

07 February 2023

Fraser & Neave Holdings

Rich Valuations

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com

F&N's 1QFY23 results met expectations. Its Malaysian operations were buoyed by festive buying and exports while Thai operations were weighed down by price hikes. F&B players in general are at the mercy of food commodity prices as they lack pricing power. We maintain our forecast and TP of RM26.11 but downgrade our call to MARKET PERFORM from OUTPERFORM as valuations have become rich after the recent run-up in share price.

1QFY23 core net profit (excluding RM94.3m fair value gain on Cocoaland privatisation and insurance claims from floods in 2021) met expectations at 24% and 25% of our full-year forecast and the full-year consensus estimate, respectively. No dividend was declared (as dividends are usually declared in the 2nd and 4th quarters).

YoY, top line grew 10% as a strong showing from Malaysia (+24%) more than offset a weaker performance from Thailand (-5%). It Malaysian operations were buoyed by festive buying, double-digit sales recovery in key export markets (such as North America, Europe and Middle East, partially dampened by lower sales to China), and the consolidation of Cocoaland's top line following F&N's recent privatisation of the unit. The performance of Thai operations was hit by lower export sales to Indochina on price hikes while domestic revenue remained flat despite higher selling prices (which indicated a contraction in sales volume). EBITDA grew by a stronger 16%, indicating an easing in cost pressures.

QoQ, top line grew 7%, similarly, as a stronger performance from Malaysia (+19%) more than cushioned a weaker showing from Thailand (-6%). EBITDA largely grew in line at 6% as input costs remained stable, underpinned by forward purchases (varying from three, six, nine and 12 months depending on its views on the price outlook of each food commodity).

Outlook. F&N's earnings prospects are positive, premised on the full-year impact of the economy reopening, accommodative policies, bigger celebrations of coming festivities, the return of international tourists in both Malaysia and Thailand and a recovery of export sales driven by China's reopening. Meanwhile, the downside risk to margins is a lot more manageable given the weakening of the USD against both the MYR (-12%) and THB (-18%), although the same cannot be said of food commodity prices (that remain volatile). Top line will be boosted by full-year contribution from Cocoaland which has been privatised (c. RM200m based on Cocoaland's FY21 financial results).

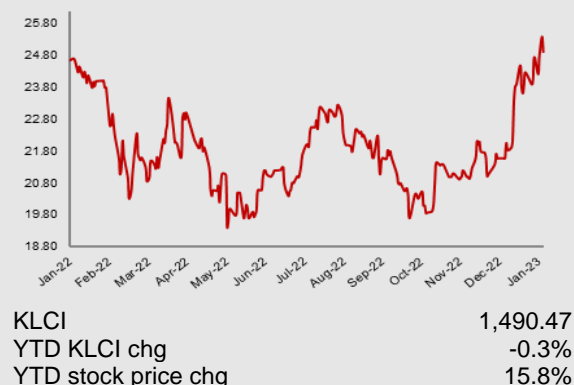
We maintain our forecasts and TP of RM26.11 based on an unchanged FY23F PER of 22x, which is consistent with the industry's average forward PER. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like F&N for: (i) the strong recovery in demand for its products on the reopening of the economy and international borders, particularly, for beverages, ready-to-drink products, out-of-home and HORECA channels, (ii) the recovery in its export sales driven by China's reopening, and (iii) the resilience in demand for staple food items amidst the uncertain global economic outlook. However, recent experience points to F&B players in general lacking the ability to pass on higher input costs, resulting in margin erosion. Downgrade to **MARKET PERFORM** from **OUTPERFORM** as valuations have become rich after the recent run-up in its share price.

MARKET PERFORM ↓

Price : RM25.00
Target Price : RM26.11 ↔

Share Price Performance



KLCI	1,490.47
YTD KLCI chg	-0.3%
YTD stock price chg	15.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	9,169.5
Shares Outstanding	366.8
52-week range (H)	25.68
52-week range (L)	19.24
3-mth avg daily vol	120,492
Free Float	75%
Beta	0.7

Major Shareholders

Fraser And Neave Ltd	13.3%
Employees Provident Fund	7.5%
Amanah Saham National Bhd	2.6%

Summary Earnings Table

FY Sep (RM m)	2022A	2023F	2024F
Turnover	4,470	5,272	5,601
EBIT	456	513	589
PBT	454	529	564
Net Profit (NP)	383	530	474
Core NP	383	435	474
Consensus	368	426	464
Earnings Revision	N.m	0%	0%
Core EPS (sen)	104.5	118.8	129.3
Core EPS growth (%)	-3.0	13.6	8.9
NDPS (sen)	60.0	72.5	72.5
BVPS (RM)	8.1	8.9	9.4
Core PER (x)	23.9	21.1	19.3
Price/BV (x)	3.1	2.8	2.7
Net Gearing (x)	(0.1)	0.1	0.0
Net Div. Yield (%)	2.4	2.9	2.9

^RM94m one-off gain

07 February 2023

Risks to our call include: (i) uptick in food commodities prices, (ii) prolonged supply-chain disruptions, (iii) weaker MYR/THB, and (iv) high inflation eating into consumer spending power

Results Highlights

FYE Sep (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Turnover	1,218.5	1,137.6	7.1%	1,106.6	10.1%	1,218.5	1,106.6	10.1%
Gross Profit	338.0	308.6	9.5%	298.1	13.4%	338.0	298.1	13.4%
OPEX	(211.5)	(163.7)	29.2%	(162.7)	30.0%	(211.5)	(162.7)	30.0%
EBITDA	162.2	152.4	6.4%	139.7	16.1%	162.2	139.7	16.1%
EBIT	130.6	120.7	8.2%	108.3	20.6%	130.6	108.3	20.6%
Interest Income	2.6	1.3	93.3%	0.9	189.9%	2.6	0.9	189.9%
Interest expense	(8.9)	(2.5)	253.8%	(1.0)	782.7%	(8.9)	(1.0)	782.7%
JV & Associates	3.9	1.2	213.2%	1.1	265.4%	3.9	1.1	265.4%
Extraordinary Items	94.3	0.0	N.m	0.0	N.m	94.3	0.0	N.m
PBT/(LBT)	222.4	119.5	86.1%	108.1	105.7%	222.4	108.1	105.7%
Taxation	(24.6)	(21.5)	14.1%	(15.2)	61.5%	(24.6)	(15.2)	61.5%
Net Profit	198.8	98.9	101.0%	93.0	113.8%	198.8	93.0	113.8%
PATAMI	197.9	98.0	101.9%	93.0	112.8%	197.9	93.0	112.8%
Core Net Profit	104.5	98.0	6.6%	93.0	12.4%	104.5	93.0	12.4%
Core EPS (sen)	29.0	27.0	7.4%	25.4	14.2%	29.0	25.4	14.2%
DPS (sen)	0.0	33.0	-100.0%	0.0	N.m	0.0	0.0	N.m
Gross Margin	27.7%	27.1%		26.9%		27.7%	26.9%	
EBITDA Margin	13.3%	13.4%		12.6%		13.3%	12.6%	
EBIT Margin	18.5%	10.6%		9.8%		18.5%	9.8%	
PBT Margin	18.3%	10.5%		9.8%		18.3%	9.8%	
PATAMI Margin	16.3%	8.7%		8.4%		16.3%	8.4%	
Core Net Profit Margin	8.6%	8.6%		8.4%		8.6%	8.4%	
ETR	11.0%	18.0%		14.1%		11.0%	14.1%	

Source: Company

Segment Breakdown

Revenue (RM m)								
F&B Malaysia	713.3	600.6	18.8%	575.6	23.9%	713.3	575.6	23.9%
F&B Thailand	504.2	535.8	-5.9%	529.8	-4.8%	504.2	529.8	-4.8%
Property	0.2	0.2	5.0%	0.2	23.7%	0.2	0.2	23.7%
Others	0.8	1.1	-22.9%	1.0	-18.5%	0.8	1.0	-18.5%
Total	1,218.5	1,137.6	7.1%	1,106.6	10.1%	1,218.5	1,106.6	10.1%
Operating Profit (RM m)								
F&B Malaysia	70.4	49.8	41.5%	22.6	211.2%	70.4	22.6	211.2%
F&B Thailand	67.9	75.0	-9.5%	80.4	-15.6%	67.9	80.4	-15.6%
Property	(0.3)	(0.2)	39.4%	0.2	-229.4%	(0.3)	0.2	-229.4%
Others	86.8	(5.1)	-1792.2%	4.0	2054.6%	86.8	4.0	2054.6%
Adjustments	0.0	0.0	N.m	(0.1)	-100.0%	0.0	(0.1)	-100.0%
Total	224.9	119.4	88.2%	107.2	109.7%	224.9	107.2	109.7%
Operating Margin								
F&B Malaysia	9.9%	8.3%		3.9%		9.9%	3.9%	
F&B Thailand	13.5%	14.0%		15.2%		13.5%	15.2%	
Total	18.5%	10.5%		9.7%		18.5%	9.7%	

Source: Company

07 February 2023

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	OP	1.35	1.95	44.44%	1,895.4	Y	12/2022	8.9	10.2	46.4%	15.1%	15.2	13.2	1.1	7.2%	4.1	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	29.70	32.60	9.76%	1,900.8	Y	12/2022	119.8	148.1	-69.1%	23.6%	24.8	20.1	4.4	18.9%	50.0	1.7%
FRASER & NEAVE HOLDINGS BHD	OP	25.00	26.11	4.44%	9,169.5	Y	09/2023	118.6	129.1	13.5%	8.8%	21.1	19.4	2.9	14.1%	62.5	2.5%
MR D.I.Y.	MP	1.90	2.00	5.26%	17,920.9	Y	12/2022	4.9	7.1	6.8%	44.6%	38.8	26.9	12.9	36.4%	2.6	1.4%
MYNEWS HOLDINGS BHD	OP	0.695	0.760	9.35%	474.1	N	10/2023	3.4	4.2	-229.3%	23.0%	20.2	16.4	2.1	9.9%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	135.60	115.65	-14.71%	31,798.2	Y	12/2022	270.1	295.2	11.1%	9.3%	50.2	45.9	59.3	113.2%	290.0	2.1%
PADINI HOLDINGS BHD	OP	3.66	4.30	17.49%	2,407.9	Y	06/2023	23.3	28.6	-0.3%	22.5%	15.7	12.8	2.5	16.5%	10.0	2.7%
POWER ROOT BHD	OP	1.95	2.50	28.21%	824.3	Y	03/2023	13.1	14.3	108.8%	9.5%	14.9	13.6	2.6	18.0%	10.0	5.1%
QL RESOURCES BHD	MP	6.03	6.00	-0.50%	14,675.0	Y	03/2023	12.6	16.1	41.6%	27.1%	47.7	37.5	4.7	10.8%	6.0	1.0%
Sector Aggregate					83,286.2					9.7%	20.2%	35.4	29.5	6.9	19.5%		2.2%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	12.88	11.45	-11.10%	3,677.6	N	12/2022	94.9	97.5	-4.9%	2.8%	13.6	13.2	9.3	69.5%	90.0	7.0%
CARLSBERG BREWERY MALAYSIA BHD	MP	24.10	23.05	-4.36%	7,368.5	N	12/2022	105.2	114.6	56.0%	8.9%	22.9	21.0	34.4	147.9%	106.0	4.4%
HEINEKEN MALAYSIA BHD	MP	29.44	25.80	-12.36%	8,893.8	N	12/2022	129.7	129.3	59.5%	-0.3%	22.7	22.8	22.5	99.2%	129.7	4.4%
Sector Aggregate					19,939.9					33.7%	3.6%	20.2	19.5	22.1	105.5%		5.3%

Source: Bloomberg, Kenanga Research

07 February 2023

Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
SPECIFIC	Energy Efficiency	★	★	★	
	Food Safety & Quality	★	★	★	★
	Migrant Workers Welfare	★	★	★	
	Sustainable Supply Chain	★	★	★	
	Usage of Biodegradable Materials	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	
	Water Efficiency	★	★	★	
	Work Site Safety	★	★	★	
OVERALL		★	★	★	

☆ 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my