

6 September 2023

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

### Positive On Vietnam Supporting Growth; Keep BUY

Target Price (Return): SGD1.39 (29.7%)  
 Price (Market Cap): SGD1.07 (USD416m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.63m/0.47m

- **Keep BUY and SGD1.39 TP, 30% upside and c.5% FY24F yield.** We continue to like Food Empire for its growth prospects – driven by key markets Russia, Ukraine, Kazakhstan, Commonwealth of Independent States (CIS), and South-East Asia. Valuations are undemanding at <8x FY24F P/E, ie -0.5SD of its historical mean. Our TP is based on 10x blended FY23F-24F yields and 30% upside.

- **Positive on Vietnam.** We recently visited FEH's Vietnam operations and came away positive on the market's outlook and growth prospects. The company's operations there stand to benefit from strong demographics and economic growth potential, with a population of c.100m people (where c.50% are below 35), and a 2024F GDP growth is 6.4%. Vietnam is currently a significant contributor to FEH's South-East Asian revenue, where it has built a market presence for over 10 years – establishing itself as the third-largest 3-in-1 instant coffee player. The key strategies ahead: Move into product variants and penetrate further with the Café Phó brand.

- **1H23 earnings on track.** Revenue and earnings of SGD198m (+12% YoY) and SGD27m (-1.5% YoY) were in line with our forecasts. Topline growth was driven largely by Russia, Ukraine, Kazakhstan, and CIS countries (+22% YoY). South-East Asia's revenue was flattish (+0.4% YoY; SGD46m), with South Asia's revenue growing slightly at 2.9% YoY (SGD22m). Operating profit grew 68% YoY on gross margin expansion (+5.5ppts) to 34.7% due to better pricing. Earnings slightly declined from 1H22 on FX impact. Otherwise, core operations remained healthy. We maintain our TP and earnings forecasts, as 1H23's performance was on track.

- **As mentioned above, FEH's growth drivers** stem from Russia and its neighbouring markets – ie Ukraine, Kazakhstan, and the CIS member states – as well as Vietnam, and growth continues to be driven by these markets. Despite the conflict in Ukraine, the company's factory there remains operational – it also continues to supply food products to Russia. Growth in the latter has been positive over the past few quarters, driving overall revenue and earnings. This was mainly due to brand building, brand investment, and marketing & promotion exercises conducted within this market. We are positive on Vietnam as well – it is a key contributor to South-East Asian sales. FEH's strategy to strengthen its market share with new product variants and further market penetration of its mainstay coffee product (Café Phó) should bode well and support future growth going forward.

- **Downside risks** to our forecasts include a disruption of operations due to the Russia-Ukraine conflict, and currency swings in the RUB and other CIS countries' currencies. As FEH's ESG score is 3.0 out of 4.0 – on par with our country median – we apply a 0% discount/premium to its intrinsic value to derive our TP.

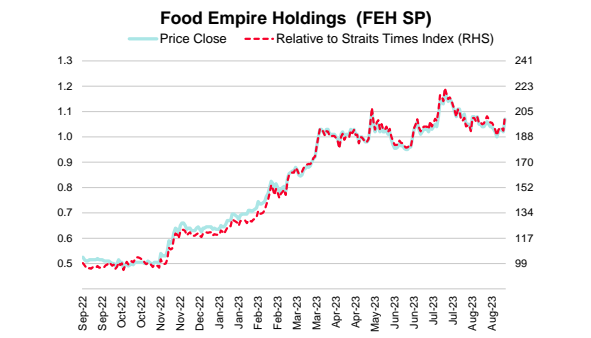
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	68.5	1.9	11.5	24.4	105.8
Relative	69.3	3.9	10.3	24.6	105.4
52-wk Price low/high (SGD)				0.48	– 1.18



Source: Bloomberg

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

##### E: GOOD

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

##### S: GOOD

FEH cares deeply for its employees and is committed to supporting them and protecting their livelihoods. Since the pandemic, the company 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 measures.

##### G: GOOD

FEH has implemented a group-wide grievance mechanism via its whistleblowing policy. This policy allows employees to raise concerns about any wrongdoings, financial malpractice, illegal acts, or business practices that go against the company's codes 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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	320	398	415	433	452
Recurring net profit (USDm)	21	50	52	55	57
Recurring net profit growth (%)	(26.9)	142.2	5.3	4.2	4.2
Recurring P/E (x)	20.48	8.42	8.00	7.68	7.36
P/B (x)	1.9	1.5	1.3	1.2	1.1
P/CF (x)	31.80	5.85	7.19	6.99	6.75
Dividend Yield (%)	2.1	4.1	4.7	4.9	5.2
EV/EBITDA (x)	10.72	4.89	4.24	3.68	3.14
Return on average equity (%)	8.7	23.8	17.8	16.6	15.6
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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.04	0.09	0.10	0.10	0.11
Consumer Non-cyclical	DPS	0.02	0.03	0.04	0.04	0.04
<b>Food Empire</b>	BVPS	0.42	0.52	0.58	0.65	0.72
FEH SP	Return on average equity (%)	8.7	23.8	17.8	16.6	15.6
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	20.48	8.42	8.00	7.68	7.36
10x blended FY23-24F P/E	P/B (x)	1.9	1.5	1.3	1.2	1.1
	FCF Yield (%)	1.6	13.8	11.5	11.9	12.4
	Dividend Yield (%)	2.1	4.1	4.7	4.9	5.2
<b>Key drivers</b>	EV/EBITDA (x)	10.72	4.89	4.24	3.68	3.14
i. Market share gains in Russia;	EV/EBIT (x)	14.82	5.79	4.98	4.30	3.64
ii. South-East Asia growth driven by Vietnam and Malaysia.						
	<b>Income statement (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	320	398	415	433	452
i. Negative movement in RUB and other CIS countries' currencies;	Gross profit	94	119	125	130	135
ii. Rising coffee bean prices.	EBITDA	38	68	71	73	76
	Depreciation and amortisation	(11)	(11)	(11)	(11)	(11)
	Operating profit	28	57	60	63	65
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	26	71	62	64	67
	Taxation	(7)	(11)	(9)	(10)	(10)
	Reported net profit	20	60	52	55	57
	Recurring net profit	21	50	52	55	57
	<b>Cash flow (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Company Profile</b>	Change in working capital	(18.8)	11.0	(1.9)	(2.5)	(2.6)
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, Middle East, North America, and Europe.	Cash flow from operations	13.2	71.5	58.2	59.9	62.0
	Capex	(6.6)	(13.7)	(10.0)	(10.0)	(10.0)
	Cash flow from investing activities	(6.0)	18.0	(10.0)	(10.0)	(10.0)
	Dividends paid	(8.9)	(8.8)	(17.4)	(19.9)	(20.7)
	Cash flow from financing activities	(15.3)	(24.0)	(17.4)	(19.9)	(20.7)
	Cash at beginning of period	69.0	60.6	125.6	156.4	186.4
	Net change in cash	(8.1)	65.6	30.8	29.9	31.3
	Ending balance cash	60.6	125.6	156.4	186.4	217.6
	<b>Balance sheet (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	61	126	156	186	218
	Tangible fixed assets	104	101	101	100	100
	Total investments	37	30	32	35	38
	Total assets	340	381	419	456	494
	Short-term debt	22	13	13	13	13
	Total long-term debt	27	25	25	25	25
	Total liabilities	113	106	108	110	113
	Total equity	227	276	311	345	381
	Total liabilities & equity	340	381	419	456	494
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	17.3	24.5	4.2	4.3	4.3
	Recurrent EPS growth (%)	(26.9)	143.3	5.3	4.2	4.2
	Gross margin (%)	29.3	29.8	30.0	30.0	30.0
	Operating EBITDA margin (%)	11.9	17.0	17.0	16.9	16.8
	Net profit margin (%)	6.1	15.1	12.6	12.6	12.6
	Dividend payout ratio (%)	45.2	28.9	38.0	38.0	38.0
	Capex/sales (%)	2.0	3.4	2.4	2.3	2.2
	Interest cover (x)	23.2	46.5	48.1	50.2	52.3

Source: Company data, RHB

## Positive On FEH's Vietnam Site Visit

### Vietnam has characteristics of a fast-growing economy

**Well positioned for growth.** Vietnam has a young population of around 100m, making it one of the world's top 20 most populous nations. About half of its population is under the age of 35, according to Statista. The country has the fastest-growing middle class population in South-East Asia, with per capita income growth to hit USD7,500 by 2030 from USD3,560 in 2021 – this is according to [Enterprise Singapore's market guide](#). GDP growth for 2024 is expected to hit 6.4% based on our economics desk's forecasts.

As an emerging manufacturing hub in Asia, Vietnam's manufacturing is driving growth, accounting for about 25% of GDP according to World Bank data. Competitive labour costs have driven international manufacturers to produce in Vietnam, especially in the food processing, cigarettes & tobacco, textiles, chemicals, and electrical goods segments.

Increased economic activities are supporting the rise of the country's middle class and domestic consumption. In our view, both manufacturing output increase and the global recovery will be potential catalysts that will drive a more robust GDP growth going forward. Against this backdrop, FEH – as an established player in Vietnam's instant coffee market – is well positioned to ride on the country's economic growth in the near future.

### FEH's Vietnam operations are well run and positioned for growth

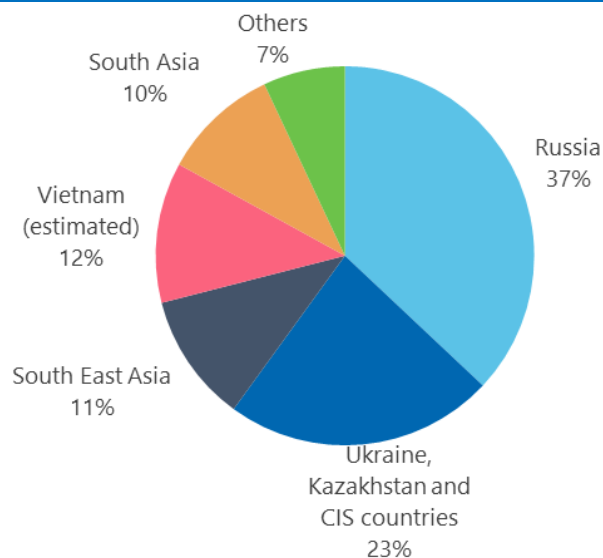
**Vietnam contributes around 12-15% of to FEH's total revenue.** The company's South-East Asia's revenue has been in the about 23-30% range of total revenue in recent years. Most of FEH's revenue is still being contributed by Russia, Ukraine, Kazakhstan, and CIS countries (around 60%). Nonetheless, we estimate Vietnam's revenue at about USD50m per year or at around 12-15% of FEH's current total revenue.

**Figure 1: Vietnam is estimated at about half of South-East Asia's revenue**

Revenue (USDm)	FY20	FY21	1H22	FY22	1H23
Russia	99.6	114.9	57.1	148.4	70.6
Ukraine, Kazakhstan, and CIS	67.8	71.2	41.3	91.5	49.5
South-East Asia	81.0	96.8	45.4	92.7	45.8
South Asia	7.2	17.4	18.8	39.6	21.7
Others	17.3	19.8	14.7	26.2	10.5
Total revenue (USDm)	273.0	320.1	177.4	398.4	198.1
South-East Asia's % contribution	30%	30%	26%	23%	23%

Source: Company data, RHB

**Figure 2: We estimate Vietnam at 12% of FY22's total revenue**



Source: Company data, RHB

The Vietnam operations are headquartered in Ho Chi Minh City and controls nationwide sales. FEH's operations in Vietnam comprises one factory and a head office in two separate locations around Ho Chi Minh City. The factory largely manufactures for the Vietnam market with very little for export. The head office strategises, markets, and promotes new and existing products for this market. The utilisation of the Vietnam factory is currently two shifts, with ample headroom to scale to full capacity if needed.

FEH has the capability to formulate, produce, distribute, and market existing and new instant drink products nationwide. Such capabilities and resources create an entry barrier to new players who wish to enter this space.

Figure 3: Product line-up manufactured at FEH's Vietnam factory



Source: Company, RHB

Café Phô Sữa Đá is FEH's key product in Vietnam. Other products include MacCoffee Café Phô and Ly Lon, MacCereal instant cereal, and Hillway instant bubble tea. FEH's growth strategy for its products is two-pronged: i) Launching new products and ii) product variants (including Café Phô Gold).

Due to its strong uptake in general trade, Café Phô Sữa Đá dominates most of its Vietnam sales by product category. FEH's Café Phô has achieved quality and prices itself at a premium. It does not compete on price but, rather, on taste, which is why the company prices this product higher than its average competitor on a per sachet basis. This is because the formulated taste of FEH's 3-in-1 Café Phô has achieved a quality similar to that of local coffee shops, which justifies a slight premium on average to other instant coffees in the market. Its margins management strategy does not involve the resizing of sachets due to the risk of taste changes in the formulation. However, such a strategy may include pricing changes and modifications in the number of sachets in each individual box or multi-pack.

Figure 4: FEH portfolio with Café Phô Sữa Đá as its key product



Source: Company data

**FEH's MacCoffee is one of the top brands in Vietnam.** There are more than five players in Vietnam's instant coffee market, but three key brands dominate. FEH's market share is the country's third-largest behind Nescafe and G7 in terms of instant coffee. Its MacCoffee is ranked alongside what the aforementioned top players offer. What is notable is that, when compared to the longer history these brands have in Vietnam, MacCoffee has become the third-largest instant coffee brand despite a short 10-year history.

**Figure 5: FEH is Vietnam's third largest instant coffee player**

Brand	Market share rank FY22
Nescafe	1
G7	2
MacCoffee	3
5 other brands	4-8
Other smaller brands	

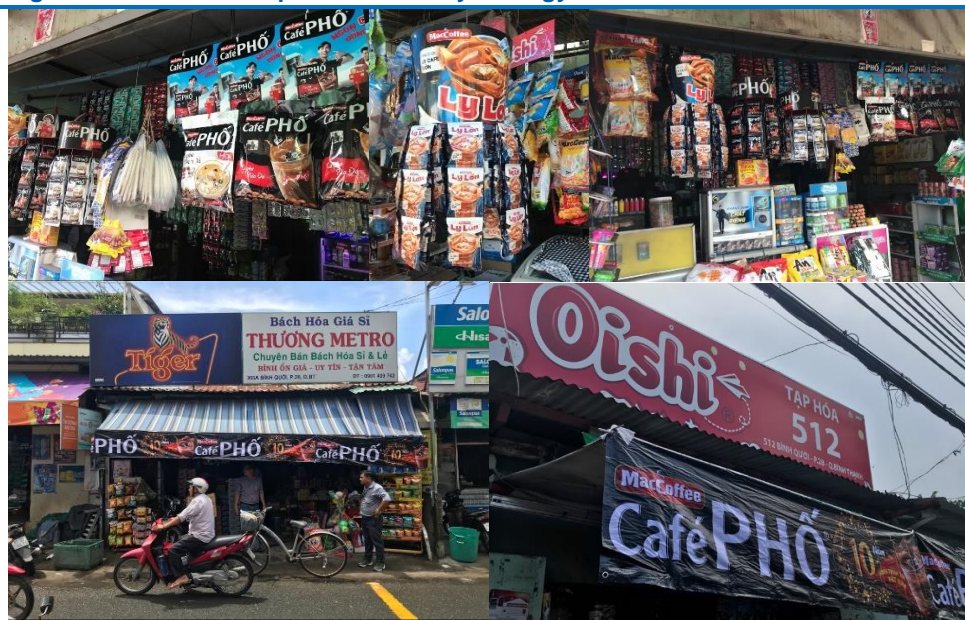
Source: Company data, RHB

**General trade dominates FEH's Vietnam sales.** This ASEAN member state has a huge land area (c.331,000sq km) with both upcountry rural areas and key urban cities. As with many South-East Asian nations with huge land area, there are many small towns that are located far away from the key cities. Therefore, the market structure in Vietnam is naturally dominated by general trade.

For FEH, this stands at about 85% when compared to modern trade's 15%. The company works with over 150 distributors to get its products distributed across Vietnam. One of the reasons for its strong cash-generating ability is that it collects cash upfront from distributors before dispatching its products to their warehouses. FEH's point of sales network totals more than 1,000 and, over the years, the company has established a strong network and foothold in general trade, with sales people working closely with distributors and general trade sales outlets for products visibility – such sales people ensure that FEH's products are more visible and accessible to consumers vis-à-vis the competition.

The company's key product within the general trade segment is its basic 3-in-1 Café Phở, which customers outside of Vietnam's key cities are more inclined to consume.

**Figure 6: General trade product visibility strategy**



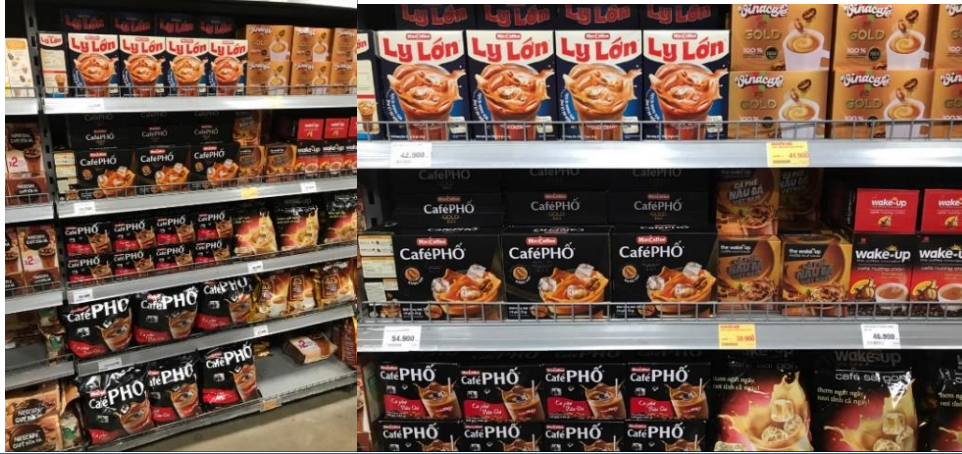
Source: RHB

**Modern trade strategies help to grow the brands.** Modern trade is important for FEH as well, as cities develop and disposable income improves. This is where it capitalises on the growing wealth of the mass market in Vietnam's modern cities. Modern trade allows the company to develop and execute various marketing strategies, eg product variants, complementary beverage products, and tasting events to acquire market share. Products that have been launched include cereal and bubble tea.

**Low risk of stuffing inventory in the distribution channels.** FEH is a manufacturer and brand owner of branded packaged food. Therefore, it is in the company's interest to grow its brands and sales across Vietnam.

The ultimate offtake by consumers remains FEH's key priority. Products that have been sold to distributors are generally operated on a returnable basis for goods that distributors are unable to sell through. Hence, there is low risk of running promotions with distributors and recognising sales, which increases inventory levels within the distribution channels that are ultimately unsold to consumers.

**Figure 7: FEH in the shelves of modern trade**



Source: RHB

**Positive on FEH’s operations in Vietnam**

**We expect FEH’s Vietnam operations to grow**, estimating for the domestic coffee market to deliver low-to-high single-digit revenue growth. We also forecast organic growth at its stable state to be less than 5%, but – with new products and customer segments acquired – growth could be slightly higher.

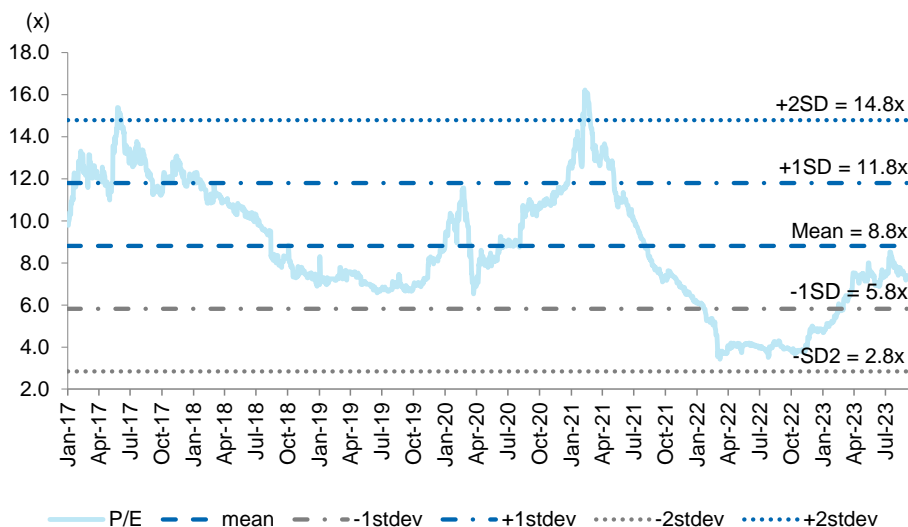
Such growth is being driven, according to management’s guidance, by maturing coffee consumers going on the age of 30 (and above), which have made a lifestyle switch from consuming coffee in local coffee shops to adopting instant coffee as a regular beverage at home. Marketing and promotional activities are being done to improve reach and awareness to such new customers, providing them with the opportunity to taste FEH’s products, which are close to the quality served at local coffee shops.

The strategy for modern trade is to introduce product variants as well, eg instant bubble tea and cereal products, amongst others. FEH formulates various new products into the market every year, but only the most viable ones eventually make it to the company’s permanent product line-up. For general trade, FEH’s strategy is to increase visibility at point of sales outlets so that the product becomes more present and is associated with consumers outside of Vietnam’s key cities.

**Overall, we are positive on FEH’s Vietnam operations.** This country is a key market in South-East Asia for the company, and we expect it to support overall growth outside of Russia, Ukraine, Kazakhstan, and the CIS markets. FEH is well positioned for growth in Vietnam, where GDP growth and consumption are expected to be robust going forward. It already has a formulation that is well accepted there – hence, its products are scalable.

Growth opportunities in Vietnam for FEH include more sales in the north, new product variants, and market share capture of new customers picking up instant coffee as they transition to mature adulthood from their youth.

**Figure 8: FEH is currently trading below the historical 9x P/E mean**



Source: RHB, Bloomberg

## Recommendation Chart

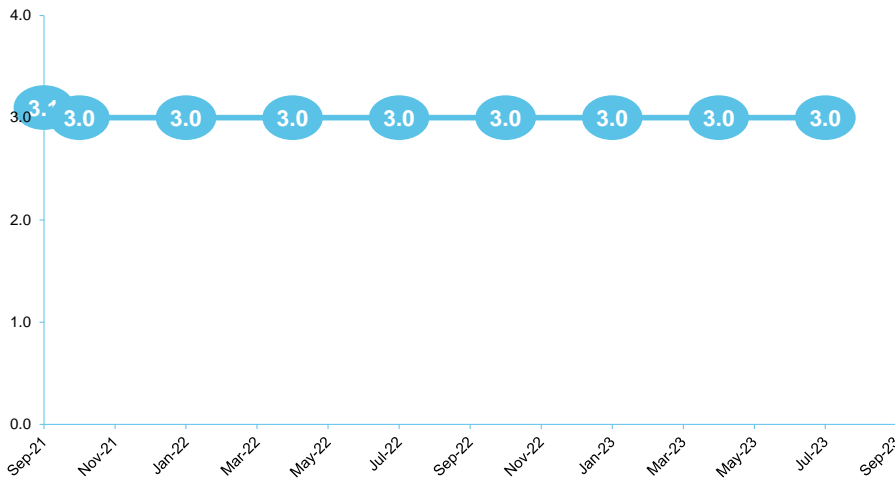


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-09	Buy	0.75	0.57
2020-05-13	Buy	0.75	0.51

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB



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