

## CONSUMER STAPLES EQUITY RESEARCH

## PRICE PERFORMANCE

## Fraser and Neave, Limited

SGX: F99

Bloomberg: FNN:SP

ISIN code: SG1T58930911

Country: Singapore

Industry: Consumer Staples, Food and Beverages

29 October 2021

**RECOMMENDATION: BUY**

Current price: S\$1.450

Target price: S\$2.861

Issued units: 1,451.84 million (31 March 21)

Market capitalisation: S\$2,105.16million

52-week range: S\$1.150 - S\$1.580



## COMPANY DESCRIPTION

Fraser and Neave, Limited and its subsidiaries (collectively defined herein as F&N) is principally engaged in the food & beverage and printing & publishing business. F&N'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

F&N posted first half 2021 (1H2021) revenue of S\$988.6 million, an increase of 2.0% from S\$969.4 million over the same corresponding period of 1H2020. During the period, profit before interest and taxation (PBIT) increased by 8.0% to S\$153.3 million from S\$141.9 million in 1H2020, while after-tax profit rose by 11.5% to S\$117.7 million, from S\$105.6 million. The higher after-tax growth was due to lower effective tax rate of 16.3% in 1H2021, from 19.6% in the previous period, due to higher tax-exempt profits and write-back of prior years' tax liabilities. Consequently, profit attributable to shareholders of the company amounted to S\$82.4 million for the first half of 2021, translating to an earnings per share of 5.8 cents. Meanwhile, F&N has declared an interim dividend of 1.5 cents per share, unchanged from the interim dividend declared a year ago.

## RECOMMENDATION

Based on F&N's reported NAV per share of S\$2.04 and trailing 12 months earnings per share of 11.20 cents as at 31 March 2021, the share is currently trading at a P/B of 0.71x and P/E of 12.95x. Our peer comparison results show that F&N could be undervalued given its lower P/B and P/E compared to its peer average P/B of 1.79x and peer average P/E of 18.47x. Adopting a relative valuation approach, we estimate a target price of S\$3.652 and S\$2.069 if F&N were to trade at its peer average P/B and P/E multiples respectively. By taking the average of the estimated target price of S\$3.652 and S\$2.069, we derived an estimated target price of S\$2.861. This target price is a 97.31% upside from the current share price of S\$1.450. We believe this upside could be justified by potential recovery in F&N's earnings as supported by the positive outlook of F&N's core market and the global economy. Given the above, we believe a buy recommendation is warranted on F&N.

## KEY FINANCIALS

Year ended Dec 31	Revenue (S\$ million)	Profit* (S\$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per unit (S\$)	P/B (x)
2019 actual	1,902.3	152.4	10.60	13.68	5.50	3.8%	2.02	0.72
2020 actual	1,833.5	149.2	10.40	13.94	5.00	3.4%	2.05	0.71
<b>2021 forecast</b>	1,945.7	142.4	9.82	14.77	5.00	3.4%	2.04**	0.71
<b>2022 forecast</b>	2,038.6	149.5	10.31	14.06	5.00	3.4%		

NM: not meaningful

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S\$1.450

\*Profit attributable to shareholders of the Company

\*\* Reported NAV as at 31 March 2021

Source: Fraser and Neave, Limited, FPA Financial

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## COMPANY OVERVIEW

In this section, we will discuss F&N's corporate profile, shareholders of the company overview of its portfolio and its corporate structure.

### (I) Corporate profile

F&N was established in Singapore in 1883 as a partnership under the name The Singapore and Straits Aerated Water Co. In 1931, F&N founded Asia Pacific Breweries Ltd (APBL) as a joint venture with Heineken NV. F&N ventured into the dairy business in 1959 with the construction of a sweetened condensed milk plant in Malaysia. Its dairy operations in Singapore commenced in 1968. F&N subsequently extended its dairy operations to Vietnam and Thailand. In 2000, F&N launched a successful general offer for Times Publishing Ltd (TPL) which is involved in publishing, commercial printing, direct sales and distribution and retailing of books, partworks, directories, magazines, recorded audio and video tapes, hi-fi accessories and storage devices, the provision of educational services and organisation of conferences & exhibitions. Today, it ranks amongst Southeast Asia's leading companies and its core businesses are the production and sale of soft drinks, beer & stout, dairy products and publishing and printing.

As at 31 March 2021, F&N had approximately total assets of S\$4.8 billion and equity attributable to shareholders of S\$3.0 billion.

### (II) Shareholders of the company

As at 3 December 2020, TCC Assets Limited is F&N's largest substantial shareholder with 59.17% stake, followed by InterBev Investment Limited with 28.44% stake as shown in **Exhibit 1**. According to F&N's records, as at 3 December 2020, approximately 12% of the issued shares of F&N are held in the hands of the public.

#### **Exhibit 1: F&N's Register of Substantial Shareholders**

Shareholders	Type	Percentage of shares held <sup>(1)</sup>
TCC Assets Limited	Corporation	59.17%
InterBev Investment Limited	Corporation	28.44%

<sup>(1)</sup> Based on the no. of issued shares as at 03.12.20

Source: Fraser and Neave, Limited

Charoen Sirivadhanabhakdi, the Chairman and his spouse, Khunying Wanna Sirivadhanabhakdi the Vice-Chairman own 50% of the issued share capital of TCC Assets Limited ("TCCA") and are therefore deemed to be interested in all the shares of F&N in which TCCA has an interest. They are also deemed to have an interest in shares held by InterBev Investment Limited.

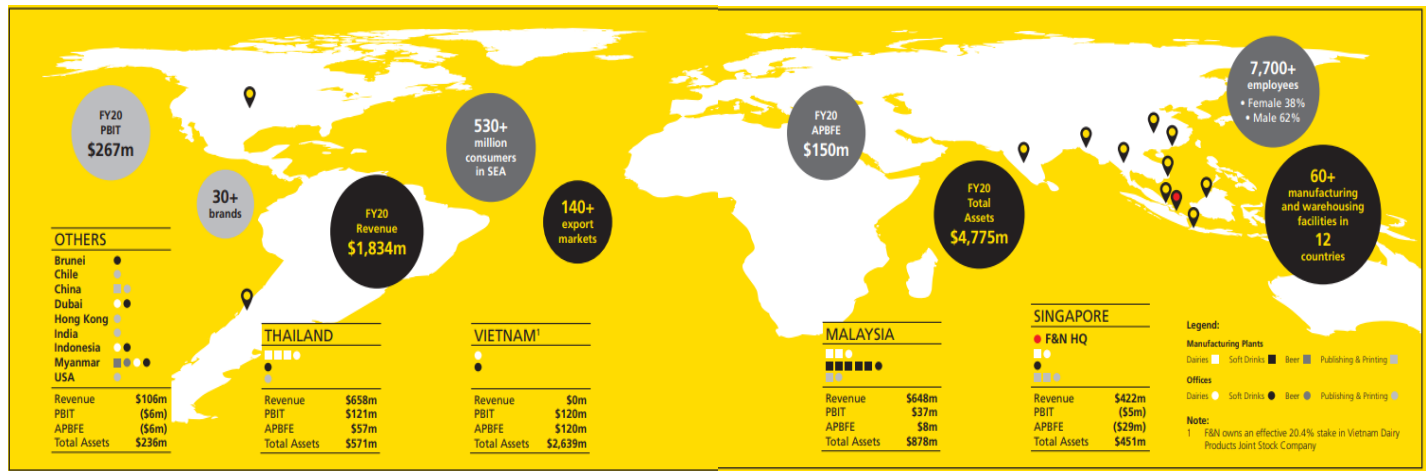
As at 3 December 2020, both Charoen Sirivadhanabhakdi and Khunying Wanna Sirivadhanabhakdi are deemed to hold a total of 1,270,503,884 shares, representing 87.62% stake in F&N.

**(III) Overview of F&N's portfolio**

F&N is a leading Southeast Asian consumer group with expertise and prominent standing in the Food & Beverage and Publishing & Printing industries.

As at 28 December 2020, F&N is present in 12 countries spanning Asia Pacific, Europe and the USA, and employs over 7,700 people worldwide as shown in **Exhibit 2**.

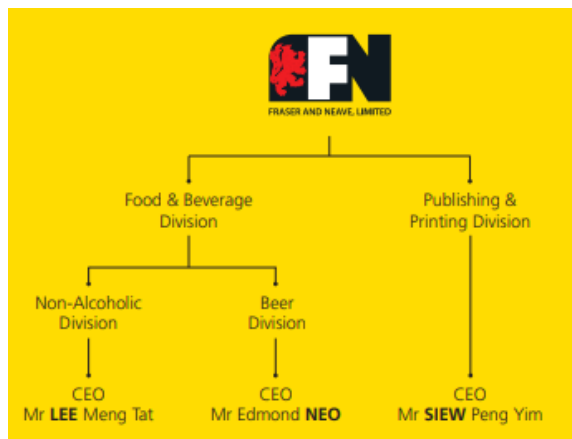
**Exhibit 2: F&N's Global Portfolio (as at 28 December 2020)**



Source: Fraser and Neave, Limited

F&N operates its business mainly through two divisions: Food & Beverage and Publishing & Printing. The Food & Beverage division comprises 2 subdivisions, mainly Non-Alcoholic division and Beer division. The Non-Alcoholic, Beer and Publishing & Printing division are led by their respective CEOs as shown in **Exhibit 3**.

**Exhibit 3: Chief Executive Officers of F&N**



Source: Fraser and Neave, Limited

**(IV) Corporate Structure**Beverages & Dairies

This segment comprises the businesses upon which F&N was founded. Established in 1883, F&N today holds market leading positions in a range of categories within the food & beverage market in Singapore, Malaysia and Thailand. Some of F&N's leading brands are 100PLUS, F&N SEASONS, F&N MAGNOLIA and F&N. F&N is also licensed by Nestle S.A., Sunkist Growers and ThaiBev to use the Carnation and Bear Brand, Sunkist, Oishi and Chang beer brands, respectively. Its key subsidiaries and associated company for the Beverages & Dairies segment are shown in **Exhibit 4**.

**Exhibit 4: Key Operating Units of Beverages & Dairies segment**

Beverages & Dairies	Effective Shareholdings
<b>Subsidiary companies</b>	
F&N Food Pte Ltd	100.0%
F&N Creameries Group	100.0%
Warburg Group	100.0%
Yoke Food Industries	100.0%
Emerald Brewery Myanmar	80.0%
Fraser & Neave Holdings Bhd Group	55.5%
<b>Associated company</b>	
Vietnam Dairy products Joint Stock Company (Vinamilk)	20.4%

Source: Fraser and Neave, Limited

Publishing & Printing

F&N mainly operates its Publishing & Printing business through its 100.0% subsidiary, Times Publishing Group. The Group has a global network of publishing offices, printing plants, retail outlets, distributors, direct sales teams and value-added suppliers worldwide. Its diverse publishing, printing, distribution and retail businesses are based on the Total Service Concept, spanning conceptualisation to consumption.

Others

In addition to focusing on its core businesses, F&N also seeks to develop other strategic investment projects to enhance income stream and maximise shareholder value. These investments add to F&N's key competitive advantage. The key operating units of this segment are summarised in **Exhibit 5**.

**Exhibit 5: Key Operating Units of Others segment**

Others	Effective Shareholdings
<b>Joint venture companies</b>	
F&N Retail Connection Co., Ltd	74.0%
F&N international Holdings Co., Ltd	49.0%
<b>Associated company</b>	
Cocoaland Holdings Berhad <sup>(1)</sup>	15.1%

<sup>(1)</sup> Held under Fraser and Neave Holdings Bhd

Source: Fraser and Neave, Limited

**(V) Analysis of F&N's Listed Subsidiary and Associated Company****Fraser and Neave Holdings BHD (F&N BHD)**

We note that in FY2010, F&N had a direct interest of 203,556,310 shares, representing a 56.79% stake in F&N BHD. After the pursuant to the exercise of share option by the employees of F&N in FY2011 and FY2012, F&N's stake in F&N BHD fell from 56.79% in FY2010 to 56.01% in FY2012. From FY2012 to FY2020, there has been no changes to the number of shares held by F&N. However, the total number of outstanding shares issued by F&N BHD increased from 363,241,001 in FY2013 to 366,541,401 in FY2014 and to 366,778,501 in FY2018. As a result, F&N's stake in F&N BHD fell from 56.01% in FY2013 to 55.51% in FY2014 and to 55.48% in FY2018. Thereafter, F&N's stake in F&N BHD maintained at 55.48% in FY2020 as shown in **Exhibit 6**.

**Exhibit 6: F&N's Shareholdings in F&N BHD**

	No. of outstanding shares <sup>(1)</sup>	Change in substantial interest			After transaction	
		Details	Shares	%	Shares	%
<b>FY2010</b>						
30-Nov	358,431,001				203,556,310	56.79%
<b>FY2011</b>						
30-Nov	360,576,001	Exercise of share options	79,400	0.36%	203,476,910	56.43%
<b>FY2012</b>						
30-Nov	363,241,001	Exercise of share options	6,000	0.42%	203,470,910	56.01%
<b>FY2013</b>						
30-Nov	363,241,001	No change			203,470,910	56.01%
<b>FY2014</b>						
30-Nov	366,541,401	No change			203,470,910	55.51%
<b>FY2015</b>						
30-Nov	366,541,401	No change			203,470,910	55.51%
<b>FY2016</b>						
30-Nov	366,541,401	No change			203,470,910	55.51%
<b>FY2017</b>						
30-Nov	366,541,401	No change			203,470,910	55.51%
<b>FY2018</b>						
30-Nov	366,778,501	No change			203,470,910	55.48%
<b>FY2019</b>						
30-Nov	366,778,501	No change			203,470,910	55.48%
<b>FY2020</b>						
30-Nov	366,778,501	No change			203,470,910	55.48%

<sup>(1)</sup> Based on F&N BHD's annual report of each respective years

Source: Fraser and Neave Holdings BHD

Vinamilk

F&N had successfully increased its stake in Vinamilk from 10.95% in FY2016 to 18.74% in FY2017. On 10 August 2018, Vinamilk announced a 20% bonus share issue on its outstanding shares. As a result, F&N's total shares in Vinamilk increased to 348,523,363 [=120% x 290,436,136] in FY2018 and its stake in Vinamilk remained at 20.1% as at 10 August 2018. Thereafter, through further purchases from the market, F&N continued to increase its stake in Vinamilk, to 20.4% as at 30 September 2020 (FY2020). We estimated the consideration paid based on the closing price of Vinamilk at the transaction date and the exchange rate of VNDUSD of 0.000059 as at 25.10.21. Consequently, we estimate a total cost of investment of S\$1,098.2 million over the period from FY2017 to FY2020 as shown in **Exhibit 7**.

**Exhibit 7: F&N's Shareholdings in Vinamilk**

	Before transaction		Acquired		After transaction		Consideration Paid (S\$ million) <sup>(1)</sup>
	Shares	%	Shares	%	Shares	%	
<b>FY2017</b>							
7-Dec-16	158,988,933	10.95%	78,378,300	5.40%	237,367,233	16.35%	709.00 <sup>(2)</sup>
25-Jan-17	237,367,233	16.35%	16,507,540	1.14%	253,874,773	17.49%	87.82
7-Mar-17	253,874,773	17.49%	4,109,710	0.28%	257,984,483	17.77%	22.03
7-Apr-17	257,984,483	17.77%	8,927,915	0.62%	266,912,398	18.39%	52.50
11-May-17	266,912,398	18.39%	5,024,460	0.35%	271,936,858	18.74%	29.95
<b>FY2018</b>							
5-Dec-17	271,936,858	18.74%	4,739,540	0.32%	276,676,398	19.06%	38.86
5-Jan-18	276,676,398	19.06%	1,975,900	0.14%	278,652,298	19.20%	17.39
8-Feb-18	278,652,298	19.20%	4,339,830	0.30%	282,992,128	19.50%	35.24
22-Mar-18	282,992,128	19.50%	6,608,928	0.46%	289,601,056	19.96%	56.90
24-Apr-18	289,601,056	19.96%	705,080	0.04%	290,306,136	20.00%	5.23
31-May-18	290,306,136	20.00%	130,000	0.01%	290,436,136	20.01%	0.89
10-Aug-18	Disclosure of 20% bonus share issue to existing shareholders				348,523,363	20.01%	-
<b>FY2020</b>							
Feb-Mar-20	348,523,363	20.01%	6,631,000	0.39%	355,154,363	20.40%	42.34 <sup>(2)</sup>
<b>Total cost of investment</b>							<b>1,098.15</b>

<sup>(1)</sup> Estimated based on closing price of the transaction date and exchange rate of VNDUSD of 0.000059 as at 25.10.2021

<sup>(2)</sup> Obtained from company announcement

Source: Vinamilk, Fraser and Neave, Limited, FPA Financial



## GEOGRAPHICAL OUTLOOK

We will focus our 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 8**. Further, we will also focus on Vietnam, whereby F&N's investment in Vinamilk contributed approximately 45% of F&N's profit in FY2020.

### Exhibit 8: Historical Revenue Breakdown Based on Geographical Segment

Geographical Segment	2019		2020		1H2021	
	S\$`000	% of total	S\$`000	% of total	S\$`000	% of total
Singapore	451,238	24%	421,353	23%	216,059	22%
Malaysia	708,314	37%	648,209	35%	357,607	36%
Thailand	649,562	34%	658,109	36%	351,336	36%
Vietnam	115	0%	106	0%	48	0%
Others <sup>(1)</sup>	93,108	5%	105,724	6%	63,510	6%
<b>Total</b>	<b>1,902,337</b>	<b>100%</b>	<b>1,833,501</b>	<b>100%</b>	<b>988,560</b>	<b>100%</b>

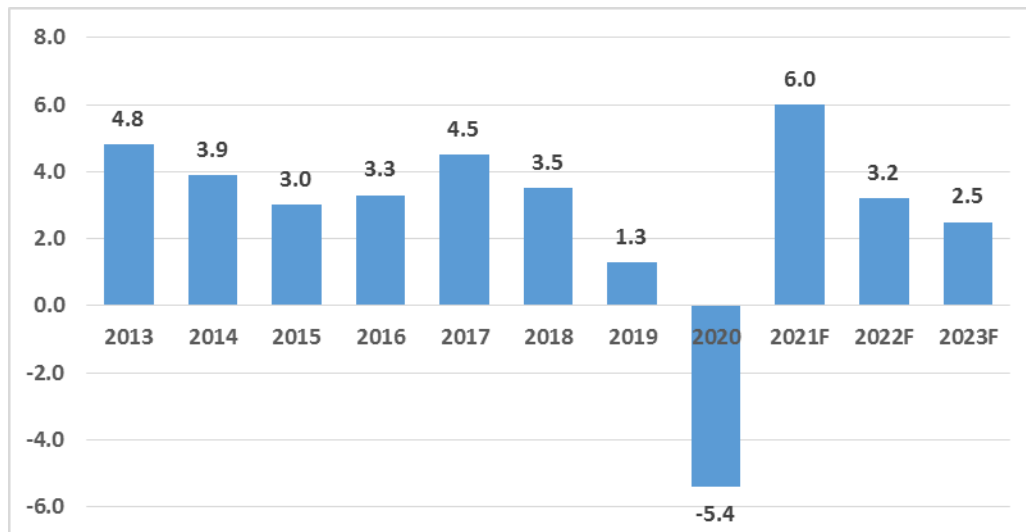
<sup>(1)</sup> Includes Myanmar, Brunei, Indonesia, China, India, Australia, Europe and USA

Source: Fraser and Neave, Limited

### (I) Singapore

According to the Singapore's Ministry of Trade and Industry (MTI), Singapore's economy grew by 6.5% yoy in the third quarter of 2021, moderating from the 15.2% yoy growth in the previous quarter. Despite the slower pace of growth, Singapore is still on track to meet the government's GDP growth forecast of 6% to 7% in 2021. In its latest World Economic Outlook (October), the International Monetary Fund (IMF) projects Singapore's economy to grow by 6.0% in 2021 and 3.2% in 2022 as shown in **Exhibit 9**. The stable economic growth would provide F&N opportunities to expand their footprint in this region.

### Exhibit 9: IMF's Singapore GDP Forecast

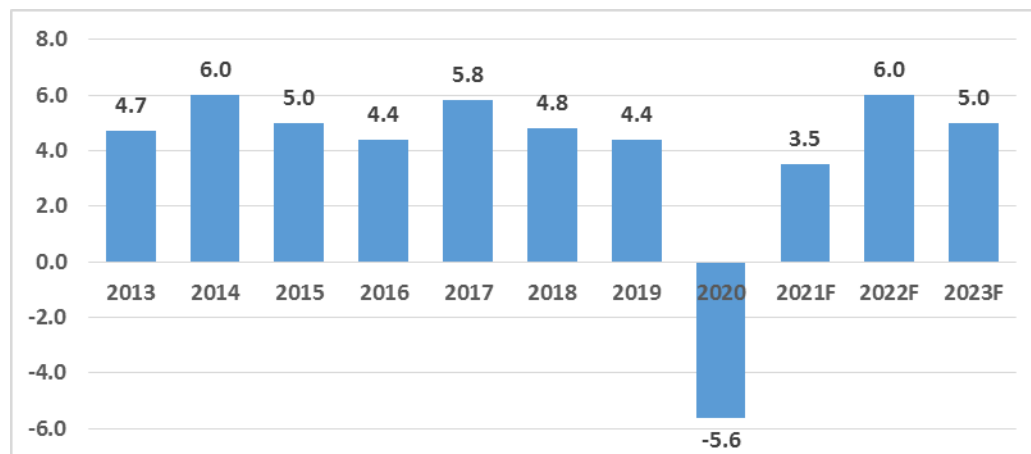


Source: IMF



**(II) Malaysia**

The Prime Minister of Malaysia, recently announced that his government has set a target of growing Malaysia's economy between 4.5% and 5.5% a year. He also outlined under the 12th Malaysia Plan (12MP) that the government is optimistic of reaching an average monthly household income of RM10,000 by 2025. The development expenditure allocation for 12MP is valued at RM400 billion, which will further stimulate the economic recovery. IMF projects Malaysia's GDP to grow by 3.5% in 2021 followed by a 6.0% growth in 2022 as shown in **Exhibit 10**.

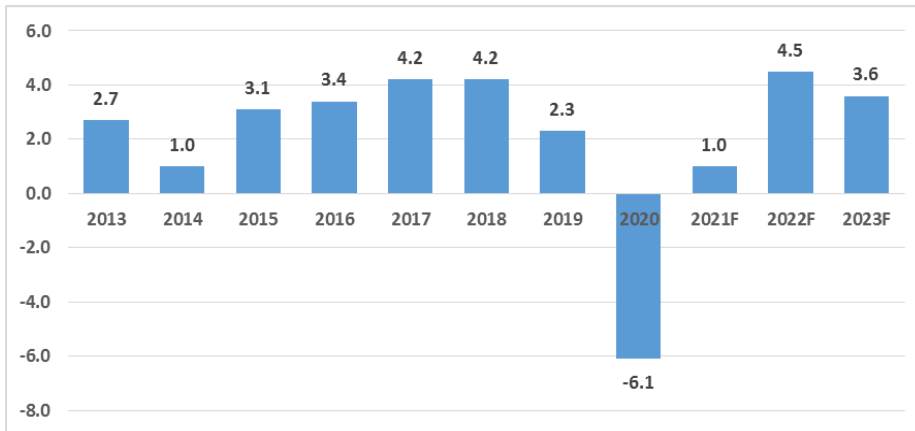
**Exhibit 10: IMF's Malaysia GDP Forecast**

Source: IMF

Furthermore, Malaysia also allowed interstate and international travel since 11 October 2021, after more than 90% of adults across the country were fully vaccinated. Covid-19 cases in Malaysia have also been on a downward trend, with daily numbers logging below 10,000 since 3 October 2021. The improvement in the Covid-19 situation, the reopening of borders and the loosening of restrictions would improve consumer sentiment and benefit F&N's on-trade sales going forward.

**(III) Thailand**

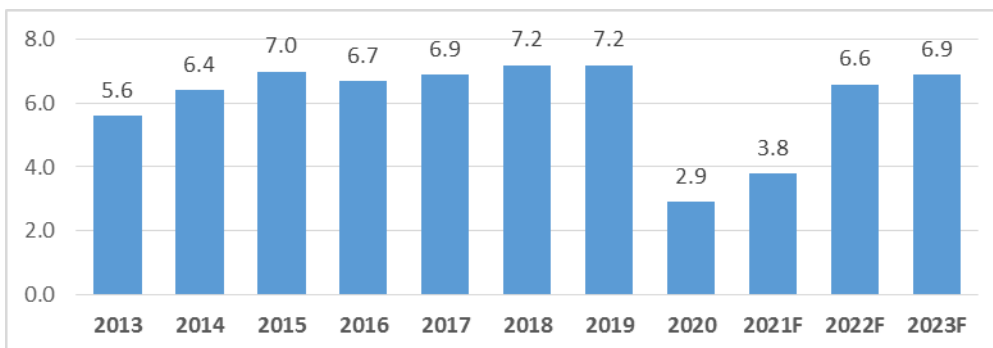
In Thailand, the surge in Covid-19 cases in July and August this year has led to tougher restrictions imposed to contain the spread of the virus. Those curbs and travel restrictions have since been eased and its authorities have allowed more provincial traveling and the reopening of shopping malls, aiming to revive the economy. Further, it was recently reported that Thailand plans to fully re-open its border to vaccinated tourists from countries deemed low risk from 1 November 2021. The reopening of borders would help stimulate Thailand's economic activity and boost consumption and may result in higher sales revenue for F&N. The IMF projects Thailand's GDP growth to rebound from the 6.1% contraction in 2020 to a 1.0% growth in 2021 and a 4.5% growth in 2022 as shown in **Exhibit 11** on the next page. The reopening of borders and the slightly positive outlook would most likely increase the demand for beverages and dairies, and in turn benefiting F&N.

**Exhibit 11: IMF's Thailand GDP Forecast**

Source: IMF

**(IV) Vietnam**

According to Vietnam's General Statistics Office, Vietnam's GDP contracted by 6.17% yoy in Q3 2021 compared to the same period a year ago. Overall, GDP in nine months of 2021 increased by 1.42% yoy over the same period last year due to the Covid-19 pandemic affecting all sectors of the economy and many key economic localities had to implement social distancing for a long time to prevent disease. Financial Times (FT) recently reported that Vietnam would abandon its "Zero-Covid Strategy" and would instead pursue a "new normal" policy of aiming to contain the disease. Despite the slowdown in growth reported in September, the IMF projects Vietnam GDP to grow by 3.8% in 2021 and 6.6% in 2022 in its October World Economic Outlook as shown in **Exhibit 12**. We believe the optimism could be due to its government's decision to exit its "Zero-Covid Strategy" and adopting a more flexible approach. It is reasonable to believe that the economy would start recovering with the easing of constraints on movement, factory work and other activities in Vietnam's business capital. We believe that F&N would be able to benefit from the recovery of Vietnam's economy with its investment in Vinamilk.

**Exhibit 12: IMF's Vietnam GDP Forecast**

Source: IMF

## RECENT SHARE PRICE DEVELOPMENT

In 2021 year to date (YTD), F&N's share price was trading between S\$1.380 and S\$1.580. In early January, F&N's share price reached its 52-weeks high of S\$1.580. The company announced in December 2020 that it had proposed to acquire approximately 55.5% stake in Sri Nona Group for cash consideration of RM60 million (S\$19 million), to strengthen its Halal positioning in Malaysia. F&N updated on 18 January 2021 that it had completed the acquisition of shares in Sri Nona Group. We believe the surge in share price appears to be in line with optimism linking to the announcement of this acquisition which would allow F&N to establish itself as a beverage leader, with Halal food as its new pillar of growth.

In March, F&N's share price declined to S\$1.380 after reaching its high in January, amid the announcement of its 1Q2021 voluntary business update which saw all of F&N's core markets recording sales decline, mainly due to the Covid-19 pandemic. Despite the decrease in sales, F&N reported an increase in net profit by 13.7%, on the back of improved savings generated from cost-cutting measures.

Since May, F&N's share price has remained relatively stable, trading between S\$1.400 and S\$1.500. During this period, F&N announced its half yearly results on 10 May 2021 and provided a business update for 9M 2021 on 5 August 2021. Both the announcements showed that F&N had proven to be resilient despite the challenges of Covid-19 as the company reported growth in revenue and net profit for both periods. F&N also declared an interim dividend of 1.5 cents per share on 10 May 2021.

## FINANCIAL ANALYSIS

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

### (I) Financial review

#### Review of Half Year 2021 Results

For the half year ended 31 March 2021 (1H2021), F&N reported a 2.0% year-on-year (yoy) increase in revenue to S\$985.6 million as shown in **Exhibit 13**.

#### Exhibit 13: Revenue for 1H2021 and 1H2020

S\$'000	1H 2021	1H 2020	y-o-y change
Revenue	988,560	969,443	2.0%

Source: Fraser and Neave, Limited

We conducted a further review of F&N's revenue based on its geographical breakdown and noted Singapore, Malaysia and Thailand remained the core markets that contribute to F&N revenue. Together, the three markets contributed approximately 94% of F&N's revenue in the first half of 2021 as shown in **Exhibit 14**.

#### Exhibit 14: Geographical Breakdown of F&N's Revenue

S\$'000	1H2021		1H2020		y-o-y change
	Revenue	Contribution (%)	1H 2020	Contribution (%)	
Singapore	216,059	22%	220,523	23%	-2.0%
Malaysia	357,607	36%	347,848	36%	2.8%
Thailand	351,336	36%	350,576	36%	0.2%
Vietnam	48	0%	56	0%	-14.3%
Others <sup>(1)</sup>	63,510	6%	50,440	5%	25.9%
<b>Total</b>	<b>988,560</b>	<b>100%</b>	<b>969,443</b>	<b>100%</b>	<b>2.0%</b>

<sup>(2)</sup> Includes Myanmar, Brunei, Indonesia, China, India, Australia, Europe and USA

Source: Fraser and Neave, Limited

With reference to **Exhibit 14**, the core markets of Malaysia and Thailand recorded growth of 2.8% and 0.2% yoy respectively in 1H2021. In Malaysia, strong domestic and export of canned milk volumes lifted revenue, which was offset by weaker Soft Drink volumes due to subdued trade sentiment. The recovery of domestic canned milk sales and strong export volumes supported Dairies Thailand's growth. Meanwhile, Singapore's revenue contribution fell by 2.0% in 1H2021 as lower general trade and food services sales, as a result of reduced footfall and outlet closures impacted Dairies Singapore.

According to its voluntary business update on 5 August 2021 for nine months ended June 2021 (9M2021), F&N's revenue increased by 5.8% to S\$1,460.4 million from S\$1,380.4 million the same period a year ago. During the period, all markets recorded growth. Malaysia and Thailand remained the largest revenue contributor at 36%, followed by Singapore at 22% and Others at 6% as shown in **Exhibit 15**.

#### **Exhibit 15: F&N Revenue for 9M2021 and 9M2020**

(S\$' million)	9M2021		9M2020		y-o-y change
	Revenue <sup>(1)</sup>	Contribution (%)	Revenue <sup>(1)</sup>	Contribution (%)	
Singapore	321.29	22%	317.49	23%	1.2%
Malaysia	525.74	36%	496.94	36%	5.8%
Thailand	525.74	36%	496.94	36%	5.8%
Others <sup>(2)</sup>	87.62	6%	69.02	5%	27.0%
<b>Total</b>	<b>1,460.4</b>	<b>100%</b>	<b>1,380.4</b>	<b>100%</b>	<b>5.8%</b>

<sup>(1)</sup> Estimated based on contribution (%)

<sup>(2)</sup> Includes Vietnam, Myanmar, Brunei, Indonesia, China, India, Australia, Europe and USA

Source: Fraser and Neave, Limited, FPA Financial

For the first nine months of FY2021, higher canned milk sales in Malaysia and strong export volumes lifted revenue. The recovery of domestic canned milk sales and higher export volumes supported Dairies Thailand's growth. Meanwhile, distribution of functional products and improvement in vending operations in Singapore also lifted revenue.

#### Cost of sales

We also note that the cost of sales increased by 2.9% yoy from S\$650.4 million in 1H2020 to S\$669.1 million in 1H2021 as shown in **Exhibit 16**. This is mainly attributable to higher sales revenue generated in first half of 2021 as highlighted in the previous page.

#### **Exhibit 16: F&N's Cost of Sales for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Cost of sales	(669,146)	(650,351)	2.9%

Source: Fraser and Neave, Limited

#### Gross profit

In 1H2021, F&N reported a gross profit of S\$319.4 million, a 0.1% yoy increase from S\$319.1 million from a year ago. Gross profit margin decreased slightly from 32.9% in 1H2020 to 32.3% in 1H2021 as shown in **Exhibit 17**.

#### **Exhibit 17: F&N's Gross Profit for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Revenue	988,560	969,443	2.0%
Cost of sales	(669,146)	(650,351)	2.9%
<b>Gross Profit</b>	<b>319,414</b>	<b>319,092</b>	<b>0.1%</b>
Gross Profit Margin	32.31%	32.91%	NM

NM: Not meaningful

Source: Fraser and Neave, Limited

Other income

Other income increased by 85.6% yoy from S\$5.2 million in 1H2020 to S\$9.6 million in 1H2021 as shown in **Exhibit 18**. Notable items under Other income includes wage and other subsidies, management and support services, sale of scrap items and gain/loss on disposal of fixed assets and foreign exchange.

**Exhibit 18: F&N's Other Income for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Other income (net)	9,578	5,160	85.6%

Source: Fraser and Neave, Limited

Total operating expenses

In 1H2021, F&N's total operating expense decreased by 5.5% yoy to S\$226.0 million from S\$239.0 million in the corresponding period last year. All three components recorded decreases in expenses with marketing expense recording the largest decrease of 10.1% as shown in **Exhibit 19**.

**Exhibit 19: F&N's Total Operating Expense for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Distribution	(84,414)	(85,608)	-1.4%
Marketing	(78,571)	(87,363)	-10.1%
Administration	(63,023)	(66,072)	-4.6%
<b>Total operating expense</b>	<b>(226,008)</b>	<b>(239,043)</b>	<b>-5.5%</b>

Source: Fraser and Neave, Limited

We would like to note that Depreciation & Amortisation expenses are included in the total operating expense and it amounted to S\$45.7 million in 1H2021, an increase of 3.6% yoy from S\$44.1 million in 1H2020.

Consequently, trading profit amounted to S\$103.0 million, an increase of 20.9% yoy as shown in **Exhibit 20**.

**Exhibit 20: F&N's Trading Profit for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Revenue	988,560	969,443	2.0%
Cost of sales	(669,146)	(650,351)	2.9%
<b>Gross profit</b>	<b>319,414</b>	<b>319,092</b>	<b>0.1%</b>
Other income (net)	9,578	5,160	85.6%
Operating expenses			
Distribution	(84,414)	(85,608)	-1.4%
Marketing	(78,571)	(87,363)	-10.1%
Administration	(63,023)	(66,072)	-4.6%
<b>Trading profit</b>	<b>102,984</b>	<b>85,209</b>	<b>20.9%</b>

Source: Fraser and Neave, Limited

Profit before interest and taxation (PBIT)

PBIT increased by 8.0% yoy from S\$141.9 million in 1H2020 to S\$153.3 million in 1H2021 owing to the increase in trading profit, which offset the decrease in share of results of joint venture and associated companies as shown in **Exhibit 21**. In particular, F&N's share of profit from its associate company in Vietnam, Vinamilk, decreased from S\$51.9 million to S\$48.9 million owing to lower sales and unfavorable currency translation. Other associated companies consists of Cocoland Holdings Berhad, Beijing Universal Times Culture Development Co., Ltd. and Transworld Times Press (Africa) Limited which contribute to the rest of the share of results of associated companies of S\$1.04 million in 1H2021.

**Exhibit 21: F&N's PBIT for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Trading Profit	102,984	85,209	20.9%
Share of results of joint venture companies	361	2,997	-88.0%
Share of results of associated companies	49,939	53,680	-7.0%
<b>Profit before interest and taxation ("PBIT")</b>	<b>153,284</b>	<b>141,886</b>	<b>8.0%</b>

Source: Fraser and Neave, Limited

According to its 9M2021 voluntary business update on 5 August 2021, F&N's profit before interest and taxation increased by 3.9% from S\$211.0 million in 9M2020 to S\$219.3 million in 9M2021. Thailand remained the largest contributor of PBIT at 45%, followed by Vietnam at 36%, Malaysia at 14%, Singapore at 6%. Meanwhile, Others recorded loss during the period as shown in **Exhibit 22**.

**Exhibit 22: F&N PBIT for 9M2021 and 9M2020**

(S\$ million)	9M2021		9M2020		y-o-y change
	Profit/ (Loss) <sup>(1)</sup>	Contribution (%)	Profit/ (Loss) <sup>(1)</sup>	Contribution (%)	
Singapore	12.50	6%	1.90	1%	558.2%
Malaysia	29.61	14%	30.17	14%	-1.9%
Thailand	99.56	45%	98.96	47%	0.6%
Vietnam	79.83	36%	86.51	41%	-7.7%
Others <sup>(2)</sup>	(2.19)	-1%	(6.54)	-3%	-66.5%
<b>Total</b>	<b>219.3</b>	<b>100.00%</b>	<b>211.0</b>	<b>100.0%</b>	<b>3.9%</b>

<sup>(1)</sup> Estimated based on contribution (%)

<sup>(2)</sup> Includes Myanmar, Brunei, Indonesia, China, India, Australia, Europe and USA

Source: Fraser and Neave, Limited

Contribution from Vietnam fell from 41% to 36% as contribution from Vinamilk decreased due to lower sales and unfavorable currency translation. Malaysia's contribution fell as earnings were impacted by higher input prices, despite lower advertising & promotion spending and savings from cost cutting measures. Thailand profits grew, aided by lower advertising & promotion spending which compensated for higher input cost.

While F&N did not mention the reasons for Singapore's low PBIT contribution in 9M2020, we believe it could be due to the poorer performance from its 100.00% subsidiary, Times Publishing Group. Times Publishing Group is incorporated in Singapore and was affected by COVID-19 due to temporary plant closures, deferment of textbooks sales orders and reduction in print requirement which impacted its PBIT contribution.



Net finance cost

Net finance cost increased by 8.9% yoy from S\$10.5 million in 1H2020 to S\$11.4 million in 1H2021 as shown in **Exhibit 23**. Finance income for 1H2021 is lower than 1H2020 by approximately S\$1.2 million or 56.9%. The finance income is mainly derived from interest income from bank and other deposits.

**Exhibit 23: F&N's Net Finance Cost for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Finance income	900	2,088	-56.9%
Finance cost	(12,285)	(12,542)	-2.0%
<b>Net finance cost</b>	<b>(11,385)</b>	<b>(10,454)</b>	<b>8.9%</b>

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 1H2021, the increase in exceptional items from S\$0.2 million to S\$1.3 million is due to the higher provision for restructuring and re-organising cost of operations as shown in **Exhibit 24**.

**Exhibit 24: F&N's Exceptional Items for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Exceptional items			
Provision for restructuring and re-organising cost of operations	(1,271)	(199)	NM

Source: Fraser and Neave, Limited

Consequently, F&N's profit before taxation amounted to S\$140.6 million for the period, an increase of 7.2% yoy from 1H2020, as shown in **Exhibit 25**.

**Exhibit 25: F&N's Profit Before Taxation for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Revenue	988,560	969,443	2.0%
Cost of sales	(669,146)	(650,351)	2.9%
<b>Gross profit</b>	<b>319,414</b>	<b>319,092</b>	<b>0.1%</b>
Other income (net)	9,578	5,160	85.6%
Operating expenses			
Distribution	(84,414)	(85,608)	-1.4%
Marketing	(78,571)	(87,363)	-10.1%
Administration	(63,023)	(66,072)	-4.6%
<b>Trading profit</b>	<b>102,984</b>	<b>85,209</b>	<b>20.9%</b>
Share of results of joint venture companies	361	2,997	-88.0%
Share of results of associated companies	49,939	53,680	-7.0%
<b>Profit before interest and taxation ("PBIT")</b>	<b>153,284</b>	<b>141,886</b>	<b>8.0%</b>
Finance income	900	2,088	-56.9%
Finance cost	(12,285)	(12,542)	-2.0%
<b>Profit before taxation and exceptional item</b>	<b>141,899</b>	<b>131,432</b>	<b>8.0%</b>
Exceptional items	(1,271)	(199)	NM
<b>Profit before taxation</b>	<b>140,628</b>	<b>131,233</b>	<b>7.2%</b>

NM: Not meaningful

Source: Fraser and Neave, Limited

Taxation

On taxation, despite recording higher profit before tax, tax expense decreased by 10.8% yoy from S\$25.7 million in 1H2020 to S\$22.9 million in 1H2021 as shown in **Exhibit 26**. The lower tax was mainly due to lower effective tax rate (ETR) of 16.3% in 1H2021, from 19.6% in 1H2020. 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 26: F&N's Taxation for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Taxation	(22,892)	(25,666)	-10.8%

Source: Fraser and Neave, Limited

As a result, F&N reported an after-tax profit of S\$117.7 million in 1H2021. This comprised a S\$82.4 million profit attributable to shareholders of the company and a S\$35.3 million profit attributable to non-controlling interest, as shown in **Exhibit 27**.

**Exhibit 27: F&N's Financial Result for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020	y-o-y change
Revenue	988,560	969,443	2.0%
Cost of sales	(669,146)	(650,351)	2.9%
Gross profit	319,414	319,092	0.1%
Operating expenses	(226,008)	(239,043)	-5.5%
<b>Profit before taxation</b>	<b>140,628</b>	<b>131,233</b>	<b>7.2%</b>
Taxation	(22,892)	(25,666)	-10.8%
<b>Profit after taxation</b>	<b>117,736</b>	<b>105,567</b>	<b>11.5%</b>
<b>Attributable to:</b>			
Shareholders of the Company	82,411	71,648	15.0%
Exceptional items	(1,035)	(199)	NM
	81,376	71,449	13.9%
Non-controlling interest	35,325	33,919	4.1%

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\$82.4 million and after exceptional item was S\$81.4 million. Accordingly, in 1H2021, earnings per share before exceptional items and after exceptional items amounted to 5.8 cents and 5.7 cents respectively, as shown in **Exhibit 28**.

**Exhibit 28: F&N's EPS for 1H2021 and 1H2020**

S\$'000	1H 2021	1H 2020
<b>Attributable to:</b>		
Shareholders of the Company	82,411	71,648
Exceptional items	(1,035)	(199)
	81,376	71,449
<b>Earnings per ordinary share:</b>		
Based on the weighted average number of ordinary shares on issue (cents)		
before exceptional items	5.8	5.0
after exceptional items	5.7	4.9

Source: Fraser and Neave, Limited

## Review of Historical Financials

We also reviewed F&N's historical financial results to evaluate how it has performed prior to the Covid-19 pandemic. We note that F&N's revenue stream remained stable, reporting between S\$1.8 billion and S\$2.0 billion between FY2016 and FY2020. However, we note that revenue for FY2020 decreased from S\$1.9 billion to S\$1.8 billion mainly due to the impact of Covid-19 pandemic whereby lockdowns, in varying degrees were introduced across Southeast Asia in the second half of its fiscal year. Meanwhile, F&N's gross profit margin has also dropped across the years owing largely to lower sales and higher commodity & manufacturing costs.

In FY2017, F&N reported lower trading profit due to higher tactical discounts, pricing pressures from competitors, higher input costs and a one-off restructuring cost incurred for the realignment of operations. During the period, F&N also reported profit after tax of S\$1.3 billion mainly due to the exceptional gain of S\$1.2 billion from the realisation of fair value reserves upon the change of shareholding in Vinamilk <sup>[1]</sup>.

Excluding FY2017, F&N's profit after tax have improved over the years, with a slight drop from S\$212.1 million in FY2019 to S\$207.7 million in FY2020, owing to the adverse impact of Covid-19. The stronger financial performance was largely due to the increase in contribution from the share of results of associated companies. Higher profit were recognised from F&N's investment in Vinamilk as F&N has been increasing its stakes in Vinamilk since FY2017. In FY2020, Vinamilk contributed S\$120.7 million, accounting for 45.1% of F&N's PBIT.

We note that F&N's EPS (before fair value adjustment and exceptional items) has improved over the years from 7.5 cents in FY2016 to 10.4 cents in FY2020. However, in FY2017, F&N's EPS fell from 7.5 cents to 6.7 cents mainly due to higher operating costs and an one-off restructuring cost as mentioned above. Despite the adverse impact of Covid-19, F&N's EPS in FY2020 fell slightly to 10.4 cents in FY2020 from 10.6 cents in FY2019. Further, F&N's dividend distribution maintained at 4.5 cents from FY2016 to FY2018 and increased to 5.5 cents in FY2019. However, dividend distribution decreased slightly to 5.0 cents in FY2020. Meanwhile, we note that F&N's dividend payout ratio, as computed by dividing dividend by EPS, increased from 60% in FY2016 to 67% in FY2017. From FY2018 to FY2020, the dividend payout ratio declined and stood at 48% in FY2020. However, we would like to note that as the dividend distributions have been increasing over the years, the decrease in dividend payout ratio was mainly due to better EPS performance for each respective years.

We have summarized F&N key historical financial figures in **Exhibit 29**.

### Exhibit 29: F&N's Historical Financials

[\$\$'000]	For year ended Sep 30				
	2016	2017	2018	2019	2020
Revenue	1,978,622	1,897,959	1,834,772	1,902,337	1,833,501
Cost of sales	(1,250,256)	(1,236,660)	(1,251,770)	(1,278,646)	(1,237,627)
<b>Gross Profit</b>	<b>728,366</b>	<b>661,299</b>	<b>583,002</b>	<b>623,691</b>	<b>595,874</b>
Gross Profit Margin	36.81%	34.84%	31.78%	32.79%	32.50%
<b>Trading Profit</b>	<b>127,939</b>	<b>86,959</b>	<b>121,160</b>	<b>169,262</b>	<b>141,714</b>
Share of results of associated companies	3,186	50,297	97,697	113,941	123,276
Other associated companies	3,186	(703)	2,697	3,041	2,576
Vinamilk	NA*	51,000	95,000	110,900	120,700
<b>Profit before interest and taxation ("PBIT")</b>	<b>179,151</b>	<b>169,982</b>	<b>215,289</b>	<b>283,228</b>	<b>267,406</b>
Vinamilk's contribution to PBIT	NA*	30.00%	44.13%	39.16%	45.14%
Fair value adjustment & exceptional items	(797)	1,175,842	1,020	(264)	(1,034)
<b>Profit after taxation</b>	<b>165,658</b>	<b>1,325,601</b>	<b>180,660</b>	<b>212,129</b>	<b>207,692</b>
EPS (cents) (before fair value adjustment and exceptional items)	7.5	6.7	8.5	10.6	10.4
EPS (cents) (after fair value adjustment and exceptional items)	7.5	88.4	8.5	10.5	10.3
Dividend (cents)	4.5	4.5	4.5	5.5	5.0
Dividend payout ratio (%)	60%	67%	53%	52%	48%

\*In FY2016 Vinamilk was classified under associated companies held by F&N that are not individually material

Source: Fraser and Neave, Limited

<sup>[1]</sup> On account of F&N's shareholding and its appointment of a second representative to its board, F&N was deemed to have a significant influence over Vinamilk for accounting purposes in accordance with the Singapore Financial Reporting Standards (International). Consequently, effective 16 April 2017, F&N started to equity account for its share of Vinamilk's profit under the equity accounting method.

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

F&N reported total assets of S\$4,797.0 million as at 31 March 2021 compared to S\$4,774.7 million as at 30 September 2020. The increase in total assets was largely due to the increase in cash balances generated from operations. This was partly offset by the decrease in inventories held due to production timing to cater to seasonal festive holidays and strict inventory management. At the same time, total liabilities increased by S\$24.0 million from S\$1,379.0 million to S\$1,403.1 million as at 31 March 2021 mainly due to increase in trade and other payables.

Consequently, F&N recorded total equity or net assets of S\$3,394.0 million as at 31 March 2021 compared to S\$3,395.7 million as at 30 September 2020. This comprised of S\$2,955.6 million in equity attributable to owners of the company and S\$438.4 million in non-controlling interest.

Given S\$2,955.6 million in equity attributable to owners of the company, F&N's net asset value (NAV) per share stood at S\$2.04, based on 1,451.8 million issued shares. F&N's balance sheet data are summarized in **Exhibit 30**.

**Exhibit 30: Summary of F&N's Balance Sheet**

[S\$'000]	31-Mar-21	30-Sep-20
Total assets	4,797,022	4,774,726
Total liabilities	1,403,054	1,379,073
Total equity / net assets	3,393,968	3,395,653
Equity attributable to owners of the company	2,955,553	2,968,538
Equity attributable to non-controlling interests	438,415	427,115
No. of issued shares	1,451,835,276	1,450,085,578
NAV per share (S\$)	2.04	2.05

Source: Fraser and Neave, Limited

As at 31 March 2021, F&N's total borrowings were S\$839.6 million compared to S\$838.6 million 6 months ago. This comprised of unsecured amount repayable in one year or less, or on demand of S\$203.5 million and unsecured amount repayable after one year of S\$636.1 million. After considering cash and bank deposits, F&N's net borrowings stood at S\$485.2 million as at 31 March 2021 compared to S\$553.1 million 6 months ago. Thus, F&N's gearing ratio, as computed by net borrowings divided by total equity, stood at approximately 14.3% as at 31 March 2021 versus 16.3% as at 30 September 2020. A breakdown of F&N's net debt and gearing ratio is shown in **Exhibit 31**.

**Exhibit 31: Breakdown of F&N's Net borrowing and Gearing Ratio**

[S\$'000]	31-Mar-21	30-Sep-20
<b>Amount repayable in one year or less, or on demand</b>		
Unsecured	203,528	42,701
<b>Amount repayable after one year</b>		
Unsecured	636,057	795,888
<b>Total borrowings</b>	<b>839,585</b>	<b>838,589</b>
Less: Cash and bank deposits	354,350	285,479
<b>Net borrowings</b>	<b>485,235</b>	<b>553,110</b>
Total equity	3,393,968	3,395,653
<b>Gearing Ratio</b>	<b>14.3%</b>	<b>16.3%</b>

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, 94% of F&N's borrowings are in fixed rates with an average fixed rate tenor of 3.1 years as at 30 Sep 2020. The fixed rate borrowings consist largely of the fixed rate notes issued under F&N Treasury Pte Ltd's Debt Issuance Programme and bilateral bank term loans that have been hedged with interest rate swaps. The remaining 6% of F&N's borrowings are in floating rates as at 30 September 2020. F&N's unsecured bank loans bore interest at 0.93% (2019: Nil%) per annum, while its unsecured term loans bore interest at rates ranging from 1.35% to 3.80% (2019: 2.33% to 5.20%) per annum. In its latest update as at 30 June 2021, F&N kept its proportion of fixed and floating rates unchanged at 94% and 6% respectively.

Further, we note from F&N's 5-year historical data as shown in **Exhibit 32** that its NAV per share has increased over the years. F&N's gearing ratio has also increased from 12.3% in FY2019 to 16.3% in FY2020. This is mainly due to the increase in net borrowings. The higher net borrowings were due to increased working capital requirements as a result of Covid-19 pandemic, additional 0.4% investment in Vinamilk and the later timing of receipt of Vinamilk's September 2020 interim dividend.

**Exhibit 32: F&N's 5-year historical year-end balance sheet**

[\$'000]	For year ended Sep 30				
	2016	2017	2018	2019	2020
Total assets	3,773,828	4,901,959	4,506,128	4,720,531	4,774,726
Total liabilities	621,284	1,776,812	1,341,744	1,387,420	1,379,073
Net assets	3,152,544	3,125,147	3,164,384	3,333,111	3,395,653
Equity attributable to owners of the company	2,843,084	2,809,232	2,816,798	2,933,283	2,968,538
Equity attributable to non-controlling interests	309,460	315,915	347,586	399,828	427,115
No. of issued shares	1,445,773,703	1,446,946,628	1,448,121,153	1,449,028,178	1,450,085,578
NAV per share (S\$)	1.97	1.94	1.95	2.02	2.05
Net borrowings	(908,481)	165,181	341,294	409,351	553,110
Gearing Ratio	(28.8%)	5.3%	10.8%	12.3%	16.3%

Source: Fraser and Neave, Limited



## POTENTIAL CATALYSTS

### (I) Acquisition of Sri Nona Group of Companies

As mentioned on page 11, F&N acquired 55% stake in Sri Nona Group of Companies — Sri Nona Food Industries Sdn Bhd, Sri Nona Industries Sdn Bhd and Lee Shun Hing Sauce Industries Sdn Bhd — for cash consideration of up to RM60 million (\$19 million). Sri Nona Group, based in Malaysia, manufactures, distributes and sells rice cakes (ketupat), condiments (oyster sauce and paste), beverages (ginger tea powder), desserts (pudding and jelly powder), and jams and spreads. It is best known for its flagship product, the NONA Ketupat (rice cakes) range, which is the No. 1 ketupat brand in Malaysia, and its range of oyster sauce, which is among the top three in its category. Sri Nona exports its products globally, including Singapore, Indonesia, Australia, USA and the UK, among others

The acquisition is in line with F&N's ambition to be a stable and sustainable food and beverage leader in Malaysia, with Halal food as its new pillar of growth, to meet the rising demand for convenience and ready-to-eat food products. The investment will add an established Malaysian household food brand to F&N's portfolio of renowned brands and will serve as a platform to build on and expand into more food segments. With this acquisition, F&N would be able to grow its halal food categories and improve its profit margins in the long run.

### (II) Infrastructure Optimisation

F&N also has three ongoing capital expenditure projects that are due for completion by end of 2021. These include an integrated warehouse building in Shah Alam, Selangor with automatic storage and retrieval system (ASRS) with capacity to store over 50,000 pallets. This integrated warehouse largely eliminates the use of forklifts, resulting in less fuel usage and emissions. It can also maximize storage efficiency, reduce operational costs, shorten delivery lead times to customers, and reduce carbon footprint.

The second ongoing project is a production plant for drinking water and warehouse in Kota Kinabalu Industrial Park, marking F&N's entry into the drinking water market in Sabah.

Thirdly, F&N is also expecting a new 20,000 sq metre regional distribution centre (RDC) in Rojana, Thailand which has a 287 million THB ASRS. This RDC will serve as its regional distribution hub for F&N Dairies Thailand products. Besides optimising & reducing operational costs and meeting storage capacity demand with smaller space requirement, the ASRS in Rojana enables centralised inventory which will enhance stock management accuracy.

These developments are expected to provide F&N with additional capacity and capabilities. This would also minimise its capability redundancies and improve efficiency, equipping its operations for future growth. This could potentially lower its costs, improve its operating margins and help build a sustainable business in the long run.



## FINANCIAL PROJECTION

In this section, we will be providing our projections for F&N's revenue, earnings and dividends in FY2021 and FY2022.

### (I) Revenue Projection

#### FY2021

As noted on page 19, F&N revenue remained stable over the years but FY2020 financial performance was adversely impacted by Covid-19. In the first half of 2021, F&N recorded revenue growth of 2.0% to S\$988.6 million compared to the same period a year ago owing to higher sales from vending business & functional products, and strong export volumes to Middle East and Africa. For FY2021, we note a positive outlook for the global economy. According to IMF's World Economic Outlook (Outlook), the global economy is expected to grow by 5.9% in 2021. This bodes well for F&N as the strong economic outlook could improve consumer sentiment and expenditures which will support the sales of its products and services. Further, amid the pandemic, F&N leveraged on online channels and launched its very own e-commerce store, F&N Life, to offer greater convenience & accessibility, and provide an alternative for consumers to purchase F&N products.

Considering the above, given the resilient revenue growth in 1H2021 despite the challenging Covid-19 environment, we expect F&N's overall revenue to increase for FY2021. However, we note that recently, there was a surge in Covid-19 cases in F&N's core markets, which might result in slower revenue growth for the second half of 2021. With that in mind, for each of the markets for the second half of 2021, we would assume the same yoy revenue growth rate of FY2020 whereby its revenue was impacted negatively by the Covid-19 pandemic, as shown in **Exhibit 33**.

#### **Exhibit 33: F&N's Historical Revenue (By Geography)**

Revenue (S\$'000)	2018		2019		2020	
	\$	Yoy change (%)	\$	Yoy change (%)	\$	Yoy change (%)
Singapore	446,415	-	451,238	1%	421,353	-7%
Malaysia	704,739	-	708,314	1%	648,209	-8%
Thailand	589,908	-	649,562	10%	658,109	1%
Others <sup>(1)</sup>	93,710	-	93,223	-1%	105,830	14%
<b>Total revenue</b>	<b>1,834,772</b>	<b>-</b>	<b>1,902,337</b>	<b>-</b>	<b>1,833,501</b>	<b>-</b>

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

Source: Fraser and Neave, Limited

For example, F&N's revenue from Singapore decreased by 7.0% yoy in FY2020 from FY2019. Using the -7.0% yoy change as a proxy for F&N 2H2021 Singapore's revenue, the second half revenue from Singapore would be S\$201.8 million = [(100.0 % - 7.0%) x S\$216.1 million (1H2021 actual revenue from Singapore)]. Accordingly, the total revenue for 2H2021 would be S\$957.1 million and the total revenue for FY2021 would be S\$1,945.7 million as shown in **Exhibit 34**.

#### **Exhibit 34: Projected Revenue for 2H2021 and FY2021**

Revenue (S\$'000)	Actual	Forecast		
	1H2021	2H2021	Change (%)	FY2021
Singapore	216,059	201,750	-7%	417,809
Malaysia	357,607	327,262	-8%	684,869
Thailand	351,336	355,959	1%	707,295
Others <sup>(1)</sup>	63,558	72,153	14%	135,711
<b>Total revenue</b>	<b>988,560</b>	<b>957,124</b>	<b>-</b>	<b>1,945,684</b>

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

Source: Fraser and Neave, Limited, FPA Financial

FY2022

Looking ahead in FY2022, we would expect a stronger revenue performance amid an acceleration of the vaccination rate leading to a stabilisation of the virus. Of F&N's 3 core markets, Singapore has a vaccination rate of 84% as at 13 October 2021, Malaysia announced on 11 October 2021 that more than 90% of adults across the country were fully vaccinated while Thailand has a lower vaccination rate of 32% as reported by Bloomberg on 12 October 2021. However, according to Thailand's Prime Minister, Mr. Prayut, the government is set to exceed its target of inoculating 70% of the residents by the end of the year. This could bode well for F&N as, with higher vaccination rates, countries would loosen its safety restrictions and allow the reopening of bars and restaurants. Hence, this would increase the consumption of beverages and dairies which would improve F&N's revenue. According to IMF, the Singapore, Malaysia, Thailand and global economy is expected to grow by 3.2%, 6.0%, 4.5% and 4.9% respectively in 2022. This positive outlook would allow consumers to regain confidence in the economy and improve consumer sentiment, leading to a higher consumption of beverages and dairies.

Considering the above, we would expect the revenue from Singapore, Malaysia and Thailand to grow according to IMF's GDP forecast for each of the respective country. For Others, we would use the IMF's estimated global GDP growth of 4.9% as a proxy. Accordingly, the projected revenue for FY2022 would be S\$2,038.6 million, representing a 4.8% yoy growth compared to FY2021 as shown in **Exhibit 35**.

**Exhibit 35: Projected Revenue for FY2021 and FY2022**

Revenue (S\$'000)	Actual	Forecast			
	1H2021	2H2021	FY2021	FY2022	Change (%)
Singapore	216,059	201,750	417,809	431,179	3.2%
Malaysia	357,607	327,262	684,869	725,961	6.0%
Thailand	351,336	355,959	707,295	739,123	4.5%
Others <sup>(1)</sup>	63,558	72,153	135,711	142,361	4.9%
<b>Total revenue</b>	<b>988,560</b>	<b>957,124</b>	<b>1,945,684</b>	<b>2,038,624</b>	<b>4.8%</b>

<sup>(1)</sup> 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 FY2021 and FY2022, 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 FY2018 to 1H2021, F&N's gross profit margins had remained relatively stable, at around 31% to 33%. For FY2021 and FY2022, we would assume the same gross profit margin of 32.31% as in 1H2021. Accordingly, the projected gross profit for FY2021 and FY2022 would be S\$628.7 million and S\$659.5 million respectively as shown in **Exhibit 36**.

**Exhibit 36: Projected Gross Profit for FY2021 and FY2022**

[S\$'000]	Actual				Forecast	
	2018	2019	2020	1H2021	2021	2022
Revenue	1,834,772	1,902,337	1,833,501	988,560	1,945,684	2,041,022
Cost of sales	(1,251,770)	(1,278,646)	(1,237,627)	(669,146)	(1,317,013)	(1,381,547)
<b>Gross Profit</b>	<b>583,002</b>	<b>623,691</b>	<b>595,874</b>	<b>319,414</b>	<b>628,671</b>	<b>659,475</b>
Gross Profit Margin	31.78%	32.79%	32.50%	32.31%	32.31%	32.31%

Source: Fraser and Neave, Limited, FPA Financial

Other Income

Historically, other income are 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 14, other income increased by 85.6% to S\$9.6 million in 1H2021. For 2H2021, we would assume the same amount of S\$9.6 million. This would imply total other income of S\$19.2 million in FY2021. However, for FY2022, as we believe that the Covid-19 situation would improve, we do not expect F&N to record other income that are related to wage and other subsidies. Hence, we would assume FY2019's Other income of S\$18.5 million for our FY2022 projections as shown in **Exhibit 37**.

**Exhibit 37: Projected Other Income for FY2021 and FY2022**

(S\$'000)	Actual			Forecast		
	FY2019	FY2020	1H2021	2H2021	FY2021	FY2022
Other income	18,513	23,309	9,578	9,578	19,156	18,513

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 FY2018 to 1H2021, we note that other than Marketing, the ratio of the other two operating expenses to sales remained relatively stable. The ratio of Marketing expense to sales was much lower in 1H2021 mainly due to F&N's cost management initiatives to reduce its advertising and promotional activities. Taking into consideration that an increase in revenue may be dependent on higher distribution, marketing or administration expense, for our FY2021 and FY2022 projections, we would assume the average expense to sales ratio across FY2018 and 1H2021 for each of the expense component. Accordingly, the total operating expense amounted to S\$482.6 million and S\$505.7 million for FY2021 and FY2022 respectively, as shown in **Exhibit 38**.

**Exhibit 38: Projected Operating Expense for FY2021 and FY2022**

Operating expenses (S\$'000)	Actual					Forecast	
	2018	2019	2020	1H2021	Average	2021	2022
Distribution	(159,590)	(163,162)	(159,649)	(84,414)	8.63%	(167,919)	(175,940)
as % of sales	8.70%	8.58%	8.71%	8.54%		8.63%	8.63%
Marketing	(181,351)	(179,177)	(180,831)	(78,571)	9.28%	(180,528)	(189,151)
as % of sales	9.88%	9.42%	9.86%	7.95%		9.28%	9.28%
Administration	(126,165)	(130,603)	(136,989)	(63,023)	6.90%	(134,196)	(140,606)
as % of sales	6.88%	6.87%	7.47%	6.38%		6.90%	6.90%
<b>Total</b>	<b>(467,106)</b>	<b>(472,942)</b>	<b>(477,469)</b>	<b>(226,008)</b>	-	<b>(482,643)</b>	<b>(505,698)</b>

Source: Fraser and Neave, Limited, FPA Financial

Trading Profit

Consequently, the projected trading profit for FY2021 and FY2022 would be S\$165.2 million and S\$171.5 million respectively as shown in **Exhibit 39**.

**Exhibit 39: Projected Trading Profit for FY2021 and FY2022**

S\$'000	Actual	Forecast	
	1H2021	FY2021	FY2022
Revenue	988,560	1,945,684	2,038,624
Cost of sales	(669,146)	(1,317,013)	(1,379,923)
<b>Gross profit</b>	<b>319,414</b>	<b>628,671</b>	<b>658,700</b>
Other income (net)	9,578	19,156	18,513
Operating expenses			
Distribution	(84,414)	(167,919)	(175,940)
Marketing	(78,571)	(180,528)	(189,151)
Administration	(63,023)	(134,196)	(140,606)
<b>Trading profit</b>	<b>102,984</b>	<b>165,183</b>	<b>171,516</b>

Source: Fraser and Neave, Limited, FPA Financial

Profit before interest and taxation (PBIT)

As mentioned on page 15, the share results of joint venture companies for 1H2021 was S\$0.4 million. We would assume the same share of results of joint venture companies for the second half of 2021 and that the share of results of joint venture companies to remain unchanged in FY2022 from FY2021 as shown in **Exhibit 40** on the next page. The F&N's joint ventures companies as at 30 September 2021 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 (27.0%).

Share of results of associated companies is mainly derived from the profit recognition – equity accounting method – of its 20.4% stake in Vinamilk. In 1H2021, the share of results of Vinamilk fell from S\$51.9 million to S\$48.9 million, representing a decrease of 5.8%. Furthermore, as mentioned on page 10, Vietnam's GDP growth contracted by 6.17% in Q3 mainly due to the implementation of social distancing during the period to contain the spread of the virus. Considering the above, we believe the share of results from Vinamilk would continue to fall and is projecting the overall share of results of associated companies to decrease by 5.8% in 2H2021. Accordingly, assuming F&N's equity interest in Vinamilk remains at 20.4%, the share of results of associated companies in 2H2021 and FY2021 would be S\$47.0 million =  $[(100\% - 5.8\%) \times \text{S\$49.9 million (Actual 1H2021)}]$  and S\$97.0 million =  $[\text{S\$49.9 million (Actual 1H2021)} + \text{S\$47.0 million (Projected 2H2021)}]$  respectively as shown in **Exhibit 40** on the next page.

The IMF projected annual GDP growth of 6.6% for Vietnam in 2022, signalling a strong recovery. We believe that Vinamilk, which is based in Vietnam, will benefit from the country's economic recovery and record higher profits in FY2022. Therefore, we would expect the share of results of associated companies to grow by 6.6% in FY2022, in line with the IMF's GDP projections for Vietnam in 2022. Accordingly, assuming F&N's equity interest in Vinamilk remains at 20.4%, the share of results of associated companies for FY2022 would be S\$103.4 million =  $[(100.0\% + 6.6\%) \times \text{S\$97.0 million (Projected FY2021)}]$  as shown in **Exhibit 40** on the next page.

As a result, F&N's projected PBIT for FY2021 and FY2022 would be S\$262.9 million and 276.4 million respectively as shown in **Exhibit 40**.

#### **Exhibit 40: Projected PBIT for FY2021 and FY2022**

S\$'000	Actual	Forecast		
	1H2021	2H2021	FY2021	FY2022
Trading Profit	102,984	62,199	165,183	172,339
Share of results of joint venture companies	361	361	722	722
Share of results of associated companies	49,939	47,043	96,982	103,382
<b>Profit before interest and taxation ("PBIT")</b>	<b>153,284</b>	<b>109,603</b>	<b>262,887</b>	<b>276,443</b>

Source: Fraser and Neave, Limited, FPA Financial

#### Net Finance Cost

As at 30 September 2020, F&N's total borrowings were S\$838.6 million and the interest expense paid on borrowings was S\$24.7 million. Hence, the estimated effective interest rate on F&N's borrowings would be about 2.95% = [S\$24.7 million (interest expense on borrowings in FY2020) / S\$838.6 million (total borrowings in FY2020)].

Over the past few months, interest rates have begun to rise due to the remarks by the Federal Reserve (Fed) suggesting that there could be a sooner-than-expected tightening of monetary policy. Given that the Fed may only start tapering its asset purchases towards the end of 2021, we do not expect interest rates to rise substantially for the time being. However, for 2022, we could expect an increase in upward pressure on interest rates.

Given the above, we would assume the effective interest rate to remain at 2.95% for FY2021. In FY2022, in anticipation of a possible rise in interest rates, we would assume a higher interest rate of 3.20%. As noted on page 20, as at 31 March 2021, F&N's total borrowings were S\$839.6 million. Accordingly, the projected interest expense on borrowings for FY2021 and FY2022 would be S\$24.8 million = [2.95% x S\$839.6 million] and S\$26.9 million = [3.20% x S\$839.6 million] respectively, assuming no debt repayment or additional borrowings during these periods.

Further, we would assume the same finance income in 1H2021 for 2H2021 and for the finance income to remain unchanged in FY2022. Accordingly, the projected net finance cost would be S\$23.0 million in FY2021 and S\$25.1 million in FY2022 as shown in **Exhibit 41**.

#### **Exhibit 41: Projected Net Finance Cost for FY2021 and FY2022**

S\$'000	Actual	Forecast	
	1H2021	FY2021	FY2022
Finance income	900	1,800	1,800
Finance cost	(12,285)	(24,768)	(26,867)
<b>Net finance cost</b>	<b>(11,385)</b>	<b>(22,968)</b>	<b>(25,067)</b>

Source: Fraser and Neave, Limited, FPA Financial

#### Exceptional Items

As noted on page 16, exceptional items amounted to a loss of S\$1.3 million in 1H2021 mainly due to higher provision for restructuring and re-organising cost of operations. For both FY2021 and FY2022, we would assume no adjustments to exceptional items.



Profit Before Taxation

Given the above projections, we would estimate a profit before tax of S\$239.9 million in FY2021 and S\$250.6 million in FY2022 as shown in **Exhibit 42**.

**Exhibit 42: Projected Profit Before Taxation for FY2021 and FY2022**

S\$'000	Actual	Forecast	
	1H2021	FY2021	FY2022
Revenue	988,560	1,945,684	2,038,624
Cost of sales	(669,146)	(1,317,013)	(1,379,923)
<b>Gross profit</b>	<b>319,414</b>	<b>628,671</b>	<b>658,700</b>
Other income (net)	9,578	19,156	18,513
Operating expenses			
Distribution	(84,414)	(167,919)	(175,940)
Marketing	(78,571)	(180,528)	(189,151)
Administration	(63,023)	(134,196)	(140,606)
<b>Trading profit</b>	<b>102,984</b>	<b>165,183</b>	<b>171,516</b>
Share of results of joint venture companies	361	722	722
Share of results of associated companies	49,939	96,982	103,382
<b>Profit before interest and taxation ("PBIT")</b>	<b>153,284</b>	<b>262,887</b>	<b>275,620</b>
Finance income	900	1,800	1,800
Finance cost	(12,285)	(24,768)	(26,867)
<b>Profit before taxation and exceptional items</b>	<b>141,899</b>	<b>239,919</b>	<b>250,553</b>
Exceptional items	(1,271)	-	-
<b>Profit before taxation</b>	<b>140,628</b>	<b>239,919</b>	<b>250,553</b>

Source: Fraser and Neave, Limited, FPA Financial

Taxation

As mentioned on page 17, F&N's effective tax rate for 1H2021 and 1H2020 were 16.3% and 19.6% respectively. As we do not have sufficient information to appropriately estimate the effective tax rate, we would assume the effective tax rate to remain unchanged in the second half of 2021 at 16.3%. For FY2022, we would assume the impact of a 17.0% Singapore income tax rate to be levied on F&N's profit before tax. Accordingly, we would derive projected income tax expense of S\$39.1 million and S\$42.6 million for FY2021 and FY2022 respectively as shown in **Exhibit 43**.

**Exhibit 43: Projected Taxation for FY2021 and FY2022**

S\$'000	Actual	Forecast	
	1H2021	FY2021	FY2022
Profit before taxation	140,628	239,919	250,553
Effective tax rate	16.3%	16.3%	17.0%
Taxation	22,892	39,055	42,594

Source: Fraser and Neave, Limited, FPA Financial

Projected Profit After Tax

After adjusting for taxation, the projected profit after taxation for FY2021 and FY2022 would be S\$200.9 million and S\$208.0 million respectively. Historically, profit attributable to non-controlling interest have been relatively stable. Between FY2018 and FY2020, profit attributable to non-controlling interest were S\$57.1 million, S\$59.7 million and S\$58.5 million respectively. Hence, we will assume FY2020's figure of S\$58.5 million for both FY2021 and FY2022. Accordingly, profit attributable to shareholders of the company would be S\$142.4 million and S\$149.5 million respectively.

Consequently, assuming the latest available weighted average number of ordinary shares in issue as at 30 September 2020, for our FY2021 and FY2022 projections, we projected an earnings per share of 9.8 cents for FY2021 and 10.3 cents in FY2022. We have summarised our projected earnings in **Exhibit 44**.

**Exhibit 44: Earnings Projections for FY2021 and FY2022**

S\$'000	Actual	Forecast	
	1H2021	FY2021	FY2022
Revenue	988,560	1,945,684	2,038,624
Cost of sales	(669,146)	(1,317,013)	(1,379,923)
<b>Gross profit</b>	<b>319,414</b>	<b>628,671</b>	<b>658,700</b>
Other income (net)	9,578	19,156	18,513
Operating expenses	-	-	-
Distribution	(84,414)	(167,919)	(175,940)
Marketing	(78,571)	(180,528)	(189,151)
Administration	(63,023)	(134,196)	(140,606)
<b>Trading profit</b>	<b>102,984</b>	<b>165,183</b>	<b>171,516</b>
Share of results of joint venture companies	361	722	722
Share of results of associated companies	49,939	96,982	103,382
<b>Profit before interest and taxation ("PBIT")</b>	<b>153,284</b>	<b>262,887</b>	<b>275,620</b>
Finance income	900	1,800	1,800
Finance cost	(12,285)	(24,768)	(26,867)
<b>Profit before taxation and exceptional items</b>	<b>141,899</b>	<b>239,919</b>	<b>250,553</b>
Exceptional items	(1,271)	-	-
<b>Profit before taxation</b>	<b>140,628</b>	<b>239,919</b>	<b>250,553</b>
Taxation	(22,892)	(39,055)	(42,594)
<b>Profit after taxation</b>	<b>117,736</b>	<b>200,864</b>	<b>207,959</b>
<b>Attributable to:</b>			
Shareholders of the Company	82,411	142,382	149,477
Non-controlling interest	35,325	58,482	58,482
<b>Earnings per ordinary share:</b>			
Based on the weighted average number of ordinary shares on issue (cents)	5.8	9.8	10.3

Figures may not add due to rounding

Source: Fraser and Neave, Limited, FPA Financial



**(III) Dividends Projection**

We note that pre-Covid-19, F&N had maintained its dividend payout ratio above 50%, paying a dividend of 4.5 cents and 5.5 cents in FY2018 and FY2019 respectively. In 2020, owing to the adverse impact of Covid-19, the dividend payout ratio fell below 50%, to 48%. However, F&N paid a dividend of 5.0 cents. For FY2021 and FY2022, we are projecting F&N to pay a dividend of 5.0 cents, representing a payout ratio of 51% in FY2021 and 48% in FY2022, within the historic range of 48% to 53% as shown in **Exhibit 45**.

**Exhibit 45: Projected Dividend for FY2021 and FY2022**

S\$'000	Actual			Forecast	
	2018	2019	2020	2021	2022
Profit after taxation	180,660	212,129	207,692	200,864	207,959
EPS (cents)	8.5	10.6	10.4	9.8	10.3
Dividend (cents)	4.5	5.5	5.0	5.0	5.0
Dividend payout ratio (%)	53%	52%	48%	51%	48%

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 46**.

#### Exhibit 46: Peer Comparison

Company	Stock listing	Stock code	Price (\$) as at 29 Oct 2021	Market cap (\$ million)	EPS <sup>(1)</sup> (cents)	P/E (x)	DPU (cents)	Dividend yield (%)	NAV per share <sup>(2)</sup> (S\$)	P/B (x)
Fraser and Neave, Limited <sup>(3)</sup>	SGX	F99	1.450	2,105.16	11.20	12.95	5.00	3.45	2.04 <sup>(3)</sup>	0.71
Peer companies:										
Yeo Hiap Seng Ltd	SGX	Y03	0.865	510.92	(1.73)	NM	2.00	2.31	0.99	0.87
QAF Ltd	SGX	Q01	0.875	503.36	4.80	18.23	5.00	5.71	0.90	0.97
China Food Ltd <sup>(5)</sup>	HKEX	0506	2.980	8,335.72	24.00	12.42	10.60	3.56	2.19	1.36
Fraser and Neave Holdings Bhd Group <sup>(6)</sup>	MY	3689	27.060	3,176.01	1.15	23.53	56.83	2.10	7.69 <sup>(3)</sup>	3.52
Vinamilk <sup>(7)</sup>	VN	VNM	90,700	11,183.98	4571.98	19.84	360,986.00	3.98	15,131.73 <sup>(4)</sup>	5.99
Danone S.A <sup>(8)</sup>	PAR	BN.PA	56.350	36,625.74	307.00	18.36	194.00	3.43	25.50	2.21
<b>Peer average</b>	-	-	-	-	-	<b>18.47</b>	-	<b>3.52</b>	-	<b>1.79</b>

SGX, HKEX, MY, VN and PAR refers to Singapore Exchange, Hong Kong Exchange, Malaysia Stock Exchange, Vietnam Stock Exchange and Paris Stock Exchange respectively

Figures have been rounded. NM: not meaningful

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

(2) As at 31 Dec 20.

(3) As at 31 Mar 21

(4) As at 30 June 21

(5) Currency in HK\$

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

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

(8) Currency in EUR

Source: Respective company data, FPA Financial

Based on the results in **Exhibit 46** above, we note that F&N is currently trading at a P/B multiple of 0.71x, which is lower than the peer average P/B of 1.79x, which may suggest that it is undervalued at the current share price of S\$1.450. Adopting a relative valuation approach, we estimate a target price of S\$3.652 if F&N were to trade at the peer average P/B multiple of 1.79x as follows:

➤ Estimated target price = [peer average P/B] x [F&N's NAV per share] = 1.79 x S\$2.04 = S\$3.652

The estimated target price of S\$3.652 would imply a upside potential of 151.86% from the current price of S\$1.450.

Furthermore, based on the results in **Exhibit 46** above, we also note that F&N is currently trading at a P/E multiple of 12.95x, which is lower than the peer average P/B of 18.47x, which may suggest that it is undervalued at the current share price of S\$1.450. Similarly, adopting a relative valuation approach, we estimate a target price of S\$2.069 if F&N were to trade at the peer average P/E of 18.47x as follows:

➤ Estimated target price = [peer average P/E] x [F&N's EPS] = 18.47 x S\$0.1120 = S\$2.069

The estimated target price of S\$2.069 would imply a upside potential of 42.69% from the current price of S\$1.450.

Considering the above, F&N is currently undervalued compared to its peers in terms of P/B and P/E multiples. Based on our estimated target price of S\$3.652 and S\$2.069 if F&N were to revert to its peer average P/B and P/E multiples of 1.79x and 18.47x respectively, we derived a target price of S\$2.861, which is the average of our estimated target price based on the peer average P/B and P/E as follows:

- Estimated target price = [(Estimated target price from P/B analysis + Estimated target price from P/E analysis) / 2] = (S\$3.652 + S\$2.069) / 2 = S\$2.861

The estimated target price of S\$2.861 would imply a upside potential of 97.31% from the current price of S\$1.450

**(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 47**.

**Exhibit 47: Analysis for Listed Subsidiaries and Associated Companies**

Company	Stock listing	Stock code	Price as at 25 Oct 2021	Market cap (S\$ million)	EPS <sup>(1)</sup> (\$)	P/E (x)	DPU (\$)	Dividend yield (%)	NAV per share (S\$)	P/B (x)
Fraser and Neave, Limited <sup>(4)</sup>	SGX	F99	1.450	2,105.16	0.11	12.95	0.05	3.45	2.04 <sup>(2)</sup>	0.71
<b>Listed subsidiaries and associated companies:</b>										
Fraser & Neave Holdings Bhd Group <sup>(5)</sup>	MY	3689	27.060	3,176.01	1.15	23.53	56.83	2.10	7.69 <sup>(2)</sup>	3.52
Vinamilk <sup>(6)</sup>	VN	VNM	90,700	11,183.98	4,571.98	19.84	360,986.00	3.98	15,131.73 <sup>(3)</sup>	5.99

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 June 21

(4) Currency in SGD

(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

Source: Respective company data, WSJ, FPA Financial

As noted on page 19, with the increased shareholding and representation on the board of Vinamilk, F&N was deemed to have significant influence in Vinamilk and accordingly, investment in Vinamilk was classified from "other investment" to an "investment in associated company" on 15 April 2017. Consequently, realisation of fair value gains on change of interest of available-for-sale financial assets of S\$1.2 billion was realised from fair value adjustment reserve and the carrying amount of investment in Vinamilk was S\$2.4 billion as at 30 September 2017. While we do not have sufficient information on how the carrying amount of investment was derived, we note that the carrying amount of investment in Vinamilk was S\$2.6 billion as at 30 September 2020 and is reflected in the current NAV per share of S\$2.04.

Based on the results in **Exhibit 47**, we note that Fraser & Neave Holdings Bhd Group's (F&N BHD) and Vinamilk's market capitalisation of S\$3,176.01 million and S\$11,183.98 million respectively, are higher than F&N's market capitalisation of S\$2,105.16 million. As mentioned on page 5, 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 would be calculated using 55.5% stake in F&N BHD x S\$3,176.01 million market capitalization = S\$1,762.69 million and for Vinamilk would be calculated using 20.4% stake in Vinamilk x S\$11,183.98 million market capitalization = S\$2,281.53 million. The values of investment in F&N BHD and Vinamilk would be about S\$1,762.69 million (market capitalisation of F&N BHD) + S\$2,281.53 million market capitalisation of Vinamilk = S\$4,044.22 million. While we do not have F&N's initial costs of investment in F&N BHD and Vinamilk, taking F&N's net borrowings of S\$485.2 million, as mentioned on page 20, into consideration, the values of investment, net of borrowings is still S\$1,453.86 million higher than F&N's market capitalisation = [ S\$4,044.22 million (total value of investment in F&N BHD and Vinamilk) – S\$485.2 million (net borrowings) – S\$2,105.16 million (market capitalisation of F&N)]. Based on this analysis, we believe that F&N could be undervalued.

Further, we note that compared to the last reported carrying value of Vinamilk of S\$2.6 billion in FY2020, our estimated value of investment as at 29 October 2021 of S\$2.3 billion is lower by S\$0.3 billion. We believe this could be due to the drop in Vinamilk's closing share price of VND108,900 to VND90,500 from 30 September 2020 to 29 October 2021 respectively.

We also note that F&N's P/B multiple of 0.71x is significantly lower than F&N BHD's and Vinamilk's P/B multiple of 3.52x and 5.99x respectively. At the same time, F&N's P/E multiple of 12.95x is also lower than F&N BHD's and Vinamilk's P/E multiple of 23.53x and 19.84x respectively. This further analysis thus indicate to us that F&N is undervalued in terms of its P/B and P/E multiple.

However, one potential reason for F&N's much lower P/B and P/E multiples could be due to the low free float of F&N. As mentioned on page 3, both Charoen Sirivadhanabhakdi (Chairman) and Khunying Wanna Sirivadhanabhakdi (Vice-Chairman) are deemed to hold 87.62% stake in F&N. Meanwhile, F&N BHD's substantial shareholders comprise of Fraser and Neave, Limited (55.5%), Employees Provident Fund Board (11.91%) and Amanahraya Trustees Berhad – Amanah Saham Bumiputera (7.52%) and Vinamilk's substantial shareholder comprise of The State Capital Investment Corporation (SCIC) (36.00%), Fraser and Neave, Limited (20.4%) and Jardine C&C (Victory Platinum) (10.62%).

Given the above, we note that F&N has a free float of 12%, representing 174.0 million shares which it is higher than F&N BHD's free float of 78.9 million shares but lower than Vinamilk's 697.3 million shares. However, in terms of the value of free float, F&N has the lowest with S\$252.3 million compared to S\$694.8 million for F&N BHD and S\$3,723.7 million for Vinamilk as shown in **Exhibit 48**. Free float refers to the shares of a company that can be publicly traded and are not restricted. With a lower value of free float, it could be less attractive for institutional investors as there are fewer shares to trade, leading to limited liquidity and wider bid-ask spreads. This could result in lower investor interest, which may explain F&N's lower P/B and P/E multiples compared to F&N BHD and Vinamilk.

#### **Exhibit 48: Free Float and Average Trading Volume of F&N, F&N BHD and Vinamilk**

	Outstanding shares	Treasure shares	% of free float	Free float (shares)	Value of free float (S\$ '000)	Average trading volume	% of Free float	Average trading value (S\$'000)
Fraser and Neave, Limited <sup>(1)</sup>	1,450,085,578	-	12%	174,010,269	252,314.9	34,422	0.02%	49.9
Fraser & Neave Holdings Bhd Group <sup>(2)</sup>	366,778,501	-	22%	78,860,000	694,756.6	128,218	0.16%	1,129.6
Vinamilk <sup>(1)</sup>	2,089,955,445	279,099	33%	697,324,997	3,723,715.5	3,759,752	0.54%	20,077.1

<sup>(1)</sup> Free float estimated from company disclosed %

<sup>(2)</sup> Obtained from FT

Source: Respective company data, FPA Financial

Another reason for F&N's lower P/B and P/E could be due to its low trading volume. According to Wall Street Journal (WSJ) F&N's, F&N BHD's and Vinamilk's 65-day average trading volume were 34,422, 128,218 and 3,759,752 respectively. This represent an average trading value of S\$49.9 thousand, S\$1.1 million and S\$20.1 million, and represents 0.02%, 0.16% and 0.54% of its free float for F&N, F&N BHD and Vinamilk respectively as shown in **Exhibit 48**. Trading volume is an indicator of the liquidity of the stock. When the trading volume of a stock is low, investors may be concerned about the liquidity risk which would prevent them from buying or selling the stock. Further, trading volume may also indicate the overall market interest for the stock. With a lower average trading volume, F&N may be deemed as unattractive to potential investors, which may result in a lower P/B and P/E multiples.

### (III) Potential F&N Privatisation

F&N's substantial shareholders, Charoen Sirivadhanabhakdi (Chairman) and Khunying Wanna Sirivadhanabhakdi (Vice-Chairman) are deemed to hold 87.62% stake in F&N, comprising of their deemed interest in TCC Assets Limited and InterBev Investment Limited.

The Singapore Exchange (SGX) had seen an increasing trend of privatization offer this year amid the Covid-19 pandemic. Given the increasing trend of privatization offers for SGX-listed companies in 2021, we identify a 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, thus far in 2021. The average price premium was 37.9% across the 13 privatization offers as shown in **Exhibit 49**. Hence, we would assume the takeover premium of 37.9% in the case of the potential F&N privatization offer.

#### Exhibit 49: Privatization offers for SGX-listed Companies

Target	Acquirer	Currency	Last transaction <sup>(1)</sup>		Offer price per share	Price premium <sup>(2)</sup>
			Date	Price		
Penguin International	Emet Grace Ltd	SGD	18-Dec-20	0.500	0.650	30.0%
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	Keppel Pegasus Pte. Ltd	SGD	2-Aug-21	1.500	2.099	39.9%
Roxy-Pacific Holdings Limited	TKL & Family Pte Ltd	SGD	14-Sep-21	0.405	0.485	19.8%
<b>Average</b>						<b>37.9%</b>

(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, approximately 12% of the issued shares of F&N are held in the hands of the public, which equates to S\$252.6 million in market capitalisation at the current share price of S\$1.450 = [12% x current market capitalisation of S\$2,105.16 million]. Assuming a privatisation price premium of 37.9%, the estimated acquisition cost to privatise F&N would be approximately S\$2.000 per share, which would be equivalent to a total cost of S\$348.3 million = [137.9% x S\$252.6 million].

**(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 multiples. Adopting a relative valuation approach, we estimate a target price of S\$3.652 and S\$2.069 if F&N were to trade at the peer average P/B of 1.79x and peer average P/E of 18.47x respectively.

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 87.62% 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\$2.000 per share based on the average price premium of 37.9% across the 13 privatization offers for SGX-listed companies.

Considering the above, F&N is currently undervalued based on our peer comparison analysis. By taking the average of our estimated target price of S\$3.652 and S\$2.069 if F&N were to trade at its peer average P/B and P/E respectively, we derived an estimated target price of S\$2.861 =  $[(S\$3.652 + S\$2.069) / 2]$ . Accordingly, our estimated target price of S\$2.861 implies a potential upside of 97.31%.



## SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 50** to evaluate the various components of the analysis thus far.

### Exhibit 50: SWOT analysis

## SWOT analysis

<u>Strengths</u> <ul style="list-style-type: none"> <li>• Brand recognition</li> <li>• Diversified business operations</li> <li>• Digitalization of operation</li> </ul>	<u>Weaknesses</u> <ul style="list-style-type: none"> <li>• Limited geographical presence</li> </ul>
<u>Opportunities</u> <ul style="list-style-type: none"> <li>• Global Demand for Dairies and Beverage</li> </ul>	<u>Threats</u> <ul style="list-style-type: none"> <li>• Covid-19 resurgence</li> <li>• High commodity cost</li> <li>• Intense competition</li> </ul>

### (I) Strengths

F&N has established itself as an innovative and trusted leader in the Food & Beverage industry. Since it first started as a producer of carbonated soft drinks in Singapore in 1883, F&N has successfully ventured into various F&B categories such as Beer, Dairies and Ice Cream. Currently, F&N has one of Southeast Asia's strongest portfolios of award-winning, trusted, quality and leadership brands, including 100PLUS, F&N and F&N NUTRISOY for Soft Drinks, CHANG for Beer, F&N MAGNOLIA for Dairies, and F&N MAGNOLIA and F&N KING'S for Ice Cream, in Singapore, Malaysia, Thailand, Myanmar, Vietnam and Indonesia.

As mentioned on page 4, as at 30 September 2020, F&N operates 12 food and beverage production facilities and four printing plants, more than 60 manufacturing and warehousing facilities in 12 countries. In FY2020, F&N launched more than 90 products in food and beverage markets. The robust operational network strengthens F&N's strategic position by reducing production costs. F&N also provides printing, distribution, retail and publishing services which will help to diversify its revenue stream from just the Food & Beverage industry.

In view of the movement restrictions and changes in consumer buying behaviour, F&N has sharpened its route-to-market and channel strategies to get closer to its consumers by meeting their needs and expectations. In 2020, F&N launched its very own e-commerce store, F&N Life, to unify and upscale its e-commerce and digital strategy in Malaysia. As part of the F&N's strategy to pursue omni-channel retailing, F&N Life would be able to complement traditional physical assets with the information-rich experience of online shopping, offering greater convenience, accessibility and value to Malaysian consumers. The rollout of F&N Life was timely as consumers increasingly turned to e-commerce as an alternate channel during this pandemic.

In Singapore, F&N also utilized its digital platform and collaborated with Sports Singapore to launch a "STAY FIT" campaign. The campaign involved live workout sessions, which included yoga, kick boxing and many other activities. These virtual workouts enabled F&N to stay engaged with consumer as stringent border control and social distancing measures were enforced.

For its Publishing & Printing segment, through its subsidiary, Marshall Cavendish Education (MCE), F&N launched its very own digital platform – MC EduHub. MC EduHub is a multi-functional content repository that hosts teaching and learning content developed by MCE and many other educational content providers. Along with its sound pedagogical content aligned to the official syllabuses of multiple countries, MC EduHub became the perfect platform for teachers and students to access content that span subject strands such as English, Maths and Science. MC EduHub managed to secure a strong enrolment rate of over 100,000 subscribers during the three-month free trial.

## (II) Weaknesses

F&N reported revenue of S\$988.6 million and S\$969.4 million for 1H2021 and 1H2020 respectively. However, Singapore, Malaysia and Thailand contributed approximately 95% of F&N's revenue as shown in **Exhibit 51**. Despite having presence in 12 countries, F&N's revenue contribution are concentrated in these 3 core markets. Concentration on a few countries makes F&N vulnerable to potential risks related to economic and social condition arising in that region, potentially limiting its growth prospect and lowering its competitiveness.

### **Exhibit 51: Geographical Breakdown of F&N's Revenue**

Revenue (S\$'000)	1H 2021	%	1H 2020	%
Singapore	216,059	21.9%	220,523	22.7%
Malaysia	357,607	36.2%	347,848	35.9%
Thailand	351,336	35.5%	350,576	36.2%
Vietnam	48	0.0%	56	0.0%
Others <sup>(1)</sup>	63,510	6.4%	50,440	5.2%
<b>Total revenue</b>	<b>988,560</b>	<b>100.0%</b>	<b>969,443</b>	<b>100.0%</b>

<sup>(1)</sup> Includes Brunei, Chile, China, Dubai, Hong Kong, India, Indonesia, Myanmar and USA

Source: Fraser and Neave, Limited

## (III) Opportunities

Based on F&N's 1H2021 results, Dairies and Beverages are the two top contributor to F&N's revenue, contributing 63% and 25% respectively as shown in **Exhibit 52**.

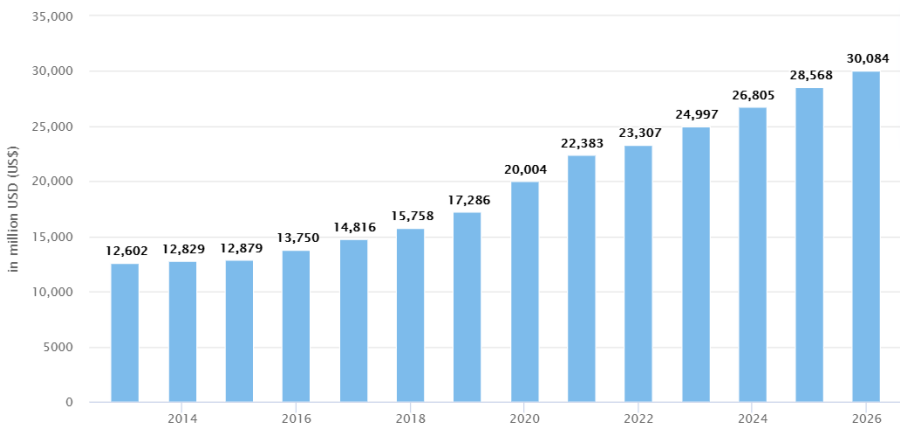
### **Exhibit 52: Breakdown of F&N's Revenue by Business Segment**

S\$'000	1H2021		1H2020	
	Revenue	Contribution (%)	1H 2020	Contribution (%)
Beverages	250,256	25%	233,812	24%
Dairies	617,883	63%	609,230	63%
Printing & Publishing	115,417	12%	126,192	13%
Others	5,004	1%	209	0%
<b>Total</b>	<b>988,560</b>	<b>100%</b>	<b>969,443</b>	<b>100%</b>

Source: Fraser and Neave, Limited

F&N dairies portfolio consists of a wide range of products, including sweetened condensed milk, evaporated milk, pasteurised milk and tea, UHT milk, juices, yoghurt and ice cream under the well-known brands such as F&N MAGNOLIA, F&N, FARMHOUSE and F&N KING'S. According to Statista, in Southeast Asia, revenue from the milk segment amounted to US\$22,383 million in 2021 and the market is expected to grow annually at Compound Annual Growth Rate (CAGR) of 6.09% to US\$30,084 million in 2026 as shown in **Exhibit 53**.

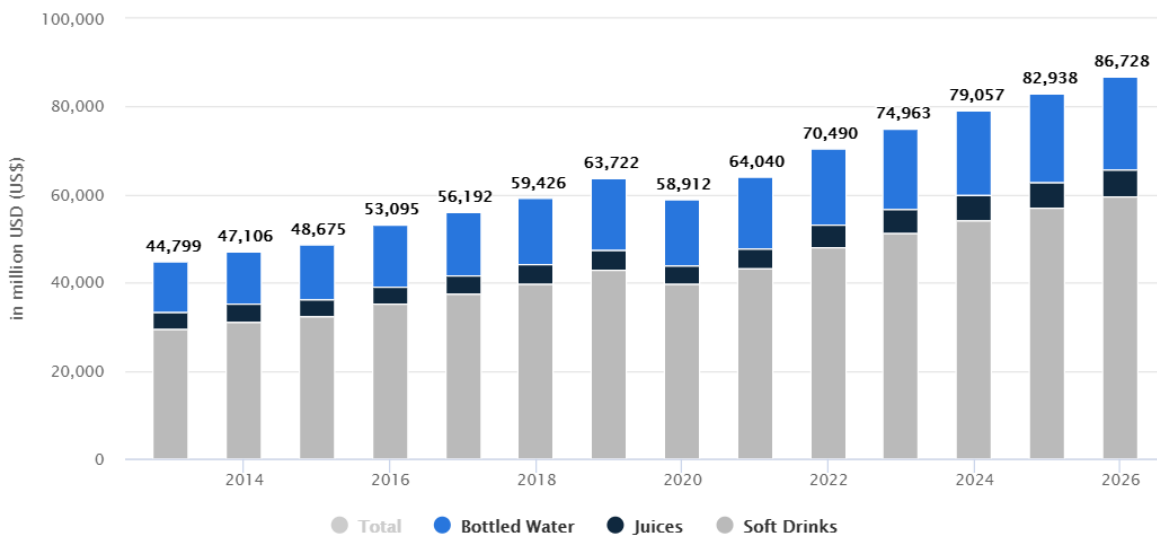
**Exhibit 53: Projected Revenue for Milk Segment in Southeast Asia**



Source: Statista

F&N's soft drink portfolio consist of 100Plus, F&N Nutrisoy, Sparkling Water, Ice Mountain, Nutriwell, Seasons, Fruit Tree Fresh (100% Juice) and Fruit Tree Fresh Juice Drink. According to Statista, revenue in non-alcoholic drinks is expected to reach US\$64,040 million in 2021 and the market is expected to grow at a CAGR of 6.25% to US\$ 86,728 million in 2026 as show in **Exhibit 54**.

**Exhibit 54: Projected Revenue for Non-Alcoholic Drinks**



Source: Statista

With an established portfolio in the dairies and beverage market, F&N stands to benefit from the growing demand for both dairy and beverage products.

**(IV) Threats**

F&N's FY2020 results were adversely impacted by the Covid-19 pandemic. Lockdowns, in varying degrees, were introduced across Southeast Asia in the second half of this FY2020. The regulations set during the mandatory movement control order in Malaysia, state of emergency declared in Thailand, as well as circuit breaker in Singapore have had a drastic impact on its on-trade sales and consumer sentiment. The recent resurgence in Delta variant of the Covid-19 cases in Southeast Asia, for example in Singapore where the country expects to hit 5,000 cases daily, could dampen the economic recovery of the region and affect consumer spending which would further impact F&N's financially negatively.

Furthermore, as mentioned on page 19, the decrease in F&N's profit margin in FY2020 was due largely to higher commodity costs and higher restructuring costs incurred. With Covid-19 pandemic disrupting global supplies and causing bottlenecks, there is a possibility that commodity prices would continue to rise further going forward. Any further uptrend for key commodities cost will put pressure on F&N to manage profit margins. This may cause F&N to raise the selling price of its products and pass the higher cost to the consumer, which may negatively affect F&N's sales.

F&N also faces intense competition from the Food and Beverage industry. Companies like Danone and PepsiCo could have substantially greater resources and able to use their resources to adapt to the ever changing demand of the consumers. They could also devote greater resources for advertising & promotions, investments or obtaining financing support. If F&N is unable to maintain product quality and consumer loyalty, intense competition could reduce sales volume and hamper its market position.

## INVESTMENT RECOMMENDATION

Based on F&N's reported book value of S\$2.04 as at 31 March 2021, it currently has a P/B of 0.71x and is trading at a discount of approximately 29% to NAV. Meanwhile, our peer comparison analysis results show that F&N's P/B of 0.71x is below the peer average P/B of 1.79x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S\$3.652 if F&N were to trade at its peer average P/B of 1.79x.

At the same time, based on F&N's trailing 12 months earnings of 11.20 cents as at 31 March 2021, it currently has a P/E of 12.95x. Our peer comparison analysis results show that F&N's P/E of 12.95x is lower than the peer average P/E of 18.47x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S\$2.069 if F&N were to trade at its peer average P/E of 18.47x.

Hence, we derived a target price of S\$2.861 which is the average of our estimated target price based on the P/B and P/E peer comparison analysis =  $[(S\$3.652 + S\$2.069) / 2]$ .

In terms of financials, despite the continued disruption caused by the Covid-19 pandemic, albeit in varying degrees across F&N's market, F&N recorded an increase of 11.5% profit after taxation in the first half of 2021 compared to the same period a year ago. However, with the recent surge in Covid-19 cases in F&N's core market, we expect F&N's financial performance to be slightly impacted in the second half of 2021. In 2022, with improved vaccination rates, we would expect the global economy to pickup and F&N's revenue to improve.

Considering the above, we believe a buy recommendation is warranted on F&N. Our target price of S\$2.861 implies a potential upside of 97.31% from the current share price of S\$1.450. 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 (AUD), United States Dollar (USD), Hong Kong Dollar (HKD), Chinese Renminbi and Malaysian Ringgit as a result of transactions denominated in foreign currencies, arising from normal trading and investment activities. As at 30 September 2020, the foreign currencies in which these transactions are denominated are mainly USD as shown in **Exhibit 55**. We would like to note that the S\$0.4 million other investment in AUD is related to an investment in Ovato Limited, a digital printing company in Australia and the other investment of S\$5.7 million in HKD is related to an investment Tsit Wing International Holdings Ltd, a beverage wholesaler in Hong Kong.

#### Exhibit 55: F&N's Major Foreign Currencies Exposure

[S\$'000]	For year ended 30 Sep 2020				
	Australian Dollar	United States Dollar	Hong Kong Dollar	Chinese Renminbi	Malaysian Ringgit
Other investments	419	-	5,714	-	-
Receivables	1,383	44,225	14	6,531	8,560
Cash and bank deposits	1,061	26,405	807	-	11,595
Payables	(6,004)	(17,130)	(342)	-	(14,623)
Borrowings	-	(7,041)	-	-	-
<b>Net statement of financial position exposure</b>	<b>(3,141)</b>	<b>46,459</b>	<b>6,193</b>	<b>6,531</b>	<b>5,532</b>
Forward exchange contracts	14,074	10,693	-	-	-
<b>Net exposure</b>	<b>10,933</b>	<b>57,152</b>	<b>6,193</b>	<b>6,531</b>	<b>5,532</b>

Source: Fraser and Neave, Limited

Singapore's central bank recently tightened its monetary policy by raising the slope of its policy band, known as the Nominal Effective Exchange Rate, or S\$NEER, strengthening the value of SGD. A stronger SGD could have a negative impact on F&N's earnings due to currency exchange losses.

### (II) Weak Global Economic Recovery Due to Prolonged Virus Uncertainty

As a result of the Covid-19 pandemic, travel restrictions and renewed border closures have stifled economic activity in many economies. In its latest World Economic Outlook (October), the International Monetary Fund projects the global economy to grow by 5.9% in 2021, a downward revision of 0.1% compared to its July forecast. The downward revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics.

Further, high uncertainties surround this outlook as the rapid spread of Delta variant and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome, as seen in the resurgence of Covid-19 cases in Singapore. Thus, the pace of recovery could be uneven and there is a risk of a global economic slowdown if the global virus situation deteriorates. With this in mind, there is a possibility that countries would tighten or prolong their border control measures, hindering the global economy recovery. This could weigh on the performance of F&N's earnings performance going forward.



**SUSTAINABILITY INFORMATION**

F&N recognises that the stability and growth of its business is interconnected with the sustainability of the economies, the natural environment and the communities in which the company operate and vice versa. Therefore, F&N remains steadfast in conducting its business in an ethical and sustainable manner. F&N strives to incorporate best practices in its business so as to minimise its impact on the natural environment, contribute meaningfully to local communities and engage its stakeholders in a responsible manner.

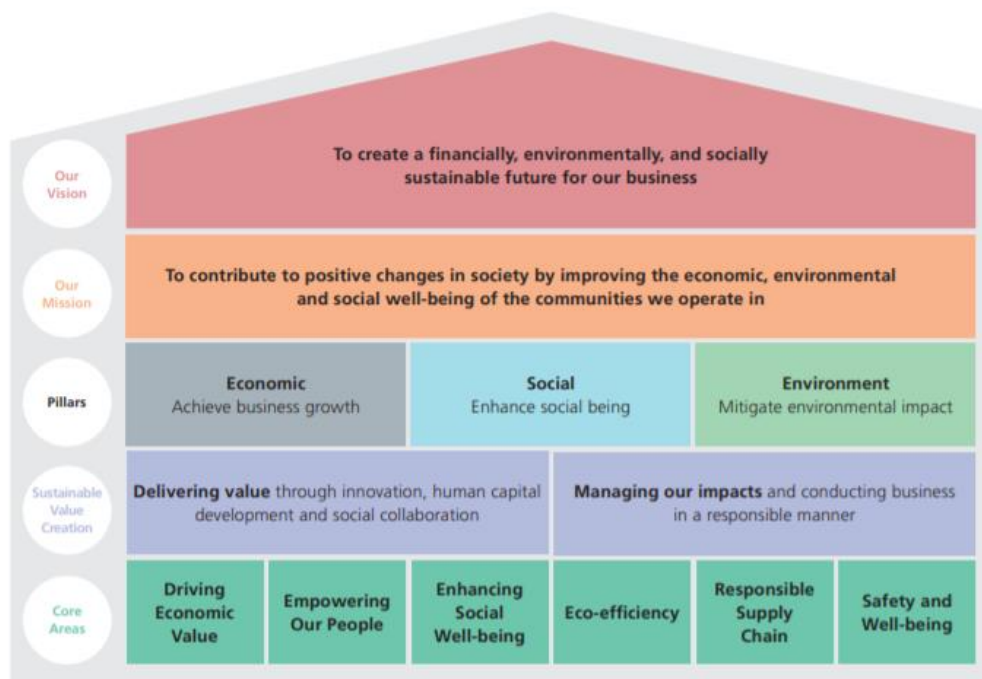
As one of Southeast Asia’s leading fast-moving consumer goods companies, F&N is aware that it not only have a responsibility to the societies the company currently operate in but are in a position to effect positive change and action, particularly in the emerging markets.

Sustainable Approach

F&N’s vision is to create a financially, environmentally, and socially sustainable future for its business through: Delivering value through innovation, human capital development and social collaboration; and managing its impacts and conducting business in a responsible manners. F&N’s sustainability framework is summarised in **Exhibit 56**.

**Exhibit 56: F&N Sustainability Framework**

Our sustainability framework comprises six core areas, under the



Source: Fraser and Neave, Limited

Stakeholder Engagement

F&N’s stakeholders include any individual or group who are impacted by or interested in its activities. F&N strives to build and maintain strong relationships based on trust and respect with all stakeholders and utilise various platforms where they can voice their opinions and suggestions, as shown in **Exhibit 57**. Information received via these channels is used in its planning and strategy for sustainable value creation.

**Exhibit 57: Stakeholder Engagement**

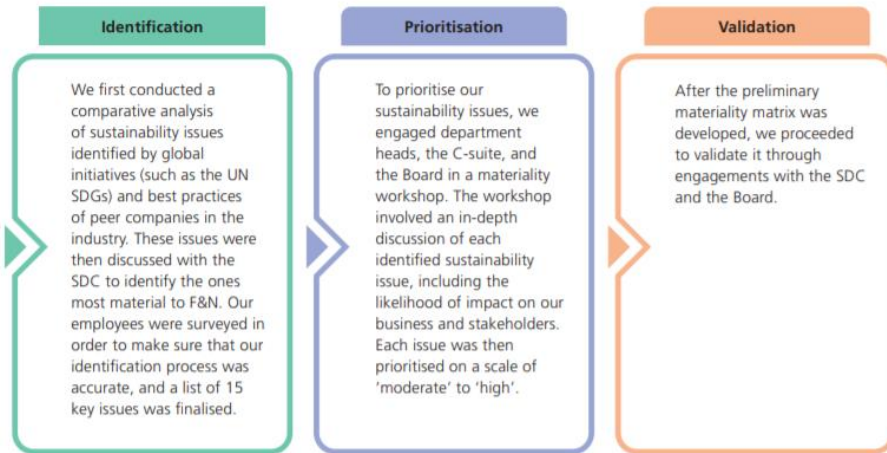
Engagement Channels	Typical Issues Raised	Engagement Channels	Typical Issues Raised
<b>Investment Community</b>		<b>Communities</b>	
<ul style="list-style-type: none"> <li>• General meetings of Shareholders (AGM &amp; EGM)</li> <li>• Face-to-face meetings &amp; conference calls</li> <li>• Office/plant visits</li> <li>• Investor Day</li> <li>• Website and SGXNET announcements, presentations, press releases</li> <li>• Annual reports</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency in disclosure</li> <li>• Business/financial performance</li> <li>• Disclosure on relevant information to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborations &amp; partnerships</li> <li>• Outreach programmes</li> <li>• Meetings/dialogues with community representatives</li> <li>• Leadership programmes</li> <li>• Sponsorship of sporting events</li> <li>• Donation of food and beverages to the less privileged and elderly</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer health and safety</li> <li>• Social &amp; environmental responsibility</li> <li>• Greenhouse gas emissions</li> <li>• Job opportunities for locals</li> <li>• Promotion of good health &amp; quality of life</li> <li>• Skills development in sports &amp; leadership</li> <li>• Stimulating local economies</li> </ul>
<b>Employees</b>		<b>Regulators</b>	
<ul style="list-style-type: none"> <li>• Biennial employee engagement survey</li> <li>• Robust compensation and benefits framework</li> <li>• Annual CEO town hall/roadshow</li> <li>• Annual gatherings</li> <li>• Lunch talks</li> <li>• Exercise classes</li> <li>• Sports tournament</li> <li>• Communique, iConnect (intranet), F&amp;N Digest (biannual newsletter), email news highlights, quarterly CEO messages</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with employees</li> <li>• Learning &amp; development opportunities</li> <li>• Equitable rewards &amp; recognition</li> <li>• Safe and healthy work environment</li> </ul>	<ul style="list-style-type: none"> <li>• Active participation on industry collaborations e.g. Singapore’s Health Promotion Board; Federation of Malaysian Manufacturers</li> <li>• Meetings with government agencies and statutory bodies</li> <li>• Collaboration &amp; partnerships with local councils</li> </ul>	<ul style="list-style-type: none"> <li>• Good governance</li> <li>• Fair &amp; legal labour practices</li> <li>• Safety at work</li> <li>• Compliance with laws &amp; regulations</li> <li>• Water &amp; waste management</li> <li>• Environment friendly labelling &amp; packaging</li> <li>• Greenhouse gas emissions</li> <li>• Recycling awareness</li> </ul>
<b>Distributors and Trade Customers</b>			
<ul style="list-style-type: none"> <li>• Annual customer meetings</li> <li>• Annual factory visits</li> <li>• Annual business planning</li> <li>• Business development activities</li> <li>• Joint supply chain meetings</li> <li>• Quarterly business reviews</li> <li>• Customer appreciation events</li> </ul>	<ul style="list-style-type: none"> <li>• Latest consumer &amp; shopper trends</li> <li>• Product innovation</li> <li>• Customer relationship management</li> <li>• Shopper loyalty programmes</li> <li>• Improving customer service level</li> <li>• Business practices &amp; ethics</li> <li>• Competitive operational system</li> <li>• Efficient delivery systems</li> </ul>		
<b>Consumers</b>			
<ul style="list-style-type: none"> <li>• Marketing &amp; sales promotions</li> <li>• Brand communication through advertising</li> <li>• Social media interactions</li> <li>• On-ground events &amp; activities</li> <li>• Dedicated consumer hotline</li> </ul>	<ul style="list-style-type: none"> <li>• Product quality &amp; safety</li> <li>• Consumer health and safety</li> <li>• Fair &amp; reasonable product pricing</li> <li>• Social &amp; community engagement</li> <li>• Environment-friendly packaging</li> </ul>		
<b>Suppliers</b>			
<ul style="list-style-type: none"> <li>• Supplier meetings</li> <li>• Annual audits</li> <li>• Tender Management System</li> </ul>	<ul style="list-style-type: none"> <li>• Fair &amp; robust procurement system</li> <li>• Support of local businesses</li> <li>• Social &amp; environmental responsibility</li> <li>• Ethics – anti bribery and corruption</li> </ul>		

Source: Fraser and Neave, Limited

Materiality Assessment

F&N undertook its first materiality assessment in 2017 to evaluate the most important sustainability issues. This assessment was based on three steps: Identification; Prioritisation; and Validation as shown in **Exhibit 58**.

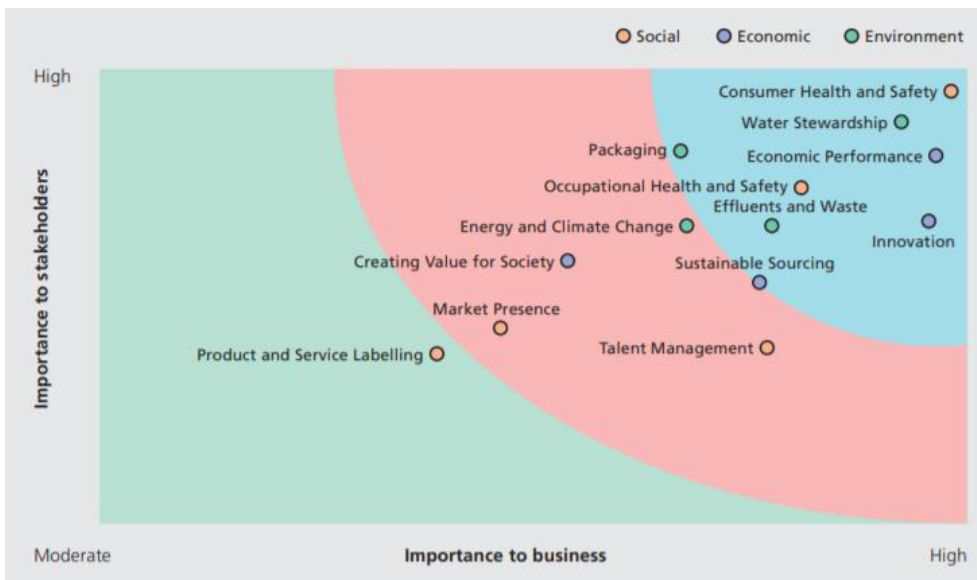
**Exhibit 58: Materiality Assessment Process**



Source: Fraser and Neave, Limited

Since the initial materiality assessment conducted in 2017, F&N has continued to review and refine, where necessary, the materiality topics yearly. There were no changes to the 13 material topics from 2019. The materiality topics can be seen in **Exhibit 59**. F&N's most significant material topic 'Consumer Health and Safety' is extremely relevant this year amidst the COVID-19 pandemic as communities are becoming increasingly aware of the importance of their health and hygiene. 'Economic Performance' is vital as the company continue to balance its contributions to frontliners and people in need with our financial performance. 'Occupational Health and Safety' is also receiving more focus in light of the COVID-19 pandemic as F&N take steps to keep its employees safe.

**Exhibit 59: Materiality Matrix**



Source: Fraser and Neave, Limited

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