

COMPANY UPDATE

Fraser & Neave Holdings (FNH MK)

Proposed Acquisition Of Cocoland

F&N has proposed to acquire Cocoland. The offer price of RM1.50/share values Cocoland at 19.7x 2023F PE. We think this is lofty, given its peers' trading at 13.1x and Cocoland's unconvincing historical growth. That said, the acquisition utilises idle cash. While the proposal is dilutive to near-term valuations, we upgrade F&N to a BUY. The recent sell-down has carved out an attractive reward-to-risk payoff. Target price lowered to RM23.60 from RM26.10.

WHAT'S NEW

- **Offer price of RM1.50/share, cash consideration of RM488m.** Fraser & Neave Holdings (F&N) has proposed to privatise the remaining shares (72.3%) of Cocoland (COLA MK, NR) it does not own for RM1.50/share. The total cash consideration of the proposed privatisation is approximately RM488m.
- **To complement F&N's halal packaged food pillar.** Cocoland is involved in the manufacturing and trading of snack products. The rationale for the acquisition is in line with F&N's ambition to build its halal packaged food as its fourth pillar of growth. F&N believes that the addition of Cocoland will enhance its expansion in the overseas markets.
- **Perplexing proposition.** Currently, close to 50% of Cocoland's revenue is export-driven, predominantly to Asia. However, its 10-year revenue CAGR (2012-22F) is -0.1%. It is unsurprising given that the snacks and sweets market is typically dominated by key giants and also faces headwinds in terms of a structural shift away from the consumption of unhealthy snacks and sweets. Cocoland's ranges of products do not appear complementary to F&N's existing products of cooking condiments and seasoning. However, they could leverage on each other's existing distribution network to lift sales. Nevertheless, we struggle to find the appeal of the acquisition and tangible synergies to justify the significant premium on the offer price for Cocoland.
- **Lofty premium.** The acquisition implies a forward PE of 23.4x and 19.7x to 2022-23 respectively based on consensus' estimates. This represents a 51% premium to its FMCG peers (2023: PE of 13.1x) under a market capitalisation of less than RM1b. Furthermore, Cocoland's 5-year PE mean is 14.5x. On an EV/EBITDA basis, the offer price implies 9.7x to 2023. It is at a 30% premium to its peers (7.5x). Based on these financial comparables, the offer premium for Cocoland appears lofty.

KEY FINANCIALS

Year to 30 Sep (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,989	4,131	4,539	4,510	4,617
EBITDA	648	609	543	660	678
Operating profit	515	473	421	530	541
Net profit (rep./act.)	410	398	346	460	468
Net profit (adj.)	400	401	346	460	468
EPS (sen)	109.1	109.3	94.4	125.3	127.5
PE (x)	18.3	18.3	21.2	16.0	15.7
P/B (x)	2.7	2.6	2.5	2.3	2.2
EV/EBITDA (x)	10.2	10.8	12.1	10.0	9.7
Dividend yield (%)	2.8	3.0	2.6	3.5	3.5
Net margin (%)	10.3	9.6	7.6	10.2	10.1
Net debt/(cash) to equity (%)	(14.5)	(18.1)	(24.9)	(29.0)	(32.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	15.7	14.4	12.0	14.9	14.2
Consensus net profit	-	-	380	425	472
UOBKH/Consensus (x)	-	-	0.91	1.08	0.99

Source: Fraser & Neave Holdings Bhd, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM20.00
Target Price	RM23.60
Upside	+18.0%
(Previous TP)	RM26.10)

COMPANY DESCRIPTION

Leading beverage player which is principally involved in the manufacture, sale and marketing of soft drinks, dairies, and non-carbonated drinks.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FNH MK
Shares issued (m):	366.8
Market cap (RMm):	7,335.6
Market cap (US\$m):	1,671.2
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

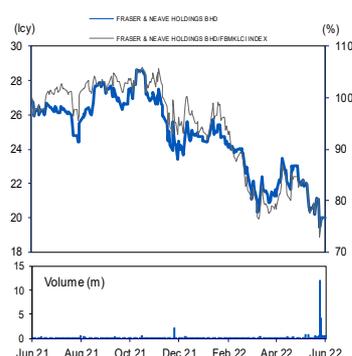
52-week high/low	RM28.66/RM19.42			
1mth	3mth	6mth	1yr	YTD
(13.0)	(13.0)	(17.6)	(27.0)	(19.2)

Major Shareholders

Fraser and Neave Ltd	55.5
PNB	14.1
EPF	11.7

FY22 NAV/Share (RM)	8.11
FY22 Net Cash/Share (RM)	2.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Balance sheet remains robust, net cash position after proposal.** Upon completion of the privatisation, F&N should remain in a net cash position. Its net gearing is expected to be raised to -0.14x from -0.29x in FY23. F&N should have sufficient cash and robust balance sheet to undertake its dairy farming acquisition (RM216m) and subsequent capex.
- **Earnings accretion up to 4.7% but value dilutive.** Upon completion of the proposed privatisation, F&N's 2023 earnings could be lifted by up to 4.7%. This is based on consensus estimates on Cocoland of RM34.5m and forgone interest revenue from the cash consideration. The earnings impact would be dependent on the uptake of the proposed privatisation and the possible additional growth that F&N can realise. Apart from that, given that the valuation of Cocoland's privatisation (19.7x) is higher relative to F&N's existing projected valuations based on 2023 (16.0x), the acquisition is value dilutive.

EARNINGS REVISION/RISK

- We leave our earnings unchanged until the proposed privatisation and uptake are finalised. Key downside risk is spiraling commodities prices.

VALUATION/RECOMMENDATION

- **Upgrade to BUY but with a lower target price of RM23.60 (from RM26.10).** F&N's share price has recently taken a hit, possibly from the overall risk-off sentiment that was further compounded by F&N's exposure to commodities prices. That said, F&N offers considerable value when compared to large cap Malaysia consumer FMCG companies. We believe it offers a good buffer against the downside risk of commodities prices. The reward-to-risk payoff appears attractive at this juncture.
- Our target price is adjusted downward as we revise our DCF assumptions for the higher risk-free rate and lower terminal growth (WACC/TG: 7.8%/2.5% from 7.0%/3.0%). This implies 25.0x FY22F PE, slightly below its five-year mean PE of 26.1x.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> • Environmental - Emissions management. Reduced solid waste intensity ratio by 62% from 2017.
<ul style="list-style-type: none"> • Social - Diversity & inclusion. Among its >2,000 strong workforce, 69% are male while 31% are female. >97% of senior managers are hired from the local community. - Wellbeing. Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
<ul style="list-style-type: none"> • Governance - Board balance and composition. Six board members are independent directors, amounting to 55% of the board members.

PEER COMPARABLE

	Share Price (RM)	Mrkt Cap (RMm)	P/E (x)		EV/EBITDA		Div. Yield (%)	
			22F	23F	22F	23F	22F	23F
Nestle Malaysia	133.10	31,212	52.0	46.5	30.1	28.1	1.9	2.1
Fraser & Neave Holdings	20.00	7,336	18.6	16.5	11.6	10.4	3.0	3.3
Farm Fresh	1.66	3,084	33.2	25.9	25.3	19.1	0.5	0.9
Dutch Lady	33.12	2,120	23.8	22.3	14.7	13.5	1.5	1.7
Guan Chong	2.59	2,739	12.3	10.5	9.2	9.0	2.5	3.0
Kawan Food	1.77	635	16.1	13.3	8.8	7.8	1.9	2.0
Power Root	1.74	677	22.2	18.0	12.1	10.4	4.3	5.3
Spritzer	1.93	405	13.8	11.7	5.2	4.4	2.1	2.4
MSM Malaysia	0.79	552	nm	9.3	45.8	7.3	4.5	3.3
Malaysia - FMCG - (>RM1b)		9,298	28.0	24.3	18.2	16.0	1.9	2.2
Malaysia - FMCG - (<RM1b)		567	17.3	13.1	18.0	7.5	3.2	3.2
Cocoland*	1.50	576	23.4	19.7	11.5	9.7	3.8	4.2

Source: Bloomberg
*at offer price of RM1.50

KEY ASSUMPTIONS

	2022F	2023F	2024F
Sales (RMm)	4,539	4,510	4,617
Soft Drinks (% yoy)	5.0	0.0	0.0
Dairies Malaysia (% yoy)	11.3	0.0	1.0
Dairies Thailand (% yoy)	10.6	-1.2	4.0
EBIT	421	530	541
margin (%)	9.3	11.8	11.7

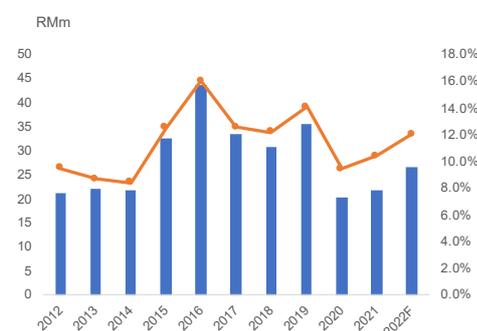
Source: UOB Kay Hian

NEGATIVE 10-YEAR REVENUE CAGR OF -0.1% (2012-22F)



Source: Cocoland

COCOALAND'S HISTORICAL PROFIT TRACK RECORD



Source: Cocoland

PROFIT & LOSS

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Net turnover	4,131	4,539	4,510	4,617
EBITDA	609	543	660	678
Deprec. & amort.	136	123	130	137
EBIT	473	421	530	541
Associate contributions	5	5	5	5
Net interest income/(expense)	1	12	15	17
Pre-tax profit	482	438	550	563
Tax	(84)	(92)	(91)	(96)
Minorities	0	0	0	0
Net profit	398	346	460	468
Net profit (adj.)	401	346	460	468

BALANCE SHEET

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,372	1,326	1,346	1,359
Other LT assets	495	553	559	564
Cash/ST investment	555	784	990	1,167
Other current assets	1,209	1,312	1,294	1,325
Total assets	3,632	3,975	4,188	4,415
ST debt	1	1	25	25
Other current liabilities	655	844	827	845
LT debt	43	43	43	43
Other LT liabilities	114	114	114	114
Shareholders' equity	2,819	2,974	3,179	3,388
Minority interest	0	0	0	0
Total liabilities & equity	3,632	3,975	4,188	4,415

CASH FLOW

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Operating	617	563	600	603
Pre-tax profit	479	438	550	563
Tax	(84)	(92)	(91)	(96)
Deprec. & amort.	136	123	130	137
Working capital changes	90	87	1	(13)
Non-cash items	n.a.	n.a.	n.a.	n.a.
Other operating cashflows	(4)	7	9	12
Investing	(181)	(142)	(165)	(167)
Capex (growth)	(145)	(130)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(36)	(12)	(15)	(17)
Financing	(339)	(191)	(230)	(259)
Dividend payments	(220)	(191)	(254)	(259)
Issue of shares	0	0	0	0
Loan repayment	(87)	0	24	0
Others/interest paid	(33)	0	0	0
Net cash inflow (outflow)	97	229	205	177
Beginning cash & cash equivalent	494	555	784	990
Changes due to forex impact	(35)	0	0	0
Ending cash & cash equivalent	555	784	990	1,167

KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.7	12.0	14.6	14.7
Pre-tax margin	11.7	9.7	12.2	12.2
Net margin	9.6	7.6	10.2	10.1
ROA	11.1	9.1	11.3	10.9
ROE	14.4	12.0	14.9	14.2
Growth				
Turnover	3.6	9.9	(0.6)	2.4
EBITDA	(5.9)	(10.8)	21.5	2.7
Pre-tax profit	(7.8)	(9.1)	25.6	2.4
Net profit	(2.9)	(13.0)	32.8	1.8
Net profit (adj.)	0.2	(13.7)	32.8	1.8
EPS	0.2	(13.7)	32.8	1.8
Leverage				
Debt to total capital	1.6	1.5	2.1	2.0
Debt to equity	1.6	1.5	2.2	2.0
Net debt/(cash) to equity	(18.1)	(24.9)	(29.0)	(32.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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