

28 August 2019

Dutch Lady Milk Industries

1H19 Missed Expectations

By Clement Chua | clement.chua@kenanga.com.my

1H19 core earnings of RM52.7m (-16%) missed expectations from poorer sales and higher cost environments, alongside the lack of dividends. Near-term outlook for the stock is challenged by: (i) lower sales from key segments, (ii) lower pricing to hold volume growth, and (iii) higher cost pressures based on commodity and forex trends. As we slash our earnings, we downgrade to UP (from MP) with a lower TP of RM54.60 (from RM62.90).

1H19 disappointed. 1H19 core net profit of RM52.7m missed both our and consensus expectations, making up 43% and 39% of respective full-year estimates. The negative deviation is led by declining revenue as volume growth came at the expense of lower ASPs. Higher operating expense was also incurred, likely to support the abovementioned volume growth. The lack of dividends is deemed to be a miss too.

YoY, 1H19 revenue of RM508.6m declined by 2%, likely dragged by: (i) weaker sales in the premium Infant and Toddler Formula segment, and (ii) lower ASPs on other products from the group's re-pricing strategies. Operating profits fell by 20% to RM70.0m, while raw material costs were slightly better, higher marketing and distribution expense was incurred. This could be to drive higher volumes from the abovementioned lower prices. Subsequently, core earnings registered at RM52.7m (-16%).

QoQ, 2Q19 turnover fell by 8%, similarly due to change in product mixes. Sequentially, higher raw material costs and lower product pricing pulled margins. Furthermore, no thanks to the same reasons above, operating profit declined to RM26.0m (-41%) with core net profit at RM18.4m (-46%).

Necessary evils. Continuing with its strategic pricing strategies, the brand appears to still generate positive volume expansion. The apparent weakness in the premium Infant and Toddler Formula market could indicate tighter consumer spending amidst the current uncertain macroeconomic headwinds. However, the adoption of consumer-centric pricing to hold market share could be a costly endeavour at present. This comes from our anticipation of higher raw material prices in both skimmed milk powder and anhydrous milk fat, based on ongoing price trends. While we gather that prices could be supported by the Friesland Campina group's global procurement network, the present rise in USD rates may spell further pressure to cost management in the near-term.

Post-results, we slash our FY19E/FY20E earnings by 15.6%/13.2% on more wary raw material cost and operating cost assumptions. With this, we also narrow our dividend expectations to 160.0/175.0sen from 190.0/200.0 sen, maintaining a payout ratio of close to 100%.

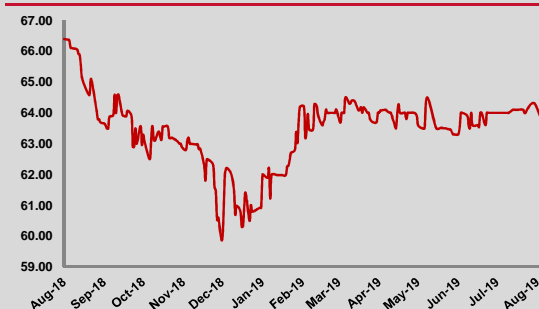
Downgrade to UNDERPERFORM (from MARKET PERFORM) with a lower TP of RM54.60 (from RM62.90). Our valuations of 31.0x FY20E PER remains unchanged, being closely in line with the stock's -0.5SD over its 3-year mean. While the stock still commands the highest ROE of c.100% amongst its large cap F&B peers, investors might be cautious given the sales and earnings risks. Additionally, lower-than-expected dividend yield of <3% may not excite investors.

Risks to our call include: (i) better-than-expected sales, (ii) lower-than-expected commodity prices, and (iii) better-than-expected domestic currency.

UNDERPERFORM ↓

Price : **RM63.90**
Target Price : **RM54.60** ↓

Share Price Performance



KLCI	1,590.84
YTD KLCI chg	-5.9%
YTD stock price chg	3.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLM MK Equity
Market Cap (RM m)	4,089.6
Shares Outstanding	64.0
52-week range (H)	66.37
52-week range (L)	59.90
3-mth avg daily vol	6,485
Free Float	33%
Beta	0.5

Major Shareholders

Frieslandcampina DLM	51.0%
Employees Provident Fund	8.9%
Skim Amanah Saham Bumiputera	6.7%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	1,048.6	1,017.1	1,037.5
EBIT	173.9	141.1	152.6
PBT	171.3	138.7	150.2
Net Profit (NP)	129.4	104.0	112.7
Core NP	124.1	102.4	112.7
Consensus (NP)		136.5	146.5
Earnings Revision	-	-15.6%	-13.2%
Core EPS (sen)	193.8	160.0	176.1
Core EPS growth (%)	-0.4%	-17.4%	10.0%
NDPS (sen)	200.0	160.0	175.0
BVPS (RM)	1.6	1.7	1.7
PER (x)	33.0	39.9	36.3
PBV (x)	38.8	38.2	38.0
Net Gearing (x)	N. Cash	N. Cash	N. Cash
Net Div. Yield (%)	3.1%	2.5%	2.7%

28 August 2019

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YTD
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	243.6	265.0	-8.1%	254.2	-4.2%	508.6	520.4	-2.3%
Gross Profit	91.2	108.2	-15.7%	93.0	-1.9%	199.4	201.4	-1.0%
EBIT	26.0	44.0	-40.8%	41.0	-36.4%	70.0	87.8	-20.2%
PBT/(LBT)	25.2	43.3	-41.8%	40.4	-37.8%	68.4	86.9	-21.2%
Taxation	-8.0	-9.4	14.9%	-9.7	18.0%	-17.3	-22.0	21.0%
Net Profit	17.2	33.9	-49.3%	30.7	-44.0%	51.1	64.9	-21.3%
Core Net Profit*	18.4	34.3	-46.2%	25.7	-28.4%	52.7	62.8	-16.0%
Core EPS (sen)	28.8	53.5	-46.2%	40.2	-28.4%	82.3	98.1	-16.0%
DPS (sen)	0.0	50.0		0.0		50.0	110.0	
Gross margin	37.4%	40.8%		36.6%		39.2%	38.7%	
EBIT margin	10.7%	16.6%		16.1%		13.8%	16.9%	
PBT margin	10.3%	16.3%		15.9%		13.5%	16.7%	
NP margin	7.6%	12.9%		10.1%		10.4%	12.1%	
Effective tax rate	31.7%	21.7%		24.1%		25.3%	25.3%	

* Core net profit is adjusted for gains and losses in forex and derivatives

Source: Company, Kenanga Research

This section is intentionally left blank

28 August 2019

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.					
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.48	1,733.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.35	UP		
AEON CO (M) BHD	1.65	2,316.6	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	18.6	22.7	20.7	1.1	1.1	5.0%	2.4%	1.70	MP		
AMWAY MALAYSIA HOLDINGS BHD	6.08	999.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.3	17.4	16.4	4.3	4.0	23.8%	4.5%	5.90	MP		
DUTCH LADY MILK INDUSTRIES BHD	63.90	4,089.6	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	33.0	39.9	36.3	38.8	38.2	97.9%	2.5%	54.60	UP		
FRASER & NEAVE HOLDINGS BHD	35.78	13,123.3	Y	09/2019	5.9%	7.0%	9.4%	2.9%	33.1	30.2	29.4	5.7	5.2	18.0%	1.8%	36.60	MP		
HAI-O ENTERPRISE BHD	2.23	647.5	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.7	13.7	13.4	2.0	2.1	15.1%	5.8%	1.95	UP		
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.1	3.0	10.2%	0.7%	1.55	OP		
NESTLE (MALAYSIA) BHD	148.60	34,846.7	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.7	51.9	48.4	53.3	52.5	104.6%	2.0%	128.00	UP		
PADINI HOLDINGS BHD	3.38	2,223.7	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	14.2	11.7	10.3	3.4	2.9	26.8%	3.4%	3.75	OP		
PARKSON HOLDINGS BHD	0.22	234.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	28.4	0.1	0.1	-1.7%	0.0%	0.24	UP		
POWER ROOT BHD	1.96	776.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.4	19.1	17.0	3.5	3.3	18.1%	4.6%	2.30	OP		
QL RESOURCES BHD	6.92	11,227.3	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.8	45.8	44.0	5.6	5.2	12.1%	0.8%	6.05	UP		
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP		
Simple Average					6.9%	4.3%	3.3%	63.7%	29.3	27.6	25.7	11.3	11.0	31.9%	2.5%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	20.06	5,727.7	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	12.2	13.8	13.6	13.6	13.0	84.5%	6.0%	24.40	UP		
CARLSBERG BREWERY MALAYSIA BHD	25.92	7,973.5	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.1	27.2	26.0	46.9	51.2	186.7%	3.9%	25.95	OP		
HEINEKEN MALAYSIA BHD	24.76	7,479.9	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.5	25.7	24.5	20.2	20.0	77.9%	3.8%	23.25	MP		
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.6	22.3	21.3	26.9	28.1	116.4%	4.6%				
CONSENSUS ESTIMATES																			
BERJAYA FOOD BHD	1.55	555.9	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.1	18.5	16.9	1.5	1.5	7.5%	3.0%	1.94	BUY		
BONIA CORPORATION BHD	0.26	205.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.4	14.8	12.5	0.6	0.6	3.2%	2.7%	0.30	SELL		
COCOALAND BHD	1.87	427.9	Y	12/2019	5.7%	7.1%	2.9%	7.0%	13.8	13.4	12.6	1.7	1.7	13.1%	4.1%	2.29	NEUTRAL		
KAWAN FOOD BHD	1.21	435.0	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.1	32.3	20.0	1.4	1.3	4.1%	2.1%	1.14	SELL		
MAGNI-TECH INDUSTRIES BHD	5.19	844.2	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.3	6.9	1.6	N..A.	20.3%	N..A.	6.60	BUY		

Source: Bloomberg, Kenanga Research

28 August 2019

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

