

**Fraser & Neave Holdings Berhad**

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

**Maintain BUY****Integrated Dairy Farm Milking by Beginning of 2025****Unchanged Target Price: RM33.50****KEY INVESTMENT HIGHLIGHTS**

- **Better export revenue in FY23**
- **More solar PV installation ahead**
- **Integration of Cocoland and Sri Nona Production line**
- **Integrated dairy farm updates**
- **Maintain BUY with an unchanged TP of RM33.50**

We attended F&N's FY23 analyst briefing and maintain a positive outlook on the company's performance. Here are the key highlights:

**Better export revenue in FY23.** F&N's export revenue increased +22%yoy to RM1b in 12MFY23. This accounted for 21% of the total FY23 group revenue. The growth was contributed by the recovery in export markets, a well-executed tactical pricing strategy, expansion in the B2B channel, and contributions from Cocoland.

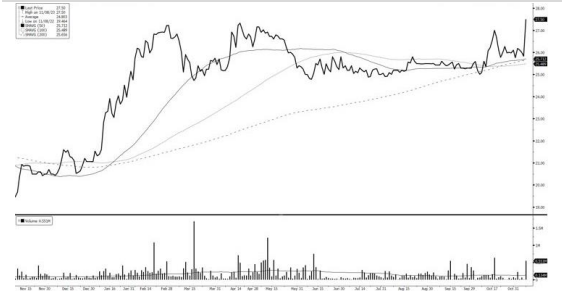
**More solar PV installation ahead.** The group observed positive returns from the installation of solar PV panels in Shah Alam, Pulau Indah and Bentong Plant, which have helped offset rising energy costs due to increased electricity tariffs ("ICPT"). Looking ahead, the company plans to install solar PV panels at five locations, including: (1) the main parking area, CDE warehouse, and CDEW parking of Shah Alam plant, (2) Lot 88 Rawang plant, (3) Lot 10 Rawang plant, (4) Lot 28 Rawang plant, and (5) FNDM Pulau Indah plant. The expected capital expenditure is RM19m.

**Integration of Cocoland and Sri Nona Production line.** F&N maintained its plan to convert Cocoland's factory in Rawang into a food manufacturing hub to consolidate the production of Sri Nona and Cocoland products. This move aims to increase production capacity, reduce complexity, and maximize synergies between the two companies.

**Integrated dairy farm updates.** The group finalized the specifications for the integrated dairy farm, which will comprise a herd of 20k, with approximately 10k dedicated to milking cows. This integrated farm will be situated in Gemas, Negeri Sembilan, Peninsular Malaysia. As previously mentioned, the dairy farm will operate as a vertically integrated system, encompassing corn cultivation (the primary feedstock for the cows), dairy farming, and milk processing and packaging, all on the same site. In Phase 1, the milk processing capacity is expected to reach 100m liters per annum with a projected capex of RM1.3b. We also gathered that Phase 1 will focus on producing plain milk and later expand to include flavored and cream products once operations stabilize. Also, the commencement of milking has been postponed from the end of 2024 to early 2025 based on the recommendation to transport pregnant cows only after the summer season.

**RETURN STATISTICS**

Price @ 8 <sup>th</sup> Nov 2023 (RM)	27.50
Expected share price return (%)	+21.80
Expected dividend yield (%)	2.80
<b>Expected total return (%)</b>	<b>+24.60</b>

**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 (%)	2.8	2.5	2.7


**KEY STATISTICS**

FBM KLCI	1,457.60
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

**Maintain BUY with an unchanged TP of RM33.50.** We make no changes to our earnings forecast following the analyst briefing. Our TP is based on a PER of 21.5x (3-year historical mean) pegged to FY24F EPS of 155.6sen, resulting in an unchanged **TP** of **RM33.50**. 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 higher 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 (Thai baht and USD). 

## 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)	26.3	18.8	17.7	15.5	14.2
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	2.1	3.2	3.7	3.7	3.8
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