

2 September 2024

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

### Capacity Expansion Driving Growth; Maintain BUY

- **Maintain BUY, new SGD1.36 TP from SGD1.52, 41% upside and 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 our FY24F-26F earnings by 11%, 9%, and 9% (on a weaker-than-expected 1H24) to factor in lower gross margins due short-term pricing challenges in Russia and reduce our 10x blended FY24F-25F P/E-based TP.
- **Expect more production facilities to drive growth.** We see growth over the next few years driven by higher production capacity. FEH has already expanded its Malaysian non-dairy creamer production capacity and is planning for a second snack factory by 1H25. In Kazakhstan, the company is constructing its first coffee mix facility, with production is scheduled to commence in 2025. There are also preliminary plans to establish another Vietnam instant coffee factory. The USD40m funding from Ikhlas Capital will come in handy to help in its expansion in ASEAN, in our view.
- **1H24 below.** Revenue of SGD225m (+13.6% YoY) was in line with our estimates. However, earnings of SGD23m (-11% YoY) were below our expectations. Revenue was driven by Ukraine, Kazakhstan, and Commonwealth of Independent States (CIS) operations, which grew 16% YoY to USD57m. South-East Asia and South Asia operations grew by 35% and 36% to USD62m and USD30m. These were led by brand investments and promotions. Russian operations' revenue declined by 4% YoY to USD68m due to the depreciation of the RUB despite achieving 13% YoY revenue growth in local currency terms. Gross profit margin stood at 30% (-5ppts) on short-term price disruption in Russia, which saw price disruptions and challenges in passing on higher prices to customers while input costs were elevated. Otherwise, opex was in line with expectations. As a result of the lower gross margin, EBIT missed expectations and declined by 18% YoY to USD29m, with EBIT margins lower at 12.6% (-4.8ppts).
- **FY24F-26F earnings reduced by 11%, 9%, and 9%.** 1H24's overall performance was dragged by lower gross margins due pricing challenges in Russia, which otherwise would be satisfactory. Even the decline in the RUB has been compensated by decent growth in other segments. We believe it may take another quarter for pricing challenges in Russia to ease and, as such, we impute lower gross margins in our forecasts. Our FY24F-26F earnings are consequently reduced by 11%, 9%, and 9%.
- **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.

Target Price (Return):	SGD1.36 (41.3%)
Price (Market Cap):	SGD0.97 (USD390m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (SGD/USD)	0.50m/0.37m

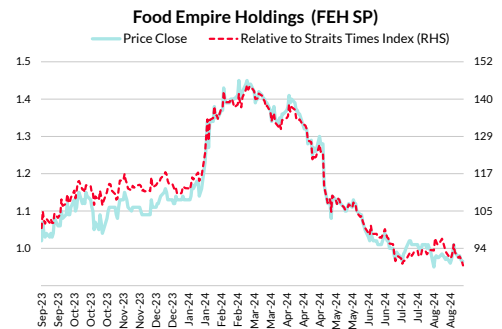
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.6)	(3.5)	(13.8)	(33.0)	(5.4)
Relative	(20.9)	(3.5)	(17.4)	(42.6)	(12.3)
52-wk Price low/high (SGD)	0.95 - 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	50	53	56
Recurring net profit growth (%)	142.2	14.3	(11.2)	4.6	6.4
Recurring P/E (x)	7.94	6.85	7.56	7.23	6.79
P/B (x)	1.4	1.3	1.2	1.1	1.0
P/CF (x)	5.52	7.73	6.84	6.63	6.26
Dividend Yield (%)	4.4	10.0	5.0	5.3	5.6
EV/EBITDA (x)	4.53	3.60	3.77	3.21	2.69
Return on average equity (%)	23.8	19.7	16.7	16.3	15.6
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 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 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. 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:

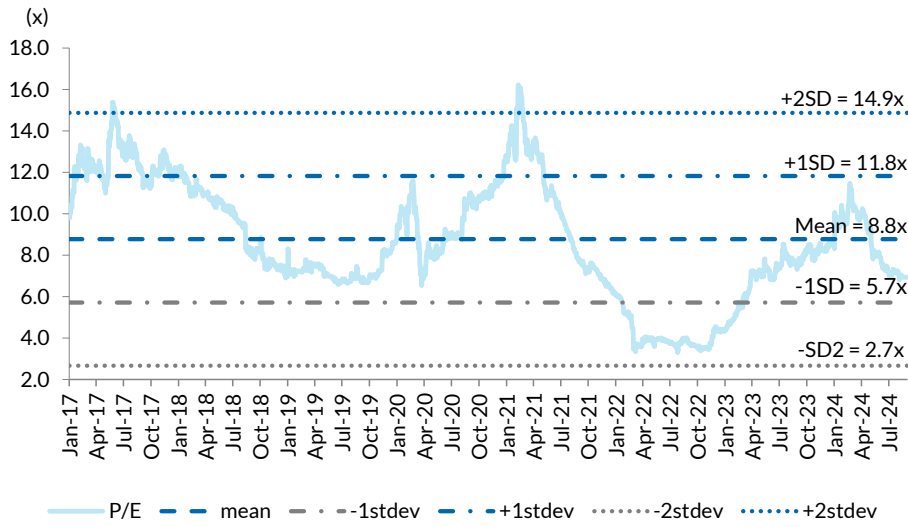
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## 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
<b>Food Empire</b>	BVPS	0.52	0.56	0.60	0.68	0.75
FEH SP	Return on average equity (%)	23.8	19.7	16.7	16.3	15.6
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)	7.94	6.85	7.56	7.23	6.79
10x blended FY24-25F P/E	P/B (x)	1.4	1.3	1.2	1.1	1.0
<b>Key drivers</b>	FCF Yield (%)	14.6	9.7	11.3	11.8	12.7
i. Margin expansion on strengthening RUB;	Dividend Yield (%)	4.4	10.0	5.0	5.3	5.6
ii. Market penetration in core markets of Russia, Ukraine, Kazakhstan, Commonwealth of Independent States (CIS), and Vietnam.	EV/EBITDA (x)	4.53	3.60	3.77	3.21	2.69
	EV/EBIT (x)	5.37	4.15	4.41	3.73	3.10
	<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	142	151	161
ii. Rising coffee bean prices.	EBITDA	68	82	74	78	83
	Depreciation and amortisation	(11)	(11)	(11)	(11)	(11)
<b>Company Profile</b>	Operating profit	57	71	64	68	72
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.	Net interest	(1)	1	(1)	(2)	(2)
	Pre-tax profit	71	72	64	67	71
	Taxation	(11)	(16)	(13)	(14)	(15)
	Reported net profit	60	57	50	53	56
	Recurring net profit	50	57	50	53	56
	<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)	(5)	(5)
	Cash flow from operations	71	50	56	57	61
	Capex	(14)	(13)	(13)	(13)	(13)
	Cash flow from investing activities	18	(16)	(13)	(13)	(13)
	Dividends paid	(9)	(17)	(39)	(19)	(20)
	Cash flow from financing activities	(24)	(28)	1	(19)	(20)
	Cash at beginning of period	61	126	131	176	201
	Net change in cash	66	7	44	26	29
	Ending balance cash	126	131	176	201	230
	<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	176	201	230
	Tangible fixed assets	101	103	105	107	108
	Total investments	30	33	34	35	37
	Total assets	381	403	459	496	536
	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	340	376
	Total liabilities & equity	381	403	459	496	536
	<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	(9.3)	4.6	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	11.0	11.0
	Dividend payout ratio (%)	28.8	69.0	37.9	37.1	37.1
	Capex/sales (%)	3.4	2.9	2.8	2.6	2.4
	Interest cover (x)	46.5	(88.9)	51.8	29.5	31.4

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.

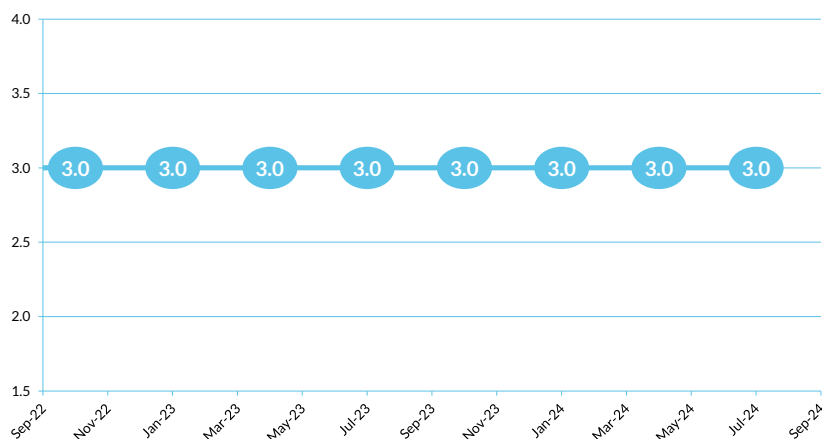
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	15	131	110
Scope 2	999	2,480	2,646
Scope 3	-	-	na
Total emissions	1,014	2,611	2,756

Source: Company data, RHB

## Latest ESG-Related Developments

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

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-02-25	Buy	1.27	0.92

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<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
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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