

Fraser and Neave

Stronger performance; Benefitting from Vinamilk



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SINGAPORE | CONSUMER | 2Q18 RESULTS

9 May 2018

- 1H18 Revenue/Core PATMI met 50%/27% of our full year estimates
- Dairies remained the strongest performer; Vinamilk contributed c.S\$33mn or 38% to 1H2018 Group EBIT
- Higher input and packaging costs, and brand investment expenses weighed on profitability
- Declared interim dividend of 1.5 cents per share, unchanged from last year
- Upgraded to BUY but lowered TP to S\$2.75 (previously S\$2.83) as we trimmed our FY18e earnings by 29% on rising input costs

Results at a glance

SGD mn	1H18	1H17	YoY (%)	Comments
Beverages	242	253	-4.1%	Lower soft drink sales and competitive pricing
Dairies	577	550	5.0%	MY and TH lifted by export sales
Printing & Publishing ("P&P")	140	143	-2.2%	Turnaround in Print and Distribution partially mitigated lower sales in Publishing
Revenue	960	946	1.5%	As above
Gross profit	328	344	-4.6%	Higher input costs, and price competition <i>Gross Margin -2.2pp to 34.2%</i>
Core EBITDA	116	98	18.0%	<i>EBITDA Margin +1.7pp to 12.0%</i>
EBIT, adj.	87	69	26.5%	Higher profit contribution from Vinamilk
PATMI (continuing operations ex. exceptional items)	41	26	58.0%	Higher finance cost mitigated by lower effective tax rate due to higher tax exempt income <i>ETR of 10.4% vs 1H17's 11.6%</i>
DPS (Cents)	1.5	1.5		

Source: Company, PSR

Note: We compared 1H18 vs 1H17 due to the timing of the sell-in window for Chinese New Year

The Positives

- Higher export volume and stronger Malaysia Ringgit and Thai Baht drove Dairies sales.** Double-digit export sales growth for Malaysia (mitigated lower domestic demand) and Thailand (reflecting an effective distribution expansion).
- Profit contribution from Vinamilk supported 1H18 Group earnings.** Vinamilk (Vietnam Dairy Products Joint Stock Company), the Group's associated company since Apr-17, has contributed c.S\$33mn or 38% to 1H2018 Group EBIT. Despite rising input costs, 1H18 Dairies EBIT +28.9% YoY and cushioned the weaker performing Beverages.
- Publishing & Printing continued to improve post-restructuring.** 1H2018 losses narrowed from S\$7.9m to S\$6.7m on improved operational efficiencies and productivity.

The Negatives

- Operating environment remained challenging for Beverages.** Lower soft drinks sales, higher input costs, stiff competition and brand investment expenses *lowered* 1H2018 Beverages EBIT by 77.8% YoY. 1H18 EBIT margin *fell* 1pp (percentage point) to 0.3%.
- Higher dairy-based commodity prices trimmed Dairies profitability.** 1H18 Dairies Malaysia EBIT was *down* 38% YoY as higher input and packaging costs *shaved* its EBIT margin by 8pp to 12%. Higher input costs also *cut* Vinamilk's operating margin by 3pps to 25.7%. Meanwhile, Dairies Thailand performance was generally unchanged.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 2.08
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 2.75
TOTAL RETURN	34.6%

COMPANY DATA

BLOOMBERG CODE	FNN SP
O/S SHARES (MN) :	1448
MARKET CAP (USD mn / SGD mn) :	2244 / 3012
52 - WK HI/LO (SGD) :	2.66 / 2.01
3M Average Daily T/O (mn) :	0.04

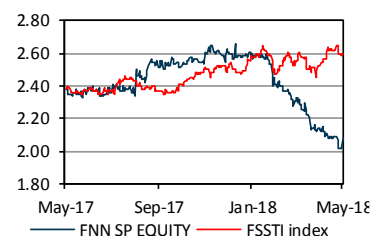
MAJOR SHAREHOLDERS (%)

TCC ASSETS LTD	59.3%
THAI BEVERAGE PCL	28.5%

PRICE PERFORMANCE (%)

	1M TH	3 M TH	1YR
COMPANY	(5.1)	(16.8)	(13.9)
STIRETURN	3.98	5.03	13.17

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	1,979	1,898	1,910	1,932
EBITDA (SGD mn)	190	231	264	287
NPAT, adj. (SGD mn)	109	100	107	117
EPS, adj. (Cents)	7.54	6.90	7.43	8.07
PER, adj. (x)	28.3	37.4	28.0	25.8
P/BV, (x)	1.1	1.3	1.1	1.0
DPS (Cents)	4.50	4.50	5.00	5.00
Div Yield (%)	1.7%	1.7%	1.9%	1.9%
ROE (%)	4.3%	3.5%	3.8%	4.0%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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Outlook

We are cautiously optimistic on the trading environment in its core markets, i.e. Malaysia, Singapore and Thailand. We expect strengthening Ringgit and cash-handouts from Malaysia's generous 2018 budget to spur domestic spending post-election. Singapore and Thailand's private consumptions are turning the corner on the back of economic upturn.

Having said that, rising input costs and intensified competition, and the Group's continuous brand building efforts in New Markets, namely Myanmar, Vietnam and Indonesia, will continue to compress margins.

Upgraded to BUY on recent price retracement. However, we have lowered our sum-of-parts derived TP to S\$2.75 from S\$2.83, as we cut our FY18e earnings by 29% on lower Beverages and Dairies margins.

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. Vinamilk has achieved 25% of its targeted 2018 net profit of VND10.75trn (or US\$477mn) in the 1Q18. The Group currently owns 20.00% Vinamilk shares, up from 19.96% as at end-Mar18.

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

Other Updates

Returning to Myanmar's Beer Business via Joint Venture with Shwe Than Lwin

- Emerald Brewery Myanmar Ltd, a joint venture between F&N (owns 49%) and Myanmar's Shwe Than Lwin, has received Myanmar Investment Commission's approval on 20 Mar-18 to manufacture and distribute beer.
- **Awaiting more details on the JV, as well as updates on any potential CapEx to build a brewery.**
- FNN will then have to compete with Myanmar Brewery (divested by FNN in 2015 and currently dominates the domestic beer market with 80% share) as well as Heineken and Carlsberg.

Entering into China, Hong Kong and Macau via Tsit Wing

- Tsit Wing International Holdings Limited is a leading integrated B2B coffee and black tea solutions provider in the Hong Kong, Macau and the PRC (People's Republic of China). Its multi-channel distribution network reached c.60% of the food outlets in Hong Kong in 2016. It has the largest market share of 24.5% in terms of B2B revenue, according to Frost & Sullivan report.
- FNN has entered into a cornerstone investment agreement with Tsit Wing and to subscribe for c.4.42% interest for HK\$58.88mn (or an implied P/E of 17.4x).
- The Group has also entered into a non-binding memorandum of understanding with Tsit Wing to explore business and product development opportunities in Hong Kong, Macau, the PRC and/or the Southeast Asia.

Some of the strategic alliance initiatives include:

- a. FNN as its exclusive supplier of evaporated and condensed milk products;
- b. Tsit Wing to distribute FNN's alcoholic and non-alcoholic beverage products;
- c. FNN to distribute Tsit Wing's coffee and tea products;
- d. co-branded promotion of both companies' products in food outlets; and
- e. co-develop new Ready-To-Drink products and beverage solutions.

Tsit Wing was listed on the Main Board of SGX-ST in 2001, but underwent privatization and was delisted from SGX-ST due to low free float.

Tsit Wing is slated to list on the Main Board of the Hong Kong Stock Exchange on 11 May-18.

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	264	287
EBITDA	209	190	(1,031)	135	145
Depreciation & Amortisation	(92)	(62)	(57)	(64)	(71)
Associates & JVs	3	3	53	129	142
Other items	12	48	1,209	1	1
EBIT	132	179	174	201	216
Net Finance Inc/(Exp)	0	10	(6)	(14)	(14)
Profit Before Tax	132	189	168	187	203
Taxation	(19)	(23)	(15)	(32)	(34)
Profit After Tax (Con. Ops)	112	166	153	155	168
Profit After Tax (Discon. Ops)	637	0	0	0	0
- Non-controlling interest	(87)	(58)	(46)	(48)	(51)
Net profit, reported	633	108	1,283	107	117
Net profit, adj.	115	109	100	107	117

Per share data (SGD Cents)

Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	43.74	7.48	88.67	7.43	8.07
EPS, adj.	7.98	7.54	6.90	7.43	8.07
DPS	5.00	4.50	4.50	5.00	5.00
BVPS	156.82	196.65	194.80	197.80	201.71

Cash Flow

Y/E Sep, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
EBIT	132	179	172	201	216
Depreciation & Amortisation	92	62	57	64	71
WC changes	(33)	17	(58)	29	(3)
Tax paid	(34)	(24)	(13)	(32)	(34)
Others	69	(50)	(87)	(143)	(156)
Cashflow from ops	225	183	72	119	93
CFI					
CAPEX, net	(68)	(76)	(76)	(115)	(68)
Others	600	37	(957)	(9)	(9)
Cashflow from investments	532	(39)	(1,033)	(124)	(77)
CFF					
Share issuance, net	3	1	-	-	-
Loans, net of repayments	(17)	33	1,170	(130)	(117)
Dividends	(102)	(99)	(96)	(104)	(106)
Others	(10)	(4)	(11)	-	-
Cashflow from financing	(126)	(70)	1,063	(234)	(224)
Net change in cash	632	75	102	(239)	(207)
Effects of exchange rates	(25)	2	(5)	-	-
Asset reclassification	(0)	-	-	-	-
CCE, end	962	1,043	1,135	892	685

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	570	580
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	3,358	3,518
Accounts receivables	332	321	339	330	334
Cash	962	1,043	1,135	892	685
Inventories	254	247	247	247	248
Others	17	16	18	18	18
Total current assets	1,565	1,627	1,738	1,486	1,284
Total Assets	3,143	3,774	4,895	4,844	4,802
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	333	350
Shareholder Equity	2,268	2,843	2,819	2,862	2,919

Valuation Ratios

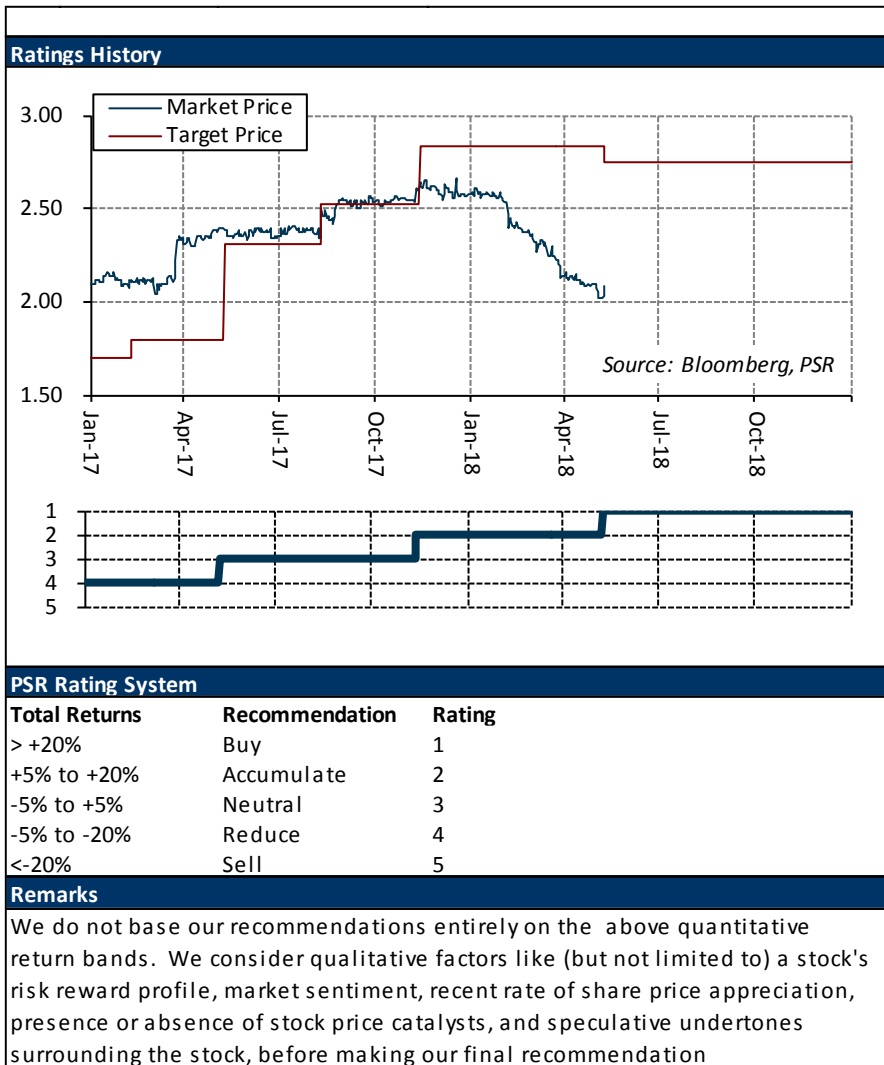
Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	26.9	28.3	37.4	28.0	25.8
P/B (X)	1.4	1.1	1.3	1.1	1.0
EV/EBITDA (X), adj.	12.1	13.1	18.3	13.7	13.0
Dividend Yield (%)	1.9%	1.7%	1.7%	1.9%	1.9%

Growth & Margins (%)

Growth					
Revenue	1.3%	-6.7%	-4.1%	0.6%	1.2%
EBITDA	-36.6%	-8.9%	21.3%	14.5%	8.6%
EBIT	-22.4%	36.2%	-3.1%	15.6%	7.8%
Net profit, adj.	-56.1%	-5.6%	-8.3%	7.6%	8.7%
Margins					
Gross margin	32.8%	36.8%	34.8%	34.5%	35.0%
EBITDA margin	9.9%	9.6%	12.2%	13.9%	14.9%
EBIT margin	6.2%	9.1%	9.1%	10.5%	11.2%
Net profit margin	5.4%	5.5%	5.3%	5.6%	6.0%

Key Ratios

ROE (%)	6.0%	4.3%	3.5%	3.8%	4.0%
ROA (%)	4.0%	3.2%	2.3%	2.2%	2.4%
Net Debt/(Cash)	(861)	(906)	168	280	370
Net Gearing (X)	Net Cash	Net Cash	5.4%	8.8%	11.3%



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