

15 August 2022

Consumer Non-cyclical | Food & Beverage Products

Food Empire (FEH SP)

Buy (Maintained)

Proving Doubters Wrong; Reiterate BUY

- **Reiterate BUY, unchanged TP of SGD0.95 offers 70% upside with c.5% FY22F yield.** Food Empire's 1H22 PATMI surged 134.4% YoY to USD27m, while revenue grew by 18.5% YoY to USD177.4m despite the ongoing Russian-Ukraine conflict. This proves its doubters wrong, and validates its diversified revenue streams and resilient business model. We raise our FY22F PATMI by 30%, but lower our pegged TP P/E to 10x from 13x to account for the risk of the current Russia-Ukraine conflict.
- **Revenue growth across all geographical markets.** Despite the ongoing conflict between Russia and Ukraine, demand from its Russia and Ukraine, Kazakhstan (all comprising a single segment) and Commonwealth of Independent States (CIS) markets remains firm, with revenue still rising by 4.8% and 17.2% YoY. In addition, revenue from South Asia continued to show solid growth, and rose 221.3% YoY to USD18.9m. FEH has managed to diversify its revenue stream from Russia over the years, and revenue from other markets is now more than 50% of the total revenue (as of 1H22) – even while it continues to see growth from its Russian market. That said, we believe that FEH's business will remain resilient in its core markets – the demand for instant mix coffee remains sturdy, even with an ongoing war. In fact, it gives FEH an advantage, as foreign competitors are leaving such markets – which would benefit the remaining players. These include FEH, which has the largest share of these markets
- **Margins have stabilised and revenue growth will be next.** Core NPM improved to 11.2% in 1H22, from 8% in 1H11, after raising the prices of its products and mitigating actions taken to counter the rise in raw material as well as freight costs. Management is happy with the NPM being around 10% levels, and will likely intensify marketing efforts to target revenue growth in specific markets going forward.
- **Way too cheap at current levels.** We believe that FEH's 1H22 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. The asset sale of its current industrial property (SGD49.25m) should also boost its balance sheet and cash position. In addition, management will start to buy back shares with the excess cash, once the asset sale is completed. We believe FEH is a steal at these levels – this counter is trading at just 6x FY22F P/E – and reiterate our BUY call. Our TP is now pegged to a conservative 10x, from 13x FY22F P/E, to account for operational risks in Russia.
- **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 or premium to our TP.

Target Price (Return): SGD0.95 (+70%)
Price (Market Cap): SGD0.56 (USD218m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (SGD/USD) 0.10m/0.07m

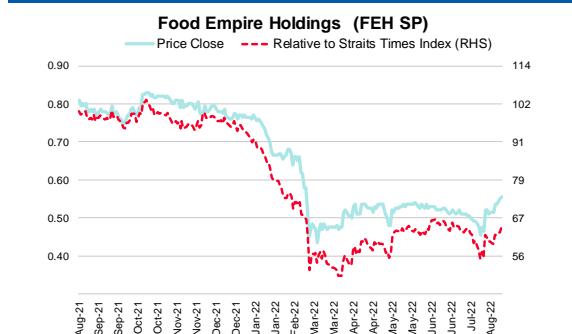
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.9)	8.8	7.8	(18.4)	(31.1)
Relative	(32.6)	4.9	4.5	(13.7)	(33.8)
52-wk Price low/high (SGD)				0.44 – 0.83	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

The company has implemented various energy conservation initiatives at the 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 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, which 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 USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	273	321	365	383	400
Recurring net profit (USDm)	27	19	37	39	41
Recurring net profit growth (%)	12.8	(30.5)	92.8	6.0	4.6
Recurring P/E (x)	7.99	11.50	5.96	5.63	5.38
P/B (x)	1.0	1.0	0.9	0.8	0.7
P/CF (x)	6.73	16.52	9.32	5.73	4.97
Dividend Yield (%)	4.1	4.1	5.0	5.3	5.6
EV/EBITDA (x)	5.03	6.06	3.72	3.25	2.75
Return on average equity (%)	12.6	8.7	15.1	14.4	13.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.05	0.04	0.07	0.07	0.08
Consumer Non-cyclical	DPS	0.02	0.02	0.02	0.02	0.02
Food Empire	BVPS	0.40	0.42	0.47	0.53	0.58
FEH SP	Return on average equity (%)	12.6	8.7	15.1	14.4	13.6
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	7.99	11.50	5.96	5.63	5.38
10x FY22F P/E	P/B (x)	1.0	1.0	0.9	0.8	0.7
	FCF Yield (%)	10.4	3.0	6.1	12.9	15.6
Key drivers	Dividend Yield (%)	4.1	4.1	5.0	5.3	5.6
i. Margin expansion on strengthening RUB;	EV/EBITDA (x)	5.03	6.06	3.72	3.25	2.75
ii. Expansion into Indochina and China.	EV/EBIT (x)	5.95	8.10	4.55	3.93	3.31
	Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	273	321	365	383	400
i. Depreciation of the RUB and other CIS countries' currencies;	Gross profit	105	94	109	115	120
ii. Rising coffee bean prices.	EBITDA	40	34	55	58	60
	Depreciation and amortisation	(6)	(9)	(10)	(10)	(10)
Company Profile	Operating profit	34	25	45	48	50
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, the Middle East, North America and Europe.	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	32	26	45	47	50
	Taxation	(6)	(7)	(8)	(9)	(9)
	Reported net profit	27	20	37	39	41
	Recurring net profit	27	19	37	39	41
	Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(6.3)	(18.9)	(22.8)	(10.3)	(6.3)
	Cash flow from operations	32.4	13.2	23.4	38.0	43.9
	Capex	(9.8)	(6.6)	(10.0)	(10.0)	(10.0)
	Cash flow from investing activities	(12.2)	(6.0)	(10.0)	(10.0)	(10.0)
	Dividends paid	(7.6)	(8.9)	(8.9)	(11.0)	(11.6)
	Cash flow from financing activities	(5.9)	(15.3)	(36.3)	(10.5)	(11.1)
	Cash at beginning of period	54.7	69.0	60.6	35.8	53.4
	Net change in cash	14.3	(8.2)	(23.0)	17.6	22.8
	Ending balance cash	69.0	60.6	37.6	53.4	76.1
	Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	69	61	36	53	76
	Tangible fixed assets	104	104	104	104	104
	Total investments	39	37	39	39	39
	Total assets	313	340	349	375	406
	Short-term debt	18	22	15	15	15
	Total long-term debt	35	27	10	10	10
	Total liabilities	96	113	94	93	95
	Total equity	217	227	254	282	311
	Total liabilities & equity	313	340	349	375	406
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(5.4)	17.5	13.8	5.1	4.3
	Recurrent EPS growth (%)	12.6	(30.5)	92.8	6.0	4.6
	Gross margin (%)	38.3	29.3	30.0	30.0	30.0
	Operating EBITDA margin (%)	14.7	10.6	15.2	15.1	15.1
	Net profit margin (%)	9.8	6.1	10.0	10.1	10.1
	Dividend payout ratio (%)	33.4	45.9	30.0	30.0	30.0
	Capex/sales (%)	3.6	2.0	2.7	2.6	2.5
	Interest cover (x)	57.1	21.4	67.1	71.1	74.4

Source: Company data, RHB

Recommendation Chart

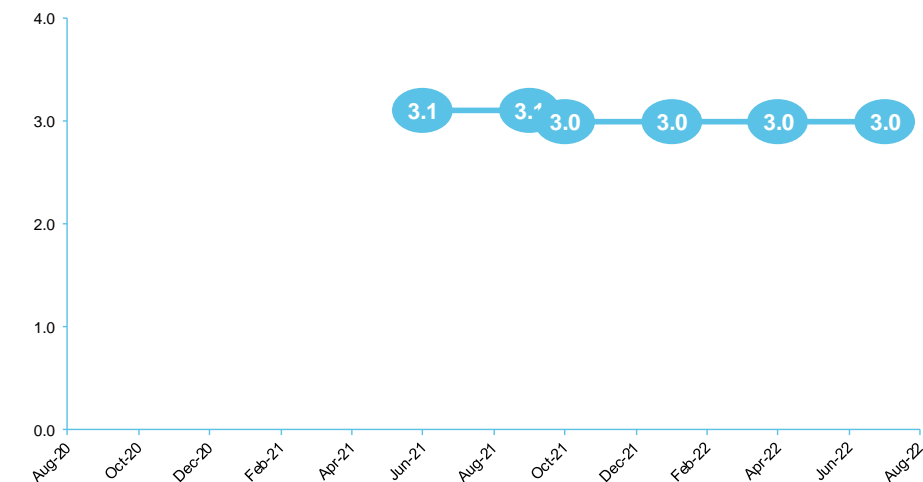


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-04	Buy	0.95	0.52
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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