

13 August 2020

Consumer Non-cyclical | Food & Beverage Products

Delfi (DELFI SP)

Neutral (Maintained)

Hit By COVID-19; Maintain NEUTRAL

Target Price (Return): SGD0.80 (+8%)
 Price: SGD0.74
 Market Cap: USD323m
 Avg Daily Turnover (SGD/USD) 0.84m/0.60m

- **Maintain NEUTRAL, new SGD0.80 TP** from SGD0.74, 8% upside with c.4% yield. Delfi recorded 1H20 PATMI at USD10.8m, down 30% YoY on a 12% YoY decline in sales. The 1H20 results are slightly ahead of our estimates, but still below Street projections. Its outlook for 2H20 and FY21 remains cloudy. The interim dividend was maintained at 1.27 US cents per share. While the group saw economic activities picking up in June, business has yet to recover to pre-pandemic levels.

- **1H20 results largely affected by COVID-19, especially in 2Q20.** Delfi booked modest YoY earnings growth in 1Q20, but its numbers were significantly affected in April-May, when Indonesia and the Philippines imposed strict social distancing restrictions. The modern trade channels were affected by shorter operating hours and temporary closures of retail malls, while the general trade channels were impacted by the temporary cessation of wholesaler and distributor businesses. Fortunately, the decline in sales was partially offset by higher demand in the snacking, breakfast, and healthcare categories under its agency brands divisions in the regional markets.

- **EBITDA margin declined 1ppt YoY to 12.1%.** The group registered a higher GPM of 36.3% (+0.3ppt YoY) on the back of a higher sales mix of premium products in Indonesia, price adjustments, product right-sizings, and the ability to lock in costs through its forward-purchase programme for raw materials. However, the EBITDA margin narrowed by 1ppt on declining operating leverage and higher operational costs, as Delfi implemented comprehensive measures to mitigate the risk of COVID-19, which also reduced production capacity.

- **Near-term outlook remains uncertain.** The group has seen signs of recovery in June. However, given the high number of new daily COVID-19 cases in Indonesia and the Philippines and contraction of these two economies, the trajectory of this recovery remains unclear. Delfi is expected to reintroduce more stock-keeping units in the value segment in 2H20 and FY21F, and we believe this is positive for the group – since consumers are apt to downtrade in weak market conditions.

- **We raise FY20-22F earnings estimates by 12%,10%, and 4%** as a result of the stronger-than-expected 1H20. This, together with the tightening of working capital and capex, boosts our DCF-derived TP to SGD0.80. We maintain NEUTRAL on the stock for now. That said, over the longer term, we continue to like the group for its strong brands, extensive distribution network, and free cash flow generation capability.

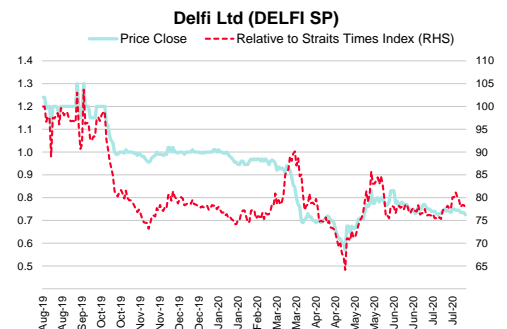
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.5)	(3.3)	2.8	(25.3)	(42.5)
Relative	(6.4)	0.8	5.4	(5.4)	(22.8)
52-wk Price low/high (SGD)					0.57 – 1.30



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	427	472	406	429	459
Recurring net profit (USDm)	23	28	18	20	23
Recurring net profit growth (%)	34.6	23.8	(35.5)	7.5	15.8
Recurring P/E (x)	14.06	11.35	17.61	16.38	14.14
P/B (x)	1.6	1.4	1.4	1.4	1.3
P/CF (x)	29.11	13.62	9.14	8.55	8.60
Dividend Yield (%)	3.5	4.4	4.3	4.2	4.2
EV/EBITDA (x)	6.65	5.53	6.91	6.18	5.34
Return on average equity (%)	10.0	13.0	8.0	8.4	9.4
Net debt to equity (%)	2.1	0.3	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.05	0.03	0.03	0.04
Consumer Non-cyclical	DPS	0.02	0.02	0.02	0.02	0.02
Delfi	BVPS	0.34	0.37	0.38	0.39	0.41
DELFI SP	Return on average equity (%)	10.0	13.0	8.0	8.4	9.4
Neutral						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
DCF	Recurring P/E (x)	14.06	11.35	17.61	16.38	14.14
	P/B (x)	1.6	1.4	1.4	1.4	1.3
	FCF Yield (%)	(2.6)	4.1	8.2	8.9	8.2
	Dividend Yield (%)	3.5	4.4	4.3	4.2	4.2
Key drivers	EV/EBITDA (x)	6.65	5.53	6.91	6.18	5.34
Improvement in consumer confidence and private consumption.	EV/EBIT (x)	8.68	7.18	10.01	8.89	7.47
Key risks	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Slow recovery in consumer spending;	Total turnover	427	472	406	429	459
ii. Increased competition from foreign brands;	Gross profit	148	171	145	151	161
iii. Depreciation of IDR against USD;	EBITDA	49	59	45	48	53
iv. Sudden stark increase in commodity prices.	Depreciation and amortisation	(11)	(13)	(14)	(15)	(15)
	Operating profit	38	45	31	33	38
	Net interest	0	(1)	(1)	(1)	(0)
	Pre-tax profit	36	44	30	32	37
	Taxation	(15)	(15)	(11)	(12)	(14)
	Reported net profit	21	28	18	20	23
	Recurring net profit	23	28	18	20	23
Company Profile	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Delfi is a chocolate confectionery company headquartered in Singapore. It is an integrated player involved in segments ranging from chocolate production to distribution. Other than distributing its own chocolate confectionary brands, it also distributes agency brands. Delfi's core markets are Indonesia – where it has a more than a 50% market share – and the Philippines, where it is a top 5 player with an estimated 10% market share.	Change in working capital	(22.8)	(16.0)	4.5	2.7	(1.2)
	Cash flow from operations	11.1	23.7	35.4	37.8	37.6
	Capex	(19.5)	(10.5)	(9.0)	(9.1)	(11.1)
	Cash flow from investing activities	(19.3)	(10.4)	(9.4)	(9.1)	(11.1)
	Dividends paid	(10.1)	(12.6)	(13.8)	(13.4)	(13.7)
	Cash flow from financing activities	(1.4)	(1.1)	(19.1)	(16.4)	(16.7)
	Cash at beginning of period	67.4	54.7	57.6	64.4	76.8
	Net change in cash	(9.6)	12.2	6.9	12.3	9.8
	Ending balance cash	58.5	67.5	64.4	76.8	86.6
	Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	55	58	64	77	87
	Tangible fixed assets	109	117	112	107	103
	Total investments	5	4	3	2	1
	Total assets	361	402	384	393	406
	Short-term debt	59	58	53	50	47
	Total long-term debt	0	0	0	0	0
	Total liabilities	155	175	152	155	158
	Total equity	206	228	232	239	248
	Total liabilities & equity	361	402	384	393	406
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	12.1	10.5	(14.0)	5.7	7.0
	Recurrent EPS growth (%)	34.6	23.8	(35.5)	7.5	15.8
	Gross margin (%)	34.6	36.2	35.8	35.3	35.2
	Operating EBITDA margin (%)	11.5	12.4	11.1	11.2	11.6
	Net profit margin (%)	4.9	6.0	4.5	4.6	5.0
	Dividend payout ratio (%)	55.0	50.9	75.0	68.0	60.0
	Capex/sales (%)	4.6	2.2	2.2	2.1	2.4
	Interest cover (x)	13.0	12.3	8.6	9.8	11.9

Source: Company data, RHB

Figure 1: 1H20 results summary

USDm	1H20	1H19	YoY (%)	Comments
Revenue	211.4	240.6	-12.1	
Indonesia	145.6	175.2	-16.9	Sales were negatively impacted by the decline in consumer mobility and consumer confidence amid the rise in COVID-19 infections. Higher sales of agency branded items in Malaysia and Van Houten products in regional markets helped to offset the negative impact of COVID-19
Regional	65.7	65.3	0.6	
Gross Profit	76.7	86.6	-11.4	GPM increased, due to the higher sales mix of premium products in Indonesia.
Gross margin (%)	36.3	36.0		
EBITDA	25.6	31.4	-18.7	Costs rose as a result of social distancing measures.
Core PATMI	10.8	15.4	-29.6	Higher withholding taxes incurred, on higher dividends paid from the Indonesian subsidiary.
Net margin (%)	5.1	6.4		

Source: Company data, RHB

Figure 2: DCF valuation

USDm	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F
Net income	19.7	22.9	24.5	25.9	27.2	28.3	29.2
D&A costs	14.6	15.2	15.6	16.1	16.6	17.1	17.6
Net capex	(8.0)	(10.0)	(10.0)	(12.0)	(15.0)	(16.0)	(18.0)
Change in net working capital	2.7	(1.2)	0.0	0.0	0.0	0.0	0.0
Change in debt	(3.0)	(3.0)	0.0	0.0	0.0	0.0	0.0
Free cash flow to equity (FCFE)	26.0	23.8	30.1	30.0	28.8	29.4	28.8
Terminal value							372.3
Present Value	26.0	21.7	24.9	22.6	19.8	18.4	227.9
Total discounted FCFE	361.3						
Value/ share (USD)	0.59						
Exchange rate: USDSGD	1.36						
Value/ share (SGD)	0.80						

Cost of equity	9.9%
Risk-free rate	7.5%
Beta	0.7
Market expected return	10.9%
Terminal growth	2.0%

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-14	Neutral	0.74	0.74
2020-04-26	Buy	0.74	0.62
2020-02-27	Buy	1.68	0.96
2018-11-13	Buy	1.59	1.19
2018-08-03	Buy	1.47	1.18

Source: RHB, Bloomberg

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-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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