

Food Empire Holdings (FEH SP)

Coffee, tea or me?

BUY

Share Price SGD 0.75
12m Price Target SGD 1.20 (+64%)

Initiate BUY with a 12-month TP of SGD1.20

Instant beverage maker Food Empire (FEH) trades at just 7.4x core FY22 P/E compared to its global peer average of c.27x P/E. We think FEH's business model has shown its resilience and should continue to enjoy decent growth going forward. We believe FEH is an attractive takeover target given its low valuations and market leadership position in the 3-in-1 beverage space. With an expected record FY22E and the sale of its industrial unit in 2022, we anticipate the group to reward shareholders with a special dividend for a total FY22E payout of SGD0.04. We initiate coverage with a BUY and 12-month TP of SGD1.20, based on an undemanding 11x FY23E P/E.

Resilient business + Ukraine ceasefire a catalyst

As of 9M22, revenue grew 27% YoY to USD286m driven by growth across all geographical segments, including Russia and Ukraine. Net margins have also improved significantly from 6.4% in 9M21 to 17.4% in 9M22, aided by higher ASPs. This demonstrates that the Russia-Ukraine war is not hurting operations in FEH's largest market. A ceasefire or the end of the conflict could result in a major stock re-rating, in our view. While FEH is not subject to sanctions, its valuation took a huge hit when war broke out and could recover sharply on a truce, we believe.

Special DPS likely and share buyback to continue

With record profits expected this year followed by the sale of its industrial building, we expect management to reward its shareholders handsomely with a special dividend. We are forecasting FY22E DPS to total SGD0.04, which implies a decent yield of over 5%. In addition, FEH has been and is still undertaking significant share-buybacks in the open market. Since Aug 2022, it bought back 5.95m shares and as high as SGD0.82/share in 2021.

Potential takeover target given attractive valuations

FEH is currently trading at 7.4x core FY22E P/E, a steep discount versus both its private and listed valuations of global peers. As such, we think that it could be an attractive target for bigger competitors given its strong presence in Russia and Vietnam. Note that Super Coffee (not listed) was previously taken over by Jacobs Douwe Egberts (not listed) for SGD1.35b, 30x FY16 P/E in 2017.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	273	321	392	421	432
EBITDA	33	26	51	56	57
Core net profit	27	20	41	46	46
Core EPS (cts)	5.0	3.6	7.6	8.3	8.5
Core EPS growth (%)	2.4	(27.5)	110.6	9.8	1.4
Net DPS (cts)	0.7	2.2	3.1	2.3	2.5
Core P/E (x)	10.0	15.8	7.4	6.8	6.7
P/BV (x)	1.2	1.4	1.2	1.1	1.0
Net dividend yield (%)	1.4	3.9	5.4	4.0	4.4
ROAE (%)	12.6	8.7	17.3	16.9	15.3
ROAA (%)	8.6	6.0	12.1	12.5	11.6
EV/EBITDA (x)	7.6	11.4	5.9	5.0	4.5
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	54	37	40
MIBG vs. Consensus (%)	-	-	(23.5)	24.3	15.3

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Company Description

Food Empire is a global food and beverage company that manufactures and markets instant beverages, frozen food, confectionery and snack.

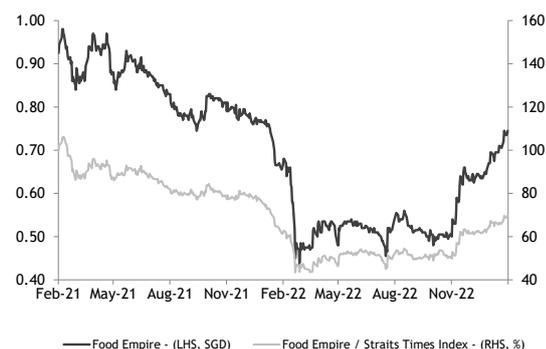
Statistics

52w high/low (SGD)	0.75/0.44
3m avg turnover (USDm)	0.2
Free float (%)	30.6
Issued shares (m)	548
Market capitalisation	SGD408.3M USD309M

Major shareholders:

SALIM ANTHONI	24.1%
TAN GUEK MING	12.5%
NAIR SUDEEP	12.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	48	12
Relative to index (%)	8	38	13

Source: FactSet

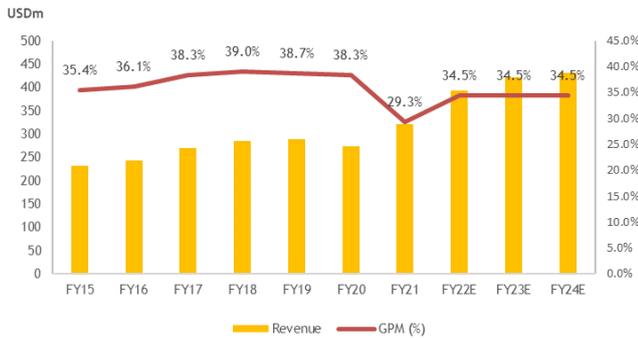
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Value Proposition

- Market leader of 3-in-1 coffee in Russia.
- Growing steadily in new markets like Vietnam and Southeast Asia.
- Fully integrated with the freeze dry coffee plant in India. Relatively high barriers to entry and sticky brand recognition by end-consumers. Trading at just 7.4x FY22E P/E, a sharp discount to global peers at 27x.
- Robust balance sheet with decent dividend yield of >4%.
- Clear ESG policies and strategies.

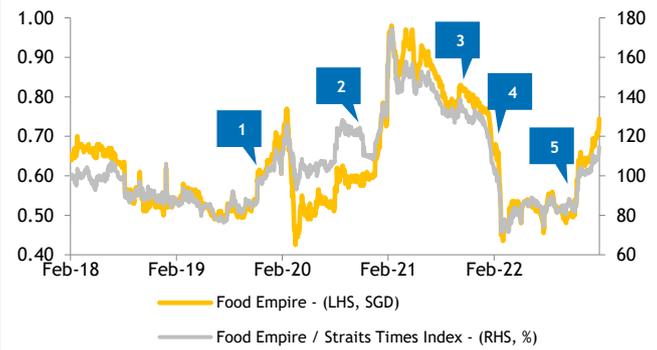
Revenue and GPM trend



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. In Sep'19, FEH bagged its inaugural Sustainability Award as Winner under the "Small Cap" category.
2. In Dec'20, the group further expanded its manufacturing facility in India.
3. In Oct'21, FEH was awarded The Enterprise Award 2020/21 under The Singapore Business Awards.
4. In Feb'22, Russia launched a military invasion of Ukraine, causing supply chain disruptions and FX volatility.
5. In Aug'22, FEH was recognised as one of the Top 100 'Most Valuable Singaporean Brands' by Brand Finance, with brand value of USD101m.

Financial Metrics

- Improvement in margins on cost control and price increases with GPM improved from 25.7% in 3Q21 to 29.0% in 3Q22.
- Revenue continued to grow progressively in key existing and new markets.
- Positive cash flow notwithstanding self-funded CAPEX plans and generous annual dividends.
- Strong balance sheet with net cash position

Net cash and gearing ratio



Source: Company, Maybank IBG Research

Swing Factors

Upside

- End of the Russia and Ukraine conflict
- Continued strong growth in other markets and revenue diversification away from Russia
- An attractive takeover target by bigger F&B players or private equity funds

Downside

- Escalation of the Russian war would likely hurt its business.
- Higher raw material prices and Ruble depreciation are negative for earnings
- New competitors entering the scene might temporarily dilute its market share

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Risk Rating & Score ¹	Not Rated
Score Momentum ²	Na
Last Updated	Na
Controversy Score ³	Na

Business Model & Industry Issues

- As a food manufacturing company, the Group places a significant emphasis on ensuring that its products are healthy and safe for consumption. Any mismanagement of the products can result in a loss of reputation, financial penalties and possible breach of product safety laws in affected market.
- Given the challenging operating environment, FEH has taken measures to deal with high freight prices, supply chain disruptions, as well as inflationary cost pressures, amongst other external issues that had to be managed.
- The economic sanctions imposed on Russia has resulted in severe supply chain disruptions and currency exchange rate volatility. If the conflict between Russia and Ukraine escalates, this could potentially threaten the Group’s business outlook as these two key markets contributed about 45% of its total revenue in FY21.

Material E issues

- The profitability and production capacity of the Group’s coffee plant faces severe climate risk as yields can be impacted by the direct increase in temperatures, instability in precipitation as well as increases in pests in the regions where coffee is grown.
- To manage carbon footprint, FEH implemented several energy conservation initiatives at facility-level across its operations. It also seeks to align its energy and emissions management with the various country-specific energy regulations and policies.
- Given the issues of water scarcity, FEH has taken steps to enforce the efficient & responsible use of water throughout its operations. The Group tries to utilize water at every step of its value chain to avoid straining water supply and to rebalance the ecosystem.

Material S issues

- The food safety and quality policies are constantly reviewed to ensure that they satisfy new regulatory requirements and customer preferences. These policies ensure that it continues to produce good quality products at country level to ensure compliance with local regulations.
- In 2021, Vietnam accounted for most of its new hires and turnovers which largely occurred within its sales division. It is an industry trend in Vietnam for sales jobs to have a high turnover rate due to the demographics of individuals.
- FEH built a COVID-19 testing and vaccination center at its Vietnam plant to provide free vaccination & testing services for its employees. The facility also served as a temporary isolation centre for those exposed to COVID-19 patients.

Key G metrics and issues

- The board has eight directors, including the Executive Chairman, the CEO/Executive Director and six independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board is currently made up of 87.5% males and hence, we believe there is room to improve the diversity and composition of its Board, with the future appointment of a female member.
- Executive Chairman, Tan Wang Cheow and CEO Sudeep Nair hold roughly 22.5% and 11.27% stakes in the company, respectively.
- Institutional investor, FMR LLC is a substantial shareholder and owns about 8% in the company.
- The external auditor is Ernst & Young LLP.
- Country-specific safety management systems and committees are put in place to provide greater flexibility in responding to different regulations on health and safety in every country in which it operates.
- There were no cases of non-compliance with all applicable laws and regulations concerning consumer health and safety in its Vietnam plant.
- To reduce market concentration risks, FEH has diversified into different markets in Asia over the years. In 2021, the turnover of its South-East Asia market accounted for c.30% of total revenues.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 53)						
	Particulars	Unit	2019	2020	2021	SSG SP (2021)
E	Scope 1 GHG emissions	tCO2e	59	23	15	28,044
	Scope 2 GHG emissions	tCO2e	816	777	861	51,212
	Total	tCO2e	875	800	876	79,256
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	Total	tCO2e	875	800	876	79,256
	GHG intensity (Scope 1 and 2)	tonnes CO2/tonnes of product	0.147	0.105	0.093	0.040
	Direct Energy consumption	GJ/Tonnes of product	0.08	0.04	0.03	341,385.00
Electrical Energy consumption	MWh	1,049.00	999.00	978.0000	292,301.00	
Water purchased	m3	NA	12,171	11,934	222,468	
S	% of women in workforce	%	42.6%	41.4%	36.2%	44.0%
	Economic value generated and distributed	USDm/SGDm	289	273	321	1,370
	Total training hours by gender (women)	Hours	NA	424.75	144	1535
	Turnover rate	%	53.5%	52.3%	51.0%	23.0%
	Direct training hours	%	NA	NA	NA	NA
	Key operations assessed for risks related to corruption	%	100	100	100	100
G	MD/CEO salary as % of reported net profit	%	4.86%	3.78%	5.17%	4.33%
	Board salary as % of reported net profit	%	15.70%	13.77%	20.68%	0.30%
	Independent directors on the Board	%	43%	43%	50%	50%
	Female directors on the Board	%	14%	14%	13%	30%

Qualitative Parameters (Score: 67)

- a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?
Yes. The Food Empire Sustainability Committee reports directly to top management. The Committee includes sustainability coordinators from their headquarters in Singapore as well as from Vietnam and Russia.
- b) is the senior management salary linked to fulfilling ESG targets?
Yes .
- c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?
Yes
- e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?
No
- f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?
Air conditioners within the production area alone contributed to 50-60% of total power consumption in the FES factory. Furthermore, these air conditioners were constantly switched on for all working days except when having to shut down for cleaning. a change in forklift equipment from diesel-based machines to electricity-based machines since April 2020. As forklifts were previously the primary source of fuel use within Food Empire factories, the change resulted in a significantly reduced scope 1 emissions.
- g) Does carbon offset form part of the net zero/carbon neutrality target of the company?
No

Target (Score: 67)

Particulars	Target	Achieved
100% of workers receive at least one safety training annually	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0
Carbon neutrality/net zero	nil	nil
100% of workers receive at least one safety training annually	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0

Impact

NA

Overall Score: 60

As per our ESG matrix, Food Empire Holdings (FEH SP) has an overall score of 60.

ESG score	Weights	Scores	Final Score
Quantitative	50%	53	26
Qualitative	25%	67	17
Target	25%	67	17
Total			60

As per our ESG assessment, FEH has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "S" and "G" metrics. FEH's overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50)

1. Investment thesis

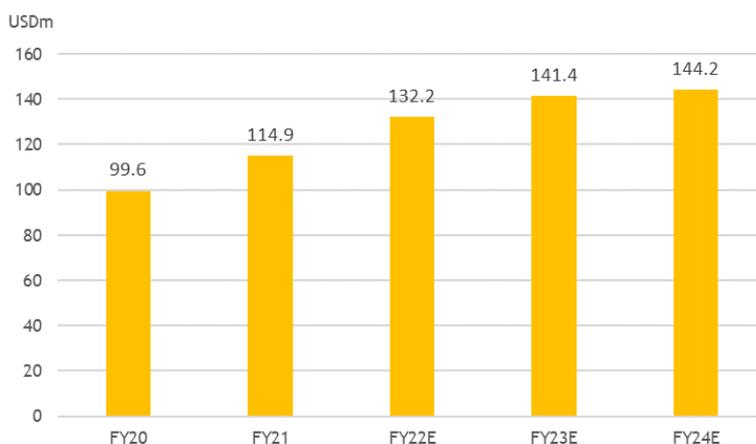
1.1 Consumer staple trading at less than 7x FY23E P/E

Food Empire is trading at 6.8x FY23E P/E, a significantly low valuation for an instant beverage maker mainly due to the ongoing Russia-Ukraine war which impacts its core markets. However, the company has already proven its resilience and diversification of its business despite the on-going conflict which has not impacted performance. 9M22 revenue grew 26.5% YoY to USD286m while NPAT surged 138% YoY to USD34.6m despite geopolitical tensions and rising inflation. Management are on track to achieve record revenue and profit for FY22E. We believe that FEH is trading at an extremely attractive level due to the ongoing conflict and any truce or end to the conflict would lift valuations significantly.

1.2 Market leader in Russia with >30% market share

In 1994, Russia became the first non-Asian market for MacCoffee followed by the opening of its Moscow representative office in 1995. FEH was the first to bring in 3-in-1 coffee instant mix to Russia and is now a familiar brand in Russia. Currently the company's product range in Russia includes instant coffee, cappuccino, cacao, hot chocolate, instant tea and snacks. It remains the market leader for 3-in-1 instant coffee mix via its brand MacCoffee and has over 30% market share in this segment. Its Russian plant allows it to produce 100m sachets of instant coffee a month, which is distributed throughout Russia

Fig 1: Revenue from Russia

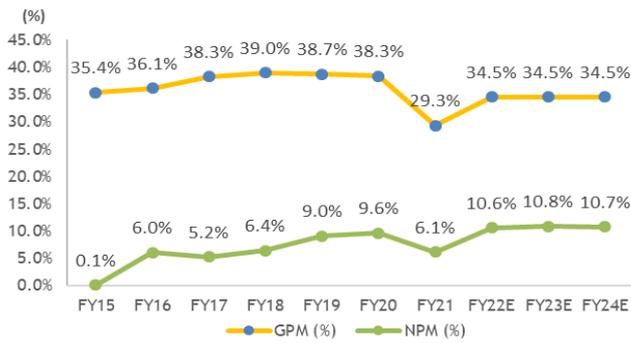


Source: Company, Maybank IBG Research

1.3 Margins recovering due to ability to raise ASPs

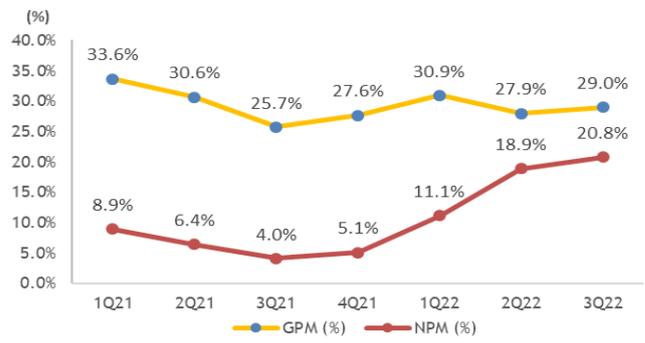
Over the years, FEH has demonstrated an ability to raise ASPs to counter rising raw material costs as well as depreciation of the volatile Ruble. It recently proved it could do it again. In FY21, gross and net margins were severely impacted by surging freight and raw material costs. Gross margins sunk to 29.3% from 38.3% in FY21 while net margins sunk to 6.0% from 9.0% a year ago. Management implemented several initiatives including raising prices, especially in its core markets, which have seen net profit margins recover to 12.1% as of 9M22. We expect margins to continue to recover as freight and raw material costs continue to stabilise. We expect net margins to stabilise between 11-12% going forward.

Fig 2: Annual margin trend



Source: Company, Maybank IBG Research

Fig 3: Quarterly margin trend

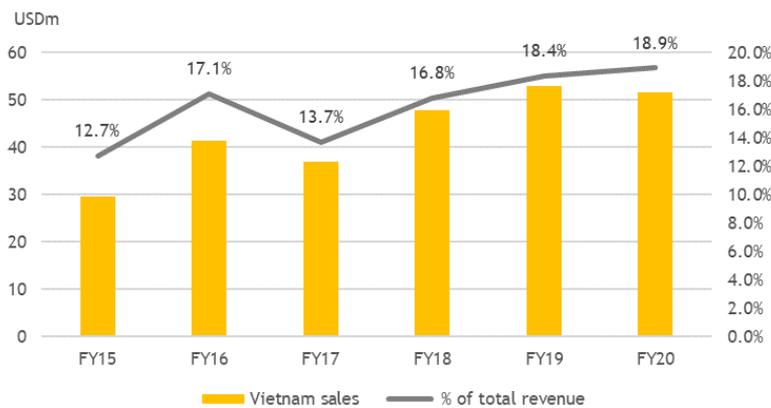


Source: Company, Maybank IBG Research

1.4 Strong growth in Vietnam

Vietnam is now a core market for FEH and has grown significantly in the past few years. Founded in 2004, Food Empire is one of the first companies to bring instant coffee culture to Vietnam with two product lines, MacCoffee 3-in-1 Strong and Classic. It also has tailor-made Café PHO to suit the Vietnamese taste with demand surging since its introduction. Sales from Vietnam have increased from USD29.6m in 2015 to USD51.6m in 2020. We expect management to focus its marketing campaigns to further grow the business in Vietnam, given it has become a core market for FEH.

Fig 4: Vietnam sales trend



Source: Company, Maybank IBG Research

Fig 5: Café PHO being sold at a store in Ben Thanh market

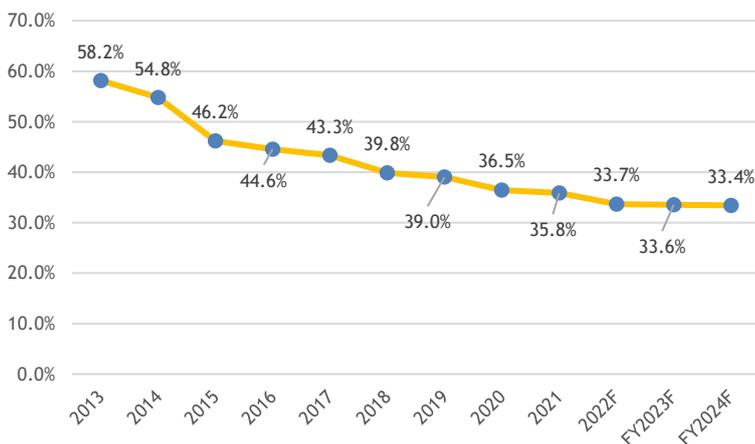


Source: Maybank IBG Research

1.5 Reducing reliance on Russia

Management has been looking to diversify revenues away from Russia by increasing revenue sources from other markets like Vietnam and India. As of 9M22, revenues from Russia made up 34.8% of the group’s total revenue as compared to 58% in 2013 and 55% in 2014. We believe that management will continue to grow revenue from other markets and reduce the group’s reliance on Russia. M&A of smaller targets is also a possibility.

Fig 6: Revenue from Russia as a % of total revenue



Source: Company, Maybank IBG Research

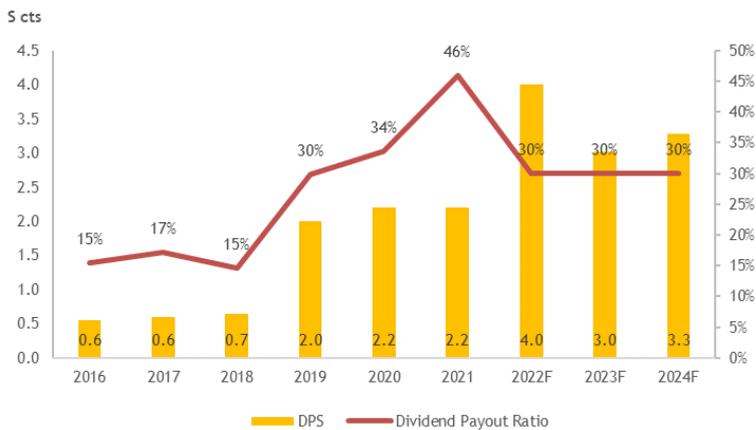
1.6 Special DPS likely accompanied by record profits

Food Empire is due for record revenue and profits in FY22E. It also sold its industrial building in 2022 for USD49.25m and booked a gain of USD15m from the sale. Last but not least, as of 1H22, it had a net cash position of USD4.4m before the sale and generated strong positive operating cash flow.

As a result, we think that there is a high chance management will reward shareholders with higher ordinary dividends due to its exceptional

performance in FY22E. We are also confident that management will award a special dividend to shareholders due to the sale of its industrial building. All in all, we expect a SGD0.04/share DPS, up from SGD0.022 a year ago which represents an attractive yield of 5.6%.

Fig 7: DPS and payout ratio chart



Source: Company, Maybank IBG Research

1.7 Substantial share buy-back activity

We strongly believe in the phrase putting your money where your mouth is and this has been reflected in Food Empire's corporate share buyback activities in the past 2 years. FEH has been and is currently undertaking significant share-buybacks as management believes it is deeply undervalued. Since Aug 2022, it has bought back a total of 5.95m shares. Shares have been bought back as high as SGD0.82 per share in 2021.

Fig 8: Share buyback table

Date	No of shares	Avg price (SGD)	Total cost ('000)
19-Jan-23	117,000	0.690	81
17-Jan-23	106,000	0.680	72
6-Jan-23	200,000	0.653	131
3-Jan-23	200,000	0.649	130
2022	5,552,700	0.568	3,153
2021	4,231,100	0.771	3,263
2020	2,912,800	0.589	1,715

Source: Bloomberg

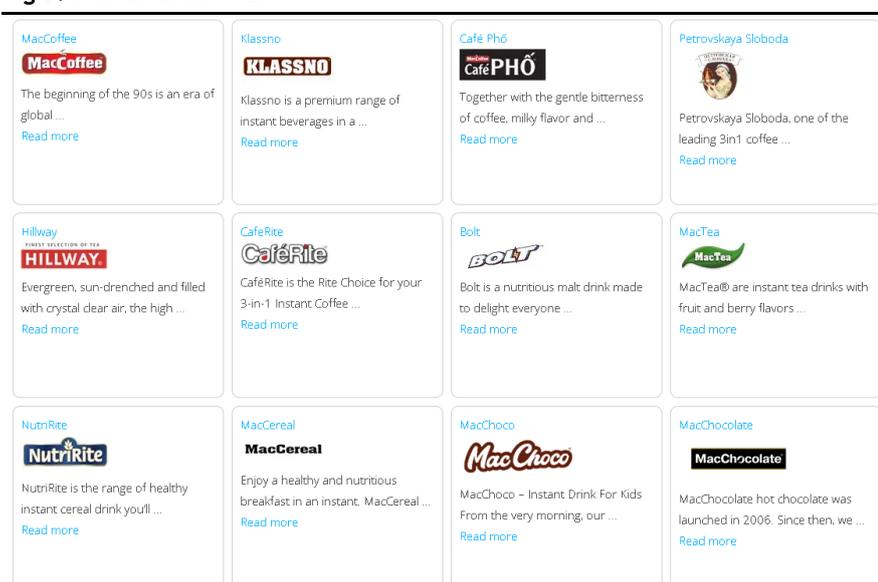
2. Corporate information

2.1 A global branding and manufacturing company in the F&B sector

Food Empire’s products are sold in over 50 countries, spanning North Asia, Eastern Europe, Southeast Asia, Central Asia, the Middle East, and North America. The group has 23 offices worldwide and operates 8 manufacturing facilities in 5 countries.

Food Empire owns a family of proprietary brands - including MacCoffee, Café PHO, Petrovskaya Sloboda, Klassno, Hillway and Kracks. MacCoffee - the group’s flagship brand has been consistently ranked as the leading 3-in-1 instant coffee brand in the group’s core markets. The group employs a sophisticated brand building processes, localised to match the flavour of the local markets in which its products are sold.

Fig 9: Brands under FEH



Source: Company

Since its public listing in 2000, Food Empire has won numerous accolades and awards including being recognised as one of the ‘Most Valuable Singapore Brands’ by IE Singapore (now known as Enterprise Singapore), while MacCoffee has been ranked as one of ‘The Strongest Singapore Brands’. Forbes Magazine has twice named Food Empire as one of the ‘Best under a Billion’ companies in Asia and the company has also been awarded one of Asia’s ‘Top Brands’ by Influential Brands.

Fig 10: Milestones

1994 – Birth of Food Empire’s flagship brand – MacCoffee.
17 th April 2000 – Listed on Singapore Exchange (SGX) Main-board listing.
27 th September 2006 – Launched of Russia manufacturing plant in Moscow. Catering to the biggest market of Food Empire.
2013 – Launched of the brand “Café PHO” into Vietnam, which became the 2 nd biggest market of Food Empire as of today.
28 th October 2021 – Awarded “The Enterprise Award” at the Singapore Business Awards 2020/2021.
2021 – Revenue crossed USD300m for the first time at USD320.1m.

Source: Company

2.2 Growing penetration into Vietnam

Founded in 2004, Food Empire (Vietnam) is one of the first companies to bring instant coffee culture to Vietnam with two product lines, MacCoffee 3-in-1 Strong and Classic. It has also created a new brand and flavour, Café PHO to suit the Vietnamese taste and demand has surged since its introduction. Sales increased from USD29.6m in 2015 to USD51.6m in 2020.

Fig 11: Vendors offering samples of MacCoffee Iced Cappuccino



Source: Company

Fig 12: Café PHO Tet gift set for Tet festival



Source: Company

2.3 India freeze dry plants

Following the successful commissioning of its first spray dry coffee plant in India in 2015, the second plant, which commenced operations in 1H21, produces freeze dry coffee. This represents a further expansion into the food commodities manufacturing space as part of its vertical integration strategy. For spray dry, about 50% is sold to external parties.

The freeze dry coffee plant is an enhancement of its existing capability and will produce a higher value-added range of coffee products. Around 90% of the finished products will be supplied to entities within the group and the remainder will be sold to brand owners and traders.

These factories not only support the branded beverage business but they should also open up a new B2B market for FEH. Total capex for the freeze dry plant is about USD50m.

Fig 13: Main entrance of India plant



Source: Company

Fig 14: Freeze drier



Source: Company

Fig 15: Boiler house



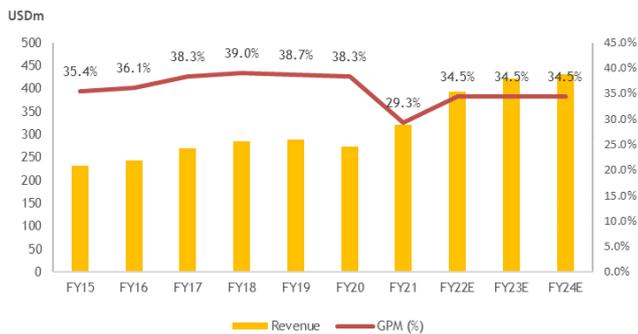
Source: Company

3. Financial analysis

3.1 Strong growth from Russia despite ongoing conflict

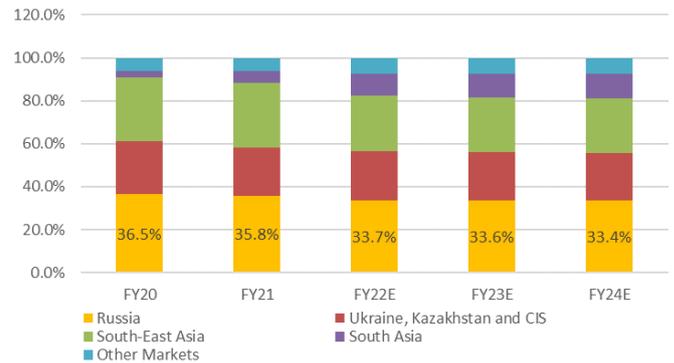
We are projecting the group’s turnover to increase from USD320.6m in FY21 to USD431.6m in FY24E, which would translate to a 3-year CAGR of 10.4%. This is likely achievable despite the current ongoing Russia/Ukraine conflict. In fact, as of 9M22, revenue from Russia had risen 15.5% YoY to USD99.55m.

Fig 16: Revenue forecasts



Source: Company, Maybank IBG Research

Fig 17: Revenue breakdown across different markets



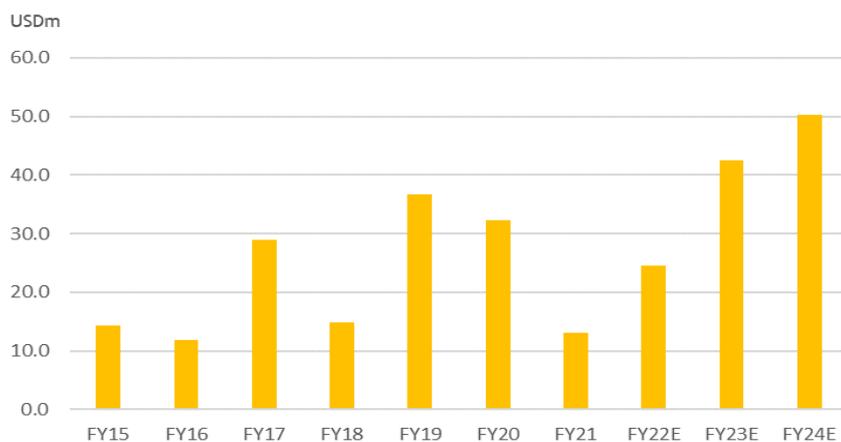
Source: Company, Maybank IBG Research

Revenue growth from Vietnam and India has also been on a strong trajectory mainly due to the launch of new Vietnam 3-in-1 coffee which suits the local taste buds better as well as the commencement of the new freeze dry coffee plant in India.

3.2 Strong positive operating cashflow

Since 2015, Food Empire has generated positive cashflow from its operations and despite building a new freeze dry coffee plant in India, it has funded all of its expansion with internal cash flows without the need to raise more equity. We expect this trend to continue and expect even stronger cashflow from operations going forward.

Fig 18: Net cash flow generated from operations (2015-2024)



Source: Company, Maybank IBG Research

3.3 Net cash balance sheet to be sustained

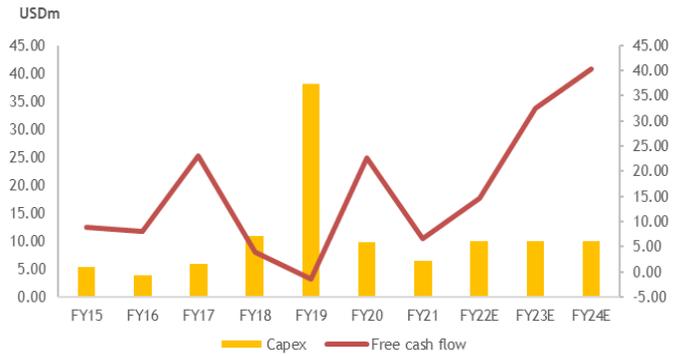
As of 1H22, Food Empire had a net cash position of USD4.4m before the sale of its plant worth SGD49.5m and it has generated strong positive operating cash flow every year. This is on the back of paying dividends as well as executing its share buyback for employees as well as for strategic purposes. We believe that this trend is likely to continue with no major capex plans in the near term and stronger financial performance ahead.

Fig 19: Net debt/(cash)



Source: Company, Maybank IBG Research

Fig 20: Capex and free cash flow



Source: Company, Maybank IBG Research

4. Valuation

4.1 Initiate coverage with BUY and TP of SGD1.20

We are initiating coverage on Food Empire with BUY and 12-month TP of SGD1.20, based on an undemanding 11x FY23E P/E. Our target multiple implies more than 50% discount to its global-listed peers even after considering the group’s lower market cap and trading liquidity, as well as the ongoing Russian/Ukraine conflict and the geographical risk. We think the current share price represents an attractive entry level with 60% upside potential given the positive earnings profile, as well as attractive dividends and potential M&A activities to further boost profitability. It could also be an attractive takeover target by bigger F&B competitors due to its low valuations at less than 7x FY23 P/E. Its closest peer, Super Coffee, was previously taken over by Jacobs Douwe Egberts for SGD1.35b, representing 30x FY16 P/E in 2017.

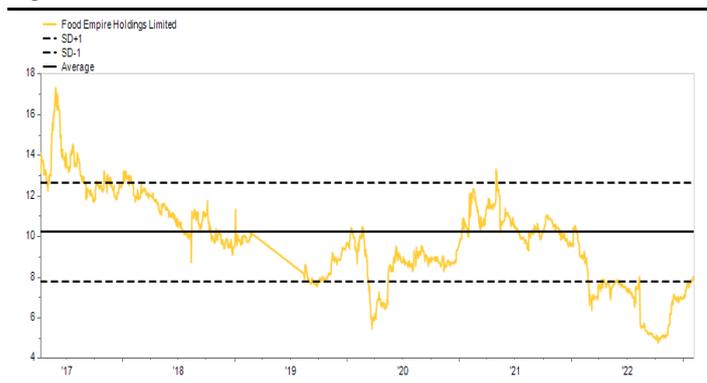
Key rerating catalyst include: 1) improving margins; 2) halt or end to the current Ukraine/Russia war; and 3) special dividend 4) share buy-back 5) potential takeover target.

Fig 21: Peer comparison

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm/dd	Mcap USDm	EV /EBITDA						
							P/E (x)			(x)	P/B (x)	ROE (%)	
							Act	FY1	FY2				FY3
Food Empire Holdings Limited	FEH SP	Buy	1.200	0.74	12/31	406	16.3	7.4	6.7	6.6	8.3	1.3	7.4
Global peers													
Nissin Foods Holdings Co., Ltd.													
Co., Ltd.	4NS GR	NR	-	11,130.00	03/31	11,548	32.4	30.3	26.8	24.9	14.9	3.3	8.9%
Unilever PLC	UNVB GR	NR	-	41.00	12/31	166,246	18.0	17.5	16.4	15.2	12.7	6.0	41.7%
Uni-President	1216 TT	NR	-	66.60	12/31	16,697	19.0	19.8	15.3	16.0	8.2	3.1	17.2%
Toyo Suisan Kaisha,	2875 JP	NR	-	5,600.00	03/31	6,263	25.5	19.3	15.0	14.2	9.0	1.5	6.5%
Nongshim Co., Ltd.	004370 KS	NR	-	334,000.00	12/31	2,138	20.4	17.1	14.9	13.7	6.7	0.8	5.2%
Nestle S.A.	NESR GR	NR	-	110.38	12/31	437,026	25.0	23.1	21.9	20.2	18.8	6.7	34.2%
Ajinomoto Co., Inc.	2802 JP	NR	-	4,100.00	03/31	22,209	29.4	25.6	23.1	20.7	12.6	2.9	11.6%
Yakult Honsha Co.,	2267 JP	NR	-	9,130.00	03/31	15,752	32.6	27.7	24.3	23.1	17.0	2.9	10.6%
PT Mayora Indah Tbk	MYOR IJ	Buy	2900.00	2,440.00	12/31	4,791	46.0	35.2	24.3	20.4	21.1	4.6	10.7%
Universal Robina	URC PM	Buy	152.00	147.00	12/31	7,749	26.5	27.7	24.2	20.8	15.6	2.9	12.4%
Monde Nissin Corp.	MONDE PM	Buy	15.00	12.72	12/31	5,531	63.6	30.9	27.4	22.9	17.5	3.3	6.7%
Average							34.8	26.7	22.9	20.2	15.6	3.4	15.1

Source: FactSet, Bloomberg

Fig 22: Forward 12-month P/E band



Source: FactSet

Fig 23: Forward 12-month P/B band



Source: FactSet

5. Risks

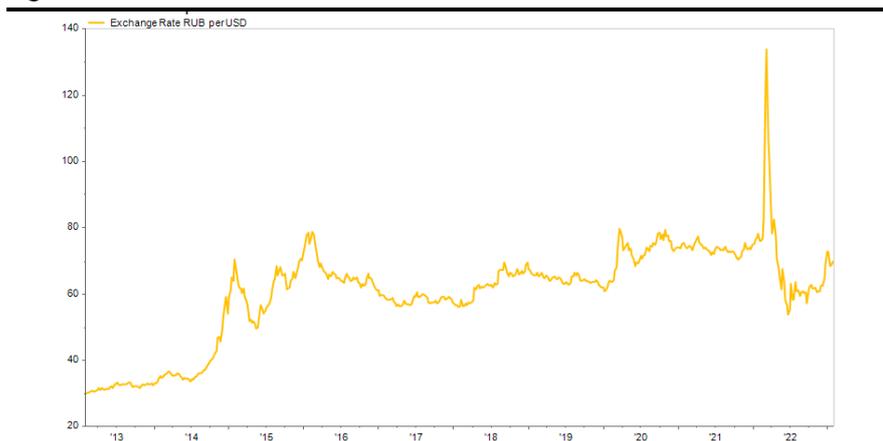
Russia-Ukraine war escalation will impact earnings

Russia is its largest core market (>30%) and Ukraine is about 6-10% of its FY21 revenue. An escalation in the war could lead to more sanctions which might impact FEH, especially through the banking system. Currently, FEH is not under any sanctions despite operating in Russia. Any further escalation to a nuclear war or NATO conflict would also impact revenues and profitability significantly or risk its factories or plants in these countries suffering damage or destruction. Alternatively, a halt or an end to the current war would be a positive catalyst for FEH.

FX Risks - volatile Ruble

As FEH operates in many countries and sells its products in local currency while its raw material cost is mainly in USD, it faces the risk of FX movements going against it, especially the volatile Ruble. However, it has proven its ability to raise prices to counter or soften the impact of FX devaluation and has done so on numerous occasions in the past.

Fig 24: Ruble FX chart



Source: FactSet

Raw material and freight cost price increases

When COVID-19 happened, raw material and freight costs shot up significantly which caught Food Empire and many other companies off guard. As their pricing for certain contract orders is agreed months before hand, a sudden surge in costs would lead to lower margins as seen in FY21. However, it should be able to resolve these issue through various strategies like raising prices but there will be a lagged impact of 3-6 months before it is reflected in its financials.

Huge capex needed for new plants and factories

Substantial funding is required whenever a new plant or factory is constructed and with higher interest rates, the cost of borrowing has shot up and will likely impact profitability. However, most of its expansion has thus far been funded with internal cashflow and, despite some borrowing, it still has a net cash position.

6. Key Management

Mr Tan Wang Cheow - Executive Chairman

Mr Tan has been providing leadership to the Board of Directors since April 2000. Mr Tan is founder of the group and has been instrumental in guiding the group's business, including taking the company public in 2000. As Executive Chairman, Mr Tan is responsible for the achievement of the group's long-term goals. His role includes providing strategic leadership and exploring business opportunities for the group. A passionate believer in the power of brands, Mr Tan is actively involved in marketing and branding activities across the group.

Mr Sudeep Nair - CEO

Mr Nair has been serving on the Board as an Executive Director since July 2005. Prior to his appointment to the Board, he was primarily responsible for establishing the group's brands and businesses in Russia and the neighbouring CIS countries from 1994 to 2005. In October 2012, Mr Nair was appointed as the group CEO in addition to his continuing role as Executive Director. He is responsible for the group's diversification and growth strategy including overall oversight of its day-to-day operations. His role includes geographical expansion of business, as well as identifying new businesses and M&A opportunities for the group. Mr Nair has over 27 years of experience in building and managing the group's business.

Mr Tan Wang Cheow, PBM



Source: Company

Mr Sudeep Nair



Source: Company

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	8.5	17.3	7.4	6.8	6.7
Core P/E (x)	10.0	15.8	7.4	6.8	6.7
P/BV (x)	1.2	1.4	1.2	1.1	1.0
P/NTA (x)	1.3	1.4	1.3	1.1	1.0
Net dividend yield (%)	1.4	3.9	5.4	4.0	4.4
FCF yield (%)	8.4	2.2	4.7	10.6	13.1
EV/EBITDA (x)	7.6	11.4	5.9	5.0	4.5
EV/EBIT (x)	7.6	11.4	5.9	5.0	4.5
INCOME STATEMENT (USD m)					
Revenue	273.0	320.6	392.3	421.4	431.6
EBITDA	33.3	26.2	51.3	56.4	57.1
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	33.3	26.2	51.3	56.4	57.1
Net interest income / (exp)	(0.6)	(1.2)	(0.7)	(0.7)	(0.7)
Associates & JV	(0.5)	1.3	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	32.2	26.3	50.7	55.7	56.5
Income tax	(5.8)	(7.0)	(9.6)	(10.6)	(10.7)
Minorities	0.3	0.2	0.4	0.4	0.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	26.8	19.5	41.4	45.5	46.1
Core net profit	26.8	19.5	41.4	45.5	46.1
BALANCE SHEET (USD m)					
Cash & Short Term Investments	69.0	60.6	29.3	50.0	77.2
Accounts receivable	31.2	40.0	50.5	55.4	57.9
Inventory	50.1	73.5	98.6	106.6	110.0
Property, Plant & Equip (net)	104.3	103.9	104.1	104.2	104.3
Intangible assets	10.3	10.3	10.3	10.3	10.3
Investment in Associates & JVs	10.8	9.0	9.0	9.0	9.0
Other assets	36.9	42.7	44.3	44.2	44.0
Total assets	312.6	340.0	346.2	379.8	412.8
ST interest bearing debt	18.4	22.4	15.0	15.0	15.0
Accounts payable	28.8	48.1	57.2	57.6	58.0
LT interest bearing debt	35.3	27.4	10.0	10.0	10.0
Other liabilities	13.0	16.0	13.0	13.0	13.0
Total Liabilities	95.7	113.5	94.7	95.1	95.5
Shareholders Equity	218.0	227.7	252.6	285.6	318.1
Minority Interest	(1.1)	(1.2)	(1.1)	(1.0)	(0.9)
Total shareholder equity	217.0	226.6	251.5	284.7	317.3
Total liabilities and equity	312.6	340.0	346.2	379.8	412.8
CASH FLOW (USD m)					
Pretax profit	32.2	26.3	50.7	55.7	56.5
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(1.0)	(0.3)	0.0	0.0	0.0
Change in working capital	(6.3)	(18.9)	(26.5)	(12.6)	(5.5)
Cash taxes paid	(4.4)	(5.3)	(9.6)	(10.6)	(10.7)
Other operating cash flow	5.6	2.8	0.0	0.0	0.0
Cash flow from operations	32.4	13.2	24.6	42.6	50.3
Capex	(9.8)	(6.6)	(10.0)	(10.0)	(10.0)
Free cash flow	22.6	6.6	14.6	32.6	40.3
Dividends paid	(7.6)	(8.9)	(16.6)	(12.4)	(13.7)
Equity raised / (purchased)	1.0	1.6	0.0	0.0	0.0
Change in Debt	3.6	(3.8)	(24.8)	0.0	0.0
Other invest/financing cash flow	(5.2)	(3.7)	(2.6)	0.5	0.5
Effect of exch rate changes	(0.0)	(0.3)	(1.8)	0.0	0.0
Net cash flow	14.3	(8.5)	(31.2)	20.7	27.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.4)	17.5	22.3	7.4	2.4
EBITDA growth	1.5	(21.4)	96.2	9.8	1.4
EBIT growth	1.5	(21.4)	96.2	9.8	1.4
Pretax growth	2.2	(18.4)	92.5	9.9	1.4
Reported net profit growth	2.6	(27.2)	112.5	9.8	1.4
Core net profit growth	2.6	(27.2)	112.5	9.8	1.4
Profitability ratios (%)					
EBITDA margin	12.2	8.2	13.1	13.4	13.2
EBIT margin	12.2	8.2	13.1	13.4	13.2
Pretax profit margin	11.8	8.2	12.9	13.2	13.1
Payout ratio	14.5	61.3	40.4	27.3	29.6
DuPont analysis					
Net profit margin (%)	9.8	6.1	10.6	10.8	10.7
Revenue/Assets (x)	0.9	0.9	1.1	1.1	1.0
Assets/Equity (x)	1.4	1.5	1.4	1.3	1.3
ROAE (%)	12.6	8.7	17.3	16.9	15.3
ROAA (%)	8.6	6.0	12.1	12.5	11.6
Liquidity & Efficiency					
Cash conversion cycle	90.5	77.1	88.3	104.2	111.6
Days receivable outstanding	42.6	39.9	41.5	45.2	47.3
Days inventory outstanding	113.3	98.1	120.5	133.8	137.9
Days payables outstanding	65.5	61.0	73.7	74.8	73.6
Dividend cover (x)	6.9	1.6	2.5	3.7	3.4
Current ratio (x)	2.9	2.4	2.4	2.8	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	3.3	3.0	3.7	4.0	4.3
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	56.1	22.1	76.1	83.5	84.6
Debt/EBITDA (x)	1.6	1.9	0.5	0.4	0.4
Capex/revenue (%)	3.6	2.0	2.5	2.4	2.3
Net debt/ (net cash)	(15.3)	(10.8)	(4.3)	(25.0)	(52.2)

Source: Company; Maybank IBG Research

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