

08 May 2023

# Fraser & Neave Holdings

## Boosting Sales Via Promotions

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F&N are cautiously optimistic for the rest of FY23, expecting exports to improve on easing freight charges. Meanwhile, softer commodity prices provide room to raise advertising and promotion (A&P) expenses to counter the slowdown in sales amidst sustained high inflation, and to capitalise on the influx of tourists back to Thailand. We maintain our earnings forecasts, TP of RM28.44 and MARKET PERFORM call.

We came away from F&N's post-results briefing last Friday still feeling mixed on its prospects. The key takeaways from the briefing are as follows:

1. While exports have moderated, the group is optimistic of a pick-up in 2HCY23 with renewed interest from Africa and the Middle East as logistics cost eases. In some countries, easing freight charges make importing from Malaysia cheaper than sourcing domestically. At the group level, exports contributed to 17% to topline (FY22: 19%) while Malaysian exports contributed 18% (FY22: 20%) to its topline while exports to Thailand contributed 16% to its topline (FY22: 18%).
2. The softening of commodity prices gives its room to raise A&P expenses to counter the slowdown in sales amidst a sustained high inflation environment, as well as to capitalise on the influx of tourists back to Thailand.
3. Prices of most its raw materials (except for sugar) are softening. F&N purchases most of its raw materials (especially milk) at spot prices. As such, it benefits from the prevailing cheaper prices (and is not stuck with forward high prices).
4. Although Cocoland was fully acquired in Nov 22, the post-merger integration including synergies is still in progress. The Sri Nona's (acquired by F&N in 2021) ketupat (for Ramadhan sales) was produced by Cocoland with the entire Sri Nona's range of products expected to be fully manufactured by Cocoland in 2HCY23.
5. F&N reiterated that its Integrated Dairy Farm is making good progress with the first phase of milk production expected to commence by December 2024. On another positive note, Phase 1 is expected to produce 100m litres of milk/annum, a higher target than initially announced in Nov 2022 (91m litres/annum – 5k cattle at 50 litres milk/day). After internal consumption, any excess milk produced will be exported to Singapore.

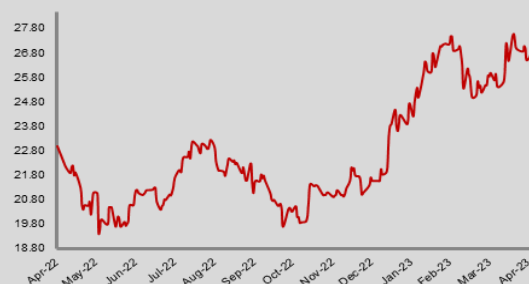
**Forecasts.** Maintained, as we have adequately reflected the above-mentioned trends. Consequently, we also keep our TP at RM28.44 based on FY24F PER of 22x consistent with the industry's average forward PER. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see 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 easing of freight charges, and (iii) the resilient demand for staple food items amidst the uncertain global economic outlook. However, recent experiences of F&B players in general have highlighted their difficulty in passing on higher input costs to consumers, resulting in margin erosion. Maintain **MARKET PERFORM**.

## MARKET PERFORM ↔

**Price :** RM27.44  
**Target Price :** RM28.44 ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,431.04 |
| YTD KLCI chg        | -4.3%    |
| 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 | 239,921       |
| Free Float          | 75%           |
| Beta                | 0.7           |

### Major Shareholders

|                           |       |
|---------------------------|-------|
| Employees Provident Fund  | 12.7% |
| Amanah Saham National Bhd | 7.5%  |
| Kumpulan Wang Persaraan   | 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        |
| <b>Net Profit (NP)</b> | <b>382</b> | <b>530</b> | <b>474</b> |
| <b>Core NP</b>         | <b>382</b> | <b>435</b> | <b>474</b> |
| 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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**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 clawing into consumer spending power.

| Income Statement         |            |            |            |            |            | Financial Data & Ratios |         |         |         |       |       |
|--------------------------|------------|------------|------------|------------|------------|-------------------------|---------|---------|---------|-------|-------|
| FY Sep (RM m)            | FY20       | FY21A      | FY22A      | FY23F      | FY24F      | FY Sep                  | FY20    | FY21A   | FY22A   | FY23F | FY24F |
| <b>Revenue</b>           | 3,989      | 4,131      | 4,470      | 5,272      | 5,601      | <b>Growth</b>           |         |         |         |       |       |
| Depreciation             | (133)      | (170)      | (126)      | (146)      | (167)      | Turnover                | -2.2%   | 3.6%    | 8.2%    | 17.9% | 6.2%  |
| <b>Operating Profit</b>  | <b>515</b> | <b>478</b> | <b>456</b> | <b>513</b> | <b>589</b> | EBITDA                  | 4.9%    | -1.2%   | -10.1%  | 13.3% | 14.6% |
| Interest Inc/(Exp)       | 0          | 2          | (1)        | (17)       | (25)       | EBIT                    | -1.4%   | -7.3%   | -4.6%   | 12.7% | 14.8% |
| Associate Earnings       | 8          | 5          | 8          | 0          | 0          | PBT                     | -1.9%   | -8.3%   | -5.3%   | 16.5% | 6.6%  |
| <b>Profit Before Tax</b> | <b>523</b> | <b>479</b> | <b>454</b> | <b>529</b> | <b>564</b> | Core PATAMI             | -1.6%   | -2.1%   | -3.3%   | 13.9% | 8.9%  |
| Taxation                 | (113)      | (84)       | (72)       | (93)       | (89)       | <b>Profitability</b>    |         |         |         |       |       |
| Net Profit               | 410        | 395        | 382        | 530        | 474        | EBIT Margin             | 12.9%   | 11.6%   | 10.2%   | 9.7%  | 10.5% |
| <b>Core Net Profit</b>   | <b>404</b> | <b>395</b> | <b>382</b> | <b>435</b> | <b>474</b> | PBT Margin              | 13.1%   | 11.6%   | 10.2%   | 10.0% | 10.1% |
|                          |            |            |            |            |            | Core Net Margin         | 10.1%   | 9.6%    | 8.6%    | 8.3%  | 8.5%  |
|                          |            |            |            |            |            | Effective Tax Rate      | 21.6%   | 17.6%   | 15.8%   | 17.6% | 15.8% |
|                          |            |            |            |            |            | ROE                     | 11.7%   | 11.0%   | 9.8%    | 11.6% | 9.3%  |
|                          |            |            |            |            |            | ROA                     | 15.7%   | 14.3%   | 13.2%   | 17.0% | 14.1% |
|                          |            |            |            |            |            | <b>DuPont Analysis</b>  |         |         |         |       |       |
|                          |            |            |            |            |            | Net Margin              | 10.1%   | 9.6%    | 8.6%    | 8.3%  | 8.5%  |
|                          |            |            |            |            |            | Assets Turnover (x)     | 1.1     | 1.1     | 1.1     | 1.1   | 1.1   |
|                          |            |            |            |            |            | Leverage Factor (x)     | 1.3     | 1.3     | 1.4     | 1.5   | 1.5   |
|                          |            |            |            |            |            | ROE (%)                 | 15.7%   | 14.3%   | 13.2%   | 17.0% | 14.1% |
|                          |            |            |            |            |            | <b>Leverage</b>         |         |         |         |       |       |
|                          |            |            |            |            |            | Debt/Asset (x)          | 0.0     | 0.0     | 0.1     | 0.1   | 0.1   |
|                          |            |            |            |            |            | Debt/Equity (x)         | 0.0     | 0.0     | 0.1     | 0.2   | 0.2   |
|                          |            |            |            |            |            | Net Debt                | (401.7) | (554.4) | (215.1) | 173.4 | 84.1  |
|                          |            |            |            |            |            | Net Debt/Equity (x)     | (0.1)   | (0.2)   | (0.1)   | 0.1   | 0.0   |
|                          |            |            |            |            |            | <b>Valuations</b>       |         |         |         |       |       |
|                          |            |            |            |            |            | Core EPS (sen)          | 110.1   | 107.8   | 104.3   | 118.7 | 129.3 |
|                          |            |            |            |            |            | NDPS (sen)              | 60.0    | 60.0    | 60.0    | 72.5  | 72.5  |
|                          |            |            |            |            |            | BV/share (RM)           | 7.3     | 7.7     | 8.1     | 8.9   | 9.4   |
|                          |            |            |            |            |            | PER (x)                 | 24.9    | 25.5    | 26.3    | 23.1  | 21.2  |
|                          |            |            |            |            |            | Div. Yield %            | 2.2%    | 2.2%    | 2.2%    | 2.6%  | 2.6%  |
|                          |            |            |            |            |            | PBV (x)                 | 3.7     | 3.6     | 3.4     | 3.1   | 2.9   |
|                          |            |            |            |            |            | EV/EBITDA (x)           | 18.6    | 16.2    | 14.0    | 14.6  | 12.5  |

Source: Kenanga Research

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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.      |
| <b>CONSUMER</b>                         |        |                 |                   |            |                   |                   |             |                |            |                 |             |                         |             |             |               |                |                 |
| 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     | 26.00           | 29.78             | 14.54%     | 1,664.0           | Y                 | 12/2023     | 139.4          | 135.3      | -64.0%          | -2.9%       | 18.7                    | 19.2        | 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     | 1.57            | 1.85              | 17.83%     | 14,810.2          | Y                 | 12/2023     | 6.7            | 7.4        | 32.4%           | 11.4%       | 23.6                    | 21.2        | 8.5         | 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     | 134.60          | 121.18            | -9.97%     | 31,563.7          | Y                 | 12/2023     | 303.0          | 305.1      | 14.6%           | 0.7%        | 44.4                    | 44.1        | 44.9        | 106.9%        | 270.0          | 2.0%            |
| PADINI HOLDINGS BHD                     | OP     | 3.96            | 6.00              | 51.52%     | 2,605.3           | Y                 | 06/2023     | 35.8           | 39.7       | 53.0%           | 10.8%       | 11.1                    | 10.0        | 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%            |
| <b>Sector Aggregate</b>                 |        |                 |                   |            | <b>79,752.0</b>   |                   |             |                |            | <b>20.1%</b>    | <b>9.3%</b> | <b>29.4</b>             | <b>26.9</b> | <b>6.3</b>  | <b>21.4%</b>  |                | <b>2.2%</b>     |
| <b>TOBACCO PRODUCTS &amp; BREWERIES</b> |        |                 |                   |            |                   |                   |             |                |            |                 |             |                         |             |             |               |                |                 |
| BRITISH AMERICAN TOBACCO (M) BHD        | MP     | 10.56           | 12.00             | 13.64%     | 3,015.2           | N                 | 12/2023     | 102.1          | 103.5      | 11.0%           | 1.4%        | 10.3                    | 10.2        | 7.6         | 75.4%         | 99.0           | 9.4%            |
| 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%            |
| <b>Sector Aggregate</b>                 |        |                 |                   |            | <b>18,161.0</b>   |                   |             |                |            | <b>12.5%</b>    | <b>6.3%</b> | <b>17.1</b>             | <b>16.1</b> | <b>18.1</b> | <b>105.0%</b> |                | <b>6.3%</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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