



# Fraser & Neave Holdings Berhad

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

**Maintain BUY**

## Riding the Heatwave

**Revised Target Price: RM37.00**  
(Previously RM33.50)

### KEY INVESTMENT HIGHLIGHTS

- **Beneficiary of higher out-of-home beverage consumption amidst heatwave across Southeast Asia**
- **Underserved market for fresh milk in Malaysia**
- **Key commodities below 2-year peak level**
- **Revised FY24-26F earnings forecast**
- **Maintain BUY with a revised TP of RM37.00 (from RM33.50)**

**Heatwave across Southeast Asia...** According to the World Meteorological Organization (WMO), temperatures in parts of Southeast Asia ("SEA") have surged into the high 30s, well above the seasonal average in Feb 2024. Meanwhile, the Thai Meteorological Department has issued warnings of hot to very hot temperatures across Thailand in early April 24, with the northern region hitting a peak of 43°C. The Malaysian Meteorological Department (Met Malaysia) has also issued a heatwave alert for 14 regions (notably impacted states such as Perlis, Kedah, Kelantan, Sarawak, and Sabah) across the country, with temperatures ranging from 35 to 37°C, and even reaching 40°C in some areas. Additionally, Vietnam declared a state of emergency on 6 Apr 2024, due to abnormally high temperatures drying up entire rice fields in the south. Similarly, in the Philippines, hundreds of schools suspended classes as daily temperatures surpassed 42°C.

**...to increase demand for RTG drinks...** The unprecedented high temperatures across the SEA region are primarily caused by global climate change, human-induced climate change in certain parts of SEA, and the ongoing El Niño event. We expect that the extreme weather will lead consumers to seek refreshing and convenient options to stay hydrated and cool, thereby increasing the demand for ready-to-go ("RTG") drinks and out-of-home beverages. Hence, we anticipate that Fraser and Neave (F&N) to be the key beneficiary of the heatwave across the SEA region due to its strong market leadership as the F&B players in the region. Based on the Retail Index Service, F&N holds the top position in ready-to-drink tea, carbonated soft drinks, evaporated milk, and sweetened condensed milk in Malaysia. The group is also recognized as the No.1 brand for condensed milk, evaporated milk, and sterilized milk in Thailand.

**...hence boosting F&N's revenue.** Moving forward, we believe that that the group's revenue in 2QFY24 and 3QFY24 will be boosted by increased demand for its products not only in key operating countries like Thailand and Malaysia but also through exports across Southeast Asia, considering the extreme weather. This is on the back of current El Niño event across SEA region is expected to continue until mid-May before the anticipated La Niña event (June-Sept 2024).

### RETURN STATISTICS

Price @ 16 April 2024 (RM)	30.96
Expected share price return (%)	+19.50
Expected dividend yield (%)	2.5
Expected total return (%)	+22.0

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.4	5.5
3 months	5.7	5.1
12 months	17.4	9.6

### 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 (%)	2.5	2.5	2.5

### KEY STATISTICS

FBM KLCI	1535-00
Issue shares (m)	366.78
Estimated free float (%)	20.31
Market Capitalisation (RM'm)	11,340.79
52-wk price range	RM24.5-RM31.5
3-mth average daily volume (m)	0.20
3-mth average daily value (RM'm)	5.72
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	11.59
Amanah Saham Nasional Bhd	8.50

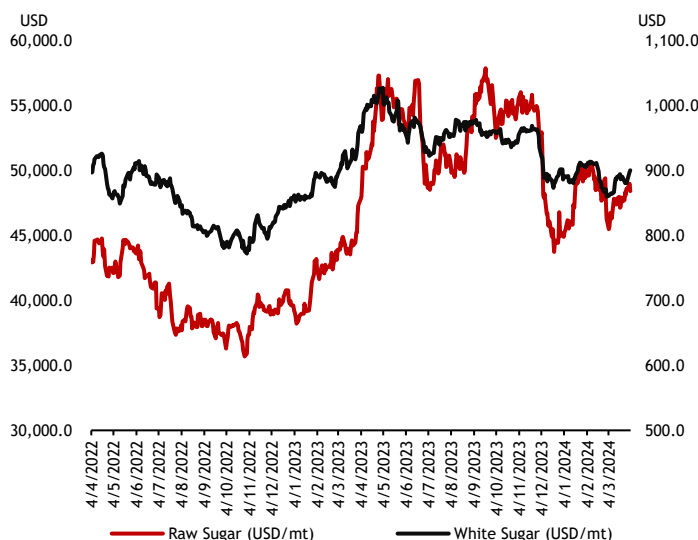
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**Underserved Market for Fresh Milk in Malaysia.** According to the Department of Statistics Malaysia (DOSM), fresh milk production increased by +0.6% yoy to 39 million liters in 2022. This resulted in a self-sufficiency ratio (SSR) of fresh milk reaching 57.3% in 2022, up from 56.7% in 2021, with the national target set to achieve 100% SSR by 2025. Despite the rise in production, the import dependency ratio (IDR) for fresh milk also increased by +0.7 ppt yoy to 63.6% in 2022. This could indicate the underserved market in Malaysia.

**We are optimistic about F&N’s plans to launch an integrated upstream fresh milk business,** with phase one aiming to produce 100 million liters of fresh milk in Germas Negeri Sembilan. The first milking is expected in early 2025. This initiative enables the group to achieve self-supply and reduce operating costs. Note that the group currently sources externally with existing household liquid milk brands such as F&N Magnolia, Farmhouse, and Bear Brand. Nevertheless, the target of achieving total production of 200 million liters of fresh milk following the completion of all phases would also allow the group greater capacity to cater to both local and international markets and hence expand business revenue. Additionally, F&N's parent company - Fraser & Neave Limited, holds stakes in Vinamilk (the largest dairy company in Vietnam) could offer valuable market insights for F&N's engagement in the upstream dairy farm.

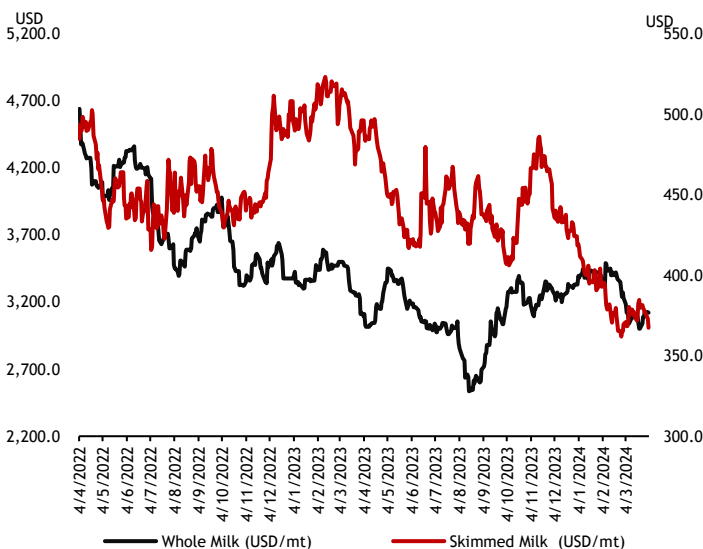
**Key commodities below 2-year peak level.** As of 31 Mar 2024, the 3-month future global commodities of raw sugar, white sugar, whole milk powder, skimmed milk powder, pet resin, tin, and CPO are all trading below their two-year peak levels. This suggests potential lower raw material costs ahead, given the current lower global commodity prices. Note that the cost of sales accounted for 71.3% of total FY22 revenue, with raw material costs being the major contributor. Looking ahead, considering the downward trend in global futures commodities prices, we anticipate that Fraser and Neave’s raw material costs could normalize back to FY22 levels. However, we cannot disregard the risk of delays in receiving certain commodities due to the ongoing global shipping disruptions, with shipping companies avoiding the Suez and Panama Canals.

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

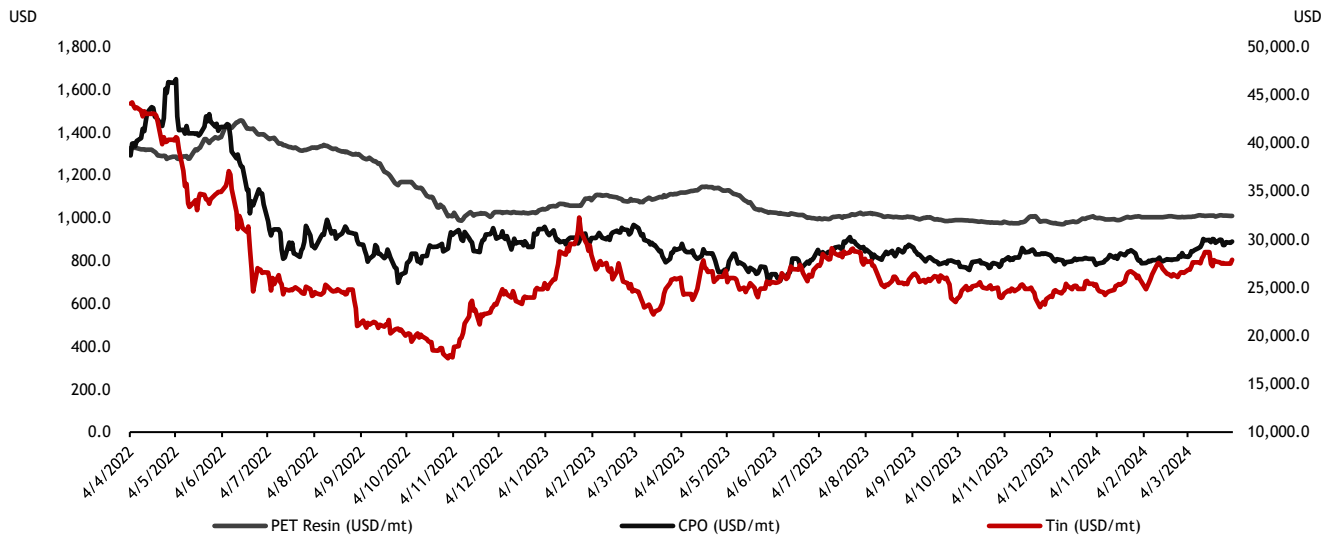


Source: Bloomberg, MIDFR

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




Source: Bloomberg, MIDFR

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

Source: Bloomberg, MIDFR

**Revised FY24-26F earnings forecast and valuation adjustment.** We revised our FY24-26F earnings forecast upward and adjusted our valuation. We increased our FY24-26F earnings forecast by 5.2%/3.8%/2.6% respectively to factor in the stronger demand for out-of-home beverages in 1HCY24, an underserved fresh milk market, and the normalization of global commodities prices. Meanwhile, we have shifted our valuation from the historical 3-year mean PER of 21.5x to the historical 3-year +1SD PER of 22.6x. This adjustment reflects the positive sentiment surrounding the group's outlook.

**Maintain BUY with a revised TP of RM37.00 (from RM33.50).** The revised TP is based on an updated PER of 22.6x (previously 21.5x) pegged to FY24F EPS of 163.6 sen (previously 155.6 sen). We remain positive about the company's FY24 prospects underpinned by: (1) strong OOH beverages consumption supported by the heatwave across parts of Southeast Asia, (2) return of leisure and business tourists thanks to the visa-free exemptions from both Thailand and Malaysia, (3) lower raw material input costs, thanks to normalized commodities price, as well as (4) benefit from the shift in Malaysian consumer preferences towards local brands. We also appreciate the group's investment in the integrated dairy farm to enhance self-supply, which can improve cost management and reduce reliance on imported milk.

**Attractive valuation.** F&N is currently trading at an attractive FY24F PER of 18.9x vs. its 3-year historical average mean PER of 22.6x, while offering a dividend yield of 2.5% 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, and climate change in key producing countries, and (2) fluctuation in currency rates (Thai baht and USD). 

## FINANCIAL SUMMARY

	2022A	2023A	2024F	2025F	2026F
<b>Income Statement (RM'm)</b>					
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)
<b>Gross Profit</b>	<b>1,174.1</b>	<b>1,434.8</b>	<b>1,639.1</b>	<b>1,798.6</b>	<b>1,908.6</b>
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)
<b>EBITDA</b>	<b>577.6</b>	<b>790.7</b>	<b>843.3</b>	<b>899.2</b>	<b>959.1</b>
<b>EBIT</b>	<b>447.9</b>	<b>642.9</b>	<b>730.2</b>	<b>820.1</b>	<b>879.7</b>
<b>Profit before tax (PBT)</b>	<b>454.1</b>	<b>624.7</b>	<b>709.0</b>	<b>798.1</b>	<b>859.6</b>
Income tax expense	(71.8)	(82.6)	(107.8)	(121.3)	(130.7)
<b>PATANCI</b>	<b>383.2</b>	<b>536.9</b>	<b>601.3</b>	<b>676.8</b>	<b>729.0</b>
<b>Core PATANCI</b>	<b>386.6</b>	<b>577.9</b>	<b>601.3</b>	<b>676.8</b>	<b>729.0</b>
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
<b>Balance Sheet (RM'm)</b>					
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
<b>Total Non-current assets</b>	<b>1,960.9</b>	<b>2,602.5</b>	<b>2,880.7</b>	<b>3,138.3</b>	<b>3,392.8</b>
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
<b>Total current assets</b>	<b>2,229.7</b>	<b>2,509.1</b>	<b>2,918.2</b>	<b>3,062.7</b>	<b>3,168.7</b>
<b>Total Assets</b>	<b>4,190.6</b>	<b>5,111.6</b>	<b>5,798.9</b>	<b>6,200.9</b>	<b>6,561.6</b>
<b>Total Equity</b>	<b>2,984.4</b>	<b>3,351.6</b>	<b>3,575.0</b>	<b>3,871.5</b>	<b>4,216.9</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>922.9</b>	<b>930.0</b>	<b>934.0</b>
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
<b>Total Current Liabilities</b>	<b>833.3</b>	<b>850.6</b>	<b>1,301.1</b>	<b>1,399.5</b>	<b>1,410.7</b>
<b>Total Liabilities</b>	<b>1,206.2</b>	<b>1,760.0</b>	<b>2,224.0</b>	<b>2,329.4</b>	<b>2,344.7</b>
<b>Cash Flow (RM'm)</b>					
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)
<b>Net cash flow</b>	<b>(88.3)</b>	<b>546.9</b>	<b>65.9</b>	<b>13.1</b>	<b>10.2</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>1,097.5</b>	<b>1,110.6</b>
<b>Net cash/(debt) c/f</b>	<b>461.9</b>	<b>1,031.5</b>	<b>1,097.5</b>	<b>1,110.6</b>	<b>1,120.8</b>
<b>Key Metrics</b>					
Effective tax rate (%)	15.8	13.2	15.2	15.2	15.2
PER (x)	29.6	21.1	18.9	16.8	15.6
Inventories (Days)	86.4	85.2	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	1.9	2.8	3.4	3.5	3.6
<b>Profitability Margins</b>					
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