

Fraser and Neave

Dairies saved the day, but cloudy prospects

SINGAPORE | CONSUMER | RESULTS

- FY16 Revenue/EBITDA missed our forecast by 0.6%/13.4%
- Double whammy from unfavourable macro backdrop and rising costs pressure
- New markets are still in nascent stage and no concrete acquisition plan yet
- FY16 dividend of 4.5 Cents per share, 10% lower than FY15's

Results at a glance

SGD mn	FY16	FY15	y-y (%)	Comments
Beverages	572	639	-10.5%	Weaker MYR, competitive pricing in MY, loss of <i>Red Bull</i> sales; 4% overall volume growth
Dairies	1,099	1,141	-3.7%	Weaker MYR, competitive pricing in MY; 1% overall volume growth
Printing & Publishing ("P&P")	308	341	-9.8%	Higher Retail and Distribution revenue offset by lower Publishing and Printing revenue
Revenue	1,979	2,121	-6.7%	Lower contributions from Malaysia and P&P
EBITDA	190	209	-8.9%	
PBIT	179	132	36.2%	Higher Other Income from Vinamilk's dividends, lower Depreciation and Amortisation expenses
PATMI (continuing operations ex. exceptional items)	109	63	72.9%	Lower effective tax rate

Source: Company, PSR

Persistent macro headwinds in core markets weighing against revenue as expected. 6.7% year-on-year ("yoy") decrease in FY16 Revenue was in line with our expectation 6.1% yoy slowdown. We expect subdued topline growth of 1% for FY17 on the back of cautious consumer spending in Singapore, Malaysia and Thailand, and in the absence of new growth driver.

FY16 10.8% Dairies EBIT margin is at risk. Management noted the increasing trend in sugar prices, due to global supply shortfall until at least 2017, could compress Malaysia Dairies margin (main sales driver is sweetened condensed milk). To recap, Malaysia increased its refined sugar price by c.38.9% in August 2016, and sugar comprises 20% to 25% of its total raw material costs. We think that Fraser and Neave, Ltd. ("FNN") will refrain from passing on the increased costs to end-consumer amid a competitive pricing environment. Rising cost pressure, coupled with the marginal 1% yoy volume growth in FY16, reaffirmed our view that it is not sufficient to depend solely on Dairies to drive growth and profitability.

Still waiting for the potential re-rating catalyst. As cautioned in our earlier report, the two deals on Vinamilk and Saigon Alcohol Beer and Beverages Corporation ("SABECO") are still on the table. Acquisitions remains the fastest way to tap into new market, but there is no concrete acquisition timeline yet.

Potentially lower dividend as FNN conserves capital for potential acquisitions. FNN has a dividend policy of up to 50% payout, but paid 60%/63% in FY16/FY15. Management has guided on the possibility of paying a lower dividend than FY16's 4.5 cents going forward, due to its considerations of near-term capital needs. FNN is in net cash position of S\$906mn as at end-FY16 and the Group has set aside S\$700mn of cash for business acquisitions.

Maintain "Reduce" rating with lower TP of S\$1.70 (previously S\$1.93), pegged to 11x FY17F EV/EBITDA multiple. We adjusted our FY17F Revenue growth and EBIT margins lower in view of the slower-than-expected sales and rising costs pressure amid competitive environment. This translates to 22.4%/9.6% lower FY17F EBITDA/Earnings compared to our previous forecasts. We remain cognizant of adverse FX movement which could erode earnings, i.e. stronger USD against SGD; and weaker MYR and THB against SGD.

9 November 2016

Reduce (Maintain)

LAST CLOSE PRICE	SGD 2.13
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 1.70
TOTAL RETURN	-17.9%

COMPANY DATA

O/S SHARES (MN) :	1,446
MARKET CAP (USD mn / SGD mn) :	22.10 / 3079
52 - WK HI/LO (SGD) :	2.31 / 1.9
3M Average Daily T/O (mn) :	0.04

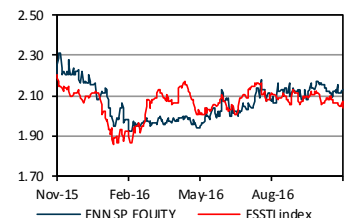
MAJOR SHAREHOLDERS (%)

TCC ASSETS LTD	59.35%
THAI BEVERAGE PCL	28.53%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(18)	2.4	0.4
STI RETURN	(183)	(102)	(2.67)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 15	FY 16	FY 17F	FY 18F
Revenue (SGD mn)	2,121	1,979	1,998	2,017
EBITDA (SGD mn)	209	190	173	176
NPAT, adj. (SGD mn)	115	109	104	108
EPS, adj. (Cents)	7.98	7.54	7.18	7.45
PER, adj. (x)	26.9	28.3	29.7	28.6
P/BV, (x)	1.4	1.1	1.1	1.0
DPS (Cents)	5.00	4.50	4.50	4.50
Div Yield (%)	2.3%	2.1%	2.1%	2.1%
ROE (%)	6.0%	4.3%	3.6%	3.7%

Source: Company Data, PSR est.

Valuation Method

EV/EBITDA Multiple (11x)

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Valuation

Peer Comparison

FNN currently trades at 29.6x FY17F PER, which is c.67% premium to its ASEAN peers' 17.7x. We think that the premium valuation is not justifiable given the slower growth post MBL-sale and lack of significant growth catalyst.

It also has lower return-on-equity (ROE), as compared to its ASEAN peers.

These support our thesis of 'Reduce' rating.

Figure 1:

Company	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	EV/EBITDA FY1	P/E P/E	P/E FY1	Net D/E (%)	ROA (%)	ROE (%)	P/B
Fraser and Neave Ltd	3,079	2,483	13.4	9.6	28.2	29.6	Net Cash	3.1	4.2	1.1
ASEAN										
Fraser & Neave Hldgs Bhd	2,919	2,856	16.8	14.8	23.0	21.3	Net Cash	12.4	19.9	4.5
Alliance Global Group Inc	3,909	8,301	9.0	8.1	9.9	9.2	47.3	3.2	9.9	1.0
Pepsi-Cola Products Philippines Inc	352	459	4.5	4.7	15.3	12.4	-5.8	3.9	9.5	1.4
Ultrajaya Milk Ind & Trading	1,469	1,333	10.5	13.4	20.8	22.9	Net Cash	18.2	22.5	4.2
Vietnam Dairy Products JSC	12,618	12,142	16.6	15.8	23.8	22.4	Net Cash	35.1	42.9	9.9
Yeo Hiap Seng Ltd	786	697	17.0	N/A	23.9	N/A	Net Cash	5.2	6.1	1.3
Simple Average (Excl. FNN)			12.4	11.4	19.5	17.7	20.8	13.0	18.5	3.7

Source: Bloomberg

Financials

Income Statement

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Revenue	2,093	2,121	1,979	1,998	2,017
Gross profit	659	696	728	739	736
EBITDA	330	209	190	173	176
Depreciation & Amortisation	(85)	(92)	(62)	(72)	(73)
EBIT	170	132	179	176	181
Net Finance Inc/(Exp)	9	0	10	9	10
Associates & JVs	2	3	3	3	3
Other items	(78)	12	48	71	74
Profit Before Tax	178	132	189	185	190
Taxation	(27)	(19)	(23)	(31)	(32)
Profit After Tax (Con. Ops)	152	112	166	153	158
Profit After Tax (Discon. Ops)	205	637	0	0	0
- Non-controlling interest	(109)	(87)	(58)	(49)	(50)
Net profit, reported	147	633	108	104	108
Net profit, adj.	263	115	109	104	108

Per share data (SGD Cents)

Y/E Sep	FY14	FY15	FY16	FY17F	FY18F
EPS, reported	10.18	43.74	7.48	7.18	7.45
EPS, adj.	18.19	7.98	7.54	7.18	7.45
DPS	5.00	5.00	4.50	4.50	4.50
BVPS	111.07	156.82	196.65	200.75	205.46

Cash Flow

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
CFO					
EBIT	170	132	179	176	181
Depreciation & Amortisation	85	92	62	72	73
WC changes	(193)	(33)	18	(14)	(1)
Tax paid	(50)	(34)	(24)	(31)	(32)
Others	188	69	(50)	(71)	(74)
Cashflow from ops	199	225	185	131	146
CFI					
CAPEX, net	(1,039)	(68)	(76)	(60)	(61)
Others	(536)	600	36	57	60
Cashflow from investments	(1,575)	532	(40)	(3)	(0)
CFF					
Share issuance, net	7	3	1	-	-
Loans, net of repayments	648	(17)	33	(16)	(14)
Dividends	(257)	(102)	(99)	(94)	(90)
Others	(607)	(10)	(4)	(4)	(4)
Cashflow from financing	(209)	(126)	(70)	(114)	(108)
Net change in cash	(1,585)	632	75	14	38
Effects of exchange rates	(3)	(25)	2	-	-
Asset reclassification	-	(0)	-	-	-
CCE, end	355	962	1,043	1,038	1,072

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
ASSETS					
PPE	661	464	491	497	503
Intangibles	124	106	125	129	133
Investments in Assoc/JV	50	42	43	46	49
Others	845	965	1,488	1,562	1,622
Total non-current assets	1,680	1,577	2,146	2,234	2,307
Accounts receivables	360	332	321	328	332
Cash	355	962	1,043	1,038	1,072
Inventories	274	254	247	241	246
Others	6	17	16	16	16
Total current assets	995	1,565	1,627	1,623	1,664
Total Assets	2,675	3,143	3,773	3,857	3,971

LIABILITIES

Accounts payables	394	392	379	386	390
Short term loans	23	3	12	12	12
Others	47	50	47	47	47
Total current liabilities	494	446	451	439	446
Long term loans	119	98	125	108	94
Others	61	42	44	48	52
Total non-current liabilities	180	140	169	157	146
Total Liabilities	674	587	620	596	592

EQUITY

Non-controlling interests	396	288	309	359	409
Shareholder Equity	1,605	2,268	2,843	2,902	2,970

Valuation Ratios

Y/E Sep	FY14	FY15	FY16	FY17F	FY18F
P/E (X), adj.	17.2	26.9	28.3	29.7	28.6
P/B (X)	2.8	1.4	1.1	1.1	1.0
EV/EBITDA (X), adj.	14.3	12.1	13.1	14.6	14.3
Dividend Yield (%)	1.6%	2.3%	2.1%	2.1%	2.1%

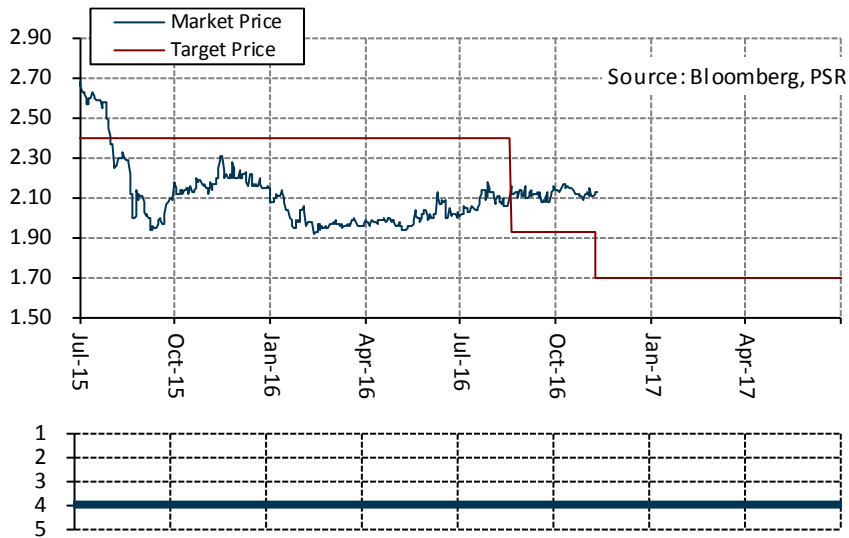
Growth & Margins (%)

Growth					
Revenue	-8.8%	1.3%	-6.7%	1.0%	1.0%
EBITDA	-28.0%	-36.6%	-8.9%	-9.1%	1.9%
EBIT	-20.7%	-22.4%	36.2%	-1.9%	2.7%
Net profit, adj.	-51.7%	-56.1%	-5.6%	-4.7%	3.8%
Margins					
Gross margin	31.5%	32.8%	36.8%	37.0%	36.5%
EBITDA margin	15.7%	9.9%	9.6%	8.7%	8.7%
EBIT margin	8.1%	6.2%	9.1%	8.8%	8.9%
Net profit margin	12.6%	5.4%	5.5%	5.2%	5.3%

Key Ratios

ROE (%)	5.2%	6.0%	4.3%	3.6%	3.7%
ROA (%)	3.1%	4.0%	3.2%	2.7%	2.8%
Net Debt/(Cash)	(213)	(861)	(906)	(917)	(966)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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