

FINANCIALS EQUITY RESEARCH

Fraser and Neave, Limited

SGX: F99

Bloomberg: FNN:SP

ISIN code: SG1T58930911

Country: Singapore

Industry: Consumer Staples, F&B

4 January 2023

RECOMMENDATION: BUY

Current price: S\$1.270

Target price: S\$1.729

Issued units: 1,453.55 million (30 Sep 2022)

Market capitalisation: S\$1,846.01 million

52-week range: S\$1.160 - S\$1.450

PRICE PERFORMANCE



COMPANY DESCRIPTION

Fraser and Neave and its subsidiaries (collectively defined herein as F&N) is principally engaged in the food and beverage, and printing and publishing business. The Company's principal activities include the production and sale of beverages, which includes soft drinks, beer, stout, and dairy products, and printing and publishing. F&N is present in 12 countries spanning Asia Pacific, Europe and the USA, and employs over 7,700 people worldwide.

SUMMARY

For the full year ended 30 September 2022 (FY2022), F&N posted revenue of S\$2,003.2 million, an increase of 6.6% yoy from S\$1,879.2 million over the same corresponding period a year ago. However, as the Ukraine war and supply chain bottlenecks continued to weigh on input costs, profit before interest and taxation (PBIT) decreased by 10.8% yoy to S\$233.4 million, from S\$261.7 million. F&N took an \$7.4 million exceptional charge largely on the impairment of inventories and property, plant and equipment in connection with the flash floods in Malaysia earlier in the year. Consequently, profit attributable to shareholders of the company amounted to S\$124.9 million, translating to an earnings per share of 8.6 cents. Meanwhile, F&N has declared a final dividend of 3.5 cents per share, unchanged from the final dividend declared a year ago.

RECOMMENDATION

Based on F&N's reported NAV per share of S\$2.11 and trailing 12 months earnings per share of 8.60 cents as at 30 September 2022, the share is currently trading at a P/B of 0.60x and P/E of 14.77x. The results from our peer comparison analysis suggest that F&N is currently undervalued compared to its peers in terms of P/B and P/E. However, F&N is less attractive in terms of dividend yield. Adopting a relative valuation approach, we estimate a target price of S\$2.279, S\$1.354 and S\$1.220 based on the peer average P/B, P/E and dividend yield comparison analysis respectively. By taking the average of our estimated target price from peer comparison analysis, we derived an estimated target price of S\$1.618. Our analysis of F&N's listed subsidiaries and associated companies also support our view that F&N is undervalued. Considering F&N's issued number of shares and the total value of investment, net of borrowings the estimated target price from this analysis would amount to S\$1.795. Further, in an event of a privatisation, we estimate a privatisation offer of S\$1.775 per share, representing a price premium of 39.7%. By taking the average of our estimated target price of S\$1.618, S\$1.795 and S\$1.775 based on our peer comparison analysis, analysis of F&N's listed subsidiaries & associated companies and a potential privatisation offer respectively, we derived an estimated target price of S\$1.729. This target price represents a 36.14% upside from the current share price of S\$1.270. We believe this upside could be justified by potential improvement in F&N's earnings as supported by the reopening of borders and increase in consumption of consumer staples. Given the above, we maintain our buy recommendation on F&N.

KEY FINANCIALS

Year ended Sep 30	Revenue (S\$ million)	Profit* (S\$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per unit (S\$)	P/B (x)
2021 actual	1,879.2	140.4	9.68	13.13	5.00	3.9%	2.08	0.61
2022 actual	2,003.2	124.9	8.59	14.78	5.00	3.9%	2.11	0.60
2023 forecast	2,075.1	131.8	9.07	14.00	5.00	3.9%		
2024 forecast	2,142.5	138.8	9.55	13.30	5.00	3.9%		

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S\$1.270

*Profit attributable to shareholders of the Company

Source: Fraser and Neave, Limited, FPA Financial

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FINANCIAL ANALYSIS

In this section, we will provide a review of F&N's financial performance and capital management.

(I) Financial review

Review of Full Year 2022 Results

For the full year ended 30 September 2022 (FY2022), F&N reported a 6.6% year-on-year (yoy) increase in revenue to S\$2,003.2 million as shown in **Exhibit 1**.

Exhibit 1: Revenue for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Revenue	2,003,214	1,879,163	6.6%

Source: Fraser and Neave, Limited

We conducted a further review of F&N's revenue based on its business segments and noted that other than Printing & Publishing, all business segments recorded an increase in revenue in FY2022, as shown in **Exhibit 2**.

Exhibit 2: Breakdown of F&N's Revenue By Business Segments

S\$'000	FY2022	FY2021	y-o-y change
Beverages	568,871	452,746	25.6%
Dairies	1,199,055	1,190,040	0.8%
Printing & Publishing	214,593	222,369	-3.5%
Others	20,695	14,008	47.7%
Total	2,003,214	1,879,163	6.6%

Source: Fraser and Neave, Limited

Beverages

Beverage's revenue of S\$568.9 million was 25.6% higher than last year. The continued easing of Covid-19 movement restrictions in the markets F&N operates in and its resultant economic recovery together with the successful execution of festive campaigns and increase in selling prices all helped contribute to higher Soft Drinks revenue for the year. In Myanmar, the continued ramp up in sales volume led to higher revenue contribution from Beer operations. These increases were partly offset by the strengthening of the Singapore Dollar, leading to unfavorable currency translation.

Dairies

Dairies revenue increased by 0.8% yoy to \$1,199.1 million in FY2022 as compared to last year. In Dairies operations, cost-based price increases and easing of lockdown measures resulted in recovery in domestic canned milk sales and together with stronger export volumes contributed to the increase in revenue from Dairies Malaysia and Dairies Thailand. This helped cushion the adverse impact of unfavourable currency translation. Ice-cream operations recorded an increase in revenue on the back of higher domestic and export sales, driven by new product launches and increase in selling price.

Printing and Publishing

Printing and Publishing (P&P) revenue was \$214.6 million in FY2022, down 3.5% compared to last year. Revenue was impacted by softer textbook adoption, lower advertising revenue from business directories and disruption in print sales volume in China due to government regulations on education policies and ongoing Covid-19 pandemic lockdowns. This was partially offset by higher revenue from Retail & Book Distribution aided by improvement in retail conditions and rebound in market demand for books.

Cost of sales

We note that the cost of sales increased by 10.3% yoy to S\$1,429.4 million in FY2022 from S\$1,296.2 million in FY2021 as shown in **Exhibit 3**. Despite F&N's stringent cost management and cost-reduction exercises, the increase was due to rising input costs and the spike in freight & energy charges.

Exhibit 3 F&N's Cost of Sales for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Cost of sales	(1,429,370)	(1,296,247)	10.3%

Source: Fraser and Neave, Limited

Gross profit

In FY2022, F&N reported a gross profit of S\$573.8 million, a 1.6% yoy decrease from S\$582.9 million from a year ago. Gross profit margin decreased slightly to 28.65% in FY2022 from 31.02% in FY2021 as shown in **Exhibit 4**.

Exhibit 4: F&N's Gross Profit for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Revenue	2,003,214	1,879,163	6.6%
Cost of sales	(1,429,370)	(1,296,247)	10.3%
Gross Profit	573,844	582,916	-1.6%
<i>Gross Profit Margin</i>	<i>28.65%</i>	<i>31.02%</i>	<i>NM</i>

NM: Not meaningful

Source: Fraser and Neave, Limited

Other income

Other income decreased by 97.1% yoy to S\$224,000 in FY2022 from S\$7.7 million in FY2021 as shown in **Exhibit 5**. Notable items under Other income include wage and other subsidies, management and support services, sale of scrap items and gain/loss on disposal of fixed assets and foreign exchange.

Exhibit 5: F&N's Other Income for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Other income (net)	224	7,673	-97.1%

Source: Fraser and Neave, Limited

Total operating expenses

In FY2022, F&N's total operating expense increased by 1.3% yoy to S\$445.3 million from S\$439.5 million in the corresponding period last year. Both distribution and administration expenses increased by 3.1% yoy while marketing expenses decreased by 1.8% yoy as shown in **Exhibit 6**.

Exhibit 6: F&N's Total Operating Expense for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Distribution	(163,855)	(158,929)	3.1%
Marketing	(155,605)	(158,535)	-1.8%
Administration	(125,831)	(122,079)	3.1%
Total operating expense	(445,291)	(439,543)	1.3%

Source: Fraser and Neave, Limited

Trading Profit

Consequently, trading profit amounted to S\$128.8 million, decreased by 14.7% yoy as shown in **Exhibit 7**.

Exhibit 7: F&N's Trading Profit for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Revenue	2,003,214	1,879,163	6.6%
Cost of sales	(1,429,370)	(1,296,247)	10.3%
Gross profit	573,844	582,916	-1.6%
Other income (net)	224	7,673	-97.1%
Operating expenses			
Distribution	(163,855)	(158,929)	3.1%
Marketing	(155,605)	(158,535)	-1.8%
Administration	(125,831)	(122,079)	3.1%
Trading profit	128,777	151,046	-14.7%

Source: Fraser and Neave, Limited

Profit before interest and taxation (PBIT)

PBIT decreased by 10.8% yoy to S\$233.4 million in FY2022 from S\$261.7 million in FY2021 as shown in **Exhibit 8**. Despite the increase in revenue, PBIT was impacted by unfavourable currency translation, higher input costs and increase in freight charges, the decrease in share of results of associated companies. In particular, F&N's share of profit from its associate company in Vietnam, Vinamilk decreased to S\$97.4 million in FY2022 from S\$111.7 million in FY2021 owing to higher input costs and unfavourable foreign currency translation

Exhibit 8: F&N's PBIT for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Trading Profit	128,777	151,046	-14.7%
Share of results of joint venture companies	4,465	(3,188)	NM
Share of results of associated companies	99,875	113,486	-12.0%
Gross income from other investments	298	403	-26.1%
Profit before interest and taxation (PBIT)	233,415	261,747	-10.8%

NM: Not meaningful

Source: Fraser and Neave, Limited

Net finance cost

Net finance cost increased by 4.1% yoy to S\$23.8 million in FY2022 from S\$22.9 million in FY2021 as shown in **Exhibit 9**. In FY2022, finance income and finance cost increased by 6.0% yoy and 4.3% yoy respectively. Finance income is mainly derived from interest income from bank and other deposits while finance cost is mainly derived from interest expense from bank and other borrowings

Exhibit 9: F&N's Net Finance Cost for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Finance income	2,424	2,286	6.0%
Finance cost	(26,207)	(25,138)	4.3%
Net finance cost	(23,783)	(22,852)	4.1%

Source: Fraser and Neave, Limited

Exceptional items

An exceptional item comprises of items with a substantial impact on the company's profit or loss, but it is closely related to its day-to-day business. During FY2022, the exceptional items included a \$7.4m exceptional charge, which arose largely from the impairment of inventories and property, plant and equipment as a result of flash floods in Malaysia earlier in the year as shown in **Exhibit 10**.

Exhibit 10: F&N's Exceptional Items for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Exceptional items			
Provision for impairment of assets and other expenses relating to flood and fire	(11,711)	-	NM
Provision for restructuring and re-organising cost of operations	(1,423)	(8,377)	-83.0%
Insurance claim relating to flood	5,726	-	NM
Effect of change of interest in an associated company	-	(343)	NM
Total	(7,408)	(8,720)	-15.0%

Source: Fraser and Neave, Limited

Profit Before Tax

Consequently, F&N's profit before taxation amounted to S\$202.2 million for the period, a decrease of 12.2% yoy from FY2021, as shown in **Exhibit 11** on the next page

Exhibit 11: F&N's Profit Before Taxation for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Revenue	2,003,214	1,879,163	6.6%
Cost of sales	(1,429,370)	(1,296,247)	10.3%
Gross profit	573,844	582,916	-1.6%
Other income (net)	224	7,673	-97.1%
Operating expenses			
Distribution	(163,855)	(158,929)	3.1%
Marketing	(155,605)	(158,535)	-1.8%
Administration	(125,831)	(122,079)	3.1%
Trading profit	128,777	151,046	-14.7%
Share of results of joint venture companies	4,465	(3,188)	-240.1%
Share of results of associated companies	99,875	113,486	-12.0%
Gross income from other investments	298	403	-26.1%
Profit before interest and taxation ("PBIT")	233,415	261,747	-10.8%
Finance income	2,424	2,286	6.0%
Finance cost	(26,207)	(25,138)	4.3%
Profit before taxation and exceptional items	209,632	238,895	-12.2%
Fair value adjustment of investment properties	(35)	17	
Exceptional items	(7,408)	(8,720)	NM
Profit before taxation	202,189	230,192	-12.2%

NM: Not meaningful

Source: Fraser and Neave, Limited

Taxation

On taxation, in line with lower profit before tax, the tax expense decreased by 27.3% yoy to S\$25.3 million in FY2022 from S\$34.7 million in FY2021 as shown in **Exhibit 12**. The lower tax was mainly due to lower effective tax rate (ETR) of 12.5% in FY2022, from 15.1% in FY2021. The lower ETR was primarily due to non-taxable income, tax benefits and the write back of over-provision for tax in prior years.

Exhibit 12: F&N's Taxation for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Taxation	(25,254)	(34,718)	-27.3%

Source: Fraser and Neave, Limited

Profit After Tax

As a result, F&N reported an after-tax profit of S\$176.9 million in FY2022. This comprised of S\$124.9 million profit attributable to shareholders of the company and a S\$52.1 million profit attributable to non-controlling interest, as shown in **Exhibit 13**.

Exhibit 13: F&N's Financial Result for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Revenue	2,003,214	1,879,163	2.0%
Cost of sales	(1,429,370)	(1,296,247)	2.9%
Gross profit	573,844	582,916	0.1%
Operating expenses	(445,291)	(439,543)	1.3%
Profit before taxation	202,189	230,192	7.2%
Taxation	(25,254)	(34,718)	-27.3%
Profit after taxation	176,935	195,474	-9.5%
Attributable to:			
Shareholders of the Company	124,867	140,442	-11.1%
Non-controlling interest	52,068	55,032	NM
Profit after taxation	176,935	195,474	-9.5%

NM: Not meaningful

Source: Fraser and Neave, Limited

Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing profit after tax for the year that is attributable to shareholders of the company by the weighted average number of ordinary shares outstanding during the financial year.

Net profit attributable to shareholders of the company before exceptional items was S\$129.4 million and after exceptional item was S\$124.9 million. Accordingly, in FY2022, earnings per share before exceptional items and after exceptional items amounted to 8.9 cents and 8.6 cents respectively, as shown in **Exhibit 14**.

Exhibit 14: F&N's EPS for FY2022 and FY2021

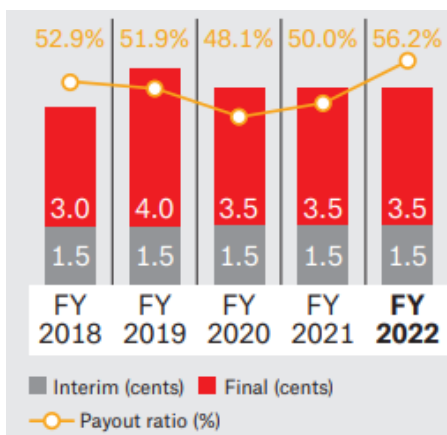
S\$'000	FY2022	FY2021	y-o-y change
Attributable to:			
Shareholders of the Company	124,867	140,442	-11.1%
Fair value adjustment of investment properties	35	(17)	NM
Exceptional items	4,519	4,792	-5.7%
Before fair value adjustment and exceptional items	129,421	145,217	-10.9%
Weighted average number of ordinary shares in issue	1,453,264,025	1,451,543,660	0.1%
Earnings per ordinary share:			
Based on the weighted average number of ordinary shares on issue (cents)			
before fair value adjustment and exceptional items	8.9	10.0	-11.0%
after fair value adjustment and exceptional items	8.6	9.7	-11.2%

NM: Not meaningful

Source: Fraser and Neave, Limited

Dividends

F&N remains committed to a sustainable dividend policy of returning approximately 50 per cent of attributable earnings (before exceptional items) to shareholders. For FY2022, the Board is recommending a final dividend of 3.5 cents per share. Together with the interim dividend of 1.5 cents per share paid on 6 June 2022, this brings the total full-year dividend to 5.0 cents per share, which is the same as last year. This represents a payout ratio of 56 per cent of the Group's attributable profit (before exceptional items). If approved by shareholders at the Annual General Meeting on 18 January 2023, the final dividend will be paid on 10 February 2023. The summary of F&N's historical dividend distribution is shown in **Exhibit 15**.

Exhibit 15: F&N's Historical Dividend Distribution

Source: Fraser and Neave, Limited

(II) Capital Management**Review of Full Year Balance Sheet**

Current assets decreased by \$11.2 million or 1.0% from \$1,077.8 million to \$1,066.6 million as at 30 September 2022 mainly due to a decrease in cash and bank balance as a result of cash utilized for working capital requirements, payment of dividends and acquisition of fixed assets. This was partly offset by the increase in inventories and trade receivables as a result of higher levels of raw materials and finished goods maintained to support higher sales expected from the easing of Covid-19 movement restrictions and upcoming festive holidays. Non-current assets increased by \$70.8 million or 1.8% from \$3,843.5 million to \$3,914.3 million as at 30 September 2022 mainly due to the acquisition of fixed assets relating to factory expansion in Malaysia and Singapore. As a result, F&N reported total assets of S\$4,980.9 million as at 30 September 2022 compared to S\$4,921.3 million as at 30 September 2021.

At the same time, liabilities increased slightly by \$8.4 million to \$1,478.4 million as at 30 September 2022 from \$1,470.0 million as at 30 September 2021 mainly due to the issuance of \$140.0 million of Series 17 Notes and bank borrowings drawn down which was partly offset by the redemption of \$260.0 million of Series 13 and Series 15 Notes in the financial year.

Consequently, F&N recorded total equity or net assets of S\$3,502.5 million as at 30 September 2022 compared to S\$3,451.2 million as at 30 September 2021. This comprised of S\$3,069.5 million in equity attributable to owners of the company and S\$432.9 million in non-controlling interest.

Given S\$3,069.5 million in equity attributable to owners of the company, F&N's net asset value (NAV) per share stood at S\$2.11, based on 1,453.5 million issued shares. F&N's balance sheet data are summarized in **Exhibit 16** on the next page.

Exhibit 16: Summary of F&N's Balance Sheet

S\$'000	30-Sep-22	30-Sep-21
Total assets	4,980,889	4,921,272
Total liabilities	1,478,404	1,470,036
Total equity / net assets	3,502,485	3,451,236
Equity attributable to owners of the company	3,069,537	3,019,470
Equity attributable to non-controlling interests	432,948	431,766
No. of issued shares	1,453,549,775	1,451,835,276
NAV per share (S\$)	2.11	2.08

Source: Fraser and Neave, Limited

As at 30 September 2022, F&N's total borrowings were S\$889.3 million compared to S\$926.8 million as at 30 September 2021. This comprised of unsecured amount repayable in one year or less, or on demand of S\$51.6 million and unsecured amount repayable after one year of S\$837.7 million. After considering cash and bank deposits, F&N's net borrowings stood at S\$614.7 million as at 30 September 2022 compared to S\$455.0 million a year ago. Thus, F&N's gearing ratio, as computed by net borrowings divided by total equity, stood at approximately 17.6% as at 30 September 2022 versus 13.2% as at 30 September 2021. A breakdown of F&N's net debt and gearing ratio is shown in Exhibit 17.

Exhibit 17: Breakdown of F&N's Net borrowing and Gearing Ratio

S\$'000	30-Sep-22	30-Sep-21
Amount repayable in one year or less, or on demand		
Unsecured	51,607	427,573
Amount repayable after one year		
Unsecured	837,672	499,262
Total borrowings	889,279	926,835
Less: Cash and bank deposits	(274,586)	(471,799)
Net borrowings	614,693	455,036
Total equity	3,502,485	3,451,236
Gearing Ratio	17.6%	13.2%

Source: Fraser and Neave, Limited

We also note that F&N manages its interest costs by maintaining a mix of fixed and floating rate borrowings. On a portfolio basis, 82% of the Group's borrowings are in fixed rates, with an average fixed rate tenor of 3.1 years as at 30 September 2022. In our projections, we would assume that these loans would not be maturing until FY2025. The fixed-rate borrowings consist largely of fixed-rate notes issued under the Group's Debt Issuance Programme and bilateral bank term loans that have been hedged with interest rate swaps. The remaining 18% of the Group's borrowings are in floating rates. F&N also added that it does not expect refinancing issues for its S\$51.6 million loans maturing within one year. These borrowings can be repaid with the Group's existing cash balances or refinanced with existing revolving credit facilities.

OPERATIONAL UPDATE

Since our last initiation report in October 2021, there has been a few new developments announced by F&N. We will now provide an operational update on the development.

(I) Borrowings

F&N's wholly-owned subsidiary company, F&N Treasury Pte. Ltd. (FNT) has redeemed in full the S\$160,000,000 3.09% Notes due 2022 (the Series 13 Notes) on 23 March 2022, being the maturity date of the Series 13 Notes. The Series 13 Notes were issued under the S\$2,000,000,000 Multicurrency Debt Issuance Programme established by FNT on 7 May 2007, which is unconditionally and irrevocably guaranteed by the Company. Following the redemption, the Series 13 Notes have been cancelled and delisted from the Singapore Exchange Securities Trading Limited

In addition, Fraser and Neave, Limited has issued S\$140,000,000 in aggregate principal amount of 3.00% Notes due 2025 comprised in Series 17 (the Series 17 Notes) pursuant to its S\$2,000,000,000 multicurrency debt issuance programme on 9 May 2022. The Series 17 Notes were listed on the SGX-ST on 10 May 2022.

(II) Changes to Key Management of the Company

On 31 January 2022, F&N announced the appointment of Mr Hui Choon Kit, 57, as the Chief Executive Officer (CEO), F&N, with effect from 1 February 2022. Mr Hui will focus on accelerating the execution of the growth strategy of the Group's businesses and investments. Mr Hui was the Chief Financial Officer and Company Secretary of F&N. He joined F&N in 2000 and has held several senior leadership positions in Corporate Planning & Business Development, Corporate Communications & Special Projects, Group Finance, and the Corporate Secretariat departments. As a member of F&N's senior leadership team for over two decades, he has played an integral role in the development and growth of the Group and, in particular, implementation of investment strategy. Mr Hui holds a Bachelor of Business from Curtin University of Technology in Australia, as well as a Master of Business Administration from Nanyang Technological University, Singapore.

In addition, F&N also announced today the retirement of Mr Lee Meng Tat from the position of Chief Executive Officer, Non-Alcoholic Beverages (NAB). Mr Lee has served in this leadership position for nearly seven years. Mr Edmond Neo will relinquish his role as Chief Executive Officer, Beer in F&N, to focus on his leadership role in Brand Investment in Thai Beverage Public Company Limited (ThaiBev), a shareholder and strategic partner of the F&N, with effect from 1 February 2022.

There has also been a reconstitution of F&N's board committees on 25 May 2022

1. the cessation of Mrs Siripen Sitasuwan as an independent, non-executive Director, the Chairman of the Audit Committee ("AC") and a member of each of the Remuneration Committee ("RC") and the Nominating Committee ("NC"), at the end of 30 May 2022, and
2. the appointment of Ms Suong Dao Nguyen as an independent, non-executive Director and a member of the NC, on and from 1 June 2022,
3. Mr Ng Tat Pun, an independent, non-executive Director and member of the AC, shall be appointed as Chairman of the AC and a member of the RC.
4. Mr Chan Heng Wing, an independent, non-executive Director and Chairman of the RC, shall be appointed as a member of the AC.

Further, there has been another reconstitution of F&N's board committees on 13 December 2022,

1. Tengku Syed Badarudin Jamalullail relinquishing his appointment as Lead Independent Director ("Lead ID") and Chairman of the Nominating Committee ("NC") at the end of 7 January 2023, and retiring after the conclusion of the Annual General Meeting of the Company on 18 January 2023 ("AGM"), and
2. the cessation of Mr Chotiphat Bijananda as non-independent and non-executive Director of the Company after the conclusion of the AGM,
3. Mr Ng Tat Pun, an independent, non-executive Director who is Chairman of the Audit Committee ("AC") and a member of the Remuneration Committee ("RC"), shall be appointed as Lead ID and Chairman of the NC.

Considering the above, the composition of the NC and the other Board Committees of the Company will be reconstituted as follows:

Nominating Committee

Mr Ng Tat Pun (Chairman)
Ms Suong Dao Nguyen
Mr Thapana Sirivadhanabhakdi

Audit Committee

Mr Ng Tat Pun (Chairman)
Mr Chan Heng Wing
Mr Sithichai Chaikriangkrai

Board Executive Committee

Mr Koh Poh Tiong (Chairman)
Mr Thapana Sirivadhanabhakdi (Vice-Chairman)
Mr Sithichai Chaikriangkrai
Mr Michael Chye
Mr Prapakon Thongtheppairot

Remuneration Committee

Mr Chan Heng Wing (Chairman)
Mr Ng Tat Pun
Mr Thapana Sirivadhanabhakdi

Sustainability and Risk Management Committee

Mr Koh Poh Tiong (Chairman)
Mr Thapana Sirivadhanabhakdi
Mr Sithichai Chaikriangkrai
Mr Michael Chye
Mr Prapakon Thongtheppairot

GEOGRAPHICAL OUTLOOK

We will focus our industry review on the specific geographical segments of Singapore, Malaysia and Thailand which have a substantial impact on F&N's revenue as shown in **Exhibit 18**. Further, we will also focus on Vietnam, whereby F&N's investment in Vinamilk contributed approximately 42% of F&N's profit in FY2022.

Exhibit 18: Historical Revenue Breakdown Based On Geographical Segment

S\$'000	FY2022		FY2021		y-o-y change
	Revenue	Contribution (%)	Revenue	Contribution (%)	
Singapore	433,437	44%	422,163	44%	2.7%
Malaysia	755,006	76%	665,757	69%	13.4%
Thailand	671,030	68%	666,265	69%	0.7%
Vietnam	30	0%	86	0%	-65.1%
Others ⁽¹⁾	143,711	15%	124,892	13%	15.1%
Total	2,003,214	203%	1,879,163	194%	6.6%

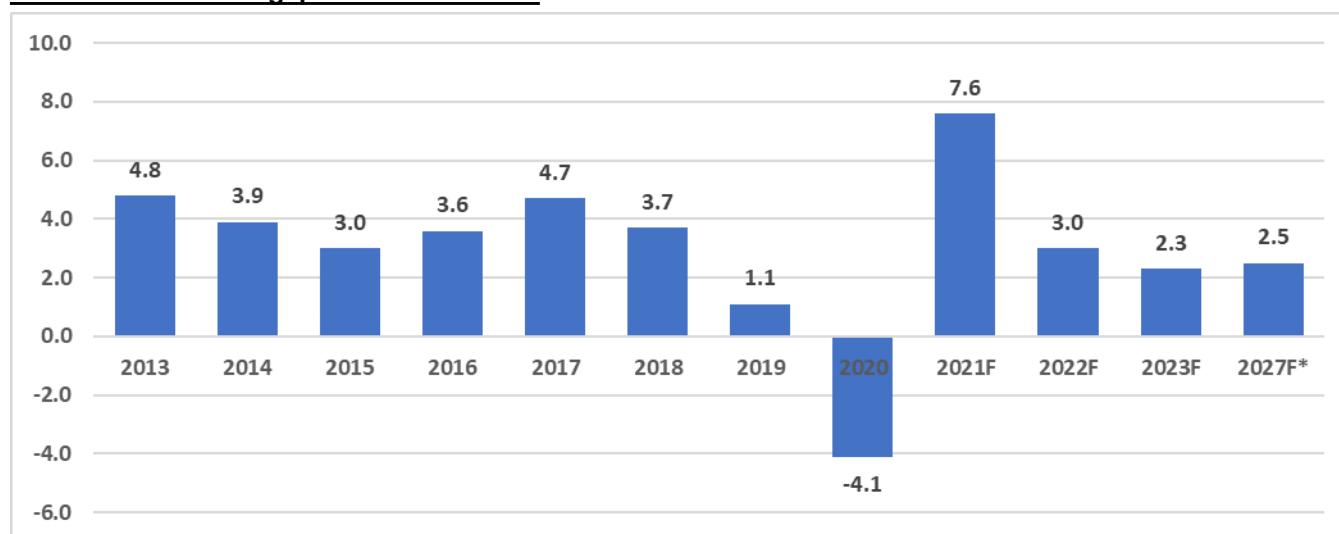
⁽²⁾ Includes Myanmar, Brunei, Indonesia, China, India, Australia, Europe and USA

Source: Fraser and Neave, Limited

(I) Singapore

The Ministry of Trade and Industry (MTI) reported that in the third quarter of 2022, Singapore economy grew by 4.1% on a year-on-year (yoy) basis, slower than the 4.5% expansion recorded in the previous quarter. In view of a slower pace of growth, MTI expects Singapore's GDP to reach around 3.5% for 2022. For 2023, MTI expects the Singapore economy to grow by "0.5 to 2.5 per cent". Similarly, in its latest World Economic Outlook, the International Monetary Fund (IMF) projects Singapore's economy to grow by 3.0% in 2022 and 2.3% in 2023. In its 5-year projections, IMF also projects Singapore's economy to grow by 2.5% in 2027 as shown in **Exhibit 19**. The stable economic growth would provide F&N opportunities to expand their footprint in this region.

Exhibit 19: IMF's Singapore GDP Forecast

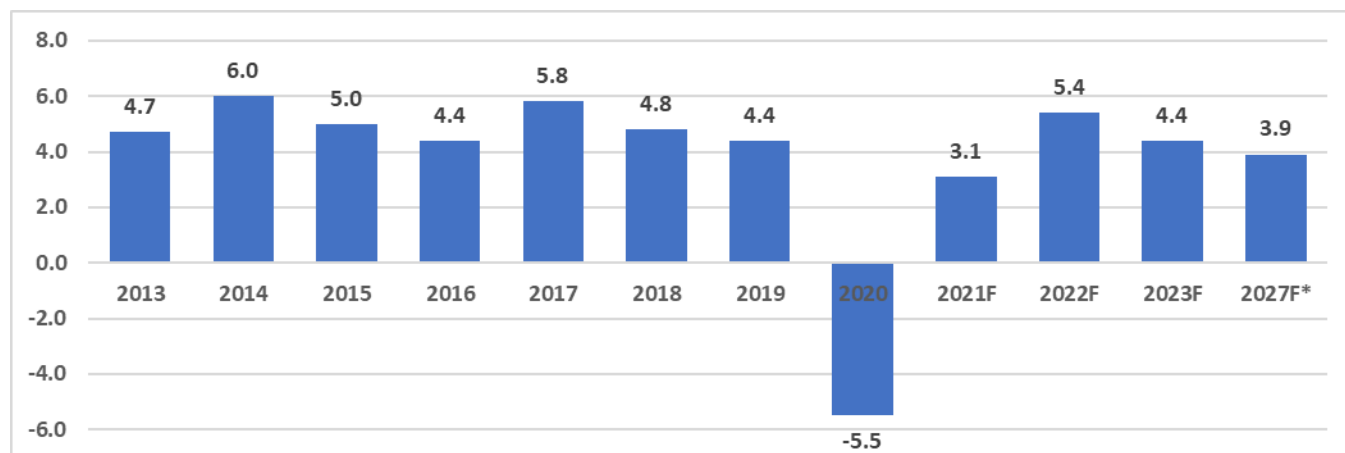


* IMF's 5-year GDP growth projections

Source: IMF

(II) Malaysia

Malaysia's Prime Minister recently announced that the country's gross domestic product for 2022 was very likely to exceed earlier projections of between 6.5% and 7%. He added that Malaysia's economy has bounced back rapidly from the pandemic after an easing of restrictions in April, but there are concerns that a slowdown in the world economy could hurt export growth going forward. Malaysia's economy grew by a higher-than-expected 14.2% in the third quarter from a low base a year earlier, when COVID-19 containment measures curbed economic activity. However, for 2023, Malaysia's central bank sees growth slowing to 4.0%-5.0%. IMF projects Malaysia's GDP to grow by 5.4% in 2022 followed by a 4.4% growth in 2023. In its 5-year projections, IMF also projects Malaysia's economy to grow by 3.9% in 2027 as shown in **Exhibit 20**.

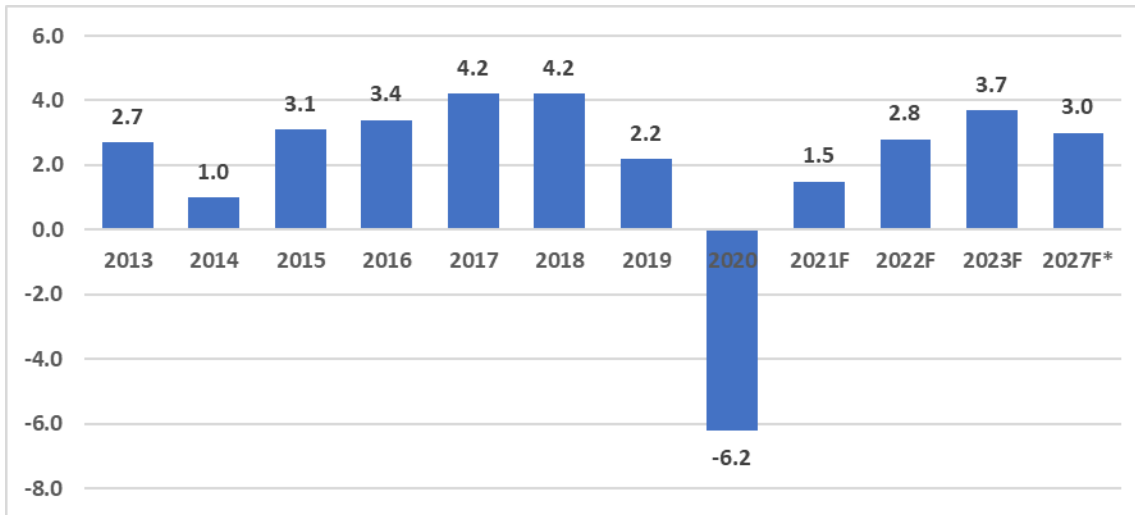
Exhibit 20: IMF's Malaysia GDP Forecast

* IMF's 5-year GDP growth projections
Source: IMF

(III) Thailand

Thailand's economy grew at its fastest pace in over a year in the third quarter, as a revival in tourism, increased consumption and a pick-up in private investment boosted growth, but the state planning agency flagged global growth risks ahead. Thailand's economy expanded by 4.5% in the September quarter from a year earlier, according to data from the National Economic and Social Development Council (NESDC). Thailand's finance minister announced recently that its economy may accelerate next year and hit the 3.8% growth forecast provided its vital tourism sector will get a boost from China's reopening plans needed to offset slowing global demand. He estimated 2022 economic expansion at 3.1% or 3.2%. The growth will be mainly supported by tourism, private and public investments, and domestic demand. Meanwhile, the IMF projects Thailand's GDP growth to rebound to a 2.8% growth in 2022 and a 3.7% growth in 2023. In its 5-year projections, IMF also projects Thailand's economy to grow by 3.0% in 2027 as shown in **Exhibit 21** on the next page. The slightly positive outlook would most likely increase the demand for beverages and dairies, and in turn benefiting F&N.

Exhibit 21: IMF's Thailand GDP Forecast

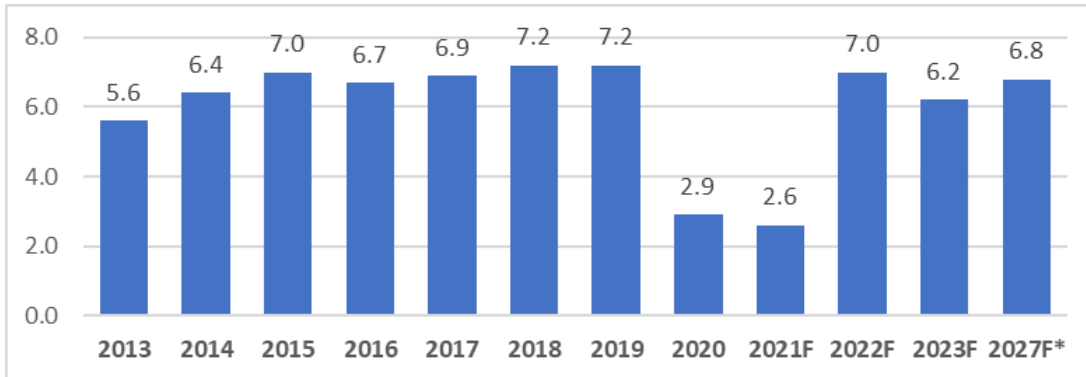


* IMF's 5-year GDP growth projections
Source: IMF

(IV) Vietnam

According to Vietnam's General Statistics Office, Vietnam's third-quarter gross domestic product grew by 13.67% from a year earlier, a significant rise compared to the 7.72% in the second quarter and 5.05% of the first quarter. This is the fastest pace in decades, boosted by robust manufacturing and exports. On the back of a faster growth, the ADB has released its Asian Development Outlook 2022 Supplement with revised growth forecasts for Vietnam. For 2022, it has revised upwards its outlook, predicting 7.5% for the year. For 2023, ADB expects Vietnam's growth to be 6.3%. ADB cited stronger consumption, tourism and export growth as reasons for the improved outlook. Meanwhile, IMF projects Vietnam's GDP to grow by 7.0% in 2022 and 6.2% in 2023 in its latest World Economic Outlook. In its 5-year projections, IMF also projects Vietnam's economy to grow by 6.8% in 2027 as shown in **Exhibit 22**. Considering the above, we believe that F&N would be able to benefit from the recovery of Vietnam's economy with its investment in Vinamilk.

Exhibit 22: IMF's Vietnam GDP Forecast

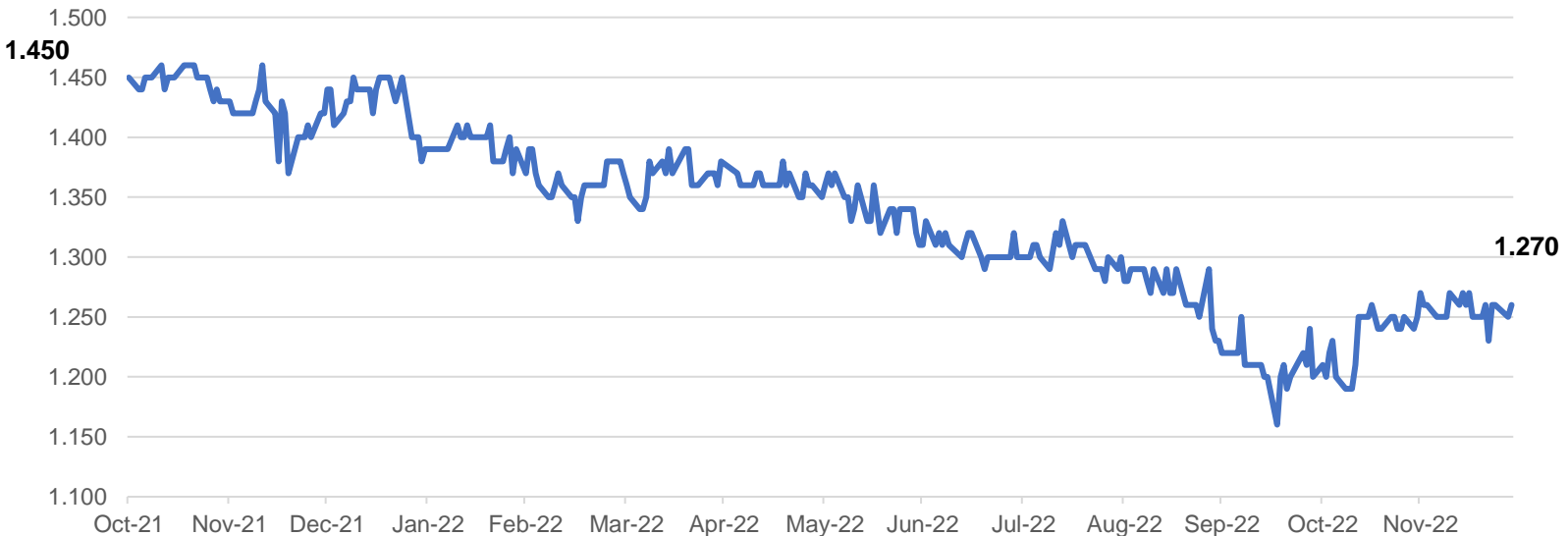


* IMF's 5-year GDP growth projections
Source: IMF

SHARE PRICE DEVELOPMENT REVIEW

Since our initiation report issued on 29 October 2021, when F&N's share price closed at S\$1.450, we note that the share price has fallen. From then till present, the share price is down by about 12% to the current price of S\$1.270 as shown in **Exhibit 23**.

Exhibit 23: F&N's Share Price



Source: Yahoo Finance, FPA Financial

Over the past one year, the share price traded between S\$1.160 to S\$1.450. The 52-week low of S\$1.160 was reached on 17 October 2022 and the 52-week high of S\$1.450 was reached on 21 January 2022.

On 10 February 2022, F&N announced in its business update that despite a 1.6% yoy increase in revenue, F&N recorded a 10.9% yoy decrease in net profit in the first quarter ended 31 December 2021. Upon the release of its business update, F&N's share price fell by 0.71% to S\$1.40 on the next day.

On 3 June 2022, F&N announced that it has submitted a formal proposal to the Board of Cocoland in respect of the Proposed Privatisation for its consideration. Fraser & Neave Bhd (F&NHB), a subsidiary of mainboard-listed beverage company Fraser & Neave has proposed to acquire the entire equity interest of Cocoland which it does not already hold for RM488 million (S\$153 million), or RM1.50 a share. F&NHB said that the proposed privatisation of Cocoland will involve acquiring 325 million of the candy maker's shares held by scheme shareholders, representing 72.3% of share capital. F&NHB currently owns the remaining 27.7% of Cocoland's share capital. As a result, F&N's share price closed 0.74% higher at S\$1.370 at the end of the day.

On 5 August 2022, F&N announced in its business update that the company posted a 18.3% drop in net profit to S\$97.3 million for the 9 months ended 30 June 2022, from S\$119.1 million the year before. This comes despite the company reporting a revenue of S\$1.5 billion for the 9 months, up 2.4 per cent from the same period the preceding year. Earnings per share stood at 6.7 Singapore cents for the 9 months, down from 8.2 cents the year before. F&N's share price fell by 0.77% to S\$1.290 the next trading day.

On 10 November 2022, F&N announced an 11.1% drop in net profit to S\$124.9 million for the financial year ended 30 September 2022 from S\$140.4 million the year before. This comes despite the company recording a 6.6 per cent year-on-year increase in revenue to S\$2 billion from S\$1.9 billion. Earnings per share stood at 8.6 cents for the full year, down from 9.7 cents the year before. At the same time, F&N's board is recommending a final dividend of 3.5 cents per share. Together with the interim dividend of 1.5 cents per share paid on 6 Jun 2022, this brings the total full-year dividend to 5 cents per share, the same as last year. If approved by shareholders, the final dividend will be paid on 10 February 2023. F&N's share price rose by 3.31% to S\$1.250 the next day.

POTENTIAL CATALYSTS

(I) Acquisition of Ladang Permai Damai Sdn Bhd

On 12 October 2022, F&N announced that Dagang Sejahtera Sdn Bhd, a 65% held subsidiary of Fraser & Neave Holdings Bhd (F&NHB), successfully acquired Ladang Permai Damai Sdn Bhd for a cash consideration of RM215.6 million (\$66.6 million). F&N holds a stake of about 55.5% in F&NHB, which is listed on Bursa Malaysia

Information on Ladang Permai Damai

Ladang Permai Damai was incorporated in Malaysia under the Companies Act 1965 as a private limited company on 18 February 1989 and is deemed registered under the Companies Act 2016. Ladang Permai Damai is principally engaged in the cultivation of oil palm, processing of fresh fruit bunches and marketing of crude palm oil, palm kernel and fresh fruit bunches. Ladang Permai Damai owns eight parcels of agricultural leasehold land measuring in aggregate 2,726 ha.

Rationale Of The Proposed Acquisition

The business intention in acquiring Ladang Permai Damai is for F&NHB to embark on the upstream fresh milk business for downstream production and distribution of fresh milk. It is the intention that after completion of the Proposed Acquisition, Ladang Permai Damai will lease the Permai Damai Estates to F&NHB at a fair market rate to carry out operations of the integrated dairy farm and crop plantation. The Permai Damai Estates will enable F&NHB to own a vertical integration business and operations based on locally grown crop for feed to F&NHB's dairy farm, which in turn will lower the value chain cost per litre. This will enable F&NHB to be less dependent on imported milk and promote local agricultural industry.

(II) Acquisition of Cocoaland

On 4 November 2022, F&N announced that through F&NHB, it successfully acquired 72.4% equity interest in Cocoaland Holdings Berhad (Cocoaland) for a total cash consideration of approximately RM489.2 million (\$151.0 million).

Information on Cocoaland

Cocoaland is a leading manufacturer of sugar confectionery products, such as fruit gummies, candies, chocolate, wafers and snacks. Its products are exported to SEA, the Middle East, East Asia, North America and Europe. The acquisition adds established Malaysian confectionery and snack brands to F&NHB's portfolio of renowned brands and serves as a platform to build on and expand into other packaged food segments.

Rationale Of The Proposed Acquisition

The privatisation is in line with F&NHB's ambition to be a stable and sustainable food and beverage leader in ASEAN, with halal packaged food as its fourth pillar of growth. The investment will add established Malaysian confectionery and snack brands to F&NHB's portfolio of renowned brands, and at the same time serves as a platform to build on and expand into other packaged food segments. F&N believes that this serves as a platform to build on and expand into the S\$1.2 billion packaged food segment. F&N also believes that the addition of Cocoaland into the F&NHB group will also enhance the group's expansion in the overseas markets.

Projected Gearing Ratio After The Acquisition Of Ladang Permai Damai And Cocoaland

According to the announcements, both acquisitions are expected to be financed via bank borrowings. Considering the above, the total consideration amount for the two acquisitions would amount to S\$217.6 million = [S\$66.6 million (acquisition cost for Ladang Permai Damai) + S\$151.0 million (acquisition cost for Cocoaland)]. In addition, as mentioned on the previous page, F&N has a 55.5% stake in F&NHB. Accordingly, the proportion of debt attributable to F&N after the acquisitions would amount to S\$120.8 million = [55.5% (stake in F&NHB) x S\$217.6 million (total acquisition cost)].

As noted on page 10, F&N's total borrowings amounted to S\$889.3 million as at 30 September 2022. Considering the debt attributable to F&N after the acquisitions of S\$120.8 million, the projected total borrowings would amount to S\$1,010.1 million = [S\$889.3 million (FY2022 actual borrowings) + S\$120.8 million (projected debt attributable to F&N after the acquisitions)]. Assuming the same cash & bank deposits of S\$274.6 million and total equity of S\$3,502.5 million as at 30 September 2022, the projected gearing ratio would amount to 21.0% as shown in **Exhibit 24**.

Exhibit 24: Projected Gearing Ratio For F&N After The Acquisition of Ladang Permai Damai and Cocoaland

S\$'000	30-Sep-22	After acquisitions
Amount repayable in one year or less, or on demand		
Unsecured	51,607	51,607
Amount repayable after one year		
Unsecured	837,672	958,472
Total borrowings	889,279	1,010,079
Less: Cash and bank deposits	(274,586)	(274,586)
Net borrowings	614,693	735,493
Total equity	3,502,485	3,502,485
Gearing Ratio	17.6%	21.0%

Source: Fraser and Neave, Limited, FPA Financial

FINANCIAL PROJECTION

In this section, we will be providing our projections for F&N's revenue, earnings and dividends in FY2023 and FY2024.

(I) Revenue Projection

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. As seen on page 13 to page 15, Singapore's, Malaysia's and Thailand's growth in 2023 are expected to slow as compared to 2022, according to IMF.

According to IMF's World Economic Outlook (Outlook), the global economy is expected to grow by 2.7% in 2023. This bodes well for F&N as the stable economic outlook could improve consumer sentiment and expenditures which will support the sales of its products and services. Further, as mentioned on page 18, the acquisition of Ladang Permai Damai presents an opportunity for F&N to embark on the upstream dairy business so as to meet the demand for high quality fresh milk, and further advancing our push into this fast-growing segment in Malaysia. At the same time, the acquisition of Cocoland adds established Malaysian confectionery and snack brands to F&NHB's portfolio of renowned brands and serves as a platform to build on and expand into other packaged food segments which could be catalysts for growth.

Furthermore, we would expect a stronger revenue performance amid an acceleration in the reopening of borders. With the increase in tourist, the consumption of consumer staples (like beverages and dairies) would increase and hence F&N's revenue.

Considering the above, we would assume IMF's GDP growth outlook for 2023 for each of the respectively geographical location as a proxy for its revenue growth in FY2023. For FY2024, we would assume IMF's 5-year GDP growth projections, as noted on page 13 to page 15. For the "Others" segment, we would assume the IMF's global GDP projections for our forecast as shown in **Exhibit 25**. We also note that as F&N acquired Ladang Permai Damai and Cocoland in Malaysia, Malaysia's growth projection for FY2023 and FY2024 is 4.4% and 3.9% respectively, which is also the highest compared to the other geographical markets.

Exhibit 25: IMF's GDP Projections

IMF Projections	2023F	5-year GDP growth
Malaysia	4.4%	3.9%
Singapore	2.3%	2.5%
Thailand	3.7%	3.0%
Global	2.7%	3.2%

Source: IMF

Accordingly, the projected revenue for FY2023 and FY2024 would be S\$2,075.8 million and S\$2,142.5 million as follows:

FY2023

- Projected Singapore revenue for FY2023 = S\$433.4 million (FY2022 actual) x 102.3% (projected growth) = S\$443.4 million
- Projected Malaysia revenue for FY2023 = S\$755.0 million (FY2022 actual) x 104.4% (projected growth) = S\$788.2 million
- Projected Thailand revenue for FY2023 = S\$671.0 million (FY2022 actual) x 103.7% (projected growth) = S\$695.9 million
- Projected Other revenue for FY2023 = S\$143.7 million (FY2022 actual) x 102.7% (projected growth) = S\$147.6 million

FY2024

- Projected Singapore revenue for FY2024 = S\$443.4 million (FY2023 projected) x 102.5% (projected growth) = S\$454.5 million
- Projected Malaysia revenue for FY2024 = S\$788.2million (FY2023 projected) x 103.9% (projected growth) = S\$819.0 million
- Projected Thailand revenue for FY2024= S\$695.9 million (FY2023 projected) x 103.0% (projected growth) = S\$716.7 million
- Projected Other revenue for = S\$147.6 million (FY2023 projected) x 103.2% (projected growth) = S\$152.3 million

The projected revenue for FY2023 and FY2024 is shown in **Exhibit 26**.

Exhibit 26: Projected Revenue for FY2023 and FY2024

Revenue (S\$'000)	Actual	Forecast			
	FY2022	FY2023	Change (%)	FY2024	Change (%)
Singapore	433,437	443,406	2.3%	454,491	2.5%
Malaysia	755,006	788,226	4.4%	818,967	3.9%
Thailand	671,030	695,858	3.7%	716,734	3.0%
Others ⁽¹⁾	143,741	147,622	2.7%	152,346	3.2%
Total revenue	2,003,214	2,075,112	3.6%	2,142,538	3.2%

⁽¹⁾ Includes Brunei, Chile, China, Dubai, Hong Kong, India, Indonesia, Myanmar, USA and Vietnam

Source: Fraser and Neave, Limited, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2023 and FY2024, we will now estimate F&N's earnings for these periods.

Gross Profit

For our gross profit projections, we will consider F&N's historical gross profit margins. We note that from FY2019 to FY2022, F&N's gross profit margins had remained relatively stable, at around 29% to 33%. For FY2023 and FY2024, we would assume the same gross profit margin of 29.10% as in FY2022. Accordingly, the projected gross profit for FY2023 and FY2024 would be S\$603.8 million and S\$623.5 million respectively as shown in **Exhibit 27**.

Exhibit 27: Projected Gross Profit for FY2023 and FY2024

[S\$'000]	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	1,902,337	1,833,501	1,879,163	2,003,214	2,075,112	2,142,538
Cost of sales	(1,278,646)	(1,237,627)	(1,237,627)	(1,296,247)	(1,471,275)	(1,519,080)
Gross Profit	623,691	595,874	595,874	582,916	603,838	623,458
Gross Profit Margin	32.79%	32.50%	31.71%	29.10%	29.10%	29.10%

Source: Fraser and Neave, Limited, FPA Financial

Other Income

Historically, other income is mainly related to wage and other subsidies, management and support services, sale of scrap items and gain /loss on disposal of fixed assets and foreign exchange. As noted on page 4, other income decreased by 97.1% to S\$0.2 million in FY2022. For FY2020, we note that other income was relatively higher due to a S\$15.7 million in wage and other subsidies owing to Covid-19. Hence, for FY2023, we would assume the same amount of S\$0.2 million. We would also assume this figure for FY2024 as shown in **Exhibit 28**.

Exhibit 28: Projected Other Income for FY2023 and FY2024

(\$'000)	Actual			Forecast	
	FY2020	FY2021	FY2022	FY2023	FY2024
Other income	23,309	7,673	224	224	224

Source: Fraser and Neave, Limited, FPA Financial

Operating Expenses

The operating expenses of F&N comprise of 3 types: Distribution, Marketing and Administration. Over the period from FY2020 to FY2022, we note that the ratio of each operating expense item to sales has decreased. Considering the above, we would assume the expense to sales ratio of FY2022 for each of the expense components. Accordingly, the total operating expense amounted to S\$461.3 million and S\$476.3 million for FY2023 and FY2024 respectively, as shown in **Exhibit 29**.

Exhibit 29: Projected Operating Expense for FY2023 and FY2024

Operating expenses (\$'000)	Actual			Forecast	
	FY2020	FY2021	FY2022	FY2023	FY2024
Distribution	(159,649)	(158,929)	(163,855)	(169,736)	(175,251)
as % of sales	8.71%	8.46%	8.18%	8.18%	8.18%
Marketing	(180,831)	(158,535)	(155,605)	(161,190)	(166,427)
as % of sales	9.86%	8.44%	7.77%	7.77%	7.77%
Administration	(136,989)	(122,079)	(125,831)	(130,347)	(134,583)
as % of sales	7.47%	6.50%	6.28%	6.28%	6.28%
Total	(477,469)	(439,543)	(445,291)	(461,273)	(476,261)

Source: Fraser and Neave, Limited, FPA Financial

Trading Profit

Consequently, the projected trading profit for FY2023 and FY2024 would be S\$142.8 million and S\$147.4 million respectively as shown in **Exhibit 30**.

Exhibit 30: Projected Trading Profit for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Revenue	2,003,214	2,075,112	2,142,538
Cost of sales	(1,429,370)	(1,471,275)	(1,519,080)
Gross profit	573,844	603,838	623,458
Other income (net)	224	224	224
Operating expenses			
Distribution	(163,855)	(169,736)	(175,251)
Marketing	(155,605)	(161,190)	(166,427)
Administration	(125,831)	(130,347)	(134,583)
Trading profit	128,777	142,789	147,421

Source: Fraser and Neave, Limited, FPA Financial

Profit before interest and taxation (PBIT)

As mentioned on page 5, the share results of joint venture companies for FY2022 were S\$4.7 million. We would assume the same share of results of joint venture companies for FY2023 and that the share of results of joint venture companies to remain unchanged in FY2024 from FY2023 as shown in **Exhibit 31** on the next page. The F&N's joint ventures companies as at 30 September 2022 includes F&N Retail Connection Co., Ltd (74.0%), Shanxi Xinhua Times Packaging Printing Co., Ltd (51.0%), F&N International Holdings Co. Ltd (49.0%) and Vacaron Company Sdn Bhd (27.7%).

Similarly, for the gross income from other investments amounted to S\$0.3 million for FY2022. We would assume the same gross income from other investments of S\$0.3 million for FY2023 and FY2024 as shown in **Exhibit 31** on the next page.

Share of results of associated companies is mainly derived from the profit recognition – equity accounting method – of its 20.4% stake in Vinamilk. In FY2022, the share of results of Vinamilk decreased to S\$97.4 million in FY2022 from S\$111.7 million in FY2021. However, as noted on page 15, Vietnam's Q3 GDP grew by 13.67% yoy and the IMF expects Vietnam's GDP to grow by 6.2% in 2023. In addition, its 5-year GDP forecast for Vietnam is 6.8%, signaling a strong growth. We believe that Vinamilk, which is based in Vietnam, will benefit from the country's economic recovery and record higher profits. Therefore, we would assume IMF's GDP growth projections for Vietnam for the projections of the share of result of associated companies. Accordingly, share of results of associated companies is expected to grow by 6.2% in FY2023 and 6.8% in FY2024 to S\$106.1 million = [S\$99.9 million (FY2022 actual) x 106.2% (projected growth)] and S\$113.3 million = [S\$106.1 million (FY2023 projected) x 106.8% (projected growth)] respectively as shown in **Exhibit 31** on the next page.

As a result, F&N's projected PBIT for FY2023 and FY2024 would be S\$253.6 million and S\$265.5 million respectively as shown in **Exhibit 31**.

Exhibit 31: Projected PBIT for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Trading Profit	128,777	142,789	147,421
Share of results of joint venture companies	4,465	4,465	4,465
Share of results of associated companies	99,875	106,067	113,280
Gross income from other investments	298	298	298
Profit before interest and taxation (PBIT)	233,415	253,619	265,464

Source: Fraser and Neave, Limited, FPA Financial

Net Finance Cost

As at 30 September 2022, F&N's total borrowings was S\$889.3 million and the interest expense paid on borrowings was S\$24.2 million. Hence, the estimated effective interest rate on F&N's borrowings would approximately be 2.73% = [S\$24.2 million (interest expense on borrowings in FY2022) / S\$889.3 million (total borrowings in FY2022)].

We also note that, in its December meeting, the Federal Reserve (Fed) officials approved an interest-rate increase of 0.5 percentage point and signaled plans to lift rates through the spring, though likely in smaller increments, to combat high inflation. As a result, the benchmark federal funds rate was raised to a range of between 4.25% and 4.5%, a 15-year high. Furthermore, in the newly released economic projections, most Fed officials penciled in plans to raise the fed-funds rate to a peak level between 5% and 5.5% in 2023 and is expected to maintain that in 2024. Hence, there is a possibility that we could expect an upward pressure on interest rates for FY2023 and FY2024.

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for FY2022 was 2.38% while the 10-year bond yield for FY2023 for the first 3 months of FY2023 was 3.18%. Singapore's SGS 10-year bond yield increased by 80bps in the first 3 months of FY2023 versus the average yield for FY2022 as shown in **Exhibit 32**.

Exhibit 32: Singapore SGS 10-Year Bond Yield

FY2022	10-year bond yield (%)	FY2023	10-year bond yield (%)
Oct-21	1.84%	Oct-22	3.43%
Nov-21	1.70%	Nov-22	3.07%
Dec-21	1.67%	Dec-22	3.09%
Jan-22	1.77%	Jan-23 ⁽¹⁾	3.12%
Feb-22	1.90%		
Mar-22	2.34%		
Apr-22	2.53%		
May-22	2.71%		
Jun-22	2.98%		
Jul-22	2.66%		
Aug-22	2.98%		
Sep-22	3.48%		
Average	2.38%	Average	3.18%
Change			80bps

(1) As at 3 January 2023

Source: MAS, FPA Financial

In addition, as noted on page 19, the projected total debt after the acquisition of Ladang Permai Damai and Cocoland amounted to S\$1,010.1 million. According to F&N, approximately 82% of its total debts is on a fixed rate basis and 18% is on a floating rate basis as at 30 September 2022.

Given the above, we would assume the estimated effective interest rate of 2.73% as F&N's fixed cost of debt. Considering that the SGS 10-year bond yield increased by 80bps in the first 3 months of FY2023 from FY2022 and that US interest rate is expected to stay elevated in FY2023 and FY2024, we would assume the variable cost of debt to increase by 80 basis points as compared to its fixed cost of debt for FY2023 and remain unchanged at FY2024 at 3.53% = [2.73% (FY2022 estimated effective interest rate) + 80bps (expected increase in interest rates)]. Assuming no further debt repayment or additional borrowings during these periods, the projected interest paid/ payable to banks and other borrowings for FY2023 and FY2024 would be S\$29.0 million as shown in **Exhibit 33**.

Exhibit 33: Projected Interest Paid/ Payable To Banks And Other Borrowings For FY2023 And FY2024

S\$'000	Total debt	Fixed rate debt	Floating rate debt	Fixed cost of debt	Variable cost of debt	Interest payable to banks		
		(82%)	(18%)			Fixed	Variable	Total
FY2023	1,010,079	828,265	181,814	2.73%	3.53%	22,582	6,412	28,994
FY2024	1,010,079	828,265	181,814	2.73%	3.53%	22,582	6,412	28,994

Source: Fraser and Neave, Limited, FPA Financial

Further, we would assume the same finance income in FY2022 for FY2023 and FY2024. Accordingly, the projected net finance cost would be S\$28.5 million in both FY2023 and FY2023 as shown in **Exhibit 34**.

Exhibit 34: Projected Net Finance Cost for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Finance income	2,424	2,424	2,424
Finance cost			
Interest expense from bank and other borrowings	(24,246)	(28,994)	(28,994)
interest expense from lease liabilities	(1,852)	(1,852)	(1,852)
Others	(109)	(109)	(109)
Net finance cost	(23,783)	(28,531)	(28,531)

Source: Fraser and Neave, Limited, FPA Financial

Exceptional Items

As noted on page 6, exceptional items amounted to a loss of S\$7.4 million in FY2022 mainly due to the impairment of inventories and property, plant and equipment as a result of flash floods in Malaysia earlier in the year. For both FY2023 and FY2024, we would assume no adjustments to exceptional items.

Fair value adjustment of investment properties

As shown in **Exhibit 11**, fair value adjustment of investment properties amounted to S\$0.4 million in FY2022. For both FY2023 and FY2024, we would assume no fair value adjustment of investment properties.

Profit Before Taxation

Given the above projections, we would estimate a profit before tax of S\$225.1 million in FY2023 and S\$236.9 million in FY2024 as shown in **Exhibit 35**.

Exhibit 35: Projected Profit Before Taxation for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Revenue	2,003,214	2,075,112	2,142,538
Cost of sales	(1,429,370)	(1,471,275)	(1,519,080)
Gross profit	573,844	603,838	623,458
Other income (net)	224	224	224
Operating expenses			
Distribution	(163,855)	(169,736)	(175,251)
Marketing	(155,605)	(161,190)	(166,427)
Administration	(125,831)	(130,347)	(134,583)
Trading profit	128,777	142,789	147,421
Share of results of joint venture companies	4,465	4,465	4,465
Share of results of associated companies	99,875	106,067	113,280
Gross income from other investments	298	298	298
Profit before interest and taxation ("PBIT")	233,415	253,619	265,464
Finance income	2,424	2,424	2,424
Finance cost	(26,207)	(30,955)	(30,955)
Profit before taxation and exceptional items	209,632	225,088	236,933
Exceptional items	(7,408)	-	-
Fair value adjustment of investment properties	(35)	-	-
Profit before taxation	202,189	225,088	236,933

Source: Fraser and Neave, Limited, FPA Financial

Taxation

As mentioned on page 7, F&N's effective tax rate for FY2021 and FY2022 were 15.1% and 12.5% respectively. According to F&N, as at 30 September 2022, certain Singapore subsidiary companies have unutilised tax losses carried forward available for set off against future taxable profits. In addition, certain overseas subsidiary companies have unutilised tax losses carried forward, unutilised investment allowances and unabsorbed capital allowances. The availability of these tax losses and capital allowances to set off against future taxable profits is subject to the meeting of certain statutory requirements by those subsidiary companies in their countries of tax residence

As we do not have sufficient information to appropriately estimate the effective tax rate, we would assume the impact of a 17.0% Singapore income tax rate to be levied on F&N's profit before tax for FY2023 and FY2024. Accordingly, we would derive projected income tax expense of S\$38.3 million and S\$40.3 million for FY2023 and FY2024 respectively as shown in **Exhibit 36** on the next page.

Exhibit 36: Projected Taxation for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Revenue	2,003,214	2,075,112	2,142,538
Cost of sales	(1,429,370)	(1,471,275)	(1,519,080)
Gross profit	573,844	603,838	623,458
Other income (net)	224	224	224
Operating expenses	-	-	-
Distribution	(163,855)	(169,736)	(175,251)
Marketing	(155,605)	(161,190)	(166,427)
Administration	(125,831)	(130,347)	(134,583)
Trading profit	128,777	142,789	147,421
Share of results of joint venture companies	4,465	4,465	4,465
Share of results of associated companies	99,875	106,067	113,280
Gross income from other investments	298	298	298
Profit before interest and taxation ("PBIT")	233,415	253,619	265,464
Finance income	2,424	2,424	2,424
Finance cost	(26,207)	(30,955)	(30,955)
Profit before taxation and exceptional items	209,632	225,088	236,933
Exceptional items	(7,408)	-	-
Fair value adjustment of investment properties	(35)	-	-
Profit before taxation	202,189	225,088	236,933
Effective tax rate	12.5%	17.0%	17.0%
Taxation	25,254	38,265	40,279
Profit after taxation	176,935	186,823	196,654

Source: Fraser and Neave, Limited, FPA Financial

Projected Profit After Tax

After adjusting for taxation, the projected profit after taxation for FY2023 and FY2024 would be S\$186.8 million and S\$196.7 million respectively. Historically, percentage of profit attributable to non-controlling interest have been relatively stable. Between FY2020 and FY2022, percentage of profit attributable to non-controlling interest were between 28.2% and 29.4%. Considering the above, we would assume the percentage of profits attributable to non-controlling interest of 29.4% as recorded in FY2022 for FY2023 and FY2024. Accordingly, for FY2023 and FY2024, profit attributable to shareholders of the company would be S\$131.8 million and S\$138.8 million respectively and profits attributable to non-controlling interest would be S\$55.0 million and 57.9 million respectively as shown in **Exhibit 37**.

Exhibit 37: Projected Share Of Profits To Shareholders Of The Company And Non-Controlling Interest

S\$'000	Actual			Forecast	
	FY2020	FY2021	FY2022	FY2023	FY2024
Profit after taxation	207,692	195,474	176,935	186,823	196,654
Attributable to:					
Shareholders of the Company	149,210	140,442	124,867	131,845	138,783
Non-controlling interest (NCI)	58,482	55,032	52,068	54,978	57,871
% of NCI	28.2%	28.2%	29.4%	29.4%	29.4%

Source: Fraser and Neave, Limited, FPA Financial

Consequently, assuming the latest available number of ordinary shares in issue as at 30 September 2022, for our FY2023 and FY2024 EPS projections, we projected an earnings per share of 9.1 cents for FY2023 and 9.5 cents in FY2024. We have summarised our projected earnings in **Exhibit 38** on the next page.

Exhibit 38: Earnings Projections for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Revenue	2,003,214	2,075,112	2,142,538
Cost of sales	(1,429,370)	(1,471,275)	(1,519,080)
Gross profit	573,844	603,838	623,458
Other income (net)	224	224	224
Operating expenses			
Distribution	(163,855)	(169,736)	(175,251)
Marketing	(155,605)	(161,190)	(166,427)
Administration	(125,831)	(130,347)	(134,583)
Trading profit	128,777	142,789	147,421
Share of results of joint venture companies	4,465	4,465	4,465
Share of results of associated companies	99,875	106,067	113,280
Gross income from other investments	298	298	298
Profit before interest and taxation ("PBIT")	233,415	253,619	265,464
Finance income	2,424	2,424	2,424
Finance cost	(26,207)	(30,955)	(30,955)
Profit before taxation and exceptional items	209,632	225,088	236,933
Exceptional items	(7,408)	-	-
Fair value adjustment of investment properties	(35)	-	-
Profit before taxation	202,189	225,088	236,933
Taxation	(25,254)	(38,265)	(40,279)
Profit after taxation	176,935	186,823	196,654
Attributable to:			
Shareholders of the Company	124,867	131,845	138,783
Non-controlling interest	52,068	54,978	57,871
Earnings per ordinary share:			
Based on the weighted average number of ordinary shares on issue (cents)	8.6	9.1	9.5

Figures may not add due to rounding

Source: Fraser and Neave, Limited, FPA Financial

(III) Dividends Projection

We note that F&N had maintained its dividend payout ratio between 49% and 58%. In terms of dividends, we note that F&N has maintained its dividend distribution at 5.0 cents for the past 3 years. Accordingly, we would assume F&N to maintain its dividend distribution for FY2023 and FY2024 at 5.0 cents as shown in **Exhibit 39**.

Exhibit 39: Projected Dividend for FY2023 and FY2024

S\$'000	Actual			Forecast	
	FY2020	FY2021	FY2022	FY2023	FY2024
Profit after taxation	207,692	195,474	176,935	186,823	196,654
EPS (cents)	10.3	9.7	8.6	9.1	9.5
Dividend (cents)	5.0	5.0	5.0	5.0	5.0
Dividend payout ratio (%)	49%	52%	58%	55%	52%

Source: Fraser and Neave, Limited, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We performed a peer comparison analysis to review how F&N is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to F&N in terms of industry and business operations and did a comparison by considering the peer's P/E and P/B as shown in **Exhibit 40**.

Exhibit 40: Peer Comparison

Company	Stock listing	Stock code	Price (S\$) as at initiation report ⁽¹⁾	Price (\$) as at 4 January 2023	Market cap (\$ million)	EPS ⁽²⁾ (cents)	P/E (x)	DPU (cents)	Dividend yield (%)	NAV per share ⁽³⁾ (S\$)	P/B (x)
Fraser and Neave, Limited ⁽⁴⁾	SGX	F99	1.450	1.270	1,846.01	8.60	14.77	5.00	3.94	2.11	0.60
Peer companies:											
Yeo Hiap Seng Ltd	SGX	Y03	0.865	0.685	412.97	(0.09)	NM	2.00	2.92	0.96	0.71
QAF Ltd	SGX	Q01	0.875	0.845	486.10	5.70	14.82	5.00	5.92	0.87	0.97
China Food Ltd ⁽⁵⁾	HKEX	0506	2.980	2.740	7,664.39	23.21	11.81	10.20	3.72	3.07	0.89
Danone S.A. ⁽⁶⁾	PAR	BN.PA	56.350	50.420	32,779.85	245.00	20.58	194.00	3.85	28.63	1.76
Peer average	-	-	-	-	-	-	15.74	-	4.10	-	1.08

SGX, HKEX and PAR refers to Singapore Exchange, Hong Kong Exchange and Paris Stock Exchange respectively

Figures have been rounded. NM: not meaningful

(1) As at 29 Oct 21

(2) 12-month trailing diluted EPS based on latest financial statements

(3) As at 30 Jun 22

(4) NAV as at 30 Sep 22

(5) Currency in HK\$

(6) Currency in EUR

Source: Respective company data, FPA Financial

(a) P/B Multiple

Based on the results in **Exhibit 46** above, we note that F&N is currently trading at a P/B multiple of 0.60x, which is lower than the peer average P/B of 1.08x, which may suggest that it is undervalued at the current share price of S\$1.270. Adopting a relative valuation approach, we estimate a target price of S\$2.279 if F&N were to trade at the peer average P/B multiple of 1.08x as follows:

➤ Estimated target price = [peer average P/B] x [F&N's NAV per share] = 1.08 x S\$2.11 = S\$2.279

The estimated target price of S\$2.279 would imply an upside potential of 79.45% from the current price of S\$1.270.

(b) P/E Multiple

Furthermore, based on the results in **Exhibit 40** on the previous page, we also note that F&N is currently trading at a P/E multiple of 14.77x, which is lower than the peer average P/E of 15.74x, which may suggest that it is undervalued at the current share price of S\$1.270. Similarly, adopting a relative valuation approach, we estimate a target price of S\$1.354 if F&N were to trade at the peer average P/E of 15.74x as follows:

- Estimated target price = [peer average P/E] x [F&N's EPS] = 15.74 x S\$0.086 = S\$1.354

The estimated target price of S\$1.354 would imply an upside potential of 6.61% from the current price of S\$1.270.

(c) Dividend Yield

In addition, based on the results in **Exhibit 40** on the previous page, we note that F&N's dividend yield of 3.94% is relatively less attractive than the peer average dividend yield of 4.10%. Adopting a relative valuation approach, we estimate a target price of S\$1.220 as follows:

- Estimated target price = [(F&N's dividend yield/ peer average dividend yield) x F&N's current price] = (3.94% / 4.10%) x S\$1.270 = S\$1.220

The estimated target price of S\$1.220 would imply a downside potential of 3.94% from the current price of S\$1.270.

(d) Estimated Target Price

Considering the above, F&N is currently undervalued compared to its peers in terms of P/B and P/E. However, F&N is less attractive in terms of dividend yield. Adopting a relative valuation approach, we estimate a target price of S\$2.279, S\$1.354 and S\$1.220 based on the peer average P/B, P/E and dividend yield comparison analysis respectively. By taking the average of our estimated target price, we derived a target price of S\$1.618 as follows:

- Estimated target price = [(Estimated target price from P/B analysis + Estimated target price from P/E analysis) + Estimated target price from dividend yield analysis / 3] = (S\$2.279 + S\$1.354 + S\$1.220) / 3 = S\$1.618

The estimated target price of S\$1.618 would imply an upside potential of 27.40% from the current price of S\$1.270.

(II) Analysis of Valuation Metrics For Listed Subsidiary and Associated Company

We performed a valuation analysis to review F&N's, its listed subsidiary's and associated company's market capitalization, P/B multiple and P/E multiple as shown in **Exhibit 41**.

Exhibit 41: Analysis for Listed Subsidiaries and Associated Companies

Company	Stock listing	Stock code	Price (\$) as at 4 January 2023	Market cap ⁽⁴⁾ (\$ million)	Market cap (\$ million)	EPS ⁽¹⁾ (\$)	P/E (x)	DPU (\$)	Dividend yield (%)	NAV per share ⁽²⁾ (S\$)	P/B (x)
Fraser and Neave, Limited	SGX	F99	1.270	1,846.01	1,846.01	8.60	14.77	5.00	3.94	2.110	0.60
Listed subsidiaries and associated companies:											
Fraser & Neave Holdings Bhd Group ⁽⁵⁾	MY	3689	21.580	7,905.44	2,409.34	104.50	20.65	60.00	2.78	8.13	2.65
Vinamilk ⁽⁶⁾	VN	VNM	78,500.000	164,061,502.43	9,843.69	377,800.00	20.78	380,725.00	4.85	16,193.830	4.85

MY and VN refers to Malaysia Stock Exchange and Vietnam Stock Exchange respectively

(1) 12-month trailing diluted EPS based on latest financial statements

(2) As at 31 Mar 21.

(3) As at 30 Sep 22

(4) Local currency

(5) Currency in MYR, listed in Malaysia and is a 55.5% subsidiary of F&N

(6) Currency in VND, listed in Vietnam and is a 20.4% associated company of F&N

Exchange rate: MYR:SGD (1 : 0.30477), VND:SGD (1 : 0.00006)

Source: Respective company data, WSJ, FPA Financial

Based on the results in **Exhibit 41**, we note that Fraser & Neave Holdings Bhd Group's (F&N BHD) and Vinamilk's market capitalisation of S\$2,409.34 million and S\$9,843.69 million respectively, are higher than F&N's market capitalisation of S\$1,846.01 million. We note that F&N has a 55.5% stake in F&N BHD and 20.4% stake in Vinamilk. Thus, the values of the investment as held by F&N for F&N BHD and Vinamilk would be S\$1,337.18 million and S\$2,008.11 million respectively as follows:

- F&N's value of investment of F&N BHD = 55.5% (equity stake) x S\$2,409.34 million (market capitalisation of F&N BHD) = S\$1,337.18 million
- F&N's value of investment of Vinamilk = 20.4% (equity stake) x S\$9,843.69 million (market capitalisation of Vinamilk) = S\$2,008.11 million

Given the above, the total value of investment in F&N BHD and Vinamilk would be about S\$3,345.30 million = S\$1,337.18 million (market capitalisation of F&N BHD) + S\$2,008.11 million (market capitalisation of Vinamilk). Taking into consideration F&N's estimated net borrowings of S\$735.5 million, as noted on page 19, the values of investment, net of borrowings is still S\$2,609.0 million as follows:

- F&N's total value of investment, net of borrowings = S\$3,345.30 million (total value of investment) - S\$735.5 million (estimated net borrowings) = S\$2,609.0 million

We note that net of borrowings, the total value of investment of S\$2,609.0 million is approximately S\$763.8 million higher than the market capitalisation of F&N of S\$1,846.01 million. In addition, considering F&N's issued number of shares of 1,453,549,775 and the total value of investment, net of borrowings of S\$2,609.0 million, the estimated target price would amount to S\$1.795 = [S\$2,609.0 million / 1,453,549,775]. The estimated target price of S\$1.795 would imply an upside potential of 41.34% from the current price of S\$1.270.

(III) Potential F&N Privatisation

We note that as at 1 December 2022, F&N's substantial shareholders, Charoen Sirivadhanabhakdi (Chairman) and Khunying Wanna Sirivadhanabhakdi (Vice-Chairman) are deemed to hold 87.41% stake in F&N, comprising of their deemed interest in TCC Assets Limited (59.03%) and InterBev Investment Limited (28.37%).

We also note that the Singapore Exchange (SGX) had seen an increasing trend of privatization offer during the past 2 years. In addition, F&N is currently trading at a 40% discount to its NAV per share of S\$2.11. Considering the above, we identify the possibility of a privatization offer for F&N by its substantial shareholders.

To estimate the potential takeover cost for F&N, we will consider privatization offers for SGX-listed companies over the past 2 years. The average price premium was 39.7% across the 21 privatization offers as shown in **Exhibit 42**.

Exhibit 42: Privatization offers for SGX-listed Companies

Target	Acquirer	Currency	Last transaction ⁽¹⁾		Offer price per share	Price premium ⁽²⁾
			Date	Price		
CEI	AEM Holdings Ltd	SGD	7-Jan-21	0.990	1.150	16.2%
GL Limited	Guoco Group Limited	SGD	14-Jan-21	0.560	0.800	42.9%
Jardine Strategic Holdings Limited	Jardine Matheson Holdings Limited	USD	7-Mar-21	27.450	33.000	20.2%
World Class Global Limited	Aspial Corporation Limited	SGD	11-Mar-21	0.099	0.210	112.1%
Singapore Reinsurance	Fairfax Asia Limited	SGD	17-Mar-21	0.300	0.354	17.8%
Sin Ghee Huat Corporation	HHH Co Pte. Ltd	SGD	20-Apr-21	0.215	0.270	25.6%
Top Global Limited	SW Investment Holding Pte Ltd	SGD	30-Apr-21	0.385	0.390	1.3%
Cheung Woh Technologies	Woh Seng Holdings Pte. Ltd	SGD	4-May-21	0.150	0.285	90.0%
Dutech Holdings	TSI Metals HK Limited	SGD	28-May-21	0.250	0.400	60.0%
Fragrance Group Limited	JK Global Treasures Pte Ltd	SGD	8-Jul-21	0.118	0.138	16.9%
SPH	Cuscaden Peak Pte Ltd	SGD	2-Aug-21	1.500	2.360	57.3%
Roxy-Pacific Holdings Limited	TKL & Family Pte Ltd	SGD	14-Sep-21	0.405	0.485	19.8%
SingHaiyi Group	Haiyi Treasure Pte. Ltd	SGD	8-Nov-21	0.108	0.117	8.3%
Koufu	Dominus Capital Pte. Ltd	SGD	28-Dec-21	0.665	0.770	15.7%
Singapore O&G Group	NewMedCo Group	SGD	7-Mar-22	0.255	0.295	15.7%
Hwa Hong Corporation Limited	Sanjuro United Pte. Ltd.	SGD	17-May-22	0.290	0.400	37.9%
T T J HOLDINGS LIMITED	THC Venture Pte. Ltd	SGD	20-May-22	0.169	0.230	36.1%
Frasers Hospitality Trust	Frasers Property	SGD	7-Apr-22	0.570	0.700	22.8%
GYP Properties Limited	Rumah & Co. Pte. Ltd.	SGD	8-Jul-22	0.149	0.200	34.2%
SP Corporation	Tuan Sing Holdings	SGD	20-Aug-22	0.590	1.590	169.5%
Singapore Medical Group Limited	TLW Success Pte. Ltd.	SGD	8-Sep-22	0.325	0.370	13.8%
Average						39.7%

⁽¹⁾ Refers to last transaction prior to takeover announcement

⁽²⁾ Refers to premium of offer price over last traded share price prior to takeover announcement

Source: Respective companies' announcements

In the case of F&N, as mentioned earlier, F&N's substantial shareholders, Charoen Sirivadhanabhakdi (Chairman) and Khunying Wanna Sirivadhanabhakdi (Vice-Chairman) hold approximately 87.41% stake in F&N, which means that it would need to acquire the remaining 12.59% to privatise the company. This equates to S\$232.41 million in market capitalisation at the current price of S\$1.270 = [12.59% x current market capitalisation of S\$1,846.01 million].

While we are not aware of any proposed privatisation plan, in the event that a privatisation was to happen, we projected 3 scenarios for the estimated acquisition cost with a price premium of 15.7%, 39.7% and 60.0% for scenario 1, 2 and 3 respectively. Scenario 1 represents the 25th percentile, scenario 2 represents the average and scenario 3 represents the 85th percentile of the 21 privatization offers. The estimated acquisition cost for scenario 1, 2 and 3 would be S\$269.0 million, S\$324.7 million and S\$371.9 million respectively as shown in **Exhibit 43**.

Our base scenario would be scenario 2. With a 39.7% average privatisation price premium, the estimated acquisition cost to privatise F&N would be approximately S\$1.775 per share which would be equivalent to a total cost of S\$324.7 million = [139.7% x 232.41 million] as shown in **Exhibit 43**.

Exhibit 43: Estimated Total Cost for the Potential F&N Privatisation

Scenario	Current share price (S\$)	Price premium	Estimated offer price per share (S\$)	Estimated total cost (S\$ million)
1	1.270	15.7%	1.470	269.0
2	1.270	39.7%	1.775	324.7
3	1.270	60.0%	2.032	371.9

Source: FPA Financial

(IV) Valuation Summary

The results from our peer comparison analysis suggest that F&N is currently undervalued compared to its peers in terms of P/B and P/E. However, F&N is less attractive in terms of dividend yield. Adopting a relative valuation approach, we estimate a target price of S\$2.279, S\$1.354 and S\$1.220 based on the peer average P/B, P/E and dividend yield comparison analysis respectively. By taking the average of our estimated target prices, we derived an estimated target price of S\$1.618 = [(S\$2.279 + S\$1.354 + S\$1.220) / 3].

Further, we note that F&N's total value of investments, net of borrowing of S\$2,609.0 million is approximately S\$763.8 million higher than the market capitalisation of F&N of S\$1,846.01 million. Based on this analysis, we believe that F&N could be undervalued. Considering F&N's issued number of shares of 1,453,549,775 and the total value of investment, net of borrowings of S\$2,609.0 million, the estimated target price would amount to S\$1.795 = [S\$2,609.0 million / 1,453,549,775].

Meanwhile, our base case is that F&N will continue to be publically listed. However, as F&N's Chairman and Vice-Chairman are deemed to hold 87.41% stake in the company, there is a possibility for F&N to be taken private. If F&N were to be privatized, we estimate a privatization offer price of S\$1.775 per share based on the average price premium of 39.7% across the 21 privatization offers for SGX-listed companies.

Considering the above, F&N is currently undervalued based on our peer comparison analysis and analysis of F&N's listed subsidiaries and associated companies. In an event of a privatisation offer, F&N could also be offered at a premium. By taking the average of our estimated target price of S\$1.618, S\$1.795 and S\$1.775 based on our peer comparison analysis, analysis of F&N's listed subsidiaries & associated companies and a potential privatisation offer respectively, we derived an estimated target price of S\$1.729 [(S\$1.618 + S\$1.795 + S\$1.995) / 3]. Accordingly, our estimated target price of S\$1.729 implies a potential upside of 36.14%.

INVESTMENT RECOMMENDATION

Based on F&N's reported book value of S\$2.11 as at 30 September 2022, it currently has a P/B of 0.60x and is trading at a discount of approximately 40% to NAV. Meanwhile, our peer comparison analysis results show that F&N's P/B of 0.60x is below the peer average P/B of 1.08x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S\$2.279 if F&N were to trade at its peer average P/B of 1.08x.

At the same time, based on F&N's trailing 12 months earnings of 8.60 cents as at 30 September 2022, it currently has a P/E of 14.77x. Our peer comparison analysis results show that F&N's P/E of 14.77x is lower than the peer average P/E of 15.74x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S\$1.354 if F&N were to trade at its peer average P/E of 15.74x.

However, our peer comparison analysis results also show that F&N's dividend yield of 3.94% is relatively less attractive than the peer average dividend yield of 4.10%. Adopting a relative valuation approach, we estimate a target price of S\$1.220.

By calculating the average of our estimated target price based on the P/B, P/E and dividend yield peer comparison analysis, we derived a target price of S\$1.618 = $[(S\$2.279 + S\$1.354 + S\$1.220) / 3]$.

Our analysis of F&N's listed subsidiaries and associated companies also support our view that F&N is undervalued. Considering F&N's issued number of shares of 1,453,549,775 and the total value of investment, net of borrowings of S\$2,609.0 million, the estimated target price would amount to S\$1.795 = $[S\$2,609.0 \text{ million} / 1,453,549,775]$.

In addition, while we note that there is no indication of a privatisation of F&N, our base scenario estimates a privatisation offer of S\$1.775 per share, representing a price premium of 39.7%.

Taken together, F&N is currently undervalued based on our peer comparison analysis and analysis of F&N's listed subsidiaries and associated companies. In an event of a privatisation offer, F&N could also be offered at a premium. By taking the average of our estimated target price of S\$1.618, S\$1.795 and S\$1.775 based on our peer comparison analysis, analysis of F&N's listed subsidiaries & associated companies and a potential privatisation offer respectively, we derived an estimated target price of S\$1.729 $[(S\$1.618 + S\$1.795 + S\$1.995) / 3]$.

In terms of financials, significant recovery in FY2022 has helped F&N record a 6.6% yoy increase in revenue. However, the Ukraine war and supply chain bottlenecks weighed on input cost causing a 9.5% yoy decrease in profit after that. However, with the acceleration in the reopening of borders, the consumption of consumer staples would increase, and we expect F&N's financial to improve. Further, there are also potential catalyst for F&N such as its acquisition of Ladang Permai Damai and Cocoaland, which will underpin revenue and profit growth.

Considering the above, we will maintain our buy recommendation on F&N. Our target price of S\$1.729 implies a potential upside of 36.14% from the current share price of S\$1.270. However, there are still risks to our target price which we will highlight in the next section.

RISKS TO THE TARGET PRICE

In this section, we highlight below risk factors that may limit the potential upside in F&N's target price.

(I) Currency Risk

We note that F&N has exposure to foreign exchange risk with respect to Australian Dollar, United States Dollar (USD), Hong Kong Dollar, Euro Dollar and Malaysian Ringgit as a result of transactions denominated in foreign currencies, arising from normal trading and investment activities. Where exposures are certain, it is F&N's policy to hedge these risks as they arise. For those exposures less certain in their timing and extent, it is F&N's policy to cover 50% to 90% of anticipated exposures for a maximum period of 12 months forward. F&N uses foreign currency forward exchange contracts to manage these foreign exchange risks as shown in **Exhibit 44**.

Exhibit 44: F&N's Major Foreign Currencies Exposure

[\$\$'000]	For year ended 30 Sep 2022				
	Australian Dollar	United States Dollar	Hong Kong Dollar	Euro Dollar	Malaysian Ringgit
Other investments	-	-	4,551	-	-
Receivables	2,045	41,282	-	56	18,587
Cash and bank deposits	2,926	21,899	755	-	17,371
Payables	(4,630)	(37,253)	(9)	(3,662)	(22,353)
Borrowings	-	(17,165)	-	-	-
Net statement of financial position exposure	341	8,763	5,297	(3,606)	13,605
Forward exchange contracts	11,622	3,662	-	-	(7,082)
Net exposure	11,963	12,425	5,297	(3,606)	6,523

Source: Fraser and Neave, Limited

(II) Weak Global Economic Recovery

After a tentative recovery in 2021, increasingly gloomy developments in 2022 began to materialise. Global output fell in the second quarter of this year as a result of declines in China and Russia. A number of upsets have hit an already fragile global economy, including higher-than-anticipated global inflation, especially in the US and major European economies, tighter financial conditions, a worse-than-anticipated slowdown in China due to COVID-19 outbreaks and lockdowns, and more negative effects from the conflict in Ukraine. In its latest World Economic Outlook, the International Monetary Fund (IMF) projects the global economy to grow by 3.2% in 2022, slower than the 6.0% in 2021 and 0.4 percentage points lower than its April's forecast. For 2023, IMF projects global economy to grow by 2.7%, slower than the 3.2% projected in 2022 and 0.9 percentage points lower than its April forecast.

Further, high uncertainties also surround this outlook as risks are heavily skewed to the downside. If labor markets are tighter than expected or inflation expectations unanchor, inflation may be harder to control than expected. Debt distress in developing and emerging market economies may result from tighter international financial conditions. In addition, geopolitical fragmentation could also prevent international cooperation and trade from progressing. Given this, it is possible that inflation will rise even more, global growth will continue to slow down, and this will hinder the recovery of the world economy. This could weigh on the performance of F&N's earnings performance going forward.

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