

02 May 2024

Fraser & Neave Holdings

A Trusted Asian Brand

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F&N's 1HFY24 results beat expectations. Its 1QFY24 core net profit jumped 62% YoY thanks to a favourable product mix, lower input cost, and enhanced efficiency. We believe F&N may be benefitting from consumers opting for Asian brands. We raise our FY24-25F net profit forecasts by 12% and 13%, respectively, lift our TP by 13% to RM38.25 (from RM33.80) and maintain our **OUTPERFORM** call.

F&N's 1HFY24 core net profit of RM332m beat expectations, coming in at 61% each of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from a favourable product mix, lower input cost and better operating efficiency. A dividend of 30 sen (vs. 1HFY23: 27 sen) was declared, on track to beat our full-year forecast of 77 sen (and hence, we raise our FY24-25F dividend forecasts by 10% each to 85 sen and 87 sen, from 77 sen and 79 sen, respectively).

YoY, its 1HFY24 revenue grew by 11% with Malaysia sales rising 9% (driven largely by higher sales during the Chinese New Year and earlier Hari Raya sales period) and Thailand's by 13% (driven by recovery in domestic sales, stronger exports to Indochina and other countries, and favourable currency exchange rate). Its core net profit jumped 62% on lower input cost and an absence of a previous year's one-off RM89m fair value gain from Cocoland.

QoQ, its top line increased by 1.5% on a festive sales boost from Chinese New Year and Hari Raya. However, its PBT eased 0.5% on higher operating and marketing expenditures.

Outlook. We believe F&N may be benefitting from consumers opting for Asian brands (vs. the Western ones) and will continue to be buoyed by the return of tourists to Malaysia (boosting its domestic sales), and Thailand (boosting its export sales). We also like its focus on the high-growth Halal packaged food and dairy products while the streamlining of the manufacturing facilities of Sri Nona and Cocoland should boost efficiency and hence the bottom line.

Forecasts. We raised our FY24F and 25F net profits by 12% and 13%, respectively, after raising our assumptions on sales and margins.

Valuations. Consequently, we also raise our TP by 13% to RM38.25 (from RM33.80 previously) based on an unchanged 22x FY25F PER, 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).

Investment case. We continue to like F&N for: (i) its earnings defensiveness given the stable demand for essential food items despite high inflation and an uncertain global economic outlook, (ii) the rising popularity of ready-to-drink products where F&N has a strong presence, and (iii) proxy to the recovery of domestic consumption and the return of tourists in Thailand. Maintain **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.

OUTPERFORM ↔

Price : RM31.60
Target Price : RM38.25 ↑

Share Price Performance



KLCI 1,575.97
YTD KLCI chg 8.3%
YTD stock price chg 12.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker fnh MK EQUITY
Market Cap (RM m) 11,590.2
Shares Outstanding 366.8
52-week range (H) 32.00
52-week range (L) 24.57
3-mth avg. daily vol 154,041
Free Float 20%
Beta 0.6

Major Shareholders

Fraser And Neave Ltd 55.5%
Employees Provident Fund 11.4%
Amanah Saham Nasional Bhd 8.5%

Summary Earnings Table

FY Sep (RM m)	2023A	2024F	2025F
Turnover	5,001	5,378	5,680
EBIT	643	720	738
PBT	625	705	722
Net Profit (NP)	485	616	648
Consensus	-	556	601
Earnings Revision	-	+12%	+13%
Core EPS (sen)	132.1	167.6	176.4
Core EPS Growth (%)	21	27	5
NDPS (sen)	77.0	85.0	87.0
BVPS (RM)	9.1	9.9	10.8
PER (x)	23.9	18.9	17.9
Price/BV (x)	3.5	3.2	2.9
Net Gearing (x)	Net	Net	Net
	Cash	Cash	Cash
Net Div. Yield (%)	2.4	2.7	2.8



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Results Highlights

FYE Sep (RM m)	2Q24	1Q24	QoQ Chg	2Q23	YoY Chg	6M24	6M23	YoY Chg
Turnover	1,352.4	1,332.9	1.5%	1,206.6	12.1%	2,685.3	2,425.1	10.7%
Gross Profit	439.5	419.8	4.7%	330.5	33.0%	859.2	668.5	28.5%
EBIT	207.5	209.3	-0.9%	126.0	64.7%	416.8	350.9	18.8%
PBT/(LBT)	204.4	205.5	-0.5%	119.7	70.8%	409.9	342.1	19.8%
Taxation	(38.7)	(35.3)	9.5%	(17.7)	118.1%	(74.0)	(42.3)	75.0%
MI	(0.3)	0.6	-155.4%	(0.8)	-60.5%	0.3	(0.8)	-131.8%
Net Profit	165.4	170.7	-3.1%	101.2	63.5%	336.1	299.0	12.4%
Core net Profit*	165.9	166.3	-0.3%	101.0	64.2%	332.2	204.7	62.3%
EPS (sen)	45.3	45.3	0.0%	27.5	64.7%	90.6	55.7	62.6%
DPS (sen)	30.0	0.0	NM	27.0	11.1%	30.0	27.0	11.1%
Gross Margin	32.5%	31.5%		27.4%		32.0%	27.6%	
EBIT Margin	15.3%	15.7%		10.4%		15.5%	14.5%	
PBT Margin	15.1%	15.4%		9.9%		15.3%	14.1%	
NP Margin	12.3%	12.5%		8.4%		12.4%	8.4%	
Tax Rate	-18.9%	-17.2%		-14.8%		-18.1%	-12.4%	

*After adjusted the one-off non-operating items: 2Q24:RM0.5m; 1Q24:-RM4.4m; 1H23:-RM94.4m

Source: Company

Segment Breakdown

Revenue (RM m)	2Q24	1Q24	QoQ Chg	2Q23	YoY Chg	6M24	6M23	YoY Chg
F&B Malaysia	787.7	762.6	3.3%	707.6	11.3%	1,550.3	1,420.9	9.1%
F&B Thailand	563.8	569.1	-0.9%	498.1	13.2%	1,132.9	1,002.3	13.0%
Property	0.2	0.2	-0.5%	0.2	3.7%	0.4	0.4	4.2%
Others	0.7	1.0	-30.4%	0.7	-2.0%	1.7	1.6	8.8%
Total	1,352.4	1,332.9	1.5%	1,206.6	12.1%	2,685.3	2,425.1	10.7%
Reported Operating Profit (RM m)								
F&B Malaysia	92.9	83.3	11.5%	48.2	92.7%	176.1	118.6	48.5%
F&B Thailand	116.8	125.9	-7.2%	78.1	49.7%	242.7	145.9	66.3%
Property	(0.4)	(0.3)	23.5%	(0.4)	5.6%	(0.7)	(0.7)	3.3%
Others	(1.9)	0.5	-493.8%	0.1	-1695.7%	(1.4)	86.9	-101.6%
Total	207.5	209.3	-0.9%	126.0	64.7%	416.8	350.9	18.8%
Operating Margin								
F&B Malaysia	11.8%	10.9%		6.8%		11.4%	8.4%	
F&B Thailand	20.7%	22.1%		15.7%		21.4%	14.6%	
Property	-192.9%	-155.3%		-189.4%		-174.0%	-175.6%	
Others	-267.1%	47.2%		16.4%		-81.8%	5605.7%	
Total	15.3%	15.7%		10.4%		15.5%	14.5%	

Source: Company

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Peer Table Comparison

Name	Rating	Last Price @ 30 Apr (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	UP	1.11	1.01	-9.0%	1,558.4	Y	12/2024	8.3	8.4	1.2%	2.1%	13.4	13.1	0.8	6.2%	4.0	3.6%
DUTCH LADY MILK INDUSTRIES BHD	UP	32.86	27.65	-15.9%	2,103.0	Y	12/2024	123.1	126.3	9.4%	2.5%	26.7	26.0	4.3	17.1%	50.0	1.5%
FRASER & NEAVE HOLDINGS BHD	OP	31.60	38.25	21.0%	11,590.2	Y	09/2024	167.6	176.4	26.9%	5.3%	18.9	17.9	3.2	17.7%	85.0	2.7%
MR D.I.Y. GROUP (M) BHD	OP	1.56	1.95	25.0%	14,739.6	Y	12/2024	7.0	7.8	17.6%	12.2%	22.4	20.0	7.2	34.8%	4.0	2.6%
NESTLE (MALAYSIA) BHD	UP	127.20	115.00	-9.6%	29,828.4	Y	12/2024	292.3	306.0	3.8%	4.7%	43.5	41.6	45.4	102.9%	300.0	2.4%
PADINI HOLDINGS BHD	UP	3.58	3.20	-10.6%	2,355.3	Y	06/2024	23.0	26.7	-31.9%	15.7%	15.5	13.4	2.1	14.0%	10.0	2.8%
POWER ROOT BHD	UP	1.73	1.55	-10.4%	796.8	Y	03/2024	10.2	11.6	-25.0%	13.4%	16.9	14.9	2.5	15.0%	8.0	4.6%
QL RESOURCES BHD	MP	6.42	6.25	-2.6%	15,624.1	Y	03/2024	17.8	19.5	25.2%	9.2%	36.0	33.0	5.4	17.0%	9.0	1.4%
KAREX BHD	OP	0.805	1.06	31.7%	848.0	Y	06/2024	2.3	4.2	125.7%	87.8%	35.8	19.0	1.7	4.9%	0.5	0.6%
SECTOR AGGREGATE					79,443.9					11.0%	8.5%	28.3	26.1	5.8	20.7%		2.5%

Source: 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	★	★	★	
	OVERALL	★	★	★	
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	★	★	★	

☆ 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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