of feed production by end CY26, with 300 hectares already planted and another 300 hectares ready to be planted by May. Longer term, around two-thirds of feed requirements could be supplied internally.

Feed self-sufficiency is central to the farm's economics. Management noted that feed costs could be reduced by as much as half if internally grown feed is optimised properly. The group is still importing grain and feed from local farmers and foreign sources but is working on the best mix of internal sorghum/forage crops and imported grains to balance nutritional value and cost. This is important because management acknowledged that AgriValley is expensive to set up, and that scale is required to drive down cost per litre. Phase 2 is expected to be materially more cost-efficient, as management believes additional volume can be achieved by building more barns, hiring more people, planting more crops and producing more feed, without proportionately increasing overheads. With Phase 2 capex per litre potentially being half of Phase 1, with opex per litre also expected to reduce materially.

Farm also integrates manure treatment and renewable energy initiatives. Manure and liquid waste are processed through biodigesters, with liquid manure going into biodigester balloons to extract gas and nutrient water. Management noted that one cow can produce the equivalent of one tonne of synthetic fertiliser per year, which helps reduce reliance on external fertiliser amid rising fertiliser cost pressure. Biogas is expected to go live later in May and could generate electricity for around half of the farm. Over time, management aims to add solar and move closer to an off-grid model. Rainwater reservoirs are also used to capture and optimise water supply for irrigation.

Herd management model designed for long-term self-sufficiency. The cows are genetically selected Holstein-type dairy cows, with bloodlines linked to American and German dairy genetics, and potential production of 10,000-14,000 litres per cow per year. Cows are typically impregnated at around 14 months, have a 9-month pregnancy, produce milk for 305-320 days, and rest for the final two months of pregnancy. Artificial insemination is used to improve genetics and increase female calf generation. Management noted that it aims to internally breed around 95% of the herd. Some second-generation cows are already being bred, the first group of cows imported in March 2025 has largely calved and has become pregnant again. Management also indicated that mortality and other herd parameters are on the "right side" of the global average of 4-5%, with insurance in place above the mortality rate assumed in the model for risk mitigation purposes. Cow comfort is a major operating focus, given Malaysia's climate. The cows are originally suited to cooler climates of around -5°C to 18°C, so the barns are designed to mitigate heat stress. Airflow over the cows is maintained at around 3 metres per second, described by management as similar to a beach breeze. Automated soakers wet the cows, with the combination of water and air movement helping to cool them. All cows are digitally monitored. Vehicle disinfection is mandatory, and all items entering and leaving the farm are weighed. These systems support both productivity and biosecurity and help maintain milk quality.

Outlook. We take a more balanced view following the site visit and briefing. AgriValley is more operationally advanced than a typical start-up dairy farm and appears to be moving toward a credible, integrated and scalable platform. However, near-term earnings remain pressured by start-up losses, elevated effective tax rate (expectedly reduce materially in upcoming years), input cost inflation, and weak Indochina performance. Management now expects AgriValley to break even by 2028. In the meantime, the core Malaysia F&B business, dividend support and balance sheet strength should provide downside protection, while Cambodia localisation, Magnolia commercialisation and AgriValley scaling provide medium-term upside. We therefore maintain our **NEUTRAL** call with unchanged **TP of RM28.43**, as structural drivers remain intact, but a clear near-term re-rating catalyst is still absent.

FINANCIAL SUMMARY

Income Statement (RM'm)	2024A	2025A	2026F	2027F	2028F
Revenue	5,245.6	5,196.6	5,436.0	5,685.3	5,952.7
Gross Profit	1,651.0	1,657.5	1,735.4	1,811.3	2,115.5
EBITDA	847.8	896.0	858.2	887.5	1,185.4
EBIT	709.5	745.5	793.1	822.5	1,120.5
PBT	697.0	730.7	771.3	800.6	1,098.6
Taxation	(152.7)	(216.1)	(216.0)	(224.2)	(307.6)
PATANCI	542.8	508.5	555.3	576.4	791.0
Core PATANCI	542.5	515.7	522.3	576.4	791.0
Core EPS (sen)	147.7	140.4	142.2	156.9	215.3
PER (x)	21.1	22.3	20.7	20.0	14.5
DPS (sen)	63.0	65.0	65.0	65.0	85.0
Dividend Yield (%)	2.0	2.1	2.2	2.2	2.8

Cash Flow (RM'm)	2024A	2025A	2026F	2027F	2028F
PBT	697.0	730.7	771.3	800.6	1,098.6
Operating cash flow	732.7	111.1	735.7	547.1	630.6
Investing cash flow	(253.7)	(231.1)	(248.7)	(256.0)	(263.9)
Financing cash flow	(365.5)	(397.3)	(151.7)	(267.0)	(341.0)
Net cash flow	113.6	(517.4)	335.3	24.0	25.7
Beginning cash flow	1,031.5	1,134.9	625.9	961.2	985.1
Ending cash flow	1,134.9	625.9	961.2	985.1	1,010.8

Growth (%)	2024A	2025A	2026F	2027F	2028F
Revenue Growth (%)	4.9	(0.9)	4.6	4.6	4.7
Gross Profit Growth (%)	15.1	0.4	4.7	4.4	16.8
EBITDA Growth (%)	7.2	5.7	(4.2)	3.4	33.6
Core PATANCI Growth (%)	(6.1)	(4.9)	1.3	10.4	37.2

Profitability Ratios (%)	2024A	2025A	2026F	2027F	2028F
Gross Profit Margin	31.5	31.9	31.9	31.9	35.5
EBITDA Margin	16.2	17.2	15.8	15.6	19.9
EBIT Margin	13.5	14.3	14.6	14.5	18.8
Core PATANCI Margin	10.3	9.9	9.6	10.1	13.3

Balance Sheet (RM'm)	2024A	2025A	2026F	2027F	2028F
Property, plant, and equipment	1,727.7	2,220.8	2,020.3	2,164.1	2,313.4
Intangible assets	430.3	423.8	472.9	494.6	517.9
Total Non-current assets	2,741.5	3,301.2	3,237.8	3,465.0	3,702.4
Inventories	745.0	744.1	869.4	910.1	901.5
ST - Trade and other receivables	852.9	899.0	863.7	903.3	945.8
Cash and cash equivalents	1,134.9	625.9	961.2	985.1	1,010.8
Total current assets	2,733.0	2,270.7	2,694.3	2,798.6	2,858.2
Total Assets	5,474.5	5,571.8	5,932.1	6,263.7	6,560.6
Total Equity	3,586.9	3,879.1	4,011.1	4,259.9	4,647.0
LT Loans and borrowings	592.0	338.0	595.4	601.3	607.3
Total Non-current liabilities	777.9	561.9	795.9	809.4	823.5
ST Trade and other payables	825.9	763.0	745.3	780.2	772.8
ST Loans and borrowings	114.0	254.0	114.6	115.8	117.0
Total Current Liabilities	1,109.7	1,130.8	1,125.1	1,194.4	1,090.2
Total Liabilities	1,887.6	1,692.7	1,921.0	2,003.8	1,913.7

Source: Bloomberg, MBSBR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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