

Singapore Company Update

Delfi Ltd

Bloomberg: DELFI SP | Reuters: DELF.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

BUY

Last Traded Price (23 Feb 2022): S\$0.785 (STI : 3,393.00)
Price Target 12-mth: S\$1.10 (40% upside) (Prev S\$1.07)

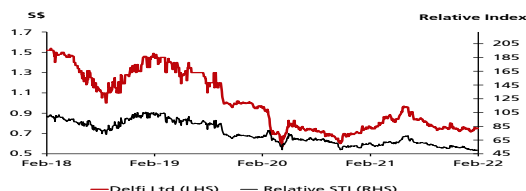
Analyst

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What's New

- 2H21 core PATMI beats expectations, soaring c.110% to US\$14.0m
- Special dividend of 0.48 UScts proposed, bringing total dividend to 2.83 UScts
- Sales momentum to remain strong in FY22 on reopening of key markets, Indonesia and Philippines
- Maintain BUY with a slightly higher TP of S\$1.10

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Revenue	385	405	437	465
EBITDA	43.9	54.8	55.5	61.2
Pre-tax Profit	27.7	44.1	42.4	47.6
Net Profit	17.5	29.3	27.6	30.9
Net Pft (Pre Ex.)	17.5	26.0	27.6	30.9
Net Pft Gth (Pre-ex) (%)	(38.6)	48.6	6.2	12.1
EPS (S cts)	3.85	6.45	6.07	6.81
EPS Pre Ex. (S cts)	3.85	5.72	6.07	6.81
EPS Gth Pre Ex (%)	(39)	49	6	12
Diluted EPS (S cts)	3.85	6.45	6.07	6.81
Net DPS (S cts)	3.16	3.81	3.22	3.39
BV Per Share (S cts)	49.7	52.7	55.5	59.0
PE (X)	20.4	12.2	12.9	11.5
PE Pre Ex. (X)	20.4	13.7	12.9	11.5
P/Cash Flow (X)	8.4	4.6	15.0	9.2
EV/EBITDA (X)	7.7	5.1	5.1	4.4
Net Div Yield (%)	4.0	4.9	4.1	4.3
P/Book Value (X)	1.6	1.5	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.7	12.6	11.2	11.9
Earnings Rev (%):			3	(1)
Consensus EPS (S cts):			5.6	6.2
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Return of the (Silver)Queen

Investment Thesis:

Undervalued consumer stock with growing dividends. Delfi's valuation is attractive, at 12.1x FY22F PE (below -1SD of its four-year historical mean). Following the group's special dividend announcement, we see Delfi as a potential dividend play, offering between a 4%-5% yield based on current prices.

Leading chocolate confectionery player in ASEAN's largest economy. According to Euromonitor, Delfi is Indonesia's market leader in chocolate confectionery, with a market share in excess of 39%.

Redesigned SilverQueen premium chocolate to target younger individuals in Indonesia. Delfi has launched two new healthier products as well as refreshed products under its SilverQueen brand. These efforts target Gen Z and Millennials in Indonesia and could also enable Delfi to premiumise and capitalise on Indonesia's increasingly health-conscious population.

Valuation:

Maintain BUY with a slightly higher TP of S\$1.10 pegged at 18.0x FY22F earnings (-0.3SD from the four-year mean forward PE). Delfi currently trades at an attractive valuation of 12.1x FY22F PE (below -1SD from the four-year mean forward PE) and has only risen c.20% from its pandemic lows.

Where we differ:

We believe that a continued recovery of the Indonesia Consumer Confidence Index should drive Delfi's share price higher.

Key Risks to Our View:

Large loss of market share, inflationary pressure causing higher than expected rise in input costs.

At A Glance

Issued Capital (m shrs)	611
Mkt. Cap (S\$m/US\$m)	480 / 357
Major Shareholders (%)	
Berlian Enterprises Ltd	52.0
First Pacific Advisors LP	8.1
Free Float (%)	39.9
3m Avg. Daily Val (US\$m)	0.07
GIC Industry :	Consumer Staples / Food, Beverage & Tobacco



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Live more, Bank less

Delfi Ltd.

WHAT'S NEW

Return of the (Silver)Queen

What's New

Delfi's 2H21 Key Financial Metrics

US\$m	2H21	2H20	1H21	y-o-y	h-o-h
Revenue	194.6	188.0	210.5	3.5%	-7.5%
<i>Indonesia</i>	126.2	121.9	144.0	3.5%	-12.4%
- Own Brands	87.1	85.2	103.4	2.3%	-15.7%
- Agency Brands	39.1	36.8	40.6	6.3%	-3.9%
<i>Regional Markets</i>	68.5	66.1	66.5	3.6%	2.9%
- Own Brands	24.8	26.5	22.1	-6.4%	12.4%
- Agency Brands	43.6	39.5	44.4	10.4%	-1.7%
Gross Profit Margin	30.1%	26.9%	29.0%	3.2ppt	1.1ppt
EBITDA	31.6	18.3	26.5	72.7%	19.4%
EBITDA Margin	16.3%	9.7%	12.6%	6.5ppt	3.7ppt
PATMI*	17.0	6.7	12.3	155.0%	38.0%

*2H21 PATMI includes non-recurring item of US\$3.0m

Source: Company, DBS Bank

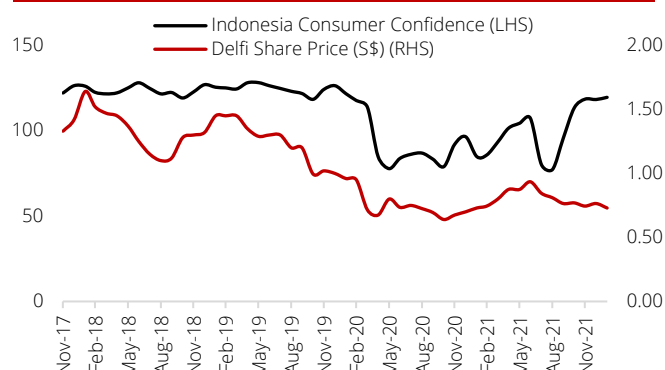
FY21 results beat forecasts on better sales and margins

- 2H21 sales and PATMI rose to US\$194.6m (+3.5% y-o-y) and US\$17.0m (+155.0% y-o-y), respectively
- The improved performance came on the back of stronger Indonesia Own Brands and Agency Brands sales and Regional Markets Agency Brands figures, as lockdowns in the region (especially Indonesia) were less strict compared to FY20
- Gross profit margins also improved 3.2ppt y-o-y and 1.2ppt h-o-h to 30.1% on higher contribution from Premium brands (SilverQueen and ChaCha) in Indonesia, which achieved double-digit y-o-y growth in 2H21
- EBITDA margins delivered a 6.5ppt y-o-y (+3.7ppt h-o-h) increase, largely due to controlled selling & distribution expenses, which declined 17.3% y-o-y. Finance expenses were also sharply lower (by c.US\$2m) after Delfi repaid the bulk of its bank loans during the year
- Higher 2H21 PATMI of US\$17.0m includes US\$3.0m of non-recurring items. PATMI excluding non-recurring items was still higher, by c.110% y-o-y, at US\$14.0m
- Special dividend of 0.48 UScts proposed, bringing total dividend for FY21 to 2.83 UScts
- Separately, Delfi mentioned that lumpy capex should be incurred in the next two to three years to meet expected volumes. Still, the group expects operational cash flows to be mostly sufficient to meet its capex needs

Our View

Sales momentum to remain strong in FY22, as the reopening of Indonesia and the wider ASEAN region gathers pace, given the impulsive nature of chocolate purchases. Specifically, mobility in Indonesia was lower in mid-2021 as COVID-19 cases surged. Similarly, the Philippines saw a jump in COVID-19 cases in 2H21, which dented mobility. We thus believe that Delfi could see better FY22 sales as mobility is restored due to the less virulent Omicron variant. Delfi is also continuing its premiumisation pivot and will look to improve channel efficiencies, especially in modern trade.

Returning Indonesia Consumer Confidence could spur Delfi's share price



Source: Bloomberg Finance L.P., DBS Bank

Margins likely to normalise but remain better than FY20.

Delfi recorded a core PATMI margin of 6.4% for FY21, aided by a larger Premium Brands sales mix, improved selling & distribution expenses, and lower finance costs. Going into FY22, we see gross margins remaining stable as rising costs are mitigated by improved Premium Brands' sales contribution. In a similar vein, selling & distribution spending could increase and normalise, although we expect it to remain lower than in FY20 on a percentage of revenue basis. Overall, we have revised earnings by +3% for FY22F.

Maintain BUY with a slightly higher TP of S\$1.10 (previously S\$1.07) pegged at 18.0x FY22F earnings (-0.3SD from the four-year mean forward PE). Delfi currently trades at an attractive valuation of 12.1x FY22F PE (below -1SD from the four-year mean forward PE) and has only risen c.20% from its pandemic lows, remaining some way off its pre-COVID prices of S\$1.00.

Delfi Ltd.

Company Background

Delfi Limited (DELFI) manufactures, markets, and distributes confectionery products. The company has a broad brand portfolio that extends across multiple product categories and different price points. Indonesia is its main market, accounting for 66.3% of its revenue in FY2020. Other key regional markets include the Philippines, Singapore, and Malaysia. According to Euromonitor, DELFI is estimated to have had a market share of c.36% in the chocolate confectionery market in Indonesia in 2020.

Interim Income Statement (US\$m)

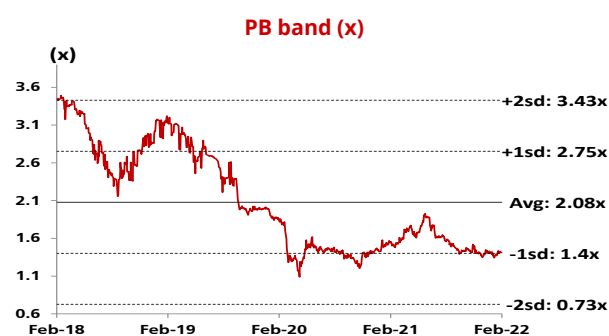
FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	188	210	195	3.5	(7.5)
Cost of Goods Sold	(137)	(149)	(136)	(1.1)	(9.1)
Gross Profit	51	61	59	16.0	(3.8)
Other Oper. (Exp)/Inc	(39)	(41)	(33)	(15.5)	(19.6)
Operating Profit	11	20	25	125.9	29.3
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	(1)	0	nm	nm
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	10	19	25	146.9	32.0
Tax	(3)	(7)	(8)	131.4	21.0
Minority Interest	0	0	0	-	-
Net Profit	7	12	17	155.0	38.1
Net profit bef Except.	7	12	17	155.0	38.1
EBITDA	18	26	25	38.1	(4.3)
Margins (%)					
Gross Margins	26.9	29.0	30.1		
Opg Profit Margins	6.0	9.4	13.1		
Net Profit Margins	3.5	5.8	8.7		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Delfi Ltd.**Income Statement (US\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	441	385	405	437	465
Cost of Goods Sold	(308)	(275)	(285)	(308)	(326)
Gross Profit	133	110	120	129	140
Other Opng (Exp)/Inc	(86.1)	(79.6)	(78.3)	(86.9)	(92.1)
Operating Profit	47.0	30.5	41.4	42.3	47.4
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.8)	(0.4)	(0.2)	0.0	0.0
Net Interest (Exp)/Inc	(2.4)	(2.5)	(0.5)	0.15	0.14
Exceptional Gain/(Loss)	(0.3)	0.0	3.30	0.0	0.0
Pre-tax Profit	43.6	27.7	44.1	42.4	47.6
Tax	(15.4)	(10.2)	(14.8)	(14.9)	(16.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	28.2	17.5	29.3	27.6	30.9
Net Profit before Except.	28.5	17.5	26.0	27.6	30.9
EBITDA	59.6	43.9	54.8	55.5	61.2
Growth					
Revenue Gth (%)	3.2	(12.6)	5.2	7.9	6.4
EBITDA Gth (%)	16.4	(26.4)	24.9	1.2	10.3
Opg Profit Gth (%)	18.1	(35.1)	35.8	2.1	12.2
Net Profit Gth (Pre-ex) (%)	23.8	(38.6)	48.6	6.2	12.1
Margins & Ratio					
Gross Margins (%)	30.2	28.6	29.5	29.5	30.0
Opg Profit Margin (%)	10.7	7.9	10.2	9.7	10.2
Net Profit Margin (%)	6.4	4.5	7.2	6.3	6.6
ROAE (%)	13.0	7.7	12.6	11.2	11.9
ROA (%)	7.4	4.5	7.8	7.3	7.8
ROCE (%)	9.0	5.1	9.2	10.3	11.0
Div Payout Ratio (%)	50.9	82.2	59.1	53.0	49.8
Net Interest Cover (x)	19.7	12.4	86.1	NM	NM

One-off items relating to lower employee retirement defined benefit obligations

Source: Company, DBS Bank

Delfi Ltd.**Interim Income Statement (US\$m)**

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	214	197	188	210	195
Cost of Goods Sold	(150)	(138)	(137)	(149)	(136)
Gross Profit	63.7	59.5	50.6	61.0	58.7
Other Oper. (Exp)/Inc	(41.8)	(40.3)	(39.3)	(41.3)	(33.2)
Operating Profit	21.9	19.2	11.3	19.7	25.5
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.3)	(0.4)	0.02	(0.1)	(0.1)
Net Interest (Exp)/Inc	(1.6)	(1.3)	(1.1)	(0.6)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	20.1	17.5	10.2	19.0	25.1
Tax	(7.2)	(6.7)	(3.5)	(6.7)	(8.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	12.9	10.8	6.66	12.3	17.0
Net profit bef Except.	12.9	10.8	6.66	12.3	17.0
EBITDA	28.7	25.5	18.4	26.5	25.4
Growth					
Revenue Gth (%)	(5.7)	(7.8)	(4.6)	12.0	(7.5)
EBITDA Gth (%)	(7.1)	(11.1)	(28.0)	44.3	(4.3)
Opp Profit Gth (%)	(12.6)	(12.4)	(41.3)	74.7	29.3
Net Profit Gth (%)	(16.4)	(15.8)	(38.5)	84.7	38.1
Margins					
Gross Margins (%)	29.8	30.2	26.9	29.0	30.1
Opp Profit Margins (%)	10.3	9.8	6.0	9.4	13.1
Net Profit Margins (%)	6.0	5.5	3.5	5.8	8.7

Balance Sheet (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	117	107	96.0	93.1	89.8
Invt in Associates & JVs	2.87	2.43	2.87	2.87	2.87
Other LT Assets	27.4	28.0	26.4	26.1	25.7
Cash & ST Invt	57.6	65.5	86.2	85.3	98.7
Inventory	87.4	76.9	64.8	80.2	84.8
Debtors	89.8	81.7	69.0	81.3	86.5
Other Current Assets	20.3	20.8	18.6	18.6	18.6
Total Assets	402	382	364	388	407
ST Debt	58.3	48.8	10.1	10.1	10.1
Creditor	37.2	29.9	38.0	36.7	38.7
Other Current Liab	63.3	61.1	63.0	75.0	76.8
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	15.9	17.0	13.6	13.6	13.6
Shareholder's Equity	227	226	239	252	268
Minority Interests	0.12	0.12	0.0	0.0	0.0
Total Cap. & Liab.	402	382	364	388	407
Non-Cash Wkg. Capital	97.0	88.4	51.4	68.5	74.4
Net Cash/(Debt)	(0.8)	16.8	76.2	75.3	88.7
Debtors Turn (avg days)	67.2	81.3	67.9	62.7	65.8
Creditors Turn (avg days)	44.5	46.8	45.6	46.2	44.1
Inventory Turn (avg days)	101.5	114.7	95.1	89.8	96.5
Asset Turnover (x)	1.2	1.0	1.1	1.2	1.2
Current Ratio (x)	1.6	1.8	2.1	2.2	2.3
Quick Ratio (x)	0.9	1.1	1.4	1.4	1.5
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	17.9	9.9	2.4	99.4	99.4
Z-Score (X)	3.5	3.1	3.3	3.4	3.4

Source: Company, DBS Bank

Delfi Ltd.

Cash Flow Statement (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	43.6	27.7	44.1	42.4	47.6
Dep. & Amort.	13.4	13.8	13.6	13.2	13.7
Tax Paid	(18.2)	(15.4)	(10.7)	(2.9)	(14.9)
Assoc. & JV Inc/(loss)	0.82	0.39	0.19	0.0	0.0
Chg in Wkg. Cap.	(11.3)	13.0	10.2	(29.0)	(7.7)
Other Operating CF	3.74	3.08	20.0	0.0	0.0
Net Operating CF	32.1	42.4	77.2	23.7	38.8
Capital Exp. (net)	(10.4)	(4.8)	(0.2)	(10.0)	(10.0)
Other Invt. (net)	0.0	0.0	0.0	0.0	0.0
Invt. in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(10.4)	(4.8)	(0.2)	(10.0)	(10.0)
Div Paid	(12.6)	(14.5)	(14.3)	(14.6)	(15.4)
Chg in Gross Debt	14.4	(7.4)	(31.9)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(21.2)	(7.4)	(8.6)	0.0	0.0
Net Financing CF	(19.4)	(29.4)	(54.7)	(14.6)	(15.4)
Currency Adjustments	0.56	(0.3)	(0.8)	0.0	0.0
Chg in Cash	2.85	7.96	21.5	(0.9)	13.4
Opg CFPS (S cts)	9.55	6.48	14.8	11.6	10.2
Free CFPS (S cts)	4.77	8.27	16.9	3.02	6.33

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Feb 21	0.75	0.96	BUY
2:	12 Aug 21	0.85	1.06	BUY
3:	17 Nov 21	0.76	1.07	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Woon Bing Yong

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 24 Feb 2022 06:26:31 (SGT)

Dissemination Date: 24 Feb 2022 06:53:03 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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