

04 May 2018 | 2QFY18 Results Review

Fraser & Neave Holdings Berhad

2QFY18 performance lagged expectation

Under Review

Unchanged Target Price (TP):RM30.03

INVESTMENT HIGHLIGHTS

- **2QFY18 normalised earnings lowered by -17.2%yoy to RM88.7m, lagging ours and consensus expectations**
- **Poor earnings performance from F&B Malaysia impacted by higher costs**
- **Thailand's operations reported a subdued revenue growth**
- **Our call is under review pending analysts' briefing**

Earnings lagged expectations. Fraser & Neave Holdings Bhd's (F&N) reported earnings for 2QFY18 came in lower by -13.6%yoy to RM92.6m. After adjusting for one-off items, the normalised earnings came down by -17.2%yoy to RM88.7m. This accounted for 44.8% and 46.6% of ours and consensus full year FY18 earnings forecasts respectively. In the last five financial years, the group first half of the year result on average accounted for 60% of full year earnings.

F&B Malaysia segment impacted by higher costs. Excluding one-off items, the segment normalised operating profit for the 2QFY18 dropped by -23.3%yoy to RM36.1m despite recording higher revenue of RM581.8m (+7.0%yoy). The dismal performance was mainly due to: (i) higher input costs especially for dairy products and; (ii) higher advertising and promotions expenditure and sales incentives in conjunction with Chinese New Year celebration. These are partly offset by operational cost savings and lower overheads as a result of its transformation exercise in 2017.


F&B Thailand posted a decline in revenue. F&B Thailand revenue dropped by -3.6%yoy to RM32.5m due to the: i) challenging market conditions due to the soft economy; and (ii) loss of UHT milk revenue caused by product shortage attributed by a co-manufacturer's plant that was damaged by fire in November 2017. However, we understand that the sale of UHT milk products has resumed this month. Meanwhile, F&B Thailand normalised operating profit declined at a slower pace (-0.9%yoy) to RM66.2m in view of lower advertising and promotions expenses.

Impact to earnings forecast. We maintain our earnings forecast pending analysts' briefing this morning.

Interim dividend declared for FY18. The company has declared an interim dividend of 27.0sen per ordinary share for FY18, which will be payable on 7th June 2018.

RETURN STATS	
Price (3 rd May 2018)	RM35.64
Target Price	RM30.03
Expected Share Price Return	-15.7%
Expected Dividend Yield	+2.0%
Expected Total Return	-13.7%

STOCK INFO	
KLCI	1,851.80
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares	366.54m
Market cap. (RM'm)	13,063.54m
Price over NA (x)	5.86
52-wk price Range	RM23.4 - RM36.7
Beta (against KLCI)	0.48
3-mth Avg Daily Vol	0.53m
3-mth Avg Daily Value (RM'm)	17.3m
Major Shareholders (%)	
Fraser and Neave Ltd	55.51
PNB & Associated funds	12.22
EPF	11.39
Skim Amanah Saham Bumiputera	5.58

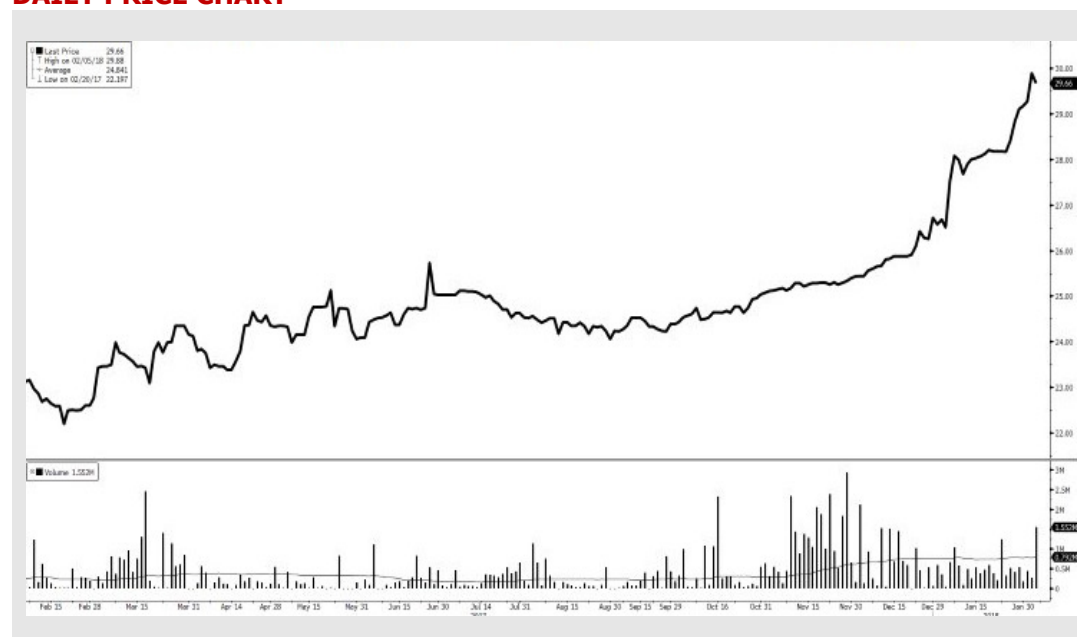
Under review. We are putting our recommendation on F&N under review pending analysts' briefing. We are maintaining our current target price of **RM30.03** per share. This is based on FY19F EPS of 143.0sen pegging it to a PER of 21x. 

INVESTMENT STATISTICS

FYE Sep (RMm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	4,107.6	4,167.6	4,101.4	4,295.5	4,530.0
Cost of sales	(2,802.5)	(2,683.6)	(2,732.9)	(2,796.8)	(2,921.8)
Gross profit	1,305.1	1,484.0	1,368.5	1,498.7	1,608.1
Operating profit	332.0	433.4	345.1	486.0	573.9
PBT	333.8	442.9	353.7	494.3	582.7
PAT	280.1	385.4	323.3	444.9	524.4
One-off items	0.0	0.0	52.7	0.0	0.0
Normalised PAT	280.1	385.4	376.1	444.9	524.4
Normalised EPS (sen)	76.5	105.3	88.2	121.3	143.0
Net Dividend (sen)	57.5	57.5	57.5	60.0	72.5
Gross profit margin (%)	31.8	35.6	33.4	34.9	35.5
Operating profit margin (%)	8.1	10.4	8.4	11.3	12.7
PAT margin (%)	6.8	9.2	7.9	10.4	11.6
Normalised PAT margin (%)	6.8	9.2	9.2	10.4	11.6
EPS Growth (%)	7.7	37.6	(16.3)	37.6	17.9
Dividend yield (%)	1.6	1.6	1.6	1.7	2.0
PER (x)	46.6	33.8	40.4	29.4	24.9

Source: Company, MIDFR

DAILY PRICE CHART



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F&N: 2QFY18 RESULTS SUMMARY

FYE Sep (RMm)	Quarterly results				Cumulative results			
	2QFY18	1QFY18	2QFY17	YoY (%)	QoQ (%)	1HFY18	1HFY17	YoY (%)
Revenue	1,014.5	1,068.9	992.7	2.2	(5.1)	2,083.5	2,083.8	(0.0)
Cost of sales	(674.0)	(716.9)	(642.6)	4.9	(6.0)	(1,390.9)	(1,343.2)	3.5
Gross profit	340.6	352.0	350.1	(2.7)	(3.3)	692.6	740.6	(6.5)
Other income	5.4	5.1	(1.5)	(455.7)	5.8	10.6	16.1	(34.2)
Operating expenses	(246.2)	(242.3)	(236.1)	4.3	1.6	(488.5)	(502.2)	(2.7)
Operating profit	99.9	114.9	112.5	(11.2)	(13.1)	214.7	254.5	(15.6)
Finance income	3.3	3.2	3.7	(10.6)	2.5	6.5	7.5	(12.7)
Finance costs	(3.8)	(3.7)	(3.8)	(1.0)	0.7	(7.5)	(7.7)	(2.4)
Share of results of a joint venture	(1.2)	(1.1)	(0.2)	515.3	5.8	(2.3)	(0.3)	812.8
Share of results of associates	2.7	1.9	4.6	(40.5)	40.6	4.7	6.8	n.a.
PBT	100.9	115.1	116.8	(13.6)	(12.4)	216.0	260.8	(17.2)
Taxation	(8.4)	(8.3)	(9.7)	(14.0)	0.6	(16.7)	(26.4)	(37.0)
PAT	92.6	106.8	107.1	(13.6)	(13.4)	199.4	234.3	(14.9)
Normalised PAT	88.7	109.7	107.1	(17.2)	(19.2)	199.4	234.3	(14.9)
Basic EPS (sen)	25.3	29.2	29.2	(13.4)	(13.4)	54.5	64.0	(14.8)
Fully Diluted EPS (sen)	25.2	29.0	29.1	(13.4)	(13.1)	54.2	63.7	(14.9)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	33.6	32.9	35.3	(1.7)	0.6	33.2	35.5	(2.3)
Operating margin (%)	9.8	10.7	11.3	(1.5)	(0.9)	10.3	12.2	(1.9)
PBT margin (%)	9.9	10.8	11.8	(1.8)	(0.8)	10.4	12.5	(2.1)
PAT margin (%)	9.1	10.0	10.8	(1.7)	(0.9)	9.6	11.2	(1.7)
Normalised PAT margin (%)	8.7	10.3	10.8	(2.0)	(1.5)	9.6	11.2	(1.7)
Effective Tax rate (%)	8.3	7.2	8.3	(0.0)	1.1	7.7	10.1	(2.4)

F&N: BREAKDOWN BY SEGMENT

FYE Sep (RMm)	Quarterly results					Cumulative results		
	2QFY18	1QFY18	2QFY17	QoQ (%)	YoY (%)	1HFY18	1HFY17	YoY (%)
Revenue								
F&B Malaysia	581.8	600.4	543.9	(3.1)	7.0	1,182.2	1,191.0	(0.7)
F&B Thailand	432.5	468.2	448.5	(7.64)	(3.6)	900.7	892.2	1.0
Property	0.2	0.2	0.2	(3.1)	21.0	0.4	0.4	22.3
Others	0.1	0.0	0.1	963.5	(43.7)	0.1	0.2	(44.9)
Total	1,014.5	1,068.9	992.7	(5.1)	2.2	2,083.5	2,083.8	(0.0)
Normalised operating profit								
F&B Malaysia	36.1	41.2	47.0	(12.4)	(23.3)	77.2	115.5	(33.1)
F&B Thailand	66.2	75.6	66.8	(12.5)	(0.9)	141.8	144.8	(2.1)
Property	0.1	0.3	0.3	(59.1)	(50.0)	0.5	0.5	(13.2)
Others	-2.2	0.7	(0.2)	(440.0)	1,378.0	(1.6)	0.4	(533.5)
Adjustments and eliminations	(4.1)	-	(2.0)	N.A.	102.7	(4.1)	(2.9)	44.1
Total	96.0	117.8	111.9	(18.5)	(14.2)	213.8	258.3	(17.2)
Operating profit margin (%)				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
F&B Malaysia	6.2	6.9	8.6	(0.7)	(2.4)	6.5	9.7	(3.2)
F&B Thailand	15.3	16.2	14.9	(0.9)	0.4	15.7	16.2	(0.5)
Property	63.0	149.1	152.5	(86.1)	(89.5)	106.7	150.3	(43.5)

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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.