

COMPANY RESULTS

DELFI (DELFI SP)

1Q24: Slightly Below Expectations; A Bittersweet Quarter

Delfi's 1Q24 revenue of US\$150.7m (-5.3% yoy) was slightly below our expectations, forming 26% of our full-year forecast. The revenue decline stemmed from weaker local currencies against the US dollar, as well as lower trade promotion spending for its own brands. Although cocoa prices are three times higher than a year ago, management expects to be able to mitigate the potential impact with strategic initiatives outlined in this report. Maintain HOLD with a target price of S\$1.07.

1Q24 RESULTS

Year to 31 Dec (US\$m)	1Q24	1Q23	yoy % chg	4Q23	qoq % chg
Revenue by Markets:					
Indonesia	103.5	110.7	(6.6)	84.3	22.8
Regional Markets*	47.2	48.4	(2.5)	46.5	1.5
Revenue by Brands:					
Own Brands	87.7	100.3	(12.6)		
Agency Brands	63.0	60.5	4.1		
Total revenue	150.7	159.1	(5.3)	130.8	15.2
Gross profit	45.5	47.3	(1.8)	32.3	35.2
Gross margin (%)	30.2	29.7	0.5ppt	26.9	3.3ppt
EBITDA	23.3	25.5	(8.5)	21.6	7.9
EBITDA margin (%)	15.5	16.0	(0.5ppt)	16.8	(1.3ppt)

Source: Delfi, UOB Kay Hian

*Regional Markets comprise Malaysia, the Philippines and Singapore

RESULTS

• **Results slightly below expectations.** Delfi registered 1Q24 revenue of US\$150.7m (-5.3% yoy, +15.2% qoq), making up 26% of our full-year forecast. 1Q is Delfi's seasonally strongest quarter with festivities such as Valentine's Day and Lebaran, forming 30% of full-year revenue on average for the past five years. Hence, 1Q24 performance slightly missed our expectations. The fall in revenue was primarily due to weaker regional currencies against the US dollar and trade promotion spending cuts. The lower trade promotions also led to a slight expansion of 0.5ppt yoy in gross profit margin. EBITDA declined a substantial 8.5% yoy to US\$23.3m, while EBITDA margin contracted by a marginal 0.5ppt from stringent cost management.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	477.5	538.2	582.2	616.1	652.4
EBITDA	75.6	77.9	77.1	82.5	86.2
Operating profit	63.8	66.9	64.9	68.1	69.2
Net profit (rep./act.)	43.9	46.3	43.9	45.5	47.6
Net profit (adj.)	43.9	46.3	43.9	45.5	47.6
EPS (S\$ cents)	7.2	7.6	7.2	7.4	7.8
PE (x)	9.0	8.6	9.0	8.7	8.3
P/B (x)	1.6	1.5	1.4	1.3	1.2
EV/EBITDA (x)	4.6	4.5	4.5	4.2	4.0
Dividend yield (%)	5.5	5.9	5.5	5.8	6.0
Net margin (%)	9.2	8.6	7.5	7.4	7.3
Net debt/(cash) to equity (%)	(23.6)	(10.0)	(16.5)	(13.4)	(10.1)
Interest cover (x)	120.0	64.0	78.5	84.0	87.7
ROE (%)	18.1	18.1	15.8	15.2	14.8
Consensus net profit	-	-	46	48	52
UOBKH/Consensus (x)	-	-	0.95	0.94	0.92

Source: Delfi, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.875
Target Price	S\$1.07
Upside	+22.3%

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 an increasing number of healthy snacks.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	DELFI SP
Shares issued (m):	611.2
Market cap (S\$m):	534.8
Market cap (US\$m):	396.2
3-mth avg daily t'over (US\$m):	0.6

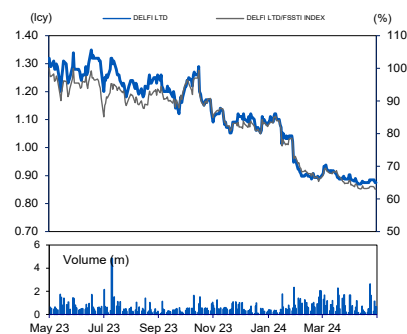
Price Performance (%)

52-week high/low	S\$1.35/S\$0.870			
1mth	3mth	1mth	3mth	YTD
(1.5)	(8.6)	(21.3)	(36.6)	(21.3)

Major Shareholders

	%
Aerodrome Int'l Ltd	52.0
First Pacific Advisors	6.0
FY24 NAV/Share (S\$)	0.47
FY24 Net Cash/Share (S\$)	0.08

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

• **Own brands showing signs of losing steam.** In constant currency terms, total sales fell 2.5% yoy, as regional markets' sales growth (+2.5% yoy) was negated by the lower sales from Indonesia (-4.7% yoy). Indonesia sales declined on less but more tailored promotions for its own brands. For regional markets, the better performance was mainly due to growth in agency brands in the Philippines and a slight growth in Malaysia, partially offset by lower sales of its own brands in the Philippines. In reporting currency, its own brands reported a significant 12.6% yoy slump in 1Q24 sales vs 17.6% yoy growth in 1Q23.

STOCK IMPACT

• **Primed to deal with potential concerns, in management's view.** The macroenvironment remains tough as high interest rates, disrupted supply chains and higher input costs continue to plague Delfi's operating markets. Management remains focused on growing its core brands, mitigating rising input costs and strengthening distribution network. Cocoa prices have fallen to US\$8,942/tonne from its all-time high of more than US\$12,000/tonne in April, but remain three times higher than a year ago. However, management expects to be able to mitigate the rising commodity prices with the following initiatives: a) improving production efficiency, b) locking in prices with suppliers for extended periods, c) introducing new product variants with less volatile ingredient costs, and d) implementing price and packaging adjustments.

• **Robust balance sheet and operating cash flow.** Delfi's net cash position remains healthy at US\$48.4m (+81.3% qoq), from solid operating cash flow of US\$35m during the quarter. We think Delfi's healthy balance sheet and positive operating cash flow provide the group with a large enough cash buffer to weather potential tough conditions like rising commodity prices. Additionally, management reported an inventory level of US\$97.5m (-4.2% yoy) in 1Q24, which implies management's confidence in business growth moving forward.

• **Consistent dividend payout translates to decent dividend yield of 5.5% for 2024.** Delfi has maintained a dividend payout ratio of around 50% for years, except for 2020 where its payout ratio increased to 84% to maintain its absolute dividend, amid a decline in EPS due to the impact of the COVID-19 pandemic. Given its healthy cash balance of US\$66.7m (+12.3% qoq), we expect payout ratio to be maintained at around 50% in 2024-26.

EARNINGS REVISION/RISK

• We maintain our earnings forecasts.

VALUATION/RECOMMENDATION

• **Maintain HOLD with a PE-based target price of S\$1.07**, based on an unchanged 11x 2024F PE, pegged to 1SD below its long-term mean. This is on the back of the more challenging environment, in light of rising commodity prices, tightened supply chains and elevated interest rates.

SHARE PRICE CATALYST

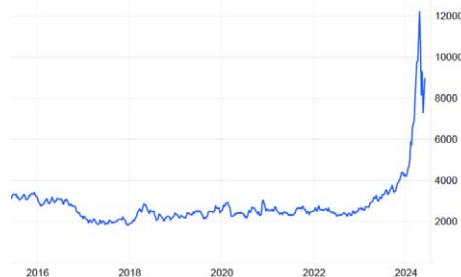
- Better-than-expected margins from easing commodity prices.
- Successful premiumisation or diversification of product offerings.

PEER COMPARISON

Company	Ticker	Price @ 29-May-24 (Icy)	Market Cap (US\$m)	PE		P/B		ROE 2024 (%)	Yield 2024 (%)
				2024 (x)	2025 (x)	2024 (x)	2025 (x)		
Indo Peers									
Unilever Indonesia	UNVR IJ	3,010	7,101	22.5	21.2	30.2	27.6	140.7	4.2
Indofood Cbp Sukses	ICBP IJ	10,425	7,518	12.8	12.0	2.6	2.3	20.3	3.1
Mayora Indah	MYOR IJ	2,290	3,166	15.5	14.0	3.0	2.7	20.2	2.4
Garudafood	GOOD IJ	400	913	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1,035	396	15.3	14.4	2.6	2.4	16.0	4.0
Average				16.5	15.4	9.6	8.7	49.3	3.4
Delfi	DELFI SP	0.875	396	9.0	8.7	1.4	1.3	16.0	5.5

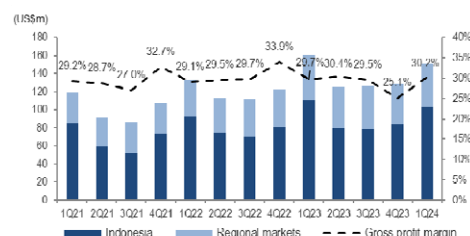
Source: Bloomberg, UOB Kay Hian

COCOA FUTURES, US\$/TONNE (2020 TO DATE)



Source: Trading Economics

QUARTERLY REVENUE BY MARKETS & GROSS PROFIT MARGIN (2021 - 1Q24)



Source: Delfi, UOB Kay Hian

FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	538.2	582.2	616.1	652.4
EBITDA	77.9	77.1	82.5	86.2
Deprec. & amort.	11.0	12.2	14.4	16.9
EBIT	66.9	64.9	68.1	69.2
Associate contributions	(0.3)	(0.3)	(0.3)	(0.2)
Net interest income/(expense)	(1.2)	(1.0)	(1.0)	(1.0)
Pre-tax profit	65.4	63.6	66.9	68.0
Tax	(19.1)	(19.8)	(21.4)	(20.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	46.3	43.9	45.5	47.6
Net profit (adj.)	46.3	43.9	45.5	47.6

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	23.9	73.1	52.6	56.7
Pre-tax profit	65.4	63.6	66.9	68.0
Tax	(25.6)	(19.8)	(21.4)	(20.4)
Deprec. & amort.	11.0	12.2	14.4	16.9
Associates	0.3	0.0	0.0	0.0
Working capital changes	(28.1)	16.0	(8.2)	(8.8)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	1.2	1.0	1.0	1.0
Investing	(24.0)	(29.3)	(33.7)	(38.8)
Capex (growth)	(16.3)	(29.3)	(33.7)	(38.8)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	(7.9)	0.0	0.0	0.0
Financing	(21.3)	(22.9)	(23.8)	(24.8)
Dividend payments	(29.1)	(21.9)	(22.8)	(23.9)
Proceeds from borrowings	7.1	0.0	0.0	0.0
Loan repayment	(4.7)	0.0	0.0	0.0
Others/interest paid	5.3	(1.0)	(1.0)	(1.0)
Net cash inflow (outflow)	(21.4)	20.8	(4.9)	(6.9)
Beginning cash & cash equivalent	80.1	58.4	80.2	74.3
Changes due to forex impact	0.7	1.0	(1.0)	(1.0)
Ending cash & cash equivalent	59.4	80.2	74.3	66.4

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	98.6	115.7	136.1	159.0
Other LT assets	27.5	27.5	27.5	27.5
Cash/ST investment	59.4	80.2	74.3	66.4
Other current assets	235.5	224.4	235.7	247.8
Total assets	420.9	447.8	473.6	500.6
ST debt	32.7	32.7	32.7	32.7
Other current liabilities	104.1	109.0	112.1	115.3
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	17.9	17.9	17.9	17.9
Shareholders' equity	266.2	288.2	310.9	334.6
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	420.9	447.8	473.6	500.6

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	14.5	13.2	13.4	13.2
Pre-tax margin	12.2	10.9	10.9	10.4
Net margin	8.6	7.5	7.4	7.3
ROA	11.3	10.1	9.9	9.8
ROE	18.1	15.8	15.2	14.8
Growth				
Turnover	12.7	8.2	5.8	5.9
EBITDA	3.0	(1.0)	7.0	4.4
Pre-tax profit	3.7	(2.7)	5.2	1.7
Net profit	5.4	(5.2)	3.7	4.7
Net profit (adj.)	5.4	(5.2)	3.7	4.7
EPS	5.4	(5.2)	3.7	4.7
Leverage				
Debt to total capital	10.9	10.2	9.5	8.9
Debt to equity	12.3	11.4	10.5	9.8
Net debt/(cash) to equity	(10.0)	(16.5)	(13.4)	(10.1)
Interest cover (x)	64.0	78.5	84.0	87.7

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