Fraser & Neave Holdings

A Longer Road to Recovery

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

We gather from F&N's post-results briefing that the earnings contribution of its two major projects, F&N AgriValley and new Cambodia factory, could take longer than previously expected, with continued start-up losses and rising input costs weighing on near-term earnings. We cut FY27F/FY28F earnings by 4%/2% to reflect slower ramp-up and more gradual margin recovery. Consequently, we trim our SoP-derived TP to RM23.50 (from RM24.50), and lower F&N to MARKET PERFORM, also taking into consideration an 11% share price rally over the past week juxtaposed against its unexciting near-term outlook. While its resilient core F&B businesses should provide some support, clearer signs of improving profitability from these new ventures would be key rerating catalysts.

Key takeaways from F&N's 4QFY26 results briefing are as follows:

1. **AgriValley's profitability remains a work in progress.** F&N is taking a measured approach to expansion, prioritizing operational stability and productivity improvements at its integrated dairy farm. Average milk yields have exceeded 30 litres/cow/day from over 3,000 milking cows (total herd: >8,000), while over 400ha of feed crops have been planted, with another 450ha ready for cultivation. However, inconsistent harvests amid weather volatility remain a challenge, particularly as feed represents the farm's largest variable cost. Given the ongoing operational challenges and slower pace of expansion, we expect start-up losses to persist longer than previously expected. Notably, management did not reaffirm its earlier CY28 breakeven target.

2. **Cambodia rebuilding its growth momentum.** F&N's new local factory commenced commercial production of *Gold Coin* sweetened creamer in Oct 2026, marking an important step in rebuilding its Cambodia business following prolonged cross-border disruptions. Management expects to monitor market traction over the next six months before assessing the pace of recovery. While the shift from a low-cost export model to local manufacturing should strengthen its market presence over time, we believe higher operating costs and continued investments in distribution and marketing could limit earnings contributions in the near term.

3. **Core F&B remains resilient, but cost pressures persist.** While management remains confident in its established core F&B divisions, rising input costs, particularly dairy, sugar and packaging, are expected to persist into FY27. The group has implemented average price increases of 3-4% across its portfolio in recent quarters, with further selective adjustments under consideration. Together with ongoing operational efficiencies, these measures should help cushion cost pressures, though we believe rising commodity costs and price-sensitive consumers could temper the pace of margin recovery.

Forecasts. While medium-term growth prospects are supported by the ramp-up of its dairy operations, we expect near-term earnings to remain dampened by continued start-up losses at F&N AgriValley and its new dairy manufacturing plant in Cambodia. As such, we cut our FY27F/FY28F earnings by 4%/2%, respectively.

MARKET PERFORM ↓

Price: **RM22.22**
Target Price: **RM23.50** ↓

Share Price Performance



KLCI	1,616.58
YTD KLCI chg	-3.8%
YTD stock price chg	-37.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FNH MK Equity
Market Cap (RM m)	8,149.8
Shares Outstanding	366.8
52-week range (H)	36.82
52-week range (L)	19.46
3-mth avg. daily vol.	102,909
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	605	697
PBT	625	567	646
Net Profit	437	406	465
Core Net Profit	340	406	465
Consensus (NP)	-	472	557
Earnings Revision	-	-4%	-2%
Core EPS (sen)	93	110	127
Core EPS Growth (%)	-33	19	15
NDPS (sen)	60.0	60.0	65.0
BVPS (RM)	11.0	11.5	12.1
Core PER (x)	24.0	20.1	17.5
PBV (x)	2.0	1.9	1.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.7	2.7	2.9

Valuations. Consequently, we lower our SoP-derived TP to RM23.50 (from RM24.50), while keeping 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. However, we see limited near-term catalysts amid a slower-than-expected earnings contribution at its F&N AgriValley project and new Cambodia factory. Downgrade to **MARKET PERFORM** from **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.

F&N's Sum-of-Parts Valuation

Segment	Valuation (RM m)	Valuation Basis
Core F&B	8,116	20x FY27 PER
Integrated Dairy Farm	497	DCF @ WACC of 6.8%
Total	8,613	
Paid-up Capital (m shares)	367	
SoP per share / TP (RM)	**23.50**	

Source: Kenanga Research

Income Statement

FYE Sep (RM m)	2024A	2025A	2026A	2027F	2028F
Revenue	5,246	5,197	4,924	5,098	5,297
EBITDA	854	897	819	846	957
Depreciation	145	151	174	215	234
Operating Profit	710	746	644	605	697
Interest Income	43	40	116	25	26
Interest Expense	-36	-35	-28	-31	-32
Associate	0	0	0	0	0
Exceptional Items	0	0	0	0	0
PBT	697	731	625	567	646
Taxation	153	216	185	178	199
Minority Interest	-2	-6	-3	-9	-9
Net Profit	543	508	437	406	465
Core Net Profit	565	511	340	406	465

Balance Sheet

FYE Sep (RM m)	2024A	2025A	2026A	2027F	2028F
Fixed Assets	1,844	2,337	2,538	2,698	2,642
Intangible Assets	430.3	423.8	421.0	429.4	428.4
Other FA	454	486	570	570	570
Inventories	745	744	786	786	786
Receivables	853	899	804	832	862
Other CA	14	98	33	33	34
Cash	1,135	626	656	966	1,227
Total Assets	5,474	5,614	5,808	6,314	6,550
Payables	826	763	890	890	890
ST Borrowings	116	97	111	111	111
Other ST Liability	168	313	210	300	300
LT Borrowings	639	392	383	383	383
Other LT Liability	139	169	168	168	168
Minorities Int.	11	16	19	28	37
Net Assets	**3,576**	**3,863**	**4,027**	**4,213**	**4,439**
Share Capital	817	817	817	817	817
Reserves	2,759	3,046	3,211	3,396	3,622
Equity	**3,576**	**3,863**	**4,027**	**4,213**	**4,439**

Cashflow Statement

FYE Sep (RM m)	2024A	2025A	2026A	2027F	2028F
Operating CF	733	604	818	612	708
Investing CF	-254	-717	-368	-220	-226
Financing CF	-365	-405	-388	-237	-255
Change In Cash	114	-517	61	155	228
Free CF	475	-133	305	203	315

Financial Data & Ratios

FYE Sep	2024A	2025A	2026A	2027F	2028F
Growth (%)					
Turnover	4.9	-0.9	-5.3	3.5	3.9
EBITDA	8.2	5.0	-8.7	3.3	13.1
Operating Profit	10.4	5.1	-13.6	-6.0	15.1
PBT	11.6	4.8	-14.4	-9.4	14.0
Core Net Profit	18.4	-9.5	-33.4	19.3	14.6
Profitability (%)					
EBITDA Margin	16.3	17.3	16.6	16.6	18.1
Operating Margin	13.5	14.3	13.1	11.9	13.2
PBT Margin	13.3	14.1	12.7	11.1	12.2
Core Net Margin	10.8	9.8	6.9	8.0	8.8
Effective Tax Rate	21.9	29.6	29.6	31.3	30.7
ROA	10.3	9.1	5.9	6.5	7.2
ROE	15.8	13.2	8.4	9.6	10.4
DuPont Analysis					
Net Margin (%)	10.8	9.8	6.9	8.0	8.8
Assets Turnover	1.0x	0.9x	0.8x	0.8x	0.8x
Leverage Factor	1.5x	1.4x	1.4x	1.5x	1.4x
ROE (%)	15.8	13.2	8.4	9.6	10.4
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
Net Debt/(Cash)	-429	-34	-158	-378	-639
Net Debt/Equity (x)	-0.1	0.0	0.0	-0.1	-0.1
Valuations					
EPS (sen)	147.8	138.5	119.1	110.5	126.6
NDPS (sen)	63.0	65.0	60.0	60.0	65.0
BV/Share (RM)	9.7	10.5	11.0	11.5	12.1
PER (x)	15.0	16.0	18.7	20.1	17.5
Net Div. Yield (%)	2.8	2.9	2.7	2.7	2.9
P/BV (x)	2.3	2.1	2.0	1.9	1.8
EV/EBITDA (x)	10.1	9.1	10.2	10.1	9.2

Source: Kenanga Research

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	0.880	1.18	34.1%	1,235.5	Y	12/2026	11.0	11.8	15.3%	7.6%	8.0	7.4	0.6	7.5%	5.0	5.7%
FARM FRESH BHD	MP	1.85	2.00	8.1%	3,671.2	Y	03/2027	7.1	8.5	11.0%	19.6%	25.9	21.7	3.4	14.9%	2.0	1.1%
FRASER & NEAVE HOLDINGS BHD	MP	22.22	23.50	5.8%	8,149.8	Y	09/2027	110.5	126.6	19.3%	14.6%	20.1	17.5	1.9	9.8%	60.0	2.7%
MR D.I.Y. GROUP (M) BHD	OP	1.17	1.60	36.8%	11,088.6	Y	12/2026	7.1	7.9	5.9%	11.2%	16.4	14.8	5.7	33.9%	8.0	6.8%
NESTLE (MALAYSIA) BHD	OP	94.16	103.90	10.3%	22,080.5	Y	12/2026	299.6	306.0	40.2%	2.1%	31.4	30.8	35.5	117.2%	280.0	3.0%
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	1.15	1.08	-6.1%	468.8	Y	03/2027	5.6	7.2	-21.5%	28.3%	20.5	16.0	1.7	7.5%	5.0	4.3%
QL RESOURCES BHD	OP	3.84	4.40	14.6%	13,987.2	Y	03/2027	13.2	14.0	7.1%	6.2%	29.0	27.3	3.9	15.3%	5.0	1.3%
KAREX BHD	OP	0.410	0.590	43.9%	431.9	Y	06/2027	2.3	3.1	8133.3%	32.0%	17.5	13.2	0.9	5.5%	1.0	2.4%
SECTOR AGGREGATE					**88,012.0**					**17.4%**	**9.5%**	**25.5**	**23.3**	**5.0**	**19.7%**		**3.7%**

Source: Kenanga Research

This section is intentionally left blank

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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