

Singapore Company Focus

F & N

Bloomberg: FNN SP | Reuters: FRNM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Nov 2015

HOLD

Last Traded Price: S\$2.17 (STI : 3,010.47)
Price Target : S\$2.26 (4% upside) (Prev S\$2.45)

Reason for Report : TP revision; FY15 results review

Potential Catalyst: Acquisitions, special dividend

Where we differ: Below consensus, as consensus may not have factored in MBL's disposal

Analyst

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Price Relative



Forecasts and Valuation

FY Sep (\$m)	2014A	2015A	2016F	2017F
Revenue	2,093	2,104	2,158	2,261
EBITDA	254	223	261	278
Pre-tax Profit	227	696	197	215
Net Profit	147	633	88.9	92.4
Net Pft (Pre Ex.)	98.3	68.7	88.9	92.4
EPS (S cts)	10.2	43.8	6.16	6.40
EPS Pre Ex. (S cts)	6.80	4.76	6.16	6.40
EPS Gth (%)	(97)	330	(86)	4
EPS Gth Pre Ex (%)	(19)	(30)	29	4
Diluted EPS (S cts)	10.2	43.8	6.16	6.40
Net DPS (S cts)	5.00	2.52	3.08	3.20
BV Per Share (S cts)	111	157	161	164
PE (X)	21.3	5.0	35.2	33.9
PE Pre Ex. (X)	31.9	45.6	35.2	33.9
P/Cash Flow (X)	15.8	13.9	13.6	13.4
EV/EBITDA (X)	13.1	11.5	9.5	8.7
Net Div Yield (%)	2.3	1.2	1.4	1.5
P/Book Value (X)	2.0	1.4	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.9	32.7	3.9	3.9
Earnings Rev (%)			(6)	(5)
Consensus EPS (S cts)			9.5	10.6
Other Broker Recs:		B: 0	S: 2	H: 1

ICB Industry : Industrials

ICB Sector: General Industrials

Principal Business: F&N is in F&B, property and printing and publishing business.

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

Earnings supported by disposal gains

- FY15 headline earnings held up by disposal gains
- Dairies was in line, but soft drinks fizzled out on brand investment in new markets and competition
- Sitting on net cash of S\$865m; focus is on re-investment
- Maintain HOLD, TP revised down to S\$2.26

FY15 boosted by disposal gains; continuing operations

below expectations on higher costs. FNN's FY15 attributable profit surged manifold y-o-y to S\$633m, but this was due to disposal gains of S\$542m from the sale of its 55% stake in Myanmar Brewery Limited (MBL). Excluding this, net profit would have been S\$68.7m, a drop from FY14's core profit of S\$85.7m. Total revenue achieved was S\$2.1bn, similar to FY14. The group's PBIT declined 11% to S\$132m from S\$148m (excluding S\$21m revaluation gains) in FY14, due to higher expenditure on brand investment, lower soft drinks sales and higher distribution costs. Final DPS of 3 Scts was proposed, and coupled with 2 Scts interim dividend paid, DPS for FY15 was 5 Scts, similar to FY14.

Dairies improved while soft drinks lost its fizz. Revenue and contribution from Dairies improved from higher canned milk volumes and better PBIT margins of 6.1%, from 5.2% a year earlier. Soft drinks, however, faced challenges with PBIT dropping by 43% y-o-y to S\$38m, due to a surge in brand investment costs (S\$13m) in new markets, and weaker contribution from Malaysia and Singapore due to competition, unfavourable sales mix and higher costs.

Flushed with cash; re-investment is key to make up for MBL void.

The group ended the year with net cash of S\$865m, largely from its disposal of MBL. We believe it is on the prowl for acquisitions to make up for void left by the higher margin beer business represented by its stake in MBL.

Trimmed FY16/17 earnings by 6%/5%; maintain HOLD, TP

adjusted to S\$2.26. We revised our FY16F/17F forecasts down by 6%/5% to account for higher brand investment costs into new markets. Our sum-of-parts TP is revised down to S\$2.26, taking into account lower net cash from MBL's disposal, net of costs and taxes.

At A Glance

Issued Capital (m shrs)	1,444
Mkt. Cap (\$m/US\$m)	3,134 / 2,207
Major Shareholders	
TCC Assets (%)	59.4
Thai Beverage (%)	28.6
Free Float (%)	12.0
3m Avg. Daily Val (US\$m)	0.27

INVESTMENT THESIS

Profile	Rationale
<p>FNN is a food and beverage company with interests in printing and publishing, since the de-merger and dividend-in-specie of its properties through the listing of FCL in January 2014. It manufactures, markets and distributes dairy and non-alcoholic products in the region.</p>	<p>Maintain HOLD, TP revised to S\$2.26. We maintain our HOLD recommendation for FNN with a sum-of-parts based TP of S\$2.26. While valuations look stretched at over 30x PE, its ex-cash PE stands at c.25x.</p> <p>Flushed with cash; deployment a key. FNN is currently sitting on a net cash pile of S\$865m as of end FY15. With its ample war chest, we do expect management to deploy cash to “crawl back” at least of the profits “lost” from the disposal of MBL. We believe FNN is on the prowl; and, while it has indicated that no formal bid was made for a 45% stake in Vinamilk (as reported by Saigon Times), we believe FNN is keen. In our view, its strong balance sheet and the potential cash deployment to enhance shareholder value could provide support to share price.</p> <p>Revised core profit forecasts by 6%/5% We have revised down our 16F/ 17F core profits by 6%/ 5% to account for its investment in brands in new markets.</p>
Valuation	Risks
<p>Our sum-of-parts target price of S\$2.26 is derived from the market values of its listed entities, investments and estimated net cash, including net proceeds from disposal of its stake in MBL.</p>	<p>Consumer sentiment in the ASEAN region. With its key markets in Malaysia, Singapore and Thailand, changes in the macro economic environment and consumer sentiment could have an impact on the performance of its operations.</p> <p>Spike in raw material prices and exchange rates. The group relies on key raw and packaging materials such as sugar, milk powder, whey, palm kernel oil, tin, aluminium, as inputs. Spike in prices of these items could have an adverse impact on its margins. Weakening regional currencies against USD, where the raw materials are usually priced in could also have an adverse impact on margins.</p> <p>Relatively low liquidity of shares. Free float is currently at c.12%, with the remaining held by TCC and ThaiBev. With relatively low liquidity, its share price could see huge fluctuations, particularly if triggered by key events/announcements.</p>

Source: DBS Bank

DBS Sum-of-parts valuation

FNN	% stake	Methodology	Currency	Market price (LCY)	Market value (\$m)	S\$/ share	% RNAV
Listed entities							
F&N Berhad	55.9%	Mkt px	MYR	18.00	1,241	0.86	38%
Vinamilk	11.0%	Mkt px	VND	129,000	766	0.53	23%
Times Publishing		10x PE			100	0.07	3%
F&N Singapore		15x PE			150	0.10	5%
Total F&B, P&P					2,257	1.57	69%
(Net debt)/ Cash				Est. FY16F	1,006	0.70	31%
Target valuation/ price					3,264	2.26	100%

Source: DBS Bank estimates

F & N

Key Assumptions

FY Sep	2013A	2014A	2015A	2016F	2017F
Beverage rev gwth (%)	9.81	(27.7)	(0.4)	0.78	6.08
Beverage margins (%)	13.8	10.4	5.98	6.80	8.50
Dairies rev gwth (%)	7.49	5.51	2.23	5.00	6.00
Dairies margins (%)	5.73	5.16	6.12	6.20	6.00

Beverage revenue from FY14 is restated and excludes contribution from beer (MBL) with its disposal completed in Aug-15

Segmental Breakdown

FY Sep	2013A	2014A	2015A	2016F	2017F
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Revenues (\$\$m)

Beverages	887	641	639	644	683
Dairies	1,042	1,099	1,124	1,180	1,251
Printg & Publishing	366	353	342	335	328

Restated from FY14 to exclude beer revenue post disposal of MBL

Total

	2,294	2,093	2,104	2,158	2,261
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PBIT (incl. JV & Assoc)

Beverages	122	66.6	38.2	43.8	58.0
Dairies	59.7	56.7	68.8	73.1	75.0
Printg & Publishing	38.5	46.3	24.6	23.4	23.2

Total

	220	170	132	140	156
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PBIT (incl. JV & Assoc)

Beverages	13.8	10.4	6.0	6.8	8.5
Dairies	5.7	5.2	6.1	6.2	6.0
Printg & Publishing	10.5	13.1	7.2	7.0	7.1

Total

	960.9	810.0	625.4	649.9	691.2
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Income Statement (\$\$m)

FY Sep	2013A	2014A	2015A	2016F	2017F
Revenue	2,294	2,093	2,104	2,158	2,261
Cost of Goods Sold	(1,520)	(1,434)	(1,425)	(1,429)	(1,499)
Gross Profit	774	659	679	729	762
Other Opng (Exp)/Inc	(588)	(515)	(592)	(592)	(609)
Operating Profit	185	144	87.2	137	153
Other Non Opg (Exp)/Inc	18.7	22.9	41.7	41.7	41.7
Associates & JV Inc	9.75	2.39	2.70	2.84	2.98
Net Interest (Exp)/Inc	39.0	8.64	0.18	14.7	17.5
Exceptional Gain/(Loss)	5,309	48.8	564	0.0	0.0
Pre-tax Profit	5,562	227	696	197	215
Tax	(48.6)	(26.6)	(19.3)	(43.3)	(47.4)
Minority Interest	(83.4)	(53.4)	(43.7)	(64.4)	(75.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	5,430	147	633	88.9	92.4
Net Profit before Except.	121	98.3	68.7	88.9	92.4
EBITDA	308	254	223	261	278

Growth

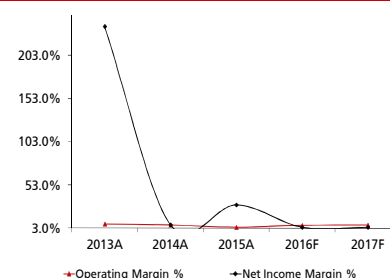
Revenue Gth (%)	(35.7)	(8.8)	0.5	2.6	4.8
EBITDA Gth (%)	(55.3)	(17.5)	(12.1)	16.7	6.8
Opg Profit Gth (%)	(60.1)	(22.2)	(39.6)	57.6	11.6
Net Profit Gth (Pre-ex) (%)	(34.2)	(18.7)	(30.1)	29.5	3.9

Margins & Ratio

Gross Margins (%)	33.7	31.5	32.3	33.8	33.7
Opg Profit Margin (%)	8.1	6.9	4.1	6.4	6.8
Net Profit Margin (%)	236.7	7.0	30.1	4.1	4.1
ROAE (%)	67.5	2.9	32.7	3.9	3.9
ROA (%)	37.7	1.7	21.7	2.8	2.8
ROCE (%)	1.5	1.7	3.5	3.9	4.2
Div Payout Ratio (%)	4.1	49.1	5.8	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Margins Trend



Gain from disposal of MBL, including share of profits prior to disposal, offset by restructuring costs for its Printing & Publishing division.

Quarterly / Interim Income Statement (\$m)

FY Sep	4Q2014	1Q2015	2Q2015	3Q2015
Revenue	613	655	608	645
Cost of Goods Sold	(410)	(428)	(392)	(418)
Gross Profit	203	227	216	227
Other Oper. (Exp)/Inc	(160)	(149)	(150)	(160)
Operating Profit	42.8	78.8	65.7	67.1
Other Non Opg (Exp)/Inc	9.40	0.13	0.0	13.7
Associates & JV Inc	(3.0)	1.05	0.65	0.21
Net Interest (Exp)/Inc	0.27	0.0	(0.1)	(0.3)
Exceptional Gain/(Loss)	(96.4)	(1.0)	0.85	(0.5)
Pre-tax Profit	(46.9)	78.9	67.1	80.3
Tax	(7.4)	(17.9)	(15.8)	(13.9)
Minority Interest	(16.1)	(25.5)	(25.7)	(26.5)
Net Profit	(70.4)	35.4	25.7	40.0
Net profit bef Except.	26.0	36.5	24.8	40.5
EBITDA	70.4	103	86.5	101

Growth

Revenue Gth (%)	(1.5)	6.9	(7.1)	6.1
EBITDA Gth (%)	(28.9)	46.9	(16.3)	16.2
Opg Profit Gth (%)	(37.2)	83.9	(16.6)	2.2
Net Profit Gth (Pre-ex) (%)	(41.7)	40.5	(32.0)	63.0

Margins

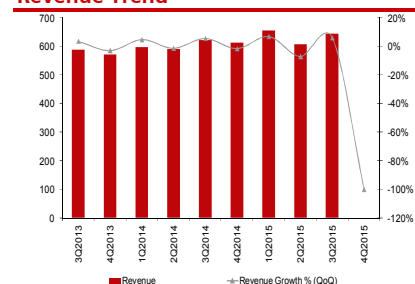
Gross Margins (%)	33.1	34.7	35.5	35.2
Opg Profit Margins (%)	7.0	12.0	10.8	10.4
Net Profit Margins (%)	(11.5)	5.4	4.2	6.2

Balance Sheet (\$m)

FY Sep	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	699	664	464	448	431
Invt in Associates & JVs	1,279	99.2	85.6	87.3	89.2
Other LT Assets	4,179	920	1,027	1,015	1,001
Cash & ST Invt	1,945	355	962	1,107	1,247
Inventory	249	275	254	260	272
Debtors	527	309	279	288	302
Other Current Assets	5,267	56.4	71.0	71.0	71.0
Total Assets	14,145	2,679	3,143	3,276	3,413
ST Debt	862	23.0	2.55	2.55	2.55
Creditor	528	198	201	206	215
Other Current Liab	1,113	273	243	254	258
LT Debt	2,583	119	97.9	97.9	97.9
Other LT Liabilities	182	63.4	42.5	42.5	42.5
Shareholder's Equity	8,505	1,605	2,268	2,321	2,369
Minority Interests	373	398	288	352	428
Total Cap. & Liab.	14,145	2,679	3,143	3,276	3,413
Non-Cash Wkg. Capital	4,402	169	160	159	171
Net Cash/(Debt)	(1,500)	213	861	1,006	1,146
Debtors Turn (avg days)	85.8	72.9	51.0	47.9	47.6
Creditors Turn (avg days)	251.2	98.2	54.7	55.0	54.2
Inventory Turn (avg days)	65.9	70.9	72.4	69.5	68.5
Asset Turnover (x)	0.2	0.2	0.7	0.7	0.7
Current Ratio (x)	3.2	2.0	3.5	3.7	4.0
Quick Ratio (x)	1.0	1.3	2.8	3.0	3.3
Net Debt/Equity (X)	0.2	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	CASH	CASH	CASH	CASH
Capex to Debt (%)	4.1	43.0	55.1	49.8	49.8
Z-Score (X)	2.1	9.8	8.8	8.7	8.6

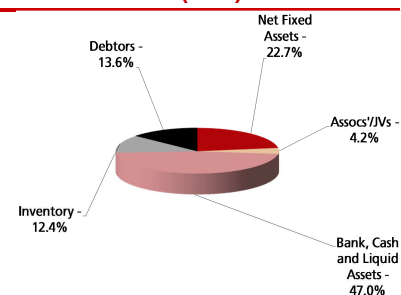
Source: Company, DBS Bank

Revenue Trend



4Q figures are currently not available as company released restated full year figures post the disposal of its 55% stake in MBL.

Asset Breakdown (2015)

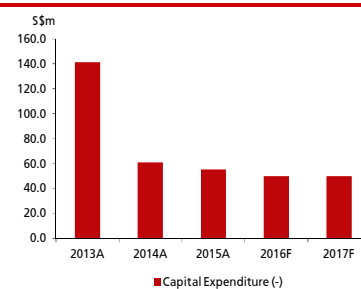


Cash Flow Statement (\$m)

FY Sep	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	5,562	227	696	197	215
Dep. & Amort.	94.2	84.8	91.9	78.9	80.5
Tax Paid	(127)	(50.1)	(34.2)	(31.7)	(43.3)
Assoc. & JV Inc/(loss)	(9.8)	(2.4)	(2.7)	(2.8)	(3.0)
Chg in Wkg.Cap.	(360)	(92.1)	(65.9)	(10.6)	(16.4)
Other Operating CF	(5,220)	31.4	(460)	0.0	0.0
Net Operating CF	(60.6)	199	225	230	233
Capital Exp.(net)	(141)	(60.9)	(55.4)	(50.0)	(50.0)
Other Invts.(net)	38.2	23.1	41.7	0.0	0.0
Invts in Assoc. & JV	5,854	(2.5)	0.0	0.0	0.0
Div from Assoc & JV	62.5	15.8	1.13	1.13	1.13
Other Investing CF	(52.8)	(1,551)	545	0.0	0.0
Net Investing CF	5,761	(1,575)	532	(48.9)	(48.9)
Div Paid	(284)	(257)	(102)	(36.4)	(44.5)
Chg in Gross Debt	(435)	(1,068)	(17.2)	0.0	0.0
Capital Issues	(4,673)	(607)	0.0	0.0	0.0
Other Financing CF	0.0	1,721	(7.0)	0.0	0.0
Net Financing CF	(5,392)	(210)	(126)	(36.4)	(44.5)
Currency Adjustments	(11.9)	(3.1)	(24.8)	0.0	0.0
Chg in Cash	296	(1,590)	607	145	140
Opg CFPS (\$ cts)	20.8	20.1	20.1	16.7	17.3
Free CFPS (\$ cts)	(14.0)	9.53	11.7	12.5	12.7

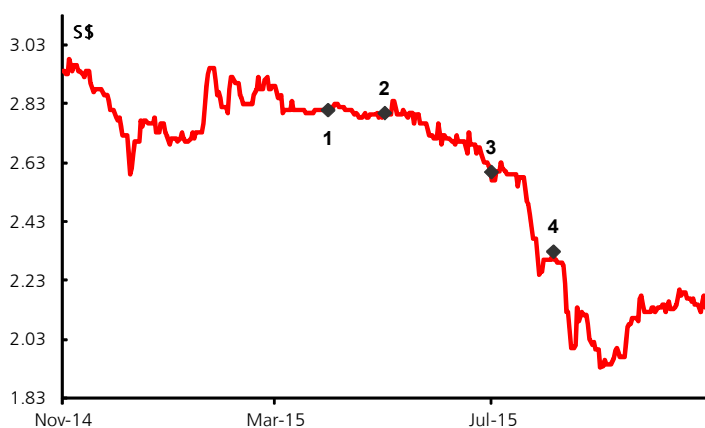
Source: Company, DBS Bank

Capital Expenditure



MBL disposal

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	06 Apr 15	2.81	2.80	HOLD
2:	08 May 15	2.80	2.80	HOLD
3:	07 Jul 15	2.60	2.74	HOLD
4:	11 Aug 15	2.33	2.45	HOLD

Source: DBS Bank

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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