

Food Empire Holdings (FEH SP)

Facing headwinds; D/G to HOLD

Wait for the storm to pass; lowering TP to SGD1.02

1H24 revenue rose 13.6% YoY to USD225.2m, but PATMI declined by 12.8% YoY to USD23.2m, less than we expected, mainly due to short-term price disruption in Russia and higher raw material prices. Improvement in 2H24 is likely to be only marginal, and it's unlikely to turn around until FY25E. We cut our FY24/25 PATMI forecasts by 11.2% and 11.3%, respectively, and downgrade FEH to HOLD from BUY with a lower TP of SGD1.02 (10x FY24E P/E) from SGD1.30 while we await the short-term headwinds to clear.

Higher coffee bean prices and inventory hurt margins

As expected, higher coffee bean prices reduced 1H24 margins. Meanwhile, customers' high inventory levels caused price disruptions across the country and there were more promotions to clear stock. As a result, FEH has to offer customers discounts, which may further impact margins. FEH needs to wait for stock to be depleted or worked down before it can raise prices, which is likely to be in FY25E. As a result, improvement in 2H24E is likely to be flat/marginal.

Special dividends likely to be cut

FEH rewarded shareholders with a total dividend of SGD0.10, half of which comprises of special dividends for FY23. With earnings facing some headwinds and capex plans needed for its 2 new factories in FY25E, we do not expect special dividends in FY24E and dividends are likely to be halved to SGD0.05/share, representing a yield of 5.5%.

Better wait for headwinds to clear

FEH's business model has proven resilient and we are confident in management's execution ability. As a result, we prefer to wait for short-term headwinds to clear and downgrade FEH to HOLD.

E)/004	E)/02.4	E)/0.4E	E)/05E	E)/0/E
FY22A	FY23A	FY24E	FY25E	FY26E
398	426	475	499	523
54	70	59	62	66
45	57	47	49	51
8.3	10.4	8.6	8.9	9.4
129.2	25.3	(17.3)	4.3	5.7
3.2	10.0	4.0	4.2	4.5
5.7	8.3	8.7	8.3	7.9
0.9	1.6	1.3	1.2	1.1
6.8	11.7	5.5	5.7	6.0
23.8	19.7	15.6	15.3	14.6
12.5	14.4	11.1	10.7	10.5
3.1	5.3	5.6	5.2	4.8
net cash	net cash	net cash	net cash	net cash
-	-	53	58	61
-	-	(11.2)	(16.0)	(15.6)
	54 45 8.3 129.2 3.2 5.7 0.9 6.8 23.8 12.5 3.1 net cash	398 426 54 70 45 57 8.3 10.4 129.2 25.3 3.2 10.0 5.7 8.3 0.9 1.6 6.8 11.7 23.8 19.7 12.5 14.4 3.1 5.3 net cash net cash	398 426 475 54 70 59 45 57 47 8.3 10.4 8.6 129.2 25.3 (17.3) 3.2 10.0 4.0 5.7 8.3 8.7 0.9 1.6 1.3 6.8 11.7 5.5 23.8 19.7 15.6 12.5 14.4 11.1 3.1 5.3 5.6 net cash net cash net cash - 53	398 426 475 499 54 70 59 62 45 57 47 49 8.3 10.4 8.6 8.9 129.2 25.3 (17.3) 4.3 3.2 10.0 4.0 4.2 5.7 8.3 8.7 8.3 0.9 1.6 1.3 1.2 6.8 11.7 5.5 5.7 23.8 19.7 15.6 15.3 12.5 14.4 11.1 10.7 3.1 5.3 5.6 5.2 net cash net cash net cash net cash

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HOLD

[Prior:BUY]

Share Price SGD 0.98 12m Price Target SGD 1.02 (+15%)

Previous Price Target SGD 1.30

Company Description

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

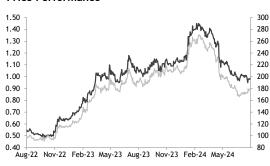
Statistics

52w high/low (SGD)	1.45/0.95
3m avg turnover (USDm)	0.4
Free float (%)	30.6
Issued shares (m)	548
Market capitalisation	SGD537.1M
	USD407M

Major shareholders:

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

Price Performance



Food Empire - (LHS, SGD) ——Food Empire / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(2)	(13)	(9)
Relative to index (%)	6	(11)	(8)

Source: FactSet





Food Empire Holdings

Maybank

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

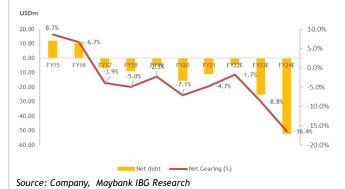


Source: Company, Maybank IBG Research

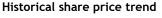
Financial Metrics

- 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



Price Drivers





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.

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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Food Empire Holdings





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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

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.

key markets contributed about 45% of its total revenue in FY21.

- 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.

<u>Raisk Rating & Score</u> - 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. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - 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)							
						SSG SP		
	Particulars	Unit	2019	2020	2021	(2021)		
	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		
Ε	Total	tCO2e	875	800	876	79,256		
-	GHG intensity (Scope 1 and 2)	tonnes CO2/tonnes of	0.147	0.105	0.093	0.040		
		product						
	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		
	% of women in workforce	%	42.6%	41.4%	36.2%	44.0%		
	Economic value generated and distributed	USDm/SGDm	289	273	321	1,370		
S	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		
	MD/CEO salary as % of reported net profit	%	4.86%	3.78%	5.17%	4.33%		
G	Board salary as % of reported net profit	%	15.70%	13.77%	20.68%	0.30%		
G	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?
- 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.
- b) Is the senior management salary linked to fulfilling ESG targets?

Yes

- c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?
- e) Does the company have a mechanism to capture Scope 3 emissions which parameters are captured? *No*
- f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? Changed 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.
- g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

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 medium/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 our forecasts

		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)	134.8	142.4	-5.3	141.6	149.6	-5.3	148.7	157.0	-5.3
РВТ	59.9	67.5	-11.3	62.5	70.5	-11.3	66.0	74.4	-11.3
NPAT	46.7	52.6	-11.3	48.7	54.9	-11.3	51.4	58.0	-11.3
PATMI	46.7	52.6	-11.2	48.7	54.9	-11.3	51.5	58.0	-11.2
			Chg (ppt)			Chg (ppt)			Chg (ppt)
PBT margin	12.6%	14.2%	-1.6	12.5%	14.1%	-1.6	12.6%	14.2%	-1.6
Net margin	9.8%	11.1%	-1.2	9.8%	11.0%	-1.2	9.8%	11.1%	-1.2

Source: Maybank IBG Research

Fig 2: 1H24 results

FYE Dec	1H24	2H23	1H23	YoY Chg	QoQ Chg	FYE	As a % of FYE
	USDm	USDm	USDm	(%)	(%)	USDm	(%)
Revenue	225.2	227.5	198.2	13.6	-1.0	474.8	47.4
Gross Profit	67.6	71.9	69.5	-2.7	-6.0	142.4	47.5
Net Profit	23.2	29.8	26.6	-12.8	-22.1	52.6	44.1
EBITDA margin	16.2%	20.0%	20.8%	-4.6	-3.9		
GP Margin	30.0%	31.6%	35.1%	-5.0	-1.6		
Net margin	10.3%	13.1%	13.4%	-3.1	-2.8		

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	3.7	7.2	8.7	8.3	7.9
Core P/E (x)	5.7	8.3	8.7	8.3	7.9
P/BV (x)	0.9	1.6	1.3	1.2	1.1
P/NTA (x)	1.0	1.6	1.4	1.2	1.1
Net dividend yield (%)	6.8	11.7	5.5	5.7	6.0
FCF yield (%)	22.8	8.1	4.8	7.1	7.9
EV/EBITDA (x)	3.1	5.3	5.6	5.2	4.8
EV/EBIT (x)	3.1	5.3	5.6	5.2	4.8
INCOME STATEMENT (USD m)					
Revenue	398.4	425.7	474.8	498.6	523.5
EBITDA	54.3	70.4	59.1	62.5	66.0
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	59.1	62.5	66.0
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
•	0.0	0.0	0.0	0.0	0.0
Other pretax income Pretax profit	70.7	72.5	59.9	62.5	66.0
•	(10.6)				
Income tax Minorities	(10.6)	(16.0) 0.0	(13.3) 0.0	(13.8) 0.0	(14.6) 0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	60.1	56.5	46.7	48.7	51.5
Core net profit	45.1	56.5	46.7	48.7	51.5
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
nventory	74.0	76.7	93.1	97.8	102.7
Property, Plant & Equip (net)	101.3	103.3	121.7	141.6	163.0
ntangible 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	29.9	29.8	29.7
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	72.3	73.3	77.0
LT interest bearing debt	24.8	21.4	21.4	21.4	21.4
Other liabilities	19.0	22.0	28.0	27.0	26.0
Total Liabilities	105.9	108.4	136.7	136.9	139.3
Shareholders Equity	276.7	295.6	302.0	334.3	368.8
Minority Interest		(1.1)	(1.2)	(1.2)	(1.3)
Total shareholder equity	(1.1) 275.6	294.5	300.8	333.1	367.5
Total liabilities and equity	381.5	402.9	437.4	470.0	506.8
CASH FLOW (USD m) Pretax profit	70.7	72.5	59.9	62.5	66.0
Pretax profit 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)	(13.3)	(13.8)	(14.6
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)	(16.4)	(17.0
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
•	(0.5)	(1.0)	0.0	0.0	0.0
Effect of exch rate changes					

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	(16.0)	5.7	5.7
EBIT growth	107.5	29.6	(16.0)	5.7	5.7
Pretax growth	168.7	2.5	(17.3)	4.3	5.7
Reported net profit growth	208.2	(6.0)	(17.3)	4.3	5.7
Core net profit growth	131.3	25.3	(17.3)	4.3	5.7
Profitability ratios (%)					
EBITDA margin	13.6	16.5	12.5	12.5	12.6
EBIT margin	13.6	16.5	12.5	12.5	12.6
Pretax profit margin	17.7	17.0	12.6	12.5	12.6
Payout ratio	29.2	96.6	47.3	47.3	47.3
DuPont analysis					
Net profit margin (%)	15.1	13.3	9.8	9.8	9.8
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	15.6	15.3	14.6
ROAA (%)	12.5	14.4	11.1	10.7	10.5
Liquidity & Efficiency					
Cash conversion cycle	65.2	62.8	62.2	66.7	67.9
Days receivable outstanding	32.3	29.4	36.9	43.8	43.8
Days inventory outstanding	95.0	95.5	89.9	96.3	96.3
Days payables outstanding	62.1	62.1	64.6	73.4	72.2
Dividend cover (x)	3.4	1.0	2.1	2.1	2.1
Current ratio (x)	3.4	3.4	2.8	2.9	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	3.6	3.7	3.2	3.4	3.6
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	44.3	na	na	nm	nm
Debt/EBITDA (x)	0.7	0.5	0.6	0.6	0.6
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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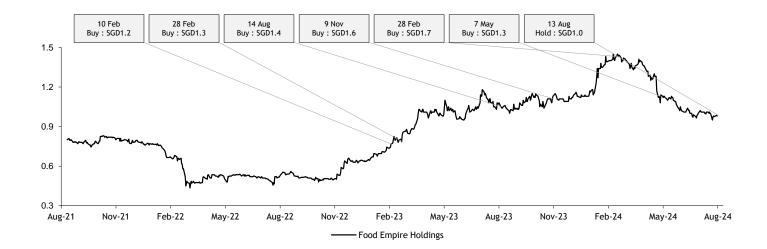
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