

04 May 2026

Fraser & Neave Holdings

Near-Term Pain, Long-Term Dairy Gains

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F&N's ongoing Indochina issues which have lingered since the previous quarter, alongside the 17% QoQ decline in profits that missed expectations, have already been mirrored in the share price decline from its peak this year. Hence, after the share price retracement to ~20x forward PER (in line with its historical average), we believe F&N currently offers one of the most compelling entry points among quality consumer names, supported by a vertical growth dimension, where the upside from its dairy farm (with its first exports to Singapore delivered this quarter) is yet to be fully appreciated. Revenue in Malaysia still tracking well but due to ongoing weakness in Indochina, we cut our FY26-27F earnings by 18-10% and lower SoP-derived TP to RM37.40 (from RM37.70). This has not factored in potential price increases locally (as some competitors have done) which management has not ruled out, and which we foresee could be a rerating catalyst given relatively inelastic demand. Reiterate **OUTPERFORM**.

Below expectations. F&N's 1HFY26 core net profit of RM214m (after excluding RM6m net forex loss) came in below expectations, at 40% of our full-year forecast and 38% of consensus (versus typical 55-60% contribution from 1H). The shortfall was mainly due to: (i) weaker-than-expected performance in F&B Indochina, (ii) higher dairy farm operating costs, and (iii) higher tax expenses. The group declared a DPS of 30 sen in 2QFY26, unchanged YoY, in line with our expectation.

YoY, 1HFY26 revenue slipped 7% dragged by a 19% drop in F&B Indochina amid subdued demand and prolonged Thai-Cambodia border disruptions, though partially offset by a 2% uptick in F&B Malaysia on improved momentum in East Malaysia and stronger exports. EBIT shrank 24% due to higher operating costs from the integrated dairy farm as it scaled up from pre-commercial stage; excluding dairy farm losses and forex impact, group EBIT was down 12%. 1HFY26 core net profit, adjusted for forex, plunged 27% weighed by weaker operating profit, and higher effective tax rate (+7.8 pts YoY) from increased foreign withholding tax and unrecognised deferred tax assets related to dairy farm losses.

QoQ, 2QFY26 turnover eased 5%, with F&B Malaysia and F&B Indochina retreating 5% and 7%, respectively. F&B Malaysia was hit by cautious spending, competitive pricing, and weaker exports amid West Asia tensions, while F&B Indochina normalised from a high 1Q base, driven by the Thai government's co-payment stimulus programme. Its bottom line fell 17%, largely due to higher dairy farm costs weighing on F&B Malaysia (-35% QoQ), partly offset by a lower, though still elevated, effective tax rate.

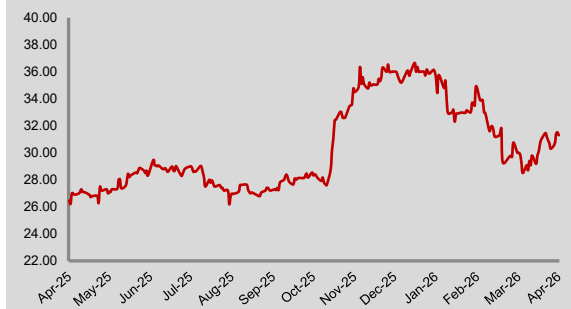
Outlook. The domestic demand across core beverage and dairy segments should remain resilient, despite geopolitical uncertainties and cautious sentiment. That said, input and energy costs, particularly packaging materials, key ingredients and fuel, are likely to remain elevated in the near term. Management is prioritising operational efficiencies and supply chain optimisation to mitigate margin pressures, with price hikes, if any, implemented gradually as a last resort.

Meanwhile, F&N remains focused on scaling up F&N AgriValley to strengthen integration across its dairy value chain. Notably, F&N AgriValley completed its first bulk fresh milk export to Singapore in March 2026, with current production at ~2m litres/month and a long-term target of 200m litres annually. Milk is sold under the Magnolia brand in Malaysia and Singapore, and used in products such as Bear Brand, Teapot, Carnation, for regional markets.

OUTPERFORM ↔

Price: **RM31.30**
Target Price: **RM37.40** ↓

Share Price Performance



KLCI 1,722.02
YTD KLCI chg 2.5%
YTD stock price chg -11.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	11,480.2
Shares Outstanding	366.8
52-week range (H)	36.66
52-week range (L)	26.18
3-mth avg. daily vol.	193,686
Free Float	34%
Beta	0.6

Major Shareholders

Fraser and Neave Ltd	55.5%
Employees Provident Fund Board	16.4%
Amanah Saham Nasional Bhd	6.1%

Summary Earnings Table

FYE Sep (RM m)	2025A	2026F	2027F
Turnover	5,197	5,082	5,379
EBIT	747	662	755
PBT	731	622	712
Net Profit (NP)	511	433	531
Consensus (NP)	-	562	633
Earnings Revision	-	-18%	-10%
Core EPS (sen)	139	118	145
Core EPS Growth (%)	-6	-15	22
NDPS (sen)	65.0	70.0	70.0
BVPS (RM)	10.5	11.0	11.8
Core PER (x)	22.5	26.5	21.7
PBV (x)	3.0	2.8	2.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.1	2.2	2.2

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Forecasts. We lower our FY26F and FY27F earnings forecasts by 18% and 10%, mainly to account for weaker performance in F&B Indochina, followed by a gradual recovery expected in FY27.

Valuations. Post-earnings revision, we trim our SoP-derived TP to RM37.40 (from RM37.70), as we roll forward our valuation base year to FY27F (from CY26F) with an unchanged targeted PER of 24x for its core F&B segment, which is at a premium to the industry's average forward PER of 20x. We believe the higher multiple is supported by F&N's integrated dairy operations and vertical integration strategy, which offer longer-term growth potential that are not yet fully reflected at current levels. Meanwhile, we keep our valuation assumption for its dairy farm business, based on WACC of 6.8% with TG of 2%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 5).

Investment case. We continue to like F&N for: (i) its defensive earnings given the stable demand for essential food and beverage 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) its long-term growth prospects driven by its investment in a sizeable dairy farm in Gemas, Negeri Sembilan. Maintain **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, and (iv) unforeseen and sustained challenges in ramping up the dairy business.

Results Highlights

FYE Sep (RM m)	2QFY26	1QFY26	QoQ Chg	2QFY25	YoY Chg	1HFY26	1HFY25	YoY Chg
Revenue	1,232.4	1,303.4	-5%	1,334.1	-8%	2,535.9	2,723.9	-7%
GP	378.7	422.7	-10%	428.5	-12%	801.4	883.0	-9%
EBIT	150.1	181.0	-17%	191.8	-22%	331.1	434.8	-24%
PBT / (LBT)	145.8	175.8	-17%	189.6	-23%	321.6	430.1	-25%
Taxation	(51.1)	(63.5)	-19%	(49.6)	3%	(114.6)	(119.7)	-4%
Minority Interest	1.6	(0.1)	-1358%	0.3	418%	1.5	(1.1)	-243%
Net Profit	96.3	112.2	-14%	140.3	-31%	208.5	309.4	-33%
Core Net Profit	96.8	116.8	-17%	142.3	-32%	213.7	294.3	-27%
Core EPS (sen)	26.4	31.8	-17%	38.9	-32%	56.8	84.3	-33%
DPS (sen)	30.0	0.0	N.A.	30.0	0%	30.0	30.0	0%
GP Margin (%)	30.7	32.4		32.1		31.6	32.4	
EBIT Margin (%)	12.2	13.9		14.4		13.1	16.0	
PBT Margin (%)	11.8	13.5		14.2		12.7	15.8	
CNP Margin (%)	7.9	9.0		10.7		8.4	10.8	
Effective Tax Rate (%)	35.1	36.1		26.2		35.6	27.8	

Source: Company, Kenanga Research

Segment Breakdown

FYE Sep (RM m)	2QFY26	1QFY26	QoQ Chg	2QFY25	YoY Chg	1HFY26	1HFY25	YoY Chg
Revenue								
F&B Malaysia	773.5	812.4	-5%	781.6	-1%	1,585.9	1,551.0	2%
F&B Indochina	458.2	490.2	-7%	551.6	-17%	948.4	1,171.2	-19%
Property	0.2	0.2	0%	0.2	5%	0.4	0.4	11%
Others	0.6	0.6	-3%	0.7	-10%	1.2	1.3	-9%
Total	1,232.4	1,303.4	-5%	1,334.1	-8%	2,535.9	2,723.9	-7%
Reported Operating Profit								
F&B Malaysia	56.2	86.6	-35%	73.3	-23%	142.8	174.7	-18%
F&B Indochina	92.6	91.0	2%	120.2	-23%	183.6	253.6	-28%
Property	(0.3)	(0.2)	13%	0.0	N.A.	(0.5)	(0.3)	69%
Others	1.6	3.7	-57%	(1.7)	-193%	5.3	6.8	-22%
Total	150.1	181.0	-17%	191.8	-22%	331.1	434.8	-24%
Operating Margin								
F&B Malaysia	7.3%	10.7%		9.4%		9.0%	11.3%	
F&B Indochina	20.2%	18.6%		21.8%		19.4%	21.7%	
Property	->100%	->100%		0.0%		->100%	-79.0%	
Others	>100%	>100%		->100%		>100%	>100%	
Total	12.2%	13.9%		14.4%		13.1%	16.0%	

Source: Company, Kenanga Research

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F&N's Sum-of-Parts Valuation

Segment	Valuation	Valuation Basis
	(RM m)	
Core F&B	13,220	24x FY27 PER
Integrated Dairy Farm	511	DCF @ WACC of 6.8%
Total	13,731	
Paid-up Capital (m shares)	367	
SoP per share / TP (RM)	37.40	

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)	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	OP	1.16	1.30	12.1%	1,628.6	Y	12/2026	10.3	11.3	8.6%	9.0%	11.2	10.3	0.8	7.1%	5.0	4.3%
FARM FRESH BHD	MP	2.54	2.40	-5.5%	4,786.4	Y	03/2026	7.5	8.6	29.2%	15.5%	34.1	29.5	5.8	18.2%	3.0	1.2%
FRASER & NEAVE HOLDINGS BHD	OP	31.30	37.40	19.5%	11,480.2	Y	09/2026	118.0	144.6	-15.2%	22.5%	26.5	21.7	2.8	11.0%	70.0	2.2%
MR D.I.Y. GROUP (M) BHD	OP	1.67	1.80	7.8%	15,827.4	Y	12/2026	7.5	8.2	11.6%	9.0%	22.2	20.4	7.8	35.3%	8.0	4.8%
NESTLE (MALAYSIA) BHD	MP	108.40	106.00	-2.2%	25,419.8	Y	12/2026	256.9	284.7	20.2%	10.8%	42.2	38.1	43.8	104.1%	255.0	2.4%
PADINI HOLDINGS BHD	MP	1.47	1.75	19.0%	1,450.7	Y	06/2026	14.0	15.9	-15.0%	13.5%	10.5	9.3	1.2	11.1%	8.2	5.6%
POWER ROOT BHD	MP	1.17	1.08	-7.7%	490.1	Y	03/2026	5.6	7.2	-21.5%	28.3%	20.9	16.3	1.7	7.5%	5.0	4.3%
QL RESOURCES BHD	MP	3.80	4.05	6.6%	13,871.0	Y	03/2026	12.2	13.4	-2.0%	9.5%	31.1	28.4	3.9	14.1%	5.0	1.3%
KAREX BHD	MP	0.515	0.580	12.6%	542.5	Y	06/2026	1.0	2.3	5250.0%	126.2%	50.7	22.4	1.2	2.3%	1.5	2.9%
SECTOR AGGREGATE					75,496.7					4.4%	12.9%	28.5	25.2	5.0	17.6%		3.2%

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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