

COMPANY UPDATE

Food Empire Holdings (FEH SP)

Setting The Stage For Diversification

We visited FEH’s new office at Asia Green on 16 Jan 25. FEH will be releasing its 2H24 results on 26 Feb 25 after trading hours. We estimate net profit at US\$22m-23m and full-year net profit at US\$46m-47m. Expect margins to be softer yoy due to stubbornly high coffee prices. FEH is effectively targeting its identified high-growth markets, with a new coffee facility starting construction in Vietnam. Maintain HOLD with a 10% higher target price of S\$1.10 (S\$1.00 previously) as we roll over our valuation to 2025.

WHAT’S NEW

- **New office at Asia Green.** We attended Food Empire Holdings’ (FEH) official opening of its new office located at Asia Green. The space is designed with the concept of fostering growth, enhancing collaboration and cultivating a culture of limitless possibilities.
- **2H24 results preview: Likely in line with expectations.** FEH will be releasing its financial results for 2H24 on 26 Feb 25 after trading hours. We are expecting 2H24 net profit at US\$22m-23m (vs 1H24: US\$24m, 2H23: US\$30m). This will bring full-year net profit to US\$46m-47m. While revenue is expected to see growth on strong demand and increased marketing efforts, particularly from the Southeast Asia segment, margins are likely to take a hit from currency devaluation and rising coffee prices.
- **Tapping into growing Southeast Asian coffee market with new Vietnam facility.** FEH has invested US\$80m into a new freeze-dried coffee manufacturing facility in Binh Dinh, Vietnam, located near coffee-growing regions and funded by both borrowings and internal resources. This strategically positions the company to leverage low production costs, access quality coffee beans, and tap into the growing Southeast Asian coffee market. The group’s second coffee facility will commence construction in 1Q25, and is expected to be completed by early-28. We think that this vertical expansion will grow its ingredients business and strengthen the company’s presence in the rapidly growing Southeast Asian market, while effectively diversifying away from Russia.
- **New accolades showcase brand excellence.** FEH made its debut on Brand Finance’s ASEAN 500 list of the most valuable and strong brands in the ASEAN region. It is one of 84 Singaporean companies featured after evaluation of its marketing investment, stakeholder equity and business performance. FEH also ranked 60th on Brand Finance’s Top 100 Most Valuable Singaporean Brands in May 24 for the 14th straight year, solidifying its brand reputation. Additionally, its CaféPHỞ instant coffee brand was awarded the “Top Brand” award by Influential Brands in Mar 24, highlighting its strong consumer loyalty.

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)	8.5	6.7	8.2	7.5	7.0
P/B (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	4.6	3.5	4.1	3.9	3.6
Dividend yield (%)	4.5	10.3	5.1	5.1	5.1
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	-	-	46	49	53
UOBKH/Consensus (x)	-	-	0.99	1.01	1.02

Source: FEH, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.98
Target Price	S\$1.10
Upside	+12.2%
(Previous TP:	S\$1.00)

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):	526.4
Market cap (S\$m):	516.0
Market cap (US\$m):	377.4
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low	S\$1.47/S\$0.950			
1mth	3mth	6mth	1yr	YTD
(0.5)	(2.0)	(3.9)	(16.9)	(1.0)

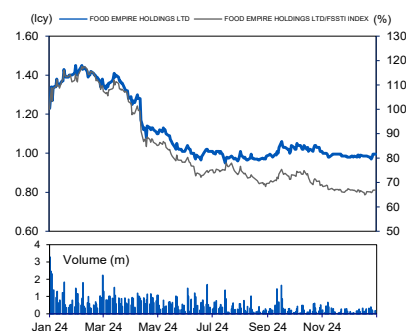
Major Shareholders

	%
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

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

STOCK IMPACT

- Recent corporate actions underscore its heightened strategic emphasis on Asia.** In May 24, FEH revealed plans to establish its first coffee-mix production facility in Kazakhstan, Central Asia, with an expected completion by end-25. Once operational, the facility will produce coffee-mix sachets under the Group's various brands, including the flagship MacCoffee brand, which is sold in over 60 countries. In Aug 24, it also formed a strategic partnership with Ikhlas Capital to support the growth of its business segments in Southeast Asia and South Asia. Both the Southeast Asia and Ukraine, Kazakhstan & CIS segments marked strong double-digit yoy revenue growth, and we think that FEH is effectively focusing on these markets to expand further.
- Near-term gross margins remain subdued.** Coffee prices have rallied to record highs, underpinned by reduced output due to poor weather in Brazil and Vietnam. Supply chain disruptions like the Red Sea crisis and the EU Deforestation Regulation (EUDR) have also led to price increases in 2024. Moving into 2025, as the EUDR has been postponed, demand is expected to subside while supply may improve on higher rainfall.
- Potential downside to currency translation.** Exchange rate volatility may continue to negatively affect earnings, particularly from Russia, Ukraine and Vietnam, as the currencies depreciated at 5-8% against the US Dollar.

EARNINGS REVISION/RISK

- Earnings revision: None.**

VALUATION/RECOMMENDATION

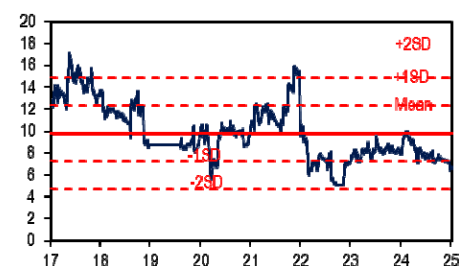
- Maintain HOLD with a higher PE-based target price of S\$1.10 (S\$1.00 previously),** after rolling over our valuation to 2025. Our target price is pegged to 8.7x 2025F PE, or 0.5SD below its long-term historical mean. We think that the operating environment is challenging to navigate, given the rising coffee prices and currency volatility. However, we believe FEH will be able to overcome them upon successful strategic expansion with their strong brand equity.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 16 Jan 25 (lcy)	Market Cap (US\$m)	PE			P/B 2025 (x)	ROE 2025 (%)	Yield 2025 (%)	Net Gearing (%)
					2023 (x)	2024 (x)	2025 (x)				
Food Empire Singapore	FEH SP	SGD	0.98	377	6.8	8.2	7.5	1.1	15.7	5.1	(11.9)
Thai Beverage	THBEV SP	SGD	0.54	9,922	12.5	13.3	11.7	2.1	18.6	4.9	81.8
Fraser And Neave	FNN SP	SGD	1.35	1,437	14.7	13.1	n.a.	n.a.	n.a.	n.a.	(9.1)
Delfi	DELFI SP	SGD	0.76	340	7.5	9.1	8.8	1.2	13.6	7.1	(8.7)
Yeo Hiap Seng	YHS SP	SGD	0.565	258	51.4	n.a.	n.a.	n.a.	n.a.	n.a.	(15.6)
Average (Excl. YHS SP)					11.6	11.8	10.2	1.6	16.1	6.0	
Regional											
Nestle (Malaysia)	NESZ MK	MYR	92.48	4,817	32.9	40.6	35.4	32.6	88.0	2.7	192.9
Fraser & Neave	FNH MK	MYR	25.56	2,082	17.4	17.2	16.2	2.4	15.2	3.0	(10.4)
Coca-Cola Conso	COKE US	USD	1336.83	11,712	30.7	n.a.	n.a.	n.a.	n.a.	n.a.	34.9
Dydo Group	2590 JP	JPY	3260	694	23.2	20.1	30.2	1.1	4.0	0.9	(17.3)
Power Root	PWRT MK	MYR	1.49	142	16.4	18.6	14.9	1.8	12.3	4.0	(18.5)
Tac Consumer	TACC TB	THB	4.32	75	12.7	10.9	9.7	3.5	35.9	8.9	(17.2)
Average (Excl. NESZ MK & 2590 JP)					19.3	15.6	13.6	2.6	21.1	5.3	

Source: Bloomberg, 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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