

COMPANY RESULTS

Food Empire Holdings (FEH SP)

3Q23: Results Beat Expectations As Demand Still Reigns In Core Markets; Raise Target Price By 20%

FEH's 3Q23 net profit of US\$15.7m (+106.6% yoy, +22.7% qoq) was above expectations, with 9M23 making up 84.6% of our full-year forecast. Despite currency fluctuations, FEH reported record-high 9M23 revenue. Margins also improved with an optimised product mix, higher volumes and higher ASPs. We believe earnings growth will continue as demand across its core markets remains robust, and raise 2023/24/25 earnings by 8%/9%/6%. Maintain BUY with a 20%-higher target price of S\$1.63 (S\$1.36 previously).

3Q23 RESULTS

Year to 31 Dec (US\$m)	3Q23	3Q22	yoy % chg	2Q23	qoq % chg
Revenue	106.8	108.6	(1.6)	94.8	12.7
Gross profit	36.6	31.5	16.4	33.0	10.9
Gross margin (%)	34.3	29.0	5.3ppt	34.5	(0.2ppt)
EBITDA	23.4	28.5	(18.1)	19.6	19.4
Core net profit*	15.7	7.6	106.6	12.8	22.7
Core net margin* (%)	14.7	7.0	7.7ppt	13.5	1.2ppt

Source: Food Empire, UOB Kay Hian

*Excluding a one-off gain on disposal of non-core assets of US\$15m in 3Q22

RESULTS

- **Results above expectations.** Food Empire Holdings' (FEH) 3Q23 core earnings of US\$15.7m (+107% yoy) exceeded our expectations, with 9M23 forming 84.6% of our full-year estimate. Excluding a one-off gain of US\$15m on the disposal of a non-core asset in 3Q22, 3Q23 earnings recorded a substantial 106.6% yoy and 22.7% qoq growth. The record-high 9M23 revenue of US\$305.1m (+6.7% yoy) was mainly driven by higher volumes and/or higher ASPs across FEH's core business segments. Gross margin also improved 5.3ppt yoy to 34.3% as a result of a favourable sales mix of products with higher margins.
- **Revenue growth in spite of currency depreciation.** Revenue for 9M23 grew 6.7% yoy despite the depreciation of the Russian ruble and Ukrainian hryvnia against the US dollar. This was mainly due to the double-digit growth in the Ukraine, Kazakhstan and CIS and South Asia segments, as higher contributions were made by the Kazakhstan market and India's freeze-dry coffee manufacturing plants. FEH's other core markets, Russia and Southeast Asia, also achieved revenue growth of 4.9% in 9M23. However, 3Q23 revenue fell 1.6% yoy to US\$106.8m as a result of the Russian ruble depreciating against the US dollar, where Russia's 3Q23 revenue fell to US\$33.8m (-20.3% yoy). We note that in local currency terms, all core markets achieved higher revenue during the quarter, pointing to robust demand across the markets.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	321	398	402	430	460
EBITDA	34	61	76	80	85
Operating profit	25	53	66	70	75
Net profit (rep./act.)	20	60	54	58	61
Net profit (adj.)	20	45	54	58	61
EPS (US\$ cent)	3.6	8.5	10.2	11.0	11.6
PE (x)	22.5	9.7	8.0	7.5	7.1
P/B (x)	1.9	1.6	1.4	1.2	1.1
EV/EBITDA (x)	9.0	5.0	4.0	3.8	3.6
Dividend yield (%)	2.0	4.0	4.0	4.0	4.0
Net margin (%)	6.1	15.1	13.4	13.5	13.3
Net debt/(cash) to equity (%)	(4.7)	(31.6)	(40.5)	(46.8)	(52.0)
Interest cover (x)	28.7	50.0	66.7	n.a.	60.3
ROE (%)	8.7	23.8	18.3	17.4	16.3
Consensus net profit	-	-	50	54	57
UOBKH/Consensus (x)	-	-	1.07	1.08	1.07

Source: FEH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.11
Target Price	S\$1.63
Upside	+46.8%
(Previous TP)	S\$1.36

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):	528.6
Market cap (S\$m):	586.8
Market cap (US\$m):	432.5
3-mth avg daily t'over (US\$m):	0.4

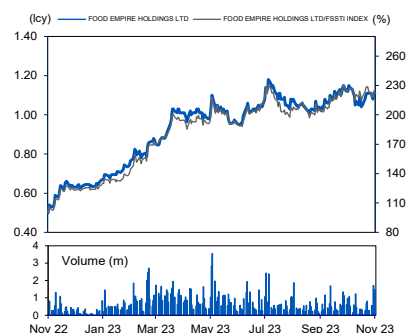
Price Performance (%)

52-week high/low	S\$1.18/S\$0.500			
1mth	3mth	6mth	1yr	YTD
(0.9)	2.8	13.3	119.8	74.8

Major Shareholders

Anthoni Salim	24.6
Tan Wang Cheow	22.5
FY23 NAV/Share (US\$)	0.59
FY23 Net Cash/Share (US\$)	0.24

PRICE CHART



Source: Bloomberg

ANALYST(S)

Heidi Mo
 +65 6590 6630
 heidimo@uobkayhian.com

John Cheong
 +65 6590 6623
 johncheong@uobkayhian.com

STOCK IMPACT

- **Resilient consumer demand and strong brand equity.** Despite implementing pricing adjustments across most of its operating markets during the year, FEH's sales volumes continued to rise, demonstrating the price inelasticity of its products. Additionally, FEH's overall performance has surpassed our expectations in the face of currency devaluations in 9M23. We believe that this is testament to its strong brand equity and experience in navigating currency fluctuations effectively.
- **Potentially higher dividend with strong cash flows.** Amid inflationary pressures and currency volatility from geopolitical uncertainties, FEH has shown a strong performance in 9M23. Volume growth and its price adjustments (averaging 8%) in Sep 23 have translated to improved margins, while its cash position is relatively stable at US\$115.6m (2022: US\$125.6m). Given its performance thus far, we opine that FEH may propose a higher dividend for 2023. To recap, in 2022, FEH reported record-high core earnings of US\$45m, and proposed a record first and final dividend of 4.4 S cents per share (2021: 2.2 S cents per share).
- **Frequent share buybacks to date reflect confidence.** Since Jul 23, FEH has bought back 2.9m shares at up to S\$1.11. This is close to the 52-week high share price of S\$1.18, showing management's confidence in the future growth outlook.

EARNINGS REVISION/RISK

- We raised our 2023/24/25 core earnings estimates by 8%/9%/6% to S\$54m/S\$58m/S\$61m, up from S\$50m/S\$54m/S\$57m, to reflect the better-than-expected earnings for 9M23 and improving net margins from the successful increase of product ASPs.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 20%-higher PE-based target price of S\$1.63 (S\$1.36 previously),** pegged to 11x 2024F EPS, or its long-term historical mean. With 9M23 revenue reaching a record high despite currency headwinds, we are of the view that FEH has demonstrated its ability to deliver strong results and will continue to perform moving forward.

SHARE PRICE CATALYST

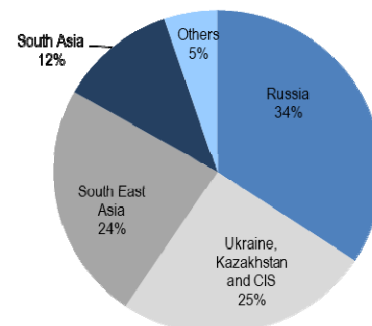
- Dividend surprise from robust financials.
- Better-than-expected sales volumes across all business segments.
- Improving net margin from higher ASPs and effective cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 9 Nov 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 Singapore	FEH SP	SGD	1.11	433	7.3	8.7	8.1	1.4	17.2	4.0	(22.6)
Thai Beverage	THBEV SP	SGD	0.53	9,815	11.6	10.9	10.2	1.6	15.0	4.6	73.2
Fraser And Neave	FNN SP	SGD	1.04	1,193	12.1	n.a.	n.a.	n.a.	n.a.	n.a.	(1.4)
Delfi	DELFI SP	SGD	1.28	577	13.1	12.3	11.5	2.1	18.3	4.1	(18.7)
Yeo Hiap Seng	YHS SP	SGD	0.63	287	157.5	n.a.	n.a.	n.a.	n.a.	n.a.	(23.9)
Average (Excl. YHS SP)					12.3	11.6	10.8	1.9	16.7	4.3	
Regional											
Nestle (Malaysia)	NESZ MK	MYR	122	6,097	46.0	40.2	36.9	44.7	112.4	2.5	99.1
Fraser & Neave	FNH MK	MYR	27.48	2,148	26.3	18.8	19.3	3.0	17.0	1.0	(7.9)
Coca-Cola Conso	COKE US	USD	673.78	6,316	14.7	n.a.	n.a.	n.a.	n.a.	n.a.	7.9
Dydo Group	2590 JP	JPY	5790	635	n.a.	189.3	41.7	1.1	1.1	1.0	(16.5)
Power Root	PWRT MK	MYR	2.01	198	14.3	14.9	14.1	2.9	19.7	5.6	(31.7)
Tac Consumer	TACC TB	THB	4.3	73	11.0	12.8	10.9	3.3	30.6	7.0	(18.9)
Average (Excl. NESZ MK & 2590 JP)					16.6	15.5	14.8	3.1	22.4	4.5	

Source: Bloomberg, UOB Kay Hian

REVENUE BY GEOGRAPHY (9M23)



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	402.3	429.9	459.5
EBITDA	61.3	76.0	79.5	85.0
Deprec. & amort.	8.6	9.9	9.8	9.6
EBIT	52.7	66.1	69.8	75.4
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	66.6	71.7	75.6
Tax	(10.6)	(12.7)	(13.6)	(14.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	60.1	54.0	58.1	61.2
Net profit (adj.)	45.1	54.0	58.1	61.2

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	72.8	66.4	64.5	69.0
Pre-tax profit	70.7	66.6	71.7	75.6
Tax	(10.6)	(12.7)	(13.6)	(14.4)
Deprec. & amort.	8.6	9.9	9.8	9.6
Associates	2.7	0.6	0.6	0.6
Working capital changes	11.0	0.5	(3.9)	(4.2)
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)	(21.4)	(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)	(17.1)	(17.1)
Net cash inflow (outflow)	65.6	36.4	36.1	38.8
Beginning cash & cash equivalent	60.6	125.6	162.6	198.8
Changes due to forex impact	(0.5)	0.6	0.1	0.1
Ending cash & cash equivalent	125.6	162.6	198.8	237.7

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	162.6	198.8	237.7
Other current assets	116.7	114.3	121.4	129.0
Total assets	381.5	414.1	455.7	500.6
ST debt	13.5	13.5	13.5	13.5
Other current liabilities	57.8	56.3	59.5	63.0
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	313.4	354.4	398.5
Minority interest	(1.1)	(1.1)	(1.2)	(1.2)
Total liabilities & equity	381.5	414.1	455.7	500.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.4	18.9	18.5	18.5
Pre-tax margin	17.7	16.6	16.7	16.4
Net margin	15.1	13.4	13.5	13.3
ROA	16.7	13.6	13.4	12.8
ROE	23.8	18.3	17.4	16.3
Growth				
Turnover	24.2	1.0	6.9	6.9
EBITDA	80.4	24.0	4.6	6.9
Pre-tax profit	168.7	(5.8)	7.7	5.3
Net profit	208.2	(10.2)	7.7	5.3
Net profit (adj.)	131.3	19.7	7.7	5.3
EPS	132.3	20.3	7.7	5.3
Leverage				
Debt to total capital	12.2	10.2	8.6	7.1
Debt to equity	13.8	11.4	9.3	7.6
Net debt/(cash) to equity	(31.6)	(40.5)	(46.8)	(52.0)
Interest cover (x)	50.0	66.7	n.a.	60.3

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