

Singapore

ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 0

Current price: S\$1.03
 Target price: S\$1.47
 Previous target: S\$1.56
 Up/downside: 43.1%
 CGSI / Consensus: -4.9%

Reuters: DELF.SI
 Bloomberg: DELFI SP
 Market cap: US\$468.6m
 S\$629.5m
 Average daily turnover: US\$0.38m
 S\$0.51m
 Current shares o/s: 611.2m
 Free float: 47.4%

*Source: Bloomberg

Key changes in this note

- Reduce FY24F EPS by 1.4%.
- Reduce FY25F EPS by 2.1%.
- Introduce FY26F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7.2	-12.7	10.8
Relative (%)	-7.1	-15	14.1

Major shareholders	% held
Berlian Enterprises Ltd	52.3
First Pacific Advisors LP	6.0
Nesna LLP	4.9

Analyst(s)



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Delfi Ltd

Revenue growth stave off margin pressures

- FY23 PATMI grew 5.4% yoy to US\$46.3m, in line at 101.1%/99.4% of our/Bloomberg consensus' FY23F estimates.
- In its analyst briefing call on 28 Feb 24, management attributed GP margin compression of 2.0% pts yoy in FY23 to higher promotional expenses.
- Reiterate our Add call on attractive valuation of 9x forward 12M PE; TP lowered to S\$1.47 pegged at 13.8x FY25F P/E from 15.0x previously.

Underlying growth masked by weaker functional currencies

DELFI recorded revenue growth of 12.7% to US\$538.2m in FY23, which we think was dampened by the weaker currencies (Fig 1) across its key countries of operations, such as Indonesia, Philippines, and Malaysia, which contributed 98.4% of its FY23 revenue. On a constant currency basis, DELFI disclosed that sales would have achieved a higher 16.2% yoy growth, translating to an additional US\$4.8m in gross profit, with a constant GPM. Nevertheless, DELFI reported a 2.0% pts decline yoy in GPM for FY23, which management attributed to higher promotional spending amidst increased competition and an increase in strategic investments to strengthen core brands and into new products.

Confident in hedging against rising raw material prices

Despite the record high cocoa prices, management remains confident of its hedging policy in which DELFI maintains a forward cover on its key raw materials (i.e. cocoa, sugar, milk etc.) to allow DELFI to lock in costs in the near term, while allowing it to re-evaluate product, sizing, and pricing strategy ahead of the cost pressures that are coming through. The management has also cited moderation of milk and palm oil prices that have mitigated the impact on costs from record cocoa prices.

Operating in countries with structural growth in demand

The management offered more insights to DELFI's operations, with growth observed across both modern trade and general trade channels in Indonesia on a largely stable sales mix. With their visibility on product sell-through across the markets, management is also positive about the structural growth in demand, highlighting that revenue growth observed in FY23 was mostly driven by higher sales volume.

Maintain Add; lower TP of S\$1.47 on de-rating of valuation multiple

We lower our FY24F/25F EPS by 1.4%/2.1% on lower revenue growth and GP margins, partially offset by lower selling and distribution costs. We continue to like DELFI for its market leadership in Indonesia that contributed 92.0% of its FY23 EBITDA and believe that its current trading valuation of 9x forward-12M multiple is unwarranted given regional peers' valuation of 14.9x CY25F P/E (exc. NESZ MK). Our TP is lowered to S\$1.47 after rolling forward our valuation to peg at 13.8x (5-year mean) FY25F P/E, which has fallen from 15.0x previously. Re-rating catalysts: easing cocoa prices, buoyant revenue momentum. Downside risks: escalating cocoa prices resulting in lower GP margins, and depreciation of the Rp against US\$, resulting in lower revenues from translation impact.

Financial Summary	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (US\$m)	477.5	538.2	580.5	618.4	659.0
Operating EBITDA (US\$m)	73.42	74.27	79.52	83.48	88.97
Net Profit (US\$m)	43.90	46.26	46.52	48.34	51.10
Core EPS (US\$)	0.072	0.076	0.076	0.079	0.084
Core EPS Growth	69.0%	5.4%	0.6%	3.9%	5.7%
FD Core P/E (x)	10.68	10.13	10.07	9.69	9.17
DPS (US\$)	0.043	0.043	0.038	0.040	0.042
Dividend Yield	5.61%	5.63%	4.96%	5.16%	5.45%
EV/EBITDA (x)	5.56	5.92	5.12	4.80	4.45
P/FCFE (x)	15.34	16.51	3.46	4.12	3.91
Net Gearing	(23.6%)	(10.0%)	(20.5%)	(20.9%)	(20.8%)
P/BV (x)	1.90	1.76	1.62	1.49	1.38
ROE	18.1%	18.1%	16.7%	16.0%	15.7%
% Change In Core EPS Estimates			(1.43%)	(2.12%)	
EPS/Consensus EPS (x)			0.92	0.89	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Revenue growth stave off margin pressures

Continuing special dividend in FY23 ►

DELFI declared a final dividend of 1.74 UScts/share as well as a 0.52 UScts/share in special dividend for 2H23, bringing FY23 total dividend to 4.32 UScts/share, up from 4.3 UScts/share in FY22. However, the depreciation of US\$ against S\$ has meant that the dividends, which will be distributed in S\$, is slightly reduced from 5.77 Scts in FY22 to 5.75 Scts in FY23. Nevertheless, we note that the total payout ratio of 57% for FY23 represents a yield of c.6% based on the last transacted price of S\$0.955 on 28 Feb 24, and the guidance of a sustainable 50% payout ratio moving forward also represents a commendable yield of above 5% in FY24F.

Figure 1: Exchange rates used in the preparation of DELFI's FY22/23 financial reports

USD 1 to	Indonesian Rupiah (IDR)	Malaysian Ringgit (MYR)	Singapore Dollar (SGD)	Philippines Peso (PHP)
FY2023	15,245	4.549	1.344	55.709
FY2022	14,795	4.386	1.379	54.426
Strengthened/(Weakened) Y-o-Y	(3.04%)	(3.72%)	2.53%	(2.36%)

SOURCES: COMPANY REPORTS

Figure 2: Results comparison

FYE Dec (US\$m)	2H23	2H22	yoy % chg	1H23	hoh % chg	FY23	FY22	yoy % chg	Prev FY23F	Comments
Revenue	255.2	236.7	7.8%	283.0	-9.8%	538.2	477.5	12.7%	557.1	FY23 revenue of US\$538.2m was generally in line at 96.6%/97.0% of our/Bloomberg consensus' FY23F estimates. On a constant currency basis, DELFI observed a yoy revenue growth of 16.2% compared to the reported revenue growth of 12.7%.
Gross profit	69.6	75.8	-8.2%	83.6	-16.7%	153.2	145.5	5.3%	167.1	
Gross profit margin (%)	27.3%	32.0%	-4.8% pts	29.6%	-2.3% pts	28.5%	30.5%	-2.0% pts	30.0%	GP margin compression of 4.8% pt yoy in 2H23 was a result of higher advertising and promotional expenses.
Operating costs	(38.7)	(41.0)	-5.4%	(47.6)	-18.6%	(86.3)	(81.7)	5.7%	(98.8)	Operating costs were lower than our expectations due to lower selling and distribution expenses as a proportion of revenue in 2H23 vs. 1H23.
EBIT	30.9	34.9	-11.4%	36.0	-14.3%	66.9	63.8	4.8%	68.3	
EBIT margins (%)	12.1%	14.7%	-2.6% pts	12.7%	-0.6% pts	12.4%	13.4%	-0.9% pts	12.3%	
EBITDA	34.5	39.4	-12.4%	40.0	-13.7%	74.5	74.0	0.7%	79.9	
EBITDA margins	13.5%	16.6%	-3.1% pts	14.1%	-0.6% pts	13.8%	15.5%	-1.7% pts	14.3%	
Pretax profit	30.0	34.4	-12.7%	35.4	-15.1%	65.4	63.0	3.7%	67.3	
Net profit	21.1	24.5	-14.1%	25.2	-16.4%	46.3	43.9	5.4%	45.7	
Exceptionals	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.	0.0	
Core net profit	21.1	24.5	-14.1%	25.2	-16.4%	46.3	43.9	5.4%	45.7	FY23 core net profit of US\$46.5m was in line at 101.1%/99.4% of our/Bloomberg consensus' FY23F estimates.
EPS (Scts)	3.45	4.01	-14.1%	4.12	-16.4%	7.57	7.18	5.4%	7.48	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 3: Forecast revisions

US\$m	New			Old			% Change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	580.5	618.4	659.0	588.3	621.5	N.A.	-1.3%	-0.5%	N.A.
Gross profit	165.4	176.2	187.8	175.3	185.2	N.A.	-5.6%	-4.8%	N.A.
Gross profit margin (%)	28.5%	28.5%	28.5%	29.8%	29.8%	N.A.	-1.3% pt	-1.3% pt	N.A.
Selling and distribution costs	(69.7)	(74.2)	(79.1)	(79.4)	(83.9)	N.A.	-12.3%	-11.6%	N.A.
Administrative expenses	(28.8)	(32.1)	(34.6)	(28.7)	(30.7)	N.A.	0.2%	4.5%	N.A.
EBITDA	82.8	86.7	92.0	83.0	87.5	N.A.	-0.3%	-1.0%	N.A.
EBITDA margin (%)	14.3%	14.0%	14.0%	14.1%	14.1%	N.A.	0.2% pt	-0.1% pt	N.A.
Net profit	46.5	48.3	51.1	47.2	49.4	N.A.	-1.4%	-2.1%	N.A.
Core net profit	46.5	48.3	51.1	47.2	49.4	N.A.	-1.4%	-2.1%	N.A.
Core EPS (US cents)	7.61	7.91	8.36	7.72	8.08	N.A.	-1.4%	-2.1%	N.A.

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

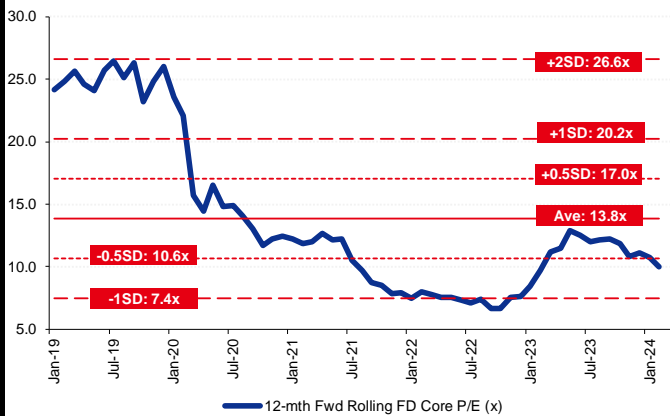
Figure 4: Peers comparison (as of 28 Feb 2024)

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	TP (lcl curr)	Market Cap (US\$ m)	EV/EBITDA (x) CY24F	EV/EBITDA (x) CY25F	3-year EPS CAGR (%)	P/E ratio (x) CY24F	P/E ratio (x) CY25F	Recurring ROE CY24F	Recurring ROE CY25F	Dividend Yield CY24F	Dividend Yield CY25F
Delfi Ltd	DELFI SP	Add	1.030	1.47	469	5.1	4.8	3.4%	10.1	9.7	16.7%	16.0%	5.0%	5.2%
Regional peers														
Mayora Indah	MYOR IJ	Add	2,370	2,890	3,387	10.4	9.6	N.A.	18.0	16.7	19.3%	19.1%	3.3%	2.4%
Indofood CBP Sukses Makmur Tbk	ICBP IJ	NR	11,575	N.A.	8,601	10.4	9.6	N.A.	13.8	12.7	19.8%	18.5%	3.2%	3.6%
Nestle (Malaysia)	NESZ MK	Hold	121.5	121.0	5,984	23.2	22.0	N.A.	36.2	34.1	110.3%	103.4%	2.5%	2.6%
Universal Robina Corporation	URC PM	Add	113.5	156.9	4,402	125.7	117.4	N.A.	16.4	15.3	12.3%	12.5%	3.8%	4.1%
						42.4	39.6	N.A.	21.1	19.7	40.4%	38.4%	3.2%	3.2%
Global peers														
Mondelez International Inc	MDLZ US	NR	73.13	N.A.	98,468	15.7	14.8	4.4%	20.8	19.2	16.7%	17.5%	2.4%	2.6%
Hershey Co/The	HSY US	NR	187.2	N.A.	38,173	13.9	13.3	6.3%	19.5	18.3	45.2%	45.0%	2.8%	3.0%
Nestle SA	NESN SW	NR	93.64	N.A.	283,919	14.9	14.1	10.7%	18.6	17.2	33.6%	34.2%	3.4%	3.6%
						14.8	14.0	7.1%	19.6	18.2	31.9%	32.2%	2.9%	3.1%
Simple average						30.6	28.7	7.1%	20.4	19.1	40.9%	35.8%	3.2%	3.1%

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG

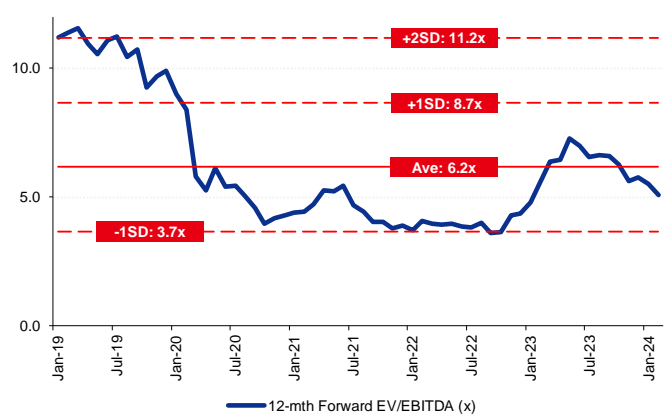
Note: Forecasts for Not rated companies are based on Bloomberg consensus estimates

Figure 5: DELFI's 12-mth rolling FD core P/E (x)






SOURCES: CGSI RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: DELFI's 12-mth rolling FD EV/EBITDA (x)

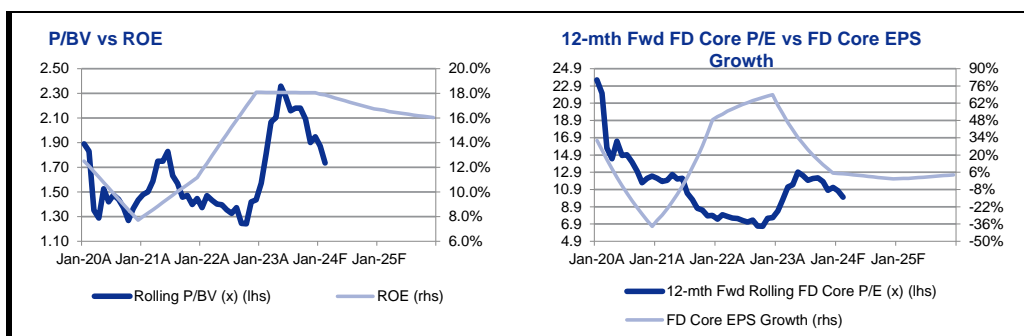


SOURCES: CGSI RESEARCH, COMPANY REPORTS, BLOOMBERG

Refinitiv ESG Scores	
	
	
<p>Delfi scored a C for its combined ESG score as rated by Refinitiv for FY22, with a C+ for Social (c.45% weightage of its combined ESG score), C- for Governance (c.26% weightage), and C+ for Environmental (c.29% weightage). In FY22, Delfi began new initiatives to explore more sustainable sources of energy to reduce its carbon footprint and combat climate change.</p>	
<p>Keep your eye on</p> <p>In 2015, cocoa processor and chocolate manufacturer Barry Callebaut notified Delfi of various claims from the Brazil tax authorities against its former subsidiary Delfi Cacau Brazil Ltd (DCBR) that was sold to Barry Callebaut as part of the sale of its cocoa ingredients business in 2013. As at end-FY20, Delfi's total exposure in respect to tax and labour claims in Brazil was c.S\$17.7m, as stated in Delfi's 1H21 results update. Delfi believes that there are grounds to resist these claims and has since requested Barry Callebaut to respond to the authorities. There have been no updates since.</p>	<p>Implications</p> <p>We believe a c.US\$17.7m claims payout will significantly impact Delfi's financials. Since details of the claims have yet to be finalised since 2015, we have not factored them into our valuations.</p>
<p>ESG highlights</p> <p>According to Refinitiv, Delfi's ESG performance is comparable to regional peers with relatively strong E, S, and G scores. However, we think Delfi's combined ESG score could be higher, especially as we believe the company should be scored higher in the Environmental pillar. For example, in FY21, Delfi achieved a 2.49% decrease in total energy consumption, as well as a 21% decrease in water consumption intensity compared with FY20. Moreover, 100% of its water is recycled or reused, which reduced total wastewater discharged.</p>	<p>Implications</p> <p>We think Delfi takes measured steps in its ESG approach, which could benefit its financials in the form of reduced costs. We have not yet factored these into our valuations.</p>
<p>Trends</p> <p>According to Delfi's FY22 sustainability report, 98%/91% of its existing suppliers in Indonesia/the Philippines and 97% of its new suppliers have undergone its Supplier Self-Assessment Programme, which allows Delfi to evaluate its suppliers on compliance and management of social and environmental aspects of their business. Delfi did not have any reported incidents of breach of corporate governance in FY22.</p>	<p>Implications</p> <p>We have not factored these into our valuations.</p>

SOURCES: CGSI RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	477.5	538.2	580.5	618.4	659.0
Gross Profit	145.5	153.2	165.4	176.2	187.8
Operating EBITDA	73.4	74.3	79.5	83.5	89.0
Depreciation And Amortisation	(11.8)	(11.0)	(12.5)	(13.6)	(14.8)
Operating EBIT	61.6	63.3	67.0	69.9	74.2
Financial Income/(Expense)	(2.3)	(2.3)	(3.6)	(3.8)	(4.0)
Pretax Income/(Loss) from Assoc.	(0.2)	(0.3)	0.0	0.0	0.0
Non-Operating Income/(Expense)	3.9	4.7	5.0	5.0	5.0
Profit Before Tax (pre-EI)	63.0	65.4	68.4	71.1	75.1
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	63.0	65.4	68.4	71.1	75.1
Taxation	(19.1)	(19.1)	(21.9)	(22.7)	(24.0)
Exceptional Income - post-tax					
Profit After Tax	43.9	46.3	46.5	48.3	51.1
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	43.9	46.3	46.5	48.3	51.1
Recurring Net Profit	43.9	46.3	46.5	48.3	51.1
Fully Diluted Recurring Net Profit	43.9	46.3	46.5	48.3	51.1

Cash Flow

(US\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	73.42	74.27	79.52	83.48	88.97
Cash Flow from Inv. & Assoc.	0.16	0.31	0.00	0.00	0.00
Change In Working Capital	(50.51)	(28.12)	21.36	(5.32)	(7.15)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	20.59	20.68	80.91	84.67	89.93
Net Interest (Paid)/Received	0.87	1.91	0.00	0.00	0.00
Tax Paid	(17.07)	(25.63)	(21.89)	(22.75)	(24.05)
Cashflow From Operations	27.45	43.43	159.91	140.08	147.70
Capex	(3.78)	(23.59)	(22.54)	(24.08)	(25.61)
Disposals Of FAs/subsidiaries	0.00	(0.50)	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.17	0.12	(2.02)	(2.14)	(2.28)
Other Investing Cashflow					
Cash Flow From Investing	(3.61)	(23.97)	(24.56)	(26.22)	(27.89)
Debt Raised/(repaid)	6.71	8.93	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19.20)	(29.06)	(23.26)	(24.17)	(25.55)
Preferred Dividends					
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	(12.49)	(20.13)	(23.26)	(24.17)	(25.55)
Total Cash Generated	11.35	(0.68)	112.09	89.69	94.26
Free Cashflow To Equity	30.55	28.38	135.35	113.86	119.81
Free Cashflow To Firm	24.47	20.67	135.35	113.86	119.81

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	77.1	59.4	91.9	98.1	103.4
Total Debtors	71.2	88.9	84.3	89.8	95.7
Inventories	115.5	115.9	111.8	119.1	126.9
Total Other Current Assets	22.2	30.7	24.4	20.6	19.4
Total Current Assets	286.0	294.9	312.4	327.6	345.4
Fixed Assets	81.5	97.8	110.0	122.8	136.0
Total Investments	2.5	2.3	2.3	2.3	2.3
Intangible Assets	18.2	18.2	18.0	17.9	17.8
Total Other Non-Current Assets	6.9	7.8	7.9	7.9	6.7
Total Non-current Assets	109.1	126.0	138.2	150.9	162.7
Short-term Debt	19.0	32.7	32.7	32.7	32.7
Current Portion of Long-Term Debt					
Total Creditors	111.7	101.6	112.0	115.8	119.9
Other Current Liabilities	5.4	2.4	2.4	2.4	2.4
Total Current Liabilities	136.1	136.8	147.2	151.0	155.0
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.9	4.9	0.9	0.9	0.9
Total Non-current Liabilities	0.9	4.9	0.9	0.9	0.9
Total Provisions	11.9	13.0	13.0	13.0	13.0
Total Liabilities	148.9	154.7	161.1	164.9	168.9
Shareholders' Equity	246.2	266.2	289.5	313.7	339.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	246.2	266.2	289.5	313.7	339.2

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	17.9%	12.7%	7.9%	6.5%	6.6%
Operating EBITDA Growth	28.0%	1.2%	7.1%	5.0%	6.6%
Operating EBITDA Margin	15.4%	13.8%	13.7%	13.5%	13.5%
Net Cash Per Share (US\$)	0.10	0.04	0.10	0.11	0.12
BVPS (US\$)	0.40	0.44	0.47	0.51	0.56
Gross Interest Cover	97.82	52.01	35.36	35.13	35.50
Effective Tax Rate	30.4%	29.3%	32.0%	32.0%	32.0%
Net Dividend Payout Ratio	59.9%	57.1%	50.0%	50.0%	50.0%
Accounts Receivables Days	53.55	54.26	54.56	51.32	51.31
Inventory Days	99.1	109.7	100.4	95.3	95.3
Accounts Payables Days	48.22	44.96	41.25	41.29	41.28
ROIC (%)	35.5%	31.9%	26.3%	28.9%	28.5%
ROCE (%)	23.8%	22.3%	21.5%	20.8%	20.5%
Return On Average Assets	12.2%	11.9%	11.5%	11.2%	11.2%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Own brands- Indonesia revenue growth (%)	18.9%	9.5%	7.0%	7.0%	7.0%
Agency brand- Indonesia revenue growth (%)	14.2%	15.4%	2.5%	2.5%	2.5%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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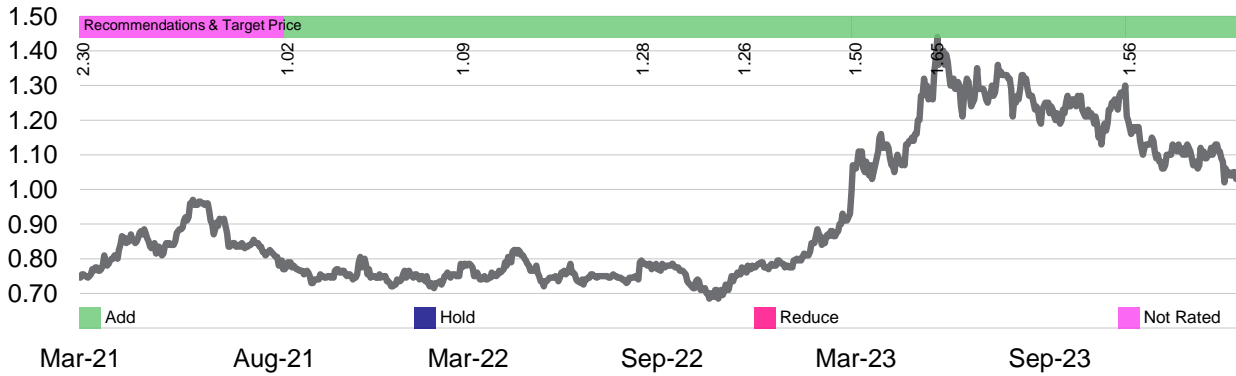
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

Delfi Ltd (DELFI SP)

— Price Close



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

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