

16 April 2025

Fraser & Neave Holdings

Levelling Up Dairy Game

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F&N's long-awaited dairy pivot into upstream operations is finally materialising, with the successful arrival of 2,500 high-performing Chilean heifers marking a key turning point in its RM3b integrated dairy venture. While short-term earnings will take a modest hit from initial costs especially with higher depreciation, we see this as a strategic step, enhancing its longer-term growth prospects in the dairy industry. With the overhang from earlier delays clearing up, we expect first milk production to start in mid-2025, after initial gestation. We raise our TP by 5% to RM29.80 (from RM28.50) as we introduce forecasts for the dairy business (using DCF valuation). Reiterate **OUTPERFORM**.

F&N has successfully received its first commercial batch of 2,500 Chilean Holstein dairy heifers at its integrated dairy farm in Gemas, Negeri Sembilan, following a delay caused by an import suspension from the U.S. due to avian flu concerns in end-Oct 2024. This marks the largest single importation of breeding cattle into Malaysia and the country's first from Chile. F&N had initially targeted to source the herd from the U.S., though that plan was later revised. The pivot to Chile removed the overhang from prolonged delays, and we now expect first milk production to commence in mid-2025 (previously Jan 2025).

According to F&N, the Chilean cattle are fully genomically tested with Genomic Total Performance Index (GTPI) standards on par with the originally planned U.S. imports, which management previously guided to have GTPI>2,500 and the potential to yield up to 40 litres of milk per day. The cattle are currently under quarantine at F&N's on-site, climate-controlled facilities.

To recall, Phase 1 of the project involves RM2b in capex (RM1.85b already spent) and is expected to produce 100m litres of fresh milk annually over a 5-year ramp-up, with breakeven projected in three years. Phase 2, with RM1b in planned capex, will scale production to 200m litres/year with 20,000 milking cows. The integrated farm also includes feed crop cultivation, supporting F&N's vertical integration strategy.

Forecasts. We cut our FY26F earnings by 2% to account for depreciation and operating costs associated with the dairy farm.

Valuations. We raise our TP by 5% to RM29.80 (from RM28.50) as we now introduce a DCF-based valuation for the dairy business, with the overhang from earlier delays now lifted. We adopt a Sum-of-Parts (SoP) approach (see table below), valuing the dairy segment on a 15% EBITDA margin assumption (benchmarked against listed peers), WACC of 6.8% and terminal growth of 2%. Management has previously guided that Phase 1 (c.RM2b capex) will take five years to complete, with breakeven expected by year three. We will revisit assumptions as more clarity emerges.

Meanwhile, we value the core business at an unchanged 18x FY25F PER, applying a 10% discount to the industry's average forward PER of 20x to reflect potential near-term cost pressures from its dairy farm's commencement, despite stable demand in core beverage categories. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

OUTPERFORM ↔

Price: **RM25.98**
Target Price: **RM29.80** ↑

Share Price Performance



KLCI	1,486.43
YTD KLCI chg	-9.5%
YTD stock price chg	-7.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK EQUITY
Market Cap (RM m)	9,528.9
Shares Outstanding	366.8
52-week range (H)	33.80
52-week range (L)	22.40
3-mth avg. daily vol.	84,589
Free Float	32%
Beta	0.6

Major Shareholders

Fraser And Neave Ltd	55.5%
Employees Provident Fund Board	12.1%
Amanah Saham Nasional Bhd	8.0%

Summary Earnings Table

FYESep (RMm)	2024A	2025F	2026F
Turnover	5,246	5,602	6,280
EBIT	710	775	830
PBT	697	759	801
Net Profit (NP)	565	579	623
Consensus (NP)	-	572	610
Earnings Revision	-	-<1%	-2%
Core EPS (sen)	154	158	170
Core EPS Growth (%)	18	2	8
NDPS (sen)	63.0	75.0	90.0
BVPS (RM)	9.7	10.6	11.4
Core PER (x)	16.9	16.5	15.3
PBV (x)	2.7	2.5	2.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.4	2.9	3.5

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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, (iii) proxy to the recovery of domestic consumption and the return of tourists in Thailand, and (iv) its long-term growth prospects driven by its investment in a sizeable dairy farm in Gemas, Negeri Sembilan. Reiterate **OUTPERFORM**.

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

F&N's Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Valuation Basis
Core F&B	10,422	18x FY25 PER
Integrated Dairy Farm	513	DCF @ WACC of 6.8%
Total	10,935	
Paid-up Capital (m shares)	367	
SoP per share / TP (RM)	29.80	

Source: Kenanga Research

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Income Statement

FYE Sep (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	4,470	5,001	5,246	5,602	6,280
EBITDA	574	789	854	894	959
Depreciation	126	146	145	149	162
Operating Profit	448	643	710	775	830
Interest Income	18	114	43	50	31
Interest Expense	(6)	(36)	(36)	(39)	(40)
Associate	0	0	0	0	0
Exceptional Items	0	0	0	0	0
PBT	454	625	697	759	801
Taxation	72	83	153	224	200
Minority Interest	0	(6)	(2)	(5)	(5)
Net Profit	382	536	543	579	623
Core Net Profit	401	477	565	579	623

Balance Sheet

FYE Sep (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	1,561	1,710	1,844	1,915	1,931
Intangible Assets	91.9	433.4	430.3	431.4	430.4
Other FA	303	447	454	454	454
Inventories	901	764	745	745	745
Receivables	866	713	853	905	998
Other CA	5	12	14	21	19
Cash	462	1,032	1,135	1,190	1,393
Total Assets	4,191	5,112	5,474	5,661	5,970
Payables	693	725	826	826	826
ST Borrowings	77	94	116	116	116
Other ST Liability	63	32	168	58	58
LT Borrowings	263	755	639	641	641
Other LT Liability	110	154	139	139	139
Minorities Int.	2	8	11	15	21
Net Assets	2,983	3,343	3,576	3,866	4,169
Share Capital	817	817	817	817	817
Reserves	2,166	2,526	2,759	3,066	3,369
Equity	2,983	3,343	3,576	3,882	4,186

Cashflow Statement

FYE Sep (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	107	1053	733	674	714
Investing CF	-195	-693	-254	-236	-463
Financing CF	0	187	-365	-383	-347
Change In Cash	-88	547	114	55	-95
Free CF	-91	350	475	438	271

Financial Data & Ratios

FYE Sep	2022A	2023A	2024A	2025F	2026F
Growth (%)					
Turnover	8.2	11.9	4.9	6.8	12.1
EBITDA	-5.6	37.5	8.2	4.7	7.3
Operating Profit	-5.2	43.5	10.4	9.3	7.1
PBT	-5.3	37.6	11.6	8.9	5.5
Net Profit	-3.6	18.9	18.4	2.5	7.5
Profitability (%)					
EBITDA Margin	12.8	15.8	16.3	16.0	15.3
Operating Margin	10.0	12.9	13.5	13.8	13.2
PBT Margin	10.2	12.5	13.3	13.5	12.8
Core Net Margin	9.0	9.5	10.8	10.3	9.9
Effective Tax Rate	15.8	13.2	21.9	29.5	25.0
ROA	9.6	9.3	10.3	10.3	10.6
ROE	13.4	14.2	15.8	14.9	15.1
DuPont Analysis					
Net Margin (%)	9.0	9.5	10.8	10.3	9.9
Assets Turnover	1.1x	1.0x	1.0x	1.0x	1.0x
Leverage Factor	1.4x	1.5x	1.5x	1.5x	1.4x
ROE (%)	13.4	14.2	15.8	14.9	15.1
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.1	0.2	0.2	0.2	0.1
Net Cash/(Debt)	215	322	429	594	797
Net Debt/Equity (x)	0.1	0.1	0.1	0.2	0.2
Valuations					
EPS (sen)	109.2	129.9	153.9	156.9	166.5
NDPS (sen)	60.0	77.0	63.0	75.0	90.0
BV/Share (RM)	8.12	9.10	9.74	10.57	11.40
PER (x)	23.8	20.0	16.9	16.6	15.6
Net Div. Yield (%)	2.3	3.0	2.4	2.9	3.5
P/BV (x)	3.2	2.9	2.7	2.5	2.3
EV/EBITDA (x)	17.0	12.5	11.7	11.3	10.8

Source: Kenanga Research

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Peer Table 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) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
CONSUMER																	
AEON CO. (M) BHD	MP	1.39	1.50	7.9%	1,951.6	Y	12/2025	10.2	11.1	-4.9%	8.9%	13.6	12.5	1.0	7.2%	4.0	2.9%
FRASER & NEAVE HOLDINGS BHD	OP	25.98	29.90	15.1%	9,528.9	Y	09/2025	157.7	169.6	2.5%	7.5%	16.5	15.3	2.5	15.5%	75.0	2.9%
MR D.I.Y. GROUP (M) BHD	OP	1.53	1.80	17.6%	14,487.4	Y	12/2025	7.0	7.8	14.5%	12.4%	22.0	19.5	6.9	33.6%	4.0	2.6%
NESTLE (MALAYSIA) BHD	MP	80.00	79.10	-1.1%	18,760.0	Y	12/2025	197.8	231.6	16.0%	17.1%	40.4	34.5	27.2	68.2%	190.0	2.4%
PADINI HOLDINGS BHD	MP	2.08	2.10	1.0%	2,052.7	Y	06/2025	12.7	15.8	-15.1%	24.2%	16.3	13.2	1.8	10.8%	11.0	5.3%
POWER ROOT BHD	MP	1.42	1.30	-8.5%	602.5	Y	03/2025	7.5	8.5	-15.9%	13.7%	19.0	16.7	1.9	10.0%	6.0	4.2%
QL RESOURCES BHD	MP	4.74	4.60	-3.0%	17,302.5	Y	03/2025	13.3	14.2	10.8%	6.7%	35.7	33.4	5.3	16.9%	5.0	1.1%
KAREX BHD	OP	0.745	1.07	43.6%	784.8	Y	06/2025	2.0	4.3	-12.0%	118.9%	38.1	17.4	1.6	4.2%	1.0	1.3%
SECTOR AGGREGATE					65,470.3							26.1	23.2	4.7	18.0%		2.8%

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	★	★	★		
SPECIFIC	Energy Efficiency	★	★	★		
	Food Safety & Quality	★	★	★	★	
	Migrant Workers Welfare	★	★	★		
	Supply Chain Management	★	★	★		
	Use 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
 ★★★★★ +10% 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:

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