

Food Empire Holdings (FEH SP)

Short-term headwinds

TP lowered to SGD1.30 from SGD1.68

Coffee bean prices have risen in the past 2 months to a high of USD240/lb, up 30%+, but have tapered down to around +10%. We expect FEH's margins to suffer in the short term but we expect management to gradually raise product prices but this will only impact its financial performance typically 6 months later. As a result, we lower our FY24/25 PATMI estimates by 15%, resulting in our TP dropping to SGD1.30 from SGD1.68, pegged to a lower 10x from 11x FY24E P/E. As shown in the past, we believe in FEH's management longer-term execution abilities. Moreover, the company's valuations remain undemanding, especially after the recent share price correction. As a result, we maintain our BUY rating.

Higher coffee bean prices to hurt margins

We expect the higher coffee bean prices to potentially hurt FEH's margins, especially in 1H24E. We also expect management to increase its prices gradually but the financial impact will only come 6 months later. As a result, FY24E earnings will likely suffer due to lower overall margins but should recover in FY25E. Management has shown its execution prowess many times in the past and we believe this will likely just be a short-term blip for earnings.

Revenue growth intact

We expect FEH to continue to perform well in core markets and continue to deliver revenue growth, especially in Vietnam where it has refocused a lot of its marketing efforts, especially in FY23. Going forward, its non-dairy creamer expansion should add about USD20-50m of revenues in the next 1-2 years after it ramps up.

Still a BUY - Just a blip in the short term

FEH's business model has proven resilient and we are confident in management's execution capability. We still believe FEH is undervalued at 8.6x FY24 P/E and that the company's share buyback will likely continue. Management will likely also continue to reward shareholders with attractive dividends.

FYE Dec (USD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	398	426	475	499	523
EBITDA	54	70	67	70	74
Core net profit	45	57	53	55	58
Core EPS (cts)	8.3	10.4	9.6	10.1	10.6
Core EPS growth (%)	129.2	25.3	(6.9)	4.4	5.6
Net DPS (cts)	3.2	10.0	5.9	6.1	6.5
Core P/E (x)	5.7	8.3	8.6	8.2	7.8
P/BV (x)	0.9	1.6	1.5	1.3	1.2
Net dividend yield (%)	6.8	11.7	7.1	7.4	7.8
ROAE (%)	23.8	19.7	17.4	17.0	16.3
ROAA (%)	12.5	14.4	12.5	12.1	11.9
EV/EBITDA (x)	3.1	5.3	5.6	5.3	4.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	60	64	68
MIBG vs. Consensus (%)	-	-	(11.8)	(14.2)	(15.0)

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BUY

Share Price	SGD 1.12
12m Price Target	SGD 1.30 (+27%)
Previous Price Target	SGD 1.68

Company Description

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

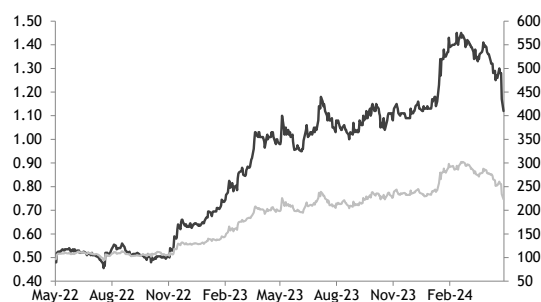
Statistics

52w high/low (SGD)	1.45/0.95
3m avg turnover (USDm)	0.8
Free float (%)	30.6
Issued shares (m)	548
Market capitalisation	SGD613.8M USD454M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(20)	(18)	13
Relative to index (%)	(22)	(22)	12

Source: FactSet

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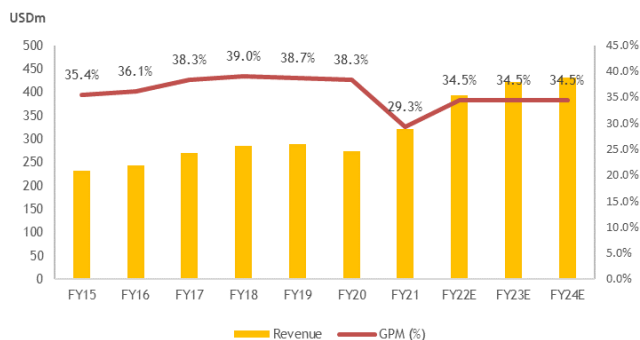
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Value Proposition

- Market leader of 3-in-1 coffee in Russia.
- Growing steadily in new markets like Vietnam and other Southeast Asian countries.
- Fully integrated with the freeze dry coffee plant in India. Relatively high barriers to entry and brand recognition by end-consumers. Trading at just 8.6x FY24E P/E, a huge discount to global peers at an average of 27x.
- Robust balance sheet.
- Clear ESG policies and strategies.

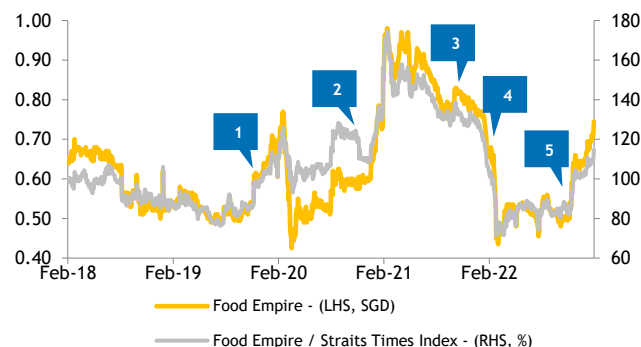
Revenue and GPM



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



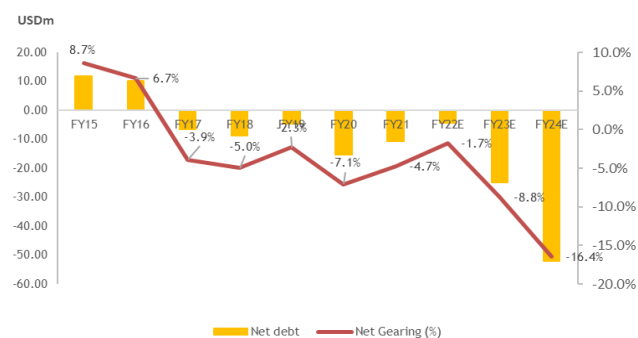
Source: Company, Maybank IBG Research

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 due to new policies and price increases.
- 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-Ukraine war.
- 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 will likely hurt its business.
- Higher raw material prices and Ruble depreciation are negative for earnings.
- New competitors entering the market 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 centre 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 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 hold 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 Southeast 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	978.00	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 is there a standalone ESG committee or is it part of the risk committee?	<i>Yes. The Food Empire Sustainability Committee reports directly to top management. The committee includes sustainability coordinators from its 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>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 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

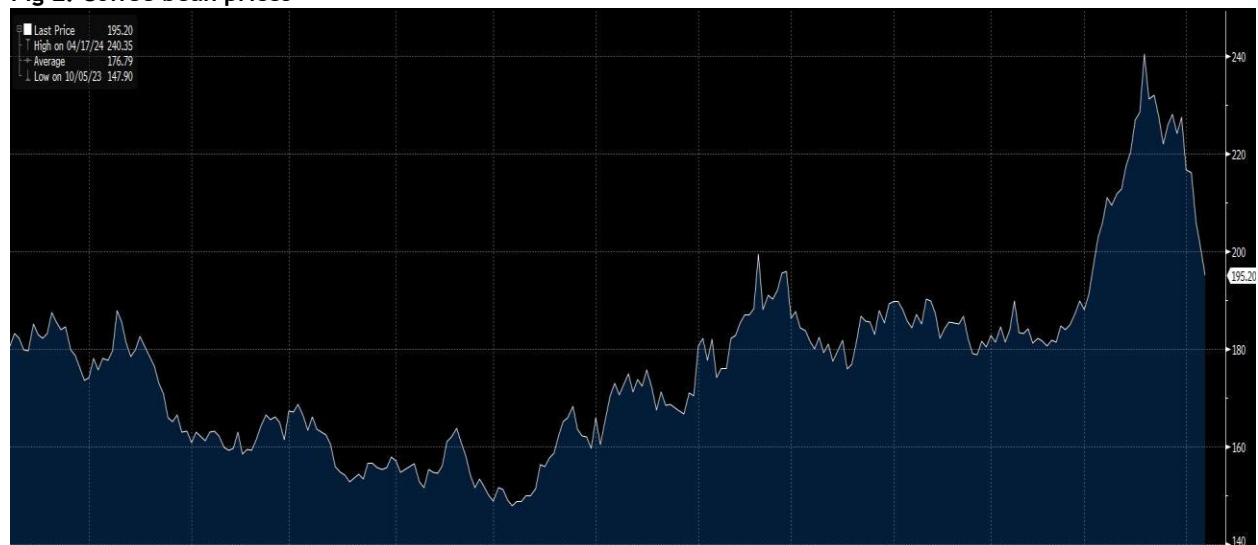
As per our ESG assessment, FEH has an established framework, internal policies, and tangible mid-/long-term targets but needs to make headway in improving its quantitative "S" and "G" metrics. FEH's overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Changes in MIBG's estimates

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (USDm)	474.8	474.8	0.0	498.6	498.6	0.0	523.5	523.5	0.0
Gross profit (USDm)	142.4	154.3	-7.7	149.6	162.0	-7.7	157.0	170.1	-7.7
PBT	67.5	79.4	-15.0	70.5	82.9	-15.0	74.4	87.5	-15.0
NPAT	52.6	61.8	-15.0	54.9	64.6	-15.0	58.0	68.1	-15.0
PATMI	52.6	61.9	-14.9	54.9	64.6	-15.0	58.0	68.2	-14.9
			Chg (ppt)			Chg (ppt)			Chg (ppt)
PBT margin	14.2%	16.7%	-2.5	14.1%	16.6%	-2.5	14.2%	16.7%	-2.5
Net margin	11.1%	13.0%	-1.9	11.0%	13.0%	-1.9	11.1%	13.0%	-1.9

Source: Maybank IBG Research

Fig 2: Coffee bean prices



Source: Bloomberg

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	3.7	7.2	8.6	8.2	7.8
Core P/E (x)	5.7	8.3	8.6	8.2	7.8
P/BV (x)	0.9	1.6	1.5	1.3	1.2
P/NTA (x)	1.0	1.6	1.5	1.4	1.2
Net dividend yield (%)	6.8	11.7	7.1	7.4	7.8
FCF yield (%)	22.8	8.1	4.3	6.4	7.1
EV/EBITDA (x)	3.1	5.3	5.6	5.3	4.9
EV/EBIT (x)	3.1	5.3	5.6	5.3	4.9
INCOME STATEMENT (USD m)					
Revenue	398.4	425.7	474.8	498.6	523.5
EBITDA	54.3	70.4	66.7	70.5	74.4
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	54.3	70.4	66.7	70.5	74.4
Net interest income / (exp)	(1.2)	0.8	0.8	0.0	0.0
Associates & JV	2.7	1.3	0.0	0.0	0.0
Exceptionals	15.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	70.7	72.5	67.5	70.5	74.4
Income tax	(10.6)	(16.0)	(14.9)	(15.6)	(16.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	60.1	56.5	52.6	54.9	58.0
Core net profit	45.1	56.5	52.6	54.9	58.0
BALANCE SHEET (USD m)					
Cash & Short Term Investments	125.6	131.3	112.1	117.3	124.8
Accounts receivable	31.5	38.2	59.2	62.1	65.3
Inventory	74.0	76.7	91.1	95.6	100.4
Property, Plant & Equip (net)	101.3	103.3	121.7	141.6	163.0
Intangible assets	8.3	8.8	8.8	8.8	8.8
Investment in Associates & JVs	11.8	12.6	12.6	12.6	12.6
Other assets	29.0	32.0	32.0	32.0	32.0
Total assets	381.5	402.9	437.4	470.0	506.8
ST interest bearing debt	13.5	15.0	15.0	15.0	15.0
Accounts payable	48.4	49.8	70.3	71.7	75.3
LT interest bearing debt	24.8	21.4	21.4	21.4	21.4
Other liabilities	19.0	24.0	24.0	24.0	24.0
Total Liabilities	105.9	110.2	130.7	132.1	135.7
Shareholders Equity	276.7	295.6	307.9	339.1	372.4
Minority Interest	(1.1)	(1.1)	(1.2)	(1.2)	(1.3)
Total shareholder equity	275.6	294.5	306.7	337.9	371.1
Total liabilities and equity	381.5	404.7	437.4	470.0	506.8
CASH FLOW (USD m)					
Pretax profit	70.7	72.5	67.5	70.5	74.4
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	1.2	(0.8)	0.0	0.0	0.0
Change in working capital	11.0	(16.4)	(14.8)	(6.1)	(4.3)
Cash taxes paid	(9.1)	(12.7)	(14.9)	(15.6)	(16.5)
Other operating cash flow	(9.7)	(0.4)	0.0	0.0	0.0
Cash flow from operations	72.8	50.6	29.4	38.9	42.2
Capex	(13.8)	(12.5)	(10.0)	(10.0)	(10.0)
Free cash flow	59.0	38.1	19.4	28.9	32.2
Dividends paid	(8.6)	(17.3)	(40.4)	(23.7)	(24.7)
Equity raised / (purchased)	0.6	0.0	0.0	0.0	0.0
Change in Debt	(11.3)	(1.9)	(0.0)	0.0	0.0
Other invest/financing cash flow	26.0	(12.2)	1.8	0.0	0.0
Effect of exch rate changes	(0.5)	(1.0)	0.0	0.0	0.0
Net cash flow	65.0	5.7	(19.2)	5.2	7.5

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.2	6.9	11.5	5.0	5.0
EBITDA growth	107.5	29.6	(5.2)	5.6	5.6
EBIT growth	107.5	29.6	(5.2)	5.6	5.6
Pretax growth	168.7	2.5	(6.9)	4.4	5.6
Reported net profit growth	208.2	(6.0)	(6.9)	4.4	5.6
Core net profit growth	131.3	25.3	(6.9)	4.4	5.6
Profitability ratios (%)					
EBITDA margin	13.6	16.5	14.1	14.1	14.2
EBIT margin	13.6	16.5	14.1	14.1	14.2
Pretax profit margin	17.7	17.0	14.2	14.1	14.2
Payout ratio	29.2	96.6	60.8	60.8	60.8
DuPont analysis					
Net profit margin (%)	15.1	13.3	11.1	11.0	11.1
Revenue/Assets (x)	1.0	1.1	1.1	1.1	1.0
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	23.8	19.7	17.4	17.0	16.3
ROAA (%)	12.5	14.4	12.5	12.1	11.9
Liquidity & Efficiency					
Cash conversion cycle	65.2	62.8	62.7	66.9	67.9
Days receivable outstanding	32.3	29.4	36.9	43.8	43.8
Days inventory outstanding	95.0	95.5	90.9	96.3	96.3
Days payables outstanding	62.1	62.1	65.0	73.2	72.2
Dividend cover (x)	3.4	1.0	1.6	1.6	1.6
Current ratio (x)	3.4	3.4	2.8	2.9	3.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.6	3.7	3.3	3.6	3.7
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)	44.3	na	na	nm	nm
Debt/EBITDA (x)	0.7	0.5	0.5	0.5	0.5
Capex/revenue (%)	3.5	2.9	2.1	2.0	1.9
Net debt/ (net cash)	(87.3)	(94.9)	(75.7)	(80.9)	(88.4)

Source: Company; Maybank IBG Research

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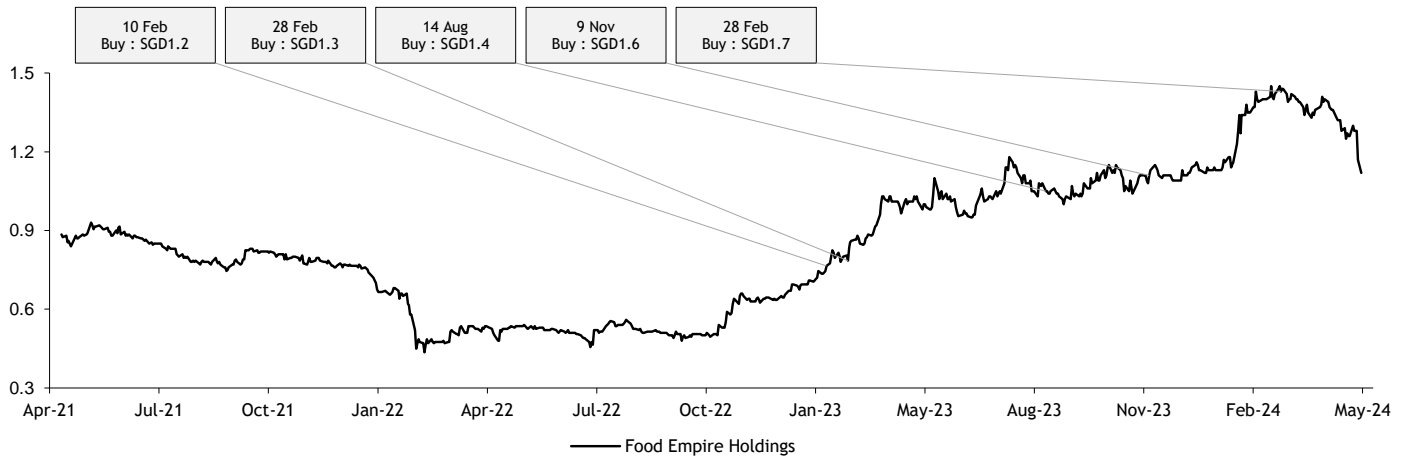
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