



CHINA
DEVELOPMENT
FINANCIAL

Food Empire Holdings Ltd.

(FEH SP/ F03.SI)

Optimising cost structure alongside consumer resilience

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- Resilient consumer demand.** Consumer demand remained relatively steady despite ongoing geopolitical tensions worldwide, in a high interest rate environment. Demand for coffee remained strong across company's all key markets. Russia saw a slight decline in revenue mainly due to the depreciation of the Russian Ruble against the US dollar.
- Optimising product mix.** The company saw a significant increase in gross profit despite a lower revenue for the quarter as the company focused on optimising its product mix, reducing costs for the company. Gross Profit Margin (GPM) rose to 34.3% in 3Q23, compared to 29.0% in 3Q22.
- Favourable seasonality.** We expect the upcoming winter seasonality to increase the demand for instant beverages across company's key markets, especially in Russia, Ukraine, Kazakhstan, and CIS, where the regions are significantly colder during the winter season.
- Going forward,** we think the end of interest rate hikes is already in sight as inflation has been cooling down. The company should see a decline in costs and expenses going into the calendar year of 2024. We expect the company business to remain stable in 2H23. We maintain an **OUTPERFORM** recommendation and raised our target price (TP) to **S\$1.45** (from \$1.25 previously) due to better profitability.

Financials & Key Operating Statistics

YE Dec (US\$'000)	2021	2022	2023F	2024F	2025F
Revenue	320.1	398.4	428.7	473.0	523.1
PATMI	19.3	60.1	63.6	70.7	78.3
EPS (cents)	4.9	15.3	16.2	18.0	19.9
EPS growth (%)	-26.9%	212.5%	5.8%	11.2%	10.8%
DPS (Sing cents)	2.2	2.2	4.4	5.5	5.8
Div Yield (Y%)	2.1%	2.1%	4.2%	5.3%	5.6%
Net Profit Margin (%)	6.0%	15.1%	14.8%	14.9%	15.0%
Net Debt/ (Net Cash) Gearing (%)	(3.2%)	(29.4%)	(29.6%)	(34.6%)	(39.0%)
ROA (%)	5.7%	15.7%	15.7%	15.6%	15.3%
ROE (%)	8.5%	21.8%	19.7%	19.0%	18.3%

Source: KGI Research

9M23 business updates. The company reported a revenue of US\$305.1mn for 9M23, up 6.7% YoY, due mainly to higher volume and higher pricing from all the group's core markets. The company saw a significant increase in revenue in South Asia, attributed to higher contributions from the group's coffee manufacturing plants in India. Gross profit also rose by 27.2% to US\$106.1mn YoY, compared to US\$83.4 in 9M22. Net profit increased YoY to US\$42.3mn in 9M23 compared to US\$34.6mn in 9M22, excluding a one-off gain of US\$15.0 million from the disposal of non-core assets in 9M2022. The

Outperform - Company Update

Price as of 21 Nov 23 (SGD)	1.11	Performance (Absolute)	
12M TP (\$)	1.45	1 Month (%)	3.7
Previous TP (\$)	-	3 Month (%)	4.8
Upside, incl div (%)	34.8%	12 Month (%)	99.8
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	586		
Issued Shares (mn)	528		
Vol - 3M Daily avg (mn)	0.6		
Val - 3M Daily avg (\$mn)	0.7		
Free Float (%)	40.4%		
Major Shareholders		Previous Recommendations	
Universal Integrated Corp. C	24.9%	TP(\$), 13-Sep-23	1.25
Tan Guek Ming	12.9%		
Nair Sudeep	12.4%		

company also recorded an exchange loss of US\$1.4mn in 9M23, compared to an exchange gain of US\$3.6mn in 9M22. All core markets saw higher revenue in local currency terms, including Russia, which reported a lower revenue after foreign exchange.

Going forward, we anticipate an uptick in demand for instant hot beverages across the company's key markets as the winter season approaches. Better optimisation of the company's product mix would also translate to a lower cost of sales for the company going forward.

Valuation & Action: We maintain an **OUTPERFORM** recommendation and raise our TP to **S\$1.45**, from S\$1.25 previously, based on a blended valuation: Discounted Cash Flow (DCF), with a terminal growth rate of 2% and a WACC of 12%, as well as a comparable Multiples Valuation with an average industry price-to-sales multiple of 1.07x. We expect Food Empires' cost of sales to reduce even further as the company focuses on optimising its product mix. The company also still maintains a strong cash position, showcasing its ability to generate cash flow to fund its future expansions. Its strong supply chain and market presence across several markets also put it at a competitive advantage against its peers.

Risks: The company continues to be exposed to currency risk as it operates its business in several key markets, including Russia, Ukraine, Kazakhstan, Vietnam, India, and many more. The escalation of geopolitical tension, such as the Russia-Ukraine war, would depreciate currencies such as the Ruble and Ukrainian hryvnia against the US dollar even further.

Upbeat outlook

Expectations of a higher demand for coffee products.

Consumer demand has displayed resilience amidst economic uncertainties as well as the presence of geopolitical tensions. Sales in local currency have gone up in all of Food Empire Holdings' core markets and are expected to increase even further in the upcoming winter season. With expectations that interest rates are near their peak and inflation has started cooling down, this will translate to better consumer sentiment, driving demands for consumer goods.

Future plans. The company will continue to focus on strengthening its market position in its core market, and at the same time monitor global geopolitical developments and economic policy changes closely.

In Southeast Asia, the company will continue to focus on targeted advertising and promotions in the Group's Vietnam market. They expect Malaysia's business to remain resilient and stable. In South Asia, the company will continue to operate at maximum capacity with strong demand and favourable pricing conditions for its freeze-dry products. Despite higher material costs due to inflation, the company still expects to remain profitable going forward.

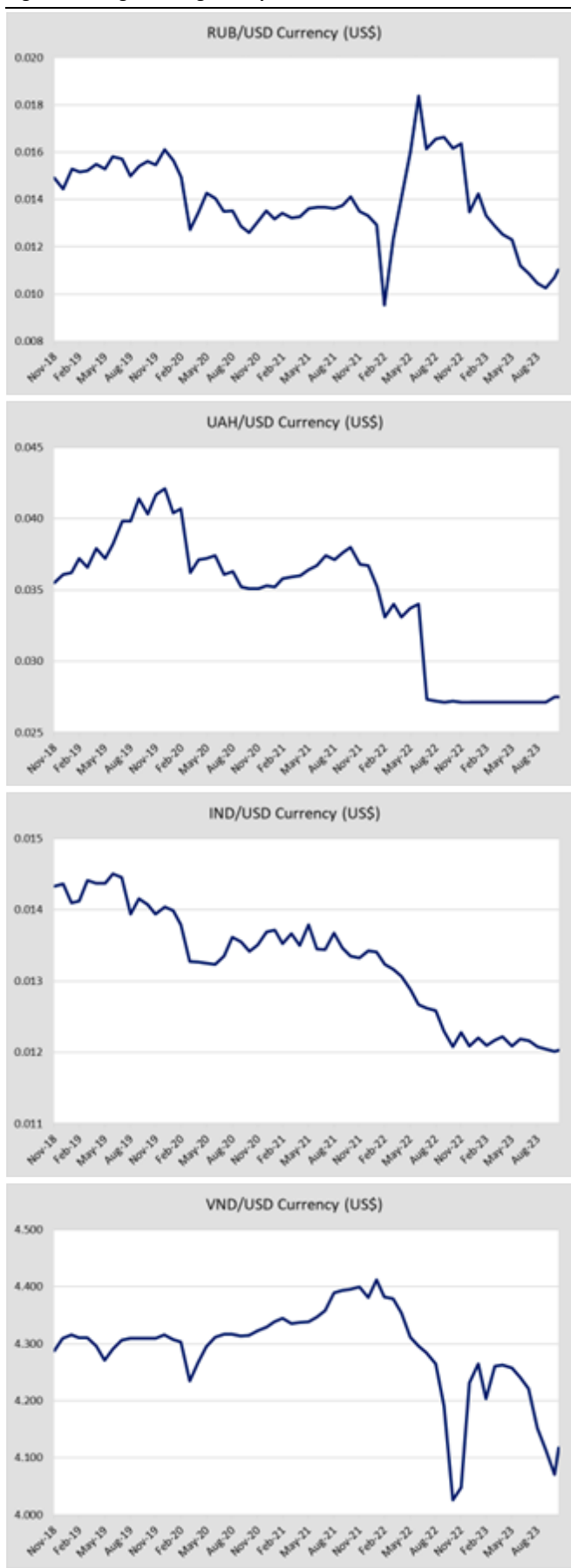
Completion of Malaysia's NDC plant. The company expects its NDC plant in Malaysia to commence operation in 1Q24, pending approval and clearance from the Malaysian government. The new plant is expected to begin commercial production in the next few months but would still require more time to ramp up to full capacity.

Constantly looking for opportunities to expand. The company is still constantly looking for opportunities to spearhead itself in a different market, mainly focusing on acquisitions. The management will update investors once it confirms its plan to expand into a new market.

Continuing share buyback plans. With a strong cash position, Food Empire also intends to continuously provide shareholders with more value through constant share buybacks. The company executed share buybacks totaling 1.840mn shares in 3Q23 and has already bought back 1.261mn shares in the current quarter.

Foreign Exchange Rates. FX rates in Food Empire's Key Markets remained relatively stable, with the VND and RUB appreciating slightly against the USD over the last month. With interest rates at their peak, we expect the appreciation of currencies across the company's key markets against the USD.

Figure 1: Foreign Exchange of Key markets



Source: KGI Research, Bloomberg

Financial Summary

FYE December					
Income Statement	2021	2022	2023F	2024F	2025F
Revenues	320.1	398.4	428.7	473.0	523.1
Cost Of Goods Sold	(226.4)	(279.5)	(278.7)	(307.5)	(340.1)
Gross Profit	93.7	118.8	149.9	165.4	182.9
Selling & Marketing Expense	(34.6)	(28.7)	(34.3)	(37.8)	(41.8)
General & Administrative Expenses	(33.6)	(37.5)	(40.7)	(44.9)	(49.7)
Other Operating Income/(Expense)	0.7	16.6	(0.5)	(0.5)	(0.6)
Interest Income and Others	0.2	1.4	2.1	3.0	3.5
Profit Before Income Tax	26.3	70.7	76.6	85.1	94.3
Income Tax Expense	(7.0)	(10.6)	(13.0)	(14.5)	(16.0)
Net Income	19.3	60.1	63.6	70.7	78.3
Balance Sheet	2021	2022	2023F	2024F	2025F
Cash and cash equivalents	60.6	125.6	117.5	143.3	174.4
Inventories	73.5	74.0	80.0	88.3	97.6
Trade receivables	40.0	31.5	48.8	53.9	59.6
Other receivables, deposits and prepayments	12.9	8.8	9.9	10.3	10.8
Other current assets	1.5	2.5	2.5	2.5	2.5
Total current assets	188.5	242.3	258.7	298.3	344.9
Property, plant and equipment	103.9	101.3	106.5	112.4	118.8
Right-of-use Assets	9.5	13.1	15.1	17.4	19.9
Deferred tax assets	3.1	3.7	4.5	5.0	5.5
Other non-current assets	35.0	21.1	21.1	21.1	21.1
Total non-current assets	151.5	139.2	147.3	155.9	165.4
Total assets	340.0	381.5	406.0	454.2	510.2
Trade Payables and Accruals	48.1	48.4	48.1	53.1	58.7
Other Payables	4.9	4.4	4.6	5.1	5.7
Bank Borrowings & Lease Liabilities	24.4	15.2	0.6	-	5.5
Other current liabilities	2.6	3.3	2.9	3.1	3.3
Total current liabilities	80.0	71.3	56.2	61.3	73.1
Bank Borrowings & Lease Liabilities	28.9	29.4	21.6	14.9	2.7
Other non-current liabilities	4.6	5.2	6.3	7.0	7.8
Total non-current liabilities	33.5	34.6	27.9	21.9	10.5
Total liabilities	113.5	105.9	84.1	83.2	83.6
Share capital	45.4	46.2	46.2	46.2	46.2
Treasury Shares	(4.2)	(6.6)	(6.6)	(6.6)	(6.6)
Retained Earnings	186.5	237.1	283.4	332.5	388.1
Equity Attributable to owners of the Company	227.7	276.7	323.0	372.1	427.7
Non-Controlling Interest	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)
Total Equity	226.6	275.6	321.9	371.0	426.6
Total Liabilities and Equity	340.0	381.5	406.0	454.2	510.2
Cash Flow	2021	2022	2023F	2024F	2025F
Profit Before Income Tax	26.3	70.7	76.6	85.1	94.3
Depreciation & Amort.	10.6	10.5	9.8	10.8	12.0
Other Operating Cash Flows Adjustments	2.0	(10.3)	0.7	0.1	(0.0)
Operating cash flows before WC changes	38.9	70.9	87.1	96.1	106.3
Change in working capital	(18.8)	11.0	(24.9)	(8.1)	(9.2)
Cash Generated from Operations	20.0	81.9	62.2	88.0	97.1
Income tax paid	(5.3)	(9.1)	(13.0)	(14.5)	(16.0)
Cash flows from operations	14.7	72.8	49.2	73.5	81.1
Capital expenditure	(6.6)	(13.8)	(14.0)	(15.5)	(17.1)
Interest Received	0.2	0.9	0.8	0.8	1.0
Proceeds from disposal of property, plant and	-	20.2	-	-	-
Other investing cashflow	0.5	11.6	-	-	-
Cash flows from investing	(5.8)	19.0	(13.3)	(14.6)	(16.1)
Repayment of bank borrowings	(77.7)	(76.9)	(19.8)	(6.3)	(5.8)
Repayment of principal portion of lease liabil	(1.8)	(2.2)	(2.6)	(0.9)	(0.9)
Interest paid	(1.7)	(2.3)	(1.5)	(1.0)	(1.0)
Dividends paid	(8.9)	(8.6)	(17.3)	(21.6)	(22.7)
Other financing cashflow	73.0	63.8	0.3	0.2	0.2
Cash flows from financing	(17.0)	(26.2)	(40.9)	(29.6)	(30.1)
Net increase in cash	(8.1)	65.6	(8.1)	25.8	31.0
Effect of Exchange Rate Changes	-	-	-	-	-
Cash and Cash Balance BOP	60.6	125.6	117.5	143.3	174.4
Cash and Cash Balance EOP	125.6	117.5	143.3	174.4	211.6
KEY RATIOS	2021	2022	2023F	2024F	2025F
DPS (SGD cents)	2.20	2.20	4.40	5.50	5.78
Dividend yield (%)	2.1%	2.1%	4.2%	5.3%	5.6%
NAV per share (SGD cents)	0.1	0.1	0.1	0.1	0.1
Price/NAV (x)	18.1	14.8	12.7	11.0	9.6
Profitability					
EBITDA Margin (%)	12.0%	20.9%	20.5%	20.5%	20.5%
Gross Profit Margin (%)	29.3%	29.8%	35.0%	35.0%	35.0%
Net Profit Margin (%)	6.0%	15.1%	14.8%	14.9%	15.0%
ROE (%)	8.5%	21.8%	19.7%	19.0%	18.3%
ROA (%)	5.7%	15.7%	15.7%	15.6%	15.3%
Financial Structure					
Net Debt/ (Net Cash) Gearing Ratio (%)	(3.2%)	(29.4%)	(29.6%)	(34.6%)	(39.0%)

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