

PP14767/04/2012(02960)

Wednesday, May 27, 2015

Dutch Lady Milk Industries Berhad

“Bleeding Quarter”

Results Review

- **Actual vs. expectations.** Dutch Lady Milk Industries Berhad (Dutch Lady) recorded a revenue of RM197 million in 1Q15 that dropped by 25% q-o-q and 14% y-o-y, impacted by the slow down in consumers spending due to GST cautiousness and rising cost of living. Spending was also weighed by the revision in some products prices.
- **Bottomline.** Dutch Lady’s PAT of RM17 million in 1Q15, slid by 50% q-o-q and 26% y-o-y compared to RM34 million in 4Q14 and RM23 million in 1Q14. The lower PAT was tempered by higher marketing expenses to support the re-launch activities of Dutch Lady new milk. Dutch Lady’s 1Q15 PAAT of RM17 million accounted 12% and 14% of ours and consensus estimates respectively, essentially below estimates.
- **Dividend.** No dividend was declared during the quarter.
- **Quarter review.** Higher operating expenses were made in 1Q15 compared to RM10 million in 1Q14, shifting down PBT margin and PAT margin to 12% and 9% respectively in 1Q15 compared to 14% (PBT margin) and 10% (PAT margin) in 1Q14. Raw material prices for Dutch Lady such as cocoa (-9% y-o-y), milk (-32% y-o-y), sugar (-33% y-o-y), CPO (-15% y-o-y), coffee beans (Arabica: -25% y-o-y; Robusta: -21% y-o-y), and wheat (-27% y-o-y) had shown the declining trend in this quarter compared to 1Q14.
- **Outlook.** Dutch Lady recorded a bleeding performance in 1Q15 and we foresee the group will face stiff competition from other milk producers in F&B industries such as Nestle and Dumex. Additionally, the implementation of GST in April 2015 will influence consumer behavior spending and we expect FY15 to be a challenging year for the group. However, we are still

SELL (TP: RM40.00)

Current Price (RM)	RM46.80
New Target Price (RM)	RM40.00
Previous Target Price (RM)	RM48.80
Previous Recommendation	HOLD
Upside/(Downside) To Target	-15%
Dividend Yield (FY15F)	5%

Stock Code

Bloomberg	DLM MK
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Stock Information

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	64
Market Cap (RM mn)	2,984
YTD Chg in Share Price	-0.04%
Beta (x)	0.50
52-week Hi/Lo (RM)	48.45 44.47
3M Average Volume (shrs)	1.75mn
Estimated Free Float	25%

Major Shareholders

Frint Beheer BV	51%
Skim ASB	16%
PNB	2%

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optimistic that Dutch Lady would continue to cement its position in the F&B sector as a milk producer driven by aggressive promotion and effective marketing activities. The increasing trend of awareness of health and nutrition product among publics in Malaysia would provide positive opportunities for the Group to develop its domestic business.

- **Changes to forecast.** We revised downward our FY15 and FY16 forecast by 18% respectively due to lower earnings in 1Q15. FY15 and FY16 earnings forecast are expected to grow by 6% and 4% respectively to RM117 million (FY15) and RM121 million (FY16) respectively assisted by 1) encouraging domestic sales and 2) softening in commodity prices.
- **Valuation and recommendation.** We value Dutch Lady at RM40.00 and the stock is a SELL based on 3-years average PER of 22x over its FY15 EPS estimate at 182 cent. Re-rating catalyst may come from by 1) aggressive marketing and promotion activities, and 2) increasing awareness of healthy lifestyles among Malaysians.

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	2.02	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	11.00	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	71.56	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.40	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	46.80	216	229	22	20	14	16	58	2.4	40.00	Sell
Padini*	Jun	1.40	15	18	13	11	3	3	24	5.0	1.80	Buy
Scientex	July	7.10	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.05	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.17	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.05	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Table 3: Financial Forecast

Y/E: Dec (RM'mil)	FY12	FY13	FY14	FY15F	FY16F
Revenue	882	983	1,000	1,100	1,265
EBIT	163	184	148	163	187
PBT	166	187	148	163	187
Net profit	123	138	110	117	121
EPS (sen)	193	216	172	182	189
EPS growth (%)	14%	12%	-21%	6%	4%
DPS (sen)	260	260	220	230	240
Dividend Yield (%)	6%	6%	4%	5%	5%
Dividend payout (%)	135%	120%	128%	104%	105%
PER (x)	24	22	27	21	15
P/BV (x)	14	16	18	17	16%
PBT Margin (%)	19%	19%	15%	15%	15%
Net profit margin (%)	14%	14%	11%	11%	10%

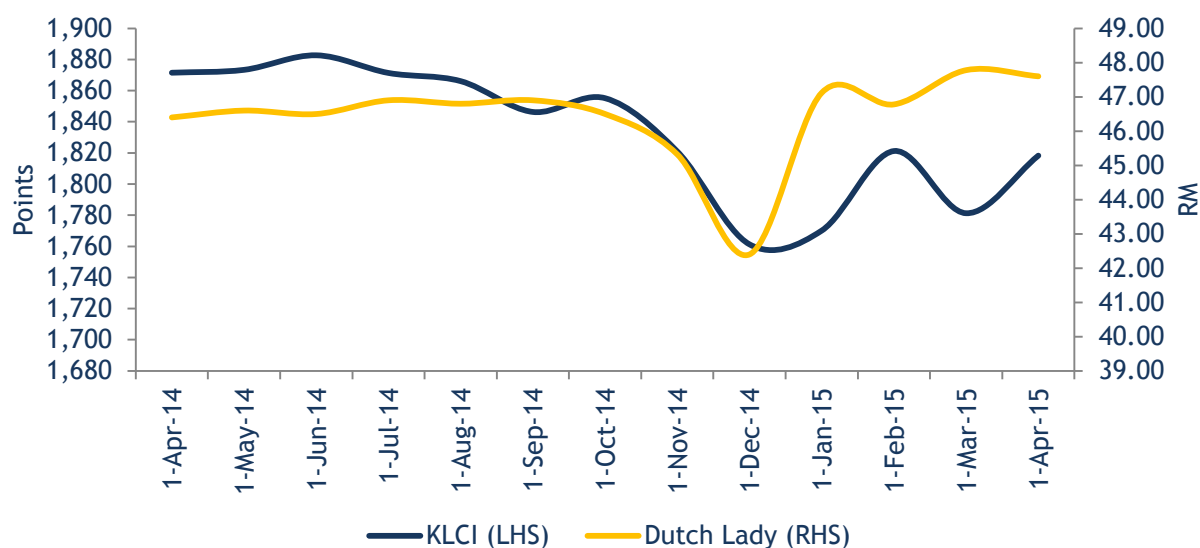
Source: Company, M&A Securities

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Table 3: Results Analysis

YE: Dec (RM mill)	1Q15	1Q14	4Q14	q-o-q	y-o-y	3M15	3M14	y-o-y
Revenue	197	228	264	-25%	-14%	197	228	-14%
Cost of Sales	(127)	(155)	(172)	-26%	-18%	(127)	(155)	-18%
Gross Profit	70	73	92	-24%	-3%	70	73	-3%
EBIT	23	31	46	-49%	-24%	23	31	-24%
PBT	23	31	46	-50%	-26%	23	31	-26%
Taxation	(6)	(8)	(12)	-50%	-26%	(6)	(8)	-26%
PAT	17	23	34	-50%	-26%	17	23	-26%
EPS (sen)	27	36	53	-50%	-26%	27	36	-26%
PBT Margin	12%	14%	17%			12%	14%	
PAT Margin	9%	10%	13%			9%	10%	

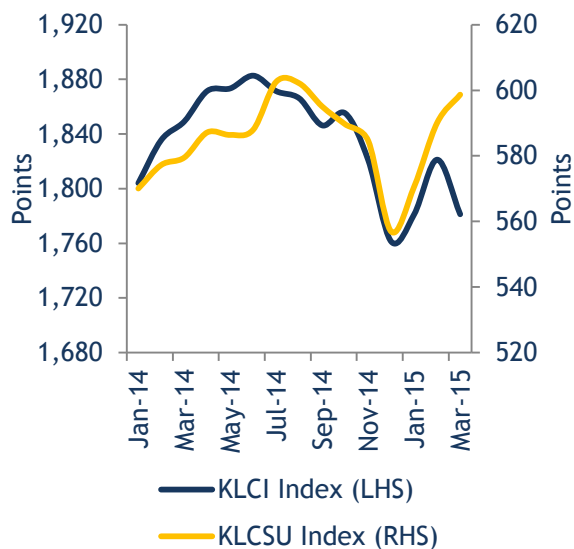
Source: Bursa Malaysia, M&A Securities

Dutch Lady Share Price vs. KLCI
(Apr 2014 - YTD)

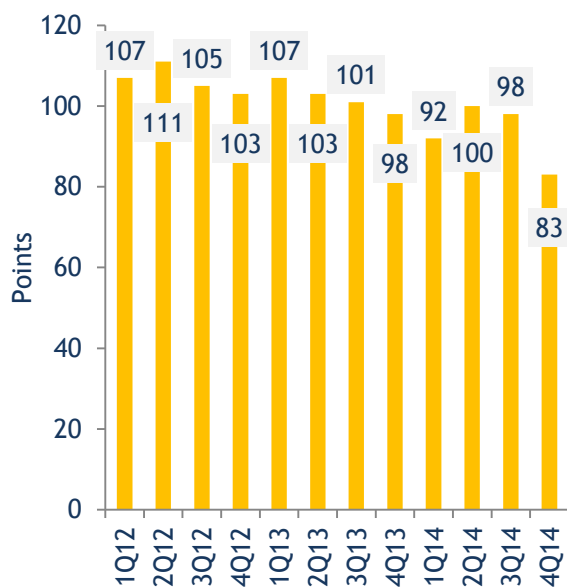
Source: Bloomberg, M&A Securities

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**FBMKLCI Index vs. FBM Consumer Product Index
(Jan 2014-YTD)**



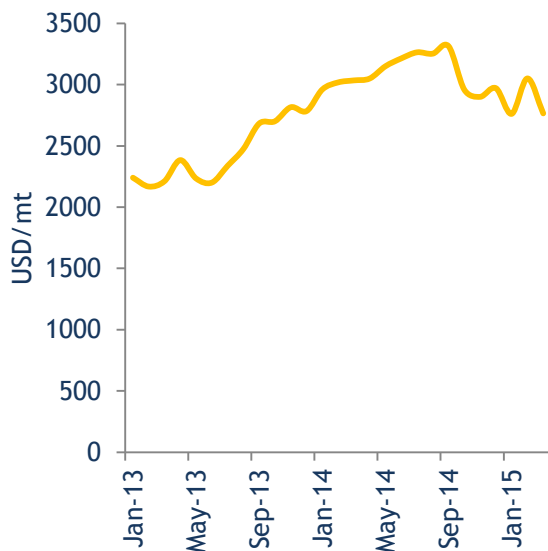
**Malaysia Consumer Confidence Index
(1Q12 - 4Q14)**



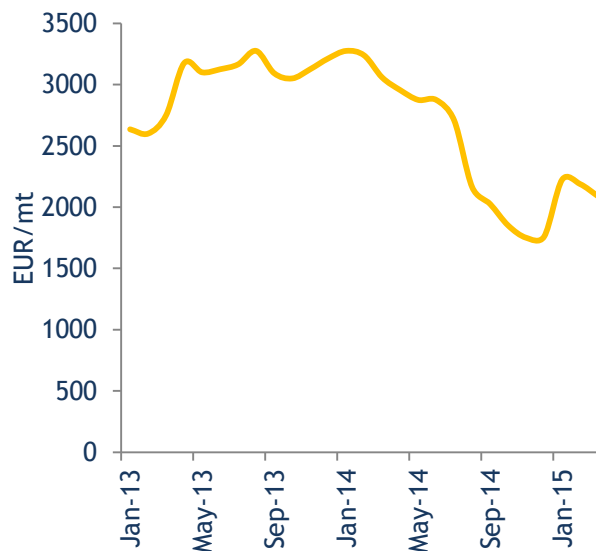
Source: Bloomberg, M&A Securities

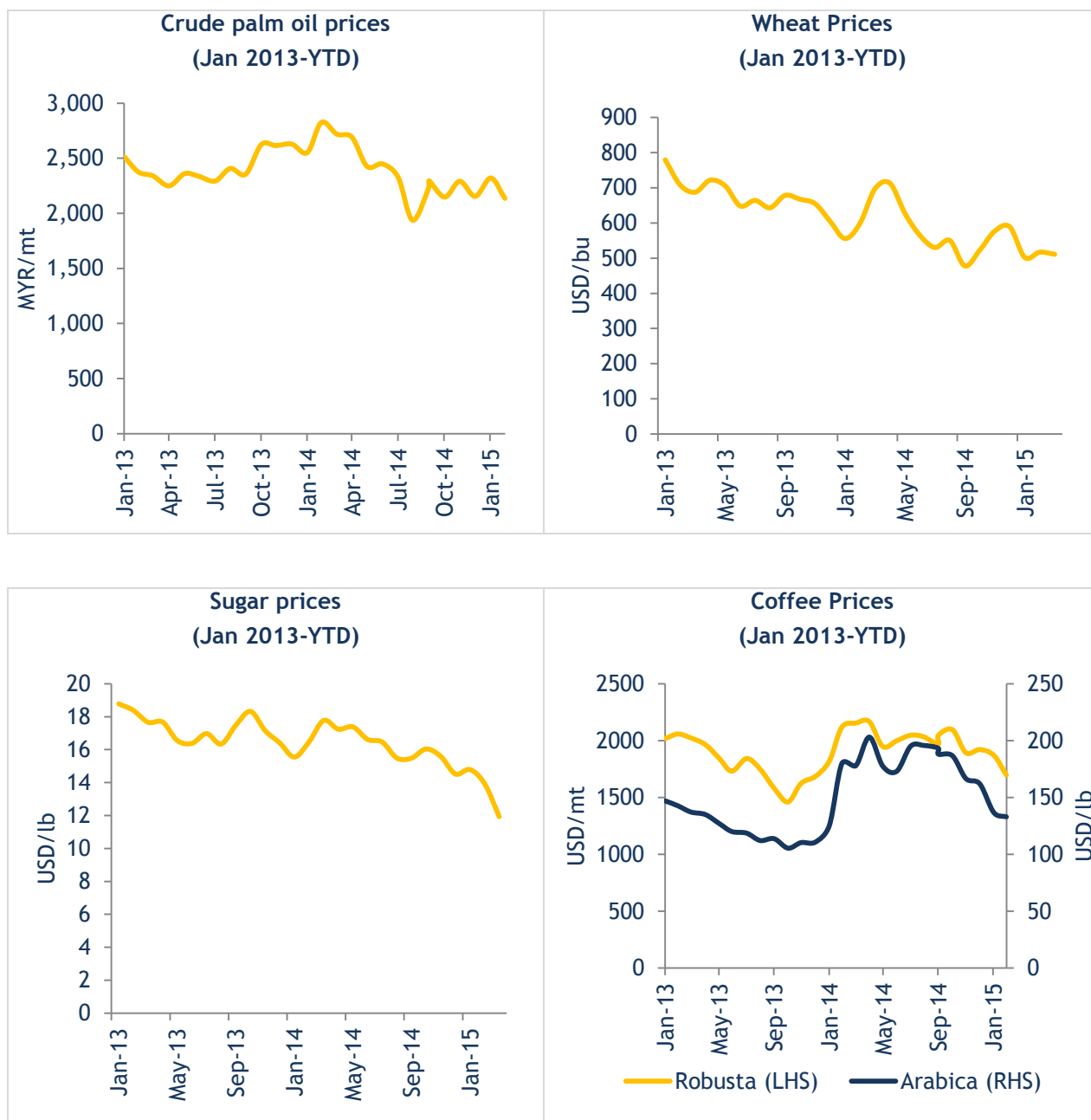
Dutch Lady key material prices

**Cocoa prices
(Jan 2013-YTD)**



**Skimmed milk prices
(Jan 2013-YTD)**





Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

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

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