

6 June 2024

Consumer Cyclical | Retailing

## DFI Retail Group (DFI SP)

**Buy** (Maintained)

### Recovery On Track, Compelling Valuation; Keep BUY

Target Price (Return): USD2.81 (44.2%)  
 Price (Market Cap): USD1.95 (USD2,640m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (USD/USD) 1.66m/1.66m

- **Maintain BUY with higher USD2.81 TP from USD2.80, 44% upside and c.6% FY25F yield.** DFI Retail Group continues to remain as our recovery play as 1Q24's interim performance and outlook tracks in line with our expectations. We anticipate continued earnings recovery in FY24F. 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 vs our implied target P/E of 15x.
- **1Q24 within expectations.** DFI's latest interim management statement revealed that 1Q24 continued to track within our expectations. Overall revenue grew 2% YoY while underlying profit grew more than 60% YoY on the back of better profitability. The food retail division's SSSG declined on weaker consumption and saw margin improvement on cost control. The convenience division's SSSG increased in Macau, South China, and Singapore while margins more than doubled due to better sales mix. The health and beauty division's SSSG grew in Malaysia and Indonesia, and on tourism recovery in North Asia. Margins improved on cost control and better gross margins. The home furnishing division saw lower underlying profit – affected by weak sentiment in Indonesia and Hong Kong outlets. Among key associates, Maxim's had flat profit growth, while Yonghui and Robinson's Retail's profits grew.
- **Estimates unchanged.** There is no change to our estimates as we see 1Q24 tracking within our forecast. Management guidance for FY24F's underlying profit attributable to shareholders remains between USD180m and USD220m. Although growth in 2H24 is expected to normalise given higher base in 2H23, we see continued earnings recovery in FY24F and beyond, led by improving profitability of key segments, including the food retail division.
- **Slightly higher TP due to Yonghui's better share price.** Even though our estimates remain unchanged, our TP based on sum of parts is adjusted higher mainly due to Yonghui's share price. Since our last update on 12 Mar 2024, Yonghui's share price has increased from CNY2.57 to CNY2.63, representing an increase of 2%. This has positively impacted our sum of parts valuation in the value of Yonghui – in which DFI has a 19.9% stake. While the overall core business and value of stakes in other companies ie Robinson's Retail and Maxim's remain largely unchanged, the recent increase in Yonghui's share price has resulted in a slightly higher overall TP for DFI.
- **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 below the country median of 3.1, we apply a 2% ESG discount to its intrinsic value to derive our TP.

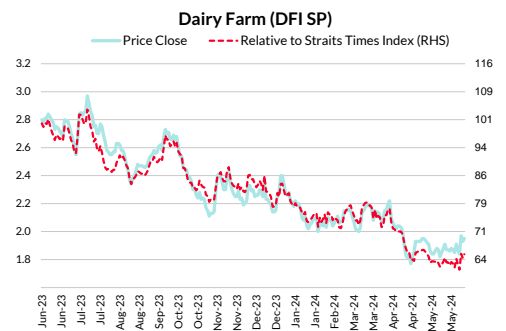
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.8)	1.6	(3.0)	(14.9)	(30.9)
Relative	(21.6)	0.5	(10.2)	(23.1)	(35.3)
52-wk Price low/high (USD)				1.77	–2.97



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	9,174	9,170	9,425	9,687	9,957
Recurring net profit (USDm)	29	155	216	249	280
Recurring net profit growth (%)	(89.6)	437.2	39.4	15.5	12.5
Recurring P/E (x)	91.19	16.97	12.17	10.54	9.37
P/B (x)	2.8	2.7	2.4	2.2	1.9
P/CF (x)	2.79	2.52	2.63	2.43	2.38
Dividend Yield (%)	1.5	4.1	4.6	5.6	6.7
EV/EBITDA (x)	1.54	1.47	1.26	1.10	0.98
Return on average equity (%)	(10.4)	3.2	20.9	21.6	21.9
Net debt to equity (%)	91.9	62.8	57.6	46.7	38.1

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.

6 June 2024

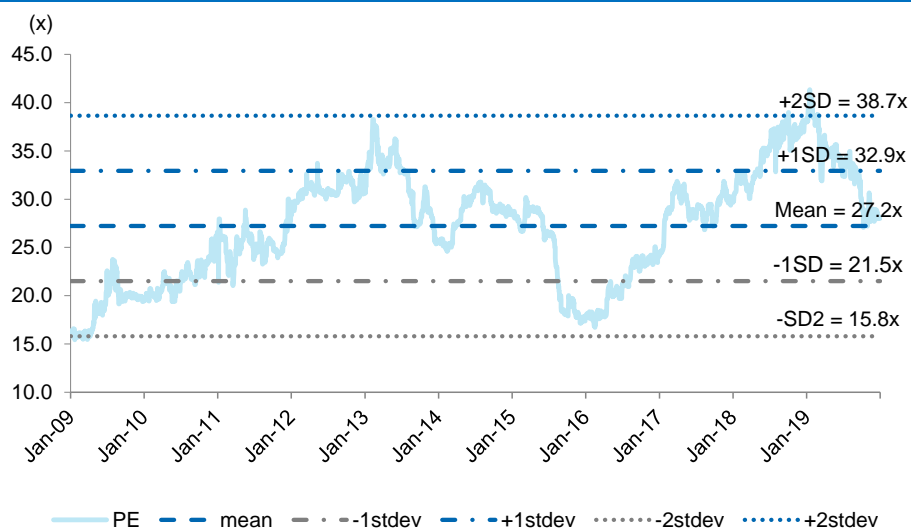
Consumer Cyclical | Retailing

## Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.02	0.11	0.16	0.19	0.21
Consumer Cyclical	DPS	0.03	0.08	0.09	0.11	0.13
<b>DFI Retail Group</b>	BVPS	0.70	0.73	0.81	0.90	1.00
DFI SP	Return on average equity (%)	(10.4)	3.2	20.9	21.6	21.9
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	91.19	16.97	12.17	10.54	9.37
SOTP	P/B (x)	2.8	2.7	2.4	2.2	1.9
	FCF Yield (%)	26.5	31.4	25.7	28.9	29.7
	Dividend Yield (%)	1.5	4.1	4.6	5.6	6.7
<b>Key drivers</b>	EV/EBITDA (x)	1.54	1.47	1.26	1.10	0.98
Revenue growth from:	EV/EBIT (x)	6.98	8.98	4.62	3.80	3.37
i. More convenience stores;						
ii. Returning Chinese tourists in Hong Kong.						
Margin expansion on:	<b>Income statement (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. More direct sourcing, cutting out middleman;	Total turnover	9,174	9,170	9,425	9,687	9,957
ii. Selling more fresh produce;	Gross profit	3,066	3,213	3,157	3,245	3,336
iii. Increase penetration of corporate brands;	EBITDA	1,105	990	1,129	1,183	1,209
iv. Elimination of non-performing stores.	Depreciation and amortisation	(861)	(827)	(822)	(840)	(858)
	Operating profit	244	163	307	343	351
	Net interest	(122)	(144)	(144)	(144)	(143)
	Pre-tax profit	(89)	71	261	302	340
	Taxation	(31)	(42)	(47)	(54)	(61)
	Reported net profit	(115)	31	216	249	280
	Recurring net profit	29	155	216	249	280
<b>Key risks</b>	<b>Cash flow (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Slowdown in consumption spending and soft SSSG, especially in ASEAN countries;	Change in working capital	(7)	45	11	45	32
ii. Labour cost and rental pressures.	Cash flow from operations	940	1,044	998	1,081	1,102
	Capex	(244)	(220)	(323)	(323)	(323)
	Cash flow from investing activities	(201)	(95)	(323)	(323)	(323)
	Dividends paid	(101)	(67)	(108)	(121)	(148)
	Cash flow from financing activities	(728)	(868)	(658)	(671)	(698)
	Cash at beginning of period	210	231	303	294	355
	Net change in cash	11	81	17	87	81
	Ending balance cash	231	303	294	355	409
<b>Company Profile</b>	<b>Balance sheet (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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	294	355	409
	Tangible fixed assets	803	708	865	1,005	1,127
	Total investments	1,781	1,794	1,842	1,894	1,959
	Total assets	7,326	7,111	7,458	7,759	8,051
	Short-term debt	838	771	771	771	771
	Total long-term debt	259	153	153	153	153
	Total liabilities	6,385	6,123	6,364	6,539	6,700
	Total equity	941	988	1,094	1,220	1,351
	Total liabilities & equity	7,326	7,111	7,458	7,759	8,051
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	(0.2)	(0.0)	2.8	2.8	2.8
	Recurrent EPS growth (%)	(89.5)	437.4	39.4	15.5	12.5
	Gross margin (%)	33.4	35.0	33.5	33.5	33.5
	Operating EBITDA margin (%)	12.0	10.8	12.0	12.2	12.1
	Net profit margin (%)	(1.2)	0.3	2.3	2.6	2.8
	Dividend payout ratio (%)	(35.3)	345.2	56.2	59.4	62.5
	Capex/sales (%)	2.7	2.4	3.4	3.3	3.2
	Interest cover (x)	2.01	1.13	2.13	2.38	2.46

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	1.36	DCF (WACC:6.6%, TG:0.5%)
Yonghui Superstores	0.50	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>2.87</b>	
ESG premium/(discount)	-2%	
<b>Final TP</b>	<b>2.81</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.

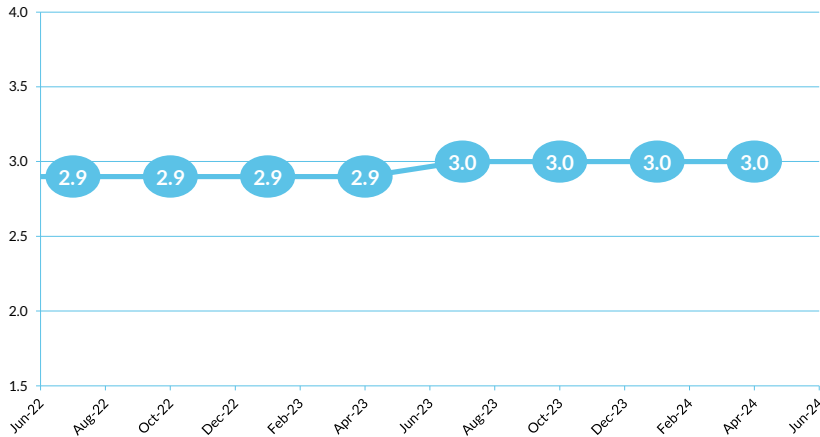
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	350	236	236
Scope 2	361	335	341
Scope 3	-	-	na
Total emissions	711	571	577

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
2024-03-12	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
2020-03-06	Neutral	5.05	4.64

Source: RHB, Bloomberg

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