

## SGX RESEARCH SERIES: 10 IN 10

# Delfi meets evergreen regional demand for sweet chocolate treats

BY EMELIA TAN



## 1. Can you elaborate more on Delfi's consumer segments in terms of demographics and geographic?

Headquartered in Singapore, Delfi has a presence in Asia with a leading market share in Indonesia, where the business first started. Its portfolio of confectionery products consists of global legacy brands (eg. Van Houten and Delfi), and strong heritage national brands (eg. SilverQueen, Ceres, Goya, Knick Knacks) which have been built over the years. Delfi's products are also sold in over 10 other countries including Thailand, Brunei, India, South Korea and Vietnam.

Asia has always been our geographical market of focus where we have a strong market and brand presence, especially in Indonesia and Philippines. These countries have the largest youngest population bases in Southeast Asia and are also the two largest economies and the fastest-growing chocolate confectionery markets in this region.

Our diverse portfolio of chocolate confectionery brands range from premium to value brands, and this allows us to capture a wide consumer base across different demographics and income levels.

## 2. How is the group's revenue split across the various geographical regions?

Our main markets, Indonesia and the Philippines, traditionally contribute about 80% of our annual sales revenue. The remaining revenue is derived from Malaysia, Singapore and other countries.

## 3. Has Covid-19 affected Delfi's operations and how did you mitigate this?

Our topmost priorities are the well-being and safety of all our staff and stakeholders as well as ensuring food safety and quality during the pandemic. We have invested over US\$1 million (\$1.34 million) in business and operational upgrades, safety and medical equipment. We also introduced systems and processes to minimise the risk of Covid-19 infections in our operations and carefully manage any cases that might arise.

The group has also been actively encouraging all our employees across our geographical locations, who are medically eligible, to get vaccinated as soon as possible. More than 85%

of our employees are now fully vaccinated, with a target of reaching 100% by end-2021.

## 4. Does Delfi have a dividend policy?

The Board decides on the maximum dividend payout each year, after ensuring that Delfi has met its capital requirements to achieve its growth plans. Historically, Delfi's dividend payout ratio has been about 50%.

The Board has consistently proposed and declared dividends every year since our listing and we have returned a total of US\$346.3 million to shareholders, of which US\$267.9 million was paid in the last 10 years since 2011 (up till 1H2021).

## 5. What are some notable developments that shareholders can look out for in the near to medium term?

As a result of Covid-19, our business environment and consumer behaviour have changed and provided new opportunities. Minimarts, for example, have become the go-to place for groceries and sweet treats, as more consumers shop closer to home. In-home consumption has also increased while consumption trends continue to shift towards healthier food choices and value products.

We have been focusing on these trends and are able to respond immediately through marketing outreach, sales efforts and distribution. To capture the trend of shopping closer to home, we have strengthened our distribution to grow in the modern trade channel, particularly minimarts. To optimise sales, we are working with our retail customers to increase direct delivery of product shipments to their distribution centres, and better manage the supply chain inventory levels.

On the shift towards healthier choices, we have in place an innovation pipeline of "better-for-you" products to satisfy the preferences of younger customers such as the Gen Zs. For example, we launched our SilverQueen Very Berry Yoghurt bars which embody an exciting experience which these consumers desire, while offering a product that is relevant to the current trend for healthier ingredients.

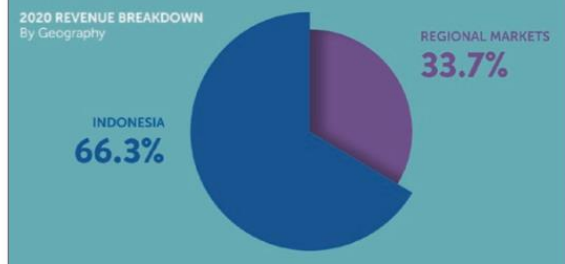
## 6. What do you think are some key drivers or trends in this industry?

We believe consumers' cravings for indulgence will continue to grow in the chocolate confectionery industry. However, there will be a growing trend towards healthier products. Chocolate players will need to better communicate to consumers the ingredients used in products (such as where and how they are sourced) and packaging materials. We expect this to drive demand for products such as those which are plant-based, have a higher cocoa content, less sugar and milk, and less plastic being used in packaging.



Headquartered in Singapore, Delfi's products are sold in over 10 countries in Asia

## Delfi's revenue breakdown by geography (2020)



## Money returned to shareholders via normal, special dividends and capital distribution (US\$ mil)



Sustainability is also an ongoing trend that will continue to move up on the agendas of our consumers and our other stakeholders. This will have an impact throughout our total value chain as we focus on implementing sustainable practices.

## 7. What are some key drivers and focus areas for Delfi in the next 2-3 years?

We believe that the next few years will likely remain volatile, with lingering effects of Covid-19 and geopolitical uncertainties. Despite this, we believe that the chocolate confectionery market will remain resilient and expect chocolate consumption to continue to grow.

For our portfolio of brands, we are focusing on redesigning product packaging and brand rejuvenation to capture more Gen Z and millennial consumers such as for our SilverQueen

and Van Houten lines. We have relaunched our iconic Van Houten brand with more striking packaging and new flavours and categories.

Our other focus areas include: increasing our use of data to enhance our competitive advantage and enable swifter business decisions; and embedding sustainability into our strategy, to ensure that we do good for the environment, the people around us and the future. We will channel more resources towards social media and digital platforms for our customers and will also focus on building an organisation that can take on new challenges by ensuring that we have the right people in the right jobs.

## 8. With the global trend of ecommerce, are there any plans to bring sales online?

Our products are already available on e-commerce platforms. These sales

SGX Code: P34	BBG: DELFI SP	RIC: DELFI.SI
Market cap on Sept 13 (\$5m)		482.8
Price on Sept 13 (\$5)		0.79
52 wk high/low (\$5)		0.98-0.60
12m ADTV (\$5)		342.610
Shares Outstanding (m)		611.2
Float		43.2%
P/E (LTM)		19.0
P/B (LTM)		1.6
Dividend Yield		4.0%

are currently at early stages of development, but we look to continue to grow them as we pursue growth in all channels, including the modern trade, traditional trade and others through an omnichannel strategy.

In the online channels, we are looking for ways to overcome logistics costs and maintain our product quality during transit vis-à-vis its price point and purchase quantity, and in last-mile delivery, especially in the tropical markets we operate in.

## 9. Sustainability and ESG (environmental, social, and governance) have increasingly been a key focus. How is the group committed to sustainability?

We are fully committed and firmly support the sustainable development movement. As mentioned, we intend to focus on further embedding sustainability in our strategy. We still have a long way to go, and it will not be easy, but we believe this is essential for us.

Our sustainability policies and practices are defined by our "four sustainability pillars" — social, environmental, economic and governance. Details are shared in our Sustainability Report 2020.

## 10. What is Delfi's value proposition to its shareholders and potential investors?

We have growth potential in the two largest confectionery markets in Southeast Asia — Indonesia and the Philippines. We are the market leader in Indonesia with strong leading brands, extensive distribution and a strong culture of innovation. Our products also span across many categories and offer various price points.

Our strong innovation culture, coupled with our expertise in chocolate confectionery manufacturing, has allowed us to stay abreast and respond quickly to consumer trends and build a strong portfolio of brands and products.

We have a strong balance sheet and are in a net cash position. We are profitable and our operations have been able to generate strong free cash flow despite the pandemic, placing us in a good position to overcome challenges and expand on potential opportunities, supported by our committed team of employees. ■

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