

PP14767/04/2012(02960)

Dutch Lady Milk Industries Berhad

“Double Whammy”

Results Review

- **Actual vs. expectations.** Dutch Lady Milk Industries Berhad (Dutch Lady) recorded 9M15 net profit of RM116 million (+53% y-o-y) compared to RM76 million in 9M14. The double digits growth in 9M15 was mainly driven by the relaunch of Dutch Lady Children Formula Milk and the softening of commodity price in this quarter. Notwithstanding that, Dutch Lady cumulative 9M15 net profit of RM116 million came in at 98% and 93% of ours and consensus full year estimates respectively.
- **Bottom line.** 9M15 revenue of RM731 million fell marginally by 1% y-o-y compared to RM731 million in 9M14 impacted by consumers spending pullback due to GST related issue.
- **Dividend.** No dividend was declared during the quarter.
- **Material cost.** Commodity prices for Dutch Lady had showed declining trend in 3Q15 compared to 3Q14. The group recorded positive earnings in 9M15, thanks to the weaker commodity prices. As witnessed, Dutch Lady recorded improvement in gross profit margin in 3Q15 which grew to 45% compared to 31% in 3Q14 (+140 bps) coinciding with lower average commodity prices in 3Q15 including CPO that dropped 2% y-o-y, sugar that tumbled 28% y-o-y, followed by milk that slid 25% y-o-y and cocoa bean that fell by 2% y-o-y.
- **Outlook.** The lower consumer spending due to higher cost of living and GST cautiousness will influence consumer behaviour spending in FY15. Addition, the stiff competition from other players in F&B industry and weak consumer sentiment may give negative impact to the group earnings. However, the higher-than-expected earnings recorded in 9M15 we believe that Dutch Lady will continue to perform favourably in the F&B sector especially as a leader in milk producer

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Wednesday, November 18, 2015

HOLD (TP: RM47.30)

Current Price (RM)	RM47.72
New Target Price (RM)	RM47.30
Previous Target Price (RM)	RM41.60
Previous Recommendation	HOLD
Upside/(Downside) To Target	-1.5%
Dividend Yield (FY16F)	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)	3,054
YTD Chg in Share Price	13.97%
Beta (x)	0.48
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

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 and FY15 FY16.

- **Changes to forecast.** We change our FY15 and FY16 earnings due to the group higher-than-expected earnings in 9M15. All told, Dutch Lady's PAT for FY15 and FY16 are expected to grow by 20% and 4% respectively to RM132 million (FY15) and RM137 million (FY16) respectively assisted by 1) encouraging domestic sales and 2) protracted softness in commodity prices.
- **Valuation and recommendation.** We re-value our target price on Dutch Lady at RM47.30 based on 22x PER pegged to FY16 EPS of 215 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	1.06	17	19	17	16	1	1	5	NA	2.00	Buy
Amway	Dec	9.72	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	72.92	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.80	34	38	14	13	2	2	13	5.1	5.46	Buy
Dutch Lady	Dec	47.72	216	229	22	20	14	16	58	2.4	47.30	Hold
Padini*	Jun	1.60	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	7.83	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.59	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	4.16	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	1,150	1,323
EBIT	163	184	148	170	196
PBT	166	187	148	163	187
Net profit	123	138	110	132	137
EPS (sen)	193	216	172	206	215
EPS growth (%)	14%	12%	-21%	20%	4%
DPS (sen)	260	260	220	230	240
Dividend Yield (%)	6%	6%	4%	5%	5%
Dividend payout (%)	135%	120%	128%	112%	112%
PER (x)	24	22	27	21	15
P/BV (x)	14	16	18	17	16%
PBT Margin (%)	19%	19%	15%	14%	14%
Net profit margin (%)	14%	14%	11%	11%	11%

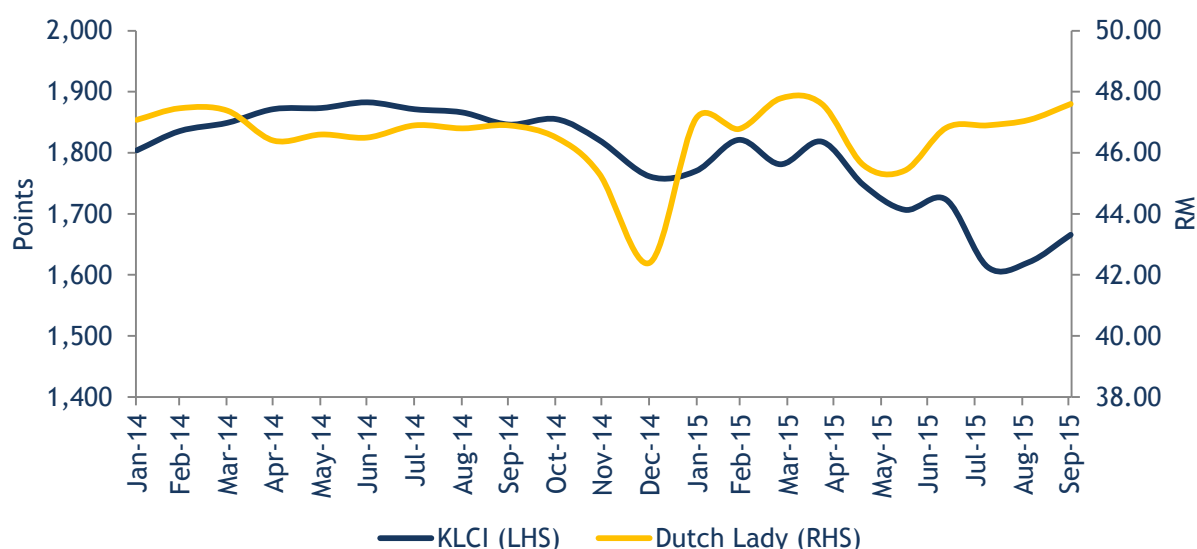
Source: Company, M&A Securities

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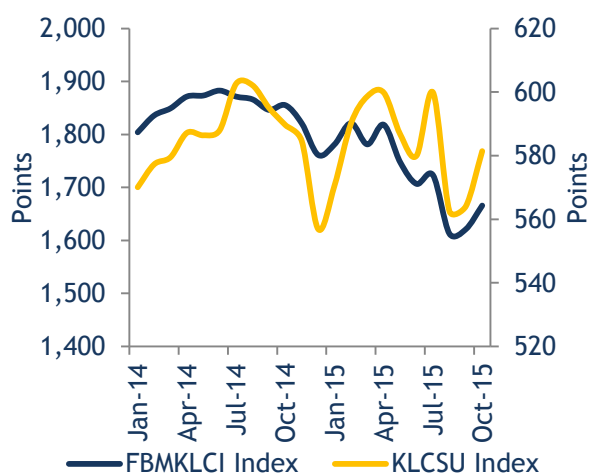
Table 3: Results Analysis

YE: Dec (RM mill)	3Q15	3Q14	2Q15	q-o-q	y-o-y	9M15	9M14	y-o-y
Revenue	256	240	278	-8%	6%	731	736	-1%
Cost of Sales	(141)	(165)	(157)	-10%	-15%	(424)	(499)	-15%
Gross Profit	115	76	122	-6%	52%	307	237	29%
EBIT	66	39	66	0%	70%	155	102	51%
PBT	66	39	66	0%	70%	154	103	51%
Taxation	(16)	(10)	(17)	-6%	57%	(39)	(27)	45%
PAT	50	29	49	2%	75%	116	76	53%
EPS (sen)	78	45	76	2%	75%	181	119	53%
Gross Profit Margin	45%	31%	44%			42%	32%	
PBT Margin	26%	16%	24%			21%	14%	
PAT Margin	20%	12%	18%			16%	10%	

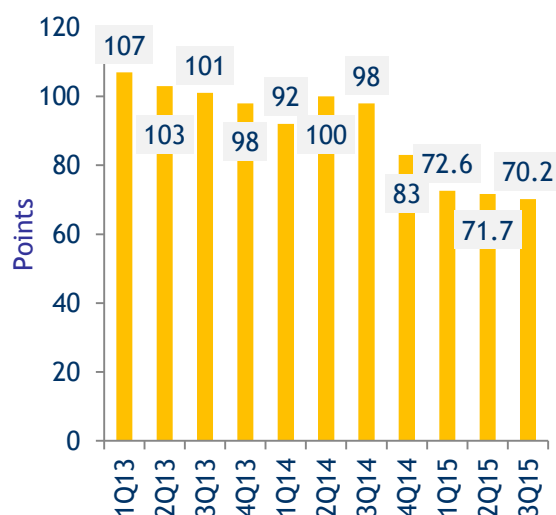
Source: Bursa Malaysia, M&A Securities

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

Source: Bloomberg, M&A Securities

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

Source: Bloomberg, M&A Securities

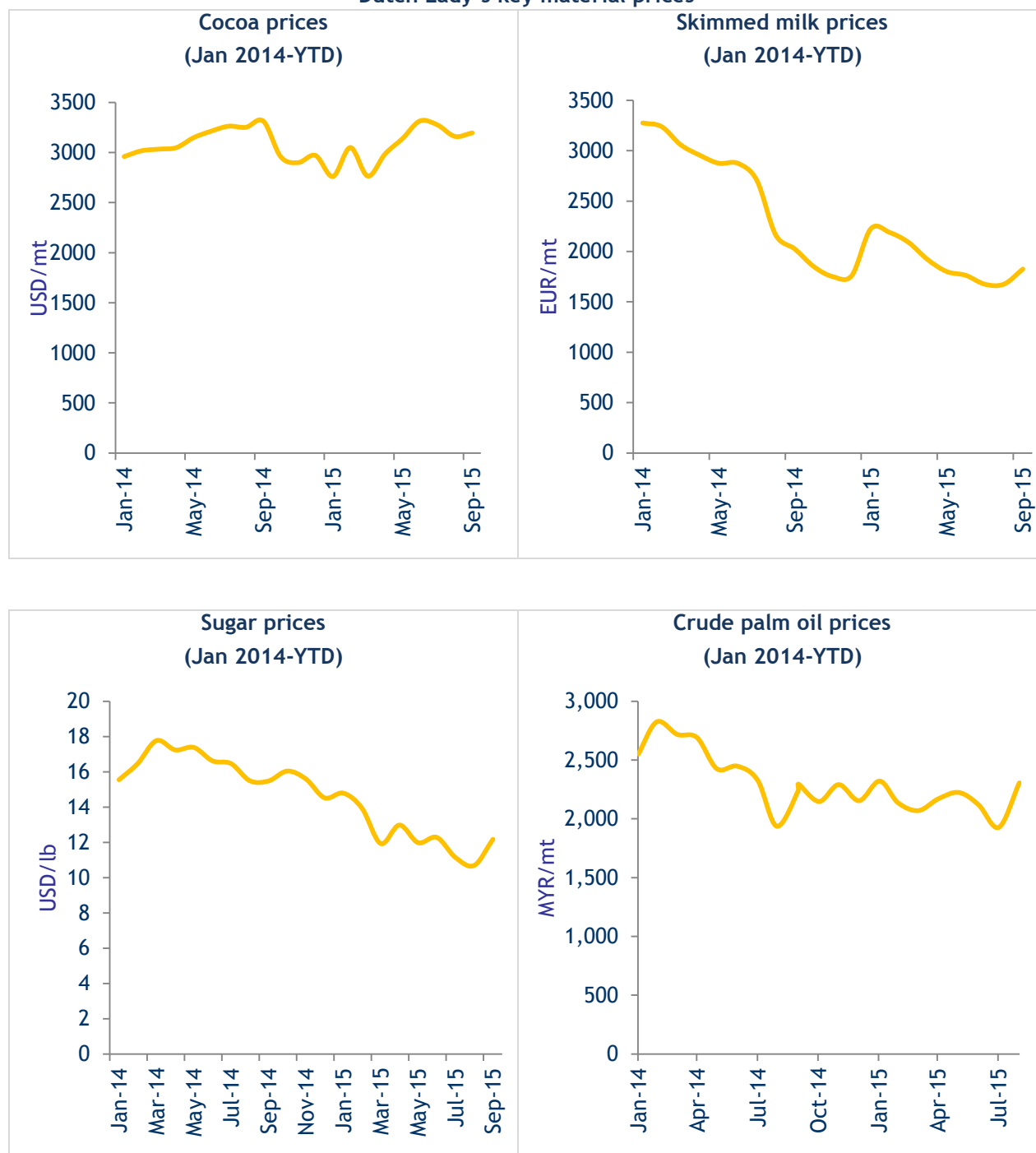
Malaysia Consumer Confidence Index
(1Q13 - 3Q15)

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Dutch Lady's key material prices



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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