

26 September 2024

Consumer Cyclical | Retailing

DFI Retail Group (DFI SP)

Buy (Maintained)

Less Earnings Risks From Yonghui Divestment; BUY

Target Price (Return): USD2.61 (+34%)
 Price (Market Cap): USD1.94 (USD2,623m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (USD/USD) 1.56m/m

- Maintain BUY and USD2.61 TP, 34% upside and c.5% yield.** We maintain our positive stance on DFI Retail Group on the back of recovery expectations and attractive valuation. The divestment of Yonghui Superstores Co reduces future earnings risks and 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 11x FY25F P/E.
- Divests Yonghui for c.CNY4.5bn.** DFI has announced the divestment of its entire c.21% stake in Yongshui to MINISO Group Holding Limited's subsidiary for c.CNY4.5bn. This will allow DFI to concentrate its efforts to grow its subsidiary businesses across all of its markets. The transaction is subjected to MINISO shareholders' approval and other regulatory approvals. MINISO will acquire another c.8% from e-commerce company JD.com for close to a 30% eventual stake in Yonghui. DFI invested c.USD1.1bn into Yonghui in 2015 and 2016 for an approximately 20% stake, increasing to 21.4% in FY23 due to Yonghui's share buyback.
- Less drag from future earnings risks.** We view the disposal as positive such that the absence of Yonghui's dismal contribution would lift the drag and earnings risks on DFI's future earnings. Yonghui contributed USD36m losses to DFI in FY23. Since FY21, Yonghui itself has registered net losses due to declining sales and lower margins. Based on Bloomberg's consensus estimate, Yonghui is still expected to register operating losses of CNY6.1bn in FY24F. The carrying value of Yonghui on DFI's balance sheet was c.USD1bn in FY16, but marked to only USD765m in 1H24. DFI's share of net assets in Yonghui also fell from USD648m to USD285m from FY16 to FY23.
- TP and estimates largely unchanged.** Post adjustment of cash proceeds from the sale of shares, reduction of book value from Yonghui and absence of earnings contribution, we see a negligible core earnings change (+2% in FY25F's earnings, neutral for FY24F and FY26F). The higher cash balance would yield better interest income which offsets the loss of Yonghui's future earnings contribution. Similarly, the absence of Yonghui's share price value in our SOP-based TP is compensated by a higher cash balance factored into the core business. Our investment thesis remains intact, with DFI still an earnings recovery play driven by the turnaround and improvement of its core business.
- Downside risks** to our recommendation: 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.

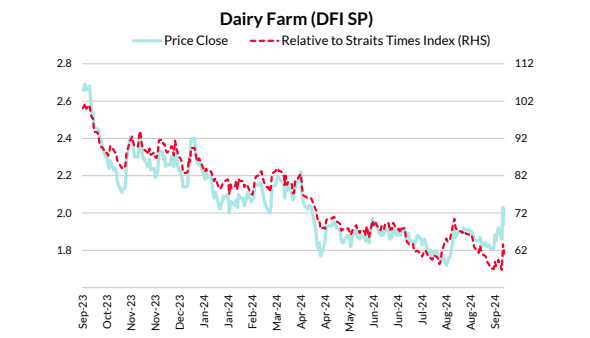
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.2)	1.6	2.6	(8.1)	(28.4)
Relative	(30.1)	(4.5)	(5.4)	(20.4)	(40.1)
52-wk Price low/high (USD)					1.72 – 2.69



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	237	260
Recurring net profit growth (%)	(89.6)	437.2	30.7	17.4	9.7
Recurring P/E (x)	90.72	16.88	12.91	11.00	10.03
P/B (x)	2.8	2.7	2.7	2.4	2.2
P/CF (x)	2.78	2.50	2.58	2.42	2.46
Dividend Yield (%)	1.5	4.1	5.2	5.4	5.9
EV/EBITDA (x)	1.53	1.46	1.33	1.24	1.16
Return on average equity (%)	(10.4)	3.2	11.4	23.1	22.9
Net debt to equity (%)	91.9	62.8	net cash	net cash	net cash

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

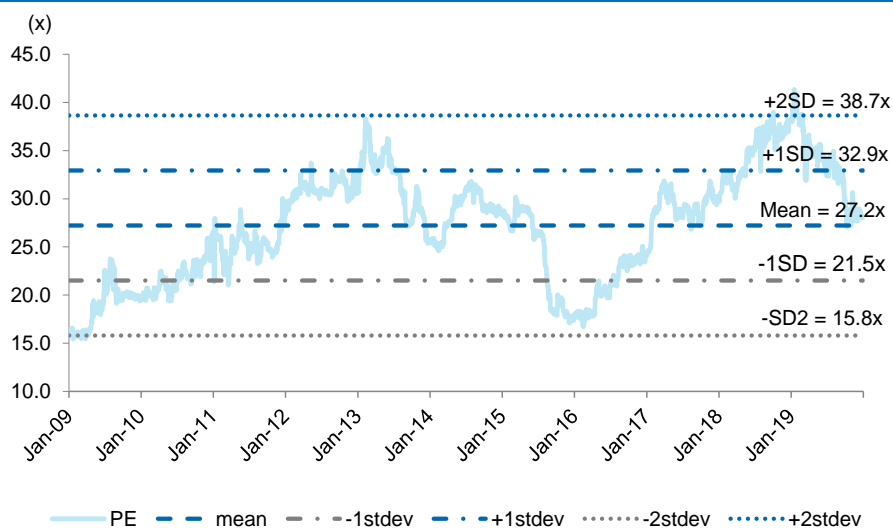
The adopted system of governance allows DFI to benefit from Jardine Matheson's strategic guidance and professional expertise, while at the same time ensuring that the independence of the Board is respected.

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	0.18	0.19
Consumer Cyclical	DPS	0.03	0.08	0.10	0.11	0.12
DFI Retail Group	BVPS	0.70	0.73	0.73	0.80	0.89
DFI SP	Return on average equity (%)	(10.4)	3.2	11.4	23.1	22.9
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
SOP	Recurring P/E (x)	90.72	16.88	12.91	11.00	10.03
	P/B (x)	2.8	2.7	2.7	2.4	2.2
	FCF Yield (%)	26.6	31.5	26.4	29.0	28.4
	Dividend Yield (%)	1.5	4.1	5.2	5.4	5.9
	EV/EBITDA (x)	1.53	1.46	1.33	1.24	1.16
	EV/EBIT (x)	6.92	8.90	4.48	4.21	3.98
Key drivers	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Revenue growth from more convenience stores;	Total turnover	9,174	9,170	8,892	8,931	9,012
ii. Returning Chinese tourists in Hong Kong;	Gross profit	3,066	3,213	3,174	3,189	3,217
iii. Margin expansion on more direct sourcing, cutting out middleman, selling more fresh produce, increase penetration of corporate brands and elimination of non-performing stores.	EBITDA	1,105	990	1,156	1,172	1,188
	Depreciation and amortisation	(861)	(827)	(814)	(827)	(841)
	Operating profit	244	163	342	345	347
	Net interest	(122)	(144)	(144)	(127)	(126)
	Pre-tax profit	(89)	71	134	287	315
	Taxation	(31)	(42)	(24)	(52)	(57)
	Reported net profit	(115)	31	112	237	260
	Recurring net profit	29	155	202	237	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	1,012	1,079	1,064
	Capex	(244)	(220)	(323)	(323)	(323)
	Cash flow from investing activities	(201)	(95)	332	(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	957	1,002
	Net change in cash	11	81	680	72	50
	Ending balance cash	231	303	957	1,002	1,024
Company Profile	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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 head-quartered in Hong Kong and listed on the London Stock Exchange, Bermuda and Singapore.	Total cash and equivalents	231	303	957	1,002	1,024
	Tangible fixed assets	803	708	873	1,025	1,165
	Total investments	1,781	1,794	1,051	1,086	1,133
	Total assets	7,326	7,111	7,064	7,317	7,551
	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	984	1,085	1,202
	Total liabilities & equity	7,326	7,111	7,064	7,317	7,551
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	17.4	9.7
	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	1.3	2.7	2.9
	Dividend payout ratio (%)	(35.3)	345.2	120.6	59.5	59.4
	Capex/sales (%)	2.7	2.4	3.6	3.6	3.6
	Interest cover (x)	2.01	1.13	2.38	2.72	2.76

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	1.63	DCF (WACC:6.6%, TG:0.5%)
Yonghui Superstores (divested)	0.00	Value translated into core business cash
Robinsons Retail Holdings (RRHI)	0.17	Fair value (current share price)
Maxim's	0.86	15x P/E
SOP TP	2.66	
ESG premium/(discount)	-2%	
Final TP	2.61	

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.

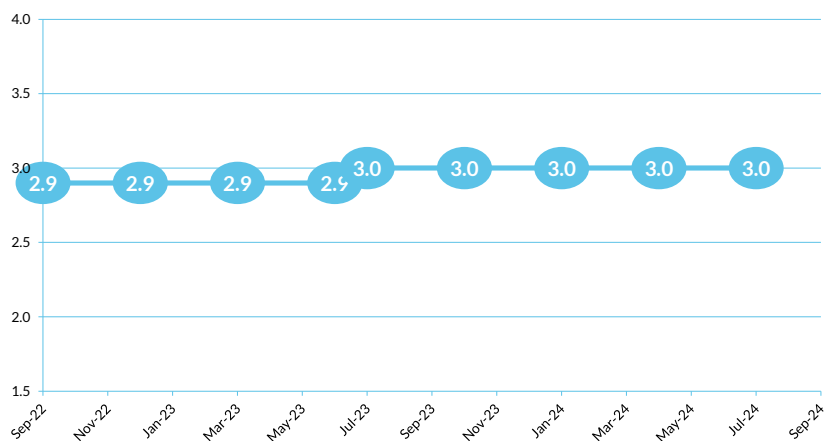
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	350	236	236
Scope 2	361	335	341
Scope 3	-	-	na
Total emissions	711	571	577

Source: Company data, RHB

Latest ESG-Related Developments

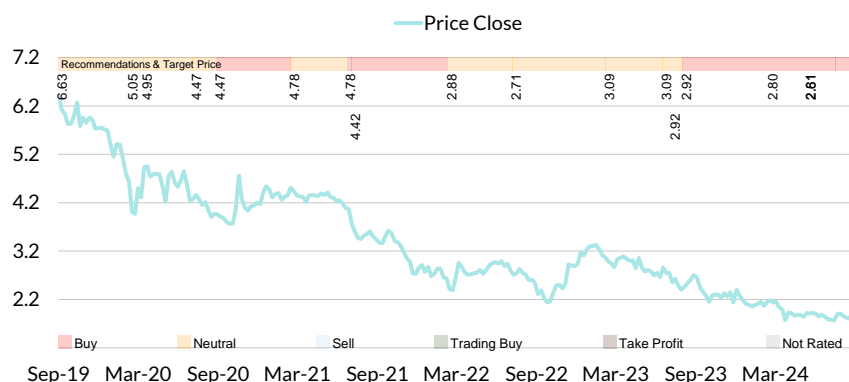
- DFI is committed to reducing 50% emissions by 2030 from 2021, and achieving net zero greenhouse gas emissions (Scope 1 & 2) by 2050.
- DFI has been trialling ultra-low GWP and Water Loop refrigerant technology in Hong Kong, which will help increase the refrigeration system's efficiency.
- DFI is investing 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
2024-08-12	Buy	2.61	1.86
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

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Analyst	Company
-	-

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