

3 June 2024

Consumer Non-cyclical | Food & Beverage Products

## Delfi (DELFI SP)

**Buy** (Maintained)

### Expect Margins To Hold Up; Maintain BUY

- **Maintain BUY and SGD1.33 TP, 55% upside.** We remain positive on Delfi despite the current environment of high cocoa prices. We believe our earnings forecasts and margin assumptions for both FY24 and FY25 are conservative. The stock's valuation remains attractive, at 8x FY24F P/E, ie near -1SD from the mean of 16x, while its c.6% FY24F yield is based on a 50% dividend payout assumption. Our TP is pegged to -0.5SD from the mean, at 13x FY24F P/E.
- **1Q24 revenue below, but margins and EBITDA ahead of estimates.** DELFI reported 1Q24 revenue of USD150.7m (-5.3% YoY) and EBITDA of USD23.3m (-8.3% YoY). While revenue fell below estimates, its margins outperformed expectations. GPM was at 30.2% (vs our 28.5% estimate) while its EBITDA margin was at 15.5% (vs our projection of 13%). The revenue decline spanned across its Indonesia (-6.6% YoY, USD103.5m) and regional markets (-2.5% YoY, USD47.2m), where there was reduced spending on trade promotions, while the value of regional currencies softened against the USD (Delfi's results are denominated in USD terms). Across the Indonesia and regional markets, its own-brand sales declined - albeit offset by better agency brand sales. The reduction in spending on trade promotions led to a stronger GPM (+0.5ppt, at 30.2%), while more efficient opex led to a better-than-expected EBITDA margin.
- **Neutral impact on estimates.** DELFI's results have a neutral impact on our earnings forecasts, since its wider-than-estimated margins offset the impact of lower-than-expected revenue. Based on 1Q24 numbers, we have left our earnings estimates and TP largely unchanged. Management is confident of driving growth from core brands in both the premium and value formats, as well as from the modern trade independent channel. It is also capable of adjusting prices and right-sizing to preserve margins against higher input costs. There is also scope to drive margins via more efficient management of operating costs, collection and working capital. We believe that our margin assumptions are already conservative. In our view, the impact of high input prices is priced in, as we have already factored in lower GPMs - post imputing the currently elevated cocoa prices - in our projections. Indonesia's 2024F GDP growth remains robust, at 5% YoY based on our RHB economists' projection, supported by consumption, trade and foreign direct investments. DELFI is now trading at 8x FY24F P/E, and offering a c.6% dividend yield.
- **Key downside risks** to our earnings estimates include lower-than-expected consumption of chocolate-based confectionery in Indonesia, an increase in raw material prices (eg cocoa beans, sugar, etc) that could affect GPMs, and the negative effect of a change in 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 (+55%)  
 Price (Market Cap): SGD0.86 (USD387m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.72m/0.53m

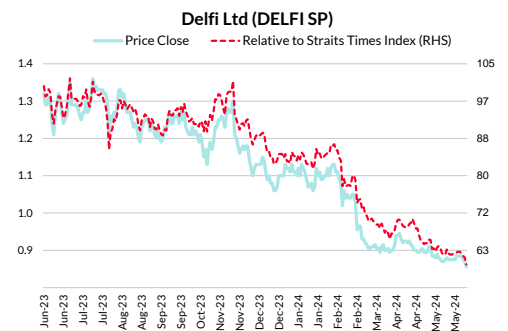
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.7)	(6.1)	(11.4)	(22.3)	(35.7)
Relative	(26.7)	(7.4)	(17.6)	(30.9)	(41.3)
52-wk Price low/high (SGD)	0.86 - 1.36				



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 tonne of product produced at its manufacturing facilities decreased from 3.00 MWh in 2021 to 2.32 MWh in 2022. Water withdrawal per tonne of product fell by 12% YoY at its manufacturing facilities to 3.82 cu m/tonne in 2022. Waste intensity per tonne at its manufacturing facilities declined 5% to 76.39 kg/tonne in 2022.

##### S: GOOD

The company is committed to employee well-being and occupational health and safety, with a regular review of its practices to avoid workplace incidents and sound and sustainable human resource practices. It also strives to impact communities with initiatives and 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, to 131st place in 2023 from 316<sup>th</sup> place in 2022.

##### 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	549	593	643
Recurring net profit (USDm)	44	46	48	50	54
Recurring net profit growth (%)	51.5	5.4	3.2	4.7	8.1
Recurring P/E (x)	8.81	8.36	8.09	7.73	7.15
P/B (x)	1.6	1.5	1.3	1.2	1.1
P/CF (x)	115.45	26.88	6.94	7.92	7.41
Dividend Yield (%)	6.8	6.8	6.2	6.5	7.0
EV/EBITDA (x)	4.44	4.83	4.52	4.10	3.59
Return on average equity (%)	18.1	18.1	17.2	16.6	16.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

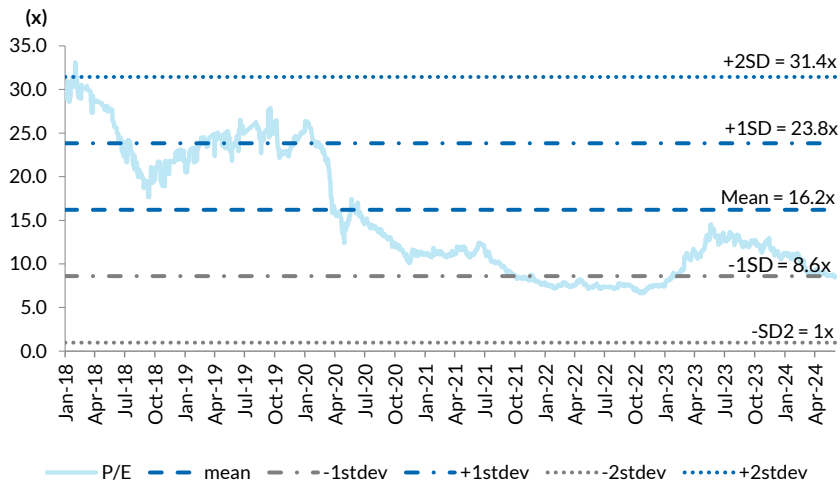
Source: Company data, RHB

## 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	0.04
<b>Delfi</b>	BVPS	0.40	0.44	0.47	0.51	0.56
DELFISP	Return on average equity (%)	18.1	18.1	17.2	16.6	16.5
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)	8.81	8.36	8.09	7.73	7.15
13x FY24F P/E	P/B (x)	1.6	1.5	1.3	1.2	1.1
	FCF Yield (%)	(0.1)	(2.4)	10.1	10.0	10.9
	Dividend Yield (%)	6.8	6.8	6.2	6.5	7.0
<b>Key drivers</b>	EV/EBITDA (x)	4.44	4.83	4.52	4.10	3.59
Improvement in consumer confidence and private consumption.	EV/EBIT (x)	5.28	5.67	5.29	4.82	4.22
	<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>
<b>Key risks</b>	Total turnover	483	538	549	593	643
Key downside risks to our earnings forecast include:	Gross profit	148	153	156	168	182
i. Lower-than-expected regional consumption of snacks, ie lower demand (especially in Indonesia);	EBITDA	74	74	77	81	88
ii. Increase in raw material prices, ie that of cocoa beans, sugar, etc could affect gross margins;	Depreciation and amortisation	(12)	(11)	(11)	(12)	(13)
iii. Negative effect of any change in the USD/IDR rate.	Operating profit	62	63	66	69	74
	Net interest	1	2	2	2	2
	Pre-tax profit	63	65	68	71	76
	Taxation	(19)	(19)	(20)	(21)	(22)
	Reported net profit	44	46	48	50	54
	Recurring net profit	44	46	48	50	54
<b>Company Profile</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>
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)	(3.2)	(13.2)	(14.9)
	Cash flow from operations	3.3	14.4	55.7	48.8	52.2
	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)	(25.0)
	Cash flow from financing activities	(13.1)	(21.3)	(26.4)	(23.9)	(25.0)
	Cash at beginning of period	86.2	77.1	59.4	72.5	87.8
	Net change in cash	(13.4)	(30.9)	12.8	14.9	17.1
	Ending balance cash	71.7	46.9	72.2	87.4	104.9
	<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>
	Total cash and equivalents	77	59	73	88	105
	Tangible fixed assets	81	98	103	101	98
	Total investments	3	3	3	2	2
	Total assets	395	421	443	473	506
	Short-term debt	19	33	33	33	33
	Total liabilities	149	155	156	159	164
	Total equity	246	266	288	314	343
	Total liabilities & equity	395	421	443	473	506
	<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 (%)	19.2	11.4	2.0	8.0	8.5
	Recurrent EPS growth (%)	51.5	5.4	3.2	4.7	8.1
	Gross margin (%)	30.7	28.5	28.5	28.3	28.3
	Operating EBITDA margin (%)	15.3	13.8	14.0	13.6	13.6
	Net profit margin (%)	9.1	8.6	8.7	8.4	8.4
	Dividend payout ratio (%)	59.9	57.1	50.0	50.0	50.0
	Capex/sales (%)	0.7	4.4	3.0	1.7	1.6
	Interest cover (x)	98.7	52.2	53.9	56.5	61.2

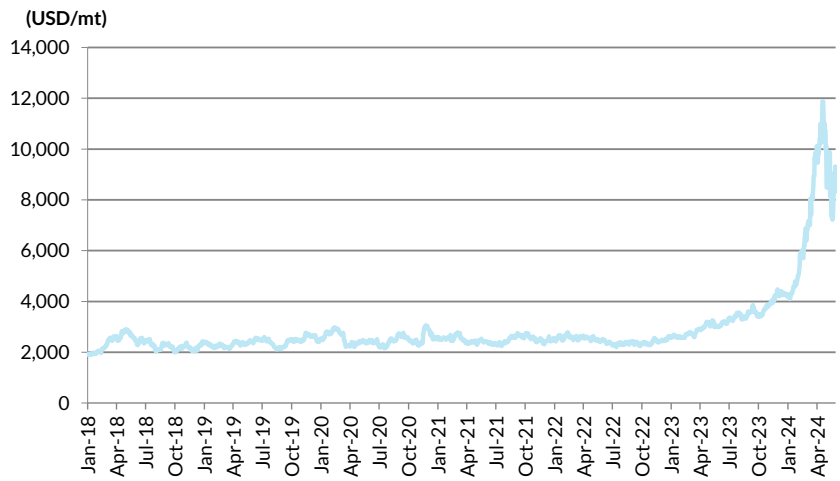
Source: Company data, RHB

Figure 1: DELFI's historical P/E mean



Source: Bloomberg

Figure 2: The price of cocoa has risen due to supply constraints



Source: Bloomberg

## Emissions And ESG

### Trend analysis

DELFI's Scope 1 and Scope 2 emissions in 2023 dropped by 11.9% and 2% compared to 2022 levels, due to the decline in its energy consumption.

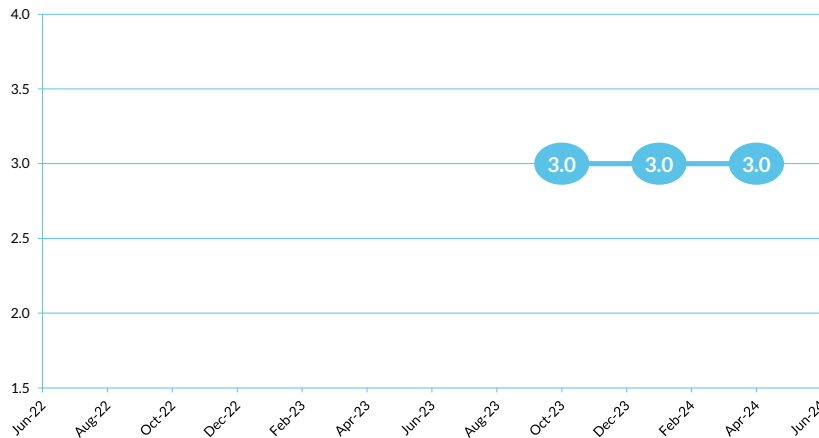
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	12,894	16,260	14,325
Scope 2	35,200	40,265	39,463
Scope 3	-	-	na
Total emissions	48,094	56,525	53,788

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 – these amounted to 6,356 tCO2e of combined Scope 1 and Scope 2 emissions.
- In 2023, DELFI's manufacturing facility in the Philippines acquired 4,970 MWh of renewable energy certificates (RECs), representing almost 54% of its energy consumption. This was to offset around 4,801 tCO2e of its emissions.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-09	Buy	1.33	0.93
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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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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