

3 July 2024

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Slight Negative On Proposed Notes Issuance; BUY

Target Price (Return): SGD1.52 (54.7%)
 Price (Market Cap): SGD0.98 (USD380m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.76m/0.56m

- Maintain BUY, with lower SGD1.52 TP from SGD1.75, 55% upside and c.6% FY25F yield.** We continue to like Food Empire for its strong balance sheet, cash generation ability, market share traction, valuation, and share buyback initiative. We lower our earnings by 4-9% to factor FEH's proposed notes issue to Ikhlas Capital and slightly lower margins due to sustained higher coffee prices. Our TP based on 10x blended FY24-25F P/E is consequently reduced, offset by the impact of share buyback.
- Strategic partnership with Ikhlas Capital on the cards.** FEH announced that it had entered into a non-binding term sheet with Ikhlas Capital Singapore on 21 June to establish a strategic partnership and the proposed issuance of up to USD40m of redeemable exchangeable note to Ikhlas Capital, an ASEAN private equity fund manager headquartered in Singapore focused on growth, transformation, and cross border value creation, and founded by Nazir Razak, Kenny Kim, Gita Wirjawan, and Cesar Purisima. The key purpose of the strategic partnership is to work with Ikhlas Capital to develop and expand its business in South East Asia and South Asia. Ikhlas Capital will inject USD40m into a special purpose vehicle wholly owned by FEH that will hold or possess the option to hold a portfolio of business operations, including FEH's South East Asian and South Asian businesses. The notes will carry 5.5% annual interest and have a tenor of 5 years. Ikhlas Capital will have the non-obligatory right to convert the notes into new shares at SGD1.09 per share. The proceeds will help to fund capex and merger and acquisition activities in South East Asia and South Asia. FEH has also announced in a media clarification statement that it is currently conducting feasibility studies and exploratory discussions with Vietnam authorities to construct a new instant coffee factory. The proposed funding may be in line with the planned development of this new instant coffee plant. There will be further dilution if Ikhlas Capital converts the notes into shares eventually.
- FY24-26F earnings reduced by 4-9%.** The notes are a slight negative on earnings as there will be c.USD2.2m of annual interest costs. This works out to c.3% decline in net profit for FY25-26F and 1.5% decline for FY24F assuming half-year impact. We have also imputed slightly lower margins to account for recent sustained high coffee prices. We consequently reduce our FY24-26F earnings by 4-9%, along with our P/E multiple from 11x to 10x.
- Capacity to drive growth.** We expect Malaysia's new non-dairy creamer plant to reach full utilisation in a few years, with new snack production capacity planned to contribute from 2025. Its first coffee mix production facility in Kazakhstan is also expected to be completed by end-2025.
- 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.

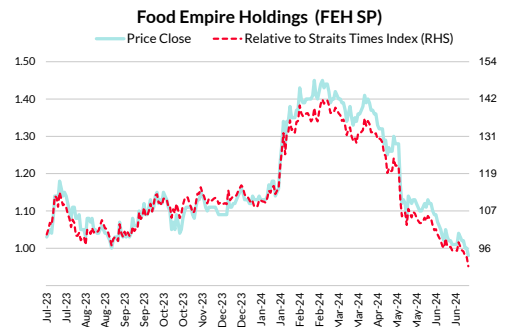
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.3)	(10.9)	(29.0)	(13.3)	(3.9)
Relative	(17.2)	(11.8)	(32.7)	(17.6)	(9.0)
52-wk Price low/high (SGD)	0.98 - 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	57	58	61
Recurring net profit growth (%)	142.2	14.3	0.3	1.4	6.4
Recurring P/E (x)	7.73	6.68	6.52	6.43	6.04
P/B (x)	1.4	1.3	1.2	1.0	0.9
P/CF (x)	5.38	7.53	5.94	5.93	5.62
Dividend Yield (%)	4.5	10.3	5.8	5.9	6.3
EV/EBITDA (x)	4.38	3.47	3.20	2.75	2.24
Return on average equity (%)	23.8	19.7	18.7	17.4	16.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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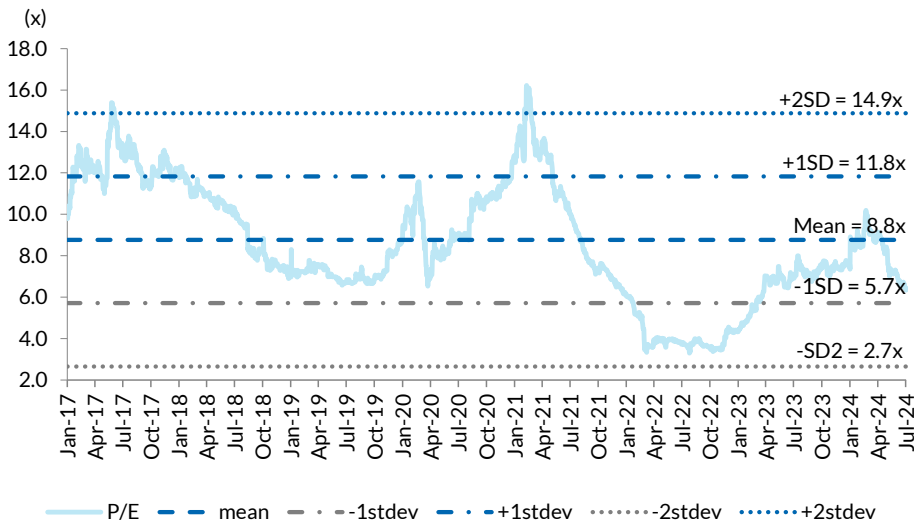
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Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.09	0.11	0.11	0.11	0.12
Consumer Non-cyclical	DPS	0.03	0.07	0.04	0.04	0.05
Food Empire	BVPS	0.52	0.56	0.61	0.69	0.77
FEH SP	Return on average equity (%)	23.8	19.7	18.7	17.4	16.6
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	7.73	6.68	6.52	6.43	6.04
10x blended FY24-25F P/E	P/B (x)	1.4	1.3	1.2	1.0	0.9
	FCF Yield (%)	15.0	10.0	13.5	13.5	14.4
	Dividend Yield (%)	4.5	10.3	5.8	5.9	6.3
Key drivers	EV/EBITDA (x)	4.38	3.47	3.20	2.75	2.24
i. Margin expansion on strengthening RUB;	EV/EBIT (x)	5.19	4.01	3.68	3.15	2.54
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 RUB and other CIS countries' currencies;	Gross profit	119	141	147	154	164
ii. Rising coffee bean prices.	EBITDA	68	82	83	85	89
	Depreciation and amortisation	(11)	(11)	(11)	(11)	(11)
	Operating profit	57	71	72	74	79
	Net interest	(1)	1	(1)	(2)	(2)
	Pre-tax profit	71	72	72	73	78
	Taxation	(11)	(16)	(15)	(15)	(16)
	Reported net profit	60	57	57	58	61
	Recurring net profit	50	57	57	58	61
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Company Profile	Change in working capital	11	(16)	(4)	(5)	(5)
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.	Cash flow from operations	71	50	62	63	66
	Capex	(14)	(13)	(13)	(13)	(13)
	Cash flow from investing activities	18	(16)	(13)	(13)	(13)
	Dividends paid	(9)	(17)	(39)	(22)	(21)
	Cash flow from financing activities	(24)	(28)	(39)	(22)	(21)
	Cash at beginning of period	61	126	131	142	171
	Net change in cash	66	7	11	28	32
	Ending balance cash	126	131	142	171	203
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	126	131	142	171	203
	Tangible fixed assets	101	103	105	107	108
	Total investments	30	33	34	35	37
	Total assets	381	403	425	465	508
	Short-term debt	13	15	15	15	15
	Total long-term debt	25	21	21	21	21
	Total liabilities	106	108	113	116	120
	Total equity	276	294	312	349	388
	Total liabilities & equity	381	403	425	465	508
	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	2.4	1.4	6.4
	Gross margin (%)	29.8	33.2	32.5	32.0	32.0
	Operating EBITDA margin (%)	17.0	19.2	18.3	17.6	17.5
	Net profit margin (%)	15.1	13.3	12.6	12.0	12.0
	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)	60.9	32.4	34.5

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.

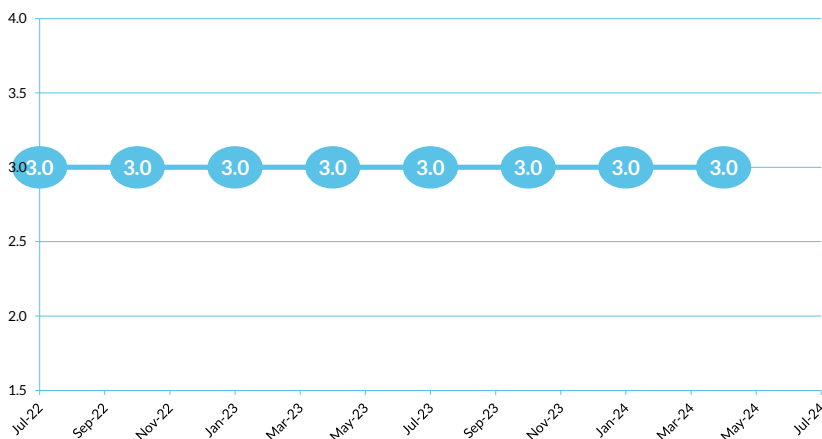
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	15	131	110
Scope 2	999	2,480	2,646
Scope 3	-	-	na
Total emissions	1,014	2,611	2,756

Source: Company data, RHB

Latest ESG-Related Developments

- In 2022, FEH's Vietnam plant has 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.
- 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
2024-06-13	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
2021-02-07	Buy	1.27	0.88

Source: RHB, Bloomberg

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