



Fraser & Neave Holdings Berhad

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

Maintain BUY

Continued Growth Amidst Challenges

Revised Target Price: RM36.77
(Previously RM40.47)

KEY INVESTMENT HIGHLIGHTS

- **Integrated dairy farm setback**
- **Expansion in Cambodia on track**
- **Minimal impact from sugary beverage excise duty**
- **Wage hikes to add cost pressure**
- **Cut FY25-27F core earnings**
- **Maintain BUY with a lower TP of RM36.77 (from RM40.47)**

We attended F&N's FY24 analyst briefing, and we remain positive on the outlook for the company. Key highlights of the briefing as below:

Operational strength in Malaysia and Thailand. F&N Malaysia's revenue grew by +3.5%, driven by high festive sales, increased demand for beverages and dairy products, and enhanced export performance. Cost efficiencies and effective marketing activities contributed to a +49%yoy surge in operating profit. Thailand also posted positive results, with a +6.7% revenue increase led by growing demand in Cambodia and favorable commodity prices.

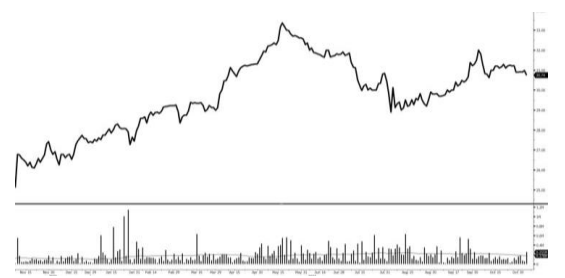
Integrated dairy farm setback. The construction of F&N's integrated dairy farm in Gemas, Negeri Sembilan, part of the F&N AgriValley project, continues to progress. To ensure the highest standards of milk quality, F&N plans to grow much of the livestock feed in-house, particularly corn, which will offset the need for tens of thousands of tons of imported feed. However, plans were delayed after the Malaysian Department of Veterinary Services suspended an import permit for high-performance breeding cattle from the U.S., which has pushed back the first milking originally scheduled for early 2025. F&N is actively working with partners to secure alternative cattle sourcing solutions to maintain progress. We remain positive about the farm's potential to support local milk supply but caution that the sourcing delay may take time to resolve. It is likely that full-scale operations could be pushed back by at least a year as F&N works to secure suitable livestock alternatives.

Expansion in Cambodia on track. F&N's strategic expansion into Southeast Asia includes the development of a new dairy manufacturing plant in Cambodia. Following a groundbreaking ceremony in September 2024, the plant is expected to be operational by 2026, further solidifying F&N's presence in the regional market. This facility will bolster F&N's dairy capabilities and support the growing demand for its products in Cambodia and surrounding markets.

RETURN STATISTICS

Price @ 6 th Nov 2024 (RM)	30.74
Expected share price return (%)	+19.60
Expected dividend yield (%)	+2.50
Expected total return (%)	+22.10

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.3	-3.6
3 months	-1.5	-1.7
12 months	18.9	6.6

INVESTMENT STATISTICS

FYE Sept (RM'm)	2025F	2026F	2027F
Revenue	5,871.6	6,172.8	6,489.9
EBITDA	867.5	925.5	982.8
Profit before tax (PBT)	768.7	828.3	885.3
Core PATANCI	600.4	646.9	691.4
Core EPS (sen)	163.4	176.1	188.2
DPS (sen)	77.0	77.0	77.0
Dividend Yield (%)	2.5	2.5	2.5

KEY STATISTICS

FBM KLCI	1,634.17
Issue shares (m)	366.78
Estimated free float (%)	32.44
Market Capitalisation (RM'm)	11,274.77
52-wk price range	RM25.6 - RM33.8
3-mth average daily volume (m)	0.19
3-mth average daily value (RM'm)	5.66
Top Shareholders (%)	
Fraser and Neave Ltd	55.48
Employees Provident Fund Board	11.55
Amanah Saham Nasional Bhd	7.95

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Capital expenditure initiatives. In FY24, F&N continued investment in growth and operational efficiency, with major capital expenditure allocations across key projects. Investments include RM1.85b for Phase 1 of the integrated dairy farm in Gemas, along with the development of the Cambodia plant. Additionally, F&N is enhancing production capabilities with new carbonated beverage and water lines in Butterworth, a sterilized milk line in Pulau Indah, and a chocolate manufacturing line in Rawang.

Minimal impact from sugary beverage excise duty. Regarding the impact of excise duty on sugary beverages, F&N anticipates minimal disruption, as majority of its products meet regulatory thresholds. Only three products fall under the duty's scope, collectively representing a mere 1% of the group's total revenue.

Wage hikes to add cost pressure. The upcoming minimum wage increase in Malaysia, set to rise to RM1,700 in February 2025, presents an added cost challenge for F&N. Approximately 29% of the company's workforce will be affected by this wage hike, adding upward pressure to operating costs.

Revised earnings forecast for FY25-26F. Following the analyst briefing, we revised our earnings forecasts for FY25-27F downward by -9%. This adjustment accounts for the anticipated increase in wage-related costs from the minimum wage hike and incorporates updated tax assumptions for F&B Thailand following the expiration of tax incentives post-3QFY24.

Maintain BUY with a lower TP of RM36.77. Our revised TP is based on an unchanged PER of 22.5x to a lower FY25F EPS of 163.4sen. Despite this adjustment, we remain positive on F&N's growth prospects, driven by strong demand for out-of-home beverages, a resurgence in tourism across Thailand and Malaysia, and a shift in consumer preferences toward local brands. Expected declines in key input costs like sugar and pet resin are also set to support margin stability, while the integrated dairy farm in Malaysia will further enhance the group's self-sufficiency in the fresh milk market. As we enter 1QFY25, we expect seasonal consumer stockpiling for the holidays to provide a boost to revenue.


Valuation. F&N is currently trading at FY25F PER of 18.8x vs. its 5-year historical average 22.5x, while offering a dividend yield of 2.5% in FY25F. **Downside risks** are: (1) a further increase in commodity prices (tin plates, milk, palm oil, sugar, pet resin), and (2) fluctuation in currency rates (THB and USD). 

EXHIBIT 1: PROGRESS OF AGRIVALLEY



Source: Company, MIDFR

EXHIBIT 2: NEW F&N PRODUCT OFFERINGS IN FY24



Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	5,001.4	5,245.6	5,871.6	6,172.8	6,489.9
Cost of Sales	(3,566.6)	(3,594.7)	(4,120.1)	(4,314.2)	(4,517.6)
Gross Profit	1,434.8	1,651.0	1,751.5	1,858.7	1,972.3
Other Income	115.0	45.2	30.2	32.7	34.8
Selling and Distribution expenses	(666.1)	(754.5)	(797.4)	(842.5)	(890.2)
General & Administrative	(192.6)	(172.9)	(177.9)	(184.3)	(194.7)
Other operating expenses	(48.1)	(59.2)	(15.4)	(15.9)	(16.5)
EBITDA	790.7	847.8	867.5	925.5	982.8
EBIT	642.9	709.5	791.0	848.8	905.7
Profit before tax (PBT)	624.7	697.0	768.7	828.3	885.3
Income tax expense	(82.6)	(152.7)	(168.4)	(181.4)	(193.9)
PATANCI	536.9	542.8	600.4	646.9	691.4
Core PATANCI	488.2	562.1	600.4	646.9	691.4
Core EPS (sen)	157.3	153.0	163.4	176.1	188.2
DPS (sen)	77.0	63.0	77.0	77.0	77.0

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
Property, plant, and equipment	1,592.1	1,727.7	1,896.4	2,051.0	2,212.3
Intangible assets	433.4	430.3	510.8	537.0	564.6
Total Non-current assets	2,602.5	2,741.5	3,112.8	3,361.3	3,621.4
Inventories	764.2	745.0	968.0	1,013.6	1,061.3
ST - Trade and other receivables	713.3	852.9	932.9	980.8	1,031.2
Cash and cash equivalents	1,031.5	1,134.9	1,081.4	1,091.4	1,124.6
Total current assets	2,509.1	2,733.0	2,982.4	3,085.8	3,217.1
Total Assets	5,111.6	5,474.5	6,095.2	6,447.1	6,838.5
Total Equity	3,351.6	3,586.9	3,804.5	4,070.5	4,377.6
LT Loans and borrowings	706.0	592.0	706.0	706.0	713.1
Total Non-current liabilities	909.4	777.9	925.0	928.9	945.6
ST Trade and other payables	724.8	825.9	829.7	868.8	909.8
ST Loans and borrowings	4.0	114.0	4.0	4.0	4.0
Total Current Liabilities	850.6	1,109.7	1,365.7	1,447.7	1,515.3
Total Liabilities	1,760.0	1,887.6	2,290.7	2,376.7	2,460.9

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
Pretax profit	624.7	697.0	768.7	828.3	885.3
Cash flow from operations	1,053.0	732.7	545.1	610.9	637.3
Cash flow from investing	(692.9)	(253.7)	(272.7)	(282.4)	(292.3)
Cash flow from financing	186.8	(365.5)	(325.8)	(318.5)	(311.9)
Net cash flow	546.9	113.6	(53.4)	10.0	33.1
(+/-) Adjustments	22.8	(10.2)	0.0	0.0	0.0
Net cash/(debt) b/f	461.9	1,031.5	1,134.9	1,081.4	1,091.4
Net cash/(debt) c/f	1,031.5	1,134.9	1,081.4	1,091.4	1,124.6

Key Metrics	2023A	2024A	2025F	2026F	2027F
Effective tax rate (%)	13.2	21.9	21.9	21.9	21.9
PER (x)	21.0	20.7	18.8	17.5	16.3
Inventories (Days)	85.2	85.8	85.8	85.8	85.8
Net cash/Market Capitalisation (%)	2.8	2.8	3.3	3.4	3.6

Profitability Margins	2023A	2024A	2025F	2026F	2027F
Gross Profit Margin (%)	28.7	31.5	29.8	30.1	30.4
EBITDA Margin (%)	15.8	16.2	14.8	15.0	15.1
Core PATANCI Margin (%)	9.8	10.7	10.2	10.5	10.7

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