Fraser & Neave Holdings (FNH MK)

FY26: Below Expectations; Setup Costs Remain A Drag

Highlights

- F&N's FY26 earnings fell below both our and consensus estimates. Contributions from both domestic markets and Thailand came in sequentially weak as costs for new plants dragged earnings.
- As a result, F&N saw margin compression across the board as the increased costs offset largely resilient sales volumes in Malaysia and Thailand.
- Maintain BUY with a lower target price of RM30.00 as we cut our FY27/FY28 forecasts by 16%/20% respectively.

FY26 Results

Year to 30 Sep	4Q26 (RMm)	qoq (%)	yoy (%)	FY26 (RMm)	yoy (%)
Revenue	**1,189.1**	**(0.8)**	**(3.1)**	**4,923.8**	**(5.3)**
GP	**333.1**	**(8.9)**	**(16.8)**	**1,500.0**	**(9.5)**
EBIT	**169.1**	**24.8**	**1.2**	**624.1**	**(10.2)**
PBT	169.4	26.0	0.2	625.4	(14.4)
Net profit	135.0	44.3	18.2	437.1	(14.0)
Core profit	**40.8**	**(56.4)**	**(66.2)**	**341.6**	**(34.0)**
Margins	**(%)**	**+/- ppt**	**+/- ppt**	**(%)**	**+/- ppt**
Gross profit	28.0	(2.5)	(4.6)	30.5	(1.4)
EBIT	14.2	2.9	0.6	16.1	(0.2)
Eff. tax rate	(19.0)	9.5	11.2	(29.6)	(0.0)

Source: F&N, UOB Kay Hian

Analysis

- **Below expectations.** Fraser & Neave (F&N) reported a core net profit of RM341.6m (-34.0% yoy) in FY26. We arrive at this after excluding: a) a RM90.5m gain from the disposal of a JV, and b) RM5.0m in foreign exchange gains. This fell below expectations, accounting for only 80% of our and 81% of consensus full-year forecasts. The negative deviation stemmed largely from higher-than-expected costs associated with the new plants in both Malaysia and Cambodia. A final dividend of 30 sen was also announced, bringing the total to 60 sen for FY26 (FY25: 65 sen).

Key Financials

Year to 30 Sep (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	5196.6	4923.8	5068.5	5180.9	5275.5
EBITDA	1859.2	1594.7	1815.5	1872.4	1924.9
Operating profit	896.6	818.7	815.6	850.4	869.8
Net profit (rep./act.)	508.5	437.1	423.8	453.6	501.2
Net profit (adj.)	517.3	341.6	423.8	453.6	501.2
EPS (sen)	401.1	304.7	392.3	403.7	422.5
PE (x)	15.0	22.8	18.4	17.2	15.5
P/B (x)	2.0	1.9	1.9	1.8	1.7
EV/EBITDA (x)	8.4	9.4	9.4	8.9	8.6
Dividend yield (%)	3.1	3.1	3.8	4.1	4.5
Net margin (%)	10.0	6.9	8.4	8.8	9.5
Net debt/(cash) to equity (%)	-0.9	-3.9	-3.4	-5.6	-8.3
Interest cover (x)	25.4	29.3	32.0	54.6	169.9
ROE (%)	13.3	11.0	10.1	10.5	11.4
Consensus net profit	n.a	n.a	512.4	611	n.a
UOBKH/Consensus (x)	n.a	n.a	0.8	0.7	n.a

Source: F&N, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	RM21.22
Target Price	RM30.00
Upside	41.4%
Previous TP	RM36.00

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	FNH MK
Shares issued (m):	366.8
Market cap (RMm):	7,805.0
Market cap (US$m):	1,929.3
3-mth avg daily t'over (US$m):	0.5

Price Performance (%)

52-week high/low				RM36.82/RM19.46
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(2.2)	(21.0)	(28.0)	(23.5)	(40.1)

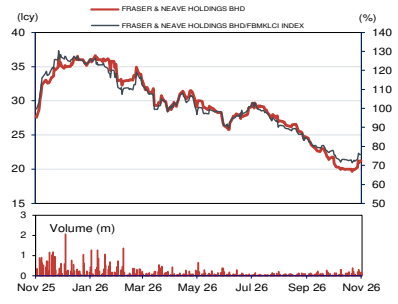
Major Shareholders (%)

Fraser and Neave Ltd	55.5
Employees Provident	16.5
Amanah Saham Nasiona	6.5

Balance Sheet Metrics

FY27 NAV/Share (RM)	10.5
FY27 Net Debt/Share (RM)	0.9

Price Chart



Source: Bloomberg

Company Description

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

FY26 Results By Segment

Year to 30 Sep	4QFY26	qoq	yoy	FY26	yoy	
	(RMm)	(%)	(%)	(RMm)	(%)	Comments
Revenue						
Malaysia	737.8	0.2	0.9	3,059.9	3.3	Domestic sales volume remained broadly resilient
Thailand	450.5	(2.4)	(8.9)	1,860.7	(16.6)	Continued impact from the Cambodia-Thailand conflict continues to drag volumes
EBIT						
Malaysia	15.8	(62.5)	(80.2)	200.9	(27.2)	Setup costs associated with the new dairy plants dragged earnings
Thailand	78.5	(15.6)	(26.4)	355.0	(25.2)	
EBIT Margin	(%)	+/- ppt	+/- ppt	(%)	+/- ppt	
Malaysia	2.1	(3.6)	(8.8)	6.6	(2.7)	Margin compression across the board
Thailand	17.4	(2.7)	(4.1)	19.1	(2.2)	

Source: F&N, UOB Kay Hian

- **Malaysia: Volumes stable but dairy costs drag.** F&N's Malaysia segment saw revenue grow 3.3% yoy in FY26 as sales volume remained largely resilient. Both the domestic and export channels saw sales improve yoy, although export growth was offset partially by unfavourable forex. However, gains were mitigated by a spike in costs as EBIT declined both sequentially (-62.5%) and yoy (-27.2%). We understand this is largely attributable to F&N's continued investment into its AgriValley dairy farm. We had previously highlighted that the group would look to optimise its dairy production before expanding. We believe the sudden increase in costs is reflective of further investment into AgriValley's operations ahead of the anticipated scale-up.
- **Thailand: Border conflict continues to cloud outlook.** Revenue for F&N Thailand declined 16.6% yoy in FY26, largely due to the disruption of exports to Cambodia. Positively, domestic sales in Thailand saw gradual improvement as spending-power support from the local government helped offset softer tourism in the country. EBIT for the segment also declined 25.2% yoy as startup costs for the new dairy plant in Cambodia dragged margins. Looking forward, we understand the group is mulling over expanding its capacity in either Malaysia or Cambodia to attempt to recapture the sales volume lost as a result of the border conflict. However, these plans are still preliminary with nothing concrete committed as of yet.

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM30.00.** FY26 was a challenging year for F&N with the road to recovery appearing long and winding. While prospects for FY27 and beyond appear to be improving, geopolitical headwinds and challenges from its new dairy venture are likely to persist in the near-term.
- Nonetheless, depressed valuations following the recent selldown also present an attractive entry point, with the group trading near -2.0SD to mean based on 2027F PE.
- Our target price is based on DCF implying 26.0x 2027F PE, which is slightly above its seven-year mean of 24.6x.

Earnings Revision/Risk

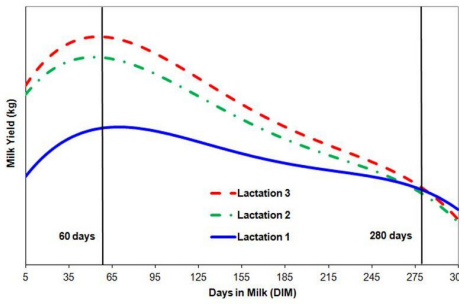
- We trim our FY27/FY28 earnings by 16%/20% respectively as we impute higher costs associated with the new dairy plants.

Key Assumptions

	2027F	2028F	2028F
Sales (RMm)	**5,068**	**5,181**	**5,275**
Malaysia – ex dairy (% yoy)	0.0	0.0	0.0
Dairy (% yoy)	79	52	34
Dairies Thailand (% yoy)	2.0	3.0	2.0
EBIT	**816**	**850**	**870**
Margin (%)	12.3	12.5	12.5

Source: UOB Kay Hian

Typical Holstein Lactation Curves and Measure of Lactation Persistency



Source: Lactanet

Environmental, Social, Governance (ESG) Updates

Environmental

- Emissions management: Reduced solid waste intensity ratio by 62% from 2017.

Social

- Wellbeing: Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
- Diversity & inclusion: Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.

Governance

- Board balance and composition: Six board members are independent directors, amounting to 55% of the board members.

Profit & Loss

Year to 30 Sep (RMm)	2026	2027F	2028F	2029F
Net turnover	**4924**	**5068**	**5181**	**5275**
EBITDA	1595	1815	1872	1925
Deprec. & amort.	151	174	191	201
EBIT	819	816	850	870
Associate contributions	0	0	0	0
Net interest income/(expense)	-19	-16	-9	0
Pre-tax profit	**625**	**593**	**635**	**664**
Tax	-185	-166	-178	-159
Minorities	-3	-3	-4	-4
Net profit	**437**	**424**	**454**	**501**
Net profit (adj.)	342	424	454	501

Balance Sheet

Year to 30 Sep (RMm)	2026	2027F	2028F	2029F
Fixed assets	2,418	2,452	2,476	2,489
Other LT assets	1,124	1,117	1,110	1,103
Cash/ST investment	656	446	341	426
Other current assets	1,610	1,689	1,726	1,758
Total assets	**5,808**	**5,705**	**5,653**	**5,775**
ST debt	164	24	-76	-80
Other current liabilities	1,047	1,014	1,033	1,049
LT debt	334	280	176	138
Other LT liabilities	216	216	216	216
Shareholders' equity	4,027	4,155	4,292	4,444
Minority interest	19	16	12	8
Total liabilities & equity	**5,808**	**5,705**	**5,653**	**5,775**

Cash Flow

Year to 30 Sep (RMm)	2026	2027F	2028F	2029F
Operating	**818**	**489**	**631**	**701**
Pre-tax profit	593	635	664	0
Tax	-166	-178	-159	0
Deprec. & amort.	174	191	201	0
Working capital changes	258	-113	-18	-15
Other operating cashflows	-42	-46	-57	716
Investing	**-368**	**-209**	**-216**	**-225**
Capex (growth)	-513	-225	-225	-225
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	145	16	9	0
Financing	**-388**	**-490**	**-521**	**-392**
Dividend payments	-239	-296	-317	-350
Issue of shares	0	0	0	0
Loan repayment	0	-194	-204	-42
Others/interest paid	-149	0	0	0
Net cash inflow (outflow)	**61**	**-210**	**-105**	**85**
Beginning cash & cash equivalent	**626**	**656**	**446**	**341**
Changes due to forex impact	-31	0	0	0
Ending cash & cash equivalent	**656**	**446**	**341**	**426**

Key Metric

Year to 30 Sep (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	16.6	16.1	16.4	16.5
Pre-tax margin	10.8	11.7	12.3	12.6
Net margin	6.9	8.4	8.8	9.5
ROA	7.7	7.4	8.0	8.8
ROE	11.0	10.1	10.5	11.4
Growth				
Turnover	-5.3	2.9	2.2	1.8
EBITDA	-8.7	-0.4	4.3	2.3
Pre-tax profit	-28.3	12.0	7.0	4.6
Net profit	-14.0	-3.0	7.0	10.5
Net profit (adj.)	-34.0	24.1	7.0	10.5
EPS	-34.0	24.1	7.0	10.5
Leverage				
Debt to total capital	8.6	5.3	1.8	1.0
Debt to equity	12.3	7.3	2.3	1.3
Net debt/(cash) to equity	-3.9	-3.4	-5.6	-8.3
Interest cover	29.3	32.0	54.6	169.9

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