

COMPANY UPDATE

Food Empire Holdings (FEH SP)

Seeing What's Brewing In Vietnam Makes Us More Optimistic

We visited FEH's office and manufacturing facility in Vietnam to learn more about its market presence and production capabilities. We also witnessed its strong distribution network in both general trade and modern trade, supported by a 930-strong sales team. With the influence of macro factors, increased promotional activities and new product launches, FEH has room for growth in the Vietnam market, despite being a top 3 player with a 14% market share. Maintain BUY with a target price of S\$1.36.

WHAT'S NEW

- **Solid and growing market presence in Vietnam powered by macro factors.** Since 2005, Food Empire Holdings (FEH) has had a factory in Bin Duong province to meet growing consumer demand. This came after being one of the first companies to introduce the instant coffee culture to Vietnam with two product lines, MacCoffee 3-in-1 Strong and Classic. In the 5,300sqm factory, we learnt that 2m coffee sachets are produced every day, translating to tens of thousands of products. We also visited its office in Ho Chi Minh City, which was set up in 2016 and signalled its ambition to achieve growth in the country.
- **FEH's MacCoffee brand holds the third-largest share (14%) of the Vietnam instant coffee market,** behind Nescafe (22%) and G7 (20%). With a population of 98.2m people and second-largest volume of coffee exports globally, FEH has found a firm footing in the Vietnam market with its instant coffee. This is due to its key CaféPHỞ business gaining popularity as one of the best instant iced coffees in Vietnam, where 70% of coffee consumption is iced. FEH's Vietnam sales have substantial room for growth, given that the Vietnam instant coffee market is expected to reach US\$280m in 2023 and grow at a rate of 9.41% (2023-28 CAGR) per Statista, while instant coffee is gaining traction in Vietnam due to consumers' busier lifestyles and longer working hours. Though 2022 revenue from Vietnam fell due to post-pandemic normalisation, we are of the view that increased promotional activities and new products in the pipeline will further strengthen FEH's foothold in Vietnam and contribute to top-line growth.
- **Wide distribution channels and strong sales team drive growth.** In Vietnam, 2022 retail sales distribution was largely by general trade (67%), followed by modern trade (26%) and e-commerce (7%) per Statista. During our visit, we toured the Ben Thanh Market, a central market with over 1,500 booths, and noticed many booths selling FEH's products. Additionally, FEH's products occupied notable shelf space in Emart Vietnam, a supermarket chain in the country. These are testament to FEH's success in distributing its products across different channels in Vietnam to provide maximum visibility. On top of this, management shared that every sales staff is tasked with visiting around 30 shops daily, to ensure the stores are well-stocked and collect customer feedback. With a 930-person strong and highly engaged sales team, FEH is able to stay on top of its sales activity in Vietnam and develop effective strategies to drive growth.

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)	20.8	8.9	8.1	7.5	7.0
P/B (x)	1.8	1.5	1.3	1.2	1.0
EV/EBITDA (x)	8.3	4.6	4.0	3.8	3.5
Dividend yield (%)	2.1	4.3	4.3	4.3	4.3
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	54	57
UOBKH/Consensus (x)	-	-	1.00	1.00	1.01

Source: FEH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.03
Target Price	S\$1.36
Upside	+32.0%

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):	529.6
Market cap (S\$m):	545.5
Market cap (US\$m):	400.7
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

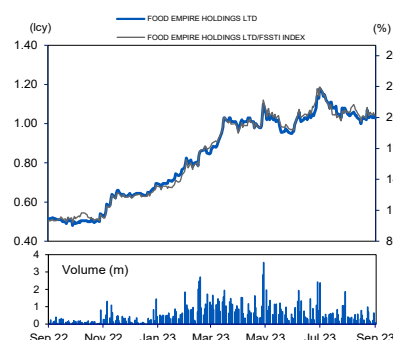
52-week high/low		S\$1.18/S\$0.480		
1mth	3mth	6mth	1yr	YTD
(4.6)	8.4	21.9	100.0	62.2

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

- **New product launches in the pipeline.** FEH continues to develop new products to capture consumer demand, such as Hillway, a 3-in-1 bubble tea launched in 2020 with good reception. The company also introduced Ly Lớn, a coffee with a rich and intense flavour, in 2022 and CaféPHỐ Gold, a premium version of the original, this year under the MacCoffee brand. These products are tailored to meet changing consumer tastes and will allow FEH to expand its market presence.
- **Pricing adjustments to negate foreign currency fluctuations.** In light of the Russian ruble's rapid depreciation during the year (30% fall to-date), management has plans to implement price increases across its portfolio during the year. This will help reduce the impact of the weaker currency on FEH's performance moving forward.

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Maintain BUY with a PE-based target price of S\$1.36**, pegged to 10x 2024F EPS, or its long-term historical mean.

SHARE PRICE CATALYST

- Better-than-expected sales volumes across all business segments.
- Improving net margin from higher ASPs and lower costs.

FEH'S OFFICE IN HO CHI MINH, VIETNAM



Source: FEH, UOB Kay Hian

FEH'S FACTORY IN BINH DUONG, VIETNAM



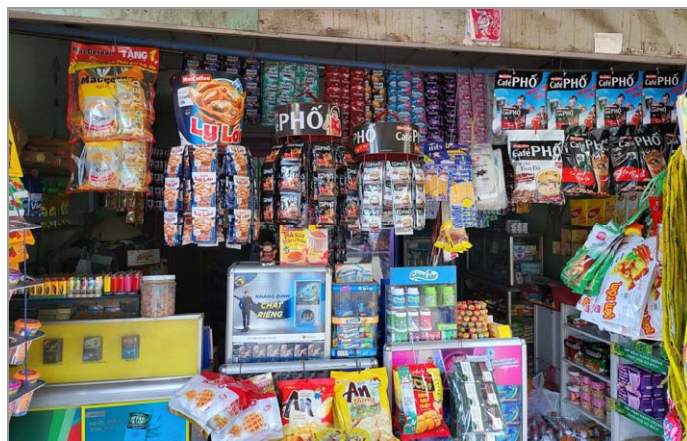
Source: FEH, UOB Kay Hian

FEH PRODUCTS SOLD AT LOCAL SUPERMARKET



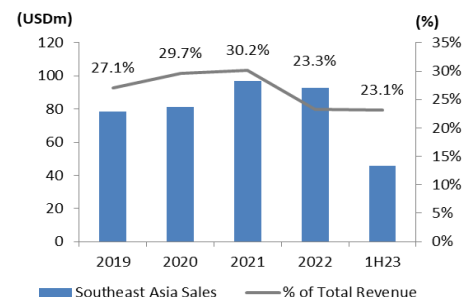
Source: FEH, UOB Kay Hian

FEH PRODUCTS SOLD AT BOOTH IN BEN THANH MARKET



Source: FEH, UOB Kay Hian

SOUTHEAST ASIA SALES TREND (2019-1H23)



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	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)
Pre-tax profit	70.7	61.8	66.0	71.1
Tax	(10.6)	(11.7)	(12.5)	(13.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	60.1	50.0	53.5	57.6
Net profit (adj.)	45.1	50.0	53.5	57.6

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	72.8	55.2	59.2	64.8
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
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	25.3	30.8	34.6
Beginning cash & cash equivalent	60.6	125.6	151.5	182.3
Changes due to forex impact	(0.5)	0.6	0.1	0.1
Ending cash & cash equivalent	125.6	151.5	182.3	217.0

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
Total assets	381.5	417.4	454.9	496.5
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)
Total liabilities & equity	381.5	417.4	454.9	496.5

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	13.9	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
Growth				
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
Leverage				
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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