Fraser & Neave Holdings (FNH MK)

Weathering The Perfect Storm

Highlights

- Despite recently challenging times, F&N appears to have weathered the worst of its headwinds as earnings are set to improve going into FY27.
- AgriValley losses are set to narrow as F&N ramps up production, although contributions may be further out as short-term focus remains on the optimisation of its production vs expansion.
- Softness in Cambodia stemming from the border conflict is also set to improve as F&N scales up both its exports from Malaysia as well as the local manufacturing plant.
- Maintain BUY with a lower target price of RM36.00 as we shift dairy contribtutions slightly further out. Nonetheless, F&N's current bargain valuations offer an attractive entry point.

Analysis

- **Relief as perfect storm relents.** While Fraser & Neave Holdings (F&N) continues to face challenging times, improving operational indices signal better times ahead. Losses from the dairy segment appear to have bottomed out and while Cambodia continues to be challenging following the Cambodia-Thailand border conflict, increasing exports from Malaysia and steady progress on the local manufacturing plant indicate that the worst of times may be behind them.
- **Dairy yields improving…** Yields for F&N's dairy segment have improved to ~30 litres/cow/day (from ~25 litres in 3QFY26) as the group continues to develop its dairy farms. Currently, the stable of milking cows remains steady at over 3,000 with F&N's target of 10,000 cows by 2029 remaining largely intact. The initial batch of milking cows have also begun yielding again, with production expected to improve in subsequent lactations (see overleaf table for details). We also note that market share for F&N's ultra-high temperature (UHT) milk has improved from 1-2% previously to 5-6%. We understand that F&N's focus for now remains on growing the UHT market vs competing aggressively for market share, and we expect F&N to eventually diversify into higher-value products (chilled milk, yoghurt, etc) once its UHT segment begins to deliver.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5245.6	5196.6	4928.4	5274.4	5435.7
EBITDA	900.5	1859.2	1709.0	1932.3	1975.2
Operating profit	846.7	896.6	805.9	965.8	979.2
Net profit (rep./act.)	542.8	508.5	427.3	502.4	565.6
Net profit (adj.)	543.7	517.3	427.3	502.4	565.6
EPS (sen)	162.6	401.1	362.7	416.3	430.0
PE (x)	15.6	16.4	19.8	16.9	15.0
P/B (x)	2.4	2.2	2.1	1.9	1.8
EV/EBITDA (x)	9.6	9.2	10.4	8.5	8.2
Dividend yield (%)	2.2	2.3	1.9	2.2	2.5
Net margin (%)	10.4	10.0	8.7	9.5	10.4
Net debt/(cash) to equity (%)	-12.0	-0.9	-3.4	-7.6	-13.0
Interest cover (x)	23.3	25.4	25.0	36.1	61.6
ROE (%)	15.7	13.3	10.5	11.6	12.2
Consensus net profit	n.a	n.a	467	572	655
UOBKH/Consensus (x)	n.a	n.a	0.92	0.88	0.86

Source: IJM, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	RM23.12
Target Price	RM36.00
Upside	55.7%
Previous TP	RM38.70

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	FNH MK
Shares issued (m):	366.8
Market cap (RMm):	8,479.9
Market cap (US$m):	2,075.5
3-mth avg daily t'over (US$m):	0.4

Price Performance (%)

52-week high/low: RM36.66/RM23.12

1mth	3mth	6mth	1yr	YTD
(12.2)	(16.8)	(26.0)	(13.7)	(34.3)

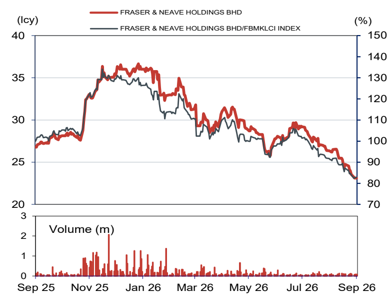
Major Shareholders (%)

Fraser and Neave Ltd	55.5

Balance Sheet Metrics

FY27 NAV/Share (RM)	10.5
FY27 Net Debt/Share (RM)	0.9

Price Chart



Source: Bloomberg

Company Description

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

- **…but expansion timeline may be extended.** We understand that F&N's focus for its dairy segment remains on optimisation at this time. The group is currently looking to maximise yields from its existing farms, with short-term expansion potentially being sidelined in favour of building its team's expertise. While its medium-to-long term targets remain intact, we believe any additional scaling-up may be delayed until after F&N has sufficiently developed its farms' operations, following which it may begin to import heifers more aggressively.
- **Cambodia sentiment remains solid.** While the Cambodia-Thailand conflict continues to weigh heavily on F&N's Thailand exports, on-the-ground sentiment remains resilient in Cambodia. Recall that F&N began exporting key brands (eg Bear Brand) from Malaysia following the escalation of the conflict. We understand that despite the brands being identical, pushback against the Malaysian products has been marginal. Consumers' disdain appears largely focused on Thai imports vs the brands themselves and the Malaysian exported products appear to be steadily gaining traction. Otherwise, domestic demand in Thailand also appears robust with sales in 3QFY26 continuing to post steady growth.
- **Scaling up operations in return.** Following the shift out of Thailand, F&N is looking to expand its production capacity in response to the increased pressure on its existing plants. Domestically, the Cambodia plant continues to make steady progress towards localising production of key products, with the group expected to launch a new brand in the coming months. We also understand that F&N is weighing an expansion to its Pulau Indah plant to support the exports from Malaysia. However, while demand in Cambodia for the exported product remains solid, we note that margins are narrower given the logistics costs.

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM36.00.** While FY26 continues to be challenging, the outlook for FY27 and beyond appears to be improving. Depressed valuations following the recent selldown also present an attractive entry point, with the group trading near -2.0SD to mean based on 2027F PE.
- Our target price is based on DCF implying 25.5x 2027F PE, which is slightly above its seven-year mean of 24.6x.

Earnings Revision/Risk

- We trim our FY27/FY28 earnings by 10%/4% respectively as we shift the dairy earnings contribution further out.
- We estimate the earnings drag from the dairy gestation and Cambodia boycott to be roughly RM120m-130m annually. Key inflection points include the dairy break-even (estimated at double current production) and further progress in rebuilding the product offerings in Cambodia.

Environmental, Social, Governance (ESG) Updates

Environmental

- Emissions management: Reduced solid waste intensity ratio by 62% from 2017.

Social

- Wellbeing: Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
- Diversity & inclusion: Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.

Governance

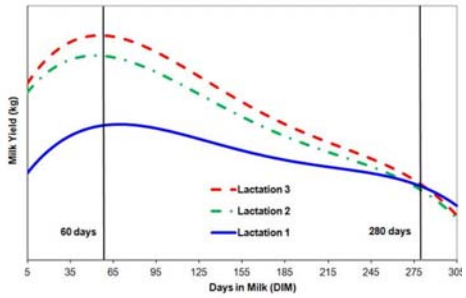
- Board balance and composition: Six board members are independent directors, amounting to 55% of the board members.

Key Assumptions

	2026F	2027F	2028F
Sales (RMm)	4,928	5,274	5,436
Malaysia – ex dairy (% yoy)	-2.5	0.0	0.0
Dairy (% yoy)	n/a	155	25
Dairies Thailand (% yoy)	-16.0	5.0	3.0
EBIT	806	966	979
Margin (%)	12.9	14.5	14.2

Source: UOB Kay Hian

Typical Holstein Lactation Curves and Measure of Lactation Persistency



Source: Lactanet

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	5197	4928	5274	5436
EBITDA	1859	1709	1932	1975
Deprec. & amort.	137	151	172	199
EBIT	897	806	966	979
Associate contributions	0	0	0	0
Net interest income/(expense)	-15	-18	-12	-1
Pre-tax profit	731	616	697	753
Tax	-216	-183	-188	-181
Minorities	-6	-6	-6	-6
Net profit	508	427	502	566
Net profit (adj.)	517	427	502	566

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,221	2,449	2,475	2,491
Other LT assets	1,034	1,023	1,010	998
Cash/ST investment	626	630	625	647
Other current assets	1,733	1,614	1,716	1,779
Total assets	5,614	5,715	5,827	5,915
ST debt	254	204	104	4
Other current liabilities	919	896	942	981
LT debt	338	288	188	38
Other LT liabilities	224	224	224	224
Shareholders' equity	3,863	4,094	4,364	4,669
Minority interest	16	10	4	-3
Total liabilities & equity	5,614	5,715	5,827	5,915

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	733	604	683	640
Pre-tax profit	731	616	697	753
Tax	-216	-183	-188	-181
Deprec. & amort.	137	151	172	199
Working capital changes	11	-147	96	-55
Other operating cashflows	70	167	-93	-76
Investing	-254	-717	-382	-213
Capex (growth)	-258	-737	-400	-225
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	4	20	18	12
Financing	-365	-405	-297	-432
Dividend payments	-294	-231	-197	-232
Issue of shares	0	1	2	3
Loan repayment	0	-114	-100	-200
Others/interest paid	-71	-59	0	0
Net cash inflow (outflow)	114	-517	4	-5
Beginning cash & cash equivalent	1032	1135	626	630
Changes due to forex impact	-10	8	0	0
Ending cash & cash equivalent	1135	626	630	625

Key Metric

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.3	16.4	18.3	18.0
Pre-tax margin	14.2	12.5	13.2	13.8
Net margin	10.0	8.7	9.5	10.4
ROA	9.2	7.5	8.7	9.6
ROE	13.3	10.5	11.6	12.2
Growth				
Turnover	-0.9	-5.2	7.0	3.1
EBITDA	5.9	-10.1	19.8	1.4
Pre-tax profit	6.0	-16.7	13.1	8.0
Net profit	-6.3	-16.0	17.6	12.6
Net profit (adj.)	-4.9	-17.4	17.6	12.6
EPS	-4.9	-17.4	17.6	12.6
Leverage				
Debt to total capital	10.5	8.6	5.0	0.7
Debt to equity	15.3	12.0	6.7	0.9
Net debt/(cash) to equity	-0.9	-3.4	-7.6	-13.0
Interest cover	25.4	25.0	36.1	61.6