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## CGS-CIMB initiates 'add' on Delfi, citing sweet valuation

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CGS-CIMB on Monday initiated coverage on chocolate manufacturer Delfi with "add", along with a target price of S\$1.02, citing an attractive valuation.

The research team said Delfi is trading at 15.8 times its 12-month forward earnings, which is more than one standard deviation below its three-year mean. Delfi is also cheaper than its regional peers, which trade at an average of 27.1 times earnings.

CGS-CIMB's target price of S\$1.02 represents a 29.1 per cent upside from the counter's Monday closing price of S\$0.79. Delfi's shares were up S\$0.015 cents or 1.9 per cent by then.

The target price is also pegged to an FY2022 price-to-earnings ratio of 20 times, as well as projected demand recovery as Covid-19 cases wane across Delfi's operating geographies. CGS-CIMB also expects business conditions to recover by FY2023.

Meanwhile, Delfi's strong balance sheet will help support dividend payout. Compared with regional peers who were mostly in a net debt position, Delfi had a net cash of US\$65.5 million as at FY2020, CGS-CIMB noted.

This allowed the group to sustain its 2.35 US cents per share dividend for fiscal 2020 despite seeing a 38 per cent drop in net profit. The dividend payout was also supported by a positive cash flow of US\$8 million, after paring debt.

CGS-CIMB said the dividend represented a modest yield of about 4 per cent, which it believes is sustainable into FY2023, versus a peer average of 2.2 per cent.

Delfi also commands about 40 per cent of Indonesia's chocolate confectionery market based on retail value in 2020.

The country is a key driver to the group's profitability, generating about 70 per cent of its sales and more than 90 per cent of its earnings before interest, taxes, depreciation and amortisation over the past five years.

"Given Delfi's established presence in Indonesia, we expect sales momentum to grow beyond pre-Covid-19 levels by FY2022, supporting earnings per share growth of 15 per cent, 16 per cent and 4 per cent for FY2021, FY2022 and FY2023 respectively," CGS-CIMB added.