

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

12 Aug 2022

BUY

Last Traded Price (11 Aug 2022): S\$0.790 (STI : 3,301.96)
Price Target 12-mth: S\$1.31 (66% upside) (Prev S\$1.10)

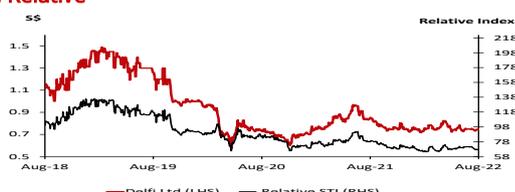
Analyst

Singapore Research Team equityresearch3@dbs.com

What's New

- 1H22 net profit surged 58% y-o-y, surpassing pre-COVID levels in 2019 – above expectations
- Gross margins improved marginally despite cost pressures
- Interim dividend of 2.18 Scts declared, highest since 2014
- At <11x PE of our revised earnings with c.25% of market cap in cash, counter looks like a steal; BUY with higher TP of S\$1.31

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Revenue	385	405	461	485
EBITDA	43.9	54.8	63.9	67.6
Pre-tax Profit	27.7	44.1	51.0	54.5
Net Profit	17.5	29.3	33.9	36.0
Net Pft (Pre Ex.)	17.5	26.0	33.9	36.0
Net Pft Gth (Pre-ex) (%)	(38.6)	48.6	30.7	5.9
EPS (S cts)	3.92	6.56	7.60	8.06
EPS Pre Ex. (S cts)	3.92	5.82	7.60	8.06
EPS Gth Pre Ex (%)	(39)	49	31	6
Diluted EPS (S cts)	3.92	6.56	7.60	8.06
Net DPS (S cts)	3.22	3.88	3.81	4.04
BV Per Share (S cts)	50.6	53.6	57.4	61.4
PE (X)	20.2	12.0	10.4	9.8
PE Pre Ex. (X)	20.2	13.6	10.4	9.8
P/Cash Flow (X)	8.3	4.6	7.3	7.7
EV/EBITDA (X)	7.7	5.0	4.0	3.5
Net Div Yield (%)	4.1	4.9	4.8	5.1
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	13.7	13.6
Earnings Rev (%):			23	16
Consensus EPS (S cts):			7.12	7.81
Other Broker Recs:		B: 2	S: 0	H: 0

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

Bouncing back strongly, surpassing pre-COVID

Investment Thesis:

Undervalued consumer stock with attractive dividend yield.

Delfi's valuation is attractive, at 10.4x FY22F PE (at -1SD of its four-year historical mean) along with c.25% of its market capitalisation in net cash. Following the group's special dividend in 2H21 and with its strong rebound in earnings, the counter is offering 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 of c.38%.

Catalyst for re-rating beyond operational performance. With its strong balance sheet, we believe the company has an opportunity to pursue inorganic growth strategies. In the near term, we believe a clearer signal to enhance shareholder value via a higher payout ratio and/or a share buyback programme could be constructive for its share price. We believe the adoption of the latter would signal to the market that the board/management believes the current share price is undervalued.

Valuation:

Maintain BUY with a higher TP of S\$1.31 pegged at 17x FY22F/23F earnings (average of its four-year mean forward PE). Delfi currently trades at an attractive valuation of 10.4x FY22F PE (below -1SD from the four-year mean forward PE).

Where we differ:

Our earnings revision is above consensus on the back of higher revenue growth assumptions given the stellar 1H22 performance.

Key Risks to Our View:

Large loss of market share, inflationary pressure causing higher-than-expected rise in input costs, and impact on consumer sentiment/purchasing power.

At A Glance

Issued Capital (m shrs)	611
Mkt. Cap (S\$m/US\$m)	483 / 353
Major Shareholders (%)	
Berlian Enterprises Ltd	52.0
First Pacific Advisors LP	8.1
Free Float (%)	39.9
3m Avg. Daily Val (US\$m)	0.16

GIC Industry : Consumer Staples / Food, Beverage & Tobacco



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WHAT'S NEW

1H22 performance surpassing pre-COVID

BUY with raised TP of S\$1.31; a steal at 10.4x FY22F PE and 25% market cap in cash. On the back of a stellar 1H22 performance, we raised our FY22F/23F earnings forecasts by 23%/16% due to better-than-expected top-line growth along with the improving consumer sentiment and easing of restrictions, particularly in Indonesia. Along with this, our **TP is raised to S\$1.31**, from S\$1.10 previously, as we roll our valuations over to the average of FY22F/23F, based on 17x PE, its four-year historical average. At 10.4x FY22F PE, along with c.25% of its market cap in net cash, this counter looks like a steal.

Strong balance sheet and low share price presents opportunity for re-rating beyond operational performance. We believe its strong balance sheet offers the company an opportunity to pursue inorganic growth strategies. With its attractive valuation and strong turnaround, we believe a clearer signal to enhance shareholder value via a higher payout ratio and/or a share buyback programme could be constructive for its share price. The adoption of the latter would signal to the market that the board/management believes the current share price is undervalued, in our view.

1H22 results review

Strong surge in net profit (+58%) for 1H22, surpassing pre-COVID performance in 2019 – above expectations. Delfi reported a strong set of 1H22 results, surpassing its pre-COVID performance in 2019. **Net profit surged by 57.6% y-o-y to US\$19.4m** on the back of a 17% revenue growth to US\$246.3m. The growth in revenue was driven by both its Indonesia and regional markets, on the back of easing COVID-19 restrictions and improving consumer sentiment.

Gross margin improved by 40bps to 29.4%, on sales mix, right sizing, and lower inventory write-offs. Despite worries of rising raw material costs, the **group's gross margin improved by 40bps to 29.4%**, driven by the sales of its premium products along with "price actions" taken, which, we believe, meant product right-sizing. We also noted that **inventories written off fell by US\$1.8m** from the same period last year, which, we estimate, helped to improve margins by an estimated 70bps.

Indonesia achieved strong performance. The group's Indonesia operations performed well, achieving revenue of US\$167.2m (+16.1% y-o-y), accounting for 68% of total revenue, similar to 1H21. Growth was seen in its own brands across its product categories, especially in its premium brands such as SilverQueen and Cha Cha. Its

agency business grew by a smaller 7.2%, helped by its snack and consumer categories. Indonesia EBITDA grew by 30.4% y-o-y to US\$32.2m, with margins improving to 19.2% in 1H22, from 17.1% a year ago.

Regional markets' performance helped by Malaysia and Philippines. Albeit smaller, its regional markets' performance was also stellar, registering revenue growth of 18.9% to US\$79.1m, while EBITDA was at US\$2.4m (+31.5%). This was driven by its operations in Malaysia, with strong performance in its consumer and healthcare categories. Over in the Philippines, operations benefitted from the easing of restrictions as well as the group's earlier investments in the market.

Balance sheet remains healthy with cash of US\$94.6m. Along with its positive operating performance as well as its control of costs, cash flow, and capital spending, the group's cash increased further to US\$94.6m, up from US\$86.2m as of 31 Dec 2021. This implies that the group's net cash as of 30 Jun 2022 accounts for about 25% of its current market capitalisation. We believe there lies an opportunity for the board/management to deploy the cash and/or to return it to shareholders to enhance value for the counter.

Interim dividend of 1.58 UScts (or 2.18 Scts) declared. An interim dividend of 2.18 Scts was declared, making it the highest interim dividend since the group's divestment of its cocoa business in 2014. Book closure for the interim dividend will be on 24 Aug and the dividend will be payable on 7 Sep 2022. The **dividend equates to a payout ratio of 50%**.

Valuations and forecasts

Raised FY22F/23F earnings by 23%/16%. On the back of its better-than-expected top-line growth and the improvement in Indonesia's Consumer Confidence Index, we revisited our assumptions and raised our FY22F/23F forecasts by 23%/16%. We expect margins to remain relatively stable going into 2H22, given the company's cost hedging strategies; sales mix, which is likely to be similar to 1H22; and a lower level of inventory write-offs compared to the same period last year.

Maintain BUY, TP:S\$1.31. The strong 1H22 results highlight the group's recovery, along with the easing of COVID restrictions. While inflationary pressures and uncertainties remain, we believe the group should be able to navigate these, given its brand and distribution strength, along with its strong balance sheet. The counter

Delfi Ltd

is trading at 10.4x FY22F PE based on our revised earnings estimates, and along with its healthy net cash accounting for 25% of its market cap, it seems like a steal for a branded consumer company.

Beyond operational performance for share price re-rating.

The strong operational performance can be a catalyst for its share price to re-rate. We believe a further re-rating could arise if and when the board/management decides to leverage on its strong balance sheet to enhance further value for shareholders either through **inorganic growth opportunities, higher dividend payout/capital reduction, and/or a share buyback programme.**

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 about 67% of its revenue in FY2021. Other key regional markets include the Philippines, Singapore, and Malaysia. According to Euromonitor, DELFI is estimated to have had a market share of c.38% in the chocolate confectionery market in Indonesia in 2021.

Interim Income Statement (US\$m)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	210	195	246	17.0	26.6
Cost of Goods Sold	(149)	(136)	(174)	16.3	27.8
Gross Profit	61	59	72	18.8	23.5
Other Oper. (Exp)/Inc	(41)	(33)	(44)	5.4	31.0
Operating Profit	20	25	29	46.9	13.6
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	0	0	nm	-
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	19	25	29	50.9	14.3
Tax	(7)	(8)	(9)	38.6	14.6
Minority Interest	0	0	0	-	-
Net Profit	12	17	19	57.6	14.1
Net profit bef Except.	12	17	19	57.6	14.1
EBITDA	26	32	35	32.7	9.0
Margins (%)					
Gross Margins	29.0	30.1	29.4		
Opg Profit Margins	9.4	13.1	11.8		
Net Profit Margins	5.8	8.7	7.9		

Source of all data: Company, DBS Bank

Delfi Ltd

Historical PE and PB band



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



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

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Indonesia sales growth	1.30	(17.6)	5.90	14.3	5.40
Regional Markets sales	(0.8)	3.90	12.8	4.70	4.10
Gross Margin %	30.2	28.6	29.5	29.5	29.8

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$m)					
Indonesia	310	255	270	309	326
Regional Markets	131	130	135	152	159
Total	441	385	405	461	485

Income Statement (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	441	385	405	461	485
Cost of Goods Sold	(308)	(275)	(285)	(325)	(341)
Gross Profit	133	110	120	136	145
Other Opng (Exp)/Inc	(86.1)	(79.6)	(78.3)	(85.6)	(90.7)
Operating Profit	47.0	30.5	41.4	50.7	53.9
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)	0.36	0.57
Exceptional Gain/(Loss)	(0.3)	0.0	3.30	0.0	0.0
Pre-tax Profit	43.6	27.7	44.1	51.0	54.5
Tax	(15.4)	(10.2)	(14.8)	(17.1)	(18.5)
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	33.9	36.0
Net Profit before Except.	28.5	17.5	26.0	33.9	36.0
EBITDA	59.6	43.9	54.8	63.9	67.6
Growth					
Revenue Gth (%)	3.2	(12.6)	5.2	13.8	5.2
EBITDA Gth (%)	16.4	(26.4)	24.9	16.5	5.9
Opg Profit Gth (%)	18.1	(35.1)	35.8	22.3	6.4
Net Profit Gth (Pre-ex) (%)	23.8	(38.6)	48.6	30.7	5.9
Margins & Ratio					
Gross Margins (%)	30.2	28.6	29.5	29.5	29.8
Opg Profit Margin (%)	10.7	7.9	10.2	11.0	11.1
Net Profit Margin (%)	6.4	4.5	7.2	7.4	7.4
ROAE (%)	13.0	7.7	12.6	13.7	13.6
ROA (%)	7.4	4.5	7.8	9.0	8.9
ROCE (%)	9.0	5.1	9.2	12.6	12.6
Div Payout Ratio (%)	50.9	82.2	59.1	50.1	50.1
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	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	197	188	210	195	246
Cost of Goods Sold	(138)	(137)	(149)	(136)	(174)
Gross Profit	59.5	50.6	61.0	58.7	72.5
Other Oper. (Exp)/Inc	(40.3)	(39.3)	(41.3)	(33.2)	(43.5)
Operating Profit	19.2	11.3	19.7	25.5	29.0
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.4)	0.02	(0.1)	(0.1)	(0.1)
Net Interest (Exp)/Inc	(1.3)	(1.1)	(0.6)	(0.3)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	17.5	10.2	19.0	25.1	28.7
Tax	(6.7)	(3.5)	(6.7)	(8.1)	(9.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	10.8	6.66	12.3	17.0	19.4
Net profit bef Except.	10.8	6.66	12.3	17.0	19.4
EBITDA	25.5	18.4	26.5	32.2	35.2

Growth

Revenue Gth (%)	(7.8)	(4.6)	12.0	(7.5)	26.6
EBITDA Gth (%)	(11.1)	(28.0)	44.3	21.7	9.0
Opp Profit Gth (%)	(12.4)	(41.3)	74.7	29.3	13.6
Net Profit Gth (%)	(15.8)	(38.5)	84.7	38.1	14.1

Margins

Gross Margins (%)	30.2	26.9	29.0	30.1	29.4
Opp Profit Margins (%)	9.8	6.0	9.4	13.1	11.8
Net Profit Margins (%)	5.5	3.5	5.8	8.7	7.9

One-off items relating to lower employee retirement defined benefit obligations included here in interim statement

Balance Sheet (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	117	107	96.0	93.1	89.8
Invts 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 Invts	57.6	65.5	86.2	108	125
Inventory	87.4	76.9	64.8	69.4	72.8
Debtors	89.8	81.7	69.0	75.8	79.8
Other Current Assets	20.3	20.8	18.6	18.6	18.6
Total Assets	402	382	364	394	415
ST Debt	58.3	48.8	10.1	10.1	10.1
Creditor	37.2	29.9	38.0	36.5	38.3
Other Current Liab	63.3	61.1	63.0	77.2	78.6
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	256	274
Minority Interests	0.12	0.12	0.0	0.0	0.0
Total Cap. & Liab.	402	382	364	394	415
Non-Cash Wkg. Capital	97.0	88.4	51.4	50.1	54.3
Net Cash/(Debt)	(0.8)	16.8	76.2	97.6	115
Debtors Turn (avg days)	67.2	81.3	67.9	57.3	58.5
Creditors Turn (avg days)	44.5	46.8	45.6	43.6	41.7
Inventory Turn (avg days)	101.5	114.7	95.1	78.6	79.4
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	1.5	1.6
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	51.0	54.5
Dep. & Amort.	13.4	13.8	13.6	13.2	13.7
Tax Paid	(18.2)	(15.4)	(10.7)	(2.9)	(17.1)
Assoc. & JV Inc/(loss)	0.82	0.39	0.19	0.0	0.0
Chg in Wkg.Cap.	(11.3)	13.0	10.2	(13.0)	(5.5)
Other Operating CF	3.74	3.08	20.0	0.0	0.0
Net Operating CF	32.1	42.4	77.2	48.4	45.6
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)	(17.0)	(18.0)
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)	(17.0)	(18.0)
Currency Adjustments	0.56	(0.3)	(0.8)	0.0	0.0
Chg in Cash	2.85	7.96	21.5	21.4	17.5
Opg CFPS (S cts)	9.72	6.60	15.0	13.7	11.4
Free CFPS (S cts)	4.85	8.42	17.2	8.61	7.97

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Aug 21	0.85	1.06	BUY
2:	17 Nov 21	0.76	1.07	BUY
3:	24 Feb 22	0.78	1.10	BUY

Source: DBS Bank

Analyst: Singapore Research Team

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

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

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