

14 May 2021

Consumer Non-cyclical | Food & Beverage Products

## Food Empire (FEH SP)

**Buy** (Maintained)

### ASPs May Rise To Buoy Growth; Keep BUY

- **Maintain BUY and SGD1.27 TP, 48% upside with c.3% FY21F yield.** Food Empire's 1Q21 revenue and NPAT grew 3.4% YoY and 3.9% YoY to USD76.8m and USD6.8m, despite a record 1Q20 and higher freight and raw material costs impacting margins during the quarter. We expect margins to improve and revenue to grow further in the quarters ahead, as it was impacted by global lockdowns in 2Q20-3Q20. Management can also widen margins by its raising ASPs, if needed.

- **Stronger growth in 2Q21-3Q21.** While Food Empire's revenue dropped YoY across all its markets, it also underwent strong sequential improvement from 2Q20 onwards. Management highlighted that the demand for instant coffee products has been stable. It noted that previous strict national lockdowns had resulted in operational and logistics issues, causing the sales volume to decrease temporarily – but it has since learnt to solve these issues, and is unlikely to face a repeat of such challenges going forward. We expect demand to remain resilient and grow this year, especially in 2Q-3Q. 1Q will likely be the company's weakest quarter for FY21F, even though it yielded numbers at outperformed our estimates. Going forward, management said that marketing and administrative costs are likely to remain low this year, even though revenue should rebound further, thereby allowing for margin expansion.

- **Reviewing the option of raising ASPs.** With the increase in freight and raw material costs impacting margins in 1Q21, management has implemented measures like further cost reductions and a targeted marketing strategy to stem the growth of these metrics. Food Empire is confident on charting higher revenue growth this year, on the back of strong demand for its products – even in new markets like Vietnam and South-East Asia. It is also reviewing the option of increasing ASPs in strong markets like Russia and Ukraine, and will raise prices from 3Q21 onwards if necessary, or if competitors hike up their own selling prices. Management expects freight and raw material prices to stabilise towards the end of 3Q21, which should further strengthen margins.

- **Positive outlook, with further upside growth potential.** We believe that the company went through its darkest hour last year, while 1Q21 will likely be the weakest quarter for this one. With a market valuation of 10x FY21F P/E, Food Empire is among the cheapest consumer staples counters, with a proven track record (peers are trading at 20-30x P/E. Privatisation may be a possibility, given its undervalued position. Management has also been aggressively buying back shares, with the last exercise executed at SGD0.94 per unit. We believe the share buybacks were done to support its stock price.

Target Price (Return): SGD1.27 (+48%)  
Price: SGD0.86  
Market Cap: USD347m  
Avg Daily Turnover (SGD/USD) 0.64m/0.48m

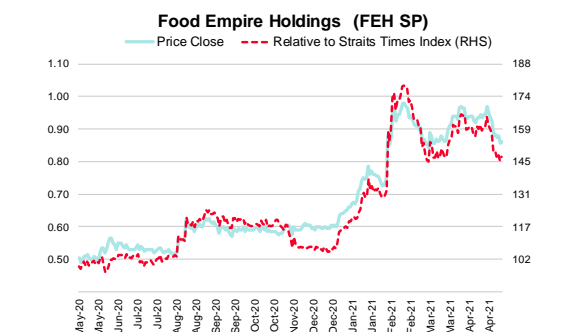
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	30.3	(7.5)	(9.0)	49.6	68.6
Relative	20.5	(5.9)	(15.8)	34.4	47.9
52-wk Price low/high (SGD)				0.49 – 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)	14.37	12.71	10.28	9.53	8.98
P/B (x)	1.7	1.5	1.4	1.2	1.1
P/CF (x)	9.44	8.22	12.85	8.51	7.76
Dividend Yield (%)	2.2	2.6	2.6	2.6	2.8
EV/EBITDA (x)	9.34	7.84	6.23	5.44	4.76
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 capitalization of less than USD1bn.

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## Financial Exhibits

<b>Asia</b> Singapore Consumer Non-cyclical <b>Food Empire</b> FEH SP Buy	<b>Financial summary (USD)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Recurring EPS	0.04	0.05	0.06	0.07	0.07
	DPS	0.01	0.02	0.02	0.02	0.02
	BVPS	0.38	0.43	0.47	0.52	0.58
	Return on average equity (%)	13.6	12.5	14.0	13.6	13.1
<b>Valuation basis</b> 15x FY21F P/E	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Recurring P/E (x)	14.37	12.71	10.28	9.53	8.98
	P/B (x)	1.7	1.5	1.4	1.2	1.1
	FCF Yield (%)	(0.4)	5.0	2.0	8.9	10.0
	Dividend Yield (%)	2.2	2.6	2.6	2.6	2.8
<b>Key drivers</b> i. Margin expansion on the strengthening RUB; ii. Expansion into Indochina and China;	EV/EBITDA (x)	9.34	7.84	6.23	5.44	4.76
	EV/EBIT (x)	11.23	9.71	7.87	6.88	5.94
	<b>Income statement (USDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total turnover	289	273	300	319	335
	Gross profit	112	105	118	126	132
<b>Key risks</b> i. Negative movement in the RUB and other Commonwealth of Independent States' currencies; 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
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	32	33	41	45	47
<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, the Middle East, North America and Europe.	Taxation	(6)	(6)	(8)	(8)	(9)
	Reported net profit	26	27	34	37	39
	Recurring net profit	24	27	34	37	39
	<b>Cash flow (USDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	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
	<b>Balance sheet (USDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	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
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	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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