

15 August 2018

# Fraser & Neave Holdings

## One for Another

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We came away from F&N's Investor Day cum Plant Visit, at its Pulau Indah dairy plant, feeling cautiously optimistic on its short-term prospects. While domestic demand could be slated to recover, the Thailand market may be challenging on declining consumer spending appetite. Saving graces could come from higher exports, recovering input costs (i.e. sugar, milk) and investment-driven improvements in efficiency. **Maintain UP and TP of RM32.15.**

**Mixed non-export sales performance.** In the recent 9M18m, the group recorded flattish sales from both F&B Malaysia and Thailand operations. As management claimed double-digit growth in exports, it is possible that it made up for the poorer performance in both markets. Poorer Malaysian sales during the year could have been attributed to lower consumer spending but is thought to be improving in recent quarters as sentiment improves. Thailand's market, on the other hand, is likely clouded by an aggressively growing competition, with sales contributions on a steeper decline.

**Export growth target on track.** Recall that management aimed for total export contributions of RM800.0m (F&B Malaysia: RM500.0m, F&B Thailand: RM300.0m) by FY20. Although a stronger Ringgit may impede exports growth, we believe the group may well be able to achieve this milestone ahead of its target. We expect exports to contribute up to c.RM714.2m in FY18 (+15% from RM623.7m in FY17) which would be driven by increasing volume sales with a growing portfolio of export customers. This could potentially translate into c.20% annual growth in the coming years.

**Encouraging shift in input cost.** 9M18 gross profit margin appeared to be dampened (-0.6ppt YoY) as raw materials prices were procured at higher levels. However, as lower sugar prices (est. -15% YoY) appear to have been factored in the recent quarter, it is possible that the group could operate in a lower production cost environment in the near-term. Management further believes that the current sugar prices could be sustainable and benefit the coming quarters. Cost pressure exposure to milk prices is also expected to ease as the average rate for AMF and skim milk powders show a 5-10% decline. We suspect these two cost components account for c.60% of the group's input costs.

**Pushing harder.** While challenges arise in the domestic sales scene, the group continues with building its product profile by rebranding products and improving on existing formulations to garner consumer support. The group's 2017 RM500.0m capex plan continues to roll out steadily with further projects such as expanding on condensed milk lines in Rojana and adding to the cold aseptic PET line and warehouse in Shah Alam to be completed in the near future. This should allow the group to further add capacity while introducing further economies of scale.

**Post-Investor Day,** we make no changes to our earnings assumptions as we believe the abovementioned has been sufficiently accounted for.

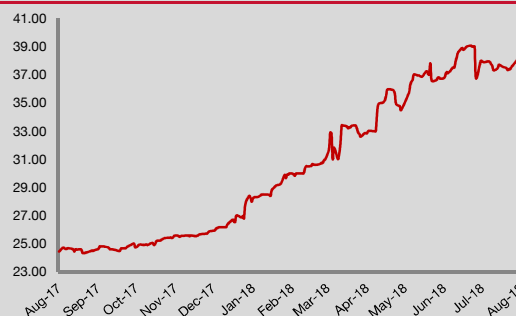
**Reiterate UNDERPERFORM with an unchanged TP of RM32.15.** We derive our TP from an unchanged 28.0x FY19E PER (+1.0SD over 3-year mean PER, applied across large cap F&B stocks). We believe the anticipation of better operational gains has already been priced in. Furthermore, dividend expectations from the stock may continue to be tepid due to its low-yield prospects. Nonetheless, the group's strong operating cash position could allow for further investments for further operational enhancements.

**Risks to our call include:** (i) stronger-than-expected sales, (ii) lower-than-expected operating costs, and (iii) favourable currency exchange exposure to the group.

## UNDERPERFORM ↔

**Price :** **RM37.88**  
**Target Price :** **RM32.15** ↔

### Share Price Performance



KLCI 1,783.78  
YTD KLCI chg -0.7%  
YTD stock price chg 40.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	13,884.6
Shares Outstanding	366.5
52-week range (H)	39.98
52-week range (L)	23.40
3-mth avg daily vol:	713,134
Free Float	28%
Beta	0.6

### Major Shareholders

Fraser And Neave Ltd	55.5%
Employees Provident Fund	11.6%
Skim Amanah Saham Bumiputera	5.1%

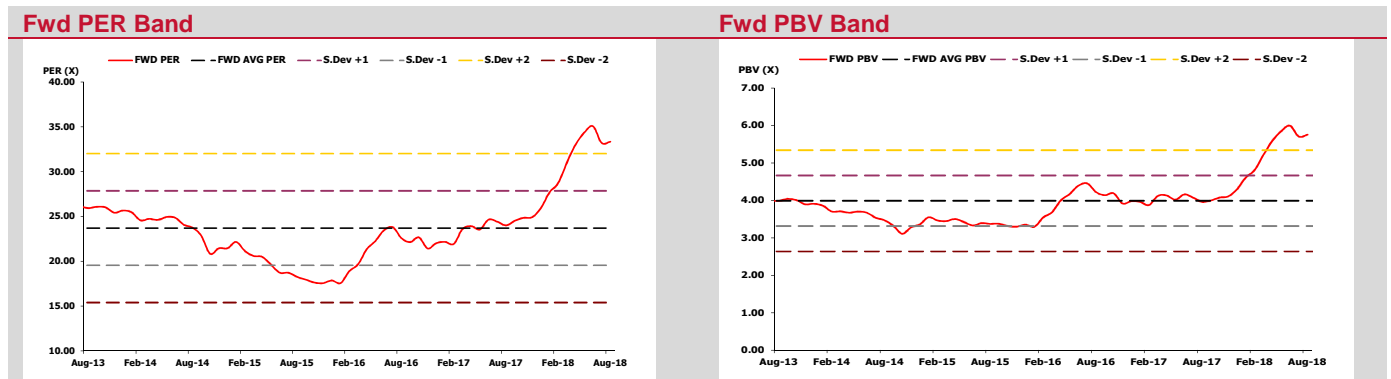
### Summary Earnings Table

FY Sep (RM'm)	2017A	2018E	2019E
Turnover	4,101.4	4,145.3	4,371.2
EBIT	345.1	379.2	452.4
PBT	353.7	389.7	467.7
<b>Net Profit (NP)</b>	<b>323.3</b>	<b>350.8</b>	<b>420.9</b>
<b>Core NP</b>	<b>398.6</b>	<b>369.1</b>	<b>421.0</b>
Consensus (NP)	-	391.5	450.3
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	108.8	100.7	114.8
Core EPS growth (%)	6.6%	-1.3%	14.1%
NDPS (sen)	57.5	60.0	70.0
BVPS (RM)	5.8	6.2	6.6
Core PER	34.8	37.6	33.0
Price/Bv (x)	6.5	6.1	5.7
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Net Div. Yield (%)	1.5%	1.6%	1.8%

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Income Statement						Financial Data & Ratios					
FY Sep (RM m)	2015A	2016A	2017A	2018E	2019E	FY Sep (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	4,107.6	4,167.6	4,101.4	4,145.3	4,371.2	<b>Growth (%)</b>					
Operating Profit	-93.1	-96.9	-91.7	-104.3	-111.3	Turnover	7.6%	1.5%	-1.6%	1.1%	5.4%
Depreciation	<b>332.0</b>	<b>433.4</b>	<b>345.1</b>	<b>379.2</b>	<b>452.4</b>	EBITDA	5.8%	24.7%	-17.6%	10.7%	16.6%
Interest Inc/(Exp)	-2.9	1.4	-0.5	0.5	4.2	Operating Profit	5.7%	30.5%	-20.4%	9.9%	19.3%
Associate Earnings	4.7	8.1	9.2	10.1	11.1	PBT	5.8%	32.7%	-20.1%	10.2%	20.0%
Profit Before Tax	<b>333.8</b>	<b>442.9</b>	<b>353.7</b>	<b>389.7</b>	<b>467.7</b>	Net Profit	8.0%	37.6%	-16.1%	8.5%	20.0%
Taxation	-53.8	-57.6	-30.4	-39.0	-46.8	Core Net Profit	4.3%	37.1%	6.6%	-7.4%	14.1%
Net Profit	280.1	385.4	323.3	350.8	420.9						
Core Net Profit	<b>272.8</b>	<b>374.0</b>	<b>398.6</b>	<b>369.1</b>	<b>421.0</b>	<b>Profitability (%)</b>					
						Operating Margin	8.1%	10.4%	8.4%	9.1%	10.4%
						PBT Margin	8.1%	10.6%	8.6%	9.4%	10.7%
						Core Net Margin	6.6%	9.0%	9.7%	8.9%	9.6%
						Effective Tax	16.1%	13.0%	8.6%	10.0%	10.0%
						ROA	9.7%	12.4%	10.0%	10.5%	11.8%
						ROE	15.7%	19.9%	15.7%	16.0%	17.9%
						<b>DuPont Analysis</b>					
						Net Margin (%)	6.6%	9.0%	9.7%	8.9%	9.6%
						Assets Turnover (x)	1.4	1.3	1.3	1.2	1.2
						Leverage Factor (x)	1.6	1.6	1.5	1.5	1.5
						ROE (%)	15.7%	19.9%	15.7%	16.0%	17.9%
						<b>Leverage</b>					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.2	0.2	0.2	0.2	0.2
						Net (Cash)/Debt	(112.2)	(189.0)	(45.3)	(240.4)	(333.8)
						Net Debt/Equity (x)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)
						<b>Valuations</b>					
						Core EPS (sen)	74.4	102.0	108.8	100.7	114.8
						NDPS (sen)	57.5	57.5	57.5	60.0	70.0
						BV/sh (RM)	5.1	5.4	5.8	6.2	6.6
						PER (x)	50.9	37.1	34.8	37.6	33.0
						Div. Yield (%)	1.5%	1.5%	1.5%	1.6%	1.8%
						PBV (x)	7.4	7.0	6.5	6.1	5.7
						EV/EBITDA (x)	10.2	7.6	8.9	9.1	8.9

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.48	1,670.8	N	12/2018	8.2%	5.2%	3.2%	13.0%	36.4	35.3	31.2	24.7	21.2	64.6%	2.3%	1.55	MP
AEON CO (M) BHD	2.21	3,102.8	Y	12/2018	6.6%	4.1%	13.4%	14.1%	29.6	26.1	22.8	1.6	1.5	6.0%	1.8%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	7.42	1,219.7	Y	12/2018	2.0%	2.0%	2.9%	23.3%	23.2	22.5	18.3	5.7	5.5	24.8%	3.8%	7.90	MP
DUTCH LADY MILK INDUSTRIES BHD	66.84	4,277.8	Y	12/2018	3.0%	4.0%	14.7%	13.9%	34.3	29.9	26.3	41.1	40.3	136.0%	3.3%	71.20	MP
FRASER & NEAVE HOLDINGS BHD	37.88	13,884.6	Y	09/2018	1.1%	5.4%	-7.4%	14.1%	34.8	37.6	33.0	6.5	6.1	16.0%	1.6%	32.15	UP
HAI-O ENTERPRISE BHD	4.48	1,302.5	N	04/2019	20.9%	5.5%	35.8%	5.0%	21.3	15.4	12.8	4.6	4.2	30.0%	4.8%	6.00	OP
MYNEWS HOLDINGS BHD	1.50	1,023.2	N	10/2018	41.8%	16.7%	16.7%	16.8%	42.6	36.5	31.3	4.2	4.0	11.3%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.20	34,518.4	Y	12/2018	3.5%	3.3%	11.4%	16.8%	53.5	48.0	41.1	53.9	50.8	109.1%	2.0%	132.55	UP
PADINI HOLDINGS BHD	5.99	3,940.9	Y	06/2018	12.6%	15.1%	1.0%	16.3%	21.8	21.6	18.6	7.1	6.0	30.2%	2.0%	5.25	MP
PARKSON HOLDINGS BHD	0.600	640.3	Y	06/2018	2.0%	2.0%	500.6%	52.5%	N.A.	18.2	12.0	0.3	0.3	0.9%	0.0%	0.860	OP
POWER ROOT BHD	1.51	596.3	Y	3/2019	5.8%	9.5%	38.2%	28.3%	25.0	18.1	14.1	2.8	2.8	16.7%	5.3%	1.50	MP
QL RESOURCES BHD	5.98	9,702.2	Y	3/2019	10.3%	10.0%	5.4%	6.6%	47.0	44.6	41.9	5.1	4.8	11.6%	0.8%	4.70	UP
SPRITZER BHD	2.36	495.5	Y	12/2018	7.0%	2.4%	31.9%	5.4%	18.1	15.8	15.0	1.1	1.3	8.1%	2.5%	2.50	MP
<b>Simple Average</b>					<b>9.6%</b>	<b>6.6%</b>	<b>51.4%</b>	<b>17.4%</b>	<b>32.3</b>	<b>28.4</b>	<b>24.5</b>	<b>12.2</b>	<b>11.5</b>	<b>35.8%</b>	<b>2.4%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	35.76	10,210.6	N	12/2018	-3.2%	4.5%	-10.5%	15.8%	19.5	21.8	18.9	26.7	23.8	115.2%	4.1%	34.10	MP
CARLSBERG BREWERY MALAYSIA BHD	19.14	5,887.9	N	12/2018	8.9%	7.0%	16.2%	14.3%	26.5	22.8	19.9	18.9	18.8	86.8%	4.4%	18.25	MP
HEINEKEN MALAYSIA BHD	22.50	6,797.2	N	12/2018	6.1%	6.1%	19.1%	8.5%	25.2	21.1	19.5	18.9	18.6	88.7%	4.7%	23.30	OP
<b>Simple Average</b>					<b>10.4%</b>	<b>7.4%</b>	<b>59.8%</b>	<b>17.0%</b>	<b>23.7</b>	<b>21.9</b>	<b>19.4</b>	<b>21.5</b>	<b>20.4</b>	<b>45.4%</b>	<b>4.4%</b>		
<b>CONSENSUS ESTIMATES</b>																	
BERJAYA FOOD BHD	1.48	556.7	N	04/2019	9.5%	9.3%	2416.8%	17.3%	487.9	19.4	16.5	1.4	1.3	7.4%	2.9%	1.73	NEUTRAL
BONIA CORPORATION BHD	0.435	350.5	Y	06/2018	-11.6%	1.7%	-16.0%	14.5%	11.0	13.1	11.5	0.8	0.8	6.3%	2.1%	0.540	NEUTRAL
COCOALAND BHD	2.29	524.0	Y	12/2018	6.2%	5.9%	13.9%	10.7%	15.6	13.7	12.4	2.3	1.9	15.2%	4.8%	2.76	BUY
LAY HONG BHD	0.725	473.7	Y	03/2019	4.0%	1.2%	20.8%	21.7%	12.6	10.4	8.6	1.4	1.3	12.2%	1.4%	1.13	BUY
KAWAN FOOD BHD	2.47	888.0	Y	12/2018	16.7%	17.0%	26.2%	26.2%	30.5	24.2	19.2	2.9	2.3	11.2%	1.8%	2.87	BUY
MAGNI-TECH INDUSTRIES BHD	4.77	776.2	Y	04/2019	13.0%	8.8%	24.8%	3.5%	8.5	6.8	6.6	1.7	1.4	25.1%	4.8%	6.40	BUY

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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