



## Fraser & Neave Holdings Berhad

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

### Seizing the Market for Dairy and Food Products

#### KEY INVESTMENT HIGHLIGHTS

- **Within our estimation but above consensus**
- **Strong 1QFY24 core Patanci growth driven by higher top-line, lower input costs, and cost optimization on yearly basis**
- **Captured sales of dairy and food products in 1QFY24 amid a shift in Malaysian consumer preferences**
- **Maintain BUY with an unchanged TP of RM33.50**

**Within our estimation but above consensus.** Frasers and Neave Holdings ("F&N") reported a 1QFY24 core PATANCI of RM170.1m, excluding one-time items of RM0.6m. This aligns with our full-year FY24 estimation (29.8%) but surpasses the consensus full-year FY24 projection (33%). As anticipated, no dividends were declared during the quarter, as F&N historically declares dividends from 2Q/3Q onwards.

**Strong 1QFY24 core PATANCI growth driven by higher top-line, lower input costs, and cost optimization on yearly basis.** On yearly basis, the group's revenue increased by +9.4%yoy to RM1.33b. This was fueled by from revenue from F&B Thailand, F&B Malaysia, and exports. In 1QFY24, the group also recorded a favorable product mix (resulted in higher gross profit margins), improved manufacturing overhead efficiencies, reduced input costs (excluding sugar), and savings in the supply chain (attributed to logistics optimization and a decrease in third-party logistics). As such, the core PATANCI surged +49.7%yoy to RM170.1m.

**Captured sales of dairy and food products in 1Q24 amid a shift in Malaysian consumer preferences.** On a quarterly basis, the revenue rose by +7.1%qoq to RM1.33b. This was driven not only by F&B Malaysia's festive sales but also by the heightened sales penetration of dairy and food products in Malaysia. This may indicate a slight change in Malaysian consumer preferences toward local brands. Meanwhile, the normalization of most commodities to levels below their two-year peaks contributed to lower commodity costs (except sugar, which remained at elevated levels in 1Q24). As a result, the gross profit margin rose by +1.5ppt qoq to 31.5%, returning to the FY21 level before the Russia-Ukraine war. The core PATANCI increased by +26.5%qoq to RM170.1m.

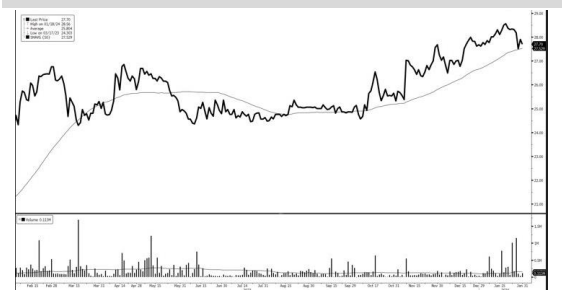
**Maintain BUY with an unchanged TP of RM33.50.** We make no changes to our earnings forecast, as the core PATANCI in line with our expectations. Our **TP** is based on an unchanged PER of 21.5x (3-year historical mean) pegged to FY24F EPS of 155.6 sen.

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

#### RETURN STATISTICS

Price @ 31 <sup>st</sup> Jan 2024 (RM)	27.70
Expected share price return (%)	+20.9
Expected dividend yield (%)	2.5
<b>Expected total return (%)</b>	<b>+23.4</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.0	-4.9
3 months	-1.0	2.6
12 months	12.4	10.3

#### INVESTMENT STATISTICS

FYE Sept (RM'm)	2024F	2025F	2026F
Revenue	5,515.3	5,910.0	6,212.7
EBITDA	843.0	885.6	954.5
Profit before tax (PBT)	674.1	769.1	837.8
Core PATANCI	571.6	652.2	710.5
Core EPS (sen)	155.6	177.5	193.4
DPS (sen)	70.0	75.0	80.0
Dividend Yield (%)	2.5	2.7	2.9

#### KEY STATISTICS

FBM KLCI	1,512.98
Issue shares (m)	366.78
Estimated free float (%)	20.45
Market Capitalisation (RM'm)	10,159.76
52-wk price range	RM24.3-RM28.8
3-mth average daily volume (m)	0.16
3-mth average daily value (RM'm)	4.47
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	11.44
Amanah Saham Nasional Bhd	8.50

**Analyst(s)**

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**Outlook.** We are optimistic about the company's prospects, underpinned by: (1) robust OOH beverages consumption, (2) anticipated increase in leisure and business tourists, fueled by visa-free exemptions from both Thailand and Malaysia, potentially boosting domestic sales, (3) lower input costs, thanks to normalized commodity prices and the recent decline in sugar prices, (4) gains from the shift in Malaysian consumer preferences towards local brands, particularly in dairy and food (with a focus on halal food) products. Meanwhile, we like the group's investment in the integrated dairy farm to support the self-consumption of end dairy products. We expect this strategic move to enhance the group's cost management capabilities and reduce dependence on importing milk. Moving forward, we anticipate sustained positive revenue momentum in F&B Malaysia and exports, primarily driven by the Chinese New Year festive celebration.

**Cheap valuation.** F&N is currently trading at an attractive FY24F PER of 17.8x vs. its 5-year historical average mean PER of 23.2x, while offering a dividend yield of 2.5% in FY24F. **Downside risks are: (1)** Disruption to global supply chains for commodities due to the Red Sea crisis, ongoing congestion at major Brazilian ports, and climate change in key producing countries, posing a risk to the supply of certain commodities, and (2) fluctuation in currency rates (Thai baht and USD).

### Fraser & Neave Holdings: 1QFY24 Results Summary

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	1,332.9	1,244.4	1,218.5	9.4	7.1	1,332.9	1,218.5	9.4
Cost of Sales	(913.1)	(871.7)	(880.5)	3.7	4.8	(913.1)	(880.5)	3.7
<b>Gross Profit</b>	<b>419.8</b>	<b>372.7</b>	<b>338.0</b>	<b>24.2</b>	<b>12.6</b>	<b>419.8</b>	<b>338.0</b>	<b>24.2</b>
Other income	10.5	7.8	98.3	(89.4)	34.3	10.5	98.3	(89.4)
Operating expenses	(220.9)	(213.1)	(211.5)	4.4	3.7	(220.9)	(211.5)	4.4
Other expenses	0.0	(1.1)	0.1	(77.9)	(102.5)	0.0	0.1	(77.9)
<b>Operating profit (EBIT)</b>	<b>209.3</b>	<b>166.2</b>	<b>224.9</b>	<b>(6.9)</b>	<b>25.9</b>	<b>209.3</b>	<b>224.9</b>	<b>(6.9)</b>
Net finance income/(cost)	(3.7)	(4.3)	(6.3)	(41.0)	(13.8)	(3.7)	(6.3)	(41.0)
<b>Profit before tax (PBT)</b>	<b>205.5</b>	<b>161.8</b>	<b>222.4</b>	<b>(7.6)</b>	<b>27.0</b>	<b>205.5</b>	<b>222.4</b>	<b>(7.6)</b>
Profit After tax (PAT)	170.2	139.0	197.9	(14.0)	22.5	170.2	197.9	(14.0)
PATANCI	170.7	137.6	198.8	(14.1)	24.1	170.7	198.8	(14.1)
<b>Core PATANCI</b>	<b>170.1</b>	<b>134.4</b>	<b>113.6</b>	<b>49.7</b>	<b>26.5</b>	<b>170.1</b>	<b>113.6</b>	<b>49.7</b>
Basic EPS (sen)	46.6	37.5	55.2	(15.6)	24.3	46.6	55.2	(15.6)
DPS (sen)	0.0	50.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
<b>Growth &amp; Margin (%)</b>				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	31.5	29.9	27.7	3.8	1.5	31.5	27.7	3.8
Operating Profit Margin	15.7	13.4	18.5	(2.7)	2.3	15.7	18.5	(2.7)
Core PATANCI Margin	12.8	10.8	9.3	3.4	2.0	12.8	9.3	3.4
<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 (%)	17.2	14.1	11.0	6.2	3.1	17.2	11.0	6.2

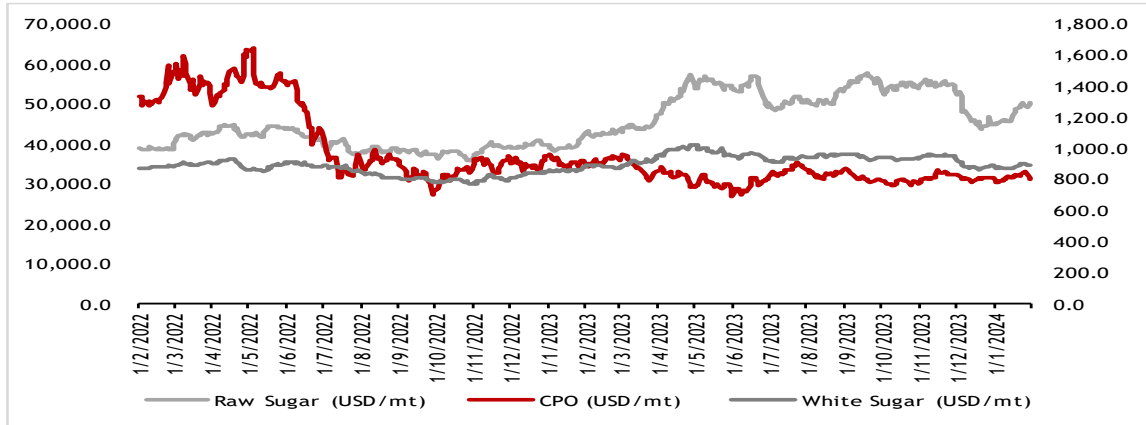
Source: Company, MIDFR

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

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
<b>Revenue (RM'm):</b>								
F&B Malaysia	762.6	681.8	713.3	6.9	11.8	762.6	713.3	6.9
F&B Thailand	569.1	561.7	504.2	12.9	1.3	569.1	504.2	12.9
Property	0.2	0.2	0.2	4.8	1.5	0.2	0.2	4.8
Others	1.0	0.6	0.8	17.5	66.7	1.0	0.8	17.5
<b>Total</b>	<b>1,332.9</b>	<b>1,244.4</b>	<b>1,218.5</b>	<b>9.4</b>	<b>7.1</b>	<b>1,332.9</b>	<b>1,218.5</b>	<b>9.4</b>
<b>Operating Profit (RM'm):</b>								
F&B Malaysia	83.3	59.0	70.4	18.2	41.0	83.3	70.4	18.2
F&B Thailand	125.9	120.7	67.9	85.4	4.3	125.9	67.9	85.4
Property	(0.3)	(0.9)	(0.3)	0.7	(64.7)	(0.3)	(0.3)	0.7
Others	0.5	(12.6)	86.8	(99.5)	>(100.0)	0.5	86.8	(99.5)
<b>Total</b>	<b>209.3</b>	<b>166.2</b>	<b>224.9</b>	<b>(6.9)</b>	<b>25.9</b>	<b>209.3</b>	<b>224.9</b>	<b>(6.9)</b>
<b>Operating profit margin (%)</b>								
F&B Malaysia	10.9	8.7	9.9	1.0	2.3	10.9	9.9	1.0
F&B Thailand	22.1	21.5	13.5	8.7	0.6	22.1	13.5	8.7
Property	(155.3)	(447.4)	(161.7)	6.4	292.1	(155.3)	(161.7)	6.4
Others	47.4	>(100.0)	>100.0	>(100.0)	>100.0	47.4	>100.0	>(100.0)
<b>Total</b>	<b>15.7</b>	<b>13.4</b>	<b>18.5</b>	<b>(2.7)</b>	<b>2.3</b>	<b>15.7</b>	<b>18.5</b>	<b>(2.7)</b>

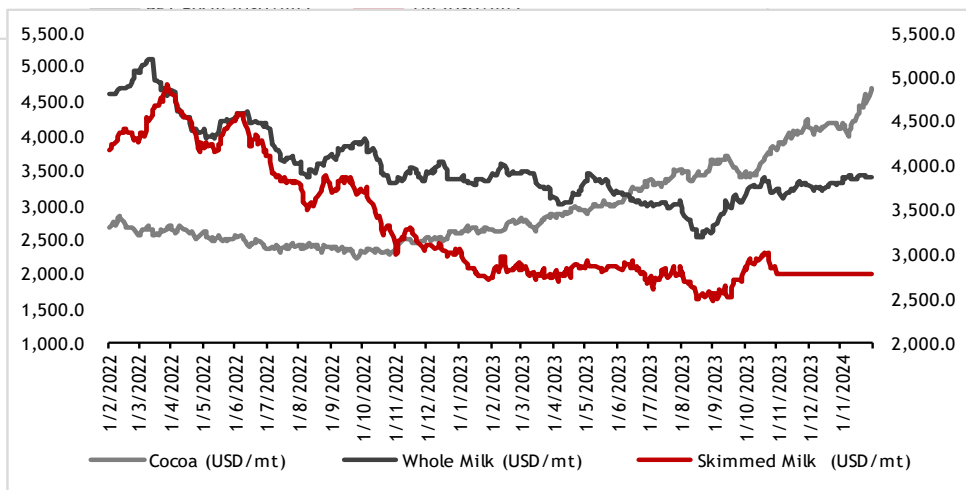
Source: Company, MIDFR

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



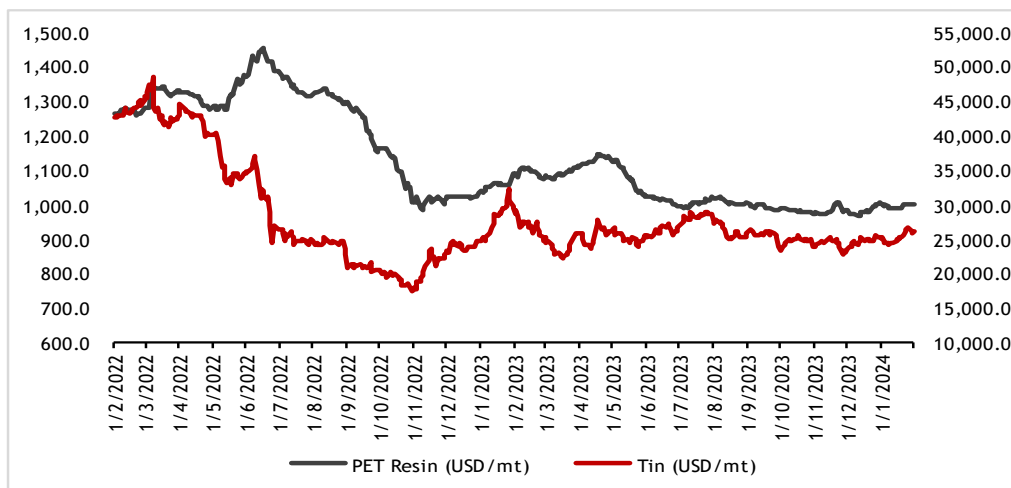
Source: MIDFR, Bloomberg

**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)	(666.1)	(769.4)	(820.3)	(858.0)
General & Administrative	(131.5)	(192.6)	(166.6)	(179.1)	(188.9)
Other operating expenses	(27.1)	(48.1)	(23.2)	(24.2)	(24.9)
<b>EBITDA</b>	<b>577.6</b>	<b>790.7</b>	<b>843.0</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>577.9</b>	<b>571.6</b>	<b>652.2</b>	<b>710.5</b>
Core EPS (sen)	105.2	157.3	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	1,713.9	1,845.7	1,982.3
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>2,836.2</b>	<b>3,069.3</b>	<b>3,300.3</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>5,706.7</b>	<b>6,066.0</b>	<b>6,399.6</b>
<b>Total Equity</b>	<b>2,984.4</b>	<b>3,351.6</b>	<b>3,571.3</b>	<b>3,852.6</b>	<b>4,170.5</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>1,215.3</b>	<b>1,287.2</b>	<b>1,299.0</b>
<b>Total Liabilities</b>	<b>1,206.2</b>	<b>1,760.0</b>	<b>2,135.4</b>	<b>2,213.4</b>	<b>2,229.2</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	592.6	596.3	623.8
Cash flow from investing	(195.1)	(692.9)	(244.6)	(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)	26.5	18.9	17.8	15.6	14.3
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	2.1	3.2	3.6	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	15.3	15.0	15.4
Core PATANCI Margin (%)	8.6	11.6	10.4	11.0	11.4

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