

Singapore Company Guide

F & N

Edition 1 Version 1 | Bloomberg: FNN SP | Reuters: FRNM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Feb 2016

HOLD

Last Traded Price: S\$1.96 (STI : 2,550.74)
Price Target : S\$2.20 (12% upside) (Prev S\$2.26)

Potential Catalyst: Acquisitions/ special dividends

Where we differ: Consensus' forecasts may not be updated; we have omitted MBL's contribution since the divestment in Aug-15.

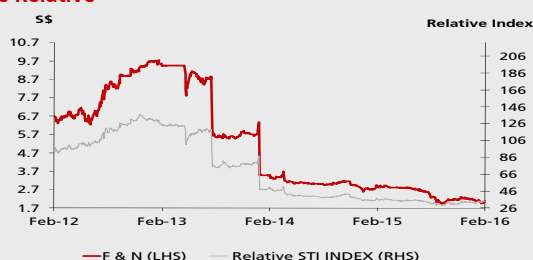
Analyst

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What's New

- **1Q16 within expectations**
- **Strong Dairies PBIT offsets weaker soft drinks**
- **Beefs up balance sheet for acquisitions**
- **Maintain HOLD, TP: S\$2.20**

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
Net Pft Gth (Pre-ex) (%)	(18.7)	(30.1)	29.5	3.9
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 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)	19.3	4.5	31.8	30.6
PE Pre Ex. (X)	28.8	41.2	31.8	30.6
P/Cash Flow (X)	14.3	12.6	12.3	12.1
EV/EBITDA (X)	11.9	10.1	8.3	7.6
Net Div Yield (%)	2.6	1.3	1.6	1.6
P/Book Value (X)	1.8	1.2	1.2	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.9	32.7	3.9	3.9
Earnings Rev (%):			-	-
Consensus EPS (S cts):			9.50	10.6
Other Broker Recs:		B: 0	S: 2	H: 1

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

Lion on the prowl

Maintain HOLD, TP revised to S\$2.20. We maintain our HOLD recommendation for FNN with a sum-of-parts based TP of S\$2.20. While valuations look stretched at over 30x FY16F PE, its ex-cash PE stands at c.23x.

1Q16 within expectations. FNN's net profit dropped 29% y-o-y to S\$25.5m, mainly due to the disposal of its 55% stake in Myanmar Brewery Limited. Excluding the discontinued operations, net profit growth would have been 34%, even though revenue fell by 11% y-o-y to S\$488.7m. The stronger performance arose from a surge in Dairies PBIT margins (due to lower input costs and improved distribution) and a reversal in performance from Printing and Publishing division. The strong performance was partially offset by weaker Beverages contribution, largely impacted by softer sentiment, increased competition and brand investment.

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>Flushed with cash; lion on the prowl. FNN is currently sitting on a net cash position, which we estimate will reach S\$1bn by end FY16F. There have been announcements by management that it is keen to explore options; according to reports, the most recent was that it is in the final round of the auction for Grolsch & Peroni brands (currently owned by SAB). Earlier, it was also reported that FNN is keen to increase its stake in Vinamilk. Based on our initial estimates, FNN would be able to embark on these acquisitions, but funding would be via a mix of debt and equity, coupled with its current internal resources.

Valuation:

Our sum-of-parts target price of S\$2.20 is derived from the market values of its listed entities, investments and estimated net cash.

Key Risks to Our View:

Our neutral view is premised on FNN's net cash position and ability to deploy this for accretive acquisitions and/or special dividends. Upside/ downside risks could arise from acquisitions deemed accretive/ dilutive to existing shareholders.

At A Glance

Issued Capital (m shrs)	1,446
Mkt. Cap (S\$m/US\$m)	2,834 / 1,984
Major Shareholders (%)	
TCC Assets	59.5%
Thai Beverage Pcl	28.5%
Free Float (%)	11.8
3m Avg. Daily Val (US\$m)	0.07

ICB Industry : Industrials / General Industrials

WHAT'S NEW**1Q16 results within expectations**

1Q16 within expectations: FNN reported a net profit of S\$25.5m, a drop of 29% y-o-y, due to the disposal of its 55% stake in Myanmar Brewery Limited. Excluding the discontinued operations, net profit growth would have been 34%, even though revenue fell by 11% y-o-y to S\$488.7m.

Robust performance from Dairies, Printing and Publishing.

The strong growth was largely driven by strong contribution by Dairies and Printing and Publishing (P&P) divisions. The strong performance of Dairies was a result of an improvement in PBIT margins, led by lower input costs and improved distribution. P&P saw a turnaround in operations, posting an operating profit of S\$2.5m, from a loss of S\$0.7m due to higher revenue from Publishing and Magazines distribution and better costs efficiencies.

Soft sentiment affected beverages. Soft drinks' performance were lackluster with revenue declining by 19% y-o-y, arising from loss of RedBull distribution, soft consumer sentiment and impact of weaker regional currencies against SGD. Excluding currency effects, revenue would have been down by 9%.

Soft drinks sales were weaker in Malaysia due to the soft consumer sentiment, coupled with competition. However, this was mitigated by lower input costs leading to improved PBIT, registering a growth of 8%. Over in Singapore, while revenue grew on the back of launch of new products, PBIT was impacted due to higher marketing spend, resulting in drop of 23% y-o-y in 1Q16.

Investing in new markets – Vietnam, Indonesia and Myanmar. The group is investing in new markets for growth. However, these are relatively new initiatives and could take some time before material results are seen.

On the prowl for investments; available cash of S\$700m. The group is currently on the prowl for investments, in our view. As of 1Q16, its net cash stood at over S\$1bn, with over S\$700m cash available for deployment. In recent months, there have been market and media talks over FNN's interest in a number of deals. Just earlier in January 2016, FNN indicated its interest in exploring the acquisition of the Grolsch and Peroni brands, currently owned by SAB.

Grolsch and Peroni brands bid – treading with trepidation

Price tag of EUR2.5bn to EUR3bn. Based on several media reports, the deal for the two brands could be worth between EUR2.5bn to EUR3bn.

EBITDA of EUR200m; implying P/EBITDA of 11-12x. The Financial Times has reported that EBITDA of the two brands is c.EUR200m. This implies a P/EBITDA of 11 to 12x.

Our views

Mixed on this development. We are a little mixed on this development at this stage. On the surprise factor, we had the impression that the focus of FNN/ ThaiBev would be more on ASEAN region. That said, we believe the intention is to leverage on the Peroni and Grolsch European brands to launch into this region if it was successful. In addition, the motivation for FNN could also be to "claw back" profits post the divestment of its stake in Myanmar Brewery Limited.

On the point that it was FNN being the party involved in the bidding, we are not surprised by FNN's involvement over ThaiBev. We believe the intention was to leverage on FNN for international expansion, while ThaiBev's focus remains within Thailand.

Funding likely a mix of internal cash, debt and equity. Based on our initial estimates and assuming a price tag of EUR2.5bn (S\$3.75bn), we believe FNN is likely to rely on a mix of funding, about **53% debt (S\$2bn), 25% equity (S\$950m) and 21% cash (S\$800m)**. This is likely to bring FNN's net gearing to **0.6x** (post assumed equity issuance) with a Debt/ EBITDA of under 4x.

Valuation and plans/ implementation a key factor, if successful. At this stage, details are scarce but based on current reported valuation, we believe it looks fair. That said, the focus will also be on plans with respect to control, expansion and introduction of the brands in this region by FNN should it be successful.

Although the ThaiBev/ FNN group has a presence in the region, an established beer distribution network is currently only in Thailand (Chang), coupled with export presence in Singapore and Myanmar. It remains to be seen if FNN will be able to significantly ramp up the introduction of the brands within short span of time in the region

Quarterly / Interim Income Statement (S\$m)

FY Sep	1Q2015	1Q2016	% chg yoy	% chg qoq
Revenue	550	489	(11.1)	N/A
Cost of Goods Sold	(376)	(318)	(15.6)	N/A
Gross Profit	174	171	(1.5)	nm
Other Oper. (Exp)/Inc	(136)	(118)	(12.7)	nm
Operating Profit	38.2	52.8	38.4	nm
Other Non Opg (Exp)/Inc	0.13	0.13	0.0	nm
Associates & JV Inc	1.05	1.00	(4.5)	nm
Net Interest (Exp)/Inc	(0.1)	2.38	(1,863.0)	nm
Exceptional Gain/(Loss)	29.3	0.34	(98.8)	nm
Pre-tax Profit	68.5	56.7	(17.3)	nm
Tax	(7.8)	(8.9)	13.8	nm
Minority Interest	(25.5)	(22.1)	(13.5)	nm
Net Profit	35.2	25.7	(26.9)	nm
Net profit bef Except.	5.88	25.4	330.9	nm
EBITDA	62.8	70.9	12.9	nm
Margins (%)				
Gross Margins	31.6	35.0		
Opg Profit Margins	6.9	10.8		
Net Profit Margins	6.4	5.3		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Going back to its F&B roots. With the demerger of Frasers Centrepoint Limited (FCL) and dividend-in-specie of FCL shares to existing shareholders in Jan'14, the group's earnings base now comprises largely beverages and dairies, projected to account for about 52% and 31% of PBIT in FY16F respectively. This compares to 16% and 8% in FYE Sep13, prior to the demerger, with properties accounting for the bulk (72%) of the group's PBIT.

Beer was divested; focus on soft drinks but will take time.

Growth in beverages' topline and margins were largely driven by its beer business. But, its 55% stake in Myanmar Brewery Limited was divested in Aug-15 following the outcome of the arbitration. We project a relatively stable growth in beverage revenue and margins largely as we believe its new initiatives in new markets could take time to gain traction, barring acquisitions and/or inorganic growth.

Dairies – slow and steady. FNN holds the leading market position for canned milk in Malaysia, pasteurised milk in Singapore, and evaporated and sterilised milk in Thailand. According to Euromonitor, market growth in these segments and countries is projected at 4-8% (from 2013-18F). We expect FNN's dairies to grow in line with the market.

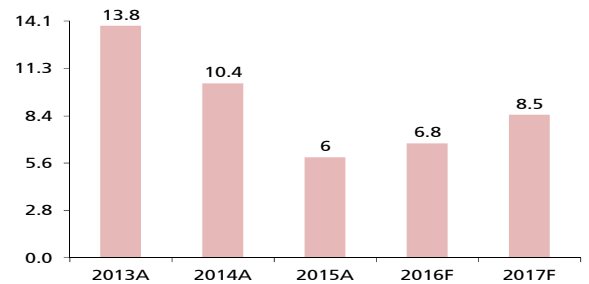
Margins projected to remain relatively stable. We project margins to remain relatively stable on the back of a benign raw material environment. Key raw materials include sugar, crude palm oil and dairy milk powder. The Group should also benefit from softer energy/oil prices, which can be seen in lower packaging costs, such as PET, aluminium and tin plates. This will however be partially negated by the weaker regional currencies against the USD.

Balance Sheet:

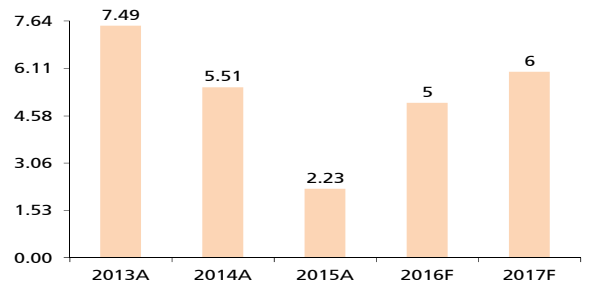
Corporate developments since 2012. FNN has gone through a series of corporate developments since ThaiBev first acquired its initial 24% stake collectively from OCBC, Great Eastern and Lee Rubber in July 2012. This was followed by the divestment of its stake in APB (to Heineken, following a General Offer), two capital reduction exercises and eventually, the de-merger from FCL. Along with these developments, FNN's balance sheet has shrunk to S\$1.6bn, from S\$8.5bn at its peak in FY13. Lastly it divested its 55% stake in Myanmar Brewery Limited for US\$560m. FNN currently is in a net cash position.

Net cash position, on lookout for acquisitions. The group's net cash is currently at c.S\$1bn. We believe it is on the lookout for acquisitions. Most recently, FNN was said to be keen on

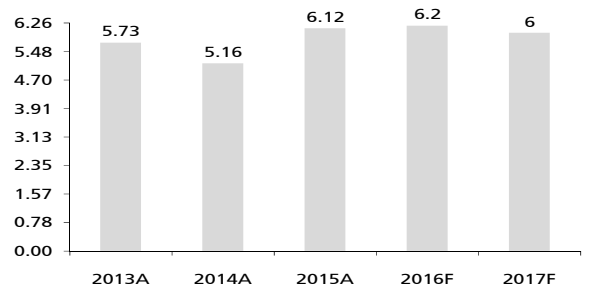
Beverage margins (%)



Dairies rev growth (%)



Dairies margins (%)



Source: Company, DBS Bank

acquiring Grolsch/ Peroni brands from SAB and increase its stake in Vinamilk.

Share Price Drivers:

Consumer sentiment, demand, and synergy with ThaiBev translating into earnings growth a key driver. FNN has morphed back into a pure F&B play, from a conglomerate with majority contribution from property. Consumer sentiment, demand and topline/earnings growth will have a direct influence on its share price going forward. FNN and ThaiBev have collaborated to leverage on each other's distribution channels in Malaysia and Thailand respectively to launch new products, such as 100Plus and Oishi. These initiatives, if successful, will drive topline growth and expand its revenue base. < b>

Inorganic growth a catalyst. With its cashed-up balance sheet, the ability of management to deliver accretive acquisitions to supplement growth will be a key driver for its share price.

Key Risks:

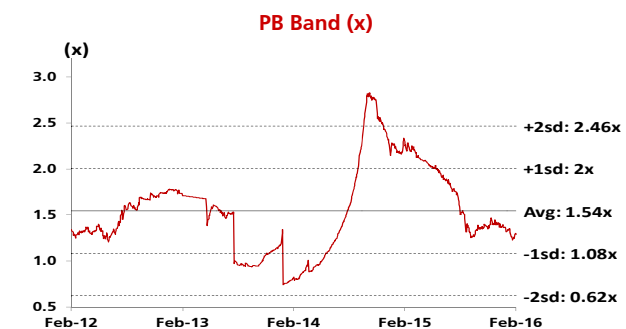
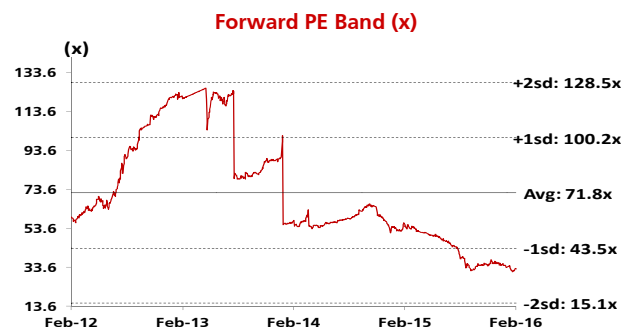
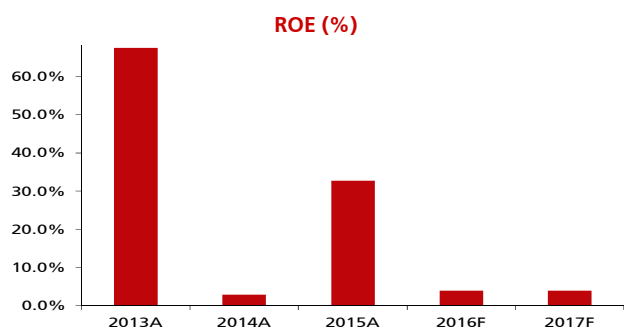
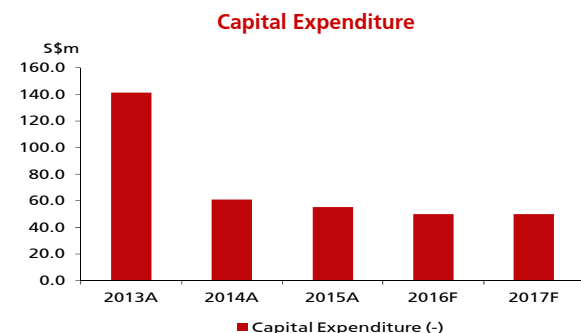
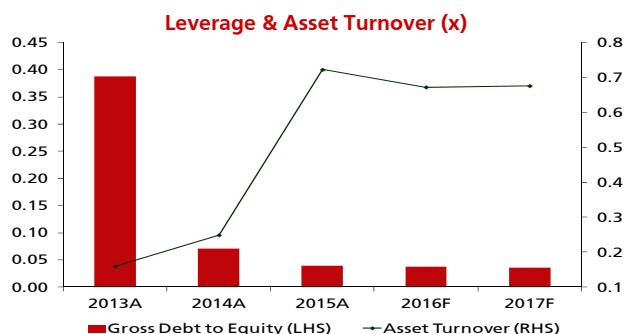
Consumer sentiment in the ASEAN region. With its key markets in Malaysia, Singapore and Thailand, changes in the macro economic environment and consumer sentiment could have an impact on the performance of its operations.

Spike in raw material prices and exchange rates. The group relies on key raw materials and packaging materials such as sugar, milk powder, whey, palm kernel oil, tin, aluminium, as inputs. A 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.

Relatively low share liquidity. 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.

Company background

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.



Source: Company, DBS Bank

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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

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

Removal of MBL contribution

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	9.6	8.1	6.3	6.5	6.9
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Income Statement (\$m)

FY Sep	2013A	2014A	2015A	2016F	2017F
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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
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Other Opg (Exp)/Inc	(588)	(515)	(592)	(592)	(609)
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Operating Profit	185	144	87.2	137	153
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Other Non Opg (Exp)/Inc	18.7	22.9	41.7	41.7	41.7
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Associates & JV Inc	9.75	2.39	2.70	2.84	2.98
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Net Interest (Exp)/Inc	39.0	8.64	0.18	14.7	17.5
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Exceptional Gain/(Loss)	5,309	48.8	564	0.0	0.0
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Pre-tax Profit	5,562	227	696	197	215
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Tax	(48.6)	(26.6)	(19.3)	(43.3)	(47.4)
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Minority Interest	(83.4)	(53.4)	(43.7)	(64.4)	(75.6)
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Preference Dividend	0.0	0.0	0.0	0.0	0.0
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Net Profit	5,430	147	633	88.9	92.4
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Net Profit before Except.	121	98.3	68.7	88.9	92.4
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EBITDA	308	254	223	261	278
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Growth

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

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

Quarterly / Interim Income Statement (\$\$m)

FY Sep	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	550	608	645	0.0	489
Cost of Goods Sold	(376)	(392)	(418)	0.0	(318)
Gross Profit	174	216	227	0.0	171
Other Oper. (Exp)/Inc	(136)	(150)	(160)	0.0	(118)
Operating Profit	38.2	65.7	67.1	0.0	52.8
Other Non Opg (Exp)/Inc	0.13	0.0	13.7	0.0	0.13
Associates & JV Inc	1.05	0.65	0.21	0.0	1.00
Net Interest (Exp)/Inc	(0.1)	(0.1)	(0.3)	0.0	2.38
Exceptional Gain/(Loss)	29.3	0.85	(0.5)	0.0	0.34
Pre-tax Profit	68.5	67.1	80.3	0.0	56.7
Tax	(7.8)	(15.8)	(13.9)	0.0	(8.9)
Minority Interest	(25.5)	(25.7)	(26.5)	0.0	(22.1)
Net Profit	35.2	25.7	40.0	0.0	25.7
Net Profit bef Except.	5.88	24.8	40.5	0.0	25.4
EBITDA	62.8	86.5	101	0.0	70.9

4Q15 figures were not separately disclosed as only full year figures were announced, coupled with the restatement of numbers post the disposal of MBL. Hence, we are unable to work out 4Q15's detailed financials.

Growth

Revenue Gth (%)	(10.2)	10.6	6.1	N/A	N/A
EBITDA Gth (%)	(10.8)	37.8	16.2	nm	nm
Opg Profit Gth (%)	(10.9)	72.1	2.2	nm	nm
Net Profit Gth (Pre-ex) (%)	(77.3)	321.7	63.0	nm	nm

Margins

Gross Margins (%)	31.6	35.5	35.2	N/A	35.0
Opg Profit Margins (%)	6.9	10.8	10.4	N/A	10.8
Net Profit Margins (%)	6.4	4.2	6.2	N/A	5.3

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	9.7	9.5	9.3	9.1

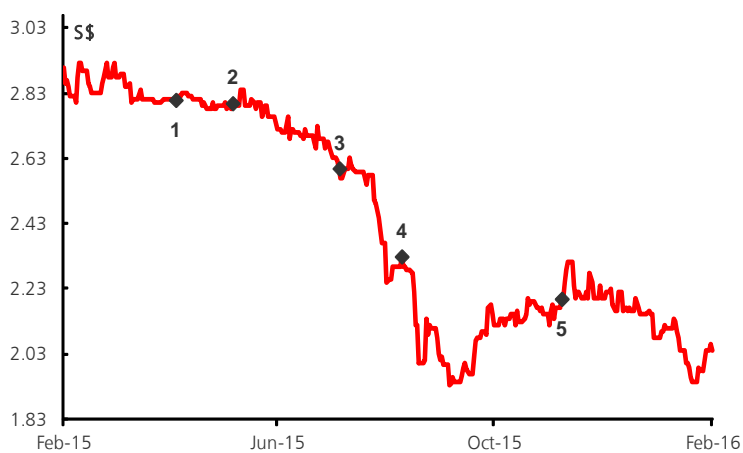
Source: Company, DBS Bank

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 Invt.(net)	38.2	23.1	41.7	0.0	0.0
Invt 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

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
5:	09 Nov 15	2.20	2.26	HOLD

Source: DBS Bank

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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