

1 March 2024

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Expect Better Sales Traction Ahead; Maintain BUY

Target Price (Return): SGD1.75 (+22%)
 Price (Market Cap): SGD1.44 (USD561m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.07m/0.80m

- Maintain BUY, new SGD1.75 TP from SGD1.53, 22% upside and c.4% FY24F yield.** Our outlook for Food Empire has become more positive after it posted strong core earnings for FY23. Based on its current sales traction and strategy, we believe FEH should see stronger demand growth ahead. As such, we raise our estimated sales growth by 4-6% and earnings growth by 5-7%, premised on better market penetration and margins. Following the upgrade in our forecasts, we peg the stock to 11x FY24F P/E (vs 10x previously).
- FY23F earnings in line.** Earnings of USD57m (+14% YoY) and revenue of USD426m (+7% YoY) are in line with our estimates. Revenue was driven by the Ukraine, Kazakhstan, Commonwealth of Independent States (CIS) (USD111m, +21% YoY), South Asia (USD49m, +24% YoY), and South-East Asia (USD102m, +10% YoY) markets. Although revenue (in USD terms) from Russia – FEH's largest market – dropped by 3.5% YoY (USD143m), sales in local terms grew, despite the depreciation of the RUB vs the USD. All core markets recorded sales growth in local currency terms, led by higher sales volumes and an increase in selling prices. Its GPM improved by 3.4ppt YoY to 33.2% as FEH sold higher-margin items. EBIT and EBIT margin were in line with our estimate, at SGD71m and 17%. As a result of both sales and GPM growth, the group's core net profit for FY23 expanded by 24% YoY. FEH declared a final and special DPS of 5 SG cents (each), bringing total DPS for the year to 10 SG cents, reflecting a dividend payout ratio of close to 70%.
- Outlook remains robust.** We see growth continuing to come from pure coffee categories such as the coffee mix range in the Russia, Ukraine and CIS markets. Key markets such as Russia also give FEH scope to increase its penetration via more locations and marketing channels. Modern trade in Russia continues to grow, and large store chains taking over smaller shops offer more opportunities to grow channel sales. It is also targeting smaller segments and markets such as the tea segment in Kazakhstan, and freeze-dried pure coffee products in Russia, Ukraine and CIS nations. In Vietnam, FEH will continue to improve its market penetration with its coffee mix and iced coffee products. On the manufacturing side, its production plant in India is currently running at full capacity, while its new non-dairy creamer facility in Malaysia will be commencing production soon. We raise FY24-25F earnings by 5-7%, premised on a more robust outlook for the group. Our higher revenue growth forecast of 4-6% accounts for stronger revenue traction in the Russia, Ukraine and CIS and Vietnam markets. Our margins assumptions are largely unchanged, as FEH should be able to defend its margins by adjusting prices.
- 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.

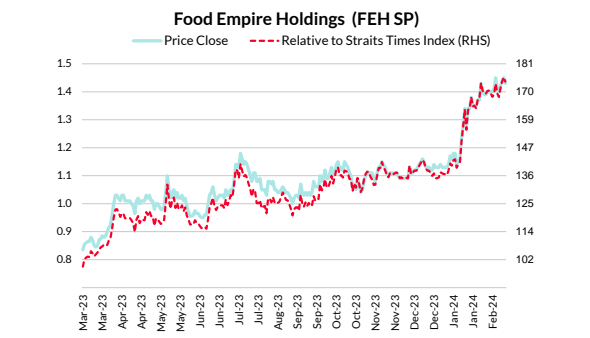
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	26.5	6.7	30.0		82.2
Relative	29.6	7.4	27.6	42.540	86.0
52-wk Price low/high (SGD)				0.84	1.45



Source: Bloomberg

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	61	65	69
Recurring net profit growth (%)	142.2	14.3	8.1	6.2	6.2
Recurring P/E (x)	11.38	9.83	9.10	8.57	8.07
P/B (x)	2.0	1.9	1.8	1.6	1.4
P/CF (x)	7.91	11.08	8.32	7.94	7.55
Dividend Yield (%)	3.0	7.0	4.2	4.4	4.7
EV/EBITDA (x)	7.07	5.67	5.13	4.49	3.87
Return on average equity (%)	23.8	19.7	20.0	19.2	18.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

The company has implemented various energy conservation initiatives at the 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

FEH is committed to supporting its workers, 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

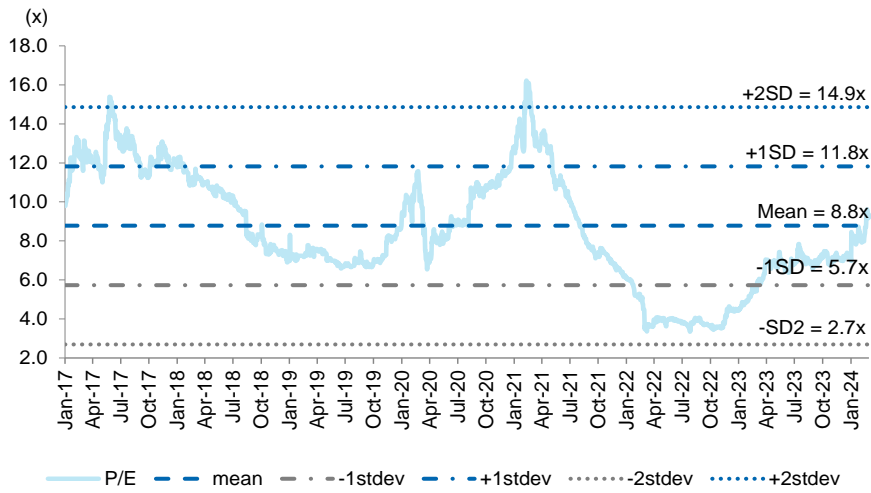
FEH has implemented a group-wide grievance mechanism via its whistleblowing policy. This policy allows employees to raise concerns about any wrongdoings, financial malpractice, illegal acts or business practices that go against its code of conduct in a safe and confidential manner.

Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.09	0.11	0.12	0.12	0.13
Consumer Non-cyclical	DPS	0.03	0.07	0.04	0.05	0.05
Food Empire	BVPS	0.52	0.56	0.60	0.68	0.77
FEH SP	Return on average equity (%)	23.8	19.7	20.0	19.2	18.1
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	11.38	9.83	9.10	8.57	8.07
11x FY24F P/E	P/B (x)	2.0	1.9	1.8	1.6	1.4
	FCF Yield (%)	10.2	6.8	9.8	10.4	11.0
	Dividend Yield (%)	3.0	7.0	4.2	4.4	4.7
Key drivers	EV/EBITDA (x)	7.07	5.67	5.13	4.49	3.87
i. Margin expansion due to the RUB strengthening;	EV/EBIT (x)	8.37	6.54	5.85	5.08	4.36
ii. Market penetration in core markets of Russia, Ukraine, Kazakhstan, Commonwealth of Independent States (CIS), and Vietnam.						
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	398	426	452	481	511
i. Negative movement in the RUB and other CIS countries' currencies;	Gross profit	119	141	152	161	171
ii. Rising coffee bean prices.	EBITDA	68	82	87	92	97
	Depreciation and amortisation	(11)	(11)	(11)	(11)	(11)
	Operating profit	57	71	76	81	86
	Net interest	(1)	1	(0)	(0)	(0)
	Pre-tax profit	71	72	78	82	88
	Taxation	(11)	(16)	(16)	(17)	(18)
	Reported net profit	60	57	61	65	69
	Recurring net profit	50	57	61	65	69
Company Profile						
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.	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	11	(16)	(4)	(4)	(5)
	Cash flow from operations	71	50	67	70	74
	Capex	(14)	(13)	(13)	(13)	(13)
	Cash flow from investing activities	18	(16)	(13)	(13)	(13)
	Dividends paid	(9)	(17)	(39)	(23)	(25)
	Cash flow from financing activities	(24)	(28)	(39)	(23)	(25)
	Cash at beginning of period	61	126	131	147	182
	Net change in cash	66	7	16	35	37
	Ending balance cash	126	131	147	182	218
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	126	131	147	182	218
	Tangible fixed assets	101	103	105	107	108
	Total investments	30	33	34	35	37
	Total assets	381	403	428	474	522
	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	317	359	403
	Total liabilities & equity	381	403	428	474	522
	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	8.0	6.2	6.2
	Gross margin (%)	29.8	33.2	33.5	33.5	33.5
	Operating EBITDA margin (%)	17.0	19.2	19.3	19.1	19.0
	Net profit margin (%)	15.1	13.3	13.6	13.6	13.5
	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)	954.9	1,014.9	1,078.9

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 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.

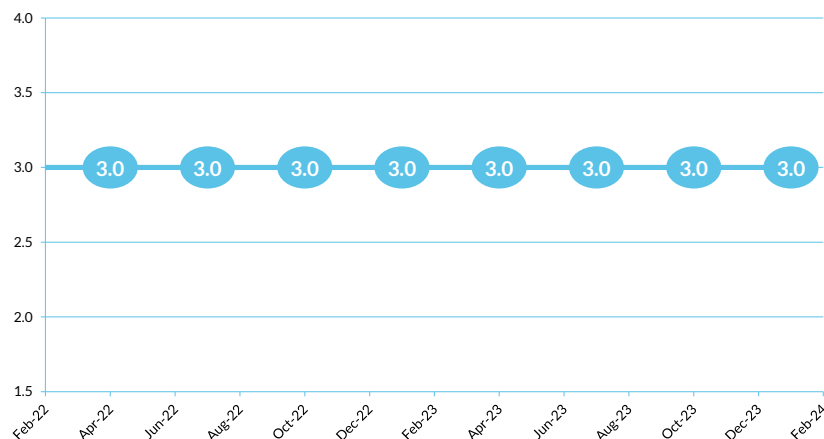
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	15	131	na
Scope 2	999	2,480	na
Scope 3	-	-	na
Total emissions	1,014	2,611	na

Source: Company data, RHB

Latest ESG-Related Developments

- In 2022, FEH's Vietnam plant implemented energy-saving initiatives that included installing a day/night light switching system, solar panels for perimeter lights, skylights at its warehouses and energy-saving LED lamps.
- FEH will continue to set more detailed targets that are in line with both Task Force on Climate-Related Financial Disclosures or TCFD recommendations and SGX's phased approach guidelines.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-09	Buy	0.75	0.57

Source: RHB, Bloomberg

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Sell:	Share price may fall by more than 10% over the next 12 months
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