

COMPANY RESULTS

Food Empire Holdings (FEH SP)

1Q23: Solid Results Fuelled By Strong Coffee (Demand)

FEH's 1Q23 net profit of US\$13.8m (+50.9% yoy) forms 29% of our full-year estimates. Higher revenue from the Russia, Ukraine, Kazakhstan, CIS and South Asia markets mitigated lower sales from its South-East Asia segment, where demand continued to normalise. Both gross and net margins improved during the quarter. FEH's consistent strong results are a testament to its strong brand equity. We raise 2023/24/25 earnings by 4%/4%/4% respectively. Maintain BUY with a 4% higher target price of S\$1.33.

1Q23 RESULTS

Year to 31 Dec (US\$m)	1Q23	1Q22	yoy % chg
Revenue	102.6	82.6	24.2
Gross profit	36.6	25.5	43.2
Gross margin (%)	35.6	30.9	4.7ppt
EBITDA	21.7	13.3	62.7
Profit before tax	18.0	10.7	67.9
Net profit	13.8	9.2	50.9
Net margin (%)	13.5	11.1	2.4ppt

Source: FEH, UOB Kay Hian

RESULTS

- **Results above expectations.** Food Empire Holdings (FEH) reported net profit of US\$13.8m (+50.9% yoy) for 1Q23, accounting for 29% of our full-year forecast and beating our expectations.
- **Higher revenue from robust growth in Russia and the CIS markets.** Revenue rose 24.2% yoy to S\$102.6m in 1Q23, which is largely within our expectations. Revenue from Southeast Asia fell 10.4% yoy, mainly in relation to continued demand normalisation in Vietnam following the COVID-19 pandemic. Additionally, Malaysia's non-dairy creamer factory produced lower output due to a one-off supply chain issue, leading to lesser sales. This decline was offset by the strong growth momentum in the Russia and Ukraine, Kazakhstan and CIS segments, which saw 44.0% yoy and 52.2% yoy jumps in contributions to S\$38.0m and S\$25.5m respectively. This is attributable to lower sales recorded in 1Q22, effected by the unprecedented geopolitical conflict breaking out in FEH's core segments. The South Asia segment also posted double-digit revenue growth during the quarter, with its coffee plants bringing in higher revenue of S\$10.9m (+29.6% yoy).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	321	398	445	476	510
EBITDA	34	61	71	74	81
Operating profit	25	53	61	64	71
Net profit (rep./act.)	20	60	50	54	58
Net profit (adj.)	20	45	50	54	58
EPS (US\$ cent)	3.6	8.5	9.4	10.0	10.8
PE (x)	22.6	9.7	8.8	8.2	7.6
P/B (x)	1.9	1.6	1.4	1.3	1.1
EV/EBITDA (x)	9.5	5.2	4.5	4.4	4.0
Dividend yield (%)	2.0	3.9	3.9	3.9	3.9
Net margin (%)	6.1	15.1	11.2	11.2	11.3
Net debt/(cash) to equity (%)	(4.7)	(31.6)	(37.4)	(43.2)	(48.3)
Interest cover (x)	28.7	50.0	62.4	n.a.	57.1
ROE (%)	8.7	23.8	17.1	16.3	15.7
Consensus net profit	-	-	49	52	55
UOBKH/Consensus (x)	-	-	1.02	1.02	1.04

Source: Food Empire Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.10
Target Price	S\$1.33
Upside	+20.9%
(Previous TP)	S\$1.28)

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):	532.4
Market cap (S\$m):	585.6
Market cap (US\$m):	439.3
3-mth avg daily t'over (US\$m):	0.7

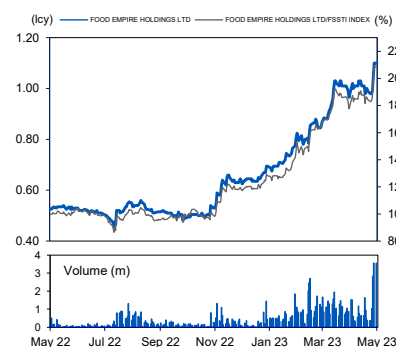
Price Performance (%)

52-week high/low				S\$1.10/S\$0.455
1mth	3mth	6mth	1yr	YTD
10.0	43.8	103.7	113.6	73.2

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

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

- **Improved margins despite higher operating expenses.** Selling and marketing expenses increased 24.0% yoy due to higher advertising and promotion expenses, while administrative expenses rose 31.5% yoy, driven by higher staff cost. However, gross profit margin expanded 4.7ppt to 35.6%, benefiting from normalised freight rates on top of the higher revenue recorded. With that, FEH achieved a higher net profit margin of 13.5% in 1Q23.

STOCK IMPACT

- **Sustained 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 as proven by FEH's consistent results. 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 moving forward.
- **Positive brand equity built.** Despite challenges continuing into 2023, including geopolitical uncertainties in its core markets and rising inflation, the group has managed to generate improved 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.
- **Top-line growth to lift earnings.** With the strong levels of demand sustained amid inflationary pressures and currency volatility from geopolitical uncertainties, our forecast incorporates a 5% increase in revenue. Furthermore, management expects higher revenues from: a) Vietnam, with increased marketing efforts and the new capacity expansion of its non-dairy creamer facility expected to contribute from 4Q23, and b) India, as its spray dry and new freeze dry coffee plants continue to see demand exceeding supply which may push prices upward.
- **Frequent share buybacks to date reflects confidence.** In Apr 23, FEH has bought back close to 1m shares at S\$0.99-1.01. This is close to the 52-week high share price of S\$1.10, showing management's confidence in the future growth outlook.

EARNINGS REVISION/RISK

- We raise our 2023/24/25 earnings estimates by 4%/4%/4% to S\$50m/S\$54m/S\$58m, up from S\$48m/S\$52/S\$55m to reflect the better-than-expected earnings moving forward.

VALUATION/RECOMMENDATION

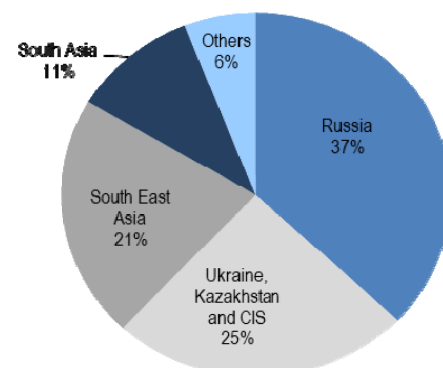
- **Maintain BUY with a 4% higher PE-based target price of S\$1.33 (S\$1.28 previously),** pegged to 10.5x 2023F EPS, or its long-term historical mean.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 12 May 23 (lcy)	Market Cap (US\$m)	PE			P/B	ROE	Yield	Net Gearing
					2022 (x)	2023 (x)	2024 (x)	2023 (x)	2023 (%)	2023 (%)	
Food Empire Singapore	FEH SP	SGD	1.1	439	7.3	9.1	8.5	1.4	16.4	3.9	(29.4)
Thai Beverage	THBEV SP	SGD	0.59	11,116	12.5	14.0	12.8	1.7	13.0	3.6	64.5
Fraser And Neave	FNN SP	SGD	1.12	1,307	13.0	n.a.	n.a.	n.a.	n.a.	n.a.	18.0
Delfi	DELFI SP	SGD	1.29	591	13.5	12.6	11.7	2.2	18.2	4.0	(23.1)
Yeo Hiap Seng	YHS SP	SGD	0.675	305	168.8	n.a.	n.a.	n.a.	n.a.	n.a.	(34.6)
Average (Excl. YHS SP)					13.0	13.3	12.3	2.0	15.6	3.8	
Regional											
Nestle (Malaysia)	NESZ MK	MYR	134.5	7,047	50.8	44.7	40.8	47.3	111.2	2.2	133.0
Fraser & Neave	FNH MK	MYR	27	2,213	25.8	21.9	20.5	3.0	13.4	2.4	3.7
Coca-Cola Conso	COKE US	USD	633.22	5,936	13.8	n.a.	n.a.	n.a.	n.a.	n.a.	50.0
Dydo Group	2590 JP	JPY	5130	631	n.a.	59.4	30.6	0.9	0.6	1.2	(9.4)
Power Root	PWRT MK	MYR	2.21	211	18.0	15.8	15.5	3.3	20.7	5.7	(21.4)
Tac Consumer	TACC TB	THB	5.45	98	14.0	12.9	12.0	4.1	32.7	7.2	(13.4)
Average (Excl. NESZ MK & 2590 JP)					17.9	16.8	16.0	3.5	22.2	5.1	

Source: Bloomberg, UOB Kay Hian

1Q23 REVENUE BREAKDOWN, 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)	2022	2023F	2024F	2025F
Net turnover	398.4	445.0	476.2	509.9
EBITDA	61.3	71.2	73.8	80.6
Deprec. & amort.	8.6	9.9	9.8	9.6
EBIT	52.7	61.3	64.1	70.9
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	61.8	66.0	71.1
Tax	(10.6)	(11.7)	(12.5)	(13.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	60.1	50.0	53.5	57.6
Net profit (adj.)	45.1	50.0	53.5	57.6

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	151.5	182.3	217.0
Other current assets	116.7	128.6	137.1	145.6
Total assets	381.5	417.4	454.9	496.5
ST debt	13.5	13.5	13.5	13.5
Other current liabilities	57.8	63.5	67.4	71.2
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	309.5	345.8	386.2
Minority interest	(1.1)	(1.1)	(1.2)	(1.2)
Total liabilities & equity	381.5	417.4	454.9	496.5

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	72.8	55.2	59.2	64.8
Pre-tax profit	70.7	61.8	66.0	71.1
Tax	(10.6)	(11.7)	(12.5)	(13.5)
Deprec. & amort.	8.6	9.9	9.8	9.6
Associates	2.7	0.6	0.6	0.6
Working capital changes	11.0	(6.7)	(4.5)	(4.7)
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	25.3	30.8	34.6
Beginning cash & cash equivalent	60.6	125.6	151.5	182.3
Changes due to forex impact	(0.5)	0.6	0.1	0.1
Ending cash & cash equivalent	125.6	151.5	182.3	217.0

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	13.9	13.9	14.0
Net margin	15.1	11.2	11.2	11.3
ROA	16.7	12.5	12.3	12.1
ROE	23.8	17.1	16.3	15.7
Growth				
Turnover	24.2	11.7	7.0	7.1
EBITDA	80.4	16.1	3.7	9.1
Pre-tax profit	168.7	(12.7)	6.9	7.7
Net profit	208.2	(16.7)	6.9	7.7
Net profit (adj.)	131.3	11.0	6.9	7.7
EPS	132.3	11.0	6.9	7.7
Leverage				
Debt to total capital	12.2	10.4	8.7	7.3
Debt to equity	13.8	11.5	9.6	7.9
Net debt/(cash) to equity	(31.6)	(37.4)	(43.2)	(48.3)
Interest cover (x)	50.0	62.4	n.a.	57.1

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