

Fraser & Neave Holdings Berhad

TP: RM42.00 (+19.8%)

4QFY19: Some Misses but Nothing Major

Last Traded: RM35.06

Buy

Jeff Lye Zhen Xiong

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

Review

- Fraser & Neave Holdings Berhad's (F&N) FY19 adjusted net profit of RM426.9mn (+6.2% YoY) came below our expectation though within consensus estimate at 93% and 99% respectively. The variance was largely due to lower-than-expected F&B Thai revenue and higher-than-expected effective tax rate.
- The group declared a final single-tier dividend of 33.0sen/share in 4QFY19, bringing the total dividend for the year to 60.0sen/share (vs. 57.5sen/share in FY18).
- FY19 revenue increased by 5.3% YoY largely underpinned by growth in F&B Thailand, which revenue grew by 11.3% YoY. The improvement was driven by: i) strong sales momentum, ii) successful marketing and branding initiatives, and iii) optimal pricing structure. Meanwhile, F&B Malaysia recorded a marginal revenue improvement of 0.5% YoY, owing to higher sales of value pack product types and trade spending, although was partly dragged by absence of a one-off export-oriented contract.
- FY19 operating profit, jumped by 23.4% YoY to RM520.4mn, driven by F&B Thailand's (+40.3% YoY) operations. The improvement was mainly result of favourable input costs and greater operational efficiency. Overall, EBIT margin improved to 12.8% (+1.9 pts YoY). The effective tax rate was 14.2%-pts higher YoY (at 23.0%, due to the lapse in F&B Thailand's tax incentives), resulting to a flat net margin (10.1%; +0.1%-pts YoY).
- YoY against 4QFY18. 4QFY19 operating profit was 13.6% YoY lower despite 2.9% YoY increase in revenue (to RM975.1mn). Profit from F&B Malaysia decreased 27.0% YoY largely due to i) presence of sales tax refund and rebranding support fund amounting a total of RM8.7mn in 4QFY18. As for F&B Thai, operating income was lower by 1.8% YoY due to group's heightened brand investment and trade spending associated to new product launches.

Impact

- We make no changes to earnings forecast. Note that an analyst briefing would be conducted today.

Outlook

- The group is expected to prioritise its commercial execution in preparation for an early 2020 Chinese New Year festive sales, accelerate product innovations, and enhance operational efficiencies alongside expanding its global reach through new market expansion and e-commerce penetration.
- The group's mission in lowering overall sugar index has been fruitful where 90% of ready-to-drink beverages sold in Malaysia now contain less sugar than the excise duty threshold. Moreover, with strong consumer acceptability toward the reduced sugar products, we are not overly

Share Information

Bloomberg Code	FNH
Stock Code	3689
Listing	Main Board
Share Cap (m)	367.2
Market Cap (RMm)	12,875.5
52-wk Hi/Lo (RM)	36.96/29.20
12-mth Avg Daily Vol ('000)	259.3
Estimated Free Float (%)	21.4
Beta	0.7
Major Shareholders (%)	
Fraser & Neave Ltd	55.5
Employees Provident Fund	10.1

Forecast Revision

	FY20	FY21
Forecast Revision (%)	-	-
Net profit (RMm)	480.4	525.2
Consensus	450.8	477.3
TA's / Consensus (%)	106.5	110.0
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net debt/equity (%)	Net Cash	Net Cash
ROE (%)	18.2	18.3
ROA (%)	13.4	13.5
NTA/Share (RM)	7.2	7.8
Price/ NTA (x)	4.9	4.5

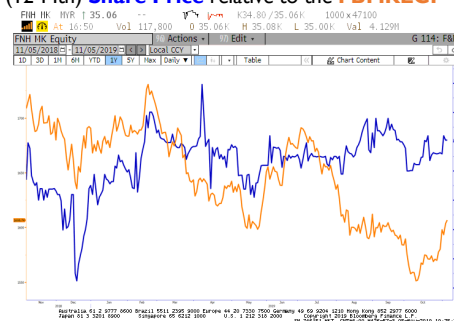
Scorecard

	% of FY19
vs TA	93 Below
vs Consensus	99 Within

Share Performance (%)

Price Change	F&N	FBM KLCI
1 mth	3.1	3.2
3 mth	3.4	(0.3)
6 mth	0.8	(1.6)
12 mth	4.0	(6.0)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

concern with beverage segment despite some wait-and-see stances adopted by retailers in the latest quarter.

- With regards to the volatile input cost, we are hopeful that the group's proactive management of its procurement and optimal pricing could mitigate any sharp unfavourable raw material price movements.
- We believe the group's business direction for vertical integration would lead to meaningful results in the medium term.

Valuation

- Maintain Buy on F&N with unchanged target price of RM42.00/share.

Table 1: Earnings Summary (RMmn)

FYE 30 Sep (RM'mn)	FY18	FY19	FY20E	FY21F	FY21F
Revenue	3,871.0	4,077.1	4,499.2	4,708.3	4,921.2
EBITDA	512.7	622.9	702.8	766.9	843.4
EBIT	421.7	520.4	594.0	652.3	723.4
Reported PBT	424.2	533.0	600.4	656.5	726.2
Net profit	386.6	410.3	480.4	525.2	581.0
Adj Net profit	402.1	426.9	480.4	525.2	581.0
EPS (sen)	104.9	111.9	130.8	143.0	158.2
Adj EPS (sen)	109.1	116.4	130.8	143.0	158.2
PER (x)	33.4	31.3	26.8	24.5	22.2
Net Dividend (sen)	57.5	60.0	70.0	80.0	85.0
Div Yield (%)	1.6	1.7	2.0	2.3	2.4

Table 2: 4QFY19 Results Analysis (RMmn)

FYE Sep 30 (RM'mn)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	947.6	1,066.3	975.1	(8.6)	2.9	3,871.0	4,077.1	5.3
F&B Malaysia	505.9	571.5	498.3	(12.8)	(1.5)	2,154.2	2,164.8	0.5
F&B Thailand	441.4	493.9	475.5	(3.7)	7.7	1,715.6	1,909.5	11.3
Property	0.2	0.3	0.3	3.6	30.5	0.9	1.1	20.5
Others	0.1	0.7	0.9	36.0	>100	0.3	1.7	>100
Adj EBIT	100.2	153.1	94.1	(38.5)	(6.1)	437.2	537.0	22.8
EBIT	100.1	151.9	86.5	(43.0)	(13.6)	421.7	520.4	23.4
F&B Malaysia	38.0	52.7	27.7	(47.5)	(27.0)	168.1	161.1	(4.2)
F&B Thailand	61.7	99.1	60.6	(38.9)	(1.8)	258.0	362.0	40.3
Property	(0.2)	0.2	(0.2)	nm	(3.7)	0.5	(0.1)	nm
Others	0.6	(0.2)	(1.6)	>100	nm	(4.9)	(2.4)	(50.8)
Adj. EBIT	100.2	153.1	94.1	(38.5)	(6.1)	437.2	537.0	22.8
Net Interest	1.1	2.8	3.4	20.4	>100	0.5	10.7	>100
Extra-Ordinary Items	(0.1)	(1.3)	(7.6)	>100	>100	(15.9)	(16.6)	4.3
Associates & joint venture	(0.1)	0.8	(0.5)	nm	>100	2.0	1.8	(8.4)
Pretax Profit	101.1	155.5	89.5	(42.5)	(11.5)	424.2	533.0	25.6
Taxation	(18.4)	(40.6)	(21.4)	(47.1)	16.4	(37.6)	(122.7)	>100
Reported Net Profit	82.7	114.9	68.0	(40.8)	(17.7)	386.6	410.3	6.1
Adj. Net Profit	82.8	116.2	75.6	(34.9)	(8.6)	402.1	426.9	6.2
Basic EPS (sen)	22.2	31.3	18.6	(40.6)	(16.2)	104.9	111.9	6.7
Dividend (sen)	30.5	-	33.0	nm	8.2	57.5	60.0	4.3
				%-points	%-points			%-points
EBIT Margin (%)	10.6	14.2	8.9	(5.4)	(1.7)	10.9	12.8	1.9
PBT Margin (%)	10.7	14.6	9.2	(5.4)	(1.5)	11.0	13.1	2.1
Net Margin (%)	8.7	10.8	7.0	(3.8)	(1.7)	10.0	10.1	0.1
Effective Tax Rate (%)	18.2	26.1	24.0	(2.1)	5.7	8.9	23.0	14.2

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Wednesday, November 06, 2019, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my