

### COMPANY RESULTS

#### Delfi (DELFI SP)

1Q23: Results On The Sweet Side

**Delfi's 1Q23 record-high revenue of US\$160.8m (+20.8% yoy) was within expectations, forming 31% of our full-year estimate. Both its business lines achieved strong sales growth, while gross margin improved 1.3ppt to 30.4%, driven by good performance in the premium product category and timely cost management. Delfi expects the strong growth momentum to continue for most of 2023. We continue to forecast steady earnings growth moving forward. Maintain BUY with a target price of S\$1.71.**

#### 1Q23 RESULTS

Year to 31 Dec (US\$m)	1Q23	1Q22	yoy % chg	4Q22	qoq % chg
<b>Revenue by Markets:</b>					
- Indonesia	110.8	92.9	19.2	80.3	38.0
- Regional Markets	50.0	40.2	24.5	44.4	12.5
<b>Revenue by Brands:</b>					
- Own Brands	100.3	85.3	17.6		
- Agency Brands	60.5	47.8	26.7		
<b>Total revenue</b>	<b>160.8</b>	<b>133.1</b>	<b>20.8</b>	<b>124.7</b>	<b>11.2</b>
Gross profit	48.9	38.7	23.9	40.9	19.5
Gross margin (%)	30.4	29.1	1.3ppt	32.8	(2.4ppt)
EBITDA	25.5	20.5	24.5	25.6	(0.4)
EBITDA margin (%)	15.9	15.4	0.5ppt	20.5	(4.6ppt)

Source: Delfi, UOB Kay Hian

#### RESULTS

- Results in line with expectations.** Delfi reported a record-high quarterly revenue of US\$160.8m (+20.8% yoy, +29.0% qoq) in 1Q23, accounting for 31% of our full-year forecast. As 1Q is Delfi's seasonally stronger quarter with festivities such as Valentine's Day and Lebaran, its performance is within our expectations. This was mainly driven by strong growth in Indonesia and regional markets, which recorded 19.2% yoy (+38.0% qoq) and 24.5% yoy (+12.5% qoq) growths respectively. Delfi managed to capture high consumer demand as its key markets continued to recover from the COVID-19 pandemic in 2023. Though gross profit margin fell 2.4ppt qoq with increased festive promotions in 1Q23 to boost sales, it expanded by 1.3ppt yoy to 30.4%, due to greater contributions from the premium product segment. Overall, EBITDA improved by 24.5% yoy on the back of higher revenue, higher profit and management's effective cost control measures.

- Strong double-digit growth across both business lines.** In 1Q23, Delfi's two business lines continued to record strong performance. Own Brands and Agency Brands recorded respective increases in sales of 17.6% and 26.7% yoy. Delfi's Own Brands, particularly the premium products from the SilverQueen and Delfi brands, continues to be the key driver behind sales growth in Indonesia, its key operating market.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	405.1	483.0	518.0	555.7	597.0
EBITDA	58.9	75.6	83.1	87.9	93.1
Operating profit	45.3	63.8	72.9	78.0	83.4
Net profit (rep./act.)	29.3	43.9	47.0	50.3	53.9
Net profit (adj.)	29.3	43.9	47.0	50.3	53.9
EPS (US\$ cents)	4.8	7.2	7.7	8.2	8.8
PE (x)	19.7	13.1	12.3	11.5	10.7
P/B (x)	2.4	2.3	2.1	2.0	1.8
EV/EBITDA (x)	8.2	6.4	5.8	5.5	5.2
Dividend yield (%)	2.5	3.8	4.1	4.4	4.7
Net margin (%)	7.2	9.1	9.1	9.1	9.0
Net debt/(cash) to equity (%)	(31.8)	(23.6)	(35.6)	(38.7)	(40.7)
Interest cover (x)	55.7	120.0	79.5	84.1	89.0
ROE (%)	12.6	18.1	18.2	17.8	17.5
Consensus net profit	-	-	46	49	52
UOBKH/Consensus (x)	-	-	1.03	1.04	1.04

Source: Delfi, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.26
Target Price	S\$1.71
Upside	+35.7%

#### COMPANY DESCRIPTION

Delfi manufactures, markets and distributes chocolate confectionery products. The company offers a broad range of chocolate and sugar confectionery products such as moulded chocolates, dragees, enrobed wafers, and biscuits. and increasingly more healthy snacks.

#### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	DELFI SP
Shares issued (m):	611.2
Market cap (S\$m):	770.1
Market cap (US\$m):	576.4
3-mth avg daily t'over (US\$m):	0.8
<b>Price Performance (%)</b>	

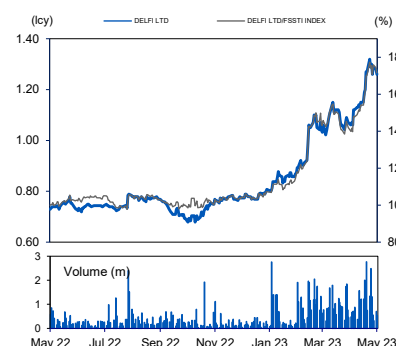
52-week high/low S\$1.32/S\$0.679

1mth	3mth	6mth	1yr	YTD
17.6	41.1	63.9	72.8	63.9

#### Major Shareholders

Major Shareholders	%
Aerodrome Int'l Ltd	52.0
First Pacific Advisors	8.0
-	-
FY23 NAV/Share (S\$)	0.44
FY23 Net Cash/Share (S\$)	0.16

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Healthy balance sheet and positive operating cash flow.** Having scaled down long-term borrowings since 2015, Delfi had zero long-term debt obligations as at end-22. The group does however have short-term borrowings that are mainly used for financing the working capital to purchase cocoa beans. Delfi's net cash position remains healthy at US\$73.1m (+25.8% qoq), due to solid operating cash flow of US\$25.4m achieved. We think Delfi's healthy balance sheet and positive operating cash flow provide the group with a large enough cash buffer to weather any tough conditions. On top of this, management reported an inventory level of US\$101.8m (+73.5% yoy) in 1Q23, signalling confidence in continued sales momentum moving forward.
- Consistent dividend payout provides decent dividend yield of about 5% for 2023.** Delfi has consistently maintained a dividend payout ratio of around 50% for many years, except for 2020 where its payout ratio rose to 84% due to its move to maintain its absolute dividend, amid a decline in EPS due to the impact of COVID-19. Total dividend of 4.3 US cents/share for 2022 is 51.9% higher than that of 2021, increasing the payout ratio to 60%. Given its strong net cash position, we expect payout ratio to be maintained at at least 50% in 2023-25.
- Sustained healthy growth forecast as Indonesia's consumers emerge stronger from the pandemic.** We expect Delfi's revenue from the Indonesia market to grow 10% in 2023-25 as Indonesia's economy and consumers emerge stronger after the pandemic. According to OECD Economic Outlook in Nov 22, Indonesia's GDP is expected to grow by approximately 5% in 2023 and strengthen slightly in 2024 as a result of favourable commodity prices and strong capital inflows. Additionally, despite Indonesia being the largest chocolate confectionery market in ASEAN, the nation's annual chocolate consumption per capita of around 0.3kg has still lagged behind the likes of Malaysia (around 0.5kg), most European countries and the US (>5kg), suggesting untapped market potential.

### EARNINGS REVISION/RISK

- None.

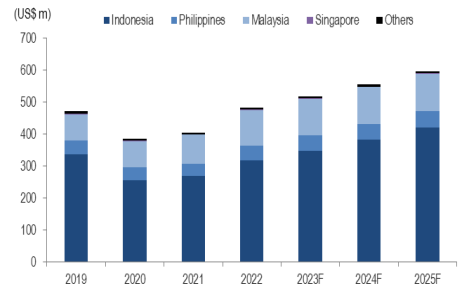
### VALUATION/RECOMMENDATION

- Maintain BUY with a PE-based target price of S\$1.71**, based on 17x 2023F PE, pegged to its long-term mean.

### SHARE PRICE CATALYST

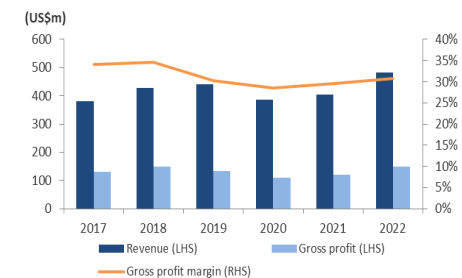
- Higher revenue contribution from Indonesia.
- Premiumisation of product offerings.

### REVENUE BREAKDOWN, BY GEOGRAPHY



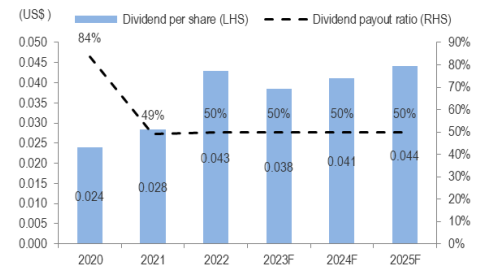
Source: Delfi, UOB Kay Hian

### REVENUE, GROSS PROFIT & GROSS PROFIT MARGIN (2017-22)



Source: Delfi, UOB Kay Hian

### DPS AND DIVIDEND PAYOUT RATIO



Source: Delfi, UOB Kay Hian

### FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>483.0</b>	<b>518.0</b>	<b>555.7</b>	<b>597.0</b>
EBITDA	75.6	83.1	87.9	93.1
Deprec. & amort.	11.8	10.2	9.9	9.7
EBIT	63.8	72.9	78.0	83.4
Associate contributions	(0.2)	(0.1)	(0.1)	(0.1)
Net interest income/(expense)	(0.6)	(1.0)	(1.0)	(1.0)
<b>Pre-tax profit</b>	<b>63.0</b>	<b>71.7</b>	<b>76.8</b>	<b>82.2</b>
Tax	(19.1)	(24.8)	(26.5)	(28.4)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>43.9</b>	<b>47.0</b>	<b>50.3</b>	<b>53.9</b>
Net profit (adj.)	43.9	47.0	50.3	53.9

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>7.7</b>	<b>70.4</b>	<b>52.4</b>	<b>55.0</b>
Pre-tax profit	63.0	71.7	76.8	82.2
Tax	(17.1)	(24.8)	(26.5)	(28.4)
Deprec. & amort.	11.8	10.2	9.9	9.7
Associates	0.2	0.0	0.0	0.0
Working capital changes	(50.5)	12.2	(8.9)	(9.6)
Non-cash items	(0.3)	0.0	0.0	0.0
Other operating cashflows	0.7	1.0	1.0	1.0
<b>Investing</b>	<b>(3.6)</b>	<b>(8.0)</b>	<b>(8.0)</b>	<b>(9.0)</b>
Capex (growth)	(3.1)	(8.0)	(8.0)	(9.0)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	(0.9)	0.0	0.0	0.0
<b>Financing</b>	<b>(13.1)</b>	<b>(24.5)</b>	<b>(26.2)</b>	<b>(28.0)</b>
Dividend payments	(19.2)	(23.5)	(25.2)	(26.9)
Proceeds from borrowings	1.1	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	5.0	(1.0)	(1.0)	(1.0)
<b>Net cash inflow (outflow)</b>	<b>(9.0)</b>	<b>37.9</b>	<b>18.1</b>	<b>18.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>87.3</b>	<b>77.1</b>	<b>115.0</b>	<b>132.1</b>
Changes due to forex impact	(1.2)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>77.1</b>	<b>115.0</b>	<b>133.1</b>	<b>150.1</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>82.3</b>	<b>80.1</b>	<b>78.2</b>	<b>78.5</b>
Other LT assets	26.8	26.8	26.8	26.8
Cash/ST investment	77.1	115.0	133.1	150.1
Other current assets	208.9	194.6	207.1	220.9
<b>Total assets</b>	<b>395.1</b>	<b>416.4</b>	<b>445.2</b>	<b>476.3</b>
ST debt	19.0	19.0	19.0	19.0
Other current liabilities	117.1	115.0	118.6	122.7
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	12.8	12.8	12.8	12.8
Shareholders' equity	246.2	269.7	294.9	321.8
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>395.1</b>	<b>416.4</b>	<b>445.2</b>	<b>476.3</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	15.7	16.0	15.8	15.6
Pre-tax margin	13.1	13.9	13.8	13.8
Net margin	9.1	9.1	9.1	9.0
ROA	11.6	11.6	11.7	11.7
ROE	18.1	18.2	17.8	17.5
<b>Growth</b>				
Turnover	19.2	7.2	7.3	7.4
EBITDA	28.4	9.9	5.8	5.8
Pre-tax profit	43.1	13.8	7.1	7.0
Net profit	49.9	7.0	7.1	7.0
Net profit (adj.)	49.9	7.0	7.1	7.0
EPS	49.9	7.0	7.1	7.0
<b>Leverage</b>				
Debt to total capital	7.2	6.6	6.1	5.6
Debt to equity	7.7	7.0	6.4	5.9
Net debt/(cash) to equity	(23.6)	(35.6)	(38.7)	(40.7)
Interest cover (x)	120.0	79.5	84.1	89.0

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