

Fraser and Neave

Leveraging on milk

SINGAPORE | CONSUMER | 1H17 RESULTS

- 1H FY17 Revenue/EBIT met our 47%/38% of our FY17 full year forecasts
- Subdued top line growth as expected; Dairies continued to cushion the weak earnings from Beverages
- Margins compression on the back of persistent challenging operating environment coupled, higher marketing expenses and increased debt burden
- Additional stake in Vinamilk to 18.74%; investment will be accounted as associate and contribute to earnings in 2HFY17
- Interim DPS of 1.5 Cents declared, same as last year

Earnings was affected by weaker consumer sentiment, adverse translation effects from a weak Ringgit (c.7% yoy as at end-Mar2017) and continued brand investment costs. Drag in revenue came from Malaysia Beverages and Dairies divisions, 1HFY17 sales -15% yoy and -8% yoy respectively. Dairies Thailand continued to provide strong support to Group's earnings.

SGD mn	1H17	1H16	y-y (%)	Comments
Beverages	253	277	-8.7%	Gains from Beer and New Markets were offset by lower Soft Drinks sales and weaker MYR
Dairies	550	542	1.4%	Weaker MYR, competitive pricing in MY
Printing & Publishing ("P&P")	143	153	-6.6%	Lower demand from both <i>Printing and Distribution</i> divisions
Revenue	946	973	-2.7%	Mainly due to weaker Beverages segment
Gross profit	344	355	-2.9%	Lower milk-based commodity prices <i>Gross Margin steadied at 36.4%</i>
EBITDA	93	111	-16.1%	OpEx % Revenue +1pp to 30% due to higher distribution costs <i>EBITDA Margin -1.6pp to 9.8%</i>
PBIT	69	82	-16.5%	
PATMI (continuing operations ex. exceptional items)	26	37	-29.3%	Higher finance cost (borrowings to finance acquisition of Vinamilk shares)
DPS (Cents)	1.5	1.5		

Source: Company, PSR

We reviewed this set of results on half-yearly basis to eliminate the impact arising from earlier Chinese New Year this year.

- Beverage:** Weaker soft drink sales in core markets (SG and MY) coupled with higher raw materials costs and intensified marketing expenses in new markets (ID, MM, TH and VN) caused PBIT to collapse by 82.2% year-on-year ("yoy") in 1HFY17. PBIT Margin -5.8 percentage points ("pp") yoy to 1.40%.
- Dairies:** Higher turnover from TH offset weaker demand in MY. Favourable milk-based commodity cost widened PBIT Margin (+2.3pp yoy to 14.4%), resulting in PBIT +21% yoy in 1HFY17 albeit a flattish top line growth.
- P&P:** Persistent challenges as both Printing and Publishing businesses continued to see declining sales. Losses before interest and taxation doubled to -\$7.9mn due to lower margins from a change in product mix in Education Publishing, investments made in its e-commerce project, and higher inventory provision.

Maintained our view of (i) Subdued demand and competitive pricing in Malaysia in FY17; (ii) Margin erosion due to rising raw material costs partially mitigated by favourable milk-based commodity cost; and (iii) Higher marketing costs for New Markets penetration. Possible implementation of a sugar "sin tax" this year in Malaysia would further compress PBIT margin. Upside surprise could come from higher contributions from Beer and new vending business.

6 June 2017

Neutral (Upgraded)

LAST CLOSE PRICE	SGD 2.38
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 2.31
TOTAL RETURN	-1.1%

COMPANY DATA

O/S SHARES (MN):	1447
MARKET CAP (USD mn / SGD mn):	2439 / 3444
52 - WK HI/LO (SGD):	2.42 / 1.92
3M Average Daily T/O (mn):	0.10

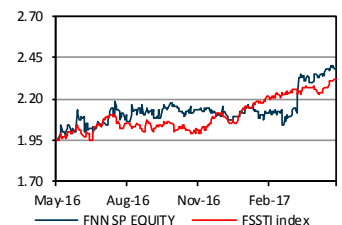
MAJOR SHAREHOLDERS (%)

TCC ASSETS LTD	59.30%
THAI BEVERAGE PCL	28.50%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.5	12.3	25.7
STI RETURN	3.6	6.68	21.61

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	2,009	2,041
EBITDA (SGD mn)	209	190	172	133
NPAT, adj. (SGD mn)	115	109	106	88
EPS, adj. (Cents)	7.98	7.54	7.33	6.07
PER, adj. (x)	26.9	28.3	32.4	39.2
P/BV, (x)	1.4	1.1	1.2	1.2
DPS (Cents)	5.00	4.50	4.50	4.50
Div Yield (%)	2.1%	1.9%	1.9%	1.9%
ROE (%)	6.0%	4.3%	3.7%	3.0%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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Change in valuation model to sum-of-parts on increased stakes in Vinamilk

- **Investment will be accounted as associate and contribute significantly to earnings.** FNN further acquired c.1.2% shares in Vinamilk subsequent to end-FY16, taking the Group's interest in Vinamilk to 18.7%. Vinamilk will only contribute to earnings in the 2HFY17.
- **Accounting for higher finance cost.** The Group geared up with c.S\$600mn bank loans to finance acquisition of shares in Vinamilk, resulting a net debt position of \$97mn as at end-2QFY17 compared to a net cash position of S\$166.2 million at end-1QFY17.

Upgraded to "Neutral" rating with new sum-of-parts derived TP of S\$2.31 (previously S\$1.80)

Sum-of-parts Valuation							
Equity affiliate	Mkt Cap (SGD mn)	EV (SGD mn)	Stake (%)				EV to FNN (SGD mn)
Vietnam Dairy Products JSC	12,949.05	12,223.75	18.74				2,290.73
							2,290.73
Core Businesses	FY17F EBIT (SGD mn)	+ Depr & Amort - Exceptional Items	% FY17F Revenue	FY17F EBITDA (SGD mn)	Target EV/EBITDA (x)	Peer's Fwd EV/EBITDA (x)	EV to FNN (SGD mn)
F&B: Beverages	22.81		29.9	20.15	12.0	12.0	241.79
F&B: Dairies	116.54		55.2	111.62	13.0	13.1	1,451.10
P&P: Printing & Publishing	(1.49)		14.9	(2.81)	17.0	18.7	(47.85)
Others	42.71		0.0	42.71	1.0		42.71
	180.57	(8.91)	100.0	171.66			1,687.75
Total EV (S\$ mn)	3,978.48						
Less: Debt	727.05						
Less: Minority Interest	360.58						
Plus: Cash	452.04						
Total Market Value (S\$ mn)	3,342.89						
<i>Conglomerate discount</i>	0%						
FY17F Market Value (S\$ mn)	3,342.89						
Total Sum-of-parts							
No. of shares (mn)	1,446.95						
NAV/Share (TP S\$)	2.31						
Current share price (S\$)	2.38						
% upside/downside	-2.9%						
FY17F EPS (SCents)	7.33						
<i>Implied FY17F P/E (x)</i>	31.5						

Source: Bloomberg, Phillip Securities Research (Singapore) est.

FNN is currently trading at Trailing P/E of 33.7x, and our TP-implied FY17F P/E is at 31.5x, which are higher than its ASEAN Beverages peers at 18.1x and 18.5x respectively. While operating environment in Malaysia is expected to remain challenging, the additional stake in Vinamilk will allow FNN to reap greater streams of dividend income and increase its exposure to Vietnam. Thus, with a new TP, we upgraded our rating to "Neutral" as we wait for a bigger game changing catalysts.

Potential re-rating catalysts would be acquisition of additional stakes in Vinamilk and Saigon Alcohol Beer and Beverages Corporation ("SABECO"). On a separate note, there is no update for the acquisition of Penguin Random House Limited in Singapore and Malaysia. Successful acquisition of Penguin's sales and distribution offices will immediately scale up FNN's distribution channels.

We expect FNN to fund any acquisitions via borrowings and/or internally generated fund. Current net gearing ratio is at 3% and at 8.5% by end-FY17F, i.e. further headroom before hitting its ceiling of 80%.

Financials

Income Statement

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Revenue	2,093	2,121	1,979	2,009	2,041
Gross profit	659	696	728	743	745
EBITDA	330	209	190	172	133
Depreciation & Amortisation	(85)	(92)	(62)	(72)	(73)
Associates & JVs	2	3	3	5	10
Other items	(78)	12	48	75	111
EBIT	170	132	179	181	181
Net Finance Inc/(Exp)	9	0	10	9	(15)
Profit Before Tax	178	132	189	189	166
Taxation	(27)	(19)	(23)	(32)	(28)
Profit After Tax (Con. Ops)	152	112	166	157	138
Profit After Tax (Discon. Ops)	205	637	0	0	0
- Non-controlling interest	(109)	(87)	(58)	(51)	(50)
Net profit, reported	147	633	108	106	88
Net profit, adj.	263	115	109	106	88

Per share data (SGD Cents)

Y/E Sep	FY14	FY15	FY16	FY17F	FY18F
EPS, reported	10.18	43.74	7.48	7.33	6.07
EPS, adj.	18.19	7.98	7.54	7.33	6.07
DPS	5.00	5.00	4.50	4.50	4.50
BVPS	111.07	156.82	196.65	199.93	202.25

Cash Flow

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
CFO					
EBIT	170	132	179	181	181
Depreciation & Amortisation	85	92	62	72	73
WC changes	(193)	(33)	18	(15)	(2)
Tax paid	(50)	(34)	(24)	(32)	(28)
Others	188	69	(50)	(667)	(147)
Cashflow from ops	199	225	185	(462)	77
CFI					
CAPEX, net	(1,039)	(68)	(76)	(60)	(61)
Others	(536)	600	36	(520)	111
Cashflow from investments	(1,575)	532	(40)	(581)	49
CFF					
Share issuance, net	7	3	1	-	-
Loans, net of repayments	648	(17)	33	574	(87)
Dividends	(257)	(102)	(99)	(110)	(105)
Others	(607)	(10)	(4)	(4)	(4)
Cashflow from financing	(209)	(126)	(70)	460	(196)
Net change in cash	(1,585)	632	75	(582)	(69)
Effects of exchange rates	(3)	(25)	2	-	-
Asset reclassification	-	(0)	-	-	-
CCE, end	355	962	1,043	452	383

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	504
Intangibles	124	106	125	129	133
Investments in Assoc/JV	50	42	43	638	649
Others	845	965	1,488	2,150	2,196
Total non-current assets	1,680	1,577	2,146	3,415	3,482
Accounts receivables	360	332	321	330	336
Cash	355	962	1,043	452	383
Inventories	274	254	247	243	249
Others	6	17	16	16	16
Total current assets	995	1,565	1,627	1,041	983
Total Assets	2,675	3,143	3,773	4,455	4,465

LIABILITIES

Accounts payables	394	392	381	391	397
Short term loans	23	3	12	442	442
Others	47	50	47	47	47
Total current liabilities	494	446	451	871	880
Long term loans	119	98	125	285	198
Others	61	42	44	48	52
Total non-current liabilities	180	140	169	333	250
Total Liabilities	674	587	620	1,204	1,130

EQUITY

Non-controlling interests	396	288	309	361	411
Shareholder Equity	1,605	2,268	2,843	2,891	2,924

Valuation Ratios

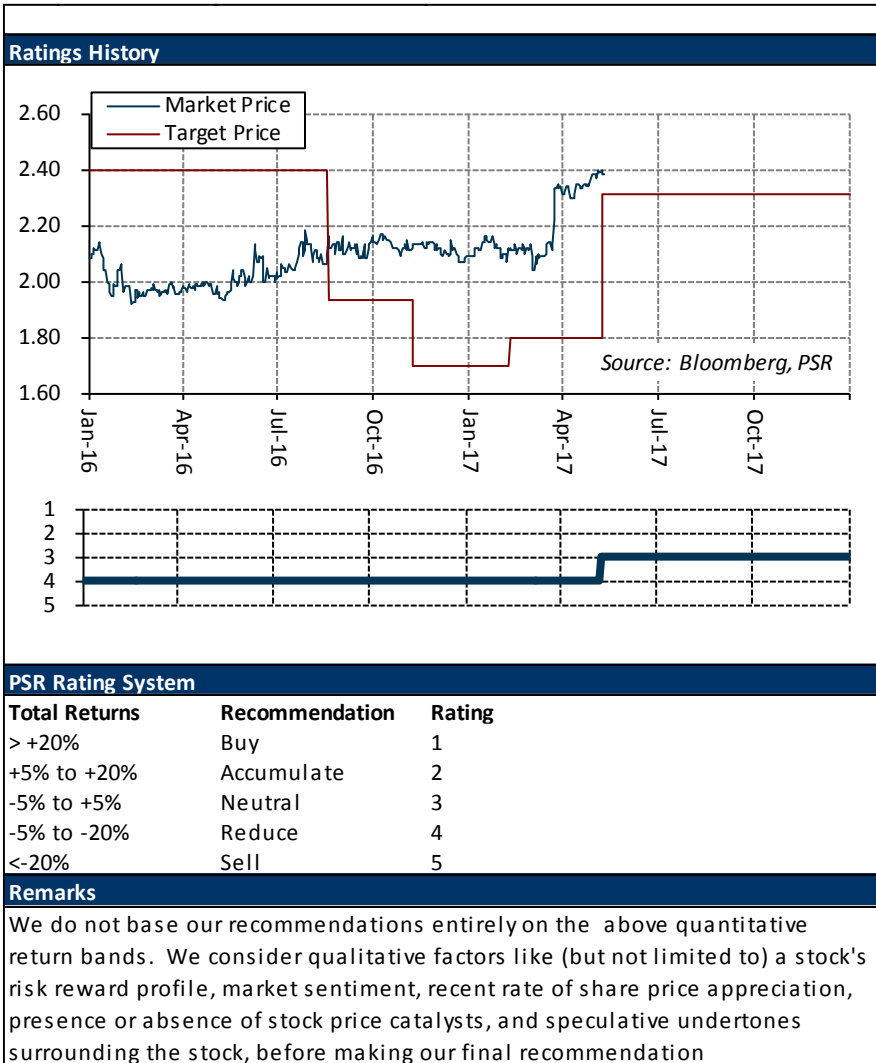
Y/E Sep	FY14	FY15	FY16	FY17F	FY18F
P/E (X), adj.	17.2	26.9	28.3	32.4	39.2
P/B (X)	2.8	1.4	1.1	1.2	1.2
EV/EBITDA (X), adj.	14.3	12.1	13.1	23.8	30.9
Dividend Yield (%)	2.1%	2.1%	1.9%	1.9%	1.9%

Growth & Margins (%)

Growth					
Revenue	-8.8%	1.3%	-6.7%	1.5%	1.6%
EBITDA	-28.0%	-36.6%	-8.9%	-9.9%	-22.6%
EBIT	-20.7%	-22.4%	36.2%	0.8%	0.5%
Net profit, adj.	-51.7%	-56.1%	-5.6%	-2.7%	-17.2%
Margins					
Gross margin	31.5%	32.8%	36.8%	37.0%	36.5%
EBITDA margin	15.7%	9.9%	9.6%	8.5%	6.5%
EBIT margin	8.1%	6.2%	9.1%	9.0%	8.9%
Net profit margin	12.6%	5.4%	5.5%	5.3%	4.3%

Key Ratios

ROE (%)	5.2%	6.0%	4.3%	3.7%	3.0%
ROA (%)	3.1%	4.0%	3.2%	2.6%	2.0%
Net Debt/(Cash)	(213)	(861)	(906)	275	256
Net Gearing (X)	Net Cash	Net Cash	Net Cash	8.5%	7.7%



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