

Fraser and Neave

Strong start into FY18 despite absence of CNY boost



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SINGAPORE | CONSUMER | 1Q18 RESULTS

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- 1Q18 Revenue/PATMI formed 26%/17% of our full-year expectations
- Beverages remain a drag; partially mitigated by contributions from its Vietnamese associate, Vinamilk
- Continues to accumulate its interest in Vinamilk; Interest increased to 19.50% from 18.74% in end-FY17
- Maintained ACCUMULATE and SOTP-derived TP of S\$2.83

Results at a glance

SGD mn	1Q18	1Q17	YoY (%)	Comments
Beverages	117	139	-16.0%	A later 2018 Chinese New Year festive season, and competitive pricing in MY
Dairies	293	279	5.2%	Overall increase in sales across all regions
Printing & Publishing ("P&P")	77	77	-0.2%	Lower contributions from Publishing, cushioned by newly acquired distribution businesses
Revenue	487	495	-1.6%	As above
Gross profit	168	182	-7.8%	Higher input costs <i>Gross Margin -2.3pp to 34.5%</i>
Core EBITDA	66	63	5.1%	<i>EBITDA Margin +0.9pp to 13.5%</i>
EBIT, adj.	50	46	8.8%	Higher profit contribution from Vinamilk
PATMI (continuing operations ex. exceptional items)	26	22	16.3%	Higher finance cost mitigated by lower effective tax rate due to higher tax exempt income <i>ETR of 10.6% vs 1Q17's 12.8%</i>

Source: Company, PSR

The Positives

- Dairies buoyed profitability amidst higher input prices and weaker performances in Beverages.** 1Q18 Dairies EBIT jumped 28.1% YoY, driven Vinamilk (Vietnam Dairy Products Joint Stock Company). Vinamilk contributed approximately S\$17mn or 33% to 1Q18 EBIT. The Group continues to add Vinamilk shares throughout the quarter. It currently holds 19.5% stake in Vinamilk, up from 18.74% in 4Q17. It has recently registered its interest to acquire an additional 1.0% from the open market.
- Publishing and Printing registered its second consecutive quarter of profits**, on improved operating efficiencies and cost rationalisation measures. The newly acquired Penguin Random House Pte. Ltd. and Penguin Books Malaysia Sdn. Bhd. also made its maiden profit contribution.

The Negatives

- Weaker Beverages performance in Malaysia and Singapore due to seasonality.** There was a 2-week shift in sell-in window for 2018 Chinese New Year (CNY) festive season compared to 2017's.
- Earnings were hurt by (a) higher input costs** – mainly sugar, skimmed milk powder and packaging costs; and **(b) higher finance costs** – the Group has turned into net debt position (with gearing at 9.1%) on borrowings to finance the acquisition of Vinamilk shares.

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.41
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 2.83
TOTAL RETURN	19.7%

COMPANY DATA

BLOOMBERG CODE	FNN SP
O/S SHARES (MN) :	1448
MARKET CAP (USD mn / SGD mn) :	2631/ 3490
52 - WK HI/LO (SGD) :	2.66 / 2.03
3M Average Daily T/O (mn) :	0.04

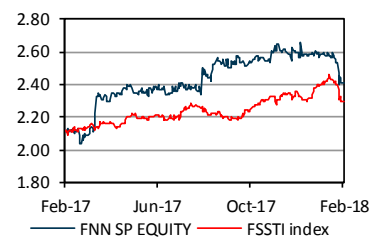
MAJOR SHAREHOLDERS (%)

TCC ASSETS LTD	59.30%
THAI BEVERAGE PCL	28.50%

PRICE PERFORMANCE (%)

	1M TH	3 M TH	1Y R
COMPANY	(5.9)	(6.6)	15.7
STIRETURN	(4.03)	(0.98)	13.23

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	1,979	1,898	1,910	1,932
EBITDA (SGD mn)	190	231	337	352
NPAT, adj. (SGD mn)	109	100	151	159
EPS, adj. (Cents)	7.54	6.90	10.44	11.01
PER, adj. (x)	28.3	34.9	23.1	21.9
P/BV, (x)	1.1	1.2	1.2	1.2
DPS (Cents)	4.50	4.50	5.50	5.50
Div Yield (%)	1.9%	1.9%	2.3%	2.3%
ROE (%)	4.3%	3.5%	5.3%	5.4%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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Outlook

We are cautiously optimistic on the trading environment in Singapore and Thailand; while we expect persistent headwinds in Malaysia. In addition to the rising input costs and intensified competition, the upcoming general election in Malaysia could further weigh against consumer sentiment and Ringgit's strength. The Group will continue to reinvest its earnings into brand building efforts in New Markets, namely Myanmar, Vietnam and Indonesia, adding new avenues for growth.

Maintained ACCUMULATE and sum-of-parts derived TP of S\$2.83

We believe that FY18e earnings would be supported by (a) higher profit share from Vinamilk with full 12 months contribution in FY18e, and (b) benefits from restructuring initiatives to be realized. We expect Vinamilk to continue to drive over 40% of the Group's EBIT moving forward.

Potential re-rating catalyst: (i) Stronger than expected performance from Vinamilk; (ii) A strong earnings turnaround for Printing & Publishing segment.

Peers Comparison

FNN is currently trading at adjusted Trailing 12-month P/E of 33.7x. Our SOTP derived TP implied a 27.1x FY18e P/E, which is 27% higher than its ASEAN Beverages peers at 21.3x. Around 45.7% of our SOTP comes from Vinamilk.

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	3,490	4,084	30.0	12.1	34.9	23.1	5.4	2.3	3.5	1.2
ASEAN										
Fraser & Neave Hldgs Bhd	3,698	3,655	23.6	20.8	36.2	25.4	Net Cash	9.1	13.9	4.9
Power Root Bhd	183	172	13.0	8.8	15.4	15.3	Net Cash	9.7	14.3	2.2
Spritzer BHD	159	146	6.9	13.7	15.0	18.8	Net Cash	7.2	9.5	1.3
Oldtown Bhd	492	428	9.5	11.8	21.8	20.9	Net Cash	13.8	17.0	3.3
Alliance Global Group Inc	4,001	9,340	9.8	9.8	11.1	11.3	64.3	2.8	9.3	1.0
Pepsi-Cola Products Philippines Inc	275	381	3.7	N/A	14.4	N/A	-6.0	3.3	8.3	1.1
Ultrajaya Milk Ind & Trading	1,452	1,272	10.7	10.8	18.7	17.7	Net Cash	17.9	21.6	3.7
Vietnam Dairy Products JSC	16,147	15,531	22.9	17.3	30.0	24.6	Net Cash	32.2	40.5	11.8
Yeo Hiap Seng Ltd	695	398	2.5	N/A	4.4	N/A	Net Cash	21.9	25.2	1.1
Market Cap weighted Average (Excl. FNN)			19.3	15.5	26.3	21.3	9.4	22.7	29.7	8.2

Source: Bloomberg

Financials

Income Statement

Y/E Sep, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	2,121	1,979	1,898	1,910	1,932
Gross profit	696	728	661	659	676
Core EBITDA	209	190	231	337	352
EBITDA	209	190	(1,031)	207	210
Depreciation & Amortisation	(92)	(62)	(57)	(64)	(67)
Associates & JVs	3	3	53	129	142
Other items	12	48	1,209	1	1
EBIT	132	179	174	273	285
Net Finance Inc/(Exp)	0	10	(6)	(14)	(13)
Profit Before Tax	132	189	168	259	273
Taxation	(19)	(23)	(15)	(44)	(46)
Profit After Tax (Con. Ops)	112	166	153	215	226
Profit After Tax (Discon. Ops)	637	0	0	0	0
- Non-controlling interest	(87)	(58)	(46)	(64)	(67)
Net profit, reported	633	108	1,283	151	159
Net profit, adj.	115	109	100	151	159

Per share data (SGD Cents)

Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	43.74	7.48	88.67	10.44	11.01
EPS, adj.	7.98	7.54	6.90	10.44	11.01
DPS	5.00	4.50	4.50	5.50	5.50
BVPS	156.82	196.65	194.80	200.31	206.65

Cash Flow

Y/E Sep, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
EBIT	132	179	172	273	285
Depreciation & Amortisation	92	62	57	64	67
WC changes	(33)	17	(58)	29	(3)
Tax paid	(34)	(24)	(13)	(44)	(46)
Others	69	(50)	(87)	(143)	(155)
Cashflow from ops	225	183	72	179	147
CFI					
CAPEX, net	(68)	(76)	(76)	(73)	(68)
Others	600	37	(957)	(9)	(9)
Cashflow from investments	532	(39)	(1,033)	(82)	(77)
CFF					
Share issuance, net	3	1	-	-	-
Loans, net of repayments	(17)	33	1,170	(130)	(117)
Dividends	(102)	(99)	(96)	(122)	(124)
Others	(10)	(4)	(11)	-	-
Cashflow from financing	(126)	(70)	1,063	(252)	(241)
Net change in cash	632	75	102	(155)	(171)
Effects of exchange rates	(25)	2	(5)	-	-
Asset reclassification	(0)	-	-	-	-
CCE, end	962	1,043	1,135	976	805

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	464	493	506	528	543
Intangibles	106	124	121	128	136
Investments in Assoc/JV	42	43	2,381	2,509	2,651
Others	965	1,488	149	150	151
Total non-current assets	1,577	2,147	3,156	3,316	3,480
Accounts receivables	332	321	339	330	334
Cash	962	1,043	1,135	976	805
Inventories	254	247	247	247	248
Others	17	16	18	18	18
Total current assets	1,565	1,627	1,738	1,570	1,404
Total Assets	3,143	3,774	4,895	4,886	4,884
LIABILITIES					
Accounts payables	392	377	379	380	382
Short term loans	3	12	786	707	636
Others	50	47	51	51	51
Total current liabilities	446	452	1,193	1,135	1,066
Long term loans	98	125	517	466	419
Others	42	45	48	48	48
Total non-current liabilities	140	169	566	514	467
Total Liabilities	587	621	1,759	1,648	1,533
EQUITY					
Non-controlling interests	288	309	317	339	361
Shareholder Equity	2,268	2,843	2,819	2,898	2,990

Valuation Ratios

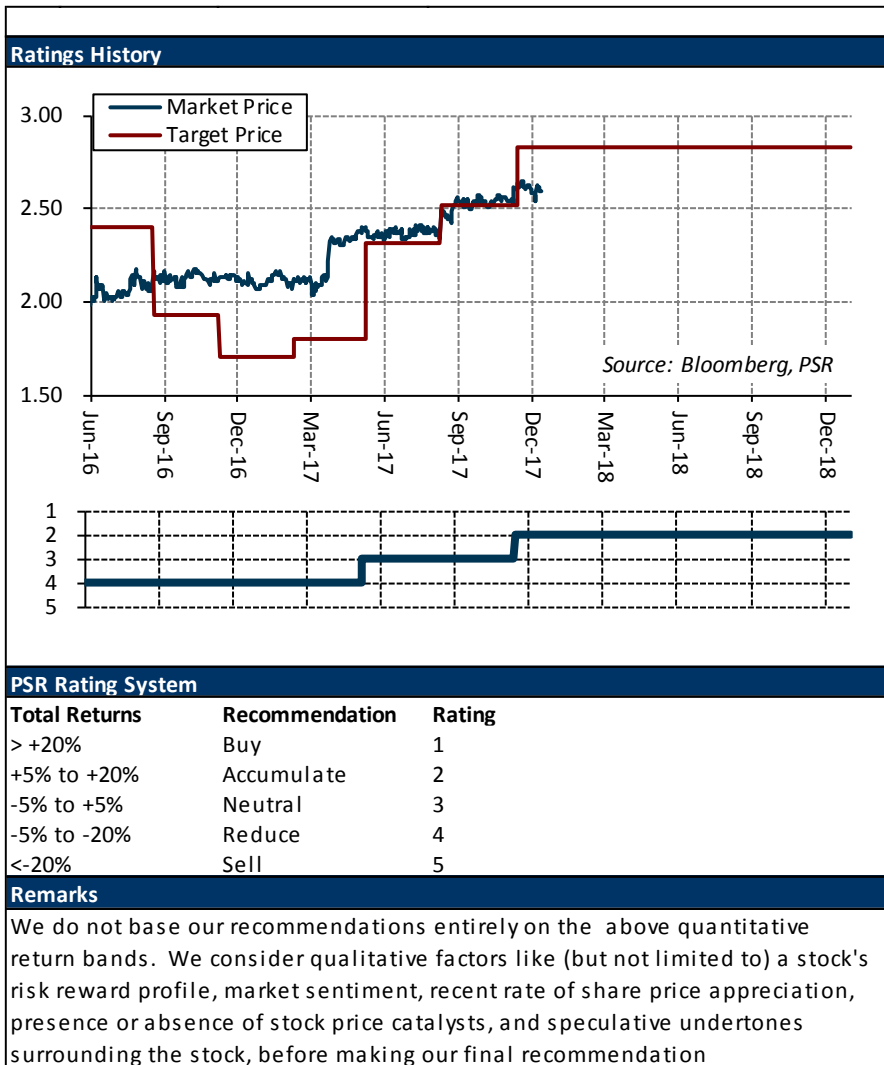
Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	26.9	28.3	34.9	23.1	21.9
P/B (X)	1.4	1.1	1.2	1.2	1.2
EV/EBITDA (X), adj.	12.1	13.1	17.2	11.9	11.6
Dividend Yield (%)	2.1%	1.9%	1.9%	2.3%	2.3%

Growth & Margins (%)

Growth					
Revenue	1.3%	-6.7%	-4.1%	0.6%	1.2%
EBITDA	-36.6%	-8.9%	21.3%	45.7%	4.6%
EBIT	-22.4%	36.2%	-3.1%	57.2%	4.6%
Net profit, adj.	-56.1%	-5.6%	-8.3%	51.1%	5.5%
Margins					
Gross margin	32.8%	36.8%	34.8%	34.5%	35.0%
EBITDA margin	9.9%	9.6%	12.2%	17.6%	18.2%
EBIT margin	6.2%	9.1%	9.1%	14.3%	14.8%
Net profit margin	5.4%	5.5%	5.3%	7.9%	8.2%

Key Ratios

Key Ratios					
ROE (%)	6.0%	4.3%	3.5%	5.3%	5.4%
ROA (%)	4.0%	3.2%	2.3%	3.1%	3.3%
Net Debt/(Cash)	(861)	(906)	168	197	250
Net Gearing (X)	Net Cash	Net Cash	5.4%	6.1%	7.5%



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