

27 August 2021

Dutch Lady Milk Industries

Milking Positively

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DLADY's 1HFY21 earnings came in within consensus estimates. Top-line remained robust, with margins improving due to better product mix. TP is raised to RM40.20 pegged to a higher PER of 32x. Upgrade to OUTPERFORM.

Within expectations. 1HFY21 PATAMI of RM44m came in within our expectation/consensus (at 55%/47%). No dividends which are historically declared in the 1st and 3rd quarters.

YoY, 6MFY21 top-line of RM543m grew moderately by 3%, driven by the liquid milk product portfolio during the festive season in 2Q. Production maintained capacity at 100% despite ongoing pandemic challenges. On a positive note, gross margins saw improvements (140bps) indicating better product mix and hedging activities. Despite opex seeing a +5% uptick, PBT margin saw a marginal decline (40bps) on account of higher depreciation due to accelerated depreciation of its assets in the Petaling Jaya factory that cannot be transitioned to its new site. Hence, PATAMI was relatively flat at RM44m.

QoQ, top-line saw a +10% uptick given the successful Ramadan campaign. Overall broad improvements can be seen as GP/EBIT margins saw 3%/4% uptick, respectively. As such PATAMI jumped +62% to RM27m.

Outlook. Moving forward, the group should be able to preserve its sales base on the back of fresh product innovations and strategic pricing strategies, in tandem with the gradual reopening of the economy with the successful roll-out of vaccines. Outlook remains positive due to its brand presence and the dietary and nutritional value of milk. However, in the immediate term, margins will still be challenged by: (i) still volatile commodity prices in 2021 compounded by unfavorable forex. We are still positive on stable commodity prices in FY22, seeing the GDT price index has remained on a downtrend on a MoM basis with 6-month forward contracts looking more or less the same. Given that its new manufacturing facility in Seremban is still a long way off and capex will be funded from internally generated funds, dividend payout could be cramped in the medium term.

Post results, we make no changes to our FY21E/FY22E PATAMI of RM80m both.

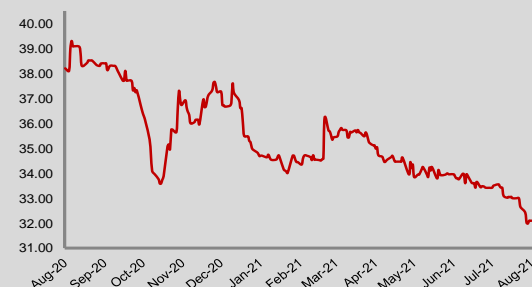
Overall upgrade. We raised our TP to RM40.20 (from RM35.65), pegged to a higher FY22E PER of 32x (from 28x) (implying a 0.5SD below its 5-year mean). The higher PER is to reflect its robustness and margins preservation due to better product mix. The negative SD is premised on persistent challenging global dairy prices and uninspiring dividend yields. Overall, we raised our call to **OUTPERFORM**

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

OUTPERFORM ↑

Price : **RM32.76**
Target Price : **RM40.20** ↑

Share Price Performance



KLCI 1,585.74
YTD KLCI chg -2.5%
YTD stock price chg -12.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLM MK Equity
Market Cap (RM m)	2,096.6
Shares Outstanding	64.0
52-week range (H)	40.28
52-week range (L)	31.92
3-mth avg daily vol	5,824
Free Float	23%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	1,101	1,156	1,167
EBIT	100	109	109
PBT	98	107	107
Net Profit (NP)	73	80	80
PATAMI	73	80	80
Consensus (NP)		94	99
Earnings Revision		0.0%	0.0%
Core EPS (sen)	114.6	124.9	125.6
Core EPS growth (%)	-28.7%	9.0%	0.5%
NDPS (sen)	80.0	60.0	80.0
BVPS (RM)	2.6	3.3	3.7
PER (x)	28.6	26.2	26.1
PBV (x)	12.6	10.1	8.8
Net Gearing (x)	N.	N.	N.
	Cash	Cash	Cash



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Results Highlights								
Y/E : Dec (RM m)	2Q21	1Q21	QoQ Chg	2Q20	YoY Chg	6M21	6M20	YoY Chg
Turnover	284.0	258.6	9.8%	273.5	3.8%	542.7	524.7	3.4%
Gross Profit	102.6	87.0	17.9%	88.0	16.5%	189.5	175.7	7.9%
Operating Expenses	(59.4)	(59.1)	0.6%	(55.7)	6.7%	(118.6)	(113.0)	4.9%
EBITDA	44.9	32.0	40.4%	33.7	-98.8%	76.9	69.2	11.0%
PBT/(LBT)	35.9	23.0	56.2%	28.7	-98.0%	58.9	59.4	-0.8%
Taxation	35.5	22.3	58.9%	28.0	26.5%	57.8	58.1	-0.6%
Net Profit	(8.2)	(5.4)	50.2%	(6.8)	20.3%	(13.6)	(14.2)	-3.9%
PATAMI	27.3	16.9	61.7%	21.2	28.5%	44.2	44.0	0.4%
Core EPS (sen)	27.3	16.9	61.7%	21.2	28.5%	44.2	44.0	0.4%
DPS (sen)	42.6	26.4	61.7%	33.2	28.5%	69.0	68.7	0.4%
	0.0	25.0	-100.0%	0.0	N.a	25.0	40.0	-37.5%
Gross Margin								
Opex Margin	36.1%	33.6%		32.2%		34.9%	33.5%	
EBITDA margin	20.9%	22.9%		20.4%		21.8%	21.5%	
EBIT Margin	15.8%	12.4%		12.3%		14.2%	13.2%	
PBT Margin	12.6%	8.9%		10.5%		10.9%	11.3%	
Core Net Profit Margin	12.5%	8.6%		10.2%		10.6%	11.1%	
ETR	9.6%	6.5%		7.8%		8.1%	8.4%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.					
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.53	1,723.3	N	12/2021	7.2%	34.2%	-25.6%	49.8%	25.3	34.1	22.7	10.9	14.0	35.9%	3.3%	1.60	MP		
AEON CO. (M) BHD	1.49	2,092.0	Y	12/2021	2.8%	6.2%	81.4%	22.4%	50.5	27.9	22.8	1.3	1.2	4.4%	1.0%	1.20	MP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.58	917.3	Y	12/2021	11.7%	3.7%	33.3%	-13.9%	19.6	14.7	17.1	4.1	4.0	27.6%	6.3%	6.20	OP		
DUTCH LADY MILK INDUSTRIES BHD	32.76	2,096.6	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.6	26.2	26.1	12.6	10.1	42.7%	1.8%	40.20	OP		
FRASER & NEAVE HOLDINGS BHD	27.68	10,152.4	Y	09/2021	5.0%	2.1%	3.9%	1.4%	25.1	24.2	23.9	3.8	3.5	15.0%	2.2%	33.15	OP		
MR D.I.Y.	3.66	22,972.4	Y	12/2021	27.4%	37.6%	33.9%	56.6%	68.1	50.9	32.6	26.2	19.7	44.2%	0.8%	4.10	OP		
MYNEWS HOLDINGS BHD	1.05	716.3	N	10/2021	-12.2%	52.8%	-82.6%	1000%	N.A.	447.7	40.7	2.4	2.4	0.5%	0.0%	0.950	MP		
NESTLE (MALAYSIA) BHD	134.60	31,563.7	Y	12/2021	1.1%	2.2%	15.2%	2.1%	57.1	49.6	48.6	56.7	55.2	112.7%	2.0%	143.60	MP		
PADINI HOLDINGS BHD	3.08	2,026.4	Y	06/2021	-21.4%	32.4%	-22.6%	102.4%	26.9	34.8	17.2	2.7	2.6	7.6%	2.4%	3.60	OP		
POWER ROOT BHD	1.38	588.4	Y	03/2022	10.0%	15.2%	17.6%	41.3%	20.8	17.6	12.5	2.2	2.0	11.9%	5.4%	1.45	MP		
QL RESOURCES BHD	5.61	13,652.8	Y	03/2022	12.3%	16.9%	-8.0%	21.5%	43.8	47.6	39.2	5.4	5.1	11.4%	0.6%	6.00	MP		
Simple Average					4.4%	18.6%	5.0%	116.7%	36.6	70.5	27.6	11.6	10.9	28.5%	2.4%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	14.02	4,003.1	N	12/2021	-8.0%	-2.4%	-3.5%	4.9%	15.4	15.9	15.2	9.2	9.1	57.4%	6.1%	15.70	OP		
CARLSBERG BREWERY MALAYSIA BHD	22.22	6,793.7	N	12/2021	-1.6%	19.9%	18.4%	32.9%	38.7	32.7	24.6	34.8	27.0	96.1%	2.3%	23.10	MP		
HEINEKEN MALAYSIA BHD	22.56	6,815.3	N	12/2021	3.0%	17.2%	32.8%	29.2%	38.9	29.3	22.6	17.3	17.0	58.6%	3.3%	23.90	MP		
Simple Average					-2.2%	11.6%	15.9%	22.4%	31.0	25.9	20.8	20.4	17.7	70.7%	3.9%				

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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