

COMPANY RESULTS

Delfi (DELFI SP)

3Q23: Resilient Growth Amid Rising Costs Brings Relief

Delfi's 9M23 profit of US\$32.8m (+22.1% yoy) was in line with expectations, forming 69.8% of our full-year forecast. The strong 15.2% yoy revenue growth was supported by double-digit growth in both Indonesia's and regional markets' sales. Delfi's 3Q23 and 9M23 performances evinced management's success in building its brands and strengthening its distribution network. Maintain BUY with a 4% lower PE-based target price of S\$1.76 (S\$1.83 previously).

3Q23 RESULTS

Year to 31 Dec (US\$m)	3Q23	yoy % chg	qoq % chg	9M23	yoy % chg
Revenue by Markets:					
- Indonesia	78.7	12.4	(0.8)	268.8	13.3
- Regional Markets	47.7	13.7	3.5	143.8	18.8
Total revenue	126.4	12.9	0.8	412.6	15.2
Gross profit	37.3	12.1	0.9	123.4	16.7
Gross margin (%)	29.5	(0.2ppt)	n.m.	29.9	0.4ppt
EBITDA	12.9	(6.3)	(11.0)	52.8	9.4
EBITDA margin (%)	10.2	(2.0ppt)	(1.4ppt)	12.8	(0.7ppt)
PATMI	7.6	1.8	n.a.	32.8	22.1
PATMI margin (%)	6.0	(0.7ppt)	n.a.	7.9	0.4ppt

Source: Delfi, UOB Kay Hian

RESULTS

- Results in line with expectations.** Delfi reported 9M23 revenue and PATMI of US\$412.6m (+15.2% yoy) and US\$32.8m (+22.1% yoy) respectively, accounting for 79.7% and 69.8% of our full-year forecasts respectively. This is in line with our expectation as 1Q and 4Q are typically better-performing periods in preparation for festivities such as Valentines' Day and Lebaran. The strong revenue and EBITDA performance (+9.4% yoy) in 9M23 were driven by double-digit growth across both Indonesia (+13.3% yoy) and regional (+18.8% yoy) markets.
- Strong consumer demand persists.** Nonetheless, 3Q23 was still a robust quarter where revenue (+12.9% yoy), gross profit (+12.1% yoy) and PATMI (+1.8% yoy) improved yoy, backed by strong consumer demand. Amid management's investments into building the brands, 3Q23 EBITDA declined by 6.3% yoy as a result of higher selling and distribution expenses. Gross margin also contracted marginally to 29.5%, on the back of higher input costs that were largely mitigated by management's strategic pricing, cost efficiencies and a favourable sales mix.
- Healthy cash balance with solid operating cash flow.** As at 9M23, Delfi's cash position remained strong at US\$61.9m with no long-term debt, driven by operating cash flow of US\$37.7m (+135.6% yoy).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover (US\$ m)	405.1	483.0	549.5	588.5	631.2
EBITDA (US\$ m)	58.9	75.6	79.1	86.5	93.9
Operating profit (US\$ m)	45.3	63.8	68.9	74.8	80.4
Net profit (rep./act.) (US\$ m)	29.3	43.9	45.0	48.2	51.9
Net profit (adj.) (US\$ m)	29.3	43.9	45.0	48.2	51.9
EPS (US\$ cent)	4.8	7.2	7.4	7.9	8.5
PE (x)	18.1	12.0	11.7	11.0	10.2
P/B (x)	2.2	2.1	2.0	1.8	1.7
EV/EBITDA (x)	7.7	6.0	5.8	5.3	4.9
Dividend yield (%)	2.7	4.1	4.3	4.6	4.9
Net margin (%)	7.2	9.1	8.2	8.2	8.2
Net debt/(cash) to equity (%)	(31.8)	(23.6)	(27.1)	(25.1)	(22.7)
Interest cover (x)	55.7	120.0	75.7	82.8	89.8
ROE (%)	12.6	18.1	17.5	17.2	17.0
Consensus net profit (US\$ m)	-	-	48	51	55
UOBKH/Consensus (x)	-	-	0.95	0.94	0.94

Source: Delfi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.16
Target Price	S\$1.76
Upside	+51.7%
(Previous TP)	S\$1.83

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, 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):	708.9
Market cap (US\$m):	528.9
3-mth avg daily t'over (US\$m):	0.4

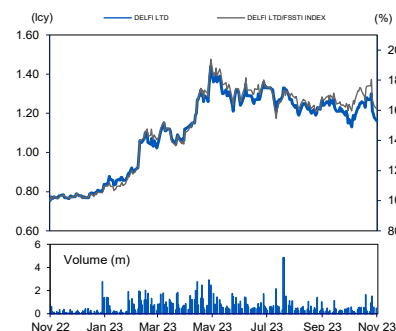
Price Performance (%)

52-week high/low	S\$1.44/S\$0.754			
1mth	3mth	1mth	3mth	YTD
(0.9)	(7.2)	(19.4)	51.8	50.8

Major Shareholders

	%
Aerodrome Int'l Ltd	52.0
First Pacific Advisors	8.0
FY23 NAV/Share (S\$)	0.44
FY23 Net Cash/Share (S\$)	0.12

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

STOCK IMPACT

- Sustained healthy growth forecast from Indonesia's economic growth and elections.** We expect Delfi's revenue from the Indonesia market to grow 10% in 2023-25 as Indonesia's economy continues to grow steadily. According to OECD, Indonesia's GDP is expected to grow by approximately 5% in 2023 and strengthen slightly in 2024. Besides a likely surge in demand in 4Q23 amid preparations for the festive season in 1Q, 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 pricing adjustments.** The price of Delfi's key ingredient cocoa has continued to rally, trading at around US\$4,083/tonne (+69.3% 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 from 2014-16 where gross margins expanded 5ppt yoy in 2016 and remained above 28% since. Management has also assured that it is significantly hedged for 2024. Besides this, management has implemented pricing adjustments and cost control to mitigate rising input costs. The effectiveness of its strategies has been demonstrated in Delfi's stable margins for 9M23 and 3Q23. We are therefore of the view that Delfi's margins should remain healthy moving forward.
- Continued product development for strategic growth.** 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. Management expects these brand building initiatives to support Delfi's long-term growth.

EARNINGS REVISION/RISK

- We have revised 2023-2025 revenue upwards** by 6%/6%/6% to US\$550m/US\$589m/US\$631m respectively, on the back of strong double-digit growth during the year. However, to reflect the rising input costs, we have reduced 2023-25 net margins from 9.1% to 8.2%. 2023-25 earnings have therefore been adjusted lower by 4%/4%/4% to US\$45m/US\$48m/US\$52m respectively.

VALUATION/RECOMMENDATION

- Maintain BUY with a 4% lower PE-based target price of S\$1.76 (S\$1.83 previously)**, based on 17x 2024F PE, pegged to its long-term mean. Delfi is currently trading at 11x 2024F PE, a 40% 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 @ 20 Nov 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	3450	8,526	23.8	22.3	30.9	28.6	132.7	4.1
Indofood Cbp Sukses	ICBP IJ	10525	7,951	13.4	12.6	2.8	2.5	22.8	2.4
Mayora Indah	MYOR IJ	2560	3,708	21.5	19.1	3.9	3.5	19.3	1.4
Garudafood	GOOD IJ	418	999	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1205	483	20.6	16.4	2.7	2.7	12.9	6.6
Average				19.8	17.6	10.1	9.3	46.9	3.6
Delfi	DELFI SP	1.16	529	11.7	11.0	2.0	1.8	17.5	4.3

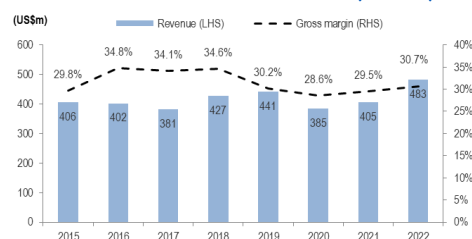
Source: Bloomberg, UOB Kay Hian

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
Net turnover	483.0	549.5	588.5	631.2
EBITDA	75.6	79.1	86.5	93.9
Deprec. & amort.	11.8	10.2	11.7	13.5
EBIT	63.8	68.9	74.8	80.4
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	67.7	73.6	79.2
Tax	(19.1)	(22.7)	(25.4)	(27.3)
Minorities	0.0	0.0	0.0	0.0
Net profit	43.9	45.0	48.2	51.9
Net profit (adj.)	43.9	45.0	48.2	51.9

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	7.7	60.8	51.7	56.5
Pre-tax profit	63.0	67.7	73.6	79.2
Tax	(17.1)	(22.7)	(25.4)	(27.3)
Deprec. & amort.	11.8	10.2	11.7	13.5
Associates	0.2	0.0	0.0	0.0
Working capital changes	(50.5)	4.6	(9.2)	(9.9)
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)	(22.5)	(25.9)	(29.8)
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
Financing	(13.1)	(23.5)	(25.2)	(27.0)
Dividend payments	(19.2)	(22.5)	(24.1)	(25.9)
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)	14.8	0.7	(0.3)
Beginning cash & cash equivalent	87.3	77.1	91.9	91.6
Changes due to forex impact	(1.2)	0.0	0.0	0.0
Ending cash & cash equivalent	77.1	91.9	92.6	91.4

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	82.3	94.6	108.8	126.0
Other LT assets	26.8	26.8	26.8	26.8
Cash/ST investment	77.1	91.9	92.6	91.4
Other current assets	208.9	205.0	218.0	232.2
Total assets	395.1	418.3	446.2	476.4
ST debt	19.0	19.0	19.0	19.0
Other current liabilities	117.1	117.9	121.6	125.9
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	268.7	292.8	318.8
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	395.1	418.3	446.2	476.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.7	14.4	14.7	14.9
Pre-tax margin	13.1	12.3	12.5	12.6
Net margin	9.1	8.2	8.2	8.2
ROA	11.6	11.1	11.2	11.2
ROE	18.1	17.5	17.2	17.0
Growth				
Turnover	19.2	13.8	7.1	7.3
EBITDA	28.4	4.6	9.4	8.5
Pre-tax profit	43.1	7.5	8.7	7.6
Net profit	49.9	2.5	7.2	7.6
Net profit (adj.)	49.9	2.5	7.2	7.6
EPS	49.9	2.5	7.2	7.6
Leverage				
Debt to total capital	7.2	6.6	6.1	5.6
Debt to equity	7.7	7.1	6.5	6.0
Net debt/(cash) to equity	(23.6)	(27.1)	(25.1)	(22.7)
Interest cover (x)	120.0	75.7	82.8	89.8

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