

Dutch Lady Milk Industries

FY19 Within Expectation

By Nikki Thang I nikkithang@kenanga.com.my

FY19 CNP of RM105.4m (-15% YoY) came in within our expectation at 103% while a full-year dividend pay-out of 100.0 sen missed estimate. Post-results, we maintain MARKET PERFORM but with a lower TP of RM43.85 following earnings and valuation downgrade. This is due to the current global uncertainties clouding its prospect which may dampen profitability and investors' sentiment for the stock.

Within our expectation. FY19 Core Net Profit (CNP) of RM105.4 came in within expectation at 103% of our forecast. Surprisingly, no dividend was declared. This brought full-year dividend pay-out to 100.0 sen, which is lower than our full-year forecast of 160.0 sen.

Weaker bottom-line. YoY, FY19 core earnings dropped 15%, dragged by lower EBIT margin (-3.4ppt) of 13.2%. The profitability was weakened by: (i) lower ASP from re-pricing strategies, (ii) costlier raw material and, (iii) unfavourable forex. This was in spite of stronger revenue (+2%) of RM1.07b which was driven by pricing strategies which led to increased sales volumes. For the quarter of 4QFY19, revenue grew by 4% while core net profit fell by 6%, similarly due to the foresaid reasons.

QoQ, core earnings of RM28.3m grew 16%, boosted by lower ETR of 22.3% (-5.4 ppt) which more than offset the higher marketing spends. Revenue also grew by 2%, in-line with volume growth (kilograms) of 2%.

Clouded by global uncertainties. Moving ahead, the group should be able to preserve its sales-base on the back of fresh product innovations and strategic pricing strategies, though more aggressive promotional prices could dampen profitability at this juncture. Notably, we are observing weakness in global dairy prices – as of 18 Feb 2020, Skimmed Milk Powder (SMP) traded at USD2,840/mt (-6% YTD) while Anhydrous Milk Fats (AMF) traded at USD4,379/mt (-11% YTD) (Source: Global Dairy Trade). Nonetheless, these downticks in dairy prices may only pose muted effects, mitigated by an upward fluctuation in USD rates and the group's global procurement network with a 6-month inventory planning.

Post-results, we lowered our FY20E CNP by 4.2% to account for more conservative cost assumptions while introducing a new set of FY21E estimates.

Maintain MARKET PERFORM with a lower TP of RM43.85 (from RM49.30), based on a lower applied FY20E PER of 26.0x from previously 28.0x (closely in-line with -2SD over its 3-year mean). The lower ascribed PER is premised on the group's clouded outlook against the backdrop of current global uncertainties, which may spell greater volatility to raw material costs and thus profitability. On top of that, the low liquidity of the stock could also dull investors' appetite for the stock.

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

MARKET PERFORM ↔

Price : **RM44.50**
Target Price : **RM43.85** ↓

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg -9.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLM MK Equity
Market Cap (RM m)	2,848.0
Shares Outstanding	64.0
52-week range (H)	64.78
52-week range (L)	40.00
3-mth avg daily vol	13,992
Free Float	23%
Beta	0.4

Major Shareholders

Frieslandcampina DLM	51.0%
Employees Provident Fund	9.7%
Skim Amanah Saham Bumiputera	6.9%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	1,066.7	1,084.8	1,103.2
EBIT	140.8	146.5	149.7
PBT	137.6	143.9	147.3
Net Profit (NP)	103.0	108.0	110.5
Core NP	105.4	108.0	110.5
Consensus (NP)	-	-	-
Earnings Revision	-	-4.2%	New
Core EPS (sen)	164.6	168.7	172.7
Core EPS growth (%)	-15.1	2.5	2.4
NDPS (sen)	100.0	110.0	115.0
BVPS (RM)	2.3	2.8	3.4
PER (x)	27.0	26.4	25.8
PBV (x)	19.7	15.7	13.0
Net Gearing (x)	N.	N.	N.
Net Div. Yield (%)	Cash	Cash	Cash
	2.2	2.5	2.6



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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YTD
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	281.8	276.3	2.0%	271.2	3.9%	1066.7	1048.6	1.7%
Gross Profit	106.7	98.6	8.3%	104.2	2.4%	404.7	416.3	-2.8%
EBIT	35.2	35.6	-1.3%	39.8	-11.6%	140.8	173.9	-19.0%
PBT/(LBT)	34.3	34.9	-1.6%	38.9	-11.7%	137.6	171.3	-19.7%
Taxation	-7.6	-9.7	20.9%	-8.5	10.6%	-34.6	-41.8	17.2%
Net Profit	26.7	25.2	5.8%	30.3	-12.0%	103.0	129.4	-20.5%
Core Net Profit*	28.3	24.4	15.8%	30.1	-6.2%	105.4	124.1	-15.1%
Core EPS (sen)	44.2	38.1	15.8%	47.1	-6.2%	164.6	193.8	-15.1%
DPS (sen)	0.0	50.0		0.0		100.0	200.0	
Gross margin	37.9%	35.7%		38.4%		37.9%	39.7%	
EBIT margin	12.5%	12.9%		14.7%		13.2%	16.6%	
PBT margin	12.2%	12.6%		14.3%		12.9%	16.3%	
NP margin	10.0%	8.8%		11.1%		9.9%	11.8%	
Effective tax rate	22.3%	27.7%		22.0%		25.2%	24.4%	

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

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	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.	1-Yr. Fwd.			
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.40	1,610.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	33.6	29.6	28.1	23.3	22.6	77.5%	2.9%	1.35	MP	
AEON CO. (M) BHD	1.30	1,825.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	16.7	16.5	16.1	1.1	1.0	6.4%	3.1%	1.65	OP	
AMWAY (MALAYSIA) HOLDINGS BHD	5.54	910.7	Y	12/2019	2.2%	2.0%	5.5%	6.3%	16.7	15.8	14.9	3.9	3.7	23.8%	5.0%	5.90	MP	
DUTCH LADY MILK INDUSTRIES BHD	44.50	2,848.0	Y	12/2020	1.7%	1.7%	2.5%	2.3%	27.0	26.4	25.8	19.7	15.6	66.2%	2.5%	43.85	MP	
FRASER & NEAVE HOLDINGS BHD	31.36	11,502.2	Y	09/2020	2.4%	3.0%	2.5%	6.0%	27.4	26.7	25.2	4.5	4.2	16.4%	2.1%	35.20	OP	
HAI-O ENTERPRISE BHD	1.98	574.9	N	04/2020	1.7%	2.3%	-24.9%	8.7%	12.1	16.2	14.9	1.9	1.8	11.4%	5.1%	1.50	UP	
MYNEWS HOLDINGS BHD	0.870	593.5	N	10/2020	24.3%	17.0%	11.2%	20.8%	22.1	19.9	16.5	2.0	1.8	9.5%	1.1%	1.10	MP	
NESTLE (MALAYSIA) BHD	142.00	33,299.0	Y	12/2020	4.1%	1.9%	6.6%	3.7%	51.1	47.9	46.2	49.7	48.6	102.5%	2.0%	124.50	UP	
PADINI HOLDINGS BHD	3.23	2,125.0	Y	06/2020	0.5%	4.8%	12.8%	5.3%	13.6	12.0	11.4	3.2	2.8	24.5%	3.6%	4.00	OP	
PARKSON HOLDINGS BHD	0.185	197.4	Y	06/2020	0.4%	0.5%	749.4%	16.5%	N.A.	23.8	20.4	0.1	0.1	0.3%	0.0%	0.220	MP	
POWER ROOT BHD	2.32	949.5	Y	03/2020	13.3%	10.5%	53.9%	12.3%	27.4	18.4	16.9	4.2	3.7	21.8%	3.9%	2.75	OP	
QL RESOURCES BHD	8.35	13,547.4	Y	03/2020	10.9%	11.6%	13.1%	9.6%	62.5	55.3	50.4	6.7	6.2	12.1%	0.7%	8.30	MP	
SPRITZER BHD	2.17	455.6	Y	12/2019	8.0%	1.2%	27.7%	6.5%	18.8	14.7	13.9	1.2	1.1	7.7%	1.8%	2.50	OP	
Simple Average					6.4%	4.8%	67.3%	8.1%	27.4	24.9	23.1	9.3	8.7	29.2%	2.6%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	14.64	4,180.2	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	11.6	12.3	12.8	9.7	9.5	78.2%	7.9%	16.70	OP	
CARLSBERG BREWERY MALAYSIA BHD	37.20	11,373.8	N	12/2020	13.8%	9.2%	12.0%	9.5%	39.4	35.2	32.1	68.9	67.0	200.4%	2.8%	29.00	UP	
HEINEKEN MALAYSIA BHD	29.00	8,760.8	N	12/2020	13.0%	4.0%	16.1%	5.6%	28.0	24.1	22.8	24.5	22.5	97.3%	3.8%	28.90	MP	
Simple Average					5.3%	3.4%	7.5%	3.6%	26.3	23.8	22.6	34.4	33.0	125.3%	4.8%			

Source: Bloomberg, Kenanga Research

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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.**

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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

