

# Dutch Lady Milk Industries

## Still Not Out of the Woods

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DLADY's 1QFY23 results disappointed, weighed down by high-cost inventories. While its top line was robust on the full reopening of the economy, restrained price hikes resulted in margin erosion. We cut our FY23-24F earnings forecasts by 14% each, reduce our TP by 9% to RM26.99 (from RM29.78) but maintain our MARKET PERFORM call.

1Q23 core net profit disappointed, coming in at only 12% each of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from the lingering impact of high-cost inventories, compounded by a strong USD vs. MYR. It did not announce a dividend, deviating from its usual quarterly dividend payouts.

**YoY**, revenue jumped 18% on strong festive sales and selective price hikes. However, gross profit was down by 4% with margin contracting 6ppts (from 34% to 28%) as restrained price hikes failed to fully pass on higher inputs cost and compounded by higher costs of inventories. Not helping either was the inflated costs of imported inputs due to a weaker MYR. EBIT fell 47% on higher depreciation expenses (including accelerated depreciation of RM3.1m. Its core net profit fell 49% compounded by a higher tax rate.

**QoQ**, revenue fell 2% with sales volume growing at only 1% indicating that the selective price hikes did not go down well with the consumers. However, EBIT jumped 41%, driven by the effect of product mix, selective price increases, and continued strong demand for dairy products. Core net profit rebounded to RM8m thanks to lower one-off recurring losses as compared to the preceding quarter.

We cut our FY23-24F earnings forecasts by 14% each on account of high-cost inventory in the books, moderate demand and a weak ringgit. The situation should improve in FY24 in the absence of high-cost inventory and assuming food commodity prices and MYR stabilises.

Consequently, we lower our TP by 9% to RM26.99 (from RM29.78) rolling over to FY24F 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).

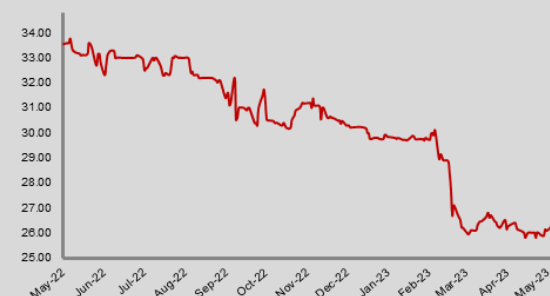
We like DLADY for: (i) its resilient top line underpinned by steady demand for staple food items despite an uncertain global economic outlook, (ii) the upside potential to its margins (beyond FY23) given the softening food commodity prices, (iii) its strong branding. However, it struggles to fully pass on higher input costs given that the B40 group makes up a large proportion of its customer base. Maintain at **MARKET PERFORM**.

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

## MARKET PERFORM ↔

Price : **RM26.00**  
Target Price : **RM26.99** ↓

### Share Price Performance



KLCI 1,402.48  
YTD KLCI chg -6.2%  
YTD stock price chg -14.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLM MK Equity
Market Cap (RM m)	1,664.0
Shares Outstanding	64.0
52-week range (H)	34.00
52-week range (L)	25.80
3-mth avg daily vol	8,487
Free Float	22%
Beta	0.5

### Major Shareholders

Frieslandcampina DLM	51.0%
Employees Provident Fund	11.1%
Skim Amanah Saham Bumiputera	10.8%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1,339	1,366	1,380
EBIT	95	102	108
PBT	97	99	104
<b>Net Profit (NP)</b>	<b>89</b>	<b>75</b>	<b>79</b>
<b>PATAMI</b>	<b>89</b>	<b>75</b>	<b>79</b>
<b>CORE NP</b>	<b>89</b>	<b>75</b>	<b>79</b>
Consensus (NP)	-	91	97
Earnings Revision	-	-14%	-14.0%
EPS (sen)	139.3	116.5	122.7
Core EPS (sen)	139.3	116.5	122.7
Core EPS growth (%)	-3.8	-16.4	5.3
NDPS (sen)	50.0	60.0	80.0
BVPS (RM)	6.9	7.4	7.9
PER (x)	18.7	22.3	21.2
PBV (x)	3.8	3.5	3.3
Net Gearing (x)	N. Cash	N. Cash	0.17
Net Div. Yield (%)	1.9	2.3	3.1

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## Results Highlights

FYE Dec (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Turnover	354.3	361.7	-2.0%	299.9	18.2%	354.3	299.9	18.2%
Gross Profit	97.6	101.6	-3.9%	101.8	-4.1%	97.6	101.8	-4.1%
Operating Expenses	(72.2)	(83.4)	-13.5%	(64.4)	12.0%	(72.2)	(64.4)	12.0%
EBITDA	23.1	19.0	21.5%	36.4	-99.4%	23.1	36.4	-36.6%
EBIT	14.7	10.4	41.3%	27.8	-98.5%	14.7	27.8	-47.0%
Extraordinary items	(2.0)	(42.9)	-95.4%	0.0	N.m	(2.0)	0.0	N.m
PBT/(LBT)	12.0	(32.8)	-136.6%	27.4	-56.3%	12.0	27.4	-56.3%
Taxation	(3.5)	12.5	-127.6%	(6.9)	-49.5%	(3.5)	(6.9)	-49.5%
Net Profit	8.5	(20.2)	-142.1%	20.6	-58.6%	8.5	20.6	-58.6%
Core Net Profit	10.5	22.7	-53.8%	20.6	-49.1%	10.5	20.6	-49.1%
EPS (sen)	16.4	35.4	-53.8%	32.1	-49.1%	16.4	32.1	-49.1%
DPS (sen)	25.0	0.0	N.m	25.0	0.0%	0.0	25.0	-100.0%
Gross Margin	27.6%	28.1%		34.0%		27.6%	34.0%	
EBITDA margin	6.5%	5.2%		12.1%		6.5%	12.1%	
EBIT Margin	4.2%	2.9%		9.3%		4.2%	9.3%	
PBT Margin	3.4%	-9.1%		9.1%		3.4%	9.1%	
Core Net Profit Margin	3.0%	6.3%		6.9%		3.0%	6.9%	
ETR	28.9%	38.3%		25.0%		28.9%	25.0%	

Source: Company, 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.
CONSUMER																	
7-ELEVEN MALAYSIA HOLDINGS BHD	OP	2.04	2.38	16.67%	2,264.5	N	12/2023	6.7	8.5	11.5%	26.3%	30.4	24.0	16.4	57.0%	2.7	1.3%
AEON CO. (M) BHD	OP	1.35	1.80	33.33%	1,895.4	Y	12/2023	9.1	10.0	15.2%	9.4%	14.8	13.5	1.1	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.00	26.99	3.81%	1,664.0	Y	12/2023	116.6	122.7	-16.4%	5.2%	22.3	21.2	3.5	16.3%	60.0	2.3%
FRASER & NEAVE HOLDINGS BHD	OP	25.98	28.44	9.47%	9,528.9	Y	09/2023	118.6	129.1	13.5%	8.8%	21.9	20.1	3.0	14.1%	62.5	2.4%
MR D.I.Y. GROUP (M) BHD	MP	1.62	1.67	3.09%	15,282.0	Y	12/2023	6.3	6.4	24.8%	2.7%	25.8	25.2	9.2	38.1%	4.0	2.5%
MYNEWS HOLDINGS BHD	UP	0.465	0.410	-11.83%	317.2	N	10/2023	1.0	2.2	-135.8%	127.7%	48.8	21.4	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	134.50	121.18	-9.90%	31,540.3	Y	12/2023	303.0	305.1	14.6%	0.7%	44.4	44.1	44.8	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.79	6.00	58.31%	2,493.5	Y	06/2023	35.8	39.7	53.0%	10.8%	10.6	9.5	2.6	25.3%	10.0	2.6%
POWER ROOT BHD	OP	2.05	2.70	31.71%	882.6	Y	03/2024	14.3	15.2	0.8%	6.0%	14.3	13.5	2.5	18.1%	12.0	5.9%
QL RESOURCES BHD	OP	5.63	6.66	18.29%	13,701.5	Y	03/2023	14.3	17.7	60.3%	23.5%	39.3	31.8	4.4	12.1%	6.0	1.1%
SECTOR AGGREGATE					79,569.9							29.9	27.6	6.3	21.1%		2.3%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.86	12.00	10.50%	3,100.9	N	12/2023	102.1	103.5	11.0%	1.4%	10.6	10.5	7.8	75.4%	99.0	9.1%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.32	23.50	10.23%	6,518.5	N	12/2023	113.7	122.8	13.0%	8.0%	18.7	17.4	33.0	203.3%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	26.74	28.60	6.96%	8,078.1	N	12/2023	144.2	150.4	5.5%	4.3%	18.5	17.8	20.7	111.1%	144.2	5.4%
Sector Aggregate					17,697.5					9.3%	4.7%	16.4	15.7	20.5	129.9%		6.4%

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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