

18 March 2024

Consumer Non-cyclical | Food & Beverage Products

Delfi (DELFI SP)

Buy (Maintained)

Positive On Growth Amid Lower Margins; Keep BUY

- **BUY, new SGD1.33 TP from SGD1.55, 48% upside with 6% FY24F yield.** We maintain BUY on Delfi, due to its compelling valuation and earnings growth outlook which, in turn, is based on the recovery in regional consumption and Indonesia's rising middle-income segment. Despite our earnings estimate cut and imputing higher raw material prices, Delfi still has a FY23-26F earnings CAGR growth of 7.5%, and trades at an attractive 9x FY24F P/E, ie -1SD from the 16x mean. Our TP is pegged to 13x FY24F P/E, at -0.5SD from the mean.
- **FY23 revenue and core operating profit were lower than estimated.** Delfi's FY23 revenue of USD538m (+13% YoY) and operating profit of USD64m (+2% YoY) were below estimates. Headline earnings were, however, in line at USD46m (+5% YoY) lifted by lower effective taxes and higher-than-expected non-operating income. Revenue growth was driven by both its Indonesia (USD353m, +11% YoY) and regional markets (USD185m, +12% YoY). Its GPM was also a tad below our forecast, at 28.5% due to increased trade promotions and reclassification. Its Operating profit margin (12%) as a result, was below our forecast of 13%. Delfi declared final and special dividends of 1.74 and 0.52 US cents, which brings full year DPS to 4.32 US cents, amounting to a dividend payout ratio of c.57%.
- **We cut FY24-25F earnings by 11-12%,** Following misses in revenue growth and operating margins, we now impute slower revenue growth as well as narrower margin assumptions to reflect the current hike in cocoa prices. As we believe higher cocoa prices may pressure margins going forward, we pared down our gross margin assumptions. However, we are not overly pessimistic, as Delfi does have a strategy on hedging against price hikes, as well as the ability to right-size its products and defend margins. Our FY24-25F net profit, as such, is lower by 11-12%.
- **Outlook for growth is still positive.** Delfi continues to be a beneficiary of the growth of Indonesia's middle-income segment and rising disposable incomes, while its growth strategies like premiumisation, healthy snacking and introducing product variants remain intact. It is also a potential M&A target. RHB's economists expect Indonesia's GDP to grow by a robust 5% YoY in 2024, driven by an increase in private consumption. We continue to like Delfi for its: i) Market leadership in Indonesia, ii) positioning to capture Indonesia's rising middle class consumption, ii) strong and comprehensive general trade network nationwide, iii) premiumisation and healthy snacking strategies, iv) exposure to regional markets, and v) strong cash flow-generative abilities.
- **Key downside risks** to our earnings include lower-than-expected consumption for chocolate confectionery in Indonesia, an increase in raw material prices (eg cocoa beans, sugar, etc) that could affect GPMs, and the negative effect of the USD/IDR rate. Our TP includes a 2% discount to the intrinsic value as per our in-house proprietary ESG methodology, as Delfi's ESG score of 3 (out of 4) is one notch below the country median of 3.1.

Target Price (Return):	SGD1.33 (+48%)
Price (Market Cap):	SGD0.91 (USD411m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (SGD/USD)	0.55m/0.37m

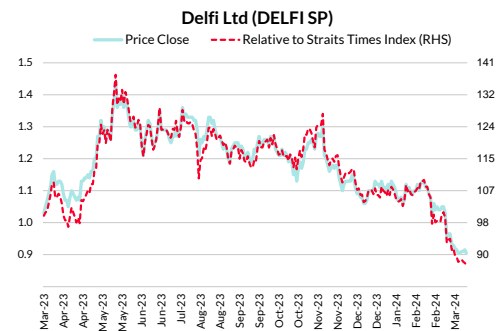
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.2)	(11.3)	(16.2)	(26.4)	(13.8)
Relative	(17.1)	(11.2)	(18.0)	(23.1)	(13.8)
52-wk Price low/high (SGD)	0.91 - 1.44				



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

Energy usage, water withdrawal and waste generated are integral to Delfi's impact on the environment. Electricity usage per metric ton of product produced at its manufacturing facilities decreased from 3.00MWh/tonne in 2021 to 2.32MWh/tonne in 2022. Water withdrawal per tonne of product decreased by 12% at its manufacturing facilities to 3.82 cu m/tonne in 2022. Waste intensity per tonne at its manufacturing facilities declined 5% to 76.39kg/tonne in 2022.

S: GOOD

The company is committed to employee well-being and occupational health and safety, and conducts regular reviews of its practices to avoid workplace incidents as well as uphold sound and sustainable human resource practices. It also strives to impact society with community investment initiatives, products that meet the needs of health- and sustainability-conscious consumers.

G: GOOD

Delfi maintains a strong corporate governance framework that guides, drives, and oversees its direction towards further excellence. It has moved up the Singapore Governance and Transparency Index, from 316th in 2022 to 131st in 2023.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	483	538	592	651	716
Recurring net profit (USDm)	44	46	48	52	57
Recurring net profit growth (%)	51.5	5.4	3.3	9.6	9.6
Recurring P/E (x)	9.36	8.88	8.60	7.85	7.16
P/B (x)	1.7	1.5	1.4	1.3	1.2
P/CF (x)	122.73	28.58	9.52	8.62	7.89
Dividend Yield (%)	6.4	6.4	5.8	6.4	7.0
EV/EBITDA (x)	4.77	5.16	4.95	4.35	3.79
Return on average equity (%)	18.1	18.1	17.3	17.3	17.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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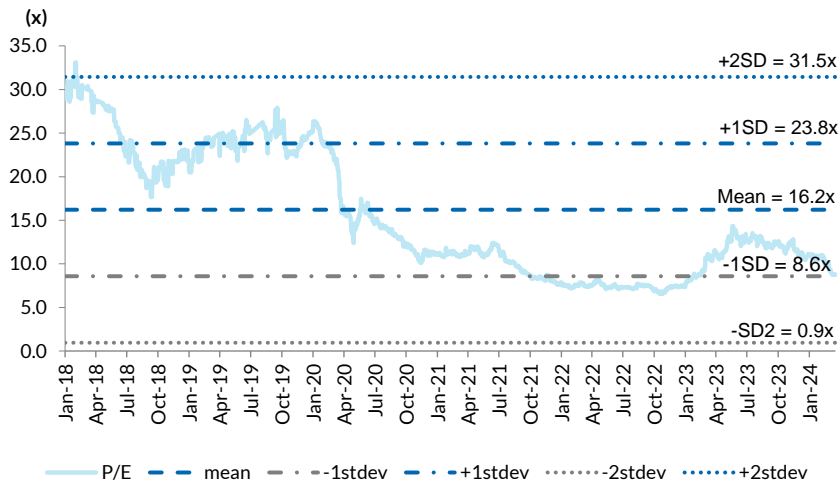
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Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.07	0.08	0.08	0.09	0.09
Consumer Non-cyclical	DPS	0.04	0.04	0.04	0.04	0.05
Delfi	BVPS	0.40	0.44	0.47	0.52	0.57
DELFISP	Return on average equity (%)	18.1	18.1	17.3	17.3	17.3
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	9.36	8.88	8.60	7.85	7.16
13x FY24F P/E	P/B (x)	1.7	1.5	1.4	1.3	1.2
	FCF Yield (%)	(0.1)	(2.2)	6.5	9.2	10.2
	Dividend Yield (%)	6.4	6.4	5.8	6.4	7.0
Key drivers	EV/EBITDA (x)	4.77	5.16	4.95	4.35	3.79
Improvement in consumer confidence and private consumption.	EV/EBIT (x)	5.67	6.05	5.85	5.13	4.46
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	483	538	592	651	716
Key downside risks to our earnings forecast include:	Gross profit	148	153	166	182	201
i. Lower-than-expected regional demand for snacks, especially in Indonesia;	EBITDA	74	74	78	85	93
ii. Increase in raw material prices, eg cocoa beans, sugar, etc, which could affect gross margins;	Depreciation and amortisation	(12)	(11)	(12)	(13)	(14)
iii. Negative effect of any change in the USD/IDR rate.	Operating profit	62	63	66	72	79
	Net interest	1	2	2	2	2
	Pre-tax profit	63	65	68	74	81
	Taxation	(19)	(19)	(20)	(22)	(24)
	Reported net profit	44	46	48	52	57
	Recurring net profit	44	46	48	52	57
Company Profile	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Delfi is a chocolate confectionery company headquartered in Singapore. This integrated player manages segments ranging from chocolate production to distribution. Other than distributing its own chocolate confectionery brands, it also distributes agency brands. DELFI's core markets are Indonesia – where it has a c.45-50% market share – and the Philippines, where it is a top 5 player with an estimated 10% market share.	Change in working capital	(54.9)	(37.7)	(16.5)	(17.6)	(19.4)
	Cash flow from operations	3.3	14.4	43.1	47.7	52.1
	Capex	(3.6)	(23.5)	(16.5)	(10.0)	(10.0)
	Cash flow from investing activities	(3.6)	(24.0)	(16.5)	(10.0)	(10.0)
	Dividends paid	(19.2)	(29.2)	(26.4)	(23.9)	(26.2)
	Cash flow from financing activities	(13.1)	(21.3)	(26.4)	(23.9)	(26.2)
	Cash at beginning of period	86.2	77.1	59.4	60.0	74.1
	Net change in cash	(13.4)	(30.9)	0.2	13.8	15.9
	Ending balance cash	71.7	46.9	59.6	73.7	90.0
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	77	59	60	74	90
	Tangible fixed assets	81	98	102	99	95
	Total investments	3	3	3	2	2
	Total assets	395	421	447	481	517
	Short-term debt	19	33	33	33	33
	Total liabilities	149	155	160	165	170
	Total equity	246	266	288	316	347
	Total liabilities & equity	395	421	447	481	517
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	19.2	11.4	10.0	10.0	10.0
	Recurrent EPS growth (%)	51.5	5.4	3.3	9.6	9.6
	Gross margin (%)	30.7	28.5	28.0	28.0	28.0
	Operating EBITDA margin (%)	15.3	13.8	13.1	13.1	13.0
	Net profit margin (%)	9.1	8.6	8.1	8.0	8.0
	Dividend payout ratio (%)	59.9	57.1	50.0	50.0	50.0
	Capex/sales (%)	0.7	4.4	2.8	1.5	1.4
	Interest cover (x)	98.7	52.2	53.9	59.2	65.0

Source: Company data, RHB

Figure 1: Delfi's historical P/E mean



Source: Bloomberg

Emissions And ESG

Trend analysis

The increase in manufacturing emissions (that fall within its Scope 1 and Scope 2 emissions) reflect the pick-up in Delfi's production activities. In 2022, manufacturing emissions under Scope 1 and Scope 2 were 12,818 tCO₂e and 37,351 tCO₂e, and totalled 50,169 tCO₂e (+4.3% YoY).

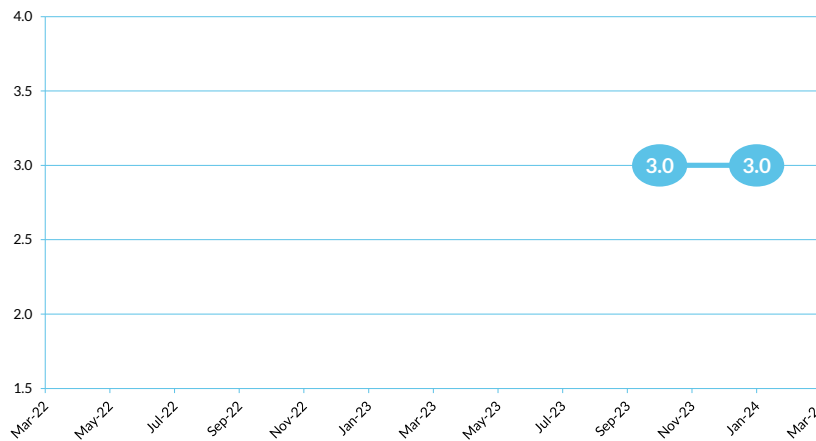
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	12,894	16,260	na
Scope 2	35,200	40,265	na
Scope 3	-	-	na
Total emissions	48,094	56,525	na

Source: Company data, RHB

Latest ESG-Related Developments

- In 2022, Delfi began monitoring the Scope 1 and Scope 2 emissions from its distribution facilities and headquarters, which amounted to 6,356 tCO₂e of the combined emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-27	Buy	1.55	1.18
2023-10-03	Buy	1.65	1.27
2020-08-12	Neutral	0.80	0.74
2020-07-14	Neutral	0.74	0.74
2020-04-26	Buy	0.74	0.62
2020-02-27	Buy	1.68	0.96
2020-02-06	Buy	1.68	0.96
2019-11-13	Buy	1.68	0.96
2019-08-14	Buy	1.68	1.24
2019-05-16	Buy	1.68	1.35
2019-03-01	Buy	1.68	1.45
2018-11-13	Buy	1.59	1.19
2018-08-03	Buy	1.47	1.18

Source: RHB, Bloomberg

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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
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Sell:	Share price may fall by more than 10% over the next 12 months
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