

COMPANY UPDATE

Food Empire Holdings (FEH SP)

Frequent Share Buyback A Positive Indicator

FEH continued its share buyback in 1Q23, which has contributed to a higher share price, after reporting record 2022 core earnings of US\$45m (+134% yoy). With FEH doubling its 2022 dividend and strong core earnings growth in the last four quarters, we believe FEH is confident in its future outlook. Also, any positive development in the Russia-Ukraine conflict could lead to further valuation re-rating for FEH, which is trading at a 40-50% discount vs peers. Maintain BUY. Target price: S\$1.28.

SHARE BUYBACK SUMMARY

Period	No. of shares repurchased	Price range of share buyback	Average price of share buyback
1Q22	400,000	S\$0.76-0.78	S\$0.77
2Q22	-	-	-
3Q22	3,079,000	S\$0.51-0.56	S\$0.53
4Q22	2,073,700	S\$0.50-0.65	S\$0.59
1Q23	1,963,000	S\$0.65-0.90	S\$0.79

Source: FEH, UOB Kay Hian

WHAT'S NEW

- Frequent share buybacks in 1Q23 at near 52-week high.** Food Empire Holdings (FEH) has continued to buy back its shares in 1Q23 after releasing a strong set of results in Feb 23. In 1Q23, FEH has bought back close to 2m shares at S\$0.65-0.90. This is close to the 52-week high share price of S\$0.96.
- Strong core earnings growth in the last four consecutive quarters and doubling of dividend for 2022.** FEH has reported strong core earnings growth momentum in the last four quarters, with more than 30% yoy growth (1Q22: +34% to US\$9.2m, 2Q22: +280% to US\$17.9m, 3Q22: +145% to US\$7.5m, 4Q22: +119% to US\$10.4m). The growth was mainly driven by an increase in consumer demand for FEH's products given their affordable price points, improving net margin from easing of supply chain issues and improvement in product mix. In addition, FEH has declared a dividend of 4.4 S cents per share for 2022, double 2021's dividend of 2.2 S cents per share.
- Positive development in the Russia-Ukraine conflict could lead to narrowing of valuation discount vs peers, which is at 40-50% currently.** China's president Xi Jinping recently visited Russia in Mar 23 for a three-day state visit. Although there was no substantial resolution to the Russia-Ukraine conflict, China has continued to position itself as a peace broker by recommending solutions to the conflict as well as calling for a ceasefire and peace talks. Russia's leader has also been open to the ideas, highlighting that "many of the provisions" could be "taken as the basis" for a peaceful settlement in Ukraine, "when the West and Kyiv are ready for it". We believe positive developments in the conflict could lead to valuation re-rating for FEH as the valuation discount for FEH's Russia business could narrow. Currently, FEH's 2023F PE of 8.3x is at around a 40% discount vs its local peers and at around a 50% discount vs its regional peers.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	321	398	431	460	493
EBITDA	34	61	69	71	78
Operating profit	25	53	59	62	68
Net profit (rep./act.)	20	60	48	52	55
Net profit (adj.)	20	45	48	52	55
EPS (US\$ cent)	3.6	8.5	9.0	9.7	10.4
PE (x)	20.6	8.9	8.3	7.8	7.2
P/B (x)	1.8	1.4	1.3	1.2	1.1
EV/EBITDA (x)	8.4	4.6	4.1	4.0	3.7
Dividend yield (%)	2.1	4.3	4.3	4.3	4.3
Net margin (%)	6.1	15.1	11.2	11.2	11.3
Net debt/(cash) to equity (%)	(4.7)	(31.6)	(37.7)	(43.2)	(48.1)
Interest cover (x)	28.7	50.0	60.4	n.a.	55.2
ROE (%)	8.7	23.8	16.5	15.9	15.4
Consensus net profit	-	-	49	52	55
UOBKH/Consensus (x)	-	-	0.98	0.99	1.00

Source: FEH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.00
Target Price	S\$1.28
Upside	+28.0%

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):	533.3
Market cap (S\$m):	533.3
Market cap (US\$m):	401.3
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

52-week high/low		S\$1.00/S\$0.455		
1mth	3mth	6mth	1yr	YTD
27.4	56.3	96.1	112.9	57.5

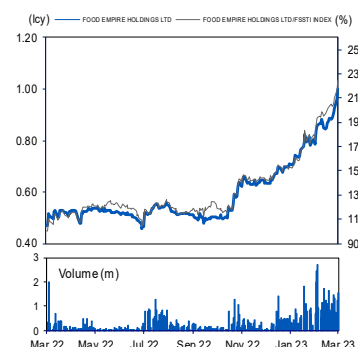
Major Shareholders

	%
Anthoni Salim	24.6
Tan Wang Cheow	22.5

FY23 NAV/Share (US\$) 0.58

FY23 Net Cash/Share (US\$) 0.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strong consumer demand across segments.** Despite rising inflationary pressures and ASPs, FEH does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, demand is relatively price inelastic. For instance, the group's products in the coffee segment continue to be affordable enough for mass appeal, leading to sustainable or even stronger demand in 2022. Hence, we see that sales volumes are more sheltered from 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 2022, including geopolitical tensions in its core markets and rising inflation, the group has managed to generate record-level profits. Additionally, the group was once again recognised as the Top 100 "Most Valuable Singaporean Brands" by Brand Finance for the twelfth consecutive year, with its estimated brand value increasing 17% yoy to US\$101m. We believe this is a testament to its strong brand equity.
- **Growth in top-line and improved margins lift earnings.** With the strong levels of demand sustained amid inflationary pressures and currency volatility due to geopolitical uncertainties, our forecast incorporates a 7%/7% increase in 2023/24 core earnings.

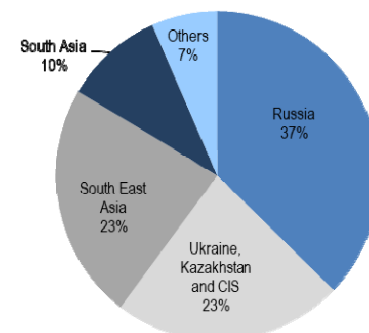
EARNINGS REVISION/RISK

- We maintain our earnings estimates.

VALUATION/RECOMMENDATION

- **Maintain BUY and PE-based target price of S\$1.28**, based on 10.5x 2023F EPS, pegged to its 5-year historical mean. We believe FEH is attractively valued at 8.3x 2023F PE, 1SD below its long-term mean and at around a 40-50% discount to its local and regional peers.

REVENUE BREAKDOWN IN 2022



Source: FEH, UOB Kay Hian

LONG-TERM HISTORICAL PE BAND



Source: FEH, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 28 Mar 23 (lcy)	Market Cap (US\$m)	PE			P/B 2023 (x)	ROE 2023 (%)	Yield 2023 (%)	Net Gearing (%)
					2022 (x)	2023 (x)	2024 (x)				
Food Empire	FEH SP	SGD	1.00	401	6.7	8.3	7.8	1.3	16.4	4.3	(29.4)
Singapore											
Thai Beverage	THBEV SP	SGD	0.645	12,193	13.9	15.5	14.2	1.9	13.0	3.2	64.5
Fraser And Neave	FNN SP	SGD	1.09	1,276	12.7	n.a.	n.a.	n.a.	n.a.	n.a.	18.9
Delfi	DELFI SP	SGD	1.16	533	12.2	11.4	10.6	2.0	18.2	4.4	(33.8)
Yeo Hiap Seng	YHS SP	SGD	0.675	306	168.8	n.a.	n.a.	n.a.	n.a.	n.a.	(34.6)
Average (Excl. YHS SP)					12.9	13.4	12.4	2.0	15.6	3.8	
Regional											
Nestle (Malaysia)	NESZ MK	MYR	135.6	7,220	51.2	44.7	41.1	47.9	114.7	2.2	147.9
Fraser & Neave	FNH MK	MYR	25.5	2,124	24.4	21.5	19.6	2.9	14.1	2.6	4.7
Coca-Cola Conso	COKE US	USD	538.6	5,049	11.7	n.a.	n.a.	n.a.	n.a.	n.a.	50.0
Dydo Group	2590 JP	JPY	4845	612	n.a.	56.1	28.9	0.9	0.6	1.2	(11.5)
Power Root	PWRT MK	MYR	2.08	201	16.3	14.9	14.5	4.1	20.7	6.0	(21.4)
Tac Consumer	TACC TB	THB	6.15	109	15.8	13.8	12.6	4.6	34.1	7.0	(13.4)
Average (Excl. NESZ MK & 2590 JP)					17.0	16.7	15.6	3.9	22.9	5.2	

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	398.4	430.5	460.4	492.6
EBITDA	61.3	68.9	71.4	77.8
Deprec. & amort.	8.6	9.9	9.8	9.6
EBIT	52.7	59.0	61.6	68.2
Total other non-operating income	16.6	1.0	1.0	1.0
Associate contributions	2.7	0.6	0.6	0.6
Net interest income/(expense)	(1.2)	(1.1)	0.4	(1.4)
Pre-tax profit	70.7	59.4	63.6	68.4
Tax	(10.6)	(11.3)	(12.1)	(13.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	60.1	48.2	51.5	55.4
Net profit (adj.)	45.1	48.2	51.5	55.4

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	72.8	55.4	57.4	62.8
Pre-tax profit	70.7	59.4	63.6	68.4
Tax	(10.6)	(11.3)	(12.1)	(13.0)
Deprec. & amort.	8.6	9.9	9.8	9.6
Associates	2.7	0.6	0.6	0.6
Working capital changes	11.0	(4.6)	(4.3)	(4.5)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(9.5)	1.4	(0.1)	1.7
Investing	19.0	(7.0)	(7.0)	(7.0)
Capex (growth)	(13.8)	(8.0)	(8.0)	(8.0)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	32.7	1.0	1.0	1.0
Financing	(26.2)	(23.0)	(21.5)	(23.2)
Dividend payments	(2.3)	(1.1)	0.4	(1.4)
Issue of shares	0.6	0.0	0.0	0.0
Proceeds from borrowings	65.6	(2.0)	(2.0)	(2.0)
Loan repayment	(76.9)	(2.6)	(2.6)	(2.6)
Others/interest paid	(13.2)	(17.2)	(17.2)	(17.2)
Net cash inflow (outflow)	65.6	25.5	29.0	32.6
Beginning cash & cash equivalent	60.6	125.6	151.7	180.7
Changes due to forex impact	(0.5)	0.6	0.1	0.1
Ending cash & cash equivalent	125.6	151.7	180.7	213.4

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	101.3	99.4	97.7	96.2
Other LT assets	37.9	37.8	37.8	37.7
Cash/ST investment	125.6	151.7	180.7	213.4
Other current assets	116.7	124.8	132.9	141.0
Total assets	381.5	413.7	449.1	488.3
ST debt	13.5	13.5	13.5	13.5
Other current liabilities	57.8	61.7	65.5	69.1
LT debt	24.8	22.2	19.6	17.0
Other LT liabilities	9.8	9.8	9.8	9.8
Shareholders' equity	276.7	307.6	341.9	380.2
Minority interest	(1.1)	(1.1)	(1.2)	(1.2)
Total liabilities & equity	381.5	413.7	449.1	488.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.4	16.0	15.5	15.8
Pre-tax margin	17.7	13.8	13.8	13.9
Net margin	15.1	11.2	11.2	11.3
ROA	16.7	12.1	11.9	11.8
ROE	23.8	16.5	15.9	15.4
Growth				
Turnover	24.2	8.1	6.9	7.0
EBITDA	80.4	12.3	3.6	9.1
Pre-tax profit	168.7	(15.9)	7.0	7.6
Net profit	208.2	(19.8)	7.0	7.6
Net profit (adj.)	131.3	6.8	7.0	7.6
EPS	132.3	6.8	7.0	7.6
Leverage				
Debt to total capital	12.2	10.4	8.8	7.4
Debt to equity	13.8	11.6	9.7	8.0
Net debt/(cash) to equity	(31.6)	(37.7)	(43.2)	(48.1)
Interest cover (x)	50.0	60.4	n.a.	55.2

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