COMPANY RESULTS

Fraser & Neave Holdings (FNH MK)

3QFY22: Malaysian Operations Support Decent Growth

3QFY22 was supported by Malaysian operations. Well-sustained demand amid price adjustments and opex discipline lifted margins. Contrastingly, Thailand's ASP revision saw a mixed performance as earnings were weighed further by a weakening Thai baht. Downside appears more than priced in with valuations now trading below -2SD to its five-year mean PE. Maintain BUY on F&N with a higher target price of RM25.60.

3QFY22 RESULTS

Year to 30 Sep (RMm)	3QFY22	qoq % chg	yoy % chg	9MFY22	yoy % chg	Comments
Revenue	1,118.2	1.0	5.5	3,332.6	3.0	Revenue lifted by Malaysia's recovery. Thai sales were dampened by softer demand, weighed by price adjustments.
GP	291.4	5.6	(5.4)	865.5	(10.8)	
EBIT	106.8	1.3	(7.4)	293.7	(26.9)	
Ass.	2.9	25.1	99.1	6.3	39.9	
PBT	114.4	2.2	(4.0)	334.5	(19.9)	
Net Profit	97.5	3.8	1.4	284.3	(15.5)	
Core Profit	97.5	5.0	2.4	305.9	(8.6)	Above our but within consensus expectations.
Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg	
Gross Profit	26.1	1.1	(3.0)	26.0	(4.0)	
EBIT	9.6	0.0	(1.3)	11.7	(3.9)	
Eff. tax rate	(14.8)	1.4	4.5	(15.0)	4.4	
Core Profit	8.7	0.3	(0.3)	9.2	(1.2)	

Source: F&N, UOB Kay Hian

RESULTS

- **3QFY22 results are above our forecasts but within street's expectations.** Fraser & Neave Holdings (F&N) reported 3QFY22 core net profit of RM97.5m (+5.0% qoq, 2.4% yoy). This brought 9MFY22 core profit to RM306m (-8.6% yoy). This was above our expectations but within consensus', accounting for 88% and 82% of our and consensus' FY22 earnings forecasts respectively. The positive deviation is attributed to the Malaysian operations that saw relatively robust demand amid higher ASPs and opex discipline that resulted in improved margins. No dividend was declared as expected, cumulative DPS remains at 27 sen (9MFY21: 27 sen).

KEY FINANCIALS

Year to 30 Sep (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,989	4,131	4,571	4,510	4,617
EBITDA	648	609	570	660	678
Operating profit	515	473	447	530	541
Net profit (rep./act.)	410	398	367	460	468
Net profit (adj.)	400	401	367	460	468
EPS (sen)	109.1	109.3	100.0	125.4	127.6
PE (x)	20.1	20.1	21.9	17.5	17.2
P/B (x)	3.0	2.9	2.7	2.5	2.4
EV/EBITDA (x)	11.3	12.0	12.8	11.1	10.8
Dividend yield (%)	2.5	2.7	2.5	3.2	3.2
Net margin (%)	10.3	9.6	8.0	10.2	10.1
Net debt/(cash) to equity (%)	(14.5)	(18.1)	(24.9)	(29.2)	(32.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	15.7	14.4	12.6	14.9	14.2
Consensus net profit	-	-	373	417	472
UOBKH/Consensus (x)	-	-	0.98	1.10	0.99

Source: Fraser & Neave Holdings Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM21.94
Target Price	RM25.60
Upside	+16.7%
(Previous TP	*RM23.60)*

COMPANY DESCRIPTION

Leading beverage player which is principally involved in the manufacture, sale and marketing of soft drinks, dairies, and non-carbonated drinks.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FNH MK
Shares issued (m):	366.8
Market cap (RMm):	8,069.1
Market cap (US$m):	1,812.1
3-mth avg daily t'over (US$m):	0.8

Price Performance (%)

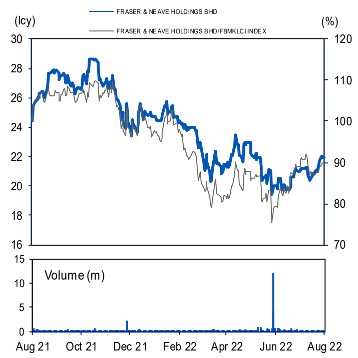
52-week high/low RM30.56/RM20.32

1mth	3mth	6mth	1yr	YTD
4.4	(4.3)	(10.9)	(11.3)	(11.1)

Major Shareholders	%
Fraser and Neave Ltd	55.5
PNB	14.1
EPF	11.7

FY22 NAV/Share (RM)	8.11
FY22 Net Cash/Share (RM)	2.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

Philip Wong
+603 2147 1996
philipwong@uobkayhian.com

3QFY22 RESULTS BY SEGMENT

Year to 30 Sep (RMm)	3QFY22	qoq (%)	yoy (%)	9MFY22 (%)	yoy (%)	Comments
Revenue						
Msia	626.8	1.9	16.0	1,817.5	8.7	Revenue lifted by host of reopening activities
Thai	490.1	(0.4)	(5.4)	1,511.8	(3.0)	Demand softened due to raised ASPs. Revenue declined -2.3% in thai baht terms.
EBIT						
Msia	50.4	11.6	194.0	118.2	33.9	Price increase lifted margins and opex discipline lifts margins
Thai	58.7	(5.0)	(40.5)	200.9	(37.3)	
EBIT Margin	(%)	+/- ppt	+/- ppt	(%)	+/- ppt	
Msia	8.0	0.7	4.9	6.5	1.2	
Dairies Thai	12.0	(0.6)	(7.1)	13.3	(7.3)	Unable to fully cost pass through as input cost cuts deep into margins.

Source: F&N, UOB Kay Hian

- **Malaysia: Enjoys better earnings off relatively inelastic demand.** Malaysia's 3QFY22 sales grew 16.0% yoy on the back of higher sales from Hari Raya festivities, successful execution of promotional campaigns, further easing of movement restrictions and lifting of travel restrictions. Beverage sales grew by the double digits for the quarter. Dairies revenue improved yoy amid a volume decline following price revisions to pass through higher input cost. From our channel checks, it appears there was a steep dairy ASP revision. This resulted in margins improving yoy to 8.0% or 4.9ppt. This lifted cumulative operating margins by 1.2ppt to 6.5% yoy.

- **Thailand: Forex and input costs continue to weigh.** Thailand's 3QFY22 sales declined 2.3% in constant currency terms (-5.4% due to forex impact). Overall sales fell due to lower domestic evaporated milk sales and export sales due to F&N's ASP revision that took place in late-2QFY22. Positively, condensed milk and liquid milk categories grew. Operating profit declined by 40.5% yoy due to lower sales and crimped margins. F&N's ASP revision was not able to fully pass through its higher input costs. However, we expect the gradually improving tourism to lift domestic sales in the quarters ahead.

EARNINGS REVISION/RISK

- We lift FY22 earnings by 5% to account for better margins. Key downside risk is spiralling commodities prices.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM25.60** (from RM23.60) as we roll over our valuations to CY23 from FY22. F&N's share price has down trended over the past year, possibly from F&N's exposure to commodities prices and more recently, the overall risk-off sentiment. That said, F&N offers considerable value when compared with large-cap Malaysian fast-moving consumer goods companies. We believe it offers a more than sufficient buffer against the downside risk of commodities prices. The reward-to-risk payoff appears highly compelling at this juncture. Our target price is DCF-based with a WACC of 7.8% and terminal growth of 2.5%. We note that its implied 20.4x FY23F PE is close to its -2SD of its five-year mean PE trading band.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

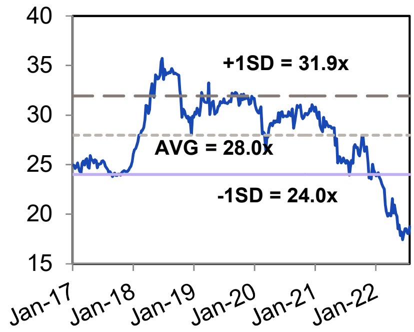
- **Environmental**
  - **Emissions management.** Reduced solid waste intensity ratio by 62% from 2017.
- **Social**
  - **Diversity & inclusion**. Among its >2,000 strong workforce, 69% are male while 31% are female. >97% of senior managers are hired from the local community.
  - **Wellbeing.** Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
- **Governance**
  - **Board balance and composition.** Six board members are independent directors, amounting to 55% of the board members.

KEY ASSUMPTIONS

	2022F	2023F	2024F
Sales (RMm)	4,571	4,510	4,617
Soft Drinks (% yoy)	5.0	0.0	0.0
Dairies Malaysia (% yoy)	14.4	-2.7	1.0
Dairies Thailand (% yoy)	10.6	-1.2	4.0
EBIT	447	530	541
margin (%)	9.8	11.8	11.7

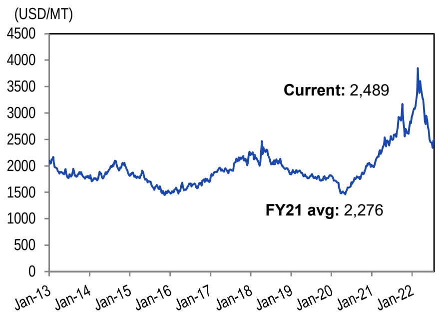
Source: UOB Kay Hian

FORWARD PE BAND



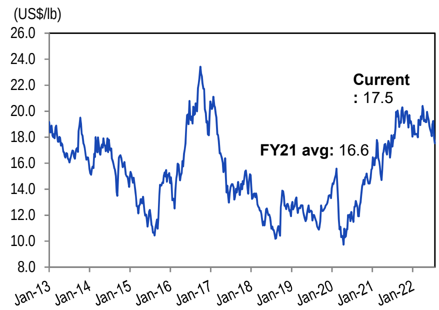
Source: Bloomberg, UOB Kay Hian

GLOBAL ALUMINUM PRICES



Source: Bloomberg

GLOBAL SUGAR PRICES



Source: Bloomberg

PROFIT & LOSS

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Net turnover	4,131	4,571	4,510	4,617
EBITDA	609	570	660	678
Deprec. & amort.	136	123	130	137
EBIT	473	447	530	541
Associate contributions	5	5	5	5
Net interest income/(expense)	1	12	15	17
Pre-tax profit	482	464	551	564
Tax	(84)	(98)	(91)	(96)
Minorities	0	0	0	0
Net profit	398	367	460	468
Net profit (adj.)	401	367	460	468

BALANCE SHEET

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,372	1,326	1,346	1,359
Other LT assets	495	553	559	564
Cash/ST investment	555	789	999	1,176
Other current assets	1,209	1,317	1,294	1,325
Total assets	3,632	3,985	4,198	4,424
ST debt	1	1	25	25
Other current liabilities	655	844	827	845
LT debt	43	43	43	43
Other LT liabilities	114	114	114	114
Shareholders' equity	2,819	2,983	3,189	3,398
Minority interest	0	0	0	0
Total liabilities & equity	3,632	3,985	4,198	4,424

CASH FLOW

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Operating	617	578	605	603
Pre-tax profit	479	464	551	564
Tax	(84)	(98)	(91)	(96)
Deprec. & amort.	136	123	130	137
Working capital changes	90	82	6	(13)
Non-cash items	n.a.	n.a.	n.a.	n.a.
Other operating cashflows	(4)	7	9	12
Investing	(181)	(142)	(165)	(167)
Capex (growth)	(145)	(130)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(36)	(12)	(15)	(17)
Financing	(339)	(203)	(230)	(259)
Dividend payments	(220)	(203)	(254)	(259)
Issue of shares	0	0	0	0
Loan repayment	(87)	0	24	0
Others/interest paid	(33)	0	0	0
Net cash inflow (outflow)	97	233	210	178
Beginning cash & cash equivalent	494	555	789	999
Changes due to forex impact	(35)	0	0	0
Ending cash & cash equivalent	555	789	999	1,176

KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.7	12.5	14.6	14.7
Pre-tax margin	11.7	10.2	12.2	12.2
Net margin	9.6	8.0	10.2	10.1
ROA	11.1	9.6	11.2	10.9
ROE	14.4	12.6	14.9	14.2
Growth				
Turnover	3.6	10.7	(1.3)	2.4
EBITDA	(5.9)	(6.5)	15.9	2.7
Pre-tax profit	(7.8)	(3.7)	18.5	2.4
Net profit	(2.9)	(7.8)	25.3	1.8
Net profit (adj.)	0.2	(8.5)	25.3	1.8
EPS	0.2	(8.5)	25.3	1.8
Leverage				
Debt to total capital	1.6	1.5	2.1	2.0
Debt to equity	1.6	1.5	2.1	2.0
Net debt/(cash) to equity	(18.1)	(24.9)	(29.2)	(32.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://research.uobkayhian.com

RCB Regn. No. 197000447W