

# Dutch Lady Milk Industries Bhd

## Bottomline Still Prone to Erosion

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The easing dairy prices globally recently will not have an immediate earnings impact to DLADY which typically holds six months' worth of inventories. In any case, milk prices have started to climb again since Nov 2022. DLADY typically does not fully pass on higher input cost due to the B40 group constituting a huge proportion of its customers. We maintain our forecasts, TP of RM32.60 and MARKET PERFORM call.

We came away from DLADY's analyst briefing feeling assured of its long-term prospects. The key takeaways are as follows:

1. YTD in the post-Covid era, DLADY claimed that *Dutch Lady* is still the preferred dairy brand for Malaysians with 60% of domestic households choosing it as their choice of liquid milk products. Not surprisingly, the 1-litre and 2-litre packs are best sellers. YTD, the demand for its milk products grew 2% YoY, supported by reformulation of dairy products by reducing sugar and increasing calcium, proteins, and vitamins. These innovative new products marketed under *Banana Flavoured Milk* and *Juicy Milk Mango* were put onto the market during the festive season.
2. The easing dairy prices globally recently will not have an immediate impact on its earnings due to inventories acquired at high cost. DLADY typically holds six months' worth of inventories. The data from Global Dairy Trade (Nov 2022) even show that dairy milk prices have started to climb, confirming observations from other leading indicators that milk prices will indeed stay elevated well into 2023.
3. DLADY akin to its competitors has a moral obligation as well as ESG consideration to not excessively raise prices of its products. To maintain its resilient sales volume, the company will continue to focus on promotions and product innovations catering to local preferences while at the same mitigate elevated inputs costs. To promote operational efficiency and optimisation, it will source its milk powder from various strategically located branches of Friesland Campina, a Dutch multinational dairy cooperative, starting from May 2023.
4. Its Bandar Enstek manufacturing facility is expected to be fully operational by 2024. The installation and commissioning of the new site will take place in 2023 while the current manufacturing facility in Petaling Jaya will wind down commercial production. The new facility is 3x the size of the current one. In terms of production capacity, it is 2x the current one, expandable to 4x in the long term and can also be turned into a regional hub.

### Forecasts. Maintained.

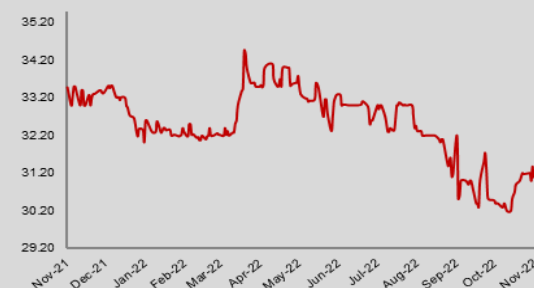
We like DLADY for: (i) it being the market leader in the dairy market in Malaysia, (ii) its earnings stability underpinned by the steady demand for staple food items despite the uncertain global economic outlook. However, its bottom line is vulnerable to erosion as it is unable to fully pass on the higher input cost given that the B40 group makes up a large proportion of its customer base.

We maintain our TP at RM32.60 based on an unchanged FY23F PER of 22x, which is consistent with the industry's average forward PER. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

# MARKET PERFORM ↔

Price : **RM30.54**  
Target Price : **RM32.60** ↔

### Share Price Performance



KLCI	1,488.80
YTD KLCI chg	-5.0%
YTD stock price chg	-8.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLM MK Equity
Market Cap (RM m)	1,954.6
Shares Outstanding	64.0
52-week range (H)	34.60
52-week range (L)	30.00
3-mth avg daily vol	3,867
Free Float	17%
Beta	0.4

### Major Shareholders

Frieslandcampina DLM	51.0%
Employees Provident Fund	15.9%
Skim Amanah Saham Bumiputera	11.1%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	1,134	1,304	1,330
EBIT	124	104	128
PBT	285	102	126
<b>Net Profit (NP)</b>	<b>248</b>	<b>77</b>	<b>95</b>
<b>PATAMI</b>	248	77	95
<b>CORE NP</b>	<b>93</b>	<b>77</b>	<b>95</b>
Consensus (NP)	N.m	79	95
Earnings Revision	N.m	0.0%	0.0%
EPS (sen)	387.5	119.8	148.1
Core EPS (sen)	144.9	119.8	148.1
Core EPS growth (%)	26.4	-17.3	23.6
NDPS (sen)	50.0	50.0	50.0
BVPS (RM)	6.0	6.7	7.7
PER (x)	7.9	25.5	20.6
PBV (x)	5.1	4.6	4.0
Net Gearing (x)	N.	N.	N.
	Cash	Cash	Cash
Net Div. Yield (%)	1.6	1.6	1.6

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**Risks to our call include:** (i) volatile food commodity prices, and (ii) further weakening of the MYR resulting in higher cost of imported raw materials.

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2020A	2021A	2022F	2023F	2024F	FY Mar	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	<b>1,100.7</b>	<b>1,133.7</b>	<b>1,303.8</b>	<b>1,329.9</b>	<b>1,343.2</b>	<b>Growth</b>					
Depreciation	(20.4)	(37.0)	(46.3)	(40.5)	(45.1)	Turnover	3.2%	3.0%	15.0%	2.0%	1.0%
<b>Operating Profit</b>	<b>100.0</b>	<b>123.9</b>	<b>103.6</b>	<b>128.2</b>	<b>138.7</b>	EBITDA	-25.1%	33.7%	-6.8%	12.5%	9.0%
Interest Inc/(Exp)	(2.5)	(2.0)	(1.7)	(2.2)	(2.7)	EBIT	-29.0%	23.9%	-16.4%	23.7%	4.6%
<b>Profit Before Tax</b>	<b>97.5</b>	<b>284.5</b>	<b>101.9</b>	<b>126.0</b>	<b>136.0</b>	PBT	-29.1%	191.8%	-64.2%	23.6%	4.1%
Taxation	(24.1)	(36.5)	(25.2)	(31.2)	(33.7)	Core PATAMI	-28.7%	238.1%	-69.1%	23.6%	4.1%
Net Profit	<b>73.4</b>	<b>248.0</b>	<b>76.7</b>	<b>94.8</b>	<b>102.3</b>	<b>Profitability</b>					
<b>Core Net Profit</b>	<b>73.4</b>	<b>248.0</b>	<b>76.7</b>	<b>94.8</b>	<b>102.3</b>	EBIT Margin	9.1%	10.9%	7.9%	9.6%	10.0%
						PBT Margin	8.9%	25.1%	7.8%	9.5%	9.8%
						Core Net Margin	6.7%	21.9%	5.9%	7.1%	7.3%
						Effective Tax Rate	24.8%	12.8%	24.8%	24.8%	24.8%
						ROE	15.6%	41.3%	10.0%	11.1%	10.7%
						ROA	47.2%	90.3%	18.9%	20.7%	18.9%
						<b>DuPont Analysis</b>					
						Net Margin	6.7%	21.9%	5.9%	7.1%	7.3%
						Assets Turnover (x)	2.2	1.6	1.6	1.5	1.4
						Leverage Factor (x)	3.0	1.8	1.9	1.8	1.7
						ROE (%)	47.2%	90.3%	18.9%	20.7%	18.9%
						<b>Leverage</b>					
						Debt/Asset (x)	0.03	0.00	0.00	0.00	0.00
						Debt/Equity (x)	0.10	0.00	0.00	0.00	0.00
						Net Debt	(38.90)	(118.56)	(92.80)	(42.51)	(8.88)
						Net Debt/Equity (x)	(0.23)	(0.31)	(0.22)	(0.09)	(0.02)
						<b>Valuations</b>					
						Core EPS (sen)	114.6	387.5	119.8	148.1	154.2
						NDPS (sen)	80.0	50.0	50.0	50.0	50.0
						BV/share (RM)	2.6	6.0	6.7	7.7	8.7
						PER (x)	26.6	7.9	25.5	20.6	19.8
						Div. Yield %	2.6%	1.6%	1.6%	1.6%	1.6%
						PBV (x)	11.7	5.1	4.6	4.0	3.5
						EV/EBITDA (x)	19.6	12.6	55.2	56.8	59.3

Source: Kenanga Research

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## Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>CONSUMER</b>																	
AEON CO. (M) BHD	OP	1.38	1.95	41.30%	1,937.5	Y	12/2022	8.9	10.2	46.4%	15.1%	15.5	13.5	1.1	7.2%	4.1	3.0%
AMWAY (MALAYSIA) HOLDINGS BHD	OP	5.02	5.65	12.55%	825.2	Y	12/2022	42.5	37.5	89.4%	-11.7%	11.8	13.4	3.5	30.6%	35.0	7.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	30.54	32.60	6.75%	1,954.6	Y	12/2022	119.8	148.1	-69.1%	23.6%	25.5	20.6	4.6	18.9%	50.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	20.98	26.11	24.45%	7,695.0	Y	09/2023	118.6	129.1	13.5%	8.8%	17.7	16.3	2.4	14.1%	62.5	3.0%
MR D.I.Y.	MP	2.10	2.00	-4.76%	19,801.7	Y	12/2022	4.9	7.1	6.8%	44.6%	42.9	29.7	14.3	36.4%	2.6	1.2%
MYNEWS HOLDINGS BHD	OP	0.620	0.700	12.90%	422.9	N	10/2022	(3.1)	3.2	-50.6%	-202.3%	N.A.	19.4	1.9	-9.0%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	138.90	115.65	-16.74%	32,572.0	Y	12/2022	270.1	295.2	11.1%	9.3%	51.4	47.0	60.8	113.2%	290.0	2.1%
PADINI HOLDINGS BHD	OP	3.44	4.30	25.00%	2,263.2	Y	06/2023	23.3	28.6	-0.3%	22.5%	14.7	12.0	2.3	16.5%	10.0	2.9%
POWER ROOT BHD	OP	2.31	2.50	8.23%	971.3	Y	03/2023	13.1	14.3	108.8%	9.5%	17.7	16.1	3.0	18.0%	10.0	4.3%
QL RESOURCES BHD	MP	5.57	6.00	7.72%	13,555.5	Y	03/2023	12.6	16.1	41.6%	27.1%	44.1	34.7	4.4	10.8%	6.0	1.1%
<b>Simple Average</b>								<b>61.1</b>	<b>68.9</b>	<b>19.8%</b>	<b>-5.4%</b>	<b>26.8</b>	<b>22.3</b>	<b>9.8</b>	<b>25.7%</b>		<b>2.6%</b>
<b>TOBACCO PRODUCTS &amp; BREWERIES</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	11.30	11.45	1.33%	3,226.5	N	12/2022	94.9	97.5	-4.9%	2.8%	11.9	11.6	8.1	69.5%	90.0	8.0%
CARLSBERG BREWERY MALAYSIA BHD	MP	22.80	23.05	1.10%	6,971.1	N	12/2022	105.2	114.6	56.0%	8.9%	21.7	19.9	32.6	147.9%	106.0	4.6%
HEINEKEN MALAYSIA BHD	MP	25.00	25.80	3.20%	7,552.5	N	12/2022	129.7	129.3	59.5%	-0.3%	19.3	19.3	19.1	99.2%	129.7	5.2%
<b>Simple Average</b>								<b>109.9</b>	<b>113.8</b>	<b>36.9%</b>	<b>3.8%</b>	<b>17.6</b>	<b>16.9</b>	<b>19.9</b>	<b>105.5%</b>		<b>5.9%</b>

Source: Bloomberg, Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	
<b>SPECIFIC</b>	Employee Training	★	★	★	
	Energy Efficiency	★	★	★	
	Food Safety & Quality	★	★	★	★
	GMO	★	★	★	★
	Nutrition, Health & Wellness	★	★	★	☆
	Occupational Health & Safety	★	★	★	☆
	Renewable Energy	★	★	★	
	Sustainable Supply Chain	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	
	Water Efficiency	★	★	★	
<b>OVERALL</b>		★	★	★	

☆ denotes half-star  
★ -10% discount to TP  
★★ -5% discount to TP  
★★★ TP unchanged  
★★★★ +5% premium to TP

**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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