

26 November 2021

Dutch Lady Milk Industries

Milking Resilient

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DLADY remained robust despite the ongoing challenges with margins staying stable, thanks to prudent management. We retained our TP of RM40.20 and reiterate our OUTPERFORM call.

Above expectations. 9MFY21 PATAMI of RM65m came above our expectation, at 81%/69% of our/consensus full-year estimates. A second interim DPS of 25.0 sen was declared for the quarter which brought YTD DPS to 50.0 sen (implying a payout ratio of <50% - in line with our forecast).

YoY, top-line grew 3% to RM833m with sales remaining robust throughout the year. Despite the stricter COVID-19 control measures, the company was able to operate at full capacity, driven by the consistent penetration of milk consumption and affordability as essential nourishment. GP margin saw a 3ppt uptick indicating better product mix and hedging activities. While EBITDA margin saw a 3ppt uptick in tandem with top-line, EBIT was slightly slower (+2ppt) dragged by accelerated depreciation costs of its assets in Petaling Jaya. PATAMI ended at RM64m (+22%) as ETR remained relatively stable at 25%.

QoQ, top-line moderated at +2% to RM291m given the lack of festivities in the quarter under review. While growth momentum moderated, performance constantly hovered above pre-pandemic levels. Margins saw erosion, c. 2ppt, on still elevated prices of global dairy materials and higher brand of investments. PATAMI ended 25% lower to RM20m on account of the elevated costs and higher ETR of 29% - due to the absence of deferred tax expenses.

An essential nutritional item. 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 gradual reopening of the economy. DLADY has good leverage from the strength of its brands, increasing need and recognition of the nutritional value of milk, as well as complementing dairy products consumption amongst Malaysians. The company remains supportive of the local dairy farmers and is increasing the quantity and quality of local fresh milk. Demand for milk is sustainable as a trusted and an essential component of dietary nutrition. However, margins still remain challenging in the immediate term as global dairy prices are expected only to taper off by end of CY22.

Post results, we make no changes to our FY21E/FY22E earnings.

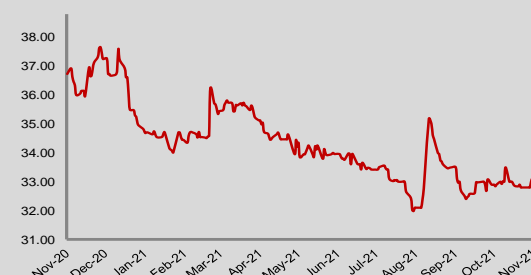
Reiterate OUTPERFORM. TP remained at RM40.20, pegged to an unchanged FY22E PER of 32x (implying 0.5SD above mean). The slight premium is to reflect its robustness and margins preservation due to its better product mix and sticky products demand as an important dietary nutrition. **OUTPERFORM** maintained.

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

OUTPERFORM ↔

Price : **RM33.02**
Target Price : **RM40.20 ↔**

Share Price Performance



KLCI	1,517.60
YTD KLCI chg	-6.7%
YTD stock price chg	-11.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLM MK Equity
Market Cap (RM m)	2,113.3
Shares Outstanding	64.0
52-week range (H)	38.10
52-week range (L)	31.92
3-mth avg daily vol	8,730
Free Float	23%
Beta	0.6

Major Shareholders

Frieslandcampina DLM	51.0%
Employees Provident Fund	11.1%
Skim Amanah Saham Bumiputera	10.1%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	1,101	1,156	1,167
EBIT	100	109	109
PBT	98	107	107
Net Profit (NP)	73	80	80
PATAMI	73	80	80
Consensus (NP)		94	99
Earnings Revision		0.0%	0.0%
Core EPS (sen)	114.6	124.9	125.6
Core EPS growth (%)	-28.7	9.0	0.5
NDPS (sen)	80.0	60.0	80.0
BVPS (RM)	2.6	3.3	3.7
PER (x)	28.8	26.4	26.3
PBV (x)	12.7	10.2	8.9
Net Gearing (x)	N.	N.	N.
	Cash	Cash	Cash
Net Div. Yield (%)	2.4	1.8	2.4

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Results Highlights								
Y/E : Dec (RM m)	3Q21	2Q21	QoQ Chg	3Q20	YoY Chg	9M21	9M20	YoY Chg
Turnover	290.7	284.0	2.3%	286.6	1.4%	833.3	811.3	2.7%
Gross Profit	100.2	102.6	-2.3%	83.0	20.6%	289.7	258.8	12.0%
Operating Expenses	(62.1)	(59.4)	4.5%	(65.4)	-5.0%	(180.7)	(178.4)	1.3%
EBITDA	39.4	44.9	-12.2%	17.6	-100.7%	116.3	86.9	33.9%
EBIT	29.4	35.9	-18.1%	12.6	-101.4%	88.3	72.0	22.7%
PBT/(LBT)	28.9	35.5	-18.5%	12.0	140.7%	86.7	70.1	23.6%
Taxation	(8.5)	(8.2)	4.3%	(3.0)	187.5%	(22.1)	(17.1)	29.2%
Net Profit	20.4	27.3	-25.3%	9.0	125.4%	64.5	53.0	21.8%
PATAMI	20.4	27.3	-25.3%	9.0	125.4%	64.5	53.0	21.8%
Core EPS (sen)	31.8	42.6	-25.3%	14.1	125.4%	100.8	82.8	21.8%
DPS (sen)	25.0	0.0	#DIV/0!	40.0	-37.5%	50.0	80.0	-37.5%
Gross Margin	34.5%	36.1%		29.0%		34.8%	31.9%	
Opex Margin	21.4%	20.9%		22.8%		21.7%	22.0%	
EBITDA margin	13.6%	15.8%		6.1%		14.0%	10.7%	
EBIT Margin	10.1%	12.6%		4.4%		10.6%	8.9%	
PBT Margin	9.9%	12.5%		4.2%		10.4%	8.6%	
Core Net Profit Margin	7.0%	9.6%		3.2%		7.7%	6.5%	
ETR	29.5%	23.0%		24.7%		25.5%	24.4%	

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	1.50	1,689.5	N	12/2021	7.2%	34.2%	-43.8%	98.5%	24.8	44.2	22.3	10.6	14.0	27.3%	3.3%	1.60	MP		
AEON CO. (M) BHD	1.41	1,979.6	Y	12/2021	-5.2%	13.7%	17.9%	109.4%	47.8	40.6	19.4	1.2	1.2	2.9%	2.0%	1.60	OP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.58	917.3	Y	12/2021	28.1%	-10.0%	19.0%	0.9%	19.6	16.4	16.3	4.1	4.1	25.0%	6.3%	6.05	OP		
DUTCH LADY MILK INDUSTRIES BHD	33.02	2,113.3	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.8	26.4	26.3	12.7	10.2	42.7%	1.8%	40.20	OP		
FRASER & NEAVE HOLDINGS BHD	25.04	9,184.1	Y	09/2022	4.8%	6.4%	0.3%	16.9%	23.2	23.2	19.8	3.3	3.1	13.7%	2.5%	32.45	OP		
MR D.I.Y.	3.56	22,354.2	Y	12/2021	27.4%	37.6%	33.9%	56.6%	66.3	49.5	31.7	25.5	19.2	44.2%	0.8%	4.10	OP		
MYNEWS HOLDINGS BHD	0.905	617.3	N	10/2021	-15.7%	54.7%	-10.2%	-283%	N.A.	N.A.	38.3	2.1	2.2	-3.1%	0.0%	0.900	MP		
NESTLE (MALAYSIA) BHD	133.80	31,376.1	Y	12/2021	1.9%	2.2%	18.2%	-10.0%	56.8	48.0	53.4	56.3	48.4	108.5%	1.8%	138.90	MP		
PADINI HOLDINGS BHD	2.82	1,855.3	Y	06/2022	23.3%	32.2%	75.4%	48.3%	34.4	19.6	13.2	2.3	2.2	11.6%	3.2%	3.20	MP		
POWER ROOT BHD	1.38	581.1	Y	03/2022	8.9%	7.4%	-36.2%	74.0%	20.8	32.5	18.7	2.2	2.0	6.4%	2.8%	1.35	MP		
QL RESOURCES BHD	4.50	10,951.5	Y	03/2022	12.3%	16.9%	-8.0%	21.5%	35.2	38.2	31.5	4.3	4.1	11.4%	0.8%	6.00	MP		
Simple Average					8.9%	17.8%	6.9%	12.1%	35.8	33.9	26.4	11.3	10.1	26.4%	2.3%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	13.92	3,974.6	N	12/2021	5.4%	1.6%	6.4%	2.2%	15.2	14.3	14.0	9.1	8.8	62.5%	6.5%	16.70	OP		
CARLSBERG BREWERY MALAYSIA BHD	20.44	6,249.5	N	12/2021	-1.6%	19.9%	18.4%	32.9%	35.6	30.1	22.6	32.0	24.9	96.1%	2.4%	23.10	MP		
HEINEKEN MALAYSIA BHD	21.88	6,609.9	N	12/2021	3.0%	17.2%	32.8%	15.9%	37.7	28.4	24.5	16.8	16.5	58.6%	3.4%	23.60	MP		
Simple Average					2.3%	12.9%	19.2%	17.0%	29.5	24.3	20.4	19.3	16.7	72.4%	4.1%				

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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