

Fraser and Neave

Vinamilk for the win



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SINGAPORE | CONSUMER | FY17 RESULTS

13 November 2017

- FY2017 Revenue and Adjusted PATMI was c.6% lower than our full year expectations; due to persistently challenging environment in Malaysia and Singapore
- Vinamilk to provide a further uplift to FY18e EBIT and cushion against the subdued Malaysia and Singapore markets
- Upgraded to "Accumulate" with higher SOTP-derived TP of S\$2.83 (previously S\$2.52)

Results at a glance

SGD mn	FY17	FY16	YoY (%)	Comments
Beverages	499	572	-12.7%	Weak consumer sentiment and competitive pricing in SG and MY
Dairies	1,105	1,099	0.6%	Stronger performance from TH, SG and New Markets mitigated slower sales in MY
Printing & Publishing ("P&P")	293	308	-4.7%	Lower contributions from Publishing, coupled with lower book volume sales
Revenue	1,898	1,979	-4.1%	As above
Gross profit	661	728	-9.2%	Higher input costs <i>Gross Margin -2.0pp to 34.8%</i>
Core EBITDA	231	190	21.3%	<i>EBITDA Margin -4.0pp to 6.7%</i>
EBIT, adj.	174	179	-3.1%	Higher dividend income and profit contribution from Vinamilk
PATMI (continuing operations ex. exceptional items)	100	109	-8.3%	Higher finance cost mitigated by lower effective tax rate due to higher tax exempt income <i>ETR of 8.8% vs FY16's 12.0%</i>
DPS (Cents)	4.5	4.5	0.0%	Payment ratio increased to 65.2% from 60.0%

Source: Company, PSR

The positives

- Gaining stronger foothold in Vietnam via Vinamilk (Vietnam Dairy Products Joint Stock Company).** With the 18.74% stakes in Vinamilk and two representatives on Vinamilk's board, Vinamilk has been reclassified as an associate company with effect from 16 Apr-17. Vinamilk contributed approximately S\$84mn or 47% of FY17 EBIT – S\$51mn as share of associates profit for the five-and-on-half-months for this financial year, and S\$33mn as dividend income.

An exceptional gain of \$1,177.6mn was also recorded from the realisation of fair value adjustment reserve upon the reclassification of Vinamilk, boosting the FY17 PATMI to \$1,283.1mn.

- Dairies continued to deliver strong growth, underpinned by strong Dairies Thailand performance, as well as the significant increase in contribution from Vinamilk.**
- Losses for Publishing and Printing ("P&P") narrowed** by \$0.7mn to \$4.5mn on improved printing plant efficiencies and cost rationalisation measures. Print returned to profitability after a few years of losses.
- Remains committed to its dividend policy**, i.e. payout ratio of at least 50% of Group attributable profit before fair value adjustment and exceptional items. FY17 total dividend at 4.5 cents, same as last year.

The negatives

- Group earnings were dampened by (a) higher finance cost; (b) losses in Beverages and P&P; and (c) brand investments in New Markets.** The Group has turned into net debt position (with gearing at 5.3%) on borrowings to finance the acquisition of Vinamilk shares.

Accumulate (Upgraded)

LAST CLOSE PRICE	SGD 2.59
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 2.83
TOTAL RETURN	11.4%

COMPANY DATA

BLOOMBERG CODE	FNN SP
O/S SHARES (MN):	1447
MARKET CAP (USD mn / SGD mn):	2757 / 3748
52 - WK HI/LO (SGD):	2.61 / 2.03
3M Average Daily T/O (mn):	0.06

MAJOR SHAREHOLDERS (%)

TCC ASSETS LTD	59.30%
THAI BEVERAGE PCL	28.50%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.6	115	25.1
STIRETURN	4.13	3.92	26.88

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	37.5	24.8	23.5
P/BV, (x)	1.1	1.3	1.3	1.3
DPS (Cents)	4.50	4.50	5.50	5.50
Div Yield (%)	1.7%	1.7%	2.1%	2.1%
ROE (%)	4.3%	3.5%	5.3%	5.4%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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- **Persistent challenging environment in Malaysia:** rising input costs, cautious spending, intensified competition, and weaker MYR against SGD. In response to the aggressive competition, the Group offers different price points to cater to the costs conscious consumers, including the launch of 400ml bottle at RM1.50; while the existing 500ml bottle at the price range of RM1.80 – RM2.00 continues to appeal to value-seeking consumer.

Outlook

We are cautiously optimistic on the trading environment in Malaysia, Singapore and Thailand. Singapore and Thailand's Food and Beverages markets have showed signs of improvement. On the other hand, margin pressure in Malaysia should ease slightly, on the back of a more favourable sugar price. The contract with the Malaysian government which fixed the sugar prices at RM2,800/tonne (higher than the market price) will end in Dec-17. Moving forward, the Group will source its sugar needs at a more favourable market price at about RM2,300-RM2,400/tonne.

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.

Upgraded to “Accumulate” with higher sum-of-parts derived TP of S\$2.83 (previously S\$2.52)

We trimmed FY17e revenue by 6% on as we expect subdued demand in Malaysia to extend into FY18e. The upcoming general election in Malaysia which could further weigh against consumer sentiment and Ringgit's strength.

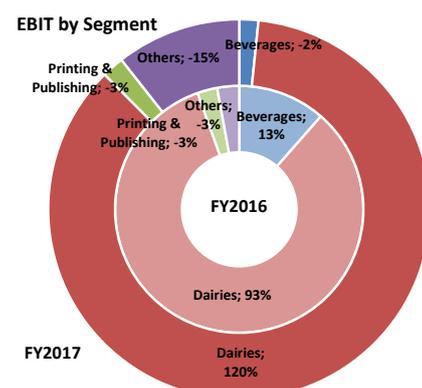
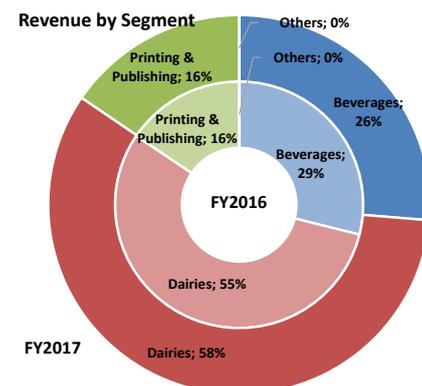
Nonetheless, we adjusted FY18e earnings upward by c.59%, on the back of (a) continuous support from Dairies; (b) benefits from restructuring initiatives to realize; and (c) higher profit sharing from Vinamilk with full 12 months contribution in FY18e. Vinamilk to continue to drive over 40% of the Group's EBIT moving forward.

Operations Update

By Segment

SGD mn	FY17	FY16	YoY (%)	Comments
Revenue				
Beverages	499.3	571.7	-12.7%	Challenging environment in MY
Dairies	1,105.3	1,099.0	0.6%	Stronger performance from TH, SG and New Markets mitigated slower sales in MY
Printing & Publishing	293.0	307.6	-4.7%	Lower contributions from Publishing, coupled with lower book volume sales
Others	0.3	0.4	-14.7%	
EBIT				
Beverages	(3.9)	23.0	<i>n.m.</i>	Lower sales in MY, higher input costs and continued brand investment costs in New Markets
Dairies	207.6	167.1	24.2%	Stronger sales, higher dividend income from Vinamilk and the maiden recognition of profit from Vinamilk as associate company
Printing & Publishing	(4.5)	(5.2)	-13.1%	Losses narrowed on cost containment and cost rationalisation measures; Print was back to profitability after a few years of losses
Others	(25.6)	(5.7)	<i>n.m.</i>	

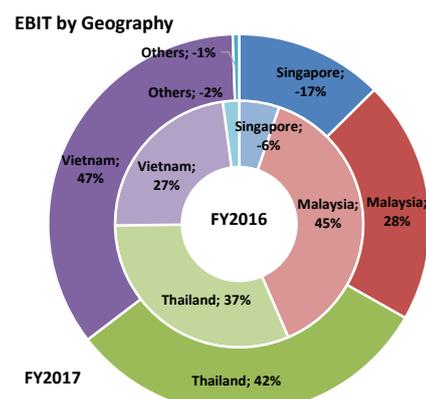
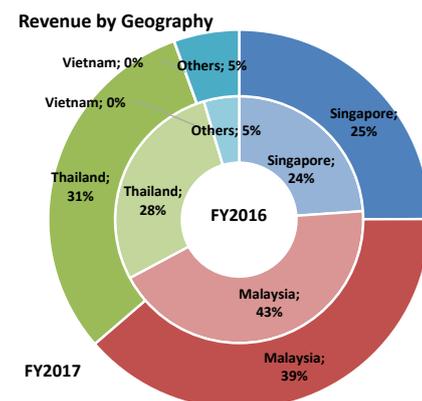
Source: Company, PSR



By Geography

SGD mn	FY17	FY16	YoY (%)	Comments
Revenue				
Singapore (SG)	473.6	473.1	0.1%	Full year contribution from Warburg Vending; Higher <i>Chang</i> beer sales
Malaysia (MY)	734.3	855.8	-14.2%	Cautious spending, intensified competition, and weaker MYR against SGD
Thailand (TH)	584.8	558.9	4.6%	Stronger sales coupled with favourable FX rate
Vietnam (VN)	0.3	-	<i>n.m.</i>	Higher dividend income from Vinamilk
Others	104.9	90.8	15.5%	Improved sales volumes from Myanmar and Indonesia
EBIT				
Singapore (SG)	(29.4)	(11.0)	167.6%	Competitive pricing, higher input costs, and reinvestment into New Markets
Malaysia (MY)	48.7	80.4	-39.5%	Competitive pricing, higher input costs, one-off restructuring cost incurred for the realignment of soft drinks and dairies operations
Thailand (TH)	73.7	65.7	12.1%	Favourable input costs of milk and packaging
Vietnam (VN)	82.0	48.4	69.2%	Higher dividend income from Vinamilk; Maiden recognition of profit from Vinamilk as associate company
Others	(1.3)	(4.5)	-71.3%	New Markets expenses

Source: Company, PSR



Corporate Updates

Singapore government's effort in reducing sugar content in all beverages to be capped at 12% by 2020.

- The Group does not have any sugar-sweetened beverages that are over the 12% limit. It will continue to bring sugar content down to below 6g/100ml to meet the demand of a more health conscious lifestyle.

Potential re-rating catalysts: acquisition of additional stakes in Vinamilk and Saigon Alcohol Beer and Beverages Corporation (Sabeco)

A. Acquisition of additional stakes in Vinamilk via open market

- Jardine Cycle & Carriage won the second competitive bid of Vinamilk stake sale in 10 Nov-17, at a bid price of US\$616mn for 5.53% stakes, or approximately VND174,400/share. This is 15.34% higher than the initial asking price of VND151,200/share by the State Capital Investment Corporation (SCIC), and a slight 0.3% premium to Vinamilk's closing price on 10 Nov-17.
- While FNN failed to acquire additional stake in this auction, we do not discount the potential of the Group to acquire additional stakes via open market. An increased stake could further lift FY18e EBIT, as well as to tap into the fast growing Vietnamese dairy market.
- We expect FNN to fund any acquisitions via borrowings and/or internally generated fund. Net gearing ratio is at 5.3% as at 20 Sep-17, i.e. over \$2,000mn further headroom before hitting its ceiling of 80%.

Note:

Vinamilk is the top listed company by market value on the Ho Chi Minh Stock Exchange.

It is the largest and leading dairy company in Vietnam. Vinamilk commands about half of Vietnam's domestic market share for dairy goods and has a steady earnings growth track record.

It is primarily involved in the production, supply and distribution of a range of dairy products including powdered, liquid and condensed milk and yoghurt, as well as beverages including soy milk, fruit juice and tea.

B. 36.8% to 53.6% of Sabeco's stake sales to be in tranches; the first tranche is expected to begin in Dec-17

- The 36.8% to 53.6% stake in Sabeco, is estimated to worth at least US\$2.9bn to US\$4.2bn.
- Thai Beverage Pcl (ThaiBev), alongside Anheuser-Busch InBev NV and Asahi Group Holdings Ltd. have registered last year to bid for a stake in Sabeco.
- Management had shared that the company is interested to participate in the bidding, shedding some light on ThaiBev's intention – to acquire Sabeco via FNN.

Note:

Sabeco is Vietnam's biggest brewer, commanding about 40% of the Vietnam's beer market (\$6.5bn) Beer demand in Vietnam has surged 300% since 2002.

We expect a more competitive stake sale this time as SCIC plans to remove all restrictions placed previously and push for a more transparent sale. This could lead to increased interest built up and thus a higher sale price.

The Vietnamese government is also looking to divest stakes in Hanoi Beer Alcohol Beverage Corp (Habeco).

Sabeco is currently traded at a high valuation, at 39x forward earnings, as compared to peers' average at 25x. If compared to its domestic beverages peers, Habeco and Vinamilk, are traded at 40x and 26x respectively.

Sabeco

Company	Mkt Cap (SGD mn)	EV (SGD mn)	EV/TTM EBITDA	EV/EBITDA FY1	P/E FY1	P/E FY1	Net D/E	ROE (%)	P/B	Price To Tangible Assets
Saigon Beer Alcohol Beverage	10,614	10,143	28.9	24.7	40.2	38.7	Net Cash	20.3	31.7	12.0
Global Distillers										
Anheuser-Busch Inbev NV	323,061	488,552	N/A	16.3	43.8	27.7	133.2	N/A	N/A	N/A
Diageo PLC	114,934	131,923	18.4	17.2	23.8	22.1	64.6	9.3	28.3	6.9
Heineken NV	77,688	99,525	13.3	11.6	26.5	21.9	76.4	4.6	14.2	3.7
Asahi Group Hldgs Ltd	31,026	47,051	N/A	14.9	17.0	21.1	64.3	5.8	15.5	2.3
Thai Beverage PCL	23,980	25,690	20.3	19.2	17.1	21.3	33.2	18.4	28.1	4.7
Tsingtao Brewery Co Ltd	8,916	6,753	12.2	13.4	34.5	28.1	Net Cash	3.5	6.6	2.3
Carlsberg Brewery (Malaysia) Bhd	1,563	1,576	13.2	13.7	21.9	20.1	Net Cash	35.6	91.8	20.0
Beijing Yanjing Brewery Co	3,579	3,408	N/A	13.2	57.6	39.2	Net Cash	1.6	2.3	1.3
Sapporo Hldgs Ltd	3,293	6,070	10.3	10.8	28.2	22.0	162.7	1.6	6.1	1.6
Hanoi Beer Alcohol & Beverage	1,707	1,591	17.5	18.1	38.0	40.4	Net Cash	8.0	13.8	5.0
Market Cap Weighted Average (ex. Sabeco)			6.5	15.8	34.9	25.3	101.3	3.7	9.8	2.3
Vietnam Dairy Products JSC	15,098	14,505	16.1	18.0	27.1	25.5	Net Cash	35.0	41.9	10.5

Source: Bloomberg

C. F&N's Times Publishing completed the acquisition of Penguin Random House Pte. Ltd. and Penguin Books Malaysia Sdn. Bhd. in Oct-17

- The Competition Commission of Singapore has been granted conditional approval after the Group pledged no discrimination against book retailers.
- The acquisition consideration amounts to S\$8 million.
- With the acquisition of Penguin's sales and distribution offices will immediately scale up FNN's distribution channels in the book retail market.
- Printing & Publishing (P&P) segment contributed 15.4% of FY17 Revenue and -2.6% of FY17 EBIT. In view of a highly competitive market for book distribution, we do not expect a strong earnings turnaround for its P&P business in FY18.

Note:

Penguin Random House Pte. Ltd. and Penguin Books Malaysia Sdn. Bhd. were the Singaporean and Malaysian book distribution arms of the renowned international publisher, Penguin Random House Limited, respectively.

Valuation

While operating environment in Malaysia is expected to remain challenging, the increased stake in Vinamilk will allow FNN to tap into the fast growing Vietnam market. We valued Vinamilk based on its 3-month average Enterprise Value (marked to market).

We upgraded to “**Accumulate**” while we wait for further re-rating catalysts to crystalize.

Sum-of-parts Valuation								
Equity affiliate	Mkt Cap (SGD mn)	3-month Average EV (SGD mn)	Stake (%)					EV to FNN (SGD mn)
Vietnam Dairy Products JSC	14,518.47	12,399.88	18.74					2,323.74
								2,323.74
Core Businesses	FY18e EBIT (SGD mn)	+ Depr & Amort - Exceptional Items	% FY17e Revenue	FY18e EBITDA (SGD mn)	Target EV/EBITDA (x)	Peer's Fwd EV/EBITDA (x)	EV to FNN (SGD mn)	
F&B: Beverages	5.14		26.9	22.34	12.0	10.8	268.03	
F&B: Dairies	148.29		58.2	185.43	13.0	11.9	2,410.57	
P&P: Printing & Publishing	(4.26)		14.9	5.24	17.0	18.0	89.05	
Others	(5.73)		0.0	(5.72)	1.0		(5.72)	
	143.44	63.84	100.0	207.28			2,761.94	
Total EV (S\$ mn)	5,085.68							
Less: Debt	1,172.78							
Less: Minority Interest	338.73							
Plus: Cash	976.13							
Total Market Value (S\$ mn)	4,550.29							
<i>Conglomerate discount</i>	10%							
FY18e Market Value (S\$ mn)	4,095.26							
Total Sum-of-parts								
No. of shares (mn)	1,446.95							
NAV/Share (TP S\$)	2.83							
Current share price (S\$)	2.59							
% upside/downside	9.3%							
FY18e EPS (SCents)	10.44							
<i>Implied FY18e P/E (x)</i>	27.1							

Source: Bloomberg, PSR

Peers Comparison

FNN is currently trading at adjusted Trailing P/E of 37.5x. Our SOTP derived TP implied a 27.1x FY18e P/E, which is 30% higher than its ASEAN Beverages peers at 20.9x.

Company	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	EV/EBITDA FY1	P/E	P/E FY1	Net D/E (%)	ROA (%)	ROE (%)	P/B
Fraser and Neave Ltd	3,733	4,218	27.3	17.7	37.5	24.8	5.4	29.6	45.3	1.3
ASEAN										
Fraser & Neave Hldgs Bhd	3,045	3,030	46.1	16.2	29.0	21.0	Net Cash	10.0	15.7	9.8
Power Root Bhd	225	211	13.8	11.2	17.8	15.3	Net Cash	10.4	15.0	2.7
Spritzer BHD	136	128	8.0	10.3	15.5	18.4	Net Cash	7.7	10.0	1.4
Oldtown Bhd	389	335	11.6	9.6	18.5	16.8	Net Cash	13.4	16.6	3.1
Alliance Global Group Inc	4,169	9,438	8.8	9.5	10.9	10.9	64.3	2.8	9.6	1.0
Pepsi-Cola Products Philippines Inc	265	364	4.0	N/A	13.4	N/A	-6.0	3.3	8.4	1.1
Ultrajaya Milk Ind & Trading	1,500	1,321	10.7	12.9	18.7	19.7	Net Cash	17.9	21.6	3.7
Vietnam Dairy Products JSC	15,052	14,458	16.1	17.9	27.0	25.4	Net Cash	35.0	41.9	10.5
Yeo Hiap Seng Ltd	739	497	2.9	N/A	4.6	N/A	Net Cash	22.0	25.3	1.1
Market Cap weighted Average (Excl. FNN)			17.5	15.1	23.0	20.9	10.4	24.4	30.7	7.9

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

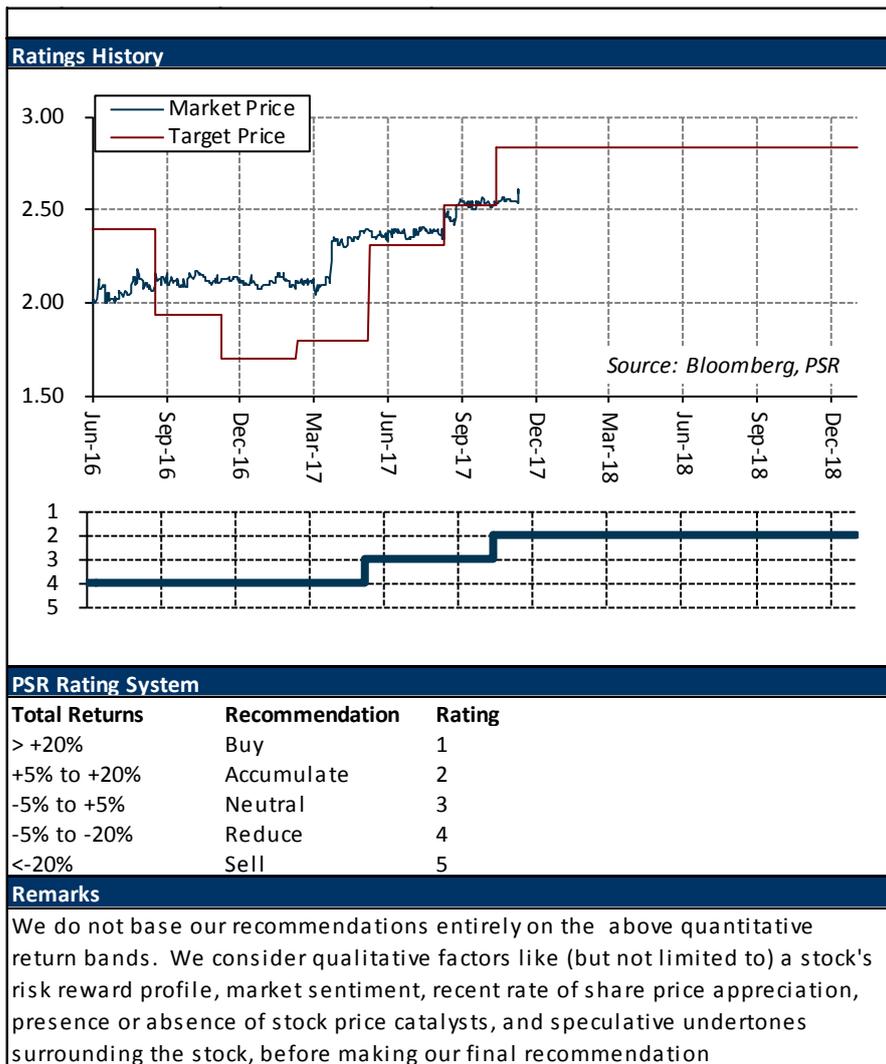
Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	26.9	28.3	37.5	24.8	23.5
P/B (X)	1.4	1.1	1.3	1.3	1.3
EV/EBITDA (X), adj.	12.1	13.1	18.3	12.7	12.4
Dividend Yield (%)	1.9%	1.7%	1.7%	2.1%	2.1%

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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