

06 May 2024

# Fraser & Neave Holdings

## Prioritising Volume Growth

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F&N intends to grow its top line via boosting its sales volume instead of raising prices. It intends to lift its ROA by optimising its assets while capping capex. It is investing in a manufacturing plant in Cambodia given the market's growing demand there. We maintain our earnings forecasts, TP of RM38.25 and OUTPERFORM call.

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

- Growth through sales volume while capping prices.** F&N intends to grow its top line via boosting its sales volume instead of raising prices. It is driving its sales volume by:
  - broadening its product offerings (such as the introduction of gummies with natural fruit juice);
  - collaborations (such as the "Garfield Movie x Magnolia Campaign");
  - selling directly to end-users, for instance, Teapot condensed milk to hawkers in Thailand, which also comes with a loyalty programme allowing the hawkers to collect points to redeem prizes;
  - special event-driven marketing campaigns, such as the Mother's Day campaign for Nestle's Bear Brand sterilised milk products (F&N manufactures and distributes Bear Brand products in Thailand and Laos under a license agreement with Nestle);
  - strengthening customer engagement (via interactive advertising through the Gempak 2.0 and Beli & Menang campaigns); and
  - boosting its exports (of which proceeds denominated in hard currencies could act as a natural hedge against forex fluctuations) (see Exhibits 1-6).

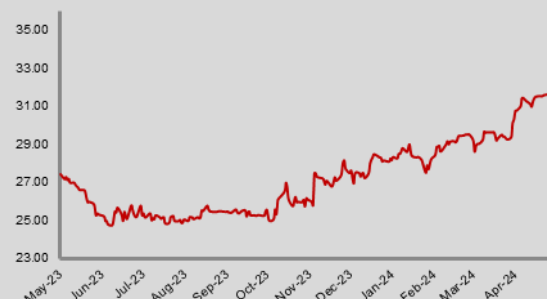
This will be continuation from 1HFY24 during which its top line grew 11% YoY driven mainly by sales volume (as it did not raise prices) on the back of effective marketing strategy during the festive periods (such as 100Plus CNY festive campaign and Nona's Seenak Rasa Semeriah Raya campaign).

- Boosting ROA.** In addition, F&N intends to lift its ROA by optimising its assets while capping its capex. Over the past five years, it has invested close to RM1.5b in an automatic storage retrieval system at its Shah Alam plant, a liquid milk plant in Thailand, a drinking water production plant in Kota Kinabalu, and PV panels at various sites. F&N believes that there is potential for margin expansion through enhanced operational efficiencies across its businesses. In 1HFY24, its ROA already improved to 11% (vs. FY23: 9.5%). It has set a target of raising the number to the mid-teens to high-teens over the next three years.
- Strengthening its presence in Cambodia.** F&N is investing in a manufacturing facility for dairy products in Suvannaphum Special Economic Zone for c.USD37.5m (RM179.5m). The manufacturing facility (see Exhibit 7) will produce sweetened beverage creamer in can and pouch and is expected to commence operations in 1QFY26. This is a natural progression spurred by growing exports to Cambodia, which currently contributes an estimated 5% to 7% to the group's total revenue.

# OUTPERFORM ↔

Price : RM32.00  
Target Price : RM38.25 ↔

### Share Price Performance



KLCI	1,589.59
YTD KLCI chg	9.3%
YTD stock price chg	14.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK EQUITY
Market Cap (RM m)	11,736.9
Shares Outstanding	366.8
52-week range (H)	32.50
52-week range (L)	24.57
3-mth avg. daily vol.	157,255
Free Float	20%
Beta	0.6

### Major Shareholders

Fraser And Neave Ltd	55.5%
Employees Provident Fund	11.6%
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
<b>Net Profit (NP)</b>	<b>485</b>	<b>616</b>	<b>648</b>
Consensus	-	591	620
Earnings Revision	-	-	-
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)	24.2	19.1	18.1
Price/BV (x)	3.5	3.2	3.0
Net Gearing (x)	Net	Net	Net
	Cash	Cash	Cash
Net Div. Yield (%)	2.4	2.7	2.7

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- Integrated dairy farm plan on track.** F&N has completed the social impact study of its integrated dairy farm (or known as AgriValley in Gemas, Negeri Sembilan, see Exhibit 8 & 9) with land clearance and site preparation of the dairy barn site near completion. It has placed order for the first batch (from the US) of the 2,000 dairy cattle for Phase 1 of the project, with the first milking slated by early-2025. The operation shall break even in three years. Upon full completion, the fully integrated dairy farm could process 100m litres of fresh milk annually for both local and international markets. With a strategic investment of RM1.7b, sourced from internal financing and debt, the farm is set to accommodate a herd size surpassing 20,000.

**Forecasts.** Maintained, as we have adequately reflected the above-mentioned trends. Consequently, we also keep our TP at RM38.25 based on unchanged FY25F targeted 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 6).

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**.

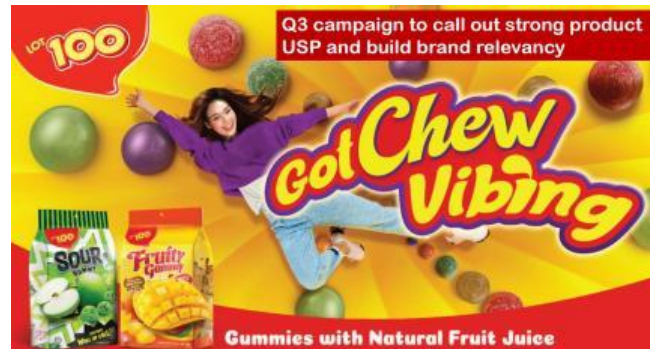
**Risks to our call include:** (i) an uptick in food commodity prices, (ii) sustained high inflation eating into consumer spending power, and (iii) downtrading by consumers i.e. switching to cheaper alternatives.

**Exhibit 1: The Garfield Movie x Magnolia Campaign**



Source: Kenanga Research, Company

**Exhibit 2: Gummies with Natural Fruit Juice**



Source: Kenanga Research, Company

**Exhibit 3: Thailand TEAPOT Campaign**



Source: Kenanga Research, Company

**Exhibit 4: Thailand BEAR BRAND Campaign**



Source: Kenanga Research, Company

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**Exhibit 5: Gempak 2.0 Campaign**



Source: Kenanga Research, Company

**Exhibit 6: Beli & Menang Campaign**



Source: Kenanga Research, Company

**Exhibit 7: Latest Investment in Cambodia**



Source: Kenanga Research, Company

**Exhibit 8: USA Holstein Cows**



Source: Kenanga Research, Company

**Exhibit 9: Integrated Dairy Farm Progress**



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	5,378	5,680	<b>Growth (%)</b>					
EBITDA	608	574	789	777	881	Turnover	3.6	8.2	11.9	7.5	5.6
Depreciation	136	126	146	150	144	EBITDA	-6.1	-5.6	37.5	-1.5	13.4
Operating Profit	472	448	643	720	738	Operating Profit	-8.3	-5.2	43.5	12.0	2.6
Interest Expense	17	18	115	33	28	PBT	-8.3	-5.3	37.6	12.9	2.4
Interest Income	-3	-6	-36	-38	-40	Net Profit	1.4	-3.6	20.9	26.9	5.2
Associate	0	0	0	0	0	<b>Profitability (%)</b>					
Exceptional Items	0	0	0	0	0	EBITDA Margin	14.7	12.8	15.8	14.5	15.5
PBT	479	454	625	705	722	Operating Margin	11.4	10.0	12.9	13.4	13.0
Taxation	84	72	83	93	109	PBT Margin	11.6	10.2	12.5	13.1	12.7
Minority Interest	0	0	-6	-0	-1	Core Net Margin	10.1	9.0	9.7	11.4	11.4
Net Profit	395	382	536	620	648	Effective Tax Rate	17.6	15.8	13.2	13.3	15.0
Core Net Profit	416	401	485	616	648	ROA	11.5	9.6	9.5	11.4	11.3
						ROE	14.8	13.4	14.5	16.8	16.2
Balance Sheet											
FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F	<b>DuPont Analysis</b>					
Fixed Assets	1,475	1,561	1,710	2,051	2,419	Net Margin (%)	10.1%	9.0%	9.7%	11.4%	11.4%
Intangible Assets	88.3	91.9	433.4	432.3	431.3	Assets Turnover (x)	1.1x	1.1x	1.0x	1.0x	1.0x
Other FA	299	303	447	447	447	Leverage Factor (x)	1.3x	1.4x	1.5x	1.5x	1.4x
Inventories	660	901	764	764	764	ROE (%)	14.8	13.4	14.5	16.8	16.2
Receivables	546	866	713	767	810	<b>Leverage</b>					
Other CA	9	5	12	13	15	Debt/Asset (x)	0.0	0.1	0.1	0.1	0.1
Cash	555	462	1,032	945	862	Debt/Equity (x)	0.0	0.1	0.2	0.2	0.2
Total Assets	3,632	4,191	5,112	5,420	5,749	Net Cash/(Debt)	554	215	322	235	152
						Net Debt/Equity (x)	0.2	0.1	0.1	0.1	0.0
Payables	558	693	725	725	725	<b>Valuations</b>					
ST Borrowings	66	77	94	94	94	EPS (sen)	113.1	109.2	132.1	167.6	176.4
Other ST Liability	32	63	32	32	32	NDPS (sen)	60.0	60.0	77.0	85.0	87.0
LT Borrowings	54	263	755	755	755	BV/Share (RM)	7.67	8.12	9.10	9.94	10.83
Other LT Liability	103	110	154	154	154	PER (x)	28.3	29.3	24.2	19.1	18.1
Minorities Int.	-	2	8	9	10	Net Div. Yield (%)	1.9	1.9	2.4	2.7	2.7
<b>Net Assets</b>	<b>2,819</b>	<b>2,983</b>	<b>3,343</b>	<b>3,651</b>	<b>3,979</b>	P/NTA (x)	4.2	3.9	3.5	3.2	3.0
Share Capital	817	817	817	817	817	EV/EBITDA (x)	20.3	20.9	15.3	15.4	13.5
Reserves	2,002	2,166	2,526	2,834	3,162						
<b>Equity</b>	<b>2,819</b>	<b>2,983</b>	<b>3,343</b>	<b>3,651</b>	<b>3,979</b>						
Cashflow Statement											
FY Sep (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	617	107	1053	714	748						
Investing CF	-181	-195	-693	-489	-511						
Financing CF	-339	0	187	-312	-320						
Change In Cash	97	-88	547	-87	-83						
Free CF	472	-91	350	225	236						

Source: Kenanga Research

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## Peer Comparison

Name	Rating	Last Price at 3-MAY (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.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>CONSUMER</b>																					
AEON CO. (M) BHD	UP	1.13	1.01	-10.6%	1,586.5	Y	12/2024	8.3	8.4	1.2%	2.1%	13.7	13.4	0.8	6.2%	4.0	3.5%				
DUTCH LADY MILK INDUSTRIES BHD	UP	34.22	27.65	-19.2%	2,190.1	Y	12/2024	123.1	126.3	9.4%	2.5%	27.8	27.1	4.5	17.1%	50.0	1.5%				
FRASER & NEAVE HOLDINGS BHD	OP	32.00	38.25	19.5%	11,736.9	Y	09/2024	167.6	176.4	26.9%	5.3%	19.1	18.1	3.2	17.7%	85.0	2.7%				
MR D.I.Y. GROUP (M) BHD	OP	1.68	1.95	16.1%	15,873.4	Y	12/2024	7.0	7.8	17.6%	12.2%	24.1	21.5	7.8	34.8%	4.0	2.4%				
NESTLE (MALAYSIA) BHD	UP	128.30	115.00	-10.4%	30,086.4	Y	12/2024	292.3	306.0	3.8%	4.7%	43.9	41.9	45.8	102.9%	300.0	2.3%				
PADINI HOLDINGS BHD	UP	3.61	3.20	-11.4%	2,375.1	Y	06/2024	23.0	26.7	-31.9%	15.7%	15.7	13.5	2.1	14.0%	10.0	2.8%				
POWER ROOT BHD	UP	1.79	1.55	-13.4%	824.4	Y	03/2024	10.2	11.6	-25.0%	13.4%	17.5	15.4	2.6	15.0%	8.0	4.5%				
QL RESOURCES BHD	MP	6.54	6.25	-4.4%	15,916.1	Y	03/2024	17.8	19.5	25.2%	9.2%	36.7	33.6	5.5	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%				
<b>SECTOR AGGREGATE</b>					<b>81,436.9</b>					<b>11.0%</b>	<b>8.5%</b>	<b>29.0</b>	<b>26.7</b>	<b>6.0</b>	<b>20.7%</b>			<b>2.4%</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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