



DKSH Holdings (M) Berhad

Outperform

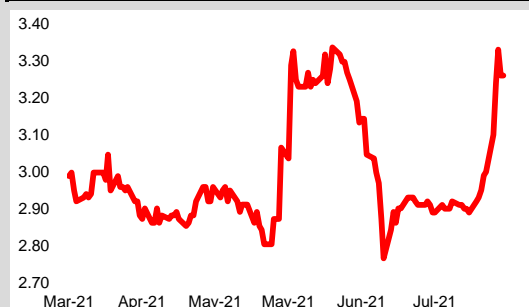
DESCRIPTION

Market expansion services provider with experience in sourcing, marketing, logistics and distribution, fulfillment and after-sales services.

12-Month Target Price RM5.00
Current Price RM3.26
Expected Share Price Return (%) 53.4%

Market Main
Sector Trading
Bursa Code 5908
Bloomberg Ticker DKSH MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 2.76 – 3.86
 3-Month Average Vol ('000) 134.0

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	12.0	13.5	6.7
Relative Returns	6.6	10.3	2.6

KEY STOCK DATA

Market Capitalisation (RMm) 514.0
 No. of Shares (m) 157.7

MAJOR SHAREHOLDERS

	%
DKSH Resources	74.3
Lembaga Tabung Angkatan Tentera	4.8
HMG Global EM Markets EQ F	1.8

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Strong Margin Expansion

DKSH's 2QFY21 net profit jumped by 224% YoY to RM25.4m, driven by the favourable product mix from its in-house brands as well as lower operating expenses. Cumulative 1H FY21 net profit came in at RM49.5m, beating our and consensus expectations, as it accounts for 80% of our full-year forecast. The discrepancy in our forecasts was mainly due to the better-than-expected operating margins. We raise our FY21-23F earnings by 31-37%, factoring in higher operating margin assumptions. We continue to like DKSH as we believe that DKSH is one of the beneficiaries from the gradual reopening in economic activities nationwide which should likely translate to an increase in consumer spending. In addition, as DKSH is trading at 6x forward earnings, we think that the stock is undervalued. As such, we upgrade DKSH from Trading Buy to **Outperform** with a higher TP of RM5.00 (from RM4.00) based on 9x (3-year historical average) FY22F EPS.

§ **2QFY21 revenue grew by 22.9% YoY to RM1.78bn**, given the stronger performance in all 3 business segments. Marketing and distribution (M&D) segment revenue grew by 17% YoY to RM966.m, likely driven by festive spending (Hari Raya festivities) coupled with the organic growth from existing clients and new clients secured. Logistics segment saw its revenue increased by 30.5% YoY, as the organic growth and recovery from the effects of Covid-19 helped to offset the effects of losing a telecommunications customer in 4QFY20. Meanwhile, the Others segment sales grew by 63.6% YoY, on a low base effect due to the Movement Control Order (MCO) last year.

§ **2QFY21 operating profit surged by 82.1% YoY to RM40m**, given the margin expansion from both M&D and Logistics segments. M&D segment EBIT margin grew by 0.5% to 3.1%, underpinned by better product mix from its in-house brands and lower operating expenses. Logistics segment EBIT margin improved by 0.6% to 1.5%, largely contributed by better economies of scale from operational efficiencies.

§ **Outlook.** We think that DKSH is well positioned to benefit from the recovery in consumer spending as the economy gradually reopens, aided by the rapid Covid-19 vaccination rollout. In addition, DKSH remains committed to focus on operational efficiencies and working capital management to provide better support to its profit margins. All in all, we are positive on DKSH's outlook as consumer demand remains relatively stable even during lockdowns, given the inelastic demand for consumer staple goods.

KEY FORECAST TABLE

FYE Dec (RMm)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	6,457.1	6,355.7	6,758.8	7,031.6	7,315.4	4.8%
Operating Profit	98.6	107.8	142.6	149.4	155.5	13.0%
Pretax profit	61.0	74.5	109.5	117.0	122.3	18.0%
Core Net Profit	39.0	48.9	81.0	86.6	90.5	22.8%
EPS (Sen)	24.8	31.0	51.4	54.9	57.4	22.8%
P/E (x)	13.2	10.5	6.3	5.9	5.7	
DPS (sen)	0.0	0.0	10.0	10.0	10.0	
Dividend Yield (%)	0.0	0.0	3.1	3.1	3.1	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary of DKSH**

<u>FYE Dec (RMm)</u>	<u>2Q21</u>	<u>2Q20</u>	<u>1Q21</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY21</u>	<u>YTD FY20</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	1,780.1	1,448.1	1,755.1	22.9	1.4	3,535.2	3,171.6	11.5	Stronger sales from all 3 business segments
Operating expenses	(1,745.5)	(1,428.1)	(1,715.4)	22.2	1.8	(3,461.0)	(3,125.8)	10.7	
Others	5.5	2.0	2.2	176.2	153.6	7.7	4.2	82.7	
Operating profit	40.0	22.0	41.8	82.1	(4.3)	81.9	49.9	64.0	
Finance cost	(6.6)	(8.5)	(8.2)	(22.0)	(19.5)	(14.8)	(17.8)	(17.1)	
Pretax profit	33.4	13.5	33.6	147.3	(0.6)	67.1	32.1	109.1	
Tax	(8.0)	(5.7)	(9.6)	41.3	(15.9)	(17.6)	(14.1)	24.5	
Net profit	25.4	7.8	24.1	224.2	5.5	49.5	17.9	175.9	
Tax rate	24.0%	42.1%	28.4%			26.2%	44.1%		
EBIT margin	2.2%	1.5%	2.4%			2.3%	1.6%		
Net margin	1.4%	0.5%	1.4%			1.4%	0.6%		
<u>Operating profit</u>									
Marketing & distribution	30.3	21.4	31.7	41.3	(4.3)	61.9	43.9	41.2	YoY growth due to the ongoing organic growth of existing clients and new clients secured Due to the organic growth of existing clients and recovery from the effects of the Covid-19 pandemic in 2020
Logistic services	12.4	5.8	12.9	113.4	(4.4)	25.3	20.7	22.3	
Others	(2.6)	(5.2)	(2.7)	(50.3)	(4.8)	(5.3)	(14.6)	(63.5)	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	6,457.1	6,355.7	6,758.8	7,031.6	7,315.4
Operating Profit	98.6	107.8	142.6	149.4	155.5
Other Gains / (Losses)	0.0	0.0	0.0	0.0	0.0
Finance Costs	-37.6	-34.4	-33.1	-32.4	-33.2
Pre-tax Profit	61.0	74.5	109.5	117.0	122.3
Income Tax	-21.9	-25.6	-28.5	-30.4	-31.8
Effective Tax Rate (%)	35.9	34.4	26.0	26.0	26.0
Minorities	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	39.0	48.9	81.0	86.6	90.5
Growth					
Revenue (%)	7.4	-1.6	6.3	4.0	4.0
Operating Profit (%)	43.3	9.3	32.3	4.8	4.1
Net Profit (%)	-12.5	25.2	65.7	6.9	4.5

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	33.0	29.0	26.8	23.6	19.5
Goodwill and Intangibles	393.9	381.8	381.8	381.8	381.8
Receivables	1,383.5	1,365.0	1,451.6	1,510.1	1,503.2
Cash and Cash Equivalents	22.1	55.4	103.8	173.7	245.9
Other Assets	888.7	871.4	913.4	945.0	978.1
Total Assets	2,721.3	2,702.5	2,877.3	3,034.3	3,128.5
Payables	1,417.8	1,320.8	1,395.1	1,451.1	1,509.6
Borrowings	527.9	567.0	602.2	632.4	593.4
Other Liabilities	155.3	145.6	145.6	145.6	145.6
Total Liabilities	2,101.1	2,033.4	2,142.9	2,229.1	2,248.5
Shareholders' Equity	620.3	669.1	734.4	805.2	879.9
Total Equity and Liabilities	2,721.3	2,702.5	2,877.3	3,034.3	3,128.5

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2019A	2020A	2021F	2022F	2023F
Book Value Per Share (RM)	3.9	4.2	4.7	5.1	5.6
NTA Per Share (RM)	1.4	1.8	2.2	2.7	3.2
EPS (Sen)	24.8	31.0	51.4	54.9	57.4
DPS (Sen)	0.0	0.0	10.0	10.0	10.0
Payout Ratio (%)	0.0%	0.0%	19.5%	18.2%	17.4%
ROA (%)	1.8%	1.8%	2.8%	2.9%	2.9%
ROE (%)	7.7%	7.3%	11.0%	10.8%	10.3%

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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