

03 August 2018 | 3QFY18 Results Review

## Fraser & Neave Holdings Berhad

*3QFY18 performance within expectation*

**Maintain SELL**

**Unchanged Target Price (TP):RM28.30**

### INVESTMENT HIGHLIGHTS

- **3QFY18 earnings improved by +50.6%yoy to RM49.1m, in-line with ours and consensus expectations**
- **F&B Malaysia segment recorded higher profit**
- **F&B Thailand posted a decline in revenue**
- **Maintain SELL with a TP of RM28.30**

**Earnings within our expectations.** Fraser & Neave Holdings Bhd's ("F&N") reported earnings for 3QFY18 came in higher by +50.6%yoy to RM104.5m. Nevertheless, the cumulative 9MFY18 earnings grew marginally by +0.1%yoy to RM303.9m. This is within ours and consensus expectations, accounting for 75.1% and 73.0% of full year FY18 earnings forecasts respectively.

**F&B Malaysia segment recoded higher profit.** F&B Malaysia segment's normalised operating profit for the 3QFY18 increased by +45.2%yoy to RM49.1m. The stellar performance was mainly due to: (i) operational cost savings and lower overhead and; (ii) favourable input cost for sugar for the quarter as compared to the corresponding quarter. However, these are partly offset by; (i) higher dairy-based input and packaging material costs and; (ii) higher advertising and promotional expenditure for festive season.


**F&B Thailand posted a decline in revenue.** F&B Thailand revenue dropped by -2.9%yoy to RM435.4m due to the challenging market conditions. This is partly offset by higher export sales. Meanwhile, the normalised operating profit improved by +11.4%yoy to RM51.5m in view of lower input and packaging material costs.

**Impact to earnings forecast.** We are maintaining our earnings forecast as it is largely within our expectation.

**Prospect.** Previously, F&N experienced sales growth dropped a quarter earlier prior to the implementation of GST as dealers and distributors destocked their inventory level. Hence, with the upcoming implementation of the new SST effective from 1 September 2018 onwards, we would expect this activity would take place re-occur in the 4QFY18.

RETURN STATS	
Price (2 <sup>nd</sup> August 2018)	RM37.40
Target Price	RM28.30
Expected Share Price Return	-24.3%
Expected Dividend Yield	+2.0%
<b>Expected Total Return</b>	<b>-22.3%</b>

STOCK INFO	
KLCI	1,778.13
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares	366.54m
Market cap. (RM'm)	13,708.65m
Price over NA (x)	6.21
52-wk price Range	RM23.40 - RM39.90
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	0.80m
3-mth Avg Daily Value (RM'm)	30.0m
Major Shareholders (%)	
Fraser and Neave Ltd	55.5
PNB & Associated funds	12.2
EPF	11.5

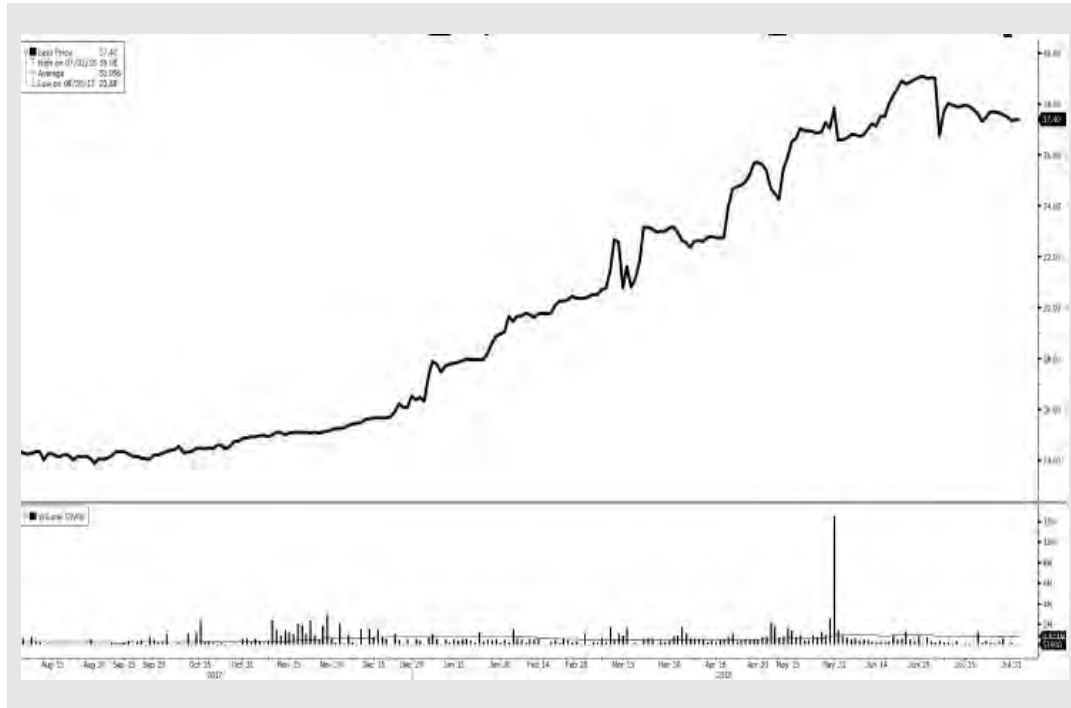
**Maintain SELL.** Due to the recent price rally, current PER is now more than 40.0x while dividend yield has dropped to about 2.0%. At the current trading price, the stock is overvalued in comparison to the two-year historical PER of 26.7x. All factors considered, we are maintaining our **SELL** recommendation with an unchanged target price of **RM28.30 per share**. Our valuation is based on FY19F EPS of 132.8sen pegging it to a target PER of 21.3x which is -1.0SD below the two-year historical average. 

## INVESTMENT STATISTICS

FYE Sep (RMm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	4,107.6	4,167.6	4,101.4	4,229.6	4,380.3
Cost of sales	(2,802.5)	(2,683.6)	(2,732.9)	(2,791.5)	(2,847.2)
<b>Gross profit</b>	1,305.1	1,484.0	1,368.5	1,438.1	1,533.1
<b>Operating profit</b>	332.0	433.4	345.1	441.1	532.7
PBT	333.8	442.9	353.7	449.4	541.2
PAT	280.1	385.4	323.3	404.4	487.1
One-off items	0.0	0.0	52.7	0.0	0.0
<b>Normalised PAT</b>	280.1	385.4	376.1	404.4	487.1
Normalised EPS (sen)	76.5	105.3	88.2	110.3	132.8
Net Dividend (sen)	57.5	57.5	57.5	60.0	72.5
Gross profit margin (%)	31.8	35.6	33.4	34.0	35.0
Operating profit margin (%)	8.1	10.4	8.4	10.4	12.2
PAT margin (%)	6.8	9.2	7.9	9.6	11.1
Normalised PAT margin (%)	6.8	9.2	9.2	9.6	11.1
<b>EPS Growth (%)</b>	7.7	37.6	(16.3)	25.1	20.4
Dividend yield (%)	1.6	1.6	1.6	1.7	2.1
PER (x)	45.7	33.2	39.6	31.7	26.3

Source: Company, MIDFR

## DAILY PRICE CHART



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

## F&N: 3QFY18 RESULTS SUMMARY

FYE Sep (RMm)	Quarterly results					Cumulative results		
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	1,029.7	1,014.5	1,041.3	(1.1)	1.5	3,113.2	3,125.1	(0.4)
Cost of sales	(683.7)	(674.0)	(704.5)	(3.0)	1.4	(2,074.6)	(2,047.7)	1.3
<b>Gross profit</b>	346.0	340.6	336.8	2.8	1.6	1,038.7	1,077.4	(3.6)
Other income	2.5	5.4	(0.5)	(583.0)	(54.6)	13.1	15.6	(16.1)
Operating expenses	(241.7)	(246.2)	(265.0)	(8.8)	(1.8)	(730.2)	(767.2)	(4.8)
<b>Operating profit</b>	106.8	99.9	71.3	49.8	7.0	321.6	325.8	(1.3)
Finance income	4.2	3.3	3.6	16.5	27.3	10.7	11.1	(3.2)
Finance costs	(3.8)	(3.8)	(3.8)	0.4	0.4	(11.3)	(11.5)	(1.5)
Share of results of a joint venture	(2.5)	(1.2)	(0.0)	5,308.5	110.8	(4.9)	(0.3)	1,507.9
Share of results of associates	2.3	2.7	2.4	(4.6)	(14.7)	7.0	9.3	n.a.
<b>PBT</b>	107.0	100.9	73.5	45.6	6.1	323.1	334.3	(3.4)
Taxation	(2.6)	(8.4)	(4.2)	(38.7)	(69.5)	(19.2)	(30.6)	(37.2)
<b>PAT</b>	104.5	92.6	69.4	50.6	12.9	303.9	303.7	0.1
<b>Normalised PAT</b>	104.5	88.7	69.4	50.6	17.8	303.9	303.7	0.1
Basic EPS (sen)	28.5	25.3	18.9	50.8	12.6	82.8	82.9	(0.1)
Fully Diluted EPS (sen)	28.4	25.2	18.9	50.3	12.7	82.4	82.6	(0.2)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	33.6	33.6	32.3	1.3	0.0	33.4	34.5	(1.1)
Operating margin (%)	10.4	9.8	6.8	3.5	0.5	10.3	10.4	(0.1)
PBT margin (%)	10.4	9.9	7.1	3.3	0.4	10.4	10.7	(0.3)
PAT margin (%)	10.1	9.1	6.7	3.5	1.0	9.8	9.7	0.0
Normalised PAT margin (%)	10.1	8.7	6.7	3.5	1.4	9.8	9.7	0.0
Effective Tax rate (%)	2.4	8.3	5.7	(3.3)	(5.9)	5.9	9.2	(3.2)

## F&N: BREAKDOWN BY SEGMENT

FYE Sep (RMm)	Quarterly results					Cumulative results		
	3QFY18	2QFY18	3QFY17	QoQ (%)	YoY (%)	9MFY18	9MFY17	YoY (%)
<b>Revenue</b>								
F&B Malaysia	594.1	581.8	592.5	2.1	0.3	1,776.3	1,783.5	(0.4)
F&B Thailand	435.4	432.5	448.6	0.68	(2.9)	1,336.1	1,340.8	(0.3)
Property	0.2	0.2	0.2	(4.6)	17.4	0.7	0.5	20.7
Others	0.1	0.1	0.1	(4.5)	(34.7)	0.2	0.3	(41.9)
<b>Total</b>	1,029.7	1,014.5	1,041.3	1.5	(1.1)	3,113.2	3,125.1	(0.4)
<b>Normalised operating profit</b>								
F&B Malaysia	49.1	36.1	33.8	36.2	45.2	126.3	149.3	(15.4)
F&B Thailand	57.4	66.2	51.5	(13.2)	11.4	199.2	196.4	1.5
Property	0.2	0.1	0.2	9.4	(36.3)	0.6	0.8	(20.2)
Others	0.3	(2.2)	4.6	(115.4)	(92.6)	-1.2	5.0	(124.4)
Adjustments and eliminations	(0.2)	(4.1)	(7.0)	(95.6)	(97.4)	(4.3)	(9.8)	(55.9)
<b>Total</b>	106.8	96.0	83.3	11.3	28.3	320.6	341.6	(6.1)
<b>Operating profit margin (%)</b>					<i>+ / (-) ppts</i>			
F&B Malaysia	8.3	6.2	5.7	2.1	2.6	7.1	8.4	(1.3)
F&B Thailand	13.2	15.3	11.5	(2.1)	1.7	14.9	14.6	0.3
Property	72.2	63.0	133.1	9.2	(60.9)	95.7	144.6	(48.9)

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.