

14 May 2020

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Expecting Temporary Blip In 2Q; Keep BUY

Target Price (Return): SGD0.75 (+47%)
 Price: SGD0.51
 Market Cap: USD192m
 Avg Daily Turnover (SGD/USD) 0.43m/0.31m

- **Maintain BUY with new TP SGD0.75 from SGD0.88, 47% upside and c.3% yield.** 1Q20 net profit was USD6.6m (-13% YoY) largely due to FX losses. Excluding FX, core net profit came in strongly at USD9.5m, (+33% YoY), accounting for 33% of our estimates – in line. We however cut our FY20F-22F core profit by 17%, 11%, and 10% as we expect more impact from currency depreciation and COVID-19 in 2Q20. This lowers our TP pegged to 12x FY20F P/E.

- **1Q20 revenue recorded 5% growth.** According to management, the group saw stronger sales across all markets in local currency terms during the quarter. This was attributed to rising sales of newer products, better product mix and general improvement in consumer sentiment at the start of the year. Russia, however, registered a 2% YoY sales decline in USD terms due to the sharp RUB depreciation resulted from the oil crisis. Excluding FX losses, core profit surged 33% YoY to USD9.5m as selling and administration costs were kept fairly stable despite improving sales. Gross margin also expanded 0.2ppt YoY to 40.4%.

- **2Q20 likely to take a turn for the worse** with various markets being in some form of lockdown due to the COVID-19 pandemic while Russia and most of the CIS countries are seeing the full quarter impact of currency depreciation. Sales volume in Russia and some of the CIS markets should be more severely impacted as footfall declined sharply for grocery retail. Vietnam, however, is not likely to be severely impacted due to the lower number of COVID-19 cases. The second instant coffee plant in project, scheduled for completion in mid-2020, is also likely to see some delays due to international travel restrictions.

- **Not all bleak and gloomy.** Our sensitivity test suggests that 5% depreciation of the RUB could lower earnings by c.15%, all else unchanged. To mitigate the negative FX impact, we note that Food Empire has implemented c.10% price increase in certain key markets and we expect to see the full impact of the price hike in 3Q20. Commodity prices have also fallen as a result of weaker global demand. In addition, the group is now shifting its focus to higher-margin sales rather than chase topline growth to ensure sustainable profitability. Given it is largely in the staple food business, we believe that full-year sales volume would remain resilient as a whole. We expect sales volume to pick up once the lockdown eases in 3Q20 for most cities. Nevertheless, we cut FY20F-22F revenue by 7%, 5%, and 4% and core profit by 17%, 11%, and 10% due to weaker currency and economic outlook in some of its key markets. This in turn lowers our TP to SGD0.75. Key risks are volatility in the RUB and prolonged lockdown.

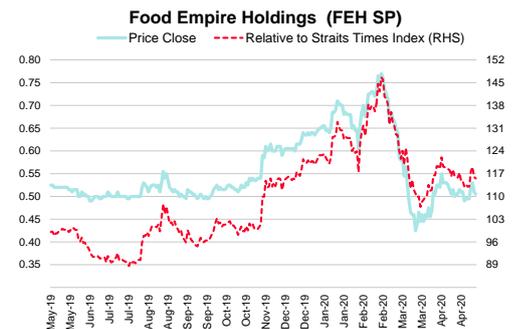
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.3)	(2.9)	(30.8)	(13.7)	(4.7)
Relative	(2.1)	(3.1)	(10.7)	6.9	15.8
52-wk Price low/high (SGD)					0.43 – 0.77



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	284	289	286	315	339
Recurring net profit (USDm)	22	26	24	28	31
Recurring net profit growth (%)	4.5	17.9	(7.6)	19.0	11.7
Recurring P/E (x)	8.80	7.52	8.14	6.84	6.12
P/B (x)	1.1	0.9	0.9	0.8	0.7
P/CF (x)	12.79	5.22	7.74	7.74	5.45
Dividend Yield (%)	1.4	2.0	2.9	3.9	4.1
EV/EBITDA (x)	6.59	5.09	5.16	4.22	3.44
Return on average equity (%)	10.5	13.6	8.7	12.0	12.2
Net debt to equity (%)	net cash	net cash	1.0	1.0	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.05	0.04	0.05	0.06
Consumer Non-cyclical	DPS	0.00	0.01	0.01	0.01	0.01
Food Empire	BVPS	0.33	0.38	0.41	0.45	0.50
FEH SP	Return on average equity (%)	10.5	13.6	8.7	12.0	12.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	8.80	7.52	8.14	6.84	6.12
12x FY20F P/E	P/B (x)	1.1	0.9	0.9	0.8	0.7
	FCF Yield (%)	2.1	(0.7)	(0.1)	2.5	13.1
Key drivers	Dividend Yield (%)	1.4	2.0	2.9	3.9	4.1
i. Margin expansion on the strengthening RUB;	EV/EBITDA (x)	6.59	5.09	5.16	4.22	3.44
ii. Expansion into Indochina.	EV/EBIT (x)	8.38	6.12	6.70	5.49	4.51
	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	284	289	286	315	339
i. Negative movement in the RUB and other CIS countries' currencies;	Gross profit	111	112	111	123	132
ii. Prolonged lockdowns may impact sales.	EBITDA	27	37	37	46	51
	Depreciation and amortisation	(6)	(6)	(9)	(11)	(12)
	Operating profit	22	30	29	35	39
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	32	22	34	38
	Taxation	(2)	(6)	(4)	(6)	(7)
	Reported net profit	18	26	19	28	31
	Recurring net profit	22	26	24	28	31
Company Profile	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Food Empire is a global food and beverage company that manufactures and markets instant beverages, frozen convenience food, confectionery and snack food. The company's products can be found in over 50 countries across Asia, Africa, Middle East, North America and Europe.	Change in working capital	(11.9)	(14.9)	(2.0)	(13.4)	(7.8)
	Cash flow from operations	14.9	36.8	24.8	24.8	35.2
	Capex	(10.8)	(38.1)	(25.0)	(20.0)	(10.0)
	Cash flow from investing activities	(9.6)	(37.4)	(25.0)	(20.0)	(10.0)
	Dividends paid	(2.4)	(2.6)	(3.9)	(5.6)	(7.6)
	Cash flow from financing activities	(5.0)	12.7	(5.8)	(15.1)	(23.1)
	Cash at beginning of period	42.8	42.2	54.7	48.8	38.5
	Net change in cash	0.3	12.1	(6.0)	(10.3)	2.2
	Ending balance cash	42.2	54.0	48.8	38.5	40.6
	Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	42	55	49	38	41
	Tangible fixed assets	69	99	116	125	124
	Total investments	30	41	41	41	41
	Total assets	245	308	321	341	351
	Short-term debt	20	15	10	10	15
	Total long-term debt	13	35	41	31	10
	Total liabilities	69	102	101	98	84
	Total equity	175	206	220	243	267
	Total liabilities & equity	245	308	321	341	351
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	5.5	1.5	(0.9)	10.2	7.7
	Recurrent EPS growth (%)	4.5	16.9	(7.6)	19.0	11.7
	Gross margin (%)	39.0	38.7	39.0	39.0	38.8
	Operating EBITDA margin (%)	9.6	12.7	13.1	14.5	15.0
	Net profit margin (%)	6.4	9.0	6.5	8.9	9.2
	Dividend payout ratio (%)	14.7	29.8	30.0	27.0	25.0
	Capex/sales (%)	3.8	13.2	8.7	6.3	2.9
	Interest cover (x)	27.3	21.6	20.9	31.8	57.6

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-26	Buy	0.88	0.73
2020-01-17	Buy	0.83	0.70
2019-11-21	Buy	0.83	0.60
2019-11-12	Buy	0.73	0.59
2019-08-13	Buy	0.73	0.52
2019-03-04	Buy	0.69	0.57
2018-11-19	Buy	0.66	0.53

Source: RHB, Bloomberg

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