

5 July 2022

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

### Buffing Up Its Coffers; Keep BUY

- **Reiterate BUY and SGD0.95 TP, 83% upside and c.4% yield.** Food Empire has entered into an agreement to sell its industrial office at Harrison Road to a subsidiary of Lian Beng Group (LBG SP, NR) for SGD49.25m. We believe this will be positive for FEH as its current office is underutilised and the sale will help to reduce debt, shore up its balance sheet while boosting its cash position and record a sizable one-off gain of SGD20.54m.
- **Realising value for shareholders.** As no production is done in Singapore, its office is mainly use as a head office, while the majority of the floor space is rented out. With rising interest rates, sale of this non-core asset will help FEH to unlock value by having a one-off gain of about SGD20.54m. This will also help to reduce debt on its balance sheet by SGD20.7m, which was tagged to the property's loan. All in, NTA will increase from SGD0.405 to SGD0.431 after the transaction. We believe management will have better use of the sales proceeds to further grow the business, and may also resume its share buyback programme.
- **Demand remains strong despite ongoing conflict.** Demand from its Russia, Ukraine and Kazakhstan (all comprising a single segment), as well as Commonwealth of Independent States (CIS) markets remains firm, with revenue only declining 5.5% and 5.8% YoY. This was partly due to a refocus of marketing efforts by management to increase its attention on the South Asia and other markets as a result of the Russia-Ukraine conflict. That said, we believe FEH's business will continue to be resilient in its core markets – the demand for instant mix coffee remains sturdy, even with the ongoing war. In fact, it gives FEH an advantage, as foreign competitors are leaving such markets – which would benefit the players that stay. These include FEH, which has the largest share of these markets.
- **Trading at oversold valuation.** We think FEH's 1Q22 results should quash any doubts over the strength and diversification of its business. We expect it to continue doing well, despite the Russia-Ukraine war – with a recovery in margins being imminent. This, in turn, should be due to several initiatives undertaken previously, like raising prices to pass on the increase in freight and raw material costs. This asset sale of SGD49.25m will also boost its balance sheet and cash position. Maintain BUY, pegged to a 13x FY22F P/E.
- **ESG.** Using our in-house proprietary methodology, we derive an ESG score of 3.0, which is on par with the country median. As a result, we apply a 0% discount/premium to our TP.

Target Price (Return): SGD0.95 (+83%)  
Price (Market Cap): SGD0.52 (USD198m)  
ESG score: 3.00 (out of 4)  
Avg Daily Turnover (SGD/USD) 0.06m/0.04m

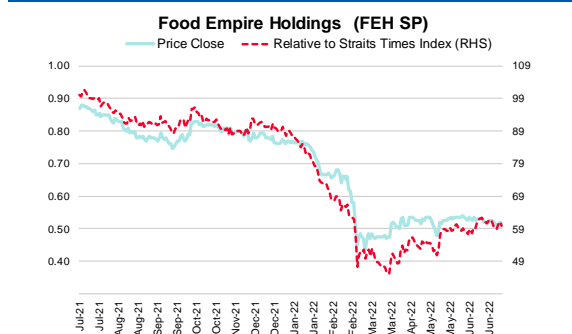
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(33.1)	(1.9)	2.0	(33.1)	(41.8)
Relative	(33.0)	1.6	10.7	(31.2)	(41.5)
52-wk Price low/high (SGD)				0.44 – 0.88	



Source: Bloomberg

#### Overall ESG Score: 3.00 (out of 4)

##### E: GOOD

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

##### S: GOOD

FEH 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

FEH 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 capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	321	316	324	331
Recurring net profit (USDm)	19	28	28	28
Recurring net profit growth (%)	(30.5)	47.1	0.7	0.7
Recurring P/E (x)	10.47	7.12	7.07	7.02
P/B (x)	0.9	0.8	0.7	0.7
P/CF (x)	15.04	7.65	5.89	5.75
Dividend Yield (%)	4.5	4.2	4.2	4.3
EV/EBITDA (x)	5.49	4.13	3.75	3.37
Return on average equity (%)	8.7	11.8	10.9	10.2
Net debt to equity (%)	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	Recurring EPS	0.04	0.05	0.05	0.05
Consumer Non-cyclical	DPS	0.02	0.02	0.02	0.02
<b>Food Empire</b>	BVPS	0.42	0.46	0.49	0.53
FEH SP	Return on average equity (%)	8.7	11.8	10.9	10.2
Buy					
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	10.47	7.12	7.07	7.02
	P/B (x)	0.9	0.8	0.7	0.7
	FCF Yield (%)	3.3	8.0	11.9	12.3
	Dividend Yield (%)	4.5	4.2	4.2	4.3
	EV/EBITDA (x)	5.49	4.13	3.75	3.37
	EV/EBIT (x)	7.34	5.32	4.83	4.33
<b>Valuation basis</b>					
13x FY22F P/E					
<b>Key drivers</b>					
i. Margin expansion on strengthening RUB;					
ii. Expansion into Indochina and China;					
<b>Key risks</b>					
i. Negative movement in RUB and other CIS countries' currencies;					
ii. Rising coffee bean prices.					
<b>Company Profile</b>					
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.					
	<b>Income statement (USDm)</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	321	316	324	331
	Gross profit	94	109	112	114
	EBITDA	34	45	45	45
	Depreciation and amortisation	(9)	(10)	(10)	(10)
	Operating profit	25	35	35	35
	Net interest	(1)	(1)	(1)	(1)
	Pre-tax profit	26	34	34	34
	Taxation	(7)	(6)	(6)	(7)
	Reported net profit	20	28	28	28
	Recurring net profit	19	28	28	28
	<b>Cash flow (USDm)</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	(18.9)	(11.6)	(4.0)	(3.4)
	Cash flow from operations	13.2	26.0	33.7	34.5
	Capex	(6.6)	(10.0)	(10.0)	(10.0)
	Cash flow from investing activities	(6.0)	(10.0)	(10.0)	(10.0)
	Dividends paid	(8.9)	(8.9)	(8.4)	(8.4)
	Cash flow from financing activities	(15.3)	(36.3)	(7.9)	(7.9)
	Cash at beginning of period	69.0	60.6	38.4	54.2
	Net change in cash	(8.2)	(20.4)	15.8	16.6
	Ending balance cash	60.6	40.2	54.2	70.8
	<b>Balance sheet (USDm)</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	61	38	54	71
	Tangible fixed assets	104	104	104	104
	Total investments	37	39	39	39
	Total assets	340	326	346	367
	Short-term debt	22	15	15	15
	Total long-term debt	27	10	10	10
	Total liabilities	113	81	81	82
	Total equity	227	246	265	285
	Total liabilities & equity	340	326	346	367
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	17.5	(1.4)	2.4	2.4
	Recurrent EPS growth (%)	(30.5)	47.1	0.7	0.7
	Gross margin (%)	29.3	34.5	34.5	34.5
	Operating EBITDA margin (%)	10.6	14.1	13.9	13.6
	Net profit margin (%)	6.1	8.8	8.7	8.5
	Dividend payout ratio (%)	45.9	30.0	30.0	30.0
	Capex/sales (%)	2.0	3.2	3.1	3.0
	Interest cover (x)	21.4	51.3	51.6	52.0

Source: Company data, RHB

## Recommendation Chart

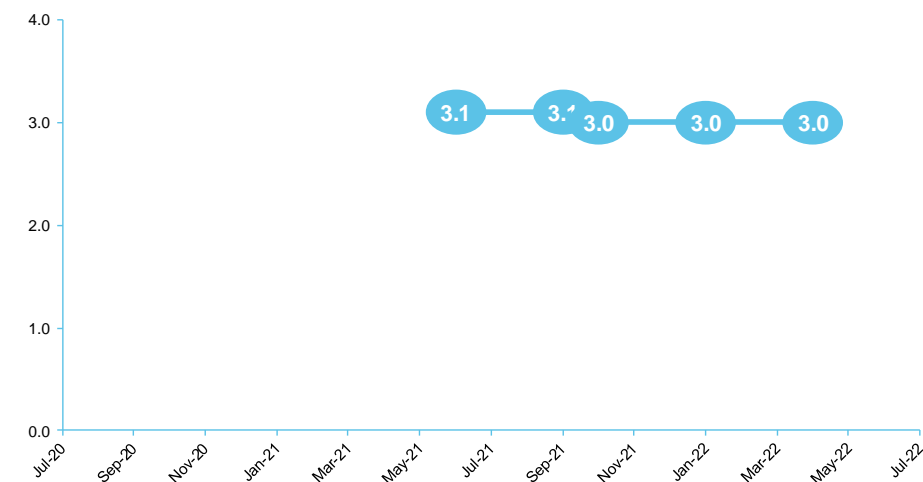


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-18	Buy	0.95	0.53
2022-02-28	Buy	0.93	0.52
2022-01-09	Buy	1.01	0.77
2021-11-14	Buy	1.13	0.79
2021-10-04	Buy	1.23	0.77
2021-08-16	Buy	1.23	0.81
2021-02-25	Buy	1.27	0.92
2021-02-07	Buy	1.27	0.88
2020-11-13	Buy	0.80	0.60
2020-06-09	Buy	0.75	0.57
2020-05-13	Buy	0.75	0.51
2020-02-26	Buy	0.88	0.73
2020-01-17	Buy	0.83	0.70
2019-11-21	Buy	0.83	0.60
2019-11-12	Buy	0.73	0.59

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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