

09 November 2023

Fraser & Neave Holdings

“First Milk” from New Dairy Farm in 2025

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F&N intends to drive its top line growth in FY24 via a higher sales volume (vs. carryover price hikes effect in FY23). Significant price hikes in FY24 are unlikely given the stable food commodity price trend. Meanwhile, its dairy farm in Negeri Sembilan is on track for its “first milk” in 2025. We maintain our forecasts, TP of RM29.40 and OUTPERFORM call.

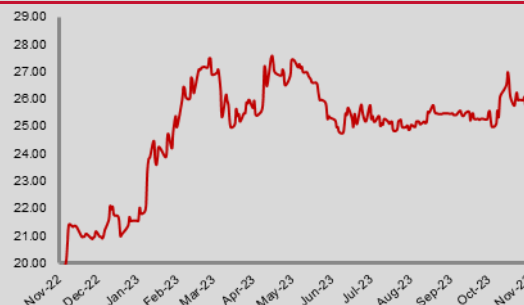
We came away from F&N’s post-results briefing feeling positive on its prospects. The key takeaways from the briefing are as follows:

- Growth driven by sales volume in FY24.** F&N intends to drive its top line growth in FY24 via a higher sales volume (vs. carryover price hikes effect in FY23) through a diverse portfolio, strategic route-to-market initiatives and deepening of customer engagement. Additionally, F&N is also focusing on exports, which provide a natural hedge against currency fluctuations, and prioritizing the integration of its food manufacturing plants and dairy farm initiatives. Recall, F&N’s FY23 turnover rose 12% YoY to RM5b, driven by the full-year impact from an average 5% hike in product prices in FY22 and a favourable product mix, not so much from volume growth. Leveraging on its strong brand value, F&N was able to raise prices without significantly hurting its sales volume in FY23. The good news is it may not even need to risk its sales volume with price hikes in FY24 given the stable food commodity price trend.
- Building the largest dairy farm in SEA.** The first phase of F&N’s RM1.3b dairy farm in Gemas, Negeri Sembilan—potentially the largest in Southeast Asia—will boast of 4,000 milking cows by 2025 (20% of its full capacity of c.20k dairy cattle). This investment will reduce the group’s reliance on imported milk. The farm will be fully integrated with a processing capacity of 100m litres of fresh milk annually, catering to both domestic and export markets.
- Rawang hub streamlined.** F&N is poised to reinforce Halal packaged food as a central aspect of its operations by streamlining the manufacturing facilities of Sri Nona and Cocoaland. The Cocoaland’s site in Rawang is designated to evolve into the primary hub for food production, in line with the Group’s strategy to centralize its food manufacturing. This move is expected to lead to increased production efficiency and a more simplified set of operational procedures.
- F&N’s 140th anniversary.** In conjunction with the event this year, it has launched several campaigns and new product offerings. Notable campaigns included the revamped F&N CSD ‘Kini Lebih Gempak’, rebranding efforts for F&N Magnolia and F&N SEASONS, the launch of 100PLUS Zero with the “Cuba Try Taste” initiative for World Hydration Day, and the F&N Teh Tarik ‘Biar Ori, Baru Sempoi’, as well as Nona Dapur Tempur. The year was also notable for the introduction of new product lines such as 100PLUS Pro, the fragrant Nona Ketupat Wangi Haruman Pandan, and the Lot 100 Kurma Gummy, along with packaging innovations like the 1L Teapot Evaporated Creamer UHT. The introduction of these new offerings have successfully captured consumer interest, and are likely to command higher selling prices and contributing to the group’s increased turnover in FY23. Moving into FY24, F&N is set to introduce another two new products, namely Borneo Springs, a natural mineral water, and OMILK (a whole oat grains that contain 100% plant-based with no trans-fat or cholesterol) in Malaysia.

OUTPERFORM ↔

Price : RM27.50
Target Price : RM29.40 ↔

Share Price Performance



KLCI 1,457.60
YTD KLCI chg -2.5%
YTD stock price chg 27.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	10,086.41
Shares Outstanding	366.8
52-week range (H)	27.90
52-week range (L)	19.90
3-mth avg daily vol	121,322.3
Free Float	20.7%
Beta	0.6

Major Shareholders

Fraser And Neave Ltd	55.5%
Employees Provident Fund	11.9%
Amanah Saham Nasional Bhd	7.5%

Summary Earnings Table

FY Sep (RM m)	2023A	2024F	2025F
Turnover	5,001	5,276	5,550
EBIT	643	575	599
PBT	625	566	591
Net Profit (NP)	485	498	520
Consensus	-	459	476
Earnings Revision	-	-	-
Core EPS (sen)	132.1	135.5	141.4
Core EPS growth (%)	21	3	4
NDPS (sen)	77.0	70.0	75.0
BVPS (RM)	9.1	9.8	10.4
PER (x)	20.8	20.3	19.4
Price/BV (x)	3.0	2.8	2.6
Net Gearing (x)	0.1	0.0	0.1
Net Div. Yield (%)	2.8	2.5	2.7

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Forecasts. Maintained as we have adequately reflected the above-mentioned trends. Consequently, we also keep our TP at RM29.40 based on unchanged FY24F targeted PER of 22x, consistent with the industry’s average historical 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) its earnings defensiveness underpinned by the steady demand for staple food items, (ii) its margin recovery driven by softening food commodity prices, (iii) its strong brand recognition, and (iv) its long-term growth prospects driven by its investment in the sizeable dairy farm in Gemas, Negeri Sembilan. Maintained **OUTPERFORM**.

Risks to our call include: (i) an uptick in food commodity prices, (ii) sustained high inflation eating into consumer spending power; and (iii) downtrading by consumers i.e. switching to cheaper alternatives.

Exhibit 1: New F&N product offerings in FY23



Source: Kenanga Research, Company

Exhibit 2: Borneo Springs



Source: Kenanga Research, Company

Exhibit 3: Omilk



Source: Kenanga Research, Company

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Income Statement						Financial Data & Ratios					
FY Sep (RM m)	2021A	2022A	2023A	2024F	2025F	FY Sep	2021A	2022A	2023A	2024F	2025F
Revenue	4,131	4,470	5,001	5,276	5,550	Growth (%)					
EBITDA	608	574	789	724	769	Turnover	3.6	8.2	11.9	5.5	5.2
Depreciation	136	126	146	157	173	EBITDA	-6.1	-5.6	37.5	-8.2	6.2
Operating Profit	472	448	643	575	599	Operating Profit	-8.3	-5.2	43.5	-10.6	4.2
Interest Expense	17	18	115	16	17	PBT	-8.3	-5.3	37.6	-9.4	4.3
Interest Income	-3	-6	-36	-28	-28	Net Profit	1.4	-3.6	20.9	2.6	4.4
Associate	0	0	0	0	0						
Exceptional Items	0	0	0	0	0	Profitability (%)					
PBT	479	454	625	566	591	EBITDA Margin	14.7	12.8	15.8	13.7	13.9
Taxation	-84	-72	-83	-78	-79	Operating Margin	11.4	10.0	12.9	10.9	10.8
Minority Interest	0	0	-6	-6	-6	PBT Margin	11.6	10.2	12.5	10.7	10.6
Net Profit	395	382	536	498	520	Core Net Margin	10.1	9.0	9.7	9.4	9.4
Core Net Profit	416	401	485	498	520	Effective Tax Rate	-17.6	-15.8	-13.2	-13.8	-13.4
						ROA	11.5	9.6	9.5	9.3	9.3
						ROE	14.8	13.4	14.5	13.8	13.5
						DuPont Analysis					
						Net Margin (%)	10.1	9.0	9.7	9.4	9.4
						Assets Turnover (x)	1.1	1.1	1.0	1.0	1.0
						Leverage Factor (x)	1.3	1.4	1.5	1.5	1.5
						ROE (%)	14.8	13.4	14.5	13.8	13.5
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.0	0.1	0.2	0.2	0.2
						Net Cash/(Debt)	554	215	322	106	211
						Net Debt/Equity (x)	0.2	0.1	0.1	0.0	0.1
						Valuations					
						EPS (sen)	113.1	109.2	132.1	135.5	141.4
						NDPS (sen)	60.0	60.0	77.0	70.0	75.0
						BV/Share (RM)	7.67	8.12	9.10	9.75	10.42
						PER (x)	24.3	25.2	20.8	20.3	19.4
						Net Div. Yield (%)	2.2	2.2	2.8	2.5	2.7
						P/NTA (x)	3.6	3.4	3.0	2.8	2.6
						EV/EBITDA (x)	17.5	18.0	13.2	14.1	13.4
Balance Sheet											
FY Sep (RM m)	2021A	2022A	2023A	2024F	2025F						
Fixed Assets	1,475	1,561	1,710	2,135	2,240						
Intangible Assets	88.3	91.9	433.4	432.3	431.3						
Other FA	299	303	447	447	447						
Inventories	660	901	764	764	764						
Receivables	546	866	713	752	792						
Other CA	9	5	12	11	11						
Cash	555	462	1,032	816	921						
Total Assets	3,632	4,191	5,112	5,358	5,608						
Payables	558	693	725	725	725						
ST Borrowings	66	77	94	94	94						
Other ST Liability	32	63	32	32	32						
LT Borrowings	54	263	755	755	755						
Other LT Liability	103	110	154	154	154						
Minorities Int.	-	2	8	14	20						
Net Assets	2,819	2,983	3,343	3,584	3,828						
Share Capital	817	817	817	817	817						
Reserves	2,002	2,166	2,526	2,767	3,011						
Equity	2,819	2,983	3,343	3,584	3,828						
Cashflow Statement											
FY Sep (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	617	107	1053	622	659						
Investing CF	-181	-195	-693	-580	-278						
Financing CF	-339	0	187	-257	-276						
Change In Cash	97	-88	547	-216	106						
Free CF	472	-91	350	42	381						

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price at 8-Nov (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	MP	1.10	1.10	0.0%	1,544.4	Y	12/2023	8.7	8.9	9.9%	2.5%	12.7	12.4	0.8	6.7%	5.0	4.5%
DUTCH LADY MILK INDUSTRIES BHD	OP	22.60	26.60	17.7%	1,446.4	Y	12/2023	131.3	123.4	5.0%	-6.0%	17.2	18.3	3.4	18.0%	75.0	3.3%
FRASER & NEAVE HOLDINGS BHD	OP	27.50	29.40	6.9%	10,086.4	Y	09/2024	135.5	141.5	2.7%	4.4%	20.3	19.4	2.8	14.4%	70.0	2.3%
MR D.I.Y. GROUP (M) BHD	OP	1.57	1.67	6.4%	14,821.9	Y	12/2023	6.1	6.4	20.1%	5.2%	25.6	24.4	8.6	36.6%	2.9	1.9%
NESTLE (MALAYSIA) BHD	UP	124.80	115.00	-7.9%	29,265.6	Y	12/2023	296.8	305.8	12.3%	3.0%	42.0	40.8	45.6	109.8%	290.0	2.4%
PADINI HOLDINGS BHD	MP	3.92	4.50	14.8%	2,579.0	Y	06/2024	37.6	39.5	11.2%	4.9%	10.4	9.9	2.1	22.1%	12.5	3.2%
POWER ROOT BHD	MP	2.00	2.10	5.0%	925.1	Y	03/2024	13.5	13.7	-1.0%	1.0%	14.8	14.6	2.4	17.0%	5.0	2.5%
QL RESOURCES BHD	MP	5.65	5.90	4.4%	13,750.2	Y	03/2024	15.4	16.9	8.4%	9.6%	36.7	33.4	4.8	14.6%	7.0	1.2%
SECTOR AGGREGATE					74,419.0					10.6%	4.5%	28.0	26.8	5.9	21.0%		2.7%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

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

☆ 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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