

### COMPANY UPDATE

## Delfi (DELFI SP)

Sights Set On Continued Growth Momentum In 2023

**Delfi remains the market leader in Indonesia's chocolate confectionery market, backed by strong economic moats and its solid financial performance in 2022. This growth momentum is expected to continue into 2023, as seen by the significant US\$50.6m increase in inventory levels, signalling strong momentum in its sales this year. In addition, chocolate consumption in Indonesia remains underpenetrated, providing Delfi with lucrative growth opportunities. Maintain BUY and target price of S\$1.71.**

### WHAT'S NEW

- **Strong economic moats from iconic brands name and established distribution network.** Beyond Delfi's strong balance sheet, its iconic brands and strong market distribution network place it in a good position to maintain its market leadership position and continue to capture further growth.
- **Macro indicators point to sustained performance for 2023.** Delfi delivered an exceptional 2022 as earnings grew to US\$43.9m (+49.9% yoy), driven by the strong double-digit growth in its two business lines, Own Brands and Agency Brands, across all its operating markets. To recap, Own Brands and Agency Brands recorded respective increases in sales of 19.0% and 19.6% yoy. We expect demand to remain strong in Indonesia, its key market. In 2022, Indonesia's economy grew 5.3%, a solid recovery from the pandemic years where the economy contracted by 2.1% in 2020 and grew by only 3.7% in 2021. According to OECD Economic Outlook in Nov 22, Indonesia's GDP is expected to grow by approximately 5% in 2023 and strengthen slightly in 2024 as a result of favourable commodity prices and strong capital inflows. On top of this, management reported a substantial US\$50.6m increase in inventory levels last year, signalling confidence in continued sales momentum in 2023.
- **Successfully capitalising on premiumisation trend.** Delfi has been focusing on its premiumisation strategy to offer differentiated products based on changing consumer taste. We note that since Delfi's rationalisation exercise in 2016, 10-15 new products have been launched annually, such as creating a flavour variation of an existing product to target new customer segments. Double-digit growths in Delfi's premium brands SilverQueen and Cha Cha are testament to the success of its premiumisation strategy. Barry Callebaut's Top Chocolate Trends 2023 Report highlighted that 61% of the APAC market actively seeks out premium chocolates, indicating that Delfi is moving in the right direction. Additionally, despite Indonesia being the largest chocolate confectionery market in ASEAN, the nation's annual chocolate consumption per capita of around 0.3kg has still lagged behind the likes of Malaysia (~0.5kg), most European countries and the US (>5kg), suggesting untapped market potential.

### 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)	16.9	11.3	10.5	9.8	9.2
P/B (x)	2.1	2.0	1.8	1.7	1.5
EV/EBITDA (x)	6.8	5.3	4.8	4.5	4.3
Dividend yield (%)	2.9	4.4	4.7	5.1	5.4
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	-	-	46	49	52
UOBKH/Consensus (x)	-	-	1.03	1.04	1.04

Source: Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.08
Target Price	S\$1.71
Upside	+58.3%

### 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):	660.0
Market cap (US\$m):	495.6
3-mth avg daily t'over (US\$m):	0.6

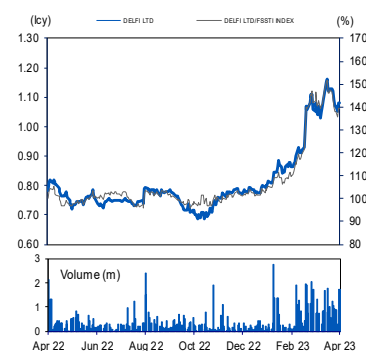
### Price Performance (%)

52-week high/low	S\$1.16/S\$0.685			
<b>1mth</b>	<b>3mth</b>	<b>1mth</b>	<b>3mth</b>	<b>YTD</b>
1.9	35.8	52.1	37.9	39.4

### Major Shareholders

Aerodrome Int'l Ltd	52.0
First Pacific Advisors	7.0
FY23 NAV/Share (S\$)	0.44
FY23 Net Cash/Share (S\$)	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\$58m, but is lower than 2021's US\$76m due to management's heavy investment of US\$50.6m in inventories as they anticipate boosted sales in 2023. This was offset by Delfi's strong performance during the year. 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 Delfi's move to maintain its absolute dividend, amid a decline in EPS due to the impact of COVID-19. In the recent announcement, management proposed a final dividend 2 US cents/share and a special dividend of 0.72 US cents/share. Together with interim dividend of 1.58 US cents/share, the 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\$58.1m, 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 11x 2023F PE, a 50% discount to Indonesia peers' 2023F PE average of 22x.

### SHARE PRICE CATALYST

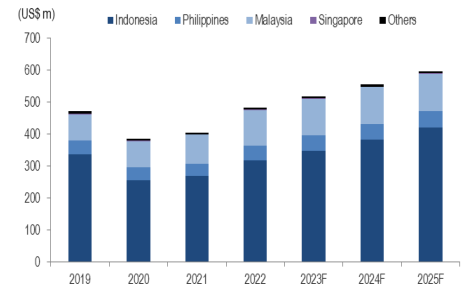
- Higher revenue contribution from Indonesia.
- Premiumisation of product offerings.

### PEER COMPARISON

Company	Ticker	Price @ 11 Apr 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	4200	10,757	26.8	24.7	35.0	31.3	134.8	3.5
Indofood Cbp Sukses	ICBP IJ	10200	7,985	14.8	12.9	2.8	2.5	19.7	2.6
Mayora Indah	MYOR IJ	2660	3,993	25.8	21.8	4.2	3.7	17.0	1.3
Garudafood	GOOD IJ	472	1,169	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Indosari	ROTI IJ	1545	642	18.6	17.0	3.2	3.1	17.6	2.3
<b>Average</b>				<b>21.5</b>	<b>19.1</b>	<b>11.3</b>	<b>10.2</b>	<b>47.3</b>	<b>2.4</b>
<b>Delfi</b>	<b>DELFI SP</b>	1.08	496	10.5	9.8	1.8	1.7	18.3	4.7

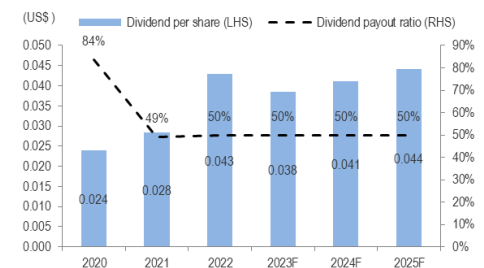
Source: Bloomberg, UOB Kay Hian

### REVENUE BREAKDOWN, BY GEOGRAPHY



Source: Delfi, UOB Kay Hian

### DPS AND DIVIDEND PAYOUT RATIO



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	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)
<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

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>82.3</b>	<b>80.1</b>	<b>78.2</b>	<b>78.5</b>
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
<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>

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>7.7</b>	<b>70.4</b>	<b>52.4</b>	<b>55.0</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	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
<b>Investing</b>	<b>(3.6)</b>	<b>(8.0)</b>	<b>(8.0)</b>	<b>(9.0)</b>
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
<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>37.9</b>	<b>18.1</b>	<b>18.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>87.3</b>	<b>77.1</b>	<b>115.0</b>	<b>132.1</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>115.0</b>	<b>133.1</b>	<b>150.1</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<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)	(35.6)	(38.7)	(40.7)
Interest cover (x)	120.0	79.5	84.1	89.0

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