

16 March 2023

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Stable In Russia And Ukraine; Keep BUY

Target Price (Return): SGD1.39 (+59%)
Price (Market Cap): SGD0.87 (USD345m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (SGD/USD) 0.46m/0.34m

- **Keep BUY, with new SGD1.39 TP from SGD0.95, 59% upside and c.6% yield.** We are upbeat on Food Empire, as the earnings outlook remains firm with the stock trading at a compelling c.6x FY23F P/E or -1SD from its mean of 9x P/E. FY22 earnings turned around, led by key markets – Russia, Ukraine, etc. The attractive FY23F dividend is supported by strong operating cash flow of >USD70m and c.USD90m net cash. Our TP is based on 10x FY23F P/E. This report marks the transfer of coverage to Alfie Yeo.

- **Strong FY22 earnings beat our estimate.** Revenue and core earnings grew 25% and 143% YoY to USD415m and USD52m. Revenue growth was largely driven by Russia (+29% YoY, USD148m) and Ukraine, as well as Kazakhstan and the Commonwealth of Independent States (CIS) countries (+29% YoY, USD92m). This was offset by the slight post-COVID-19 normalisation in the South-East Asia segment (-4.2% YoY, USD93m). Gross margin expanded 0.5ppt to 29.8% on some price adjustments, while EBIT margin reached 14.3% (+5.7ppts) on better leverage and economies of scale in Russia after reaching its highest market share in FY21. A first and final DPS of 4.4 SG cents was declared with a dividend payout ratio amounting to c.35% of core earnings.

- **Food essentials continue to operate in Russia and Ukraine.** FEH, which is a producer of essential food items, has not seen any major disruption for its sales in Russia and Ukraine. Retail channels and supply chains continue to operate. Due to its marketing efforts, Russia and Ukraine's sales grew strongly by close to 30% YoY each. Sales volumes remain stable in both Russia and Ukraine, even though selling prices have increased. FEH's factory in Ukraine is located in the central area, away from the heavy fighting that is concentrated in the East. Barring battle lines progressing into the central Ukraine, which is a key risk to our earnings forecast, we see a stable outlook for earnings in these key markets. As a brand owner, FEH was able to sustain its profitability better than distributors and retailers, especially in Russia and Ukraine.

- **More positive on earnings, and TP.** We revise FY23F-24F core earnings by c.33-35% (USD52m and USD55m) on a higher FY22 base. We also lift our FY23F-24F revenue by 8-13% while imputing more efficient opex and higher operating margin at the current run-rate, which we believe is sustainable, premised on better leverage and economies of scale in Russia. Our 10x FY23F TP is raised to SGD1.39 with a 0% ESG discount or premium to our TP, as the group's ESG score is on par with the country median.

- **Downside risks to our forecasts** include a disruption of operations due to the Russia-Ukraine conflict, and currency swings in the RUB and other CIS countries' currencies.

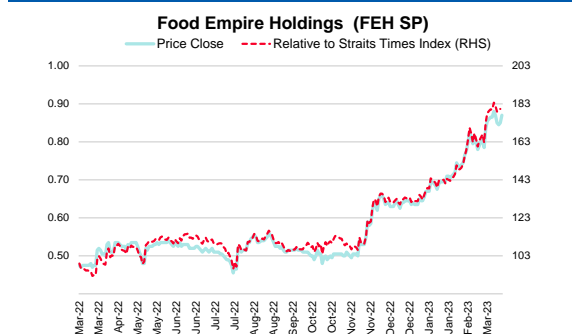
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	37.0	5.5	37.0	68.9	83.2
Relative	40.7	10.1	41.4	73.1	86.5
52-wk Price low/high (SGD)				0.46 – 0.88	



Source: Bloomberg

Overall ESG Score: 3.00 (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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	320	398	415	433	452
Recurring net profit (USDm)	21	50	52	55	57
Recurring net profit growth (%)	(26.9)	142.2	5.3	4.2	4.2
Recurring P/E (x)	16.86	6.93	6.58	6.32	6.06
P/B (x)	1.5	1.2	1.1	1.0	0.9
P/CF (x)	26.19	4.82	5.92	5.75	5.56
Dividend Yield (%)	2.5	5.0	5.8	6.0	6.3
EV/EBITDA (x)	8.77	3.79	3.19	2.67	2.17
Return on average equity (%)	8.7	23.8	17.8	16.6	15.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.04	0.09	0.10	0.10	0.11
Consumer Non-cyclical	DPS	0.02	0.03	0.04	0.04	0.04
Food Empire	BVPS	0.42	0.52	0.58	0.65	0.72
FEH SP	Return on average equity (%)	8.7	23.8	17.8	16.6	15.6
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	16.86	6.93	6.58	6.32	6.06
	P/B (x)	1.5	1.2	1.1	1.0	0.9
	FCF Yield (%)	1.9	16.8	14.0	14.5	15.1
	Dividend Yield (%)	2.5	5.0	5.8	6.0	6.3
	EV/EBITDA (x)	8.77	3.79	3.19	2.67	2.17
	EV/EBIT (x)	12.13	4.49	3.75	3.12	2.51
Valuation basis						
10x FY23F P/E						
Key drivers						
i. Margin expansion on strengthening RUB;						
ii. Expansion into Indochina and China.						
Key risks						
i. Negative movement in RUB and other CIS countries' currencies;						
ii. Rising coffee bean prices.						
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, Middle East, North America and Europe.						
	Income statement (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	320	398	415	433	452
	Gross profit	94	119	125	130	135
	EBITDA	38	68	71	73	76
	Depreciation and amortisation	(11)	(11)	(11)	(11)	(11)
	Operating profit	28	57	60	63	65
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	26	71	62	64	67
	Taxation	(7)	(11)	(9)	(10)	(10)
	Reported net profit	20	60	52	55	57
	Recurring net profit	21	50	52	55	57
	Cash flow (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(18.8)	11.0	(1.9)	(2.5)	(2.6)
	Cash flow from operations	13.2	71.5	58.2	59.9	62.0
	Capex	(6.6)	(13.7)	(10.0)	(10.0)	(10.0)
	Cash flow from investing activities	(6.0)	18.0	(10.0)	(10.0)	(10.0)
	Dividends paid	(8.9)	(8.8)	(17.3)	(19.9)	(20.7)
	Cash flow from financing activities	(15.3)	(24.0)	(17.3)	(19.9)	(20.7)
	Cash at beginning of period	69.0	60.6	125.6	156.5	186.5
	Net change in cash	(8.1)	65.6	30.9	30.0	31.3
	Ending balance cash	60.6	125.6	156.5	186.5	217.7
	Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	61	126	157	186	218
	Tangible fixed assets	104	101	101	100	100
	Total investments	37	30	32	35	38
	Total assets	340	381	419	456	494
	Short-term debt	22	13	13	13	13
	Total long-term debt	27	25	25	25	25
	Total liabilities	113	106	108	110	113
	Total equity	227	276	311	345	381
	Total liabilities & equity	340	381	419	456	494
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	17.3	24.5	4.2	4.3	4.3
	Recurrent EPS growth (%)	(26.9)	143.3	5.3	4.2	4.2
	Gross margin (%)	29.3	29.8	30.0	30.0	30.0
	Operating EBITDA margin (%)	11.9	17.0	17.0	16.9	16.8
	Net profit margin (%)	6.1	15.1	12.6	12.6	12.6
	Dividend payout ratio (%)	45.2	28.8	38.0	38.0	38.0
	Capex/sales (%)	2.0	3.4	2.4	2.3	2.2
	Interest cover (x)	23.2	46.5	49.1	51.2	53.4

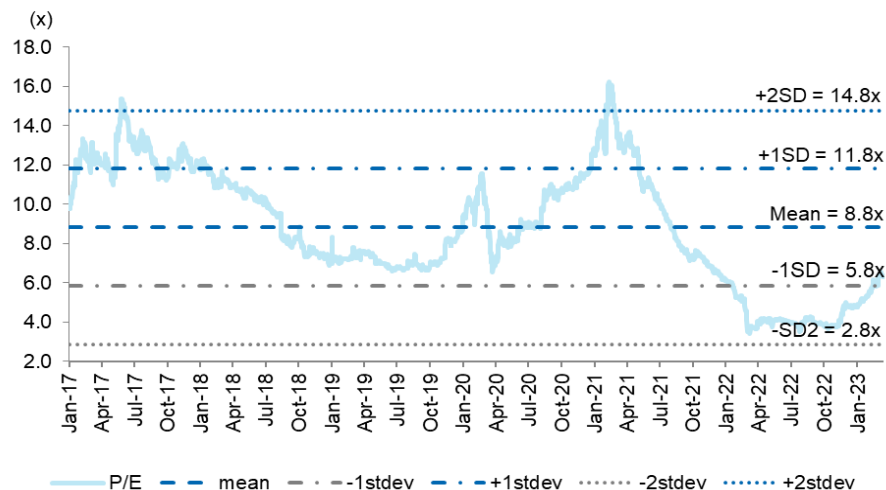
Source: Company data, RHB

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FX risk management in Russia, Ukraine and CIS markets. In management of its foreign currency risks, FEH maintains a natural hedge when operating in markets like Russia, Ukraine, and the CIS. Excess cash is swept out of these markets and back to corporate headquarters to be redeployed, leaving only sufficient cash balance for local operations in these markets. A weakening of local currency generally means less USD or SGD will be realised upon conversion, which its treasury function will oversee and manage.

Figure 1: FEH is currently trading below the historical 9x P/E mean



Source: RHB, Bloomberg

Recommendation Chart

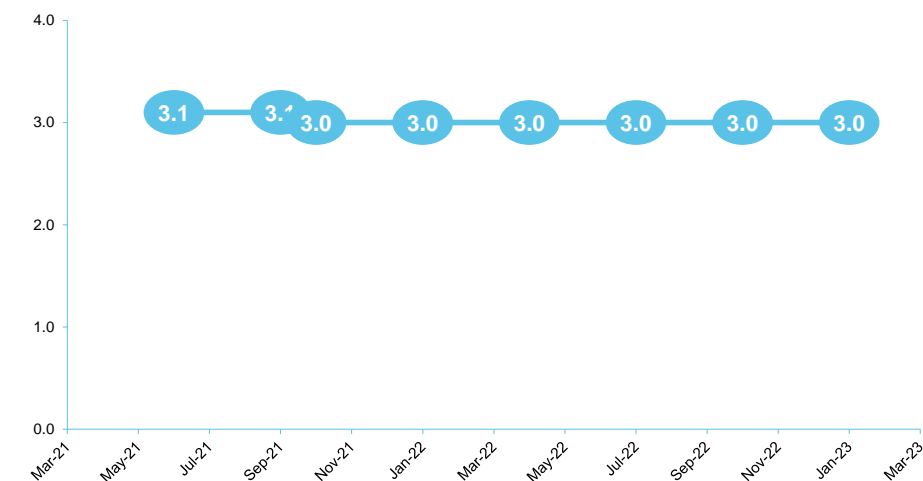


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-11-13	Buy	0.80	0.60
2020-06-09	Buy	0.75	0.57
2020-05-13	Buy	0.75	0.51
2020-02-26	Buy	0.88	0.73
2020-01-17	Buy	0.83	0.70

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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