



CHINA  
DEVELOPMENT  
FINANCIAL

# Food Empire Holdings Ltd.

(FEH SP/ F03.SI)

## Soaring to new heights

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### Record FY23 earnings showcase strong consumer demand.

Consumer demand stays resilient across Food Empire Holdings' key markets despite ongoing geopolitical tensions worldwide, alongside a high interest rate environment. Demand for coffee and tea remained strong across company's all key markets, seeing volume growth YoY. Russia saw a slight decline in revenue mainly due to the continued depreciation of the Russian Ruble against the US dollar.

### Special dividend.

The company declares a final FY23 dividend of 5 Scents per share and a surprise special dividend of 5 Scents per share, indicating a forward yield of 7.14%.

### Optimising product mix.

The company still remains focused on optimising its product mix and reducing costs in 4Q23. For the full year, the company's gross profit margin (GPM) rose to 33.2% in FY23, compared to 29.8% in FY22.

### Going forward, we expect interest rate cuts are in sight in 2H24.

The company should see a further decline in costs and expenses in FY24. We maintained an **OUTPERFORM** recommendation and raised our target price (TP) to **S\$1.65** (from \$1.45 previously) due to better profitability as the company's business model continues to drive growth.

### Financials & Key Operating Statistics

| YE Dec (US\$'000)                | 2022    | 2023    | 2024F   | 2025F   | 2026F   |
|----------------------------------|---------|---------|---------|---------|---------|
| Revenue                          | 398.4   | 425.7   | 468.8   | 521.2   | 578.5   |
| PATMI                            | 60.1    | 56.5    | 52.0    | 58.0    | 65.3    |
| EPS (cents)                      | 15.3    | 14.6    | 13.5    | 15.0    | 16.9    |
| EPS growth (%)                   | 212.5%  | -4.6%   | -7.8%   | 11.4%   | 12.5%   |
| DPS (Sing cents)                 | 2.2     | 4.4     | 10.0    | 5.3     | 5.5     |
| Div Yield (Y%)                   | 1.5%    | 3.1%    | 7.0%    | 3.7%    | 3.9%    |
| Net Profit Margin (%)            | 15.1%   | 13.3%   | 11.1%   | 11.1%   | 11.3%   |
| Net Debt/ (Net Cash) Gearing (%) | (29.4%) | (30.6%) | (24.5%) | (28.8%) | (33.0%) |
| ROA (%)                          | 15.7%   | 14.0%   | 13.2%   | 13.3%   | 13.5%   |
| ROE (%)                          | 21.8%   | 19.2%   | 16.9%   | 16.8%   | 16.8%   |

Source: KGI Research

**FY23 financial results.** The company reported a record revenue of US\$425.7mn for FY23, up 6.9% 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 Ukraine, Kazakhstan and CIS, and South Asia, attributed to higher contributions from the group's coffee manufacturing plants in these markets. Gross profit also rose by 19.0% to US\$141.5mn YoY, compared to US\$118.8 in FY22. Net profit increased 25.3% YoY to US\$56.5mn in FY23 compared to US\$45.1mn in FY22, excluding a one-off gain of US\$15.0

### Outperform - Company Update

|                              |       |                                 |      |
|------------------------------|-------|---------------------------------|------|
| Price as of 6 Mar 24 (SGD)   | 1.40  | <b>Performance (Absolute)</b>   |      |
| 12M TP (\$)                  | 1.65  | 1 Month (%)                     | 2.2  |
| Previous TP (\$)             | 1.45  | 3 Month (%)                     | 27.5 |
| Upside, incl div (%)         | 24.9% | 12 Month (%)                    | 69.0 |
| <b>Trading data</b>          |       | <b>Perf. vs STI Index (Red)</b> |      |
| Mkt Cap (\$mn)               | 739   | Absolute (%) 1M                 | 2.2  |
| Issued Shares (mn)           | 528   |                                 |      |
| Vol - 3M Daily avg (mn)      | 0.9   |                                 |      |
| Val - 3M Daily avg (\$mn)    | 1.1   |                                 |      |
| Free Float (%)               | 40.4% |                                 |      |
| <b>Major Shareholders</b>    |       | 13-Sep-23 (OP)                  | 1.25 |
| Universal Integrated Corp. C | 25.0% | 22-Nov-23 (OP)                  | 1.45 |
| Nair Sudeep                  | 12.5% |                                 |      |
| Tan Guek Ming                | 12.0% |                                 |      |

million from the disposal of non-core assets in FY22. The company also recorded an exchange loss of US\$1.6mn in FY23, compared to an exchange gain of US\$3.2mn in FY22. All core markets saw higher revenue in local currency terms, including Russia, which reported a lower revenue after foreign exchange.

**Valuation & Action:** We maintain an **OUTPERFORM** recommendation and raise our TP to **S\$1.65**, from S\$1.45 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 0.94x.

We anticipate demand to remain healthy across key markets, and the company would enjoy continued growth. The company's expansion plans are expected to drive more sales. Better optimisation of the company's product mix would also translate to a lower cost of sales for the company going forward, assuming a fixed input price. The company also 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 businesses 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 depreciate currencies such as the Ruble and Ukrainian hryvnia against the US dollar even further.

**Higher costs offset by higher prices.** Coffee prices rose from US\$150/lbs in 3Q23 to the current level of US\$190/lbs, impacting the company's COGS. Inflationary pressures also contributed to higher expenses in FY23. The company is gradually adjusting 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. The company experienced a notable increase in product volume across its markets despite the rise in prices.

**Strong share buybacks.** With a strong cash position of US\$131.3mn, the company intends to continue to provide value to investors through share buybacks in FY24. The company executed share buybacks totalling 9.90mn shares in FY23 and bought back 1.06mn shares in 2024 YTD.

**Foreign Exchange Rates.** FX rates in Food Empire's Key Markets remained relatively stable, with the Indian Rupee appreciating slightly against the USD over the last month. Russian Ruble continues on a downtrend against the USD. With U.S. interest rate cuts in sight, we expect the appreciation of currencies across the company's key markets against the USD.

### Upbeat outlook

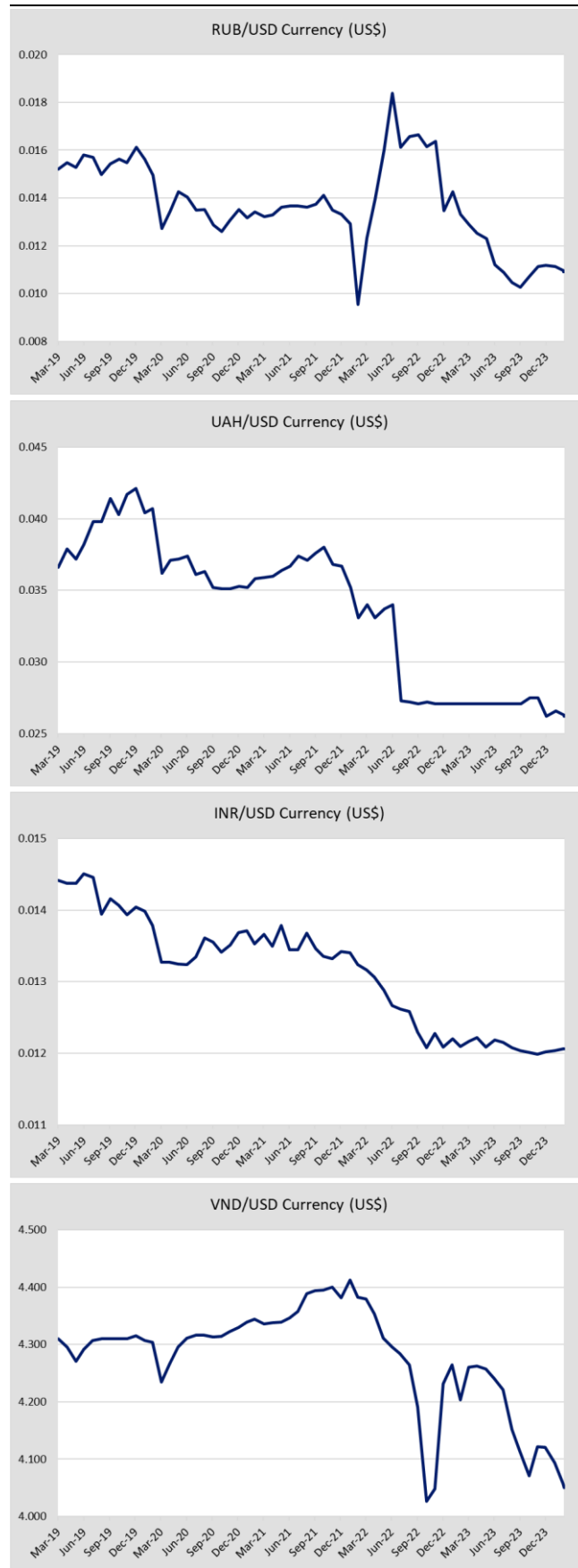
**Expectations of a higher demand for coffee products.** Despite economic uncertainties and geopolitical tensions, consumer demand has proven resilient. Food Empire Holdings witnessed an increase in sales in local currency across all core markets in FY23 and expected further growth in FY24. The expectation that interest rates have peaked and potential rate cuts on the horizon due to cooling inflation will likely enhance consumer sentiment, fuelling the demand for consumer goods.

**Expect Malaysia's NDC plant to commence operation.** The group has finalized its non-dairy creamer expansion in Malaysia, anticipating the commencement of commercial production in the next few months, pending final approval from the Malaysian government. This expansion aims to boost non-dairy creamer sales to external parties in the region. Marketing efforts have already commenced to identify potential customers, and the group foresees the plant reaching 30% to 40% capacity by year-end.

**Expansion plans.** The company consistently seeks opportunities for market expansion, with a primary emphasis on acquisitions. Additionally, there are plans to build more factories within existing markets to enhance its B2B business. Further updates on expansion into new markets or the

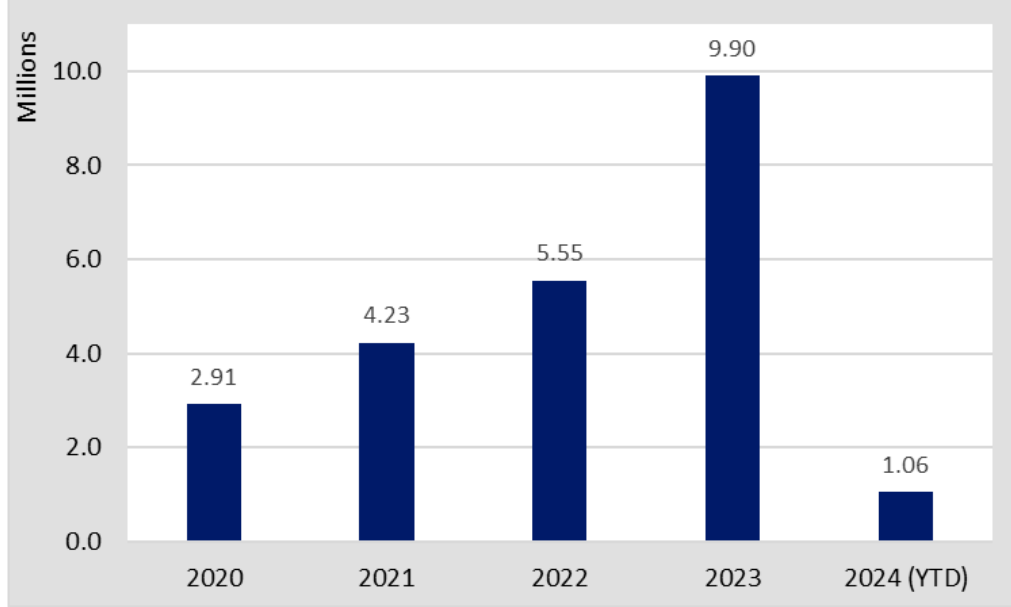
construction of additional factories will be communicated to investors by the management once these plans are confirmed.

Figure 1: Foreign Exchange of Key markets



Source: Bloomberg, KGI Research

Figure 2: Food Empire Holdings' Total Share Buybacks



Source: KGI Research

**Financial Summary**

| FYE December  |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Income Statement</b>                             | <b>2022</b>   | <b>2023</b>   | <b>2024F</b>  | <b>2025F</b>  | <b>2026F</b>  |
| <b>Revenues</b>                                     | <b>398.4</b>  | <b>425.7</b>  | <b>468.8</b>  | <b>521.2</b>  | <b>578.5</b>  |
| Cost Of Goods Sold                                  | (279.5)       | (284.3)       | (321.2)       | (357.1)       | (396.3)       |
| <b>Gross Profit</b>                                 | <b>118.8</b>  | <b>141.5</b>  | <b>147.7</b>  | <b>164.2</b>  | <b>182.2</b>  |
| Selling & Marketing Expense                         | (28.7)        | (31.6)        | (39.7)        | (44.2)        | (49.0)        |
| General & Administrative Expenses                   | (37.5)        | (38.9)        | (45.9)        | (51.1)        | (56.7)        |
| Other Operating Income/(Expense)                    | 16.6          | (0.6)         | (0.6)         | (0.7)         | (0.8)         |
| Interest Income and Others                          | 1.4           | 2.1           | 1.3           | 1.7           | 2.9           |
| <b>Profit Before Income Tax</b>                     | <b>70.7</b>   | <b>72.5</b>   | <b>62.7</b>   | <b>69.9</b>   | <b>78.6</b>   |
| Income Tax Expense                                  | (10.6)        | (16.0)        | (10.7)        | (11.9)        | (13.4)        |
| <b>Net Income</b>                                   | <b>60.1</b>   | <b>56.5</b>   | <b>52.0</b>   | <b>58.0</b>   | <b>65.3</b>   |
| <b>Balance Sheet</b>                                | <b>2022</b>   | <b>2023</b>   | <b>2024F</b>  | <b>2025F</b>  | <b>2026F</b>  |
| Cash and cash equivalents                           | 125.6         | 131.3         | 94.5          | 113.8         | 138.1         |
| Inventories   | 74.0          | 76.7          | 91.1          | 101.2         | 112.4         |
| Trade receivables                                   | 31.5          | 38.2          | 49.1          | 54.6          | 60.6          |
| Other receivables, deposits and prepayments         | 8.8           | 10.1          | 10.6          | 11.1          | 11.7          |
| Other current assets                                | 2.5           | 2.0           | 2.0           | 2.0           | 2.0           |
| <b>Total current assets</b>                         | <b>242.3</b>  | <b>258.3</b>  | <b>247.3</b>  | <b>282.8</b>  | <b>324.8</b>  |
| Property, plant and equipment                       | 101.3         | 103.3         | 109.1         | 115.4         | 122.5         |
| Right-of-use Assets                                 | 13.1          | 11.6          | 9.9           | 8.1           | 6.1           |
| Deferred tax assets                                 | 3.7           | 3.9           | 2.6           | 2.9           | 3.2           |
| Other non-current assets                            | 21.1          | 25.9          | 25.9          | 25.9          | 26.0          |
| <b>Total non-current assets</b>                     | <b>139.2</b>  | <b>144.6</b>  | <b>147.5</b>  | <b>152.3</b>  | <b>157.8</b>  |
| <b>Total assets</b>                                 | <b>381.5</b>  | <b>402.9</b>  | <b>394.8</b>  | <b>435.2</b>  | <b>482.6</b>  |
| Trade Payables and Accruals                         | 48.4          | 49.8          | 52.8          | 58.7          | 65.1          |
| Other Payables                                      | 4.4           | 3.7           | 4.6           | 5.1           | 5.6           |
| Bank Borrowings & Lease Liabilities                 | 15.2          | 17.2          | 4.8           | 4.8           | 4.8           |
| Other current liabilities                           | 3.3           | 6.2           | 5.3           | 5.8           | 6.3           |
| <b>Total current liabilities</b>                    | <b>71.3</b>   | <b>76.8</b>   | <b>67.5</b>   | <b>74.3</b>   | <b>81.9</b>   |
| Bank Borrowings & Lease Liabilities                 | 29.4          | 23.9          | 14.3          | 9.6           | 4.8           |
| Other non-current liabilities                       | 5.2           | 7.7           | 5.1           | 5.7           | 6.4           |
| <b>Total non-current liabilities</b>                | <b>34.6</b>   | <b>31.6</b>   | <b>19.5</b>   | <b>15.3</b>   | <b>11.2</b>   |
| <b>Total liabilities</b>                            | <b>105.9</b>  | <b>108.4</b>  | <b>86.9</b>   | <b>89.6</b>   | <b>93.1</b>   |
| 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         | 275.5         | 313.2         | 357.2         |
| <b>Equity Attributable to owners of the Company</b> | <b>276.7</b>  | <b>295.6</b>  | <b>309.0</b>  | <b>346.7</b>  | <b>390.7</b>  |
| Non-Controlling Interest                            | (1.1)         | (1.1)         | (1.1)         | (1.1)         | (1.1)         |
| <b>Total Equity</b>                                 | <b>275.6</b>  | <b>294.5</b>  | <b>307.9</b>  | <b>345.6</b>  | <b>389.5</b>  |
| <b>Total Liabilities and Equity</b>                 | <b>381.5</b>  | <b>402.9</b>  | <b>394.8</b>  | <b>435.2</b>  | <b>482.6</b>  |
| <b>Cash Flow</b>                                    | <b>2022</b>   | <b>2023</b>   | <b>2024F</b>  | <b>2025F</b>  | <b>2026F</b>  |
| <b>Profit Before Income Tax</b>                     | <b>70.7</b>   | <b>72.5</b>   | <b>62.7</b>   | <b>69.9</b>   | <b>78.6</b>   |
| Depreciation & Amort.                               | 10.5          | 10.8          | 14.4          | 16.0          | 17.7          |
| Other Operating Cash Flows Adjustments              | (10.3)        | (3.7)         | 0.1           | (0.0)         | (1.1)         |
| <b>Operating cash flows before WC changes</b>       | <b>70.9</b>   | <b>79.7</b>   | <b>77.2</b>   | <b>85.8</b>   | <b>95.3</b>   |
| Change in working capital                           | 11.0          | (16.4)        | (22.8)        | (9.4)         | (10.2)        |
| <b>Cash Generated from Operations</b>               | <b>81.9</b>   | <b>63.3</b>   | <b>54.4</b>   | <b>76.5</b>   | <b>85.0</b>   |
| Income tax paid                                     | (9.1)         | (12.7)        | (10.7)        | (11.9)        | (13.4)        |
| <b>Cash flows from operations</b>                   | <b>72.8</b>   | <b>50.6</b>   | <b>43.7</b>   | <b>64.6</b>   | <b>71.6</b>   |
| Capital expenditure                                 | (13.8)        | (12.5)        | (17.4)        | (19.3)        | (21.5)        |
| 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)         | -             | -             | -             |
| <b>Cash flows from investing</b>                    | <b>19.0</b>   | <b>(12.4)</b> | <b>(16.5)</b> | <b>(18.4)</b> | <b>(20.3)</b> |
| Repayment of bank borrowings                        | (76.9)        | (78.5)        | (19.3)        | (4.3)         | (4.3)         |
| Repayment of principal portion of lease liabil      | (2.2)         | (2.0)         | (2.7)         | (0.5)         | (0.5)         |
| Interest paid                                       | (2.3)         | (3.9)         | (1.0)         | (1.0)         | (0.0)         |
| Dividends paid                                      | (8.6)         | (17.3)        | (38.7)        | (20.3)        | (21.3)        |
| Other financing cashflow                            | 63.8          | 70.2          | (1.3)         | 0.3           | 0.4           |
| <b>Cash flows from financing</b>                    | <b>(26.2)</b> | <b>(31.5)</b> | <b>(62.9)</b> | <b>(25.8)</b> | <b>(25.8)</b> |
| <b>Net increase in cash</b>                         | <b>65.6</b>   | <b>6.7</b>    | <b>(36.8)</b> | <b>19.3</b>   | <b>24.3</b>   |
| Effect of Exchange Rate Changes                     | -             | -             | -             | -             | -             |
| Cash and Cash Balance BOP                           | 125.6         | 131.3         | 94.5          | 113.8         | 138.1         |
| <b>Cash and Cash Balance EOP</b>                    | <b>131.3</b>  | <b>94.5</b>   | <b>113.8</b>  | <b>138.1</b>  | <b>166.7</b>  |
| <b>KEY RATIOS</b>                                   | <b>2022</b>   | <b>2023</b>   | <b>2024F</b>  | <b>2025F</b>  | <b>2026F</b>  |
| DPS (SGD cents)                                     | 2.20          | 4.40          | 10.00         | 5.25          | 5.51          |
| Dividend yield (%)                                  | 1.5%          | 3.1%          | 7.0%          | 3.7%          | 3.9%          |
| NAV per share (SGD cents)                           | 70.2          | 76.1          | 79.6          | 89.3          | 100.7         |
| Price/NAV (x)                                       | 2.0           | 1.9           | 1.8           | 1.6           | 1.4           |
| <b>Profitability</b>                                |               |               |               |               |               |
| EBITDA Margin (%)                                   | 20.9%         | 20.4%         | 16.6%         | 16.7%         | 16.7%         |
| Gross Profit Margin (%)                             | 29.8%         | 33.2%         | 31.5%         | 31.5%         | 31.5%         |
| Net Profit Margin (%)                               | 15.1%         | 13.3%         | 11.1%         | 11.1%         | 11.3%         |
| ROE (%)   | 21.8%         | 19.2%         | 16.9%         | 16.8%         | 16.8%         |
| ROA (%)   | 15.7%         | 14.0%         | 13.2%         | 13.3%         | 13.5%         |
| <b>Financial Structure</b>                          |               |               |               |               |               |
| Net Debt/ (Net Cash) Gearing Ratio (%)              | (29.4%)       | (30.6%)       | (24.5%)       | (28.8%)       | (33.0%)       |

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| Rating                  | Definition  |
|-------------------------|---|
| <b>Outperform (OP)</b>  | 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.  |
| <b>Neutral (N)</b>      | 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.   |
| <b>Underperform (U)</b> | 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.  |
| <b>Not Rated (NR)</b>   | The stock is not rated by KGI Securities.   |
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