

## COMPANY RESULTS

### Food Empire Holdings (FEH SP)

1H23: Steaming Ahead With Strong Growth

FEH's 1H23 net profit of US\$26.6m (-1.6% yoy) is in line with expectations, forming 54% of our full-year estimate. Revenue from its core markets recorded impressive double-digit growth due to higher volumes and pricing, partially offset by unfavourable exchange rates and negative contribution from associates. The company's resilient performance reflects its strong brand power. Maintain BUY with a 2% higher target price of S\$1.36 (S\$1.33 previously).

#### 1H23 RESULTS

Year to 31 Dec (US\$m)	1H23	1H22	yoy % chg
Revenue	198.2	177.4	11.8
Gross profit	69.5	52.0	33.7
Gross margin (%)	35.1	29.3	5.8ppt
EBITDA	41.3	38.2	8.0
Net profit	26.6	27.1	(1.6)
Net margin (%)	13.4	15.3	(1.9ppt)
Core net profit	27.7	19.7	40.4
Core net profit margin (%)	14.0	11.1	2.8ppt

Source: FEH, UOB Kay Hian

#### RESULTS

• **Results in line with expectations; growth negated by currency headwinds.** Food Empire Holdings (FEH) reported net profit of US\$26.6m (-1.6% yoy) for 1H23, accounting for 54% of our full-year forecast. The fall in net profit is largely attributable to currency fluctuations (1H23: US\$1.1m forex loss; 1H22: US\$7.3m forex gain), as well as negative contribution from associates (1H23: US\$0.1m loss; 1H22: US\$4.0m profit). We note that upon exclusion of currency movements, core profit has substantially improved by 40.4% yoy, demonstrating impressive performance.

• **Top-line growth across core markets.** Revenue for 1H23 grew 11.8% yoy as a result of higher volumes and pricing across most markets, contributing to gross margin expansion (+5.8ppt yoy). FEH's three largest markets reported encouraging double-digit sales growth during the period. Revenue from Russia grew 23.6% yoy to US\$70.6m, despite the depreciation of the Russian ruble against the US dollar. Strong growth momentum was also observed in the South Asia segment (+15.3% yoy) due to higher contributions from the freeze dry coffee plant in India, which is operating at maximum capacity. For the Ukraine, Kazakhshtan and CIS segments, revenue recorded a 20% yoy growth to US\$49.5m in spite of significant depreciation of Ukrainian Hryvnia. Southeast Asia's 1H23 and 2Q23 sales also improved 1.0% yoy and 7.1% qoq respectively, on the back of higher contributions from Malaysia's non-dairy creamer facility, offset by marginally lower revenue from the Vietnam market.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	321	398	445	476	510
EBITDA	34	61	71	74	81
Operating profit	25	53	61	64	71
Net profit (rep./act.)	20	60	50	54	58
Net profit (adj.)	20	45	50	54	58
EPS (US\$ cent)	3.6	8.5	9.4	10.0	10.8
PE (x)	22.0	9.4	8.5	8.0	7.4
P/B (x)	1.9	1.5	1.4	1.2	1.1
EV/EBITDA (x)	9.0	5.0	4.3	4.2	3.8
Dividend yield (%)	2.0	4.0	4.0	4.0	4.0
Net margin (%)	6.1	15.1	11.2	11.2	11.3
Net debt/(cash) to equity (%)	(4.7)	(31.6)	(37.4)	(43.2)	(48.3)
Interest cover (x)	28.7	50.0	62.4	n.a.	57.1
ROE (%)	8.7	23.8	17.1	16.3	15.7
Consensus net profit	-	-	50	53	56
UOBKH/Consensus (x)	-	-	1.00	1.01	1.03

Source: FEH, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.08
Target Price	S\$1.36
Upside	+25.6%
(Previous TP:	S\$1.33)

#### 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):	530.7
Market cap (S\$m):	573.1
Market cap (US\$m):	424.6
3-mth avg daily t'over (US\$m):	0.6

#### Price Performance (%)

52-week high/low S\$1.10/S\$0.455

1mth	3mth	6mth	1yr	YTD
(5.3)	3.8	41.2	96.4	70.1

#### Major Shareholders

	%
Anthoni Salim	24.6
Tan Wang Cheow	22.5

FY23 NAV/Share (US\$) 0.58

FY23 Net Cash/Share (US\$) 0.22

#### PRICE CHART



Source: Bloomberg

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# STOCK IMPACT

- **Resilient consumer demand and strong brand equity.** Despite implementing pricing adjustments across most of its operating markets during the year, FEH's sales volumes continued to rise, demonstrating the price inelasticity of its products. Additionally, the company's overall performance is relatively stable in the face of currency devaluations in 1H23. We believe that this is testament to its strong brand equity and experience in navigating currency fluctuations effectively.
- **Top-line growth to lift earnings.** With the strong levels of demand sustained amid inflationary pressures and currency volatility from geopolitical uncertainties, our forecast incorporates a 5% increase in revenue. Furthermore, management expects higher revenues from: a) Southeast Asia, with increased marketing efforts in Vietnam and stable demand in its potato chips and non-dairy creamer businesses in Malaysia, and b) South Asia, as its spray dry and new freeze dry coffee plants in India continue to see demand exceeding supply which may push prices upward.
- **Frequent share buybacks to date reflects confidence.** From Apr 23, FEH has bought back 1.8m shares at up to S\$1.06. This is close to the 52-week high share price of S\$1.18, showing management's confidence in the future growth outlook.

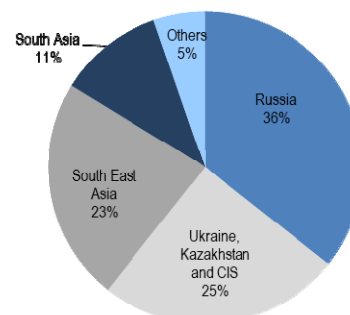
# EARNINGS REVISION/RISK

- **None.**

# VALUATION/RECOMMENDATION

- **Maintain BUY with a 2%-higher PE-based target price of S\$1.36**, pegged to 10x 2024F EPS, or its long-term historical mean. We have rolled over our valuation base year from 2023.

# REVENUE BREAKDOWN, BY GEOGRAPHY (1H23)



Source: FEH, UOB Kay Hian

# LONG-TERM HISTORICAL PE BAND



Source: FEH, UOB Kay Hian

# PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 11 Aug 23 (lcy)	Market Cap (US\$m)	PE			P/B 2023 (x)	ROE 2023 (%)	Yield 2023 (%)	Net Gearing (%)
					2022 (x)	2023 (x)	2024 (x)				
Food Empire	FEH SP	SGD	1.08	425	7.1	8.5	8.0	1.4	17.1	4.0	(29.4)
<b>Singapore</b>											
Thai Beverage	THBEV SP	SGD	0.575	10,708	12.4	11.7	10.8	1.7	15.1	4.3	73.2
Fraser And Neave	FNN SP	SGD	1.08	1,246	12.6	n.a.	n.a.	n.a.	n.a.	n.a.	(1.4)
Delfi	DELFI SP	SGD	1.32	598	13.6	12.7	11.9	2.2	18.2	3.9	(18.7)
Yeo Hiap Seng	YHS SP	SGD	0.66	303	165.0	n.a.	n.a.	n.a.	n.a.	n.a.	(34.6)
<b>Average (Excl. YHS SP)</b>					<b>12.9</b>	<b>12.2</b>	<b>11.4</b>	<b>2.0</b>	<b>16.7</b>	<b>4.1</b>	
<b>Regional</b>											
Nestle (Malaysia)	NESZ MK	MYR	132	6,752	49.8	43.2	38.9	47.4	113.5	2.3	119.6
Fraser & Neave	FNH MK	MYR	25.1	2,008	24.0	20.2	19.2	2.8	14.3	2.6	(1.4)
Coca-Cola Conso	COKE US	USD	713.9	6,692	15.6	n.a.	n.a.	n.a.	n.a.	n.a.	22.6
Dydo Group	2590 JP	JPY	5440	623	n.a.	63.0	32.5	1.0	0.6	1.1	(12.6)
Power Root	PWRT MK	MYR	2.05	207	14.6	14.3	13.4	3.1	21.0	6.1	(15.6)
Tac Consumer	TACC TB	THB	4.92	85	12.6	14.9	12.0	3.8	26.0	6.1	(17.9)
<b>Average (Excl. NESZ MK &amp; 2590 JP)</b>					<b>16.7</b>	<b>16.5</b>	<b>14.9</b>	<b>3.2</b>	<b>20.4</b>	<b>4.9</b>	

Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	398.4	445.0	476.2	509.9
EBITDA	61.3	71.2	73.8	80.6
Deprec. & amort.	8.6	9.9	9.8	9.6
EBIT	52.7	61.3	64.1	70.9
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)
<b>Pre-tax profit</b>	<b>70.7</b>	<b>61.8</b>	<b>66.0</b>	<b>71.1</b>
Tax	(10.6)	(11.7)	(12.5)	(13.5)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>60.1</b>	<b>50.0</b>	<b>53.5</b>	<b>57.6</b>
Net profit (adj.)	45.1	50.0	53.5	57.6

**CASH FLOW**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>72.8</b>	<b>55.2</b>	<b>59.2</b>	<b>64.8</b>
Pre-tax profit	70.7	61.8	66.0	71.1
Tax	(10.6)	(11.7)	(12.5)	(13.5)
Deprec. & amort.	8.6	9.9	9.8	9.6
Associates	2.7	0.6	0.6	0.6
Working capital changes	11.0	(6.7)	(4.5)	(4.7)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(9.5)	1.4	(0.1)	1.7
<b>Investing</b>	<b>19.0</b>	<b>(7.0)</b>	<b>(7.0)</b>	<b>(7.0)</b>
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
<b>Financing</b>	<b>(26.2)</b>	<b>(23.0)</b>	<b>(21.5)</b>	<b>(23.2)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>65.6</b>	<b>25.3</b>	<b>30.8</b>	<b>34.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>60.6</b>	<b>125.6</b>	<b>151.5</b>	<b>182.3</b>
Changes due to forex impact	(0.5)	0.6	0.1	0.1
<b>Ending cash &amp; cash equivalent</b>	<b>125.6</b>	<b>151.5</b>	<b>182.3</b>	<b>217.0</b>

**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	151.5	182.3	217.0
Other current assets	116.7	128.6	137.1	145.6
<b>Total assets</b>	<b>381.5</b>	<b>417.4</b>	<b>454.9</b>	<b>496.5</b>
ST debt	13.5	13.5	13.5	13.5
Other current liabilities	57.8	63.5	67.4	71.2
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	309.5	345.8	386.2
Minority interest	(1.1)	(1.1)	(1.2)	(1.2)
<b>Total liabilities &amp; equity</b>	<b>381.5</b>	<b>417.4</b>	<b>454.9</b>	<b>496.5</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	15.4	16.0	15.5	15.8
Pre-tax margin	17.7	13.9	13.9	14.0
Net margin	15.1	11.2	11.2	11.3
ROA	16.7	12.5	12.3	12.1
ROE	23.8	17.1	16.3	15.7
<b>Growth</b>				
Turnover	24.2	11.7	7.0	7.1
EBITDA	80.4	16.1	3.7	9.1
Pre-tax profit	168.7	(12.7)	6.9	7.7
Net profit	208.2	(16.7)	6.9	7.7
Net profit (adj.)	131.3	11.0	6.9	7.7
EPS	132.3	11.0	6.9	7.7
<b>Leverage</b>				
Debt to total capital	12.2	10.4	8.7	7.3
Debt to equity	13.8	11.5	9.6	7.9
Net debt/(cash) to equity	(31.6)	(37.4)	(43.2)	(48.3)
Interest cover (x)	50.0	62.4	n.a.	57.1

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