

12 March 2024

Consumer Cyclical | Retailing

## DFI Retail Group (DFI SP)

**Buy** (Maintained)

### Core Business Recovering; Keep BUY

Target Price (Return): USD2.80 (30.4%)  
 Price (Market Cap): USD2.15 (USD2,910m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (USD/USD) 1.60m/1.60m

- Maintain BUY with lower USD2.80 TP from USD2.92, 30% upside and c.4% FY24F yield.** DFI Retail Group remains our recovery play as FY23 earnings continue to show core profit and margin improvement, with key operations beating our operating profit forecast. We anticipate continued earnings recovery in FY24F as new CEO Scott Price re-strategises DFI for further growth, on the back of improving consumer demand. 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 14x FY24F P/E vs our implied target P/E of 17x.
- FY23 core earnings of ex-JV/associate above estimates.** DFI's FY23 operations delivered core operating profit of USD293m, which exceeded our forecast. However, core net profit (USD155m) and headline earnings (USD31m), including JV/associates income disappointed our expectations, due to weak performance of Yonghui. While revenue (USD9.2bn, 0% YoY) and gross profit were in line with our forecast, operating profit and its margins outperformed, largely contributed by sales, traffic recovery, operating leverage at the convenience stores, and health and beauty segments. Food's profit declined YoY due to COVID-19's higher base last year and competition in South-East Asia, although North Asia improved. IKEA saw SSSG and profit decline on a weak market environment. DFI declared a final DPS of 5 US cents, bringing total DPS for the year to 8 US cents, reflecting a dividend payout ratio of c.70%.
- New CEO strategises to drive growth.** Following DFI's new CEO Scott Price taking the helm in Aug 2023, we expect new growth strategies to be implemented. These include improving assortment, pricing and promotion decisions across formats using data, optimisation of own brands across formats, expanding retail primary health care service, innovating and driving ready-to-eat products at 7-Eleven, going omnichannel during a high interest rate environment, and driving share through digital sales across markets.
- Cut FY24-25F earnings by 9%.** Following lower-than-expected core earnings dragged by associates and JV, we lower our FY24-25 earnings forecast by 9%. We impute a slower revenue growth rate on the back of a flat FY23 revenue, but expect better EBIT margins as core segments continue to recover. There is no change to our JV/associate income as lower Yonghui earnings is offset by higher contribution from restaurant associate Maxims. Our TP is consequently reduced by in line with the earnings cut.
- 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 on par with the country median, we apply a 2% ESG discount to its intrinsic value to derive our TP.

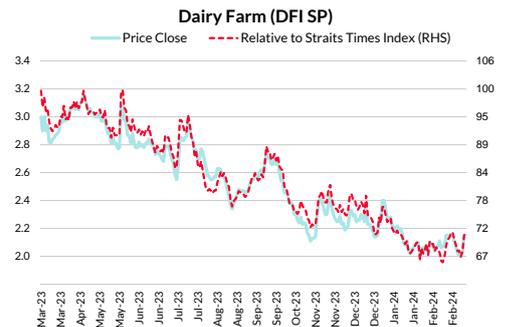
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.4)	3.4	(4.9)	(15.7)	(28.1)
Relative	(7.2)	3.4	(6.5)	(13.2)	(26.9)
52-wk Price low/high (USD)				2.00	-3.17



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	281
Recurring net profit growth (%)	(89.6)	437.2	39.4	15.5	12.6
Recurring P/E (x)	100.54	18.71	13.42	11.61	10.31
P/B (x)	3.1	3.0	2.7	2.4	2.1
P/CF (x)	3.08	2.77	2.81	2.59	2.54
Dividend Yield (%)	1.4	3.7	4.2	5.1	6.0
EV/EBITDA (x)	1.79	1.75	1.45	1.28	1.15
Return on average equity (%)	(10.4)	3.2	20.9	21.6	21.9
Net debt to equity (%)	91.9	62.8	57.0	45.5	36.4

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.

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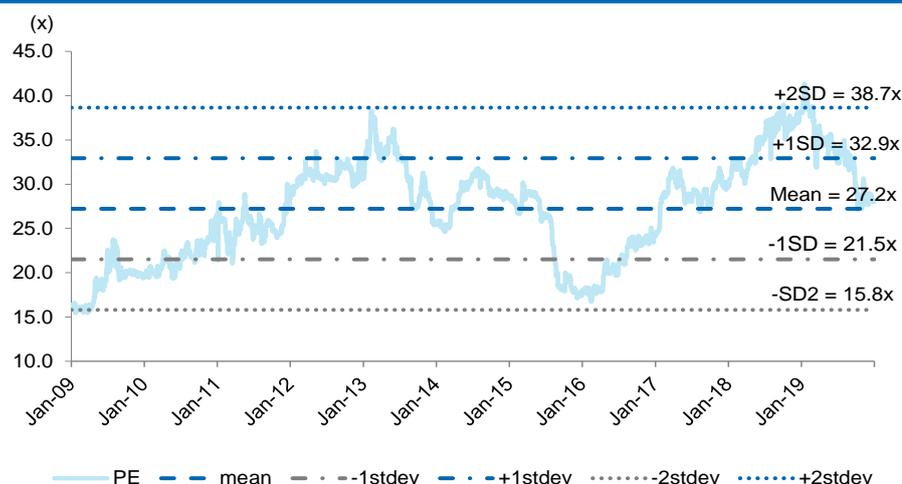
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## Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.02	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)	100.54	18.71	13.42	11.61	10.31
SOTP	P/B (x)	3.1	3.0	2.7	2.4	2.1
	FCF Yield (%)	24.0	28.5	23.5	26.5	27.2
	Dividend Yield (%)	1.4	3.7	4.2	5.1	6.0
<b>Key drivers</b>	EV/EBITDA (x)	1.79	1.75	1.45	1.28	1.15
Revenue growth from:	EV/EBIT (x)	8.08	10.63	5.47	4.55	4.07
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 middlemen;	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	1,163	1,218	1,245
iv. Elimination of non-performing stores.	Depreciation and amortisation	(861)	(827)	(855)	(875)	(894)
	Operating profit	244	163	307	343	351
	Net interest	(122)	(144)	(144)	(144)	(142)
	Pre-tax profit	(89)	71	261	302	340
	Taxation	(31)	(42)	(47)	(54)	(61)
	Reported net profit	(115)	31	216	249	281
	Recurring net profit	29	155	216	249	281
<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	1,031	1,116	1,139
	Capex	(244)	(220)	(350)	(350)	(350)
	Cash flow from investing activities	(201)	(95)	(350)	(350)	(350)
	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	300	368
	Net change in cash	11	81	24	95	90
	Ending balance cash	231	303	300	368	432
<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 head-quartered in Hong Kong and listed on the London Stock Exchange, Bermuda and Singapore.	Total cash and equivalents	231	303	300	368	432
	Tangible fixed assets	803	708	865	1,005	1,128
	Total investments	1,781	1,794	1,842	1,894	1,959
	Total assets	7,326	7,111	7,490	7,822	8,146
	Short-term debt	838	771	771	771	771
	Total long-term debt	259	153	153	153	153
	Total liabilities	6,385	6,123	6,396	6,602	6,795
	Total equity	941	988	1,094	1,221	1,351
	Total liabilities & equity	7,326	7,111	7,490	7,822	8,146
	<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	12.6
	Gross margin (%)	33.4	35.0	33.5	33.5	33.5
	Operating EBITDA margin (%)	12.0	10.8	12.3	12.6	12.5
	Net profit margin (%)	(1.2)	0.3	2.3	2.6	2.8
	Dividend payout ratio (%)	(35.3)	345.2	56.2	59.4	62.3
	Capex/sales (%)	2.7	2.4	3.7	3.6	3.5
	Interest cover (x)	2.01	1.13	2.13	2.38	2.47

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: Breakdown of DFI's operating profit (FY22-26F)

Operating profit	FY22	FY23	FY24F	FY25F	FY26F
Grocery	90.9	45.3	46.7	76.7	79.0
Convenience stores	50.5	87.7	90.3	93.1	95.9
Food	141.4	133.0	137.0	169.8	174.9
Health and Beauty	93.6	212.5	218.9	225.5	232.3
IKEA	45.5	18.5	18.7	18.9	19.1
Segment operating profit	280.5	364.0	374.6	414.2	426.3
Unallocated SGA	(147.3)	(151.9)	(149.1)	(152.8)	(157.1)
IFRS 16 adjustment	76.0	81.7	81.7	81.7	81.7
One-offs	35.1	(131.2)	0.0	0.0	0.0
Operating Profit	244.3	162.6	307.2	343.1	351.0

Source: Company data, RHB

Figure 3: SOP valuation

	Value (USD/share)	Basis
Core business	1.36	DCF (WACC:6.6%, TG:0.5%)
Yonghui Superstores	0.48	5% discount to current share price
Robinsons Retail Holdings (RRHI)	0.16	Fair value (current share price)
Maxim's	0.86	15x P/E
<b>SOP TP</b>	<b>2.86</b>	
ESG premium/(discount)	-2%	
<b>Final TP</b>	<b>2.80</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.

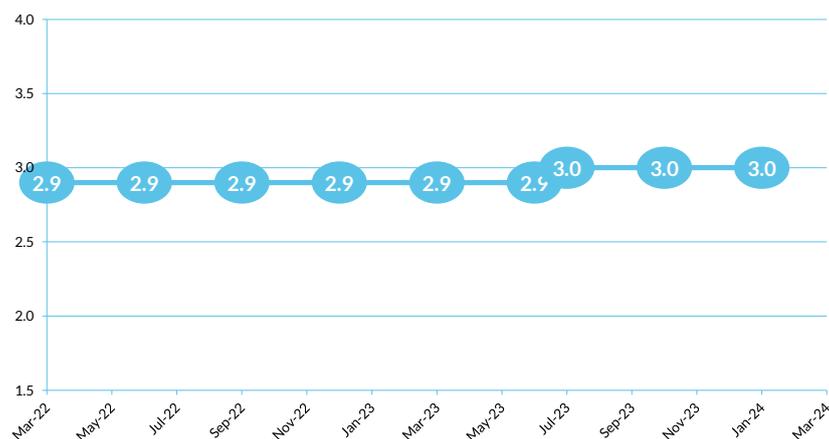
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	379	289	na
Scope 2	486	488	na
Scope 3	-	-	na
Total emissions	865	777	na

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
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
2019-09-23	Neutral	6.63	6.81

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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