

Food Empire Holdings (FEH SP)

The start of the good times

Maintain BUY with a higher TP of SGD1.29

FEH reported a record FY22 which blew past ours and consensus estimates. 4Q22 revenue grew 29% YoY while NPAT surged 22.6% YoY, driven by strong demand from Russia, CIS markets and India. Dividend also doubled YoY to SGD4.4cents. Going forward, management expects growth to come from Vietnam and India while demand continues to remain strong in Russia and the CIS markets. Margins may be pressured by FX volatility but should be aided by lower freight costs. We lift our FY23E and 24E PATMI by 8.9% and 13.9%, respectively, to account for higher revenue growth and maintain BUY with a higher TP of SGD1.29 (from SGD1.20) based on 11x FY23E P/E.

Record year - more to come

FEH delivered a record FY22 as revenue grew 24.5% YoY to USD398.4m driven by growth across most geographical segments, including Russia and the CIS region. Net margins also improved significantly from 6% in FY21 to 11.2% in FY22, aided by higher ASPs and lower freight costs. We expect demand to remain strong in Russia and the CIS region and stronger growth from Vietnam as well as the expansion of its no-dairy creamer facility which is expected to begin commercial production by 4Q23. In India, spray dry and new freeze dry coffee plants continue to operate at full capacity but should yield higher margins due to cost reductions on the back of freight cost normalisation. We also expect the next two quarters to be much stronger YoY as the conflict started midway during 1Q22.

Dividends double + share buybacks to continue

Management rewarded shareholders with a SGD4.4 cent dividend, more than our initial FY22 forecast of SGD4 cents, partially boosted by the sale of its industrial property. We expect the dividend to at least maintain or grow as performance continues to improve. FEH has also been undertaking share-buybacks in the open market and we expect that to continue as management concurs that the company is deeply undervalued.

One of our conviction picks

FEH is currently trading at 6.9x core FY23E P/E, a steep discount versus both its private and listed valuations of global peers. As such, we think that it could be an attractive target for bigger competitors given its strong presence in Russia and Vietnam. With a positive outlook and resilience despite the ongoing Russia-Ukraine conflict, we maintain BUY.

FYE Dec (USD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	321	398	422	444	466
EBITDA	26	54	57	60	63
Core net profit	20	45	48	50	54
Core EPS (cts)	3.6	8.3	8.7	9.2	9.9
Core EPS growth (%)	(27.5)	129.2	5.3	5.8	7.1
Net DPS (cts)	1.7	3.2	3.3	3.5	3.7
Core P/E (x)	15.8	5.7	6.7	6.3	5.9
P/BV (x)	1.4	0.9	1.0	0.9	0.9
Net dividend yield (%)	2.9	6.8	5.6	5.9	6.4
ROAE (%)	8.7	23.8	16.3	15.6	15.1
ROAA (%)	6.0	12.5	12.0	11.8	11.7
EV/EBITDA (x)	11.4	3.1	4.4	3.9	3.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	41	43	na
MIBG vs. Consensus (%)	-	-	15.7	16.7	na

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BUY

Share Price SGD 0.79
12m Price Target SGD 1.29 (+70%)
Previous Price Target SGD 1.20

Company Description

Food Empire Holdings Ltd. operates as a global branding and manufacturing company in the food and beverage sector.

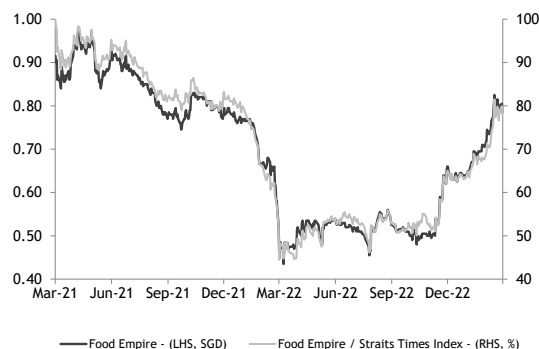
Statistics

52w high/low (SGD) 0.83/0.44
3m avg turnover (USDm) 0.2
Free float (%) 30.6
Issued shares (m) 548
Market capitalisation SGD430.2M
USD319M

Major shareholders:

SALIM ANTHONI 24.1%
TAN GUEK MING 12.5%
NAIR SUDEEP 12.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	19	51
Relative to index (%)	14	20	50

Source: FactSet

Abbreviation explained

CIS markets include Russia, Ukraine, Belarus and other former Soviet states

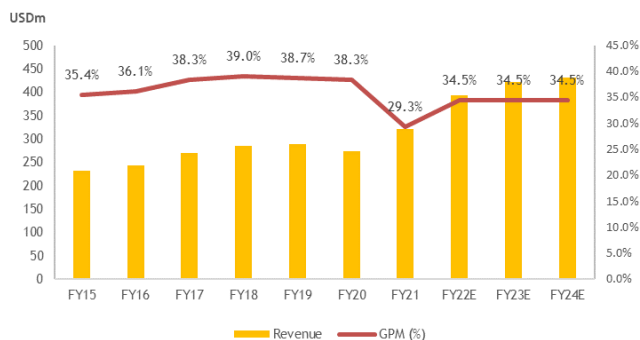
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Value Proposition

- Market leader of 3-in-1 coffee in Russia.
- Growing steadily in new markets like Vietnam and Southeast Asia.
- Fully integrated with the freeze dry coffee plant in India. Relatively high barriers to entry and sticky brand recognition by end-consumers. Trading at just 6.9x FY23E P/E, a sharp discount to global peers at 27x.
- Robust balance sheet with decent dividend yield of >4%.
- Clear ESG policies and strategies.

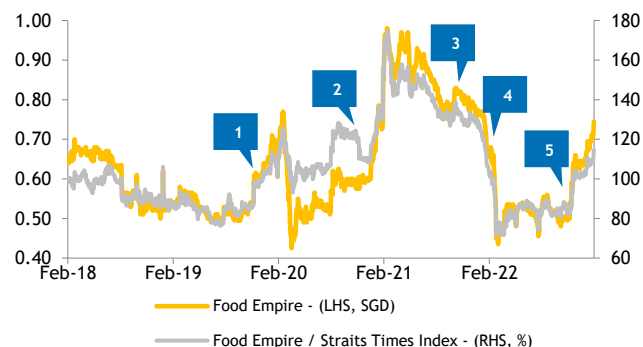
Revenue and GPM trend



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



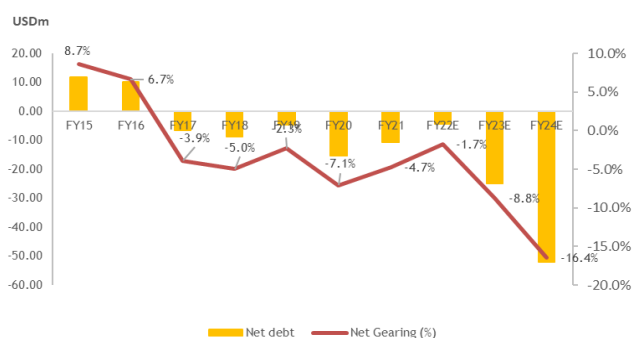
Source: Company, Maybank IBG Research

1. In Sep'19, FEH bagged its inaugural Sustainability Award as Winner under the "Small Cap" category.
2. In Dec'20, the Group further expanded its manufacturing facility in India.
3. In Oct'21, FEH was awarded The Enterprise Award 2020/21 under The Singapore Business Awards.
4. In Feb'22, Russia launched a military invasion of Ukraine, causing supply chain disruptions and FX volatility.
5. In Aug'22, FEH was recognised as one of the Top 100 "Most Valuable Singaporean Brands" by Brand Finance, with brand value of USD101m.

Financial Metrics

- Improvement in margins on new policies and price increases. GPM improved from 25.7% in 3Q21 to 29.0% in 3Q22.
- Revenue continued to grow progressively in key existing and new markets.
- Positive cash flow notwithstanding self-funded CAPEX plans and generous annual dividends.

Net Cash and Gearing ratio



Source: Company, Maybank IBG Research

Swing Factors

Upside

- End of the Russia and Ukraine conflict
- Continued strong growth in other markets and revenue diversification away from Russia
- An attractive takeover target by bigger F&B players or private equity funds

Downside

- Escalation of the Russian war would likely hurt its business.
- Higher raw material prices and Ruble depreciation are negative for earnings
- New competitors entering the scene might temporarily dilute its market share

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Risk Rating & Score ¹	Not Rated
Score Momentum ²	Na
Last Updated	Na
Controversy Score ³	Na

Business Model & Industry Issues

- As a food manufacturing company, the Group places a significant emphasis on ensuring that its products are healthy and safe for consumption. Any mismanagement of the products can result in a loss of reputation, financial penalties and possible breach of product safety laws in affected market.
- Given the challenging operating environment, FEH has taken measures to deal with high freight prices, supply chain disruptions, as well as inflationary cost pressures, amongst other external issues that had to be managed.
- The economic sanctions imposed on Russia has resulted in severe supply chain disruptions and currency exchange rate volatility. If the conflict between Russia and Ukraine escalates, this could potentially threaten the Group’s business outlook as these two key markets contributed about 45% of its total revenue in FY21.

Material E issues

- The profitability and production capacity of the Group’s coffee plant faces severe climate risk as yields can be impacted by the direct increase in temperatures, instability in precipitation as well as increases in pests in the regions where coffee is grown.
- To manage carbon footprint, FEH implemented several energy conservation initiatives at facility-level across its operations. It also seeks to align its energy and emissions management with the various country-specific energy regulations and policies.
- Given the issues of water scarcity, FEH has taken steps to enforce the efficient & responsible use of water throughout its operations. The Group tries to utilize water at every step of its value chain to avoid straining water supply and to rebalance the ecosystem.

Material S issues

- The food safety and quality policies are constantly reviewed to ensure that they satisfy new regulatory requirements and customer preferences. These policies ensure that it continues to produce good quality products at country level to ensure compliance with local regulations.
- In 2021, Vietnam accounted for most of its new hires and turnovers which largely occurred within its sales division. It is an industry trend in Vietnam for sales jobs to have a high turnover rate due to the demographics of individuals.
- FEH built a COVID-19 testing and vaccination center at its Vietnam plant to provide free vaccination & testing services for its employees. The facility also served as a temporary isolation centre for those exposed to COVID-19 patients.

Key G metrics and issues

- The board has eight directors, including the Executive Chairman, the CEO/Executive Director and six independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board is currently made up of 87.5% males and hence, we believe there is room to improve the diversity and composition of its Board, with the future appointment of a female member.
- Executive Chairman, Tan Wang Cheow and CEO Sudeep Nair holds about 22.5% and 11.27% stakes in the company respectively.
- Institutional investor, FMR LLC is a substantial shareholder and owns about 8% interest in the company.
- The external auditor is Ernst & Young LLP.
- Country-specific safety management systems and committees are put in place to provide greater flexibility in responding to different regulations on health and safety in every country in which it operates.
- There were no cases of non-compliance with all applicable laws and regulations concerning consumer health and safety in its Vietnam plant.
- To reduce market concentration risks, FEH has diversified into different markets in Asia over the years. In 2021, the turnover of its South-East Asia market accounted for c.30% of total revenues.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 53)							
	Particulars	Unit	2019	2020	2021	SSG SP (2021)	
E	Scope 1 GHG emissions	tCO2e	59	23	15	28,044	
	Scope 2 GHG emissions	tCO2e	816	777	861	51,212	
	Total	tCO2e	875	800	876	79,256	
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA	
	Total	tCO2e	875	800	876	79,256	
	GHG intensity (Scope 1 and 2)	tonnes CO2/tonnes of product		0.147	0.105	0.093	0.040
	Direct Energy consumption	GJ/Tonnes of product		0.08	0.04	0.03	341,385.00
Electrical Energy consumption	MWh		1,049.00	999.00	978.0000	292,301.00	
Water purchased	m3		NA	12,171	11,934	222,468	
S	% of women in workforce	%	42.6%	41.4%	36.2%	44.0%	
	Economic value generated and distributed	USDm/SGDm	289	273	321	1,370	
	Total training hours by gender (women)	Hours	NA	424.75	144	1535	
	Turnover rate	%	53.5%	52.3%	51.0%	23.0%	
	Direct training hours	%	NA	NA	NA	NA	
	Key operations assessed for risks related to corruption	%	100	100	100	100	
G	MD/CEO salary as % of reported net profit	%	4.86%	3.78%	5.17%	4.33%	
	Board salary as % of reported net profit	%	15.70%	13.77%	20.68%	0.30%	
	Independent directors on the Board	%	43%	43%	50%	50%	
	Female directors on the Board	%	14%	14%	13%	30%	

Qualitative Parameters (Score: 67)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. The Food Empire Sustainability Committee reports directly to top management. The Committee includes sustainability coordinators from their headquarters in Singapore as well as from Vietnam and Russia.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes .</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Air conditioners within the production area alone contributed to 50-60% of total power consumption in the FES factory. Furthermore, these air conditioners were constantly switched on for all working days except when having to shut down for cleaning. a change in forklift equipment from diesel-based machines to electricity-based machines since April 2020. As forklifts were previously the primary source of fuel use within Food Empire factories, the change resulted in a significantly reduced scope 1 emissions.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No</i>

Target (Score: 67)		
Particulars	Target	Achieved
100% of workers receive at least one safety training annually	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0
Carbon neutrality/net zero	nil	nil
100% of workers receive at least one safety training annually	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0
Impact		
NA		
Overall Score: 60		
As per our ESG matrix, Food Empire Holdings (FEH SP) has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	53	26
Qualitative	25%	67	17
Target	25%	67	17
Total			60

As per our ESG assessment, FEH has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "S" and "G" metrics. FEH's overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50)

Fig 1: Changes to estimates

	FY 23E			FY 24E			FY 25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (USDm)	422.5	410.8	2.8	443.6	420.6	5.5	465.8	463.7	0.4
Gross profit (USDm)	126.0	141.7	-11.1	132.3	145.1	-8.8	139.0	160.0	-13.1
PBT	55.9	53.3	4.8	59.1	54.0	9.4	63.3	61.1	3.6
NPAT	47.5	43.2	9.9	50.2	43.8	14.7	53.8	49.5	8.6
PATMI	47.5	43.6	8.9	50.2	44.2	13.7	53.8	49.9	7.8
			Chg (ppt)			Chg (ppt)			Chg (ppt)
PBT margin	13.2%	13.0%	0.2	13.3%	12.8%	0.5	13.6%	13.2%	0.4
Net margin	11.2%	10.5%	0.7	11.3%	10.4%	0.9	11.5%	10.7%	0.9

Source: Maybank IBG Research

Fig 2: 4Q22 quarterly trend

	4Q22	4Q21	3Q22	YoY Chg	QoQ Chg	FYE % of FY 22E	
	USDm	USDm	USDm	(%)	(%)	USDm	(%)
Revenue	112.4	94.0	108.6	19.5	3.5	392.3	29%
Gross profit	35.4	25.9	31.5	36.6	12.6	135.3	26%
Net profit	10.4	4.8	22.6	118.1	-53.8	41.0	25%
Gross profit margin	31.5%	27.6%	29.0%	3.9	2.6		
Net margin	9.3%	5.1%	20.8%	4.2	-11.5		

Source: Company

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	17.3	3.7	6.7	6.3	5.9
Core P/E (x)	15.8	5.7	6.7	6.3	5.9
P/BV (x)	1.4	0.9	1.0	0.9	0.9
P/NTA (x)	1.4	1.0	1.1	1.0	0.9
Net dividend yield (%)	2.9	6.8	5.6	5.9	6.4
FCF yield (%)	2.2	22.8	0.6	11.1	14.3
EV/EBITDA (x)	11.4	3.1	4.4	3.9	3.3
EV/EBIT (x)	11.4	3.1	4.4	3.9	3.3
INCOME STATEMENT (USD m)					
Revenue	320.6	398.4	422.5	443.6	465.8
EBITDA	26.2	54.3	56.7	59.9	63.3
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	26.2	54.3	56.7	59.9	63.3
Net interest income / (exp)	(1.2)	(1.2)	(0.8)	(0.8)	0.0
Associates & JV	1.3	2.7	0.0	0.0	0.0
Exceptionals	0.0	15.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	26.3	70.7	55.9	59.1	63.3
Income tax	(7.0)	(10.6)	(8.4)	(8.9)	(9.5)
Minorities	0.2	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	19.5	60.1	47.5	50.2	53.8
Core net profit	19.5	45.1	47.5	50.2	53.8
BALANCE SHEET (USD m)					
Cash & Short Term Investments	60.6	125.6	91.8	109.3	136.0
Accounts receivable	40.0	31.5	55.6	59.6	63.8
Inventory	73.5	74.0	113.7	119.4	125.4
Property, Plant & Equip (net)	103.9	101.3	102.7	104.0	105.2
Intangible assets	10.3	8.3	8.3	8.3	8.3
Investment in Associates & JVs	9.0	11.8	11.8	11.8	11.8
Other assets	42.7	29.0	29.0	29.0	29.0
Total assets	340.0	381.5	413.0	441.4	479.5
ST interest bearing debt	22.4	13.5	15.0	15.0	15.0
Accounts payable	48.1	48.4	68.1	64.3	67.5
LT interest bearing debt	27.4	24.8	10.0	10.0	10.0
Other liabilities	16.0	19.0	14.0	14.0	14.0
Total Liabilities	113.5	105.9	107.4	103.5	106.7
Shareholders Equity	227.7	276.7	306.7	339.1	374.0
Minority Interest	(1.2)	(1.1)	(1.1)	(1.2)	(1.2)
Total shareholder equity	226.6	275.6	305.5	337.9	372.8
Total liabilities and equity	340.0	381.5	413.0	441.4	479.5
CASH FLOW (USD m)					
Pretax profit	26.3	70.7	55.9	59.1	63.3
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(0.3)	1.2	0.0	0.0	0.0
Change in working capital	(18.9)	11.0	(44.0)	(13.6)	(7.0)
Cash taxes paid	(5.3)	(9.1)	(8.4)	(8.9)	(9.5)
Other operating cash flow	2.8	(9.7)	0.0	0.0	0.0
Cash flow from operations	13.2	72.8	12.0	45.3	55.6
Capex	(6.6)	(13.8)	(10.0)	(10.0)	(10.0)
Free cash flow	6.6	59.0	2.0	35.3	45.6
Dividends paid	(8.9)	(8.6)	(17.5)	(17.9)	(18.9)
Equity raised / (purchased)	1.6	0.6	0.0	0.0	0.0
Change in Debt	(3.8)	(11.3)	(13.3)	0.0	0.0
Other invest/financing cash flow	(3.7)	26.0	(6.8)	0.0	0.0
Effect of exch rate changes	(0.3)	(0.5)	1.8	0.0	0.0
Net cash flow	(8.5)	65.0	(33.8)	17.5	26.7

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	17.5	24.2	6.1	5.0	5.0
EBITDA growth	(21.4)	107.5	4.4	5.7	5.7
EBIT growth	(21.4)	107.5	4.4	5.7	5.7
Pretax growth	(18.4)	168.7	(21.0)	5.8	7.1
Reported net profit growth	(27.2)	208.2	(21.0)	5.8	7.1
Core net profit growth	(27.2)	131.3	5.3	5.8	7.1
Profitability ratios (%)					
EBITDA margin	8.2	13.6	13.4	13.5	13.6
EBIT margin	8.2	13.6	13.4	13.5	13.6
Pretax profit margin	8.2	17.7	13.2	13.3	13.6
Payout ratio	45.9	29.2	37.6	37.6	37.6
DuPont analysis					
Net profit margin (%)	6.1	15.1	11.2	11.3	11.6
Revenue/Assets (x)	0.9	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.5	1.4	1.3	1.3	1.3
ROAE (%)	8.7	23.8	16.3	15.6	15.1
ROAA (%)	6.0	12.5	12.0	11.8	11.7
Liquidity & Efficiency					
Cash conversion cycle	77.1	65.2	80.3	104.9	109.9
Days receivable outstanding	39.9	32.3	37.1	46.7	47.7
Days inventory outstanding	98.1	95.0	114.0	134.8	134.8
Days payables outstanding	61.0	62.1	70.7	76.6	72.5
Dividend cover (x)	2.2	3.4	2.7	2.7	2.7
Current ratio (x)	2.4	3.4	2.9	3.4	3.7
Leverage & Expense Analysis					
Asset/Liability (x)	3.0	3.6	3.8	4.3	4.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	22.1	44.3	70.7	74.8	nm
Debt/EBITDA (x)	1.9	0.7	0.4	0.4	0.4
Capex/revenue (%)	2.0	3.5	2.4	2.3	2.1
Net debt/ (net cash)	(10.8)	(87.3)	(66.8)	(84.3)	(111.0)

Source: Company; Maybank IBG Research

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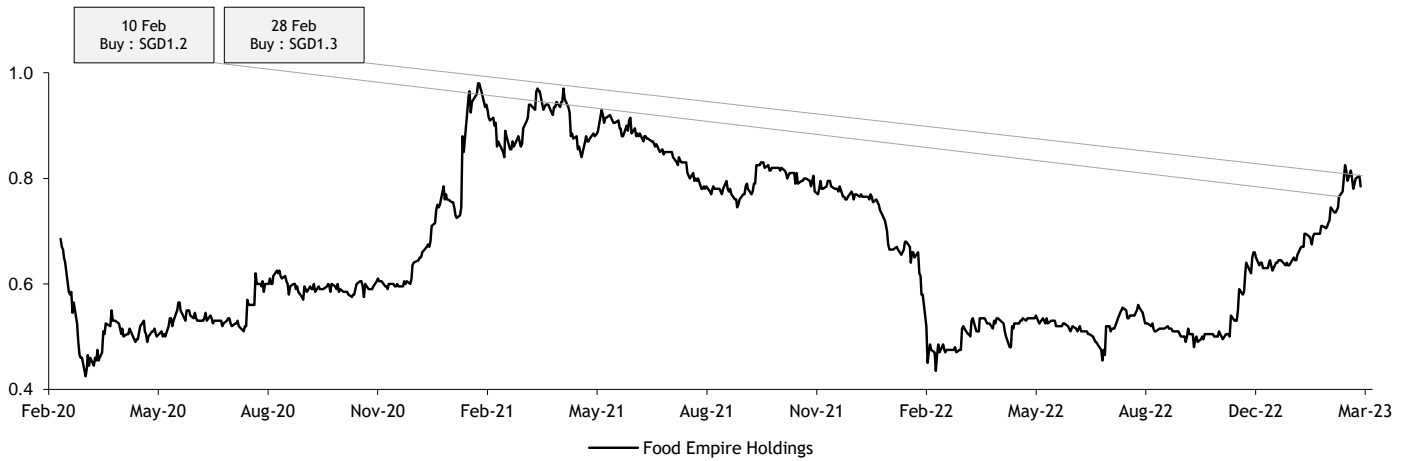
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