

8 February 2021

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Expect An Exceptional FY21; Reiterate BUY

Target Price (Return): SGD1.27 (+44%)
 Price: SGD0.88
 Market Cap: USD351m
 Avg Daily Turnover (SGD/USD) 0.45m/0.34m

- **BUY, new SGD1.27 TP from SGD0.80, 44% upside with c.3% yield.** Due to COVID-19 and mass distribution of vaccines, we expect demand for Food Empire products to grow. Last year, sales plunged for almost two months, after strict lockdowns were imposed across its markets. We do not expect this to be repeated in FY21. Margins should improve on growing demand, while the RUB appreciation should drive strong earnings growth of 24.7% YoY for FY21F. This report marks the transfer of coverage to Jarick Seet.

- **The worst is over.** While FY20 revenues were down YoY across all the markets, it has improved robustly QoQ since 2Q20. Management highlighted that demand for its instant coffee products has been stable. Previously, strict national lockdowns resulted in operational and logistical issues – which in turn caused a temporary decline in sales volume last year. Since then, management has learnt to solve these problems, and does not expect such matters to be repeated. Demand should be resilient ahead, increasing in 4Q20F and FY21F. Note that 3Q20 earnings grew YoY, despite declining 6% QoQ due to the impact of FX fluctuations. Excluding FX, 3Q20 earnings would have grown by an impressive 87% QoQ.

- **Strong rebound in FY21F.** We expect Food Empire to close FY20 with decent numbers, and its FY21 performance to improve even further. We increased FY20-22F recurring PATMI by 10%, 20% and 5%. As such, our TP rises to SGD1.27, pegged to a higher 15x FY21F P/E (from 11x). To compare, its local and regional staple foods peers are trading at significant premiums of 20-30x. We also applied a discount to account for the volatile fluctuation in the value of the RUB, even though Food Empire can negate the effect of this by adjusting its selling prices. The value of the RUB increased at the end of Nov 2020 – which may benefit group numbers. We expect Food Empire to maintain its FY20 final and special DPS at 2 SG cents, which translates to a FY20F yield of 2.6%.

- **One of the cheapest consumer staples counters.** At a market valuation of 10x FY21F P/E, Food Empire is one of the cheapest consumer staples stocks. As the company has a proven track record and its peers are trading at 20-30x P/E – on top of it being a market leader in Russia and Ukraine – we remain bullish on this stock and make no change to our strong BUY call. It could even be a candidate for privatisation, given its undervalued position. Management has been buying back shares aggressively in Dec 2020 and January, having acquired stock at SGD0.76 per share on 21 Jan (before the blackout period which start on 30 Sep 2020).

- **Key risks:** Strict nationwide lockdowns that result in operational disruptions, and a sharp depreciation in the RUB and currencies of related Commonwealth of Independent States (CIS).

Analyst

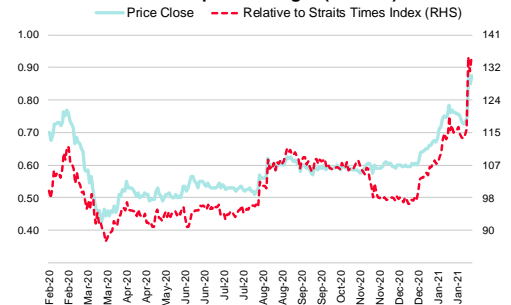
Jarick Seet
 +65 6320 0810
jarick.seet@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	32.6	29.6	48.3	68.3	27.7
Relative	30.4	27.9	36.0	53.5	36.9
52-wk Price low/high (SGD)	0.43 – 0.88				

Food Empire Holdings (FEH SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	284	289	281	309	330
Recurring net profit (USDm)	22	26	27	34	37
Recurring net profit growth (%)	4.5	17.9	7.0	24.7	8.8
Recurring P/E (x)	16.13	13.79	12.92	10.36	9.53
P/B (x)	2.0	1.7	1.5	1.4	1.2
P/CF (x)	23.44	9.56	10.46	10.94	8.40
Dividend Yield (%)	0.8	2.2	2.6	2.6	2.6
EV/EBITDA (x)	12.37	9.46	8.13	6.34	5.49
Return on average equity (%)	10.5	13.6	12.5	14.0	13.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.05	0.05	0.06	0.07
Consumer Non-cyclical	DPS	0.00	0.01	0.02	0.02	0.02
Food Empire	BVPS	0.33	0.38	0.43	0.47	0.53
FEH SP	Return on average equity (%)	10.5	13.6	12.5	14.0	13.8
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	16.13	13.79	12.92	10.36	9.53
15x FY21F P/E	P/B (x)	2.0	1.7	1.5	1.4	1.2
	FCF Yield (%)	1.2	(0.4)	2.5	3.5	9.1
	Dividend Yield (%)	0.8	2.2	2.6	2.6	2.6
Key drivers	EV/EBITDA (x)	12.37	9.46	8.13	6.34	5.49
i. Margin expansion from the strengthening RUB;	EV/EBIT (x)	15.72	11.38	10.05	8.01	6.94
ii. Expansion into Indochina and China.						
	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	284	289	281	309	330
i. Decline in the value of the RUB and other CIS currencies;	Gross profit	111	112	108	122	130
ii. Rising coffee bean prices.	EBITDA	27	37	42	54	58
	Depreciation and amortisation	(6)	(6)	(8)	(11)	(12)
	Operating profit	22	30	34	43	46
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	20	32	33	41	45
	Taxation	(2)	(6)	(6)	(8)	(9)
	Reported net profit	18	26	27	34	37
	Recurring net profit	22	26	27	34	37
Company Profile						
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, the Middle East, North America and Europe.						
	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(11.9)	(14.9)	(1.3)	(12.6)	(6.7)
	Cash flow from operations	14.9	36.8	33.7	32.2	41.9
	Capex	(10.8)	(38.1)	(25.0)	(20.0)	(10.0)
	Cash flow from investing activities	(9.6)	(37.4)	(25.0)	(20.0)	(10.0)
	Dividends paid	(2.4)	(2.6)	(3.9)	(9.3)	(9.2)
	Cash flow from financing activities	(5.0)	12.7	(5.8)	(18.8)	(24.7)
	Cash at beginning of period	42.8	42.2	54.7	57.6	51.1
	Net change in cash	0.3	12.1	2.9	(6.6)	7.3
	Ending balance cash	42.2	54.0	57.6	51.1	58.3
	Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	42	55	58	51	58
	Tangible fixed assets	69	99	116	125	123
	Total investments	30	41	41	41	41
	Total assets	245	308	330	351	364
	Short-term debt	20	15	10	10	15
	Total long-term debt	13	35	41	31	10
	Total liabilities	69	102	100	97	82
	Total equity	175	206	229	254	282
	Total liabilities & equity	245	308	330	351	364
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	5.5	1.5	(2.5)	9.8	6.7
	Recurrent EPS growth (%)	4.5	16.9	6.8	24.7	8.8
	Gross margin (%)	39.0	38.7	38.5	39.5	39.5
	Operating EBITDA margin (%)	9.6	12.7	15.1	17.4	17.6
	Net profit margin (%)	6.4	9.0	9.7	11.0	11.2
	Dividend payout ratio (%)	14.7	29.8	34.0	27.0	25.0
	Capex/sales (%)	3.8	13.2	8.9	6.5	3.0
	Interest cover (x)	27.3	21.6	26.4	38.5	67.9

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-13	Buy	0.80	0.60
2020-05-13	Buy	0.75	0.51
2020-02-26	Buy	0.88	0.73
2019-11-21	Buy	0.83	0.60
2019-08-13	Buy	0.73	0.52
2019-03-04	Buy	0.69	0.57
2018-11-19	Buy	0.66	0.53
2018-08-15	Neutral	0.60	0.56

Source: RHB, Bloomberg

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RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531