

07 February 2018 | 1QFY18 Results Review

## Fraser & Neave Holdings Berhad

### *Earnings to rebound in 2QFY18*

**Maintain NEUTRAL**

**Revised Target Price (TP): RM30.03**  
(Previously RM25.47)

#### INVESTMENT HIGHLIGHTS

- **1QFY18 normalised earnings lower by -16.7%yoy to RM109.7m, in line with ours and consensus expectations**
- **Poor earnings performance from F&B Malaysia and Thailand's operations due to higher operating costs**
- **We expect that the group will record a stronger earnings performance in the 2QFY18 due to festive purchase and expectation of healthier profit margin**
- **Maintain NEUTRAL with a revised TP of RM30.03**

**Earnings within expectations.** Fraser & Neave Holdings Bhd's (F&N) reported earnings for 1QFY18 came in lower by -16.1%yoy to RM106.8m. After adjusting for one-off items, the normalised earnings came down by -16.7%yoy to RM109.7m. This accounted for 25% of ours and consensus full year FY18 earnings forecasts. Historically, the group first quarter result normally accounted for 35-40% of full year earnings. Nonetheless, the drop in earnings is within our expectation as we believe that the group will record a stronger 2QFY18 performance mainly due to the: (i) Chinese New Year (CNY) celebration which will boost 2QFY18 sales and; (ii) better profit margin in view of declining sugar cost.

**F&B Malaysia segment recorded a weaker earnings performance.** Excluding one-off items, segment normalised operating profit for the 1QFY18 dropped by -39.8%yoy to RM41.2m. The dismal reported operating performance is mainly due to: (i) later celebration of CNY in 2018 which falls two weeks later than last year; (ii) reduction in purchase by retailers in certain states in peninsular Malaysia and Sabah due to the anticipation of flood occurrence in the monsoon season; (iii) higher input cost particularly sugar cost and; (iv) continuing refinement work post completion of the transformation the company undergone in FY17.


**F&B Thailand posted a decline in operating profit.** F&B Thailand revenue grew by +5.5%yoy to RM468.2m due to the: i) double digit growth in exports and ii) expansion of new distribution coverage in the Indochina region. Nevertheless, F&B Thailand normalised operating profit declined by -3.1%yoy to RM75.6m due to the: (i) higher input costs, (ii) provision for inventories damaged in a fire at a co-manufacturer plant and these are partly offset by higher volume and lower advertising and promotional expenses.

RETURN STATS	
Price (6 <sup>th</sup> February 2018)	RM29.48
Target Price	RM30.03
Expected Share Price Return	+1.9%
Expected Dividend Yield	+2.5%
<b>Expected Total Return</b>	<b>+4.4%</b>

STOCK INFO	
KLCI	1,812.45
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares	366.54m
Market cap. (RM'm)	10,871.62m
Price over NA (x)	5.1
52-wk price Range	RM22.6 – RM30.3
Beta (against KLCI)	0.27
3-mth Avg Daily Vol	0.76m
3-mth Avg Daily Value (RM'm)	20m
Major Shareholders (%)	
Fraser and Neave Ltd	55.51
PNB & Associated funds	13.14
EPF	11.57

**Future prospects.** We believe that the company's earnings performance will improve in the next quarter (2QFY18) due to: (i) Chinese New Year (CNY) celebration; (ii) lower refined sugar cost following from the downtrend of international raw sugar price which fell to 13.8cents per pound from a peak of about 20.0cents per pound in FY17; and (iii) the stronger Ringgit will stabilize cost of input materials.

**Final dividend declared for FY17.** The Company has declared a final dividend of 30.5sen per ordinary share for FY17, which will be payable on 9 February 2018. This brings the FY17 total dividend to 57.5 sen.

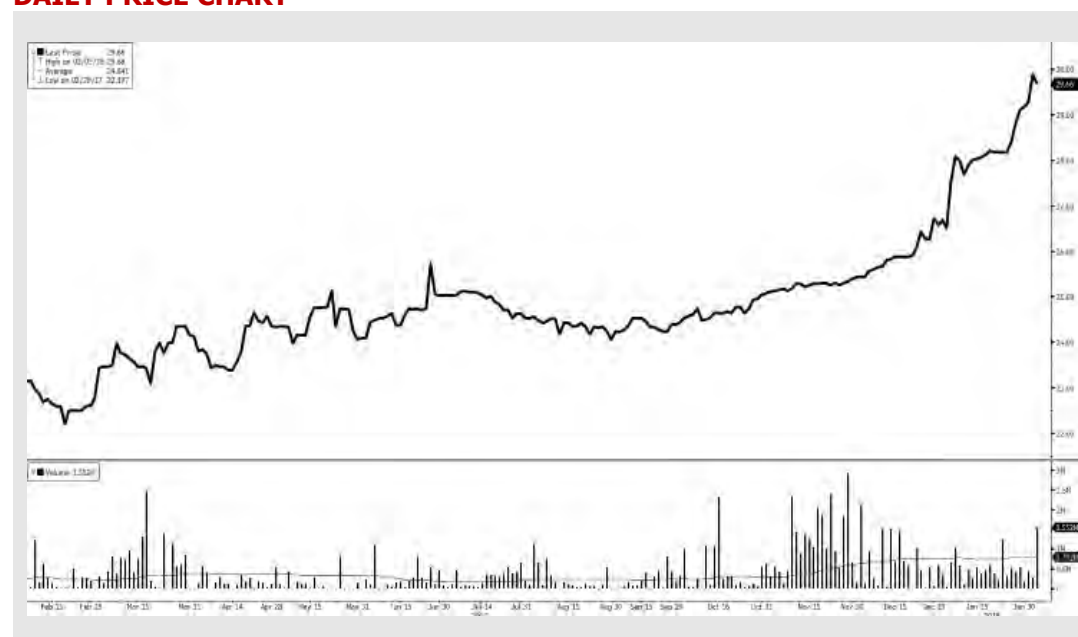
**Maintain NEUTRAL with a revised TP of RM30.03.** We rolled forward our valuation based to FY19F pegging its FY19 EPS of 143.0sen to unchanged PER of 21x. All in, we are maintaining our **NEUTRAL** call on F&N with a revised target price of **RM30.00** (previously RM25.47). 

## INVESTMENT STATISTICS

FYE Sep (RMm)	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Revenue	4,167.6	4,101.4	4,295.7	4,529.4	4,778.1
Operating profit	433.4	345.1	486.0	573.8	612.6
PBT	442.9	353.7	494.3	582.6	621.9
PAT	385.4	323.3	444.9	524.4	559.7
One-off items	0.0	52.7	0.0	0.0	0.0
<b>Normalised PAT</b>	385.4	376.1	444.9	524.4	559.7
Normalised EPS (sen)	105.3	102.5	121.3	143.0	152.6
Net Dividend (sen)	57.5	57.5	60.0	72.5	77.5
Operating profit margin (%)	10.4	8.4	11.3	12.7	12.8
PBT margin (%)	10.6	8.6	11.5	12.9	13.0
PAT margin (%)	9.2	7.9	10.4	11.6	11.7
EPS Growth (%)	37.6	(2.6)	18.3	17.9	6.7
Dividend yield (%)	2.0	2.0	2.0	2.5	2.6
PER (x)	28.0	28.7	24.3	20.6	19.3

Source: Company, MIDFR

## DAILY PRICE CHART



Nabil Zainoodin, CA  
nabil.zainoodin@midf.com.my  
03-2772 1663

## F&N: 1QFY18 RESULTS SUMMARY

FYE Sep (RMm)	Quarterly results				
	1QFY18	4QFY17	1QFY17	YoY (%)	QoQ (%)
Revenue	1,068.9	976.3	1,091.1	(2.0)	9.5
Cost of sales	(716.9)	(685.2)	(700.6)	2.3	4.6
<b>Gross profit</b>	352.0	291.1	390.5	(9.8)	20.9
Other income	5.1	4.5	17.6	(70.8)	13.5
Operating expenses	(242.3)	(276.3)	(266.1)	(8.9)	(12.3)
<b>Operating profit</b>	114.9	19.3	141.9	(19.1)	495.0
Finance income	3.2	3.7	3.8	(14.8)	(13.2)
Finance costs	(3.7)	(3.8)	(3.9)	(3.7)	(2.0)
Share of results of a joint venture	(1.1)	(1.8)	(0.1)	1,768.9	(35.9)
Share of results of associates	1.9	2.0	2.2	(13.1)	(2.0)
<b>PBT</b>	115.1	19.4	144.0	(20.1)	493.8
Taxation	(8.3)	0.2	(16.7)	(50.4)	NM
<b>PAT</b>	106.8	19.6	127.3	(16.1)	444.1
<b>Normalised PAT</b>	109.7	52.3	131.8	(16.7)	110.0
Basic EPS (sen)	29.2	5.4	34.8	(16.1)	440.7
Fully Diluted EPS (sen)	29.0	5.3	34.6	(16.2)	447.2
				<i>+ / (-) ppts</i>	
Gross profit margin (%)	32.9	29.8	35.8	(2.9)	3.1
Operating margin (%)	10.7	2.0	13.0	(2.3)	8.8
PBT margin (%)	10.8	2.0	13.2	(2.4)	8.8
PAT margin (%)	10.0	2.0	11.7	(1.7)	8.0
Normalised PAT margin (%)	10.3	5.4	12.1	(1.8)	4.9
Effective Tax rate (%)	7.2	(1.3)	11.6	(4.4)	8.5

## F&N: BREAKDOWN BY SEGMENT

FYE Sep (RMm)	Quarterly results				
	1QFY18	4QFY17	1QFY17	QoQ (%)	YoY (%)
<b>Revenue</b>					
F&B Malaysia	600.4	535.4	647.1	12.1	(7.2)
F&B Thailand	468.2	440.7	443.7	6.24	5.5
Property	0.2	0.2	0.2	18.3	23.5
<b>Total</b>	<b>1,068.9</b>	<b>976.3</b>	<b>1,091.0</b>	<b>9.5</b>	<b>(2.0)</b>
<b>Normalised operating profit</b>					
F&B Malaysia	41.2	18.8	68.4	119.2	(39.8)
F&B Thailand	75.6	33.7	78.1	124.5	(3.1)
Property	0.3	(0.1)	0.3	n.m.	24.4
Others	0.7	0.5	0.5	30.9	27.6
Adjustments and eliminations	-	(1.0)	(0.8)	n.m.	n.m.
<b>Total</b>	<b>117.8</b>	<b>51.9</b>	<b>146.4</b>	<b>126.8</b>	<b>(19.6)</b>
<b>Operating profit margin (%)</b>					<i>+ / (-) ppts</i>
F&B Malaysia	6.9	3.5	10.6	3.3	(3.7)
F&B Thailand	16.2	7.6	17.6	8.5	(1.4)
Property	149.1	-36.1	148.1	185.2	1.0

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (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 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

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 we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD 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.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

## 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 <i>rise</i> 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 <i>fall</i> 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.