

COMPANY RESULTS

Food Empire Holdings (FEH SP)

1H24: Margins Hampered By High Coffee Costs And Excess Inventory; Downgrade To HOLD

FEH's 1H24 PATMI fell 11% yoy to US\$24m, in line with expectations and forming 51% of our full-year estimate. The fall was mainly due to higher coffee bean prices and short-term price disruptions in the Russia market. Strong revenue growth of 14% yoy was recorded, driven by double-digit sales growth from most of its core markets. As elevated coffee bean prices and Russia's price disruptions are pressuring margins, we downgrade to HOLD with a lower target price of S\$1.00 (S\$1.30 previously).

1H24 RESULTS

Year to 31 Dec (US\$m)	1H24	1H23	yoy % chg
Revenue	225.2	198.2	13.6
Gross profit	67.6	69.5	(2.7)
Gross margin (%)	30.0	35.1	(5.1ppt)
EBITDA	36.4	41.3	(11.7)
PATMI	23.6	26.7	(11.3)
PATMI margin (%)	10.5	13.4	(2.9ppt)

Source: FEH, UOB Kay Hian

RESULTS

- Earnings in line with expectations.** Food Empire Holdings (FEH) reported PATMI of US\$23.6m (-11.3% yoy) for 1H24, accounting for 51% of our full-year forecast and in line with expectations. The yoy decline is largely attributable to short-term price disruptions in the Russia market, and increased raw material prices and operating costs. This was partially offset by higher contributions from all other operating markets. As a result, 1H24 gross and net margins slumped 5ppt yoy and 3ppt yoy to 30% and 10.5% respectively, matching our expectations.
- Double-digit revenue growth across core markets with the exception of Russia...** Revenue growth for 1H24 was robust, rising 13.6% yoy due to higher demand and increased marketing activities. South Asia and Southeast Asia recorded impressive double-digit sales growths to reach US\$61.8m (+36% yoy) and US\$29.6m (+34.8% yoy) respectively. Sales in South Asia was driven by higher pricing due to cost pass-through, while sales in Southeast Asia was boosted by leading sales in Vietnam and strong demand in Malaysia. The Ukraine, Kazakhstan, and CIS regions also achieved notable growth, with a 15.7% yoy increase to US\$57.3m on higher sales volume.
- ...which was impacted by currency devaluation and high inventory levels.** Conversely, the Russia market experienced a 3.6% yoy decline in revenue to US\$68.1m, mainly due to the depreciation of the Russian ruble against the US dollar and customers' excess stock levels. We expect this to continue to impact FEH's near-term performance as it will take time for customers to deplete their stockpile. We note that in local currency terms, the segment saw a substantial 13.4% yoy growth, due to increased promotions.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	398	426	456	482	515
EBITDA	61	79	68	73	78
Operating profit	53	71	59	64	69
Net profit (rep./act.)	60	57	46	50	54
Net profit (adj.)	45	57	46	50	54
EPS (US\$ cent)	8.5	10.8	8.8	9.5	10.3
PE (x)	9.0	7.1	8.7	8.0	7.4
P/B (x)	1.5	1.4	1.3	1.2	1.1
EV/EBITDA (x)	4.9	3.8	4.4	4.2	3.9
Dividend yield (%)	4.3	9.7	4.8	4.8	4.8
Net margin (%)	15.1	13.3	10.1	10.4	10.5
Net debt/(cash) to equity (%)	(31.6)	(32.1)	(31.5)	(36.3)	(40.6)
Interest cover (x)	50.0	n.a.	270.7	n.a.	n.a.
ROE (%)	23.8	19.7	15.4	15.7	15.4
Consensus net profit	-	-	49	55	59
UOBKH/Consensus (x)	-	-	0.94	0.91	0.91

Source: FEH, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$0.995
Target Price	S\$1.00
Upside	+0.5%
(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):	526.0
Market cap (S\$m):	523.4
Market cap (US\$m):	400.0
3-mth avg daily t'over (US\$m):	0.4

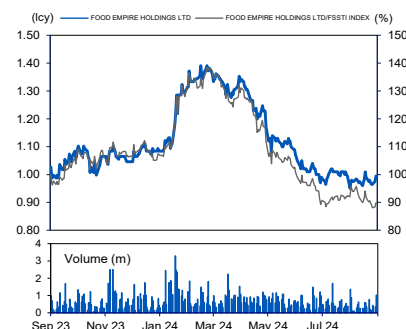
Price Performance (%)

52-week high/low	S\$1.39/S\$0.950			
1mth	3mth	6mth	1yr	YTD
0.0	(8.7)	(28.0)	0.7	(8.2)

Major Shareholders

Major Shareholders	%
Anthoni Salim	25.0
Tan Wang Cheow	21.9
FY24 NAV/Share (US\$)	0.58
FY24 Net Cash/Share (US\$)	0.18

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Continued margin pressure from higher coffee prices.** The global coffee market is expected to face further price increases next year. The ongoing Russia-Ukraine conflict may also add to logistics and distribution costs. FEH will need time to stabilise prices to maintain revenue and margins, which are partly determined by varying stock levels amongst retailers, before it can raise prices in the Russia market. We therefore expect gross margins to remain muted at 29-30% for 2024-26.
- Leveraging on strategic partnership with Ikhlas Capital.** FEH plans to increase leverage by issuing US\$40m of five-year redeemable exchangeable notes at 5.5% annual interest with private equity fund manager Ikhlas Capital in the form of a special purpose vehicle. Beyond capital injection for future expansion plans, management expects Ikhlas Capital's local expertise and network in Southeast Asia to help the group accelerate growth and scale both regionally and internationally.
- Expanding manufacturing footprint; well-positioned to capture rising demand for instant coffee.** FEH has announced plans to build a second snack production factory in Malaysia by 1H25, and its first coffee mix production facility in Kazakhstan by end-25. According to Allied Market Research, the global instant coffee market is expected to grow at a CAGR of 6.4% to reach US\$60.7b from 2023 to 2032, attributable to busier consumer lifestyles and changing consumer preferences. By region, we note that Southeast Asia has the largest growth potential with a projected 3.7% CAGR to reach US\$6b by 2029, while South Asia is the fastest growing at 6.7% CAGR to reach US\$0.9b in the same year. Given FEH's growing market presence in these markets, we think that FEH is well-positioned to meet the rising global demand for instant coffee.
- Potential downside to currency translation.** Exchange rate volatility may continue to negatively affect revenue, particularly from Russia, as the ruble/US\$ rate continues to remain weak at 90.9 across Jul-Aug 24 (vs an average of 85.5 in 2023).

EARNINGS REVISION/RISK

- We have lowered our dividend forecast to 5 S cents/share (from 10 S cents/share),** as we no longer expect a special dividend payout in 2024 given the near-term headwinds and the need to finance its new production facilities.

VALUATION/RECOMMENDATION

- Downgrade to HOLD with a 30% lower PE-based target price of S\$1.00 (from S\$1.30),** based on 8.7x 2024F EPS valuation. This is pegged to 0.5SD below its long-term historical mean, down from the mean previously to reflect the more challenging environment, in light of coffee price volatility and geopolitical risks from the Russia-Ukraine conflict.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 3 Sep 24 (lcy)	Market Cap (US\$m)	PE			P/B 2024 (x)	ROE 2024 (%)	Yield 2024 (%)	Net Gearing (%)
					2023 (x)	2024 (x)	2025 (x)				
Food Empire	FEH SP	SGD	0.995	400	6.9	8.7	8.0	1.3	15.3	4.8	(11.9)
Singapore											
Thai Beverage	THBEV SP	SGD	0.52	9,981	12.5	12.8	11.1	1.6	13.0	4.3	69.6
Fraser And Neave	FNN SP	SGD	1.27	1,413	13.8	n.a.	n.a.	n.a.	n.a.	n.a.	(9.1)
Delfi	DELFI SP	SGD	0.805	376	7.9	8.6	8.3	1.3	15.7	5.8	(8.7)
Yeo Hiap Seng	YHS SP	SGD	0.53	253	48.2	n.a.	n.a.	n.a.	n.a.	n.a.	(15.6)
Average (Excl. YHS SP)					11.5	11.5	11.4	10.7	9.7	1.4	14.3
Regional											
Nestle (Malaysia)	NESZ MK	MYR	105.4	5,657	37.5	39.3	35.1	37.8	92.9	2.5	178.6
Fraser & Neave	FNH MK	MYR	29.8	2,502	20.3	18.1	17.4	3.0	16.4	2.8	(9.1)
Coca-Cola Conso	COKE US	USD	1342.4	11,760	30.8	n.a.	n.a.	n.a.	n.a.	n.a.	0.8
Dydo Group	2590 JP	JPY	2841	645	20.2	28.9	28.0	1.0	3.9	1.1	(14.2)
Power Root	PWRT MK	MYR	1.46	152	16.0	13.9	12.4	2.0	15.0	5.7	(21.3)
Tac Consumer	TACC TB	THB	4.74	83	13.9	12.5	10.6	4.0	34.6	7.5	(17.1)
Average (Excl. NESZ MK & 2590 JP)					20.3	14.8	13.4	3.0	22.0	5.3	

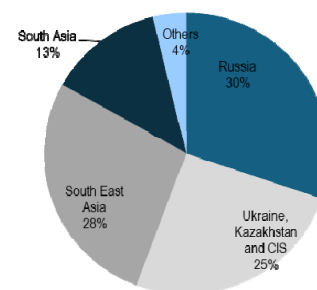
Source: Bloomberg, UOB Kay Hian

1H24 REVENUE AND PATMI BY GEOGRAPHY

Year to 31 Dec (US\$m)	1H24	1H23	yoy % change
Turnover	225.2	198.2	13.6
Russia	68.1	70.6	(3.6)
South East Asia	61.8	45.9	34.9
Ukraine, Kazakhstan and CIS	57.3	49.5	15.7
South Asia	29.6	21.7	36.0
Others	8.5	10.5	(18.6)
PATMI	23.6	26.7	(11.3)
Russia	5.1	13.1	(61.2)
South East Asia	4.8	3.0	62.5
Ukraine, Kazakhstan and CIS	10.3	10.3	(0.3)
South Asia	3.5	1.7	105.5
Others	(0.0)	(1.4)	n.a.

Source: FEH, UOB Kay Hian

1H24 REVENUE BY GEOGRAPHY



Source: FEH, UOB Kay Hian

LONG-TERM HISTORICAL PE BAND



Source: FEH, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	425.7	456.2	482.1	515.1
EBITDA	79.3	68.3	72.7	77.7
Deprec. & amort.	8.4	8.9	8.9	8.8
EBIT	70.9	59.4	63.8	68.9
Total other non-operating income	(0.6)	(0.6)	(1.2)	(1.2)
Associate contributions	1.3	0.6	0.6	0.6
Net interest income/(expense)	0.8	(0.3)	1.0	0.9
Pre-tax profit	72.5	59.1	64.2	69.2
Tax	(16.0)	(13.0)	(14.1)	(15.2)
Minorities	0.0	0.0	0.0	0.0
Net profit	56.5	46.2	50.1	54.0
Net profit (adj.)	56.5	46.2	50.1	54.0

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	50.6	52.1	57.6	60.4
Pre-tax profit	72.5	59.1	64.2	69.2
Tax	(16.0)	(13.0)	(14.1)	(15.2)
Deprec. & amort.	8.4	8.9	8.9	8.8
Associates	1.3	0.6	0.6	0.6
Working capital changes	(16.4)	(6.3)	(4.0)	(5.2)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	0.8	2.7	2.1	2.1
Investing	(12.4)	(8.6)	(9.2)	(9.2)
Capex (growth)	(12.5)	(8.0)	(8.0)	(8.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.1	(0.6)	(1.2)	(1.2)
Financing	(31.5)	(45.1)	(44.7)	(44.8)
Dividend payments	(3.9)	(0.3)	1.0	0.9
Issue of shares	1.1	0.0	0.0	0.0
Proceeds from borrowings	76.7	76.7	76.7	76.7
Loan repayment	(78.5)	(80.9)	(81.7)	(81.7)
Others/interest paid	(26.9)	(40.6)	(40.6)	(40.6)
Net cash inflow (outflow)	6.7	(1.6)	3.7	6.4
Beginning cash & cash equivalent	125.6	131.3	128.7	131.6
Changes due to forex impact	(1.0)	(1.0)	(0.8)	(0.8)
Ending cash & cash equivalent	131.3	128.7	131.6	137.2

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	103.3	102.4	101.5	100.7
Other LT assets	41.3	41.3	41.3	41.3
Cash/ST investment	131.3	128.7	131.6	137.2
Other current assets	127.0	139.3	146.4	155.6
Total assets	402.9	411.6	420.8	434.8
ST debt	15.0	15.0	15.0	15.0
Other current liabilities	61.8	68.4	71.5	75.6
LT debt	21.4	18.0	14.6	11.2
Other LT liabilities	10.2	8.2	6.2	4.3
Shareholders' equity	295.6	303.2	314.6	330.0
Minority interest	(1.1)	(1.2)	(1.2)	(1.3)
Total liabilities & equity	402.9	411.6	420.8	434.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	18.6	15.0	15.1	15.1
Pre-tax margin	17.0	13.0	13.3	13.4
Net margin	13.3	10.1	10.4	10.5
ROA	14.4	11.3	12.0	12.6
ROE	19.7	15.4	16.2	16.8
Growth				
Turnover	6.9	7.2	5.7	6.8
EBITDA	29.3	(13.8)	6.4	6.8
Pre-tax profit	2.5	(18.4)	8.5	7.8
Net profit	(6.0)	(18.3)	8.5	7.8
Net profit (adj.)	25.3	(18.3)	8.5	7.8
EPS	27.0	(18.3)	8.5	7.8
Leverage				
Debt to total capital	11.0	9.9	8.6	7.4
Debt to equity	12.3	10.9	9.4	8.0
Net debt/(cash) to equity	(32.1)	(31.5)	(32.4)	(33.6)
Interest cover (x)	n.a.	270.7	n.a.	n.a.

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