

4 March 2019

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

A Simple Coffee; Keep BUY

Target Price (Return)	SGD0.69 (+19%)
Price:	SGD0.58
Market Cap:	USD219m
Avg Daily Turnover (SGD/USD)	0.2m/0.1m

- **Keep BUY with a slightly higher TP of SGD0.69**, from SGD0.66, 19% upside and 1.5% yield. FY18 PATMI of SGD18.1m was in line with our expectation. The company proved to remain resilient, despite volatility in RUB throughout 2018. Moving into 2019, we expect Food Empire to show a stronger profitability, as the group de-prioritises non-profitable new projects in some of the new markets.
- **FY18 revenue grew 5.5% YoY** largely driven by higher sales volumes in most markets, partially offset by the RUB and KZT depreciation against the USD. The group continues to see stronger penetration of its products in Vietnam and the market there remains profitable. The overall Indochina market, which Vietnam is classified under, saw 33% growth in sales. However, operating profit for Indochina turned negative on the back of MMK depreciation. For FY19F, management is likely to de-prioritise the Myanmar market and focus on growing its strengths in Vietnam. This should have a positive impact on margins.
- **Our forecasts remain largely unchanged.** We expect the group to generate mid to high single digit growth in its core markets (Russia and other CIS countries), while Indochina continues to drive the bulk of revenue growth. We note that revenue from other markets has remained flat in 2018 as most of its upstream capacity is fully utilised. However, management mentioned it is restructuring its markets in the Middle East, which should bring up revenue and profitability of the other markets segment in 2019.

### FY18 result summary

(USD m)	4Q18	3Q18	4Q17	QoQ (%)	YoY (%)	FY18	FY17	YoY (%)	Comment
Revenue	70.0	72.9	74.1	-4.0	-5.6	284.3	269.5	5.5	Mainly driven by volume growth in most markets, offset by depreciation of major markets' currencies.
Gross profit	26.8	28.2	28.5	-5.0	-5.9	110.9	103.2	7.4	
Gross margin (%)	38.3	38.7	38.4			39.0	38.3		Higher gross margin due to change in market and product mix.
EBIT	1.8	6.5	7.9	-72.3	-77.0	21.6	29.1	-25.8	
Op margin (%)	2.6	9.0	10.6			7.6	10.8		Operating margin fell due to reinvestment of revenue into A&P for new products as well as negative impact from currencies movements.
Recurring PATMI	1.1	6.9	4.4	-84.8	-76.1	18.1	20.7	-12.6	FY18 recurring PATMI was impacted by USD3.5m of forex loss. Excluding forex, FY18 core PATMI is up 4% YoY.
Net margin (%)	1.5	9.5	5.9			6.4	7.7		

Source: company data, RHB

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	269.5	284.3	309.3	337.0	371.5
Recurring net profit (USDm)	20.7	18.1	20.9	22.7	25.3
Recurring NP growth (%)	98.7	(12.6)	15.7	8.4	11.5
Recurring P/E (x)	10.3	11.8	10.2	9.4	8.4
P/BV (x)	1.3	1.2	1.1	1.0	0.9
P/CF (x)	9.9	19.3	15.8	11.9	11.0
Dividend Yield (%)	1.1	1.2	1.5	1.6	1.8
EV/EBITDA (x)	5.9	7.4	6.2	5.5	4.9
ROE (%)	12.3	10.3	10.8	10.6	10.7
Net debt to equity (%)	net	(4.9)	2.9	1.9	(3.9)
Interest coverage (x)	32.3	27.3	22.6	23.9	26.9

Source: Company data, RHB

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