

15 October 2020

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

### One Shot Of Caffeine, Please; Keep BUY

Target Price (Return): SGD0.75 (25.0%)  
 Price: SGD0.60  
 Market Cap: USD238m  
 Avg Daily Turnover (SGD/USD) 0.20m/0.15m

- **Keep BUY and SGD0.75 TP, 25% upside with c.3% yield.** Food Empire has been performing share buy-backs in recent weeks. We believe this signals management's confidence for 2H20 and that it deems the current valuation as cheap. Given that the group is poised to deliver earnings recovery in 3Q on reopening economies and ASP increases, we believe the current share price offers a good entry opportunity for investors looking to capture potential upsides.

- **Earnings to recover from 2Q20's low, driven by higher sales.** Sales in FEH's biggest market – Russia – should pick up in 3Q, as sales volumes improve amid the easing of national lockdowns. The group has also implemented ASP increases across 2Q-3Q, which should help mitigate some of the negative impacts from the RUB's depreciation. While Russia has seen a spike in new COVID-19 cases since end September, we note that the Russian Government does not plan to re-impose national lockdowns. Without a severe disruption, we expect FEH's sales to remain resilient in 4Q. In Vietnam – the group's second-largest market – there was some resurgence in COVID-19 cases during the July-August period. Fortunately, the contagion was confined around the Da Nang area and a partial lockdown was implemented for the region. We understand from management that this should not have a major impact on its sales in Vietnam.

- **Tighter cost controls.** FEH's G&A costs have reduced by USD2m (10% YoY) in 1H20. We expect such costs to remain low in 2H20 on the group's cost-containment initiatives and lower travelling costs amidst border restrictions.

- **Key risk lies in FX.** The RUB has depreciated c.10% across 3Q20. We project a FX loss of c.USD3m in 3Q20 – similar to 1Q20's amount. That said, our forecasts remain unchanged, as we believe this could be offset by the recovery in sales. However, a further depreciation of the RUB from current levels could affect 4Q and FY21's projections.

- **The group has been doing share buy-backs at the current price of c.SGD0.60.** We believe this signals management's confidence for 2H20. At this price level, we concur that the valuations of c.10x and 8.4x for FY20F and FY21F P/E's are very attractive for a consumer staples group that should generate stable earnings despite these challenging times.

- **We maintain our BUY call** and SGD0.75 TP. Key risks: Negative movements in the RUB and other Commonwealth of Independent States' (CIS) currencies and rising coffee bean prices.

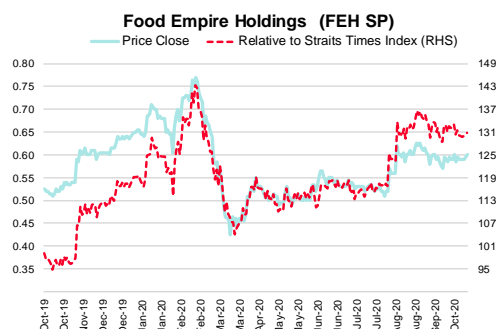
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.7)	0.8	13.2	15.4	15.4
Relative	12.6	(2.3)	15.6	15.4	33.0
52-wk Price low/high (SGD)	0.43 – 0.77				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	284	289	286	315	339
Recurring net profit (USDm)	22	26	24	28	31
Recurring net profit growth (%)	4.5	17.9	(7.6)	19.0	11.7
Recurring P/E (x)	10.89	9.32	10.08	8.47	7.58
P/B (x)	1.3	1.1	1.1	1.0	0.9
P/CF (x)	15.83	6.46	9.22	9.58	6.74
Dividend Yield (%)	1.1	1.6	2.5	3.2	3.3
EV/EBITDA (x)	8.24	6.34	6.35	5.20	4.33
Return on average equity (%)	10.5	13.6	9.1	12.0	12.2
Net debt to equity (%)	net cash	net cash	0.6	0.7	net cash

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalisation 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	0.04	0.05	0.06
Consumer Non-cyclical	DPS	0.00	0.01	0.01	0.01	0.01
<b>Food Empire</b>	BV/PS	0.33	0.38	0.41	0.46	0.50
FEH SP	Return on average equity (%)	10.5	13.6	9.1	12.0	12.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	10.89	9.32	10.08	8.47	7.58
12x FY20F P/E	P/B (x)	1.3	1.1	1.1	1.0	0.9
	FCF Yield (%)	1.7	(0.6)	0.3	2.0	10.6
<b>Key drivers</b>	Dividend Yield (%)	1.1	1.6	2.5	3.2	3.3
i. Margins expansion on a strengthening RUB;	EV/EBITDA (x)	8.24	6.34	6.35	5.20	4.33
ii. Expansion into Indochina and China.	EV/EBIT (x)	10.47	7.62	8.25	6.76	5.67
	<b>Income statement (USDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	284	289	286	315	339
i. Negative movement in the RUB and other CIS' countries' currencies;	Gross profit	111	112	111	123	132
ii. Rising coffee bean prices.	EBITDA	27	37	37	46	51
	Depreciation and amortisation	(6)	(6)	(9)	(11)	(12)
	Operating profit	22	30	29	35	39
	Net interest	(1)	(1)	(1)	(1)	(1)
<b>Company Profile</b>	Pre-tax profit	20	32	24	34	38
FEH is a global food and beverage group that manufactures and markets instant beverages, frozen convenience food, confectionery, and snack food. Its products can be found in over 50 countries across Asia, Africa, the Middle East, North America, and Europe.	Taxation	(2)	(6)	(4)	(6)	(7)
	Reported net profit	18	26	20	28	31
	Recurring net profit	22	26	24	28	31
	<b>Cash flow (USDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(11.9)	(14.9)	(2.0)	(13.4)	(7.8)
	Cash flow from operations	14.9	36.8	25.8	24.8	35.2
	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)	(5.9)	(7.6)
	Cash flow from financing activities	(5.0)	12.7	(5.8)	(15.4)	(23.1)
	Cash at beginning of period	42.8	42.2	54.7	49.7	39.2
	Net change in cash	0.3	12.1	(5.0)	(10.6)	2.2
	Ending balance cash	42.2	54.0	49.7	39.2	41.3
	<b>Balance sheet (USDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	42	55	50	39	41
	Tangible fixed assets	69	99	116	125	124
	Total investments	30	41	41	41	41
	Total assets	245	308	322	342	352
	Short-term debt	20	15	10	10	15
	Total long-term debt	13	35	41	31	10
	Total liabilities	69	102	101	98	84
	Total equity	175	206	221	244	268
	Total liabilities & equity	245	308	322	342	352
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	5.5	1.5	(0.9)	10.2	7.7
	Recurrent EPS growth (%)	4.5	16.9	(7.6)	19.0	11.7
	Gross margin (%)	39.0	38.7	39.0	39.0	38.8
	Operating EBITDA margin (%)	9.6	12.7	13.1	14.5	15.0
	Net profit margin (%)	6.4	9.0	6.8	8.9	9.2
	Dividend payout ratio (%)	14.7	29.8	30.0	27.0	25.0
	Capex/sales (%)	3.8	13.2	8.7	6.3	2.9
	Interest cover (x)	27.3	21.6	22.2	31.8	57.6

Source: Company data, RHB

Figure 1: Recent share buy-backs

Date	Price (SGD)	Number of shares	Total consideration (SGD)	% of issued shares	Cumulative share buy-backs
24 Sep	0.5975	200,000	119,871	0.037%	0.037%
25 Sep	0.5942	50,000	29,804	0.009%	0.046%
1 Oct	0.5961	100,000	59,798	0.019%	0.065%
5 Oct	0.5983	100,000	60,011	0.019%	0.084%
7 Oct	0.5961	100,000	59,790	0.019%	0.102%
14 Oct	0.5976	150,000	89,918	0.028%	0.130%

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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