

COMPANY RESULTS

Food Empire Holdings (FEH SP)

1H20: Beat Expectations; Expect Better Quarters Ahead And Raise Target Price By 35%

1H20 core earnings grew 8% yoy and formed 70% of our 2020 estimate. 2Q20 core earnings of US\$4m was above our expectation of a zero profit. We expect the next two quarters to be better as we believe that the worst is over for Food Empire's key markets, especially Russia. In our view, Food Empire's product and brand strength is very evident in this result. We raise 2020F and 2021F EPS by 31% and 6% and roll over our valuation base year to 2021. We increase our target price by 35% to S\$0.85 (12.3x 2021F PE) and maintain BUY.

1H20 RESULTS

Year to 31 Dec (US\$m)	2Q20	yoy % chg	1H20	yoy % chg
Revenue	58.7	(13.4)	132.9	(4.0)
Gross profit	23.0	(10.2)	53.0	(1.9)
Gross margin (%)	39.2	1.4ppt	39.9	0.9ppt
Net profit	6.8	22.0	13.4	1.1
Net margin (%)	11.6	3.4ppt	10.1	0.5ppt
Core net profit	3.9	(24.0)	13.4	7.9
Core net profit margin (%)	6.7	(0.9ppt)	10.4	1.1ppt

Source: Food Empire, UOB Kay Hian

RESULTS

- Results above expectations.** Food Empire reported net profit of US\$13.4m for 1H20. Excluding forex, core net profit increased 7.9% yoy in 1H20 but fell 24% yoy in 2Q20 to US\$3.9m. 1H20 earnings formed 70% of our full-year estimates and was above our expectations as we were expecting a slightly above breakeven position for 2Q20.
- Revenue was slightly ahead of our expectations.** Revenue fell 13.4% yoy and 4.0% yoy to US\$58.7m and US\$132.9m in 2Q20 and 1H20 respectively and was slightly above expectations as we had expected steeper declines in revenue from Russia and CIS markets. The decline in revenue was attributed to lockdowns across some of the group's core markets which resulted in lower footfall of consumers in retail outlets. The steepest decline in revenue in 2Q20 was from Russia which fell 22% yoy to US\$19.7m as a result of the nationwide lockdown and also lower translated revenue due to the depreciation of the Russian rouble. Similarly, revenue from Ukraine, Kazakhstan and CIS markets declined 15.6% yoy to US\$14.3m in 2Q20 while revenue from its Southeast Asian market remained resilient, increasing 1.1% qoq in 2Q20 and 3.4% yoy in 1H20.
- Higher gross profit margin despite currency depreciation in core markets.** Gross profit margin in 2Q20 rose 1.4ppt to 39.2%. This was achieved in spite of weaker currencies for some of its core markets, especially the Russian rouble which averaged at 72.4 per USD in 2Q20 compared with 64.5 in 2Q19. Management attributed this to a series of gradual ASP increases for its products in some of its key markets with effect from Apr 20.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2018	2019	2020F	2021F	2022F
Net turnover	284	289	273	293	309
EBITDA	27	39	38	42	45
Operating profit	22	30	30	33	35
Net profit (rep./act.)	18	26	25	27	28
Net profit (adj.)	22	26	25	27	28
EPS (US\$ cent)	4.1	4.8	4.7	5.1	5.3
PE (x)	10.1	8.5	8.8	8.1	7.7
P/B (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	7.7	5.5	5.5	5.0	4.7
Dividend yield (%)	1.2	3.5	1.8	2.5	2.6
Net margin (%)	6.4	9.0	9.1	9.2	9.2
Net debt/(cash) to equity (%)	(4.9)	(2.3)	(2.6)	(3.6)	(10.9)
Interest cover (x)	34.7	27.4	38.0	46.5	54.9
ROE (%)	10.5	13.6	11.6	11.5	10.9
Consensus net profit	-	-	22	27	29
UOBKH/Consensus (x)	-	-	1.16	1.01	0.96

Source: Food Empire, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.56
Target Price	S\$0.85
Upside	+51.8%
(Previous TP)	S\$0.630

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):	538.0
Market cap (S\$m):	301.3
Market cap (US\$m):	219.4
3-mth avg daily t'over (US\$m):	0.2

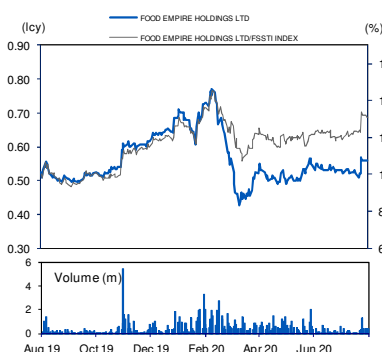
Price Performance (%)

52-week high/low		S\$0.770/S\$0.425		
1mth	3mth	6mth	1yr	YTD
5.7	9.8	(21.2)	8.8	(12.1)

Major Shareholders

	%
Universal Integrated Corp	24.55
Tan Guek Ming	12.71
Sudeep Nair	11.67
Tan Wang Cheow	9.75
FY20 NAV/Share (US\$)	0.42
FY20 Net Cash/Share (US\$)	0.01

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Gradual recovery in 2H20 as lockdown measures ease.** Although some of the group's markets where COVID-19 cases remain high are still under partial lockdown, the restrictions are less stringent and have been gradually eased since May-Jun 20. Russia, the group's largest revenue contributor, has started gradually lifting restrictions that were imposed during the national lockdown since early-Jun 20. Ukraine's lockdown has been extended to Aug 31 but has been partially eased since May. As for Kazakhstan, a new less-stringent 14-day lockdown has been imposed since early July and has been extended for two weeks in Aug 20. In line with the gradual resumption of activities in 2H20 post the stringent lockdowns in 2Q20, management expects business activities to pick up going into 2H20. Additionally, management shared that Vietnam, the group's second largest revenue contributor, has seen sales slowly revert to pre-COVID-19 levels.
- **RUB/USD has appreciated since the low in Mar 20.** We also highlight that the Russian rouble has strengthened against the USD to 73 as at 12 Aug 20 and averaging at 72.4 in 2Q20, compared with the low of 77-79 in Mar 20. In our view, the stabilisation of the currency should help to support gross profit margin given that majority of the group's raw materials are denominated in USD.

EARNINGS REVISION/RISK

- We raise our 2020, 2021 and 2022 earnings to US\$24.9m (+30.6%), US\$27.0m (+5.7%) and US\$28.3m (+1.3%) as we incorporate higher revenue (1.7-6.4%), gross margin (0.1-0.2ppt) and net profit margin (0.2-1.7ppt). The adjustment is to reflect the stronger-than-expected results, higher revenue from stronger recovery, better cost control and the improvement of the Russian rouble against USD. We now expect net profit to decline marginally by 2.4% yoy for 2020 and rebound by 8.6% in 2021.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher PE-based target price of S\$0.85, up from S\$0.63.** This is based on 12.3x 2021F PE (previously: 12.6x 2020F PE), in line with its long-term historical average (excluding outliers). We have rolled over our valuation base to 2021. Our target price also incorporates a slightly lower S\$/US\$ rate of 1.37 from 1.40 previously.
- At current prices, the stock trades at an attractive valuation at 8.1x 2021F PE, a significant discount to peer average of 20x for 2021F, suggesting that the rouble depreciation and impact from COVID-19 have been priced in.

PROFIT & LOSS

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
Net turnover	288.6	273.4	292.9	308.8
EBITDA	38.5	38.4	42.5	44.8
Deprec. & amort.	8.1	8.0	9.3	10.1
EBIT	30.4	30.4	33.2	34.7
Total other non-operating income	2.4	0.6	0.6	0.6
Associate contributions	0.2	0.4	0.3	0.3
Net interest income/(expense)	(1.4)	(1.0)	(0.9)	(0.8)
Pre-tax profit	31.5	30.4	33.2	34.8
Tax	(5.8)	(5.9)	(6.6)	(7.0)
Minorities	0.4	0.4	0.5	0.5
Net profit	26.1	24.9	27.0	28.3
Net profit (adj.)	25.5	24.9	27.0	28.3

BALANCE SHEET

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
Fixed assets	99.3	118.4	134.1	134.1
Other LT assets	51.8	51.7	51.7	51.6
Cash/ST investment	54.7	51.6	50.4	66.4
Other current assets	101.8	96.7	102.8	107.7
Total assets	307.6	318.4	339.0	359.8
ST debt	14.7	15.0	15.0	15.0
Other current liabilities	45.5	43.6	46.0	47.8
LT debt	35.3	30.9	26.5	22.1
Other LT liabilities	6.4	6.4	6.4	6.4
Shareholders' equity	206.9	224.2	247.2	270.1
Minority interest	(1.2)	(1.6)	(2.1)	(2.6)
Total liabilities & equity	307.6	318.4	339.0	358.8

CASH FLOW

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
Operating	39.3	36.0	32.5	35.0
Pre-tax profit	31.5	30.4	33.2	34.8
Tax	(5.8)	(5.9)	(6.6)	(7.0)
Deprec. & amort.	8.1	8.0	9.3	10.1
Associates	0.2	0.4	0.3	0.3
Working capital changes	2.2	3.2	(3.6)	(3.1)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	3.1	0.0	0.0	(0.1)
Investing	(37.0)	(26.4)	(24.4)	(9.4)
Capex (growth)	(38.1)	(27.0)	(25.0)	(10.0)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	0.9	0.6	0.6	0.6
Financing	9.9	(12.8)	(9.3)	(10.6)
Dividend payments	(2.8)	(1.0)	(0.9)	(0.8)
Issue of shares	0.6	0.0	0.0	0.0
Proceeds from borrowings	70.7	0.0	0.0	0.0
Loan repayment	(54.2)	(4.1)	(4.4)	(4.4)
Others/interest paid	(4.4)	(7.6)	(4.0)	(5.4)
Net cash inflow (outflow)	12.1	(3.1)	(1.2)	15.0
Beginning cash & cash equivalent	42.2	54.7	51.6	50.4
Changes due to forex impact	0.4	0.0	0.0	1.0
Ending cash & cash equivalent	54.7	51.6	50.4	66.4

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	13.3	14.1	14.5	14.5
Pre-tax margin	10.9	11.1	11.3	11.3
Net margin	9.0	9.1	9.2	9.2
ROA	9.5	8.0	8.2	8.1
ROE	13.6	11.6	11.5	10.9
Growth				
Turnover	1.5	(5.3)	7.1	5.4
EBITDA	40.5	(0.3)	10.5	5.4
Pre-tax profit	58.5	(3.5)	9.1	4.8
Net profit	44.3	(4.6)	8.6	4.7
Net profit (adj.)	17.9	(2.4)	8.6	4.7
EPS	17.8	(2.4)	8.6	4.7
Leverage				
Debt to total capital	19.6	17.1	14.5	12.2
Debt to equity	24.2	20.5	16.8	13.7
Net debt/(cash) to equity	(2.3)	(2.6)	(3.6)	(10.9)
Interest cover (x)	27.4	38.0	46.5	54.9

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