



## Fraser & Neave Holdings Berhad

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

### Higher Export Revenue, Better Margin

#### KEY INVESTMENT HIGHLIGHTS

- **Above expectations**
- **Decent dividend**
- **Improved revenue and core PATANCI in 4QFY23**
- **Recovery in export revenue in 12MFY23**
- **Raised earnings forecast for FY24-25F and introduced FY26F earnings**
- **Maintain BUY with an unchanged TP of RM33.50**

**Above expectations.** Fraser & Neave Holdings ("F&N") reported a 12MFY23 core PATANCI of RM488.2m, after subtracting a one-off item of -RM48.7m. This exceeded both our and consensus' full-year FY23 estimates, accounting for 112% of our projection and 107% of consensus. This was primarily attributable to lower-than-expected other operating expenses, driven by operational savings in F&B Malaysia and cost management strategies that enhanced margins.

**Decent dividend.** The group proposed a final single-tier dividend of 33sen/share, along with an additional special single-tier dividend of 17sen/share in 4QFY23, pending for shareholder approval. This brings the total dividend for FY23F to 77sen/share (vs. 60sen/share in FY22) which translates into a dividend yield of 3%.

**Improved revenue and core PATANCI in 4QFY23.** F&N's revenue increased by +9.4%yoy to RM1.24b in 4QFY23. This was primarily due to continued sales momentum, additional Cocoland contribution in F&B Malaysia, as well as stronger group exports. In 4QFY23, the gross profit margin was 29.9% (+2.8ppt yoy), which indicates reduced raw material costs in most commodities except sugar. Yet, this was still lower than the pre-pandemic level (2019) of 30.7%-31.7%. The core PATANCI rose +41.7%yoy to RM134.4m, mostly due to higher revenue, improved gross profit margins, and cost-cutting efforts despite rising interest rate costs. On quarterly basis, the revenue dropped by -6.6%qoq to RM1.24b, owing mostly to a lack of seasonal celebrations in 3Q. Despite reduced sales, the overall operating profit increased +32%qoq to RM166.2m, owing to better operating profit in both the F&B Malaysia and F&B Thailand sectors. After subtracting increased income tax and a one-time off item, the core PATANCI remained largely stable in 4QFY23 at RM134.4m.

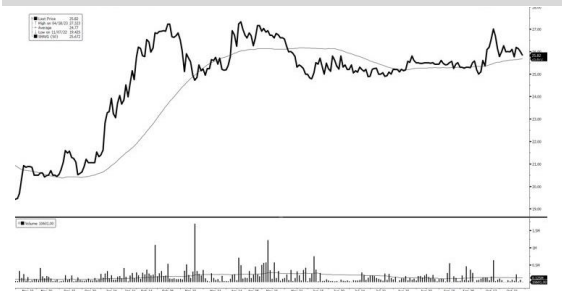
**Recovery in export revenue in 12MFY23.** The group revenue added +11.9%yoy to RM5b in 12MFY23, due to (1) the recovery in domestic sales and price management strategies introduced since last year, (2) improved export revenue from both F&B Malaysia and F&B Thailand, and (3) expanded revenue from the acquisition of Cocoland. Operating profit increased by +43.5%yoy to RM642.9m, due to higher revenue, improved margin, and operational excellence that offset higher input and energy costs. The core PATANCI improved by +26%yoy to RM488.2m, driven by the better operating profit that more than offset the higher interest costs associated with financing the recent strategic acquisition.

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

#### RETURN STATISTICS

Price @ 7 <sup>th</sup> Nov 2023 (RM)	25.82
Expected share price return (%)	+29.70
Expected dividend yield (%)	3.00
Expected total return (%)	+32.70

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.3	0.0
3 months	2.1	2.0
12 months	29.7	27.9

#### INVESTMENT STATISTICS

FYE Sept (RM'm)	2023E	2024F	2025F
Revenue	5,001.4	5,515.3	5,910.0
EBITDA	789.2	784.3	885.6
Profit before tax (PBT)	624.7	674.1	769.1
Core PATANCI	488.2	571.6	652.2
Core EPS (sen)	132.9	155.6	177.5
DPS (sen)	77.0	70.0	75.0
Dividend Yield (%)	3.0	2.7	2.9

#### KEY STATISTICS


FBM KLCI	1,463.37
Issue shares (m)	366.78
Estimated free float (%)	20.71
Market Capitalisation (RM'm)	9,484.89
52-wk price range	RM19.8-RM27.9
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	3.15
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	11.83
Amanah Saham Nasional Bhd	7.52

**Analyst(s)**

**Genevieve** Ng Pei Fen  
Genevieve.ng@midf.com.my

**Raised earnings forecast for FY24-25F and introduced FY26F earnings.** Given that the earnings came in above our expectation, we tweak our earnings projections for FY24F-25F higher by +5.9% and +5.3% respectively. This adjustment accounts for lower raw material costs (resulting from the decline in most global commodity prices, except for sugar) and reduced operating expenses.

**Maintain BUY with an unchanged TP of RM33.50.** Despite earnings upward revision, our **TP** is unchanged at **RM33.50** as we updated our PE valuation from 5-year historical mean to a 3-year historical mean to better align with the near-to-medium term outlook. Our revised TP is based on a PER of 21.5x (3-year historical mean) pegged to FY24F EPS of 155.6sen. F&N remains one of our top picks in the sector. We are optimistic about the company's prospects, driven by: (1) increased OOH consumption, fueled by a surge in tourists visiting Malaysia and Thailand; (2) additional revenue from the successful integration of Cocoland into the company's operations; (3) better export sales to China thanks to the ongoing extreme weather, (4) sustained margin, as most commodity prices have dropped from their 2-year peak levels, except for sugar, and (5) its well-known household brand name that indicates resilient demand. We also anticipate improved revenue in 1QFY24 due to consumer stockpiling for holiday and festive season celebrations.

**Valuation.** F&N is currently trading at an attractive FY24F PER of 17x vs. its 3-year historical average mean PER of 21.5x, while offering a dividend yield of 3% in FY23. **Downside risks are: (1)** a further increase in commodity prices (tin plates, milk, palm oil, sugar, pet resin), and (2) fluctuation in currency rates (THB and USD). 

### Fraser & Neave Holdings: 4QFY23 Results Summary

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	1,244.4	1,331.9	1,137.6	9.4	(6.6)	5,001.4	4,470.1	11.9
Cost of Sales	(871.7)	(938.3)	(829.1)	5.1	(7.1)	(3,566.6)	(3,296.1)	8.2
<b>Gross Profit</b>	<b>372.7</b>	<b>393.6</b>	<b>308.6</b>	<b>20.8</b>	<b>(5.3)</b>	<b>1,434.8</b>	<b>1,174.1</b>	<b>22.2</b>
Other income	7.8	4.6	7.7	0.7	68.4	115.0	20.9	450.6
Operating expenses	(213.1)	(272.3)	(195.4)	9.1	(21.7)	(905.4)	(744.6)	21.6
Other expenses	(1.1)	0.0	(1.5)	(21.8)	(6,444.4)	(1.4)	(2.4)	(40.3)
<b>Operating profit (EBIT)</b>	<b>166.2</b>	<b>125.9</b>	<b>119.4</b>	<b>39.1</b>	<b>32.0</b>	<b>642.9</b>	<b>447.9</b>	<b>43.5</b>
Net finance income/(cost)	(4.3)	(5.1)	(1.2)	267.0	(15.0)	(22.0)	(1.5)	1,392.7
<b>Profit before tax (PBT)</b>	<b>161.8</b>	<b>120.7</b>	<b>119.5</b>	<b>35.4</b>	<b>34.0</b>	<b>624.7</b>	<b>454.0</b>	<b>37.6</b>
Profit After tax (PAT)	139.0	103.2	98.0	41.8	34.6	542.0	382.3	41.8
PATANCI	137.6	99.4	98.9	39.1	38.4	536.9	383.2	40.1
<b>Core PATANCI</b>	<b>134.4</b>	<b>134.4</b>	<b>94.9</b>	<b>41.7</b>	<b>0.0</b>	<b>488.2</b>	<b>387.5</b>	<b>26.0</b>
Basic EPS (sen)	37.5	27.0	27.0	38.9	38.9	147.3	104.5	41.0
DPS (sen)	50.0	27.0	33.0	51.5	85.2	77.0	60.0	28.3
<b>Growth &amp; Margin (%)</b>				+/(-) ppts	+/(-) ppts			+/(-) ppts
Gross Profit Margin	29.9	29.6	27.1	2.8	0.4	28.7	26.3	2.4
Operating Profit Margin	13.4	9.5	10.5	2.9	3.9	12.9	10.0	2.8
Core PATANCI Margin	10.8	10.1	8.3	2.5	0.7	9.8	8.7	1.1
<b>Ratios &amp; Valuation</b>				+/(-) 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 (%)	14.1	14.5	18.0	(3.9)	(0.4)	13.2	15.8	(2.6)

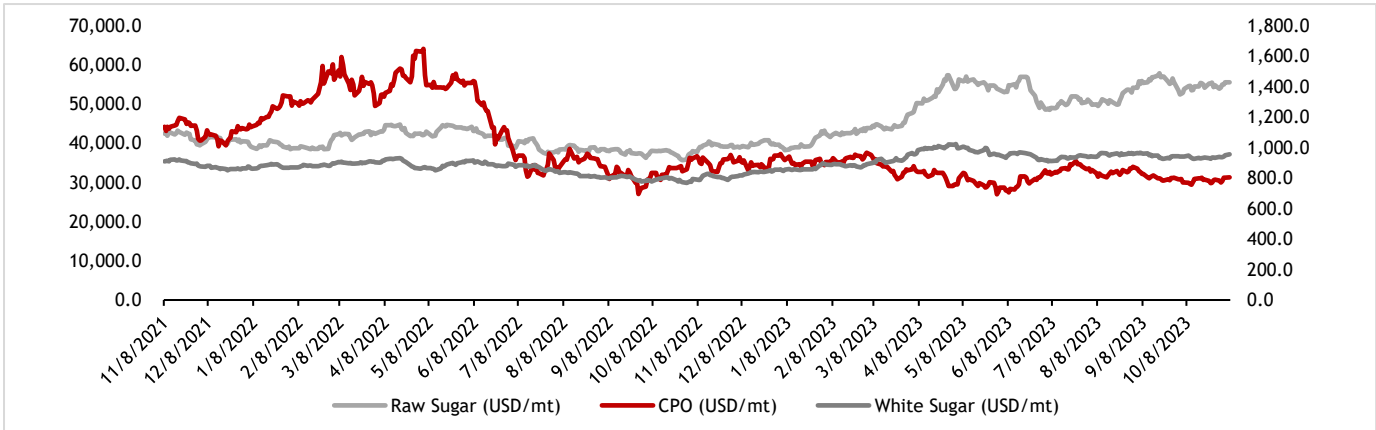
Source: Company, MIDFR

## Fraser &amp; Neave Holdings: Breakdown by operating segment

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
<b>Revenue (RM'm):</b>								
F&B Malaysia	681.8	748.8	600.6	13.5	(8.9)	2,851.5	2,418.1	17.9
F&B Thailand	561.7	582.1	535.8	4.8	(3.5)	2,146.2	2,047.5	4.8
Property	0.2	0.2	0.2	8.4	2.1	0.8	0.7	12.9
Others	0.6	0.7	1.1	(45.7)	(16.2)	2.9	3.9	(26.2)
<b>Total</b>	<b>1,244.4</b>	<b>1,331.9</b>	<b>1,137.6</b>	<b>9.4</b>	<b>(6.6)</b>	<b>5,001.4</b>	<b>4,470.2</b>	<b>11.9</b>
<b>Operating Profit (RM'm):</b>								
F&B Malaysia	59.0	26.6	49.8	18.6	122.0	204.3	168.0	21.6
F&B Thailand	120.7	105.2	75.0	60.9	14.6	371.8	275.9	34.8
Property	(0.9)	(7.5)	(0.2)	>100.0	(88.4)	(9.0)	0.4	>(100.0)
Others	(12.6)	1.5	(5.1)	>100.0	>(100.0)	75.8	3.5	>100.0
<b>Total</b>	<b>166.2</b>	<b>125.9</b>	<b>119.4</b>	<b>39.1</b>	<b>32.0</b>	<b>642.9</b>	<b>447.9</b>	<b>43.5</b>
<b>Operating profit margin (%)</b>								
F&B Malaysia	8.7	3.6	8.3	0.4	5.1	7.2	6.9	0.2
F&B Thailand	21.5	18.1	14.0	7.5	3.4	17.3	13.5	3.8
Property	>(100.0)	>(100.0)	>(100.0)	>(100.0)	>100.0	>(100.0)	65.9	>(100.0)
Others	>(100.0)	>100.0	>(100.0)	>(100.0)	>(100.0)	>100.0	91.6	>100.0
<b>Total</b>	<b>13.4</b>	<b>9.5</b>	<b>10.5</b>	<b>2.9</b>	<b>3.9</b>	<b>12.9</b>	<b>10.0</b>	<b>2.8</b>

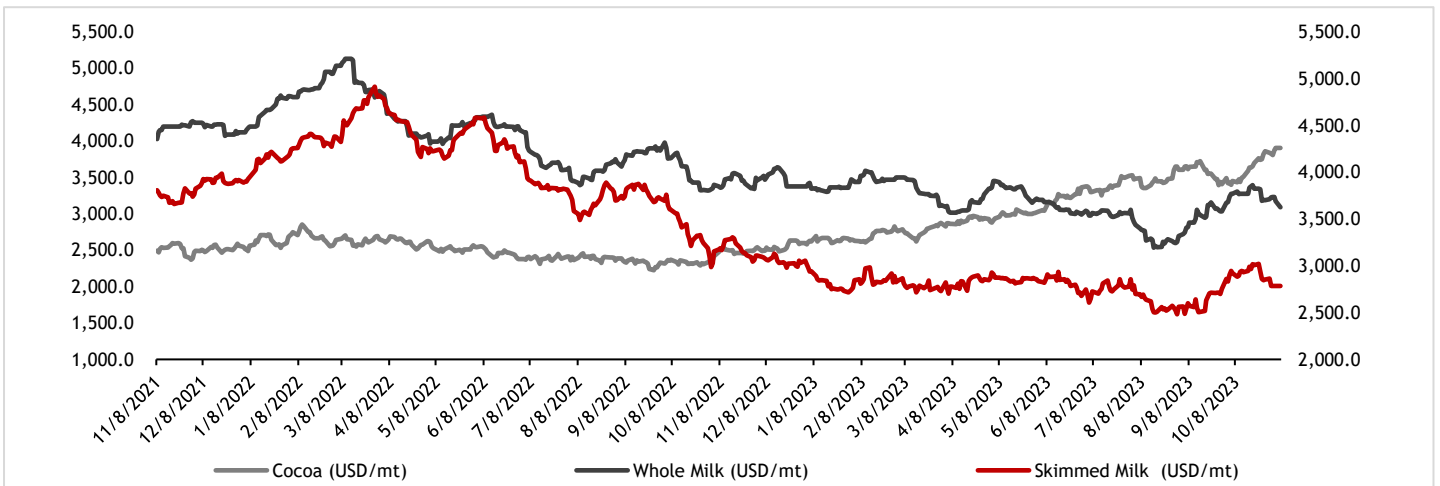
Source: Company, MIDFR

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



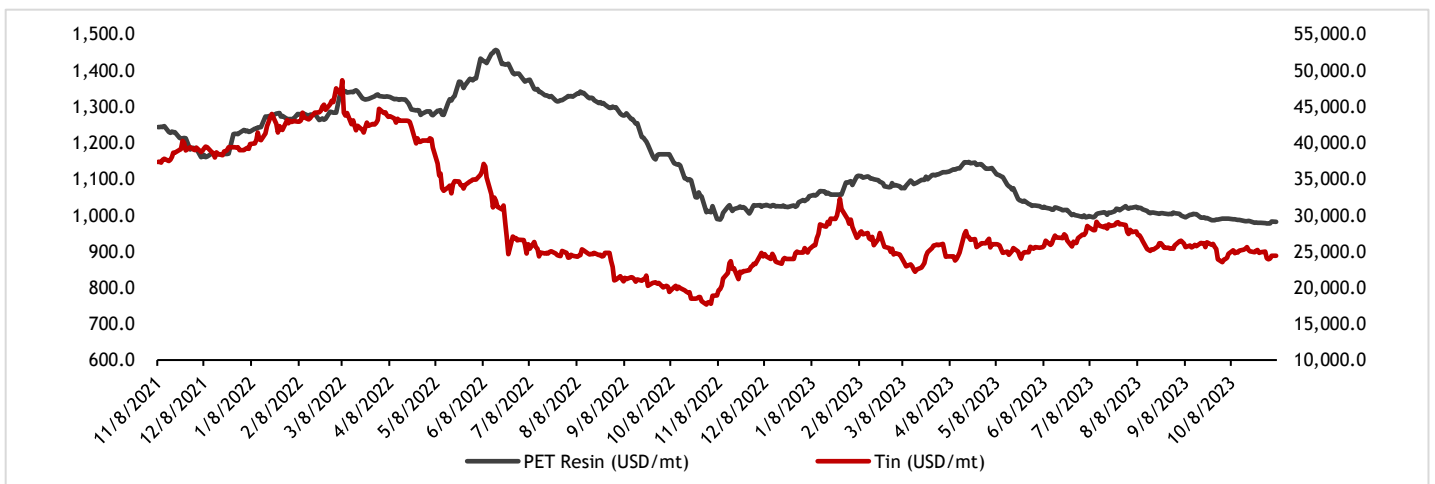
Source: MIDFR, Bloomberg

**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)	2022A	2023A	2024F	2025F	2026F
Revenue	4,470.2	5,001.4	5,515.3	5,910.0	6,212.7
Cost of Sales	(3,296.1)	(3,566.6)	(3,888.3)	(4,124.9)	(4,314.5)
<b>Gross Profit</b>	<b>1,174.1</b>	<b>1,434.8</b>	<b>1,627.0</b>	<b>1,785.1</b>	<b>1,898.2</b>
Other Income	20.9	115.0	27.6	29.8	31.7
Selling and Distribution expenses	(588.4)	(711.2)	(769.4)	(820.3)	(858.0)
General & Administrative	(131.5)	(150.5)	(166.6)	(179.1)	(188.9)
Other operating expenses	(27.1)	(45.2)	(23.2)	(24.2)	(24.9)
<b>EBITDA</b>	<b>577.6</b>	<b>789.2</b>	<b>784.3</b>	<b>885.6</b>	<b>954.5</b>
<b>EBIT</b>	<b>447.9</b>	<b>642.9</b>	<b>695.5</b>	<b>791.3</b>	<b>858.2</b>
<b>Profit before tax (PBT)</b>	<b>454.1</b>	<b>624.7</b>	<b>674.1</b>	<b>769.1</b>	<b>837.8</b>
Income tax expense	(71.8)	(82.6)	(102.5)	(116.9)	(127.4)
<b>PATANCI</b>	<b>383.2</b>	<b>536.9</b>	<b>571.6</b>	<b>652.2</b>	<b>710.5</b>
<b>Core PATANCI</b>	<b>386.6</b>	<b>488.2</b>	<b>571.6</b>	<b>652.2</b>	<b>710.5</b>
Core EPS (sen)	105.2	132.9	155.6	177.5	193.4
DPS (sen)	60.0	77.0	70.0	75.0	80.0
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant, and equipment	1,458.3	1,592.1	1,717.6	1,849.4	1,985.9
Intangible assets	91.9	433.4	479.8	514.2	540.5
<b>Total Non-current assets</b>	<b>1,960.9</b>	<b>2,602.5</b>	<b>2,839.8</b>	<b>3,072.9</b>	<b>3,304.0</b>
Inventories	901.4	764.2	913.5	969.1	1,013.6
ST - Trade and other receivables	866.4	713.3	876.3	939.0	987.1
Cash and cash equivalents	461.9	1,031.5	1,080.7	1,088.5	1,098.5
<b>Total current assets</b>	<b>2,229.7</b>	<b>2,509.1</b>	<b>2,870.5</b>	<b>2,996.7</b>	<b>3,099.3</b>
<b>Total Assets</b>	<b>4,190.6</b>	<b>5,111.6</b>	<b>5,710.4</b>	<b>6,069.6</b>	<b>6,403.3</b>
<b>Total Equity</b>	<b>2,984.4</b>	<b>3,351.6</b>	<b>3,567.2</b>	<b>3,848.5</b>	<b>4,166.3</b>
LT Loans and borrowings	210.0	706.0	706.0	706.0	706.0
<b>Total Non-current liabilities</b>	<b>372.9</b>	<b>909.4</b>	<b>920.1</b>	<b>926.2</b>	<b>930.2</b>
ST Trade and other payables	693.0	724.8	783.0	830.7	868.9
ST Loans and borrowings	36.8	4.0	4.0	4.0	4.0
<b>Total Current Liabilities</b>	<b>833.3</b>	<b>850.6</b>	<b>1,223.0</b>	<b>1,294.9</b>	<b>1,306.8</b>
<b>Total Liabilities</b>	<b>1,206.2</b>	<b>1,760.0</b>	<b>2,143.2</b>	<b>2,221.1</b>	<b>2,236.9</b>
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	454.1	624.7	674.1	769.1	837.8
Cash flow from operations	107.0	1,053.0	605.0	596.3	623.8
Cash flow from investing	(195.1)	(692.9)	(257.1)	(274.5)	(284.2)
Cash flow from financing	(0.2)	186.8	(298.8)	(314.0)	(329.6)
<b>Net cash flow</b>	<b>(88.3)</b>	<b>546.9</b>	<b>49.1</b>	<b>7.9</b>	<b>10.0</b>
(+/-) Adjustments	(5.2)	22.8	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>555.4</b>	<b>461.9</b>	<b>1,031.5</b>	<b>1,080.7</b>	<b>1,088.5</b>
<b>Net cash/(debt) c/f</b>	<b>461.9</b>	<b>1,031.5</b>	<b>1,080.7</b>	<b>1,088.5</b>	<b>1,098.5</b>
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	15.8	13.2	15.2	15.2	15.2
PER (x)	24.7	17.6	16.6	14.5	13.4
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	2.3	3.4	3.9	4.0	4.1
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	26.3	28.7	29.5	30.2	30.6
EBITDA Margin (%)	12.9	15.8	14.2	15.0	15.4
Core PATANCI Margin (%)	8.6	9.8	10.4	11.0	11.4

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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