



Food Empire Holdings Ltd.

(FEH SP/ F03.SI)

More capacity, more growth

Tang Kai Jie/ 65 6202 1192/ kaijie.tang@kgi.com

- Continued strong growth in South-East Asia and South Asia.** Food Empire Holdings saw a sustained increase in sales across its core markets in 1H24, showcasing a resilient consumer demand for the company's products, which saw volume growth YoY, especially in the Southeast Asia and South Asia regions. The group continues to reap the benefits of its brand-building efforts in Vietnam, increasing its market share across the Vietnamese market. Demand for the group's products in South Asia also remains strong amidst a coffee consumption boom in the region.
- Ramped up capacity in Malaysia.** The group recently completed the expansion of its non-dairy creamer production facilities in Malaysia. Commercial production started on 1st April, boosting production of non-dairy creamer going forward. The plant will reach full production capacity over the next 24 to 36 months and will drive more growth for the group's Southeast Asia region and translate into higher revenue for the group in the region.
- While the group continues to face headwinds such as higher coffee prices resulting in price disruptions, as well as a strong US dollar, demand continues to remain robust for the group's products. We are optimistic on the group's business going forward and keep an **OUTPERFORM** recommendation as well as an unchanged target price (TP) at **S\$1.35**.

Financials & Key Operating Statistics

YE Dec (US\$'000)	2022	2023	2024F	2025F	2026F
Revenue	398.4	425.7	465.1	516.3	570.5
PATMI	60.1	56.5	55.5	63.2	70.6
EPS (cents)	15.2	14.5	14.2	16.2	18.1
EPS growth (%)	212.5%	-4.6%	-1.8%	13.9%	11.7%
DPS (Sing cents)	2.2	4.4	10.0	5.3	5.5
Div Yield (Y%)	2.3%	4.5%	10.3%	5.4%	5.7%
Net Profit Margin (%)	15.1%	13.3%	11.9%	12.2%	12.4%
Net Debt/ (Net Cash) Gearing (%)	(29.4%)	(30.6%)	(17.9%)	(30.5%)	(37.0%)
ROA (%)	15.7%	14.0%	13.1%	13.6%	13.7%
ROE (%)	21.8%	19.2%	17.8%	17.9%	17.5%

Source: KGI Research

1H24 Financial Results. Food Empire Holdings reported higher revenue of US\$225.2mn for 1H24, up 13.6% YoY, compared to US\$198.2mn in 1H23, led by strong growth in its South-East Asia and South Asia market, which saw a growth of 34.8% and 36.0% respectively. The company's Ukraine, Kazakhstan and CIS market saw a growth of 15.7% YoY, while the Russia market saw a decrease in revenue by 3.6% YoY. In local currency term, the company saw revenue growth across all its key markets, showcasing strong in consumer demand amidst the ongoing geopolitical tensions worldwide, in a high-

Outperform - Company Update

Price as of 22 Aug 24 (SGD)	1.01	Performance (Absolute)	
12M TP (\$)	1.35	1 Month (%)	0.0
Previous TP (\$)	1.35	3 Month (%)	-10.5
Upside, incl div (%)	44.0%	12 Month (%)	4.4
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	531		
Issued Shares (mn)	526		
Vol - 3M Daily avg (mn)	0.5		
Val - 3M Daily avg (\$mn)	0.5		
Free Float (%)	39.6%		
Major Shareholders		Previous Recommendations	
Universal Integrated Corp.	25.1%	6-Mar-24 (OP)	1.65
Nair Sudeep	13.1%	22-Nov-23 (OP)	1.45
Tan Guek Ming	12.1%	13-Sep-23 (OP)	1.25

interest rate environment. However, the company reported a decrease in net profit after tax by 12.8%, from US\$26.6mn in 1H23 to US\$23.2mn in 1H24, as a result of lower profit contribution from the Group's Russia market arising from short-term price disruption in the market, higher ingredient prices, and higher operating expenses, partly offset by higher profit contribution from the rest of the Group's segments.

Valuation & Action: We maintain an **OUTPERFORM** recommendation and keep our TP unchanged at **S\$1.35**, based on a blended valuation: Discounted Cash Flow (DCF), with a terminal growth rate of 2% and a WACC of 10.0%, as well as a comparable Multiples Valuation with an average industry price-to-sales multiple of 0.83x.

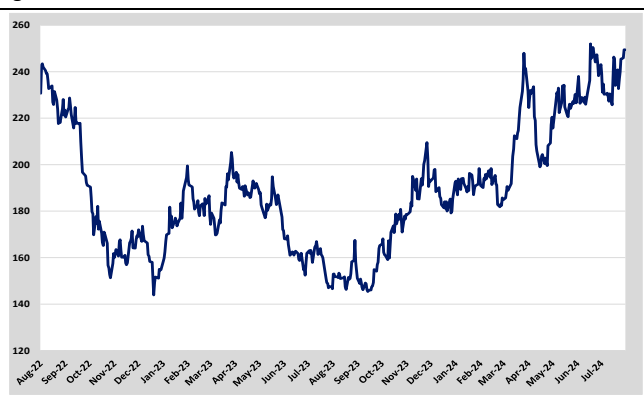
We anticipate demand to remain healthy across key markets, and the company will enjoy continued growth in 2H24. The company's expansion plans are expected to drive more sales. An expected weaker US dollar will improve the company's reported earnings. The company also maintains a strong cash position, showcasing its ability to generate cash flow to fund its future expansions and conduct share buybacks. Its robust supply chain and market presence across several markets also give it a competitive advantage over its peers.

Risks: Food Empire is exposed to currency risk as it operates in several key markets, including Russia, Ukraine, Kazakhstan, Vietnam, India, and many more. The escalation of geopolitical tensions, such as the Russia-Ukraine war, would further depreciate currencies such as the Ruble and Ukrainian hryvnia against the US dollar. The prolonged high-interest rate environment in US also makes the USD comparably stronger compared to local currencies in the group's key markets.

Rising cost of raw materials. Coffee prices had been rising since the start of April and reached a high of US\$247/lb before retracing back to the current level of around US\$240/lb. The current level remains elevated, attributed to weather concerns in key coffee-producing regions, such as a forecast of near-freezing temperatures in the near future which may harm the supply of coffee. Prices of coffee have gone up significantly compared to 1H23, where coffee prices averaged around US\$175/lb. This increase in coffee prices will continue to bring about a higher cost of production for Food Empire. Furthermore, the increased prices have also resulted in a price disruption of goods as retailers rebalance their inventories to maximise their profits.

The company is gradually adjusting its selling prices, passing higher costs on to customers to maintain profit margins. Despite these price hikes, consumer demand remained robust, thanks to the nature of the group's products.

Figure 1: 2Y Coffee Prices



Source: Bloomberg, KGI Research

FX headwinds from a strong US dollar. The Federal Reserve has kept interest rates at elevated level, as they continue to look for signs of easing inflation. The market now expects two to three rate cuts for the rest of 2024. The prolonged high-interest rate environment has strengthened the US dollar, compared to local currencies in Food Empire's key market. The Russian Ruble continued to depreciate against the US dollar compared to 1H23, resulting in a lower YoY revenue growth rate for the Russian market after the FX conversion. Other core markets of the company also experienced continued depreciation against the USD YoY.

Upbeat outlook

Resilient demand for Food Empire's products. Despite economic uncertainties and geopolitical tensions, consumer demand has proven resilient. Food Empire Holdings witnessed double-digit growth in sales in local currency across all core markets in 1Q24 and anticipates continued growth in FY24. While the company reported a 3.6% YoY decrease in its business in Russia, the company's business in Russia achieved

a top-line revenue increase of approx. 13.0% in local currency terms, before factoring in exchange losses.

Partnership with Ikhlas Capital. The group recently announced the establishment of a strategic partnership with Ikhlas Capital Singapore Pte. Ltd. to develop and expand Food Empire's business in Southeast Asia and South Asia. As part of this partnership, Ikhlas Capital will inject an initial capital of US\$40 million into a special purpose vehicle that will hold or have the option to hold a portfolio of business operations, including the Company's Southeast Asian and South Asian ventures. The investment will be structured as a 5-year redeemable exchangeable note with a 5.5% annual interest rate, subject to the finalization of definitive terms. Ikhlas Capital's local expertise, knowledge, and network in Southeast Asia are expected to accelerate the Group's growth and scaling efforts in both regional and international markets.

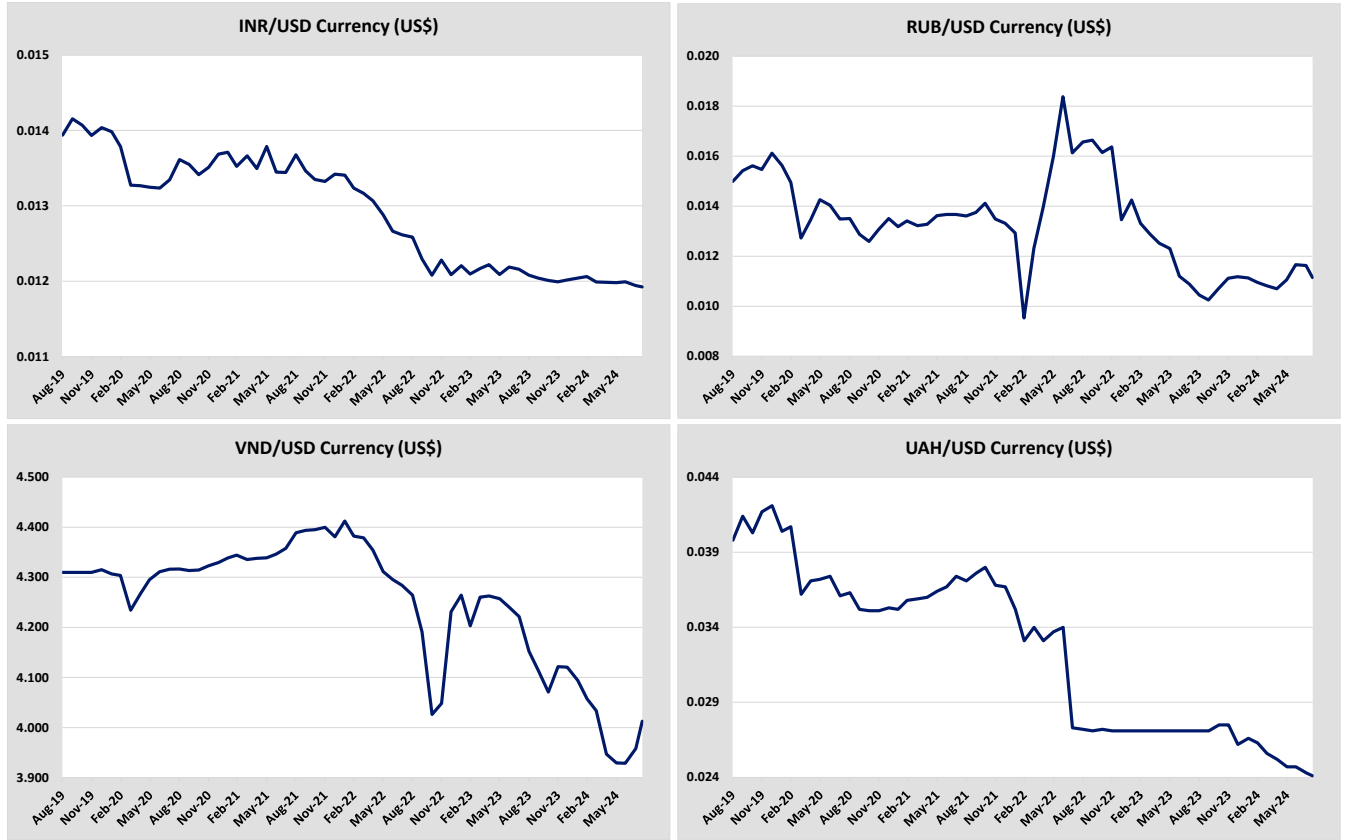
Ramping up marketing efforts to increase presence. The company continued to ramp up its marketing efforts, especially in the Vietnam market expanded its sales force and rolled out a slew of direct and indirect sales and marketing activities and promotions across both traditional and modern platforms to capture a larger market share. This resulted in significant revenue contribution. With the proven success of its customer engagement efforts, the Group will continue to carry out campaigns to build up its brands in this market. While the increased marketing efforts are expected to raise the company's costs in FY24, the marketing and promotional activities have also garnered strong loyalty among consumers, leading to sustained high demand for its products. The company also remains its focus on building more presence within the Vietnam market in the near term, before shifting to increase its profitability margin in the longer term.

Driving more capacity for the group. The group received final approval from the Malaysian government for its non-dairy creamer expansion in Malaysia and began commercial production on April 1st. This capacity ramp-up has boosted non-dairy creamer sales to external parties in the region, improving revenue performance in 2Q2024. The Group anticipates that the newly expanded plant, with an increased capacity of up to 100%, will reach full production capacity over the next 24 to 36 months. In addition to the recent non-dairy creamer facility expansion in Malaysia, the Group is building a second snack production factory in the country, which is expected to be operational by the first half of 2025. The Group is also constructing a coffee mix production facility in Kazakhstan, its first in Central Asia, slated for completion by the end of 2025. These capacity increases are expected to significantly contribute to the Group's growth and drive future revenue.

Strong share buybacks. The company continues to maintain a strong cash position of US\$75.8mn, and compared to a total debt of US\$38.4mn. The company also continues to provide value to investors through constant share buybacks in FY24. The company executed share buybacks totaling 6.93mn

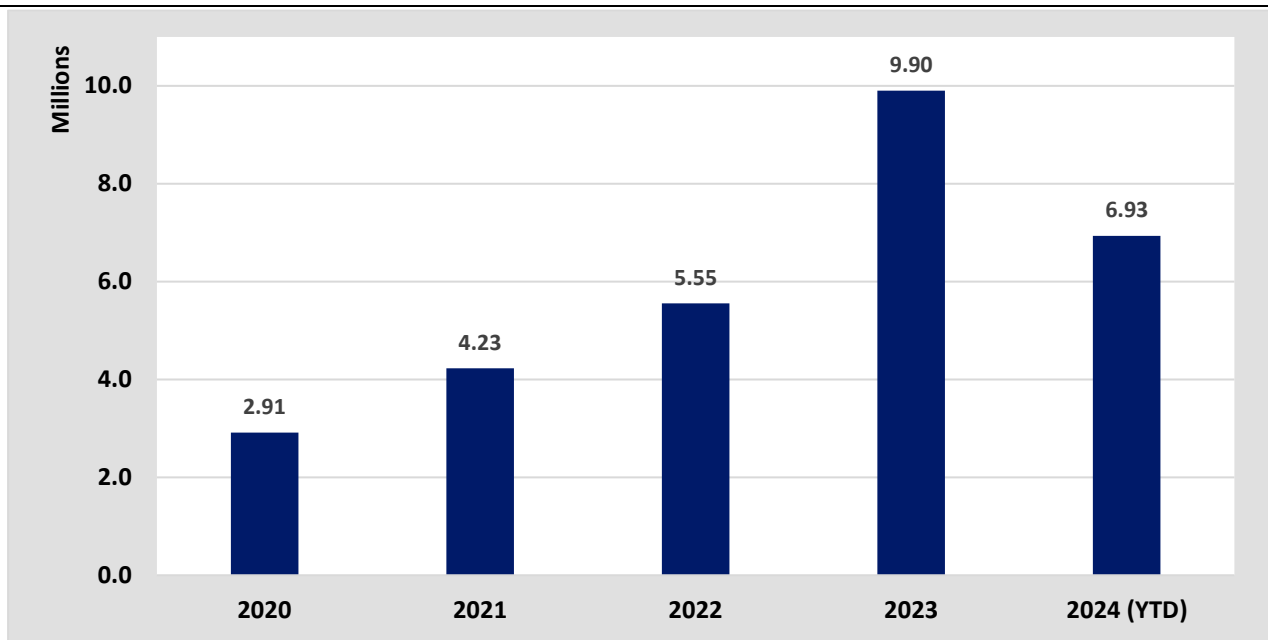
shares in 2024 YTD. The company currently has 39.6% of floating shares in 1H24.

Figure 2: Foreign Exchange of Food Empire’s key markets



Source: Bloomberg, KGI Research

Figure 3: Food Empire Holdings’ Total Share Buybacks



Source: KGI Research

Financial Summary

FYE December					
Income Statement	2022	2023	2024F	2025F	2026F
Revenues	398.4	425.7	465.1	516.3	570.5
Cost of Goods Sold	(279.5)	(284.3)	(323.2)	(358.8)	(396.5)
Gross Profit	118.8	141.5	141.8	157.5	174.0
Selling & Marketing Expense	(28.7)	(31.6)	(34.5)	(38.3)	(42.3)
General & Administrative Expenses	(37.5)	(38.9)	(42.5)	(47.2)	(52.2)
Other Operating Income/(Expense)	16.6	(0.6)	(0.6)	(0.7)	(0.8)
Interest Income and Others	1.4	2.1	2.6	4.9	6.3
Profit Before Income Tax	70.7	72.5	66.8	76.1	85.0
Income Tax Expense	(10.6)	(16.0)	(11.4)	(12.9)	(14.5)
Net Income	60.1	56.5	55.5	63.2	70.6
Balance Sheet	2022	2023	2024F	2025F	2026F
Cash and cash equivalents	125.6	131.3	97.1	140.8	176.0
Inventories	74.0	76.7	115.1	103.2	108.6
Trade receivables	31.5	38.2	48.4	50.9	53.1
Other receivables, deposits and prepayments	8.8	10.1	10.5	11.1	11.6
Other current assets	2.5	2.0	2.0	2.0	2.0
Total current assets	242.3	258.3	273.2	308.0	351.4
Property, plant and equipment	101.3	103.3	111.0	119.5	128.9
Right-of-use Assets	13.1	11.6	10.0	8.1	6.1
Deferred tax assets	3.7	3.9	2.7	3.1	3.5
Other non-current assets	21.1	25.9	25.9	25.9	26.0
Total non-current assets	139.2	144.6	149.6	156.7	164.5
Total assets	381.5	402.9	422.8	464.7	515.9
Trade Payables and Accruals	48.4	49.8	55.5	61.6	68.0
Other Payables	4.4	3.7	5.3	5.9	6.5
Bank Borrowings & Lease Liabilities	15.2	17.2	24.7	19.7	17.2
Other current liabilities	3.3	6.2	4.1	4.4	4.7
Total current liabilities	71.3	76.8	89.6	91.6	96.5
Bank Borrowings & Lease Liabilities	29.4	23.9	16.8	13.2	9.6
Other non-current liabilities	5.2	7.7	5.5	6.2	6.9
Total non-current liabilities	34.6	31.6	22.2	19.4	16.6
Total liabilities	105.9	108.4	111.8	111.0	113.1
Share capital	46.2	47.5	47.5	47.5	47.5
Treasury Shares	(6.6)	(14.0)	(14.0)	(14.0)	(14.0)
Retained Earnings	237.1	262.1	278.6	321.4	370.5
Equity Attributable to owners of the Company	276.7	295.6	312.1	354.9	404.0
Non-Controlling Interest	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Total Equity	275.6	294.5	311.0	353.7	402.8
Total Liabilities and Equity	381.5	402.9	422.8	464.7	515.9
Cash Flow	2022	2023	2024F	2025F	2026F
Profit Before Income Tax	70.7	72.5	66.8	76.1	85.0
Depreciation & Amort.	10.5	10.8	18.3	20.3	22.4
Other Operating Cash Flows Adjustments	(10.3)	(3.7)	0.1	(0.0)	(1.1)
Operating cash flows before WC changes	70.9	79.7	85.2	96.4	106.3
Change in working capital	11.0	(16.4)	(43.9)	15.8	(0.8)
Cash Generated from Operations	81.9	63.3	41.3	112.3	105.5
Income tax paid	(9.1)	(12.7)	(11.4)	(12.9)	(14.5)
Cash flows from operations	72.8	50.6	29.9	99.3	91.1
Capital expenditure	(13.8)	(12.5)	(23.3)	(25.8)	(28.5)
Interest Received	0.9	3.7	0.8	1.0	1.1
Proceeds from disposal of property, plant and	20.2	–	–	–	–
Other investing cashflow	11.6	(3.6)	–	–	–
Cash flows from investing	19.0	(12.4)	(22.4)	(24.8)	(27.4)
Repayment of bank borrowings	(76.9)	(78.5)	0.4	(8.6)	(6.1)
Repayment of principal portion of lease liabil	(2.2)	(2.0)	–	–	–
Interest paid	(2.3)	(3.9)	(1.0)	(1.0)	(0.0)
Dividends paid	(8.6)	(17.3)	(39.0)	(20.5)	(21.5)
Other financing cashflow	63.8	70.2	(1.1)	0.4	0.4
Cash flows from financing	(26.2)	(31.5)	(40.7)	(29.6)	(27.2)
Net increase in cash	65.6	6.7	(34.2)	43.7	35.2
Effect of Exchange Rate Changes	–	–	–	–	–
Cash and Cash Balance BOP	125.6	131.3	97.1	140.8	176.0
Cash and Cash Balance EOP	131.3	97.1	140.8	176.0	211.2
KEY RATIOS	2022	2023	2024F	2025F	2026F
DPS (SGD cents)	2.20	4.40	10.00	5.25	5.51
Dividend yield (%)	2.3%	4.5%	10.3%	5.4%	5.7%
NAV per share (SGD cents)	69.7	75.6	79.8	90.8	103.4
Price/NAV (x)	1.4	1.3	1.2	1.1	0.9
Profitability					
EBITDA Margin (%)	20.9%	20.4%	18.5%	18.9%	18.8%
Gross Profit Margin (%)	29.8%	33.2%	30.5%	30.5%	30.5%
Net Profit Margin (%)	15.1%	13.3%	11.9%	12.2%	12.4%
ROE (%)	21.8%	19.2%	17.8%	17.9%	17.5%
ROA (%)	15.7%	14.0%	13.1%	13.6%	13.7%
Financial Structure					
Net Debt/ (Net Cash) Gearing Ratio (%)	(29.4%)	(30.6%)	(17.9%)	(30.5%)	(37.0%)

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2021. KGI Securities (Singapore) Pte. Ltd. All rights reserved.