

### COMPANY UPDATE

## DFI Retail Group Holdings (DFI SP)

A Millstone Removed

DFI announced that it will divest its entire 21.1% stake in its loss-making Yonghui Superstores to a subsidiary of the Miniso Group for Rmb4.5b (US\$637m), subject to regulatory approvals. While this may result in a US\$128m write-down for 2024, we view this as a positive move as it enables the company to exit from a very tough market in China and instead focus on higher returns businesses and potentially pay a special final dividend. Maintain BUY. Target price: US\$2.57.

### WHAT'S NEW

- A millstone removed.** DFI Retail Group Holdings (DFI) announced that it will divest its 21.1% stake in Yonghui Superstores (601933 CH/Not rated) to the Miniso Group (9896 HK/BUY/Target: HK\$29.30) for Rmb4.5b (US\$637m). Given that the carrying value of Yonghui was US\$765m as at end-1H24, the company will report a non-cash write-down of US\$128m for the current financial year. While Yonghui had seen a reduction of losses in the past two years, the investment nevertheless was a millstone around DFI's neck and thus the sale is a positive development in our view.
- Usage of sale proceeds.** We expect that the sale proceeds will be deployed towards investment in DFI's growth businesses, ensure dividend growth and pare down debt, all of which are in line with management's previously stated aims. Assuming that the deal closes in 4Q24, we anticipate that DFI could pay a special dividend on top of our forecast final dividend of US\$0.06/share (1H24: US\$0.035).
- Re-positioning its businesses.** This exit from China's food business comes on the back of DFI's successive exits from the Indonesian and Malaysian food businesses in the past 24 months and appears to be an acknowledgement that without scale, this capital and human-resource intensive, low-margin business is not a key focus for DFI. The company stated that food remains a key part of the overall offering in other countries where it has solid market share and/or growth prospects, eg Hong Kong and Singapore.
- No issue with regulatory approvals in our view.** The deal is subject to the usual applicable regulatory conditions, eg obtaining clearance from antitrust authorities on the Chinese mainland and the Shanghai Stock Exchange for the transaction, and clearance from China's forex authorities for DFI to open an account to receive the transfer price. However, we view these clearances as largely procedural, especially for the antitrust issue given that the buyer does not have a grocery presence in China.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	9,174	9,170	9,210	9,310	9,411
EBITDA	1,105	990	1,119	1,294	1,308
Operating profit	244	163	290	363	367
Net profit (rep./act.)	(115)	32	186	230	237
Net profit (adj.)	29	155	186	230	237
EPS (US\$ cent)	2.2	11.5	13.7	17.0	17.5
PE (x)	93.4	17.7	14.8	12.0	11.6
P/B (x)	2.9	2.8	2.7	2.3	2.2
EV/EBITDA (x)	2.8	3.2	2.8	2.4	2.4
Dividend yield (%)	1.5	3.9	4.8	5.0	5.2
Net margin (%)	(1.2)	0.4	2.0	2.5	2.5
Net debt/(cash) to equity (%)	93.2	63.9	37.9	9.1	(7.4)
Interest cover (x)	9.1	6.9	8.0	9.3	9.8
ROE (%)	(10.4)	3.3	18.4	20.5	19.1
Consensus net profit	-	-	201.2	243.0	277.3
UOBKH/Consensus (x)	-	-	0.92	0.94	0.85

Source: DFI Retail Group Holdings, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	US\$2.03
Target Price	US\$2.57
Upside	26.6%

### COMPANY DESCRIPTION

DFI operates and manages retail stores in over 12 markets and four divisions, namely food, health & beauty, home furnishings and restaurants (associate level).

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	DFI SP
Shares issued (m):	1,352.1
Market cap (US\$m):	2,744.8
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3-mth avg daily t'over (US\$m):	1.6

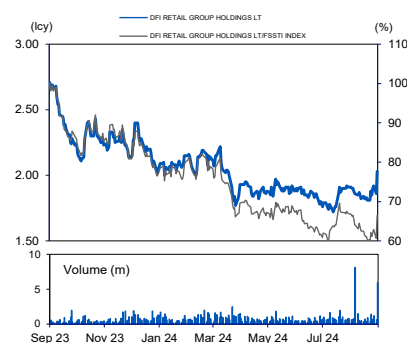
### Price Performance (%)

52-week high/low	US\$2.73/US\$1.71			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
6.3	8.0	(5.1)	(24.8)	(15.4)

### Major Shareholders

Jardine Matheson	77.5
-	-
FY24 NAV/Share (US\$)	0.77
FY24 Net Debt/Share (US\$)	0.29

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

Adrian Loh

+65 6590 6633

adrianloh@uobkayhian.com

STOCK IMPACT

- A good year for free cash flow and a stronger balance sheet.** In the past 12 months, DFI has lowered its net debt by nearly 38% to US\$549m as at end-1H24 resulting in a net debt/equity of 0.58x. During its 1H24 results call, management stated that it was pleased with this and will continue to pare down its debt and we therefore expect the company to utilise part of the Yonghui sale proceeds to do so.
- Convenience stores – A key area of focus in our view.** In 1H24, DFI's convenience-store segment witnessed double-digit sales growth on a yoy basis with strength in Singapore and China offset by weakness in Hong Kong as the government implemented an increase in cigarette taxes thus leading to lower revenue. During its 1H24 results call, DFI commented that the rollout of ready-to-eat (RTE) meals in its South China market has been extremely successful and now makes up about 40% of sales and thus comparable to 7-11 in Japan. This high-margin product generated double-digit sales growth for the company in 1H24 and thus DFI is looking to expand this offering throughout its geographic footprint. Of note is its collaboration with 7-11 Japan and the introduction of some of its products into the Asian business. In addition, DFI believes it can potentially move into the quick-service restaurant (QSR) business for some of its 7-11 outlets in the region given the attractive economics.
- Positive momentum in the food segment.** During the 1H24 results call, management sounded upbeat on this segment given that DFI has put in effort to improve its store proposition in Singapore. Although Hong Kong has continued to see customer outflow to China in its health & beauty segment, DFI has not seen a meaningful impact to its food business given logistical challenges for consumers returning from China. Instead, it has sharpened its focus to expand its Hong Kong market share (currently 18%) at the expense of wet markets with consumers being more amenable to this after COVID-19.

EARNINGS REVISION/RISK

- No changes to our earnings estimates at present.** Imputing the US\$128m non-cash write-down from the sale of Yonghui would reduce our 2024 net profit estimate by 55% to US\$83m. For 2025 onwards, this would be somewhat offset by lower interest expense should the company substantially lower its debt burden over the next 12-24 months.

VALUATION/RECOMMENDATION

- We maintain our BUY rating with an unchanged PE-based target price of US\$2.57** pegged to an aggregate of the company's 2024 and 2025 EPS. Our target PE multiple is 16.7x which is 1SD below DFI's average PE multiple over 2019 to present, excluding the COVID-19 years of 2021-23. Although the company continues to face some challenges from changing consumer behaviour in its food division in Hong Kong and Singapore, the removal of the Yonghui millstone has significantly improved its outlook going forward.

SHARE PRICE CATALYST

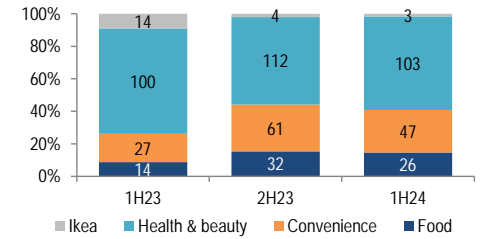
- Continued profit improvement from the food segment; maintenance of sales momentum for the convenience segment; and greater share of profit contribution from its RTE and QSR strategies for its convenience segment.

REGIONAL PEER COMPARISONS – CONSUMER STAPLES

Company	Ticker	Trading curr	Price 24 Sep	Mkt cap US\$m	PE (x)			P/B (x)			ROE % 2024E	Yield % 2024E
					2023A	2024F	2025F	2023A	2024F	2025F		
Coles Group	COL AU	AUD	18.03	16,514	21.9	21.5	21.3	7.2	6.7	6.3	32.1	3.8
Woolworths	WOW AU	AUD	32.8	27,399	24.6	368.5	23.2	6.2	7.4	7.2	1.8	3.2
Seven & I	3382 JP	JPY	2139	38,611	25.2	19.6	17.3	1.5	1.5	1.4	7.6	1.9
Berli Jucker	BJC TB	THB	24.3	2,963	20.3	22.2	18.5	0.8	0.8	0.8	3.7	2.8
Shanghai Bailian	600827 CH	CNY	7.87	1,874	35.8	17.0	21.9	0.8	0.8	0.8	4.3	3.1
Chengdu Hongqi	002697 CH	CNY	4.47	864	10.9	10.3	9.7	1.5	1.3	1.2	13.0	2.9
Coop Group	000564 CH	CNY	1.81	4,931	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	n.a.
E-Mart Inc	139480 KS	KRW	61900	1,292	n.a.	65.8	12.0	0.1	0.2	0.1	0.3	3.3
Sheng Siong	SSG SP	SGD	1.5	1,750	16.9	16.3	15.8	4.6	4.2	3.9	26.9	4.3
<b>Average</b>					<b>22.2</b>	<b>24.7*</b>	<b>17.5</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>11.2</b>	<b>3.1</b>
DFI Retail	DFI SP	USD	2.03	2,745	84.9	13.7	11.4	2.8	2.5	2.2	19.9	4.6

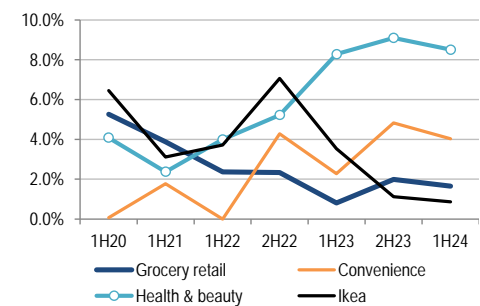
Note: \*excluding Woolworths  
Source: Bloomberg, UOB Kay Hian

SHARE OF OPERATING PROFIT BY BUSINESS SEGMENT



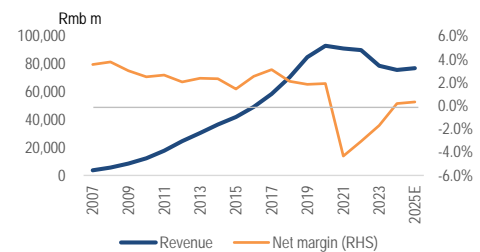
Source: Bloomberg

OPERATING PROFIT MARGIN



Source: DFI

YONGHUI: REVENUE VS NET MARGIN



Note: forecasts are Bloomberg consensus estimates  
Source: Bloomberg

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>9,170</b>	<b>9,210</b>	<b>9,310</b>	<b>9,411</b>
EBITDA	990	1,119	1,294	1,308
Deprec. & amort.	827	829	931	941
EBIT	163	290	363	367
Associate contributions	53	80	80	80
Net interest income/(expense)	(144)	(144)	(140)	(136)
<b>Pre-tax profit</b>	<b>71</b>	<b>226</b>	<b>303</b>	<b>311</b>
Tax	(41)	(45)	(76)	(78)
Minorities	2	2	2	2
<b>Net profit</b>	<b>32</b>	<b>183</b>	<b>229</b>	<b>235</b>
Net profit (adj.)	155	183	229	235

### CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>1,044</b>	<b>969</b>	<b>1,368</b>	<b>1,375</b>
Pre-tax profit	163	290	363	367
Tax	(41)	0	0	0
Deprec. & amort.	827	829	931	941
Working capital changes	45	(249)	9	9
Non-cash items	0	0	0	0
Other operating cashflows	49	99	65	58
<b>Investing</b>	<b>(95)</b>	<b>(205)</b>	<b>(210)</b>	<b>(214)</b>
Capex (growth)	(173)	(208)	(212)	(216)
Proceeds from sale of assets	143	0	0	0
Others	(64)	3	2	3
<b>Financing</b>	<b>(868)</b>	<b>(889)</b>	<b>(1,135)</b>	<b>(1,131)</b>
Dividend payments	(67)	(311)	(390)	(636)
Issue of shares	(10)	0	0	0
Proceeds from borrowings	1,269	0	0	0
Others/interest paid	(2,060)	(577)	(746)	(495)
<b>Net cash inflow (outflow)</b>	<b>81</b>	<b>(125)</b>	<b>23</b>	<b>30</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>214</b>	<b>298</b>	<b>173</b>	<b>196</b>
Changes due to forex impact	3	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>298</b>	<b>173</b>	<b>196</b>	<b>226</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	708	744	781	820
Other LT assets	5,017	4,781	4,570	4,283
Cash/ST investment	298	173	196	226
Other current assets	1,088	1,096	1,107	1,118
<b>Total assets</b>	<b>7,111</b>	<b>6,794</b>	<b>6,653</b>	<b>6,447</b>
ST debt	771	600	300	200
Other current liabilities	2,756	2,515	2,535	2,556
LT debt	153	150	100	100
Other LT liabilities	2,443	2,671	2,923	3,199
Shareholders' equity	980	852	791	390
Minority interest	8	6	4	3
<b>Total liabilities &amp; equity</b>	<b>7,111</b>	<b>6,794</b>	<b>6,653</b>	<b>6,447</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	10.8	12.2	13.9	13.9
Pre-tax margin	0.8	2.5	3.3	3.3
Net margin	0.4	2.0	2.5	2.5
ROA	0.4	2.6	3.4	3.6
ROE	3.3	20.0	27.9	39.8
<b>Growth</b>				
Turnover	(0.0)	0.4	1.1	1.1
EBITDA	(10.4)	13.1	15.6	1.1
Pre-tax profit	n.a.	217.5	33.7	2.8
Net profit	n.a.	467.9	25.1	2.8
Net profit (adj.)	427.2	18.0	25.1	2.8
EPS	427.2	18.0	25.1	2.8
<b>Leverage</b>				
Debt to total capital	48.3	46.6	33.5	43.3
Debt to equity	94.3	88.1	50.6	76.9
Net debt/(cash) to equity	63.9	67.7	25.8	18.9
Interest cover (x)	6.9	7.8	9.2	9.6

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