COMPANY RESULTS

DFI Retail Group Holdings (DFI SP)

1H22: A Messy Set Of Results

DFI reported a much weaker-than expected 1H22 with a loss of US$58m driven largely by its associates Yonghui and Maxim's as well as poor profit contribution from its grocery business. Maintain HOLD as the company's fortunes remain intimately tied to China's COVID-19 policies. Target price: US$2.96 (previously US$2.87).

1H22 RESULTS

6m to 30 Jun (US$m)	1H21	1H22	% yoy change	Remarks
Sales	4,537	4,483	-1.2%	- Recovery in health & beauty offset by weakness in
Gross margin	1,413	1,403	-0.7%	grocery and convenience stores
Operating profit	120	76	-37.0%	- SG&A costs more than doubled to US$65m
Assoc./JV results	(28)	(65)	NM	- Difficult conditions in HK and China impacted Maxim's
Pre-tax profit	32	(46)	NM	and also accounting for Yonghui's losses in 4Q21
NPAT	17	(58)	NM	
Free cash flow	358.9	272.5	-24.1	
Gross margin	31.1%	31.3%	+0.1ppt	
NPAT margin	0.4%	-1.3%	-1.7ppt	
DPS (US$/share)	0.03	0.01	-66.7%	
Net debt/equity	83.3%	98.8%	+15.5ppt	

Source: DFI Retail Group, UOB Kay Hian

RESULTS

- **Persistent weakness.** While DFI Retail Group (DFI) reported a 1% yoy decline in revenue to US$4.5b in 1H22, the company witnessed a loss of US$58m due largely to its associates: a) the recognition in arrears of Yonghui's 4Q21 loss amounting to US$64m, and b) the negative impact of COVID-19-related lockdowns in Hong Kong which pushed Maxim's into a loss of US$26m. Apart from the poor numbers from its associates, DFI's grocery business performed poorly on a yoy basis with operating profit falling 44% yoy to US$47m, while its convenience stores broke even vs an operating profit of US$19m in 1H21. Despite the 1H22 loss, the company declared an interim dividend of US$0.01 (1H21: US$0.03).
- **Highlights of the results were health & beauty and home furnishings.** The health & beauty business saw a 91% yoy increase in operating profit to US$39m while the IKEA business witnessed a 32% yoy increase to US$15m for 1H22.

KEY FINANCIALS

Year to 31 Dec (US$m)	2020	2021	2022F	2023F	2024F
Net turnover	10,269	9,015	9,218	9,557	9,671
EBITDA	1,372	1,197	1,198	1,242	1,335
Operating profit	388	311	277	287	368
Net profit (rep./act.)	271	103	86	174	260
Net profit (adj.)	271	103	86	174	260
EPS (US$ cent)	20.0	7.6	6.4	12.9	19.2
PE (x)	14.0	36.8	44.0	21.8	14.6
P/B (x)	2.9	3.0	2.9	2.8	3.3
EV/EBITDA (x)	3.5	4.0	4.0	3.8	3.6
Dividend yield (%)	5.9	3.4	1.8	5.9	5.9
Net margin (%)	2.6	1.1	0.9	1.8	2.7
Net debt/(cash) to equity (%)	61.8	63.2	77.3	72.9	108.2
Interest cover (x)	9.6	10.1	9.7	10.3	11.5
ROE (%)	21.4	7.9	6.7	13.2	20.7
Consensus net profit	-	-	114	222	307
UOBKH/Consensus (x)	-	-	0.75	0.78	0.85

Source: DFI Retail Group Holdings, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	US$2.80
Target Price	US$2.96
Upside	+5.7%
(Previous TP	*US$2.87)*

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):	1,353.3
Market cap (US$m):	3,789.2
Market cap (US$m):	3,789.2
3-mth avg daily t'over (US$m):	1.9

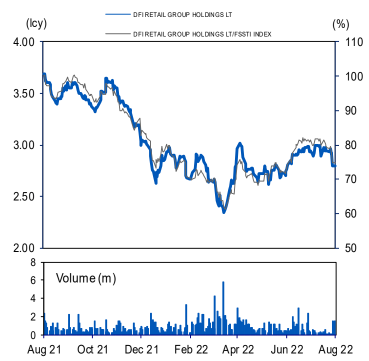
Price Performance (%)

52-week high/low US$3.98/US$2.34

1mth	3mth	6mth	1yr	YTD
(6.0)	2.9	4.5	(29.6)	(2.1)

Major Shareholders	%
Jardine Matheson	77.6
FY22 NAV/Share (US$)	0.96
FY22 Net Debt/Share (US$)	0.74

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Drivers of the better performance within the health & beauty and IKEA business** were the strong 11% and 6% yoy revenue growths respectively (see chart on RHS). For the former, both its Mannings and Guardian stores experienced robust demand for COVID-19-related products while both businesses saw good cost control. Overall, it appears that DFI has tried to remain price competitive and as economic conditions improve, it expects a more balanced mix of spending in the health & beauty segment. The IKEA business should see volume growth in the medium term as more stores are opened in the Asian region, with double-digit e-commerce growth bolstering its numbers.
- **Grocery saw a mixed performance in the region** with North Asia experiencing good like-for-like (LFL) sales due to pantry-stocking while Southeast Asia was hurt by the easing of COVID-19 restrictions and thus a reduction of home meals in favour of dining out. DFI also noted that Southeast Asia faced, and will continue to face, higher operating cost pressures, in particular labour and utilities costs. On a brighter note, Yonghui in China may be turning a corner: it is expected to be profitable this year with consensus earnings estimates for 2022/23 having been revised up by 14%/29% respectively since Jan 22.
- **Convenience saw a marked deceleration in sales** with Hong Kong and South China business impacted by COVID-19 restrictions, although this was somewhat offset by strong LFL sales in Singapore as it re-opened. With >100 new stores opened in the region in 1H22 (75 in South China), DFI should be well positioned for a post-pandemic recovery in sales.

EARNINGS REVISION/RISK

- **We have lowered our earnings estimates for 2022-24 by 1-30%** with the majority of the impact coming in 2022 due largely to the negative impact from China's zero-COVID strategy. Key changes that we have made for 2022 are: a) no growth for grocery revenue vs 4% previously, and b) 1.5% sales growth for convenience segment vs 5% previously. The net effect has been a lowering of our operating margin assumptions from 3.8% to 3.0% for 2022.

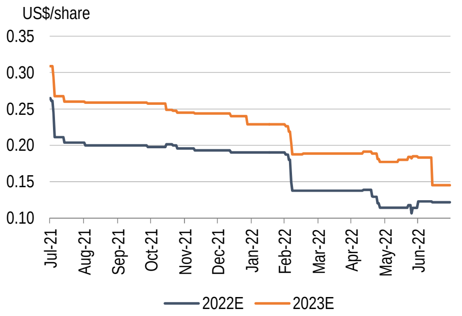
VALUATION/RECOMMENDATION

- **We maintain our HOLD rating with a fair value of US$2.96 (+3% from previous fair value of US$2.87).** We have rolled forward our valuation year to 2023 and thus peg our 2023 EPS estimate to a target multiple of 23x which is 1SD below its five-year average PE of 30.4x (excluding 2020/21). We believe that the discount to its five-year average PE is fair and reasonable given the continued challenges DFI is facing as a result of China's continued strict imposition of its zero-COVID strategy. EPS revision momentum for DFI continues to be negative and has yet to trough, in our view. Its North Asia earnings are likely to remain highly subjective to the vagaries of government policy in the near to medium term.

SHARE PRICE CATALYST

- Change in the Chinese government's COVID-19 strategy.

EPS REVISION MOMENTUM



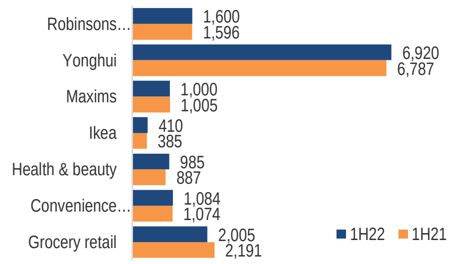
Source: Bloomberg

CHANGES TO EARNINGS ESTIMATES

US$m	2022E	2023E	2024E
NPAT – was	122	212	262
NPAT – is	86	174	260
Change	-29.5%	-18.0%	-0.8%

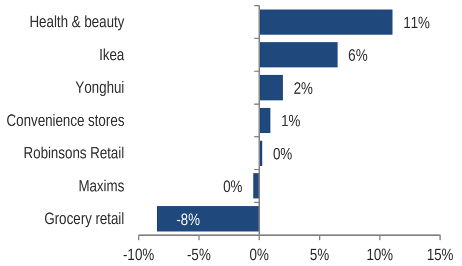
Source: UOB Kay Hian

SALES REVENUE: 1H22 VS 1H21 (US$M)



*Note: *Includes 100% of Maxim's, Yonghui (6 months ending 31 March) and Robinson's (6 months ending 31 March) half year sales*
Source: DFI

1H22 SALES REVENUE – YOY CHANGE



Source: DFI

REGIONAL PEER COMPARISONS – CONSUMER STAPLES

Company	Ticker	Trading curr	Price 28 Jul	Mkt cap US$m	PE (x) 21A	PE (x) 22E	PE (x) 23E	P/B (x) 21A	P/B (x) 22E	P/B (x) 23E	ROE % 22E	Yield % 22E
Coles Group	COL AU	AUD	18.64	17,443	24.8	24.7	22.5	8.8	8.2	7.6	33.8	3.3
Woolworths	WOW AU	AUD	37.44	31,828	22.7	31.1	25.6	34.4	7.9	7.1	41.8	2.4
Seven & I	3382 JP	JPY	5386	35,723	22.6	18.4	17.0	1.6	1.5	1.4	8.6	2.0
Berli Jucker	BJC TB	THB	32.5	3,582	36.5	25.7	20.9	1.1	1.1	1.1	4.4	2.4
Shanghai Bailian	600827 CH	CNY	11.51	2,880	27.4	50.0	26.2	1.1	1.1	1.1	2.3	0.7
Chengdu Hongqi	002697 CH	CNY	4.89	986	14.0	12.9	11.8	1.8	1.6	1.4	12.4	0.1
Ccoop Group	000564 CH	CNY	1.04	2,955	n.a.	n.a.	n.a.	1.6	n.a.	n.a.	n.a.	n.a.
Sheng Siong	SSG SP	SGD	1.60	1,746	18.1	19.8	19.0	5.8	5.3	5.0	29.0	3.6
Average					23.7	26.1	20.4	7.0	3.8	3.5	18.9	2.1
DFI Retail	DFI SP	USD	2.80	3,952	44.0	21.8	14.6	4.0	3.8	4.4	6.6	1.3

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US$m)	2021	2022F	2023F	2024F
Net turnover	9,015	9,218	9,557	9,671
EBITDA	1,197	1,198	1,242	1,335
Deprec. & amort.	886	922	956	967
EBIT	311	277	287	368
Associate contributions	(42)	(54)	50	80
Net interest income/(expense)	(119)	(123)	(120)	(116)
Pre-tax profit	150	99	216	331
Tax	(59)	(25)	(54)	(83)
Minorities	12	12	12	12
Net profit	103	86	174	260
Net profit (adj.)	103	86	174	260

BALANCE SHEET

Year to 31 Dec (US$m)	2021	2022F	2023F	2024F
Fixed assets	803	843	886	930
Other LT assets	5,477	5,749	6,050	6,380
Cash/ST investment	254	200	119	143
Other current assets	1,071	1,058	1,057	1,069
Total assets	7,605	7,851	8,111	8,522
ST debt	744	900	800	800
Other current liabilities	2,797	2,652	2,717	2,741
LT debt	311	300	300	600
Other LT liabilities	2,486	2,718	2,973	3,254
Shareholders' equity	1,267	1,293	1,344	1,162
Minority interest	0	(12)	(23)	(35)
Total liabilities & equity	7,605	7,851	8,111	8,522

CASH FLOW

Year to 31 Dec (US$m)	2021	2022F	2023F	2024F
Operating	942	1,164	1,375	1,380
Pre-tax profit	311	277	287	368
Tax	(110)	0	0	0
Deprec. & amort.	886	922	956	967
Working capital changes	(10)	(132)	66	12
Non-cash items	0	0	0	0
Other operating cashflows	(134)	98	66	34
Investing	(125)	(198)	(203)	(206)
Capex (growth)	(185)	(200)	(204)	(208)
Proceeds from sale of assets	94	0	0	0
Others	(34)	2	1	2
Financing	(841)	(1,020)	(1,253)	(1,150)
Dividend payments	(198)	(60)	(122)	(443)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,248	0	0	0
Others/interest paid	(1,892)	(960)	(1,131)	(707)
Net cash inflow (outflow)	(24)	(54)	(81)	24
Beginning cash & cash equivalent	278	254	200	119
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	253	200	119	143

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	13.3	13.0	13.0	13.8
Pre-tax margin	1.7	1.1	2.3	3.4
Net margin	1.1	0.9	1.8	2.7
ROA	1.3	1.1	2.2	3.1
ROE	7.9	6.7	13.2	20.7
Growth				
Turnover	(12.2)	2.2	3.7	1.2
EBITDA	(12.8)	0.2	3.7	7.4
Pre-tax profit	(54.5)	(33.9)	118.0	53.0
Net profit	(62.0)	(16.4)	102.1	49.5
Net profit (adj.)	(62.0)	(16.4)	102.1	49.5
EPS	(62.0)	(16.4)	102.1	49.5
Leverage				
Debt to total capital	45.4	48.4	45.4	55.4
Debt to equity	83.2	92.8	81.8	120.5
Net debt/(cash) to equity	63.2	77.3	72.9	108.2
Interest cover (x)	10.1	9.7	10.3	11.5

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