

COMPANY RESULTS

Food Empire Holdings (FEH SP)

2022: Record-High Earnings And Dividend; Expect Strong Performance Ahead

FEH reported core earnings of US\$45m (+134% yoy), pulling off a record high and forming 125% of our estimates. Higher revenue across all but its South-East Asia segment and improved profitability contributed to the strong performance. In our view, the results are a testament to the group's strong brand equity, and earnings growth will continue as demand in all markets remains strong. We raise 2023 and 2024 core earnings by 33% and 41% respectively. Maintain BUY with a 64% higher target price of S\$1.28.

2022 RESULTS

Year to 31 Dec (US\$m)	2022	2021	yoy % chg
Revenue	398.4	320.1	24.5
Gross profit	118.8	93.7	26.9
Gross margin (%)	29.8	29.3	0.5ppt
Net profit	60.1	19.3	210.6
Net margin (%)	15.1	6.0	9.1ppt
Core net profit	45.1	19.3	133.7
Core net margin (%)	11.3	6.0	5.3ppt

Source: FEH, UOB Kay Hian

RESULTS

- **Record core earnings; above expectations.** Food Empire (FEH) reported net profit of US\$60.1m for 2022, pulling off a new record high. Excluding a one-off gain of US\$15m from the disposal of non-core assets, core net profit increased 133.7% yoy to US\$45.1m, outperforming our expectations and forming 125% of our estimates.
- **Cost control and higher revenue from most segments mitigated lower sales from the Southeast Asia market.** Revenue increased 24.5% yoy to US\$398.4m, which is above our expectations. Its largest market, Russia, reported revenue growth of 29.1% to US\$148.4m, mainly due to strong consumer demand, the appreciation of the Russian ruble against the US dollar, and higher ASP. Similarly, despite fluctuating currencies from geopolitical uncertainties, its Ukraine, Kazakhstan and Commonwealth of Independent States (CIS) segments achieved a 28.6% yoy revenue growth. However, we note that revenue from the Southeast Asia segment fell 4.2% to US\$92.7m, attributable to post-pandemic normalisation in Vietnam, but partially offset by improved contributions from Malaysia's non-dairy creamer and snacks manufacturing facilities. In 2022, selling and marketing expenses fell by 17.2% yoy due to lower advertising and promotion expenses, but partially offset by higher manpower costs, as seen by the 11.6% yoy increase in administrative expenses. With that, core net profit margin expanded a substantial 5.3ppt to 11.3% in 2022, indicating the group's successful cost-control measures and optimised operations.
- **Record dividend payout.** The group has proposed a record first and final dividend of 4.4 S cents per share, double that of 2021's dividend of 2.2 S cents per share. This translates to a dividend yield of 5.5% (2021: dividend yield of 2.8%).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	321	398	431	460	493
EBITDA	34	61	69	71	78
Operating profit	25	53	59	62	68
Net profit (rep./act.)	20	60	48	52	55
Net profit (adj.)	20	45	48	52	55
EPS (US\$ cent)	3.6	8.5	9.0	9.7	10.4
PE (x)	16.0	6.9	6.4	6.0	5.6
P/B (x)	1.4	1.1	1.0	0.9	0.8
EV/EBITDA (x)	5.7	3.2	2.8	2.7	2.5
Dividend yield (%)	2.8	5.6	5.6	5.6	5.6
Net margin (%)	6.1	15.1	11.2	11.2	11.3
Net debt/(cash) to equity (%)	(4.7)	(31.6)	(37.7)	(43.2)	(48.1)
Interest cover (x)	28.7	50.0	60.4	n.a.	55.2
ROE (%)	8.7	23.8	16.5	15.9	15.4
Consensus net profit	-	-	41	43	-
UOBKH/Consensus (x)	-	-	1.17	1.20	-

Source: FEH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.785
Target Price	S\$1.28
Upside	+63.1%
(Previous TP:	S\$0.78)

COMPANY DESCRIPTION

Food Empire Holdings manufactures and markets instant beverage products, frozen convenience food, confectioneries and snacks. The company exports its products to markets such as Russia, Eastern Europe, Central Asia, the Middle East and Indochina.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FEH SP
Shares issued (m):	533.2
Market cap (S\$m):	418.5
Market cap (US\$m):	310.4
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low	S\$0.825/S\$0.430
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1mth	3mth	6mth	1yr	YTD
10.6	18.9	49.5	52.7	23.6

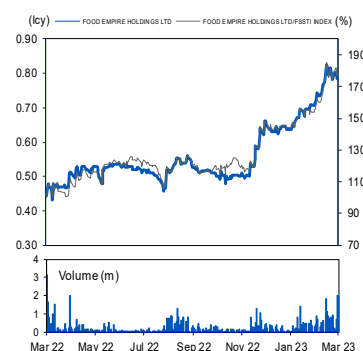
Major Shareholders

Major Shareholders	%
Anthoni Salim	24.6
Tan Wang Cheow	22.5

FY23 NAV/Share (US\$)	0.58
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FY23 Net Cash/Share (US\$)	0.22
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PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strong consumer demand across segments.** Despite rising inflationary pressures and ASPs, FEH does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, demand is relatively price inelastic. For instance, the group's products in the coffee segment continue to be affordable enough for mass appeal, leading to sustainable or even stronger demand in 2022. Hence, we see that sales volumes are more sheltered from the market volatilities. With supply chain disruptions easing in some markets, we forecast higher earnings and improved margins moving forward.
- **Positive brand equity built.** Despite challenges in 2022, including geopolitical tensions in its core markets and rising inflation, the group has managed to generate record-level profits. Additionally, the group was once again recognised as the Top 100 "Most Valuable Singaporean Brands" by Brand Finance, for the twelfth consecutive year, with its estimated brand value increasing 17% yoy to US\$101m. We believe this is a testament to its strong brand equity.
- **Double-digit growth in top-line and improved margins lift earnings.** With the strong levels of demand sustained amid inflationary pressures and currency volatility from geopolitical uncertainties, our forecast incorporates a 32%/31% increase in 2023/24 revenue. Furthermore, management expects higher revenues from: a) India with freight costs normalising, and b) Vietnam, as the new capacity expansion of its non-dairy creamer facility is underway and expected to contribute in 4Q23.

EARNINGS REVISION/RISK

- **We raise our 2023/24 core earnings estimates by 33%/41% to US\$48m/US\$52m**, up from US\$36m/US\$33m, while adding 2025 estimates. These figures reflect the better-than-expected core earnings for 2022 and improving net margins.

VALUATION/RECOMMENDATION

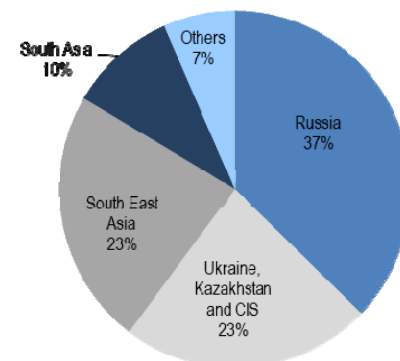
- **Maintain BUY with a 64% higher PE-based target price of S\$1.28 (S\$0.78 previously)**, as we raise our PE peg to 10.5x 2023F EPS, its long-term historical mean. Previously, we valued FEH at 8.4x 2023F EPS, or 1SD below its long-term historical average. The raise in PE peg is to reflect the improved outlook given sustained strong consumer demand.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 28-Feb-22 (lcy)	Market Cap (US\$m)	PE			P/B			ROE 2022 (%)	Yield 2022 (%)	Net Gearing (%)
					2021 (x)	2022 (x)	2023 (x)	2021 (x)	2022 (x)	2023 (x)			
Food Empire Singapore	FEH SP	SGD	0.785	319	8.9	8.7	8.0	1.2	1.1	1.0	12.7	2.7	(0.4)
Thai Beverage	THBEV SP	SGD	0.645	12,030	14.0	13.9	13.0	2.0	1.9	1.8	14.1	3.7	64.5
Fraser And Neave	FNN SP	SGD	1.17	1,351	13.6	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	18.9
Yeo Hiap Seng	YHS SP	SGD	0.685	307	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(32.5)
Average					13.8	13.9	13.0	1.3	1.9	1.8	14.1	3.7	17.0
Regional													
Nestle (Malaysia)	NESZ MK	MYR	135.2	7,087	51.1	44.5	41.0	50.6	47.7	45.1	114.5	2.2	147.9
Fraser & Neave	FNH MK	MYR	27.18	2,228	26.0	22.9	20.9	3.3	3.1	2.9	14.1	2.5	4.7
Coca-Cola Conso	COKE US	USD	579.36	5,431	12.6	n.a.	n.a.	5.1	n.a.	n.a.	n.a.	n.a.	50.0
Dydo Group	2590 JP	JPY	4820	587	n.a.	86.7	70.2	0.9	0.9	0.9	n.a.	1.2	(16.6)
Power Root	PWRT MK	MYR	2.15	204	17.2	16.2	15.4	3.4	3.2	3.4	21.2	5.8	(21.4)
Tac Consumer	TACC TB	THB	6.15	107	15.8	13.8	12.6	n.a.	4.6	4.6	34.1	7.0	(22.3)
Average (Excl. NESZ MK)					17.9	34.9	29.8	3.2	3.0	2.9	23.1	3.7	23.7

Source: Bloomberg, UOB Kay Hian

REVENUE IN 2022



Source: FEH, UOB Kay Hian

LONG TERM HISTORICAL PE BAND



Source: FEH, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	398.4	430.5	460.4	492.6
EBITDA	61.3	68.9	71.4	77.8
Deprec. & amort.	8.6	9.9	9.8	9.6
EBIT	52.7	59.0	61.6	68.2
Total other non-operating income	16.6	1.0	1.0	1.0
Associate contributions	2.7	0.6	0.6	0.6
Net interest income/(expense)	(1.2)	(1.1)	0.4	(1.4)
Pre-tax profit	70.7	59.4	63.6	68.4
Tax	(10.6)	(11.3)	(12.1)	(13.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	60.1	48.2	51.5	55.4
Net profit (adj.)	45.1	48.2	51.5	55.4

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	101.3	99.4	97.7	96.2
Other LT assets	37.9	37.8	37.8	37.7
Cash/ST investment	125.6	151.7	180.7	213.4
Other current assets	116.7	124.8	132.9	141.0
Total assets	381.5	413.7	449.1	488.3
ST debt	13.5	13.5	13.5	13.5
Other current liabilities	57.8	61.7	65.5	69.1
LT debt	24.8	22.2	19.6	17.0
Other LT liabilities	9.8	9.8	9.8	9.8
Shareholders' equity	276.7	307.6	341.9	380.2
Minority interest	(1.1)	(1.1)	(1.2)	(1.2)
Total liabilities & equity	381.5	413.7	449.1	488.3

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	72.8	55.4	57.4	62.8
Pre-tax profit	70.7	59.4	63.6	68.4
Tax	(10.6)	(11.3)	(12.1)	(13.0)
Deprec. & amort.	8.6	9.9	9.8	9.6
Associates	2.7	0.6	0.6	0.6
Working capital changes	11.0	(4.6)	(4.3)	(4.5)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(9.5)	1.4	(0.1)	1.7
Investing	19.0	(7.0)	(7.0)	(7.0)
Capex (growth)	(13.8)	(8.0)	(8.0)	(8.0)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	32.7	1.0	1.0	1.0
Financing	(26.2)	(23.0)	(21.5)	(23.2)
Dividend payments	(2.3)	(1.1)	0.4	(1.4)
Issue of shares	0.6	0.0	0.0	0.0
Proceeds from borrowings	65.6	(2.0)	(2.0)	(2.0)
Loan repayment	(76.9)	(2.6)	(2.6)	(2.6)
Others/interest paid	(13.2)	(17.2)	(17.2)	(17.2)
Net cash inflow (outflow)	65.6	25.5	29.0	32.6
Beginning cash & cash equivalent	60.6	125.6	151.7	180.7
Changes due to forex impact	(0.5)	0.6	0.1	0.1
Ending cash & cash equivalent	125.6	151.7	180.7	213.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.4	16.0	15.5	15.8
Pre-tax margin	17.7	13.8	13.8	13.9
Net margin	15.1	11.2	11.2	11.3
ROA	16.7	12.1	11.9	11.8
ROE	23.8	16.5	15.9	15.4
Growth				
Turnover	24.2	8.1	6.9	7.0
EBITDA	80.4	12.3	3.6	9.1
Pre-tax profit	168.7	(15.9)	7.0	7.6
Net profit	208.2	(19.8)	7.0	7.6
Net profit (adj.)	131.3	6.8	7.0	7.6
EPS	132.3	6.8	7.0	7.6
Leverage				
Debt to total capital	12.2	10.4	8.8	7.4
Debt to equity	13.8	11.6	9.7	8.0
Net debt/(cash) to equity	(31.6)	(37.7)	(43.2)	(48.1)
Interest cover (x)	50.0	60.4	n.a.	55.2

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