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DA MARKET SECURITIES

Date
14 March 2016

Company
D&L Industries, Inc.

First Look Corporate
FY15 Earnings In-line with Est.; HOLD, Lower TP

Stock DNL

Price 9.08
52wk Range 6.77 - 11.94

Rating HOLD
Target 10.20, 26.8x P/E
Upside 11.4%

Issued Shares 7.142bn

Market Cap P64.857bn

Free Float 31.38%

PSEi N/A
MSCI 0.8208%, 26/45

We rate DNL as a HOLD and adjust Target Price lower to 10.20/sh, 26.8x P/E or an upside of 11.4%. Earnings in line with estimate: FY15 Recurring Net Income +12% to P2.284bn driven by specialty food ingredients and Oleochemicals, offsetting slower growth in aerosols and decline in speciality plastics. Dividend yield est. 1.7% or 0.16/sh (ex-date June) as the company increased dividend pay-out ratio to 50% from 25%.

	Actual		Forecast	
	2014	**2015**	**2016**	**2017**
Sales	16.12	22.54	24.44	28.46
		40%	*8%*	*16%*
EBITDA	2.25	3.20	3.74	4.39
		42%	*17%*	*17%*
EBIT	2.00	2.86	3.37	4.04
		43%	18%	20%
Net Income	2.03	2.29	2.73	3.25
		13%	*19%*	*19%*
EPS	0.28	0.32	0.38	0.45
		14%	*19%*	*18%*
BVPS	1.53	1.72	1.95	2.24
PBV		5.28	4.66	4.05
ROA%	18.36	13.35	14.56	15.51
ROE%	27.44	21.00	22.07	22.27

Mix	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
HMSP	48%	42%	33%	34%	67%	59%	62%
LMCP	52%	58%	67%	66%	33%	41%	38%%

Earnings in-line with Estimate: FY15 Net Income +12% to P2.284bn

- FY15 Recurring Net Income +12% to P2.284bn (EPS 0.32) driven by specialty food ingredients (+19%) and Oleochemicals (+30%), offsetting aerosols slower growth (+5%) and decline in speciality plastics (-4%).
- Revenues -5% due to lower commodity prices. Volume growth growth of specialties, led by food ingredients, more than offset the decline in commodities. Overall, product mixed improved as High margin specialties products accounted for 62% of revenues while Low Margin Commodities products 38% (vs. 2014 HMSP 59% to LMCP 41% ratio)
- EBIT +13% to P2.90 billion; Gross Profit Margin up 2.5bps to record-high 18.3% from improved mix and higher specialties margin
- Return on Equity 17.9% and Return on Invested Capital 20.3%.
- Lower commodity prices generated P3.49bn in free cash (vs. -P157mn in 2014) and enables continued debt reduction with net gearing declining to 0.08x from 0.24x.
- For FY16, DNL expects continued mix improvement and recovery of specialty plastics to drive earnings growth. The company continues its transformation into a total food ingredients and solutions system through Food R&D (spend +82% YoY) and partnerships (i.e. Ventura) to capitalise on growing demand for local supply vis-a-vis imports amid increasing complexities in taste and logistics.

Food Ingredients (Oleo-Fats) benefit from higher margin specialties offsetting lower volumes.

- Net Income +19% to P826mn despite Revenues -10% to P10.17bn and overall volume -2%. Higher-margin Specialty Fats and Oil segment volume +15% (accounting for 36% of total volume) offset -14% volume in low-margin refined vegetable oil segment (accounts for 59% of total volume). Furthermore, overall Gross Profit Margin increased 3.4 bps to 15.2% driven by Specialties (Oil and Ingredients).

Segment	% of Revenues	% of Net Income	Sales	GPM	Net Income *(PhP mn)*
Food	52%	36%	10.17bn (-10%)	15.2% (+3.4 bps)	826 mn (+19%)
Oleochemicals & Others Specialty Chemicals (COAT)	33%	34%	6.42bn (+2%)	17.8 (+2.7 bps)	768mn (+30%)
Specialty Plastics	13%	23%	2.60bn (-7%)	24.8% (+0.2 bps)	526mn (-4%)
Aerosols	3%	4%	514mn (+15%)	28.6% (-1.9% bps)	100mn (+5%)
Consolidated	**100%**	**100%**	**19.58bn (-5%)**	**18.3% (+2.5 bps)**	**2.29bn (+12%)**

Oleochemicals, Biodiesel volume growth offset other specialty chemicals (COAT)

- Net Income +30% to 768mn as Revenue +2% to P6.42bn as Overall Volume +12%. Oleochemicals which accounts for 65% of revenues for the segment, with expanding blended margins, benefits from accelerated growth in higher margin oleochemical specialties as it grows customers and enters new markets. This mix improvement, fueled by growth in niche coconut oil applications in personal care, home care, and health and nutrition, is expected to further enhance the business' margin profile moving forward. Meanwhile, Biodiesel benefited from favorable macroeconomic conditions and also saw strong growth in volume throughout the year.

Specialty Plastics recovery continues

- Revenues -7% to P2.6bn and Net Income -4% to P526mn as Volumes -3% and Margins held steady (+0.2 bps). Despite lower volumes from FY14, the declaration of decrease in revenue and net income indicates gradual rebound from the port congestion. Port congestion (late 2014-1H15) limited raw material importations as well as exports, resulting in volume losses. After bottoming out in 1Q15, volume growth QoQ was positive for 3 consecutive quarters.
- Adding to the recovering demand from the wire harness business which is expected to work off of a low base in 2016, the company continues to explore developments in new applications to build out a more robust high margin, high growth pipeline of products across various end uses.

Aerosols volume improved sans impact of APEC trick ban and non-recurring high-margin sales in 2014

- Net Income +5% to P100mn as Revenues +15% to P514mn. YTD, volume was flat as a one-week holiday ban during the APEC disrupted raw material and production supply and affected volume in the 4Q. FY15 also comes after an unusually strong 2014, which included non-recurring sales of high margin items. However, taking out the impact of the APEC truck ban and the one-off sales in 2014, Aeropack saw good volume growth driven by new applications coming to market, mostly in the home care and industrial space. Home Care volume +20% (accounting for 27% of volume and 53% revenues).

Technicals

Current	9.08
Support	8.30, 8.00, 6.78
Resistance	9.35, 10, 10.70, 11.94 (all-time high)
Target	10.20, +11.4% upside

- Short-term chart (1YR) shows exit of downtrend which began August 2015. Further positive moves saw the stock rising above shorter MAs (50, 100) and now looks poised to rise above above 200MA (at about 9.50). Fibonacci Resistances are 9.35, 10.
- Should however the stock correct considering short-term indicators are at overbought territory - RSI and MAC/D, watch supports at 8.20, 8. Notably, while current price 9.08/sh suggests a HOLD (+11.4% upside to fundamental TP), the BUY trigger price is at 8.86/sh
- Note however that over the long-term, indicators show significant upside with both indicators at oversold territory. A major resistance to break in the long-term chart is 9.60.

REFERENCES DNL, PSE, Bloomberg, Reuters, DA Market Securities, Inc. ***DISCLAIMER*** *This report is provided for informational purposes only and is not intended to solicit buying and selling of securities or to participate in any particular trading strategy. DA Market Securities, Inc. (DMSI) makes reasonable effort to use reliable, comprehensive information, but makes no representation or warranties as to the accuracy, completeness, or timeliness of the data provided. DMSI shall not have liability for any damages of any kind relating to such data. This report may not be reproduced or published for any purpose. DA market officers, directors and employees, including persons involved in the preparation or issuance of this report, may have investments in securities or derivatives of securities of the companies mentioned in this report.*