

COMPANY RESULTS

Food Empire Holdings (FEH SP)

2023: Exceeds Expectations With Record-High Dividend and Core Earnings

FEH reported 2023 core earnings of US\$56.5m (+25.3% yoy), outperforming our estimate by 5%. Record-high revenue was achieved, on increased sales volumes and ASPs in FEH's core markets. Record dividend of 10 S cents/share has also been proposed to reward shareholders, translating to an attractive 7% yield. As consumer demand remains resilient across its core markets, we raise 2023 and 2024 core earnings by 3-5%. Maintain BUY with a 4% higher target price of S\$1.69.

2023 RESULTS

Year to 31 Dec (US\$m)	2023	2022	yoy % chg
Revenue	425.7	398.4	6.9
Gross profit	141.5	118.8	19.0
Gross margin (%)	33.2	29.8	3.4ppt
Net profit	56.5	60.1	(6.0)
Net margin (%)	13.3	15.1	(1.8ppt)
Core net profit*	56.5	45.1	25.3
Core net margin* (%)	13.3	11.3	2.0ppt

Source: Food Empire, UOB Kay Hian *Excluding a one-off gain on disposal of non-core assets of US\$15m in 3Q22

RESULTS

- Results above expectations; record-high operating profit and margin expansion.** Food Empire (FEH) reported 2023 net profit of US\$56.5m, outperforming our expectation and forming 105% of our estimate. Excluding a one-off gain of US\$15m on the disposal of non-core assets in 3Q22, 2023 earnings registered a significant 25.3% yoy growth. Both EBITDA and operating profit hit record-highs of US\$86.9m (+4.2% yoy) and US\$70.9m (+34.6% yoy) respectively, backed by higher gross margin of 33.2% (+3.4ppt yoy).
- Record dividend payout with surprise special dividend.** FEH has proposed a first and final dividend of 5.0 S cents/share and a special dividend of 5.0 S cents/share, bringing total dividend to 10 S cents/share. This is more than double that of 2022's dividend of 4.4 S cents/share, and translates to a dividend yield of around 7%, beating our estimated 4% yield.
- Record-high revenue achieved,** driven by higher volumes and ASPs across the group's core markets. Revenue grew 6.9% yoy to reach a record of S\$425.7m, in line with our expectations. While revenue from FEH's largest market, Russia declined 3.5% yoy from the currency depreciation of the Russian ruble against the US dollar, other segment revenues achieved significant growth. The Ukraine, Kazakhstan and Commonwealth of Independent States (CIS) and South-East Asia segments achieved 21.1% yoy and 9.6% yoy growth respectively, from higher volumes and ASPs in the markets which offset the depreciation of the Ukrainian hryvnia against the US dollar. As for the South Asia segment, revenue also grew significantly to US\$49.1m (+24.1% yoy) from higher contributions from FEH's freeze dry coffee plant in India, making up 11.5% of total revenue (vs 9.9% in 2022).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	398	426	456	482	515
EBITDA	61	79	86	91	97
Operating profit	53	71	77	82	88
Net profit (rep./act.)	60	57	60	64	69
Net profit (adj.)	45	57	60	64	69
EPS (US\$ cent)	8.5	10.8	11.4	12.2	13.1
PE (x)	12.5	9.9	9.4	8.7	8.1
P/B (x)	2.0	1.9	1.8	1.6	1.5
EV/EBITDA (x)	7.3	5.7	5.2	5.0	4.6
Dividend yield (%)	3.0	6.9	6.9	6.9	6.9
Net margin (%)	15.1	13.3	13.1	13.3	13.4
Net debt/(cash) to equity (%)	(31.6)	(32.1)	(35.0)	(38.3)	(41.6)
Interest cover (x)	50.0	n.a.	339.3	n.a.	n.a.
ROE (%)	23.8	19.7	19.5	19.4	19.3
Consensus net profit	-	-	58	61	68
UOBKH/Consensus (x)	-	-	1.03	1.04	1.01

Source: FEH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.43
Target Price	S\$1.69
Upside	+18.0%
(Previous TP)	S\$1.63)

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):	528.0
Market cap (S\$m):	755.0
Market cap (US\$m):	560.7
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

52-week high/low	S\$1.45/S\$0.835			
1mth	3mth	6mth	1yr	YTD
6.7	30.0	40.2	82.2	26.5

Major Shareholders

	%
Anthoni Salim	24.6
Tan Wang Cheow	22.5
FY24 NAV/Share (US\$)	0.60
FY24 Net Cash/Share (US\$)	0.21

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Resilient consumer demand and strong brand equity.** Despite implementing pricing adjustments across most of its operating markets during the year, FEH's sales volumes continued to rise, demonstrating the price inelasticity of its products. Additionally, FEH's overall performance has surpassed our expectations in the face of currency devaluations in 2023. We believe that this is testament to its strong brand equity and experience in navigating currency fluctuations effectively. Hence, we forecast higher earnings and margins moving forward.
- **Top-line growth and improved margins lift earnings.** With the strong levels of demand sustained amid inflationary pressures and currency volatility from geopolitical uncertainties, our forecast incorporates a 5-6% increase in 2024/25 revenue. Furthermore, management expects higher revenues from: a) Malaysia, with its newly added non-dairy creamer facility, pending government approval before commercial production, and b) Vietnam, as active advertising and promotions are expected to drive growth.
- **Frequent share buybacks to date reflect confidence.** Since Jul 23, FEH has bought back 6.3m shares at up to S\$1.18, showing management's confidence in the future growth outlook.

EARNINGS REVISION/RISK

- We raise our 2024/25 core earnings estimates by 3-5% to S\$60m/S\$64m respectively, up from S\$58m/S\$61m, while adding 2026 estimates. These figures reflect the better-than-expected core earnings for 2023 and improving net margins.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 4% higher PE-based target price of S\$1.69 (S\$1.63 previously),** pegged to 11x 2024F EPS, or its long-term historical mean. FEH has demonstrated its ability to deliver sustained solid performance, with 2023 revenue reaching a record high in spite of currency fluctuations. We are therefore of the view that FEH will continue to produce strong results.

SHARE PRICE CATALYST

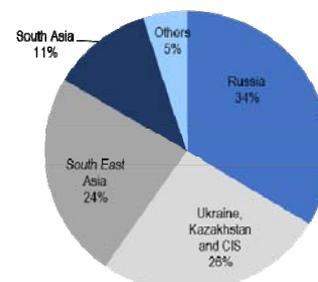
- Dividend surprise from robust financials.
- Better-than-expected sales volumes across all business segments.
- Improving net margin from higher ASPs and effective cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 28-Feb-24 (lcy)	Market Cap (US\$m)	PE			P/B 2024	ROE 2024 (%)	Yield 2024 (%)	Net Gearing (%)
					2023 (x)	2024 (x)	2025 (x)				
Food Empire Singapore	FEH SP	SGD	1.43	561	9.9	9.7	9.2	1.6	18.0	3.0	(22.6)
Thai Beverage	THBEV SP	SGD	0.51	9,517	12.5	12.3	11.1	1.6	13.4	4.4	67.9
Fraser And Neave	FNN SP	SGD	1.05	1,215	11.4	n.a.	n.a.	n.a.	n.a.	n.a.	(11.6)
Yeo Hiap Seng	YHS SP	SGD	0.955	433	9.4	9.0	8.4	1.5	17.4	5.6	(18.7)
Average			0.575	264	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(23.9)
Regional					11.1	10.6	9.7	1.5	15.4	5.0	
Nestle (Malaysia)	NESZ MK	MYR									
Fraser & Neave	FNH MK	MYR	123.8	6,087	44.0	37.7	35.6	43.1	115.2	2.6	135.2
Coca-Cola Conso	COKE US	USD	29.5	2,269	20.1	19.6	18.1	3.0	15.4	2.6	(11.6)
Dydo Group	2590 JP	JPY	832.38	7,802	19.1	n.a.	n.a.	n.a.	n.a.	n.a.	7.0
Power Root	PWRT MK	MYR	3160	695	206.5	45.5	40.0	1.2	3.1	0.9	(19.9)
Tac Consumer	TACC TB	THB	1.68	163	17.7	14.2	13.2	3.4	16.8	5.7	(22.4)
Average (Excl. NESZ MK)			4.78	79	14.1	12.3	10.9	3.7	31.0	7.5	(21.3)

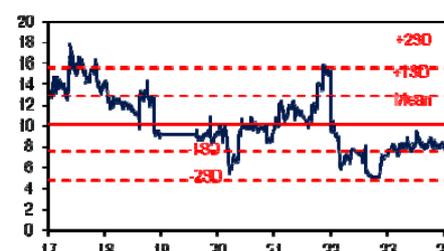
Source: Bloomberg, UOB Kay Hian

REVENUE BREAKDOWN, BY GEOGRAPHY (2023)



Source: Food Empire, UOB Kay Hian

LONG-TERM HISTORICAL PE BAND



Source: Food Empire, 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	85.7	90.5	96.7
Deprec. & amort.	8.4	8.9	8.9	8.8
EBIT	70.9	76.7	81.7	87.9
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	76.5	82.0	88.2
Tax	(16.0)	(16.8)	(18.0)	(19.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	56.5	59.7	64.0	68.9
Net profit (adj.)	56.5	59.7	64.0	68.9

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	50.6	67.2	71.6	75.3
Pre-tax profit	72.5	76.5	82.0	88.2
Tax	(16.0)	(16.8)	(18.0)	(19.4)
Deprec. & amort.	8.4	8.9	8.9	8.8
Associates	1.3	0.6	0.6	0.6
Working capital changes	(16.4)	(4.7)	(4.0)	(5.0)
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	13.6	17.7	21.4
Beginning cash & cash equivalent	125.6	131.3	143.8	160.7
Changes due to forex impact	(1.0)	(1.0)	(0.8)	(0.8)
Ending cash & cash equivalent	131.3	143.8	160.7	181.3

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	143.8	160.7	181.3
Other current assets	127.0	134.6	141.6	150.5
Total assets	402.9	422.1	445.1	473.8
ST debt	15.0	15.0	15.0	15.0
Other current liabilities	61.8	65.4	68.4	72.3
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	316.7	342.1	372.3
Minority interest	(1.1)	(1.2)	(1.2)	(1.3)
Total liabilities & equity	402.9	422.1	445.1	473.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	18.6	18.8	18.8	18.8
Pre-tax margin	17.0	16.8	17.0	17.1
Net margin	13.3	13.1	13.3	13.4
ROA	14.4	14.5	14.8	15.0
ROE	19.7	19.5	19.4	19.3
Growth				
Turnover	6.9	7.2	5.7	6.8
EBITDA	29.3	8.0	5.7	6.8
Pre-tax profit	2.5	5.5	7.3	7.6
Net profit	(6.0)	5.6	7.3	7.6
Net profit (adj.)	25.3	5.6	7.3	7.6
EPS	27.0	5.6	7.3	7.6
Leverage				
Debt to total capital	11.0	9.5	8.0	6.6
Debt to equity	12.3	10.4	8.7	7.0
Net debt/(cash) to equity	(32.1)	(35.0)	(38.3)	(41.6)
Interest cover (x)	n.a.	339.3	n.a.	n.a.

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