

Singapore Company Flash Note

F & N

Bloomberg: FNN SP | Reuters: FRNM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Nov 2015

HOLD

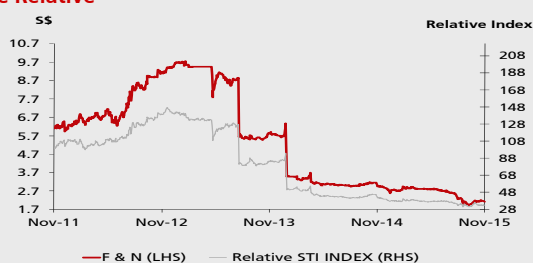
Last Traded Price: S\$2.12 (STI : 2,974.41)

Price Target : S\$2.45 (16% upside)

Analyst

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Price Relative



Forecasts and Valuation

FY Sep (\$ m)	2014A	2015F	2016F	2017F
Revenue	2,421	2,524	2,238	2,341
EBITDA	355	380	247	254
Pre-tax Profit	305	832	206	214
Net Profit	147	656	95	97
Net Pft (Pre Ex.)	127	128	95	97
EPS (S cts)	10.2	45.4	6.6	6.7
EPS Pre Ex. (S cts)	8.8	8.9	6.6	6.7
EPS Gth (%)	(97)	346	(86)	2
EPS Gth Pre Ex (%)	5	1	(26)	2
Diluted EPS (S cts)	10.2	45.4	6.6	6.7
Net DPS (S cts)	5.0	4.7	3.3	3.4
BV Per Share (S cts)	111.1	151.5	153.4	156.8
PE (X)	20.8	4.7	32.3	31.6
PE Pre Ex. (X)	24.1	23.9	32.3	31.6
P/Cash Flow (X)	16.8	3.6	12.7	14.6
EV/EBITDA (X)	9.1	6.3	9.4	8.9
Net Div Yield (%)	2.4	2.2	1.5	1.6
P/Book Value (X)	1.9	1.4	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.9	34.6	4.3	4.3

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

F&N Offers \$4b to Buy State Stake in Vinamilk: Saigon Times

- News report quotes FNN offering US\$4bn for a 45% stake in Vinamilk; FNN denies formal offer
- Not surprising for FNN to show interest; already owns 11% stake
- Funding, if any, through a combination of debt/equity
- A strategic game-changer if deal sees fruition

What's news?

FNN offering US\$4bn for a 45% stake in Vinamilk: Saigon Times. According to Bloomberg (appended), quoting Saigon Times, FNN is offering US\$4bn for Vietnam's State Capital Investment Corporation's (SCIC) 45.1% stake in Vinamilk (VNM VN). FNN has issued an announcement indicating that it "has not submitted any offer letter to Vinamilk or SCIC with regards to any offer to purchase SCIC's stake in Vinamilk".

Strategic price of 40% premium. The quoted offer price is about 40% premium to Vinamilk's current traded price and values it at a market cap of US\$8.9bn. This works out to a PE of 28x/25x on FY15F/16F, based on Bloomberg consensus' estimates. While the price may look high, we believe the stake is of strategic value and particularly so with Vinamilk's market leading status.

What do we think?

FNN is definitely an interested party, in our view. We believe there is a possibility that FNN is interested in increasing its stake in Vinamilk. FNN currently holds an 11% investment stake, is the second largest shareholder after SCIC, and the largest foreign shareholder. FNN has been a shareholder in Vinamilk since Feb 2005, and we believe they have been a patient strategic investor waiting on the sidelines for SCIC to divest. If the report were to be true, we believe its patience could be paying off.

Makes sense on the deployment of cash from MBL’s divestment. This development, if true, is not exactly surprising, and would make sense in our view. We have earlier indicated that FNN would be looking to “crawl back” the profit from the divestment of its 55% stake in Myanmar Brewery Limited earlier this year. This was post the arbitration outcome with its JV partner there. We estimate that FNN will be sitting on a **cash pile** to the tune of **S\$1.18bn** by FYE Sep’15 year end.

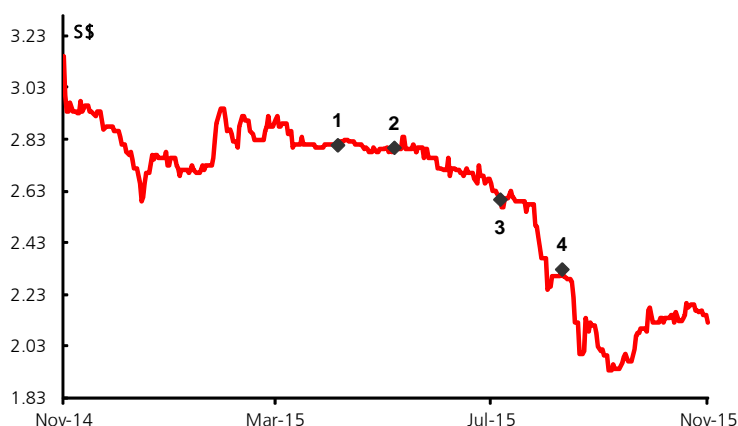
Funding – likely a combination of internal cash, debt and equity. At this initial stage and based on the figures quoted by the Saigon Times, we believe the initial figure looks huge. If it were to materialise, we believe FNN would tap on its current cash horde, coupled with funding from equity and debt sources. Based on our back-of-envelope calculation, and using an approximate net gearing ratio of 0.8x, we estimate the funding would be 23%/ 55%/ 21% internal cash/ debt / equity.

News likely to drum up other suitors’ interest. We believe there could be a certain element of truth to the news report, but the details (ie price, and development) could be overplayed. In our view, the purpose of such news development could be to drum up potential suitors’ interest in bid to further up the ante and competition, in hope of a better price.

Fruition would be a game changer for FNN. At the quoted price, it seems high, but we believe it would be viewed from a strategic perspective and a game changer for FNN. This would allow FNN to firmly entrench its entry into Vietnam, one of the largest consumer markets in Indochina. Furthermore, we believe it would allow the introduction of its non-alcoholic and dairy brands, leveraging on Vinamilk’s dominant presence.

Recommendation and TP unchanged for now.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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