Fraser & Neave Holdings

Growing Pains, Longer Than Expected

By Thin Yun Jing I thinyj@kenanga.com.my

OUTPERFORM ↔

Price: RM21.22

Target Price: RM24.50 ↓

F&N's FY26 results missed expectations, as higher-than-expected operating costs at F&N AgriValley and persistent weakness in Indochina continued to overshadow resilient domestic performance. While milk yields at AgriValley have reached an encouraging 30L per cow per day, the slower-than-expected narrowing of dairy farm losses suggests that the journey towards profitability may be more gradual than initially anticipated. As such, we cut FY27F earnings by 16% and lower our SoP-derived TP to RM24.50 (from RM28.95). Valuations near 10-year lows reflect the lower annual profits versus historical levels, and we thus see much of the near-term earnings disappointment has largely been reflected in its YTD share price weakness. While the longer-term potential of its integrated dairy strategy remains intact, recent performance at AgriValley is weaker than previously guided and ahead of today's briefing, we retain OUTPERFORM pending further clarity on the outlook.

Below expectations. F&N's FY26 core net profit of RM340m (after excluding RM91m one-off disposal gain from Vacaron, RM1m net forex gain, and other non-recurring items) came in below expectations, at only 83% of our forecast and 81% of the consensus estimate. The key variance against our forecast came largely from higher-than-expected operating costs at F&N AgriValley and prolonged weakness in F&B Indochina, compounded by start-up costs at its new Cambodia manufacturing facility. The group declared a final dividend of 30 sen during this quarter, bringing FY26 total dividend to 60 sen (FY25: 65 sen), below our expectation of 65 sen.

YoY, FY26 revenue declined 5% as weaker F&B Indochina sales (-17%), dragged by prolonged border disruptions affecting Cambodia exports, subdued demand in Thailand and unfavourable THB/MYR translation, more than offset resilient growth in F&B Malaysia (+3% YoY) supported by stronger domestic sales and wider distribution. Notably, sales volumes grew across Malaysia, Thailand and export markets, suggesting that underlying demand remained relatively resilient. However, FY26 core net profit, adjusted for forex, fell by a sharper 33%, weighed down by: (i) higher operating costs at F&N AgriValley, and (ii) lower F&B Indochina profits (-25%) amid Cambodia sales disruptions and new plant start-up costs.

QoQ, 4QFY26 topline was broadly flat (-1%) but bottom line plunged 58%, as F&B Malaysia profits contracted 62% QoQ due to higher dairy farm costs, alongside weaker F&B Indochina profits (-16%) amid increased trade investment in Thailand and start-up costs at its Cambodia plant. Note that this excludes RM91m one-off gain from the disposal of its stake in Vacaron Company Sdn Bhd, first announced on 25 Sep 2025.

Outlook. We expect F&N's near-term earnings recovery to remain uneven, with resilient domestic demand partly offset by elevated operating costs at F&N AgriValley and continued challenges in Indochina. While milk yields at AgriValley have reached 30 litres per cow per day (versus Malaysian industry average of 10 litres, according to management), translating higher productivity into profitability remains key. The weaker 4Q performance suggests that dairy farm losses may take longer to narrow than previously anticipated, while management has yet to reaffirm its CY28 breakeven target. Meanwhile, the commencement of local production of Gold Coin sweetened creamer in Cambodia in Oct 2026 should reduce reliance on cross-border shipments and support Indochina sales recovery, although

Share Price Performance



KLCI	1,635.86
YTD KLCI chg	-2.6%
YTD stock price chg	-40.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	7,783.0
Shares Outstanding	366.8
52-week range (H)	36.82
52-week range (L)	19.46
3-mth avg. daily vol.	101,188
Free Float	34%
Beta	0.8

Major Shareholders

Fraser and Neave Ltd	55.5%
Employees Provident Fund Board	16.5%
Amanah Saham Nasional Bhd	6.5%

Summary Earnings Table

FYE Sep (RM m)	2026A	2027F	2028F
Turnover	4,924	5,098	5,297
EBIT	644	628	716
PBT	625	589	656
Net Profit (NP)	340	424	475
Consensus (NP)	-	512	611
Earnings Revision	-	-	NEW
Core EPS (sen)	93	115	129
Core EPS Growth (%)	-33	25	12
NDPS (sen)	60.0	65.0	65.0
BVPS (RM)	11.0	11.5	12.1
Core PER (x)	22.9	18.4	16.4
PBV (x)	1.9	1.8	1.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.8	3.1	3.1

associated start-up costs could limit near-term earnings contribution. Nevertheless, we remain constructive on F&N's longer-term integrated dairy strategy, with earnings recovery hinging on cost normalization at AgriValley and successful execution in Cambodia. We await further clarity on both fronts at today's briefing.

Forecasts. We cut our FY27F earnings by 16%, mainly to reflect higher operating costs at F&N AgriValley and a more gradual earnings recovery in F&B Indochina amid the ramp-up of its new Cambodia manufacturing facility. Meanwhile, we introduce our FY28F numbers.

Valuations. Post earnings revision, we lower our SoP-derived TP to RM24.50 (from RM28.95). This is based on an unchanged 20x FY27F PER for its core F&B segment, in line with the industry's average forward PER, and a WACC of 6.8% with TG of 2% for its dairy farm business. 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 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. With valuations trading near 10-year lows following a c.40% YTD share price decline, we believe much of the near-term earnings weakness may have already been reflected in the share price. 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)	4QFY26	3QFY26	QoQ Chg	4QFY25	YoY Chg	FY26	FY25	YoY Chg
Revenue	1,189.1	1,198.8	-1%	1,227.0	-3%	4,923.8	5,196.6	-5%
GP	333.1	365.5	-9%	400.2	-17%	1,500.0	1,657.5	-9%
EBIT	173.7	139.4	25%	173.8	0%	644.2	745.5	-14%
PBT / (LBT)	169.4	134.5	26%	169.1	0%	625.4	730.7	-14%
Taxation	(32.2)	(38.3)	16%	(51.1)	37%	(185.0)	(216.1)	14%
Minority Interest	(2.2)	(2.6)	15%	(3.7)	40%	(3.3)	(6.2)	46%
Net Profit	**135.0**	**93.6**	**44%**	**114.3**	**18%**	**437.1**	**508.5**	**-14%**
Core Net Profit	**37.3**	**89.3**	**-58%**	**120.7**	**-69%**	**340.2**	**511.1**	**-33%**
Core EPS (sen)	10.2	24.4	-58%	32.9	-69%	92.9	139.5	-33%
DPS (sen)	30.0	0.0	N.A.	35.0	-14%	60.0	65.0	-8%
GP Margin (%)	28.0	30.5		32.6		30.5	31.9	
EBIT Margin (%)	14.6	11.6		14.2		13.1	14.3	
PBT Margin (%)	14.2	11.2		13.8		12.7	14.1	
CNP Margin (%)	3.1	7.4		9.8		6.9	9.8	
Effective Tax Rate (%)	19.0	28.5		30.2		29.6	29.6	

Source: Company, Kenanga Research

Segment Breakdown

FYE Sep (RM m)	4QFY26	3QFY26	QoQ Chg	4QFY25	YoY Chg	FY26	FY25	YoY Chg
Revenue								
F&B Malaysia	737.8	736.2	0%	731.6	1%	3,059.9	2,961.7	3%
F&B Indochina	450.5	461.8	-2%	494.6	-9%	1,860.7	2,231.5	-17%
Property	0.2	0.2	-9%	0.2	-8%	0.8	0.8	4%
Others	0.6	0.6	3%	0.7	-12%	2.4	2.7	-11%
Total	**1,189.1**	**1,198.8**	**-1%**	**1,227.0**	**-3%**	**4,923.8**	**5,196.6**	**-5%**
Reported Operating Profit								
F&B Malaysia	15.8	42.2	-62%	79.9	-80%	200.9	280.3	-28%
F&B Indochina	78.5	93.0	-16%	106.6	-26%	355.0	474.6	-25%
Property	(0.4)	(0.3)	-21%	(1.6)	75%	(1.3)	(3.2)	60%
Others	79.8	4.5	>100%	(11.1)	>100%	89.6	(6.2)	>1540%
Total	**173.7**	**139.4**	**25%**	**173.8**	**0%**	**644.2**	**745.5**	**-14%**
Operating Margin								
F&B Malaysia	2.1%	5.7%		10.9%		6.6%	9.5%	
F&B Indochina	17.4%	20.1%		21.6%		19.1%	21.3%	
Property	->100%	->100%		->100%		->100%	->100%	
Others	>100%	>100%		->100%		>100%	->100%	
Total	**14.6%**	**11.6%**		**14.2%**		**13.1%**	**14.3%**	

Source: Company, Kenanga Research

F&N's Sum-of-Parts Valuation		
Segment	**Valuation**	**Valuation Basis**
	(RM m)	
Core F&B	8,481	20x FY27 PER
Integrated Dairy Farm	511	DCF @ WACC of 6.8%
Total	**8,992**	
Paid-up Capital (m shares)	367	
SoP per share / TP (RM)	**24.50**	

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																	
99 SPEED MART RETAIL HOLDINGS	MP	3.08	3.80	23.4%	25,872.0	N	12/2026	8.5	9.5	17.2%	12.5%	36.3	32.3	13.1	39.0%	5.0	1.6%
AEON CO. (M) BHD	OP	0.900	1.18	31.1%	1,263.6	Y	12/2026	11.0	11.8	15.3%	7.6%	8.2	7.6	0.6	7.5%	5.0	5.6%
FARM FRESH BHD	MP	1.88	2.00	6.4%	3,730.8	Y	03/2027	7.1	8.5	11.0%	19.6%	26.3	22.0	3.5	14.9%	2.0	1.1%
FRASER & NEAVE HOLDINGS BHD	OP	21.22	24.50	15.5%	7,783.0	Y	06/2027	115.5	129.5	24.7%	12.1%	18.4	16.4	1.8	10.3%	65.0	3.1%
MR D.I.Y. GROUP (M) BHD	OP	1.20	1.60	33.3%	11,373.0	Y	12/2026	7.1	7.9	5.9%	11.2%	16.8	15.1	5.9	33.9%	8.0	6.7%
NESTLE (MALAYSIA) BHD	OP	96.00	103.90	8.2%	22,512.0	Y	12/2026	299.6	306.0	40.2%	2.1%	32.0	31.4	36.2	117.2%	280.0	2.9%
PADINI HOLDINGS BHD	MP	1.04	1.22	17.3%	1,026.3	Y	06/2027	13.5	13.9	16.1%	3.1%	7.7	7.5	0.8	10.8%	8.2	7.9%
POWER ROOT BHD	MP	1.14	1.08	-5.3%	464.9	Y	03/2027	5.6	7.2	-21.5%	28.3%	20.3	15.9	1.6	7.5%	5.0	4.4%
QL RESOURCES BHD	OP	3.86	4.40	14.0%	14,060.0	Y	03/2027	13.2	14.0	7.1%	6.2%	29.2	27.5	3.9	15.3%	5.0	1.3%
KAREX BHD	OP	0.425	0.590	38.8%	447.7	Y	06/2027	2.3	3.1	8133.3%	32.0%	18.1	13.7	1.0	5.5%	1.0	2.4%
SECTOR AGGREGATE					**88,533.3**					**18.0%**	**9.2%**	**25.5**	**23.3**	**5.1**	**19.9%**		**3.7%**

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my