Singapore Results Review

16 May 2019

Consumer Cyclical | Food & Beverage Products

Delfi (Delfi SP)

BUY (Maintained)

Premium Chocs At Great Value; Strong BUY

Target Price (Return)	SGD1.68 (+24%)
Price:	SGD1.35
Market Cap:	USD603m
Avg Daily Turnover (SGD/USD)	0.1m/0.1m

- **Reiterate BUY on our consumer sector Top Pick.** Our DCF-derived TP of SGD1.68 implies 24% upside with 2.5% dividend yield. Delfi delivered a strong core PATMI of SGD9.4m for 1Q19, up 22% YoY. This met 34% of our full-year estimate, in line with our expectation.
- **Earnings drivers.** The group continued to see robust revenue growth of 19.5% YoY on the back of rising demand in Indonesia and regional markets. This was largely driven by successful marketing campaigns during Valentines' day, launches of new products and shipment of products to trade agents in anticipation of the *Lebaran* festivities in early June.
- **Expect gross margin to remain at c.35% this year.** Initiatives to cull less-profitable stock keeping units (SKUs) and focus on the premium range have led to improved gross margins. In 1Q19, agency brand products have also raised prices. This, together with higher sales of premium products, brought its gross margin to 35.8% (+1.3ppt YoY), one of the highest in the past seven years. Given that the IDR has been fairly stable YTD, we believe Delfi's gross margin should be able to stay at around 35% this year.
- **Operating leverage to kick in this year.** We do not expect any significant jump in administrative costs, since the SAP system was fully implemented last year. Management also guided that 1Q19 administrative expenses should be the normalised rate.
- **Premium chocolates at value price.** Our DCF-derived TP of SGD1.68 implies 28x FY19F P/E. We think Delfi's current valuation of 23x FY19F P/E is not expensive, given its growth outlook. It is also trading at a serious discount to Mayora Indah (BUY, TP IDR3,300), which is trading at 29x.

RHB is the only broker covering this stock

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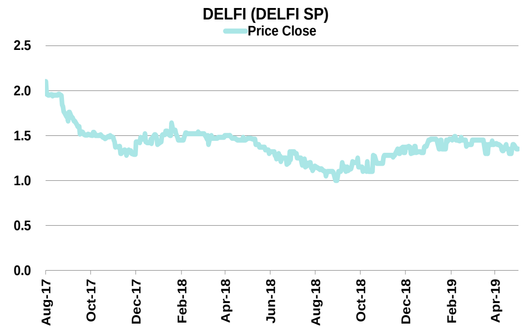
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.3	(4.3)	(6.9)	5.5	(8.2)
Relative	(2.5)	(0.9)	(6.1)	0.2	1.0
52-wk Price low/high (SGD)					0.99 – 1.57



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Total turnover (USDm)	380.3	427.0	484.4	528.9	577.6
Recurring net profit (USDm)	17.1	23.0	27.3	31.0	34.6
Recurring net profit growth (%)	(34.7)	34.6	18.6	13.8	11.5
Recurring P/E (x)	35.8	26.6	22.4	19.7	17.7
P/B (x)	2.9	3.0	2.8	2.6	2.5
P/CF (x)	34.0	62.7	26.0	22.6	20.4
Dividend Yield (%)	1.8	1.9	2.5	2.8	3.1
EV/EBITDA (x)	13.6	12.0	10.4	9.3	8.5
ROAE (%)	10.5	11.2	12.5	13.4	14.0
Net debt to equity (%)	net cash	2.1	0.9	net cash	net cash
Interest coverage (x)	10.7	13.0	16.3	18.3	20.2

Source: Company data, RHB

Figure 1: 1Q19 results summary

USDm	1Q19	4Q18	QoQ (%)	1Q18	YoY (%)	Comments
Revenue	128.2	107.9	*18.9*	107.3	*19.5*	Higher sales due to strong sales momentum in both Indonesia and regional markets.
Indonesia	93.7	76.6	*22.3*	76.2	*22.9*	
Regional	34.6	31.3	*10.5*	31.1	*11.1*	
Gross Profit	45.9	38.5	*19.3*	37.1	*23.8*	Due to its improved sales mix.
Gross margin (%)	*35.8*	*35.7*		*34.5*		
EBITDA	17.6	13.4	*31.1*	14.4	*22.3*	Increment was due to the adoption of SFRS16.
Core PATMI	9.4	5.4	*72.8*	7.6	*23.1*	
Net margin (%)	*7.3*	*5.0*		*7.1*		

Source: Company data, RHB

Figure 2: TP derivation

USDm	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F
Net income	27.3	31.0	34.6	37.4	40.0	42.4	44.5	46.3	47.7
D&A costs	14.1	14.7	15.1	10.0	10.0	10.0	10.0	10.0	10.0
Net capex	(12.0)	(12.0)	(12.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Change in net working capital	(8.6)	(8.2)	(8.1)	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt	(9.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow to equity (FCFE)	11.8	25.4	29.7	37.4	40.0	42.4	44.5	46.3	47.7
Terminal value									982.0
Present Value	11.8	23.6	25.4	29.7	29.4	28.8	28.0	27.0	556.3
Total discounted FCFE	760.0								
Value/ share (USD)	1.24								
Exchange rate: USDSGD	1.35								
Value/ share (SGD)	**1.68**								
Cost of equity	8.0%								
Risk-free rate	6.5%								
Beta	0.5								
Market expected return	9.5%								
Terminal growth	3.0%								

Source: RHB

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