

### COMPANY RESULTS

#### Delfi (DELFI SP)

2Q24: Results Fall Short; Hurdles Remain

**Delfi's 1H24 revenue and PATMI of US\$260m (-8% yoy) and US\$20m (-22% yoy) respectively missed our expectations, both forming 45% of our full-year estimates. The poorer results came on currency depreciation, weaker demand for its own brands and termination of an agency brand in Indonesia. Despite this, interim dividend was maintained at 2.06 US cents/share. As headwinds such as high cocoa prices remain, we maintain HOLD with a lower target price of S\$0.83 (S\$1.07 previously).**

#### 2Q24/1H24 RESULTS

Year to 31 Dec (US\$m)	2Q24	yoy % chg	qoq % chg	1H24	yoy % chg
<b>Revenue by Markets:</b>					
- Indonesia	66.2	(16.6)	(36.0)	169.7	(10.7)
- Regional Markets	43.9	(4.6)	(7.0)	91.1	(1.9)
<b>Revenue by Brands:</b>					
- Own Brands	60.3	(11.1)	(31.3)	148.0	(11.8)
- Agency Brands	49.8	(13.5)	(20.9)	112.8	(2.1)
<b>Total revenue</b>	<b>110.1</b>	<b>(12.2)</b>	<b>(26.9)</b>	<b>260.8</b>	<b>(7.8)</b>
Gross profit	29.7	(22.1)	(34.7)	75.2	(9.0)
Gross margin (%)	27.0	(3.4ppt)	(3.2ppt)	28.8	(0.4ppt)
EBITDA	9.5	(34.5)	(59.2)	32.8	(17.8)
EBITDA margin (%)	8.6	(3.0ppt)	(6.8ppt)	12.6	(1.5ppt)
PATMI				19.6	(22.3)

Source: Delfi, UOB Kay Hian

#### RESULTS

- Results below expectations.** Delfi reported lower 1H24 revenue and PATMI of US\$261m (-8% yoy) and US\$20m (-22% yoy) respectively, both making up roughly 45% of our full-year forecasts. This is below our expectation, as 1H is traditionally stronger with festivities like Valentine's Day and Lebaran.
- Top-line largely impacted by weaker regional currencies...** In constant currency terms, 1H24 revenue dipped 3% yoy, indicating that currency depreciation alone led to a 5% drop. For 2Q24, revenue fell more significantly (-12% yoy) from an earlier Lebaran (9 Apr 24 vs 21 Apr 23). The period between Valentine's Day and Lebaran is expected to shorten progressively and therefore influence quarterly sales.
- ...but own brands saw demand dampen.** Excluding forex impact, sales of Delfi's own brands dropped 8% yoy from lower demand across all markets and cuts in trade promotion spending. On the same basis, agency brands saw a 3% yoy rise on higher consumer demand in Malaysia and the Philippines. This was partially offset by the termination of an agency brand in Indonesia back in 3Q23, excluding which agency brand sales grew a substantial 9% yoy.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	477.5	538.2	493.9	521.8	551.8
EBITDA	75.6	77.9	67.7	72.7	74.1
Operating profit	63.8	66.9	55.5	58.3	59.6
Net profit (rep./act.)	43.9	46.3	37.4	38.8	40.9
Net profit (adj.)	43.9	46.3	37.4	38.8	40.9
EPS (S\$ cents)	7.2	7.6	6.1	6.4	6.7
PE (x)	8.7	8.2	10.2	9.8	9.3
P/B (x)	1.5	1.4	1.4	1.3	1.2
EV/EBITDA (x)	4.7	4.6	5.3	4.9	4.8
Dividend yield (%)	5.8	6.1	6.5	6.4	6.6
Net margin (%)	9.2	8.6	7.6	7.4	7.4
Net debt/(cash) to equity (%)	(23.6)	(10.0)	(8.2)	(9.3)	(10.5)
Interest cover (x)	120.0	64.0	69.0	74.0	75.5
ROE (%)	18.1	18.1	13.7	13.6	13.6
Consensus net profit	-	-	41	43	47
UOBKH/Consensus (x)	-	-	0.92	0.90	0.87

Source: Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	S\$0.81
Target Price	S\$0.83
Upside	+2.5%
(Previous TP)	S\$1.07)

#### 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):	495.0
Market cap (US\$m):	380.3
3-mth avg daily t'over (US\$m):	0.3

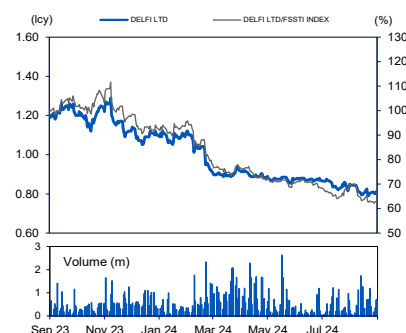
#### Price Performance (%)

52-week high/low	S\$1.29/S\$0.790			
<b>1mth</b>	<b>3mth</b>	<b>1mth</b>	<b>3mth</b>	<b>YTD</b>
(0.6)	(6.9)	(12.2)	(34.2)	(27.1)

#### Major Shareholders

Aerodrome Int'l Ltd	52.0
First Pacific Advisors	8.0
FY24 NAV/Share (S\$)	0.46
FY24 Net Cash/Share (S\$)	0.04

#### PRICE CHART



Source: Bloomberg

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- **Lower margins posted.** 1H24 gross margin fell 0.4ppt yoy to 28.8%, from weaker regional currencies as raw material costs are denominated in US dollars. Coupled with a less favourable sales mix of more lower-margin agency brands, EBITDA margin contracted 1.2ppt yoy.
- **Interim dividend maintained.** Management declared a similar interim dividend of 2.06 US cents/share, translating to a 64% payout ratio. This is backed by its strong free cash flow generation of US\$12m (+21% yoy) and net cash position of US\$23m.

### STOCK IMPACT

- **Cocoa prices still above pre-pandemic levels...** Cocoa futures continue to trade near US\$9,800/tonne, around three times the price a year ago. This is driven by persistent worries over tight supply and dry weather in the key producing regions of West Africa. During the briefing, management shared that the current prices are unsustainable, and expects farmers to be encouraged to improve cocoa production. Management is of the view that prices near US\$4,000/tonne are likely fairer for stakeholders.
- **...but margin contraction is imminent.** To safeguard its margins, Delfi has implemented pricing adjustments in May 24, reduced trade promotions and practiced tight operating cost management. Additionally, it has a prudent practice of hedging its raw materials as far forward as possible. However, we note that any future price increase would depend on competition and overall market condition. With cocoa prices having maintained elevated levels ytd, we opine that margins will continue to face pressure.
- **Continuing to make strategic investments and launch new products.** Delfi continues to invest in initiatives aimed at building its brands and strengthening routes-to-market, recognising these efforts as strategically crucial for long-term growth. It has also committed to US\$25m-30m in capex spend for capacity expansion in 2024. Additionally, management may consider pursuing inorganic growth via acquisitions.

### EARNINGS REVISION/RISK

- **We have cut our 2024-26 revenue forecasts by 14-15%**, as we factor in falling revenues across both business segments. We maintain projected gross margins of 26-27% across the same period, due to sustained elevated commodity prices. As a result, our 2024/25/26 earnings forecasts have been reduced by 14-15% to S\$37m/S\$39m/S\$41m respectively.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower PE-based target price of S\$0.83 (S\$1.07 previously)**, based on a lower 10x 2024F PE, pegged to 1SD below its long-term mean (vs 11x previously). This is on the back of the more challenging environment, with commodity prices still expected to remain above pre-pandemic levels, driven by supply constraints.

### SHARE PRICE CATALYST

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

### PEER COMPARISON

Company	Ticker	Price @ 4-Sep-24 (lcy)	Market Cap (US\$m)	PE		P/B		ROE 2024 (%)	Yield 2024 (%)
				2024 (x)	2025 (x)	2024 (x)	2025 (x)		
<b>Indo Peers</b>									
Unilever Indonesia	UNVR IJ	2240	5,544	18.3	17.4	26.6	25.3	141.1	5.5
Indofood Cbp Sukses	ICBP IJ	11400	8,625	14.6	13.1	2.9	2.5	19.3	2.6
Mayora Indah	MYOR IJ	2630	3,815	17.6	15.7	3.4	3.0	20.7	2.2
Garudafood	GOOD IJ	370	886	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1040	417	15.3	13.9	2.6	2.4	16.0	5.8
<b>Average</b>				<b>16.5</b>	<b>15.0</b>	<b>8.9</b>	<b>8.3</b>	<b>49.3</b>	<b>4.0</b>
Delfi	DELFI SP	0.8	376	8.5	8.2	1.3	1.2	15.7	5.8

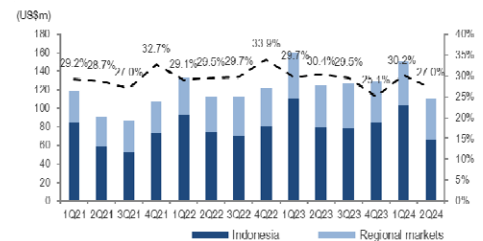
Source: Bloomberg, UOB Kay Hian

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



Source: Trading Economics

### QUARTERLY REVENUE BY MARKETS & GROSS PROFIT MARGIN (2021 - 2024)



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	493.9	521.8	551.8
EBITDA	77.9	67.7	72.7	74.1
Deprec. & amort.	11.0	12.2	14.4	14.5
EBIT	66.9	55.5	58.3	59.6
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	54.2	57.1	58.4
Tax	(19.1)	(16.9)	(18.3)	(17.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	46.3	37.4	38.8	40.9
Net profit (adj.)	46.3	37.4	38.8	40.9

### BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	98.6	115.7	117.0	118.2
Other LT assets	27.5	27.5	27.5	27.5
Cash/ST investment	59.4	55.6	59.9	65.1
Other current assets	235.5	227.4	238.5	250.4
<b>Total assets</b>	<b>420.9</b>	<b>426.1</b>	<b>442.9</b>	<b>461.2</b>
ST debt	32.7	32.7	32.7	32.7
Other current liabilities	104.1	96.5	98.7	101.1
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	279.0	293.5	309.4
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>420.9</b>	<b>426.1</b>	<b>442.9</b>	<b>461.2</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	23.9	51.1	45.3	46.9
Pre-tax profit	65.4	54.2	57.1	58.4
Tax	(25.6)	(16.9)	(18.3)	(17.5)
Deprec. & amort.	11.0	12.2	14.4	14.5
Associates	0.3	0.0	0.0	0.0
Working capital changes	(28.1)	0.5	(8.9)	(9.5)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	1.2	1.0	1.0	1.0
<b>Investing</b>	<b>(24.0)</b>	<b>(29.3)</b>	<b>(14.7)</b>	<b>(14.7)</b>
Capex (growth)	(16.3)	(29.3)	(14.7)	(14.7)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	(7.9)	0.0	0.0	0.0
<b>Financing</b>	<b>(21.3)</b>	<b>(25.6)</b>	<b>(25.3)</b>	<b>(26.0)</b>
Dividend payments	(29.1)	(24.6)	(24.3)	(25.0)
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)
<b>Net cash inflow (outflow)</b>	<b>(21.4)</b>	<b>(3.8)</b>	<b>5.3</b>	<b>6.2</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>80.1</b>	<b>59.7</b>	<b>55.6</b>	<b>59.9</b>
Changes due to forex impact	0.7	(0.4)	(1.0)	(1.0)
<b>Ending cash &amp; cash equivalent</b>	<b>59.4</b>	<b>55.6</b>	<b>59.9</b>	<b>65.1</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	14.5	13.7	13.9	13.4
Pre-tax margin	12.2	11.0	10.9	10.6
Net margin	8.6	7.6	7.4	7.4
ROA	11.3	8.8	8.9	9.0
ROE	18.1	13.7	13.6	13.6
<b>Growth</b>				
Turnover	12.7	(8.2)	5.7	5.7
EBITDA	3.0	(13.1)	7.3	2.0
Pre-tax profit	3.7	(17.0)	5.3	2.3
Net profit	5.4	(19.2)	3.9	5.3
Net profit (adj.)	5.4	(19.2)	3.9	5.3
EPS	5.4	(19.2)	3.9	5.3
<b>Leverage</b>				
Debt to total capital	10.9	10.5	10.0	9.6
Debt to equity	12.3	11.7	11.2	10.6
Net debt/(cash) to equity	(10.0)	(8.2)	(9.3)	(10.5)
Interest cover (x)	64.0	69.0	74.0	75.5

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