

9 April 2024

Consumer Non-cyclical | Food & Beverage Products

Delfi (DELFI SP)

Buy (Maintained)

Expect Minimal Margin Pressure; Keep BUY

- **Maintain BUY and SGD1.33 TP, 45% upside, c.6% FY24F yield.** We retain our call on Delfi despite the current environment of high cocoa prices and a further reduction of FY25-26F earnings. We believe margin compression risks will be mitigated by existing inventory, price adjustment, right sizing, and passive inventory loading at higher cocoa prices. The stock trades at an attractive 9x FY24F P/E, ie near -1SD from the 16x mean. Our TP is pegged to 13x FY24F P/E, at -0.5SD from the mean.
- **Higher cocoa prices, but slight impact for now.** Since end-Dec 2023, cocoa prices have surged 122% to over USD9,000/tonne due to supply concerns in Ghana and Ivory Coast. Being a manufacturer of chocolate confectionery, cocoa is one of Delfi's key input ingredients to its cost of sales, and higher cocoa prices would dampen its gross margins with all other factors remaining constant. As the magnitude of the recent surge in cocoa's market price has been significant, we expect to see some but not significant impact on Delfi's financials going forward.
- **Capable of mitigating margin compression.** We note that Delfi would already have up to 12 months of inventory locked in at lower prices and therefore, FY24F's margins should not be significantly impacted due to its forward purchase strategy and existing inventory drawdown. Yet, given the recent strong rally in cocoa prices, we do not expect the company to load up aggressively on inventory at current lofted prices. Hence, we expect inventory loading to continue, albeit passively. We also believe Delfi would respond with both price adjustment and right sizing strategies to defend its margins, especially from FY25F. With a three-pronged price adjustment, right sizing, and passive inventory loading strategy in play, we expect FY25F's margin compression to be minimal.
- **We cut FY25-26F earnings by 2-3%.** We have previously lowered our FY23-24F earnings by 11-12%, imputing slower revenue growth as well as lower margin assumptions to reflect higher cocoa prices. Hence, we leave our FY24F earnings unchanged due to its ability to drawdown existing cocoa inventory. However, we trim our FY25-26F earnings by another 2-3% as we believe price adjustment would occur from FY25F - affecting demand growth further. There are no additional downgrades to our margin assumptions due to its three-pronged margin mitigation strategy. Our current FY25-26F earnings adjustment does not affect our TP, since it is pegged to FY24F's earnings, which we have maintained.
- **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 (45.1%)
 Price (Market Cap): SGD0.92 (USD418m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.62m/0.36m

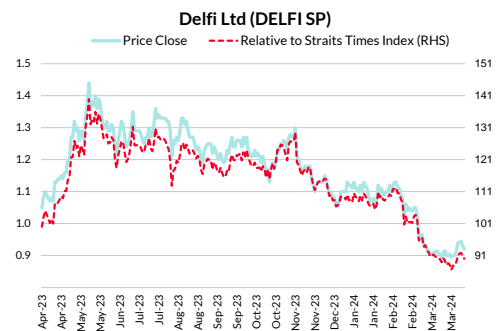
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.9)	1.7	(16.4)	(24.0)	(14.0)
Relative	(17.1)	(0.5)	(17.3)	(25.3)	(11.4)
52-wk Price low/high (SGD)	0.90 - 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 3.00 MWh/MT in 2021 to 2.32 MWh/MT in 2022. Water withdrawal per metric tonne of product reduced by -12% at its manufacturing facilities to 3.82 m3/MT in 2022. Waste intensity per metric ton at its manufacturing facilities declined 5% to 76.39 kg/MT in 2022.

S: GOOD

The company is committed to employee well-being and Occupational Health and Safety ("OHS") with regular review of its practices to avoid workplace incidents and sound and sustainable human resource practices. It also strives to impact communities 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 the organisation towards greater heights of excellence. DELFI 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 capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	483	538	592	639	693
Recurring net profit (USDm)	44	46	48	51	56
Recurring net profit growth (%)	51.5	5.4	3.3	7.7	8.1
Recurring P/E (x)	9.52	9.03	8.74	8.12	7.51
P/B (x)	1.7	1.6	1.5	1.3	1.2
P/CF (x)	124.76	29.05	9.68	8.34	7.86
Dividend Yield (%)	6.3	6.3	5.7	6.2	6.7
EV/EBITDA (x)	4.86	5.25	5.04	4.48	3.94
Return on average equity (%)	18.1	18.1	17.3	17.1	16.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

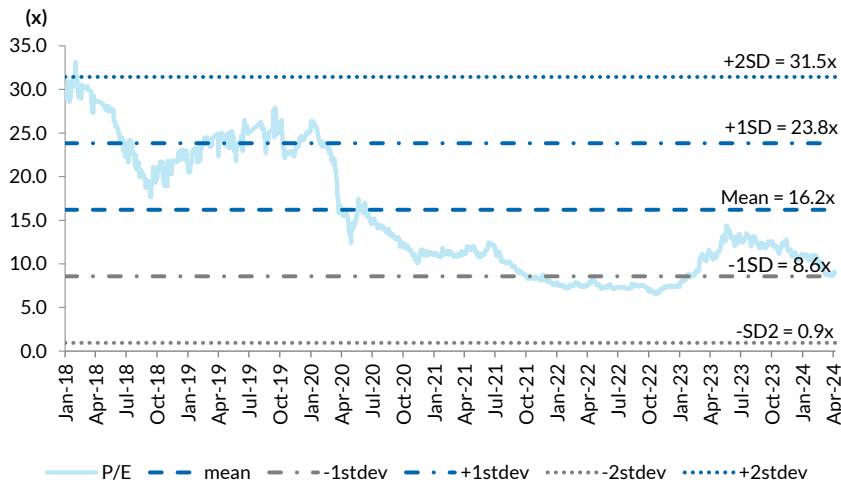
Source: Company data, RHB

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	0.08	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	0.56
DELFISP	Return on average equity (%)	18.1	18.1	17.3	17.1	16.9
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	9.52	9.03	8.74	8.12	7.51
13x FY24F P/E	P/B (x)	1.7	1.6	1.5	1.3	1.2
	FCF Yield (%)	(0.1)	(2.2)	6.4	9.6	10.3
	Dividend Yield (%)	6.3	6.3	5.7	6.2	6.7
Key drivers	EV/EBITDA (x)	4.86	5.25	5.04	4.48	3.94
i. Improvement in consumer confidence and private consumption.	EV/EBIT (x)	5.78	6.16	5.95	5.28	4.65
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	483	538	592	639	693
Key downside risks to our earnings forecast include:	Gross profit	148	153	166	179	194
i. Lower-than-expected regional snacking consumption demand (especially in Indonesia);	EBITDA	74	74	78	84	90
ii. Increase in raw material prices, eg cocoa beans and sugar, 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	71	77
	Net interest	1	2	2	2	2
	Pre-tax profit	63	65	68	73	79
	Taxation	(19)	(19)	(20)	(21)	(23)
	Reported net profit	44	46	48	51	56
	Recurring net profit	44	46	48	51	56
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)	(14.1)	(16.1)
	Cash flow from operations	3.3	14.4	43.1	50.1	53.2
	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)	(25.7)
	Cash flow from financing activities	(13.1)	(21.3)	(26.4)	(23.9)	(25.7)
	Cash at beginning of period	86.2	77.1	59.4	60.0	76.5
	Net change in cash	(13.4)	(30.9)	0.2	16.2	17.5
	Ending balance cash	71.7	46.9	59.6	76.1	94.0
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	77	59	60	77	94
	Tangible fixed assets	81	98	102	100	96
	Total investments	3	3	3	2	2
	Total assets	395	421	447	479	513
	Short-term debt	19	33	33	33	33
	Total liabilities	149	155	160	164	168
	Total equity	246	266	288	315	345
	Total liabilities & equity	395	421	447	479	513
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	19.2	11.4	10.0	8.0	8.5
	Recurrent EPS growth (%)	51.5	5.4	3.3	7.7	8.1
	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	1.6	1.4
	Interest cover (x)	98.7	52.2	53.9	58.1	63.0

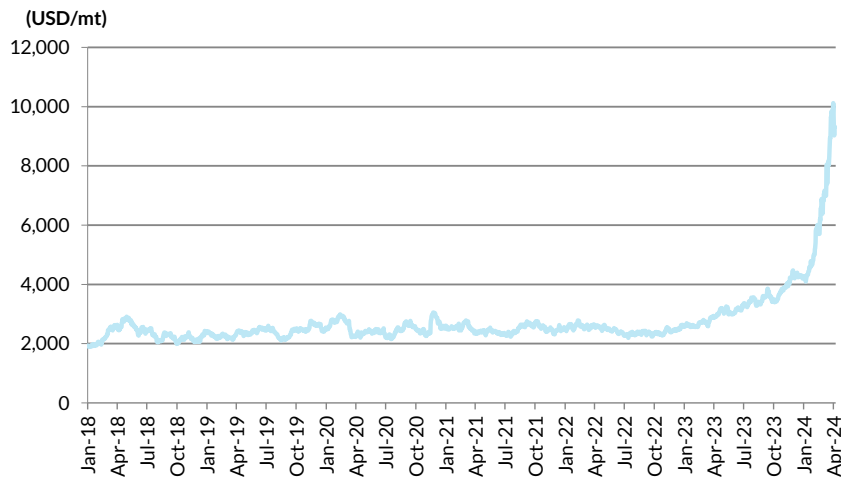
Source: Company data, RHB

Figure 1: DELFI's historical P/E mean



Source: Bloomberg

Figure 2: Higher cocoa prices due to supply constraints



Source: Bloomberg

Emissions And ESG

Trend analysis

Higher manufacturing emissions from Scope 1 and Scope 2 were in line with DELFI's increase in production. In 2022, manufacturing emissions for Scope 1 and Scope 2 were 12,818 tCO₂e and 37,351 tCO₂e, totalling 50,169 tCO₂e (+4.3% YoY).

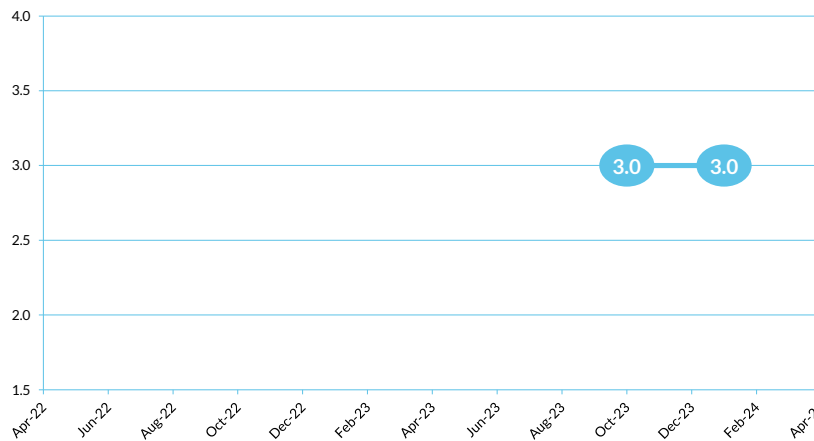
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	12,894	16,260	na
Scope 2	35,200	40,265	na
Scope 3	-	-	na
Total emissions	48,094	56,525	na

Source: Company data, RHB

Latest ESG-Related Developments

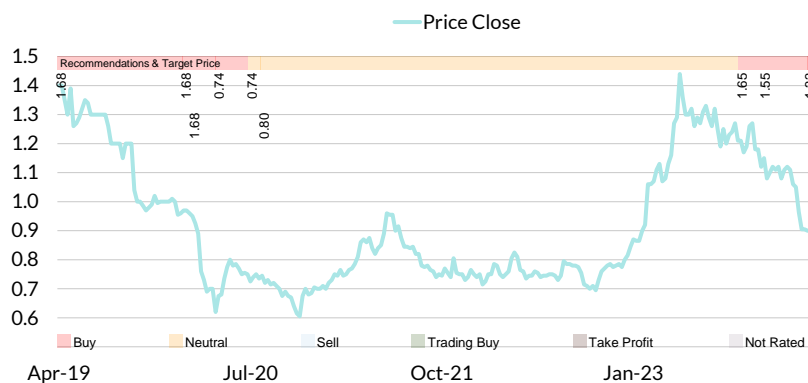
- In 2022, DELFI began monitoring Scope 1 and Scope 2 emissions from its distribution facilities and headquarters, which accounted for 6,356 tCO₂e of combined Scope 1 and Scope 2 emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-17	Buy	1.33	0.91
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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