

## COMPANY UPDATE

### Delfi (DELFI SP)

Expect Robust Growth Momentum For 2023, Backed By Market-Leading Position

Delfi continues to enjoy robust demand across Indonesia and other markets, evidenced by its record-high revenue recorded in 1Q23. This growth momentum is expected to continue for 2023, as seen from the 74% yoy increase in inventory levels. While cocoa prices rally amid the limited supply, Delfi's stable performance in the previous El Nino event helped by forward contracts and strong pricing power should alleviate concerns over rising costs. Maintain BUY and target price of S\$1.71.

#### WHAT'S NEW

- **High consumer demand across operating markets to remain.** Delfi Limited (Delfi) continues to face elevated demand for its products, having registered a record-high quarterly revenue of US\$160.8m (+20.8% yoy, +29.0% qoq) in 1Q23. This was driven by the strong double-digit sales growth in its two business lines, Own Brands and Agency Brands, of 17.6% and 26.7% yoy respectively. Strong growth in Indonesia and regional markets was also observed, at 19.2% yoy (+38.0% qoq) and 24.5% yoy (+12.5% qoq) respectively. We expect demand to remain robust from Indonesia, its key market, where revenue recorded a 19.2% yoy (+38.0% qoq) growth. According to OECD Economic Outlook in Jun 23, Indonesia's GDP is expected to grow by approximately 5% in 2023 and strengthen slightly in 2024 as a result of strong commodity prices and public investment. As for its regional markets, Delfi continues to strengthen its distribution capabilities by expanding its product portfolio. On top of this, management reported high inventory levels of US\$101.8m (+73.5% yoy) in 1Q23, signalling confidence in continued sales momentum moving forward.
- **Expect limited impact from higher cocoa prices and El Nino weather event.** The price of Delfi's key ingredient cocoa has rallied recently, trading at around US\$3,128/tonne (+4.1% mom) as of date. This is likely due to a larger-than-expected supply deficit for the 2022/23 season forecast, partially from firming demand for cocoa per the International Cocoa Organisation's May 23 report. Further driving prices upward is the return of El Nino, the warm phase of the El Nino-Southern Oscillation which brings about poor climate conditions for growing cocoa and therefore raises concerns over cocoa supply. The last El Nino event from 2014-16 caused a drought that severely affected global cocoa production, leading to soaring cocoa prices. While higher costs may be incurred, it is worth noting that gross margins increased 5ppt yoy in 2016 and remained stable above 28% since. This is attributable to management's implementation of successful strategies, such as product resizing. Additionally, Delfi actively manages cost with forward hedges of up to 18 months, helping the group secure its raw material requirements while locking in purchase prices.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	405.1	483.0	518.0	555.7	597.0
EBITDA	58.9	75.6	83.1	87.9	93.1
Operating profit	45.3	63.8	72.9	78.0	83.4
Net profit (rep./act.)	29.3	43.9	47.0	50.3	53.9
Net profit (adj.)	29.3	43.9	47.0	50.3	53.9
EPS (S\$ cents)	4.8	7.2	7.7	8.2	8.8
PE (x)	19.9	13.3	12.4	11.6	10.8
P/B (x)	2.4	2.4	2.2	2.0	1.8
EV/EBITDA (x)	8.3	6.4	5.9	5.5	5.2
Dividend yield (%)	2.5	3.8	4.0	4.3	4.6
Net margin (%)	7.2	9.1	9.1	9.1	9.0
Net debt/(cash) to equity (%)	(31.8)	(23.6)	(35.6)	(38.7)	(40.7)
Interest cover (x)	55.7	120.0	79.5	84.1	89.0
ROE (%)	12.6	18.1	18.2	17.8	17.5
Consensus net profit	-	-	47	50	53
UOBKH/Consensus (x)	-	-	0.99	1.00	1.01

Source: Delfi, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.29
Target Price	S\$1.71
Upside	+32.6%

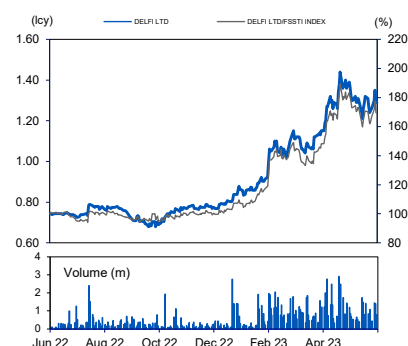
#### COMPANY DESCRIPTION

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 (\$m):	788.4				
Market cap (US\$m):	583.3				
3-mth avg daily t'over (US\$m):	0.9				
<b>Price Performance (%)</b>					
52-week high/low		S\$1.44/S\$0.679			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
(5.1)	12.1	66.7	72.3	67.8	
<b>Major Shareholders</b>					<b>%</b>
Aerodrome Int'l Ltd					52.0
First Pacific Advisors					8.0
-					-
FY23 NAV/Share (\$)					0.44
FY23 Net Cash/Share (\$)					0.16

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **Healthy balance sheet and positive operating cash flow.** Having scaled down long-term borrowings since 2015, Delfi had zero long-term debt obligations as at end-22. 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 remains healthy at US\$73.1m (+25.8% qoq), due to solid operating cash flow of US\$25.4m achieved. 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 its move to maintain its absolute dividend, amid a decline in EPS due to the impact of COVID-19. Total dividend of 4.3 US cents/share for 2022 is 51.9% higher than that of 2021, increasing the payout ratio to 60%. Given its strong net cash position of US\$73.1m, we expect payout ratio to be maintained at at least 50% in 2023-25.

## EARNINGS REVISION/RISK

- None.

## VALUATION/RECOMMENDATION

- **Maintain BUY with a PE-based target price of S\$1.71**, based on 17x 2023F PE, pegged to its long-term mean. Delfi is currently trading at 12x 2023F PE, a 40% discount to Indonesia peers' 2023F PE average of 21x.

## SHARE PRICE CATALYST

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

## COCOA FUTURES, US\$/TONNE (2015 TO DATE)



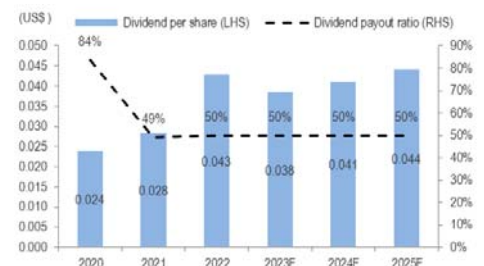
Source: Trading Economics

## REVENUE & GROSS PROFIT MARGIN (2015-22)



Source: Delfi, UOB Kay Hian

## DPS AND DIVIDEND PAYOUT RATIO



Source: Delfi, UOB Kay Hian

## FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

## PEER COMPARISON

Company	Ticker	Price @ 28 Jun 23 (lcy)	Market Cap (US\$m)	PE		P/B		ROE 2023 (%)	Yield 2023 (%)
				2023 (x)	2024 (x)	2023 (x)	2024 (x)		
Indo Peers									
Unilever Indonesia	UNVR IJ	4260	10,824	27.8	25.7	35.8	32.5	130.6	3.3
Indofood Cbp Sukses	ICBP IJ	11325	8,796	15.0	13.8	3.0	2.6	21.8	2.4
Mayora Indah	MYOR IJ	2610	3,887	22.7	19.6	4.0	3.6	18.7	1.9
Garudafood	GOOD IJ	464	1,140	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1345	554	18.2	13.6	2.9	n.a.	17.2	n.a.
Average				20.9	18.2	11.4	12.9	47.1	2.6
Delfi	DELFI SP	1.29	583	12.2	11.6	2.2	2.0	18.4	4.5

Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	483.0	518.0	555.7	597.0
EBITDA	75.6	83.1	87.9	93.1
Deprec. & amort.	11.8	10.2	9.9	9.7
EBIT	63.8	72.9	78.0	83.4
Associate contributions	(0.2)	(0.1)	(0.1)	(0.1)
Net interest income/(expense)	(0.6)	(1.0)	(1.0)	(1.0)
Pre-tax profit	63.0	71.7	76.8	82.2
Tax	(19.1)	(24.8)	(26.5)	(28.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	43.9	47.0	50.3	53.9
Net profit (adj.)	43.9	47.0	50.3	53.9

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	7.7	70.4	52.4	55.0
Pre-tax profit	63.0	71.7	76.8	82.2
Tax	(17.1)	(24.8)	(26.5)	(28.4)
Deprec. & amort.	11.8	10.2	9.9	9.7
Associates	0.2	0.0	0.0	0.0
Working capital changes	(50.5)	12.2	(8.9)	(9.6)
Non-cash items	(0.3)	0.0	0.0	0.0
Other operating cashflows	0.7	1.0	1.0	1.0
Investing	(3.6)	(8.0)	(8.0)	(9.0)
Capex (growth)	(3.1)	(8.0)	(8.0)	(9.0)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	(0.9)	0.0	0.0	0.0
Financing	(13.1)	(24.5)	(26.2)	(28.0)
Dividend payments	(19.2)	(23.5)	(25.2)	(26.9)
Proceeds from borrowings	1.1	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	5.0	(1.0)	(1.0)	(1.0)
Net cash inflow (outflow)	(9.0)	37.9	18.1	18.0
Beginning cash & cash equivalent	87.3	77.1	115.0	132.1
Changes due to forex impact	(1.2)	0.0	0.0	0.0
Ending cash & cash equivalent	77.1	115.0	133.1	150.1

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	82.3	80.1	78.2	78.5
Other LT assets	26.8	26.8	26.8	26.8
Cash/ST investment	77.1	115.0	133.1	150.1
Other current assets	208.9	194.6	207.1	220.9
Total assets	395.1	416.4	445.2	476.3
ST debt	19.0	19.0	19.0	19.0
Other current liabilities	117.1	115.0	118.6	122.7
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	12.8	12.8	12.8	12.8
Shareholders' equity	246.2	269.7	294.9	321.8
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	395.1	416.4	445.2	476.3

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.7	16.0	15.8	15.6
Pre-tax margin	13.1	13.9	13.8	13.8
Net margin	9.1	9.1	9.1	9.0
ROA	11.6	11.6	11.7	11.7
ROE	18.1	18.2	17.8	17.5
Growth				
Turnover	19.2	7.2	7.3	7.4
EBITDA	28.4	9.9	5.8	5.8
Pre-tax profit	43.1	13.8	7.1	7.0
Net profit	49.9	7.0	7.1	7.0
Net profit (adj.)	49.9	7.0	7.1	7.0
EPS	49.9	7.0	7.1	7.0
Leverage				
Debt to total capital	7.2	6.6	6.1	5.6
Debt to equity	7.7	7.0	6.4	5.9
Net debt/(cash) to equity	(23.6)	(35.6)	(38.7)	(40.7)
Interest cover (x)	120.0	79.5	84.1	89.0

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