

26 February 2021

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Record Profit, More To Come; Keep BUY

Target Price (Return): SGD1.27 (+38%)
Price: SGD0.92
Market Cap: USD372m
Avg Daily Turnover (SGD/USD) 0.70m/0.52m

- **Maintain BUY, SGD1.27 TP implies 38% upside, with c.2% yield.** Food Empire reported record FY20 results and dividends, despite COVID-19 affecting 1H FY20 numbers. PATMI ticked up by 2.9% YoY to USD26.45m after an FX loss of USD2.29m, due to margin expansion as well as higher profitability from the South-East Asia region. We expect continued margin improvements, increasing demand, and the appreciation of the Russian ruble (RUB) to drive strong growth of 26.8% YoY in FY21.
- **The worst is over.** While revenues declined YoY across all the markets, strong sequential improvement was seen from 2Q20 onwards. Management highlighted that demand for instant coffee products has been stable. It noted that previous strict national lockdowns had resulted in operational and logistical issues, which pulled down sales volumes temporarily. However, Food Empire also emphasised that it has since learnt how to solve these issues, and is unlikely to face a repeat of these challenges going forward. We expect demand to remain resilient, and increase in FY21. Note that 4Q20 profitability was 11.5% stronger on a QoQ basis. Going forward, management has also revealed that marketing and administrative costs are likely to remain low this year, even though revenue is likely to rebound further.
- **A strong rebound in FY21F.** We expect a much stronger FY21 performance. Our SGD1.27 TP is pegged to a higher 15x FY21F P/E, as its local and regional staples peers are trading at significant premiums of 20-30x. The RUB had appreciated at the end of Nov 2020, and this will be beneficial for the group. Management made a strong statement by declaring a record SGD0.022 for its ordinary DPS. We expect the final dividend for FY21 to be the same or higher than last year's 2.2 SG cents per share. This raises our expected dividend yield to 2.4%.
- **One of our Top Picks.** At 11x FY21F P/E, Food Empire is among the cheapest consumer staples players with a proven track record. Note that its peers are trading at 20-30x P/Es. With the company being a market leader in Russia and Ukraine, we remain bullish on its outlook, and maintain a BUY call. Privatisation may be a possibility, given its undervalued status. Management has also been aggressively buying back shares in Dec 2020 and Jan 2021. The last share buyback price was at SGD0.76 per unit – on 21 Jan, before the black-out period. We expect this to continue, as management believes the stock is deeply undervalued vs its peers and acquisition targets. Food Empire remains a top sector pick.
- **Key risks:** Strict nationwide lockdowns that result in operational disruptions, and a sharp depreciation in the RUB and related Commonwealth of Independent States (CIS) currencies.

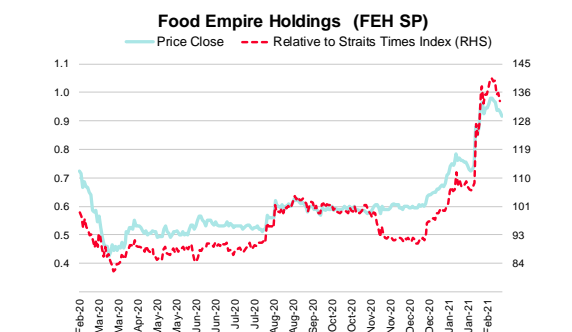
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	38.6	21.2	51.2	50.0	24.5
Relative	35.8	22.9	49.3	35.7	31.9
52-wk Price low/high (SGD)				0.43	0.98



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (USDm)	289	273	300	319	335
Recurring net profit (USDm)	24	27	34	37	39
Recurring net profit growth (%)	25.0	13.2	23.7	7.9	6.1
Recurring P/E (x)	15.42	13.64	11.03	10.22	9.63
P/B (x)	1.8	1.6	1.5	1.3	1.2
P/CF (x)	10.13	8.82	13.79	9.13	8.32
Dividend Yield (%)	2.1	2.4	2.4	2.4	2.6
EV/EBITDA (x)	10.04	8.44	6.70	5.88	5.19
Return on average equity (%)	13.6	12.5	14.0	13.6	13.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (USD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.04	0.05	0.06	0.07	0.07
Consumer Non-cyclical	DPS	0.01	0.02	0.02	0.02	0.02
Food Empire	BVPS	0.38	0.43	0.47	0.52	0.58
FEH SP	Return on average equity (%)	13.6	12.5	14.0	13.6	13.1
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	15.42	13.64	11.03	10.22	9.63
15x FY21F P/E	P/B (x)	1.8	1.6	1.5	1.3	1.2
	FCF Yield (%)	(0.4)	4.6	1.9	8.3	9.3
Key drivers	Dividend Yield (%)	2.1	2.4	2.4	2.4	2.6
i. Margin expansion due to the strengthening RUB;	EV/EBITDA (x)	10.04	8.44	6.70	5.88	5.19
ii. Expansion into Indochina and China;	EV/EBIT (x)	12.07	10.46	8.47	7.44	6.47
	Income statement (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	289	273	300	319	335
i. Negative movement in RUB and other CIS countries' currencies;	Gross profit	112	105	118	126	132
ii. Rising coffee bean prices.	EBITDA	37	42	54	57	60
	Depreciation and amortisation	(6)	(8)	(11)	(12)	(12)
	Operating profit	30	34	42	45	48
Company Profile	Net interest	(1)	(1)	(1)	(1)	(1)
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.	Pre-tax profit	32	33	41	45	47
	Taxation	(6)	(6)	(8)	(8)	(9)
	Reported net profit	26	27	34	37	39
	Recurring net profit	24	27	34	37	39
	Cash flow (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(14.9)	6.7	(17.6)	(7.3)	(5.4)
	Cash flow from operations	36.8	42.3	27.1	40.9	44.9
	Capex	(38.1)	(25.0)	(20.0)	(10.0)	(10.0)
	Cash flow from investing activities	(37.4)	(25.0)	(20.0)	(10.0)	(10.0)
	Dividends paid	(2.6)	(3.9)	(8.9)	(9.1)	(9.1)
	Cash flow from financing activities	12.7	(5.8)	(18.4)	(24.6)	(8.6)
	Cash at beginning of period	42.2	54.7	69.0	54.3	60.5
	Net change in cash	12.1	11.6	(11.4)	6.3	26.2
	Ending balance cash	54.0	69.3	54.7	60.5	86.8
	Balance sheet (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	55	69	54	61	87
	Tangible fixed assets	99	116	125	123	122
	Total investments	41	41	41	40	40
	Total assets	308	330	350	362	394
	Short-term debt	15	10	10	15	15
	Total long-term debt	35	41	31	10	10
	Total liabilities	102	98	97	81	83
	Total equity	206	232	254	281	311
	Total liabilities & equity	308	330	350	362	394
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	1.5	(5.4)	9.8	6.3	5.2
	Recurrent EPS growth (%)	24.0	13.1	23.7	7.9	6.1
	Gross margin (%)	38.7	38.3	39.5	39.5	39.5
	Operating EBITDA margin (%)	12.7	15.4	17.9	18.0	17.9
	Net profit margin (%)	9.0	10.0	11.3	11.5	11.6
	Dividend payout ratio (%)	29.8	32.7	27.0	25.0	25.0
	Capex/sales (%)	13.2	9.2	6.7	3.1	3.0
	Interest cover (x)	21.6	57.1	38.3	67.1	71.2

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-07	Buy	1.27	0.88
2020-11-13	Buy	0.80	0.60
2020-05-13	Buy	0.75	0.51
2020-02-26	Buy	0.88	0.73
2019-11-21	Buy	0.83	0.60
2019-08-13	Buy	0.73	0.52
2019-03-04	Buy	0.69	0.57
2018-11-19	Buy	0.66	0.53
2018-08-15	Neutral	0.60	0.56

Source: RHB, Bloomberg

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