INITIATE COVERAGE

Delfi (DELFI SP)

An Undervalued Leader In Indonesia Chocolate Products Market

Delfi is a dominant market leader of chocolate confectionary products in Indonesia with around 55% market share. It has been focusing on its premiumisation strategy in offering differentiated products and undertaking acquisitions. We expect earnings to grow 20% in 2022 and 10% in 2023 as Indonesia's economy and consumers emerge stronger from the pandemic. Initiate coverage with BUY and a target price of S$1.42. Delfi is trading at a discount of 50% vs its Indonesia peers' average.

- **Market leader of chocolate confectionery products in Indonesia, backed by positive macro trends.** Delfi is a manufacturer and distributor of many popular chocolate confectionery products in Indonesia. According to Euromonitor, it commands a dominant market share of approximately 41% in Indonesia, thanks to its early-mover advantage in building brand loyalty since the early 1950s. Its home market, Indonesia, where it generates more than 70% of its revenue, demonstrates vast potential based on its macro industry trends of a fast-growing middle class, a young population and high domestically-driven GDP growth.
- **Well-positioned to capitalise on premiumisation trend.** Delfi has been focusing on its premiumisation strategy to offer differentiated products based on changing consumer taste and increasing its focus on the modern trade sector. Delfi's premium brands include SilverQueen, Delfi Premium, Selamat and Van Houten. The acquisition of the iconic European brand Van Houten is a testament to its premiumisation strategy. Barry Callebaut's Top Chocolate Trends 2023 Report highlighted that consumers are now striving for intense, mindful and healthy indulgences, where 61% of the APAC market actively seeks out premium chocolates, while 56% have switched from traditional chocolates and confectionery to low-sugar alternatives.
- **Expect healthy double-digit growth as Indonesia consumers emerge stronger from pandemic.** We expect Delfi's earnings to grow 20% in 2022 and 10% in 2023 as Indonesia's economy and consumers emerge stronger after the pandemic. Bank Indonesia projects Indonesia's economy to grow 4.9% in 2023 and 5.1% in 2024. For 2022, Indonesia's economy grew 5.3%, a solid recovery from the pandemic years where the economy contracted by 2.1% in 2020 and grew by only 3.7% in 2021. Rising health consciousness and a surge in disposable income are seen to be driving the growth in Indonesia's market.
- **Initiate coverage with BUY and a PE-based target price of S$1.42,** based on 17x 2023F PE, pegged to its long-term mean. The stock is trading at 11x 2023F PE, which is at discounts of 50% and 162% vs its Indonesia and global peers' average 2023F PE of 22x and 30x respectively.

KEY FINANCIALS

Year to 31 Dec (US$m)	2020	2021	2022F	2023F	2024F
Net Turnover	385.1	405.1	462.1	496.9	534.6
EBITDA	45.0	58.9	66.7	71.5	76.9
EBIT	31.2	45.3	54.3	59.6	65.5
PATMI	17.5	29.3	35.1	38.6	42.5
Adjusted PATMI	17.5	29.3	35.1	38.6	42.5
Adjusted EPS (cts)	2.9	4.8	5.7	6.3	7.0
Adjusted P/E	23.2	13.9	11.6	10.5	9.6
P/B (x)	1.8	1.7	1.6	1.5	1.4
EV/EBITDA (x)	6.9	5.3	4.7	4.3	4.0
Dividend Yield (%)	3.6	3.5	4.3	4.8	5.2
PATMI Margin (%)	4.5	7.2	7.6	7.8	7.9
Net Cash to Equity (%)	(7.4)	(31.8)	(31.5)	(34.7)	(37.4)
Interest cover (x)	14.3	55.7	116.2	129.1	138.9
ROE (%)	7.7	12.6	14.1	14.5	14.8
Consensus net profit	-	-	34	36	38
UOBKH/Consensus (x)	-	-	1.03	1.08	1.13

Source: Delfi, Bloomberg, UOB Kay Hian

BUY

Share Price	S$0.900
Target Price	S$1.42
Upside	+57.8%

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$m):	550.0
Market cap (US$m):	412.4
3-mth avg daily t'over (US$m):	0.2

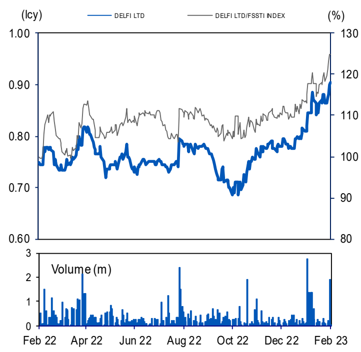
Price Performance (%)

52-week high/low S$0.900/S$0.685

1mth	3mth	6mth	1yr	YTD
11.1	16.1	14.6	20.2	16.1

Major Shareholders	%
Aerodrome Int'l Ltd	52.0
First Pacific Advisors	8.0
FY23 NAV/Share (S$)	0.45
FY23 Net Cash/Share (S$)	0.16

PRICE CHART



Source: Bloomberg

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This report uses the closing prices of 16 Feb 2023

Investment Highlights

MARKET LEADER BACKED BY POSITIVE MACRO TRENDS

Delfi has the largest market share at close to 55%

Leading player in Indonesia's chocolate confectionery category. The chocolate confectionery market in Indonesia is dominated by two domestic players with a combined market share of approximately 69%. Leveraging on its first-mover advantage, wide portfolio of chocolate products and well-known SilverQueen chocolate bars, Delfi commands the largest market share at close to 41%, according to Euromonitor. This is a substantial lead over its closest competitor and second-ranked domestic player Mayora Indah. While Indonesia is Delfi's largest market at 66.7% of total revenue in 2021, Delfi also has a presence in the Philippines' chocolate confectionery market (8% market share per Euromonitor, making up 9.5% of 2021 revenue) following the acquisition of an existing confectionery business from Nestlé in 2006. The company has also steadily grown revenue from Malaysia (making up 22.2% of revenue in 2021 vs 17.2% of revenue in 2019) with its established distribution model.

WELL-POSITIONED TO CAPITALISE ON PREMIUMISATION TREND

Rising middle class and preference for premium products observed in Delfi's key market, Indonesia

Indonesia's burgeoning middle class is untapped market potential. According to the World Bank, Indonesia's middle class consumption grew at 12% per annum from 2002 to 2019, representing close to half of all household consumption in Indonesia. Although Indonesia had lost its upper-middle income status amid the pandemic in Jul 21, its rise in GNI per capita from US$3,400 in 2016 to US$4,180 in 2021 is a structurally positive sign. In line with this, APAC consumers are now turning to intense, mindful and healthy indulgences, where 61% of the market actively seeks out premium chocolates, while 56% have switched from traditional chocolates and confectionery to low sugar alternatives, according to Barry Callebaut's Top Chocolate Trends 2023 Report. Additionally, Indonesia is the largest chocolate confectionery market in ASEAN, yet the nation's annual chocolate consumption per capita of around 0.3kg has lagged behind the likes of Malaysia (~0.5kg), most European countries and the US (>5kg), providing Delfi with a lucrative market opportunity. According to 6Wresearch, the Indonesian market is expected to grow at a 6.3% CAGR for 2019-25.

Streamlined portfolio effectively and introduced premiumisation of products offerings

Delfi's product portfolio rejuvenation to drive revenue and margins. In the light of consumers' push for premiumisation and the significant growth of minimarts in Indonesia, Delfi has carried out a number of initiatives to boost profitability and better position itself for long-term growth. These initiatives include rationalisation of its product portfolio and reorganisation of its distribution model. Given the increasing dominance of convenience stores/minimarts which are small format stores with less shelf space (compared to supermarkets), Delfi eliminated underperforming SKUs from its "Own Brands" portfolio in 2015, reducing its portfolio in Indonesia by 180 SKUs, or roughly 40%. In turn, Delfi focused on strengthening sales of its own premium brands by introducing new premium products under its flagship brands SilverQueen and Delfi (Silver Tea Green Tea Matcha, Delfi Take-It Big, etc) − which we believe has better maximised its shelf space presence.

Introduced new product pipeline of healthier snacks to target younger consumers

New product pipeline targeting Gen-Zs and Millennials... Delfi has also driven innovation momentum by introducing a pipeline of healthier snacks due to younger consumers' preferences for healthier choices. One example is the launch of SilverQueen Very Berry Yoghurt and SilverQueen Green Tea Matcha bars, which are made from natural and healthier ingredients to follow the current consumer trends and boost revenue.

Well-established strong distribution infrastructure in Indonesia over the years is a key competitive advantage

...and an extensive distribution network to capture growth. Traditional trade outlets such as warungs/mom-and-pop stores continue to be the most frequented and preferred retail outlets for the majority of consumers (accounting for around 69% of total retail sales per grab a large share of the market. Over the years, Delfi has established widespread coverage across traditional trade outlets in the country, making inroads into the mass market and enjoying a distinct competitive advantage. At the same time, Delfi covers close to 100% of the modern trade in Indonesia in order to capture the rising income segment and has continuously prioritised developing a balanced distribution network. Effectively utilising both modern and traditional trade channels enhances the group's accessibility to different market segments and geographies. One of the major initiatives to strengthen its distribution network was to take back control of its distribution to modern trade channels and provide direct delivery to some of its customers' distribution centres. With the use of its in-house team, Delfi was able to raise the level of service and responsiveness by significantly improving timely fulfilment of customers' orders. In order to further capitalise on its distribution network, Delfi also distributes agency brands (ie third-party brands) such as Fisherman's Friend and Loacker, which together accounted for 41.4% of the group's total 2021 revenue. For most of the agency brands, product distributorship is exclusively granted to Delfi.

Acquisition of Van Houten brand continues to significantly contribute to earnings

Van Houten brand provides growth opportunity in regional markets. On 13 Apr 18, Delfi acquired the perpetual and exclusive licence for and associated rights to the "Van Houten" brand name for consumer chocolate and consumer cocoa products for markets in Asia-Pacific (excluding Korea, India and the Middle East) for US$13.0m (around 0.9x, based on Delfi's Van Houten 2019 sales contribution). Van Houten, a brand built since the 1960s, is recognised as a premium European brand and is known for its quality ingredients. Currently, its main markets are Indonesia, the Philippines and Malaysia, with a small presence in Singapore, Thailand and Vietnam. Prior to the acquisition, Delfi's wholly-owned subsidiary Perusahaan Industri Ceres had been the sub-licensee for the brand in Indonesia for the preceding nine years, manufacturing and distributing Van Houten chocolates solely in Indonesia. After the acquisition, Delfi started the manufacturing and distribution of Van Houten products in regional markets, contributing to US$6.6m in sales for 2020 (2019: US$5.4m), and making up 4.7% (2019: 4.0%) of total regional markets' revenue.

EXPECT DOUBLE-DIGIT GROWTH AS INDONESIA EMERGES STRONGER FROM PANDEMIC

Efforts bore fruit with significant 6% revenue growth achieved in 2021

Delfi to emerge stronger from pandemic. The pandemic's hold on the world is waning as markets open up despite the prevalence of COVID-19. From Delfi's strong results in 3Q22, we note that consumers continue to indulge in chocolate confectionery. Although revenue from Indonesia declined by 17.6% in 2020 on COVID-19 lockdowns impact on distribution channel and operations, Delfi's efforts to optimise its supply chain efficiency and improve its sales mix materialised in earnings with a revenue growth of 5.9% in 2021. This was achieved despite the onset of a more infectious Delta variant in 2Q21, indicating resiliency in Delfi's products. Its premiumisation strategy has also helped lift gross profit margin by 0.9ppt to 29.5% in 2021. We believe this strategy demonstrates Delfi's ability to capitalise on Indonesia's growing middle class and consumers' changing spending habits while maintaining its stranglehold in the value segment to cater to low-income consumers.

We therefore expect Delfi's earnings to grow 20% in 2022 and 10% in 2023 as Indonesia's economy and consumers emerge stronger after the pandemic. Bank Indonesia projects Indonesia's economy to grow 4.9% in 2023 and 5.1% in 2024. For 2022, Indonesia's economy grew 5.3%, a solid recovery from the pandemic years where the economy contracted by 2.1% in 2020 and grew by only 3.7% in 2021. Rising health consciousness and a surge in disposable income are seen to be driving the growth in Indonesia's market.

Valuation

We initiate coverage with BUY recommendation and target price of S$1.42, implying a 57.8% upside. We value Delfi at S$1.42, based on 17x 2023F PE, pegged to its long-term mean. Delfi is currently trading at 11x 2023 F PE, a 50% discount to Indonesia peers' 2023F PE average of 22x. We believe the valuation gap should narrow as Delfi delivers a consistent set of good results and continues to increase its dividend. We also like Delfi for its attractive 2023 dividend yield of 5%, backed by strong cash flow and balance sheet.

We think market has overlooked the dominant market position of Delfi in Indonesia, which could make it an attractive takeover target. Its closest competitor in Indonesia, Mayora Indah, with lower market share, is trading at more than 100% higher in terms of 2023F PE multiple.

FIGURE 1: PEER COMPARISON

Company	Ticker	Price @ 16 Feb 23 (lcy)	Market Cap (US$m)	PE 2023 (x)	PE 2024 (x)	P/B 2023 (x)	P/B 2024 (x)	ROE 2023 (%)	Yield 2023 (%)
Indo Peers									
Unilever Indonesia	UNVR IJ	4520	11,377	27.1	25.2	32.9	29.4	129.9	3.4
Indofood Cbp Sukses	ICBP IJ	10200	7,848	15.0	13.0	2.9	2.5	18.2	2.5
Mayora Indah	MYOR IJ	2670	3,939	26.5	22.5	4.4	3.9	17.2	1.3
Garudafood	GOOD IJ	490	1,193	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1375	561	19.8	20.3	2.7	2.5	14.1	2.9
Average				22.1	20.2	10.7	9.6	44.8	2.5
Global Peers									
Hup Seng Ind	HSI MK	0.765	139	18.2	15.9	n.a.	n.a.	22.1	4.1
Hotel Chocolat	HOTC LN	221.5	367	50.3	21.7	n.a.	n.a.	n.a.	0.0
Universal Robina	URC PM	147.4	5,862	23.9	21.7	2.8	2.6	11.6	2.4
Nestle (Malaysia)	NESZ MK	135.5	7,216	44.4	40.5	51.0	52.5	117.1	2.2
Mondelez	MDLZ US	65.69	89,556	20.7	19.1	3.1	3.0	15.9	2.4
Hershey Co	HSY US	237.47	48,701	25.4	23.5	11.7	10.2	53.1	1.8
Chocoladefabriken	LISN SW	103700	26,948	40.5	36.8	4.8	4.6	12.3	1.3
Barry Callebaut	BARN SW	1945	11,578	23.5	21.0	3.4	3.0	14.8	1.6
Orion Corp	271560 KS	124400	3,828	13.1	11.6	1.7	1.5	13.5	0.7
Ezaki Glico C	2206 JP	3440	1,762	19.2	18.0	0.9	0.9	4.7	2.4
Kotobuki Spir	2222 JP	8870	2,065	41.2	32.3	9.4	7.7	25.6	0.7
Bourbon Corp	2208 JP	2103	436	38.3	30.6	0.9	0.9	2.5	1.2
Apollo Food	APOF MK	4	73	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Oriental Food	OFIH MK	1.23	67	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average (ex- HOTC LN)				29.9	24.4	9.0	8.7	26.6	1.7
Delfi	DELFI SP	0.9	412	11.4	10.9	1.5	2.8	12.7	4.0

Source: Bloomberg, UOB Kay Hian

FIGURE 2: FORWARD PE BAND

Source: Bloomberg, UOB Kay Hian

FIGURE 3: FORWARD P/B BAND

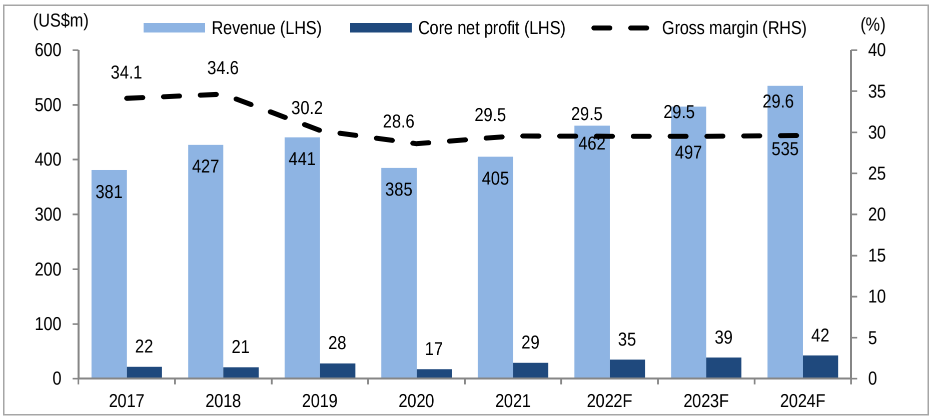
Source: Bloomberg, UOB Kay Hian

Financial Outlook

Key growth drivers include Delfi's premiumisation strategy and established distribution structure in Indonesia

Expect a strong earnings recovery in 2022 followed by healthy growth in 2023-24. For 2022-24, we estimate total revenue at US$462m-535m (three-year CAGR of 9.7%) and net profit at US$35m-43m (three-year CAGR of 13.2%). The key growth drivers will be: a) an increase in Delfi's products volume and ASP in Indonesia; b) healthy growth in Indonesia's economy after the pandemic, where Bank Indonesia projects Indonesia's economy to grow 4.9% in 2023 and 5.1% in 2024; and c) gradual improvement in gross margin as Delfi continues to gain traction in its premiumisation strategy. Additionally, Delfi has been strengthening its distribution network in general trade and modern trade, which will help increase market penetration and, therefore, sales. We expect a healthy sales growth in 2022-24 from consistent volume growth on the back of higher demand for its premium products, in tandem with the rise in income and higher sales of the value segment from organic growth and the introduction of new products to appeal to Gen-Zs and Millennials.

FIGURE 4: REVENUE, EARNINGS AND GROSS MARGIN



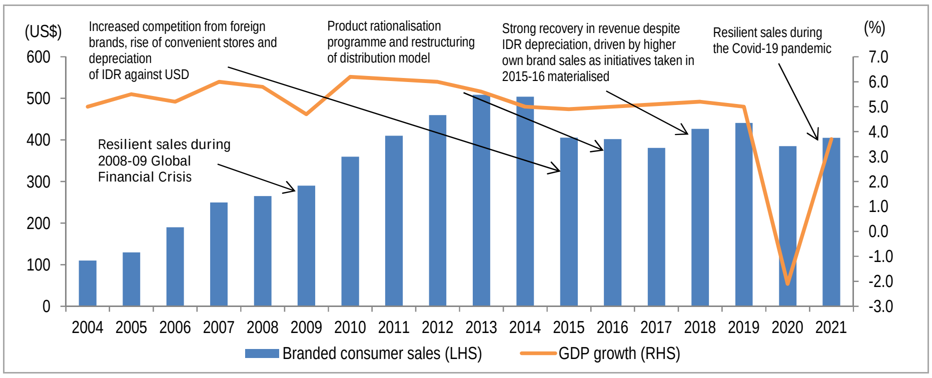
Source: Delfi, UOB Kay Hian

FIGURE 5: KEY REVENUE AND INCOME STATEMENT ASSUMPTIONS

(US$m)	2019	2020	2021	2022F	2023F	2024F
Revenue	440.7	385.1	405.1	462.1	496.9	534.6
yoy growth %	*3%*	*-13%*	*5%*	*14%*	*8%*	*8%*
1. Indonesia	309.7	255.2	270.2	321.5	350.5	382.0
yoy growth %	*1%*	*-18%*	*6%*	*19%*	*9%*	*9%*
2. Malaysia	80.1	81.7	89.9	94.4	99.1	104.1
yoy growth %	*9%*	*2%*	*10%*	*5%*	*5%*	*5%*
3. Philippines	42.3	40.7	38.3	39.1	39.9	40.7
yoy growth %	*3%*	*-4%*	*-6%*	*2%*	*2%*	*2%*
4. Others	8.7	7.6	6.7	7.0	7.4	7.8
COS	(307.5)	(275.0)	(285.4)	(325.8)	(350.3)	(376.4)
Gross profit	133.1	110.1	119.7	136.3	146.6	158.2
Gross profit margin	*30.2%*	*28.6%*	*29.5%*	*29.5%*	*29.5%*	*29.6%*
Other operating income	3.2	2.3	2.7	3.0	3.0	3.0
Selling and distribution cost	(59.6)	(55.4)	(52.8)	(60.1)	(63.6)	(67.9)
% of revenue	*13.5%*	*14.4%*	*13.0%*	*13.0%*	*12.8%*	*12.7%*
Administrative expense	(27.1)	(24.6)	(23.1)	(25.0)	(26.3)	(27.8)
% of revenue	*6.1%*	*6.4%*	*5.7%*	*5.4%*	*5.3%*	*5.2%*
Other operating expenses	(1.6)	(1.2)	(1.1)	-	-	-
Income from operations / EBIT	48.1	31.2	45.3	54.3	59.6	65.5
EBIT margin	*10.9%*	*8.1%*	*11.2%*	*11.7%*	*12.0%*	*12.3%*
Financial Income/cost	(3.7)	(3.2)	(1.1)	(0.6)	(0.6)	(0.6)
Share of income of JV	(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.1)
Profit Before Tax	43.6	27.6	44.1	53.5	58.9	64.9
Tax expense	(15.4)	(10.2)	(14.8)	(18.5)	(20.3)	(22.4)
Avg tax rate	*-35.3%*	*-36.8%*	*-33.6%*	*-34.5%*	*-34.5%*	*-34.5%*
Net Profit	28.2	17.5	29.3	35.1	38.6	42.5
Net profit margin	*6.4%*	*4.5%*	*7.2%*	*7.6%*	*7.8%*	*7.9%*

Source: UOB Kay Hian, Delfi

FIGURE 6: DELFI'S CONSUMER BRAND SEGMENT REVENUE & INDONESIA ANNUAL GDP GROWTH – SALES REMAINED RESILIENT IN 2021 COVID-19 PANDEMIC AND HAVE RESUMED GROWTH



Source: UOB Kay Hian, Delfi

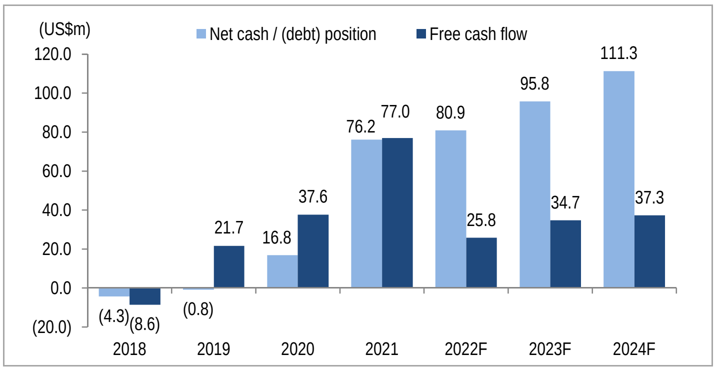
Healthy balance sheet and cash flow. Having scaled down long-term borrowings since 2015, Delfi had zero long-term debt obligations as at end-21. The group does however have short-term borrowings that are mainly used for financing the working capital to purchase cocoa beans. Delfi's net cash position strengthened significantly in 2021 to US$76m from US$17m in 2020, thanks to its improved operating cash flow as Delfi achieved stronger post-pandemic growth. Also, Delfi's capex was low in 2020-21 at below US$5m. 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.

Strong balance sheet and positive cash flows for the past seven years.

Consistent dividend payout provides decent dividend yield of around 5% for 2023. Delfi has consistently maintained a dividend payout ratio of around 50% for many years, except for 2020 where its payout ratio increased to 84% due to Delfi's move to maintain its absolute dividend amid a decline in EPS due to the impact of COVID-19. Given its robust free cash flow and strong net cash position, we expect the payout ratio to be maintained at at least 50% in 2022-24. There is a possibility of a special dividend given the strong net cash position and better growth outlook moving out from the pandemic for the second year. Based on our forecast of DPS of 3.4 US cents for 2023, this translates to an attractive 2023 dividend yield of around 5%.

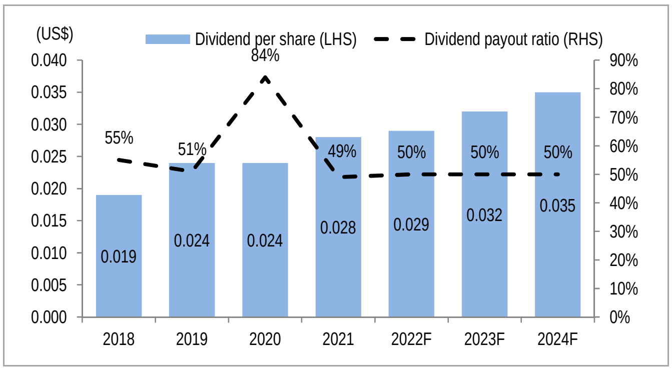
Issuing about 50% dividend payout since listing

FIGURE 7: FREE CASH FLOW AND NET CASH POSITION



Source: Delfi, UOB Kay Hian

FIGURE 8: DPS AND DIVIDEND PAYOUT RATIO



Source: Delfi, UOB Kay Hian

FIGURE 9: PROFIT & LOSS

Year to 31 Dec (US$m)	2020	2021	2022F	2023F	2024F
Revenue, net	385.1	405.1	462.1	496.9	534.6
Operating expenses	(353.9)	(359.8)	(407.8)	(437.3)	(469.1)
EBIT	31.2	45.3	54.3	59.6	65.5
Associate contributions	(0.4)	(0.2)	(0.2)	(0.2)	(0.1)
Net interest income/(expense)	(3.2)	(1.1)	(0.6)	(0.6)	(0.6)
Pre-tax profit	27.6	44.1	53.5	58.9	64.9
Tax	(10.2)	(14.8)	(18.5)	(20.3)	(22.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit(rep./act.)	17.5	29.3	35.1	38.6	42.5
	17.5	29.3	35.1	38.6	42.5
Net profit(adj.)					
Deprec. & amort.	13.8	13.6	12.4	11.8	11.4
EBITDA	45.0	58.9	66.7	71.5	76.9
Per share data (US$ cent)					
EPS - diluted	2.9	4.8	5.7	6.3	7.0
Reported EPS - diluted	2.9	4.8	5.7	6.3	7.0
Book value per shares (BVPS)	36.9	39.2	42.0	45.2	48.7
Dividend per share (DPS)	2.4	2.4	2.9	3.2	3.5

Source: Delfi, UOB Kay Hian

FIGURE 10: BALANCE SHEET

Year to 31 Dec (US$m)	2020	2021	2022F	2023F	2024F
Cash/Near cash equiv.	65.5	86.2	91.0	105.8	121.4
Accounts receivable/debtors	81.7	69.0	79.8	85.8	92.3
Stocks	76.8	64.8	73.9	79.5	85.5
Other current assets	20.8	18.6	18.6	18.6	18.6
Current assets	244.9	238.6	263.3	289.7	317.8
Fixed assets	108.1	96.9	95.6	91.7	88.4
Investments	5.4	5.7	5.7	5.7	5.7
Other non-current tangible assets	24.1	22.6	22.6	22.6	22.6
Total non-current assets	137.6	125.3	123.9	120.1	116.7
Total assets	382.5	363.9	387.2	409.8	434.5
Accounts payable/creditors	29.9	38.0	43.7	47.0	50.5
Short-term debt/borrowings	48.7	10.1	10.1	10.1	10.1
Other current liabilities	61.1	63.0	63.0	63.0	63.0
Current liabilities	139.7	111.0	116.8	120.0	123.5
Long-term debt	0.0	0.0	0.0	0.0	0.0
Deferred tax liability	0.2	2.0	2.0	2.0	2.0
Other non-current liabilities	16.8	11.5	11.5	11.5	11.5
Total non-current liabilities	17.0	13.6	13.6	13.6	13.6
Total liabilities	156.7	124.6	130.3	133.6	137.1
Minority interest - accumulated	0.1	0.0	0.0	0.0	0.0
Shareholders' equity	225.6	239.3	256.8	276.1	297.4
Liabilities and shareholders' funds	382.5	363.9	387.2	409.8	434.5

Source: Delfi, UOB Kay Hian

FIGURE 11: CASH FLOW

Year to 31 Dec (US$m)	2020	2021	2022F	2023F	2024F
Operating cashflows	42.4	77.2	33.8	42.7	45.3
Pre-tax profit	27.6	44.1	53.5	58.9	64.9
Tax	(15.4)	(10.7)	(18.5)	(20.3)	(22.4)
Deprec. & amort.	13.8	13.6	12.4	11.8	11.4
Associates	0.4	0.2	0.0	0.0	0.0
Working capital changes	13.0	29.7	(14.2)	(8.3)	(9.0)
Non-cash items	(0.1)	(0.6)	0.0	0.0	0.0
Others	3.2	1.1	0.6	0.6	0.6
Cash from investing activities	(4.8)	(0.2)	(8.0)	(8.0)	(8.0)
Capex (growth)	(3.7)	(2.8)	(8.0)	(8.0)	(8.0)
Proceeds from sale of assets	0.1	3.2	0.0	0.0	0.0
Others	(1.2)	(0.7)	0.0	0.0	0.0
Cash from financing activities	(28.2)	(54.7)	(18.1)	(19.9)	(21.8)
Dividend payments	(14.5)	(14.3)	(17.5)	(19.3)	(21.2)
Proceeds from borrowings	0.0	0.0	0.0	0.0	0.0
Loan repayment	(7.4)	(31.9)	0.0	0.0	0.0
Others/interest paid	(6.3)	(8.6)	(0.6)	(0.6)	(0.6)
Net increase/(decrease) in cash	9.4	22.3	7.7	14.8	15.5
Beginning cash	56.4	64.8	83.2	91.0	105.8
Changes due to forex impact	(0.3)	(0.8)	0.0	0.0	0.0
End cash	65.5	86.2	91.0	105.8	121.4

Source: Delfi, UOB Kay Hian

FIGURE 12: KEY METRICS

Year to 31 Dec (%)	2020	2021	2022F	2023F	2024F
Growth					
Turnover	(12.6)	5.2	14.1	7.5	7.6
EBITDA	(26.9)	31.0	13.2	7.2	7.6
Pre-tax profit	(36.6)	59.4	21.5	10.1	10.0
Net profit	(38.1)	67.5	19.8	10.1	10.0
Net profit (adj.)	n.a.	67.5	19.8	10.1	10.0
EPS	(38.6)	67.5	19.8	10.1	10.0
Profitability					
EBITDA margin	11.7	14.5	14.4	14.4	14.4
EBIT margin	8.1	11.2	11.7	12.0	12.3
Gross margin	28.6	29.5	29.5	29.5	29.6
Pre-tax margin	7.2	10.9	11.6	11.9	12.1
Net margin	4.5	7.2	7.6	7.8	7.9
ROE	7.7	12.6	14.1	14.5	14.8
ROA	4.5	7.8	9.3	9.7	10.1
ROIC	7.5	11.7	13.2	14.0	14.8
RONTA	8.9	11.8	12.5	12.9	13.3
Leverage					
Interest cover (x)	14.3	55.7	116.2	129.1	138.9
Debt to total capital	17.8	4.0	3.8	3.5	3.3
Debt to equity	21.6	4.2	3.9	3.6	3.4
Net debt/(cash) to equity	(7.4)	(31.8)	(31.5)	(34.7)	(37.4)
Current ratio (x)	1.8	2.1	2.3	2.4	2.6

Source: Delfi, UOB Kay Hian

Appendix I: Company Background

Delfi is a leading Indonesia-based manufacturer and supplier of confectionery products and cocoa ingredients. The company's portfolio of confectionery products consists of global legacy brands (eg Van Houten and Delfi) and strong heritage national brands (eg SilverQueen and Ceres in Indonesia, and Goya and Knick Knacks in the Philippines) which have been built over the years. Delfi also acts as a distributor for agency brands such as Fisherman's Friend and Pringles. The company also markets and distributes healthcare products, consumer goods, beverages and baking condiments. Delfi's products are sold in over 10 countries, with a key focus on the Southeast Asian market.

COVID-19 pandemic impact. From 2019-20, during the emergence of the pandemic, Delfi's total sales revenue fell by 12.6%. The pandemic and its ensuing lockdowns had led to uncertain economic conditions, changing consumers' behaviours, priorities and purchasing habits. However, revenue recovered by 5.2% in 2021 and the recovery is expected to continue in subsequent years. The company's sales have been relatively resilient in the face of the economic downturn. Similarly, Delfi's sales revenue during the Global Financial Crisis in 2009 remained largely unaffected by the crisis.

Own brands and agency brands. Delfi manufactures confectionery products for its own brands business, while simultaneously distributing other products through its agency brands. In 2021, Delfi's own brands business recorded a 2% increase in sales, while agency brands sales increased by 10%, contributing to the company's 5.2% revenue improvement overall. Delfi intends to leverage on its strong distribution infrastructure to grow both its own brands and agency brands businesses. This is achieved by forming partnerships with reputable agency brands to provide customers with wider product ranges that complement the own brands offerings. Currently, Delfi distributes over 100 agency brands covering multiple product categories such as chocolate confectionery, wafers, baking & culinary goods, and consumer healthcare products. Delfi's multi-brand strategy allows the group to compete across the whole value chain to the high-end price point segment, which we believe has helped the group maintain its dominant market share over the years in Indonesia. Furthermore, Delfi's differentiated and segmented product offerings cater to various consumer preferences in terms of product type, size, flavour and even packaging, allowing it to further attract demand.

Heavy focus on emerging markets in Southeast Asia. Delfi is headquartered in Singapore, but has the most market and brand presence in Indonesia and the Philippines which contribute about 80% of Delfi's total sales revenue combined. The company also sells its products in larger Asian markets such as Thailand, South Korea and India. These key markets have the largest young population base, and therefore offer the most growth potential since this demographic is the main consumer of Delfi's products. Delfi's manufacturing facilities are located in Indonesia and the Philippines.

Delfi was established in Indonesia in the 1950s, before expanding its distribution network to the Philippines, Thailand and Singapore in the 1980s. By 2012, the company had become Asia's leading cocoa ingredients supplier, until it sold off its cocoa ingredients division in 2013 to focus on growing its already strong consumer branded business. To date, it has continued expanding its consumer brands via JVs (eg with Japan's Yuraku Confectionery Company in 2017) and licence acquisition (namely Van Houten in 2018).

Adapting to the needs of its young customers. Delfi's consumers come from every age group, as the company hopes to offer differentiated products to cater to each respective group's product preferences. However, management notes that the younger Gen-Z and Millennial cohorts have drastically different needs as compared with older generations. With greater awareness of health and sustainability issues, Delfi's young customer base is shifting away from traditional products. In response, the company is developing innovative products for the "healthier alternative" segment of the market. Healthier products, such as SilverQueen Yoghurt bars, have been launched to capture this new market. Additionally, more effort has been put into creating transparency regarding the ingredients used in its products. This allows customers to be more informed of where and how ingredients are sourced, providing greater clarity on the company's sustainability efforts.

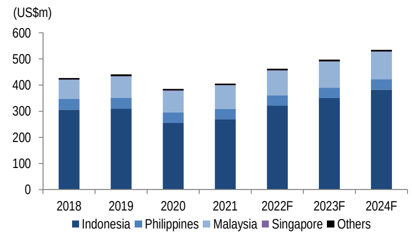
EXAMPLES OF BRANDS OWNED BY DELFI

Source: Delfi

EXAMPLES OF THIRD-PARTY BRANDS DISTRIBUTED BY DELFI

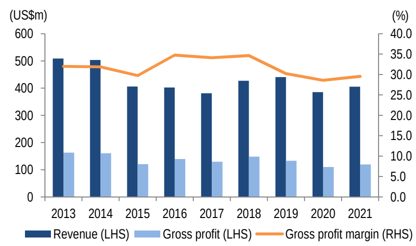
Source: Delfi

REVENUE BY GEOGRAPHY



Source: Delfi, UOB Kay Hian

STRONGER REVENUE AND GROSS MARGIN IN 2015 ON PRODUCT RATIONALISATION AND DIRECT SHIPMENT INITIATIVES AND 2021 POST-COVID



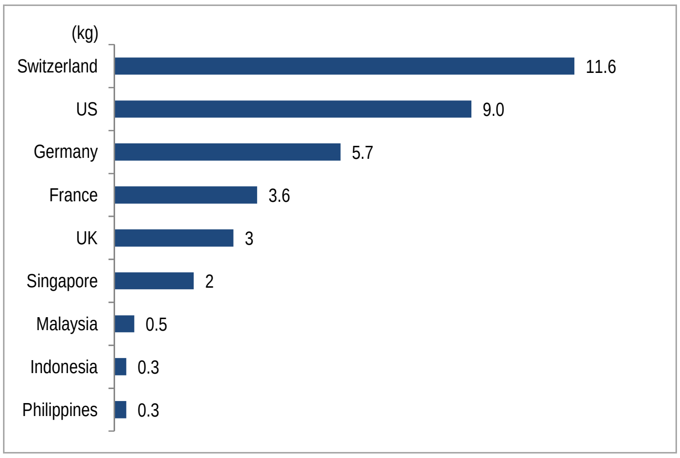
Source: UOB Kay Hian, Delfi

Appendix II: Industry Overview

Indonesia chocolate confectionery market dominated by domestic players. The chocolate confectionery market in Indonesia is dominated by two domestic players with a combined market share of approximately 75%. Leveraging on its first-mover advantage, wide portfolio of chocolate products and well-known SilverQueen chocolate bars, Delfi commands the largest market share at close to 55%, according to GlobalData's 2022 report on the Indonesia confectionery market. This is a substantial lead over its closest competitor and second-ranked domestic player Perfetti Van Melle SpA. Players such as Mayora Indah and Mondelez make up the rest of the market.

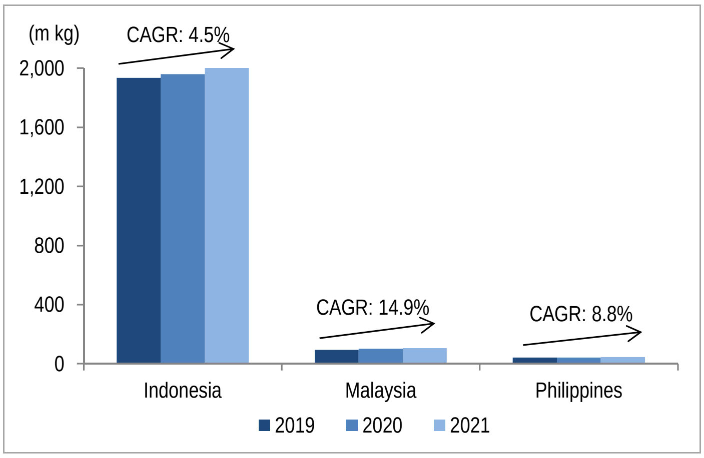
Demand for chocolate confectionery expected to remain high in ASEAN, especially in Indonesia and the Philippines. The demand for chocolate confectionery in Indonesia and the Philippines is expected to remain strong, supported by their young populations, growing and urbanising rapidly, making these markets among the fastest-growing consumer markets. Although Indonesia and the Philippines are the top two chocolate confectionery markets in ASEAN, both countries' annual chocolate consumption per capita of around 0.3kg each lags behind the likes of Malaysia (~0.5kg), Singapore (~2.0kg), and most European countries and the US (>5kg), providing Delfi with a lucrative market opportunity. According to 6Wresearch, the Indonesian market is expected to grow at a 6.3% CAGR for 2019-25.

CHOCOLATE CONSUMPTION PER CAPITA (2022)



Source: Delfi, UOB Kay Hian

CHOCOLATE CONFECTIONERY RETAIL CONSUMPTION VOLUME

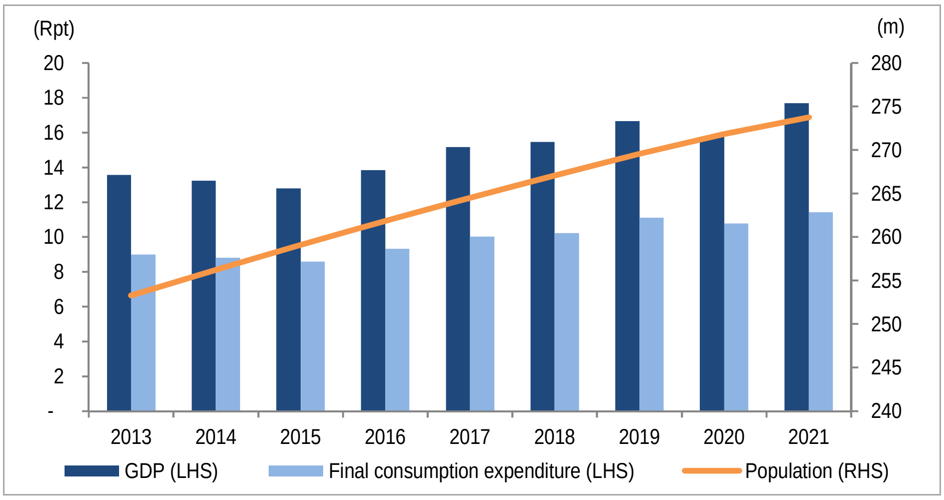


Source: Statista, UOB Kay Hian

Burgeoning middle class in Indonesia… According to the World Bank, Indonesia's middle class consumption grew at 12% per annum from 2002 to 2019, representing close to half of all household consumption in Indonesia. Although Indonesia had lost its upper-middle income status amid the pandemic in Jul 21, its rise in GNI per capita from US$3,400 in 2016 to US$4,180 in 2021 is a structurally positive sign. The growing ranks of the sophisticated middle class have resulted in consumers seeking out higher-quality products, prioritising brand trustworthiness and becoming increasingly less price sensitive in their purchasing decisions. According to Barry Callebaut's Top Chocolate Trends 2023 Report, consumers are now striving for intense, mindful and healthy indulgences, where 61% of the APAC market actively seeks out premium chocolates while 56% have switched from traditional chocolates and confectionery to low-sugar alternatives. Rising health consciousness, together with a surge in disposable income, is seen to be driving the growth in Indonesia's market.

…has changed its retail landscape. Furthermore, Indonesia's increasing urbanisation and growing middle class have led to changes in the retail landscape with a significant increase in the number of modern trade channels stores across the country. Fitch Ratings Indonesia highlighted that Indonesia's two biggest minimarts have expanded their footprint by 5%, crowding out traditional retailers. During the pandemic, price-sensitive consumers shifted to value-for-money products, fuelling the increase in traditional retail outlets' market share from 66.6% of total retail spending in 2020 to 68.9% in 2021. However, leading modern retailers will likely benefit from stronger bargaining positions with suppliers and offer more competitive pricing in the current inflationary environment.

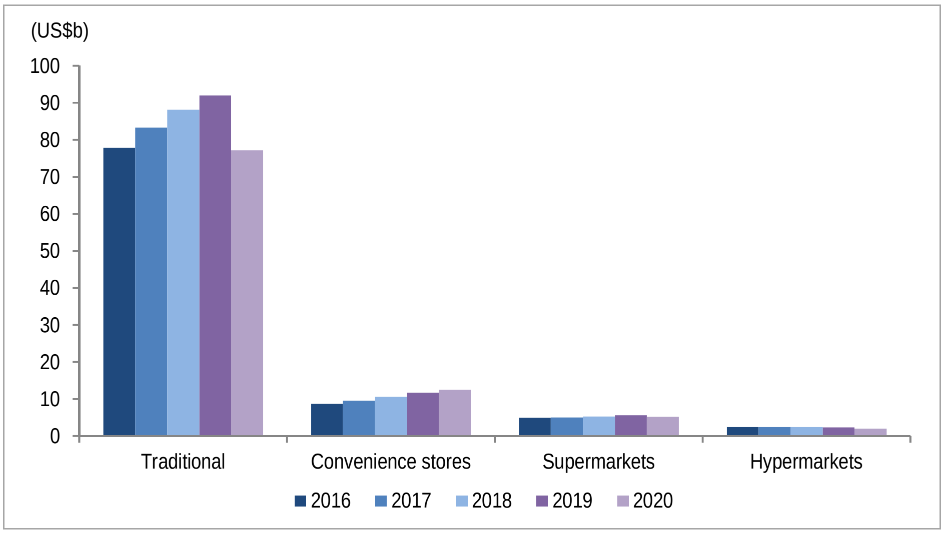
INDONESIA ANNUAL GDP, POPULATION, FINAL CONSUMPTION EXPENDITURE



Source: World Bank, UOB Kay Hian,: Based on constant LCU

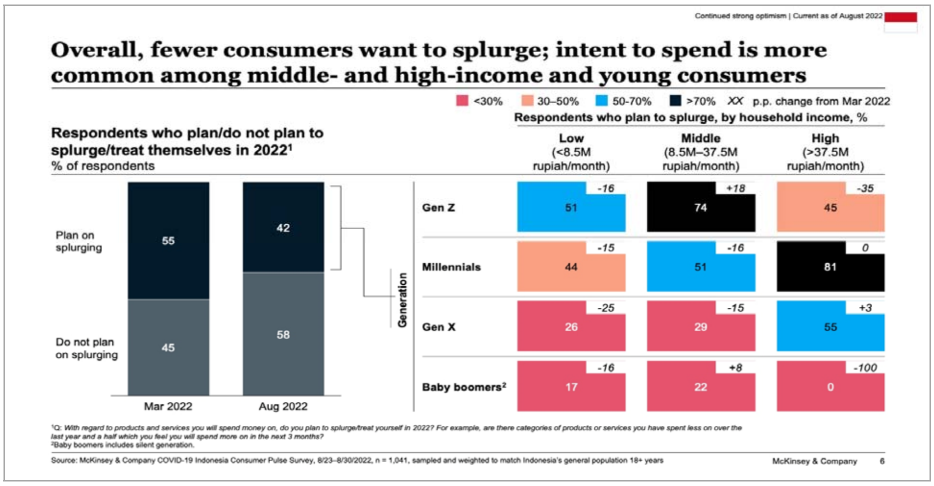
Rise of minimarts/convenience stores. Indonesia's increasing urbanisation and growing middle class have led to changes in the retail landscape with a significant increase in the number of modern trade channels stores across the country. While most Indonesians continue to purchase food from traditional retail outlets, modern retailers, particularly convenience stores/minimarkets, have been expanding their market share. Retail sales in modern small-format stores registered a 2013-18 CAGR of 8.8%, highest among trade channels, thus expanding their share of total retail food sales from 7.4% to 10.1% in the same period. In response to the changing retail landscape, Delfi is extending its market reach and improving its channel segment to access the growing number of minimarts/convenience stores in Indonesia.

GROCERY RETAIL SALES BY MODERN TRADE CHANNELS (2016-20)



Source: Euromonitor, UOB Kay Hian

IMPACT OF COVID-19 ON CONSUMERS (2022)



Source: McKinsey & Company, UOB Kay Hian

Appendix III: Risk Factors

We see the following as the key risks, among others.

Claims associated with disposal of Delfi Cacau Brasil. Back in 2013, Delfi made an announcement on the closing of the sale of its cocoa ingredients business to Barry Callebaut Belgium N.V (Barry Callebaut). However, on 24 Feb 15, Barry Callebaut notified the group of nine claims from the Brazil tax authorities against Delfi Cacau Brazil, which was part of the 2013 sale. As Delfi's management did not concur, a dispute has arisen. As of 30 Jun 22, Delfi's total exposure to these claims amounted to US$17.4m. This dispute has been ongoing for seven years, and we note that the settlement amount is material, making up 59.4% of the group's 2021 profit after tax.

Foreign exchange losses. Delfi operates in Indonesia, the Philippines and Malaysia, with a small presence in Singapore, Thailand and Vietnam. Most of its financial transactions – revenue, financing, costs and operating expenditures – are therefore denominated in Indonesian rupiah and the respective functional currencies. However, its raw material costs and imports of agency brands are in US dollars, euro or Singapore dollars. As a result, Delfi undertakes the risk of financial impact from exchange rate fluctuations. Based on Delfi's operations, depreciation of its operating currencies against the US dollar will lead to a reduced profit after tax. However, our sensitivity analysis dollar reveals that the currency exposure is minimal, with a 5% change in any rate leading to 0-0.5% change in 2021's profit after tax. Additionally, to mitigate the impact of currency volatility on the group's performance, Delfi uses foreign exchange forward contracts to manage currency exposures. As of 31 Dec 21, the total notional amount of foreign exchange forwards was US$2.13m.

SENSITIVITY ANALYSIS OF FOREX MOVEMENT

Currency against USD	Change (%)	Impact on FY21 PAT (US$'000)	Impact on FY20 PAT (US$'000)
SGD/USD	+5/(5)	129/(129)	99/(99)
IDR/USD	+5/(5)	70/(70)	92/(92)
MYR/USD	+5/(5)	77/(77)	21/(21)
EUR/USD	+5/(5)	(1)/1	(41)/41

Source: Delfi, UOB Kay Hian

Higher raw material costs. In the current inflationary environment, we note that margins may be compressed as input costs trend upwards. For instance, prices of cocoa beans have a direct impact on revenue. Delfi therefore actively manages cost by buying forward its major raw material requirements. This strategy helps the group secure its raw material requirements while locking in the purchase prices.

Appendix IV: Milestones

KEY CORPORATE MILESTONES

Year	Event
1950s	Established the SilverQueen and Ceres brands in Indonesia.
1984	Established and incorporated in Singapore as Petra Foods.
1987	Commenced distributing third-party brands in Indonesia.
1988	Entered the cocoa ingredients market and built a cocoa processing factory in the Philippines.
1989	Started cocoa ingredients operations in Thailand.
2001	Entered into a JV with Meiji Seika Kaisha of Japan to manufacture "Meiji" branded confectionery and biscuits in Indonesia.
2003	Acquired two cocoa processing plants in Mexico and Brazil from Nestlé SA and entered into agreements to supply cocoa ingredients to Nestlé in those countries.
2004	Listed on the Mainboard of the Singapore Exchange in November.
2005	Acquired well-established distribution networks - Sime Darby Marketing and Petra Sime Marketing - in Malaysia and Singapore respectively.
2006	Strengthened regional presence with acquisition of existing confectionery businesses from Nestlé in the Philippines.
2007	Entered European market for cocoa ingredients through a JV with UK-based partner Armajaro Trading which owns a cocoa ingredients manufacturing facility in Hamburg and a cocoa butter facility in France. Started investment activities in the Hamburg facility.
2009	Completed the upgrading of the Hamburg cocoa ingredients processing facility.
2010	Acquired the remaining 32% stake in the Petra-Armajaro JV, becoming a wholly-owned subsidiary of Petra Foods.
2011	Entered into a JV with Super Group to market and distribute instant 3-in-1 coffeemix products and other convenience beverages in Indonesia.
2012	On 12 December, announced that it had entered into a conditional sale and purchase agreement with Barry Callebaut AG and Barry Callebaut for the sale of the cocoa ingredients division. Zurich-based Barry Callebaut is the world's leading manufacturer of high-quality cocoa and chocolate products. Barry Callebaut is present in 30 counties, operates around 45 production lines and employs a workforce of about 6,000 employees.
2013	On 30 June, the disposal of its cocoa ingredients division was completed. As such, Petra Foods ceased to be in the cocoa ingredients processing business, but it continues to be engaged in and focused on growing its branded consumer business.
2016	Petra Foods was renamed as Delfi, after its main brand, to mark a shift from focusing on cocoa ingredients to chocolate-based confectionery. Entered into a 50:50 JV with South Korea's Orion Corporation to develop, market and sell a range of joint-branded confectionery products in Indonesia.
2017	Entered into a 60:40 JV with Japan's Yuraku Confectionery Company, named Delfi Yuraku JV, in Singapore to produce, develop, market and sell chocolate snack products in Indonesia under the Delfi brand.
2018	Acquired the licence for the Van Houten chocolate brand name for supplying chocolate and cocoa products to consumers in certain key markets in Asia and Oceania (including Australia and New Zealand).

Source: Delfi, UOB Kay Hian

Appendix V: Chairman & Key Management

SELECTED DIRECTORS/PERSONNEL

Name	Position	Experience
Pedro Mata-Bruckmann	Chairman and Independent Director	Pedro is the Chairman. He began his career at W.R. Grace & Co in 1968 where he served as President and CEO of several divisions. Through a series of promotions, in 1989, he rose to the position of CEO of Grace Cocoa, a division of W.R. Grace & Co. Grace Cocoa (subsequently sold to ADM and renamed ADM Cocoa) was the world's leading and premier supplier of cocoa ingredients to the confectionery, dairy, bakery and beverage industries on a global basis. After leaving W.R. Grace & Co in 1995, Pedro established MGS Mata Global Solutions, advising companies on strategic growth and joint venturing. Between 2000 and 2012, Pedro was a senior advisor to Quad-C (a US-based private equity fund). Between 2009 and 2012, he served as CEO of Classic Party Rentals. Headquartered in Los Angeles, Classic Party Rentals (a Division of Quad C) was the leading US party and event rental company. Pedro has served in several not-for-profit organisations including Trustee and Chairman of Zamorano University and Director of TransFair USA, a fair trade organisation.
John Chuang Tiong Choon	Group Chief Executive Officer	John is the CEO of Delfi's Group and is responsible for the overall strategic planning, management and business development of Delfi's Group. John has over 35 years of experience in the chocolate, confectionery and cocoa industries. John started his career in 1974 in Delfi's predecessor businesses in Indonesia and Singapore. From 1979 to 1983, he undertook the appointments of both Vice-Chairman of the Independence Bank of California and the President of Wardley Development Inc, California. John established Petra Foods (the predecessor company to Delfi) in 1984 and was subsequently appointed CEO. In 2004, Petra Foods (now known as Delfi) was presented the Enterprise Award by the then President of Singapore, the late S.R. Nathan. Under the Singapore Business Awards, John was awarded the title of Best CEO of 2011; in 2012, he was recognised as Businessman of the Year. In 2015, John was one of the recipients of the SG50 Outstanding Chinese Business Pioneers Awards.
Joseph Chuang Tiong Liep	Executive Director (Group Chief Growth and Marketing Officer)	Joseph is an Executive Director and is Group Chief Growth and Marketing Officer. He was previously President Director, Branded Consumer Division of Delfi. Joseph is responsible for the overall management and business development of Delfi's branded business and has over 35 years of experience in senior management positions within the chocolate, confectionery and cocoa industries. As an integral part of his role, Joseph mentors staff in business development, marketing and sales. From 1980 to 1983, he was appointed as President of McCoa Inc, Philippines. From 1983 to 1984, Joseph worked as a Personal Assistant to the President of Allied Foods Management (Singapore). He was subsequently appointed as COO for both Perusahaan Industri Ceres and General Food Industries from 1984, and has served in various senior executive positions within the group since.
William Chuang Tiong Kie	Executive Director (Business Development Director)	William is an Executive Director of Delfi and a Business Development Director of Delfi. He was appointed to the Board on 31 May 01. Being based largely at the company's corporate headquarters in Singapore, William is responsible for Delfi's overall business expansion. As an integral part of his role, he is responsible for the existing JVs including Delfi-Orion and Delfi Yuraku. William has close to 35 years of experience in senior management positions within the chocolate, confectionery and cocoa industries.
Richard Jeffrey Chung Ting Tshung	Group Chief Financial Officer	Richard has almost three decades of experience in the areas of financial management, financial and business analysis, capital raising, investor relations, business development, M&A, JV and other special projects, and risk management. He has spent over 16 years with Delfi. Immediately prior to joining Delfi as Head Corporate Planning, Richard was Director Research for ABN AMRO Securities (Singapore). Richard is overall in charge of finance, taxation, treasury, investor relations and corporate planning functions as well as assisting the Group Chief Executive on strategic and key business development matters.
Tan Chay Kee	Chief Operating Officer	Chay Kee has more than 25 years of experience in the areas of engineering, executive compensation planning & advisory, corporate finance, strategic planning, and corporate development. From 2014 to 2020, Chay Kee held various senior positions, including two years as CFO at JB Foods and two years as CFO at SF Group. He joined Seabridge TFX as COO in 2020, where he remained immediately prior to joining Delfi in Apr 22. Earlier in his career, he worked closely with John Chuang, Delfi's CEO, at Petra Foods (the predecessor company to Delfi) as the Financial Controller for the cocoa ingredients division and on executive planning matters. Chay Kee is tasked with overseeing Delfi's manufacturing operations and supply chain activities.

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