

04 February 2019 | 1QFY19 Results Review

Fraser & Neave Holdings Berhad

Earnings lifted by improved costs efficiency

INVESTMENT HIGHLIGHTS

- 1QFY19 earnings improved by +15.0%yoy to RM122.9m, in-line with ours and consensus expectations
- F&B Malaysia managed to record third consecutive quarter of positive operating profit growth
- Despite registering similar operating profit growth, F&B Thailand performance was dragged by higher tax expense
- Maintain NEUTRAL with an adjusted TP of RM33.78

Earnings within expectations. Fraser & Neave Holdings Bhd's (F&N) normalised earnings for 1QFY19 came in higher by +15.0% to RM122.9m. This accounted for about 28.0% of ours and consensus full year FY19 earnings forecast. The strong quarterly earnings is within our expectation as historically, the group first quarter result range between 25.0% to 40.0% in the last three years.

F&B Malaysia regained stability post-transformation exercise. F&B Malaysia segment's normalised operating profit for the 1QFY19 increased by +33.8%yoy to RM154.1m. Post-transformation exercise, the segment managed to record third consecutive quarter of positive growth albeit at a moderating pace. The strong performance was mainly due to the: (i) earlier Chinese New Year festive sell-in for beverage products coupled with lower discount and; (ii) favourable input cost for sugar, palm oil and dairy-based commodity. However, these are partly offset by the higher packaging material costs.

Higher tax expense dragged F&B Thailand performance. Similarly, F&B Thailand 1QFY19 normalised operating profit rose by +36.5%yoy to RM72.7m. This is mainly driven by the: (i) higher export revenue from market expansion and execution of promotional campaigns in the Indochina region such as Cambodia and Laos as well as; (iii) favourable raw material costs. Nonetheless, F&B Thailand has commenced paying corporate taxes starting this quarter as it has fully utilised the promotional tax incentive awarded by the Board of Investment.

Target Price. We adjust our target price to **RM33.78** (previously RM31.54) as we rolled forward our valuation based to FY20F pegging its FY20 EPS of 129.9sen to unchanged PER of 26.0x which its five-year historical average.

Maintain NEUTRAL

Adjusted Target Price (TP):RM33.78


(Previously RM31.54)

RETURN STATS

Price (31 st January 2019)	RM33.96
Target Price	RM33.78
Expected Share Price Return	-0.5%
Expected Dividend Yield	+2.3%
Expected Total Return	+1.8%

STOCK INFO

KLCI	1,683.53
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares	366.78m
Market cap. (RM'm)	12,455.80m
Price over NA (x)	5.14
52-wk price Range	RM29.2 – RM40.0
Beta (against KLCI)	0.75
3-mth Avg Daily Vol	0.21m
3-mth Avg Daily Value	RM6.9m
Major Shareholders (%)	
Fraser and Neave Ltd	55.48
EPF	11.36
PNB & Associated funds	3.09

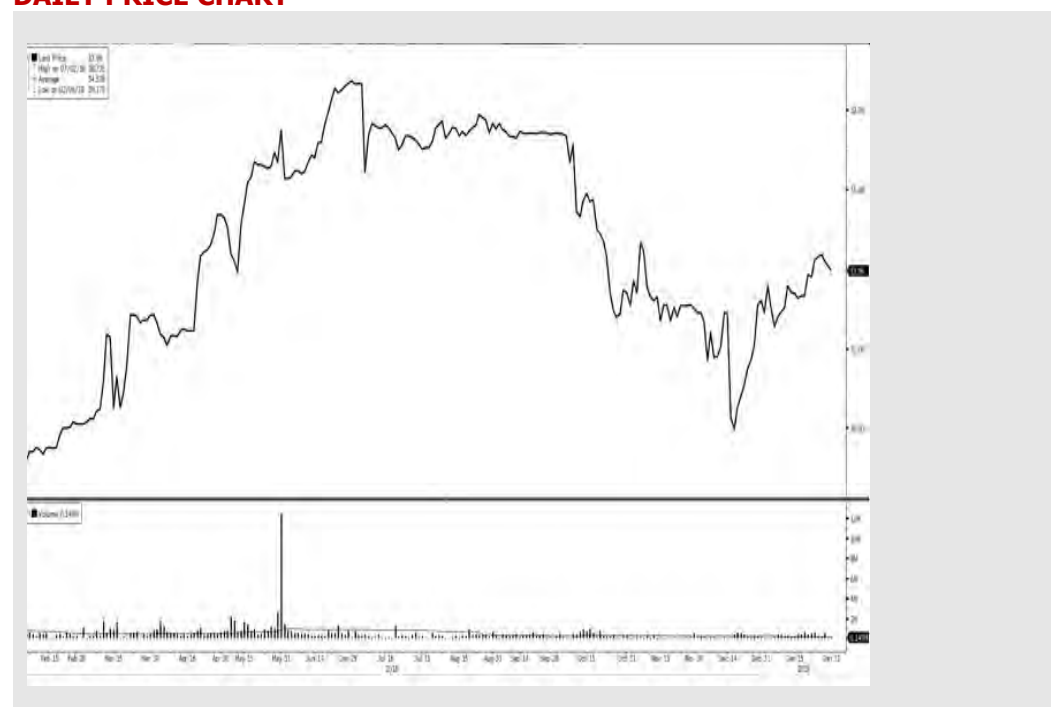
Maintain NEUTRAL. Despite the challenging domestic market condition in view of competitive price pressures and intensifying competition, we believe that the group's earnings growth will continue to grow, driven by the: (i) continued strong export growth; and (ii) improved cost efficiency as a result of cost optimisation efforts. In addition, we expect that the impending excise duty at RM0.40 per litre on ready-to-drink beverages that contain sugar exceeding 5.0g per 100 millilitres, starting from 1st April 2019, will have a minimal impact on F&N's bottom line due to the: (i) lower overall contribution of soft drink segment to the group's earnings and; (ii) ongoing reformulation of the sugar content for most of its products to be below 5.0% while maintain the same tastes. All things considered, we maintain our **NEUTRAL** call on the stock. 

INVESTMENT STATISTICS

FYE Sep (RMm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	4,167.6	4,101.4	4,109.9	4,256.4	4,426.5
Operating profit	433.4	345.1	420.2	512.7	554.6
PBT	442.9	353.7	422.7	521.0	563.2
PAT	385.4	323.3	385.1	444.9	476.5
One-off items	0.0	52.7	(3.2)	0.0	0.0
Normalised PAT	385.4	376.1	381.9	444.9	476.5
Normalised EPS (sen)	105.3	102.5	104.1	121.3	129.9
Net Dividend (sen)	57.5	57.5	57.5	72.5	77.5
Operating profit margin (%)	10.4	8.4	10.2	12.0	12.5
Normalised PAT margin (%)	9.2	9.2	9.3	10.5	10.8
EPS Growth (%)	37.6	(2.6)	1.5	16.5	7.1
Dividend yield (%)	1.7	1.7	1.7	2.1	2.3
PER (x)	32.3	33.1	32.6	28.0	26.1

Source: Company, MIDFR

DAILY PRICE CHART



F&N: 1QFY19 RESULTS SUMMARY

FYE Sep (RMm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue	1,010.3	996.6	1,001.8	0.8	1.4
Cost of sales	(690.4)	(653.1)	(715.8)	(3.6)	5.7
Gross profit	319.9	343.5	286.1	11.8	(6.9)
Other income	2.6	5.0	5.1	(49.0)	(47.7)
Operating expenses	(170.6)	(249.9)	(176.3)	(3.3)	(31.7)
Operating profit	151.9	98.7	114.9	32.3	54.0
Finance income	3.4	5.3	3.2	6.9	(35.6)
Finance costs	(1.7)	(4.3)	(3.7)	(55.5)	(60.8)
Share of results of a joint venture	(1.5)	(1.7)	(1.1)	34.2	(8.4)
Share of results of associates	1.9	1.6	1.9	(2.6)	21.1
PBT	154.1	99.6	115.1	33.8	54.6
Taxation	(31.2)	(18.4)	(8.3)	275.6	69.4
PAT	122.9	81.2	106.8	15.0	51.2
One-off item	0.0	(4.4)	0.0	0.0	4.4
Normalised PAT	122.9	76.8	106.8	15.0	60.0
Basic EPS (sen)	33.5	22.2	29.2	14.7	50.9
Fully Diluted EPS (sen)	33.4	22.1	29.0	15.2	51.1
				<i>+ / (-) ppts</i>	
Gross profit margin (%)	31.7	34.5	28.6	3.1	(2.8)
Operating margin (%)	15.0	9.9	11.5	3.6	5.1
PBT margin (%)	15.2	10.0	11.5	3.8	5.3
PAT margin (%)	12.2	8.2	10.7	1.5	4.0
Normalised PAT margin (%)	12.2	7.7	10.7	1.5	4.5
Effective Tax rate (%)	20.3	18.5	7.2	13.0	1.8

F&N: BREAKDOWN BY SEGMENT

FYE Sep (RMm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue					
F&B Malaysia	553.4	505.9	556.1	(0.5)	9.4
F&B Thailand	456.5	441.4	445.5	2.5	3.42
Property	0.2	0.2	0.2	8.0	10.9
Others	0.1	0.1	0.0	nm	(13.7)
Total	1,010.3	947.6	1,001.8	0.8	6.6
Normalised operating profit					
F&B Malaysia	52.5	38.0	41.2	27.5	38.3
F&B Thailand	99.3	61.7	72.7	36.5	60.9
Property	0.2	-0.2	0.3	(47.5)	(208.6)
Others	0.0	-0.9	0.7	(98.6)	(101.0)
Adjustments and eliminations	0.0	1.6	0.0	nm	(100.0)
Total	151.9	100.1	114.9	32.3	51.8
Operating profit margin (%)				<i>+ / (-) ppts</i>	
F&B Malaysia	9.5	7.5	7.4	2.1	2.0
F&B Thailand	21.7	14.0	16.3	5.4	7.8
Property	72.5	(74.1)	149.1	(76.6)	146.6

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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 <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.