



Fraser & Neave Holdings Berhad

(3689 | FNH MK) Main | Consumer Products & Services | Food & Beverages

Stronger Domestic and Export Sales

KEY INVESTMENT HIGHLIGHTS

- Deemed within expectations
- Consistent dividend payout
- Strong revenue growth in 3QFY23
- F&B Malaysia and Thailand drives core PATANCI surge in 9MFY23
- Maintain BUY with an unchanged TP of RM33.50

Deemed within expectations. Fraser & Neave Holdings Berhad ("F&N") reported a 9MFY23 core PATANCI of RM353.8m, which was deemed to be in line with both our and consensus full-year FY23 projections. The core PATANCI, after excluding the one-time off item of -RM45.5m, accounted for 81.4% of our and 77.1% of consensus' estimations. Recall that, historically, the group has reported weaker 4Q revenue and net income due to the lack of festive and holiday season celebrations.

Consistent dividend payout. The group declared a dividend of 27 sen/share on 3 May 2023, bringing the total dividend for 9MFY23 to 27 sen/share. This is consistent with the total dividend of 27 sen/share declared during 9MFY22.

Strong revenue growth in 3QFY23. F&N's revenue increased by 19.1%yoy to RM1.3b, driven by high seasonal sales, improved domestic sales in both Malaysia and Thailand, an uptick in export sales, and the inclusion of the Cocoaland contribution. The gross profit margin increased by +3.5pptoy to 29.6%, mainly due to higher overall pricing and effective cost management, which further strengthened the margin. As such, despite higher interest expenses (due to higher interest rates and borrowings), the core PATANCI increased by 44.6%yoy to RM134.4m. Similarly, on a quarterly basis, the notable core PATANCI growth of +27.0%qoq to RM134.4m was driven by higher revenue growth of +10.4%qoq to RM1.3b. This was primarily attributed to increased export orders and improved local demand in both Malaysia and Thailand.

F&B Malaysia and Thailand drives core PATANCI surge in 9MFY23. F&N's revenue rose +12.7%yoy to RM3.8b in 9MFY23, mainly attributed to increased revenue from F&B Malaysia (+19.4%yoy) and F&B Thailand (+4.8%yoy). Particularly, the spike in F&B Malaysia revenue was driven by festive demand, increased consumption of carbonated soft drinks and water, higher product pricing, along with additional revenue from Cocoaland. Meanwhile, F&B Thailand's revenue has seen a boost due to recovery in export orders, domestic consumption, and a steady influx of tourist arrivals, which has increased the demand and out-of-home ("OOH") consumption. The core PATANCI climbed +20.9%yoy to RM353.8m despite the higher A&P spending, brand investment activities, and consumer campaigns. Recall that F&N intensified its marketing initiatives in celebration of its 140th anniversary and World Hydration Day.

Maintain BUY**Unchanged Target Price: RM33.50**

RETURN STATISTICS

Price @ 3 rd Aug 2023 (RM)	24.92
Expected share price return (%)	+34.40
Expected dividend yield (%)	3.00
Expected total return (%)	+37.45

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-6.5
3 months	-1.2	-10.2
12 months	13.6	17.4

INVESTMENT STATISTICS

FYE Sept (RM'm)	2023F	2024F	2025F
Revenue	4,956.6	5,459.4	5,846.4
EBITDA	651.9	788.9	891.0
Profit before tax (PBT)	531.9	661.1	758.5
Core PATANCI	434.4	540.0	619.5
Core EPS (sen)	118.2	146.9	168.6
DPS (sen)	65.0	70.0	75.0
Dividend Yield (%)	2.4	2.6	2.7

KEY STATISTICS


FBM KLCI	1,441.85
Issue shares (m)	Yes
Estimated free float (%)	366.78
Market Capitalisation (RM'm)	20.95
52-wk price range	RM19.7-RM27.7
3-mth average daily volume (m)	0.19
3-mth average daily value (RM'm)	4.94
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	11.58
Amanah Saham Nasional Bhd	7.52

Analyst(s)

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Outlook. Looking ahead, the group maintains a cautiously optimistic outlook, considering the volatility in commodity prices, foreign exchange rates, and inflationary pressures on operating costs. On a positive note, F&N has taken proactive measures by purchasing a significant portion of its raw material requirements for 4QFY23. This suggests that the management has successfully secured raw material prices at a comfortable level, and there is a resilient demand for its products. Additionally, we noticed that most commodities have declined from their 2-year peak, combined with various price adjustments for all products. Hence, we anticipate a better margin in the near term.

Maintain BUY with an unchanged TP of RM33.50. We make no changes to our earnings projections given that the earnings deemed within expectation. Our TP is based on a PER of 23x (5-year historical mean) pegged to FY24F EPS of 146.9sen. F&N remained one of our top picks in the sector, and we are bullish on the company's prospects, underpinned by: (1) increased OOH consumption, driven by a surge in tourists visiting Malaysia and Thailand; (2) carbonated soft drinks and water in Southeast Asia, fueled by the prevailing heatwave; (3) additional revenue from the successful integration of Cocoland into the company's operations; and (4) better export sales to China thanks to the ongoing extreme weather.

Valuation. F&N is currently trading at an attractive FY24F PER of 17x vs. its 5-year average mean PER of 23x, while offering a dividend yield of 2.6% in FY23F. **Downside risk** is a further increase in commodity prices (tin plates, milk, palm oil, sugar, pet resin). 

Fraser & Neave Holdings: 3QFY23 Results Summary

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	1,331.9	1,206.6	1,118.2	19.1	10.4	3,757.0	3,332.5	12.7
Cost of Sales	(938.3)	(876.1)	(826.8)	13.5	7.1	(2,694.9)	(2,467.0)	9.2
Gross Profit	393.6	330.5	291.4	35.1	19.1	1,062.1	865.5	22.7
Other income	4.6	4.4	4.9	(6.5)	5.9	107.3	13.2	714.7
Operating expenses	(272.3)	(208.4)	(184.5)	47.6	30.7	(692.3)	(549.3)	26.0
Other expenses	0.0	(0.4)	(0.1)	(129.0)	(104.1)	(0.3)	(0.9)	(69.0)
Operating profit (EBIT)	125.9	126.0	111.8	12.6	(0.1)	476.7	328.5	45.1
Net finance income/(cost)	(5.1)	(6.3)	(0.3)	1,669.8	(18.7)	(17.7)	(0.3)	5,899.3
Profit before tax (PBT)	120.7	119.7	114.4	5.5	0.9	462.8	334.5	38.4
Profit After tax (PAT)	103.2	102.0	97.5	5.9	1.3	403.1	284.3	41.8
PATANCI	99.4	101.2	97.5	1.9	(1.8)	399.3	284.3	40.5
Core PATANCI	134.4	105.8	92.9	44.6	27.0	353.8	292.6	20.9
Basic EPS (sen)	27.0	27.6	26.6	1.6	(2.2)	109.8	77.5	41.7
DPS (sen)	27.0	0.0	27.0	0.0	n.m.	27.0	27.0	0.0
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	29.6	27.4	26.1	3.5	2.2	28.3	26.0	2.3
Operating Profit Margin	9.5	10.4	10.0	(0.5)	(1.0)	12.7	9.9	2.8
Core PATANCI Margin	10.1	8.8	8.3	1.8	1.3	9.4	8.8	0.6
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net debt/total equity (%)	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Effective tax rate (%)	14.5	14.8	14.8	(0.3)	(0.3)	12.9	15.0	(2.1)

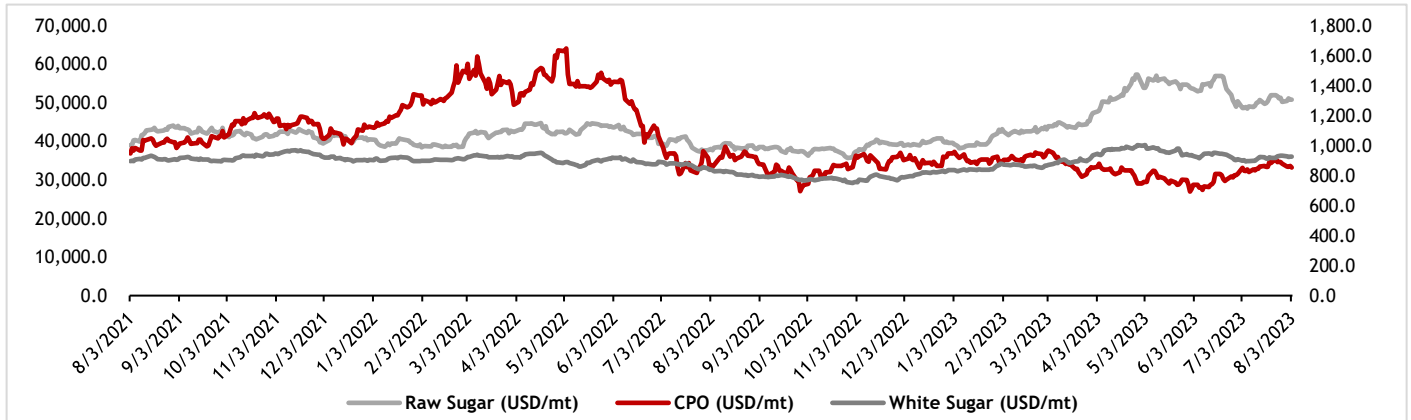
Source: Company, MIDFR

Fraser & Neave Holdings: Breakdown by operating segment

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (RM'm):								
F&B Malaysia	748.8	707.6	626.8	19.5	5.8	2,169.7	1,817.5	19.4
F&B Thailand	582.1	498.1	490.1	18.8	16.9	1,584.4	1,511.8	4.8
Property	0.2	0.2	0.2	10.5	0.5	0.6	0.5	14.5
Others	0.7	0.7	1.2	(39.0)	0.4	2.3	2.8	(18.6)
Total	1,331.9	1,206.6	1,118.2	19.1	10.4	3,757.0	3,332.6	12.7
Operating Profit (RM'm):								
F&B Malaysia	26.6	48.2	50.4	(47.2)	(44.8)	145.2	118.2	22.9
F&B Thailand	105.2	78.1	58.7	79.2	34.8	251.2	200.9	25.0
Property	(7.5)	(0.4)	0.3	(2,914.7)	1,991.3	(8.1)	0.7	(1,331.0)
Others	1.5	0.1	2.4	(35.3)	1,218.1	88.5	8.7	919.6
Adjustments and eliminations	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Total	125.9	126.0	111.8	12.6	(0.1)	476.7	328.5	45.1
Operating profit margin (%)								
F&B Malaysia	3.6	6.8	8.0	(4.5)	(3.3)	6.7	6.5	0.2
F&B Thailand	18.1	15.7	12.0	6.1	2.4	15.9	13.3	2.6
Property	(3,940.5)	(189.4)	154.7	(4,095.2)	(3,751.1)	(1,437.2)	133.7	(1,571.0)
Others	215.4	16.4	203.3	12.1	198.9	3,913.0	312.6	3,600.5
Total	9.5	10.4	10.0	(0.5)	(1.0)	12.7	9.9	2.8

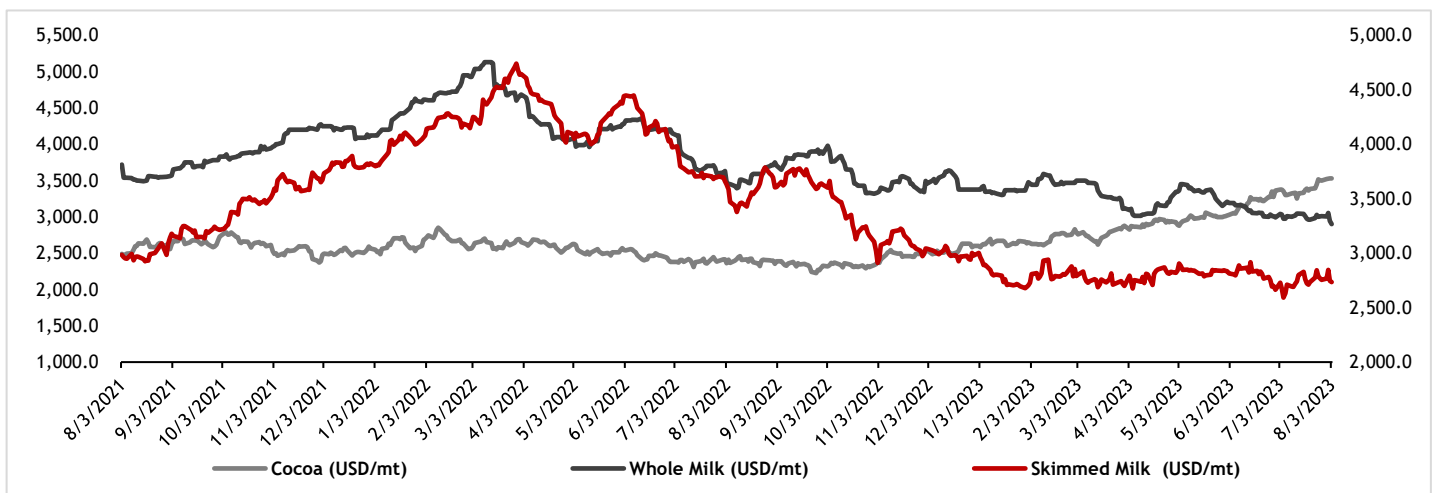
Source: Company, MIDFR

Chart 1: Raw Sugar, White Sugar, CPO Futures Price Trend (USD/MT)



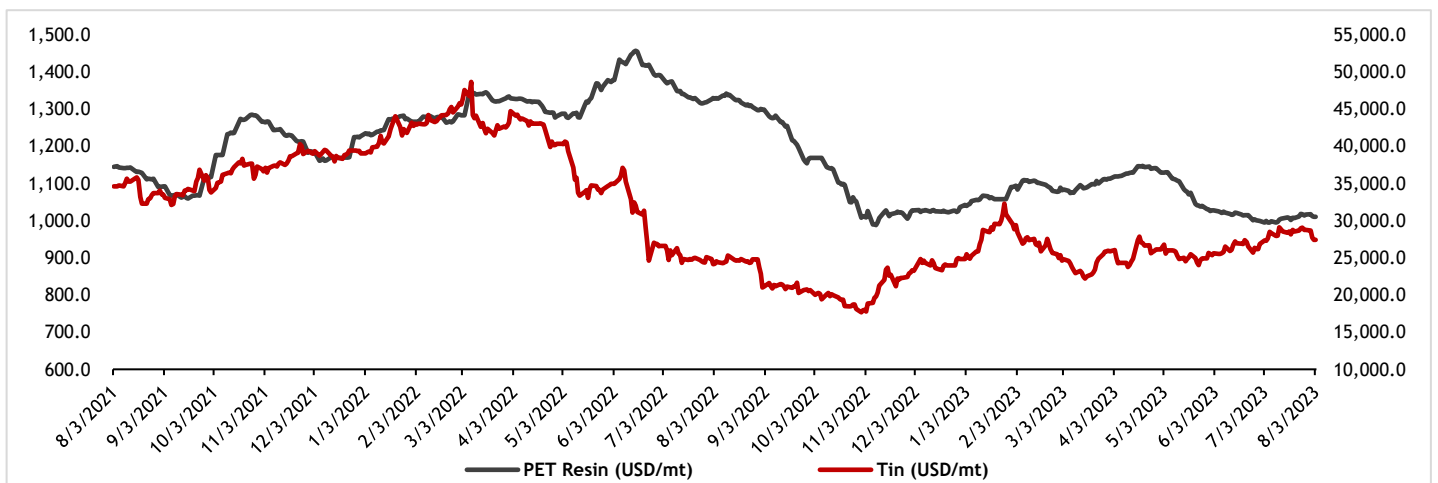
Source: MIDFR, Bloomberg

Chart 2: Cocoa, Whole Milk Powder, Skimmed Milk Powder Futures Price Trend (USD/MT)



Source: MIDFR, Bloomberg

Chart 3: Pet Resin, and Tin Futures Price Trend (USD/MT)



Source: MIDFR, Bloomberg

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	4,130.9	4,470.2	4,956.6	5,459.4	5,846.4
Cost of Sales	(2,936.7)	(3,296.1)	(3,545.1)	(3,807.1)	(4,015.8)
Gross Profit	1,194.2	1,174.1	1,411.5	1,652.3	1,830.6
Other Income	18.0	20.9	23.6	26.8	29.3
Selling and Distribution expenses	(590.0)	(588.4)	(711.2)	(806.8)	(877.8)
General & Administrative	(119.4)	(131.5)	(150.5)	(168.2)	(181.2)
Other operating expenses	(30.5)	(27.1)	(21.6)	(23.3)	(24.5)
EBITDA	612.3	577.6	651.8	788.7	890.8
EBIT	472.3	447.9	551.9	680.7	776.3
Profit before tax (PBT)	479.4	454.1	531.9	661.1	758.5
Income tax expense	(84.3)	(71.8)	(97.4)	(121.1)	(138.9)
PATANCI	395.2	383.2	434.4	540.0	619.5
Core PATANCI	400.0	386.6	434.4	540.0	619.5
Core EPS (sen)	108.9	105.2	118.2	146.9	168.6
DPS (sen)	60.0	60.0	65.0	70.0	75.0
Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant, and equipment	1,372.2	1,458.3	1,555.8	1,660.9	1,770.0
Intangible assets	88.3	91.9	495.7	502.3	527.1
Total Non-current assets	1,866.9	1,960.9	2,470.1	2,602.1	2,750.0
Inventories	659.7	901.4	864.7	882.2	884.0
ST - Trade and other receivables	545.9	866.4	806.5	866.1	904.3
Cash and cash equivalents	555.4	461.9	691.4	738.7	775.2
Total current assets	1,764.8	2,229.7	2,363.6	2,488.0	2,564.7
Total Assets	3,631.7	4,190.6	4,833.7	5,090.1	5,314.7
Total Equity	2,818.8	2,984.4	3,113.2	3,325.9	3,596.4
LT Loans and borrowings	0.0	210.0	700.0	707.0	714.0
Total Non-current liabilities	157.1	372.9	878.3	901.6	921.9
ST Trade and other payables	558.3	693.0	693.1	729.4	754.0
ST Loans and borrowings	1.0	36.8	3.5	3.6	3.6
Total Current Liabilities	655.9	833.3	842.2	862.6	796.5
Total Liabilities	813.0	1,206.2	1,720.5	1,764.2	1,718.3
Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	479.4	454.1	531.9	661.1	758.5
Cash flow from operations	617.1	107.0	232.7	534.3	548.7
Cash flow from investing	(180.7)	(195.1)	(183.0)	(201.3)	(213.1)
Cash flow from financing	(339.4)	(0.2)	179.8	(285.7)	(299.1)
Net cash flow	97.0	(88.3)	229.5	47.3	36.5
(+/-) Adjustments	(35.2)	(5.2)	0.0	0.0	0.0
Net cash/(debt) b/f	493.6	555.4	461.9	691.4	738.7
Net cash/(debt) c/f	555.4	461.9	691.4	738.7	775.2
Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	17.6	15.8	18.3	18.3	18.3
PER (x)	23.1	23.8	21.1	17.0	14.8
Inventories (Days)	81.8	86.4	89.0	84.6	80.4
Net cash/Market Capitalisation (%)	6.1	2.3	Net debt	0.3	0.6
Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	28.9	26.3	28.5	30.3	31.3
EBITDA Margin (%)	14.8	12.9	13.1	14.4	15.2
Core PATANCI Margin (%)	9.7	8.6	8.8	9.9	10.6

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology