



Fraser & Neave Holdings Berhad

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

Maintain BUY

Positive Festive Sale; Favorable Net Commodity Costs

Unchanged Target Price: RM37.00

KEY INVESTMENT HIGHLIGHTS

- **Within our expectation**
- **Better profit margin in 2QFY24**
- **Higher 1HFY24 topline and bottomline**
- **Maintain BUY with an unchanged TP of RM37.00**
- **Cheap valuation**

Within our expectation. Fraser & Neave Holdings ("F&N") reported a 1HFY24 core PATANCI of RM332.1m, after excluding a one-time off item of -RM4.1m. This aligns with our FY24F full-year projection but exceeds consensus estimates, accounting for 55.2% and 60.3% respectively. The company declared a higher dividend of 30.0sen/share in the quarter (compared to 27.0sen/share in 2QFY23) with an entitlement date of 16 May 2024.

Better profit margin in 2QFY24. The group's 2QFY24 revenue rose +12.1%yoy to RM1.35b primarily driven by positive momentum in F&B Thailand, F&B Malaysia, CNY celebrations, and early Hari Raya sales. Operating profit margin rose +4.9ppt yoy to 15.3%, thanks to heightened revenue, a favorable product mix, net favorable commodity cost, reduced freight & distribution costs, and cost savings in manufacturing overhead. As such, the core PATANCI rose +53.1%yoy to RM162m. On a quarterly basis, the core PTANCI dropped -4.8%qoq despite slightly higher revenue growth of +1.5%qoq. This was mainly due to higher other and operating expenses.

Higher 1HFY24 topline and bottom-line. Cumulatively, F&N's 1HFY24 topline rose +10.7%yoy to RM2.69b mainly driven by better festive sales, early sell-in for Hari Raya, and higher exports that raise the F&B Malaysia and F&B Thailand. Favorable country mix, commodity prices, logistic savings, and increased revenue led to a 51.4%yoy increase in core PATANCI to RM332.1m.

Maintain BUY with an unchanged TP of RM37.00. Our earnings forecast for FY24-26F remains unchanged pending analyst briefing. Our **TP** is based on an unchanged PER of 22.6x pegged to FY24F EPS of 163.6 sen. We remain optimistic about F&N's FY24 prospects, supported by strong out-of-home beverages consumption; return of leisure and business tourists to Thailand and Malaysia; lower raw material input costs; and benefit from the shift in Malaysian consumer preferences towards local brands. We also like the group's initiative in the integrated dairy farm to improve self-supply and cater for underserved fresh milk market in Malaysia.

RETURN STATISTICS

Price @ 30 Apr 2024 (RM)	31.60
Expected share price return (%)	+17.10
Expected dividend yield (%)	2.40
Expected total return (%)	+19.50

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	8.3	5.4
3 months	8.3	9.6
12 months	20.2	7.8

INVESTMENT STATISTICS

FYE Sept (RM'm)	2024F	2025F	2026F
Revenue	5,601.0	6,029.7	6,338.6
EBITDA	843.3	899.2	959.1
Profit before tax (PBT)	709.0	798.1	859.6
Core PATANCI	601.3	676.8	729.0
Core EPS (sen)	163.6	184.2	198.4
DPS (sen)	77.0	77.0	77.0
Dividend Yield (%)	2.4	2.4	2.4

KEY STATISTICS

FBM KLCI	1575.97
Issue shares (m)	366.78
Estimated free float (%)	20.24
Market Capitalisation (RM'm)	11,626.88
52-wk price range	RM24.5-RM32.0
3-mth average daily volume (m)	0.15
3-mth average daily value (RM'm)	4.45
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	11.66
Amanah Saham Nasional Bhd	8.50

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Relatively cheap valuation. F&N is currently trading at an undemanding FY24F PER of 19.4x vs. its 3-year historical average mean PER of 22.6x, while offering a dividend yield of 2.4% in FY24F. **Downside risks are: (1)** Disruption to global supply chains for commodities resulting from avoidance of the Suez and Panama Canals, ongoing congestion at major Brazilian ports, climate change in major exporting countries, and (2) volatility in currency rates (Thai baht and USD).

Fraser & Neave Holdings: 2QFY24 Results Summary

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	1,352.4	1,332.9	1,206.6	12.1	1.5	2,685.3	2,425.1	10.7
Cost of Sales	(912.9)	(913.1)	(876.1)	4.2	(0.0)	(1,826.0)	(1,756.6)	4.0
Gross Profit	439.5	419.8	330.5	33.0	4.7	859.2	668.5	28.5
Other income	9.4	10.5	4.4	115.9	(9.9)	19.9	102.6	(80.6)
Operating expenses	(242.0)	(220.9)	(208.4)	16.1	9.6	(462.9)	(420.0)	10.2
Other expenses	0.6	0.0	(0.4)	(237.7)	1,989.7	0.6	(0.3)	(305.5)
Operating profit (EBIT)	207.5	209.3	126.0	64.7	(0.9)	416.8	350.9	18.8
Net finance income/(cost)	(3.1)	(3.7)	(6.3)	(51.0)	(17.7)	(6.8)	(12.6)	(46.0)
Profit before tax (PBT)	204.4	205.5	119.7	70.8	(0.5)	409.9	342.1	19.8
Profit After tax (PAT)	165.7	170.2	102.0	62.5	(2.6)	335.9	299.8	12.0
PATANCI	165.4	170.7	101.2	63.5	(3.1)	336.1	300.0	12.1
Core PATANCI	162.0	170.1	105.8	53.1	(4.8)	332.1	219.4	51.4
Basic EPS (sen)	45.2	46.6	27.6	63.8	(3.0)	91.8	82.8	10.9
DPS (sen)	30.0	0.0	27.0	11.1	n.m.	30.0	27.0	11.1
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	32.5	31.5	27.4	5.1	1.0	32.0	27.6	4.4
Operating Profit Margin	15.3	15.7	10.4	4.9	(0.4)	15.5	14.5	1.1
Core PATANCI Margin	12.0	12.8	8.8	3.2	(0.8)	12.4	9.0	3.3
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 (%)	18.9	17.2	14.8	4.1	1.7	18.1	12.4	5.7

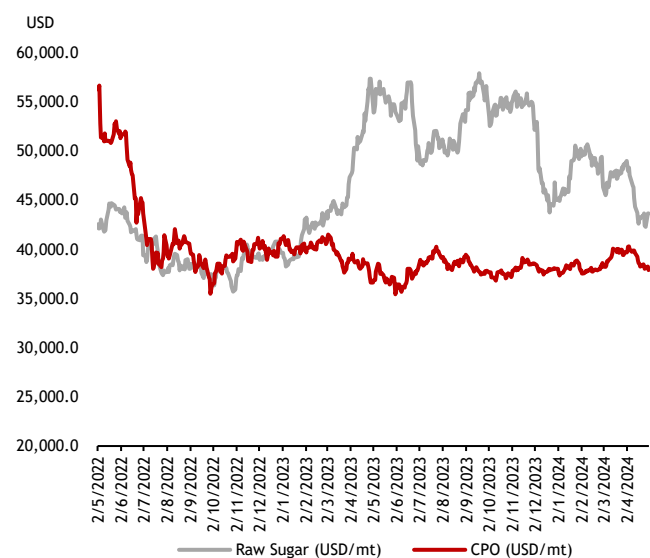
Source: Company, MIDFR

Fraser & Neave Holdings: Breakdown by operating segment

FYE Sept (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue (RM'm):								
F&B Malaysia	787.7	762.6	707.6	11.3	3.3	1,550.3	1,420.9	9.1
F&B Thailand	563.8	569.1	498.1	13.2	(0.9)	1,132.9	1,002.3	13.0
Property	0.2	0.2	0.2	3.7	(0.5)	0.4	0.4	4.2
Others	0.7	1.0	0.7	(2.0)	(30.1)	1.7	1.6	8.6
Total	1,352.4	1,332.9	1,206.6	12.1	1.5	2,685.3	2,425.1	10.7
Operating Profit (RM'm):								
F&B Malaysia	92.9	83.3	48.2	92.7	11.5	176.1	118.6	48.5
F&B Thailand	116.8	125.9	78.1	49.7	(7.2)	242.7	145.9	66.3
Property	(0.4)	(0.3)	(0.4)	5.6	23.5	(0.7)	(0.7)	3.3
Others	(1.9)	0.5	0.1	(1,695.7)	(493.8)	(1.4)	86.9	(101.6)
Total	207.5	209.3	126.0	64.7	(0.9)	416.8	350.9	18.8
Operating profit margin (%)								
F&B Malaysia	11.8	10.9	6.8	5.0	0.9	11.4	8.4	3.0
F&B Thailand	20.7	22.1	15.7	5.1	(1.4)	21.4	14.6	6.9
Property	>(100.0)	>(100.0)	>(100.0)	(3.4)	(37.5)	>(100.0)	>(100.0)	1.6
Others	>(100.0)	47.4	16.4	>(100.0)	>(100.0)	(82.0)	>100.0	>(100.0)
Total	15.3	15.7	10.4	4.9	(0.4)	15.5	14.5	1.1

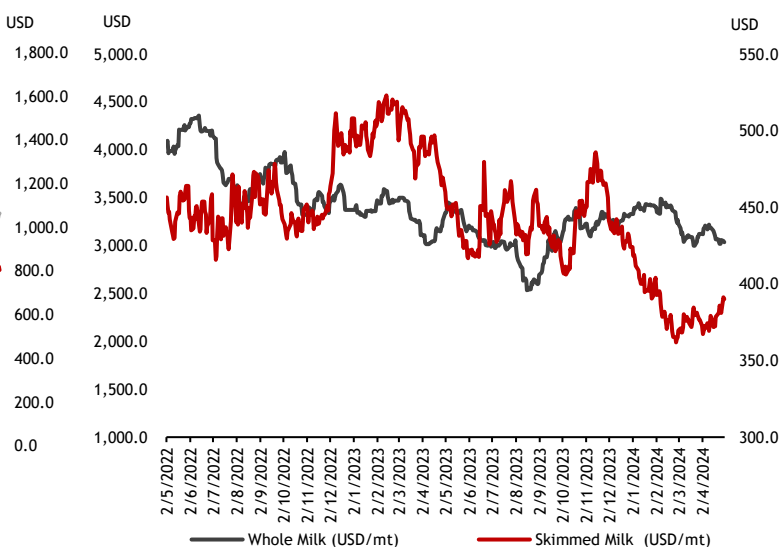
Source: Company, MIDFR

CHART 1: RAW SUGAR & CPO FUTURES PRICE TREND (USD/mt)



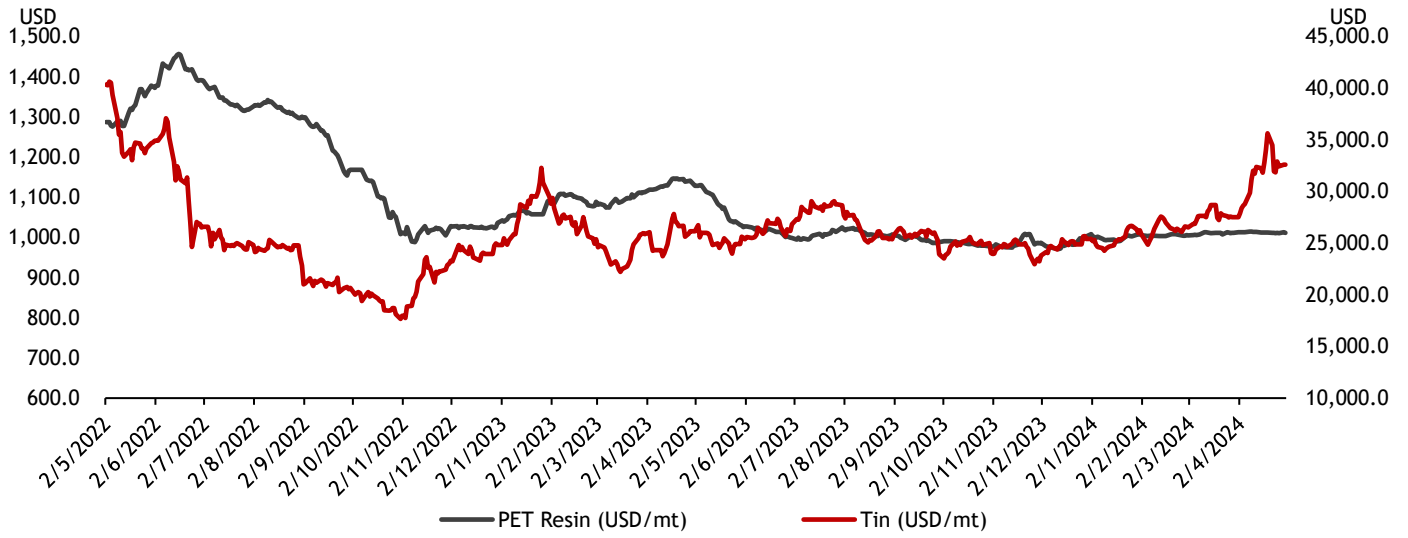
Source: Bloomberg, MIDFR

CHART 2: WHOLE MILK AND SKIMMED MILK POWDER FUTURES PRICE TREND (USD/mt)



Source: Bloomberg, MIDFR

CHART 3: PET RESIN, TIN FUTURES PRICE TREND (USD/mt)



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	4,470.2	5,001.4	5,601.0	6,029.7	6,338.6
Cost of Sales	(3,296.1)	(3,566.6)	(3,962.0)	(4,231.1)	(4,430.1)
Gross Profit	1,174.1	1,434.8	1,639.1	1,798.6	1,908.6
Other Income	20.9	115.0	28.0	31.1	33.6
Selling and Distribution expenses	(588.4)	(666.1)	(749.7)	(811.1)	(856.9)
General & Administrative	(131.5)	(192.6)	(172.3)	(182.7)	(189.2)
Other operating expenses	(27.1)	(48.1)	(14.9)	(15.8)	(16.3)
EBITDA	577.6	790.7	843.3	899.2	959.1
EBIT	447.9	642.9	730.2	820.1	879.7
Profit before tax (PBT)	454.1	624.7	709.0	798.1	859.6
Income tax expense	(71.8)	(82.6)	(107.8)	(121.3)	(130.7)
PATANCI	383.2	536.9	601.3	676.8	729.0
Core PATANCI	386.6	577.9	601.3	676.8	729.0
Core EPS (sen)	105.2	157.3	163.6	184.2	198.4
DPS (sen)	60.0	77.0	77.0	77.0	77.0

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant, and equipment	1,458.3	1,592.1	1,748.4	1,899.9	2,058.0
Intangible assets	91.9	433.4	487.3	524.6	551.5
Total Non-current assets	1,960.9	2,602.5	2,880.7	3,138.3	3,392.8
Inventories	901.4	764.2	930.8	994.0	1,040.8
ST - Trade and other receivables	866.4	713.3	889.9	958.0	1,007.1
Cash and cash equivalents	461.9	1,031.5	1,097.5	1,110.6	1,120.8
Total current assets	2,229.7	2,509.1	2,918.2	3,062.7	3,168.7
Total Assets	4,190.6	5,111.6	5,798.9	6,200.9	6,561.6
Total Equity	2,984.4	3,351.6	3,575.0	3,871.5	4,216.9
LT Loans and borrowings	210.0	706.0	706.0	706.0	706.0
Total Non-current liabilities	372.9	909.4	922.9	930.0	934.0
ST Trade and other payables	693.0	724.8	797.9	852.1	892.2
ST Loans and borrowings	36.8	4.0	4.0	4.0	4.0
Total Current Liabilities	833.3	850.6	1,301.1	1,399.5	1,410.7
Total Liabilities	1,206.2	1,760.0	2,224.0	2,329.4	2,344.7

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	454.1	624.7	709.0	798.1	859.6
Cash flow from operations	107.0	1,053.0	636.7	614.9	618.8
Cash flow from investing	(195.1)	(692.9)	(245.3)	(280.0)	(290.0)
Cash flow from financing	(0.2)	186.8	(325.5)	(321.8)	(318.6)
Net cash flow	(88.3)	546.9	65.9	13.1	10.2
(+/-) Adjustments	(5.2)	22.8	0.0	0.0	0.0
Net cash/(debt) b/f	555.4	461.9	1,031.5	1,097.5	1,110.6
Net cash/(debt) c/f	461.9	1,031.5	1,097.5	1,110.6	1,120.8

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	15.8	13.2	15.2	15.2	15.2
PER (x)	30.3	21.6	19.4	17.2	16.0
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	1.8	2.8	3.3	3.4	3.5

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	26.3	28.7	29.3	29.8	30.1
EBITDA Margin (%)	12.9	15.8	15.1	14.9	15.1
Core PATANCI Margin (%)	8.6	11.6	10.7	11.2	11.5

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