

1 August 2023

Consumer Cyclical | Retailing

## Dairy Farm (DFI SP)

## Neutral (Maintained)

### Recovering As Expected

Target Price (Return): USD2.92 (8.6%)  
 Price (Market Cap): USD2.69 (USD3,641m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (USD/USD) 0.96m/0.96m

- **Still NEUTRAL, new USD2.92 TP from USD3.09, 9% upside and 6% yield.** We keep our call, as we see an expected recovery in 1H23 earnings offset by a weaker Yonghui Superstores (Yonghui) bottomline. Our investment thesis stays unchanged – await a better outlook from China tourist arrivals to Hong Kong, and more-improved grocery consumption environment in Singapore, China, and Hong Kong. We stay cautious for now over a more aggressive recovery till Dairy Farm's key markets' local supermarket consumption and China outbound tourist numbers pick up.
- **Core earnings within expectations; Yonghui disappoints.** 1H23's operating earnings of USD93m (+22.8% YoY) were in line with our estimates. Revenue was flat at USD4.5bn (+0.2% YoY) with a 16% YoY decline in grocery retail sales to USD1.7bn – partly due to the sale of its Malaysian grocery retail business along with lacklustre consumer sentiment and 2022's high base. This was offset by 9% and 23% YoY improvements (to USD1.2bn each) in the convenience store (7-Eleven's recoveries in Singapore and China) and health & beauty (recovery and growth in Malaysia, Indonesia, and Hong Kong) segments. Core operating margins improved 1.2ppts to 3.4% (improvements in the convenience store and health & beauty divisions were mitigated by margins pressure for the grocery retail segment). However, associates and JV contributions of USD5m were weaker than expected despite seeing a turnaround, largely due to disappointments in Yonghui's recovery. Maxim's Caterers' (Maxim's) 1H23 numbers lagged our recovery expectations too. An interim dividend of 3 USD cents was declared, in line with expectations.
- **Earnings recovery still on the cards.** We continue to anticipate an earnings recovery, albeit at a slower pace – this will be led by outlet expansion, new products, and investments in backend efficiency systems. Improvements in Hong Kong's tourist arrivals, and pick-up in Hong Kong and Singapore's supermarket sales, will also support earnings recovery, in our view.
- **Trim FY23F-25F earnings by 5-7% each; reducing Yonghui expectations.** While core earnings were within estimates, the bottomline disappointment came from associates and JV contributions – led by the grocery retail segment, particularly Yonghui. Hence, we have left our core revenue and operating profit estimates unchanged, but lower our forecasts for Yonghui. This results in 5-7% lower FY23F-25F earnings. Our SOP valuation for DFI now has a lower fair value for Yonghui, while the TP is accordingly lowered by 6% to USD2.92.
- **Risks to our recommendation** include slower-than-expected recoveries in consumption spending and higher-than-expected costs, which should ultimately lead to lower margins and earnings. There will be upside earnings risks should the opposite of the above scenarios play out. As DFI's ESG score is 3.0 out of 4 – in line with our country median – we have a 0% ESG premium/discount to its intrinsic value in deriving our final TP.

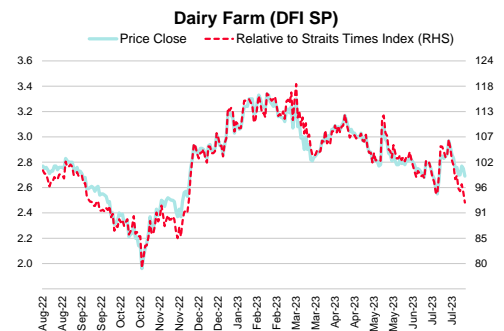
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.2)	(2.2)	(10.3)	(15.7)	(3.9)
Relative	(12.0)	(7.4)	(13.5)	(15.9)	(9.0)
52-wk Price low/high (USD)	1.96 – 3.34				



Source: Bloomberg

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	16.0
Recurring P/E (x)	13.20	125.79	18.39	15.76	13.58
P/B (x)	2.9	3.8	3.4	3.1	3.0
P/CF (x)	3.26	3.85	3.55	3.29	3.13
Dividend Yield (%)	3.5	1.1	3.5	5.6	6.3
EV/EBITDA (x)	1.69	2.44	2.31	2.14	1.99
Return on average equity (%)	21.3	(10.4)	19.5	20.6	22.5
Net debt to equity (%)	66.6	91.9	78.8	72.5	69.2

Source: Company data, RHB

### Overall ESG Score: 3.0 (out of 4)

#### E: GOOD

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

#### S: GOOD

Invested heavily in personal protective equipment or PPE to ensure the safety of its employees amidst the pandemic. DFI also prioritised helping 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 the independence of the board is respected.

## Financial Exhibits

Asia	Financial summary (USD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.20	0.02	0.15	0.17	0.20
Consumer Cyclical	DPS	0.10	0.03	0.10	0.15	0.17
<b>Dairy Farm</b>	BVPS	0.94	0.70	0.80	0.86	0.90
DFI SP	Return on average equity (%)	21.3	(10.4)	19.5	20.6	22.5
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	13.20	125.79	18.39	15.76	13.58
	P/B (x)	2.9	3.8	3.4	3.1	3.0
	FCF Yield (%)	24.8	19.2	18.5	20.8	22.3
	Dividend Yield (%)	3.5	1.1	3.5	5.6	6.3
	EV/EBITDA (x)	1.69	2.44	2.31	2.14	1.99
	EV/EBIT (x)	4.80	11.06	9.88	8.39	7.26
	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)	(121)
	Pre-tax profit	323	(89)	234	281	326
	Taxation	(59)	(31)	(43)	(51)	(59)
	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)	(155)	(215)
	Cash flow from financing activities	(841)	(728)	(617)	(705)	(765)
	Cash at beginning of period	278	210	231	257	270
	Net change in cash	149	11	53	47	42
	Ending balance cash	210	231	257	270	271
	Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	210	231	257	270	271
	Tangible fixed assets	803	803	233	(359)	(971)
	Total investments	2,164	1,781	1,826	1,875	1,927
	Total assets	7,605	7,326	7,612	7,878	8,121
	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	1,140	1,191
	Total liabilities & equity	7,605	7,326	7,612	7,878	8,121
	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	16.0
	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	87.9	85.8
	Capex/sales (%)	2.3	2.7	3.7	3.6	3.5
	Interest cover (x)	4.07	2.01	2.18	2.52	2.85

Source: Company data, RHB

Figure 1: DFI's results review

FYE Dec (USDm)	1H22	1H23	YoY (%)	Comments
<b>Sales</b>	4,567.4	4,574.3	0.2	Decline in the food segment was offset by growth in the health & beauty division.
<b>Gross profit</b>	1,487.0	1,553.3	4.5	
<i>margin (%)</i>	32.6	34.0	+1.4ppt	
<b>Core operating profit</b>	76.2	127.6	67.5	
<i>margin (%)</i>	1.7	2.8	+1.1ppt	Better profitability from the convenience store and health & beauty segments.
Net finance expenses	(56.6)	(69.4)	nm	
Associate and JV	(65.2)	4.9	nm	Recovery in associates and JVs.
<b>PBT</b>	(46.2)	28.3	nm	
<i>margin (%)</i>	(1.0)	0.6	+1.6ppt	
Tax expenses	(18.3)	(23.0)	nm	
<b>PATMI</b>	(57.6)	8.2	nm	
<i>Net Margin (%)</i>	(1.3)	0.2	+1.5ppt	

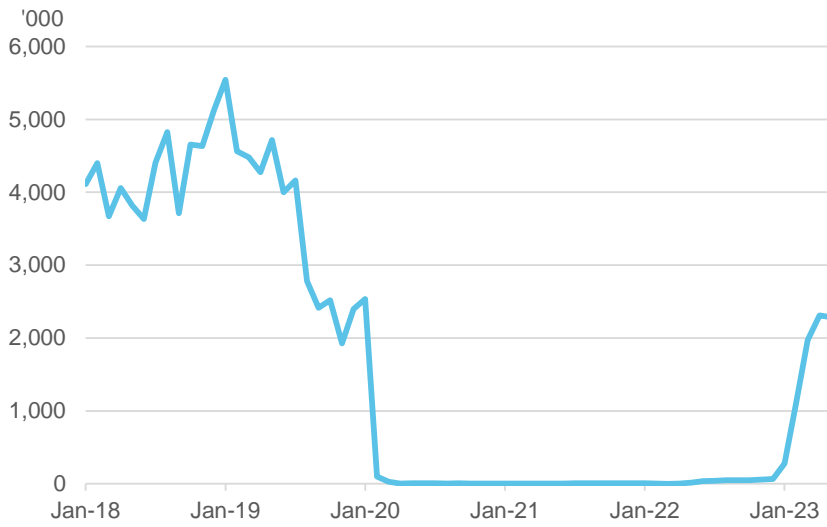
Source: Company data, RHB

Figure 2: SOP valuation

	Value (USD/share)	Basis
Core business	1.58	DCF (WACC: 6.6%, TG: 0.5%).
Yonghui Superstores	0.50	25% discount to the current share price.
Robinsons Retail Holdings	0.23	Fair value (current share price).
Maxim's	0.61	15x P/E.
<b>SOP TP</b>	<b>2.92</b>	
ESG premium/(discount)	0%	
<b>Final TP</b>	<b>2.92</b>	

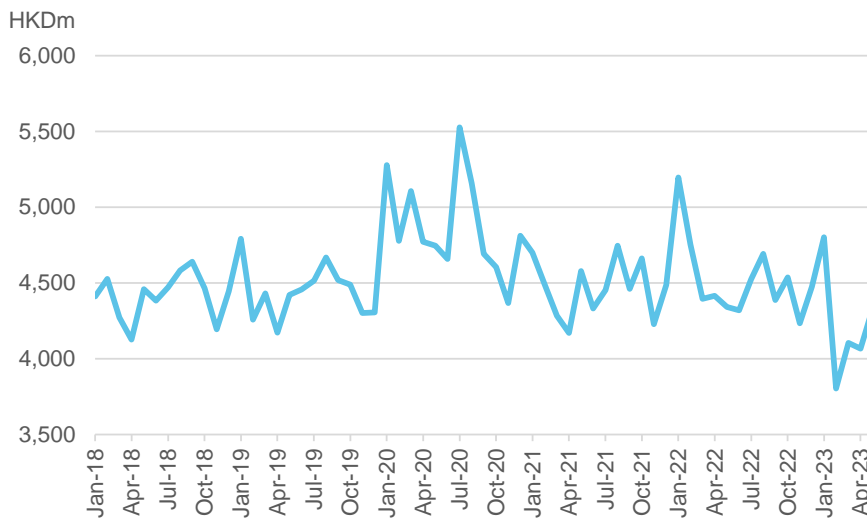
Source: RHB

**Figure 3: China monthly tourist arrivals to Hong Kong have yet to normalise**



Source: Bloomberg

**Figure 4: Monthly supermarket sales in Hong Kong have been weak YTD**



Source: Bloomberg

## Recommendation Chart

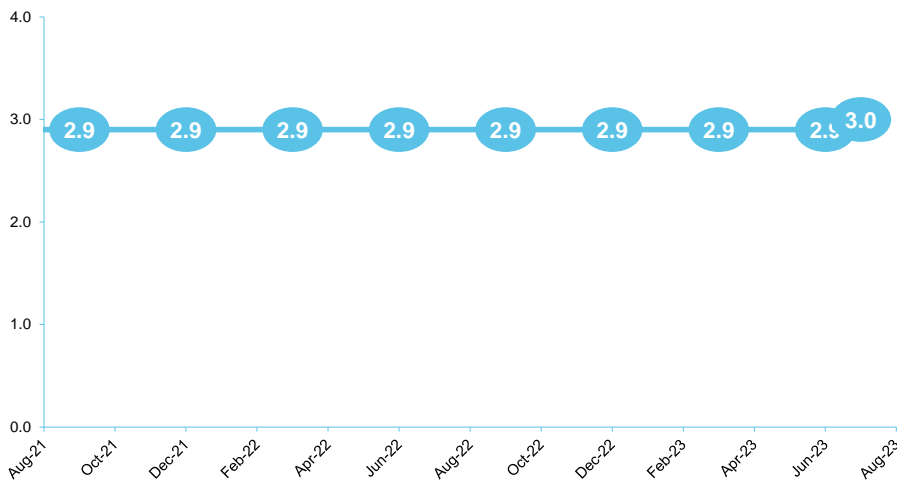


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-03-20	Buy	8.25	7.74

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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-	-

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