



Food Empire Holdings Ltd

Entrenching a consumer brand in Vietnam

SINGAPORE | CONSUMER | UPDATE

05 September 2023

- Food Empire Vietnam Factory Visit: Built up a 14% market share in an approx. US\$400mn instant coffee market in Vietnam. The market share of its Maccoffee brand was built in around a decade since the introduction of the flagship Café Pho in 2013.
- We believe in Food Empire's key 3-in-1 brand, Café Pho. The competitive advantage is the brand image as best tasting coffee served with ice (70% of coffee consumption is with ice) and deep penetration into the street shops (or general trade) distribution network.
- The growth will stem from three key drivers: 1) Organic growth in the instant coffee category of 3-5% p.a., in line with GDP and new coffee consumers; 2) Market share gains from expanding geographically and capturing more new instant coffee consumers; 3) New products (or extensions) for local and even export markets. Consumer sentiment is currently soft due to a weak macro environment. As a result, consumers are more promotion sensitive, less willing to try new things and there is a decline in pantry hoarding.

Key highlights from the visit over 29-30th August 2023: Ho Chi Minh

CONSUMER

- Type:** Around 90% of instant coffee is consumed in the morning and largely (~70%) served with ice. This will vary with North Vietnam's consumption of more hot coffee.
- Age:** The younger generation prefers tea and consumes coffee more at coffee shops as social drinkers. Instant coffee drinkers usually start in their mid-30s. To capture this group of customers, frequent taste tests, product display visibility and distribution is critical.
- Taste:** Consumers tend not to switch to new brands unless they offer something new. Consumers prefer strong tasting coffee. Café Pho provides a strong taste even when ice is added.

COMPETITION

- Market share:** The top 5 instant coffee brands in Vietnam are Nescafe (22%), G7 (20%), Maccoffee (14%), Q café (13%) and CafeViet (10%). G7 is a long-established brand. It is strong in the North especially sold during test as a gifting product.
- Distribution:** The market is larger in general trade (street shops 50%, wet market 7%), followed by modern (Mini store 13%, hyper-supermarket 11%, specialty store 7%) and online (7%). Online is sold via two major platforms, Lazada and Shopee. Product display visibility in the street shop outlets is Maccoffee's key marketing strength. Key to building up a wide street shop distribution network is the in-house sales force of 930 people that regularly visits these shops. Each sales staff visit almost 30 shops per day for sales updates, customer feedback and replenishment of inventory.
- New entrant:** Flagship Café Pho only entered the market in 2013 but branded it as the coffee most suited with ice. The coffee is creamier, richer, denser and stronger tasting than its peers. The key is to replicate as closely to the taste of the coffee shops. The ready-to-serve category is a US\$1bn market vs. instant coffee US\$400mn.

Not Rated

CLOSING PRICE SGD 1.020

COMPANY DATA

Bloomberg CODE:	FEH SP
O/S SHARES (MN):	529.9
MARKET CAP (USD mn / SGD mn):	398 / 541
52 - WK HI/LO (SGD):	1.18 / 0.48
3M Average Daily T/O (mn):	0.61

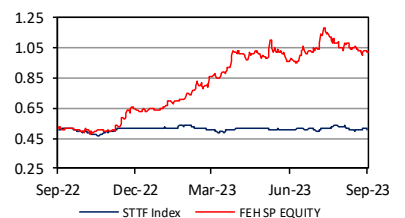
MAJOR SHAREHOLDERS

Universal Integrated Corp Consumer	24.9%
Nair Sudeep	12.4%
Tan Guek Ming	12.0%
Tan Wang Cheow	9.9%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	(2.9)	6.8	67.7
STTF	(0.3)	4.2	3.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD (mn)	FY19	FY20	FY21	FY22
Revenue	288.6	273.0	320.0	398.4
EBITDA	38.8	40.2	36.0	47.9
PATMI	26.1	26.8	19.5	60.1
EPS (USD cents)	4.89	5.01	3.64	11.28
P/E (X)	15.3	15.0	20.6	6.6
Dividend Yield	1.3%	2.9%	2.2%	5.9%
ROE	13.6%	12.6%	8.8%	23.8%
ROA	9.5%	8.6%	6.0%	16.7%

Source: Company, Bloomberg

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PANDEMIC

- **Demand:** When the pandemic occurred, many coffee shops were closed in 2021. Consumption shifted to the homes and there was huge pantry loading.
- **Supply:** The factory faced limited supply due to a lack of workers. The higher price and strong demand resulted in record gross margins and net profit in 2021. When the factory had to be closed some of the production was outsourced to Malaysia.
- **Inventory:** In 2022, revenue declined by around 18%, due to huge build-up of inventory late 2021 in the distribution channels. Inventory has normalised in 2023.

PRODUCTION

- **Factory:** The factory was set up in 2005 and launched Café Pho in 2013. Future capex is to add more automation into the mixing and warehousing areas.
- **Design:** In general the production process is split into the mixing of the ingredients, filling the ingredients into sachets (using Sankyo 20 filling machine) and packing the sachets into plastic or cardboard boxes. The coffee mix can be spray-dried, freeze-dried or microground.
- **Capacity:** The 5300 sqm factory has a 2mn sachet per day capacity or 606mn per year, Average salary is VND12mn per month including meals. Ingredients are essentially non-dairy creamer, sugar, coffee and flavour. The flavour is exclusive to the company and created together with the design houses.

PRODUCTS

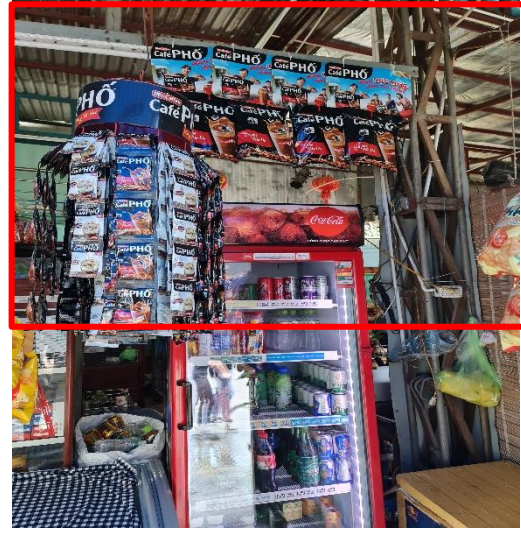
- **New categories:** The company successfully launched Hillway Bubble Tea in summer 2020. It is a new category for the home and the likely market share is 80% for milk tea with bubbles. The milk tea and bubbles come in separate sachets. Another non-coffee product is MacCereal with 25% market share, although this is still a small category in Vietnam.
- **Extensions:** Maccoffee recently launched Café Pho Gold. It is a slightly more premium version but stronger and creamier. There are many more categories of coffee that Maccoffee is exploring. In collaboration with Alpenliebe, it also launched a coffee sweet. Maccoffee is not the product owner but provides the coffee ingredients and collects royalty income.
- **Export:** Maccoffee is exploring other markets in ASEAN including Cambodia.

Figure 1: Prominent product display ...



Source: Company, PSR

Figure 2: ... in multiple shops we visited



Source: Company, PSR

Figure 3: Some shops even had posters



Source: Company, PSR

Figure 4: Multiple competing brands in modern trade



Source: Company, PSR

Figure 5: Key product Café Pho Sua Dai (Milk Ice)



Source: Company, PSR

Figure 6: Bubble tea is their latest fast selling non-coffee product



Source: Company, PSR

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