

Issuer Profile: Fraser and Neave Ltd (“FNN”)

Neutral (4)

Ticker:

FNNSP

Wong Hong Wei, CFA

+65 6722 2533

WongHongWei@ocbc.com

Recommendation

- Results improved across all major segments of FNN (other than Vinamilk). Aside from revenue growth (+6.7% y/y to SGD489.7mn) driven by successful campaigns, profit margins expanded with PBIT higher by 25.6% y/y to SGD91.0mn from lower input costs.
- We think that the improvement in results may not necessarily sustain through FY2020 as input costs have moved higher, though FNN has hedged such costs for 4QFY2019.
- Credit metrics still look healthy despite net gearing reaching 15.2% (2QFY2019: 10.6%). This is due to acquisitions (e.g. stakes in Starbucks Thailand, Genki Sushi Thailand). Meanwhile, FNN remains cash generative with sufficient liquidity.
- We think FNNSP curve still looks somewhat interesting given its healthy credit metrics. For investors seeking higher yields, METRO 4.3% 2024s can be considered which we similarly rate with an Issuer Profile of Neutral (4).

Relative Value:

Bond	Maturity / Call date	Net gearing	Ask YTW	Spread
FNNSP 3.09% 2022	23/03/2022	15%	2.78%	123bps
FNNSP 2.80% 2022	22/08/2022	15%	2.91%	137bps
FNNSP 3.80% 2027	21/04/2027	15%	3.44%	192bps
BREAD 4% 2023	17/01/2023	65%	3.72%	219bps
METRO 4.3% 2024	02/04/2024	8%	3.71%	220bps

Indicative prices as at 15 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Listed on SGX with a market cap of SGD2.5bn, Fraser and Neave Ltd (“FNN”) is a consumer group primarily engaged in Food & Beverage (“F&B”).
- FNN is an F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN also owns a Publishing and Printing (“P&P”) business (“P&P”), which include Marshall Cavendish and Times Publishing.
- FNN owns 55.5% stake in Fraser & Neave Holdings Bhd and ~20% stake in Vietnam Dairy Products JSC (“Vinamilk”). FNN is owned by TCC Assets Ltd (59.2%) and Thai Beverage (28.5%), both linked to Thai billionaire Mr Charoen.

Key Considerations

- Significantly better results from all segments...:** FNN reported 3QFY2019 results. Revenue rose 6.7% y/y to SGD489.7mn, led by increase in Beverages (+11.6% y/y to SGD133.0mn), Dairies (+5.5% y/y to SGD294.3mn) and P&P (+2.6% y/y to SGD62.3mn). Correspondingly, PBIT rose 25.6% y/y to SGD91.0mn, contributed by P&P which turned to positive SGD9.4mn (3QFY2018: negative SGD4.7mn), Beverages increasing to SGD6.7mn (3QFY2018: SGD2.9mn) and Dairies (+4.8% y/y to SGD77.2mn). The only segment which underperformed is Vinamilk; we estimate that its contribution has fallen to SGD31.2mn (3QFY2018: SGD38.4mn).
- ... with stronger profits driven mainly by lower costs:** The expansion in PBIT margin for Beverages to 5.0% (3QFY2018: 2.4%) is likely driven by lower cost, noting lower sugar cost and lower marketing spend. Similarly for Dairies (ex Vinamilk), a large part of the PBIT margin growth to an estimated 15.6% (3QFY2018: 12.6%) is due to lower input costs. For revenue growth in the Beverages segment, this was mainly due to successful festive campaigns for Hari Raya and successful introduction of new healthier products. Again similar to Beverages, revenue growth in Dairies is due to successful loyalty programs and

campaigns. For the P&P segment, most of the improvements in profitability is due to one-off income from the sale of non-core assets; the good performance for the segment is not expected to be repeated.

- **Challenges remain ahead that may impede sustainability of growth:** Firstly, we think effects from lower commodity prices and marketing costs which helped boost results may not remain indefinitely though FNN may continue to benefit from low input costs through 4QFY2019 as input costs has been hedged. We note that input costs (e.g. skimmed milk powder) prices have been increasing, which should impact input costs in FY2020. For the Beverages segment, the implementation of excise duty on sugar sweetened beverages in Malaysia is a potential headwind, though management flagged that not much impact has been seen yet. In addition, Malaysia market may remain challenging due to intense competition, noting that 9MFY2019 reported PBIT has already fallen 7.7% for the segment.
- **Still healthy credit metrics despite acquisitions made:** Net gearing climbed q/q to 15.2% (2Q2019: 10.6%), which looks healthy still. The increase is mainly due to cash outflow from the acquisition of StarBucks Thailand (through a joint venture with Maxim's Caterers Ltd), which resulted in FNN making SGD114.8mn capital injection. Meanwhile, FNN also made acquisitions of 20.75%-stake in Genki Sushi Thailand and 60%-stake in Print Lab. Separately, we note that FNN has already (for some time) stopped acquiring more stakes in Vinamilk. Cash of SGD212.2mn well covers borrowings of SGD192.6mn due within 12 months. In addition, FNN holds another SGD95.8mn in bank fixed deposits. Credit profile remains intact with healthy operating cash before working capital changes of SGD64.2mn (3QFY2018: SGD48.4mn).

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight (“OW”) – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral (“N”) – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight (“UW”) – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com
Emmanuel Ng
Senior FX Strategist
NqCYEmmanuel@ocbc.com
Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com
Terence Wu
FX Strategist
TerenceWu@ocbc.com
Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com
Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com
Carie Li
Hong Kong & Macau
carierli@ocbcwh.com
Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com
Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com
Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com
Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Disclaimer for research report

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W