# Singapore Company Update

28 August 2023

Consumer Cyclical | Retailing

# DFI Retail Group (DFI SP)

# Buy (from Neutral)

## Recovery At Palatable Valuation; U/G To BUY

| | |
|---|---|
| Target Price (Return): | USD2.92 (+22%) |
| Price (Market Cap): | USD2.40 (USD3,249m) |
| ESG score: | 3 (out of 4) |
| Avg Daily Turnover (USD/USD) | 1.00m/1.00m |

- **Upgrade to BUY from Neutral, unchanged SGD2.92 TP offers 22% upside with 6% FY24F yield.** Since 1 Aug, DFI's share price has dropped by c.11% to SGD2.40 currently. We believe this decline is due to less-than-impressive macroeconomic data from China and Hong Kong, in line with the recent weakness of China's market indices and in view of DFI's exposure to China. As such, its valuation is now at more attractive levels, while we anticipate a recovery in FY24 – driven by an expected pick-up in demand in the various markets, and improving domestic consumption.
- **Share price sentiment affected by weak economic data.** China, in particular, recorded disappointing macroeconomic data in July – including that for retail sales, industrial production, fixed asset investment – which trailed market expectations. Both visitor arrivals from Mainland China to Hong Kong and domestic supermarket sales also declined QoQ in the latest June data. We believe these factors have affected investor sentiment on DFI in recent months, since close to 70% of DFI's FY22 revenue came from its North Asia operations. That said, China – in response – has implemented an 11-point plan to boost the domestic consumption of goods and services and stimulate the economy even while consumer confidence is cautious at present. While China's GDP is currently trending below expectations, our economics desk expects China's GDP (post reopening) to accelerate from 3% in 2022, to 4% and 4.5% in 2023 and 2024.
- **Earnings drivers pointing to a recovery in FY24F remain intact.** Our investment thesis on DFI is based on an earnings recovery (18% earnings CAGR growth from FY23F-25F) at compelling valuations. We see earnings driven by sturdy domestic consumption and a pick-up in tourism in Hong Kong, on top of the continued post-pandemic reopening and recovery of ASEAN economies. DFI's 1H23 numbers indicate that its core revenue and margins have already improved, led by the recovery in its convenience store and health & beauty segments in key ASEAN and North Asia markets. Together with China's accelerating economic growth and consumption stimulus measures in place, we expect its China unit – along with Yonghui Superstores – to improve next year, on the domestic demand recovery. Outlet expansion, new products, and investment in back-end efficiency systems will supplement overall growth and margins as well, along with the recovery in Hong Kong tourist arrivals and pick-up in its Hong Kong and Singapore supermarket sales ahead. We maintain our earnings projections. DFI is now trading at a cheaper 14x FY24F P/E, vs its closest SGX-listed peer Sheng Siong's (SSG SP, BUY, TP: SGD1.95) 16x FY24F P/E, and at -2SD from its 10-year pre-pandemic historical mean.
- **Downside risks to our recommendation** include a slower-than-expected recovery in consumer spending and higher-than-expected costs, which should ultimately lead to lower margins and earnings. As DFI's ESG score is on par with the country median, we apply a parity ESG premium/discount to its intrinsic value to derive our TP.

| Forecasts and Valuation | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Total turnover (USDm) | 9,188 | 9,174 | 9,429 | 9,692 | 9,962 |
| Recurring net profit (USDm) | 276 | 29 | 197 | 230 | 267 |
| Recurring net profit growth (%) | (0.1) | (89.6) | 583.9 | 16.7 | 16.2 |
| Recurring P/E (x) | 11.78 | 112.23 | 16.41 | 14.06 | 12.10 |
| P/B (x) | 2.6 | 3.4 | 3.0 | 2.8 | 2.6 |
| P/CF (x) | 2.91 | 3.44 | 3.17 | 2.93 | 2.79 |
| Dividend Yield (%) | 4.0 | 1.3 | 4.0 | 5.8 | 6.7 |
| EV/EBITDA (x) | 1.41 | 2.09 | 1.97 | 1.79 | 1.64 |
| Return on average equity (%) | 21.3 | (10.4) | 19.5 | 20.5 | 22.1 |
| Net debt to equity (%) | 66.6 | 91.9 | 78.8 | 69.9 | 63.8 |

*Source: Company data, RHB*


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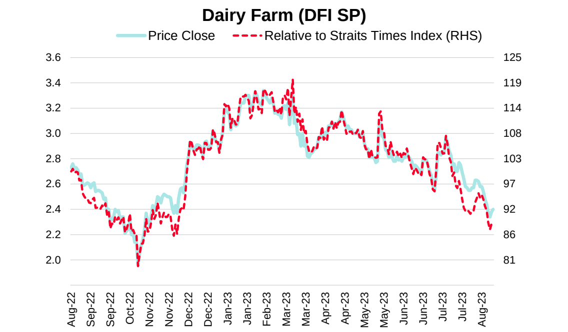
### Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (18.1) | (11.1) | (16.4) | (23.1) | (14.3) |
| Relative | (16.2) | (8.2) | (15.8) | (20.3) | (12.5) |
| 52-wk Price low/high (USD) | | | | | 1.96 – 3.34 |




*Source: Bloomberg*

### Overall ESG Score: 3 (out of 4)

**E: GOOD**
DFI worked closely with Humane Society International to drive long-term change in the supply chain and source more sustainable choices for its customers. It has also taken several measures to reduce plastic usage and recycle rates.

**S: GOOD**
It invested heavily for PPE to ensure the safety of its employees amidst the pandemic. It also prioritised helping the communities and placed huge significance on access to education for all via numerous initiatives.

**G: GOOD**
The adopted system of governance allows DFI to benefit from Jardine Matheson's strategic guidance and professional expertise, while at the same time ensuring that the independence of the Board is respected.

# Financial Exhibits

**Asia**
Singapore
Consumer Cyclical
**DFI Retail Group**
DFI SP
Buy

**Valuation basis**

SOP

**Key drivers**

Revenue growth from:
i. Opening more convenience stores
ii. Return of China tourists to Hong Kong.

Margin expansion on:
i. More direct sourcing, cutting out the middleman;
ii. Selling more fresh produce;
iii. Increased penetration of corporate brands;
iv. Elimination of non-performing stores.

**Key risks**

i. Slowdown in consumption spending and soft SSSG especially in ASEAN countries;
ii. Labour cost and rental pressures.

**Company Profile**

DFI Retail Group is the largest retailer in Asia ex-Japan, with a strong market presence in China, Hong Kong, Taiwan, India and ASEAN. The company operates hypermarkets, supermarkets, convenience stores, pharmacies, home furnishing and restaurants – through its 50% associate Maxim's. Its brands which are well-known include Wellcome, Cold Storage, Giant, Hero, Mannings and Guardian. Dairy Farm is a member of the Jardine Matheson Group and is headquartered in Hong Kong and listed on the London Stock Exchange, as well as in Bermuda and Singapore.

| Financial summary (USD) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Recurring EPS | 0.20 | 0.02 | 0.15 | 0.17 | 0.20 |
| DPS | 0.10 | 0.03 | 0.10 | 0.14 | 0.16 |
| BVPS | 0.94 | 0.70 | 0.80 | 0.87 | 0.92 |
| Return on average equity (%) | 21.3 | (10.4) | 19.5 | 20.5 | 22.1 |

| Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 11.78 | 112.23 | 16.41 | 14.06 | 12.10 |
| P/B (x) | 2.6 | 3.4 | 3.0 | 2.8 | 2.6 |
| FCF Yield (%) | 27.8 | 21.5 | 20.7 | 23.3 | 25.0 |
| Dividend Yield (%) | 4.0 | 1.3 | 4.0 | 5.8 | 6.7 |
| EV/EBITDA (x) | 1.41 | 2.09 | 1.97 | 1.79 | 1.64 |
| EV/EBIT (x) | 3.98 | 9.46 | 8.41 | 7.04 | 5.99 |

| Income statement (USDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Total turnover | 9,188 | 9,174 | 9,429 | 9,692 | 9,962 |
| Gross profit | 3,043 | 3,066 | 3,159 | 3,247 | 3,337 |
| EBITDA | 1,369 | 1,105 | 1,136 | 1,196 | 1,256 |
| Depreciation and amortisation | (886) | (861) | (870) | (891) | (912) |
| Operating profit | 484 | 244 | 266 | 305 | 344 |
| Net interest | (119) | (122) | (122) | (121) | (120) |
| Pre-tax profit | 323 | (89) | 234 | 281 | 327 |
| Taxation | (59) | (31) | (43) | (51) | (60) |
| Reported net profit | 276 | (115) | 197 | 230 | 267 |
| Recurring net profit | 276 | 29 | 197 | 230 | 267 |

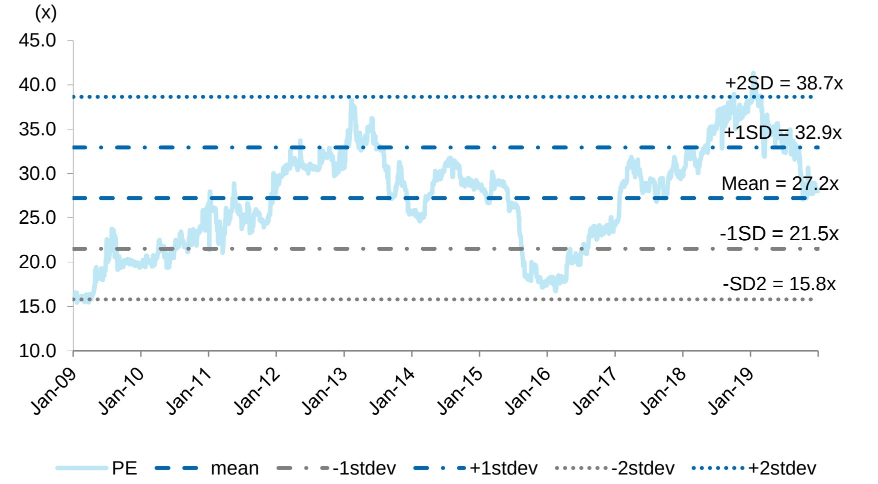
| Cash flow (USDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Change in working capital | (10) | (7) | 3 | 30 | 30 |
| Cash flow from operations | 1,115 | 940 | 1,020 | 1,102 | 1,158 |
| Capex | (212) | (244) | (350) | (350) | (350) |
| Cash flow from investing activities | (125) | (201) | (350) | (350) | (350) |
| Dividends paid | (196) | (101) | (67) | (141) | (202) |
| Cash flow from financing activities | (841) | (728) | (617) | (691) | (752) |
| Cash at beginning of period | 278 | 210 | 231 | 257 | 290 |
| Net change in cash | 149 | 11 | 53 | 61 | 56 |
| Ending balance cash | 210 | 231 | 257 | 290 | 319 |

| Balance sheet (USDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Total cash and equivalents | 210 | 231 | 257 | 290 | 319 |
| Tangible fixed assets | 803 | 803 | 944 | 1,066 | 1,169 |
| Total investments | 2,164 | 1,781 | 1,826 | 1,875 | 1,927 |
| Total assets | 7,605 | 7,326 | 7,612 | 7,891 | 8,148 |
| Short-term debt | 744 | 838 | 838 | 838 | 838 |
| Total long-term debt | 311 | 259 | 259 | 259 | 259 |
| Total liabilities | 6,338 | 6,385 | 6,547 | 6,737 | 6,929 |
| Total equity | 1,267 | 941 | 1,065 | 1,154 | 1,219 |
| Total liabilities & equity | 7,605 | 7,326 | 7,612 | 7,891 | 8,148 |

| Key metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Revenue growth (%) | (10.5) | (0.2) | 2.8 | 2.8 | 2.8 |
| Recurrent EPS growth (%) | (0.1) | (89.5) | 583.9 | 16.7 | 16.2 |
| Gross margin (%) | 33.1 | 33.4 | 33.5 | 33.5 | 33.5 |
| Operating EBITDA margin (%) | 14.9 | 12.0 | 12.0 | 12.3 | 12.6 |
| Net profit margin (%) | 3.0 | (1.2) | 2.1 | 2.4 | 2.7 |
| Dividend payout ratio (%) | 46.6 | (35.3) | 65.0 | 82.0 | 80.7 |
| Capex/sales (%) | 2.3 | 2.7 | 3.7 | 3.6 | 3.5 |
| Interest cover (x) | 4.07 | 2.01 | 2.18 | 2.52 | 2.86 |

*Source: Company data, RHB*

**Figure 1: DFI is now trading near -2SD from its pre-pandemic historical P/E mean**



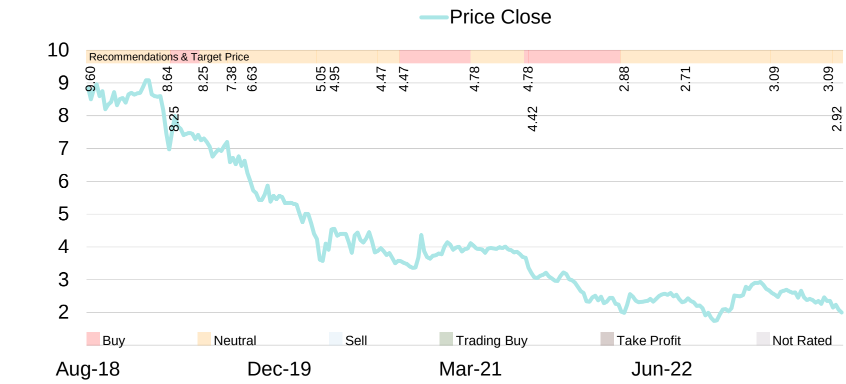

*Note: * Figure 1 provides a reference to DFI's valuation levels during the more normalised pre-pandemic period, ie from 2009 to 2019*
*Source: Bloomberg*

**Figure 2: Breakdown of DFI's operating profit (FY21-25F)**

| **Operating profit** | **FY21** | **FY22** | **FY23F** | **FY24F** | **FY25F** |
|---|---|---|---|---|---|
| Grocery | 151.3 | 90.9 | 95.7 | 106.9 | 127.0 |
| Convenience stores | 54.0 | 50.5 | 53.7 | 72.1 | 74.3 |
| Food | 205.3 | 141.4 | 149.4 | 179.0 | 201.3 |
| Health and Beauty | 56.4 | 93.6 | 75.1 | 85.9 | 95.2 |
| IKEA | 45.0 | 45.5 | 47.5 | 47.9 | 57.9 |
| Segment operating profit | 306.7 | 280.5 | 272.0 | 312.9 | 354.5 |
| Unallocated SGA | (68.2) | (147.3) | (91.7) | (93.6) | (95.9) |
| IFRS 16 adjustment | 83.4 | 76.0 | 85.4 | 85.4 | 85.4 |
| One-offs | 161.7 | 35.1 | 0.0 | 0.0 | 0.0 |
| Operating Profit | 483.6 | 244.3 | 265.7 | 304.6 | 343.9 |

*Source: Company data, RHB*

# Recommendation Chart

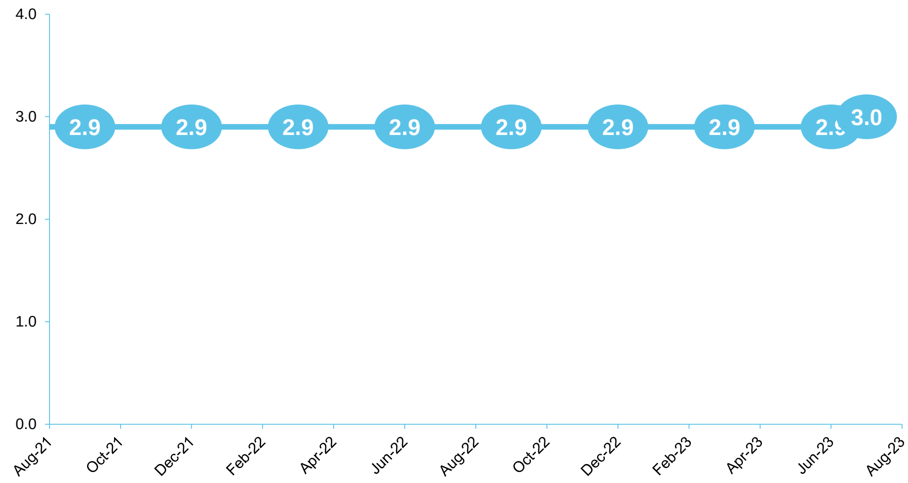



*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2023-08-01 | Neutral | 2.92 | 2.64 |
| 2023-07-11 | Neutral | 3.09 | 2.85 |
| 2023-03-03 | Neutral | 3.09 | 3.07 |
| 2022-08-01 | Neutral | 2.71 | 2.77 |
| 2022-03-07 | Neutral | 2.88 | 2.46 |
| 2021-07-30 | Buy | 4.42 | 3.76 |
| 2021-07-18 | Buy | 4.78 | 4.09 |
| 2021-03-12 | Neutral | 4.78 | 4.51 |
| 2020-09-22 | Buy | 4.47 | 3.91 |
| 2020-07-30 | Neutral | 4.47 | 4.28 |
| 2020-04-08 | Neutral | 4.95 | 4.89 |
| 2020-03-06 | Neutral | 5.05 | 4.64 |
| 2019-09-23 | Neutral | 6.63 | 6.81 |
| 2019-08-05 | Neutral | 7.38 | 7.31 |
| 2019-05-29 | Neutral | 8.25 | 7.83 |

*Source: RHB, Bloomberg*

# ESG Rating History




*Source: RHB*

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| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| **Neutral:** | Share price may fall within the range of +/- 10% over the next 12 months |
| **Take Profit:** | Target price has been attained. Look to accumulate at lower levels |
| **Sell:** | Share price may fall by more than 10% over the next 12 months |
| **Not Rated:** | Stock is not within regular research coverage |

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