



Fraser & Neave Holdings Berhad

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

Maintain BUY

Future Investments on Track

Unchanged Target Price: RM37.00

KEY INVESTMENT HIGHLIGHTS

- **Venturing manufacturing operations into Cambodia**
- **Mixed raw material contribution**
- **Cost optimization is preferred rather than a price hike**
- **Integrated dairy farm project on track**
- **Maintain BUY with an unchanged TP of RM37.00**

We attended Fraser & Neave's 1HFY24 briefing and remain optimistic about the company. Some salient highlights are as follows: -

Venturing manufacturing operations into Cambodia. Management alludes that the expansion of manufacturing operations to Cambodia is another pivotal future investment. This entails shifting production of sweetened condensed milk from the current Thai import operation to facilities within Cambodia. Given that export sales to Cambodia reached RM200m per annum, establishing a new manufacturing plant closer to the market emerges as a pragmatic approach to capture the growing demand, minimize product delivery time, logistical expenses, and supply-related risks. Recall that the group entered a [lease agreement for a parcel in Cambodia on 15 Feb 2024](#).

Mixed raw material contribution. Management highlighted that the moderation of skimmed milk powder prices has benefited F&B Thailand the most and more than mitigated the impact of higher sugar prices in F&B Thailand. Meanwhile, the impact of higher sugar prices was greater in F&B Malaysia as opposed to rising rice, gelatin and cocoa powder prices. The contribution of rice is merely for Sri Nona Ketupat products, meanwhile Gelatin and cocoa powder merely used for Cocoland's products. Note that food pillar (Sri Nona and Cocoland) only contributed ~6% of total revenue.

Cost optimization is preferred rather than a price hike. Despite the elevated prices of certain input costs, the normalization in most raw materials, coupled with various price hikes completed in FY22-23, has offset the impact. Recall that the group increased ketupat and gummies bear prices in FY23. As such, management does not foresee any price hikes in the near term and instead would focus on cost optimization, with a price hike being considered only as a last resort.

RETURN STATISTICS

Price @ 3 May 2024 (RM)	32.00
Expected share price return (%)	+15.6
Expected dividend yield (%)	+2.4
Expected total return (%)	+18.0

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	1589.59
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

Analyst(s)

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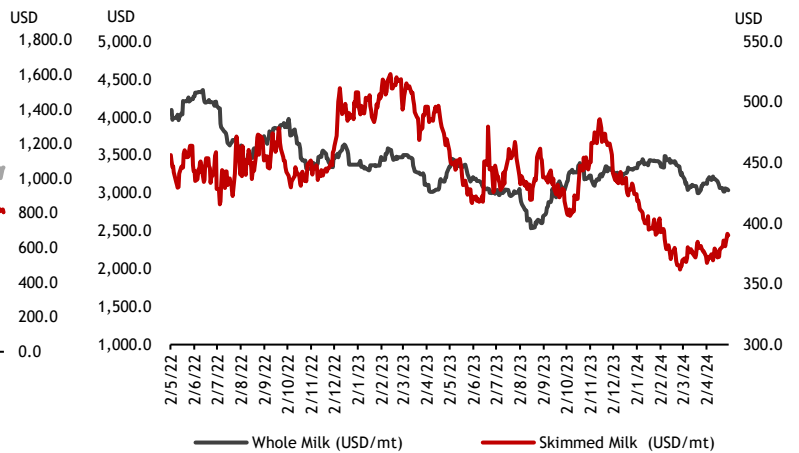
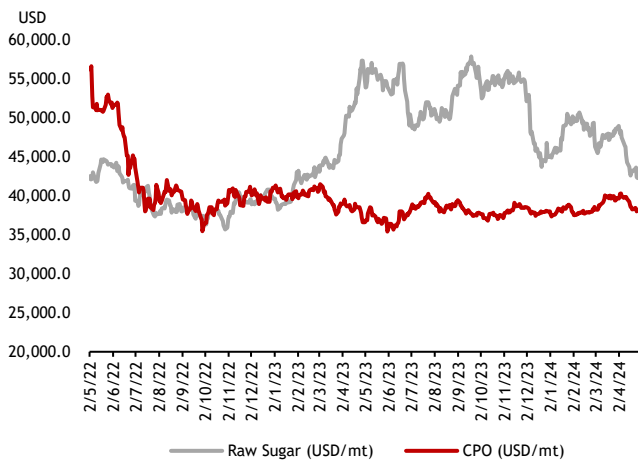
Integrated dairy farm project on track. The group allocated a total capex of RM1.7b for Phase 1 of the integrated dairy farm in Negeri Sembilan and expects to allocate RM1b for Phase 2. The group has completed the land preparation for key activities on 1,000 acres with the expectation to complete the land preparation for all 2,000 acres by October 2024. The first milking remains unchanged by early 2025. The integrated dairy farm targets 2,000 dairy cows in the first phase (shipped from a US avian-free state) with a total production capacity of 100 million litres per annum.

Maintain BUY with an unchanged TP of RM37.00. We have made no changes to our earnings forecast. Our **TP** is based on an unchanged PER of 22.6x pegged to FY24F EPS of 163.6 sen. We are positive about F&N's outlook mainly underpinned by the robust out-of-home beverages consumption; return of leisure and business tourists to Thailand and Malaysia; normalize certain raw material input costs; and benefit from the shift in Malaysian consumer preferences towards local brands. We also commend the group's initiative in the integrated dairy farm to improve self-supply (cost savings) and to cater to the underserved fresh milk market with affordable prices in Malaysia.

Cheap valuation. F&N is currently trading at a cheap 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)** Global supply chains disruption 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).

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

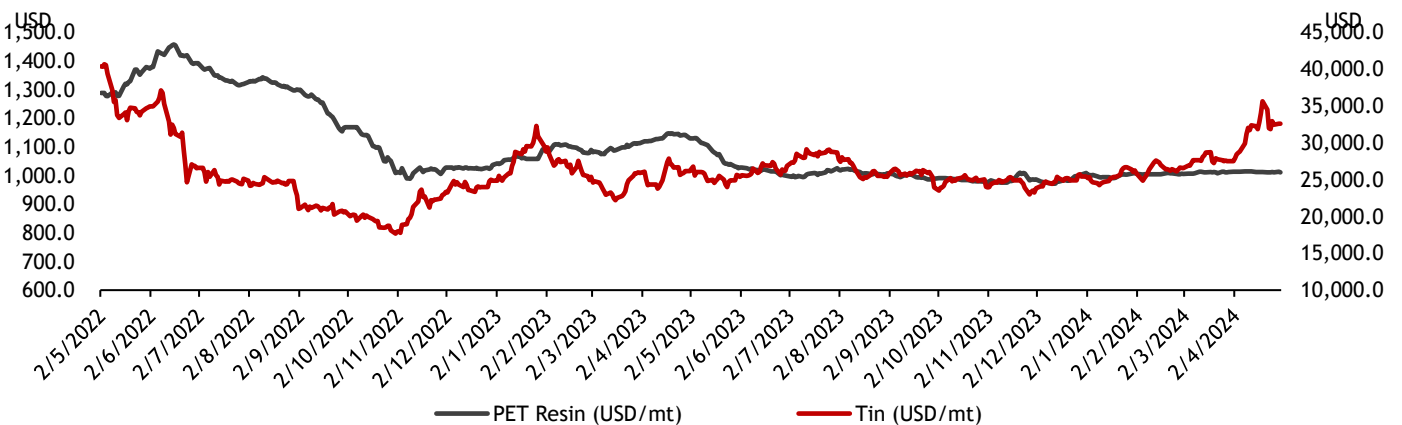
CHART 2: WHOLE MILK AND SKIMMED MILK POWDER FUTURES PRICE TREND (USD/mt)



Source: Bloomberg, MIDFR

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)	30.6	21.8	19.6	17.4	16.1
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	1.8	2.7	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