

15 November 2021

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Margins Impacted By Temporary Rising Costs; BUY

- **Maintain BUY with a lower TP of SGD1.13 from SGD1.23, 43% upside and c.2% yield.** In 3Q21, Food Empire reported a healthy revenue growth of 15.1% YoY but it was hit by high commodity costs and record high freight rates. We believe this issue is temporary and will likely persist up until 1Q22F. Management has plans to rise ASPs in several stages to improve margins. As a result, we decrease our FY22F PATMI by 8%, resulting in a lower TP based on a 15x FY22F P/E.
- **Rise in costs is likely to normalise by 2H22F.** The inflationary pressure on commodity and packaging costs, as well as rising ocean freight rates will likely continue to hit Food Empire's margins until 1Q22F. 3Q21 gross margins dropped from 37.7% last year to 25.7%. We expect margins for Food Empire to normalise by 1H22F and forecast a rebound in profitability for FY22F as freight and commodity costs should normalise once the COVID-19 situation globally improves as governments around the world are implementing measures to regard COVID-19 as an endemic. FY21F's profitability will likely suffer as a one-off, mainly due to COVID-19.
- **Revenue growth still robust.** Revenue in 3Q21 grew 8.8% YoY, which is a strong showing by historical standards. YoY Food Empire's core markets: Russia grew by 15.1%, while South Asia grew 132.3 YoY partially due to the higher sales volume from the non-dairy creamer plant and snacks manufacturing facility as well as the commencement of a new freeze dry coffee plant in India. If margins were to normalise, Food Empire would have enjoyed a surge in profitability which we expect to happen in FY22F.
- **Management still optimistic on the longer term, backed by share buy backs.** Management has been actively buying back company shares as it considers the company is deeply undervalued. In fact, management repurchased shares multiple times recently, with the latest purchases completed last week on 10 and 11 of November. We believe this is a vote of confidence by the management.
- **FY22F should be the key year; Maintain BUY.** As a result of the temporary surge in COGS, we lower our FY21F and FY22F PATMI by 11% and 8% respectively, resulting in a lower TP of SGD1.13 (from SGD1.23) based on 15x FY22F P/E, to reflect a more accurate PATMI on a normalised basis. We remain confident on Food Empire's prospects, and think that it remains an attractive target for privatisation or take over due to its attractive valuation.
- **Incorporating ESG scores into our TP calculation.** Using our in-house proprietary methodology, we derived an ESG score of 3.0, which is around the median 3.0 ESG score for our Singapore coverage universe. As a result, we do not apply any discount or premium to our TP.

Target Price (Return): SGD1.13 (43.0%)
Price (Market Cap): SGD0.79 (USD313m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (SGD/USD) 0.14m/0.10m

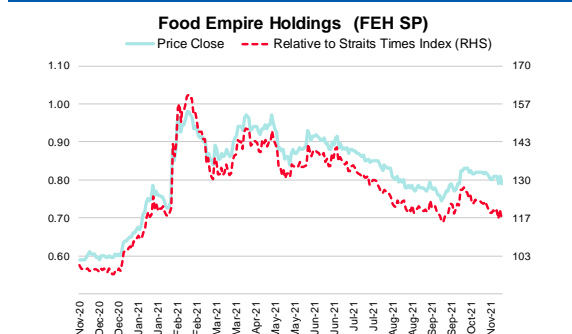
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.7	(4.8)	(1.9)	(8.1)	37.4
Relative	6.2	(8.5)	(3.3)	(11.5)	18.4
52-wk Price low/high (SGD)				0.59 – 0.98	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

The company has implemented various energy conservation initiatives at facility-level across its operations. It strives to align its energy and emissions management with the various country-specific energy regulations and policies.

S: GOOD

Food Empire cares deeply for its employees and is committed to supporting them and protecting their livelihoods. Since the pandemic, the group has not conducted any COVID-19 retrenchment exercises and still pays employees their full salaries, even when they were not able to fully execute their job roles due to COVID-19 measures.

G: GOOD

Food Empire has implemented a group-wide grievance mechanism via its Whistleblowing Policy. The Whistleblowing Policy allows employees to raise concerns about any wrongdoings, financial malpractice, illegal acts or business practices that go against its code of conduct in a safe and confidential manner.

Note:

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

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	19	30	32
Recurring net profit growth (%)	25.0	13.2	(29.5)	55.9	6.3
Recurring P/E (x)	12.98	11.48	16.30	10.45	9.83
P/B (x)	1.5	1.4	1.3	1.2	1.1
P/CF (x)	8.53	7.43	29.89	9.18	8.10
Dividend Yield (%)	2.5	2.8	1.7	2.4	2.5
EV/EBITDA (x)	8.43	7.04	8.89	6.02	5.35
Return on average equity (%)	13.6	12.5	8.2	11.9	11.5
Net debt to equity (%)	net cash	net cash	1.4	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (USD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.04	0.05	0.04	0.06	0.06
Consumer Non-cyclical	DPS	0.01	0.02	0.01	0.01	0.01
Food Empire	BVPS	0.38	0.43	0.45	0.49	0.54
FEH SP	Return on average equity (%)	13.6	12.5	8.2	11.9	11.5
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	12.98	11.48	16.30	10.45	9.83
	P/B (x)	1.5	1.4	1.3	1.2	1.1
	FCF Yield (%)	(0.4)	5.5	(3.0)	7.7	9.2
	Dividend Yield (%)	2.5	2.8	1.7	2.4	2.5
	EV/EBITDA (x)	8.43	7.04	8.89	6.02	5.35
	EV/EBIT (x)	10.13	8.72	12.97	7.97	6.95
Valuation basis						
15x FY22F P/E						
Key drivers						
i. Margin expansion on strengthening RUB;						
ii. Expansion into Indochina and China;						
Key risks						
i. Negative movement in RUB and other CIS countries' currencies;						
ii. Rising coffee bean prices.						
Company Profile						
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.						
	Income statement (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	289	273	300	319	335
	Gross profit	112	105	100	118	124
	EBITDA	37	42	36	49	52
	Depreciation and amortisation	(6)	(8)	(11)	(12)	(12)
	Operating profit	30	34	24	37	40
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	32	33	23	37	39
	Taxation	(6)	(6)	(4)	(7)	(7)
	Reported net profit	26	27	19	30	32
	Recurring net profit	24	27	19	30	32
	Cash flow (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(14.9)	6.7	(19.6)	(7.5)	(4.7)
	Cash flow from operations	36.8	42.3	10.5	34.2	38.8
	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)	(5.2)	(7.5)
	Cash flow from financing activities	12.7	(5.8)	(18.4)	(20.7)	(7.0)
	Cash at beginning of period	42.2	54.7	69.0	37.7	41.2
	Net change in cash	12.1	11.6	(27.9)	3.5	21.8
	Ending balance cash	54.0	69.3	38.1	41.2	63.0
	Balance sheet (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	55	69	38	41	63
	Tangible fixed assets	99	116	125	123	122
	Total investments	41	41	41	40	40
	Total assets	308	330	341	346	373
	Short-term debt	15	10	10	15	15
	Total long-term debt	35	41	31	10	10
	Total liabilities	102	98	102	82	85
	Total equity	206	232	239	264	289
	Total liabilities & equity	308	330	341	346	373
	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	(29.5)	55.9	6.3
	Gross margin (%)	38.7	38.3	33.5	37.0	37.0
	Operating EBITDA margin (%)	12.7	15.4	11.9	15.5	15.4
	Net profit margin (%)	9.0	10.0	6.4	9.4	9.5
	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	22.1	55.3	58.8

Source: Company data, RHB

Recommendation Chart

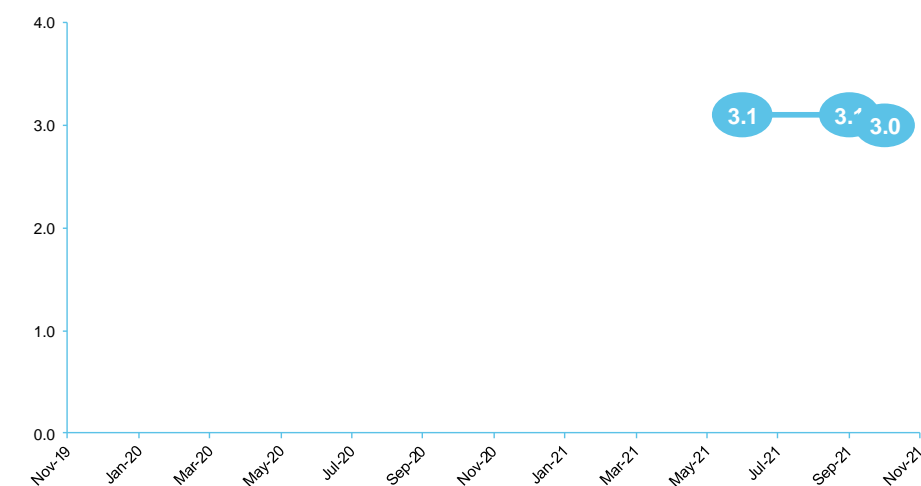


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-08-16	Buy	1.23	0.81
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

ESG Rating History



Source: RHB

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Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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