

Singapore

ADD (no change)

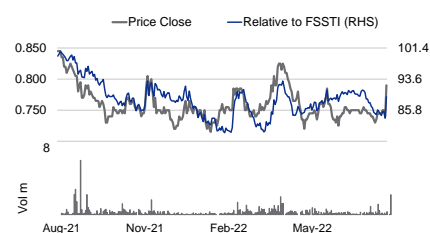
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.79
Target price:	S\$1.28
Previous target:	S\$1.09
Up/downside:	62.0%
CGS-CIMB / Consensus:	17.4%
Reuters:	DELFI.SI
Bloomberg:	DELFI SP
Market cap:	US\$352.9m
	S\$482.8m
Average daily turnover:	US\$0.15m
	S\$0.21m
Current shares o/s:	611.2m
Free float:	43.2%

*Source: Bloomberg

Key changes in this note

- Increase FY22F EPS by 26.5%.
- Increase FY23F EPS by 24.4%.
- Increase FY24F EPS by 24.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.3	7.5	-7.6
Relative (%)	-0.2	5.1	-11.4

Major shareholders	% held
Berlian Enterprises Ltd	52.0
First Pacific Advisors LP	8.1
Aberdeen Standard Investments	4.9

Analyst(s)



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Delfi Ltd

Ample reason to share the joy

- 1H22 core net profit of US\$19.4m (+61.5% yoy) is a record-high and a strong beat to street estimates post-disposal of its cocoa ingredients unit in FY15.
- Interim dividend of 2.18 Scts/share implies an attractive annualised yield of c.5.5% at 50% payout ratio, in line with historical payout levels.
- We upgrade our earnings on the back of better revenue growth expectations while margins normalise. Reiterate Add with a higher TP of S\$1.28.

Earnings surprise on favourable operating leverage

1H22 revenue of US\$246.3m was ahead of expectations at 56.6%/56.5% of our/consensus' FY22F estimates and surpassed pre-Covid levels of US\$226.9m in 1H19. The resilient sales momentum was spurred by the economic recovery post-pandemic with revenue growth recorded across all markets and across own/agency brands (Fig. 2). Revenue growth of 17.0% yoy outpaced opex growth of 5.7% yoy, allowing Delfi to enjoy operating leverage, as it recorded core net profit of US\$19.4m (+38.6% hoh, +61.5% yoy) in 1H22, beating expectations at 74.3%/72.2% of our/consensus' FY22F estimates.

Growing appetites in key operating markets

We share management's optimism on the growth prospects of its key operating markets in Indonesia and the Philippines, where healthy GDP growth expectations could continue to support higher consumption levels of chocolate confectionery and adjacent food categories. Furthermore, Delfi's revenue growth of 16.1% in Indonesia, where it is the market leader with a c.40% share of retail value in the confectionery space, had outpaced the market's growth, according to management. This reinforces our confidence that Delfi is in a prime position to capture potential growth opportunities, especially with its established sales channels across these markets.

Successful business execution to control costs

Despite rising costs of raw material, Delfi saw its GP margins remain resilient at 29.4% (+0.4% pt yoy). The management said it will continue to keep a close eye on COGS, but opex is likely to trend upwards as Delfi reinvests into the business by resuming sales and marketing expenses that were deferred during the pandemic.

Reiterate Add with a higher TP of S\$1.28

We increase our FY22F/23F/24F EPS by 26.5%/24.4%/24.3% as we foresee lasting operating leverage on sustained revenue momentum, which would support attractive dividend yields of c.5%. We raise our TP to S\$1.28, pegged at 17x of our FY23F P/E, its historical average since FY18 post disposal of cocoa ingredients business and revamping of its product portfolio. The stock is currently trading at an attractive valuation of 10.8x forward P/E, more than 1 s.d. below its historical average, and a steep discount to peers' average of 20x (Fig 4). Key rerating catalyst: swifter revenue growth momentum; downside risks: escalating costs and slowdown in sales momentum.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (US\$m)	385.1	405.1	488.8	516.1	541.9
Operating EBITDA (US\$m)	43.88	57.34	62.25	64.50	67.30
Net Profit (US\$m)	17.48	29.28	32.98	34.33	35.92
Core EPS (US\$)	0.029	0.043	0.054	0.056	0.059
Core EPS Growth	(37.9%)	48.6%	27.0%	4.1%	4.6%
FD Core P/E (x)	20.19	13.59	10.70	10.28	9.83
DPS (US\$)	0.024	0.028	0.027	0.028	0.029
Dividend Yield	4.07%	4.90%	4.67%	4.86%	5.09%
EV/EBITDA (x)	7.61	4.78	4.69	4.32	3.93
P/FCFE (x)	13.06	7.79	58.54	9.16	3.55
Net Gearing	(7.4%)	(31.8%)	(22.7%)	(26.2%)	(29.5%)
P/BV (x)	1.56	1.47	1.38	1.29	1.21
ROE	7.7%	11.2%	13.3%	13.0%	12.7%
% Change In Core EPS Estimates			26.5%	24.4%	24.3%
CGS-CIMB/Consensus EPS (x)			1.04	0.99	1.25

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Ample reason to share the joy

Closely monitoring GP margins ►

The management has shared that the company is keeping a close watch on its GP margins, and will strive to contain cost pressures amidst the inflationary pressures. The company's hedging policy allows for cost visibility, with a forward cover of up to nine months across key raw materials, such as cocoa, sugar and milk, which will allow Delfi to plan ahead with regards to cost management measures. Sales mix across value and premium products could also affect blended GP margins, but we think that the diverse exposure across various trade channels is part of Delfi's strength in having an established distribution network.

Attractive yield while balancing capital allocation ►

Delfi generated US\$16.9m in free cash flow in 1H22, which was supportive of the declared interim dividend of 1.58 UScents that amounts to a total dividend payout of US\$9.6m, which represented a payout ratio of 50% that was in line with historical levels. Although management is expecting opex to step up gradually, alongside resumption of capex which had been put off over the last two years, we believe the strong cash generation of the business will continue to support the current payout ratio, translating to a yield of c.5%.

TP revision on earnings upgrade; lower trading multiple ►

We upgrade our earnings after observing favourable operating leverage on strong revenue momentum. However, we lower our GP margin forecast by 1.5% pt to 29.0% as COGS could creep up moving forward. Although EBITDA margins have improved to 14.0% in 1H22 (Fig. 1) which was higher than our previous forecast of 12.8% (Fig 3), we have catered for costs normalisation and adjusted EBITDA margins slightly upwards to 13.0% out of prudence.

Our new TP of S\$1.28 is based on 17x (18x previously) of our new FY23F earnings. The lower multiple is due to the lower trading band since FY18, after Delfi rationalised its portfolio. However, we feel that there is room for rerating, especially given its second closest competitor in Indonesia, Mayora (Hold, TP: Rp1,800), is currently trading at 20x FY23F P/E.

Figure 1: Results comparison

FYE Dec (US\$m)	1H22	1H21	yoy % chg	2H21	hoh % chg	Prev FY22F	Comments
Revenue	246.3	210.5	17.0%	194.6	26.5%	434.9	Above at 56.6% of our FY22F, due to reopenings across its operating markets.
Gross profit	72.5	61.0	18.8%	58.7	23.5%	131.4	
<i>Gross profit margin (%)</i>	<i>29.4%</i>	<i>29.0%</i>	<i>0.4% pts</i>	<i>30.2%</i>	<i>-0.7% pts</i>	<i>30.2%</i>	
Operating costs	(43.5)	(41.2)	5.7%	(33.2)	31.0%	(89.1)	In line with our expectations, but management has guided that deferred opex could resume to reinvest into the business.
EBIT	29.0	19.8	46.0%	25.5	13.6%	42.3	Above at 68.4% of our FY22F.
<i>EBIT margins (%)</i>	<i>11.8%</i>	<i>9.4%</i>	<i>2.3% pts</i>	<i>13.1%</i>	<i>-1.3% pts</i>	<i>9.7%</i>	
EBITDA	34.6	26.5	30.5%	31.6	9.3%	64.8	Broadly in line.
<i>EBITDA margins</i>	<i>14.0%</i>	<i>12.6%</i>	<i>1.5% pts</i>	<i>16.3%</i>	<i>-2.2% pts</i>	<i>14.9%</i>	
Pretax profit	28.6	19.0	50.9%	25.1	14.3%	41.2	Above at 69.5% of our FY22F, due to lower-than-expected finance costs, partially offset by higher-than-expected other operating expenses.
Net profit	19.4	12.3	57.6%	17.0	14.1%	26.1	
Exceptionals	0.0	0.3	n.m.	3.0	n.m.	0.0	
Core net profit	19.4	12.0	61.5%	14.0	38.6%	26.1	Above at 74.3% of our FY22F due to operating leverage enjoyed on the back of robust revenue momentum in 1H22.
EPS (Scts)	3.2	2.0	57.7%	2.8	14.0%	4.3	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: 1H22 revenue breakdown

	Indonesia		Regional Markets	
	Revenue (US\$m)	% change yoy	Revenue (US\$m)	% change yoy
Own Brands	123.6	19.6%	27.2	23.3%
Agency Brands	43.6	7.2%	51.8	16.8%
Total	167.2	16.1%	79.1	18.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Forecast revisions

US\$m	New			Old			% Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	488.8	516.1	541.9	434.9	455.1	476.2	12.4%	13.4%	13.8%
Gross profit	141.8	149.7	157.2	131.4	137.5	143.9	7.9%	8.9%	9.2%
Gross profit margin (%)	29.0%	29.0%	29.0%	30.2%	30.2%	30.2%	-1.2% pt	-1.2% pt	-1.2% pt
Selling and distribution costs	(63.6)	(67.1)	(70.4)	(60.6)	(63.4)	(66.3)	4.9%	5.9%	6.2%
Administrative expenses	(29.5)	(31.7)	(33.3)	(27.2)	(27.9)	(29.2)	8.5%	13.4%	13.8%
EBITDA	64.8	67.0	69.7	55.9	58.4	60.7	16.1%	14.8%	14.9%
EBITDA margin (%)	13.3%	13.0%	12.9%	12.8%	12.8%	12.7%	0.4% pt	0.2% pt	0.1% pt
Net profit	33.0	34.3	35.9	26.1	27.6	28.9	26.5%	24.4%	24.3%
Core net profit	33.0	34.3	35.9	26.1	27.6	28.9	26.5%	24.4%	24.3%
Core EPS (US cents)	5.40	5.62	5.88	4.27	4.52	4.73	26.5%	24.4%	24.3%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

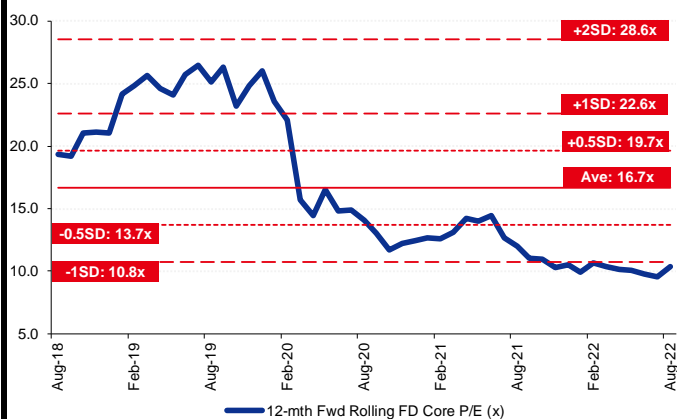
Figure 4: Peers Comparison

Company	Bloomberg		Price (lcl curr)	TP (lcl curr)	Market Cap (US\$ m)	EV/EBITDA (x)		3-year EPS CAGR (%)	P/E ratio (x)		Recurring ROE		Dividend Yield	
	Ticker	Recom.				CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Delfi Ltd	DELFI SP	Add	0.790	1.28	352	4.7	4.3	11.4%	10.7	10.3	13.3%	13.0%	4.7%	4.9%
Mayora Indah	MYOR IJ	Hold	1,900	1,800	2,857	14.0	10.8	27.7%	30.7	21.8	12.0%	15.3%	1.1%	1.3%
Indofood CBP	ICBP IJ	Add	8,875	11,000	6,960	9.8	8.4	15.6%	13.6	11.7	21.2%	21.6%	3.1%	3.7%
Nestle (Malaysia)	NESZ MK	Hold	135.8	133.9	7,147	28.8	27.7	8.7%	53.8	43.5	104.5%	123.5%	1.8%	2.3%
Universal Robina Corporation	URC PM	Add	126.3	142.3	4,943	143.8	119.8	2.2%	26.6	20.7	9.5%	11.6%	2.6%	2.6%
Simple average						49.1	41.7	13.5%	31.2	24.4	36.8%	43.0%	2.2%	2.5%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

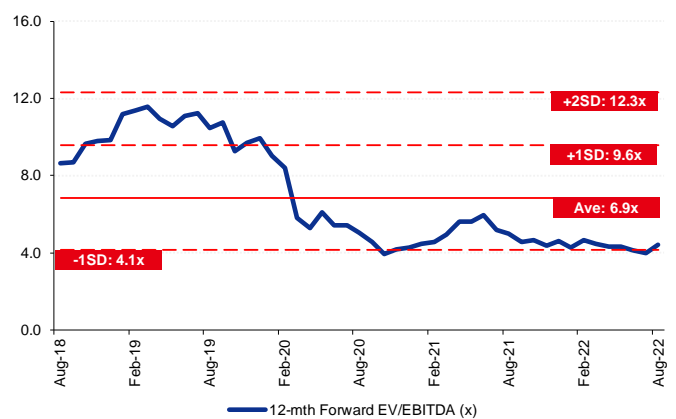
*As of 11 Aug 2022

Figure 5: Delfi Ltd 12-mth Fwd Rolling FD Core P/E (x)





SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

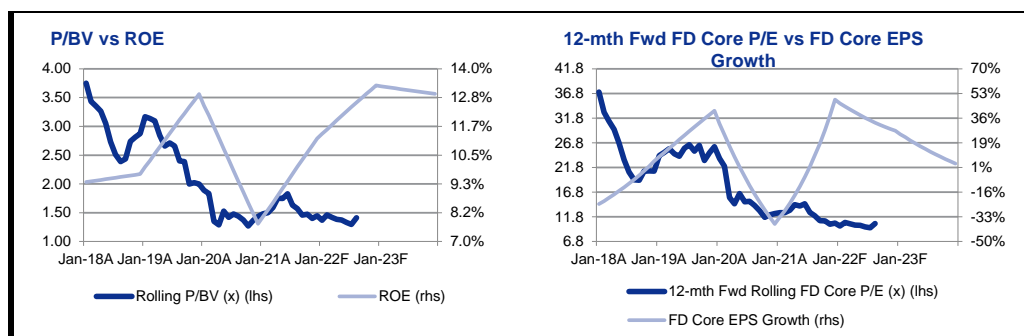
Figure 6: Delfi Ltd 12-mth Fwd Rolling FD EV/EBITDA (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Refinitiv ESG Scores	
	
ESG in a nutshell	
<p>Delfi scored a C for its combined ESG score as rated by Refinitiv for FY20, with a C for Social (c. 45% weightage of its combined ESG score), C+ for Governance (c. 26% weightage), and D+ for Environmental (c. 29% weightage). However, we think Delfi’s actual ESG combined score could be higher as some components in the Environmental and Governance pillars may not have been accurately reflected. Delfi’s ESG scores remained relatively stable from 2018 to 2020, according to Refinitiv. In FY21, Delfi began new initiatives to explore more sustainable sources of energy to reduce its carbon footprint and combat climate change.</p>	
<p>Keep your eye on</p> <p>In 2015, Barry Callebaut notified Delfi of various claims from the Brazil tax authorities against its former subsidiary Delfi Cacau Brazil Ltd (DCBR) sold to Barry Callebaut as part of the sale of its cocoa ingredients business in 2013. As of FY20, Delfi’s total exposure in respect to tax and labour claims in Brazil was c.S\$17.7m, as stated in Delfi’s 1H21 results update. Delfi believes that there are grounds to resist these claims and has since requested Barry Callebaut to defend against the claims.</p>	<p>Implications</p> <p>We believe that a c.US\$17.7m claims payout will significantly impact Delfi’s financials. Since details of the claims are still not finalised since 2015, we did not factor these claims into our valuations.</p>
<p>ESG highlights</p> <p>According to Refinitiv, Delfi’s ESG performance is comparable to peers with relatively strong E, S, and G scores. However, we think Delfi’s combined ESG score could be higher, especially with a stronger Environmental pillar score. For example, in FY21, Delfi achieved a 2.49% decrease in total energy consumption, as well as a 21% decrease in water consumption intensity compared to FY20. Moreover, 100% of its water is recycled or reused, which reduced total wastewater discharged.</p>	<p>Implications</p> <p>We think that Delfi takes measured steps in its ESG approach, which can potentially benefit its financials in the form of reduced costs. We have not yet factored these into our valuations.</p>
<p>Trends</p> <p>Delfi’s Governance score improved to C+ in 2020 from C in 2019. According to Delfi’s FY21 sustainability report, 86% of its existing suppliers and 37% of its new supplier have undergone its Supplier Self-Assessment Programme, which allows Delfi to evaluate its suppliers on compliance and management of social and environmental aspects of their business. Delfi did not have any reported incidents of breach of corporate governance in FY21.</p>	<p>Implications</p> <p>We have not factored these into our valuations.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	385.1	405.1	488.8	516.1	541.9
Gross Profit	110.1	119.7	141.8	149.7	157.2
Operating EBITDA	43.9	57.3	62.3	64.5	67.3
Depreciation And Amortisation	(13.8)	(13.6)	(13.6)	(13.6)	(13.9)
Operating EBIT	30.1	43.8	48.7	50.9	53.4
Financial Income/(Expense)	(4.4)	(2.2)	(2.0)	(2.1)	(2.2)
Pretax Income/(Loss) from Assoc.	(0.4)	(0.2)	0.0	0.0	0.0
Non-Operating Income/(Expense)	2.3	2.7	4.0	4.0	4.0
Profit Before Tax (pre-EI)	27.6	44.1	50.7	52.8	55.3
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	27.6	44.1	50.7	52.8	55.3
Taxation	(10.2)	(14.8)	(17.8)	(18.5)	(19.3)
Exceptional Income - post-tax					
Profit After Tax	17.5	29.3	33.0	34.3	35.9
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	17.5	29.3	33.0	34.3	35.9
Recurring Net Profit	17.5	26.0	33.0	34.3	35.9
Fully Diluted Recurring Net Profit	17.5	26.0	33.0	34.3	35.9

Cash Flow

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	43.88	57.34	62.25	64.50	67.30
Cash Flow from Invt. & Assoc.	0.39	0.19	0.00	0.00	0.00
Change In Working Capital	12.96	29.69	(39.35)	(7.29)	(6.93)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	3.08	8.78	9.72	9.77	69.14
Net Interest (Paid)/Received	(2.47)	(0.48)	0.00	0.00	0.00
Tax Paid	(15.44)	(10.73)	(17.76)	(18.49)	(19.34)
Cashflow From Operations	42.41	84.79	14.86	48.50	110.16
Capex	(4.48)	(3.18)	(8.04)	(9.02)	(9.50)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	(0.36)	2.94	(0.79)	(0.95)	(1.11)
Other Investing Cashflow					
Cash Flow From Investing	(4.84)	(0.24)	(8.83)	(9.97)	(10.61)
Debt Raised/(repaid)	(10.55)	(39.26)	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(14.51)	(14.29)	(16.49)	(17.17)	(17.96)
Preferred Dividends					
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	(25.06)	(53.55)	(16.49)	(17.17)	(17.96)
Total Cash Generated	12.51	31.00	(10.46)	21.37	81.59
Free Cashflow To Equity	27.02	45.29	6.03	38.53	99.55
Free Cashflow To Firm	40.72	85.61	6.03	38.53	99.55

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	65.5	86.2	68.1	81.6	95.9
Total Debtors	81.8	69.0	90.0	95.1	99.8
Inventories	76.8	64.8	82.6	87.2	91.6
Total Other Current Assets	20.7	18.5	19.2	19.6	19.9
Total Current Assets	244.9	238.6	259.9	283.5	307.2
Fixed Assets	107.2	96.0	92.0	88.7	85.6
Total Investments	2.4	2.9	2.9	2.9	2.9
Intangible Assets	20.9	19.5	18.9	18.5	18.3
Total Other Non-Current Assets	7.1	6.8	6.9	6.9	7.0
Total Non-current Assets	137.6	125.3	120.6	117.0	113.8
Short-term Debt	48.7	10.1	10.1	10.1	10.1
Current Portion of Long-Term Debt					
Total Creditors	90.0	98.1	99.1	101.9	104.5
Other Current Liabilities	1.0	2.9	2.9	2.9	2.9
Total Current Liabilities	139.7	111.0	112.1	114.8	117.4
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.5	0.9	0.0	0.0	0.0
Total Non-current Liabilities	0.5	0.9	0.0	0.0	0.0
Total Provisions	16.5	12.7	12.7	12.7	12.7
Total Liabilities	156.7	124.6	124.7	127.5	130.1
Shareholders' Equity	225.6	239.3	255.8	273.0	290.9
Minority Interests	0.1	0.0	0.0	0.0	0.0
Total Equity	225.7	239.3	255.8	273.0	290.9

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(12.6%)	5.2%	20.7%	5.6%	5.0%
Operating EBITDA Growth	(26.8%)	30.7%	8.6%	3.6%	4.3%
Operating EBITDA Margin	11.4%	14.2%	12.7%	12.5%	12.4%
Net Cash Per Share (US\$)	0.03	0.12	0.09	0.12	0.14
BVPS (US\$)	0.37	0.39	0.42	0.45	0.48
Gross Interest Cover	9.55	41.39	92.14	91.69	91.69
Effective Tax Rate	36.8%	33.6%	35.0%	35.0%	35.0%
Net Dividend Payout Ratio	83.0%	59.1%	50.0%	50.0%	50.0%
Accounts Receivables Days	81.48	67.86	59.34	65.41	65.76
Inventory Days	109.3	90.6	77.5	84.6	85.0
Accounts Payables Days	44.62	43.42	41.29	41.47	41.69
ROIC (%)	12.5%	19.6%	28.0%	24.5%	25.3%
ROCE (%)	10.7%	16.6%	18.8%	18.4%	18.2%
Return On Average Assets	5.56%	8.42%	9.39%	9.32%	9.27%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Own brands- Indonesia revenue growth (%)	-19.4%	4.2%	30.0%	5.0%	5.0%
Agency brand- Indonesia revenue growth (%)	-12.6%	10.0%	5.0%	5.0%	5.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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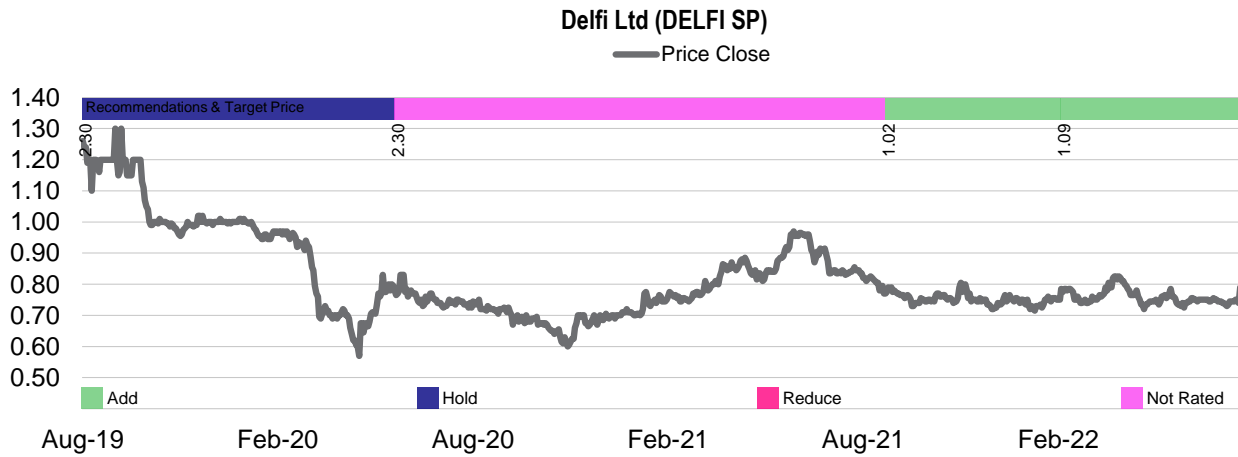
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
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Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.