DFI Retail Group (DFI SP)

1H26: Underlying Growth Intact; Temporary Top-Line Weakness From Divestment

Highlights

- Excluding divestment impact, DFI's 1H26 revenue of US$4.1b and PATMI of S$117.7m represent around 51%/44% of our 2026F forecasts respectively.
- Continuing businesses remain resilient, with stronger LFL sales and underlying profit growth supported by an improving business mix.
- Maintain BUY with a lower target price of US$5.20 implying 45% upside, pegged to 24x 2027F PE, in-line with historical mean.

1H26 Results

US$m	1H26	1H25	Chg %
Sales	4,139	4,387	-5.7%
Gross profit	1,497	1,583	-5.4%
Operating profit	184.2	172.1	7.0%
Associates/JVs	15.2	36.2	-58.0%
PATMI	119.7	-37.4	NM
Underlying PATMI	117.7	-37.6	NM
Operating margin	4.5%	3.9%	+0.6ppt
Net margin	2.8%	NM	NM

Source: DFI

Analysis

- **Underlying growth intact despite seemingly weaker top-line.** DFI Retail Group (DFI) reported 1H26 revenue of US$4.1b (-6% yoy) and 1H26 PATMI of S$117.7m (1H25: net loss of US$38.0m), representing 47% & 42% of our 2026F forecasts respectively. This underperformance was due to the absence of sales from the Singapore Food Business that DFI divested at the end of 2025 (not yet reflected in our previous forecasts). Excluding divestment impact, revenue and PATMI make up approximately 51%/44% of our forecasts respectively. This has been reflected in our new forecasts going forward. We expected DFI's continuing business to display continued growth and momentum, with seasonality support in 2H26.
- **Continuing business continued to demonstrate growth.** In 1H26, like-for-like (LFL) subsidiary sales growth from continuing businesses improved to 3% yoy (+4% yoy), while underlying profit from continuing businesses grew 44% yoy to US$117m. In our forecasts, we expect continuing business to grow 3% yoy, and see net margin improving yoy as DFI's business mix improves.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	8,869	8,869	8,326	8,601	8,819
EBITDA	1,037	1,201	1,156	1,187	1,213
Operating profit	199	362	365	370	375
Net profit (rep./act.)	(245)	235	284	293	303
Net profit (adj.)	201	235	284	293	303
EPS (US$ cent)	14.8	17.4	21.0	21.7	22.4
PE (x)	24.2	20.6	17.0	16.5	16.0
P/B (x)	8.3	17.4	10.5	8.8	7.6
EV/EBITDA (x)	4.6	3.9	4.1	4.0	3.9
Dividend yield (%)	2.9	16.3	4.1	4.2	4.4
Net margin (%)	(2.8)	2.6	3.4	3.4	3.4
Net debt/(cash) to equity (%)	80.4	(25.0)	(27.0)	(62.7)	(92.9)
Interest cover (x)	6.9	9.6	9.1	9.8	10.7
ROE (%)	(31.3)	54.6	76.7	57.9	50.9
Consensus net profit (US$m)	-	-	290	320	349
UOBKH/Consensus (x)	-	-	0.98	0.92	0.87

Source: DFI Retail Group, Bloomberg, UOB Kay Hian

BUY (Maintained)	
Share Price	US$3.58
Target Price	US$5.20
Upside	45.3%
Previous TP	US$5.60

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Stock Data

GICS Sector	Consumer Staples
Bloomberg ticker	DFI SP
Shares issued (m):	1,353.7
Market Cap (US$m):	4,846.1
Market cap (US$m):	4,846.1
3-mth avg t'over (US$m):	4.8

Price Performance (%)

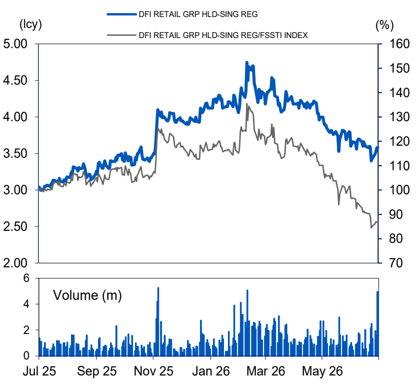
52-week high/low: US$4.82/US$2.95

1mth	3mth	6mth	1yr	YTD
(5.8)	(15.4)	(13.3)	15.4	(9.4)

Balance Sheet Metrics

FY26 NAV/Share (US$)	0.34
FY26 Net Cash/ Share (US$)	0.12

Price Chart



Source: Bloomberg

Company Description

DFI Retail is a leading Asian retailer operating supermarkets, convenience stores, health and beauty, and home furnishings brands, with a strong presence across Hong Kong, Southern China, Singapore, and Southeast Asia.

- **An interim DPS of US$0.062 was declared** (+77% yoy). This represents a dividend payout of 71%, in line with the new payout policy of 70% announced in Dec 25, and implies a 2026F dividend yield of around 4.2%.
- **Raised 2026F guidance amid ongoing momentum.** DFI raised its 2026F full-year organic revenue growth guidance to be between 3.0-4.0% (compared to 2-3% previously), and underlying profit to be between US$285m-US$305m (compared to US$280m-300m previously).

Stock Impact

- **Health & Beauty: Share gains continue, but margin under pressure.** Sales grew 8% yoy to US$1.4b (6% yoy LFL), the group's most resilient segment. Hong Kong/Macau posted 5% yoy LFL on bigger baskets and tourist rebound, Guardian SE Asia grew 9% yoy LFL, but Malaysia lagged without cash aid support. Operating profit rose just 2% yoy to US$109m as promotions defended share. Catalysts include the new Holland & Barrett distribution partnership and wider in-store skin & scalp assessment coverage.
- **Convenience: Mix shift to RTE offsets cigarette decline.** Sales rose 4% yoy to US$1.2b (2% yoy LFL), with the shift toward RTE food and exclusive collectibles offsetting cigarette weakness. Hong Kong snapped a 10-quarter LFL slump, Singapore led at 8% yoy LFL, and South China grew 12% yoy via franchise expansion (+112 net new stores) and Food Bar rollout (+128 new stores in 1H26). Operating profit grew 2% yoy to US$37m.
- **Food: LFL inflects positive on value repositioning.** Sales from continuing business grew 1% yoy to US$1.1b, with LFL turning positive at +0.5% yoy in 2Q26 on Hong Kong's pricing investment and fresh proposition. Wellcome shifted from a price premium to a discount versus Greater Bay Area competitors via its expanded Everyday Value range, alongside online order volume growth of over 35%. Cambodia delivered double-digit sales growth with profit more than doubling yoy. Segmental profit rose 27% yoy to US$17m.
- **Home Furnishings: Genuine demand recovery, not just easier competition.** Sales grew 4% yoy to approximately US$0.3b, with LFL swinging to +4% yoy from (6%) yoy in 1H25, driven by price reinvestment in core SKUs and IKEA Food (15% of sales). Profit surged 85% yoy on recovery and cost optimisation. DFI intends to grow via organic expansion while continuing to assess closure of unprofitable stores.
- **Maxim's and DFIQ Media:** Maxim's sales grew 4% yoy to US$1.4b on Southeast Asia strength, with profit up 15% yoy to US$16m. Yuu drove e-commerce and DFIQ Media to approximately 35% of sales growth, with DFIQ Media revenue tripling yoy. DFI also recently acquired 100% of Cody HK for US$3.8m to expand into outdoor advertising (expected completion in 2H26).

Earnings Revision/Risk

- **We lower our 2026-28F revenue forecasts by 6%** to reflect the divestment of DFI's Singapore Food business. Despite the lower revenue base, we raise 2026F earnings by 1% on stronger expected 2H26 margins, while trimming 2027-28F earnings by 1% and 3% due to a lower revenue base, respectively.

Valuation/Recommendation

- **We maintain our BUY rating on DFI with a lower PE-based target price of US$5.20 (compared to US$5.60),** pegged to 24x 2027F (25x previously), in line with historical mean. This implies an upside of 45.3%. We expect business momentum to continue, and see better sales and margins in 2H26, which should further support DFI's full-year results.

Share Price Catalysts

- Maintenance of sales momentum for the health & beauty segment and convenience segment (introduction of higher-margin RTE products).
- Monetisation of its DFIQ media platform and data from its yuu platform.
- Acquisitions and/or further divestments that are accretive to ROCE.

Management's Targets by 2028

Segment	Sales	OPM	ROCE
Health & wellness	4-6%	9-11%	55-60%
Convenience	6-8%	5-6%	25-27%
Food	1-3%	2.5-4%	12-14%
Home furnishings	1-3%	4-6%	5-7%
Group level	2-3%	5-7%	15%

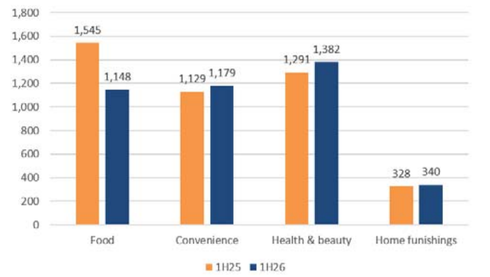
Note: Sales targets refer to 2025-28 CAGR; OPM = operating profit margin; ROCE = return on capital employed
Source: DFI, UOB Kay Hian

Revised 2026F Outlook

	Previous Guidance	Revised Guidance
Revenue from Subsidiaries	2 – 3% organic growth[1]	3 – 4% organic growth[1]
Underlying Profit Attributable to Shareholders	US$270 – 300M *Representing 12-25% YoY growth*[2]	US$285 – 305M *Representing 18-27% YoY growth*[2]
Capex	US$200 – 220M	Unchanged
Ordinary Dividend Payout	70% payout	Unchanged
ROCE[3]	11 – 13%	Unchanged

Source: DFI

Sales Performance in 1H26 (US$m)



Source: DFI

Changes to Earnings Forecasts

US$m	2026F	2027F	2028F
Revenue - was	8,854	8,126	9,349
Revenue - is	8,326	8,601	8,819
Change (%)	(5.9)	(5.8)	(5.7)
Net profit - was	281	296	312
Net profit - is	284	293	303
Change (%)	(1.1)	(1.1)	(2.9)

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	8,869	8,326	8,601	8,819
EBITDA	1,201	1,156	1,187	1,213
Deprec. & amort.	839	791	817	838
EBIT	362	365	370	375
Total other non-operating income	(0)	0	(0)	0
Associate contributions	60	113	113	113
Net interest income/(expense)	(125)	(126)	(121)	(114)
Pre-tax profit	297	351	362	374
Tax	(58)	(63)	(65)	(67)
Minorities	(4)	(4)	(4)	(4)
Net profit	235	284	293	303
Net profit (adj.)	235	284	293	303

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	560	588	617	648
Other LT assets	3,081	3,130	3,183	3,237
Cash/ST investment	169	225	444	696
Other current assets	843	787	813	833
Total assets	4,652	4,730	5,057	5,415
ST debt	99	100	100	101
Other current liabilities	2,364	2,077	2,118	2,167
LT debt	0	0	0	0
Other LT liabilities	1,892	2,069	2,263	2,476
Shareholders' equity	278	462	550	640
Minority interest	18	22	26	30
Total liabilities & equity	4,652	4,730	5,057	5,415

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	1,099	987	1,258	1,287
Pre-tax profit	362	365	370	375
Tax	(48)	0	0	0
Deprec. & amort.	839	791	817	838
Associates	0	0	0	0
Working capital changes	(35)	(231)	16	28
Non-cash items	0	0	0	0
Other operating cashflows	(19)	63	55	46
Investing	849	(213)	(215)	(217)
Capex (growth)	(113)	(216)	(221)	(225)
Investment	0	0	0	0
Proceeds from sale of assets	16	0	0	0
Others	946	3	5	8
Financing	(2,061)	(770)	(875)	(873)
Dividend payments	(739)	(200)	(206)	(213)
Proceeds from borrowings	732	0	0	0
Loan repayment	(1,375)	1	0	1
Others/interest paid	(678)	(571)	(669)	(661)
Net cash inflow (outflow)	(112)	4	167	197
Beginning cash & cash equiv.	274	169	173	340
Changes due to forex impact	7	0	0	0
Ending cash & cash equiv.	169	173	340	538

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	13.5	13.9	13.8	13.8
Pre-tax margin	3.3	4.2	4.2	4.2
Net margin	2.6	3.4	3.4	3.4
ROA	3.9	6.1	6.0	5.8
ROE	54.6	76.7	57.9	50.9
Growth				
Turnover	0.0	(6.1)	3.3	2.5
EBITDA	15.9	(3.8)	2.7	2.2
Pre-tax profit	n.a.	18.2	3.1	3.3
Net profit	n.a.	21.0	3.2	3.3
Net profit (adj.)	17.1	21.0	3.2	3.3
EPS	17.1	21.0	3.2	3.3
Leverage				
Debt to total capital	25.1	17.1	14.8	13.1
Debt to equity	35.7	21.6	18.2	15.8
Net debt/(cash) to equity	(25.0)	(27.0)	(62.7)	(92.9)
Interest cover (x)	9.6	9.1	9.8	10.7

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