

### COMPANY UPDATE

## DFI Retail Group (DFI SP)

Headwinds Stronger Than Expected – Downgrade To HOLD

**DFI guided for negative earnings growth in 2022 in its 1Q22 interim management statement. Apart from cost pressures and supply chain issues, DFI's earnings are likely to remain highly subjective to the vagaries of government policy in the near to medium term. We cut earnings by 14-48% for 2022-24 with the biggest impact in 2022 as the company accounts for its Yonghui associate's 4Q21 losses. We lower our rating to HOLD from BUY. Target price: US\$2.87 (previously US\$3.65).**

### WHAT'S NEW

- **A disappointing 1Q business update.** Dairy Farm International (DFI) released a bearish 1Q business update that guided for "full year reported results (that) are expected to be lower than in 2021", and highlighted that there is a "high level of uncertainty" for the remainder of the year. The bearish guidance is largely the result of headwinds from China's strict lockdown measures as well as the inclusion of Yonghui Supermarket's 4Q21 losses in its 2022 numbers.
- **A turn for the worse in the past few months.** DFI management's commentary during its results briefing in early March did not presage China's stringent lockdown in pursuit of eradicating COVID-19. The company had likely factored in some level of re-opening, although it appears that any recovery in its business is likely to be in 4Q22 at the earliest.
- **China supermarket exposure less than super.** In mid-May 22, Yonghui Superstores reported its 1Q22 and 2022 results. Given the timing difference between DFI and Yonghui's reporting, the former will have to account for its 20% associate's 4Q21 loss of Rmb1.8b in its 2022 numbers. Thus, the net attributable impact for DFI's 20% stake is a loss of approximately US\$54m. We note that while Yonghui's 1Q22 attributable net profit was significantly stronger at Rmb503m (1Q21: Rmb23m), this could be due to COVID-19-related stockpiling activity which may taper off as 2022 progresses. We highlight that Bloomberg consensus' net profit forecast for Yonghui is approximately Rmb670m.
- **A relatively weaker quarter.** No revenue numbers were provided and only qualitative comments regarding the company's business segments were given. From the announcement, it appears that the only segment that displayed a yoy increase in revenue and profitability was the health & beauty segment (as well as Singapore's convenience stores) with grocery and home furnishings both relatively stable vs the year-ago period. The segments that had weaker yoy performance were HK/China convenience stores and Maxims.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	10,269	9,015	9,272	9,617	9,731
EBITDA	1,372	1,197	1,252	1,298	1,343
Operating profit	388	311	325	337	370
Net profit (rep./act.)	271	103	122	212	262
Net profit (adj.)	271	103	122	212	262
EPS (US\$ cent)	20.0	7.6	9.0	15.6	19.4
PE (x)	13.7	36.2	30.4	17.6	14.2
P/B (x)	2.8	2.9	2.9	2.7	3.1
EV/EBITDA (x)	3.4	3.9	3.7	3.6	3.5
Dividend yield (%)	6.0	3.5	4.7	6.0	6.0
Net margin (%)	2.6	1.1	1.3	2.2	2.7
Net debt/(cash) to equity (%)	61.8	63.2	75.5	69.7	104.0
Interest cover (x)	9.6	10.1	10.2	10.8	11.6
ROE (%)	21.4	7.9	9.5	15.9	20.6
Consensus net profit	-	-	175	260	311
UOBKH/Consensus (x)	-	-	0.70	0.81	0.84

Source: DFI Retail Group, Bloomberg, UOB Kay Hian

## HOLD

(Downgraded)

Share Price	US\$2.75
Target Price	US\$2.87
Upside	+4.4%
(Previous TP)	US\$3.65

### COMPANY DESCRIPTION

DFI operates and manages retail stores in over 12 markets and four divisions, namely food, health & beauty, home furnishings and restaurants (associate level).

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	DFI SP
Shares issued (m):	1,353.3
Market cap (US\$m):	3,721.5
Market cap (US\$m):	3,721.5
3-mth avg daily t'over (US\$m):	3.1

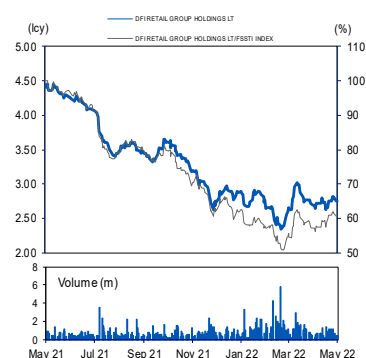
### Price Performance (%)

52-week high/low	US\$4.46/US\$2.34			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.5	(0.7)	(13.2)	(37.4)	(3.8)

### Major Shareholders

Jardine Matheson	77.6
FY22 NAV/Share (US\$)	0.99
FY22 Net Debt/Share (US\$)	0.74

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Inflationary pressures.** While food inflation has been a feature of the global economy in the past 12 months and has been passed onto consumers, DFI has revealed that its operating costs have increased markedly on a yoy basis and this component of its cost structure has been difficult to pass on. In its business update, the company referenced Singapore electricity prices in particular as having had an offsetting effect on strong sales performance in its grocery retail segment.
- Supply chain impact.** With the Russian invasion of Ukraine as well as China's COVID-19 lockdown, global supply chains have been affected with DFI being negatively impacted at its Ikea business with a number of product lines unavailable or taking longer to replenish. The company stated that the delay in normalisation of inventory levels will adversely affect its financial performance in the near to medium term.

### EARNINGS REVISION/RISK

- Downgrading earnings for 2022-24.** We have lowered our earnings estimates by 14-48% for 2022-24. The biggest earnings downgrade relates to 2022 as we have assumed US\$54m in losses at the associate line which includes its share of Yonghui's 4Q21 losses, and that the rest of 2022 will be similarly difficult for grocery retail in China after the 1Q22 earnings peak due to COVID-19 panic buying. For 2022-24 we have assumed 4-5ppt lower gross margins and 1-2ppt lower operating margins going forwards as a result of cost pressures which cannot be passed onto consumers.

### VALUATION/RECOMMENDATION

- Downgrade to HOLD rating with a fair value of US\$2.87 (previously US\$3.65).** We peg our aggregate 2022 and 2023 EPS estimate to a target multiple of 23x which is 1SD below its five-year average PE of 32.3x (excluding 2020). We believe that the discount to its five-year average PE is fair and reasonable given the continued COVID-19-related challenges that the company faces in its various business segments and geographies. We had expected a turnaround in the company's fortunes in 2022, but the imposition of strict lockdowns throughout China has delayed the normalisation of the company's fortunes. EPS revision momentum for DFI continues to be negative and has yet to trough in our view, and with earnings likely to remain highly subjective to the vagaries of government policy in the near to medium term, we have reduced our rating to HOLD from BUY.

### SHARE PRICE CATALYST

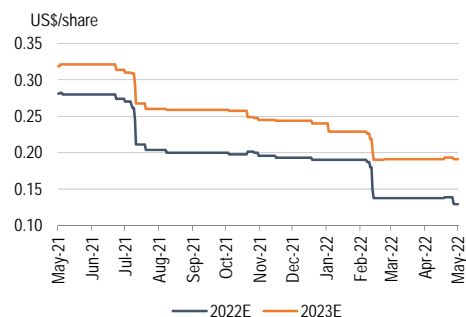
- Opening of Hong Kong borders to China travelers.
- Share buyback or privatization of the company by its parent.

### REGIONAL COMPARABLE COMPANIES – GROCERY AND CONSUMER STAPLES

	Bbg ticker	Mkt cap (US\$b)	2022		
			P/E (x)	EV/EBITDA (x)	P/B (x)
DFI Retail	DFI SP	5.1	30.4	3.7	2.9
Berli Jucker PCL	BJC BK	5.8	25.7	14.7	1.2
Robinsons Retail	RRHI PM	2.1	17.9	7.6	1.1
Coles Group	COL AU	16.8	21.8	8.8	7.9
Woolworths Group	WOW AU	30.2	25.2	10.5	7.7
United Super Markets	3222 JP	1.1	32.9	5.9	0.9
E-MART Inc	139480 KS	2.6	4.7	9.8	0.3
Kobe Bussan Co	3038 JP	6.2	27.5	19.5	7.8
Izumi Co Ltd	8273 JP	1.6	9.0	5.8	0.8
Life Corp	8194 JP	1.0	7.6	4.7	1.1
Sheng Siong Group	SSG SP	1.7	19.5	11.9	5.1
Sun Art Retail Group	6808 JP	2.8	11.2	1.7	0.8
<b>Average ex DFI Retail</b>			<b>18.5</b>	<b>9.2</b>	<b>3.2</b>

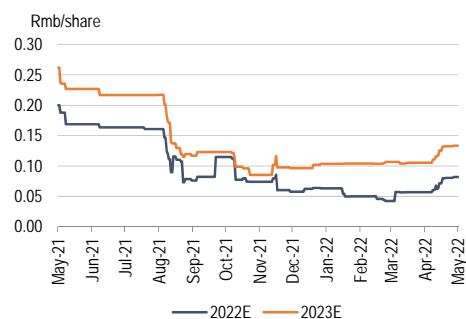
Source: Bloomberg, UOB Kay Hian

### DFI: EPS REVISION MOMENTUM



Source: Bloomberg

### YONGHUI: EPS REVISION MOMENTUM



Source: Bloomberg

### CHANGES TO EARNINGS FORECASTS

Y/e 31 Dec, US\$m	2022E	2023E	2024E
NPAT - was	234	296	301
NPAT - is	122	212	260
Change	-47.8%	-28.5%	-13.6%

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	9,015	9,272	9,617	9,731
EBITDA	1,197	1,252	1,298	1,343
Deprec. & amort.	886	927	962	973
EBIT	311	325	337	370
Associate contributions	(42)	(54)	50	80
Net interest income/(expense)	(119)	(123)	(120)	(116)
Pre-tax profit	150	147	267	334
Tax	(59)	(37)	(67)	(83)
Minorities	12	12	12	12
Net profit	103	122	212	262
Net profit (adj.)	103	122	212	262

### BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	803	843	886	930
Other LT assets	5,477	5,749	6,050	6,380
Cash/ST investment	254	216	148	170
Other current assets	1,071	1,064	1,063	1,075
<b>Total assets</b>	<b>7,605</b>	<b>7,873</b>	<b>8,146</b>	<b>8,555</b>
ST debt	744	900	800	800
Other current liabilities	2,797	2,663	2,730	2,754
LT debt	311	300	300	600
Other LT liabilities	2,486	2,718	2,973	3,254
Shareholders' equity	1,267	1,303	1,366	1,182
Minority interest	0	(12)	(23)	(35)
<b>Total liabilities &amp; equity</b>	<b>7,605</b>	<b>7,873</b>	<b>8,146</b>	<b>8,555</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	942	1,211	1,419	1,387
Pre-tax profit	311	325	337	370
Tax	(110)	0	0	0
Deprec. & amort.	886	927	962	973
Working capital changes	(10)	(127)	67	12
Non-cash items	0	0	0	0
Other operating cashflows	(134)	86	53	33
Investing	(125)	(198)	(202)	(206)
Capex (growth)	(185)	(200)	(204)	(208)
Proceeds from sale of assets	94	0	0	0
Others	(34)	2	2	2
Financing	(841)	(1,051)	(1,285)	(1,159)
Dividend payments	(198)	(86)	(149)	(446)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,248	0	0	0
Others/interest paid	(1,892)	(965)	(1,137)	(713)
Net cash inflow (outflow)	(24)	(38)	(69)	22
Beginning cash & cash equivalent	278	254	216	148
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	253	216	148	170

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	13.3	13.5	13.5	13.8
Pre-tax margin	1.7	1.6	2.8	3.4
Net margin	1.1	1.3	2.2	2.7
ROA	1.3	1.6	2.6	3.1
ROE	7.9	9.5	15.9	20.6
<b>Growth</b>				
Turnover	(12.2)	2.8	3.7	1.2
EBITDA	(12.8)	4.6	3.7	3.4
Pre-tax profit	(54.5)	(1.8)	80.9	25.2
Net profit	(62.0)	18.7	73.2	23.8
Net profit (adj.)	(62.0)	18.7	73.2	23.8
EPS	(62.0)	18.7	73.2	23.8
<b>Leverage</b>				
Debt to total capital	45.4	48.2	45.0	55.0
Debt to equity	83.2	92.1	80.5	118.4
Net debt/(cash) to equity	63.2	75.5	69.7	104.0
Interest cover (x)	10.1	10.2	10.8	11.6

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