

12 August 2024

Consumer Cyclical | Retailing

## DFI Retail Group (DFI SP)

**Buy** (Maintained)

### Core Operating Profit Improving; Keep BUY

Target Price (Return): USD2.61 (48.1%)  
 Price (Market Cap): USD1.76 (USD2,382m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (USD/USD) 1.07m/m

- **Maintain BUY with lower USD2.61 TP from USD2.81, 48% upside and c.6% yield.** We retain our call for DFI Retail Group on recovery expectations and attractive valuations. 1H24 has shown decent earnings recovery and despite lowering our earnings forecast, we continue to anticipate earnings recovery into FY25F. Dividend yield is decent due to parent company Jardine Matheson Holdings' (JM SP, NR) practice of uplifting dividends back to the group level. The stock currently trades at an attractive 10x FY25F P/E and c.6% dividend yield.
- **1H24 below expectations.** DFI's 1H24's revenue was USD4,405m (-4% YoY), while underlying profit was USD76m (+127% YoY), below expectations. Revenue decline was affected by the Food (USD1,579m, -6% YoY) and Home Furnishing (USD349m, -13% YoY) divisions. The Food division's revenue was dragged by Singapore's performance due to challenging consumer sentiment, while Home Furnishing sales were impacted by Hong Kong and Indonesia's weak property market and temporal disruption of operations in Taiwan due to April's Hualien earthquake. Operating profit outperformed at USD168m (+81% YoY), led by margin recovery and cost controls in the Food and Health & Beauty divisions. Underlying associate income missed expectations as well, at USD3m, improving from losses last year. Maxim's contribution was affected by weak consumption, while Yonghui continued to register smaller losses – offset by Robinsons Retail's increased contribution. An interim DPS of 3.5 US cents was declared, amounting to a payout ratio of c.62% of underlying earnings, in line with expectations.
- **Lower FY24-26F earnings by 6-7%.** While 1H24's results saw weaker-than-expected sales and JV and associates' contribution, margin recovery of the Food division was encouraging. According to Hong Kong's Census and Statistics department, March to June's retail sales saw consecutive monthly YoY decline in retail sales on subdued consumer sentiment. Following 1H24's revenue miss, and milder outlook on Hong Kong's retail sales, we lower our revenue estimates by 5-10%. However, we have imputed higher operating margins and leverage on operating cost efficiencies, which results in our FY25-26F operating profit remaining largely unchanged. We have also reduced our estimates for JV and associates' income, following 1H24's disappointment. These have resulted in a FY24-26F recurring net profit cut of 6-7%. Our SOTP-based TP is likewise trimmed c.7% to SGD2.61.
- **Downside risks** to our recommendation include a slower-than-expected recovery in consumer spending and higher-than-expected costs, which could ultimately lead to lower margins and earnings. As DFI's ESG score is below the country median of 3.1, we apply a 2% ESG discount to its intrinsic value to derive our TP.

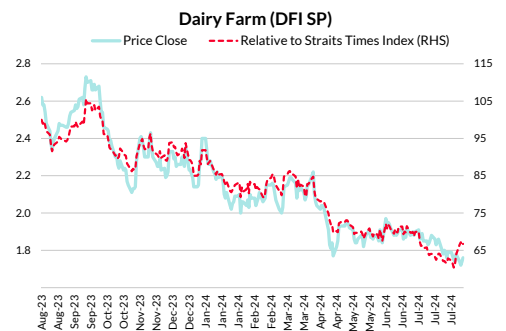
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.7)	(4.9)	(4.4)	(16.2)	(31.5)
Relative	(27.4)	(0.7)	(4.3)	(20.0)	(29.9)
52-wk Price low/high (USD)	1.72 – 2.73				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	9,174	9,170	8,892	8,931	9,012
Recurring net profit (USDm)	29	155	202	233	260
Recurring net profit growth (%)	(89.6)	437.2	30.7	15.2	11.7
Recurring P/E (x)	82.30	15.31	11.71	10.17	9.10
P/B (x)	2.5	2.4	2.2	2.0	1.8
P/CF (x)	2.52	2.27	2.40	2.22	2.25
Dividend Yield (%)	1.7	4.5	5.7	6.0	6.5
EV/EBITDA (x)	1.31	1.22	1.02	0.95	0.87
Return on average equity (%)	(10.4)	3.2	21.1	20.6	21.0
Net debt to equity (%)	91.9	62.8	57.4	49.8	44.3

Source: Company data, RHB

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

##### E: GOOD

Worked closely with Humane Society International (HIS) 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

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

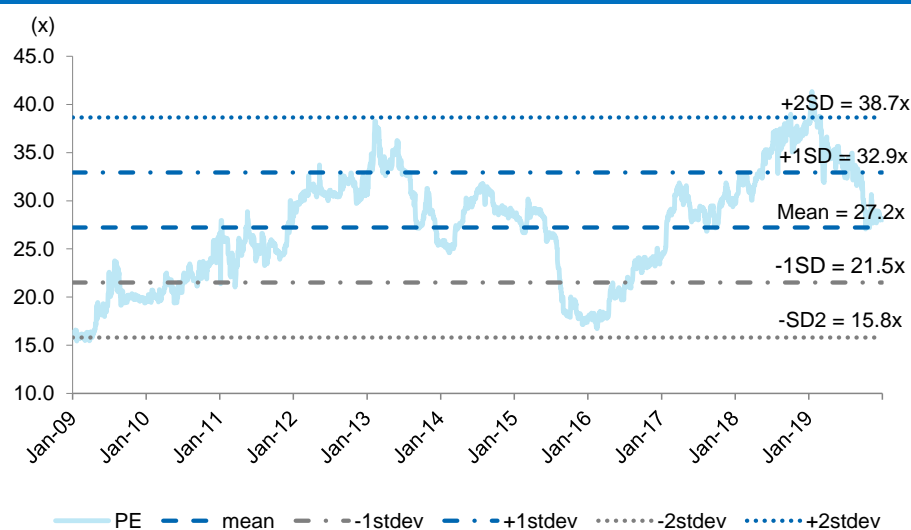
The adopted system of governance allows DFI to benefit from Jardine Matheson's strategic guidance and professional expertise, while at the same time ensuring that the independence of the Board is respected.

## Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.02	0.11	0.15	0.17	0.19
Consumer Cyclical	DPS	0.03	0.08	0.10	0.11	0.12
<b>DFI Retail Group</b>	BVPS	0.70	0.73	0.81	0.88	0.97
DFI SP	Return on average equity (%)	(10.4)	3.2	21.1	20.6	21.0
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
SOTP	Recurring P/E (x)	82.30	15.31	11.71	10.17	9.10
	P/B (x)	2.5	2.4	2.2	2.0	1.8
	FCF Yield (%)	29.4	34.8	28.1	31.5	30.9
	Dividend Yield (%)	1.7	4.5	5.7	6.0	6.5
	EV/EBITDA (x)	1.31	1.22	1.02	0.95	0.87
	EV/EBIT (x)	5.93	7.40	3.46	3.21	2.99
Key drivers	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Revenue growth from:	Total turnover	9,174	9,170	8,892	8,931	9,012
i. More convenience stores;	Gross profit	3,066	3,213	3,174	3,189	3,217
ii. Returning Chinese tourists in Hong Kong.	EBITDA	1,105	990	1,156	1,172	1,188
Margin expansion on:	Depreciation and amortisation	(861)	(827)	(814)	(827)	(841)
i. More direct sourcing, cutting out middleman;	Operating profit	244	163	342	345	347
ii. Selling more fresh produce;	Net interest	(122)	(144)	(144)	(144)	(143)
iii. Increase penetration of corporate brands;	Pre-tax profit	(89)	71	264	282	315
iv. Elimination of non-performing stores.	Taxation	(31)	(42)	(48)	(51)	(57)
	Reported net profit	(115)	31	218	233	260
	Recurring net profit	29	155	202	233	260
Key risks	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Slowdown in consumption spending and soft SSSG, especially in ASEAN countries;	Change in working capital	(7)	45	1	51	11
ii. Labour cost and rental pressures.	Cash flow from operations	940	1,044	989	1,069	1,055
	Capex	(244)	(220)	(323)	(323)	(323)
	Cash flow from investing activities:	(201)	(95)	(323)	(323)	(323)
	Dividends paid	(101)	(67)	(114)	(135)	(141)
	Cash flow from financing activities:	(728)	(868)	(664)	(685)	(691)
	Cash at beginning of period	210	231	303	298	333
	Net change in cash	11	81	2	62	41
	Ending balance cash	231	303	298	333	346
Company Profile	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Dairy Farm 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, Bermuda, and Singapore.	Total cash and equivalents	231	303	298	333	346
	Tangible fixed assets	803	708	873	1,025	1,165
	Total investments	1,781	1,794	1,817	1,857	1,913
	Total assets	7,326	7,111	7,171	7,420	7,653
	Short-term debt	838	771	771	771	771
	Total long-term debt	259	153	153	153	153
	Total liabilities	6,385	6,123	6,081	6,233	6,349
	Total equity	941	988	1,090	1,187	1,304
	Total liabilities & equity	7,326	7,111	7,171	7,420	7,653
Key metrics	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(0.2)	(0.0)	(3.0)	0.4	0.9
	Recurrent EPS growth (%)	(89.5)	437.4	30.7	15.2	11.7
	Gross margin (%)	33.4	35.0	35.7	35.7	35.7
	Operating EBITDA margin (%)	12.0	10.8	13.0	13.1	13.2
	Net profit margin (%)	(1.2)	0.3	2.5	2.6	2.9
	Dividend payout ratio (%)	(35.3)	345.2	61.7	60.7	59.5
	Capex/sales (%)	2.7	2.4	3.6	3.6	3.6
	Interest cover (x)	2.01	1.13	2.38	2.39	2.43

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: SOP valuation

	Value (USD/share)	Basis
Core business	1.14	DCF (WACC:6.6%, TG:0.5%)
Yonghui Superstores	0.51	5% discount to current share price
Robinsons Retail Holdings (RRHI)	0.15	Fair value (current share price)
Maxim's	0.86	15x P/E
<b>SOP TP</b>	<b>2.66</b>	
ESG premium/(discount)	-2%	
<b>Final TP</b>	<b>2.61</b>	

Source: RHB

## Emissions And ESG

### Trend analysis

Around 40% of DFI's Scope 1 and 2 GHG emissions comprise of refrigerants. It is progressing well towards its 2050 net zero target with reduction of Scope 1 GHG emissions by 24% from 2021 to 2022. Scope 2 GHG emissions increased 0.4% from 2021 to 2022, with same store energy consumption reduction offset by new stores in China, Indonesia, and Cambodia.

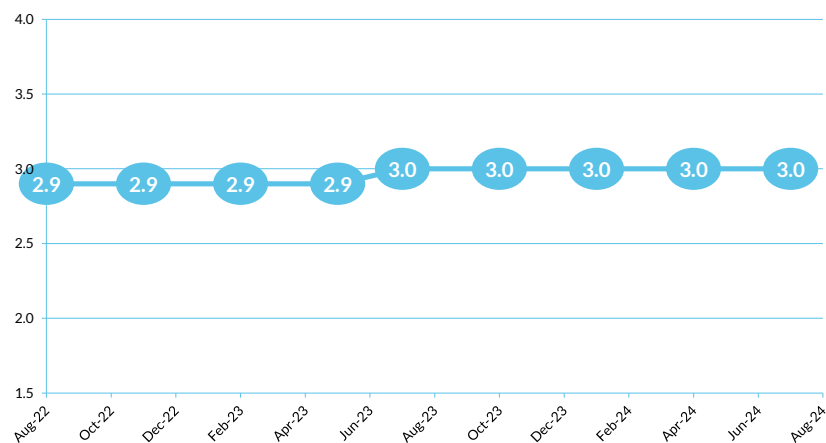
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	350	236	236
Scope 2	361	335	341
Scope 3	-	-	na
Total emissions	711	571	577

Source: Company data, RHB

## Latest ESG-Related Developments

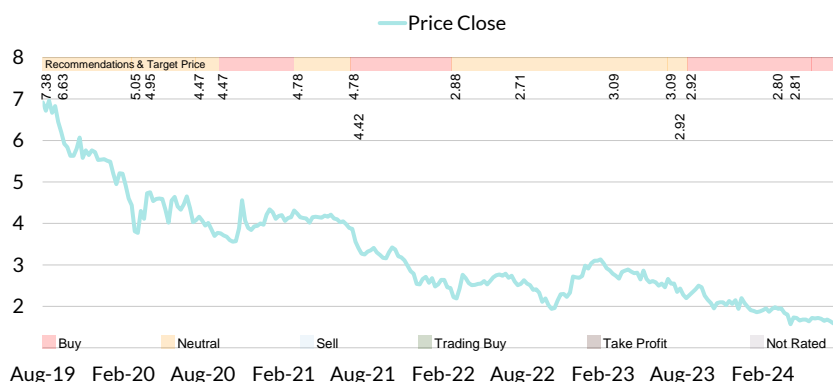
- DFI is committed to reducing 50% emissions by 2030 from 2021, and achieving net zero greenhouse gas emissions (Scope 1 & 2) by 2050.
- DFI has been trialling ultra-low GWP and Water Loop refrigerant technology in Hong Kong, which will help increase the refrigeration system's efficiency.
- DFI is investing USD15-20m annually into climate initiatives related to energy efficiency, refrigerant management, and electrifying its fleet.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-06-06	Buy	2.81	1.94
2024-03-12	Buy	2.80	2.17
2023-12-12	Buy	2.92	2.30
2023-08-27	Buy	2.92	2.40
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

Source: RHB, Bloomberg

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