

## INITIATE COVERAGE

### Food Empire Holdings (FEH SP)

Huge Bargain For Coffee Mix Player With Global Footprint

Food Empire is a dominant coffee mix player in CIS countries. Following the collapse of the Russian ruble in 2014, the group has successfully diversified its sales through deepening its penetration in emerging markets. Moving forward, its earnings base should be further lifted by margin expansion on cost rationalisation and steady sales growth. Trading at 9.2x 2020F PE vs >20x for its regional peers, valuation is due for re-rating in our view. Initiate coverage with BUY and target price of S\$0.89.

#### WHAT'S NEW

- We initiate coverage on Food Empire (please refer to "Huge Bargain for Coffee Mix Player with Global Footprint" dated 4 Feb 20 for full report).

#### INVESTMENT HIGHLIGHTS

- Coffee mix market leader in CIS countries with successful diversification efforts.** Food Empire Holdings' (Food Empire) flagship brand, MacCoffee, is the leading 3-in-1 coffee mix brand in Commonwealth Independent States (CIS) countries. With its strong brand equity and broad network of distributors, it commands the largest market share of Russia's coffee mix market. Sales contribution from Russia was about 60% prior to the ruble's collapse in 2H14 but has since fallen to 40%, mainly due to its geographic expansion into regions such as Vietnam and diversification efforts into the upstream business.
- Successful entry into Vietnam.** Food Empire has successfully gained entry into Vietnam through its iced coffee mix product, Café Pho, which was launched in 2013. Café Pho is among the top 5 leading brands by volume share and a top 3 player based on value share in the Vietnam 3-in-1 coffee mix market. Revenue from Indochina, which includes Vietnam, grew nearly fivefold from US\$10.5m in 2014 to US\$50.4m in 2018. The Vietnam business contributes close to 18% of top-line, making it Food Empire's second-largest market and its stronghold in Asia. We believe Food Empire will be able to continue to gain market share through the introduction of new products, leveraging on its extensive network of distributors and sales representatives in Vietnam.
- Strengthening margin from cost rationalisation.** Efforts to streamline operations and the exit of its loss-making Myanmar business improved 9M19 reported net margin by 2.6ppt to 9.8%. The group is set to have pulled off a record year in 2019 (highest level of reported net profit), underpinned by stable revenue growth coupled with margin expansion. With management's focus on key markets and less of a drag from underperforming markets, margin should continue to trend upwards.

[Click here](#) for Blue Top dated 4 February 2020

#### KEY FINANCIALS

Year to 31 Mar (US\$m)	2017	2018	2019F	2020F	2021F
Net turnover	269.5	284.3	286.5	305.0	327.1
EBITDA	34.5	27.4	38.7	44.1	47.6
Operating profit	29.1	21.6	32.5	35.7	38.4
Net profit (rep./act.)	14.1	18.1	25.5	28.2	30.5
Net profit (adj.)	20.7	21.6	25.5	28.2	30.5
EPS (S\$ cent)	3.9	4.1	4.8	5.3	5.7
PE (x)	12.4	11.9	10.1	9.2	8.5
P/B (x)	1.5	1.5	1.3	1.2	1.0
EV/EBITDA (x)	7.1	9.0	6.4	5.6	5.2
Dividend yield (%)	0.9	1.0	1.5	1.6	1.8
Net margin (%)	5.2	6.4	8.9	9.2	9.3
Net debt/(cash) to equity (%)	(3.9)	(4.9)	3.1	(4.7)	(12.4)
Interest cover (x)	38.4	34.7	33.0	41.5	50.0
ROE (%)	8.8	10.5	13.6	13.3	12.9
Consensus net profit	-	-	25.3	27.6	30.7
UOBKH/Consensus (x)	-	-	1.01	1.02	0.99

Source: Food Empire, Bloomberg, UOB Kay Hian

## BUY

Share Price	S\$0.66
Target Price	S\$0.89
Upside	+34.8%

#### COMPANY DESCRIPTION

Food Empire Holdings manufactures and markets instant beverage products, frozen convenience food, confectioneries and snacks. The company exports its products to markets such as Russia, Eastern Europe, Central Asia, the Middle East and Indochina.

#### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FEHSP
Shares issued (m):	536.4
Market cap (S\$m):	354.0
Market cap (US\$m):	258.3
3-mth avg daily t'over (US\$m):	0.3

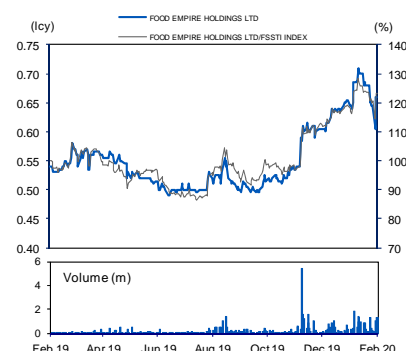
#### Price Performance (%)

52-week high/low		S\$0.710/S\$0.490		
1mth	3mth	6mth	1yr	YTD
0.8	22.2	25.7	22.2	1.5

Major Shareholders	%
Universal Integrated Corp	24.62
Tan Guek Ming	22.52
Sudeep Nair	11.44

FY20 NAV/Share (US\$)	0.42
FY20 Net Cash/Share (US\$)	0.02

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Joohijit Kaur**  
+65 6590 6637  
joohijit@uobkayhian.com

**Clement Ho**  
+65 6590 6630  
clementho@uobkayhian.com

### STOCK IMPACT

- **Margin expansion coupled with steady revenue growth to drive bottom-line.** We estimate a net margin increase of 2.5ppt and 0.3ppt in 2019 and 2020 respectively as we expect cost savings from the streamlining exercise and improvement in scale. With a stable revenue growth, we forecast earnings to grow at 9.4% CAGR for 2019-21. We note that 2019 is set to be a record year for the group as it reports the highest level of net profit.
- **Geographic and upstream investments relieve concentrated risks.** We estimate revenue contribution from CIS countries (including Russia) at 63% for 2019, significantly lower compared with the 85% prior to the ruble crisis in 2014 as the sales growth in Indochina and other markets outpaces that of CIS countries. Going forward, we expect Food Empire's more mature markets to see stable mid to high single-digit revenue growth and its emerging markets to clock meaningful growth in the low-teen range.

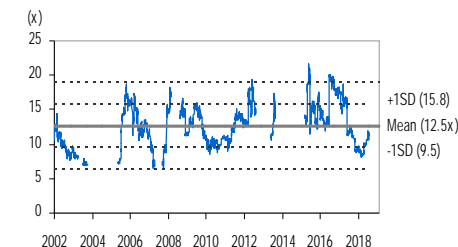
### VALUATION/RECOMMENDATION

- **Initiate coverage with a BUY and PE-based target price of S\$0.89.** This is based on 12.5x 2020F PE, in line with its long-term historical average (excluding outliers). At current prices, the stock trades at an attractive valuation at 9.2x 2020F PE, significantly lower compared to peers' average of 22x. We attribute this to the lack of street coverage, and visibility should improve given its: a) wider core earnings base, b) reduced geographical dependency, and c) operational leverage at the tipping point. In addition, we note that SGX-listed peers including Super Group and Viz Branz were acquired and privatised at significantly higher valuations of 30.0x and 16.4x respectively.

### SHARE PRICE CATALYST

- Higher-than-expected volume growth.
- Earnings-accretive M&A opportunities.
- Better-than-expected performance of currencies in key markets.

### LONG-TERM MEAN PE (EX OUTLIERS) IS CURRENTLY AT 1SD BELOW MEAN



### ADJUSTED NET PROFIT\* IS EXPECTED TO REACH ITS 10-YEAR HIGH IN 2019F WITH A 17.7% GROWTH AND GROW BY 10.6% IN 2020F



Source: UOB Kay Hian, Food Empire

\* Adjusted net profit excludes foreign exchange gain/loss and major one-off expenses

### PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 4 Feb 20 (lcy)	Market Cap (US\$m)	PE			P/B			Yield 2019 (%)	ROE 2019 (%)
					2018 (x)	2019 (x)	2020 (x)	2018 (x)	2019 (x)	2020 (x)		
Food Empire Holdings Ltd Singapore	FEH SP	SGD	0.66	258	14.2	10.1	9.2	1.5	1.3	1.2	1.5	13.6
Yeo Hiap Seng Ltd	YHS SP	SGD	0.915	387	44.2	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.
Fraser And Neave Ltd	FNN SP	SGD	1.68	1,777	19.8	16.0	n.a.	0.9	0.8	n.a.	3.3	5.3
Thai Beverage Pcl	THBEV SP	SGD	0.8	14,659	25.4	19.4	17.0	3.8	3.9	3.5	2.7	19.7
<b>Average</b>					<b>29.8</b>	<b>17.7</b>	<b>17.0</b>	<b>1.8</b>	<b>2.4</b>	<b>3.5</b>	<b>3.0</b>	<b>12.5</b>
<b>Regional</b>												
Nestle (Malaysia) Berhad	NESZ MK	MYR	143.40	8,178	51.0	48.4	45.5	58.6	52.5	51.8	2.0	103.0
Coca-Cola Amatil Ltd	CCL AU	AUD	12.14	5,903	31.5	23.3	22.0	5.7	5.7	5.2	4.0	24.1
Fraser & Neave Holdings Bhd	FNH MK	MYR	32.94	2,938	31.3	29.4	27.5	5.2	4.8	4.4	1.7	16.9
Coca-Cola Consolidated Inc	COKE US	USD	276.48	2,592	n.a.	26.0	23.4	7.2	n.a.	n.a.	0.4	n.a.
Dydo Group Holdings Inc	2590 JP	JPY	4160	632	17.8	29.2	30.1	0.7	0.7	0.7	1.4	2.6
Key Coffee Inc	2594 JP	JPY	2307	480	210.7	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	n.a.
Hey Song Corp	1234 TT	TWD	32.8	437	19.0	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.
Power Root Bhd	PWRT MK	MYR	2.18	217	30.6	16.8	16.1	3.9	3.8	3.5	4.5	21.7
Unicafe Inc	2597 JP	JPY	961	122	24.3	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.
Tsit Wing International Hold	2119 HK	HKD	1.31	129	12.2	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	n.a.
Tac Consumer Pcl	TACC TB	THB	4.02	79	36.5	15.5	13.9	3.7	3.1	2.6	5.5	n.a.
<b>Average</b>					<b>43.0</b>	<b>24.6</b>	<b>25.5</b>	<b>7.9</b>	<b>11.8</b>	<b>11.4</b>	<b>2.8</b>	<b>33.7</b>

Source: UOB Kay Hian, Bloomberg

**PROFIT & LOSS**

Year to 31 Mar (US\$m)	2019	2020F	2021F	2022F
Net turnover	284.3	286.5	305.0	327.1
EBITDA	27.4	38.7	44.1	47.6
Deprec. & amort.	5.8	6.2	8.3	9.2
EBIT	21.6	32.5	35.7	38.4
Total other non-operating income	(1.4)	0.0	0.0	0.0
Associate contributions	0.5	0.4	0.4	0.4
Net interest income/(expense)	(0.8)	(1.2)	(1.1)	(1.0)
<b>Pre-tax profit</b>	<b>19.9</b>	<b>31.7</b>	<b>35.1</b>	<b>37.9</b>
Tax	(2.2)	(6.6)	(7.3)	(7.9)
Minorities	0.4	0.4	0.4	0.5
<b>Net profit</b>	<b>18.1</b>	<b>25.5</b>	<b>28.2</b>	<b>30.5</b>
Net profit (adj.)	21.6	25.5	28.2	30.5

**CASH FLOW**

Year to 31 Mar (US\$m)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>15.7</b>	<b>27.0</b>	<b>33.4</b>	<b>35.6</b>
Pre-tax profit	19.9	31.7	35.1	37.9
Tax	(2.2)	(6.6)	(7.3)	(7.9)
Deprec. & amort.	5.8	6.2	8.3	9.2
Associates	0.5	0.4	0.4	0.4
Working capital changes	(11.9)	(5.5)	(3.7)	(4.5)
Non-cash items	(0.4)	0.0	0.0	0.0
Other operating cashflows	3.9	0.8	0.7	0.6
<b>Investing</b>	<b>(9.1)</b>	<b>(38.0)</b>	<b>(12.0)</b>	<b>(10.0)</b>
Capex (growth)	(10.8)	(38.0)	(12.0)	(10.0)
Proceeds from sale of assets	1.3	0.0	0.0	0.0
Others	0.5	0.0	0.0	0.0
<b>Financing</b>	<b>(6.3)</b>	<b>15.9</b>	<b>(9.9)</b>	<b>(10.2)</b>
Dividend payments	(1.3)	(1.2)	(1.1)	(1.0)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	55.3	25.0	0.0	0.0
Loan repayment	(58.0)	(5.3)	(5.0)	(5.0)
Others/interest paid	(2.4)	(2.7)	(3.8)	(4.2)
<b>Net cash inflow (outflow)</b>	<b>0.3</b>	<b>4.9</b>	<b>11.6</b>	<b>15.4</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>42.8</b>	<b>42.2</b>	<b>47.1</b>	<b>58.7</b>
Changes due to forex impact	(0.9)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>42.2</b>	<b>47.1</b>	<b>58.7</b>	<b>74.1</b>

**BALANCE SHEET**

Year to 31 Mar (US\$m)	2019	2020F	2021F	2022F
Fixed assets	68.9	100.9	104.8	105.8
Other LT assets	40.5	40.3	40.1	40.0
Cash/ST investment	42.2	47.1	58.7	74.1
Other current assets	93.1	100.8	106.5	113.4
<b>Total assets</b>	<b>244.7</b>	<b>289.1</b>	<b>310.0</b>	<b>333.2</b>
ST debt	20.3	15.0	15.0	15.0
Other current liabilities	33.7	35.9	37.9	40.3
LT debt	13.2	38.2	33.2	28.2
Other LT liabilities	2.0	2.0	2.0	2.0
Shareholders' equity	176.3	199.1	223.4	249.7
Minority interest	(0.8)	(1.2)	(1.5)	(2.0)
<b>Total liabilities &amp; equity</b>	<b>244.7</b>	<b>289.1</b>	<b>310.0</b>	<b>333.2</b>

**KEY METRICS**

Year to 31 Mar (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	9.6	13.5	14.5	14.6
Pre-tax margin	7.0	11.1	11.5	11.6
Net margin	6.4	8.9	9.2	9.3
ROA	7.4	9.5	9.4	9.5
ROE	10.5	13.6	13.3	12.9
<b>Growth</b>				
Turnover	5.5	0.8	6.4	7.3
EBITDA	(20.6)	41.1	13.9	8.0
Pre-tax profit	10.8	59.3	10.7	7.9
Net profit	28.0	40.7	10.6	8.2
Net profit (adj.)	4.5	17.7	10.6	8.2
EPS	4.4	17.3	10.6	8.2
<b>Leverage</b>				
Debt to total capital	16.0	21.2	17.9	14.9
Debt to equity	19.0	26.7	21.6	17.3
Net debt/(cash) to equity	(4.9)	3.1	(4.7)	(12.4)
Interest cover (x)	34.7	33.0	41.5	50.0

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2020, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W

Research Talent Development Grant Scheme

UOB Kay Hian Pte Ltd is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies.