

# Southeast Asia Industry Focus

# ASEAN Consumer: Food for thought

Issue #03/15

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Jul 2015

## Reality bites

- **Macroeconomic factors and softening sentiment seen earlier this year flow down to companies' upcoming 2Q results**
- **Earnings forecasts revised down by c.2% since May and expect further downward revisions**
- **Consumer stocks have moderated since May, but not time to bottomfish yet**
- **Selective on stock picks. Look for cheaper valuation vis-à-vis historical average, turnaround story; avoid high-valuation counters with slowing growth**

**Watch out for 2Q15 results outcome.** We believe reality will bite in the upcoming CY2Q15 results reporting season (for quarter ending June) as the macro-economic headwinds flow down to companies' operating results. In fact, this scene could have stated to play out earlier when we witnessed more than one-third of our ASEAN consumer coverage report results that were below our expectations.

**2015 profit growth forecasts lowered to 12.3% from 18.3%; further downside is possible.** We have been lowering our net profit forecasts progressively since the beginning of the year, and have shaved c.6ppt off 2015 growth projections. From bottoms-up aggregated basis, we have further lowered FY15F profit growth forecasts by 2.8ppt to just 12.3%, from 15.1% (in May) and 18.4% (in Feb). Despite this, we still see downside risks on one-third of our coverage across the region. Factors that could lead to further downward revisions are slower topline growth, currency impact and margin contraction.

**No major turnaround seen in 2H15 on macro headwinds.** At this juncture, we do not expect a significant pick-up in 2H15 as consumer sentiment remains subdued, and regional currencies continue to have downside bias against the USD along with GDP growth. Consumer sector indices have retreated by between -3% and -25% from May till July, but we believe it is still not time to bottomfish.

**Selective on stock picks; stick with more attractive valuations, stock-specific catalysts.** Premised on our view that we are still facing further cuts in earnings, our strategy is to look for value in terms of valuation (vis-à-vis historical average) and turnaround story. On the flipside, we would avoid discretionary and/or high-valuation counters. We like DFI SP, INDF IJ and DELM SP for their subdued valuations. We would avoid UNVR IJ given its high valuation.

STI : 3,371.41  
 KLCI : 1,736.19  
 JCI : 4,869.85  
 SET : 1,447.44  
 PCOMP : 7,627.96

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### STOCKS PICKS

	Price	Mkt Cap	Target Price	Performance (%)		Rating
	Local	US\$m	Local	3 mth	12 mth	
Dairy Farm	8.65	11,696	10.42	(8.0)	(19.4)	BUY
Indofood Sukses Makmur	6,125	4,023	8,350	(17.2)	(13.1)	BUY
Del Monte Pacific	0.41	577	0.50	(12.9)	(20.9)	BUY
Unilever Indonesia	40,025	22,845	35,400	(0.8)	28.7	FULLY VALUED

Source: Bloomberg Finance L.P., DBS Bank, DBS Vickers, AllianceDBS

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**Overview: Reality bites**

**Impact of macro factors flowing down...** Since the first issue of our *ASEAN Consumer: Food for Thought* series in March 2015, our stance has been fringing on the cautious side. This was premised on the subdued consumer sentiment, currency volatility, muted GDP growth, juxtaposed with high valuations thus implying misplaced expectations, in our view. It seems that the situation is playing out as we had earlier envisaged.

**Expect reality to bite in 2Q results...** We believe reality will bite further in the upcoming CY2Q15 (2Q of calendar year 2015) results reporting season (for quarter ending June) as the macro-economic headwinds flow down to companies' operating results. In fact, we saw this scene starting to play out in the previous results reporting season (in May, for quarter ending March). Across our coverage, we witnessed more than one-third (or 38%\*) of our ASEAN consumer coverage reporting results that were below our expectations. This looks high relatively to 47%/16%\* that was within and above our expectations respectively.

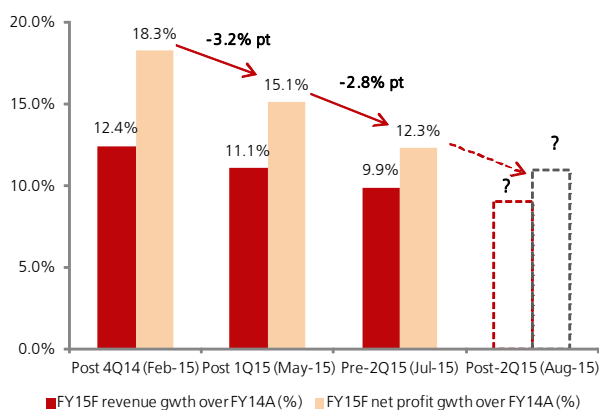
(\*Note: These revised numbers are different from the figure of 42%/46%/12% [below/in line/above expectations] indicated in our May issue as several companies had not reported their results then, particularly Malaysia-listed ones and those which have FYE March).

**Highlighted possible further earnings cuts in last issue.** Our forecasts showed that we had entered 2015 on a more optimistic note. Alas, this did not last. In our previous Food for Thought issue (dated 25 May 2015, "Moderate your appetite"), we had trimmed our aggregate net profit forecasts by c.2%. We also indicated that further earnings cuts were possible, given the macro headwinds that showed little signs of a quick turnaround.

**2015 profit growth forecasts lowered to 12.3% from 18.3%.** We have been lowering our net profit forecasts progressively since the beginning of the year, and have shaved c.6ppt of growth off our 2015 net profit forecasts. From bottoms-up aggregated basis, we have lowered FY15F profit growth forecasts over FY14 to just 12.3%, 15.1% (in May) and 18.3% (in Feb) (see chart below).

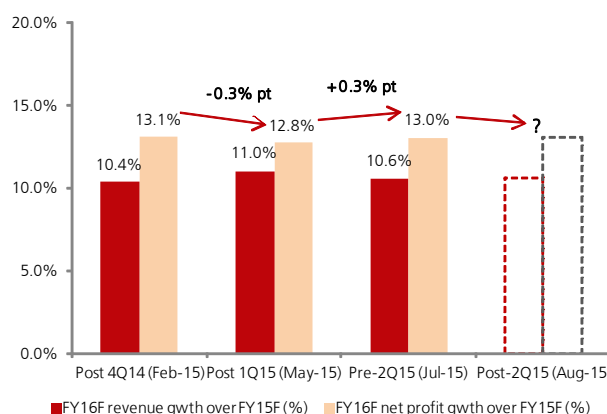
In terms of growth forecasts in 2016, it has largely been unchanged, but do note that in absolute terms, forecasts have also been lowered. This did not show in terms of growth (from FY15 into FY16), largely due to lower base effect where we have lowered 2015 forecasts.

**Cuts to FY15F growth forecasts from Feb'15 to Jul'15**



Source: DBS Bank estimates

**FY16F growth (over FY15F) largely maintained (for now)**



Source: DBS Bank estimates

## ASEAN Consumer: Food for thought

## Aggregate change in net profit forecasts (country) from Feb'2015 to May'2015

Change in profit forecasts from Feb-15 to May-15	FY15F	FY16F	Comments
Singapore	-0.9%	-2.7%	Arising from cuts in OSIM, Petra forecasts arising from 1Q results coming in below expectations
Malaysia	-10.9%	-11.0%	Revisions across the board from impact of GST implementation, leading to even softer consumer sentiment, higher cost of business, GST absorption (e.g. BAT)
Thailand	-5.0%	-5.4%	Revisions across the board from weaker domestic outlook, consumer sentiment
Philippines	-0.5%	1.7%	
Indonesia	-0.6%	-0.9%	Limited revision, as outlook
<b>Total</b>	<b>-2.8%</b>	<b>-3.1%</b>	

## Aggregate change in net profit forecasts (country) from May'2015 to Jul'2015

Change in profit forecasts from May-15 to Jul-15	FY15F	FY16F	Comments
Singapore	-0.3%	0.0%	
Malaysia	-0.3%	1.2%	
Thailand	-4.3%	-3.0%	Downward revision due to CPF
Philippines	-3.1%	-2.7%	Revision across the coverage, factors ranging from higher opex, operations, higher raw material prices.
Indonesia	-5.4%	-6.9%	Revision mainly from ICBP and INDF lowering volume and ASP estimates on consumer products on the back of slower consumer sentiment, and agri contribution
<b>Total</b>	<b>-2.7%</b>	<b>-2.5%</b>	

Source: DBS Bank estimates

## 2Q preview – indicating further downside to forecasts

**Downside risks on one-third of our ASEAN consumer coverage.** In the lead up to the upcoming results reporting season for quarter ending June 2015, we did a review on our ASEAN consumer coverage. Our assessment points to further downside forecast. We currently see this on about one-third of our consumer coverage in the region. We believe factors driving further revision downward could be from:

1. Slower topline, due to consumer sentiment, same-store-sales growth. This is likely to impact discretionary consumer counters.
2. Currency impact, leading to translation losses, and higher raw material prices.
3. Margin contractions arising from absorption of higher taxes (excise, GST) or increase in competition to drive volume amid softer sentiment.

## Forecasts upside/downside and current forecasts vs consensus mean (FY1 and FY2)

Company	FYE	YTD as %		DBS vs Consensus		DBS Forecasts Upside/Downside	Comments/ Reason
		FY14	FY15	FY1	FY2		
<b>Singapore</b>							
Thai Beverage PCL	Dec	28%	27%	100%	100%	nil	While consumer sentiment looks weak, expect consumption to remain relatively resilient. Gross margin likely to have upside due to lower raw material prices.
Dairy Farm Int'l Hldgs Ltd	Dec	0%	0%	98%	90%	nil	Southeast Asia operations, while challenging has been factored in our estimates. YTD 0% given half-yearly reporting.
Fraser and Neave Ltd	Sep	136%	45%	98%	106%	Downside	Weaker MYR, slower consumption compared to previously
Petra Foods Ltd	Dec	27%	15%	100%	94%	Downside	Slower sentiment, fuel hike and weaker IDR. 60% of costs denominated in USD. Downside to gross margins.
Super Group Ltd	Dec	31%	21%	99%	98%	Downside	1Q tracking behind. Slower rate of recovery.
OSIM International Ltd	Dec	27%	14%	108%	101%	Downside	Weaker consumer sentiment within the region. 1Q tracking far behind forecasts.
Sheng Siong Group Ltd	Dec	27%	27%	98%	96%	nil	Staple expected to remain resilient. 1Q tracking within expectations.
Del Monte Pacific Ltd	Apr	0%	0%	105%	102%	nil	Announced FYE Apr'15 results on 29 June. Pace of recovery should persist.
Courts Asia Ltd	Mar	0%	0%	109%	96%	nil	Weak sentiment but already factored in previously.

## Forecasts upside/downside and current forecasts vs consensus mean (FY1 and FY2) (cont'd)

Company	FYE	YTD as %		DBS vs Consensus		DBS Forecasts Upside/Downside	Comments/ Reason
		FY14	FY15	FY1	FY2		
<b>Malaysia</b>							
British American Tobacco Malaysia Bhd	Dec	25%	25%	103%	103%	Downside	Weak consumer sentiment. Also BAT has absorbed 6% GST from mid-April till June, which could impact its FY15 margin.
QL Resources Bhd	Mar	22%	105%	98%	97%	Downside	Product ASP growth hitting plateau after hitting upcycle, mainly from increasing supply of eggs and poultry. Increased supply of eggs and poultry post shortages last year, driving down ASPs.
MSM Malaysia Holdings Bhd	Dec	22%	25%	103%	104%	nil	Earnings likely to benefit from the lower raw sugar price.
Padini Holdings Bhd	Jun	85%	94%	88%	100%	Downside	Despite already significantly below consensus. Qtr end-June'15 could be particularly weak due to full absorption of 6% GST and weak consumer sentiment
Oldtown Bhd	Mar	0%	0%	108%	110%	Downside	Pick-up in demand not likely to happen post-GST as earlier expected.
<b>Thailand</b>							
CP All PCL	Dec	28%	26%	98%	96%	nil	Earnings growth is intact, fuelled by a larger network of close to 700 stores and fatter margins. CPALL offers small ticket size items and is a food staple retailer, which will perform better than retailers of discretionary items.
Charoen Pokphand Foods PCL	Dec	35%	39%	82%	90%	Downside	Weak domestic consumption. Export is also weak. Downside to company's revenue target of 10%.
Big C Supercenter PCL	Dec	17%	18%	98%	102%	nil	Expectation of slower growth ahead has already been factored in. Our FY15F earnings forecast is 2% below market consensus.
Minor International PCL	Dec	32%	39%	100%	103%	nil	Weak domestic consumer sentiment which will pressure SSSG of its food unit but we have already factored this in. Nonetheless, outlet expansion and solid hotel operations should fuel earnings growth.
Thai Union Frozen Products PCL	Dec	19%	24%	98%	101%	nil	Although 1Q results were below market expectations, earnings should gather pace in 2Q and 3Q.
Home Product Center PCL	Dec	22%	20%	102%	98%	nil	We have already revised down SSSG and expansion targets.
MK Restaurant Group PCL	Dec	23%	21%	97%	98%	nil	Weak domestic consumer sentiment but we have already factored this in.
Central Plaza Hotel PCL	Dec	43%	47%	106%	105%	nil	Weak domestic consumer sentiment which will pressure SSSG of its food unit but we have already factored this in. Nonetheless, outlet expansion, improving food margin, and recovering hotel operations would be key earnings drivers.
<b>Indonesia</b>							
Kalbe Farma Tbk PT	Dec	24%	23%	97%	95%	nil	Already factored in weakness in demand.
Indofood Cbp Sukses Makmur Tbk PT	Dec	27%	28%	94%	92%	nil	Earnings already adjusted to factor in weakening demand.
Indofood Sukses Makmur Tbk PT	Dec	36%	22%	92%	93%	nil	Earnings already adjusted to factor in changes in ICBP and IFAR, as well as a weaker wheat flour demand.
Matahari Department Store Tbk PT	Dec	9%	9%	105%	104%	Downside	Possibly weaker-than-expected SSSG.
Mitra Adiperkasa Tbk PT	Dec	200%	4%	97%	92%	nil	Zero-coupon bond issuance completed. Interest savings expected to kick in starting 2H15.
Unilever Indonesia Tbk PT	Dec	24%	27%	94%	90%	nil	Already factored in weakness in demand.

Source: DBS Bank, DBSVickers, AllianceDBS, ThomsonReuters

**ASEAN Consumer: Food for thought**

These largely pertain to the possible downside on the weaker consumer sentiment leading to weaker same-store-sales growth (SSSG), weaker currencies thereby impacting on margins (imported raw materials, excise taxes, GST), and higher operating costs.

**No major turnaround seen in 2H15 on macro headwinds.** At this juncture, we do not expect a significant pick-up as consumer sentiment remains subdued, and regional currencies continue to have downside bias against USD along with GDP growth.

**Consumer sentiment remains weak.** It is no longer a surprise that consumer sentiment indicators point to weakness. Thailand's Consumer Confidence Index (CCI) slipped further to 74.4 in June, marking the 6<sup>th</sup> consecutive month of decline since hitting the recent peak in Dec 2014. Data from Philippines' Central Bank Consumer Expectations Survey (CES) showed that consumer sentiment weakened in 2Q15 to -16% (1Q15: -10%). This was on the back of expectations of higher commodity prices on the q-o-q increase in oil prices, higher tuition fees, as well as an unexciting outlook on (near-term) economic growth. In Singapore, our economist had recently cut his 2015/2016 GDP forecasts to 2.4%/2.9% respectively, from 3.2%/2.5% previously.

Over in Indonesia, our analyst conducted an on-the-ground visit to reaffirm the headline data. Channel checks in Indonesia suggest that sales in the Lebaran (Hari Raya Puasa) selling season may disappoint. The key takeaways were that consumer sentiment is indeed weak. Business owners are sceptical and pessimistic on business prospects, citing that this is the weakest Lebaran in the past couple of years. Sales have dropped c.20-30% y-o-y for some as consumers are pickier and competition is stiffening (for further details on Indonesia Consumer, please refer to our report dated 15 July 2015, ("[Brace for impact](#)").

**Performance review****Stock picks' performance down along with overall market.**

The period from May to July was not pretty. Based on the various MSCI consumer indices, save for Malaysia staples, the retreat ranged from -2.9% to -25%. Taking an average, returns were -7.4%. The simple average returns of our picks was a negative 5.2% in the period from our last issue till 15 July, slightly better than market's average but nothing to shout about.

The outperformers were Oldtown Berhad (OTB MK) and Minor International (MINT TB) which returned 1.9% and -4.9% respectively. The good performance was negated by DFI SP, PGOLD PM and INDF IJ, which dropped by 5.9%/7.6%/9.5% respectively.

**Total return 25 May till 16 July**

Stock picks (25 May 2015)	Total Return
Dairy Farm International Holdings Ltd	-5.9%
Oldtown Bhd	1.9%
Indofood Sukses Makmur Tbk PT	-9.5%
Puregold Price Club Inc	-7.6%
Minor International PCL	-4.9%
Average	<b>-5.2%</b>

\*Assuming equal weighted investment

Source: ThomsonReuters., DBS Bank

**Not time to bottomfish yet.** With the retreat in the past two months, is it time to bottomfish, one may ask? Closer but not yet, we think. Our views are premised on the fact that earnings downgrades have yet to be fully played out. We would take 2QCY15 earnings as an indicator. In the meantime, we prefer to stick to our call for more stable and defensive plays, while avoiding high-valuation counters and/or with downside earnings risks.

**Stock picks:**

**Stick to stocks with more attractive valuations, stock-specific catalysts...** Premised on our view that we are still facing further cuts in earnings, our strategy is to look for value in terms of valuation (vis-à-vis historical average) and turnaround story. On the flipside, we would avoid discretionary, high-valuation counters.

**Grocery retailers – DFI, PGOLD.** We still stick to grocery retailers given their more resilient profiles and the region's secular growth with rising affluence and urbanisation. Dairy Farm [DFI SP, BUY; TP: US\$10.42] and PureGold Price Club [PGOLD, BUY; TP: PHP47.10] are our picks. It is interesting to note that they have recently corrected and are now trading at or near -1SD below their 5-year historical trading average.

**Staples, and branded food.** We still like Indofood Sukses Makmur [INDF IJ, BUY; TP: Rp8,350] for its low valuation vis-à-vis historical average, decent dividend yield and potential pick-up in earnings growth in FY16F. As an earnings turnaround story, we like Del Monte Pacific Ltd [DELM SP, BUY; TP: S\$0.50] after two consecutive years of losses following the acquisition of US-based Del Monte Foods Inc.

**Avoid high valuation counters like UNVR on near-term headwinds.** No doubt Unilever Indonesia Tbk PT [UNVR, FV; TP: Rp35,400] is the bellwether and a proxy for Indonesia consumer stocks, we avoid on the potential downside on earnings forecasts, coupled with its high valuations. It is trading at 50x FY15F, which is +2SD above its historical average.

**Omitted MINT TB and OTB MK.** We have omitted OldTown Berhad in this issue, given our view that consumption is unlikely to pick up in the near future post GST implementation, compared to our earlier views. For Minor International, while we still like it for its tourism recovery story in Thailand, we excluded it here to align with our call to avoid discretionary plays at this juncture till valuations are at a more attractive levels, e.g. below historical average PE.

#### Summary of picks

**Dairy Farm, BUY; TP: US\$10.42.** We are positive on Dairy Farm's valuations. The stock currently trades at 21.6x FY16F PE, which is below peer average, despite its relatively much bigger presence, operations and store network. Our SOTP-based method values the stock at US\$10.42, a modest PE valuation of 26x. We value its core business at US\$9.87 and its 20% stake in Yonghui Superstores at US\$0.73.

**Pure Gold (PGOLD) BUY, TP: PHP47.10.** S&R store segment is facing some challenges in the near term due to rising average inventory days, margin contraction, slower SSSG. However, we see its Puregold store segment delivering stronger growth this year – mitigating some of the weaknesses from S&R. The Puregold store segment is a beneficiary of the current low food inflation and oil price environment.

Moreover, the segment is best positioned to capture the boost in consumption leading up to the May 2016 elections, given its wide network of standalone stores, large exposure to mom-and-pop stores, and large SKUs of liquor and cigarettes versus peers. There could be further and/or prolonged share price weakness ahead of 2Q15 earnings results due to the overall weak market sentiment and our expectation of

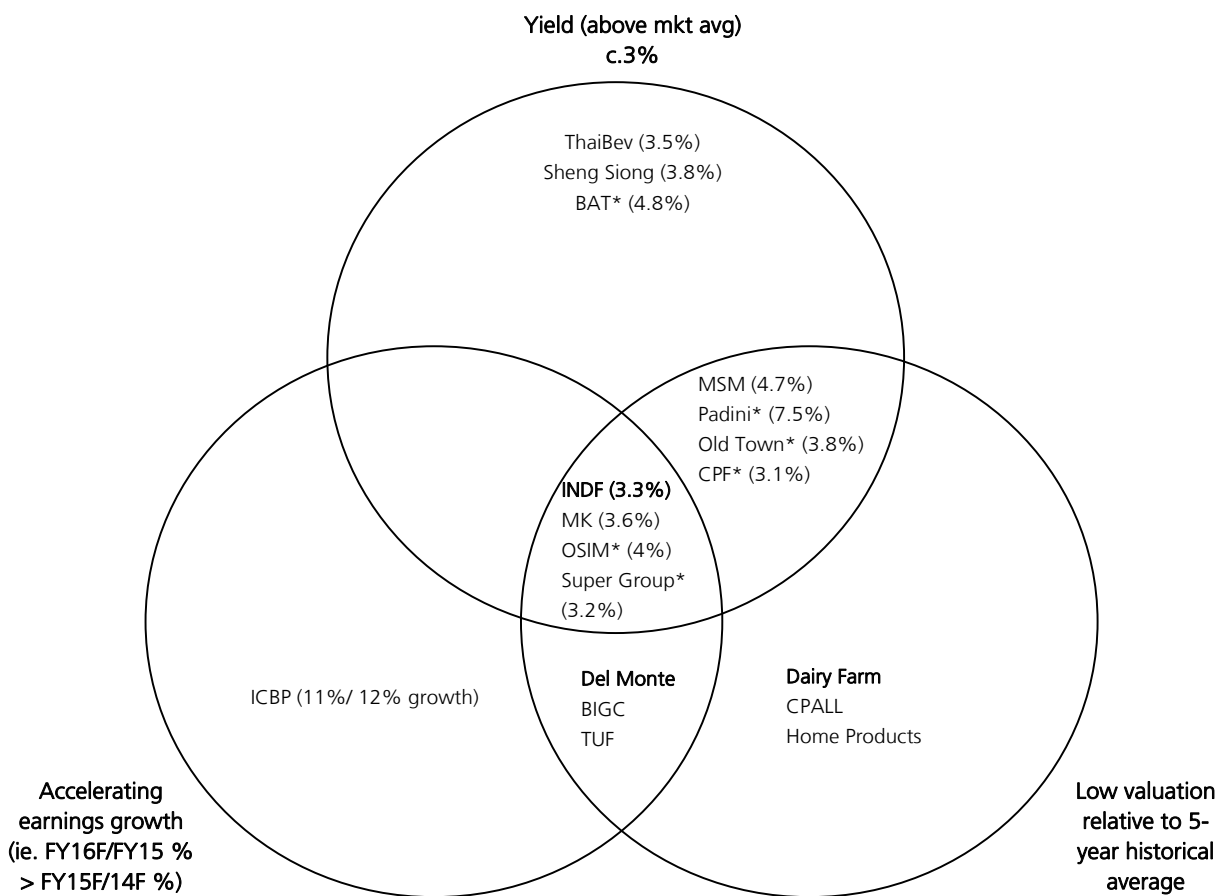
negative earnings surprise from S&R. The stock, however, is currently trading at an attractive 20.5x/17.6x FY15F/16F PE.

**Indofood Sukses Makmur, BUY; TP: Rp8,350.** INDF is a cheaper entry and proxy to Indonesia consumption story. At its current price, investors would gain exposure to its subsidiary, Indofood CBP (ICBP IJ) at c.21% to ICBP's current market price. In addition, INDF is currently trading below -1SD of its historical PE trading band, and offers a dividend yield of c.3.5%.

**Del Monte Pacific Limited, BUY; TP: S\$0.50.** We like DELM as a turnaround play, expecting an earnings inflexion point after two earnings of consecutive losses following its leveraged buy-out of US-based Del Monte Foods, Inc. (DMFI). While net gearing for the DELM remains high at 5x, we project this to decline progressively to 4.2x by FYE Apr'16F on the back of its cash generative operations. Valuations are undemanding at just over 10x FY16F PE and EV/EBITDA of 9x, vis-à-vis peers at high teens. We believe the stock will continue its re-rating path as operating performance shows and market confidence flows back into the counter.

**Avoid Unilever, FULLY VALUED; TP: Rp35,400.** We advocate avoiding UNVR, despite it being the proxy for Indonesia consumer counters. Valuations looks high at 49x FY16F PE, about +2SD above its 5-year historical average. Furthermore, we project that sales volume growth could decelerate amid the slowing domestic economy. In addition, a shift in revenue mix, a weak rupiah and difficulty in passing on cost increases to consumers would lead to weaker margins.

**Stock profiling through yield, earnings growth and valuation**



Note:

Stocks indicated with "\*" reflects potential downside earnings adjustment on forecasts

Figures within brackets reflect either dividend yield or earnings growth rate

Source: DBS Bank, DBSVickers, AllianceDBS, First Metro



## EETG – Eyes & Ears on the Ground

*[DBS ASEAN Consumer team: In this section, we bring you updates from the ground, pertaining to policies, economics, consumer sentiment, corporate developments, competition analysis, price wars and new product developments, which we believe will keep you up-to-date]*

Country	Comments
Singapore	<ul style="list-style-type: none"> <li>Automobile distributors are marketing their models aggressively as COE continues to trend down. Premium brands are seeing more mass market car owners trade up even as their premium price gap over mass market models narrows. The introduction of some "entry level" premium models is helping to drive the upgrading trend.</li> <li>May retail sales (ex motor vehicles) improved 0.9% y-o-y, driven by spending in departmental stores (+4.9%), supermarkets (+3.6%), convenience stores (+1.4%), medical goods (+10.3%) and watches &amp; jewellery (+1.3%). Including motor vehicles, retail sales would have improved 6.1% y-o-y as vehicle sales rose 46.6%. F&amp;B sales declined 3% y-o-y, dragged by restaurants (-5.9%).</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Industrial Production Index (IPI), which tracks overall industrial activity, grew at a faster pace of 4.5% y-o-y in May versus +4.0% in April. May growth was largely led by a steady output in the manufacturing sector (3.2% vs 4.2% in April) and stronger increase in the mining sector (+9% vs 3.9%).</li> <li>British American Tobacco announced that the price of a 20-stick pack would be increased by 30sen to RM12.30-13.80 (+2.3 %) effective 29 Jun. This translates into an increase of 1.5sen/ stick.</li> <li>According to Reuters, Japan's Aeon is interested in buying the Malaysian operations of British Tesco PLC, valued at US\$1.4bn (RM5.32bn).</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>The President signed the decree that allows the central government to maintain the supply and control the price of basic food necessities in the market during, before, and after a religious festive season, or during a period of price volatility. However, the Trade Minister has announced that the Ministry will not be issuing the operational procedures within this year due to lack of preparation time.</li> <li>Our visit and channel checks to Pasar Benhil and Pasar Tanah Abang suggest that the underlying consumer demand is indeed weakening. Our conversations with stallholders indicate that this selling season in the lead to Lebaran is the weakest in the last couple of years.</li> <li>In June, the Central Bank revised down its 2015 GDP forecast to 5.0-5.4% from 5.4-5.8% on the back of slowing exports, unrealised infra spending, as well as persistent pressure on commodity prices.</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>The draft constitution will be finalised by 21 Aug 2015, paving the way for a referendum in Jan 2016 and an election as early as August the same year. But the election would be delayed if the draft constitution is rejected.</li> <li>Consumer confidence hit a one-year low of 74.4 in June, and is expected to remain at this level as we see limited positive factors to lift sentiment, except the strong recovery of the tourism sector.</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>June 2015 inflation eases further to 1.2%, which is the lowest in 20 years. Food and Non-Alcoholic Beverage inflation slowed to 2.1% (prev: 3.2%) on slower price mark-ups across major food items.</li> <li>Consumer sentiment weakened in 2Q15 to -16% (1Q15: -10%). This was on the back of expectations of higher commodity prices on the q-o-q increase in oil prices, higher tuition fees, as well as an unexciting outlook on (near-term) economic growth. Households with savings also reached a record high of 34% (1Q15: 32%).</li> </ul>

Source: DBS Bank, DBS Vickers, AllianceDBS

**ASEAN Consumer: Food for thought**

**Performance Review and Regional Benchmark**

May to July saw retreat across the region. The period from May to July was tough with negative performances from all indices. China was hit by the retreat in the market since hitting a high in June. ASEAN markets fared better but still recorded negative returns. The weak macro data cast a pall outlook.

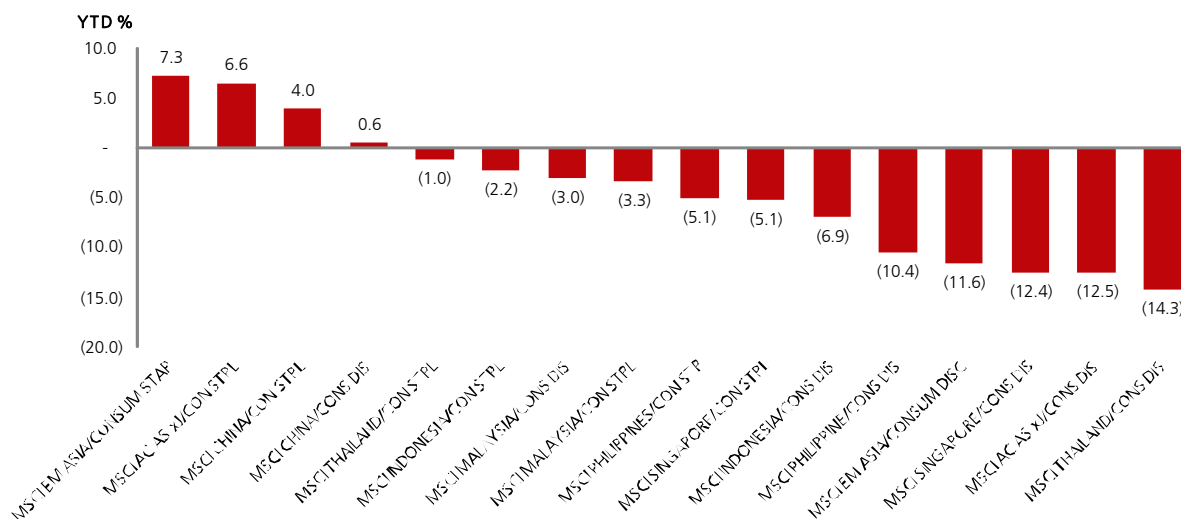
Emerging Asia outperforms, while Thailand Discretionary the key underperformer. YTD, Emerging Asia outperforms while China lost its lead after the market hit a snag since June. Within ASEAN, staples performed relatively better than discretionary as per our expectations, though all indices have slipped into negative territory YTD after a dismal performance since May. The muted performances are all not that surprising given the macro headwinds.

**Regional benchmark consumer indices' valuation and performance**

Benchmark Indices									
Index	PE (Act)	PE (Yr 1)	Div Yield	1M	3M	6M	1YR	QTD %	YTD %
<b>MSCI Consumer Staples</b>									
MSCI SINGAPORE/CON STPL	18.1	12.9	2.1	(2.1)	(4.1)	(2.3)	(11.5)	(2.3)	(5.1)
MSCI MALAYSIA/CON STPL	28.7	21.5	3.2	6.6	(3.6)	(2.4)	(12.4)	5.0	(3.3)
MSCI THAILAND/CON STPL	24.9	24.2	2.2	(0.1)	2.9	2.0	(8.0)	(2.9)	(1.0)
MSCI INDONESIA/CON STPL	29.0	22.0	2.0	0.7	(6.0)	(4.5)	0.2	1.7	(2.2)
MSCI PHILIPPINES/CON STP	34.4	29.8	1.6	(3.1)	(13.8)	(7.0)	18.5	(4.1)	(5.1)
MSCI CHINA/CON STPL	31.3	23.5	1.7	(2.3)	0.9	4.1	(8.7)	(1.0)	4.0
MSCI AC AS xJ/CON STPL	27.5	23.3	1.6	(0.2)	(4.0)	3.9	1.0	(0.9)	6.6
MSCI EM ASIA/CONSUM STAP	29.9	25.1	1.6	0.1	(3.9)	4.0	2.3	(0.8)	7.3
<b>MSCI Discretionary</b>									
MSCI SINGAPORE/CONS DIS	18.7	17.6	3.3	(3.1)	(10.3)	(6.9)	(20.3)	0.3	(12.4)
MSCI MALAYSIA/CONS DIS	19.8	17.0	1.8	(0.6)	(5.4)	2.1	(10.0)	1.3	(3.0)
MSCI THAILAND/CONS DIS	23.4	21.6	2.4	1.4	(12.0)	(14.2)	(15.7)	(2.1)	(14.3)
MSCI INDONESIA/CONS DIS	18.0	16.6	3.0	0.0	(15.2)	(6.1)	(11.1)	(1.6)	(6.9)
MSCI PHILIPPINE/CONS DIS	37.3	33.9	0.9	(2.9)	(9.7)	(8.7)	8.2	(2.4)	(10.4)
MSCI CHINA/CONS DIS	12.6	10.1	2.5	(10.7)	(23.3)	(0.7)	(7.9)	(11.3)	0.6
MSCI AC AS xJ/CONS DIS	10.8	11.6	2.6	(4.2)	(15.4)	(11.9)	(26.8)	(3.8)	(12.5)
MSCI EM ASIA/CONSUM DISC	10.1	10.5	2.1	(5.4)	(17.3)	(12.9)	(24.1)	(6.8)	(11.6)

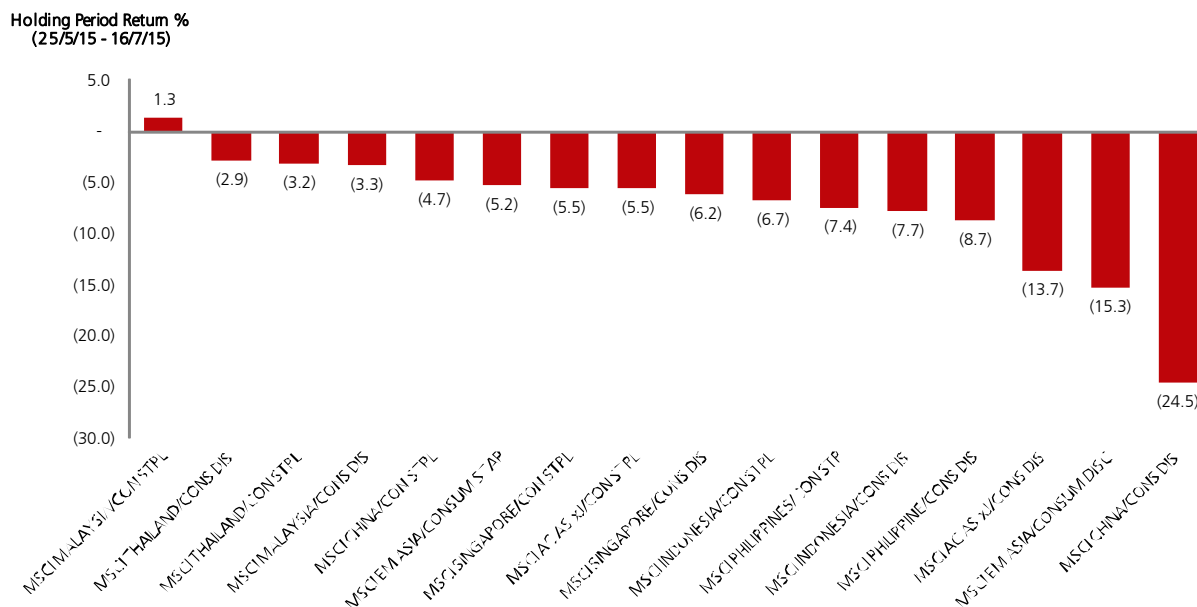
Source: Bloomberg Finance L.P., DBS Bank (as of 16 July 2015)

**Regional benchmark consumer indices' performance YTD**



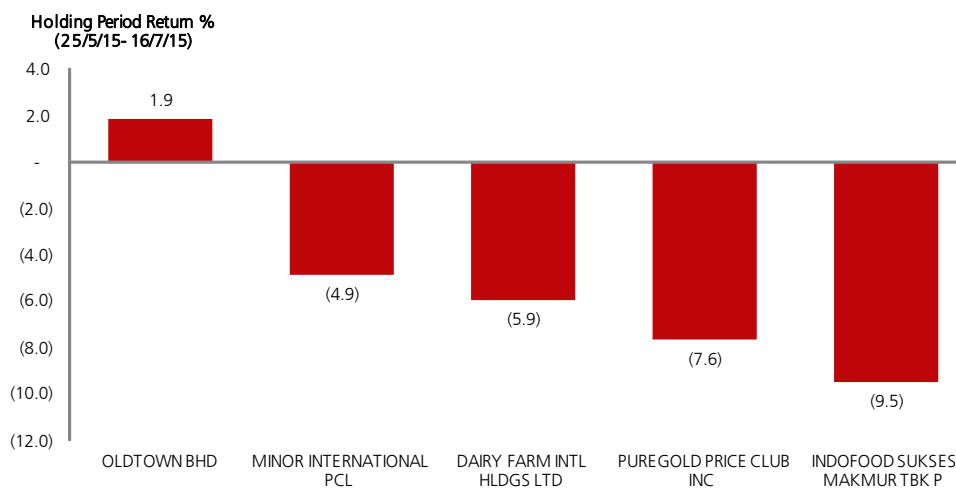
Source: Bloomberg Finance L.P., DBS Bank (as of 16 July 2015)

Regional benchmark consumer indices' performance from 25 May to 16 July 2015



Source: Bloomberg Finance L.P., DBS Bank (as of 16 July 2015)

Stock picks' performance since 25 May 2015



Source: Bloomberg Finance L.P., DBS Bank (as of 16 July 2015)

**ASEAN Consumer: Food for thought**

**DBS ASEAN consumer universe performance**

DBS Asean Stock Universe											
Company	Rating	TP	Country	1m	3m	6m	12m	YTD %	QTD %	Market Cap (US\$m)	Mkt cap weighted avg return
Thai Beverage	Buy	0.81	Singapore	-1.9%	-1.4%	12.9%	26.6%	12.9%	-2.5%	13,977	1.3%
DairyFarm Intl	Buy	10.42	Singapore	2.6%	-7.7%	-0.4%	-16.9%	-1.3%	0.3%	11,791	-0.1%
Fraser and Neave	Hold	2.74	Singapore	-4.1%	-7.1%	-2.2%	-12.0%	-3.3%	0.0%	2,745	-0.1%
Petra Foods	Fully Valued	3.01	Singapore	-2.6%	-15.3%	-10.2%	-10.6%	-9.0%	N/A	1,525	-0.1%
Super Group Sg	Hold	1.25	Singapore	-4.5%	-27.2%	-2.2%	-26.5%	-5.6%	-3.3%	866	0.0%
Osim Internation	Hold	1.82	Singapore	-12.3%	-18.8%	-10.7%	-43.0%	-21.7%	-0.8%	867	-0.1%
Sheng Siong	Buy	0.98	Singapore	1.2%	9.5%	23.6%	31.3%	25.4%	-1.2%	936	0.2%
Del Monte	Buy	0.50	Singapore	11.3%	-10.2%	-10.8%	-19.9%	-14.3%	2.3%	563	-0.1%
Courts Asia	Hold	0.45	Singapore	-1.2%	-9.1%	-14.9%	-27.2%	-17.5%	2.3%	164	0.0%
<b>Singapore return</b>											<b>0.9%</b>
BAT Malaysia	Buy	66.34	Malaysia	12.9%	-1.3%	1.7%	-0.4%	4.7%	-0.7%	4,995	0.2%
QL Resources	Buy	4.00	Malaysia	-0.5%	-0.5%	16.4%	16.4%	20.6%	0.0%	1,305	0.2%
MSM	Buy	5.75	Malaysia	-1.7%	2.9%	7.5%	11.6%	7.1%	N/A	953	0.0%
PADINI HOLDINGS	Hold	1.43	Malaysia	-3.0%	-8.0%	-2.2%	-28.9%	-7.5%	-1.4%	225	0.0%
Oldtown	Buy	2.09	Malaysia	2.5%	-5.7%	1.2%	-23.0%	12.0%	0.0%	197	0.0%
<b>Malaysia return</b>											<b>0.4%</b>
CP ALL	Buy	50.00	Thailand	-0.5%	12.0%	9.4%	-0.9%	10.7%	1.2%	12,170	0.9%
Charoen Pok Food	Buy	27.00	Thailand	-6.8%	-6.1%	-14.5%	-17.3%	-17.6%	0.8%	4,990	-0.6%
Big C Supercente	Hold	214.00	Thailand	-2.8%	-18.0%	-19.3%	-9.1%	-18.3%	0.0%	4,616	-0.6%
Minor Internat	Buy	37.50	Thailand	-3.3%	-10.6%	-3.0%	3.1%	0.7%	0.0%	3,804	0.0%
Thai Unin Frozen	Buy	26.70	Thailand	-2.4%	-3.8%	-8.7%	27.7%	-9.6%	0.0%	2,823	-0.2%
Home Product	Hold	7.80	Thailand	0.8%	-15.5%	-11.7%	-21.2%	-14.4%	-1.9%	2,523	-0.3%
MK Restaurant	Buy	67.00	Thailand	0.4%	-3.4%	-2.1%	-11.7%	-1.7%	-0.8%	1,501	0.0%
Central Plaza	Buy	43.00	Thailand	-5.1%	8.3%	19.5%	-2.2%	21.5%	0.7%	1,473	0.2%
<b>Thailand return</b>											<b>-0.5%</b>
Kalbe Farma	Hold	1900	Indonesia	5.9%	-7.4%	-3.7%	-4.2%	-6.3%	0.8%	5,954	-0.3%
Unilever ID	Fully Valued	35400	Indonesia	0.8%	5.2%	24.2%	31.1%	25.8%	0.7%	22,999	4.2%
Indofood CBP	Hold	13500	Indonesia	-1.2%	-9.9%	-0.2%	21.6%	-2.5%	-1.0%	5,484	-0.1%
Indofood Sukses	Buy	8350	Indonesia	-4.2%	-12.9%	-13.5%	-8.9%	-4.5%	1.4%	4,096	-0.1%
Matahari Dept	Buy	22200	Indonesia	6.0%	-3.5%	20.1%	13.9%	17.3%	-0.8%	3,783	0.5%
Mitra Adiperkasa	Hold	5625	Indonesia	-10.9%	-9.3%	-8.4%	-3.6%	-1.7%	-0.4%	621	0.0%
<b>Indonesia return</b>											<b>4.2%</b>

Source: Thomson Reuters, DBS Bank, DBS Vickers, AllianceDBS (as of 20 July 2015)

## FIP: Feature in Pictures

### Walking the market: A visit to Jakarta's traditional and wholesale market for a sense of consumer sentiment

#### DBS ASEAN Consumer team:

With Lebaran around the corner, one of us made a visit to Pasar Benhil and Pasar Tanah Abang. The former is a traditional market while the latter is the largest clothing market in Southeast Asia.

From observations and conversations with stallholders/ retailers there, it seems that the Lebaran sales this year have been the weakest in a couple of years and buyers are becoming more picky in their purchases. Rising food and energy prices have impacted purchasing power.

Our take-aways from the visit seems to be aligned with the trend seen in the Consumer Confidence Index. For further information on our take on Indonesia Consumer, please refer to our report dated 15 July 2015 ("[Indonesia Consumer Food & Retail: Brace for impact](#)") [click on link for report]

#### Pasar Benhil, Jakarta, Indonesia

We visited Pasar Benhil, which is a 40-year-old traditional market located in Central Jakarta, just next to Jakarta's Golden Triangle. 'Pasar' is Bahasa for 'market', while 'Benhil' is short for 'Bendungan Hilir' – its location. The market occupies a space of approx. 1.8Ha and houses more than 600 vendors. Items sold ranges from beef ribs to salak fruits to cooking wares, while most of its customers are resellers and warung (local street shop) owners.

#### Pasar Benhil



Source: DBSVickers Indonesia

**ASEAN Consumer: Food for thought**

**Pasar Tanah Abang, Jakarta, Indonesia**

Pasar Tanah Abang was first built in 1735 during the Dutch era. Reconstructions and revitalisations were carried out several times, with the most recent one in early 2000s. The multi-storey building complex is occupied by more than 20,000 shops and is the largest wholesale clothing market in Southeast Asia. There, buyers can find anything from plain tees to babies' bibs to lingerie. From what we understand, almost all the stores are catered to resellers as bulk purchases are required, i.e. minimum of a dozen per collection.

**Pasar Tanah Abang**



Sources of all pictures: DBSVickers Indonesia

## COUNTRY BRIEFINGS

**ASEAN Consumer: Food for thought**

**Singapore – Watch for downside earnings risks**

(Alfie YEO)

**Latest developments**

Area of focus	Details/Comments
2QGDP	Advanced GDP growth estimates for 2Q15 surprised on the downside with contraction of 4.6% q-o-q saar and 1.7% y-o-y growth. The decline is seen in all three key sectors – manufacturing, construction and services – reporting sequential contraction.
May retail sales	Retail sales (ex motor vehicles) improved 0.9% y-o-y, driven by departmental stores (+4.9%), supermarkets (+3.6%), convenience stores (+1.4%), medical goods (+10.3%) and watches & jewellery (+1.3%). Including motor vehicles, retail sales would have improved 6.1% y-o-y as vehicle sales rose 46.6%. F&B sales declined 3% y-o-y, dragged by restaurants (-5.9%).

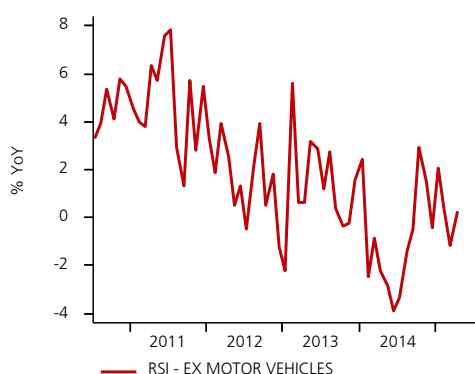
Source: DBS Bank

**Review & what to look out for.** It was an awakening moment for Singapore consumer counters in the past two months since 1Q15 results. Those which reported a weak set of numbers continue to suffer de-rating and a softness in share price. This, in our view, suggests that the market is probably realising that optimism could have been misplaced. OSIM, Super and Petra lost 4% to 12%. We continue to hold a muted view as per our last issue in May. Regional demand remains weak on macro headwinds, currency volatility and rising household debt.

**Downside to earnings forecasts.** Stocks which could miss our earnings expectations include Super, Courts, F&N, OSIM and Petra, on higher costs, lower margins, weak overall demand and currency risks. Nonetheless, we expect some non-discretionary plays to remain resilient (SSG, DFI, ThaiBev, DELM).

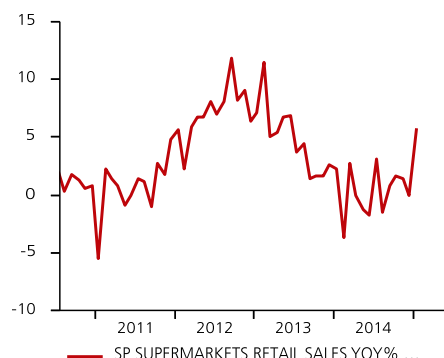
**Stock picks.** We favour both DELM and DFI. DELM is on an earnings recovery path, while DFI now trades at an attractive valuation of 21x forward PE vis-à-vis peer average of 26x PE.

**Singapore retail sales (ex motor vehicles)**



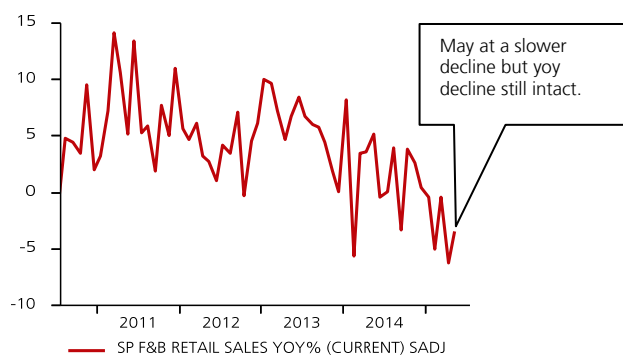
Source: Thomson Reuters Datastream, DBS Bank

**Singapore grocery retail sales**



Source: Thomson Reuters Datastream, DBS Bank

**Singapore F&B retail sales**



Source: Thomson Reuters Datastream, DBS Bank

Source: Thomson Reuters Datastream, DBS Bank

**Singapore real wage**



Source: Thomson Reuters Datastream, DBS Bank



## Malaysia – No post-GST hurray

(CHEAH King Yoong)

## Latest developments

Area of focus	Details/Comments
IPI	Industrial Production Index (IPI), which tracks overall industrial activity, grew at a faster pace of 4.5% y-o-y in May versus +4.0% in April. May growth was largely led by a steady output in the manufacturing sector (3.2% vs 4.2% in April) and stronger increase in the mining sector (+9% vs 3.9%).
Interest rate maintained	As expected, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 3.25% at the July Monetary Policy Committee meeting. BNM cautions on the vulnerability of the global growth recovery and highlighted the downside risks to growth among the major Asian economies.
BAT raising prices	British American Tobacco announced the price of a 20-stick pack would be increased by 30sen to RM12.30-13.80 (+2.3 %) effective 29 Jun. This translates into an increase of 1.5sen/ stick.

Source: AllianceDBS

**Review & what to look out for.** Although it has been more than three months after GST implementation in April, we observe that consumer spending and visits to shopping malls have not recovered to the pre-GST levels. Our observations are supported by the recent report released by The Malaysia Retailers Association (MRA) in early July, which has reduced its projected retail sales growth rate in 2015 for the third time from 4.9% to 4% as consumers scale back their spending due to: (1) higher costs of living; (2) weakening ringgit; and (3) increased cost of doing business. In the report, the MRA stated that retail sales grew 4.6% in the first quarter of 2015 and turned negative (-3%) in the second quarter. The association expected retail sales to recover by 4.8% in 3Q and further increase by 6.9% in 4Q.

Companies under coverage are poised to release their 3QCY15 results in the coming weeks. In general, we foresee downside risks to our earnings forecasts particularly on the consumer discretionary segment, dragged by (1) slower-than-expected recovery in consumer spending post GST implementation; (2) some companies may need to (partially)

absorb GST, which could hit their margins; and (3) increasingly competitive operating environment.

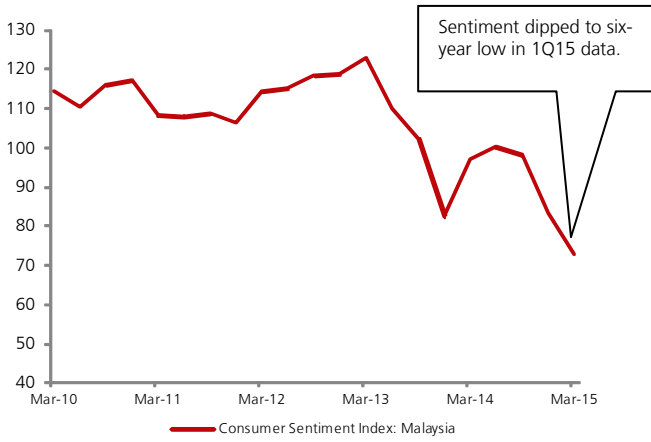
We remain cautious on the consumer sector's near-term prospects in view of the sluggish consumer sentiments. Nonetheless, we observe that with the sector's underperformance, value is starting to emerge on selective companies under our coverage.

**Stock pick.** For now, MSM (BUY, RM 5.75 TP) is our pick in Malaysia as the sugar industry is expected to benefit from the expiry of the Long Term Contract (LTC) mechanism in 2015. This will allow the sugar refiners to purchase raw sugar at global market price (c.15 US cents/lb vs LTC price of 26 US cents/lb).

We have dropped OldTown from our picks as we expect consumption to remain lacklustre after the restocking in 1QCY15. The subdued consumer sentiment is likely to affect its F&B operations, while its Branded Consumer segment may not be able to pick up the slack totally.

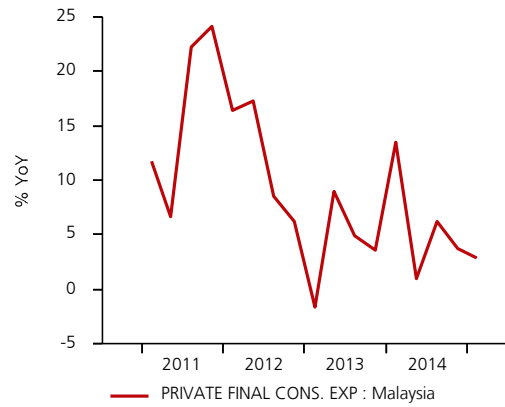
**ASEAN Consumer: Food for thought**

**Malaysia Consumer Sentiment Index**



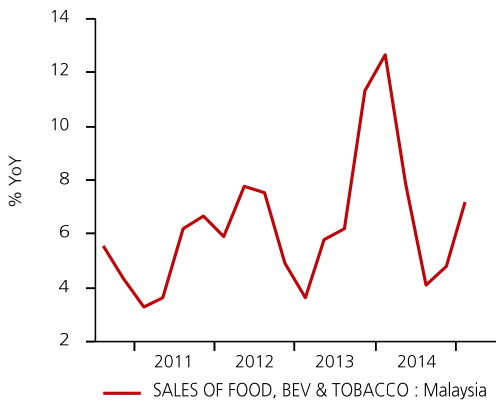
Source: MIER, Bloomberg Finance L.P.

**Malaysia private consumption growth**



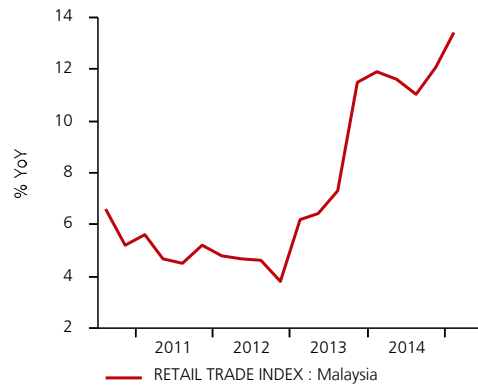
Source: Thomson Reuters Datastream

**Malaysia food, beverage and tobacco retail sales**



Source: Source: Thomson Reuters Datastream

**Malaysia retail trade index**



Source: Thomson Reuters Datastream

**Thailand – Sentiment remains weak; tourism is the only solid engine**

*(Namida Artispong)*

**Latest developments**

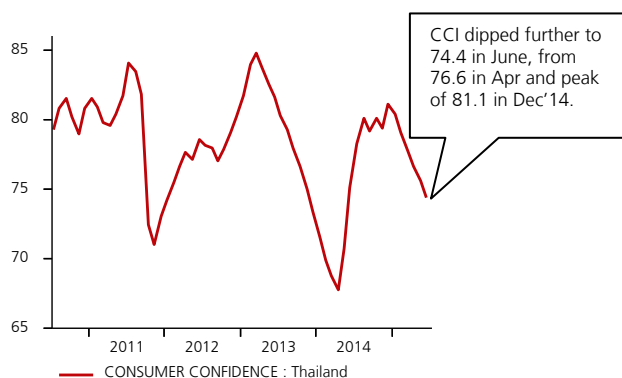
Area of focus	Details/ Comments
Political	The draft constitution will be finalised by 21 Aug, 2015, paving the way for a referendum in Jan 2016 and an election as early as August the same year. But the election would be delayed if the draft constitution is rejected.
Economic data	Drought would damage crop and reduce output which would lower farm incomes, especially for rice farmers and fresh water fisheries. The Ministry of Finance has forecasted that drought could reduce 2015 GDP by 0.15%.
Corporate development	Meat prices had bottomed out in March and have started to recover since then. Currently, swine prices have risen to Bt68/kg from Bt62/kg in 1Q15 while broiler prices have also improved from the low of Bt36/kg to Bt38/kg.

Source: DBS Vickers

**Confidence hit a one-year low.** Consumer confidence hit a one-year low of 74.4 in June, and is expected to remain at this level as we see limited positive factors that can lift sentiments, except the strong recovery of the tourism sector. The continued weakness has been blamed on low crop prices, a contraction in exports, drought in Thailand, labour issues in the fishing industry, and concerns over a sluggish global economy, especially after Greece defaulted on an IMF loan.

For 2Q15F earnings preview, food producers such as CPF and TUF tend to deliver stronger core results in 2Q compared to 1Q, given the low export season in the first quarter. Both sales and gross margin are expected to expand, thanks to higher meat prices for CPF and less intense competition in the tuna market in the United States for TUF. However, core earnings should be weaker y-o-y due to exceptionally high margins last year.

**Thailand Consumer Confidence Index**



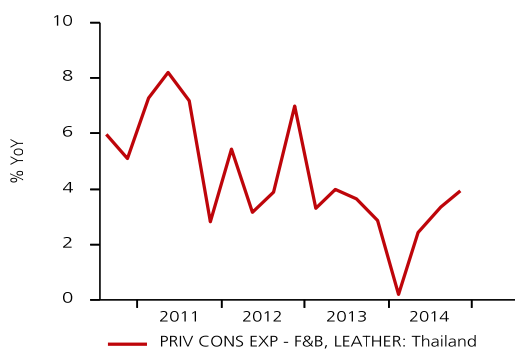
Source: Thomson Reuters Datastream

**Thailand retail sales growth**



Source: Thomson Reuters Datastream

**Thailand private consumption (Food, F&B, leather) growth**



Source: Thomson Reuters Datastream

**Thailand private consumption (Food) growth**



Source: Thomson Reuters Datastream

## ASEAN Consumer: Food for thought

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For food-related/hospitality players under our coverage, MINT and CENTEL should post positive SSSG (same store sales growth), albeit at low single digits, except for M which is expected to deliver negative SSSG. Both MINT and CENTEL should see earnings grow y-o-y, led by recovering tourist arrivals, fatter margins, and outlet expansions. Meanwhile, companies in the commerce (retail) sector under our coverage were pressured by lingering weak domestic consumer sentiment. Food staple retailer such as CPALL should perform better than retailers of discretionary items.

**Trimmed earnings by 4.1%/2.8% for FY15F/16F.** We have factored in the weak sentiment for consumer stocks under our coverage, and trimmed our forecasts for Thai-listed consumer stocks under our coverage. That said, we see further downside risk to CPF's earnings. Domestic meat prices have bottomed out since April but the recovery has been slow because the market is still absorbing the excess

supply. Meanwhile, the weaker THB against the US dollar does not boost CPF's export competitiveness as its competitors' currencies have also depreciated. Another issue to look out for in 2H15 is details of TUF's Preferential Public Offering (PPO) in July - the offer price and number of new shares issued to fund the Bumble Bee deal is expected to be revealed on 17 July, and the deal should be completed by October.

**Stock pick: MINT (BUY, THB27.50).** We continue to favour Minor International (MINT) for its attractive valuation relative to regional peers (24x FY15F PE vs peers' average of 27x). Earnings growth should be supported by the solid performance of existing hotels and consolidation of new hotels. Meanwhile, a larger food outlet network will be the key growth driver for the food unit. Its balance sheet remains relatively healthy with net debt-to-equity at 1.0x.

## Indonesia – Lebaran not sufficient to lift underlying demand

(Edwin Lioe/ Edward Tanuwijaya)

## Latest developments

Area of focus	Details/ Comments
Macroeconomics	In June, the Central Bank revised down its 2015 GDP forecast to 5.0-5.4% from 5.4-5.8% on the back of slowing exports, unrealised infra spending, as well as persistent pressure on commodity prices. A slowdown in the domestic economy will deter consumer spending and negatively impact consumer companies under our coverage.
F&B industry	President Jokowi signed the decree that allows the central government to maintain the supply and control the price of basic food necessities in the market during, before, and after a religious festive season, or during a period of price volatility. However, the Trade Minister has announced that the Ministry will not be issuing the operational procedures within this year due to lack of preparation time.
Removal of luxury tax and increase in import tax for certain luxury products	For the following products, luxury tax will be removed, while their import tax will be increased to 10% from 7.5%: <ul style="list-style-type: none"> <li>- Sporting equipment (previously taxed at 30%)</li> <li>- Branded bags &gt; Rp5m (previously taxed at 40%)</li> <li>- Branded clothing &gt; Rp3m (previously taxed at 40%),</li> </ul> Benefit to retail companies such as Mitra Adiperkasa (MAPI IJ) is minimal as the items above only constitute c.2% of its product mix.

Source: DBS Vickers

**Review & what to look out for.** We expect 2Q15 results to see similar weakness as 1Q15 in terms of sales volume. 1Q numbers were largely supported by increase in average selling prices across the companies, which we believe is unlikely to recur in the second quarter. From our observation, companies did not raise prices in 2Q as they were being cautious given the already slowing demand.

Moreover, we also expect sales from the Lebaran season this year to be relatively weaker than previous years. Our expectation is premised on our street checks, as well as Consumer Confidence data that remained weak in the second quarter.

In late June, we visited Pasar Benhil and Pasar Tanah Abang, which is a traditional market and the largest wholesale clothing market in Southeast Asia respectively. Some of our takeaways from the visits: (1) Lebaran sales this year is the weakest in the last couple of years; (2) buyers are becoming pickier in their purchase, emphasizing on value; and (3) rising food and energy prices have impacted purchasing power.

Referring to the consumer survey carried out by the Central Bank, Consumer Confidence Index (CCI) has been on a weak trend this year. Comparing 2Q15 to 1Q15, we did not see a meaningful pick-up even with the Lebaran season approaching, which led us to further believe that consumer demand is likely to remain unfavourable in the second quarter.

In terms of input costs, we note that commodity prices (e.g. wheat, palm oil, sugar, milk powder) are on a downward

trend between 4Q14 and 1Q15. Given the raw material inventory lead time of c.3-6 months which the companies adopt, we believe there could be potential upside to gross margins in 2Q15.

However, most of the soft commodities are either imported or denominated in foreign currencies. Therefore, a depreciating rupiah will partially negate the positive impact from lower commodity prices. Note that the rupiah weakened by c.8% against the US Dollar between 4Q14 and 1Q15.

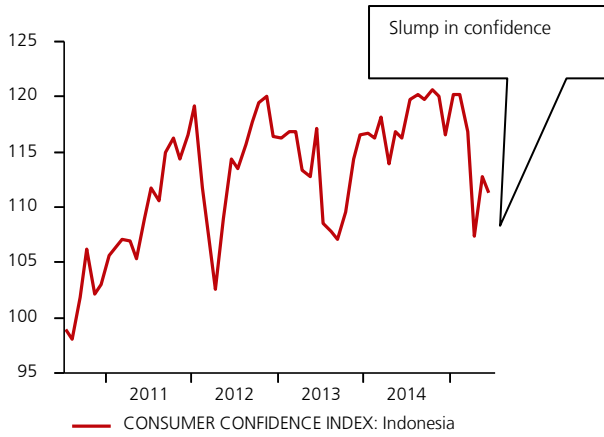
Our take is that the market has somewhat priced in the anticipation of a weak Lebaran, but further downside risk remains on the table. We expect downward revision on earnings post-2Q15 results due end of July.

**Stock picks.** In the current slowing demand environment, we believe that investors should stick to staple companies and hold off investing in retail companies. Demand for staple products tends to be more resilient during a period of slow economy compared to that of discretionary products. Investors should also watch out for potential valuation plays.

We remain positive on Indofood (INDF IJ) for exposure into Indofood CBP (ICBP IJ) which we believe is a good proxy to Indonesia's rising consumption trend. At the current share price, the valuation gap between the two companies is at a historical high and investors are getting ICBP at a 24% discount through INDF. We would avoid Unilever Indonesia (UNVR IJ) for its overpriced valuation, given slowing growth and potential contraction in margins. We expect Unilever to see a relatively flat earnings growth of just 2% this year.

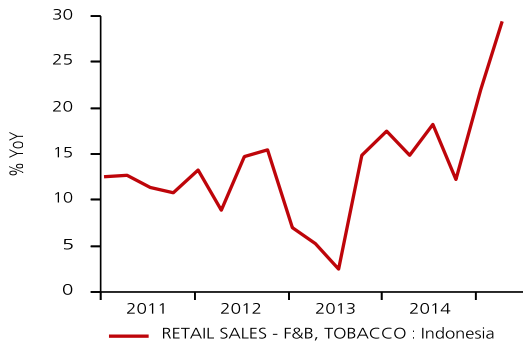
**ASEAN Consumer: Food for thought**

**Indonesia Consumer Confidence Index**



Source: Thomson Reuters Datastream

**Indonesia food, beverage and tobacco retail sales**



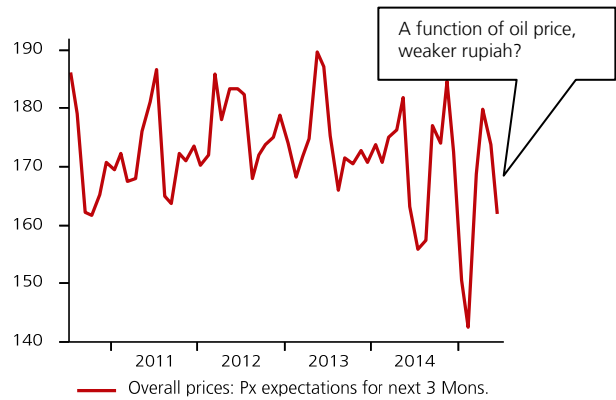
Source: Thomson Reuters Datastream

**Indonesia Retail Sales Index**



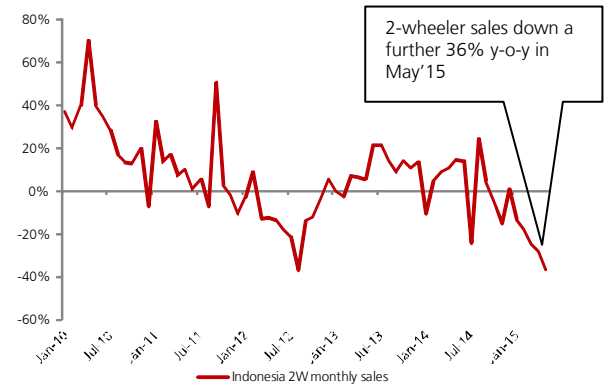
Source: Thomson Reuters Datastream

**Indonesia 3-month price expectations**



Source: Thomson Reuters Datastream

**Indonesia 2-wheeler sales (y-o-y change %)**



Source: Indonesia 2W association (AISI)

## Philippines – Stick to the basic necessities

(Ghia YUSON)

## Latest developments

Area of focus	Details/ Comments
Inflation	June 2015 inflation eases further to 1.2%, which is the lowest in 20 years. Food and Non-Alcoholic Beverage inflation slowed to 2.1% (prev: 3.2%) on slower price mark-ups across major food items. Inflation should remain soft in the near term due to base effects; El Niño still poses the biggest risk even with the onset of rainy season.
Consumer Expectations Survey	Data from the central bank's Consumer Expectations Survey (CES) shows that consumer sentiment weakened in 2Q15 to -16% (1Q15: -10%). This was on the back of expectations of higher commodity prices on the q-o-q increase in oil prices, higher tuition fees, as well as an unexciting outlook on (near-term) economic growth. Households with savings also reached a record high of 34% (1Q15: 32%).

Source: First Metro Securities

**Outlook & what to look out for.** Philippine consumer counters have underperformed the PSEi YTD (consumer universe weighted return = -7.5%, PSEi = +2.2%), largely due to earnings misses in 1Q15 and subsequent earnings downgrades from the Street. Near-term outlook appears less sanguine and our channel checks point to a possible downside risk, at least for 2Q15 earnings.

We see the usual suspects possibly impacting 2Q results: currency volatility and supply chain disruptions (leading to higher working capital requirements). More importantly however, we are also keeping watch of potential signs of slowing domestic demand, at least for FY15 (FY16 is an election year, and we see a potential uptick in consumption towards late FY15 to 1H16).

Core inflation continues to decline (Jun-2015: 2%) and we are of the view that political (arising from the upcoming FY16 presidential elections) and economic uncertainties may be hitting consumer sentiment. Surprisingly, marginal propensity to consume appears to be low; savings from lower oil and other commodity prices may be seen as temporary, resulting in possible delays in expenditures.

**2Q15 results: watch out for these factors.** For 2Q15 earnings, we see more downside than upside, specifically resulting from higher raw material vs 1Q15, currency weakness affecting demand in the region, and some supply chain bottlenecks. Demand may start to pick up towards late FY15 as we approach the May 2016 presidential elections. We enumerate some of the downside risk factors we saw in 2Q15:

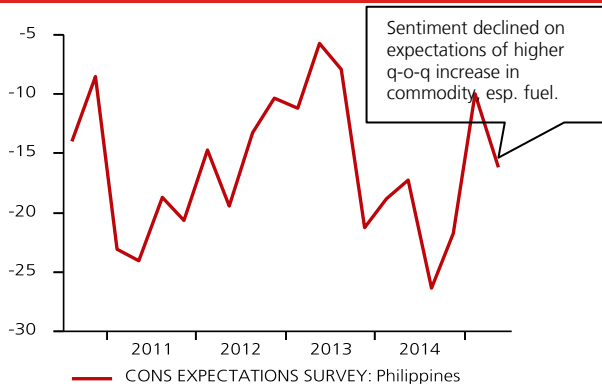
**2Q15 earnings: Watch out for these factors**

Century Pacific	Meat raw mat +9% q-o-q; skipjack off their year-lows, +12% m-o-m in June
Emperador	Vol growth muted; beer sales volume reportedly up mid single digits in first five months, possibly to the detriment of spirits
Jollibee	Beef higher y-o-y; Phils SSSG at low single digits on soft sales from Jollibee brand
Universal Robina	Currency depreciation across major markets vs 2Q14; q-o-q weakness in AUD (vs NZD), BHT and VND
Puregold	S&R sales impacted by slower turnover; S&R accounts for 18% of total topline
Robinsons Retail	Slower SSSG (supermarket segment) on weaker demand; topline may also be negatively affected by lower selling prices of non-consignment items (e.g. dressed chicken)

Source: First Metro Securities

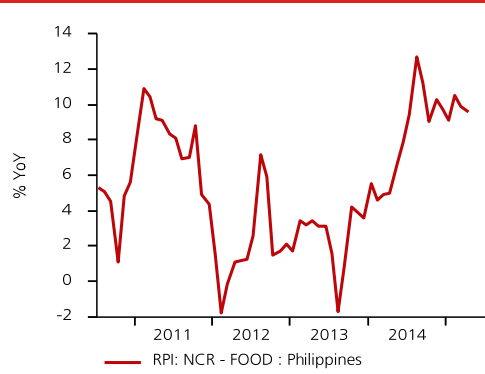
## ASEAN Consumer: Food for thought

### Philippines Consumer Confidence Index



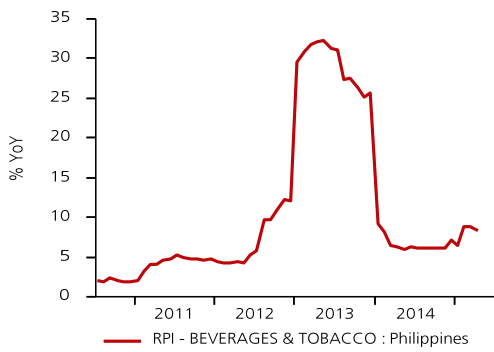
Source: Thomson Reuters Datastream

### Philippines food retail price



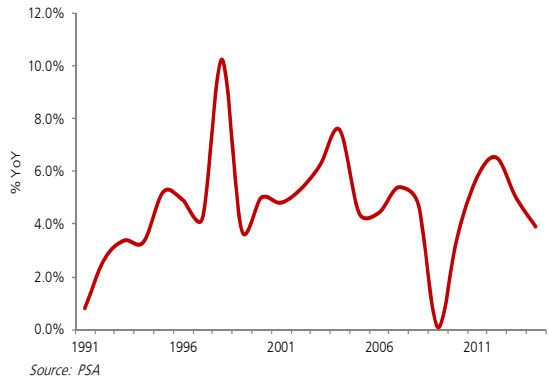
Source: Thomson Reuters Datastream

### Philippines beverage and tobacco retail price



Source: Thomson Reuters Datastream

### Philippines annual disposable income



Source: Thomson Reuters Datastream



**MACRO CHARTS / DATA**

**Macro – Economic Charts**

**Economic growth forecast & commentary**

GDP Growth (%)	2014	2015F	2016F
Singapore	2.9	2.4	2.9
Malaysia	6.0	4.9	5.0
Thailand	0.9	3.2	4.5
Indonesia	5.0	5.1	5.5
Philippines	6.1	6.0	6.2

Source: DBS Bank

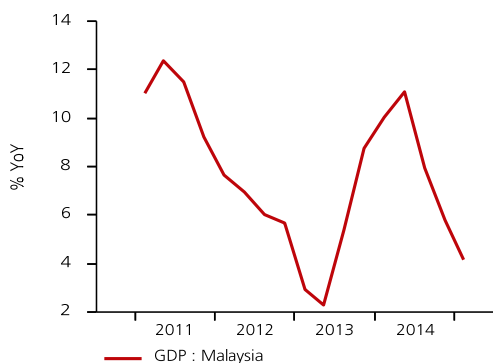
**Singapore GDP**



Outlook for the year remains cloudy, given risks in the global economy and divergence in monetary policies. Advanced 2Q15 GDP figures surprised on the downside. Our economist has cut his growth forecasts to 2.4%/2.9% (from 3.2%/3.5%) for 2015/2016.

Source: Thomson Reuters Datastream, DBS Bank

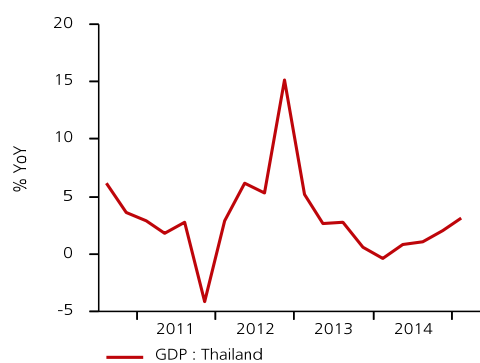
**Malaysia GDP**



Malaysia's GDP remains on track to meet our forecasts of 4.9% and 5% in 2015 and 2016 respectively. Domestic demand remains resilient but post-GST consumption growth is set to moderate.

Source: Thomson Reuters Datastream, DBS Bank

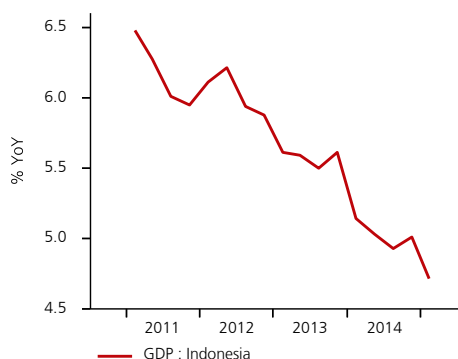
**Thailand GDP**



Downside risks to GDP growth remain. We have yet to see signs of a strong recovery in domestic demand and do not expect much of a boost from the recent rate cut by the Bank of Thailand.

Source: Thomson Reuters Datastream, DBS Bank

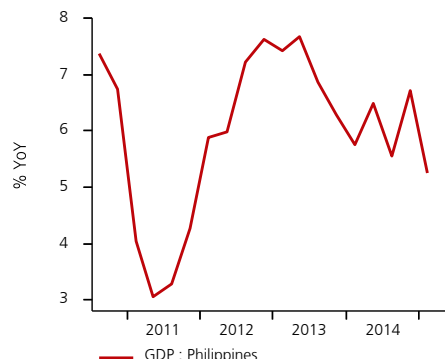
**Indonesia GDP**



Growth momentum remains weak and our economist continues to see downside risks to his 5.1% forecast for 2015.

Source: Thomson Reuters Datastream, DBS Bank

**Philippines GDP**



GDP growth is likely to come in above 6% again this year. Private consumption stays resilient, investment growth robust, offsetting impact from slower export growth this year.

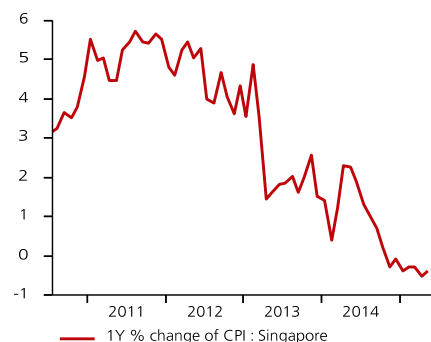
Source: Thomson Reuters Datastream, DBS Bank

**Inflation forecasts & commentary**

CPI Inflation (%)	2014	2015F	2016F
Singapore	1.0	-0.1	1.3
Malaysia	3.1	2.1	3.0
Thailand	1.9	-0.2	2.0
Indonesia	6.4	6.4	5.7
Philippines	4.2	2.5	3.7

Source: DBS Bank

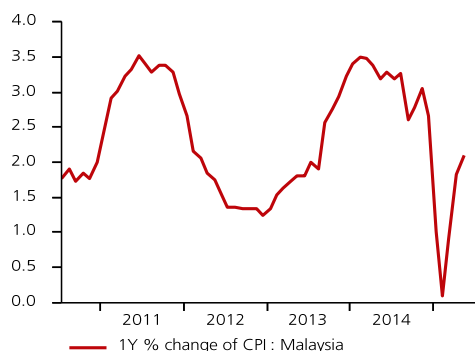
**Singapore**



Inflation will remain stuck in negative territory in the coming months, driven by housing (cooling property market), transport (lower energy) and healthcare (Pioneer Generation Package).

Source: Thomson Reuters Datastream, DBS Bank

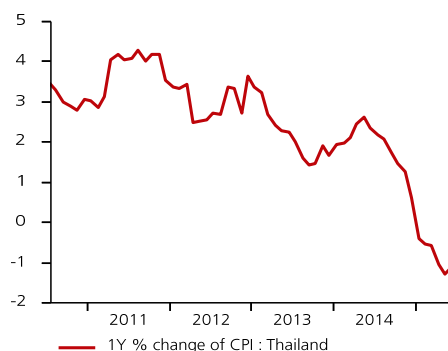
**Malaysia**



Although the impact of the 6% GST imposition has been benign, concern is on second-order price effects and opportunistic pricing behaviour by retailers, which could lift headline inflation higher.

Source: Thomson Reuters Datastream, DBS Bank

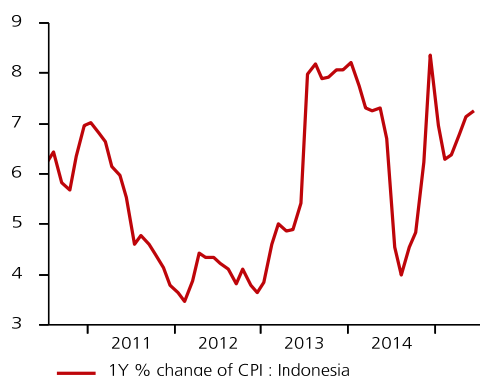
**Thailand**



Thailand's CPI continues to run in the negative territory. Core inflation is below 1% due to weak underlying demand.

Source: Thomson Reuters Datastream, DBS Bank

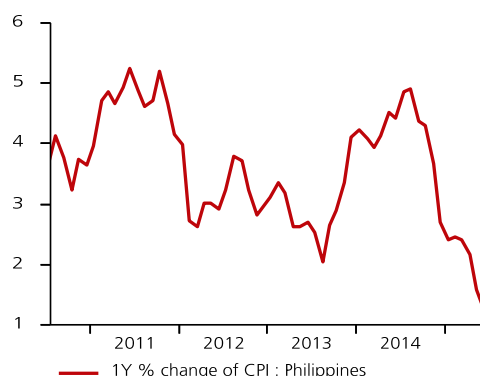
**Indonesia**



Indonesia's inflation expectations remain tilted towards the upside. While CPI is likely to ease quite markedly from August onwards, there are some risks from food prices amidst the El Nino impact.

Source: Thomson Reuters Datastream, DBS Bank

**Philippines**



Core inflation continues to ease and there are even some risks that it may slip below 2% in the coming months. Bulk of the easing is more to do with a relatively strong peso and not so much from softening demand.

Source: Thomson Reuters Datastream, DBS Bank

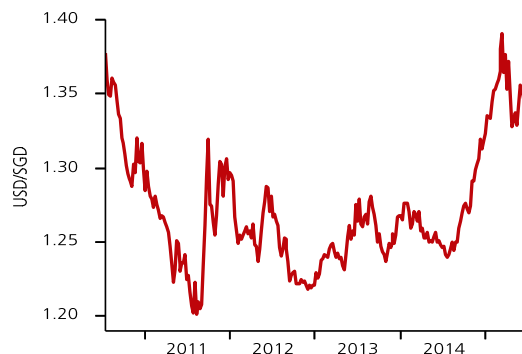
## ASEAN Consumer: Food for thought

### Forex forecasts & commentary

Exchange Rates, eop	Current	3Q15F	4Q15F
Singapore	1.36	1.36	1.38
Malaysia	3.81	3.74	3.76
Thailand	34.1	33.7	33.8
Indonesia	13,298	13,460	13,660
Philippines	45.2	45.30	45.40

Source: DBS Bank (current prices as of 13 July 2015)

### USD/SGD



The advanced 2Q GDP contraction painted a gloomy picture and the debate will emerge on whether Singapore will consider easing at the next policy review in Oct. Our economist maintains his bias for USD/SGD to head towards 1.40-1.42 in the next 6-12 months.

Source: Thomson Reuters Datastream, DBS Bank

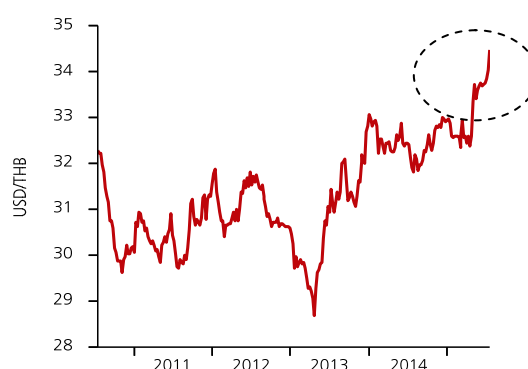
### USD/MYR



We believe the ringgit is expected to remain under pressure due to deteriorating fiscal balance and Fed rate hike risks. The ringgit is also impacted by the political risk premia from the 1MDB scandal.

Source: Thomson Reuters Datastream, DBS Bank

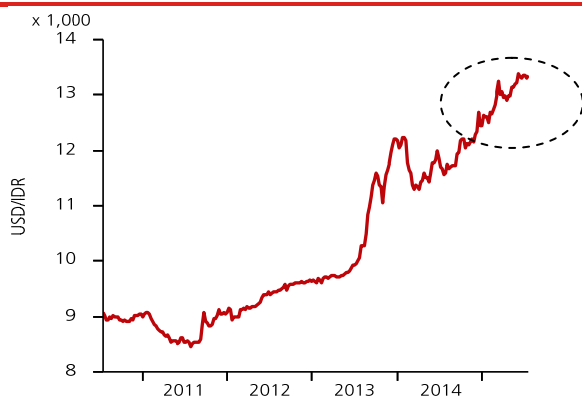
### USD/THB



Thailand hinted that it would not mind if the market weakened the exchange rate in an orderly fashion to aid its recovery efforts.

Source: Thomson Reuters Datastream, DBS Bank

### USD/IDR



A weak rupiah is thought to help boost export growth, but we have yet to see signs of it this year. We do not expect a sudden turn in its assessment on the rupiah, expect the central bank to be more active in smoothing out market volatilities.

Source: Thomson Reuters Datastream, DBS Bank

### USD/PHP



The relatively strong peso has kept inflation in check.

Source: Thomson Reuters Datastream, DBS Bank

**Input costs – Positive outlook for margins though competition and soft demand could negate it**

**Input costs remain favourable.** Input costs still remain favourable for F&B companies. Prices are generally bouncing around 3-5 year lows, if not lower. Of the raw materials we track, all except cocoa have trended lower since our last issue in May. This is a positive for F&B companies, but we are also cognizant that keen competition and softer demand could negate that as a result of downward price adjustments to boost demand.

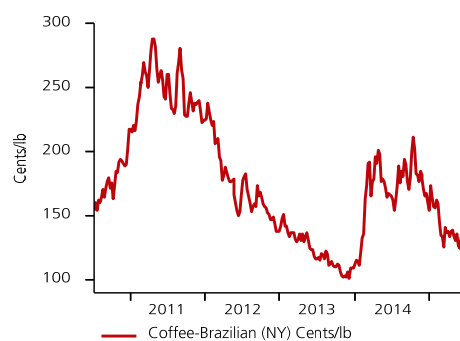
**Oil prices have retreated slightly after gaining some ground from its recent 5-year lows.** Oil prices have bottomed out and some companies have benefitted from lower transportation/freight and utility costs. Oil prices are at 5-year lows, which will be positive for F&B companies, although we expect a gradual recovery (US\$55-60/bbl for 2015 and US\$65-70/bbl for 2016).

**Sugar**



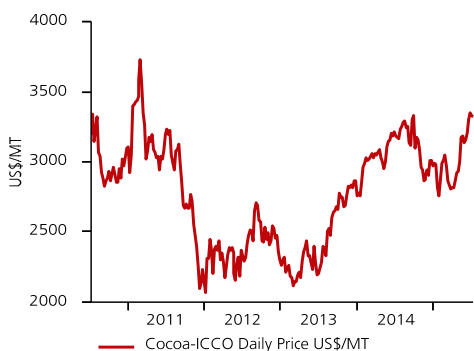
Source: Thomson Reuters Datastream, DBS Bank

**Coffee**



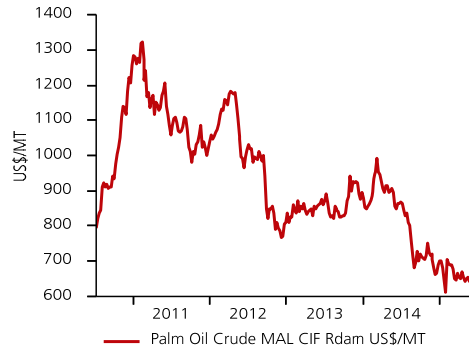
Source: Thomson Reuters Datastream, DBS Bank

**Cocoa**



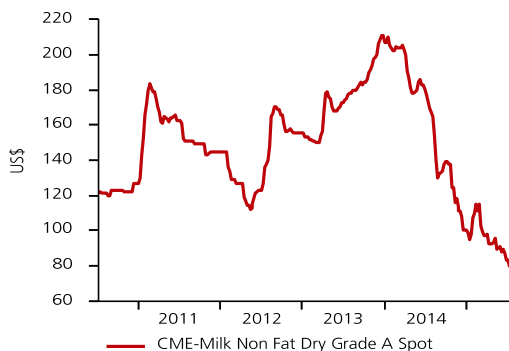
Source: Thomson Reuters Datastream, DBS Bank

**Palm Oil**



Source: Thomson Reuters Datastream, DBS Bank

**Milk**



Source: Thomson Reuters Datastream, DBS Bank

**Rice - Thailand**



Source: Thomson Reuters Datastream, DBS Bank

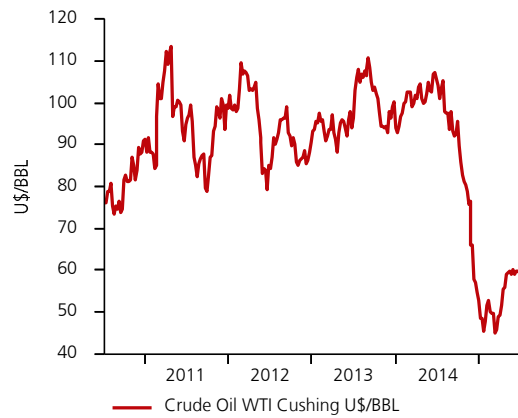
**ASEAN Consumer: Food for thought**

**Barley**



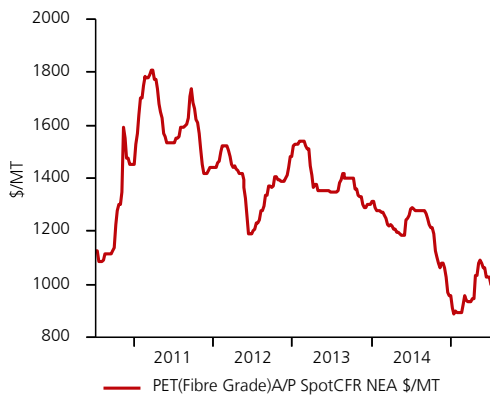
Source: Thomson Reuters Datastream, DBS Bank

**WTI**



Source: Thomson Reuters Datastream, DBS Bank

**PET**



Source: Thomson Reuters Datastream, DBS Bank

**Aluminium**



Source: Thomson Reuters Datastream, DBS Bank

**Tin**



Source: Thomson Reuters Datastream, DBS Bank

PE & PB trading band charts

Thai Beverage Public Company Forward PE Band (x)



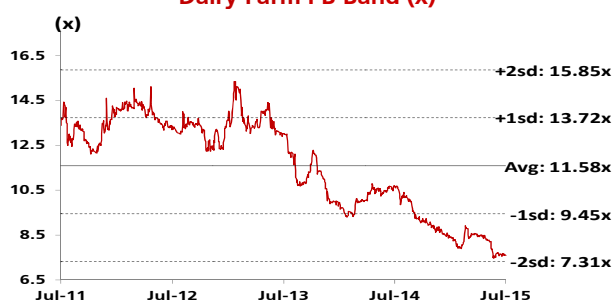
Thai Beverage Public Company PB Band (x)



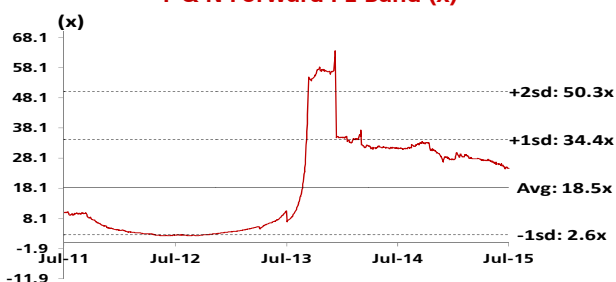
Dairy Farm Forward PE Band (x)



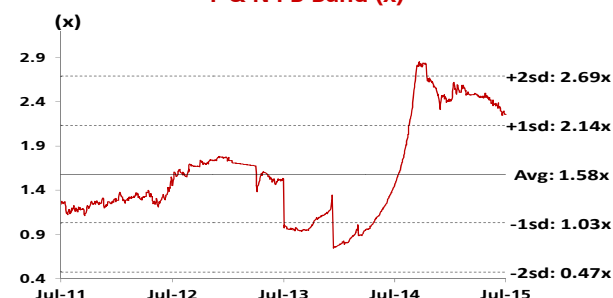
Dairy Farm PB Band (x)



F & N Forward PE Band (x)



F & N PB Band (x)



Petra Food Forward PE Band (x)



Petra Food PB Band (x)



Source: Company, DBS Bank

**ASEAN Consumer: Food for thought**

**Super Group Ltd Forward PE Band (x)**



**Super Group Ltd PB Band (x)**



**OSIM International Forward PE Band (x)**



**OSIM International PB Band (x)**



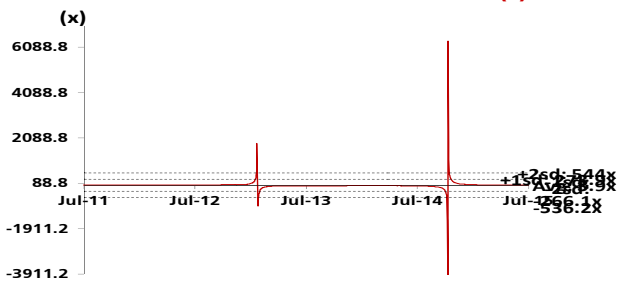
**Sheng Siong Group Ltd Forward PE Band (x)**



**Sheng Siong Group Ltd PB Band (x)**



**Del Monte Pacific Forward PE Band (x)**



**Del Monte Pacific PB Band (x)**



Source: Company, DBS Bank



**ASEAN Consumer: Food for thought**

**Courts Asia Forward PE Band (x)**



**Courts Asia PB Band (x)**



**British American Tobacco Forward PE Band (x)**



**British American Tobacco PB Band (x)**



**QL Resources Forward PE Band (x)**



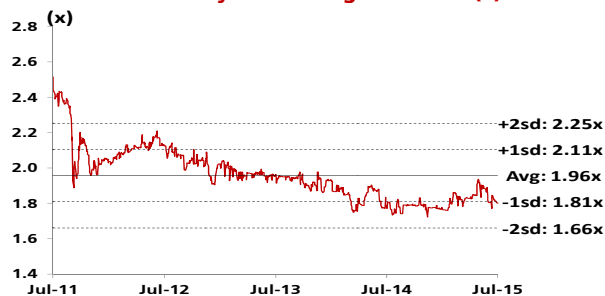
**QL Resources PB Band (x)**



**MSM Malaysia Holdings Forward PE Band (x)**

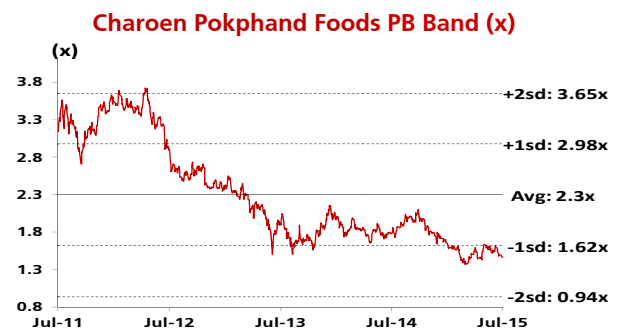
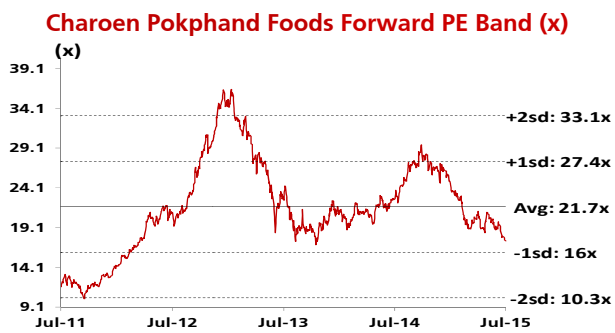
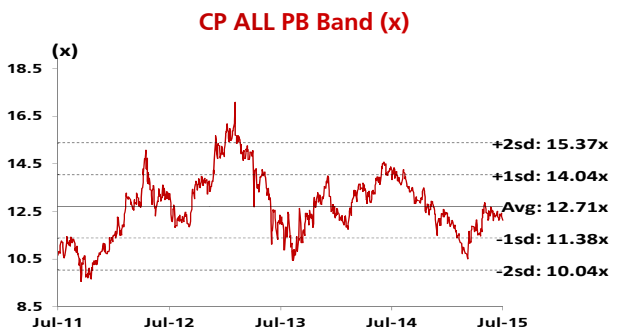
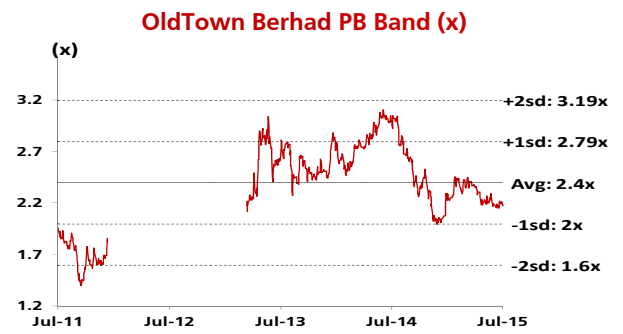
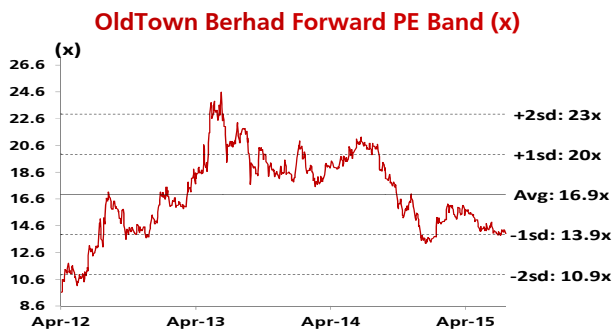
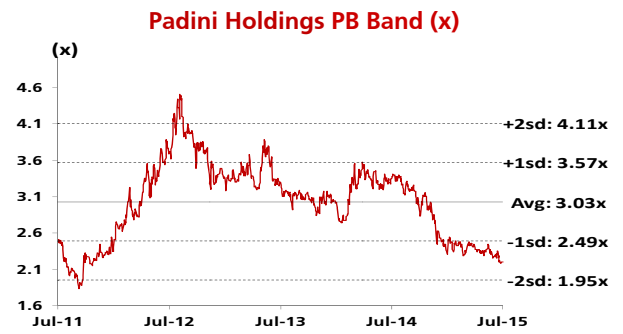


**MSM Malaysia Holdings PB Band (x)**



Source: Company, DBS Bank

**ASEAN Consumer: Food for thought**



Source: Company, DBS Bank

**ASEAN Consumer: Food for thought**

**Big C Supercenter Forward PE Band (x)**



**Big C Supercenter PB Band (x)**



**Minor International Forward PE Band (x)**



**Minor International PB Band (x)**



**Thai Union Frozen Products Forward PE Band (x)**



**Thai Union Frozen Products PB Band (x)**



**Home Products Center Forward PE Band (x)**

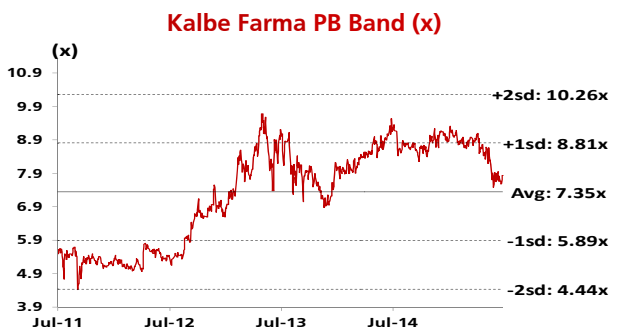
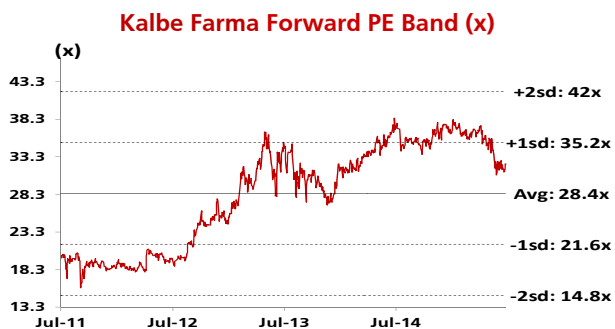
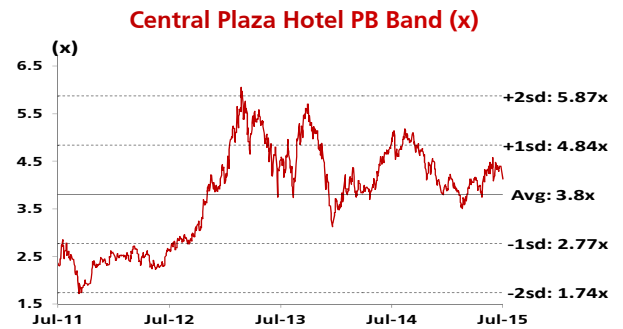
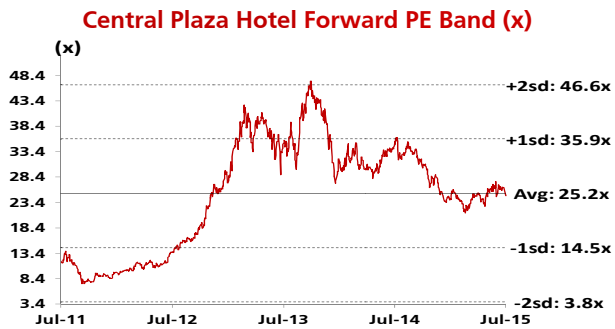
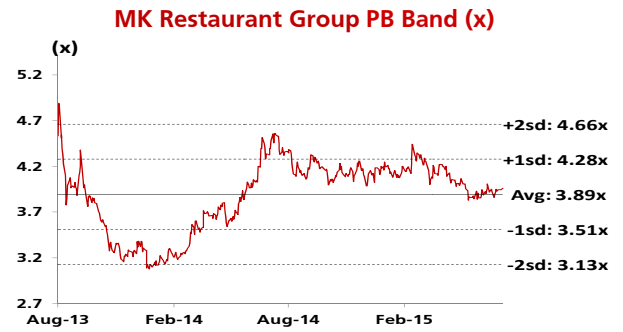
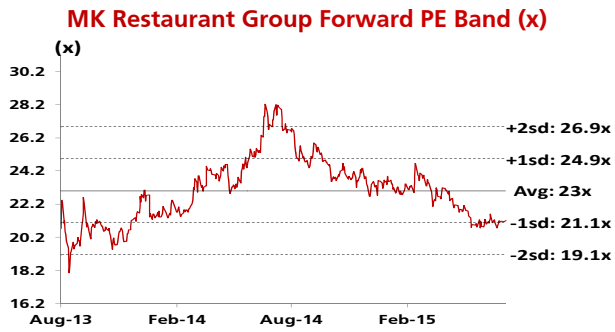


**Home Products Center PB Band (x)**



Source: Company, DBS Bank

**ASEAN Consumer: Food for thought**



Source: Company, DBS Bank

**Indofood CBP Sukses Makmur Forward PE Band (x)**



**Indofood CBP Sukses Makmur PB Band (x)**



**Indofood Sukses Makmur Forward PE Band (x)**



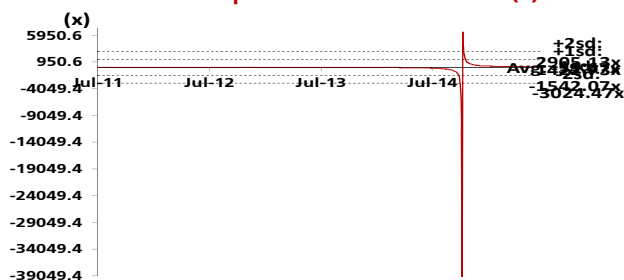
**Indofood Sukses Makmur PB Band (x)**



**Matahari Department Store Forward PE Band (x)**



**Matahari Department Store PB Band (x)**



**Mitra Adiperkasa Forward PE Band (x)**



**Mitra Adiperkasa PB Band (x)**



Source: Company, DBS Bank

**Regional retailer peer comparison**

Company	Rating	Target price	Market Cap (US\$m)	Px Last	PE (Act)	PE (Yr 1)	PE(Yr 2)	P/BV (x)	P/Sales (x)	ROE	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)
<b>South East Asia Retailers</b>													
Dairy Farm International Holdings Ltd	Buy	10.42	11,791	8.70	23.6x	21.9x	21.7x	7.2x	1.0x	35%	4.8%	4.6%	2.8%
CP All PCL	Buy	50.00	12,141	45.75	42.5x	32.0x	26.1x	11.4x	1.0x	39%	6.1%	3.2%	2.2%
Kalbe Fama Tbk PT	Hold	1,900	5,949	1,695	38.5x	34.8x	30.5x	7.4x	4.2x	23%	16.3%	12.2%	1.1%
Big C Supercenter PCL	Hold	214.00	4,605	191	21.8x	19.7x	16.9x	3.3x	1.2x	18%	8.1%	6.1%	1.5%
Siam Makro PCL	Not rated	N/A	5,378	38.25	35.6x	31.7x	28.6x	12.8x	1.3x	52%	4.0%	3.4%	2.0%
Minor International PCL	Buy	37.50	3,795	29.00	26.5x	23.2x	19.1x	4.0x	3.0x	19%	15.4%	12.9%	1.3%
Matahari Department Store Tbk PT	Buy	22,200.00	3,780	17,300	35.6x	25.3x	21.1x	51.7x	5.4x	205%	27.6%	21.5%	2.4%
Home Product Center PCL	Hold	7.80	2,517	6.40	26.0x	23.4x	21.1x	4.5x	1.6x	21%	9.6%	6.7%	0.4%
Sumber Alfaria Trijaya Tbk PT	Not rated	N/A	1,820	585	45.6x	36.1x	31.3x	7.9x	0.6x	27%	2.1%	1.3%	0.7%
Matahari Putra Prima Tbk PT	Not rated	N/A	1,193	2,960	27.2x	26.2x	23.7x	5.5x	1.2x	24%	4.6%	4.1%	1.2%
Central Plaza Hotel PCL	Buy	43.00	1,470	36	43.5x	28.4x	23.9x	4.1x	2.5x	15%	14.4%	8.9%	1.1%
OSIM INTERNATIONAL LTD	Hold	1.82	840	1.50	10.7x	12.1x	11.3x	2.4x	1.7x	21%	17.3%	13.7%	3.9%
Ace Hardware Indonesia Tbk PT	Not rated	N/A	848	660	20.8x	20.2x	18.6x	4.6x	2.5x	32%	14.3%	12.2%	2.4%
Siam Global House PCL	Buy	15.10	871	8.50	25.6x	17.8x	12.0x	2.0x	1.2x	12%	9.3%	6.7%	1.7%
Sheng Siong Group Ltd	Buy	0.98	934	0.88	27.2x	24.1x	21.8x	5.3x	1.6x	22%	7.4%	6.6%	3.7%
Mitra Adiperkasa Tbk PT	Hold	5,625	620	4,990	351.6x	28.1x	17.5x	3.0x	0.6x	11%	5.4%	2.2%	0.4%
Parkson Holdings Bhd	Not rated	N/A	385	1.32	9.2x	9.5x	10.1x	0.5x	0.4x	14%	0.9%	3.9%	0.0%
Hero Supermarket Tbk PT	Not rated	N/A	1,700	nm	nm	850.0x	309.1x	1.3x	0.5x	1%	-1.4%	0.3%	N/A
7 Eleven Malaysia Holdings Bhd	Not rated	N/A	526	1.60	30.1x	26.4x	22.0x	7.3x	0.9x	30%	4.7%	3.4%	1.9%
Ramayana Lestari Sentosa Tbk PT	Not rated	N/A	362	680	15.1x	14.2x	13.7x	1.4x	0.8x	12%	5.0%	6.1%	4.0%
Hour Glass Ltd	Not rated	N/A	444	0.88	10.5x	17.1x	N/A	1.5	0.8x	19%	8.7%	7.9%	2.6%
Parkson Retail Asia Ltd	Not rated	N/A	233	0.46	N/A	N/A	N/A	N/A	N/A	19%	N/A	N/A	5.3%
Padini Holdings Bhd	Hold	1.43	225	1.32	9.4x	13.0x	9.4x	2.2x	0.9x	17%	9.3%	7.0%	7.7%
MODERN INTERNASIONAL Tbk PT	Not rated	N/A	144	420	121.3x	29.7x	28.5x	1.4x	1.3x	5%	8.2%	2.8%	N/A
Midi Utama Indonesia Tbk PT	Not rated	N/A	171	790	N/A	N/A	N/A	N/A	N/A	31%	N/A	N/A	1.8%
Courts Asia Ltd	Hold	0.45	157	0.40	7.9x	12.9x	10.8x	0.8x	0.3x	6%	5.4%	2.3%	3.1%
Electronic City Indonesia Tbk PT	Not rated	N/A	105	1,050	N/A	N/A	N/A	N/A	N/A	9%	N/A	N/A	0.9%
Challenger Technologies Ltd	Not rated	N/A	123	0.49	11.0x	N/A	N/A	2.4x	0.5x	29%	5.2%	4.2%	4.8%
Power Root Bhd	Not rated	N/A	167	2.27	32.6x	N/A	N/A	2.7x	6.3x	23%	15.0%	12.7%	3.6%
F J BENJAMIN HOLDINGS LTD	Not rated	N/A	42	0.11	nm	10.2x	N/A	0.6x	0.2x	-16%	-6.2%	-6.0%	2.5%
Epicercentre Holdings Ltd	Not rated	N/A	10	0.15	(8.1)	N/A	N/A	1.4	0.1	-25%	-2.9%	-1.7%	N/A

**Regional F&B peer comparison**

Company	Rating	Target price	Market Cap (m)	Px Last	PE (Act)	PE (Yr 1)	PE(Yr 2)	P/BV (x)	P/Sales (x)	ROE	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)
<b>South East Asia F&amp;B</b>													
Unilever Indonesia Tbk PT	Fully Valued	35,400	22,981	40,225	53.5x	52.5x	48.9x	63.5x	8.0x	121%	20.6%	15.2%	1.8%
Thai Beverage PCL	Buy	0.81	13,955	0.75	22.0x	19.7x	18.2x	4.4x	2.8x	23%	15.4%	14.1%	3.3%
Indofood Cbp Sukses Makmur Tbk PT	Hold	13,500	5,479	12,550	28.1x	25.3x	22.5x	4.7x	2.2x	19%	11.0%	8.7%	2.0%
Charoen Pokphand Foods PCL	Buy	27.00	4,978	21.95	27.5x	21.2x	15.3x	1.6x	0.4x	7%	3.4%	1.7%	2.4%
Indofood Sukses Makmur Tbk PT	Buy	8,350	4,093	6,225	14.1x	13.8x	12.5x	2.0x	0.8x	14%	11.2%	5.8%	3.6%
Nestle Malaysia Bhd	Not rated	N/A	4,435	72.00	30.4x	28.5x	27.2x	17.5x	3.5x	88%	15.0%	11.5%	3.3%
Fraser and Neave Ltd	Hold	2.74	2,739	2.60	29.4x	27.5x	24.1x	2.2x	1.4x	8%	11.5%	5.3%	1.9%
Thai Union Frozen Products PCL	Buy	26.70	2,817	19.60	18.4x	18.2x	14.7x	2.0x	0.8x	12%	5.9%	4.1%	2.8%
Mayora Indah Tbk PT	Not rated	N/A	1,709	25,500	41.0x	25.8x	22.3x	5.3x	1.6x	14%	6.3%	2.9%	1%
Petra Foods Ltd	Fully Valued	3.01	1,526	3.50	30.4x	30.4x	27.0x	4.9x	3.0x	16%	14.4%	10.0%	2.4%
MK Restaurant Group PCL	Buy	67.00	1,498	56.75	25.1x	22.8x	19.9x	3.9x	3.2x	17%	17.6%	14.0%	3.5%
QL Resources Bhd	Buy	4.00	1,308	4.05	31.1x	27.2x	22.9x	3.6x	1.8x	14%	9.0%	7.1%	1.1%
Guinness Anchor Bhd	Not rated	N/A	1,143	14.30	20.0x	19.9x	19.0x	11.1x	2.5x	74%	16.6%	12.3%	4.5%
Carlsberg Brewery Malaysia Bhd	Not rated	N/A	1,008	12.46	18.5x	18.1x	17.4x	10.5x	2.4x	94%	16.1%	12.9%	5.7%
Super Group Ltd	Hold	1.25	864	1.05	20.3x	18.6x	16.9x	2.2x	2.1x	12%	14.5%	11.2%	2.7%
MSM Malaysia Holdings Bhd	Buy	5.75	955	5.15	14.1x	12.6x	12.3x	1.8x	1.7x	14%	17.4%	13.3%	5.2%
Thai President Foods PCL	Not rated	N/A	822	155.00	16.9x	N/A	N/A	2.2x	2.4x	17%	13.7%	14.3%	2.4%
Dutch Lady Milk Industries Bhd	Not rated	N/A	770	46.00	28.2x	24.0x	22.4x	16.8x	3.0x	86%	14.1%	11.0%	2.2%
President Bakery PCL	Not rated	N/A	590	44.25	18.7x	N/A	N/A	4.1x	2.9x	26%	16.1%	15.2%	2.6%
Thai Vegetable Oil PCL	Not rated	N/A	583	24.20	12.0x	11.3x	11.0x	2.6x	0.8x	28%	7.7%	6.5%	7.1%
Nippon Indosari Corpindo Tbk PT	Not rated	N/A	438	1,155	30.1x	23.6x	20.0x	5.7x	3.0x	29%	13.9%	10.0%	0.5%
Del Monte Pacific Ltd	Buy	0.50	562	0.41	nm	nm	10.9x	2.1x	0.2x	(17%)	2.0%	(1.8%)	0.0%
Oishi Group PCL	Not rated	N/A	405	73.75	27.5x	20.8x	19.1x	3.7x	1.1x	14%	3.9%	4.2%	2.2%
Khon Kaen Sugar Industry PCL	Hold	4.60	518	4.34	9.3x	12.4x	11.1x	1.3x	1.0x	11%	12.0%	8.0%	3.2%
Breadtalk Group Ltd	Not rated	N/A	289	1.42	31.9x	29.8x	24.9x	3.7x	0.7x	23%	1.1%	2.1%	1.1%
President Rice Products PCL	Not rated	N/A	226	51.75	13.1x	N/A	N/A	2.2x	5.3x	18%	11.2%	38.7%	3.7%
Oldtown Bhd	Buy	2.09	192	1.62	15.4x	15.4x	14.8x	2.2x	1.9x	14%	16.4%	11.9%	3.6%

Source: Thomson Reuters, DBS Bank, DBS Vickers, AllianceDBS

**STOCK PROFILES / COMPANY GUIDES**

# Dairy Farm

Bloomberg: DFI SP | Reuters: DAIR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Jul 2015

## BUY

Last Traded Price: US\$8.70 (STI : 3,373.48)

Price Target : US\$10.42 (20% upside)

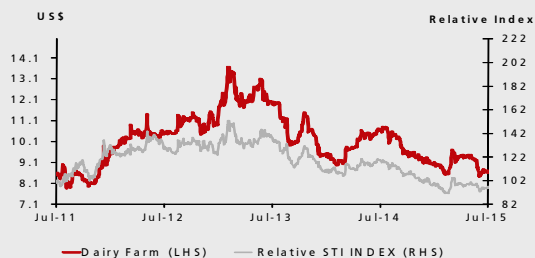
Potential Catalyst: Store expansion, M&amp;A

DBSV vs Consensus: Below on higher debt ratio and interest costs

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (US\$ m)	2014A	2015F	2016F	2017F
Turnover	11,008	11,664	12,368	13,143
EBITDA	796	895	960	1,035
Pre-tax Profit	601	647	652	712
Net Profit	509	538	542	592
Net Pft (Pre Ex.)	499	538	542	592
EPS (US cts.)	37.7	39.8	40.1	43.8
EPS Pre Ex. (US cts.)	37.0	39.8	40.1	43.8
EPS Gth (%)	2	6	1	9
EPS Gth Pre Ex (%)	5	8	1	9
Diluted EPS (US cts.)	37.7	39.8	40.1	43.8
Net DPS (US cts.)	23.0	24.5	26.0	28.5
BV Per Share (US cts.)	105.8	121.6	136.2	153.0
PE (X)	23.1	21.8	21.7	19.9
PE Pre Ex. (X)	23.5	21.8	21.7	19.9
P/Cash Flow (X)	17.4	13.9	15.9	13.9
EV/EBITDA (X)	14.3	13.5	12.5	11.5
Net Div Yield (%)	2.6	2.8	3.0	3.3
P/Book Value (X)	8.2	7.2	6.4	5.7
Net Debt/Equity (X)	CASH	0.1	0.1	0.0
ROAE (%)	37.6	35.0	31.1	30.3

### Earnings Rev (%)

Consensus EPS (US cts.):

Other Broker Recs:

-	-	-	-
40.6	44.4	49.8	
B: 5	S: 1	H: 4	

ICB Industry : Consumer Services

ICB Sector: Food &amp; Drug Retailers

Principal Business: Leading Pan-Asian retailer operating supermarkets, hypermarkets, health and beauty stores, convenience stores, and home furnishings stores.

Source of all data: Company, DBS Bank, Bloomberg Finance L.P.

## Best beneficiary of MGR growth

- Growth to be North Asia centric
- Trades near -1SD of its mean valuation
- Maintain BUY with TP of US\$10.42

**Expect growth from North Asia.** We believe growth going forward will be driven by both new stores and acquisitions. We are more positive on DFI's growth in North Asia as opposed to Southeast Asia due to the latter's sluggish consumption and higher costs. We see continued expansion in North Asia through higher penetration of stores and performance from Health & Beauty stores, and IKEA's expansion. In North Asia, DFI has acquired a 20% stake in Yonghui Supermarkets (based in Fujian). It has also acquired San Miu Supermarkets in Macau in March 2015, expanding into the Macau Supermarket space.

**Valuations below peers.** Valuations are currently at -1 SD of its mean at 21.7x FY16F PE and below regional peer average (ex Indonesia) of 25x. DFI operates a Pan Asian business model spanning across North Asia and Southeast Asia and has the largest footprint and store network among regional grocery retailers. Yet the stock is trading cheaply to peers despite its size and operational presence. At current valuations, investors can gain exposure to a Pan Asian MGR business that is a key beneficiary of MGR's growth.

**Maintain BUY, TP US\$10.42.** Our valuation of DFI is based on SOTP methodology, which takes into account both DFI's core business and its 20% stake in Yonghui Supermarkets. We value DFI's core business at US\$9.87 per share based on DCF at an implied valuation of 24x PE. DFI's stake in Yonghui is valued at US\$0.73 per share based on average market value of RMB31bn at 31x PE. We have factored in a net debt of US\$0.18 per share for the financing of Yonghui's acquisition.

### At A Glance

Issued Capital (m shrs)	1,352
Mkt. Cap (US\$m/US\$m)	11,764 / 11,764
Major Shareholders	
Jardine Strategic Holdings Ltd (%)	77.6
Franklin Resources (%)	6.6
Free Float (%)	15.7
Avg. Daily Vol. ('000)	180



## INVESTMENT THESIS

Profile	Rationale
<p>Dairy Farm is a Pan Asian retailer, operating over 5,600 supermarkets, hypermarkets, health and beauty stores, convenience stores, home furnishing stores and restaurants under well-known brand names in Hong Kong, Taiwan, China, Macau, Singapore, India, Philippines, Cambodia, Brunei, Malaysia, Indonesia and Vietnam.</p>	<p><b>Current valuations unjustified.</b> We previously held the view that the market had factored disappointing earnings expectations while not pricing in the value of DFI's investment in Yonghui Superstores. Following FY14 results which met our expectations, and the imminent completion of the Yonghui acquisition in 1H15, we reiterate our view that current valuations are attractive, taking into account the value of Yonghui and our below-consensus growth expectations.</p> <p><b>Yonghui's contribution to even help margins.</b> Our pre-exceptional earnings growth estimate of 8% for FY15F is arrived after taking into account muted core margins and a stronger dollar, mitigated by Yonghui Superstore's contribution.</p> <p><b>Trades below peers and average valuations.</b> Stock currently trades at an attractive 23x FY15F PE, near -1SD of its mean valuation and below its regional peers.</p>
Valuation	Risks
<p>Our target price of US\$10.42 is derived from sum-of-parts valuation methodology. We value DFI's core business at US\$9.87 based on DCF, net debt (post acquisition financing of Yonghui) at US\$0.18 and the 20% stake in Yonghui based on market value at US\$0.73. Our valuation implies that the stock is valued at 26x its FY15F earnings, at slightly above historical average valuations.</p>	<p><b>Profitability susceptible to rental and labour costs.</b> As a retailer, labour and rental costs are key operating costs components. Significant changes in these components would affect earnings growth.</p>

Source: DBS Bank

## Dairy Farm

## Income Statement (US\$ m)

FY Dec	2014A	2015F	2016F	2017F
Turnover	11,008	11,664	12,368	13,143
Cost of Goods Sold	(7,717)	(8,188)	(8,682)	(9,227)
<b>Gross Profit</b>	<b>3,291</b>	<b>3,476</b>	<b>3,686</b>	<b>3,917</b>
Other Opng (Exp)/Inc	(2,767)	(2,914)	(3,082)	(3,263)
<b>Operating Profit</b>	<b>524</b>	<b>562</b>	<b>604</b>	<b>653</b>
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	69	91	100	110
Net Interest (Exp)/Inc	(2)	(5)	(52)	(51)
Exceptional Gain/(Loss)	10	0	0	0
<b>Pre-tax Profit</b>	<b>601</b>	<b>647</b>	<b>652</b>	<b>712</b>
Tax	(93)	(111)	(112)	(122)
Minority Interest	1	2	2	2
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>509</b>	<b>538</b>	<b>542</b>	<b>592</b>
Net Profit before Except.	499	538	542	592
EBITDA	796	895	960	1,035
Sales Gth (%)	6.3	6.0	6.0	6.3
EBITDA Gth (%)	1.1	12.5	7.3	7.8
Opq Profit Gth (%)	0.0	7.1	7.5	8.2
Net Profit Gth (%)	1.6	5.7	0.7	9.2
Effective Tax Rate (%)	15.5	17.1	17.1	17.1

## Cash Flow Statement (US\$ m)

FY Dec	2014A	2015F	2016F	2017F
Pre-Tax Profit	601	647	652	712
Dep. & Amort.	203	243	257	272
Tax Paid	(94)	(53)	(111)	(112)
Assoc. & JV Inc/(loss)	(69)	(91)	(100)	(110)
Chg in Wkg.Cap.	(17)	98	41	81
Other Operating CF	52	0	0	0
<b>Net Operating CF</b>	<b>676</b>	<b>844</b>	<b>739</b>	<b>843</b>
Capital Exp.(net)	(294)	(310)	(315)	(334)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	(91)	(925)	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(48)	0	0	0
<b>Net Investing CF</b>	<b>(433)</b>	<b>(1,235)</b>	<b>(315)</b>	<b>(334)</b>
Div Paid	(311)	(324)	(344)	(365)
Chg in Gross Debt	21	765	0	0
Capital Issues	0	0	0	0
Other Financing CF	(3)	0	0	0
<b>Net Financing CF</b>	<b>(293)</b>	<b>441</b>	<b>(344)</b>	<b>(365)</b>
Currency Adjustments	(5)	0	0	0
Chg in Cash	(55)	50	80	145

## Quarterly / Interim Income Statement (US\$ m)

FY Dec	1H2013	2H2013	1H2014	2H2014
Turnover	5,102	5,256	5,299	5,709
Cost of Goods Sold	(3,601)	(3,670)	(3,722)	(3,996)
<b>Gross Profit</b>	<b>1,501</b>	<b>1,586</b>	<b>1,578</b>	<b>1,714</b>
Other Oper. (Exp)/Inc	(1,244)	(1,318)	(1,332)	(1,435)
<b>Operating Profit</b>	<b>257</b>	<b>268</b>	<b>245</b>	<b>279</b>
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	22	45	22	47
Net Interest (Exp)/Inc	(5)	2	2	(3)
Exceptional Gain/(Loss)	1	26	10	(1)
<b>Pre-tax Profit</b>	<b>275</b>	<b>340</b>	<b>279</b>	<b>322</b>
Tax	(43)	(59)	(44)	(49)
Minority Interest	(2)	(10)	(1)	3
<b>Net Profit</b>	<b>229</b>	<b>272</b>	<b>234</b>	<b>275</b>
Net profit bef Except.	228	246	223	276
EBITDA	279	312	267	326
Sales Gth (%)	1.4	3.0	0.8	7.7
EBITDA Gth (%)	16.4	11.9	(14.5)	22.3
Opq Profit Gth (%)	29.3	4.2	(8.3)	13.7
Net Profit Gth (%)	12.6	18.6	(14.0)	17.8
Gross Margins (%)	29.4	30.2	29.8	30.0
Opq Margins (%)	5.0	5.1	4.6	4.9
Net Profit Margins (%)	4.5	5.2	4.4	4.8

## Balance Sheet (US\$ m)

FY Dec	2014A	2015F	2016F	2017F
Net Fixed Assets	1,291	1,368	1,435	1,507
Invt in Associates & JVs	388	1,404	1,504	1,614
Other LT Assets	707	697	688	679
Cash & ST Invt	662	712	791	936
Inventory	1,011	1,073	1,137	1,209
Debtors	252	240	288	306
Other Current Assets	5	5	5	5
<b>Total Assets</b>	<b>4,316</b>	<b>5,499</b>	<b>5,850</b>	<b>6,255</b>
ST Debt	93	93	93	93
Creditor	2,413	2,560	2,715	2,885
Other Current Liab	59	117	118	128
LT Debt	94	859	859	859
Other LT Liabilities	135	135	135	135
Shareholder's Equity	1,429	1,642	1,840	2,066
Minority Interests	94	92	91	89
<b>Total Cap. &amp; Liab.</b>	<b>4,316</b>	<b>5,499</b>	<b>5,850</b>	<b>6,255</b>
Non-Cash Wkg. Capital	(1,204)	(1,360)	(1,402)	(1,493)
Net Cash/(Debt)	475	(240)	(161)	(16)

## Rates &amp; Ratio

FY Dec	2014A	2015F	2016F	2017F
Gross Margins (%)	29.9	29.8	29.8	29.8
Opq Profit Margin (%)	4.8	4.8	4.9	5.0
Net Profit Margin (%)	4.6	4.6	4.4	4.5
ROAE (%)	37.6	35.0	31.1	30.3
ROA (%)	12.3	11.0	9.5	9.8
ROCE (%)	25.8	20.0	17.1	17.3
Div Payout Ratio (%)	61.1	61.5	64.8	65.1
Net Interest Cover (x)	275.9	108.0	11.6	12.7
Asset Turnover (x)	2.7	2.4	2.2	2.2
Debtors Turn (avg days)	7.7	7.7	7.8	8.2
Creditors Turn (avg days)	114.7	114.2	114.3	114.1
Inventory Turn (avg days)	48.3	47.9	47.9	47.8
Current Ratio (x)	0.8	0.7	0.8	0.8
Quick Ratio (x)	0.4	0.3	0.4	0.4
Net Debt/Equity (X)	CASH	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.1	0.0
Capex to Debt (%)	156.8	32.6	33.1	35.1
Z-Score (X)	5.8	4.6	4.6	4.6
N. Cash/(Debt)PS (US cts.)	35.2	(17.8)	(11.9)	(1.2)
Opq CFPS (US cts.)	51.3	55.2	51.7	56.5
Free CFPS (US cts.)	28.3	39.5	31.4	37.7

## Segmental Breakdown / Key Assumptions

FY Dec	2014A	2015F	2016F	2017F
<b>Revenues (US\$ m)</b>				
Food	8,109	8,460	8,827	9,226
Health & beauty stores	2,402	2,646	2,914	3,213
Home furnishings stores	497	558	627	704
Support office/others	N/A	N/A	N/A	N/A
<b>Total</b>	<b>11,008</b>	<b>11,664</b>	<b>12,368</b>	<b>13,143</b>
<b>Operating profit (US\$ m)</b>				
Food	299	310	324	339
Health & beauty stores	219	241	265	292
Home furnishings stores	51	57	64	75
Support office/others	(44)	(47)	(49)	(53)
<b>Total</b>	<b>524</b>	<b>562</b>	<b>604</b>	<b>653</b>
<b>Operating profit Margins</b>				
Food	3.7	3.7	3.7	3.7
Health & beauty stores	9.1	9.1	9.1	9.1
Home furnishings stores	10.2	10.2	10.2	10.6
Support office/others	N/A	N/A	N/A	N/A
<b>Total</b>	<b>4.8</b>	<b>4.8</b>	<b>4.9</b>	<b>5.0</b>
<b>Key Assumptions</b>				
Number of outlets	5,220.0	5,401.6	5,590.1	5,786.1
Sales per store blended	2.1	2.2	2.2	2.3

Source: Company; DBS Bank

# Singapore Company Guide

# Del Monte Pacific

Edition 1 Version 1 | Bloomberg: DELM SP | Reuters: DMPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Jul 2015

## BUY

Last Traded Price: S\$0.41 (STI : 3,371.41)

Price Target : S\$0.50 (23% upside)

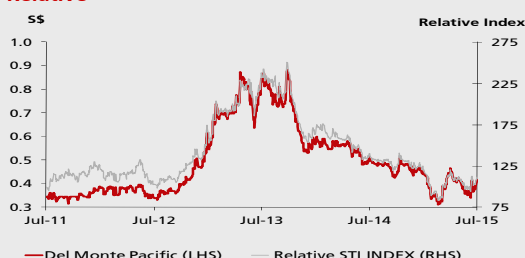
**Potential Catalyst:** Better-than-expected operational turnaround

**Where we differ:** Projecting a slower rate of turnaround in FY16

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Apr (US\$ m)	2014A	2015A	2016F	2017F
Revenue	743	2,159	2,495	2,637
EBITDA	(23)	102	243	270
Pre-tax Profit	(60)	(58)	75	100
Net Profit	(32)	(38)	52	70
Net Pft (Pre Ex.)	(32)	(38)	52	70
EPS (S cts)	(3.1)	(3.6)	3.6	4.9
EPS Pre Ex. (S cts)	(3.1)	(3.6)	3.6	4.9
EPS Gth (%)	nm	(14)	nm	35
EPS Gth Pre Ex (%)	nm	(14)	nm	35
Diluted EPS (S cts)	(3.1)	(3.6)	3.6	4.9
Net DPS (S cts)	0.0	0.0	0.0	1.0
BV Per Share (S cts)	17.8	19.2	22.8	27.7
PE (X)	nm	nm	11.3	8.4
PE Pre Ex. (X)	nm	nm	11.3	8.4
P/Cash Flow (X)	4.8	1.9	4.7	4.9
EV/EBITDA (X)	nm	21.3	9.4	8.3
Net Div Yield (%)	0.0	0.0	0.0	2.4
P/Book Value (X)	2.3	2.1	1.8	1.5
Net Debt/Equity (X)	7.3	5.0	4.1	3.3
ROAE (%)	(15.8)	(16.7)	17.2	19.3

Earnings Rev (%)	-	-	-	-
Consensus EPS (S cts)			3.8	4.7
Other Broker Recs:	B: 2	S: 1	H: 0	

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

## AT EARNINGS INFLEXION POINT

**Earnings inflexion point; turnaround in FY16F, reiterate BUY.**

We reiterate our BUY on DMPL, with a TP of S\$0.50. Following the acquisition of US-based Del Monte Foods Inc. (DMFI), DMPL has posted two consecutive years of losses arising from transaction charges, acquisition-related expenses, and high interest expenses amid a softening US business. These are now behind us and we expect DMPL to turn around in FY16F to register a net profit of US\$52m.

**Gearing high but reflected in price; swapped a portion of loan to fixed rate.** The counter has lost c.60% of its value since the announcement of its US\$1.7bn acquisition back in Oct'13. In our view, among the reasons then were the high leverage, uncertainty over fund raising, post-merger integration work and missed expectations on earnings. The Group's gearing peaked at 7.3x as of FYE Apr'14 and has since moderated down to 5x as of FY15. We believe this has been priced in with the counter trading at just 10.8x/8.0x FY16F/17F PE.

**Potential for higher share price returns in longer term.** When the Group is able to deliver as projected, we envisage market confidence to return, which will re-rate the counter closer to peers. Assuming a valuation target of 15x FY17F earnings, which is a 20-25% discount to current peers' valuation, our TP will be at c.S\$0.705.

### Valuation:

Our target price is S\$0.50, based on 12x FY16F/17F PE, which is at a 40% discount to consumer peers listed in the US and Philippines.

### Key Risks to Our View:

**Turnaround in performance.** The main thesis of our recommendation is the turnaround of profits on the absence of non-recurring expenses and better operational performance. This is also contingent on sales, and in turn consumer sentiment and the broader economy.

### At A Glance

Issued Capital (m shrs)	1,944
Mkt. Cap (S\$m/US\$m)	793 / 581
Major Shareholders	
Nutriasia Pacific Ltd (%)	59.4
Bluebell Group Holdings (%)	7.6
Lee Pineapple Co Pte Ltd (%)	5.5
Free Float (%)	24.7
3m Avg. Daily Val (US\$m)	0.21

ICB Industry : Consumer Goods / Food Producers

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

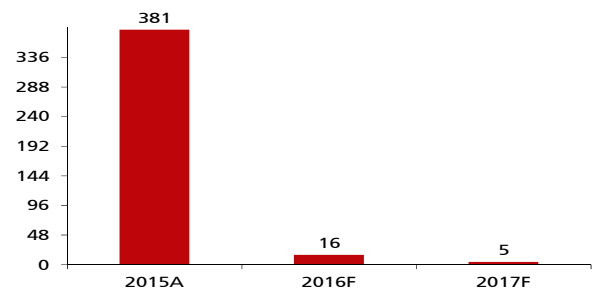
**Main revenue contributor is from the US.** With the acquisition of Del Monte Foods Inc. (DMFI), DMPL's largest revenue contribution comes from the Americas, accounting for c.80% of Group revenue. Revenue will be driven by organic growth after the acquisition of DMFI. Since the acquisition, the Group has reverted to competitive pricing levels for its products, reintroduced the well-recognised classic Del Monte label as well as partnered with complementary brands such as Tyson Foods, Walmart and Fleischmann's @ Yeast to drive topline growth. Also, recipes using the Group's products were generated and distributed for free across magazines and the internet. These initiatives will provide the thrust for topline growth.

**Asia Pacific growth driven by Philippines, Middle East.** With the Philippines economy growing at a healthy rate of 6.1% in FY14, consumption should continue on an uptrend. This will benefit the Group given that it is the market leader in the processed fruits and vegetables segment. New products such as the 1L tetra juice drinks are also well received by consumers. Sales of Del Monte in the Philippines were up 19% and S&W branded business sales in Asia and the Middle East grew by 17% for FY15. While Asia Pacific and the Philippines only make up 20% of revenue in FY15, the strong double-digit growth in revenue from these markets will be important for the Group's organic growth.

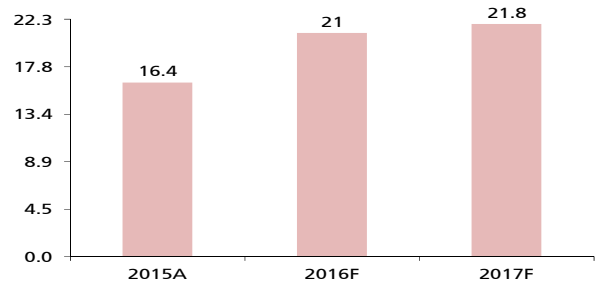
**Leveraging on its US operations.** In the short term, canned pineapple products from the Philippines are sold in the US market to generate topline growth. Given the Group's success in this product segment in its Asian and Philippines markets, this strategy will likely generate positive results. In the medium term, the Group is focused on developing the Del Monte range of products for the ethnic markets (Hispanics, Asians) in the US. The Group is also planning to use its US operations as a base to penetrate into the South and Central American markets.

**Synergistic benefits from acquisitions.** Product teams from the different markets are able to share product knowledge, map out product innovations, and identify cross-border selling opportunities. This will help to ensure that resources are more effectively deployed across the Group. Furthermore, the acquisition of Sager Creek has enabled the Group to expand rapidly into foodservice and new vegetable segments. It is also reported that this acquisition will achieve significant operating synergies in terms of production and distribution in the US market.

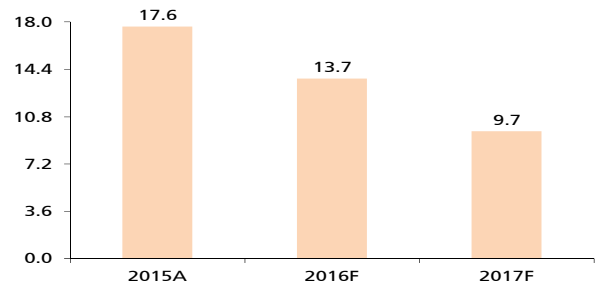
**Americas rev gwth %**



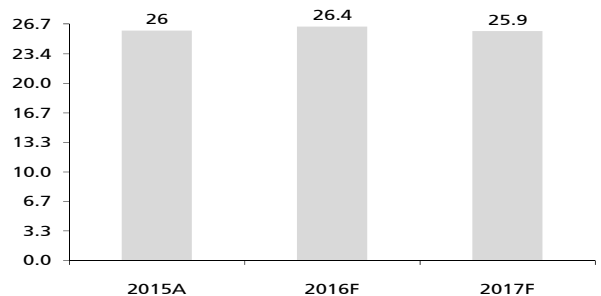
**Americas GP mgn**



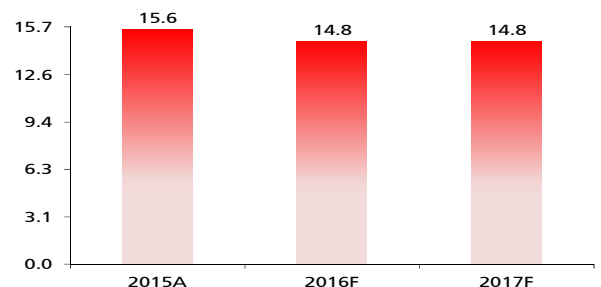
**Asia Pac rev gwth %**



**Asia Pac GP mgn**



**SG&A as % of sales**



Source: Company, DBS Bank

**Balance Sheet:**

**Gearing high due to leverage for buyout.** Gearing is high and currently stands at 5x as of FY15, but is projected to drop to 4.1x and 3.3x based on our assumptions/projections. Management is focused on de-leveraging its balance sheet and is looking to issue preference shares at an opportune time.

**Capex to moderate down.** With the Group now focused on the integration of the acquired businesses (DMFI & Sugar Creek), capex will be significantly lower as no further significant acquisitions are planned, at least for FY16F.

**Share Price Drivers:**

**Resumption of dividends.** The company has a dividend policy of paying out 33% of its full-year profit. Currently, the company is focused on de-leveraging its balance sheet and would want to use the profits to reduce gearing. The resumption of dividend payout should signal its confidence in the cashflow generation ability of the overall business and hence a catalyst for share price.

**Cost-savings from acquisition of DMFI.** Cost-savings are expected to be realised from the acquisition. For instance, DMFI's back office functions were outsourced to a service provider in the Philippines, helping to reduce costs. If more of such cost-savings could be realised, it would have a significant impact on the earnings in the medium term. This would also improve investors' sentiment regarding the acquisition.

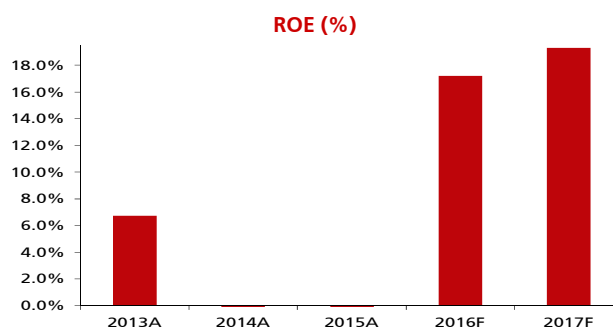
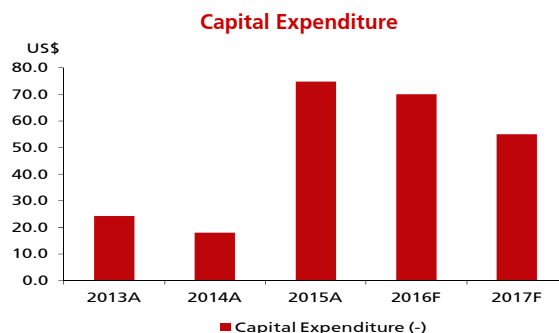
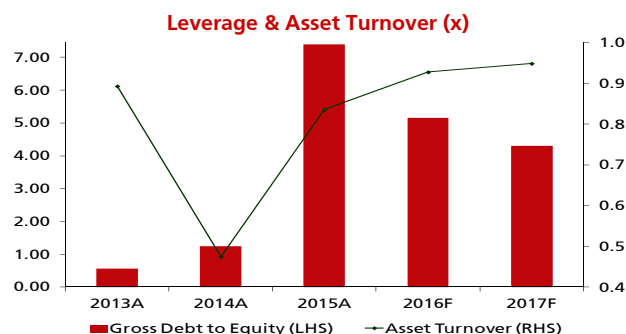
**Key Risks:**

**Higher interest costs.** While a portion of loans has been swapped to a fixed rate, a higher interest rate environment could undermine future refinancing options.

**Performance turnaround; raw material price.** We expect operational performance to improve on the back of non-recurrence of one-off expenses, coupled with better efficiencies. This is contingent on sales, and in turn consumer sentiment and the broader economy.

**Weather impact.** The International Research Institute for Climate and Society postulates that there is a > 90% chance that El Niño will continue through the Northern Hemisphere winter in 2015-16, and around an 80% chance it will last into early spring 2016. Should the effects of El Niño become more severe, crop yields will fall. This could erode margins if the Group is unable to pass on all the higher costs to consumers.

**Overhang from potential preference shares issuance.** The terms and actual fruition of the preference shares issuance are unknown, and will depend on market conditions.



Source: Company, DBS Bank

**COMPANY BACKGROUND**

Del Monte Pacific Limited is a consumer F&B-focused company. It acquired the consumer food business of Del Monte Corp in the US with the deal completed in Feb 2014 and thus extending the footprint of the Group to the US and South America, along with trademarks such as Del Monte, S&W, Contadina, College Inn, etc. The Group now has exclusive rights to use the Del Monte trademarks for packaged products in the United States, South America, the Philippines, Indian subcontinent and Myanmar. It owns another premium brand, S&W, globally except in Australia and New Zealand

## Del Monte Pacific

## Key Assumptions

FY Apr	2013A	2014A	2015A	2016F	2017F
Americas rev gwth %			380.6	16.3	4.8
Americas GP mgn			16.4	21.0	21.8
Asia Pac rev gwth %			17.6	13.7	9.7
Asia Pac GP mgn			26.0	26.4	25.9
SG&A as % of sales	17.9	19.5	15.6	14.8	14.8

Jump in Americas' growth rate in FY15A due to consolidation of DMFI from Feb'14

## Segmental Breakdown

FY Apr	2013A	2014A	2015A	2016F	2017F
<b>Revenues (US\$ m)</b>					
Americas		357	1,717	1,998	2,094
Asia Pacific		349	411	467	512
Europe		37	31	30	30
*Branded	336				
Others	156				
<b>Total</b>	<b>492</b>	<b>743</b>	<b>2,159</b>	<b>2,495</b>	<b>2,637</b>
<b>Gross profit (US\$ m)</b>					
Americas		33	281	420	458
Asia Pacific		88	107	123	133
Europe		0	2	2	2
*Branded	101				
Others	14				
<b>Total</b>	<b>116</b>	<b>121</b>	<b>390</b>	<b>545</b>	<b>593</b>
<b>Gross profit Margins (%)</b>					
Americas		9.1	16.4	21.0	21.8
Asia Pacific		25.3	26.0	26.4	25.9
Europe		(0.4)	7.3	7.5	7.5
*Branded	30.1				
Others	9.2				
<b>Total</b>	<b>23.5</b>	<b>16.3</b>	<b>18.1</b>	<b>21.9</b>	<b>22.5</b>

Segmentals changed with DMFI acquisition

## Income Statement (US\$ m)

FY Apr	2013A	2014A	2015A	2016F	2017F
Revenue	492	743	2,159	2,495	2,637
Cost of Goods Sold	(377)	(622)	(1,769)	(1,950)	(2,044)
<b>Gross Profit</b>	<b>116</b>	<b>121</b>	<b>390</b>	<b>545</b>	<b>593</b>
Other Opng (Exp)/Inc	(88)	(154)	(346)	(369)	(390)
<b>Operating Profit</b>	<b>27</b>	<b>(34)</b>	<b>44</b>	<b>176</b>	<b>202</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(5)	(5)	(2)	(2)	(1)
Net Interest (Exp)/Inc	(5)	(22)	(99)	(99)	(101)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>17</b>	<b>(60)</b>	<b>(58)</b>	<b>75</b>	<b>100</b>
Tax	(2)	23	14	(13)	(18)
Minority Interest	0	5	5	(11)	(13)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>16</b>	<b>(32)</b>	<b>(38)</b>	<b>52</b>	<b>70</b>
Net Profit before Except.	16	(32)	(38)	52	70
EBITDA	42	(23)	102	243	270
<b>Growth</b>					
Revenue Gth (%)	7.1	51.0	190.5	15.6	5.7
EBITDA Gth (%)	(29.3)	nm	nm	137.3	11.0
Opg Profit Gth (%)	(45.1)	nm	nm	298.7	14.9
Net Profit Gth (Pre-ex) (%)	(50.0)	(300.0)	18.2	(235.3)	34.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	23.5	16.3	18.1	21.9	22.5
Opg Profit Margin (%)	5.6	(4.5)	2.0	7.1	7.7
Net Profit Margin (%)	3.3	(4.3)	(1.8)	2.1	2.6
ROAE (%)	6.7	(15.8)	(16.7)	17.2	19.3
ROA (%)	2.9	(2.1)	(1.5)	1.9	2.5
ROCE (%)	6.7	(7.5)	3.2	6.5	7.3
Div Payout Ratio (%)	50.0	N/A	N/A	0.0	20.0
Net Interest Cover (x)	5.4	(1.5)	0.4	1.8	2.0

Rebound in gross margins on absence of non-recurring items coupled with operational improvements

At this stage, assuming resumption of dividends in FY17. We note that this is lower than the current 33% dividend policy, but are adopting a conservative take at this juncture.

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (US\$ m)**

FY Apr	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Revenue	364	446	548	638	528
Cost of Goods Sold	(330)	(375)	(433)	(515)	(446)
<b>Gross Profit</b>	<b>34</b>	<b>71</b>	<b>115</b>	<b>122</b>	<b>82</b>
Other Oper. (Exp)/Inc	(79)	(83)	(89)	(99)	(75)
<b>Operating Profit</b>	<b>(45)</b>	<b>(12)</b>	<b>25</b>	<b>23</b>	<b>7</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(1)	(1)	(1)	0	(1)
Net Interest (Exp)/Inc	(18)	(24)	(25)	(28)	(23)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(65)</b>	<b>(36)</b>	<b>0</b>	<b>(5)</b>	<b>(17)</b>
Tax	21	12	0	2	1
Minority Interest	5	2	0	1	2
<b>Net Profit</b>	<b>(39)</b>	<b>(22)</b>	<b>0</b>	<b>(2)</b>	<b>(14)</b>
Net profit bef Except.	(39)	(22)	0	(2)	(14)
EBITDA	(46)	0	39	23	7

2Q and 3Q are DMFI's seasonally strong quarters and contribute 80% of the Group's revenue now

**Growth**

Revenue Gth (%)	194.3	22.4	23.0	16.3	(17.2)
EBITDA Gth (%)	(241.7)	nm	21,019.3	(41.8)	(70.8)
Opg Profit Gth (%)	(258.7)	73.3	nm	(8.0)	(68.1)
Net Profit Gth (Pre-ex) (%)	501.6	(43.5)	(100.8)	(1,284.9)	545.3

**Margins**

Gross Margins (%)	9.4	15.9	20.9	19.2	15.5
Opg Profit Margins (%)	(12.4)	(2.7)	4.6	3.7	1.4
Net Profit Margins (%)	(10.6)	(4.9)	0.0	(0.3)	(2.7)

**Balance Sheet (US\$ m)**

FY Apr	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	94	501	578	586	580
Invt in Associates & JVs	20	21	23	21	20
Other LT Assets	34	829	879	873	866
Cash & ST Invt	133	28	36	75	108
Inventory	99	814	764	784	823
Debtors	111	216	232	268	284
Other Current Assets	113	118	127	132	137
<b>Total Assets</b>	<b>606</b>	<b>2,528</b>	<b>2,639</b>	<b>2,740</b>	<b>2,818</b>
ST Debt	265	920	446	431	401
Creditor	100	258	377	418	439
Other Current Liab	1	13	15	26	31
LT Debt	14	934	1,273	1,273	1,273
Other LT Liabilities	2	152	196	196	196
Shareholder's Equity	226	183	274	325	395
Minority Interests	(2)	68	60	71	83
<b>Total Cap. &amp; Liab.</b>	<b>606</b>	<b>2,528</b>	<b>2,639</b>	<b>2,740</b>	<b>2,818</b>
Non-Cash Wkg. Capital	223	877	732	740	773
Net Cash/(Debt)	(147)	(1,826)	(1,683)	(1,628)	(1,565)
Debtors Turn (avg days)	79.3	80.4	37.9	36.6	38.2
Creditors Turn (avg days)	96.6	99.1	107.5	67.8	77.1
Inventory Turn (avg days)	111.7	108.6	274.6	168.6	150.2
Asset Turnover (x)	0.9	0.5	0.8	0.9	0.9
Current Ratio (x)	1.2	1.0	1.4	1.4	1.6
Quick Ratio (x)	0.6	0.7	0.2	0.3	0.4
Net Debt/Equity (X)	0.7	7.3	5.0	4.1	3.3
Net Debt/Equity ex MI (X)	0.6	10.0	6.1	5.0	4.0
Capex to Debt (%)	8.7	1.0	4.4	4.1	3.3
Z-Score (X)	2.0	0.2	1.3	1.5	1.5

Source: Company, DBS Bank

## Cash Flow Statement (US\$ m)

FY Apr	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	17	(60)	(58)	75	100
Dep. & Amort.	20	29	59	68	68
Tax Paid	(11)	(4)	(12)	(1)	(13)
Assoc. & JV Inc/(loss)	5	5	2	2	1
Chg in Wkg.Cap.	(12)	147	151	(19)	(39)
Other Operating CF	8	(28)	89	0	0
<b>Net Operating CF</b>	<b>27</b>	<b>88</b>	<b>232</b>	<b>125</b>	<b>118</b>
Capital Exp.(net)	(24)	(18)	(75)	(70)	(55)
Other Invt.(net)	0	(1,821)	(75)	0	0
Invt in Assoc. & JV	(4)	(2)	(4)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
<b>Net Investing CF</b>	<b>(27)</b>	<b>(1,841)</b>	<b>(154)</b>	<b>(70)</b>	<b>(55)</b>
Div Paid	(24)	0	0	0	0
Chg in Gross Debt	147	1,580	(134)	(15)	(30)
Capital Issues	0	0	155	0	0
Other Financing CF	(5)	69	(91)	0	0
<b>Net Financing CF</b>	<b>117</b>	<b>1,649</b>	<b>(71)</b>	<b>(15)</b>	<b>(30)</b>
Currency Adjustments	(8)	0	0	0	0
Chg in Cash	108	(105)	7	40	33
Opg CFPS (US cts.)	2.8	(4.2)	5.5	7.4	8.0
Free CFPS (US cts.)	0.2	5.0	10.7	2.8	3.2

Rights issue

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	18 Dec 14	0.46	0.57	Hold
2:	02 Jul 15	0.41	0.50	Buy

Source: DBS Bank



# Indonesia Company Guide

## Indofood Sukses Makmur

Edition 1 Version 1 | Bloomberg: INDF IJ | Reuters: INDF.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

### BUY

Last Traded Price: Rp6,525 (JCI : 4,893.92)

Price Target: Rp 8,350 (28% upside) (Prev Rp9,050)

**Potential Catalyst:** Recovery of CPO prices, lower raw material prices

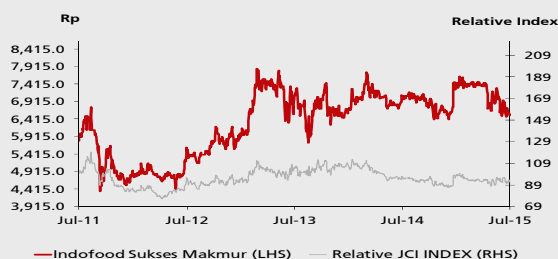
**Where we differ:** Marginally below consensus

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Turnover	55,624	63,594	68,049	74,538
EBITDA	8,723	10,175	10,109	11,787
Pre-tax Profit	4,001	6,229	6,845	8,578
Net Profit	2,504	3,885	3,951	4,372
Net Pft (Pre Ex.)	2,504	3,885	3,951	4,372
EPS (Rp)	285	443	450	498
EPS Pre Ex. (Rp)	285	443	450	498
EPS Gth (%)	(23)	55	2	11
EPS Gth Pre Ex (%)	(23)	55	2	11
Diluted EPS (Rp)	285	443	450	498
Net DPS (Rp)	142	221	225	249
BV Per Share (Rp)	2,668	2,927	3,152	3,401
PE (X)	22.4	14.5	14.2	12.9
PE Pre Ex. (X)	22.4	14.5	14.2	12.9
P/Cash Flow (X)	8.1	6.1	7.5	7.2
EV/EBITDA (X)	8.8	8.1	8.0	7.0
Net Div Yield (%)	2.2	3.5	3.5	3.9
P/Book Value (X)	2.4	2.2	2.0	1.9
Net Debt/Equity (X)	0.2	0.3	0.2	0.2
ROAE (%)	10.7	15.1	14.3	14.6
<b>Earnings Rev (%):</b>			(10)	(15)
<b>Consensus EPS (Rp):</b>			492	539
<b>Other Broker Recs:</b>		B: 25	S: 0	H: 5

Source of all data: Company, DBS Bank, DBS Vickers, Bloomberg Finance L.P

### VALUATION GAP REMAINS ATTRACTIVE

**Maintain BUY; trimmed FY15F/16F earnings by 10%/15%**

We maintain our BUY call for Indofood with a lower target price of Rp8,350, implying 28% upside from current levels. Our TP implies 16.8x FY16F PE, in line with its average valuation over the last four years. We revised down FY15F/16F revenue and EBIT following similar adjustments for Indofood CBP (ICBP IJ) and Indofood Agri (IFAR SP).

**Exposure to ICBP at attractive 24% discount**

On the back of the slower economy, we revised down estimates for the Consumer Branded Products (CBP) division, which is housed under ICBP. However, we remain optimistic of this division and continue to flag the attractive valuation gap between Indofood and ICBP. At Indofood's current share price, investors would gain exposure to ICBP at a cheaper valuation. We estimate the value of ICBP in Indofood is at 24% discount to the current market price.

**Potential upside with a recovery in CPO price and domestic economy**

The current low CPO price has been pressuring Indofood's Agribusiness performance. Similarly, a slower domestic economy has dampened volume growth at the wheat flour operation under Bogasari. We forecast sales volume for Bogasari will be relatively flat this year at +1% y-o-y. A recovery in CPO price and a pickup in Bogasari's sales volume would lift Indofood's earnings.

#### Valuation:

We value Indofood Sukses Makmur at Rp8,350/share based on sum-of-the-parts valuation. Our target price implies 19x FY15F and 17x FY16F earnings.

#### Key Risks to Our View:

**Surge in wheat price.** Low wheat prices will benefit Indofood's CBP segment as well as Bogasari. But unfavourable weather could disrupt supply and raise global wheat prices, which would hurt margins and be a risk to our call.

#### At A Glance

Issued Capital (m shrs)	8,780
Mkt. Cap (Rpbn/US\$m)	56,195 / 4,237
Major Shareholders	
CAB Holding (%)	51.5
Free Float (%)	48.5
3m Avg. Daily Val (US\$m)	4.8

**ICB Industry :** Consumer Goods / Food Producers

**CRITICAL DATA POINTS TO WATCH**

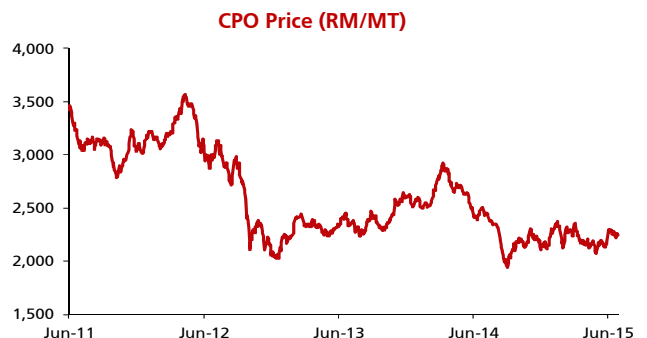
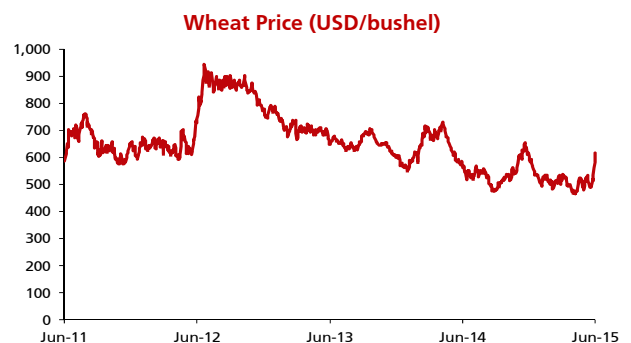
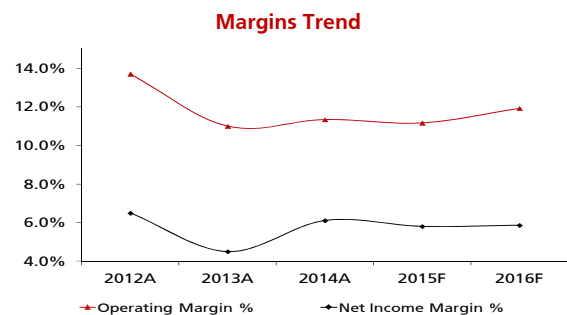
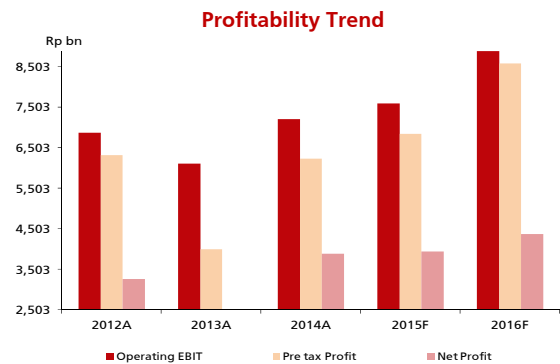
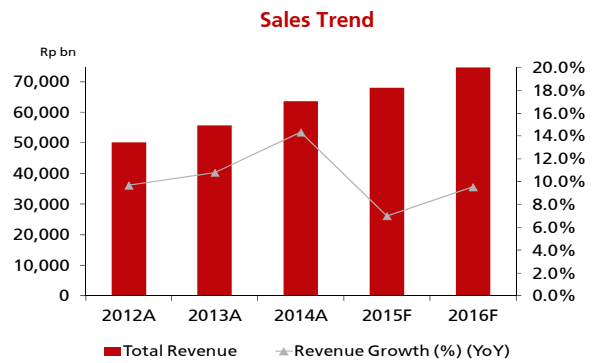
**Earnings Drivers:**

**Consumer Branded Products (CBP) segment is the primary earnings driver.** In 2014, Indofood’s CBP segment, under ICBP, contributed more than 40% of Group EBIT. Agribusiness and Bogasari contributed 30% and 20%, respectively. Growth in the CBP segment is predominantly driven by the noodles business which generated over 95% of ICBP’s earnings in FY14. Also, noodles are considered a cheap substitute to rice for many Indonesians, which is why noodle sales are relatively resilient in a slow economy.

**Wheat price and rupiah strength.** Bogasari produces wheat flour, of which 30% is used by ICBP, 65% is sold to SMEs, and the rest to retail consumers. Bogasari imports all its wheat requirement, which means it is susceptible to fluctuations in global wheat prices and the strength of the rupiah. It adjusts average selling price according to its costs, which eventually affects ICBP’s margins. The sharp depreciation of the rupiah in 2013-14 had reduced EBIT margins at the CBP segment by about 300bps to 10.2% in 2014 from 13.1% in 2012.

**CPO price.** The Agribusiness segment, under 60.5%-owned subsidiary Indofood Agri Resources (IFAR SP), is involved in both upstream and downstream operations. Currently, the low CPO price is pressuring the Agribusiness margins, i.e. EBIT margin fell to 15% in 2014 vs. 24% in 2011. Our plantation analyst indicated that excess supply and slower demand from China are keeping CPO prices down. The Agribusiness segment contributed c.30% of Indofood’s 2014 EBIT. A recovery of the global economy would help to lift demand for palm oil and support CPO price.

**Recovery of the domestic economy.** The slow domestic economy has been pressuring revenues at both the CBP segment and Bogasari. We estimate volume growth at ICBP will be relatively flat in 2015 given weaker consumer demand this year. Earnings growth at ICBP will also be relatively muted, which would affect Indofood’s earnings. Similarly, as 65% of Bogasari’s wheat flour is sold to SMEs, weak domestic consumer demand would also dampen Bogasari’s sales volume as small businesses are now less inclined to expand operations, which implies lower demand for wheat flour.



Source: Company, DBS Bank, DBS Vickers

**Balance Sheet:**

**Cash-rich; ready for attractive ventures.** Indofood Sukses Makmur had Rp14.2tr cash (US\$1.07bn) as at end 2014. This puts the company in a comfortable position to take on acquisitions or joint ventures that are in line with its vision of being a Total Food Company.

**Healthy debt ratio.** As of 2014, Indofood has a debt-equity ratio of 0.19x which is reasonable. After the planned partial divestment of China Minzhong this year, we expect the proceeds to be used to pare down outstanding debts, and reduce the debt-equity ratio to 0.1x by end 2015.

**Share Price Drivers:**

**Commodity prices.**

INDF is exposed to fluctuations in wheat as well as crude palm oil (CPO) prices. An increase in wheat price (as well as a weaker rupiah) would translate into higher wheat flour price, which will consequently reduce margins for ICBP's noodle segment (assuming no adjustment to noodle ASP). Overall, that would hurt INDF as ICBP's noodle segment accounts for c.40% of INDF's operating profit. Similarly, weak CPO prices will hurt the Agribusiness segment, and consequently, INDF. These could pressure INDF's share price.

**Pick up in the economy.** A recovery of the economy, or when GDP growth meets market expectations, would be positive for staple companies like INDF. This should lift sales volumes for ICBP as well as Bogasari, and create positive sentiment towards the stock.

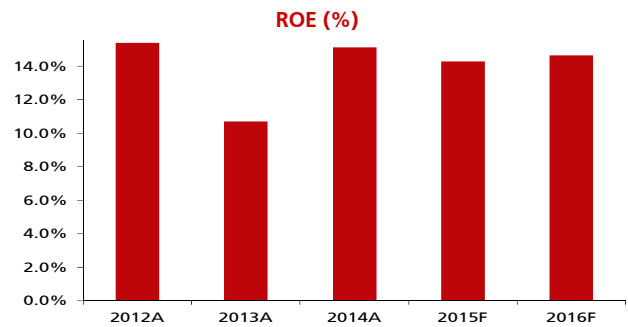
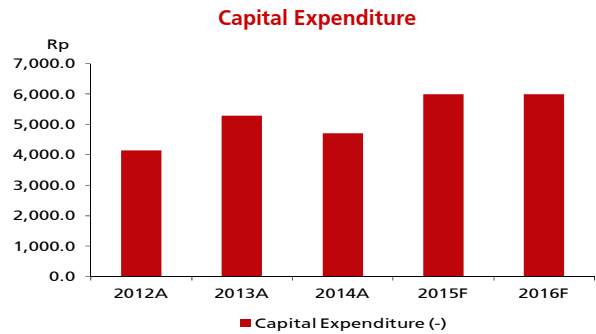
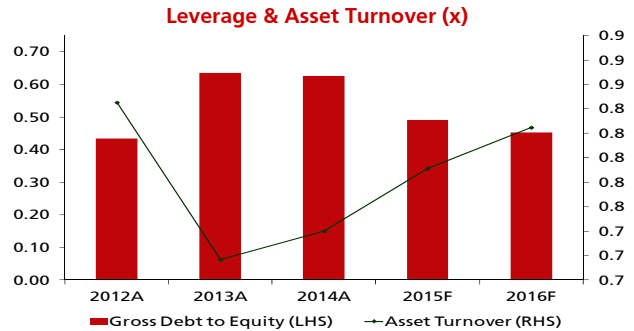
**Key Risks:**

**Volatile commodity prices.** Fluctuations in commodity prices could swing costs, and consequently, margins.

**Suppressed CPO price.** Persistently low CPO prices could hurt Agribusiness revenues.

**COMPANY BACKGROUND**

Indofood Sukses Makmur is the largest instant noodle and wheat flour manufacturer in Indonesia, has the largest market share in the cooking oil market, and is also involved in oil palm cultivation (through subsidiary, Indofood Agri Resources), and other branded food products, including snack food, food seasoning, specialty and nutrition food, and dairy products.



Source: Company, DBS Bank, DBS Vickers

## Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
<b>Revenues (Rp bn)</b>					
Consumer Branded	21,710	24,746	29,921	33,065	36,824
Bogasari	15,934	18,678	19,926	20,930	22,203
Agribusiness	13,869	13,300	14,677	15,016	16,565
Distribution	3,933	4,548	5,135	5,319	5,826
Cultivation and Processed	0	0	2,110	4,099	0
Elimination	(5,244)	(5,648)	(6,064)	(6,281)	(6,880)
<b>Total</b>	<b>50,202</b>	<b>55,624</b>	<b>63,595</b>	<b>68,049</b>	<b>74,538</b>
<b>Operating Profit (Rp bn)</b>					
Consumer Branded	2,848	2,633	3,039	3,638	4,117
Bogasari	1,373	1,402	1,445	1,465	1,554
Agribusiness	2,390	1,363	2,197	2,330	3,037
Distribution	143	162	192	160	175
Cultivation and Processed	0	0	532	861	0
Elimination	(1)	(3)	1	1	1
<b>Total</b>	<b>6,753</b>	<b>5,557</b>	<b>7,406</b>	<b>8,454</b>	<b>8,884</b>
<b>Operating Profit Margins (%)</b>					
Consumer Branded	13.1	10.6	10.2	11.0	11.2
Bogasari	8.6	7.5	7.3	7.0	7.0
Agribusiness	17.2	10.3	15.0	15.5	18.3
Distribution	3.6	3.6	3.7	3.0	3.0
Cultivation and Processed	N/A	N/A	25.2	21.0	N/A
<b>Total</b>	<b>13.5</b>	<b>10.0</b>	<b>11.6</b>	<b>12.4</b>	<b>11.9</b>

Assumed divestment of Minzhong stake would be completed by 1H15

## Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	50,202	55,624	63,594	68,049	74,538
Cost of Goods Sold	(36,610)	(42,018)	(46,545)	(50,357)	(54,786)
<b>Gross Profit</b>	<b>13,591</b>	<b>13,606</b>	<b>17,050</b>	<b>17,693</b>	<b>19,753</b>
Other Opng (Exp)/Inc	(6,714)	(7,494)	(9,841)	(10,099)	(10,869)
<b>Operating Profit</b>	<b>6,878</b>	<b>6,112</b>	<b>7,209</b>	<b>7,594</b>	<b>8,884</b>
Other Non Opg (Exp)/Inc	(148)	(1,657)	(51)	0	0
Associates & JV Inc	(33)	(17)	(119)	96	416
Net Interest (Exp)/Inc	(380)	(437)	(809)	(845)	(722)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>6,317</b>	<b>4,001</b>	<b>6,229</b>	<b>6,845</b>	<b>8,578</b>
Tax	(1,531)	(1,177)	(1,828)	(2,009)	(2,518)
Minority Interest	(1,518)	(322)	(516)	(885)	(1,689)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>3,261</b>	<b>2,504</b>	<b>3,885</b>	<b>3,951</b>	<b>4,372</b>
Net Profit before Except.	3,268	2,502	3,885	3,951	4,372
EBITDA	9,123	8,723	10,175	10,109	11,787
<b>Growth</b>					
Revenue Gth (%)	9.7	10.8	14.3	7.0	9.5
EBITDA Gth (%)	2.4	(4.4)	16.6	(0.6)	16.6
Opg Profit Gth (%)	0.4	(11.1)	17.9	5.3	17.0
Net Profit Gth (%)	6.0	(23.2)	55.2	1.7	10.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	27.1	24.5	26.8	26.0	26.5
Opg Profit Margin (%)	13.7	11.0	11.3	11.2	11.9
Net Profit Margin (%)	6.5	4.5	6.1	5.8	5.9
ROAE (%)	15.4	10.7	15.1	14.3	14.6
ROA (%)	5.5	3.2	4.5	4.6	4.8
ROCE (%)	9.8	6.5	7.0	7.5	8.3
Div Payout Ratio (%)	49.8	49.8	50.0	50.0	50.0
Net Interest Cover (x)	18.1	14.0	8.9	9.0	12.3

Forecast contribution by Minzhong as an Associate entity starting 2H15

Source: Company, DBS Bank, DBS Vickers

**Quarterly / Interim Income Statement (Rp bn)**

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	15,032	19,035	16,327	13,201	15,021
Cost of Goods Sold	(11,196)	(13,509)	(12,069)	(9,771)	(10,913)
<b>Gross Profit</b>	<b>3,836</b>	<b>5,526</b>	<b>4,259</b>	<b>3,430</b>	<b>4,108</b>
Other Oper. (Exp)/Inc	(2,237)	(2,733)	(2,595)	(2,276)	(2,358)
<b>Operating Profit</b>	<b>1,598</b>	<b>2,793</b>	<b>1,663</b>	<b>1,154</b>	<b>1,750</b>
Other Non Opg (Exp)/Inc	(62)	23	14	(26)	(408)
Associates & JV Inc	(45)	(29)	33	(78)	(71)
Net Interest (Exp)/Inc	545	(823)	(317)	(214)	(173)
Exceptional Gain/(Loss)	261	0	0	745	209
<b>Pre-tax Profit</b>	<b>2,298</b>	<b>1,964</b>	<b>1,392</b>	<b>1,583</b>	<b>1,307</b>
Tax	(526)	(488)	(398)	(415)	(321)
Minority Interest	(384)	(312)	(253)	(311)	(116)
<b>Net Profit</b>	<b>1,388</b>	<b>1,163</b>	<b>740</b>	<b>856</b>	<b>870</b>
Net profit bef Except.	1,126	1,163	740	111	661
EBITDA	2,184	3,391	2,349	1,752	2,374

**Growth**

Revenue Gth (%)	4.8	26.6	(14.2)	(19.1)	13.8
EBITDA Gth (%)	22.7	55.2	(30.7)	(25.4)	35.5
Opg Profit Gth (%)	18.7	74.7	(40.4)	(30.6)	51.6
Net Profit Gth (%)	138.5	(16.2)	(36.4)	15.6	1.6

**Margins**

Gross Margins (%)	25.5	29.0	26.1	26.0	27.3
Opg Margins (%)	10.6	14.7	10.2	8.7	11.6
Net Profit Margins (%)	9.2	6.1	4.5	6.5	5.8

**Balance Sheet (Rp bn)**

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	22,727	30,097	30,604	30,175	33,272
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	10,426	14,742	14,339	14,435	14,851
Cash & ST Invt	13,899	17,757	14,823	14,306	13,932
Inventory	7,786	8,161	8,455	8,692	9,456
Debtors	3,641	5,267	4,340	4,999	5,476
Other Current Assets	910	1,587	13,378	13,378	13,378
<b>Total Assets</b>	<b>59,389</b>	<b>77,611</b>	<b>85,939</b>	<b>85,985</b>	<b>90,366</b>
ST Debt	6,470	8,729	8,993	8,993	8,993
Creditor	3,643	4,851	5,151	5,755	6,261
Other Current Liab	2,692	5,892	8,538	8,538	8,538
LT Debt	8,354	15,324	16,838	12,924	12,924
Other LT Liabilities	4,090	4,924	5,191	5,191	5,191
Shareholder's Equity	21,206	23,429	25,700	27,676	29,862
Minority Interests	12,934	14,462	15,528	16,909	18,598
<b>Total Cap. &amp; Liab.</b>	<b>59,389</b>	<b>77,611</b>	<b>85,939</b>	<b>85,985</b>	<b>90,366</b>
Non-Cash Wkg. Capital	6,002	4,273	12,484	12,777	13,512
Net Cash/(Debt)	(925)	(6,296)	(11,008)	(7,610)	(7,984)
Debtors Turn (avg days)	26.5	34.6	24.9	26.8	26.8
Creditors Turn (avg days)	38.7	44.9	43.1	43.9	44.0
Inventory Turn (avg days)	82.7	75.6	70.8	66.3	66.5
Asset Turnover (x)	0.8	0.7	0.7	0.8	0.8
Current Ratio (x)	2.0	1.7	1.8	1.8	1.8
Quick Ratio (x)	1.4	1.2	0.8	0.8	0.8
Net Debt/Equity (X)	0.0	0.2	0.3	0.2	0.2
Net Debt/Equity ex MI (X)	0.0	0.3	0.4	0.3	0.3
Capex to Debt (%)	28.0	22.0	18.2	27.4	27.4
Z-Score (X)	NA	2.3	2.4	2.6	2.7

Source: Company, DBS Bank, DBS Vickers

## Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	6,317	4,001	6,229	6,845	8,578
Dep. & Amort.	1,690	2,078	2,467	2,515	2,903
Tax Paid	(1,531)	(1,177)	(1,828)	(2,009)	(2,518)
Assoc. & JV Inc/(loss)	33	17	119	(96)	(416)
Chg in Wkg.Cap.	(2,590)	1,742	(8,385)	203	(735)
Other Operating CF	3,500	268	10,667	0	0
<b>Net Operating CF</b>	<b>7,419</b>	<b>6,929</b>	<b>9,269</b>	<b>7,459</b>	<b>7,812</b>
Capital Exp.(net)	(4,152)	(5,286)	(4,707)	(6,000)	(6,000)
Other Invt.(net)	0	(3,398)	(3,937)	0	0
Invt in Assoc. & JV	(423)	(4,389)	(461)	3,914	0
Div from Assoc & JV	(603)	(552)	0	0	0
Other Investing CF	84	(776)	(1,058)	0	0
<b>Net Investing CF</b>	<b>(5,093)</b>	<b>(14,402)</b>	<b>(10,163)</b>	<b>(2,086)</b>	<b>(6,000)</b>
Div Paid	(1,537)	(1,624)	(1,247)	(1,975)	(2,186)
Chg in Gross Debt	(150)	8,851	3,109	(3,914)	0
Capital Issues	0	0	0	0	0
Other Financing CF	(622)	(436)	(459)	0	0
<b>Net Financing CF</b>	<b>(2,309)</b>	<b>6,791</b>	<b>1,403</b>	<b>(5,889)</b>	<b>(2,186)</b>
Currency Adjustments	191	981	130	0	0
Chg in Cash	208	298	639	(517)	(374)
Opg CFPS (Rp)	1,140	591	2,011	826	973
Free CFPS (Rp)	372	187	520	166	206

Assume proceeds from the sale of Minzhong stake would be used to pare down debts

Source: Company, DBS Bank, DBS Vickers

## Target Price &amp; Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	17 Feb 15	7400	9050	Buy
2:	03 Mar 15	7425	9050	Buy
3:	23 Mar 15	7400	9050	Buy
4:	08 May 15	6650	9050	Buy
5:	08 Jun 15	6975	9050	Buy

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

# Indonesia Company Guide

## Unilever Indonesia

Edition 1 Version 1 | Bloomberg: UNVR IJ | Reuters: UNVR.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

### FULLY VALUED

Last Traded Price: Rp40,350 (JCI : 4,893.92)

Price Target: Rp35,400 (12% downside)

**Potential Catalyst:** Lower raw material prices, stronger rupiah

**Where we differ:** Lower margins than consensus'

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Dec (Rpbn)	2013A	2014A	2015F	2016F
Revenue	30,757	34,512	38,497	42,763
EBITDA	7,680	8,137	8,368	8,977
Pre-tax Profit	7,159	7,677	7,819	8,395
Net Profit	5,353	5,739	5,845	6,275
Net Pft (Pre Ex.)	5,353	5,739	5,845	6,275
Net Pft (ex. BA gains)	N/A	N/A	N/A	N/A
EPS (Rp)	702	752	766	822
EPS Pre Ex. (Rp)	702	752	766	822
EPS Gth (%)	11	7	2	7
EPS Gth Pre Ex (%)	11	7	2	7
Diluted EPS (Rp)	702	752	766	822
Net DPS (Rp)	672	722	735	790
BV Per Share (Rp)	558	603	633	666
PE (X)	57.5	53.6	52.7	49.1
PE Pre Ex. (X)	57.5	53.6	52.7	49.1
P/Cash Flow (X)	49.4	47.6	47.9	45.6
EV/EBITDA (X)	40.2	37.9	36.9	34.4
Net Div Yield (%)	1.7	1.8	1.8	2.0
P/Book Value (X)	72.4	66.9	63.7	60.6
Net Debt/Equity (X)	0.2	0.1	0.1	0.2
ROAE (%)	125.8	124.8	120.9	123.4
Earnings Rev (%):			-	-
Consensus EPS (Rp):			817	920
Other Broker Recs:		B: 4	S: 11	H: 10

Source of all data: Company, DBS Vickers, DBS Bank, Bloomberg Finance L.P

### PRICEY PROXY

**Valuation is pricey given slowing growth.** We maintain our FULLY VALUED call on Unilever Indonesia with a target price of Rp35,400, pegged to 43x FY16F earnings, which is +1SD of its 5-years average valuation. The stock is currently trading at 50x FY16F earnings, which is about +2SD of its 5-year average valuation. Given the company's slowing growth and a weak domestic economy, the stock is fully valued.

**Multiple headwinds.** Amid a slowing economy and rising energy costs, Unilever's revenue growth will decelerate, and the group is expected to book flat earnings growth in 2015. In addition, a shift in revenue mix, a weak rupiah, and the snag in passing on cost-increases to consumers, would also lead to lower margins. We project net margins to fall to 14.3% in FY17F from 16.6% in FY14.

**Watch for 2Q15 sales numbers.** Revenue grew 7.9% y-o-y in 1Q15, the slowest in the last five years. Given the slowing economy and tight competition in the FMCG industry, Unilever's products (which are mostly priced at a premium) are losing traction among consumers. 2Q15 numbers would indicate whether there has been a pickup in growth as demand tends to pick up 1-2 months preceding the Lebaran season.

#### Valuation:

We value Unilever Indonesia at Rp35,400 per share based on 43x FY16F EPS, which is +1SD of its 5-year average valuation.

#### Key Risks to Our View:

**Faster-than-expected recovery of the domestic economy.** World Bank projects Indonesia's GDP will grow by 4.7% y-o-y in 2015. Our in-house projection is 5.1%, in line with our Central Bank's forecast of 5.0-5.4%. A faster-than-expected pickup in Unilever's earnings could lead us to upgrade our recommendation.

#### At A Glance

Issued Capital (m shrs)	7,630
Mkt. Cap (Rpbn/US\$m)	307,871 / 23,214
Major Shareholders	
Unilever Indonesia Holding BV (%)	85.0
Free Float (%)	15.0
3m Avg. Daily Val (US\$m)	6.1
ICB Industry	: Consumer Goods / Personal Goods

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

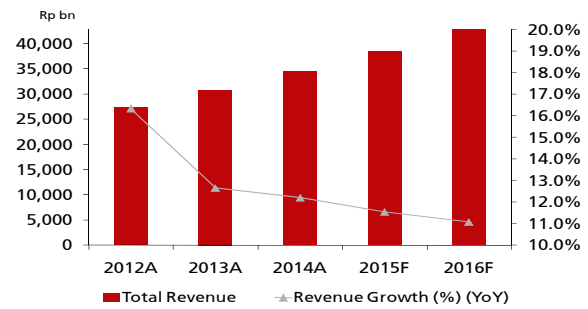
**Domestic GDP growth.** The health of the domestic economy is generally reflected in consumption of basic necessities as well as Fast Moving Consumer Goods (FMCG). In June, the IMF and World Bank had revised down projections for Indonesia’s 2015 GDP growth to 4.7%, from 5.2% previously. Our Central Bank also made a similar downward revision to 5.0-5.4% from 5.4-5.8%. Slowing exports, low commodity prices, and unrealised infrastructure spending have contributed to the weak economic growth. A recovery in these areas would positively impact FMCG companies like Unilever.

**Strength of the rupiah against US dollar.** More than half of Unilever’s raw material costs are in US dollars, which means a weaker rupiah will hurt its margins. Currently, the rupiah is trading at Rp13,300 to the dollar because of the weak macro backdrop, as well as in anticipation of the Fed tightening its monetary policy by year end to strengthen the dollar. Our in-house assumption for the rupiah is Rp13,660 to the dollar by end 2015, suggesting further downside to earnings.

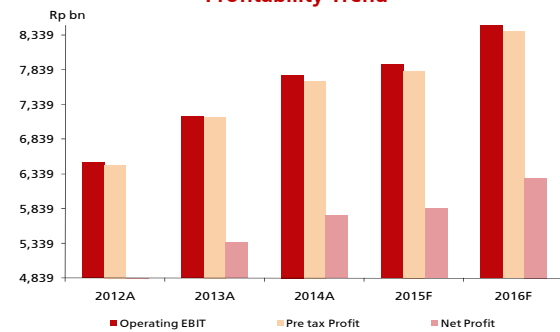
**CPO price.** About 60% and 30% of Unilever’s COGS are spent on raw materials and packaging, respectively, which mostly uses palm oil and its derivatives as ingredients. Currently, the price of crude palm oil (CPO) is hovering at its lowest in five years because of excess supply. However, our plantation analyst expects CPO price to rebound towards year end, as inventory levels normalise. This could put upward pressure on costs, and if the rupiah weakens simultaneously, margins could contract further.

**Earnings to grow by 2%/7% in FY15F/16F.** We project earnings growth will be flat in 2015 at 2%. This is based on slowing revenue growth, weaker margins, as well as a 1.5% increase in royalty fees this year. We estimate gross margin will fall by c.100bps in 2015 following the shift in revenue mix, cost pressure, as well as difficulty in passing on cost-increases to consumers in this time of slowing demand.

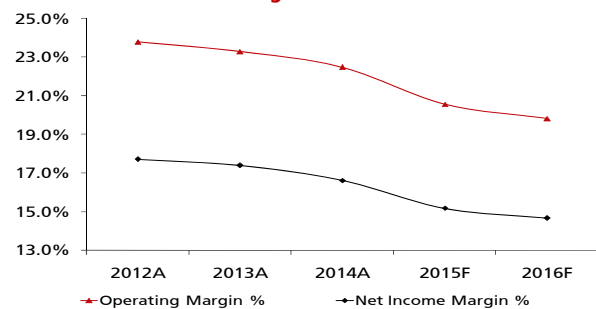
**Sales Trend**



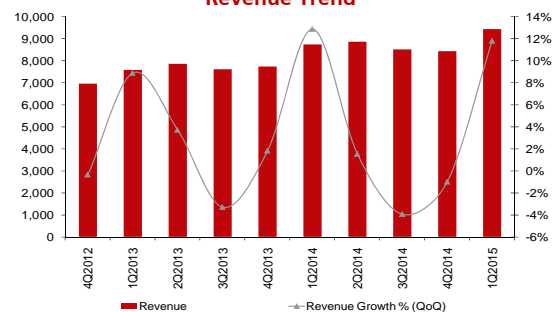
**Profitability Trend**



**Margins Trend**



**Revenue Trend**



**CPO Price (RM/MT)**



Source: Company, DBS Vickers, DBS Bank



**Balance Sheet:**

**Low leveraged company.** Unilever has strong operating cash flow as well as free cash flow, and has consistently pared down bank loans at the end of its fiscal year. The loans are mainly used to fund working capital and largely denominated in rupiah. This eliminates foreign exchange risks associated with its debt. And, the company's size and healthy balance sheet have allowed them to secure favorable lending rates. In 2014, net gearing ratio stood at <0.1x and average loan interest rate was c.8%, which is close to prime rate.

**Share Price Drivers:**

**Recovery in economic growth.** Indonesia's 1Q15 GDP growth was weak at 4.71%, the lowest in five years. The Central Bank has revised down its full year projection to 5.0-5.4% from 5.4-5.8% and has said full year growth could be below 5%. In August, all eyes will be watching the 2Q15 GDP growth number, which would paint a clearer picture of whether consumption is recovering (or not) as demand normally peaks in the months preceding the Lebaran season.

**Key Risks:**

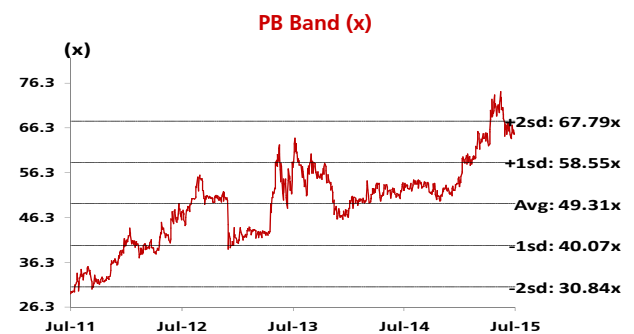
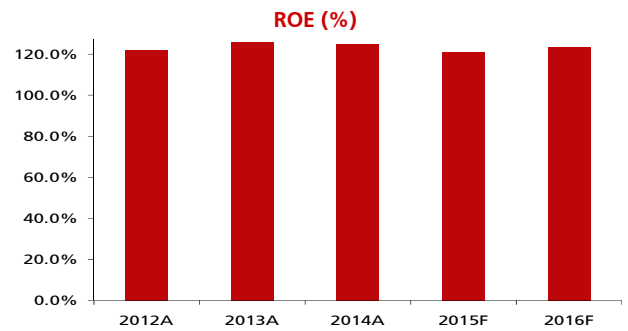
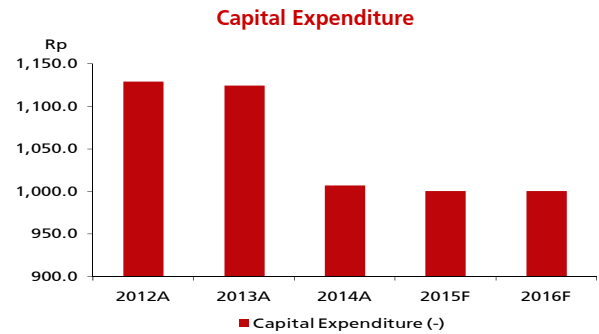
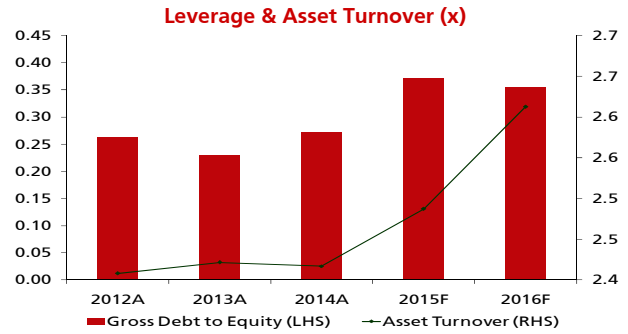
**Slower-than-expected economic growth.** A slower-than-expected economic recovery would dampen consumption further and hurt the company's revenues and earnings.

**Weaker rupiah, higher raw material prices.** These would reduce company's margins, which would in turn, reduce earnings.

**Difficult to pass on cost increases to consumers.** Slowing consumption and weak consumer sentiment have led consumers to become more selective. This would limit the company's ability to pass on cost increases to consumers, which would crimp margins.

**COMPANY BACKGROUND**

PT Unilever Indonesia Tbk manufactures soaps, detergents, margarine, oil, and dairy-based foods, tea-based beverages, ice cream and cosmetics.



Source: Company, DBS Vickers, DBS Bank

## Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
<b>Revenues (Rp bn)</b>					
Home and Personal Care	19,922	22,415	24,634	26,851	29,080
Foods and Refreshment	7,381	8,343	9,878	11,646	13,684
<b>Total</b>	<b>27,303</b>	<b>30,757</b>	<b>34,512</b>	<b>38,497</b>	<b>42,763</b>
<b>Gross Profit (Rp bn)</b>					
Home and Personal Care	10,757	12,137	12,943	13,828	14,772
Foods and Refreshment	3,132	3,642	4,156	4,868	5,679
<b>Total</b>	<b>13,889</b>	<b>15,778</b>	<b>17,099</b>	<b>18,696</b>	<b>20,451</b>
<b>Gross Profit Margins (%)</b>					
Home and Personal Care	54.0	54.1	52.5	51.5	50.8
Foods and Refreshment	42.4	43.7	42.1	41.8	41.5
<b>Total</b>	<b>50.9</b>	<b>51.3</b>	<b>49.5</b>	<b>48.6</b>	<b>47.8</b>

Gross margins expected to contract because of the shift in revenue mix, as well as rising raw material prices

## Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	27,303	30,757	34,512	38,497	42,763
Cost of Goods Sold	(13,414)	(14,979)	(17,412)	(19,801)	(22,312)
<b>Gross Profit</b>	<b>13,889</b>	<b>15,778</b>	<b>17,099</b>	<b>18,696</b>	<b>20,451</b>
Other Opng (Exp)/Inc	(7,391)	(8,614)	(9,337)	(10,779)	(11,974)
<b>Operating Profit</b>	<b>6,498</b>	<b>7,164</b>	<b>7,762</b>	<b>7,917</b>	<b>8,477</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(31)	(6)	(86)	(98)	(83)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>6,467</b>	<b>7,159</b>	<b>7,677</b>	<b>7,819</b>	<b>8,395</b>
Tax	(1,628)	(1,806)	(1,938)	(1,974)	(2,120)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,839</b>	<b>5,353</b>	<b>5,739</b>	<b>5,845</b>	<b>6,275</b>
Net Profit before Except.	4,839	5,353	5,739	5,845	6,275
EBITDA	6,888	7,680	8,137	8,368	8,977
<b>Growth</b>					
Revenue Gth (%)	16.3	12.7	12.2	11.5	11.1
EBITDA Gth (%)	16.2	11.5	5.9	2.8	7.3
Opg Profit Gth (%)	16.7	10.3	8.3	2.0	7.1
Net Profit Gth (%)	16.2	10.6	7.2	1.8	7.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	50.9	51.3	49.5	48.6	47.8
Opg Profit Margin (%)	23.8	23.3	22.5	20.6	19.8
Net Profit Margin (%)	17.7	17.4	16.6	15.2	14.7
ROAE (%)	121.9	125.8	124.8	120.9	123.4
ROA (%)	42.7	42.1	40.2	37.8	38.3
ROCE (%)	88.6	90.7	87.0	79.4	82.3
Div Payout Ratio (%)	104.5	95.8	96.0	96.0	96.0
Net Interest Cover (x)	207.3	1,271.0	90.7	80.5	102.7

Bottom-line growth impacted by higher royalty fees in 2015

Source: Company, DBS Vickers, DBS Bank

**Quarterly / Interim Income Statement (Rp bn)**

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	8,725	8,857	8,507	8,422	9,413
Cost of Goods Sold	(4,518)	(4,435)	(4,406)	(4,053)	(4,610)
<b>Gross Profit</b>	<b>4,207</b>	<b>4,422</b>	<b>4,101</b>	<b>4,368</b>	<b>4,803</b>
Other Oper. (Exp)/Inc	(2,342)	(2,455)	(2,450)	(2,090)	(2,710)
<b>Operating Profit</b>	<b>1,865</b>	<b>1,968</b>	<b>1,651</b>	<b>2,278</b>	<b>2,094</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(46)	11	(29)	(22)	(31)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,820</b>	<b>1,979</b>	<b>1,622</b>	<b>2,256</b>	<b>2,062</b>
Tax	(459)	(492)	(421)	(567)	(471)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>1,361</b>	<b>1,487</b>	<b>1,201</b>	<b>1,690</b>	<b>1,592</b>
Net profit bef Except.	1,361	1,487	1,201	1,690	1,592
EBITDA	1,971	2,074	1,765	2,327	2,219

**Growth**

Revenue Gth (%)	12.8	1.5	(4.0)	(1.0)	11.8
EBITDA Gth (%)	9.8	5.2	(14.9)	31.8	(4.6)
Opg Profit Gth (%)	11.4	5.5	(16.1)	38.0	(8.1)
Net Profit Gth (%)	7.8	9.3	(19.2)	40.7	(5.8)

**Margins**

Gross Margins (%)	48.2	49.9	48.2	51.9	51.0
Opg Margins (%)	21.4	22.2	19.4	27.1	22.2
Net Profit Margins (%)	15.6	16.8	14.1	20.1	16.9

**Balance Sheet (Rp bn)**

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	6,283	6,874	7,348	7,897	8,397
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	666	611	595	595	595
Cash & ST Invt	230	261	859	1,231	957
Inventory	2,062	2,084	2,326	2,333	2,629
Debtors	2,021	2,796	3,052	3,322	3,691
Other Current Assets	77	76	100	100	100
<b>Total Assets</b>	<b>11,339</b>	<b>12,703</b>	<b>14,281</b>	<b>15,478</b>	<b>16,369</b>
ST Debt	1,040	977	1,250	1,800	1,800
Creditor	2,764	3,765	4,632	5,045	5,685
Other Current Liab	3,086	3,033	2,983	2,983	2,983
LT Debt	0	0	0	0	0
Other LT Liabilities	481	674	817	817	817
Shareholder's Equity	3,968	4,255	4,599	4,833	5,084
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>11,339</b>	<b>12,703</b>	<b>14,281</b>	<b>15,478</b>	<b>16,369</b>
Non-Cash Wkg. Capital	(1,690)	(1,841)	(2,137)	(2,274)	(2,249)
Net Cash/(Debt)	(810)	(716)	(391)	(569)	(843)
Debtors Turn (avg days)	27.0	33.2	32.3	31.5	31.5
Creditors Turn (avg days)	77.5	95.0	99.2	95.2	95.1
Inventory Turn (avg days)	57.8	52.6	49.8	44.0	44.0
Asset Turnover (x)	2.4	2.4	2.4	2.5	2.6
Current Ratio (x)	0.6	0.7	0.7	0.7	0.7
Quick Ratio (x)	0.3	0.4	0.4	0.5	0.4
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	0.2
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	0.2
Capex to Debt (%)	108.5	115.0	80.6	55.6	55.6
Z-Score (X)	NA	26.7	23.8	22.2	21.4

Low leverage

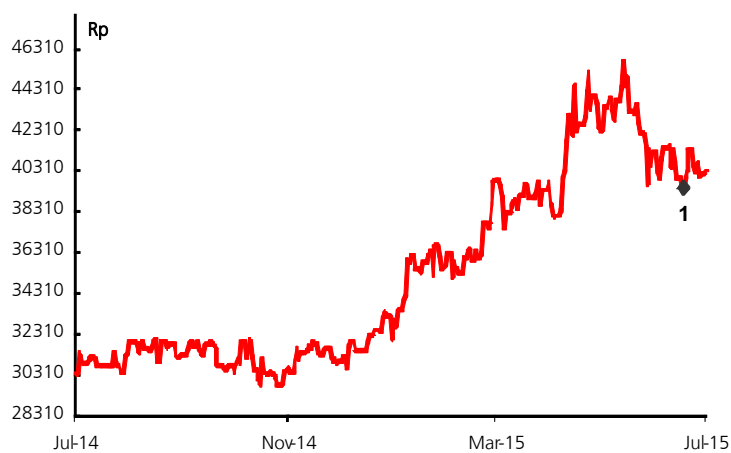
Source: Company, DBS Vickers, DBS Bank

## Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	6,467	7,159	7,677	7,819	8,395
Dep. & Amort.	390	516	375	451	499
Tax Paid	(1,628)	(1,806)	(1,938)	(1,974)	(2,120)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(43)	232	277	137	(24)
Other Operating CF	6	136	72	0	0
<b>Net Operating CF</b>	<b>5,192</b>	<b>6,236</b>	<b>6,463</b>	<b>6,433</b>	<b>6,750</b>
Capital Exp.(net)	(1,129)	(1,124)	(1,007)	(1,000)	(1,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	31	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(4)	0	0	0	0
<b>Net Investing CF</b>	<b>(1,102)</b>	<b>(1,124)</b>	<b>(1,007)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Div Paid	(4,538)	(5,059)	(5,127)	(5,611)	(6,024)
Chg in Gross Debt	341	(63)	273	550	0
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
<b>Net Financing CF</b>	<b>(4,197)</b>	<b>(5,122)</b>	<b>(4,854)</b>	<b>(5,061)</b>	<b>(6,024)</b>
Currency Adjustments	1	41	(4)	0	0
Chg in Cash	(106)	32	598	372	(274)
Opg CFPS (Rp)	686	787	811	825	888
Free CFPS (Rp)	533	670	715	712	754

Source: Company, DBS Vickers, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	30 Jun 15	39500	35400	Fully Valued

Source: DBS Vickers

DBS Bank Ltd recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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## ASEAN Consumer: Food for thought

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