



Fraser & Neave Holdings Berhad

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

Maintain BUY

Lease of Industrial Land in Cambodia

Unchanged Target Price: RM33.50

KEY INVESTMENT HIGHLIGHTS

- **Lease of Industrial Land in Cambodia to establish the first manufacturing plant**
- **Strengthen presence in Cambodia via the future establishment of the first production plant**
- **Minimal impact on balance sheet with internal funding of lease consideration**
- **Maintain BUY with an unchanged TP of RM33.50**

Lease of industrial Land in Cambodia to establish the first manufacturing plant. Frasers and Neave Holdings ("F&N") via its wholly-owned subsidiary – F&N Foods (Cambodia) Co Ltd had entered into a lease agreement with Suvannaphum Investment Co Ltd for the lease of a parcel of 7.954 acres of industrial land at Suvannaphum Special Economic Zone, Cambodia on 15 Feb 2024. The total lease consideration is RM18.5m (USD3.86m) and for a term of 50 years. The transaction is expected to be completed in 2HCY24.

Strengthen presence in Cambodia via the future establishment of the first production plant. We are positive about this development as F&N continues to strengthen its business by expanding manufacturing operations in Cambodia. The lease of the industrial land is to build a manufacturing facility for dairy products, particularly sweetened beverage reamers in cans and pouches. Note that the group currently only has operations in Malaysia and Thailand. Additionally, we appreciate the strategy of establishing a new manufacturing plant closer to the market to reduce product delivery time and logistics costs. Note that the Teaport brand is the No. 1 condensed milk brand within Cambodia, and the product is exported from Thailand operations to Cambodia. We also like the strategic location of the land situated within the Suvannaphum Special Economic Zone, which offers convenient access to distribution warehouses, dry ports, and bonded warehouses. The setup cost for the production facility is estimated at RM179.5m (USD37.5m), covering expenses such as land leasing, construction of buildings, and machinery procurement. The plant is expected to commence operations in 1QCY26.

Related party lessor with a renewal option for the lease land.

This is expected to minimize the non-renewal of the lease of industrial land. Note that the lessor is under the control of YBhg. Tan Sri Charoen Sirivadhanabhakdi and the estate of the late YBhg. Puan Sri Wanna Sirivadhanabhakdi, both significant shareholders of F&NHB. Meanwhile, the lessor primarily focuses on developing the Suvannaphum Special Economic Zone, Suvannaphum Dry Port, Customs services, transportation and logistics services, river port services, and warehouses for rent.

RETURN STATISTICS

Price @ 15 Feb 2024 (RM)	29.00
Expected share price return (%)	+15.5
Expected dividend yield (%)	2.4
Expected total return (%)	+17.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.0	-0.6
3 months	1.6	6.6
12 months	14.4	12.9

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	769.6	838.3
Core PATANCI	571.6	652.6	710.9
Core EPS (sen)	155.6	177.6	193.5
DPS (sen)	70.0	75.0	80.0
Dividend Yield (%)	2.4	2.6	2.8

KEY STATISTICS

FBM KLCI	1528.38
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)

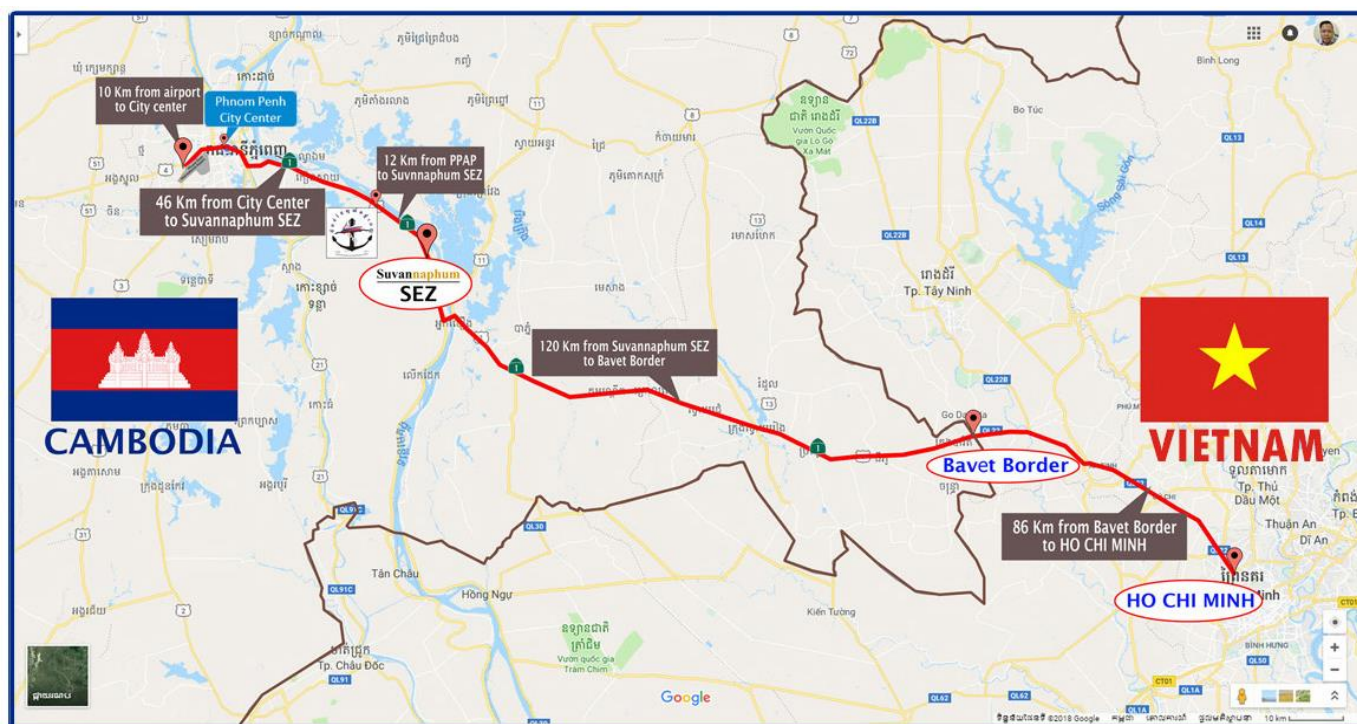
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Minimal impact on balance sheet with internal funding of lease consideration. F&N intends to finance the lease consideration of the vacant industrial land through internally generated funds. Post-completion of the lease consideration, we expect the group to maintain its net cash position with a slight decline in FY24F net cash to market cap, from 3.5% to 3.3%. On the other hand, we also anticipate minimal impact on the balance sheet of the set-up cost of the new production plant if funded internally. We expect the group to maintain a net cash position with a net cash/market cap ratio of 1.8% if the setup cost is funded internally.

Maintain BUY with an unchanged TP of RM33.50. We will make no changes to our earnings forecast at this juncture pending further details on the production plan. Our **TP** is based on an unchanged PER of 21.5x (3-year historical mean) pegged to FY24F EPS of 155.6 sen. 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 18.6x 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).

Chart 1: SUVANNAPHUM SEZ



Source: Suwannaphum SEZ

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)
Gross Profit	1,174.1	1,434.8	1,627.0	1,785.1	1,898.2
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)
EBITDA	577.6	790.7	843.0	885.6	954.5
EBIT	447.9	642.9	695.5	791.3	858.2
Profit before tax (PBT)	454.1	624.7	674.1	769.1	837.8
Income tax expense	(71.8)	(82.6)	(102.5)	(116.9)	(127.4)
PATANCI	383.2	536.9	571.6	652.2	710.5
Core PATANCI	386.6	577.9	571.6	652.2	710.5
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
Total Non-current assets	1,960.9	2,602.5	2,836.2	3,069.3	3,300.3
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
Total current assets	2,229.7	2,509.1	2,870.5	2,996.7	3,099.3
Total Assets	4,190.6	5,111.6	5,706.7	6,066.0	6,399.6
Total Equity	2,984.4	3,351.6	3,571.3	3,852.6	4,170.5
LT Loans and borrowings	210.0	706.0	706.0	706.0	706.0
Total Non-current liabilities	372.9	909.4	920.1	926.2	930.2
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
Total Current Liabilities	833.3	850.6	1,215.3	1,287.2	1,299.0
Total Liabilities	1,206.2	1,760.0	2,135.4	2,213.4	2,229.2

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)
Net cash flow	(88.3)	546.9	49.1	7.9	10.0
(+/-) Adjustments	(5.2)	22.8	0.0	0.0	0.0
Net cash/(debt) b/f	555.4	461.9	1,031.5	1,080.7	1,088.5
Net cash/(debt) c/f	461.9	1,031.5	1,080.7	1,088.5	1,098.5

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	15.8	13.2	15.2	15.2	15.2
PER (x)	27.8	19.8	18.6	16.3	15.0
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	2.0	3.0	3.5	3.6	3.6

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