

11 February 2015 | 1QFY15 Result Review

Fraser & Neave Holdings Berhad

Poor performance masked by lower effective tax rate

Maintain NEUTRAL

Unchanged Target Price (TP):RM16.73

INVESTMENT HIGHLIGHTS

- F&N's 1QFY15 net profit grew +2%yoy to RM69.9m mainly due to lower effective tax rate as operationally, profits were affected by poor performance of the Soft Drinks division.
- The Soft Drink division performed poorly, impacted by the East Coast floods and higher input costs. This was partially mitigated by strong performance by the Dairies division.
- **Maintain NEUTRAL with an unchanged TP of RM16.73.**

Within expectation. F&N posted a decent set of 1QFY15 net profit of RM69.9m which grew +2%yoy and +12%qoq. Against ours and consensus, earnings made up 24.1% and 23.9% of full year estimates respectively. Earnings growth over 1QFY14 was mainly due to the lower effective tax rate as pretax profit declined -6%yoy to RM81.2m on poor performance of the Soft Drinks division which was mitigated by the improvements in the Dairies division.

Soft Drinks division. Revenue for the Soft Drinks division was flat vs 1QFY14 as management attributed this to later commencement of festive trade activities and lost sales from East Coast floods. Higher operating costs also contributed to the division's poor performance which saw a huge drop in operating profit (-37%yoy, -43%qoq).

Dairies Malaysia. The division's operating profit grew +30%yoy and +117%qoq, outpacing revenue growth of +9%yoy and +20%qoq. The strong performance was mainly due to stronger domestic and export sales as well as savings from cost rationalisation initiatives. The qoq improvement was also due to lower input costs from lower commodity prices of milk and palm oil. Overall, operating profit margin improved to 8.8% in 1QFY15 from 7.5% in 1QFY14 and 4.9% in 4QFY14.

Dairies Thailand. Revenue grew +21%yoy and +10%qoq on higher sales volume recorded due to increased promotional activities and the depreciation in Ringgit against the Thai Baht. While operating profit grew +14%yoy margins eased to 6.1% on higher sales-related cost.

Poor performance masked by lower tax. Despite recording weaker pretax profit, F&N's 1QFY15 net profit grew +2%yoy. This was due to lower effective tax rate as RM4.8m of deferred tax assets were utilised. Excluding this, net profit would decline -5.2%yoy to RM65.2m.

Maintain NEUTRAL. We retain our NEUTRAL stance on F&N with an unchanged TP of RM16.73 which is derived after pegging 21.1x FY15 PER on our forecast FY15 EPS of 79.3sen. We are cautious on F&N's FY15 prospect due to: (i) the weaker ringgit which could increase margin pressures; and ii) softer consumer demand post-GST. 

RETURN STATS	
Price (10 Feb' 15)	RM19.08
Target Price	RM16.73
Expected Share Price Return	-12.4%
Expected Dividend Yield	+3.1%
Expected Total Return	-9.3%

STOCK INFO	
KLCI	1,811.12
Bursa / Bloomberg	3689 / FNH MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	366.1
Par Value (RM)	1.00
Market cap. (RM'm)	6,984.5
Price over NA	4.70x
52-wk price Range	RM15.42-RM19.12
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM1.03m
Major Shareholders (%)	
Fraser & Neave Ltd	55.58
Skim ASB	19.02
EPF	7.70

INVESTMENT STATISTICS

FYE 30 Sep	FY2012A	FY2013A	FY2014A	FY2015F
Revenue (RM'm)	3,171.9	3,508.2	3,818.8	4,144.0
Operating Profit (RM'm)	231.4	312.4	314.2	352.2
Operating Profit Margin (%)	7.3	8.9	8.2	8.5
Pre-tax Profit (RM'm)	231.4	307.8	315.5	342.3
Net Profit (RM'm)	274.0	259.5	259.4	290.1
Basic EPS (Sen)	75.9	71.4	71.0	79.3
Basic EPS Growth (%)	(29.0)	(5.9)	(0.6)	11.7
PER (x)	25.1	26.7	26.9	24.1
DPS (sen)	58.0	60.0	55.0	60.0
Dividend Yield (%)	3.6	3.7	3.4	3.1

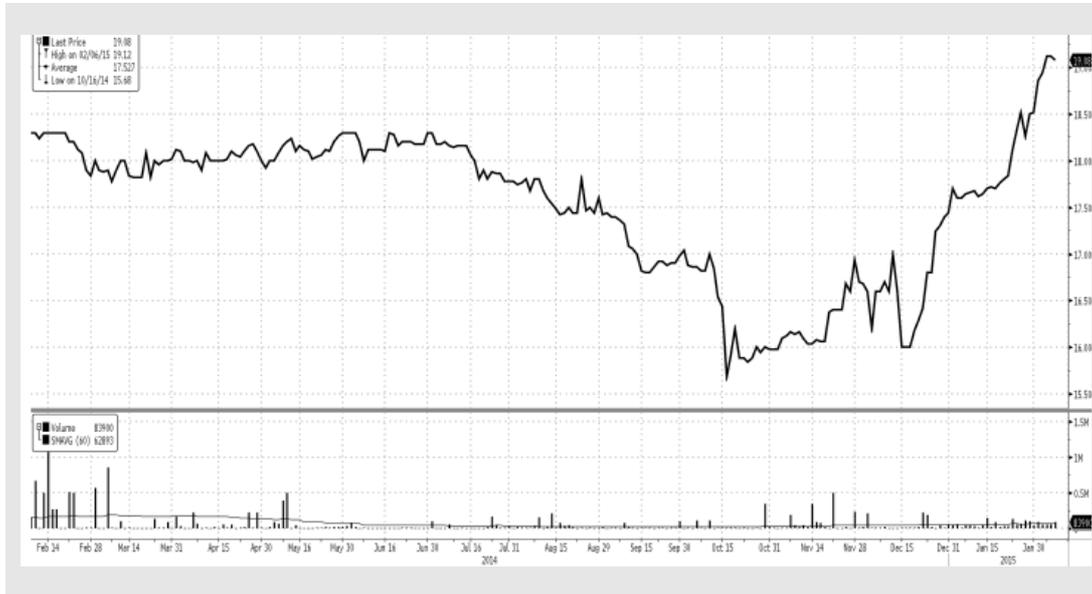
Source: Company, Forecasts by MIDFR

1QFY15 RESULTS REVIEW

FYE 30 Sept (RM m)	Quarterly Results			Comments
	1QFY15	YoY (%)	%QoQ	
Revenue	1,036.3	9.3	7.4	Driven by stronger turnover from dairy products.
Operating Profit	80.8	(5.9)	7.4	Poor contribution from soft drinks due to poor sales from East Coast floods and higher opex.
Pre-tax profit	81.2	(5.7)	7.8	
Net profit	69.9	1.7	12.5	Net profit growth mainly due to recognition of deferred tax asset.
Basic EPS (sen)	19.1	1.1	12.4	
Operating profit margin (%)	7.8	(13.9)	0.0	
Effective tax rate (%)	13.9	(31.0)	(20.4)	Effective tax rate decline mainly due to the recognition of deferred tax asset.
Segmental revenue				
Soft drinks	379.4	0.5	(2.5)	Weak growth implicated by the East Coast flood.
Dairies Malaysia	298.3	9.4	19.9	Higher sales volumes for sweetened condensed milk and evaporated milk due to effective consumer programs.
Dairies Thailand	358.5	20.6	9.8	Higher trade and consumer off-take due to increase promotional and trade management activities.
Property	0.2	69.8	(7.9)	
Others	0.0	(34.0)	(59.3)	
Segmental operating profit				
Soft drinks	27.5	(36.7)	(43.4)	Higher logistic, warehousing and staff related costs impacted operating margin.
Dairies Malaysia	26.3	29.6	116.7	Operating margin improved from 7.5% to 8.8% YoY due to realized production cost saving initiatives.
Dairies Thailand	21.9	13.7	12.2	Operating margin eased marginally from 6.5% to 6.1% YoY due to higher sales-related expenses.
Property	0.3	11.3	0.00	
Others	4.8	85.8	0.00	

Source: Company, MIDFR

DAILY PRICE CHART



Annuar Rahman I
Mohd Fairuz
mohd.fairuz@midf.com.my
03-2173 8391

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.