

# Dairy Farm (DFI SP)

Consumer Cyclical - Retail

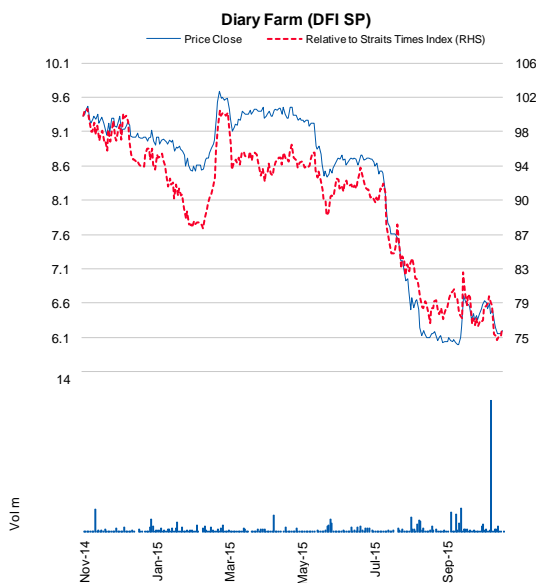
Market Cap: USD8,370m

**Buy** (from Neutral)

 Target Price: **USD7.80**

 Price: **USD6.19**

## Opportunity For Long-Term Investment

 Macro ◆◆  
 Risks ◆◆  
 Growth ◆◆  
 Value ◆◆


Source: Bloomberg

Avg Turnover (USD/USD)	3.07m/3.07m
Cons. Upside (%)	61.6
Upside (%)	26.0
52-wk Price low/high (USD)	5.99 - 9.69
Free float (%)	22
Share outstanding (m)	1,352
<b>Shareholders (%)</b>	
Jardine Strategic Holdings	77.6
Franklin Resources	6.6

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.2)	(6.5)	(18.6)	(34.5)	(33.7)
Relative	(19.8)	(5.9)	(13.2)	(20.4)	(24.3)

**James Koh** +65 6232 3839

[james.koh@rhbgroup.com](mailto:james.koh@rhbgroup.com)

We upgrade Dairy Farm to BUY (from Neutral), with lower DCF-derived TP of USD7.80. While we are cognizant of ongoing challenges in its operating environment this year, our contrarian call is premised on taking a longer-term view on the company, which has a track record of steady growth. In the meantime, dividends should cushion the possibility of share price weakness. Investment into Yonghui could bring about more meaningful entry into China.

- ◆ **Results dragged down by ASEAN this year.** We expect net profit to decline 9% for FY15, despite higher revenue of 5%. This is largely due to margin erosions in its ASEAN markets, which are experiencing consumption weakness. This is compounded by the fact that Dairy Farm's headquarter costs and reporting currency are in USD, which has appreciated significantly against many regional currencies. Company performance remains resilient in North Asia, especially Hong Kong.
- ◆ **Latent potential in retail giant.** We believe the company's ongoing initiative to drive organization-wide business synergies will produce gains over the medium term. This remains on track, including standardization of back-end supply chains and IT systems, more private label products and introduction of new fresh food distribution centres in Singapore and Malaysia. Ongoing investment in Yonghui Superstores (601933 CH, NR)) will provide a platform to grow further into China.
- ◆ **Dividends likely to continue.** Dairy Farm has consistently paid out a dividend at least equal to the year before, even throughout each financial crisis. Since 2008, dividend has been at least 23 US cents per share and we do not expect this to decline going forward, even following its biggest investment-to-date in Yonghui. This dividend payout is only an estimated 40% of annual operating cashflow.
- ◆ **Upgrade to BUY.** The company has a track record of growth over the longer term and profit has declined YoY only on two occasions since 2006. We believe the current weakness offers a long-term opportunity for shareholders and upgrade the stock to BUY. After adjusting FY15F-FY17F earnings by 4-11%, our new DCF-derived TP is USD7.80 (vs USD9.10), implying FY16F P/E of 21x. The main risk to our forecasts is prolonged consumption weakness in key markets such as Malaysia and Indonesia.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	10,357	11,008	11,592	12,449	13,377
Reported net profit (USDm)	501	509	455	501	571
Recurring net profit (USDm)	480	500	455	501	571
Recurring net profit growth (%)	8.2	4.2	(9.0)	10.1	14.1
Recurring EPS (USD)	0.36	0.37	0.34	0.37	0.42
DPS (USD)	0.23	0.23	0.23	0.24	0.24
Recurring P/E (x)	17.4	16.7	18.4	16.7	14.7
P/B (x)	6.53	5.86	5.33	4.75	4.16
P/CF (x)	12.3	12.4	11.5	10.1	9.3
Dividend Yield (%)	3.7	3.7	3.7	3.8	3.8
EV/EBITDA (x)	10.5	10.8	12.9	11.6	10.0
Return on average equity (%)	40.5	37.6	30.3	30.0	30.2
Net debt to equity (%)	net cash	net cash	19.6	20.8	8.1
Our vs consensus EPS (adjusted) (%)			(16.6)	(11.0)	(7.8)

Source: Company data, RHB

## Financial Exhibits

<b>Profit &amp; Loss (USDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	10,357	11,008	11,592	12,449	13,377
Cost of sales	(7,270)	(7,717)	(8,184)	(8,764)	(9,391)
<b>Gross profit</b>	<b>3,087</b>	<b>3,291</b>	<b>3,408</b>	<b>3,685</b>	<b>3,986</b>
Gen & admin expenses	(396)	(417)	(449)	(494)	(542)
Selling expenses	(2,319)	(2,508)	(2,689)	(2,863)	(3,050)
Other operating costs	179	169	190	195	200
<b>Operating profit</b>	<b>551</b>	<b>534</b>	<b>460</b>	<b>523</b>	<b>594</b>
Operating EBITDA	747	737	682	766	866
Depreciation of fixed assets	(196)	(203)	(222)	(243)	(272)
<b>Operating EBIT</b>	<b>551</b>	<b>534</b>	<b>460</b>	<b>523</b>	<b>594</b>
Net income from investments	67	69	87	94	101
Interest income	8	7	4	2	3
Interest expense	(11)	(9)	(23)	(19)	(14)
<b>Pre-tax profit</b>	<b>615</b>	<b>601</b>	<b>529</b>	<b>599</b>	<b>684</b>
Taxation	(102)	(93)	(82)	(93)	(108)
Minority interests	(12)	1	8	(5)	(5)
<b>Profit after tax &amp; minorities</b>	<b>501</b>	<b>509</b>	<b>455</b>	<b>501</b>	<b>571</b>
<b>Reported net profit</b>	<b>501</b>	<b>509</b>	<b>455</b>	<b>501</b>	<b>571</b>
<b>Recurring net profit</b>	<b>480</b>	<b>500</b>	<b>455</b>	<b>501</b>	<b>571</b>

Source: Company data, RHB

<b>Cash flow (USDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>551</b>	<b>534</b>	<b>460</b>	<b>523</b>	<b>594</b>
<b>Depreciation &amp; amortisation</b>	<b>196</b>	<b>203</b>	<b>222</b>	<b>243</b>	<b>272</b>
<b>Change in working capital</b>	<b>(11)</b>	<b>(17)</b>	<b>82</b>	<b>119</b>	<b>96</b>
Other operating cash flow	0	4	11	-	-
<b>Operating cash flow</b>	<b>737</b>	<b>723</b>	<b>775</b>	<b>885</b>	<b>962</b>
Interest received	7	7	4	2	3
Interest paid	(11)	(9)	(23)	(19)	(14)
Dividends received	45	48	52	56	61
Tax paid	(95)	(94)	(82)	(93)	(108)
<b>Cash flow from operations</b>	<b>683</b>	<b>676</b>	<b>727</b>	<b>831</b>	<b>904</b>
Capex	(295)	(294)	(150)	(350)	(350)
Other investing cash flow	10	(138)	(1,082)	(230)	(20)
<b>Cash flow from investing activities</b>	<b>(285)</b>	<b>(433)</b>	<b>(1,232)</b>	<b>(580)</b>	<b>(370)</b>
Dividends paid	(311)	(311)	(311)	(311)	(318)
Increase in debt	(61)	21	563	(200)	(200)
Other financing cash flow	56	(3)	16	-	0
<b>Cash flow from financing activities</b>	<b>(316)</b>	<b>(293)</b>	<b>267</b>	<b>(511)</b>	<b>(518)</b>
Cash at beginning of period	667	728	662	424	164
<b>Total cash generated</b>	<b>82</b>	<b>(50)</b>	<b>(238)</b>	<b>(260)</b>	<b>16</b>
Forex effects	(36)	(5)	-	-	-
<b>Implied cash at end of period</b>	<b>714</b>	<b>674</b>	<b>424</b>	<b>164</b>	<b>180</b>

Source: Company data, RHB

## Financial Exhibits

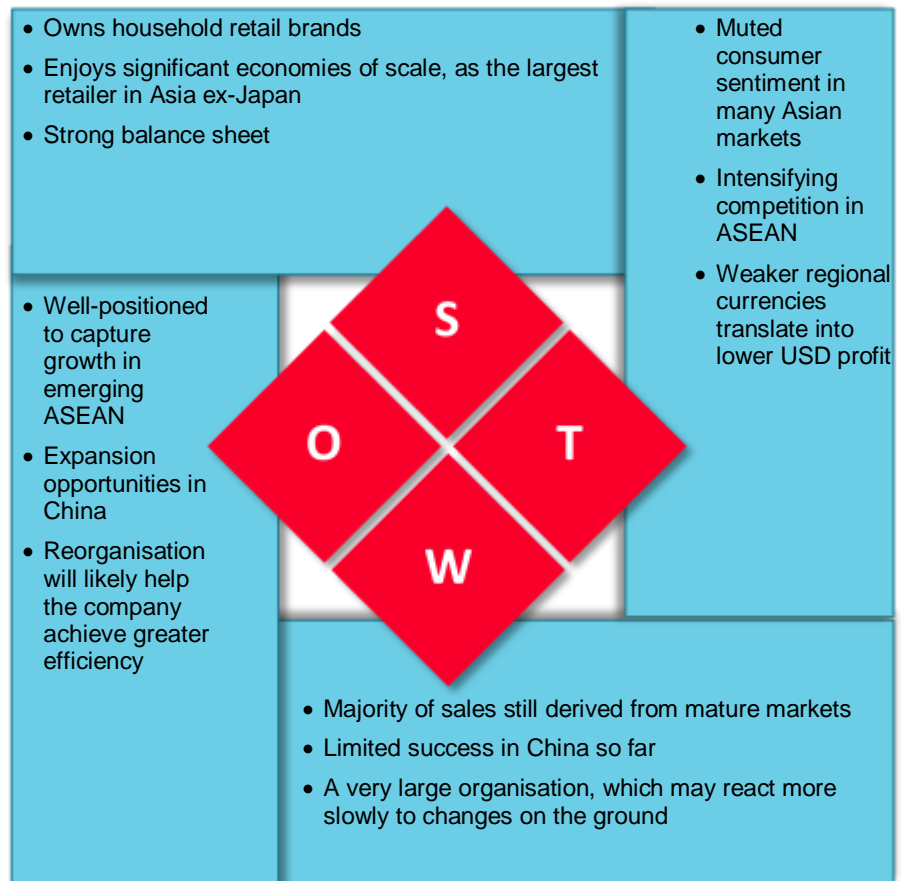
<b>Balance Sheet (USDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	728	662	424	164	180
Inventories	976	1,011	1,031	1,105	1,184
Accounts receivable	213	252	254	256	275
Other current assets	13	5	10	10	10
<b>Total current assets</b>	<b>1,931</b>	<b>1,930</b>	<b>1,720</b>	<b>1,534</b>	<b>1,648</b>
Total investments	370	388	1,323	1,570	1,611
Tangible fixed assets	1,082	1,219	1,158	1,277	1,368
Intangible assets	408	566	735	743	750
Total other assets	173	213	215	215	215
Total non-current assets	2,032	2,386	3,431	3,805	3,944
<b>Total assets</b>	<b>3,964</b>	<b>4,316</b>	<b>5,151</b>	<b>5,340</b>	<b>5,592</b>
Short-term debt	48	93	500	300	100
Accounts payable	2,309	2,413	2,518	2,712	2,906
Other current liabilities	69	59	75	75	75
<b>Total current liabilities</b>	<b>2,426</b>	<b>2,566</b>	<b>3,093</b>	<b>3,087</b>	<b>3,081</b>
Total long-term debt	43	94	250	250	250
Other liabilities	117	135	150	150	150
<b>Total non-current liabilities</b>	<b>160</b>	<b>228</b>	<b>400</b>	<b>400</b>	<b>400</b>
<b>Total liabilities</b>	<b>2,586</b>	<b>2,794</b>	<b>3,493</b>	<b>3,487</b>	<b>3,481</b>
Other reserves	1,281	1,429	1,573	1,762	2,015
<b>Shareholders' equity</b>	<b>1,281</b>	<b>1,429</b>	<b>1,573</b>	<b>1,762</b>	<b>2,015</b>
Minority interests	96	94	86	91	96
Other equity	-	-	-	-	0
<b>Total equity</b>	<b>1,377</b>	<b>1,523</b>	<b>1,658</b>	<b>1,853</b>	<b>2,111</b>
<b>Total liabilities &amp; equity</b>	<b>3,964</b>	<b>4,316</b>	<b>5,151</b>	<b>5,340</b>	<b>5,592</b>

Source: Company data, RHB

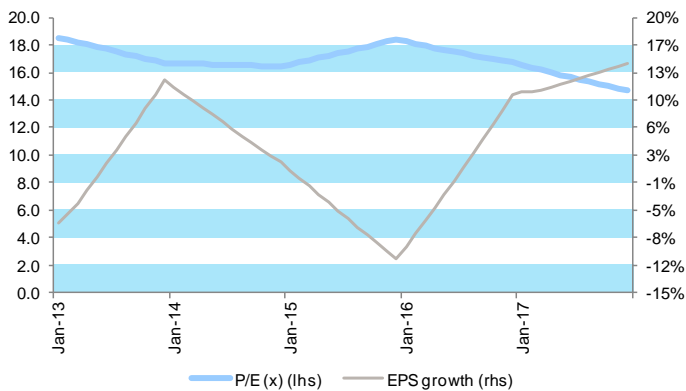
<b>Key Ratios (USD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	5.7	6.3	5.3	7.4	7.5
Operating profit growth (%)	14.9	(3.1)	(13.9)	13.6	13.7
Net profit growth (%)	12.2	1.6	(10.6)	10.1	14.1
EPS growth (%)	12.1	1.6	(10.7)	10.1	14.1
BVPS growth (%)	7.2	11.5	10.0	12.1	14.4
Operating margin (%)	5.3	4.9	4.0	4.2	4.4
Net profit margin (%)	4.8	4.6	3.9	4.0	4.3
Return on average assets (%)	12.8	12.3	9.6	9.5	10.5
Return on average equity (%)	40.5	37.6	30.3	30.0	30.2
Net debt to equity (%)	(46.3)	(31.2)	19.6	20.8	8.1
DPS	0.23	0.23	0.23	0.24	0.24
Recurrent cash flow per share	0.51	0.50	0.54	0.61	0.67

Source: Company data, RHB

## SWOT Analysis

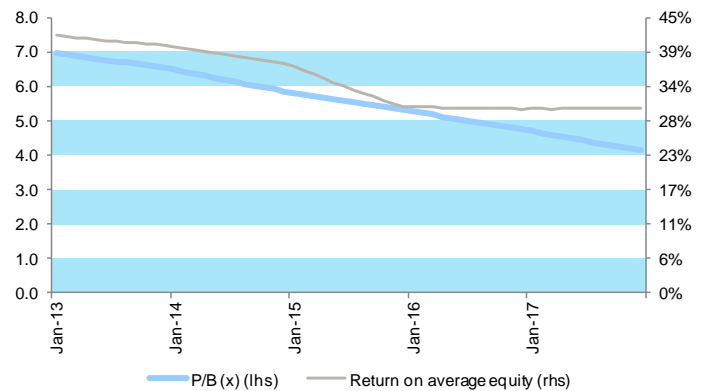


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Dairy Farm is the largest retailer in Asia ex-Japan, with a strong market presence in China, Hong Kong, Taiwan, India and ASEAN. The company operates hypermarkets, supermarkets, convenience stores, pharmacies, home furnishing and restaurants – through its 50% associate Maxim's. Its brands, which are well-known, include *Wellcome*, *Cold Storage*, *Giant*, *Hero*, *Mannings* and *Guardian*. Dairy Farm is a member of the Jardine Matheson Group and is head-quartered in Hong Kong and listed on the London Stock Exchange, as well as in Bermuda and Singapore.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-03	Neutral	9.1	7.9
2015-03-08	Buy	11.2	9.3
2014-10-27	Buy	11.2	9.4

Source : RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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**Kuala Lumpur**

**RHB Research Institute Sdn Bhd**  
Level 11, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur  
Malaysia  
Tel : +(60) 3 9280 2185  
Fax : +(60) 3 9284 8693

**Hong Kong**

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : +(852) 2525 1118  
Fax : +(852) 2810 0908

**Singapore**

**RHB Research Institute Singapore  
Pte Ltd (formerly known as DMG & Partners Research  
Pte Ltd)**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +(65) 6533 1818  
Fax : +(65) 6532 6211

**Jakarta**

**PT RHB Securities Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710, Indonesia  
Tel : +(6221) 2783 0888  
Fax : +(6221) 2783 0777

**Shanghai**

**RHB (China) Investment Advisory Co. Ltd.**  
Suite 4005, CITIC Square  
1168 Nanjing West Road  
Shanghai 20041  
China  
Tel : +(8621) 6288 9611  
Fax : +(8621) 6288 9633

**Bangkok**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +(66) 2 862 9999  
Fax : +(66) 2 862 9799