

13 June 2024

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

**Expect Minimal Margin Pressure; Keep BUY**

Target Price (Return): SGD1.75 (66.4%)  
 Price (Market Cap): SGD1.05 (USD410m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.89m/0.66m

- **Maintain BUY, and SGD1.75 TP, 66% upside and c.6.5% FY25F yield.** We remain positive on Food Empire despite recent increase in coffee prices and earnings cut due to higher input costs. We like FEH for its strong balance sheet, cash generation ability, market share traction, valuation, and share buyback initiative. Growth continues to be driven by capacity expansion of its ingredients business. Our TP remains the same as we roll forward our 11x valuation from FY24F P/E to blended FY24-25F P/E.
- **Higher coffee prices to dampen margins slightly.** Since 2H23, coffee prices increased c.26% from USD179/lb to c.USD245/lb currently. As FEH's main input is coffee, a sustained coffee price at current levels could see some pressure on margins going forward. When coffee prices reached as high as USD258/lb in FY22, we note that FEH's gross margins were subdued at under 30%. Given that the coffee price increase rallied since 2H23, we anticipate slight margin pressure going forward. We reduce our gross margin assumption from 33.5% to 33% going forward – higher than previously given that it now has a stronger product portfolio vs FY22. That said, FEH is a brand company which can implement resizing (number of sachets) and repricing strategies to mitigate higher raw material prices. Our FY24-26F earnings is consequently lowered by 3% each.
- **Marketing, brand building, and higher production to drive growth going forward.** We see overall growth to be led by marketing and promotion strategies and brand building in the various markets. In addition, its Malaysia operation would have its new non-dairy creamer production capacity commencing sales from 2Q24, with management expecting it to reach full utilisation in the next 2-3 years. It is also constructing a new snack factory in Malaysia, which will contribute higher snack production capacity from 2025.
- **1Q24 revenue in line.** 1Q24 revenue was USD118m (+14.5% YoY), within estimates. Growth was driven by the key segments of Russia, South East Asia, Ukraine, Kazakhstan, Commonwealth of Independent States (CIS), and South Asia. FEH's largest market Russia saw 27.4% YoY revenue growth in local currency terms, but recorded just 3.2% YoY revenue growth to USD39m after translating into USD, as the Russian Ruble (RUB) depreciated 23.6% against the USD. Ukraine, Kazakhstan, and CIS segments grew 15.7% YoY to USD30m. South East Asia grew 35.3% YoY to USD30m as well. Overall, there were increased marketing and promotional activities, higher production volume growth from Malaysia and India manufacturing plants, and robust pricing strategy in key markets. Forecasts unchanged except for a lower GPM.
- **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 CIS' 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.

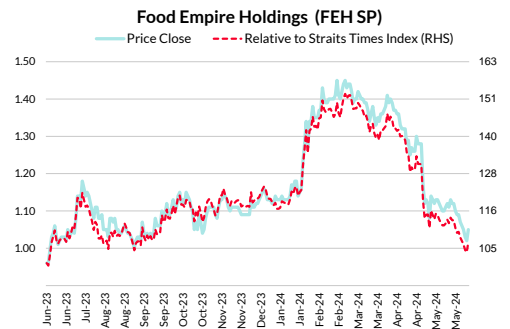
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.1)	(7.9)	(25.0)	(6.3)	10.5
Relative	(9.2)	(8.4)	(30.3)	(12.9)	7.0
52-wk Price low/high (SGD)	0.96 – 1.45				



Source: Bloomberg

### Overall ESG Score: 3.0 (out of 4)

#### E: GOOD

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

#### S: GOOD

Food Empire cares deeply for its employees and is committed to supporting them 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 COVID-19 measures.

#### G: GOOD

Food Empire has implemented a group-wide grievance mechanism via its Whistleblowing Policy. The Whistleblowing Policy allows employees to raise concerns about any wrongdoings, 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 capitalisation 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	60	63	67
Recurring net profit growth (%)	142.2	14.3	4.9	6.2	6.2
Recurring P/E (x)	8.33	7.19	6.86	6.46	6.08
P/B (x)	1.5	1.4	1.3	1.1	1.0
P/CF (x)	5.79	8.11	6.27	5.98	5.68
Dividend Yield (%)	4.2	9.5	5.5	5.9	6.2
EV/EBITDA (x)	4.82	3.83	3.52	2.97	2.44
Return on average equity (%)	23.8	19.7	19.5	18.8	17.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

13 June 2024

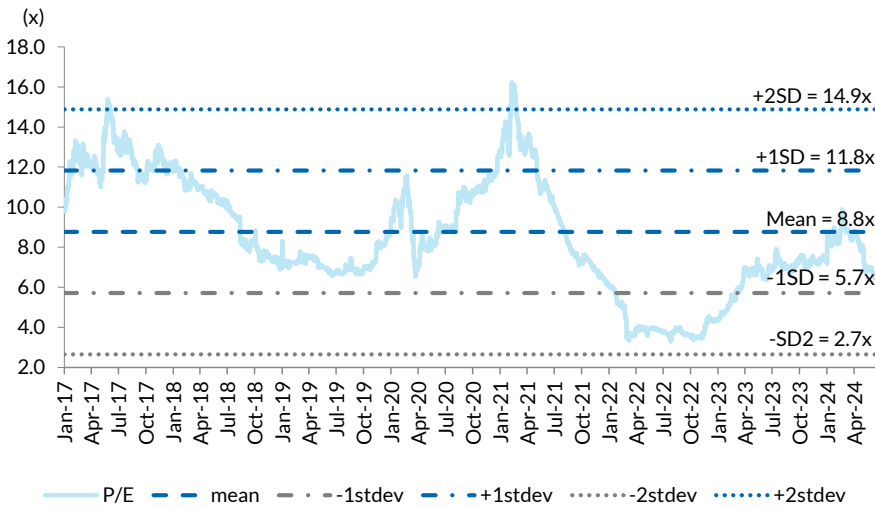
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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS	0.09	0.11	0.11	0.12	0.13
Consumer Non-cyclical	DPS	0.03	0.07	0.04	0.05	0.05
<b>Food Empire</b>	BVPS	0.52	0.56	0.60	0.68	0.76
FEH SP	Return on average equity (%)	23.8	19.7	19.5	18.8	17.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	8.33	7.19	6.86	6.46	6.08
11x blended FY24-25F P/E	P/B (x)	1.5	1.4	1.3	1.1	1.0
	FCF Yield (%)	14.0	9.3	12.9	13.7	14.6
	Dividend Yield (%)	4.2	9.5	5.5	5.9	6.2
<b>Key drivers</b>	EV/EBITDA (x)	4.82	3.83	3.52	2.97	2.44
i. Margin expansion on strengthening RUB;	EV/EBIT (x)	5.71	4.42	4.04	3.38	2.75
ii. Market penetration in core markets of Russia, Ukraine, Kazakhstan, Commonwealth of Independent States (CIS), and Vietnam.						
	<b>Income statement (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	398	426	452	481	511
i. Negative movement in RUB and other CIS countries' currencies;	Gross profit	119	141	149	159	169
ii. Rising coffee bean prices.	EBITDA	68	82	85	90	95
	Depreciation and amortisation	(11)	(11)	(11)	(11)	(11)
	Operating profit	57	71	74	79	84
	Net interest	(1)	1	(0)	(0)	(0)
	Pre-tax profit	71	72	75	80	85
	Taxation	(11)	(16)	(16)	(17)	(18)
	Reported net profit	60	57	60	63	67
	Recurring net profit	50	57	60	63	67
<b>Company Profile</b>						
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.	<b>Cash flow (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	11	(16)	(4)	(4)	(5)
	Cash flow from operations	71	50	65	68	72
	Capex	(14)	(13)	(13)	(13)	(13)
	Cash flow from investing activities	18	(16)	(13)	(13)	(13)
	Dividends paid	(9)	(17)	(39)	(23)	(24)
	Cash flow from financing activities	(24)	(28)	(39)	(23)	(24)
	Cash at beginning of period	61	126	131	145	178
	Net change in cash	66	7	14	33	36
	Ending balance cash	126	131	145	178	214
	<b>Balance sheet (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	126	131	145	178	214
	Tangible fixed assets	101	103	105	107	108
	Total investments	30	33	34	35	37
	Total assets	381	403	427	471	518
	Short-term debt	13	15	15	15	15
	Total long-term debt	25	21	21	21	21
	Total liabilities	106	108	112	115	119
	Total equity	276	294	315	356	399
	Total liabilities & equity	381	403	427	471	518
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	24.5	6.9	6.2	6.3	6.3
	Recurrent EPS growth (%)	143.3	15.8	4.8	6.2	6.2
	Gross margin (%)	29.8	33.2	33.0	33.0	33.0
	Operating EBITDA margin (%)	17.0	19.2	18.8	18.6	18.5
	Net profit margin (%)	15.1	13.3	13.2	13.2	13.2
	Dividend payout ratio (%)	28.8	69.0	37.9	37.9	37.9
	Capex/sales (%)	3.4	2.9	2.8	2.6	2.4
	Interest cover (x)	46.5	(88.9)	926.6	984.8	1,047.0

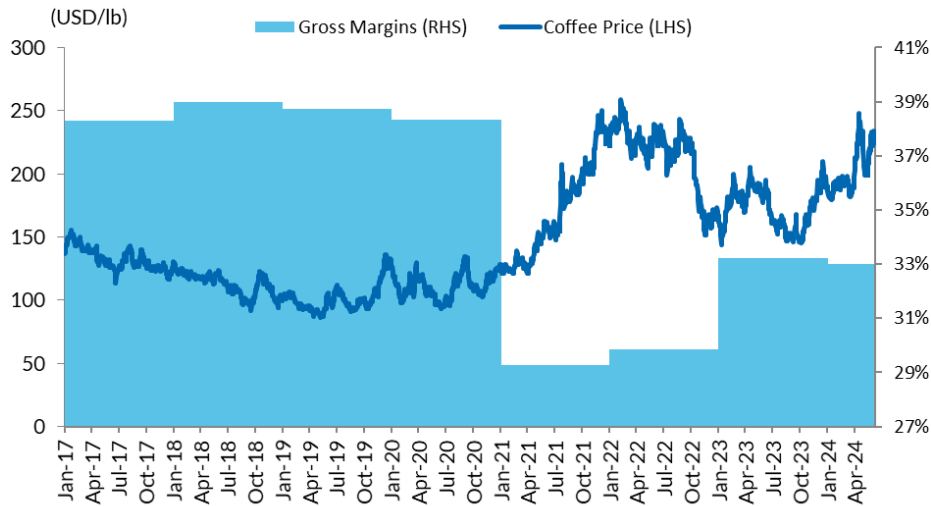
Source: Company data, RHB

Figure 1: FEH's historical forward P/E



Source: RHB, Bloomberg

Figure 2: Coffee prices



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 lack of data from the Russia plant due to the Ukraine conflict. While scope 1 direct emissions are minimal, most of its emission stems from Scope 2 indirect emissions, of which its Russia plant is the more dominant contributor.

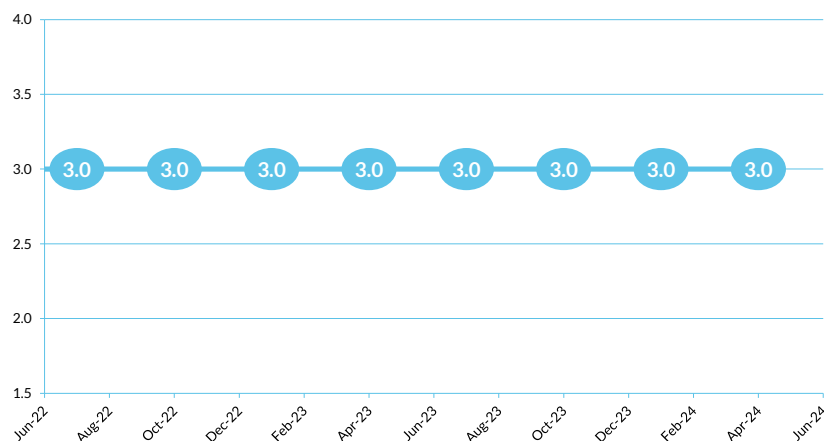
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	15	131	na
Scope 2	999	2,480	na
Scope 3	-	-	na
Total emissions	1,014	2,611	na

Source: Company data, RHB

## Latest ESG-Related Developments

- In 2022, FEH's Vietnam plant implemented energy saving actions including installing day/night light switching system, solar electricity for perimeter lights, sky light at its warehouses and energy saving LED lamps.
- Food Empire will continue to explore setting more detailed targets aligned with both TCFD recommendations and SGX's phased approach guidelines.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-02-25	Buy	1.27	0.92
2021-02-07	Buy	1.27	0.88
2020-11-13	Buy	0.80	0.60

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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