

COMPANY UPDATE

DFI Retail Group Holdings (DFI SP)

The Tea Leaves Indicate Mostly Positive Momentum

Reading the lines and between the lines of DFI's 1Q23 business update, it would appear that the overall business is building on the positive momentum that was heard during its FY22 analyst briefing. Grocery retail across the region remains challenging due to both the high base effect of 1Q22 and inflationary pressures. On the bright side, convenience, health & beauty and its associates have seen strong sales and profitability. Maintain BUY. Target price: US\$3.72.

WHAT'S NEW

- **Positive momentum in the overall business.** DFI Retail Group Holdings (DFI) provided a 1Q23 business update which was barren of numbers but instead expressed broad management commentary on the various business segments' performance during the quarter as summarised in the table below.

SUMMARY OF MANAGEMENT COMMENTARY ON 1Q23 PERFORMANCE

Business segment	Management commentary	UOBKH interpretation
Grocery retail - North Asia	Sales lower yoy	Negative
Grocery retail - Southeast Asia	Impacted by cautious customer shopping behaviour	Negative
Convenience	Strong like-for-like sales growth	Positive
Health & beauty	Substantial sales and profit growth	Positive
Home Furnishings	Impacted by reduced demand	Negative
Maxim's	Grew substantially	Positive
Yonghui	Profitability increased	Positive
Robinsons Retail	Robust like-for-like sales growth	Positive
Overall group outlook	Remains optimistic	Positive

Source: DFI

- **Overall grocery retail still struggling.** Sales in this segment was lower yoy due to the high base effect seen in 1Q22 when panic buying in Hong Kong boosted sales. In addition, Southeast Asia grocery also proved to be weak on a yoy basis which DFI attributed to cost of living pressures.
- **Strong performance from convenience and health & beauty segments.** The key highlight of the business update was clearly the above two segments which reported strong sales momentum in Hong Kong and South China due to the reopening of the Chinese economy. As a result of the reopened borders and also due to new product development and promotions as well as better cost control, the company stated that profitability of the health & beauty segment more than doubled. Profitability of the convenience division was not as strong and remains below levels seen in 2019.

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)	36.5	n.m.	22.4	15.0	14.4
P/B (x)	3.0	4.0	3.8	4.6	5.9
EV/EBITDA (x)	3.9	4.3	3.9	3.6	3.5
Dividend yield (%)	3.4	1.1	2.7	4.0	4.2
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	-	-	215	289	328
UOBKH/Consensus (x)	-	-	0.78	0.87	0.80

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

BUY

(Maintained)

Share Price	US\$3.06
Target Price	US\$3.72
Upside	+21.6%

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):	3,763.1
Market cap (US\$m):	3,763.1
3-mth avg daily t'over (US\$m):	1.2

Price Performance (%)

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

1mth	3mth	6mth	1yr	YTD
(12.3)	(14.2)	11.2	(1.1)	(5.1)

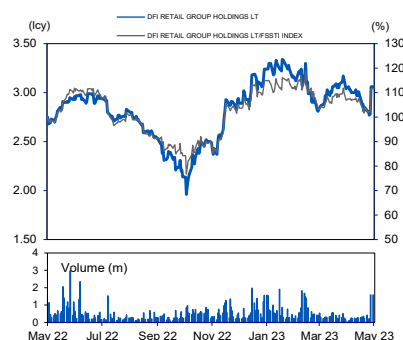
Major Shareholders

	%
Jardine Matheson	77.6

FY23 NAV/Share (US\$) 0.74

FY23 Net Debt/Share (US\$) 0.71

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Management change.** We were surprised that the company's CEO Mr Ian McLeod will step down effective 1 Aug 23 and will be replaced by Mr Scott Price, ex-president of International at UPS, and before that the company's Chief Strategy & Transformation Officer. His prior experience includes stints as CEO Asia at Walmart, president & CEO at DHL Express in Europe as well as its Asia Pacific CEO and at the Coca Cola Company in various locations across Asia. Mr McLeod was known as the executive who turned around the fortunes of Coles Australia, and was brought into DFI in 2017 to "deliver significant and meaningful transformational change". With the challenges posed by the tough years of COVID-19, it remains to be seen if Mr Price can build on the changes that have been instilled in the past few years.
- Better bottom line from China and Indonesia grocery in 1Q23.** Separately, Yonghui released its 1Q23 results which showed a 40% yoy increase in net profit to Rmb704b and diluted EPS rising by 33% to Rmb0.08 per share. Arguably, the quality of the 1Q23 earnings was poor as revenue fell nearly 13% yoy, and the company's net margin of 3% (1Q22: 1.8%) was helped by non-operating items including lower interest cost, lower fair value losses and higher gains from asset disposal. DFI's management commentary noted that sales in 1Q23 were devoid of panic buying that was seen in 1Q22. In addition, Yonghui's EPS revision momentum has been negative with Bloomberg consensus numbers for 2023 showing a negative trend in the past 12 months. In the meantime, in Indonesia, PT Hero (DFI: 89.3% stake) reported robust numbers with revenue up 17% yoy to Rp1.17t, and the company swinging to a net profit of Rp152m vs a loss of Rp67b in 1Q22.
- Other associate companies performed well too.** Maxim's and Robinsons Retail both saw a strong post-COVID-19 recovery with the former's profit growing substantially due to increased restaurant patronage. While Robinsons saw double-digit revenue growth, DFI disclosed that its bottom line was negatively impacted by higher interest costs, forex movement and lower associate earnings.

EARNINGS REVISION/RISK

- We have not made any changes to our numbers. While our earnings estimate for 2023 remains below consensus, we highlight the multitude of downside risks across the geographies that DFI operates in, as exemplified by the poor performance of grocery retail in North Asia as well as home furnishings.

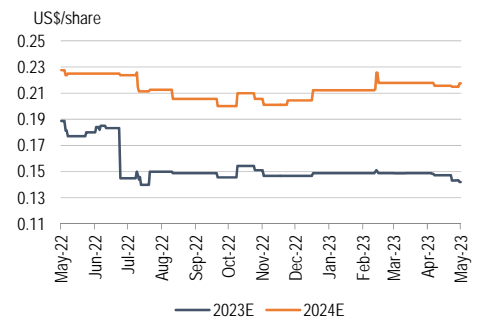
VALUATION/RECOMMENDATION

- We maintain our BUY rating with an unchanged PE-based target price of US\$3.72.** Our target price is based on a target PE multiple of 30.0x which represents the company's average PE multiple over the 2018-23 period excluding the pandemic years of 2020-21. EPS revision momentum for DFI has stabilised for 2023 and has been positive for 2024 and thus we believe that the market should reward this over the course of the year.

SHARE PRICE CATALYST

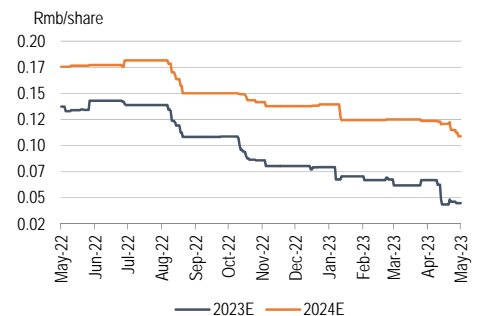
- Better quality disclosure of its financials on a quarterly basis.
- Evidence of further margin expansion arising from the company's business transformation plan.

DFI: EPS REVISION MOMENTUM



Source: Bloomberg

YONGHUI: EPS REVISION MOMENTUM



Source: Bloomberg

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
Total assets	7,326	7,493	7,787	8,096
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)
Total liabilities & equity	7,326	7,493	7,787	8,096

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
Profitability				
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
Growth				
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
Leverage				
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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