

## COMPANY UPDATE

### Food Empire Holdings (FEH SP)

Positioned For A Sequential Recovery; Valuation Is Attractive At 8.6x 2021F PE

With the gradual easing of lockdown measures in core markets, indicators including an improvement in mobility trends at shops and the recovery in retail sales suggest a gradual resumption of activities in markets that had been impacted by stringent restrictions in 2Q20. This mirrors our expectations of a sequential earnings recovery in 2H20. Given its brand strength and the consumer staple nature of its products, FEH is attractively priced at 8.6x 2021F PE. Reiterate BUY with a target price of S\$0.85.

#### WHAT'S NEW

- Improvement in mobility trends in core markets as restrictive measures ease.** To recap, the group's revenue from Russia fell 22% yoy in 2Q20 due to the stay-at-home measures implemented at end-Mar 20. For most regions, footfall at shops plummeted as residences were confined to their homes, and food purchases were only allowed at shops closest to their place of residence. Since Jun 20, Russia has gradually eased restrictions and a three-stage reopening plan was announced by the federal government, with regional governors ultimately deciding how and when to proceed. As of 9 September, 38 out of 85 regions are in the second stage while 35 are in the third stage. With the gradual easing, data from Google shows an improvement in mobility trend at places such as grocery markets, specialty food shops etc (refer to next page). A similar pattern was observed in Ukraine where restrictions implemented in Mar 20 have been softened.
- Expect better demand with gradual recovery of retail sales in core markets.** With the reopening of retail businesses in most regions, retail food sales in Russia rebounded with the pace of decline narrowing to -2.2% yoy in Jul 20 (refer to next page). This mirrors management's guidance in 2Q20 of sales slowly reverting to pre-COVID-19 levels. Similarly, retail turnover in Ukraine bounced back in Jul 20, registering a yoy growth of 7.8% for the first month since Apr 20. We are encouraged by the sequential recovery in these markets and our forecast accounts for a moderate 5.1% yoy decline in core earnings in 2H20 compared with -24% yoy (excluding forex gain) in 2Q20.
- Rise in ASP and cost rationalisation to mitigate impact from weaker currency.** While the volatility in currency in its Eastern European market remains, particularly the Russian Rouble, the group has raised selling prices of products to mitigate the impact. The implementation of the ASP hike started in Apr 20, and given that it is carried out in stages, we think the impact of the price hike would be more apparent in 3Q20 compared to 2Q20. Additionally, the group has also managed to contain cost, with admin expense being reduced by US\$2m in 2Q20, forming 13.2% of sales compared to 14.2% in 2Q19. Given the consumer staple nature of its products, low price point and its market leading position, demand for its products is relatively price inelastic and is fairly resilient in the face of an economic slowdown, in our view.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2018	2019	2020F	2021F	2022F
Net turnover	284	289	273	293	309
EBITDA	27	39	38	42	45
Operating profit	22	30	30	33	35
Net profit (rep./act.)	18	26	25	27	28
Net profit (adj.)	22	26	25	27	28
EPS (US\$ cent)	4.1	4.8	4.7	5.1	5.3
PE (x)	10.8	9.1	9.4	8.6	8.2
P/B (x)	1.3	1.1	1.0	0.9	0.9
EV/EBITDA (x)	8.3	5.9	5.9	5.3	5.1
Dividend yield (%)	1.1	3.3	1.7	2.3	2.4
Net margin (%)	6.4	9.0	9.1	9.2	9.2
Net debt/(cash) to equity (%)	(4.9)	(2.3)	(2.6)	(3.6)	(10.9)
Interest cover (x)	34.7	27.4	38.0	46.5	54.9
ROE (%)	10.5	13.6	11.6	11.5	10.9
Consensus net profit	-	-	24	28	30
UOBKH/Consensus (x)	-	-	1.02	0.98	0.95

Source: Food Empire, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.595
Target Price	S\$0.85
Upside	+42.9%

#### 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):	320.1
Market cap (US\$m):	234.5
3-mth avg daily t'over (US\$m):	0.1

#### Price Performance (%)

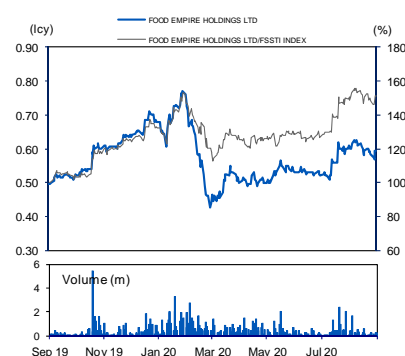
52-week high/low S\$0.770/S\$0.425

1mth	3mth	6mth	1yr	YTD
(0.8)	9.2	42.8	22.6	(6.6)

#### 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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- **Sales fairly resilient in Vietnam.** Sales in the group's second largest and fast growing market - Vietnam - have been relatively less impacted by COVID-19 and have performed fairly well. While the group does not separately disclose Vietnam's sales, the group's South-east Asia market (which includes businesses in Vietnam and Malaysia) registered a growth of 9.0% yoy in 2Q19, driven by the growth in sales volume in Vietnam. Although there was a slight resurgence in cases in early August, movement restrictions were mostly limited to affected provinces. As such, we do not expect it to have a major impact on the group's operations and sales.

### EARNINGS REVISION/RISK

- No changes to our earnings forecast.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a PE-based target price of S\$0.85.** This is based on 12.3x 2021F PE, in line with its long-term historical average (excluding outliers).
- **Undemanding valuation for a market leader and consumer staple player.** At current prices, the stock trades at an attractive valuation at 8.6x 2021F PE, a significant discount to peer average of 20x 2021F PE despite its market leader position in its core markets in Eastern Europe and growing presence in Vietnam.

### SHARE PRICE CATALYST

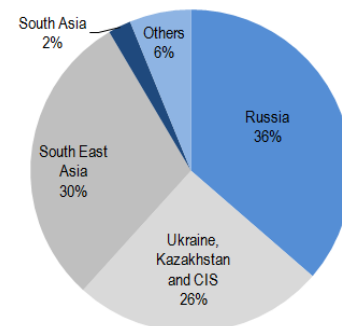
- Stronger-than-expected recovery in volume.
- Accretive acquisitions.

### RUSSIA REOPENING STAGES

Reopening stage	Easing measures	No. of regions
First stage	People will be allowed to walk and exercise outdoors, and small shops and service-sector establishments will reopen.	12
Second stage	Schools and larger shops and service-sector businesses to open.	38
Third stage	Parks, hotels, restaurants, and all shops will reopen	35

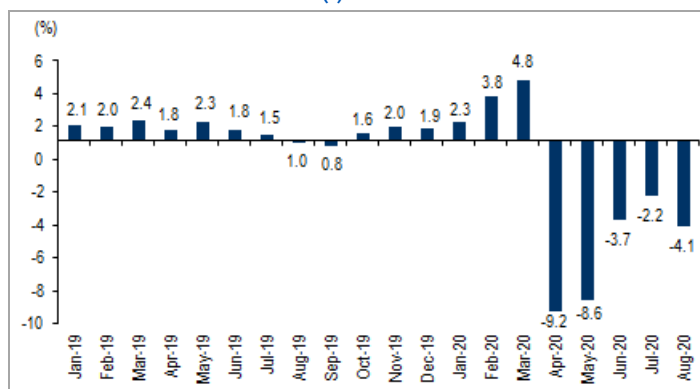
Source: IMF, UOB Kay Hian

### REVENUE BREAKDOWN IN 1H20



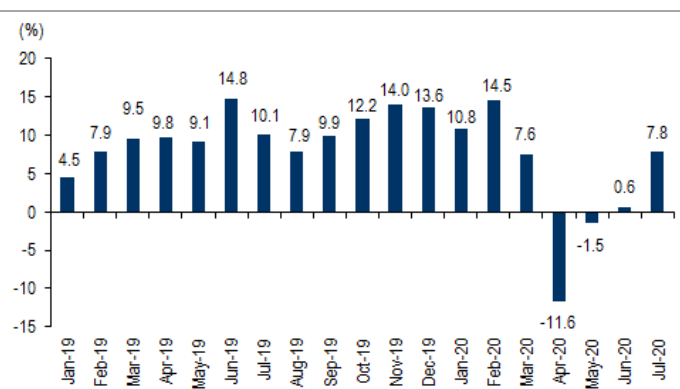
Source: FEH, UOB Kay Hian

### RUSSIA RETAIL FOOD TURNOVER(1) YOY GROWTH



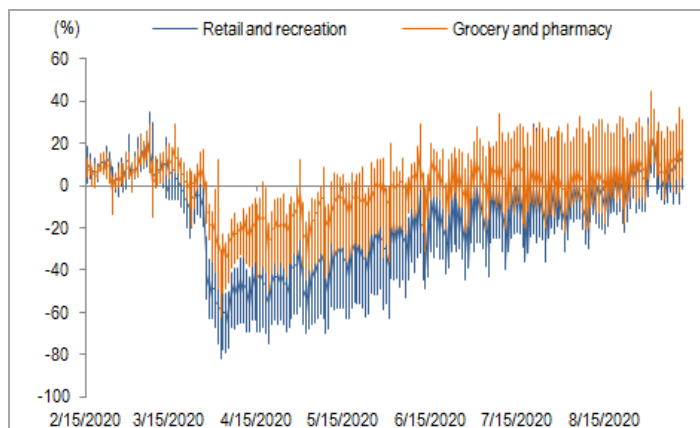
Source: Russian Federal Service of State Statistics, UOB Kay Hian  
(1): Category includes retail sale of food, beverage and tobacco products

### UKRAINE RETAIL TURNOVER YOY GROWTH



Source: State Statistics Committee of Ukraine, UOB Kay Hian

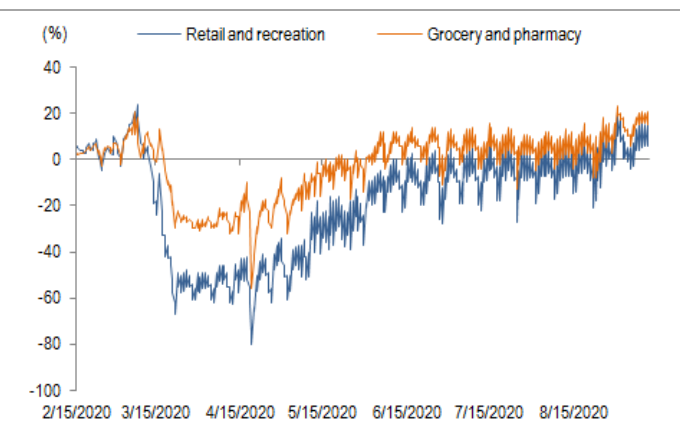
### MOBILITY TRENDS IN RUSSIA(1)



Source: Google, UOB Kay Hian

(1): % change is taken with reference to baseline period (Median value of corresponding day of the week from 3 Jan - 6 Feb 20)

### MOBILITY TRENDS IN UKRAINE(1)



Source: Google, UOB Kay Hian

(1): % change is taken with reference to baseline period (Median value of corresponding day of the week from 3 Jan - 6 Feb 20)

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
<b>Net turnover</b>	<b>288.6</b>	<b>273.4</b>	<b>292.9</b>	<b>308.8</b>
EBITDA	38.5	38.4	42.5	44.8
Deprec. & amort.	8.1	8.0	9.3	10.1
EBIT	30.4	30.4	33.2	34.7
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>30.4</b>	<b>33.2</b>	<b>34.8</b>
Tax	(5.8)	(5.9)	(6.6)	(7.0)
Minorities	0.4	0.4	0.5	0.5
<b>Net profit</b>	<b>26.1</b>	<b>24.9</b>	<b>27.0</b>	<b>28.3</b>
Net profit (adj.)	25.5	24.9	27.0	28.3

**BALANCE SHEET**

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
<b>Fixed assets</b>	<b>99.3</b>	<b>118.4</b>	<b>134.1</b>	<b>134.1</b>
Other LT assets	51.8	51.7	51.7	51.6
Cash/ST investment	54.7	51.6	50.4	66.4
Other current assets	101.8	96.7	102.8	107.7
<b>Total assets</b>	<b>307.6</b>	<b>318.4</b>	<b>339.0</b>	<b>359.8</b>
ST debt	14.7	15.0	15.0	15.0
Other current liabilities	45.5	43.6	46.0	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	224.2	247.2	270.1
Minority interest	(1.2)	(1.6)	(2.1)	(2.6)
<b>Total liabilities &amp; equity</b>	<b>307.6</b>	<b>318.4</b>	<b>339.0</b>	<b>358.8</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>39.3</b>	<b>36.0</b>	<b>32.5</b>	<b>35.0</b>
Pre-tax profit	31.5	30.4	33.2	34.8
Tax	(5.8)	(5.9)	(6.6)	(7.0)
Deprec. & amort.	8.1	8.0	9.3	10.1
Associates	0.2	0.4	0.3	0.3
Working capital changes	2.2	3.2	(3.6)	(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>(12.8)</b>	<b>(9.3)</b>	<b>(10.6)</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)	(7.6)	(4.0)	(5.4)
<b>Net cash inflow (outflow)</b>	<b>12.1</b>	<b>(3.1)</b>	<b>(1.2)</b>	<b>15.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>42.2</b>	<b>54.7</b>	<b>51.6</b>	<b>50.4</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>51.6</b>	<b>50.4</b>	<b>66.4</b>

**KEY METRICS**

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	13.3	14.1	14.5	14.5
Pre-tax margin	10.9	11.1	11.3	11.3
Net margin	9.0	9.1	9.2	9.2
ROA	9.5	8.0	8.2	8.1
ROE	13.6	11.6	11.5	10.9
<b>Growth</b>				
Turnover	1.5	(5.3)	7.1	5.4
EBITDA	40.5	(0.3)	10.5	5.4
Pre-tax profit	58.5	(3.5)	9.1	4.8
Net profit	44.3	(4.6)	8.6	4.7
Net profit (adj.)	17.9	(2.4)	8.6	4.7
EPS	17.8	(2.4)	8.6	4.7
<b>Leverage</b>				
Debt to total capital	19.6	17.1	14.5	12.2
Debt to equity	24.2	20.5	16.8	13.7
Net debt/(cash) to equity	(2.3)	(2.6)	(3.6)	(10.9)
Interest cover (x)	27.4	38.0	46.5	54.9

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