

16 September 2024

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Expanding Ingredients Capability In Vietnam; BUY

Target Price (Return): SGD1.23 (+27%)
 Price (Market Cap): SGD0.97 (USD393m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.44m/0.33m

- Maintain BUY, new SGD1.23 TP from SGD1.36, 27% upside with c.5% FY25F yield.** We continue to like Food Empire for its strong balance sheet, cash generation ability, market share traction, valuation, and growth led by capacity expansion. We cut FY25F and FY26F earnings by 2% each, on higher depreciation due to the construction of new plants. Our new TP is based on 9x FY25F P/E – this lower multiple accounts for revenue and margin headwinds including price challenges in Russia and elevated coffee prices.
- Starts new coffee manufacturing facility investment in Vietnam.** FEH has announced that it will be investing approximately USD80m (including working capital) in a new freeze-dried soluble coffee manufacturing facility in Binh Dinh province, Central Vietnam. The group already has an instant beverage production facility in Vietnam, and this will be its second factory and first ingredients production facility there. It can tap on Vietnam as a leading producer of Robusta coffee beans for supply, to produce freeze-dried soluble coffee. The new facility will help to increase the production of freeze-dried soluble coffee, in addition to its existing manufacturing facility in India. This will help FEH to diversify and grow its ingredients business to become a key player in spray-dried and freeze-dried soluble coffee. Construction is expected to start in 1Q25, and scheduled to be completed in early 2028. The group recently raised USD40m of redeemable exchangeable notes from Ikhlas Capital, and this will come in handy to help fund this Vietnam expansion, in our view.
- Reduce FY25F and FY26F earnings by 2% each.** This new facility is a long-term investment where production will commence only in 2028, but there is no revenue benefit before that, except for increased capex and depreciation. We impute higher capex for FY25F and FY26F, and increase depreciation expense assumptions marginally due to the construction of the new plants. As such, our FY25-26F earnings are now lower by 2% for each year.
- Now less upbeat on TP due to current headwinds.** We are positive on FEH's long-term growth, supported by higher production in Malaysia, Kazakhstan, and Vietnam. However, we are now less positive on elevated coffee prices, the interest expense on notes issued to Ikhlas Capital and its conversion price of SGD1.09, as well as the short-term challenges of raising product prices in Russia. This has led us to reduce our forward P/E to 9x from 10x, ie near mean levels. Our new TP, consequently, drops slightly to SGD1.23.
- Downside risks to our forecasts** include a disruption in operations due to the Russia-Ukraine conflict, and the negative effect of a change in the value of the RUB and other CIS countries' currencies. As FEH's ESG score is 3.0 (country median: 3.1), we apply a 2% discount to its intrinsic value to derive our TP.

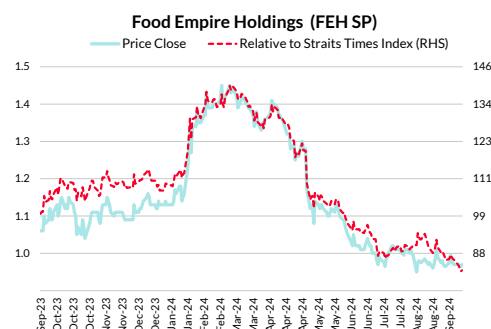
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.2)	(1.0)	(5.8)	(30.7)	(5.8)
Relative	(24.1)	(10.3)	(13.0)	(43.4)	(16.5)
52-wk Price low/high (SGD)	0.95 – 1.45				



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

The company has implemented various facility-level energy conservation initiatives across its operations. It always strives to align its energy and emissions management with the various country-specific energy regulations and policies.

S: GOOD

FEH is committed to supporting its employees and protecting their livelihoods. Since the pandemic, the group has not conducted any COVID-19 retrenchment exercises and still pays employees their full salaries, even when they were not able to fully execute their job roles due to pandemic-related measures.

G: GOOD

FEH has implemented a group-wide grievance mechanism via its whistleblowing policy, which enables employees to raise concerns about any wrongdoing, financial malpractice, illegal acts or business practices that go against its code of conduct, in a safe and confidential manner.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	398	426	452	481	511
Recurring net profit (USDm)	50	57	50	52	55
Recurring net profit growth (%)	142.2	14.3	(11.2)	2.3	6.4
Recurring P/E (x)	8.00	6.91	7.62	7.44	6.99
P/B (x)	1.4	1.3	1.3	1.1	1.0
P/CF (x)	5.56	7.79	6.89	6.65	6.28
Dividend Yield (%)	4.3	9.9	5.0	5.1	5.4
EV/EBITDA (x)	4.58	3.63	3.81	3.48	3.15
Return on average equity (%)	23.8	19.7	16.7	16.0	15.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

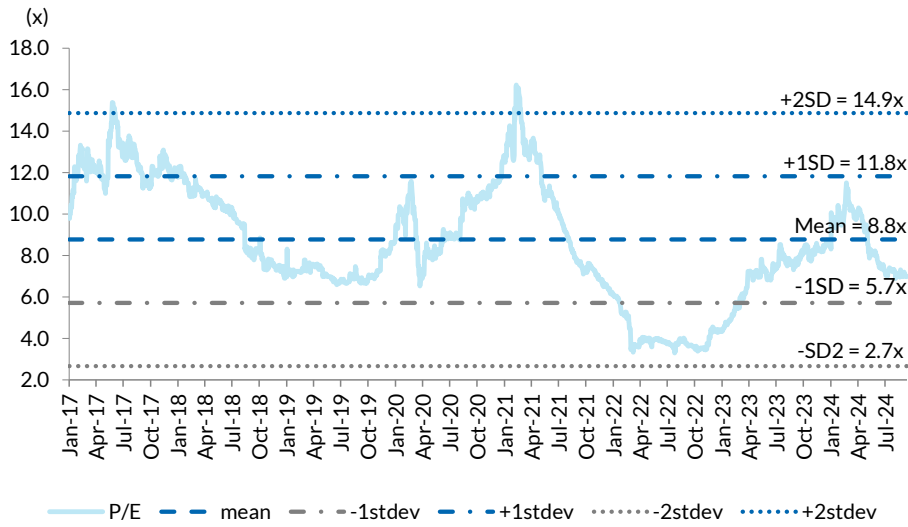
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.09	0.11	0.10	0.10	0.11
Consumer Non-cyclical	DPS	0.03	0.07	0.04	0.04	0.04
Food Empire	BVPS	0.52	0.56	0.60	0.67	0.75
FEH SP	Return on average equity (%)	23.8	19.7	16.7	16.0	15.4
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
9x FY25F P/E	Recurring P/E (x)	8.00	6.91	7.62	7.44	6.99
	P/B (x)	1.4	1.3	1.3	1.1	1.0
	FCF Yield (%)	14.5	9.7	11.3	7.2	8.1
	Dividend Yield (%)	4.3	9.9	5.0	5.1	5.4
	EV/EBITDA (x)	4.58	3.63	3.81	3.48	3.15
	EV/EBIT (x)	5.42	4.19	4.46	4.12	3.70
Key drivers	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Margin expansion on the strengthening RUB;	Total turnover	398	426	452	481	511
ii. Market penetration in core markets of Russia, Ukraine, Kazakhstan, Commonwealth of Independent States (CIS), and Vietnam.	Gross profit	119	141	142	151	161
	EBITDA	68	82	74	78	83
	Depreciation and amortisation	(11)	(11)	(11)	(12)	(12)
	Operating profit	57	71	64	66	70
	Net interest	(1)	1	(1)	(2)	(2)
	Pre-tax profit	71	72	64	65	69
	Taxation	(11)	(16)	(13)	(14)	(15)
	Reported net profit	60	57	50	52	55
	Recurring net profit	50	57	50	52	55
Key risks	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Negative movement in the RUB and other CIS countries' currencies;	Change in working capital	11	(16)	(4)	(5)	(5)
ii. Rising coffee bean prices.	Cash flow from operations	71	50	56	58	61
	Capex	(14)	(13)	(13)	(30)	(30)
	Cash flow from investing activities	18	(16)	(13)	(30)	(30)
	Dividends paid	(9)	(17)	(39)	(19)	(19)
	Cash flow from financing activities	(24)	(28)	1	(19)	(19)
	Cash at beginning of period	61	126	131	176	184
	Net change in cash	66	7	44	9	12
	Ending balance cash	126	131	176	184	196
Company Profile	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Food Empire is a global F&B 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, the Middle East, North America and Europe.	Total cash and equivalents	126	131	176	184	196
	Tangible fixed assets	101	103	105	123	140
	Total investments	30	33	34	35	37
	Total assets	381	403	459	495	534
	Short-term debt	13	15	15	15	15
	Total long-term debt	25	21	61	61	61
	Total liabilities	106	108	154	157	160
	Total equity	276	294	306	338	374
	Total liabilities & equity	381	403	459	495	534
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.5	6.9	6.2	6.3	6.3
	Recurrent EPS growth (%)	143.3	15.8	(9.3)	2.3	6.4
	Gross margin (%)	29.8	33.2	31.5	31.5	31.5
	Operating EBITDA margin (%)	17.0	19.2	16.5	16.3	16.2
	Net profit margin (%)	15.1	13.3	11.2	10.7	10.7
	Dividend payout ratio (%)	28.8	69.0	37.9	37.1	37.1
	Capex/sales (%)	3.4	2.9	2.8	6.2	5.9
	Interest cover (x)	46.5	(88.9)	51.8	28.9	30.7

Source: Company data, RHB

Figure 1: FEH's historical forward P/E



Source: RHB, Bloomberg

Emissions And ESG

Trend analysis

Overall emissions have remained stable over the past three years, with the decline in 2021 emissions due to a lack of data from the Russia plant, as a result of the country's war with Ukraine. While FEH's Scope 1 direct emissions are minimal, most of its emissions stem from Scope 2 indirect emissions, of which its Russia plant is the more dominant contributor.

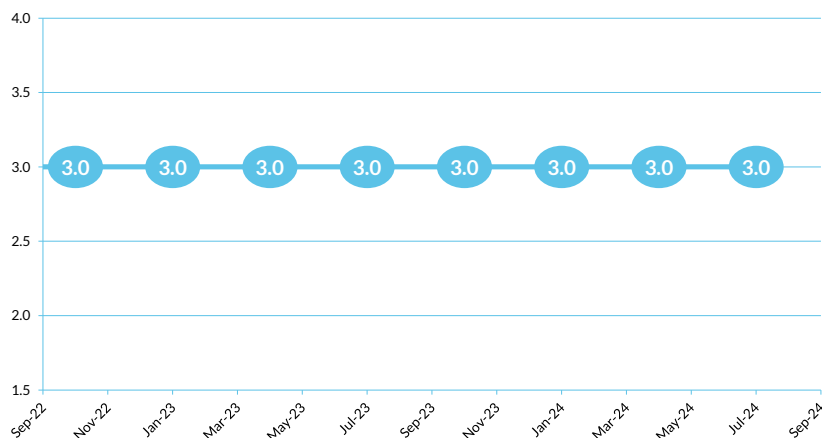
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	15	131	110
Scope 2	999	2,480	2,646
Scope 3	-	-	na
Total emissions	1,014	2,611	2,756

Source: Company data, RHB

Latest ESG-Related Developments

- In 2022, FEH's Vietnam plant implemented energy-saving actions including installing a day/night light-switching system, solar electricity for perimeter lights, skylights at its warehouses and energy-saving LED lamps.
- In 2023, FEH used LPG for forklifts in its Vietnam warehouse, and installed solar panels at its plant in Malaysia.
- FEH will continue to explore setting more detailed targets aligned with both Task Force on Climate-Related Financial Disclosures or TCFD recommendations, as well as the SGX's phased approach guidelines.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-02	Buy	1.36	0.98
2024-07-03	Buy	1.52	0.97
2024-06-13	Buy	1.75	1.03
2024-02-29	Buy	1.75	1.44
2023-11-10	Buy	1.53	1.13
2023-07-05	Buy	1.39	1.04
2023-03-15	Buy	1.39	0.87
2022-08-14	Buy	0.95	0.56
2022-07-04	Buy	0.95	0.52
2022-05-18	Buy	0.95	0.53
2022-02-28	Buy	0.93	0.52
2022-01-09	Buy	1.01	0.77
2021-11-14	Buy	1.13	0.79
2021-10-04	Buy	1.23	0.77
2021-08-16	Buy	1.23	0.81

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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