

COMPANY RESULTS

Food Empire Holdings (FEH SP)

3Q22: Earnings Beat On Strong Demand And Easing Cost Pressures

3Q22 core earnings of US\$12m (+274% yoy/+45% qoq) was above expectations, while 9M22 core earnings of US\$31m formed 97% of our full-year estimates. Margins are improving with FEH's improved product mix and higher ASPs. Also, high freight and raw material costs which started in 2020 are easing. We believe earnings growth will continue as demand in all markets remains strong. We raise 2022 and 2023 core earnings by 14% and 12%. Maintain BUY. Target price: S\$0.78.

3Q22 RESULTS

Year to 31 Dec (US\$m)	3Q22	3Q21	yoy % chg	2Q22	qoq % chg
Revenue	108.6	76.4	42.1	94.8	14.6
Gross profit	31.5	19.6	60.1	26.5	18.9
Gross margin (%)	29.0	25.7	3.3ppt	27.9	1.0ppt
EBITDA	28.5	7.4	287.2	24.9	14.7
Core PATMI	11.6	3.1	274.2	8.0	45.0
Net margin (%)	10.7	4.0	6.7ppt	8.4	2.3ppt

Source: Food Empire, UOB Kay Hian

RESULTS

- Results above expectations due to higher average selling prices and one-off gain.** Food Empire Holdings' (FEH) 3Q22 core earnings of US\$12m (+274% yoy, +44% qoq), excluding disposal and forex gain, outperformed our expectations, with 9M22 forming 97% of our full-year estimates. The record-high revenue was mainly driven by higher average selling prices (ASP) across most of the Group's business segments and a favourable sales mix of products with higher margins. Additionally, there was a one-off gain of US\$15m from the disposal of non-core assets. With the easing of commodity prices, record-high ocean freight rates, supply chain delays and start-up costs arising from the commencement of the group's new freeze dry coffee plant in India, gross margin improved by a significant 3.3ppt yoy to 29%. Also, selling and marketing expenses declined 22% for 9M22, as lesser marketing was required, given the stronger-than-expected demand for FEH's products.
- Revenue growth across all markets.** Revenue for 9M22 grew 26.5% yoy mainly from the South-Asia market, which recorded a 190.7% yoy increase. Its largest market, Russia, reported revenue growth of 15.5%, while the second largest market, Southeast Asia recorded an 8.4% rise in revenue. The third largest market which consists of Ukraine, Kazakhstan and Commonwealth of Independent States (CIS) also achieved a 27.7% yoy revenue growth despite ongoing supply chain disruptions amid geopolitical tensions. This indicates that the group's optimised operations and maintenance of adequate inventory levels has successfully mitigated the impact of market challenges faced.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	273	321	379	402	427
EBITDA	40	34	53	52	56
Operating profit	34	25	45	44	47
Net profit (rep./act.)	27	20	55	37	40
Net profit (adj.)	29	20	36	37	40
EPS (US\$ cent)	5.4	3.6	6.7	6.8	7.5
PE (x)	7.2	10.7	5.8	5.7	5.2
P/B (x)	1.0	0.9	0.8	0.7	0.6
EV/EBITDA (x)	4.0	4.8	3.1	3.1	2.9
Dividend yield (%)	4.1	4.1	4.1	4.1	4.1
Net margin (%)	9.8	6.1	14.5	9.1	9.4
Net debt/(cash) to equity (%)	(7.0)	(4.7)	(16.8)	(23.0)	(28.7)
Interest cover (x)	67.6	28.7	57.7	70.1	n.a.
ROE (%)	12.6	8.7	21.9	12.7	12.6

Source: FEH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.54
Target Price	S\$0.78
Upside	+44.4%
(Previous TP)	S\$1.30)

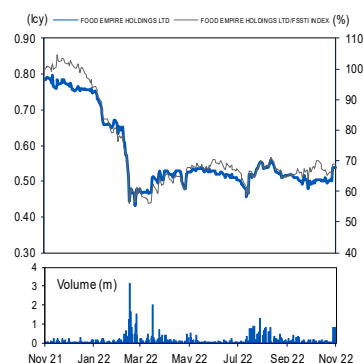
COMPANY DESCRIPTION

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):	535.1			
Market cap (S\$m):	289.0			
Market cap (US\$m):	209.6			
3-mth avg daily t'over (US\$m):	0.1			
Price Performance (%)				
52-week high/low	S\$0.796/S\$0.430			
1mth	3mth	6mth	1yr	YTD
12.5	(1.8)	3.8	(32.6)	(29.1)
Major Shareholders				
Anthony Salim	24.6			
Tan Wang Cheow	22.5			
-	-			
FY22 NAV/Share (US\$)	0.51			
FY22 Net Cash/Share (US\$)	0.09			

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Demand remains resilient.** Despite rising inflationary pressures and ASPs, the business does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, they are relatively price inelastic. For instance, the group's products in the coffee segment continues to be affordable enough for mass appeal, leading to sustainable or even stronger demand in the nine months that ended. Hence, we see that sales volumes are more sheltered from the market volatilities. With supply chain disruptions easing in some markets, we forecast higher earnings and improved margins moving forward.
- Positive brand equity built.** Despite challenges in 9M22 including geopolitical tensions in its core markets and rising inflation, the group has managed to generate record-level profits. Additionally, the group is once again recognised as the Top 100 "Most Valuable Singaporean Brands" by Brand Finance for the twelfth consecutive year, with estimated brand value increasing 17% yoy to US\$101m. We believe this is a testament to its strong brand equity. FEH also continues to look toward market expansion, such as its plans to scale its operations in Malaysia with a new factory expected to be completed in 2024.

EARNINGS REVISION/RISK

- We raised our 2022/23/24 core earnings estimates by 14%/12%/8% to S\$36m/37m/40m,** up from S\$32m/33m/37m to reflect the better-than-expected core earnings for 9M22 and improving net margins from the successful increase of products' ASPs as well as easing freight and raw material costs. Also, we raised our revenue estimates for 2022/23/24 by 19%/16%/12% to reflect the better-than-expected product demand.

VALUATION/RECOMMENDATION

- Maintain BUY with a PE-based target price of S\$0.78 (S\$1.30 previously),** as we lower our P/E Peg to 8.4x 2023F EPS, or 1SD below its long-term historical mean. Previously, we were valuing FEH at 16.6x 2022F EPS, or 1SD above its long-term historical average. The reduction in the PE peg is to reflect the political uncertainties in Russia and Ukraine, which are the key markets of FEH.

SHARE PRICE CATALYST

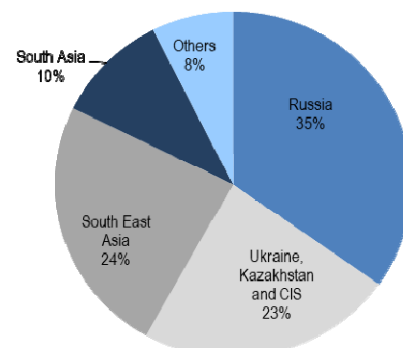
- Better-than-expected sales volumes across all business segments.
- Improving net margin from better-than-expected ASPs and easing of key costs including freight and raw material costs.

PEER COMPARISON

Company	Ticker	Trading Curr	Price @ 11-Nov-22 (lcy)	Market Cap (US\$m)	PE			P/B			ROE 2022 (%)	Yield 2022 (%)	Net Gearing (%)
					2021 (x)	2022 (x)	2023 (x)	2021 (x)	2022 (x)	2023 (x)			
Food Empire Singapore	FEH SP	S\$	0.54	210	10.7	5.8	5.7	1.0	0.8	0.7	13.0	4.1	(16.8)
Thai Beverage	THBEV SP	S\$	0.605	11,031	16.1	14.0	13.2	2.3	2.2	2.0	15.9	3.6	78.8
Fraser And Neave	FNN SP	S\$	1.25	1,319	12.9	14.5	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	18.0
Yeo Hiap Seng	YHS SP	S\$	0.66	289	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	(32.5)
Average					14.5	14.3	13.2	1.2	2.2	2.0	15.9	3.6	21.4
Regional													
Nestle (Malaysia)	NESZ MK	RM	131.6	6,676	54.2	47.2	43.0	53.0	53.7	50.8	102.2	2.1	84.7
Fraser & Neave	FNH MK	RM	21.44	1,701	19.9	20.5	18.2	2.8	n.a.	2.4	n.a.	n.a.	(6.5)
Coca-Cola Conso	COKE US	US\$	478.68	4,487	23.7	n.a.	n.a.	6.3	n.a.	n.a.	n.a.	n.a.	58.1
Dydo Group	2590 JP	¥	4575	539	18.0	n.a.	82.3	0.9	0.9	0.9	2.4	1.3	(12.9)
Power Root	PWRT MK	RM	2.3	208	37.0	20.0	18.7	3.6	3.6	3.6	18.7	4.6	(22.8)
Tac Consumer	TACC TB	THB	6.8	115	19.4	17.4	15.5	5.6	5.3	5.2	31.0	5.5	(14.6)
Average (Excl. NESZ MK)					23.6	19.3	33.7	3.8	3.3	3.0	17.4	3.8	0.26

Source: Bloomberg, UOB Kay Hian

REVENUE BREAKDOWN IN 9M22



Source: FEH, UOB Kay Hian

LONG TERM HISTORICAL PE BAND



Source: FEH, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	320.6	379.5	402.4	427.0
EBITDA	34.0	53.1	52.3	55.5
Deprec. & amort.	8.6	8.3	8.3	8.3
EBIT	25.4	44.8	44.0	47.2
Total other non-operating income	0.7	19.0	1.0	1.0
Associate contributions	1.3	1.3	0.6	0.6
Net interest income/(expense)	(1.2)	(0.9)	(0.7)	0.2
Pre-tax profit	26.3	64.2	44.8	49.0
Tax	(7.0)	(9.6)	(8.5)	(9.3)
Minorities	0.2	0.3	0.3	0.3
Net profit	19.5	54.9	36.6	40.0
Net profit (adj.)	19.5	35.9	36.6	40.0

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	103.9	103.8	103.6	103.4
Other LT assets	47.6	47.4	47.3	47.1
Cash/ST investment	60.6	88.0	103.3	121.7
Other current assets	128.0	147.1	155.1	163.8
Total assets	340.0	386.2	409.3	436.0
ST debt	22.4	22.4	22.4	22.4
Other current liabilities	57.6	65.8	69.2	72.9
LT debt	27.4	19.5	11.5	3.6
Other LT liabilities	6.1	6.1	6.1	6.1
Shareholders' equity	227.7	273.9	301.9	333.2
Minority interest	(1.2)	(1.5)	(1.8)	(2.1)
Total liabilities & equity	340.0	386.3	409.4	436.1

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	14.7	35.1	41.7	43.8
Pre-tax profit	26.3	64.2	44.8	49.0
Tax	(7.0)	(9.6)	(8.5)	(9.3)
Deprec. & amort.	8.6	8.3	8.3	8.3
Associates	1.3	1.3	0.6	0.6
Working capital changes	(18.9)	(11.7)	(4.7)	(5.0)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	4.3	(17.4)	1.1	0.2
Investing	(5.8)	11.0	(7.0)	(7.0)
Capex (growth)	(6.6)	(8.0)	(8.0)	(8.0)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	0.7	19.0	1.0	1.0
Financing	(17.0)	(18.7)	(19.3)	(18.4)
Dividend payments	(1.7)	(0.9)	(0.7)	0.2
Issue of shares	1.6	0.0	0.0	0.0
Proceeds from borrowings	73.9	(1.2)	(2.0)	(2.0)
Loan repayment	(77.7)	(7.9)	(7.9)	(7.9)
Others/interest paid	(13.2)	(8.7)	(8.7)	(8.7)
Net cash inflow (outflow)	(8.1)	27.4	15.4	18.4
Beginning cash & cash equivalent	69.0	60.6	88.0	103.4
Changes due to forex impact	(0.3)	0.0	0.0	0.0
Ending cash & cash equivalent	60.6	88.0	103.4	121.7

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	10.6	14.0	13.0	13.0
Pre-tax margin	8.2	16.9	11.1	11.5
Net margin	6.1	14.5	9.1	9.4
ROA	6.0	15.1	9.2	9.5
ROE	8.7	21.9	12.7	12.6
Growth				
Turnover	17.5	18.4	6.0	6.1
EBITDA	(15.2)	56.2	(1.5)	6.1
Pre-tax profit	(18.4)	144.0	(30.2)	9.2
Net profit	(27.2)	181.4	(33.3)	9.1
Net profit (adj.)	(32.9)	83.9	2.1	9.1
EPS	(33.0)	83.9	2.1	9.1
Leverage				
Debt to total capital	18.0	13.3	10.2	7.3
Debt to equity	21.9	15.3	11.2	7.8
Net debt/(cash) to equity	(4.7)	(16.8)	(23.0)	(28.7)
Interest cover (x)	28.7	57.7	70.1	n.a.

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