

## COMPANY RESULTS

### DFI Retail Group Holdings (DFI SP)

2022: Results Weaker Than Expected, But 2H22 Shows Signs Of Life

DFI's weaker-than-expected 2022 results with a loss at the bottom line, due to impairments at its associates, belie the nascent recovery seen in 2H22. In particular, 2H22 witnessed sequential improvement in operating profit, operating margins, free cash flow and net debt. With China's easing of COVID-19 restrictions in late-22, the company's North Asia business could exhibit better growth in 2023. Maintain BUY. Target price: US\$3.72.

#### 2022 RESULTS

Year ending 31 Dec (US\$m)	1H22	2H22	hoh %	2021	2022	yoy %
Sales	4,483.1	4,691.1	4.6%	9,188	9,174	-0.2%
Gross profit	1,402.7	1,663.1	18.6%	3,043	3,066	0.8%
Operating profit	75.6	168.7	123.1%	311	244	-21.4%
Assoc./JVs	(65.2)	(146.8)	125.2%	(42)	(212)	n.m.
Pre-tax profit	(46.2)	(43.1)	-6.7%	150	(89)	n.m.
NPAT	(57.6)	(57.0)	-1.0%	103	(115)	n.m.
Gross margin	31.3%	35.5%	+4.2ppt	33.1%	33.4%	+0.3ppt
Operating margin	1.7%	3.6%	+1.9ppt	3.4%	2.7%	-0.7ppt
Net margin	-1.3%	-1.2%	+0.1ppt	1.1%	-1.2%	-2.4ppt

Source: DFI Retail Holdings, UOB Kay Hian

#### RESULTS

- Weak 2022 results...** DFI Retail Group (DFI) reported weaker-than-expected 2022 results with core NPAT excluding associates down 72% yoy to US\$29m, while net loss attributable to shareholders (which includes associates) was US\$115m vs a profit of US\$103m in the prior year. The loss was due to a large impairment of US\$171m for Robinsons Retail in the Philippines, and US\$17m for Yonghui in China, as well as higher-than-expected SG&A costs.
- ...which belie the nascent recovery in 2H22.** However, and as can be seen in the table above, only looking at the whole of 2022 misses the improvements that are more evident when looking at the sequential performance in 2H22. Operating profit in particular jumped 123% hoh on the back of a 5% hoh rise in sales. In addition, DFI's free cash flow rose 71% hoh to US\$466m, while net debt fell 13% hoh. At the segmental level, only grocery saw lower revenue and operating profit on a hoh basis while other segments saw significant sequential improvement (see chart overleaf).
- A final dividend of US\$0.02 was declared.** Together with the 1H22 interim dividend of US\$0.01, total 2022 dividend was US\$0.03. This is a significant decline from the US\$0.095 paid in 2021; however, we expect dividends to pick up in 2023 given the early signs of business improvements ytd.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	9,188	9,174	9,363	9,476	9,579
EBITDA	1,197	1,105	1,217	1,308	1,332
Operating profit	311	244	281	360	374
Net profit (rep./act.)	103	(115)	168	250	261
Net profit (adj.)	103	(115)	168	250	261
EPS (US\$ cent)	7.6	(8.5)	12.4	18.5	19.3
PE (x)	40.4	n.m.	24.8	16.6	15.9
P/B (x)	3.3	4.4	4.2	5.1	6.5
EV/EBITDA (x)	4.3	4.6	4.2	3.9	3.8
Dividend yield (%)	3.1	1.0	2.4	3.6	3.8
Net margin (%)	1.1	(1.2)	1.8	2.6	2.7
Net debt/(cash) to equity (%)	66.6	93.2	95.9	143.9	222.7
Interest cover (x)	10.1	9.1	10.6	11.4	11.8
ROE (%)	7.9	n.a.	17.3	27.5	35.8
Consensus net profit	-	-	202	284	323
UOBKH/Consensus (x)	-	-	0.83	0.88	0.81

Source: DFI Retail Group Holdings, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E reflected as "n.m."

## BUY

(Maintained)

Share Price	US\$3.07
Target Price	US\$3.72
Upside	+20.4%
(Previous TP)	US\$3.90)

#### COMPANY DESCRIPTION

DFI operates and manages retail stores in over 12 markets and four divisions, namely food, health & beauty, home furnishings and restaurants (associate level).

#### STOCK DATA

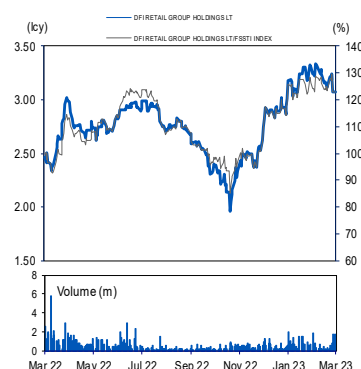
GICS sector	Consumer Staples
Bloomberg ticker:	DFI SP
Shares issued (m):	1,353.7
Market cap (US\$m):	4,385.8
Market cap (US\$m):	4,385.8
3-mth avg daily t'over (US\$m):	1.8
Price Performance (%)	

52-week high/low US\$3.34/US\$1.96

1mth	3mth	6mth	1yr	YTD
(2.7)	28.1	19.6	22.7	10.6

Major Shareholders	%
Jardine Matheson	77.6
-	-
-	-
FY23 NAV/Share (US\$)	0.74
FY23 Net Debt/Share (US\$)	0.71

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Management encouraged with the 2H22 recovery.** During the results briefing, management was evidently encouraged by the earnings recovery in 2H22 - in particular, the strong double-digit like-for-like sales growth in all health & beauty (H&B) geographies as economies have normalised post COVID-19. In addition, its convenience-store segment generated US\$51m in operating profit in 2H22 (1H22: breakeven) despite availability challenges, eg loss of 12,000 hours of trading in China due to COVID-19 lockdowns, and 3,000 hours lost in Hong Kong.
- **Grocery still appears to have near- to medium-term challenges despite some wins.** While DFI experienced solid like-for-like sales growth in North Asia, management pointed out that Southeast Asia remains challenging due to various inflationary pressures, eg its Singapore business experienced c.70% increase in energy costs as well as higher government-imposed minimum wages. As a result, management does not appear to be building in significant margin expansion as it is trying to manage the flow through of price increases. Nevertheless management pointed out that its 'Meadows' own brand has been extremely successful with >3,000 items launched and is emerging as the market leader in snack foods in Singapore. DFI disclosed that it has >500 new items planned for 2023, and that disruptions from renovations should abate vs 2022 when it had a number of stores undergoing renovations.
- **Health & beauty – "Lots of confidence".** Management stated that its health & beauty segment had seen very favourable recovery in Southeast Asia with double-digit like-for-like sales growth, and Malaysia seeing sales at pre-COVID-19 levels. However management appeared more cautious with its Mannings business in North Asia given that borders between Hong Kong and China have just reopened. In 2023, the company will look to consolidate its position in Southeast Asia as it will look to open c.150 new stores.
- **Associates were a mixed bag.** While Maxims witnessed a strong 52% hoh increase in sales as Southeast Asia recovered throughout 2022, with strong mooncake sales being a highlight in 2H22, Robinsons Retail and Yonghui did not experience a similar hoh recovery although management seemed somewhat pleased with the latter's online penetration at 15% and overall "good" performance despite lockdowns in China in 2022.
- **Sale of the bulk of its business in Malaysia.** In late-Feb 23, DFI announced the sale of its grocery business in Malaysia to a local party. As a result, Cold Storage, Mercato and Giant have all moved across to the new owner while DFI will focus on Guardian which is still seeing strong growth.

### EARNINGS REVISION/RISK

- **We have made mild downgrades to our 2023 and 2024 earnings estimates** (see table on RHS) as we have factored in slightly weaker gross profit margin estimates due to the slower-than-expected post-COVID-19 recovery of the grocery segment.

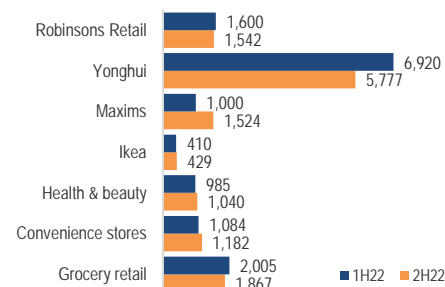
### VALUATION/RECOMMENDATION

- **We maintain our BUY rating with a lower PE-based target price of US\$3.72 (previously US\$3.90).** Our target PE multiple of 30x represents the company's average PE multiple over the 2017-22 period excluding the pandemic years of 2020-21. While EPS revision momentum for DFI has been negative over the past 12 months, we believe that we are near an earnings trough for the company, which should incrementally get better over the next 2-3 quarters.

### SHARE PRICE CATALYST

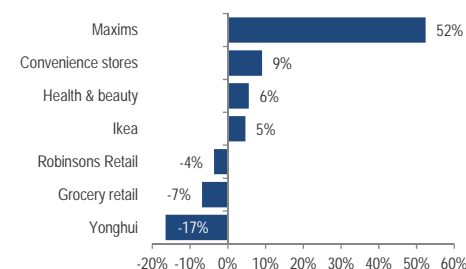
- Evidence of further margin expansion arising from the company's business transformation plan.
- Positive sales momentum from re-opening of HK-China borders.

### SALES REVENUE BY SEGMENT: 2H22 VS 1H22



Source: DFI

### % CHANGE IN SALES REVENUE: 2H22 VS 1H22



Source: DFI

### CHANGES TO EARNINGS FORECASTS

US\$m	2023E	2024E
NPAT – was	174	260
NPAT – is	168	250
Change	-3.6%	-3.8%

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	9,174	9,363	9,476	9,579
EBITDA	1,105	1,217	1,308	1,332
Deprec. & amort.	861	936	948	958
EBIT	244	281	360	374
Associate contributions	(212)	50	80	80
Net interest income/(expense)	(122)	(115)	(115)	(113)
Pre-tax profit	(89)	216	326	340
Tax	(31)	(54)	(81)	(85)
Minorities	6	6	6	6
Net profit	(115)	168	250	261
Net profit (adj.)	(115)	168	250	261

**BALANCE SHEET**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	803	843	885	929
Other LT assets	5,083	5,325	5,590	5,882
Cash/ST investment	214	244	219	181
Other current assets	1,227	1,081	1,093	1,104
<b>Total assets</b>	<b>7,326</b>	<b>7,493</b>	<b>7,787</b>	<b>8,096</b>
ST debt	838	800	800	800
Other current liabilities	2,836	2,627	2,650	2,672
LT debt	259	400	600	800
Other LT liabilities	2,453	2,682	2,933	3,210
Shareholders' equity	947	997	821	637
Minority interest	(6)	(12)	(18)	(24)
<b>Total liabilities &amp; equity</b>	<b>7,326</b>	<b>7,493</b>	<b>7,787</b>	<b>8,096</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	940	1,214	1,353	1,370
Pre-tax profit	244	281	360	374
Tax	(43)	0	0	0
Deprec. & amort.	861	936	948	958
Working capital changes	(7)	(64)	12	11
Non-cash items	0	0	0	0
Other operating cashflows	(116)	61	33	28
Investing	(201)	(197)	(204)	(210)
Capex (growth)	(224)	(204)	(208)	(212)
Proceeds from sale of assets	64	0	0	0
Others	(41)	7	4	2
Financing	(728)	(987)	(1,175)	(1,198)
Dividend payments	(101)	(118)	(426)	(445)
Issue of shares	(20)	0	0	0
Proceeds from borrowings	1,429	0	0	0
Others/interest paid	(2,037)	(869)	(749)	(753)
Net cash inflow (outflow)	11	31	(26)	(38)
Beginning cash & cash equivalent	210	214	244	219
Changes due to forex impact	(7)	0	0	0
Ending cash & cash equivalent	214	244	219	181

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	12.0	13.0	13.8	13.9
Pre-tax margin	(1.0)	2.3	3.4	3.6
Net margin	(1.2)	1.8	2.6	2.7
ROA	n.a.	2.3	3.3	3.3
ROE	n.a.	17.3	27.5	35.8
<b>Growth</b>				
Turnover	(0.2)	2.1	1.2	1.1
EBITDA	(7.6)	10.1	7.4	1.8
Pre-tax profit	(159.5)	n.a.	51.0	4.6
Net profit	(211.4)	n.a.	49.2	4.5
Net profit (adj.)	(211.4)	n.a.	49.2	4.5
EPS	(211.4)	n.a.	49.2	4.5
<b>Leverage</b>				
Debt to total capital	53.8	54.9	63.5	72.3
Debt to equity	115.7	120.4	170.5	251.0
Net debt/(cash) to equity	93.2	95.9	143.9	222.7
Interest cover (x)	9.1	10.6	11.4	11.8

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