Fraser & Neave Holdings (FNH MK)

3QFY26: Mixed Quarter But Within Our Expectations

BUY (Maintained)	
Share Price	RM27.90
Target Price	RM38.70
Upside	38.7%

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Highlights

- Earnings were within our expectations but below consensus estimates. The Cambodia-Thailand border conflict outweighed growth in the key domestic markets.
- Margins were largely intact as Thailand was relatively resilient amid start-up costs arising from its new dairy plant in Cambodia.
- Maintain BUY and target price of RM38.70. F&N earnings are due to gradually recover against a backdrop of bargain valuations.

3QFY26 Results

Year to 30 Sep (RMm)	3QFY26	qoq % chg	yoy % chg	9MFY26	yoy % chg	Comments
Revenue	**1,198.8**	**(2.7)**	**(3.8)**	**3,734.7**	**(5.9)**	Domestic growth in Thailand and Malaysia posts growth but outweighed by decline in Cambodia sales.
GP	**365.5**	**(3.5)**	**(2.3)**	**1,166.9**	**(7.2)**	
EBIT	**135.5**	**(5.6)**	**4.3**	**455.0**	**(13.8)**	
PBT	134.5	(7.8)	2.2	456.0	(18.8)	
Net Profit	93.6	(1.1)	10.3	300.4	(23.8)	
Core Profit	**93.6**	**(1.1)**	**8.7**	**299.2**	**(24.6)**	Within ours but below consensus expectations.
Margins	**(%)**	**qoq ppt chg**	**yoy ppt chg**	**(%)**	**yoy ppt chg**	
Gross Profit	30.5	(0.2)	0.4	31.2	(0.4)	
EBIT	11.3	(0.3)	0.9	15.6	(0.4)	
Eff. tax rate	(28.5)	6.6	6.0	(33.5)	(4.1)	
Core Profit	7.8	0.1	0.9	8.0	(2.0)	

Source: F&N, UOB Kay Hian

Stock Data

GICS Sector	Consumer Staples
Bloomberg ticker	FNH MK
Shares issued (m)	366.8
Market cap (RMm)	10,842.0
Market cap (US$m)	2,736.2
3-mth avg daily t'over (US$m)	4.0

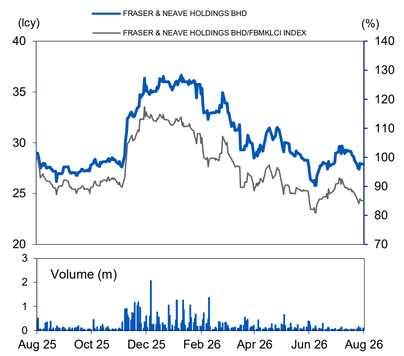
Price Performance (%)

52-week high/low RM29.46/RM23.30

1mth	3mth	6mth	1yr	YTD
3.7	(12.8)	6.3	9.6	(16.7)

Major Shareholders	**%**
Fraser and Neave Ltd	55.5

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.

Analysis

- **Within our expectations but below consensus estimates.** Fraser & Neave Holdings (F&N) reported a 3QFY26 core net profit of RM93.6m (-1.1% qoq, 8.7% yoy). This brought 9MFY26 core profit to RM299.2m (-24.6%). This is within our expectations but below consensus estimates, accounting for 70% and 64% of our and consensus full-year earnings forecasts respectively. Despite domestic markets registering growth, it is outweighed by the Cambodia-Thailand border conflict dragging on Cambodia sales. Margins were largely intact despite the start-up in dairy plant operations in Cambodia.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5245.6	5196.6	5208.8	5993.8	6332.8
EBITDA	900.5	1859.2	1760.8	2110.5	2156.8
Operating profit	846.7	896.6	806.3	1012.1	996.3
Net profit (rep./act.)	542.8	508.5	427.2	556.3	588.0
Net profit (adj.)	543.7	517.3	427.2	556.3	588.0
EPS	162.6	401.1	376.7	458.9	476.7
PE	18.9	19.9	24.1	18.5	17.5
P/B	2.9	2.7	2.5	2.3	2.2
EV/EBITDA	11.7	11.2	12.7	10.0	9.8
Dividend yield	2.2	2.3	1.9	2.5	2.6
Net margin	10.4	10.0	8.2	9.3	9.3
Net debt/(cash) to equity	-12.0	-0.9	-2.3	-5.7	-10.8
Interest cover	23.3	25.4	25.0	37.8	62.7
ROE	15.7	13.3	10.5	12.9	12.6
Consensus net profit	n.a	n.a	467	572	655
UOBKH/Consensus (x)	n.a	n.a	0.92	0.97	0.90

Source: F&N, Bloomberg, UOB Kay Hian

3QFY26 Results By Segment

Year to 30 Sep (RMm)	3QFY26	qoq (%)	yoy (%)	9MFY26	yoy (%)	Comments
Revenue						
Msia	736.2	(4.8)	8.4	2,322.0	4.1	Encouraging growth across the board, including export sales, dairy and beverage.
Thai	461.8	0.8	(18.4)	1,410.2	(18.8)	Cambodia-Thailand border conflict continues to weigh on topline. But domestic sales see growth.
EBIT						
Msia	42.2	(24.8)	64.7	185.0	(5.5)	Growth off a low base effect.
Thai	93.0	0.4	(18.7)	276.6	(24.8)	Decline in tandem with sales.
EBIT Margin	**(%)**	**+/- ppt**	**+/- ppt**	**(%)**	**+/- ppt**	
Msia	5.7	(1.5)	2.0	8.0	(0.8)	Initial batch of heifers had just arrived in 3QFY25, weighing on margins.
Thai	20.1	(0.1)	(0.1)	19.6	(1.6)	

Source: F&N, UOB Kay Hian

- **Malaysia: Encouraging sales as earnings rebound off a low.** 3QFY26 sales in Malaysia saw an encouraging growth of 8.4% yoy. Apart from expanded dairy milk sales, stronger channel execution resulted in growth across the beverage categories and export sales (Cambodia) as well. F&N continues encouraging headway into wider distribution reach for its fresh milk products. Meanwhile, operational earnings grew by 65% yoy for 3QFY26. This is attributed to a low base effect, following start-up expenses tied to the initial importing of heifers to F&N's Agrivalley.
- **Thailand: Border conflict continues to weigh on sales.** Revenue contraction persisted, declining by -18.4% yoy (2QFY26: 16.9%) due to disruptions to exports to Cambodia. Positively, domestic sales improved following successful marketing campaigns for F&N's condensed milk products. Despite the lower revenue from Cambodia and start-up costs associated with the set-up of new dairy plant operations in Cambodia, margins held relatively steady -0.1ppt yoy to 20.1% as operational earnings declined by a similar quantum (-18.7% yoy) to softer revenue.

Valuation/Recommendation

- **Maintain BUY and target price of RM38.70.** Undeniably, FY26 is a challenging year given the perfect storm of dairy project losses, border conflict weighing on Cambodia sales and headwinds in Thailand. However, valuations are at a rock bottom and earnings are expected to gradually improve and in turn catalyse interest in F&N. For a large-cap consumer staple, F&N continues to trade at bargain valuations. Our target price is based on DCF implying 25.3x FY27F PE, which is slightly above its seven-year mean of 24.6x.

Earnings Revision/Risk

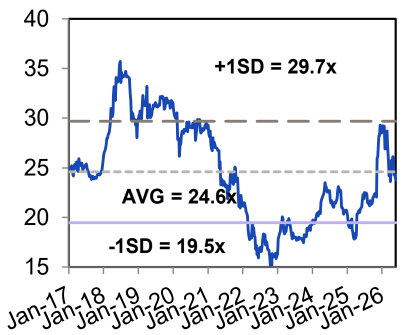
- No changes to earnings forecast. Key downside risks are spiralling commodities prices and US$/RM forex rates.

Key Assumptions

	2026F	2027F	2028F
Sales (RMm)	5,209	5,994	6,333
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	1012	996
margin (%)	12.2	13.6	12.4

Source: UOB Kay Hian

Forward PE Band



Source: Bloomberg, UOB Kay Hian

Environmental, Social, Governance (ESG)

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.

Source: F&N, UOB Kay Hian

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	**5197**	**4928**	**5274**	**5436**
EBITDA	1859	1709	1970	1991
Deprec. & amort.	137	151	172	199
EBIT	897	806	1003	995
Associate contributions	0	0	0	0
Net interest income/(expense)	-15	-18	-12	-1
Pre-tax profit	**731**	**616**	**772**	**785**
Tax	-216	-183	-208	-188
Minorities	-6	-6	-6	-6
Net profit	**508**	**427**	**557**	**590**
Net profit (adj.)	517	427	557	590

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	654	688
Other current assets	1,733	1,614	1,716	1,779
Total assets	**5,614**	**5,715**	**5,856**	**5,956**
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	4,394	4,712
Minority interest	16	10	4	-3
Total liabilities & equity	**5,614**	**5,715**	**5,856**	**5,956**

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	**733**	**604**	**683**	**694**
Pre-tax profit	731	616	772	785
Tax	-216	-183	-208	-188
Deprec. & amort.	137	151	172	199
Working capital changes	11	-147	96	-55
Other operating cashflows	70	167	-148	-45
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**	**-457**
Dividend payments	-294	-231	-197	-257
Issue of shares	0	0	0	0
Loan repayment	0	-114	-100	-200
Others/interest paid	-71	-59	0	0
Net cash inflow (outflow)	**114**	**-517**	**4**	**25**
Beginning cash & cash equivalent	**1032**	**1135**	**626**	**630**
Changes due to forex impact	-10	8	0	0
Ending cash & cash equivalent	**1135**	**626**	**630**	**655**

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.3	16.4	19.0	18.3
Pre-tax margin	14.2	12.5	14.6	14.4
Net margin	10.0	8.7	10.6	10.8
ROA	9.2	7.5	9.6	10.0
ROE	13.3	10.5	12.8	12.6
Growth				
Turnover	-0.9	-5.2	7.0	3.1
EBITDA	5.9	-10.1	24.5	-0.8
Pre-tax profit	6.0	-16.7	25.2	1.7
Net profit	-6.3	-16.0	30.3	5.9
Net profit (adj.)	-4.9	-17.4	30.3	5.9
EPS	-4.9	-17.4	30.3	5.9
Leverage				
Debt to total capital	10.5	8.6	5.0	0.7
Debt to equity	15.3	12.0	6.6	0.9
Net debt/(cash) to equity	-0.9	-3.4	-8.2	-13.7
Interest cover	25.4	25.0	37.5	62.6