

09 November 2018 | 4QFY18 Results Review

Fraser & Neave Holdings Berhad

Strong 4QFY18 earnings performance

INVESTMENT HIGHLIGHTS

- **4QFY18 earnings improved by +46.9%yoy to RM76.8m, in-line with ours and consensus expectations**
- **F&B Malaysia segment continue to register improve earnings post-reorganisation exercise**
- **F&B Thailand segment recorded similar earnings growth as F&B Malaysia**
- **Interim dividend declared for 4QFY18 of 30.5sen per share**
- **Maintain NEUTRAL with an unchanged TP of RM34.52**

Earnings within our expectations. Fraser & Neave Holdings Bhd's (F&N) reported higher 4QFY18 normalised earnings of RM76.8m (+46.9%yoy). Cumulatively, full year FY18 normalised earnings grew marginally by +1.5%yoy to RM381.9m. This is within ours and consensus expectations, accounting for 95.0% and 98.0% of full year FY18 earnings forecasts respectively.

F&B Malaysia segment recorded higher profit. F&B Malaysia segment's normalised operating profit for the 4QFY18 increased by +78.4%yoy to RM33.5m. The stellar performance was mainly due to: (i) operational cost savings and lower overhead post-reorganisation exercise; (ii) favourable input cost for sugar for the quarter as compared to the corresponding quarter and; (iii) lower advertising and promotional expenditure in absence of major festivity during the quarter. However, these are partly offset by the higher packaging material costs.

F&B Thailand segment delivered an improved performance. Similarly, F&B Thailand 4QFY18 normalised operating profit rose by +79.2%yoy to RM60.4m. This is mainly driven by: (i) recovery in domestic sales; (ii) higher export sales to Cambodia and Laos as well as; (iii) favourable input costs.

Dividend declared for FY18. The company has declared an interim dividend of 30.5sen per share for 4QFY18 which is equal to the amount declared in the corresponding quarter. This brings its cumulative FY18 dividend to 57.5sen per share.

Target Price. Our target price remain unchanged at **RM34.52** per share which is based on FY19F EPS of 132.8sen pegging to a target PER of 26.0x which is its five-year historical average.

Maintain NEUTRAL

Unchanged Target Price (TP):RM34.52

RETURN STATS

Price (8 th November 2018)	RM34.78
Target Price	RM34.52
Expected Share Price Return	-0.7%
Expected Dividend Yield	+2.1%
Expected Total Return	+1.4%

STOCK INFO

KLCI	1,721.42
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares	366.54m
Market cap. (RM'm)	12,748.30m
Price over NA (x)	5.77
52-wk price Range	RM24.6 – RM40.0
Beta (against KLCI)	0.73
3-mth Avg Daily Vol	0.30m
3-mth Avg Daily Value (RM'm)	11.4m
Major Shareholders (%)	
Fraser and Neave Ltd	55.51
PNB & Associated funds	12.48
EPF	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 recent imposition of excise duty at RM0.40 per litre on ready-to-drink beverages that contain sugar exceeding 5.0g per 100 millilitres, starting 1 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) reformulation of F&N's flagship brand 100PLUS to a lower sugar content. All things considered, we maintain our **NEUTRAL** call on the stock.

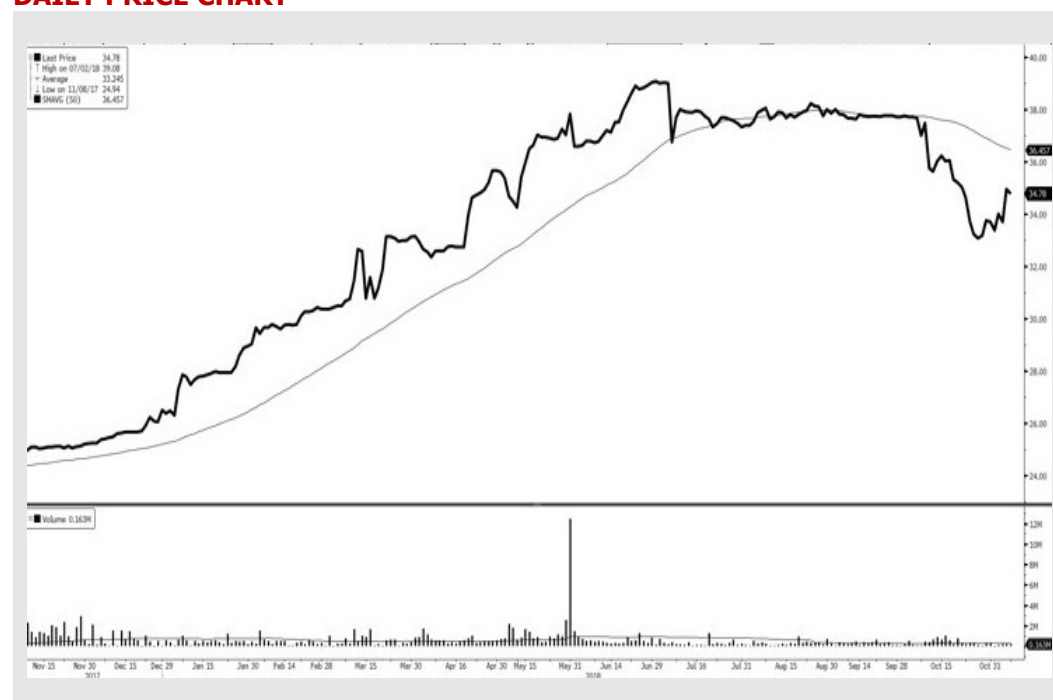


INVESTMENT STATISTICS

FYE Sep (RMm)	FY2015	FY2016	FY2017	FY2018	FY2019F
Revenue	4,107.6	4,167.6	4,101.4	4,109.9	4,380.9
Operating profit	332.0	433.4	345.1	18.1	532.7
PBT	333.8	442.9	353.7	422.7	541.3
PAT	280.1	385.4	323.3	420.2	487.1
One-off items	0.0	0.0	52.7	(3.2)	0.0
Normalised PAT	280.1	385.4	376.1	381.9	487.1
Normalised EPS (sen)	76.5	105.3	102.5	104.1	132.8
Net Dividend (sen)	57.5	57.5	57.5	57.5	72.5
Operating profit margin (%)	8.1	10.4	8.4	0.4	12.2
Normalised PAT margin (%)	6.8	9.2	9.2	9.3	11.1
EPS Growth (%)	7.7	37.6	(2.6)	1.5	27.6
Dividend yield (%)	1.7	1.7	1.7	1.7	2.1
PER (x)	45.5	33.0	33.9	33.4	26.2

Source: Company, MIDFR

DAILY PRICE CHART



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F&N: 4QFY18 RESULTS SUMMARY

FYE Sep (RMm)	Quarterly results					Cumulative results		
	4QFY18	3QFY18	4QFY17	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue	996.6	1,029.7	976.3	2.1	(3.2)	4,109.9	4,101.4	0.2
Cost of sales	(653.1)	(683.7)	(685.2)	(4.7)	(4.5)	(2,727.7)	(2,732.9)	(0.2)
Gross profit	343.5	346.0	291.1	18.0	(0.7)	1,382.2	1,368.5	1.0
Other income	5.0	2.5	4.5	10.7	102.9	18.1	20.1	(10.1)
Operating expenses	(249.9)	(241.7)	(276.3)	(9.6)	3.4	(980.0)	(1,043.5)	(6.1)
Operating profit	98.7	106.8	19.3	411.2	(7.6)	420.2	345.1	21.8
Finance income	5.3	4.2	3.7	43.9	27.0	16.0	14.8	8.6
Finance costs	(4.3)	(3.8)	(3.8)	11.3	12.4	(15.6)	(15.3)	1.7
Share of results of a joint venture	(1.7)	(2.5)	(1.8)	(6.1)	(34.3)	(6.6)	(2.1)	214.8
Share of results of associates	1.6	2.3	2.0	(21.2)	(32.9)	8.6	11.3	n.a.
PBT	99.6	107.0	19.4	413.9	(6.9)	422.7	353.7	19.5
Taxation	(18.4)	(2.6)	0.2	n.m.	621.7	(37.6)	(30.4)	23.9
PAT	81.2	104.5	19.6	313.7	(22.3)	385.1	323.3	19.1
One-off item	(4.4)	1.2	32.6	(37.1)	(5.6)	(3.2)	52.7	(106.1)
Normalised PAT	76.8	105.7	52.3	46.9	(27.3)	381.9	376.1	1.5
Basic EPS (sen)	22.2	28.5	5.4	311.1	(22.1)	104.9	88.3	18.8
Fully Diluted EPS (sen)	22.1	28.4	5.3	317.0	(22.2)	104.5	88.0	18.8
				<i>+ / (-)</i> <i>ppts</i>				<i>+ / (-)</i> <i>ppts</i>
Gross profit margin (%)	34.5	33.6	29.8	4.6	0.9	33.6	33.4	0.3
Operating margin (%)	9.9	10.4	2.0	7.9	(0.5)	10.2	8.4	1.8
PBT margin (%)	10.0	10.4	2.0	8.0	(0.4)	10.3	8.6	1.7
PAT margin (%)	8.2	10.1	2.0	6.1	(2.0)	9.4	7.9	1.5
Normalised PAT margin (%)	7.7	10.1	5.4	2.4	(2.4)	9.3	9.2	0.1
Effective Tax rate (%)	18.5	2.4	(1.3)	19.7	16.1	8.9	8.6	0.3

F&N: BREAKDOWN BY SEGMENT

FYE Sep (RMm)	Quarterly results					Cumulative results		
	4QFY18	3QFY18	4QFY17	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue								
F&B Malaysia	545.4	594.1	535.4	1.9	(8.2)	2,321.7	2,318.8	0.1
F&B Thailand	450.9	435.4	440.7	2.3	3.57	1,787.1	1,781.5	0.3
Property	0.2	0.2	0.2	15.2	5.3	0.9	0.7	19.2
Others	0.1	0.1	(0.0)	n.m.	14.1	0.3	0.3	(18.1)
Total	996.6	1,029.7	976.3	2.1	(3.2)	4,109.9	4,101.4	0.2
Normalised operating profit								
F&B Malaysia	33.5	50.3	18.8	78.4	(33.4)	162.0	169.6	(4.5)
F&B Thailand	60.4	57.4	33.7	79.2	5.2	259.6	232.8	11.5
Property	-0.2	0.2	(0.1)	136.2	(207.9)	0.5	0.7	(35.2)
Others	-1.0	0.3	0.5	n.m.	(404.1)	-2.3	5.5	(141.1)
Adjustments and eliminations	1.6	(0.2)	(1.0)	n.m.	(942.4)	(2.8)	(10.8)	(74.2)
Total	94.2	108.0	51.9	81.5	(12.8)	417.0	397.8	4.8
Operating profit margin (%)				<i>+ / (-)</i> <i>ppts</i>				
F&B Malaysia	6.1	8.5	3.5	2.6	(2.3)	7.0	7.3	(0.3)
F&B Thailand	13.4	13.2	7.6	5.7	0.2	14.5	13.1	1.5
Property	(74.1)	72.2	-36.1	(38.0)	(146.3)	53.0	97.5	(44.6)

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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.