

04 August 2022

# Fraser & Neave Holdings

## Inflation to Weigh

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F&N's 9MFY22 earnings beat our forecast but came in broadly in-line with consensus estimate. While its topline performance will remain strong thanks to economy reopening in Malaysia and Thailand, cost pressures will weigh. We raise our FY22E/FY23E forecasts by 6%/13% largely to reflect a slightly stronger recovery from the economy reopening. However, we lower our TP by 12% to RM23.15 as we ascribe a lower PER multiple to reflect a higher risk premium for the industry as a whole on a potentially prolonged elevated high inflationary environment. Downgrade to MARKET PERFORM from OUTPERFORM.

**Beat our forecast.** 9MFY22 PATAMI of RM284m beat our full-year forecast at 86%, but met market expectation at 76%, of full-year estimate. The positive deviation from our forecasts stems from strong contribution from Malaysia boosted by festivities and the reopening of the economy. No dividend was declared for this reporting quarter.

**9MFY22** saw topline maintaining its robustness, growing by 3% to RM3.3b underpinned by strong showing from Malaysia climbing 9% to RM1.8b but mitigated by weaker Thailand declining 3% to RM1.5b on account of the unfavourable Baht. In local currency terms, Thailand operation saw a moderate 2% growth to THB12b as domestic sales were affected by price increases. In contrast, Malaysia's operations were boosted by strong performance given the festivities period in 1HCY22 with strong contribution of coming from its halal food segment in both the local and Middle East markets. Overall, GP margin (26% in line with our estimate) shrunk by 4ppt mainly caused on elevated input prices. Rising operational costs saw EBITDA margin eroding by 6ppt to 13% (in line with our estimate). No significant impact from Cukai Makmur with ETR at 15% (mostly coming from tax exempt income and lower tax rates on foreign jurisdictions as the statutory tax rate remained at 24%).

**QoQ**, despite a moderation in sales growth at 1% to RM1.1b, PATAMI saw a 4% hike to RM98m as GP margin saw a 1% uptick to 26% while EBITDA margin remained flat at 13%. Higher sales and selling prices (only in Malaysia) and better product mix contributed to the stable margins.

**Solid topline ahead but with input costs risk.** Premised on a full reopening of the economy, we maintain our view of a robust and sustained topline ahead. Despite the prevalent headwinds, the encouraging momentum economic activities recovery will continue to drive sales ahead, particularly for beverages, ready-to-drink products, out-of-home and HORECA channels. Rising input costs is the only dampening factor with leading indicators showing input prices looking to remain elevated well into 2023.

## MARKET PERFORM ↓

Price : RM21.92  
Target Price : RM23.15 ↓

### Share Price Performance



KLCI 1,495.05  
YTD KLCI chg -4.9%  
YTD stock price chg -11.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	8,039.8
Shares Outstanding	366.8
52-week range (H)	28.82
52-week range (L)	19.24
3-mth avg daily vol	475,727
Free Float	73%
Beta	0.6

### Major Shareholders

Fraser And Neave Ltd	13.1%
Employees Provident Fund	8.8%
Amanah Saham National Bhd	2.3%

### Summary Earnings Table

FY Sep (RM m)	2021A	2022E	2023E
Turnover	4,131	4,514	5,039
EBIT	478	405	460
PBT	479	411	468
<b>Net Profit (NP)</b>	<b>395</b>	<b>349</b>	<b>386</b>
<b>Core NP</b>	<b>395</b>	<b>349</b>	<b>386</b>
Consensus		373	417
Earnings Revision	N.m	6%	13%
Core EPS (sen)	107.8	95.3	105.2
Core EPS growth (%)	-2.1%	-11.6%	10.3%
NDPS (sen)	60.0	50.0	62.5
BVPS (RM)	7.7	8.1	8.6
Core PER (x)	20.3	23.0	20.8
Price/BV (x)	2.9	2.7	2.6
Net Gearing (x)	(0.2)	(0.2)	(0.3)
Net Div. Yield (%)	2.7%	2.3%	2.9%

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**Post results.** We raise our FY22E/FY23E forecasts by 6%/13% largely to reflect a slightly stronger recovery from the economy reopening. However, we lower our TP by 12% to RM23.15 (from RM26.30 previously) as we ascribe a lower FY23E PER of 22x (from 28x previously) to reflect a higher risk premium for the industry as a whole on a potentially prolonged elevated high inflationary environment, which is also more consistent with the industry's historical average 1-year forward PER. There is no adjustment to TP based on ESG of which it is given a 3-star rating as appraised by us. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

**Risks to our call include:** (i) further uptick in commodity prices, (ii) prolonged supply chain disruptions, and (iii) weaker Ringgit/Baht.

Results Highlights								
Y/E : Sep (RM m)	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Turnover	1,118.2	1,107.7	1.0%	1,059.6	5.5%	3,332.6	3,234.6	3.0%
Gross Profit	291.4	276.0	5.6%	308.0	-5.4%	865.5	970.0	-10.8%
OPEX	(152.9)	(138.9)	10.1%	(159.4)	-4.1%	(454.5)	(433.7)	4.8%
EBITDA	146.3	143.5	1.9%	152.8	-4.2%	429.6	552.7	-22.3%
EBIT	114.7	111.9	2.5%	118.6	-3.3%	334.8	416.4	-19.6%
PBT/(LBT)	114.4	112.0	2.2%	119.2	-4.0%	334.5	417.5	-19.9%
Taxation	(16.9)	(18.1)	-6.5%	(23.0)	-26.5%	(50.3)	(81.0)	-38.0%
Net Profit	97.5	93.9	3.8%	96.1	1.4%	284.3	336.4	-15.5%
<b>PATAMI</b>	<b>97.5</b>	<b>93.9</b>	<b>3.9%</b>	<b>96.2</b>	<b>1.4%</b>	<b>284.3</b>	<b>336.5</b>	<b>-15.5%</b>
Core EPS (sen)	26.6	25.6	3.9%	26.2	1.4%	77.5	91.8	-15.5%
DPS (sen)	0.0	27.0	N.m	0.0	N.m	27.0	27.0	0.0%
Gross Margin	26.1%	24.9%		29.1%		26.0%	30.0%	26.1%
EBITDA Margin	13.1%	13.0%		14.4%		12.9%	17.1%	13.1%
EBIT Margin	10.3%	10.1%		11.2%		10.0%	12.9%	10.3%
PBT Margin	10.2%	10.1%		11.2%		10.0%	12.9%	10.2%
PATAMI Margin	8.7%	8.5%		9.1%		8.5%	10.4%	8.7%
ETR	14.8%	16.2%		19.3%		15.0%	19.4%	14.8%

Source: Company

Segment Breakdown								
<b>Revenue (RM m)</b>	626.8	615.1	1.9%	540.2	16.0%	1,817.5	1,672.5	8.7%
F&B Malaysia	490.1	491.8	-0.4%	517.9	-5.4%	1,511.8	1,558.2	-3.0%
F&B Thailand	0.2	0.2	0.6%	0.2	-12.7%	0.5	0.6	-16.5%
Property	1.2	0.6	101.6%	1.3	-12.2%	2.8	3.3	-16.6%
Others	1,118.2	1,107.7	1.0%	1,059.6	5.5%	3,332.6	3,234.6	3.0%
<b>Total</b>	<b>626.8</b>	<b>615.1</b>	<b>1.9%</b>	<b>540.2</b>	<b>16.0%</b>	<b>1,817.5</b>	<b>1,672.5</b>	<b>8.7%</b>
<b>Operating Profit (RM m)</b>								
F&B Malaysia	50.4	45.2	11.6%	17.1	194.0%	118.2	88.4	33.7%
F&B Thailand	58.7	61.8	-5.0%	98.7	-40.5%	200.9	320.3	-37.3%
Property	0.3	0.2	65.2%	0.2	27.9%	0.7	0.6	13.2%
Others	2.4	2.3	3.5%	0.7	248.2%	8.7	1.9	356.2%
Adjustments	0.0	0.1	N.m	0.4	-100.0%	0.0	0.6	-100.0%
<b>Total</b>	<b>111.8</b>	<b>109.5</b>	<b>2.0%</b>	<b>117.2</b>	<b>-4.6%</b>	<b>328.5</b>	<b>411.9</b>	<b>-20.2%</b>
<b>Operating Margin</b>								
F&B Malaysia	8.0%	7.3%		3.2%		6.5%	5.3%	8.0%
F&B Thailand	12.0%	12.6%		19.1%		13.3%	20.6%	12.0%
<b>Total</b>	<b>10.0%</b>	<b>9.9%</b>		<b>11.1%</b>		<b>9.9%</b>	<b>12.7%</b>	<b>10.0%</b>

Source: Company

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## 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.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.56	1,757.1	N	12/2022	10.2%	2.7%	79.2%	8.7%	39.7	22.1	20.4	14.2	12.7	60.6%	3.2%	1.70	OP
AEON CO. (M) BHD	1.40	1,965.6	Y	12/2022	20.2%	4.4%	32.5%	8.8%	23.0	17.4	16.0	1.1	1.1	6.5%	2.9%	1.85	OP
AMWAY (MALAYSIA) HOLDINGS BHD	5.00	821.9	Y	12/2022	-10.0%	-5.0%	62.6%	-4.8%	22.3	13.7	14.4	3.7	3.4	26.1%	5.4%	5.30	MP
DUTCH LADY MILK INDUSTRIES BHD	32.30	2,067.2	Y	12/2022	1.0%	1.0%	-67.3%	5.2%	8.3	25.5	24.2	5.4	4.8	19.9%	1.5%	35.60	MP
FRASER & NEAVE HOLDINGS BHD	21.94	8,047.1	Y	09/2022	9.3%	11.6%	-11.6%	14.6%	20.4	23.0	20.1	2.9	2.7	12.0%	2.3%	23.15	OP
MR D.I.Y.	2.32	21,869.7	Y	12/2022	27.6%	16.1%	39.3%	23.5%	50.6	36.4	29.5	19.0	16.4	48.4%	2.0%	2.65	OP
MYNEWS HOLDINGS BHD	0.375	255.8	N	10/2022	36.7%	12.1%	-22.7%	-147.1%	N.A.	N.A.	16.3	1.8	1.6	-22.1%	0.0%	0.500	UP
NESTLE (MALAYSIA) BHD	134.30	31,493.4	Y	12/2022	7.6%	4.8%	23.3%	-9.2%	55.3	44.8	49.3	54.0	52.0	118.3%	2.2%	119.75	UP
PADINI HOLDINGS BHD	3.15	2,072.4	Y	06/2022	23.3%	32.2%	123.6%	-4.1%	38.4	17.2	17.9	2.6	2.5	14.8%	3.8%	3.80	OP
POWER ROOT BHD	1.78	740.9	Y	03/2023	8.2%	7.9%	7.3%	-6.8%	28.4	26.5	28.4	2.6	2.4	13.4%	5.1%	1.70	OP
QL RESOURCES BHD	5.24	12,752.4	Y	03/2023	17.5%	11.1%	15.9%	34.3%	58.7	50.6	37.7	4.3	4.2	8.9%	1.1%	5.35	MP
<b>Simple Average</b>					<b>13.8%</b>	<b>9.0%</b>	<b>25.6%</b>	<b>-7.0%</b>	<b>34.5</b>	<b>27.7</b>	<b>24.9</b>	<b>10.1</b>	<b>9.4</b>	<b>27.9%</b>	<b>2.7%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	10.82	3,089.4	N	12/2022	-2.7%	-1.0%	-10.2%	5.6%	10.8	12.1	11.4	8.1	7.8	65.7%	7.9%	11.20	MP
CARLSBERG BREWERY MALAYSIA BHD	22.88	6,995.5	N	12/2022	31.3%	6.0%	38.0%	15.1%	33.9	24.6	21.4	32.7	32.7	130.8%	4.1%	28.05	OP
HEINEKEN MALAYSIA BHD	23.68	7,153.7	N	12/2022	30.8%	11.1%	32.8%	16.9%	29.1	21.9	18.8	18.1	18.1	82.5%	4.6%	27.40	OP
<b>Simple Average</b>					<b>19.8%</b>	<b>5.4%</b>	<b>20.2%</b>	<b>12.5%</b>	<b>24.6</b>	<b>19.5</b>	<b>17.2</b>	<b>19.6</b>	<b>19.5</b>	<b>93.0%</b>	<b>5.5%</b>		

Source: Bloomberg, Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	
	<b>OVERALL</b>	★	★	★	
<b>SPECIFIC</b>	Employee Training	★	★	★	
	Energy Efficiency	★	★	★	
	Food Safety & Quality	★	★	★	★
	Nutrition, Health & Wellness	★	★	★	☆
	Occupational Health & Safety	★	★	★	☆
	Biodegradable Packaging	★			
	Renewable Energy	★	★	☆	
	Supply Chain Auditing	★	★	★	☆
	Waste Disposal/Pollution Control	★	★	★	
	<b>OVERALL</b>	★	★	★	

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP

**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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