

26 February 2021

Dutch Lady Milk Industries

Milking for A Better Product Mix

By **Ahmad Ramzani Ramli** | ahmadramzani@kenanga.com.my

FY20 net profit of RM73m (-30% YoY) exceeded our expectations, due to a surprisingly strong performance in 4QFY20 as gross margins improved. Moving forward, top-line should be sustained by the group's aggressive promotional pricing strategies and branding, though it is likely to come at the expense of lower profitability on the back of volatile dairy prices. Maintain MP with lower TP of RM34.55, following an earnings downgrade.

A pleasant surprise. FY20 net profit of RM73m exceeded our expectation but within market estimates at 108%/103%, respectively. The positive variance is likely due to better product mix in 4QFY20 where PBT surged >100% QoQ while gross margin improved by 5ppt. As expected, no dividend was declared bringing full-year DPS to 80.0 sen implying a payout of 70% (vs FY19: 62%).

Challenging margins. YoY, FY20 revenue growth improved (+3% vs FY19: +2%) likely sustained by the higher in-home consumption which overshadowed the lower HoReCa sales throughout the pandemic. Nonetheless, net profit slipped 29% to RM73m on the back of thinner gross margin (-6ppt) to 32%. The poorer profitability was dragged by: (i) costlier dairy raw materials coupled with (ii) negative foreign exchange impact arising from the strengthened Ringgit versus USD.

QoQ, 4QFY20 revenue moderated (+1%) to RM289m given the CMCO but PBT surged 122% to RM27m on improved product/channel-mix leading to better gross margin and lower global DRM input costs.

Outlook. Moving forward, the group should be able to preserve its sales-base on the back of fresh product innovations and strategic pricing strategies, in tandem with the recovery momentum expected in 2021. Outlook remains positive due to its brand presence and dietary and nutritional value of milk domestically. However, margins look challenging with persistent global uncertainties that could impact foreign exchange and prices of global dairy raw materials. Notably we observed strengthening in global dairy prices - both Skimmed Milk Powder (SMP) and Anhydrous Milk Fats (AMF) have surged +23% and +16%, respectively, in the last six months.

Post-results, we cut our FY21E earnings by 15%, by pencilling in more prudent margin assumptions (-4ppt).

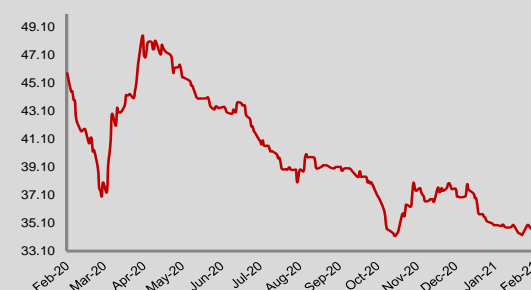
Maintain MARKET PERFORM with lower TP of RM34.55 (from RM35.05), based on FY21E PER of 27.7x (24.0x previously (implying a 0.5SD below from 1SD below). The revised mean valuation is premised on the budding recovery momentum mitigated by challenging global dairy prices. Uninspiring dividend yields, thus we maintain the stock at **MARKET PERFORM**.

Risks to our call include: (i) better/weaker-than-expected sales, (ii) better/weaker-than-expected cost environment

MARKET PERFORM ↔

Price : **RM34.98**
Target Price : **RM34.55** ↓

Share Price Performance



KLCI 1,581.54
YTD KLCI chg -2.8%
YTD stock price chg -6.7%

Stock Information

| | |
|---------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | DLM MK Equity |
| Market Cap (RM m) | 2,238.7 |
| Shares Outstanding | 64.0 |
| 52-week range (H) | 48.48 |
| 52-week range (L) | 34.00 |
| 3-mth avg daily vol | 13,445 |
| Free Float | 25% |
| Beta | 0.6 |

Major Shareholders

| | |
|------------------------------|-------|
| Frieslandcampina DLM | 51.0% |
| Employees Provident Fund | 10.9% |
| Skim Amanah Saham Bumiputera | 7.5% |

Summary Earnings Table

| FY Dec (RM m) | 2020A | 2021E | 2022E |
|------------------------|-------------|-------------|-------------|
| Turnover | 1,100.7 | 1,155.7 | 1,167.2 |
| EBIT | 100.0 | 109.1 | 109.1 |
| PBT | 97.5 | 106.5 | 106.9 |
| Net Profit (NP) | 73.4 | 79.9 | 80.2 |
| Consensus (NP) | 71.4 | 86.5 | |
| Earnings Revision | 7.6% | -14.6% | New |
| EPS (sen) | 114.6 | 124.8 | 125.3 |
| EPS growth (%) | -28.7% | 8.9% | 0.4% |
| NDPS (sen) | 80.0 | 90.0 | 90.0 |
| BVPS (RM) | 2.6 | 3.0 | 3.3 |
| PER (x) | 30.5 | 28.0 | 27.9 |
| PBV (x) | 13.4 | 11.9 | 10.6 |
| Net Gearing (x) | N. Cash | N. Cash | N. Cash |
| Net Div. Yield (%) | 2.3% | 2.6% | 2.6% |



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Results Highlights

| | 4Q | 3Q | QoQ | 4Q | YoY | 12M | 12M | YTD |
|--------------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|
| FYE Dec (RM m) | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Turnover | 289.1 | 286.8 | 0.8% | 281.8 | 2.6% | 1100.7 | 1066.7 | 3.2% |
| Gross Profit | 98.1 | 83.2 | 17.9% | 106.7 | -8.1% | 357.1 | 404.7 | -11.8% |
| EBIT | 26.5 | 12.8 | 107.4% | 35.2 | -24.6% | 98.7 | 140.8 | -29.9% |
| PBT | 27.2 | 12.2 | 122.6% | 34.3 | -20.8% | 97.5 | 137.6 | -29.1% |
| Taxation | -7.0 | -3.0 | -136.8% | -7.6 | 8.2% | -24.1 | -34.6 | 30.3% |
| Net Profit | 20.2 | 9.2 | 118.1% | 26.7 | -24.4% | 73.4 | 103.0 | -28.7% |
| EPS (sen) | 0.31 | 14.4 | -97.8% | 41.7 | -99.2% | 83.5 | 105.4 | -20.8% |
| DPS (sen) | 0.0 | 40.0 | | 0.0 | | 80.0 | 164.6 | |
| Gross margin | 33.9% | 29.0% | | 37.9% | | 32.4% | 37.9% | |
| EBIT margin | 9.2% | 4.5% | | 12.5% | | 9.0% | 13.2% | |
| PBT margin | 9.4% | 4.3% | | 12.2% | | 8.9% | 12.9% | |
| Net margin | 7.0% | 3.2% | | 9.5% | | 6.7% | 9.7% | |
| Effective tax rate | 25.8% | 24.3% | | 22.3% | | 24.8% | 25.2% | |

Source: Company, Kenanga Research

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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 | 1.28 | 1,445.4 | N | 12/2020 | 7.7% | 3.4% | 15.9% | 0.5% | 29.2 | 25.2 | 25.1 | 15.5 | 11.2 | 33.9% | 2.3% | 1.40 | MP | | |
| AEON CO. (M) BHD | 1.20 | 1,684.8 | Y | 12/2021 | 3.7% | 4.8% | 88.6% | 15.0% | 40.7 | 21.6 | 18.8 | 1.0 | 1.0 | 4.6% | 1.3% | 1.30 | OP | | |
| AMWAY (MALAYSIA) HOLDINGS BHD | 5.67 | 932.1 | Y | 12/2021 | 0.7% | 0.7% | 16.4% | 7.9% | 19.9 | 17.1 | 15.8 | 4.2 | 4.0 | 23.8% | 4.9% | 5.45 | MP | | |
| DUTCH LADY MILK INDUSTRIES BHD | 34.98 | 2,238.7 | Y | 12/2021 | 5.0% | 1.0% | 8.9% | 0.4% | 30.5 | 28.0 | 27.9 | 13.4 | 11.9 | 45.0% | 2.6% | 34.55 | MP | | |
| FRASER & NEAVE HOLDINGS BHD | 29.98 | 10,996.0 | Y | 09/2021 | 5.0% | 2.1% | 3.9% | 1.5% | 27.2 | 26.2 | 25.8 | 4.1 | 3.8 | 15.0% | 2.1% | 32.55 | MP | | |
| MYNEWS HOLDINGS BHD | 0.670 | 457.0 | N | 10/2021 | 10.2% | 24.5% | 97.8% | 15.9% | N.A. | 25.1 | 21.7 | 1.6 | 1.5 | 6.1% | 1.5% | 0.480 | UP | | |
| NESTLE (MALAYSIA) BHD | 136.00 | 31,892.0 | Y | 12/2021 | 1.1% | 2.2% | 14.4% | 2.4% | 57.7 | 50.4 | 49.3 | 57.2 | 56.2 | 112.4% | 1.9% | 138.60 | MP | | |
| PADINI HOLDINGS BHD | 2.91 | 1,914.5 | Y | 06/2021 | 8.9% | 11.0% | 58.1% | 17.0% | 25.5 | 16.1 | 13.8 | 2.5 | 2.3 | 14.9% | 2.6% | 2.90 | MP | | |
| POWER ROOT BHD | 1.76 | 743.8 | Y | 03/2021 | -18.8% | 13.5% | -26.1% | 14.9% | 13.4 | 18.2 | 15.8 | 2.8 | 2.6 | 15.3% | 5.7% | 1.80 | MP | | |
| QL RESOURCES BHD | 6.09 | 14,821.0 | Y | 03/2021 | 13.2% | 7.4% | 13.6% | 9.1% | 61.9 | 54.5 | 50.0 | 7.1 | 6.7 | 12.6% | 0.9% | 6.60 | MP | | |
| Simple Average | | | | | 3.7% | 7.1% | 29.2% | 8.5% | 34.0 | 28.2 | 26.4 | 10.9 | 10.1 | 28.4% | 2.6% | | | | |
| SIN | | | | | | | | | | | | | | | | | | | |
| BRITISH AMERICAN TOBACCO (M) BHD | 13.12 | 3,746.2 | N | 12/2021 | -8.0% | -2.4% | -3.5% | 4.9% | 14.4 | 14.9 | 14.2 | 8.6 | 8.5 | 57.4% | 6.6% | 11.45 | UP | | |
| CARLSBERG BREWERY MALAYSIA BHD | 23.96 | 7,325.7 | N | 12/2021 | 19.9% | 5.3% | 52.8% | 9.1% | 41.7 | 27.3 | 25.0 | 37.5 | 27.5 | 120.1% | 2.7% | 25.65 | OP | | |
| HEINEKEN MALAYSIA BHD | 25.50 | 7,703.5 | N | 12/2021 | 16.1% | 6.1% | 54.1% | 14.0% | 43.9 | 28.5 | 25.0 | 19.5 | 19.6 | 68.7% | 3.5% | 22.35 | MP | | |

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

