

16 August 2018 | Corporate Update

Fraser & Neave Holdings Berhad

Expecting a strong export growth

INVESTMENT HIGHLIGHTS

- Pulau Indah plant to address capacity issue
- F&N to achieve its total export revenue target before 2020
- Facing intense competition in Malaysia and Thailand
- Upgrade to NEUTRAL with a new target price of RM34.52

Pulau Indah plant is expected to double its annual capacity.

We visited F&N Dairies Manufacturing plant in Selangor Halal Hub, Pulau Indah, Port Klang. With utilisation rate at near full capacity, the plant is currently producing close to 13.0 million and 3.0 million cartons of sweetened condensed milk and evaporated milk per annum respectively. To address the capacity issue, the plant is undergoing debottlenecking programme with capital expenditure in excess of RM25.0m. F&N expects to double the plant annual capacity gradually by 2020 to cater for strong export demand.

F&N to achieve its total export revenue target before 2020.

The afore-mentioned planned capacity expansion is mainly to support the strong export growth. F&N targets total export revenue to reach RM800.0m by 2020. For the 9MFY18, revenue from export contributed approximately 16.0% of total revenue. As of 9MFY18, export contributes 16.0% of total revenue whilst for F&N Malaysia and Thailand segment grew +20.0%yoy and +10.0%yoy respectively. We estimated export revenue to contribute between the range of RM642.9m to RM710.6m for FY18. Assuming the same rate of growth, F&N poised to achieve its total export revenue target before 2020.


Facing temporary challenges in Malaysia and Thailand market.

F&N's two main segments i.e. the Malaysian and Thailand segments which contribute 57.1% and 42.9% respectively to total revenue (including export) are currently facing intense completion. For instance, F&N's domestic market share for sweetened condensed milk has slipped from 59.0% in FY14 to 52.4% as of 1HFY18. Despite the declining market share, revenue dropped marginally by -0.4%yoy and -0.3%yoy in the 9MFY18. Nevertheless, we expect a stronger revenue growth due to: (i) pre-SST purchase and; (ii) new innovative products set to be launched in Malaysia and Thailand market next year.

Upgrade to NEUTRAL
(Previously SELL)
Revised Target Price (TP):RM34.52
(Previously RM28.30)

RETURN STATS	
Price (15 th August 2018)	RM37.68
Target Price	RM34.52
Expected Share Price Return	-8.4%
Expected Dividend Yield	+1.9%
Expected Total Return	-6.5%

STOCK INFO	
KLCI	1785.94
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares	366.54m
Market cap. (RM'm)	12,806.96m
Price over NA (x)	6.25
52-wk price Range	RM23.4 - RM39.9
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	0.69m
3-mth Avg Daily Value (RM'm)	26.0m
Major Shareholders (%)	
Fraser and Neave Ltd	55.51
PNB & Associated funds	12.73
EPF	11.56

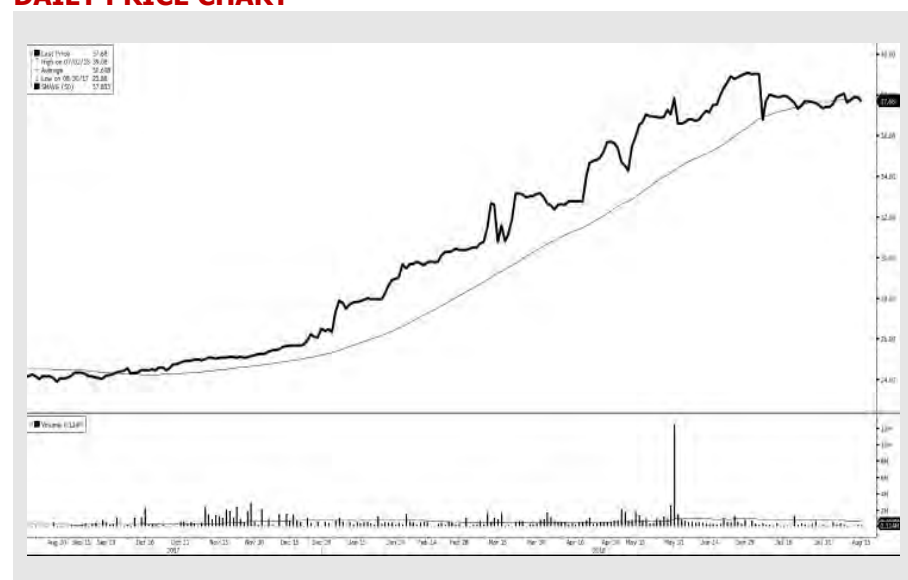
Upgrade to NEUTRAL stance with a revised TP of RM34.52. We upgrading our target price to **RM34.52** (previously RM28.30) which is based on FY19F EPS of 132.8sen pegging it to a target PER of 26.0x (previously 21.3x). We upgrade our valuation to a PER of 26.0x the five-year historical average. Our upgrade is premised on the expectation that future earnings growth will be driven by the: (i) continued strong export growth; and (ii) improved cost efficiency as a result of cost optimisation efforts and better economies of scale. In addition, we expect that the challenging domestic market conditions for both Malaysian and Thailand segment to be short-lived as: (i) stronger consumer sentiment going forward will spur more buying activity; and (ii) new innovative products set to be launched in Malaysia and Thailand market next year will regain some of the loss market share. 

INVESTMENT STATISTICS

FYE Sep (RMm)	2015	2016	2017	2018F	2019F
Revenue	4,107.6	4,167.6	4,101.4	4,229.6	4,380.6
Cost of sales	(2,802.5)	(2,683.6)	(2,732.9)	(2,791.6)	(2,847.4)
Gross profit	1,305.1	1,484.0	1,368.5	1,438.1	1,533.2
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
Normalised PAT	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
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
EPS Growth (%)	7.7	37.6	(16.3)	25.1	20.4
Dividend yield (%)	1.5	1.5	1.5	1.6	1.9
PER (x)	49.3	35.8	42.7	34.2	28.4

Source: Company, MIDFR

DAILY PRICE CHART



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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.