

Fraser & Neave Holdings

A Sweetened 9M19

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9M19 CNP of RM343.7m (+8%) and the absence of dividend came in broadly within expectations. Moving forward, we expect earnings to remain buoyed by its F&B Thailand business, premised on the group's strong brand presence in tandem with growing demand for its dairy products. Meanwhile, minimal impact is anticipated from the sugar tax (effective from July 2019) due to the immaterial net increment. **Maintain MP with unchanged TP of RM36.60.**

Broadly within. 9M19 Core Net Profit (CNP) of RM343.7m came in broadly within expectations at 79% and 81% of our and consensus estimates, respectively, with 4Q being a seasonally weaker quarter due to the lack of festivities. The absence of dividend announced for the quarter (YTD: 27.0 sen) was also within expectations.

Overall better results. YoY, 9M19 CNP grew 8% to RM343.7m, largely driven by (i) slightly better sales in Malaysia F&B operations (+1%) and stronger growth in Thailand F&B operations (+13%), coupled with (ii) favourable input costs (i.e. sugar, milk and packaging material) which saw operating margin expanding to 14% (+3 ppt). Apart from healthy beverage sales from festive events, the marginal operating profit improvement in Malaysia operations (+2%) was also sustained by effective route-to-market executions, which helped to boost its competitive canned milk segment. Meanwhile, the group's Thailand operations continue to demonstrate commendable operating profit growth of 54%, likely underpinned by its strong and growing brand presence for its dairy products (i.e. condensed milk) and more favourable cost exposure, which saw its margin rising 21% (+6 ppt).

QoQ, higher CNP of RM113.9m (+7%) was largely driven by stronger performance from its Malaysia operations, with operating profit soaring 87% to RM52.7m on stronger Hari Raya festive sales. Nonetheless, this is shadowed by weaker Thailand F&B business (-4% operating profit) for the quarter, dragged by more costly dairy and packaging material prices.

Thai operations continue to sweeten. Moving forward, the group's earnings are expected to be largely buoyed by its F&B Thailand business, which takes up c.69% of YTD operating profit. Albeit with volatile commodity prices (i.e. dairy) which may take a toll on the segment's margins, we believe the Thai operations will continue to remain sturdy by leveraging on its strong brand presence as a market leader for the growing dairy products (i.e. sweetened condensed and evaporated milk segment). On the other hand, while the group has reformulated majority of their beverages in anticipation of the sugar tax which took effect from July 2019, we do not believe the resulting tax will be overly detrimental to demand as we view the net increment to be immaterial.

Maintain MARKET PERFORM with TP of RM36.60. Post-results, no changes were made to our earnings forecasts. With an ascribed 30.0x FY20E PER (closely in line with +1.0SD over the stock's 3-year mean), we deem our valuations to be fair at this juncture, premised on the premium valuations attached to large-cap F&B stocks in lieu of their earnings defensiveness. Yet, dividend could be a slight dampener with anticipated low yield of c.2%.

Risks to our call include: (i) slower-than-expected growth in Thailand F&B business, and (ii) higher/lower-than-expected operating costs

MARKET PERFORM ↔

Price : **RM33.90**
Target Price : **RM36.60** ↔

Share Price Performance



KLCI	1,611.79
YTD KLCI chg	-4.7%
YTD stock price chg	1.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	12,433.8
Shares Outstanding	366.8
52-week range (H)	40.00
52-week range (L)	29.20
3-mth avg daily vol	255,315
Free Float	27%
Beta	0.8

Major Shareholders

Fraser And Neave Ltd	55.5%
Employees Provident Fund	10.1%
Skim Amanah Saham Bumiputera	7.0%

Summary Earnings Table

FY Sep (RM'm)	2018A	2019E	2020E
Turnover	4,109.9	4,351.1	4,657.6
EBIT	422.3	554.4	569.5
PBT	422.7	556.9	573.1
Net Profit (NP)	385.1	434.4	447.1
Core NP	396.9	434.4	447.1
Consensus	-	425.8	446.3
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	108.3	118.5	122.0
Core EPS growth (%)	-1.9%	9.4%	2.9%
NDPS (sen)	57.5	66.0	70.0
BVPS (RM)	6.3	6.8	7.4
Core PER	31.3	28.6	27.8
Price/Bv (x)	5.4	5.0	4.6
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Net Div. Yield (%)	1.7%	1.9%	2.1%



07 August 2019

Results Highlights

	3Q FY19	2Q FY19	QoQ Chg	3Q FY18	YoY Chg	9M FY19	9M FY18	YoY Chg
FYE Sep (RM'm)								
Turnover	1,066.3	1,025.4	4.0%	961.9	10.9%	3,102.0	2,923.3	6.1%
Core EBIT*	150.8	132.5	13.8%	100.6	50.0%	435.4	336.5	29.4%
PBT/(LBT)	155.5	134.0	16.1%	107.0	45.3%	443.5	323.1	37.3%
Taxation	-40.6	-29.5	-37.4%	-2.6	N.A.	-101.3	-19.2	-427.5%
Net Profit	114.9	104.4	10.0%	104.5	10.0%	342.2	303.9	12.6%
Core Net Profit*	113.9	106.8	6.6%	98.2	16.0%	343.7	318.8	7.8%
EPS (sen)	31.0	29.1	6.6%	27.7	11.9%	94.1	87.9	7.1%
DPS (sen)	0.0	27.0		0.0		27.0	27.0	

* Core adjustments are made for (i) write offs, impairments and reversals, (ii) foreign exchange loss/(gain), (iii) forward foreign exchange contracts loss/(gain) and (iv) restructuring expenses and other one-off items

Core EBIT margin	14.1%	12.9%		10.4%		14.0%	11.5%	
PBT margin	14.6%	13.1%		10.4%		14.3%	11.1%	
CNPmargin	10.7%	10.4%		9.9%		11.1%	10.9%	
Effective tax rate	26.1%	22.1%		2.4%		22.9%	5.9%	

Source: Company

Segment Breakdown

	3Q FY19	2Q FY19	QoQ Chg	3Q FY18	YoY Chg	9M FY19	9M FY18	YoY Chg
Revenue (RM'm)								
F&B Malaysia	571.5	541.5	5.5%	545.9	4.7%	1,666.5	1,648.3	1.1%
F&B Thailand	493.9	483.6	2.1%	415.7	18.8%	1,434.0	1,274.2	12.5%
Property	0.3	0.2	13.1%	0.2	32.5%	0.8	0.7	17.1%
Others	0.7	0.0	N.A.	0.1	N.A.	0.8	0.2	N.A.
Total	1,066.3	1,025.4	4.0%	961.9	10.9%	3,102.1	2,923.3	6.1%
Operating Profit (RM'm)								
F&B Malaysia	52.7	28.2	87.2%	49.1	7.3%	133.4	130.2	2.4%
F&B Thailand	99.1	103.0	-3.7%	57.4	72.7%	301.4	196.3	53.5%
Property	0.2	-0.4	154.1%	0.2	-26.5%	0.0	0.6	-97.6%
Others	0.3	-0.5	157.3%	0.3	-13.5%	-0.2	-1.2	-82.7%
Adjustments	-0.5	-0.2	-206.3%	-0.2	163.0%	-0.6	-4.3	-85.2%
Total	151.9	130.1	16.7%	106.8	42.1%	433.9	321.6	34.9%
Operating Margin								
F&B Malaysia	9.2%	5.2%		9.0%		8.0%	7.9%	
F&B Thailand	20.1%	21.3%		13.8%		21.0%	15.4%	
Total	14.2%	12.7%		11.1%		14.0%	11.0%	

Source: Company

07 August 2019

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.47	1,722.1	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.3	31.1	29.5	24.5	23.7	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.63	2,288.5	Y	12/2019	3.1%	3.0%	9.2%	3.6%	18.4	16.8	16.3	1.1	1.1	6.6%	2.5%	2.10	OP
AMWAY MALAYSIA HOLDINGS BHD	6.00	986.3	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.1	17.2	16.1	4.2	4.0	23.8%	4.6%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	64.10	4,102.4	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	33.1	33.8	31.6	38.9	39.0	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	33.90	12,433.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.3	28.6	27.8	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.15	624.3	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.2	13.2	12.9	2.0	2.0	15.1%	6.0%	1.95	UP
MYNEWS HOLDINGS BHD	1.42	968.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.6	30.2	25.0	3.1	3.0	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	147.30	34,541.9	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.2	47.2	45.2	52.8	52.8	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.53	2,322.4	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.0	15.0	12.3	3.6	3.2	22.3%	3.3%	3.75	MP
PARKSON HOLDINGS BHD	0.25	261.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	31.6	0.1	0.1	-1.7%	0.0%	0.24	UP
POWER ROOT BHD	1.77	700.7	Y	03/2020	12.3%	9.7%	26.6%	16.0%	21.1	17.3	15.4	3.2	2.9	18.1%	5.1%	2.30	OP
QL RESOURCES BHD	6.80	11,032.6	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.9	45.0	43.2	5.5	5.1	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.27	476.6	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.7	17.2	15.2	1.2	1.2	7.0%	1.8%	2.40	MP
Simple Average					6.7%	4.4%	4.6%	63.5%	28.7	26.0	24.8	11.2	11.0	33.8%	2.7%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	22.50	6,424.4	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	13.7	15.5	15.2	15.2	14.6	84.5%	5.4%	24.40	UP
CARLSBERG BREWERY MALAYSIA BHD	23.66	7,278.3	N	12/2019	11.4%	4.6%	6.9%	4.8%	26.6	24.8	23.7	42.8	46.8	186.7%	4.2%	23.95	MP
HEINEKEN MALAYSIA BHD	22.64	6,839.5	N	12/2019	6.1%	5.0%	2.8%	5.1%	24.2	23.5	22.4	18.4	18.3	77.9%	4.2%	23.25	MP
Simple Average					1.6%	3.4%	-4.2%	3.5%	21.5	21.3	20.4	25.5	26.5	116.4%	4.6%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.61	577.4	N	06/2019	10.1%	8.8%	22.4%	11.1%	21.9	17.9	16.1	1.5	1.5	7.8%	3.3%	2.06	BUY
BONIA CORPORATION BHD	0.28	221.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	11.2	15.9	13.5	0.6	0.6	3.2%	2.5%	0.30	SELL
COCOALAND BHD	1.83	418.7	Y	12/2019	6.8%	5.4%	2.9%	7.0%	13.5	13.2	12.3	1.7	1.7	12.9%	3.6%	2.15	NEUTRAL
KAWAN FOOD BHD	1.35	485.4	Y	12/2019	16.5%	19.9%	11.7%	27.0%	21.3	19.1	15.0	1.5	1.4	5.2%	2.8%	0.98	SELL
MAGNI-TECH INDUSTRIES BHD	5.16	839.3	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.2	6.9	1.6	N.A.	20.3%	N.A.	6.60	BUY

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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