

PP14767/04/2012(02960)

## Dutch Lady Milk Industries Berhad

### “Positive Growth”

#### Results Review

- Actual vs. expectations.** Dutch Lady Milk Industries Berhad (Dutch Lady) net profit of RM66 million in 6M15 gained by 39% y-o-y compared to RM47 million in 6M14. The group double digits growth was mainly driven by lower commodity prices in this quarter compared to 2Q14. That said, Dutch Lady’s 6M15 net profit of RM66 million came in line with ours and consensus estimates, accounting 56% and 58% of ours and consensus full year estimates respectively.
- Dividend.** The group declared dividend of 110sen/share in 6M15, translating into a dividend payout ratio of 107%, lower from the previous year of 149%.
- Top line.** Dutch Lady posted a weaker revenue of RM475 million in 6M15 compared to RM496 million (-4% y-o-y). The lower revenue in 6M15 was tempered by weaker consumer spending due to the implementation of GST and higher marketing expenses to support the re-launch activities of Dutch Lady new products in 1Q15.
- Material cost.** The lower cost material pushed Dutch Lady’s gross profit margin to 40% in 6M15 compared to 33% in 6M14 (+70% bps). Of note, commodity prices for Dutch Lady had shown declining trend in this quarter compared to 2Q14. Commodity price for CPO declined by 9% y-o-y, sugar (-26% y-o-y), and milk fell by 39% y-o-y. We expect commodity price will be soft for the next quarter and this will give positive impact to the group earnings.

Tuesday, August 25, 2015

#### HOLD (TP: RM41.60)

Current Price (RM)	RM45.80
New Target Price (RM)	RM41.60
Previous Target Price (RM)	RM40.00
Previous Recommendation	SELL
Upside/(Downside) To Target	-9.2%
Dividend Yield (FY16F)	5%

#### Stock Code

Bloomberg	DLM MK
-----------	--------

#### Stock Information

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	64
Market Cap (RM mn)	2,931
YTD Chg in Share Price	9.38%
Beta (x)	0.46
52-week Hi/Lo (RM)	48.19   39.85
3M Average Volume (shrs)	1.75mn
Estimated Free Float	20%

#### Major Shareholders

Frint Beheer BV	51%
Skim ASB	14%
PNB	3%

## Results Review - Dutch Lady Milk Industries Berhad

- **Outlook.** We foresee Dutch Lady may continue facing a tough and challenging operation environment with lower consumer spending due to higher costs of living and GST cautiousness. We believe consumer will switch to other beverages due to the higher pricing of dairy based beverage products. However, we are optimistic that Dutch Lady will continue to perform in the F&B sector as a milk producer driven by aggressive marketing and promotional activities. Addition, the group strong branding position, the increasing awareness of health and nutrition product and the lower commodity price would provide positive opportunities to the group earnings in the future.
- **Changes to forecast.** We maintain our FY15 and FY16 earning forecast. Dutch Lady's PAT for FY15 and FY16 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 raise our TP to RM41.60 as we rolled our valuation into FY16 based on 3-years average PER of 22x over its FY16 EPS estimate at 189 cent and the stock is a **HOLD**. 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	1.12	17	19	17	16	1	1	5	NA	2.00	Hold
Amway	Dec	9.95	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	72.00	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.97	34	38	14	13	2	2	13	5.1	5.46	Hold
Dutch Lady	Dec	45.80	216	229	22	20	14	16	58	2.4	41.60	Hold
Padini*	Jun	1.33	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	6.81	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.43	11	33	10	6	2	2	10	5.1	1.80	Buy
Aeon Co	Dec	2.82	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	3.90	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&amp;A Securities

## Results Review - Dutch Lady Milk Industries Berhad

Table 3: Financial Forecast

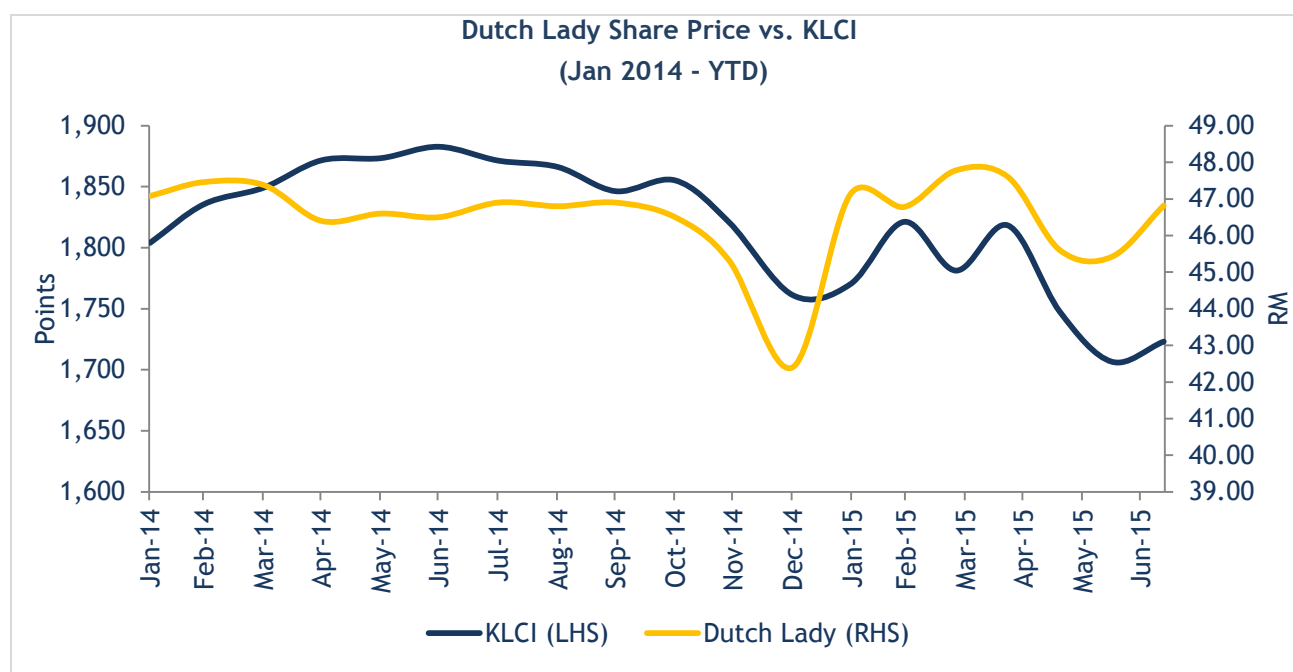
Y/E: Dec (RM'mil)	FY12	FY13	FY14	FY15F	FY16F
Revenue	882	983	1,000	1,100	1,265
EBIT	163	184	148	163	187
PBT	166	187	148	163	187
Net profit	123	138	110	117	121
EPS (sen)	193	216	172	182	189
EPS growth (%)	14%	12%	-21%	6%	4%
DPS (sen)	260	260	220	230	240
Dividend Yield (%)	6%	6%	4%	5%	5%
Dividend payout (%)	135%	120%	128%	126%	127%
PER (x)	24	22	27	25	24
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&amp;A Securities

Table 3: Results Analysis

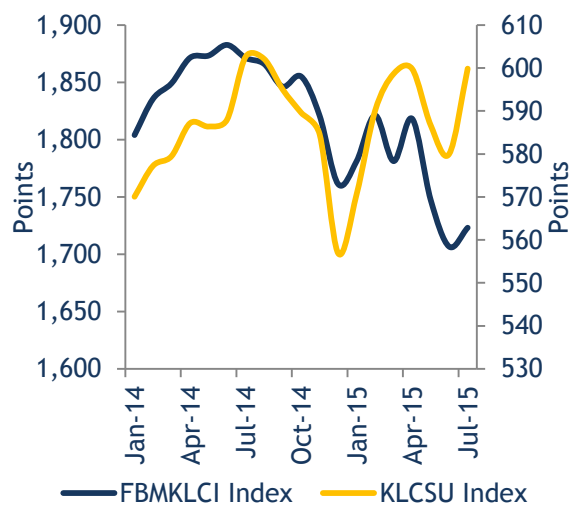
YE: Dec (RM mill)	2Q15	2Q14	1Q15	q-o-q	y-o-y	6M15	6M14	y-o-y
Revenue	278	268	197	41%	4%	475	496	-4%
Cost of Sales	(157)	(179)	(127)	24%	-13%	(283)	(335)	-15%
Gross Profit	122	89	70	73%	37%	192	161	19%
EBIT	66	33	23	180%	99%	89	64	40%
PBT	66	33	23	185%	100%	89	64	39%
Taxation	(17)	(9)	(6)	182%	98%	(23)	(17)	37%
PAT	49	24	17	186%	101%	66	47	39%
EPS (sen)	76	38	27	186%	101%	103	74	39%
Gross Profit Margin	44%	33%	36%			40%	33%	
PBT Margin	24%	12%	12%			19%	13%	
PAT Margin	18%	9%	9%			14%	10%	

Source: Bursa Malaysia, M&amp;A Securities

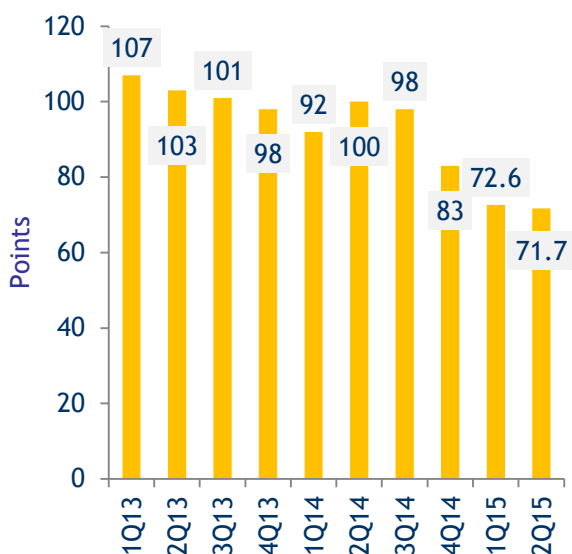


Source: Bloomberg, M&amp;A Securities

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



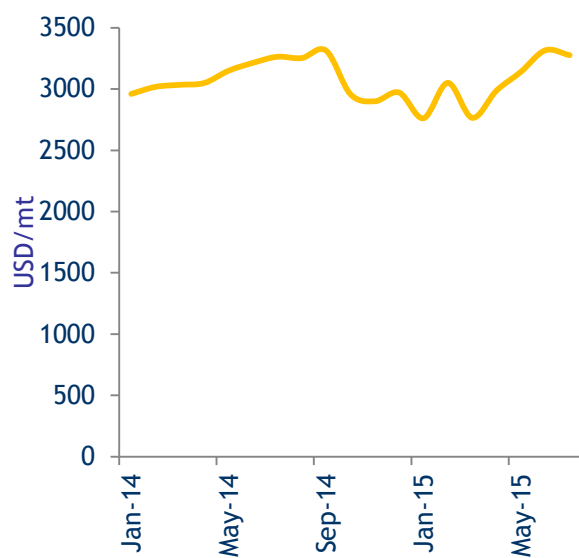
**Malaysia Consumer Confidence Index**  
(1Q13 - 2Q15)



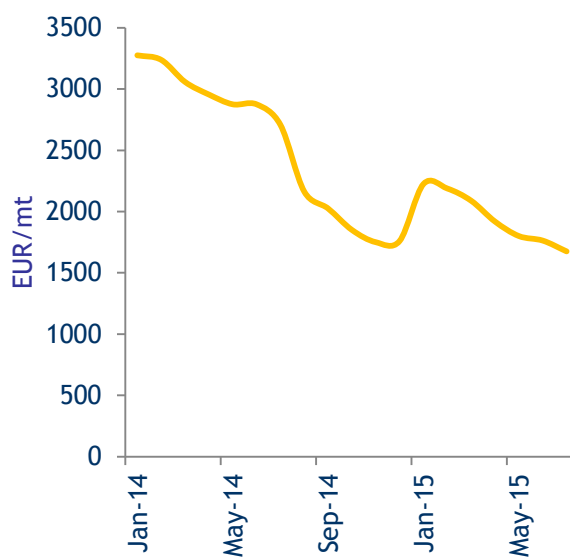
Source: Bloomberg, M&A Securities

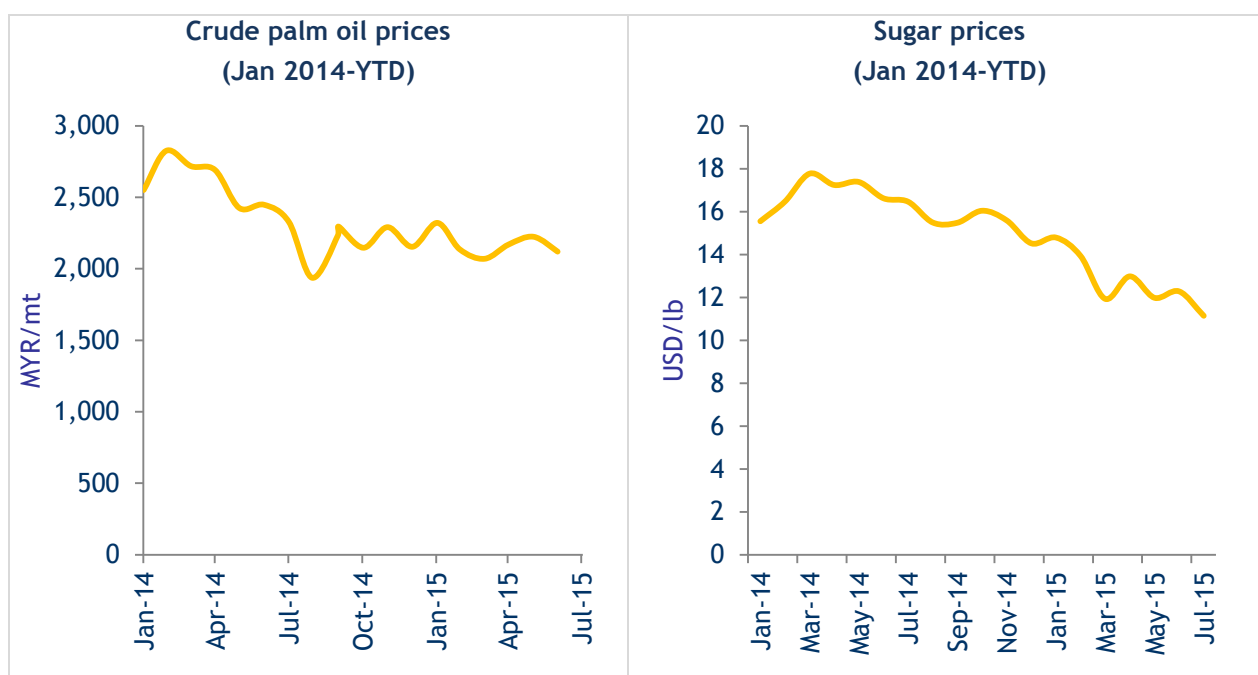
**Nestle key material prices**

**Cocoa prices**  
(Jan 2014-YTD)



**Skimmed milk prices**  
(Jan 2014-YTD)





Source: Bursa Malaysia, M&A Securities

## M&A Securities

### STOCK RECOMMENDATIONS

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

### SECTOR RECOMMENDATIONS

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

### DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)