

INITIATE COVERAGE

Delfi (DELFI SP)

An Undervalued Leader In Indonesia's Chocolate Products Market

Delfi is a dominant market leader of chocolate confectionery products in Indonesia with around a 41% 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.

INVESTMENT HIGHLIGHTS

- 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, with 61% of the APAC market actively seeking out premium chocolates, while 56% have switched from traditional chocolates and confectionery to low-sugar alternatives.
- Expect healthy double-digit growth as Indonesia's consumers emerge stronger from the 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 the growth drivers.

Click [here](#) for Blue Top dated 17 Jan 23

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
Operating profit	31.2	45.3	54.3	59.6	65.5
Net profit (rep./act.)	17.5	29.3	35.1	38.6	42.5
Net profit (adj.)	17.5	29.3	35.1	38.6	42.5
EPS (S\$ cents)	2.9	4.8	5.7	6.3	7.0
PE (x)	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
Net margin (%)	4.5	7.2	7.6	7.8	7.9
Net debt/(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%

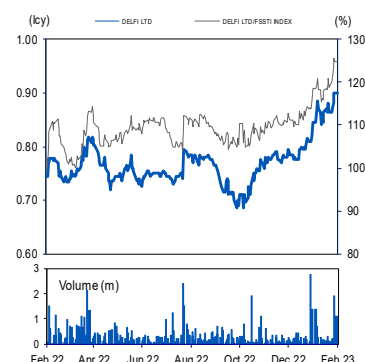
COMPANY DESCRIPTION

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):	410.5			
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	16.9	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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STOCK IMPACT

- Healthy balance sheet and cash flow.** Having scaled down long-term borrowings since 2015, Delfi has 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.
- 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 FY22-24. 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%.

EARNINGS REVISION/RISK

- 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 product volume and ASP in Indonesia, b) healthy growth in Indonesia's economy after the pandemic, with Bank Indonesia projecting 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.

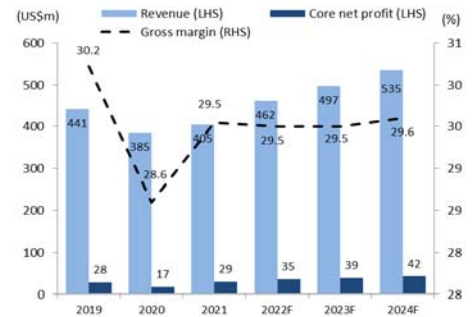
VALUATION/RECOMMENDATION

- Initiate coverage with BUY.** We initiate coverage on Delfi with a BUY recommendation and a PE-based 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.

SHARE PRICE CATALYST

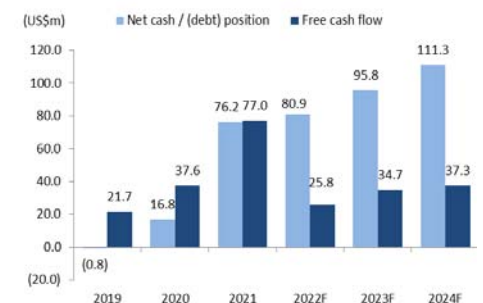
- Higher revenue contribution from Indonesia.
- Premiumisation of product offerings.

REVENUE, EARNINGS AND GROSS MARGIN



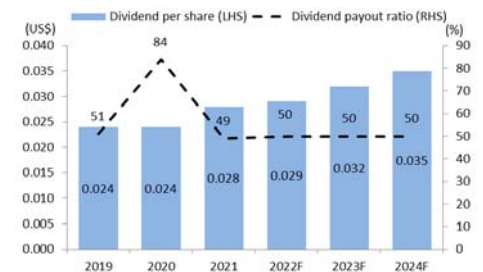
Source: Delfi, UOB Kay Hian

FREE CASH FLOW AND NET CASH POSITION



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)	2021	2022F	2023F	2024F
Net turnover	405.1	462.1	496.9	534.6
EBITDA	58.9	66.7	71.5	76.9
Deprec. & amort.	13.6	12.4	11.8	11.4
EBIT	45.3	54.3	59.6	65.5
Total other non-operating income	(0.2)	(0.2)	(0.2)	(0.1)
Associate contributions	(1.1)	(0.6)	(0.6)	(0.6)
Net interest income/(expense)	44.1	53.5	58.9	64.9
Pre-tax profit	(14.8)	(18.5)	(20.3)	(22.4)
Tax	0.0	0.0	0.0	0.0
Minorities	29.3	35.1	38.6	42.5
Net profit	29.3	35.1	38.6	42.5
Net profit (adj.)	2021	2022F	2023F	2024F

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	96.9	95.6	91.7	88.4
Other LT assets	28.3	28.3	28.3	28.3
Cash/ST investment	86.2	91.0	105.8	121.4
Other current assets	152.4	172.3	183.9	196.4
Total assets	363.9	387.2	409.8	434.5
ST debt	10.1	10.1	10.1	10.1
Other current liabilities	101.0	106.7	110.0	113.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	13.6	13.6	13.6	13.6
Shareholders' equity	239.3	256.8	276.1	297.4
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	363.9	387.2	409.8	434.5

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	77.2	33.8	42.7	45.3
Pre-tax profit	44.1	53.5	58.9	64.9
Tax	(10.7)	(18.5)	(20.3)	(22.4)
Deprec. & amort.	13.6	12.4	11.8	11.4
Associates	0.2	0.0	0.0	0.0
Working capital changes	29.7	(14.2)	(8.3)	(9.0)
Non-cash items	(0.6)	0.0	0.0	0.0
Other operating cashflows	1.1	0.6	0.6	0.6
Investing	(0.2)	(8.0)	(8.0)	(8.0)
Capex (growth)	(2.8)	(8.0)	(8.0)	(8.0)
Investments	3.2	0.0	0.0	0.0
Proceeds from sale of assets	(0.7)	0.0	0.0	0.0
Others	(54.7)	(18.1)	(19.9)	(21.8)
Financing	(14.3)	(17.5)	(19.3)	(21.2)
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	(31.9)	0.0	0.0	0.0
Proceeds from borrowings	(8.6)	(0.6)	(0.6)	(0.6)
Loan repayment	22.3	7.7	14.8	15.5
Others/interest paid	64.8	83.2	91.0	105.8
Net cash inflow (outflow)	(0.8)	0.0	0.0	0.0
Beginning cash & cash equivalent	86.2	91.0	105.8	121.4
Changes due to forex impact	2021	2022F	2023F	2024F
Ending cash & cash equivalent	77.2	33.8	42.7	45.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.5	14.4	14.4	14.4
Pre-tax margin	10.9	11.6	11.9	12.1
Net margin	7.2	7.6	7.8	7.9
ROA	7.8	9.3	9.7	10.1
ROE	12.6	14.1	14.5	14.8
Growth				
Turnover	5.2	14.1	7.5	7.6
EBITDA	31.0	13.2	7.2	7.6
Pre-tax profit	59.4	21.5	10.1	10.0
Net profit	67.5	19.8	10.1	10.0
Net profit (adj.)	67.5	19.8	10.1	10.0
EPS	67.5	19.8	10.1	10.0
Leverage				
Debt to total capital	4.0	3.8	3.5	3.3
Debt to equity	4.2	3.9	3.6	3.4
Net debt/(cash) to equity	(31.8)	(31.5)	(34.7)	(37.4)
Interest cover (x)	55.7	116.2	129.1	138.9

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