

05 May 2023

Fraser & Neave Holdings

Recovery Lagging in Thailand

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com

F&N's 1HFY23 results met expectations. Its Malaysian operations were buoyed by festive buying and exports, but Thai operations were hurt by weak demand following price hikes. We maintain our forecasts but fine-tune our TP by 2% to RM28.44 (from RM26.11) as we roll over our valuation base year to FY24F. Maintain MARKET PERFORM.

Its 1QFY23 core net profit (excluding a RM94m fair value gain on Cocoland's privatisation and insurance claims from floods in 2021) met expectations at 47% and 46% of our full-year forecast and the full-year consensus estimate, respectively. The declared DPS of 27 sen (implying a 48% payout) was in line with our expectations of a 50% payout.

YoY, its top line grew 10% as a strong showing from Malaysia (+19%) more than offset a flattish performance from Thailand (-3% in Thai baht). Malaysian operations were spurred by festivities' demand, continued sales momentum given the full reopening and additional Cocoland's contribution. Thailand was affected by subdued domestic demand and export demand (due to sustained inflationary pressures). Its EBIT grew by a stronger 16% as favourable forex hedging and softened food commodity prices more than offset higher marketing and promotional expenses (especially in Thailand).

QoQ, its top line eased 1% due to flattish performance from Malaysia due to seasonality and Thailand (in baht terms) due to weak consumer spending on high inflation (which was partially mitigated by discounts and promotions). The discounts and promotions in Thailand resulted in a sharper 4% drop in EBIT.

Outlook. F&N's earnings prospects remained 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 (-6%) and THB (-11%) although the same cannot be said for food commodity prices (that could still remain volatile given ongoing geopolitical tensions).

We keep our forecasts but we raise our TP by 2% to RM28.44 (from RM26.11) as we roll over our valuation base year to FY24F. Our TP is based on a PER of 22x, 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).

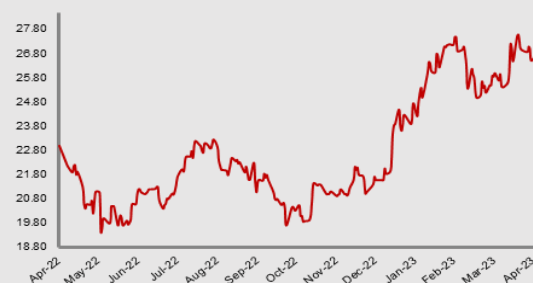
We continue to like F&N for: (i) the strong recovery in demand for its products on the reopening of the economy and international borders, particularly for beverages, ready-to-drink products, out-of-home and HORECA channels, (ii) the recovery in its export sales driven by China's reopening, and (iii)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

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

MARKET PERFORM ↔

Price : RM27.44
Target Price : RM28.44 ↑

Share Price Performance



KLCI 1,425.99
YTD KLCI chg -4.6%
YTD stock price chg 27.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker FNH MK Equity
Market Cap (RM m) 10,064.4
Shares Outstanding 366.8
52-week range (H) 27.90
52-week range (L) 19.24
3-mth avg daily vol 240,655
Free Float 75%
Beta 0.7

Major Shareholders

Employees Provident 12.7%
Amanah Saham Nasional 7.5%
Kumpulan Wang Persar 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)	382	530	474
Core NP	382	435	474
Consensus		450	482
Earnings Revision	N.m	0%	0%
Core EPS (sen)	104.3	118.7	129.3
Core EPS growth (%)	-3.3%	13.9%	8.9%
NDPS (sen)	60.0	72.5	72.5
BVPS (RM)	8.1	8.9	9.4
Core PER (x)	26.3	23.1	21.2
Price/BV (x)	3.4	3.1	2.9
Net Gearing (x)	(0.1)	0.1	0.0
Net Div. Yield (%)	2.2%	2.6%	2.6%

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Results Highlights

	2Q23	1Q23	QoQ Chg	2Q22	YoY Chg	6M23	6M22	YoY Chg
FYE Sep (RM m)								
Turnover	1,206.6	1,218.5	-1.0%	1,107.7	8.9%	2,425.1	2,214.3	9.5%
Gross Profit	350.5	338.0	3.7%	276.0	27.0%	688.5	574.1	19.9%
OPEX	(141.7)	(211.5)	-33.0%	(138.9)	2.0%	(353.2)	(301.6)	17.1%
EBITDA	160.9	162.2	-0.8%	143.5	12.1%	323.1	283.3	14.1%
EBIT	125.8	130.6	-3.7%	111.9	12.4%	256.3	220.1	16.4%
Interest Income	2.3	2.6	-10.0%	1.2	101.9%	4.9	2.1	140.3%
Interest expense	(8.6)	(8.9)	-3.6%	(1.0)	722.5%	(17.5)	(2.1)	752.1%
JV & Associates	(0.0)	3.9	-101.0%	2.3	-101.7%	3.8	3.4	12.7%
Extraordinary Items	0.3	94.3	N.m	0.0	N.m	94.6	0.0	N.m
PBT/(LBT)	119.7	222.4	-46.2%	112.0	6.9%	342.1	220.1	55.4%
Taxation	(17.7)	(24.6)	-27.8%	(18.1)	-2.1%	(42.3)	(33.3)	26.9%
Net Profit	101.2	198.8	-49.1%	93.9	7.8%	300.0	186.9	60.5%
PATAMI	102.0	197.9	-48.5%	93.9	8.6%	299.8	186.9	60.5%
Core Net Profit	101.2	104.5	-3.2%	93.9	7.8%	205.7	186.9	10.1%
Core EPS (sen)	27.2	29.0	-6.2%	25.6	6.2%	56.1	51.0	10.1%
DPS (sen)	27.0	0.0	N.m	27.0	0.0%	27.0	27.0	0.0%
Gross Margin	29.0%	27.7%		24.9%		28.4%	25.9%	
EBITDA Margin	13.3%	13.3%		13.0%		13.3%	12.8%	
EBIT Margin	10.4%	10.7%		10.1%		10.6%	9.9%	
PBT Margin	9.9%	18.3%		10.1%		14.1%	9.9%	
PATAMI Margin	8.5%	16.2%		8.5%		12.4%	8.4%	
Core Net Profit Margin	8.4%	8.6%		8.5%		8.5%	8.4%	
ETR	14.8%	11.0%		16.2%		12.4%	15.1%	

Source: Company

Segment Breakdown

	2Q23	1Q23	QoQ Chg	2Q22	YoY Chg	6M23	6M22	YoY Chg
Revenue (RM m)								
F&B Malaysia	707.6	713.3	-0.8%	615.1	15.0%	1,420.9	1,190.7	19.3%
F&B Thailand	517.8	504.2	2.7%	491.8	5.3%	1,022.0	1,021.7	0.0%
Property	1.1	0.2	497.9%	0.2	557.3%	1.3	0.3	306.2%
Others	42.2	0.8	4897.9%	0.6	7210.6%	43.0	1.6	2567.5%
Total	1,268.7	1,218.5	4.1%	1,107.7	14.5%	2,487.2	2,214.3	12.3%
Operating Profit (RM m)								
F&B Malaysia	48.2	70.4	-31.6%	45.2	6.7%	118.6	67.8	75.0%
F&B Thailand	78.1	67.9	15.0%	61.8	26.3%	145.9	142.2	2.6%
Property	(0.4)	(0.3)	17.8%	0.2	-322.4%	(0.7)	0.4	-267.2%
Others	0.1	86.8	-99.9%	2.3	-94.9%	86.9	6.3	1277.2%
Adjustments	0.0	0.0	N.m	0.1	-100.0%	0.0	0.0	N.m
Total	126.0	224.9	-44.0%	109.5	15.1%	350.9	216.7	61.9%
Operating Margin								
F&B Malaysia	6.8%	9.9%		7.3%		8.4%	5.7%	
F&B Thailand	15.1%	13.5%		12.6%		14.3%	13.9%	
Total	9.9%	18.5%		9.9%		14.1%	9.8%	

Source: Company

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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	1.27	1.80	41.73%	1,783.1	Y	12/2023	9.1	10.0	15.2%	9.4%	13.9	12.7	1.0	7.3%	4.0	3.1%
DUTCH LADY MILK INDUSTRIES BHD	MP	25.80	29.78	15.43%	1,651.2	Y	12/2023	139.4	135.3	-64.0%	-2.9%	18.5	19.1	3.8	21.7%	50.0	1.9%
FRASER & NEAVE HOLDINGS BHD	OP	27.44	28.44	3.64%	10,064.4	Y	09/2023	118.6	129.1	13.5%	8.8%	23.1	21.3	3.2	14.1%	62.5	2.3%
MR D.I.Y.	MP	1.59	1.85	16.35%	14,998.9	Y	12/2023	6.7	7.4	32.4%	11.4%	23.9	21.4	8.6	39.4%	3.5	2.2%
MYNEWS HOLDINGS BHD	UP	0.460	0.410	-10.87%	313.8	N	10/2023	1.0	2.2	-135.8%	127.7%	48.3	21.2	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	134.90	121.18	-10.17%	31,634.1	Y	12/2023	303.0	305.1	14.6%	0.7%	44.5	44.2	45.0	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	4.00	6.00	50.00%	2,631.6	Y	06/2023	35.8	39.7	53.0%	10.8%	11.2	10.1	2.7	25.3%	10.0	2.5%
POWER ROOT BHD	OP	2.16	2.70	25.00%	921.8	Y	03/2023	13.1	14.3	108.8%	9.5%	16.5	15.1	2.8	18.0%	10.0	4.6%
QL RESOURCES BHD	OP	5.65	6.66	17.88%	13,750.2	Y	03/2023	14.3	17.7	60.3%	23.5%	39.5	32.0	4.4	12.1%	6.0	1.1%
Sector Aggregate					80,024.6					20.1%	9.3%	29.5	27.0	6.3	21.4%		2.2%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.62	12.00	12.99%	3,032.3	N	12/2023	102.1	103.5	11.0%	1.4%	10.4	10.3	7.7	75.4%	99.0	9.3%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.14	23.05	9.04%	6,463.5	N	12/2023	114.6	126.4	13.9%	10.3%	18.4	16.7	24.8	145.0%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	28.74	27.70	-3.62%	8,682.3	N	12/2023	138.9	147.8	12.3%	6.4%	20.7	19.4	22.0	94.8%	138.9	4.8%
Sector Aggregate					18,178.1					12.5%	6.3%	17.1	16.1	18.1	105.0%		6.3%

Source: Bloomberg, Kenanga Research

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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.**

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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