

### COMPANY RESULTS

#### Delfi (DELFI SP)

1H23: Strong Earnings Growth Sustained; Raise Target Price By 7% To S\$1.83

Delfi's 1H23 profit of US\$25.2m (+30.1% yoy) was within expectations, forming 55% of our full-year forecast. The strong 21.5% yoy growth in regional markets' sales mainly contributed to the 16.2% yoy increase in revenue. Gross margin improved 0.6ppt to 30%, driven by premium product sales and active cost management. We expect margins to be stable, with steady earnings growth moving forward. Maintain BUY with a 7% higher target price of S\$1.83 (S\$1.71 previously).

#### 1H23 RESULTS

Year to 31 Dec (US\$m)	2Q23	yoy % chg	qoq % chg	1H23	yoy % chg
Revenue by Markets:					
- Indonesia	79.3	6.7	(28.4)	190.1	13.7
- Regional Markets	46.1	18.5	(7.8)	96.1	21.5
Revenue by Brands:					
- Own Brands	67.8	3.4	(32.4)	168.1	11.4
- Agency Brands	57.6	21.0	(4.8)	118.1	23.8
Total revenue	125.4	10.8	(22.0)	286.2	16.2
Gross profit	37.0	9.3	(24.4)	85.9	18.4
Gross margin (%)	29.5	(0.4ppt)	(0.9ppt)	30.0	0.6ppt
EBITDA	14.5	2.8	(43.1)	40.0	15.6
EBITDA margin (%)	11.6	(0.9ppt)	(4.3ppt)	14.0	(0.1ppt)
PATMI				25.2	30.1

Source: Delfi, UOB Kay Hian

#### RESULTS

- Results in line with expectations, dividend payout ratio maintained.** Delfi reported 1H23 revenue and profit of US\$286.2m (+16.2% yoy) and US\$25.2m (+30.1% yoy) respectively, both making up roughly 55% of our full-year forecast. As 1Q performance is generally stronger with festivities such as Valentine's Day and Lebaran, its results are within our expectations. Revenue growth was mainly driven by a 21.5% yoy growth in regional markets' sales, with higher demand in Malaysia and contributions from new agency brands added in 2H22. Indonesia's contributions also grew a significant 13.7% yoy, largely due to boosted premium product sales. Overall, gross profit margin expanded 0.6ppt yoy to 30%, on the back of a more favourable sales mix and pricing adjustments, while EBITDA improved by 15.6% yoy due to increased sales. Management has declared an interim dividend of 2.73 S cents/share, 25.2% higher than the 2.18 S cents/share in 1H22, and in line with its practice of a 50% payout ratio.
- Elevated inventory levels and solid operating cash flow.** As at 1H23, Delfi's cash position remained strong at US\$73.2m with no long-term debt, driven by operating cash flow of US\$23.5m (+31.5% yoy). The elevated inventory level of US\$98m (+44.8% yoy) also signals management's confidence in Delfi's strong sales momentum.

#### 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	89.7	96.9
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)	20.6	13.8	12.9	12.0	11.2
P/B (x)	2.5	2.5	2.2	2.0	1.9
EV/EBITDA (x)	8.9	6.9	6.3	5.8	5.4
Dividend yield (%)	2.4	3.6	3.9	4.2	4.5
Net margin (%)	7.2	9.1	9.1	9.1	9.0
Net debt/(cash) to equity (%)	(31.8)	(23.6)	(30.2)	(28.3)	(26.0)
Interest cover (x)	55.7	120.0	79.5	85.8	92.7
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: Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.33
Target Price	S\$1.83
Upside	+37.6%
(Previous TP)	S\$1.71

#### 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):	812.8
Market cap (US\$m):	604.2
3-mth avg daily t'over (US\$m):	0.8

#### Price Performance (%)

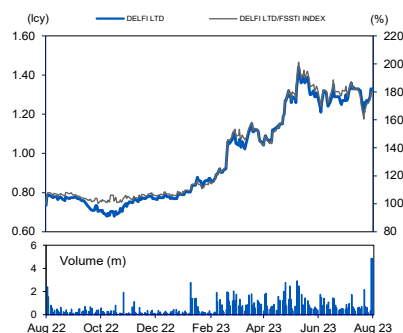
52-week high/low S\$1.44/S\$0.679

1mth	3mth	1mth	3mth	YTD
4.7	0.8	52.4	78.8	73.0

#### Major Shareholders

	%
Aerodrome Int'l Ltd	52.0
First Pacific Advisors	8.0
FY23 NAV/Share (S\$)	0.44
FY23 Net Cash/Share (S\$)	0.13

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Sustained healthy growth forecast from Indonesia economic growth and elections.** We expect Delfi's revenue from the Indonesia market to grow 10% in 2023-25 as Indonesia's economy and consumers emerge stronger after the pandemic. According to OECD, Indonesia's GDP is expected to grow by approximately 5% in 2023 and strengthen slightly in 2024. Additionally, despite Indonesia being the largest chocolate confectionery market in ASEAN, its annual chocolate consumption per capita of around 0.3kg still lags behind the likes of Malaysia (around 0.5kg), most European countries and the US (>5kg), suggesting untapped market potential. The Feb 24 presidential election in Indonesia may also positively impact 4Q23 sales as handouts by political parties, which usually kick off campaigns, may boost chocolate sales.
- Expect limited impact from higher cocoa prices due to hedging practice and falling dairy and oil prices.** The price of Delfi's key ingredient cocoa has continued to rally, trading at around US\$3,476/tonne (+48.6% yoy) as of date. This is likely due to a larger-than-expected supply deficit, from higher cocoa demand and El Nino. However, Delfi has a prudent practice of hedging its raw materials, like cocoa, as far forward as possible, as this allows it to lock in forward costs to a major extent. This in turn provides cost visibility and margin stability, which was well demonstrated in the previous El Nino event from 2014-16 where gross margins expanded 5ppt yoy in 2016 and remained above 28% since. In the results briefing, management has assured that it is significantly hedged for 2024. Increases in cocoa prices are also partially offset by the declines in dairy and oil prices, which are Delfi's other material raw ingredients. Together with Delfi's strong pricing power due to its market leader position and other cost management strategies like product resizing, we opine that margins should remain healthy moving forward.
- Continued product development to grow strategically.** Delfi continues to build its brand proposition such that it remains relevant to consumers, in order to continue growing sales. Delfi's initiatives include product innovation through developing new products in the healthier snacking category, introducing new flavours to Gen-Z and Millennials, and making packaging designs more appealing to them.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- Maintain BUY with a 7% higher PE-based target price of S\$1.83**, based on 17x 2024F PE, pegged to its long-term mean. We have rolled over our valuation base year from 2023. Delfi is currently trading at 12x 2024F PE, a 30% discount to Indonesia peers' 2024F PE average of 18x.

### SHARE PRICE CATALYST

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

### PEER COMPARISON

Company	Ticker	Price @ 8 Aug 23 (Icy)	Market Cap (US\$m)	PE		P/B		ROE 2023 (%)	Yield 2023 (%)
				2023 (x)	2024 (x)	2023 (x)	2024 (x)		
<b>Indo Peers</b>									
Unilever Indonesia	UNVR IJ	3750	9,395	25.3	23.7	33.2	30.8	132.6	3.6
Indofood Cbp Sukses	ICBP IJ	11150	8,539	14.6	13.3	2.9	2.5	22.4	2.2
Mayora Indah	MYOR IJ	2560	3,759	22.7	18.6	3.9	3.4	18.6	1.8
Garudafood	GOOD IJ	466	1,129	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1330	540	19.1	16.0	2.9	2.8	16.1	5.0
<b>Average</b>				<b>20.4</b>	<b>17.9</b>	<b>10.7</b>	<b>9.9</b>	<b>47.4</b>	<b>3.2</b>
Delfi	DELFI SP	1.33	604	12.7	12.1	2.2	2.1	18.3	4.6

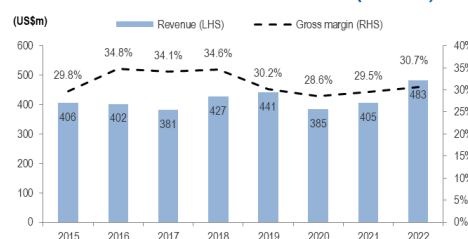
Source: Bloomberg, UOB Kay Hian

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



Source: Trading Economics

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



Source: Delfi, UOB Kay Hian

### FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>483.0</b>	<b>518.0</b>	<b>555.7</b>	<b>597.0</b>
EBITDA	75.6	83.1	89.7	96.9
Deprec. & amort.	11.8	10.2	11.7	13.5
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)
<b>Pre-tax profit</b>	<b>63.0</b>	<b>71.7</b>	<b>76.8</b>	<b>82.2</b>
Tax	(19.1)	(24.8)	(26.5)	(28.4)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>43.9</b>	<b>47.0</b>	<b>50.3</b>	<b>53.9</b>
Net profit (adj.)	43.9	47.0	50.3	53.9

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>7.7</b>	<b>70.4</b>	<b>54.2</b>	<b>58.8</b>
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	11.7	13.5
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
<b>Investing</b>	<b>(3.6)</b>	<b>(22.5)</b>	<b>(25.9)</b>	<b>(29.8)</b>
Capex (growth)	(3.1)	(22.5)	(25.9)	(29.8)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	(0.9)	0.0	0.0	0.0
<b>Financing</b>	<b>(13.1)</b>	<b>(24.5)</b>	<b>(26.2)</b>	<b>(28.0)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>(9.0)</b>	<b>23.4</b>	<b>2.1</b>	<b>1.1</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>87.3</b>	<b>77.1</b>	<b>100.5</b>	<b>101.6</b>
Changes due to forex impact	(1.2)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>77.1</b>	<b>100.5</b>	<b>102.6</b>	<b>102.6</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>82.3</b>	<b>94.6</b>	<b>108.8</b>	<b>126.0</b>
Other LT assets	26.8	26.8	26.8	26.8
Cash/ST investment	77.1	100.5	102.6	102.6
Other current assets	208.9	194.6	207.1	220.9
<b>Total assets</b>	<b>395.1</b>	<b>416.4</b>	<b>445.2</b>	<b>476.3</b>
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
<b>Total liabilities &amp; equity</b>	<b>395.1</b>	<b>416.4</b>	<b>445.2</b>	<b>476.3</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	15.7	16.0	16.1	16.2
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
<b>Growth</b>				
Turnover	19.2	7.2	7.3	7.4
EBITDA	28.4	9.9	8.0	8.0
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
<b>Leverage</b>				
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)	(30.2)	(28.3)	(26.0)
Interest cover (x)	120.0	79.5	85.8	92.7

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