

## COMPANY RESULTS

### Food Empire Holdings (FEH SP)

3Q20: Beat Expectations; Attractive Valuation At 8.1x 2021 PE

**3Q20 core earnings of US\$9.0m was above expectations, 9M20 now constitutes 94% of our full-year estimate. The beat came on better cost control which mitigated the decline in revenue. We expect fairly resilient demand going forward, given the consumer staple nature of its products, low price points and market-leading position. We raise 2021-22 EPS forecasts by 8% and 4% respectively. Maintain BUY with a higher target price of S\$0.88.**

#### 3Q20 RESULTS

Year to 31 Dec (US\$m)	3Q20	yoy % chg	9M20	yoy % chg
Revenue	70.3	(8.5)	203.2	(5.6)
Gross profit	26.5	(13.1)	79.5	(6.0)
Gross margin (%)	37.7	(2.1ppt)	39.1	(0.2ppt)
Net profit	6.3	(19.5)	19.5	(6.6)
Net margin (%)	8.9	(1.2ppt)	9.6	(0.1ppt)
Core net profit	9.0	3.1	23.3	11.2
Core net profit margin (%)	12.8	1.3ppt	11.5	1.8ppt

Source: Food Empire, UOB Kay Hian

#### RESULTS

- Results above expectations.** Food Empire reported net profit of US\$6.3m for 3Q20. Excluding forex impact, core net profit increased 3.1% yoy to US\$9.0m. This brings 9M20 core earnings to US\$23.3m (+11.2% yoy), which is a strong beat as it formed 94% of our full-year estimate. The outperformance was largely a result of better-than-expected cost control and y higher core net margin.
- Strong sequential recovery in revenue, tracking expectations.** Revenue fell 8.5% yoy to US\$70.3m but registered a strong sequential recovery at 19.8% qoq which is largely within our expectations. Revenue from Russia came in at US\$27.5m, down 6.0% yoy but up 40% qoq (Russia implemented a lockdown in 2Q20). The yoy decline came as the ruble weakened against the USD towards end-3Q20. The RUB/USD averaged 73.4 in 3Q20, inching up from 72.4 in 2Q20 and significantly weaker compared to 64.5 in 3Q19. On local currency terms, we estimate single-digit yoy growth. A similar trend was seen at its Ukraine, Kazakhstan and CIS markets which recorded a decline of 8.2% yoy (+12% qoq). Southeast Asia sales fell 12.4% yoy (+1.4% qoq) as targeted lockdowns were implemented in Vietnam in 3Q20 but management guided sales have since recovered as these restrictions have been lifted.
- Cost control mitigated lower sales.** Selling and marketing expense fell sharply by 35.7% yoy due to lower advertising and promotions expenses and manpower cost. This formed 11.3% of revenue in 3Q20 (2Q20: 15.7%, 3Q19: 16.1%) which was lower than what we had anticipated. With that, core net margin expanded 1.3ppt yoy to 12.8% in 3Q20, largely mitigating the impact on core earnings.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2018	2019	2020F	2021F	2022F
Net turnover	284	289	273	293	309
EBITDA	27	39	41	44	47
Operating profit	22	30	33	35	37
Net profit (rep./act.)	18	26	27	28	30
Net profit (adj.)	22	26	27	28	30
EPS (US\$ cent)	4.1	4.8	5.1	5.3	5.6
PE (x)	10.5	8.9	8.4	8.1	7.6
P/B (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	8.0	5.7	5.4	5.0	4.7
Dividend yield (%)	1.2	3.4	1.9	2.5	2.6
Net margin (%)	6.4	9.0	9.9	9.6	9.6
Net debt/(cash) to equity (%)	(4.9)	(2.3)	(3.3)	(4.7)	(12.2)
Interest cover (x)	34.7	27.4	40.6	48.1	57.2
ROE (%)	10.5	13.6	12.5	11.9	11.4
Consensus net profit	-	-	24	28	30
UOBKH/Consensus (x)	-	-	1.10	1.03	1.00

Source: Food Empire, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.575
Target Price	S\$0.88
Upside	+53.0%
(Previous TP)	S\$0.85)

#### 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:	FEH SP
Shares issued (m):	538.0
Market cap (S\$m):	309.4
Market cap (US\$m):	229.4
3-mth avg daily t'over (US\$m):	0.2

#### Price Performance (%)

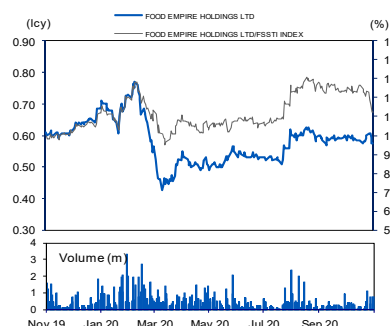
52-week high/low	S\$0.770/S\$0.425
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1mth	3mth	6mth	1yr	YTD
(3.4)	2.7	12.7	(0.6)	(9.8)

#### Major Shareholders

	%
Universal Integrated Corp	24.55
Tan Guek Ming	12.71
Sudeep Nair	11.67
Tan Wang Cheow	9.75
FY20 NAV/Share (US\$)	0.42
FY20 Net Cash/Share (US\$)	0.01

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Demand remained stable.** Given the consumer staple nature of its products, low price points and its market-leading position, demand for its products is relatively price inelastic and fairly resilient in the face of an economic slowdown, in our view. While there are concerns over rising COVID-19 cases in key markets in Eastern Europe, lockdowns in markets such as Russia have not been as drastic as the national lockdown in 2Q20 and are more targeted/imposed on a regional basis. Furthermore, the group is better prepared in handling a national lockdown in terms of issues such as logistics that were seen in 2Q20.
- **Expect fairly resilient profit in Vietnam for 2020.** The group's second largest and fast-growing market - Vietnam - performed fairly well. While the group does not separately disclose Vietnam sales, its Southeast Asia segment (which includes Vietnam and Malaysia) registered only a slight sales decline of 2.6% yoy in 9M20, in part from the exit of the Myanmar business and targeted lockdowns in certain provinces in Vietnam in 3Q20. Management shared that sales have since recovered and profitability of its Vietnam business should improve yoy.

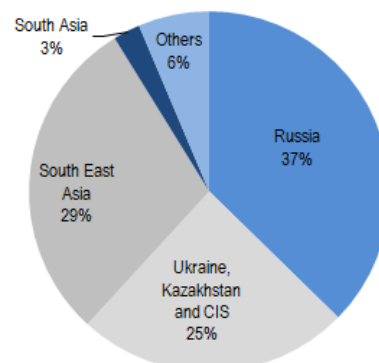
### EARNINGS REVISION/RISK

- We raise our 2020-22 net profit forecasts to US\$27.0m (+8.4%), US\$28.2m (+4.3%) and US\$29.5m (+4.4%) respectively. Our forecasts incorporate higher operating margins to reflect the better-than-expected cost control while our revenues estimates are largely unchanged.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher PE-based target price of S\$0.88** (from S\$0.85), based on 12.3x 2021F PE, in line with its long-term historical average (excluding outliers). Our target price incorporates a slightly lower S\$/US\$ of 1.35 (previously 1.37).
- **Undemanding valuation for a market leader and consumer staple player.** The stock is currently trading at an attractive 8.1x 2021F PE, a significant discount to peers' average of 20x 2021F PE despite its market-leading position in its core markets in Eastern Europe and a growing presence in Vietnam.

### REVENUE BREAKDOWN IN 9M20



Source: FEH, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
Net turnover	288.6	273.4	292.9	308.8
EBITDA	38.5	41.0	43.9	46.6
Deprec. & amort.	8.1	8.0	9.3	10.1
EBIT	30.4	33.0	34.7	36.5
Total other non-operating income	2.4	0.6	0.6	0.6
Associate contributions	0.2	0.4	0.3	0.3
Net interest income/(expense)	(1.4)	(1.0)	(0.9)	(0.8)
<b>Pre-tax profit</b>	<b>31.5</b>	<b>33.0</b>	<b>34.6</b>	<b>36.6</b>
Tax	(5.8)	(6.4)	(6.9)	(7.3)
Minorities	0.4	0.4	0.5	0.5
<b>Net profit</b>	<b>26.1</b>	<b>27.0</b>	<b>28.2</b>	<b>29.8</b>
Net profit (adj.)	25.5	27.0	28.2	29.8

**BALANCE SHEET**

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
Fixed assets	99.3	118.4	134.1	134.1
Other LT assets	51.8	51.7	51.7	51.6
Cash/ST investment	54.7	53.4	53.1	70.4
Other current assets	101.8	97.0	102.8	107.7
<b>Total assets</b>	<b>307.6</b>	<b>320.5</b>	<b>341.8</b>	<b>363.8</b>
ST debt	14.7	15.0	15.0	15.0
Other current liabilities	45.5	43.7	46.1	47.8
LT debt	35.3	30.9	26.5	22.1
Other LT liabilities	6.4	6.4	6.4	6.4
Shareholders' equity	206.9	226.1	250.0	274.1
Minority interest	(1.2)	(1.6)	(2.1)	(2.6)
<b>Total liabilities &amp; equity</b>	<b>307.6</b>	<b>320.5</b>	<b>341.8</b>	<b>362.8</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>39.3</b>	<b>38.0</b>	<b>33.8</b>	<b>36.5</b>
Pre-tax profit	31.5	33.0	34.6	36.6
Tax	(5.8)	(6.4)	(6.9)	(7.3)
Deprec. & amort.	8.1	8.0	9.3	10.1
Associates	0.2	0.4	0.3	0.3
Working capital changes	2.2	3.0	(3.5)	(3.1)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	3.1	0.0	0.0	(0.1)
<b>Investing</b>	<b>(37.0)</b>	<b>(26.4)</b>	<b>(24.4)</b>	<b>(9.4)</b>
Capex (growth)	(38.1)	(27.0)	(25.0)	(10.0)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	0.9	0.6	0.6	0.6
<b>Financing</b>	<b>9.9</b>	<b>(12.9)</b>	<b>(9.6)</b>	<b>(10.9)</b>
Dividend payments	(2.8)	(1.0)	(0.9)	(0.8)
Issue of shares	0.6	0.0	0.0	0.0
Proceeds from borrowings	70.7	0.0	0.0	0.0
Loan repayment	(54.2)	(4.1)	(4.4)	(4.4)
Others/interest paid	(4.4)	(7.8)	(4.3)	(5.6)
<b>Net cash inflow (outflow)</b>	<b>12.1</b>	<b>(1.3)</b>	<b>(0.3)</b>	<b>16.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>42.2</b>	<b>54.7</b>	<b>53.4</b>	<b>53.1</b>
Changes due to forex impact	0.4	0.0	0.0	1.0
<b>Ending cash &amp; cash equivalent</b>	<b>54.7</b>	<b>53.4</b>	<b>53.1</b>	<b>70.4</b>

**KEY METRICS**

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	13.3	15.0	15.0	15.1
Pre-tax margin	10.9	12.1	11.8	11.9
Net margin	9.0	9.9	9.6	9.6
ROA	9.5	8.6	8.5	8.4
ROE	13.6	12.5	11.9	11.4
<b>Growth</b>				
Turnover	1.5	(5.3)	7.1	5.4
EBITDA	40.5	6.5	7.1	6.1
Pre-tax profit	58.5	4.7	4.9	5.7
Net profit	44.3	3.4	4.5	5.6
Net profit (adj.)	17.9	5.8	4.5	5.6
EPS	17.8	5.8	4.5	5.6
<b>Leverage</b>				
Debt to total capital	19.6	17.0	14.3	12.0
Debt to equity	24.2	20.3	16.6	13.5
Net debt/(cash) to equity	(2.3)	(3.3)	(4.7)	(12.2)
Interest cover (x)	27.4	40.6	48.1	57.2

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