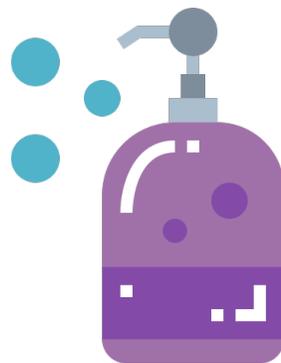
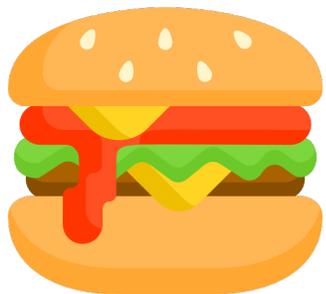
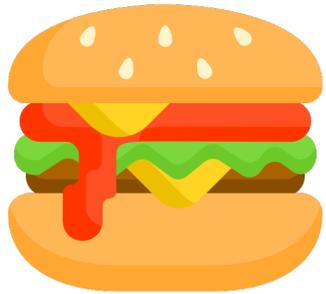


Ateneo de Manila University





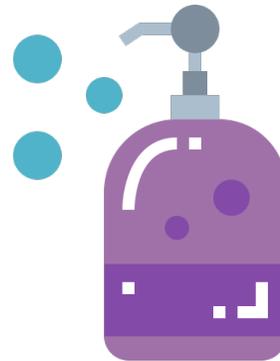
Oils



Plastics



Surfactants



Formulations



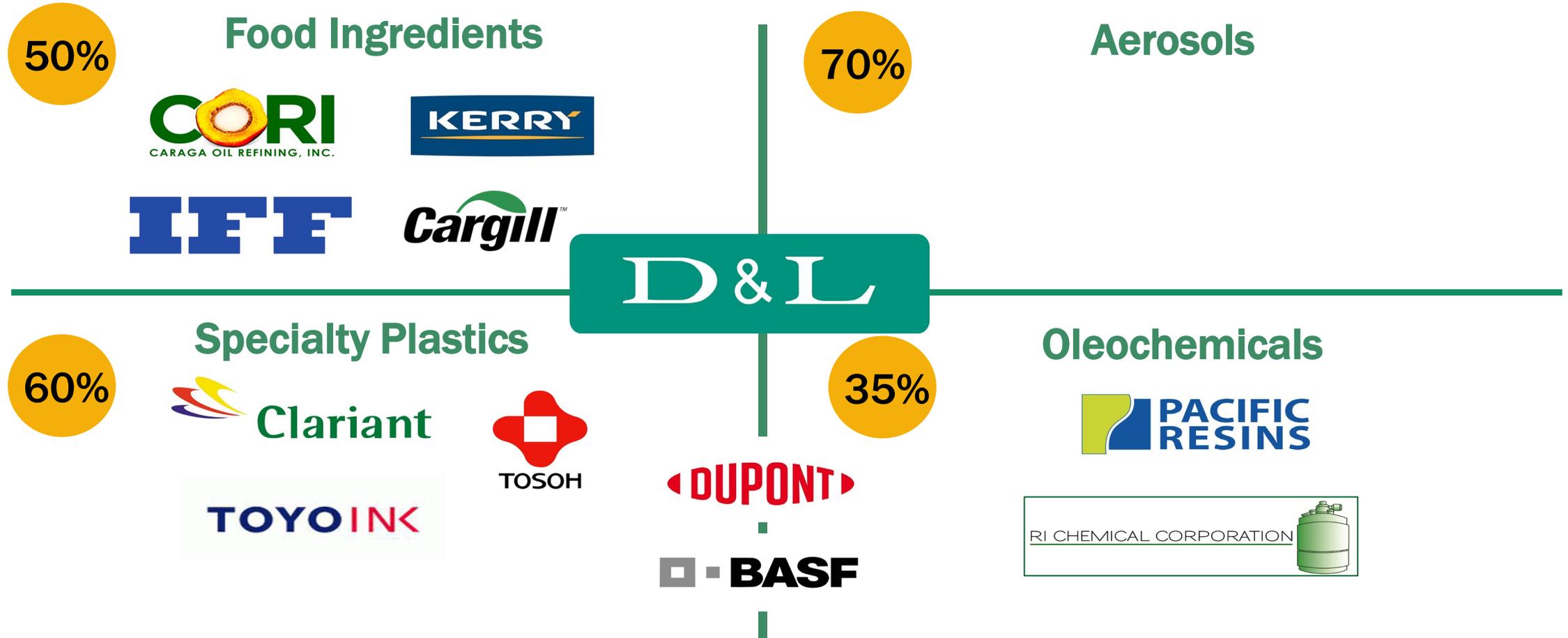


D&L INDUSTRIES

PSE: DNL PM

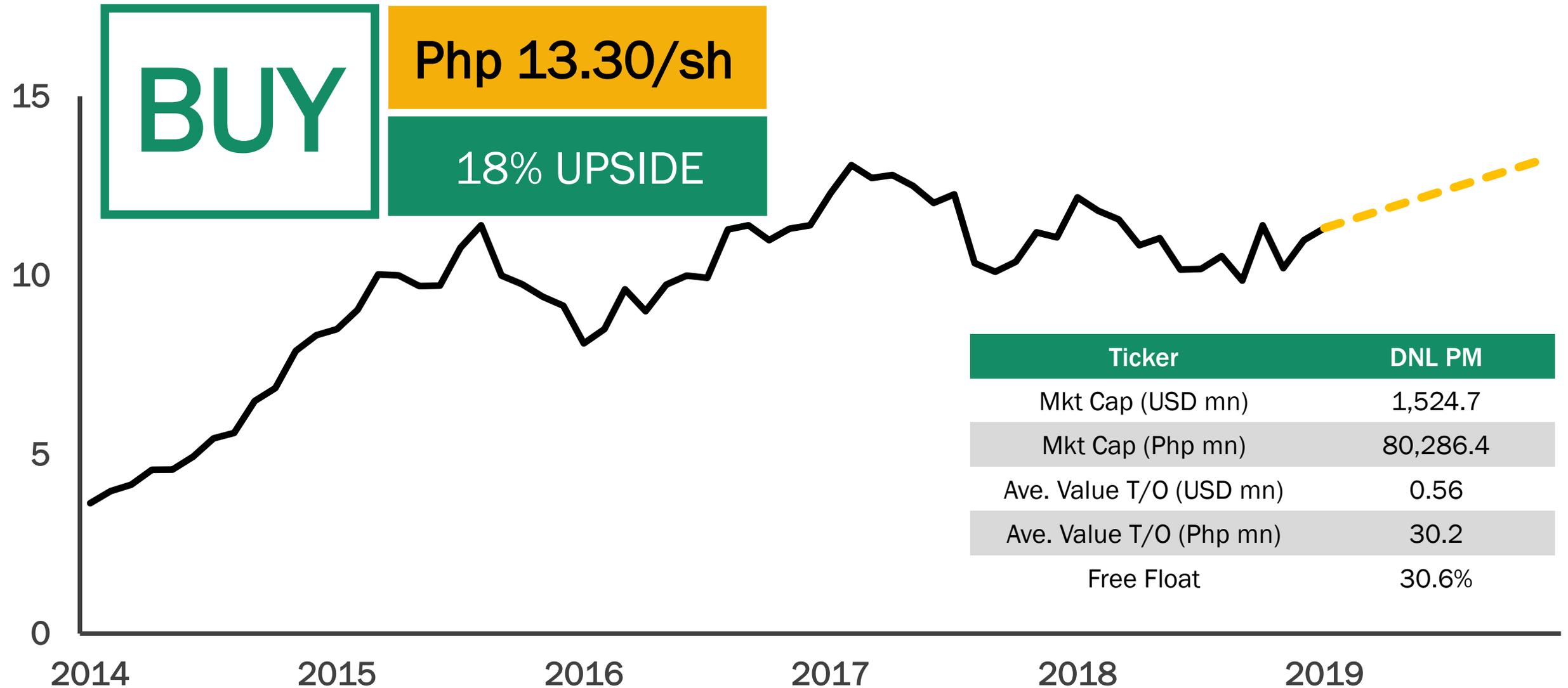
Competitors by Segment

● Domestic Segment Market Share

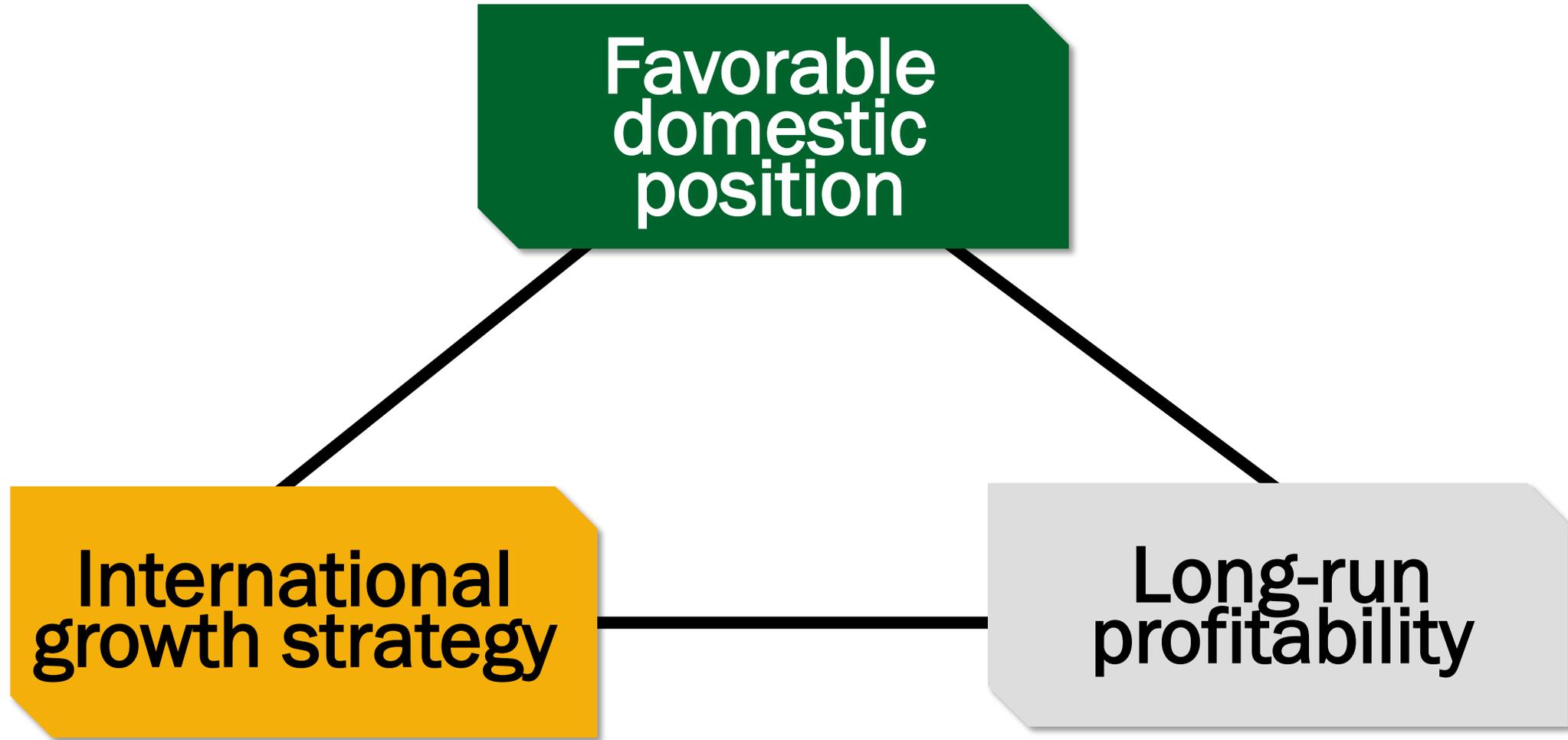


Versus local competition, DNL is the largest and the only integrated chemicals manufacturer

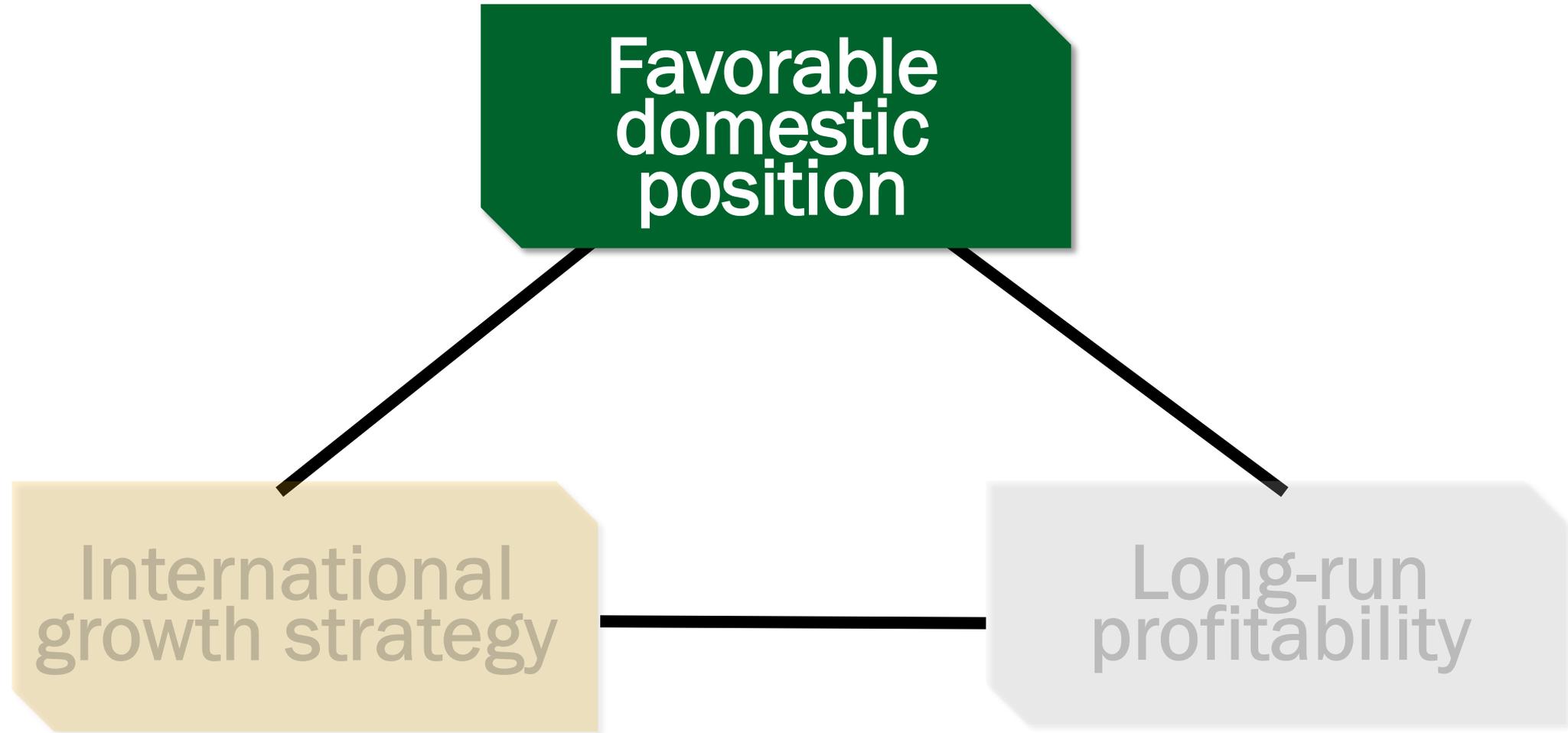
Ateneo de Manila University



Why BUY DNL?

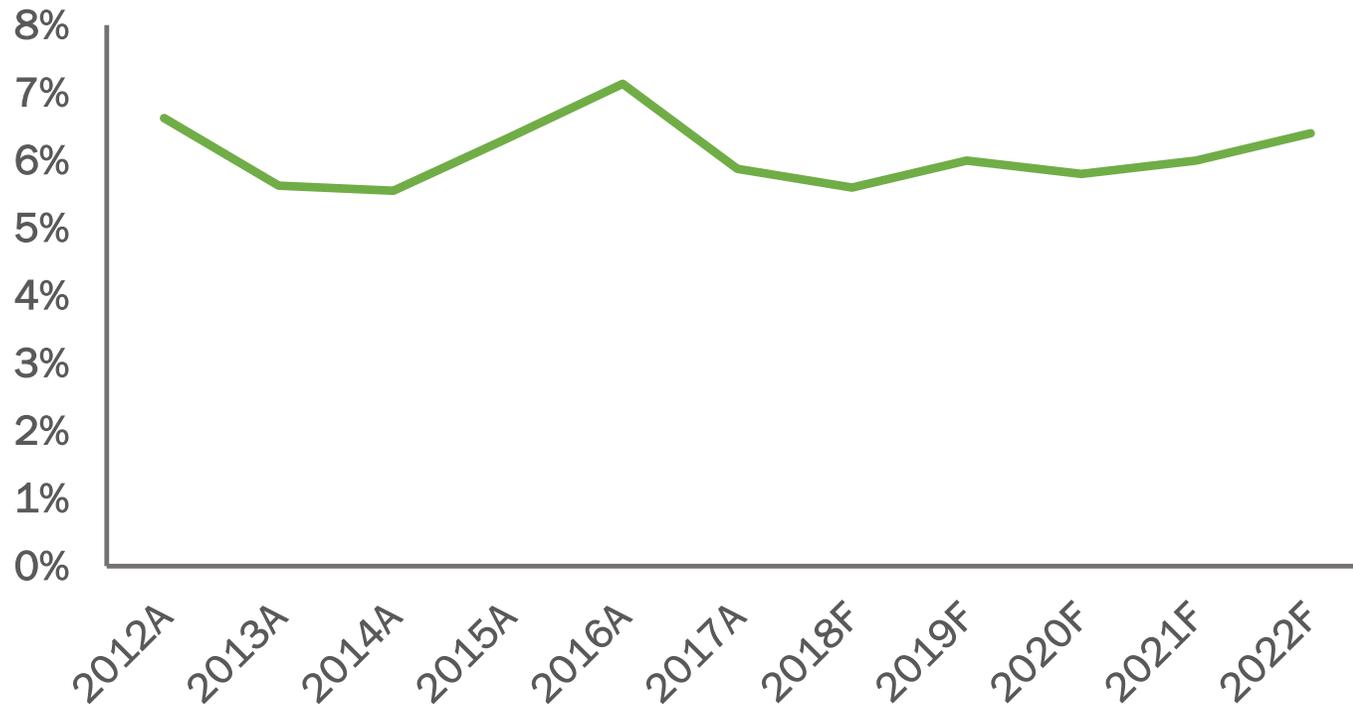


Why BUY DNL?



1 | Dominant Back-end Position

PH Household Consumption Expenditure Growth (2012A-2022F)



Source: Philippine Statistics Authority

OFW Remittances

BPO Industry

Tourism

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

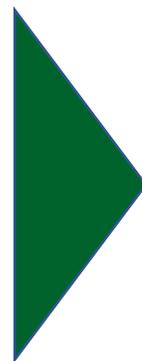
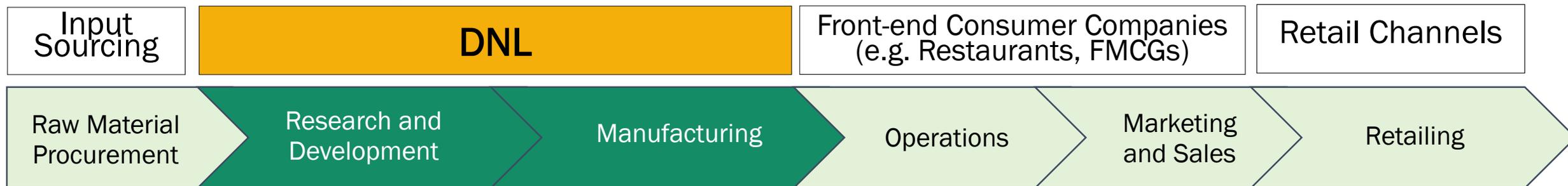
LONG-RUN
PROFITABILITY

VALUATION

RISKS

1 | Dominant Back-end Position

Value Chain Positioning



Sources: Team Analysis, Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

1 | Resilient Consumer Categories

Broad exposure to resilient expenditure categories

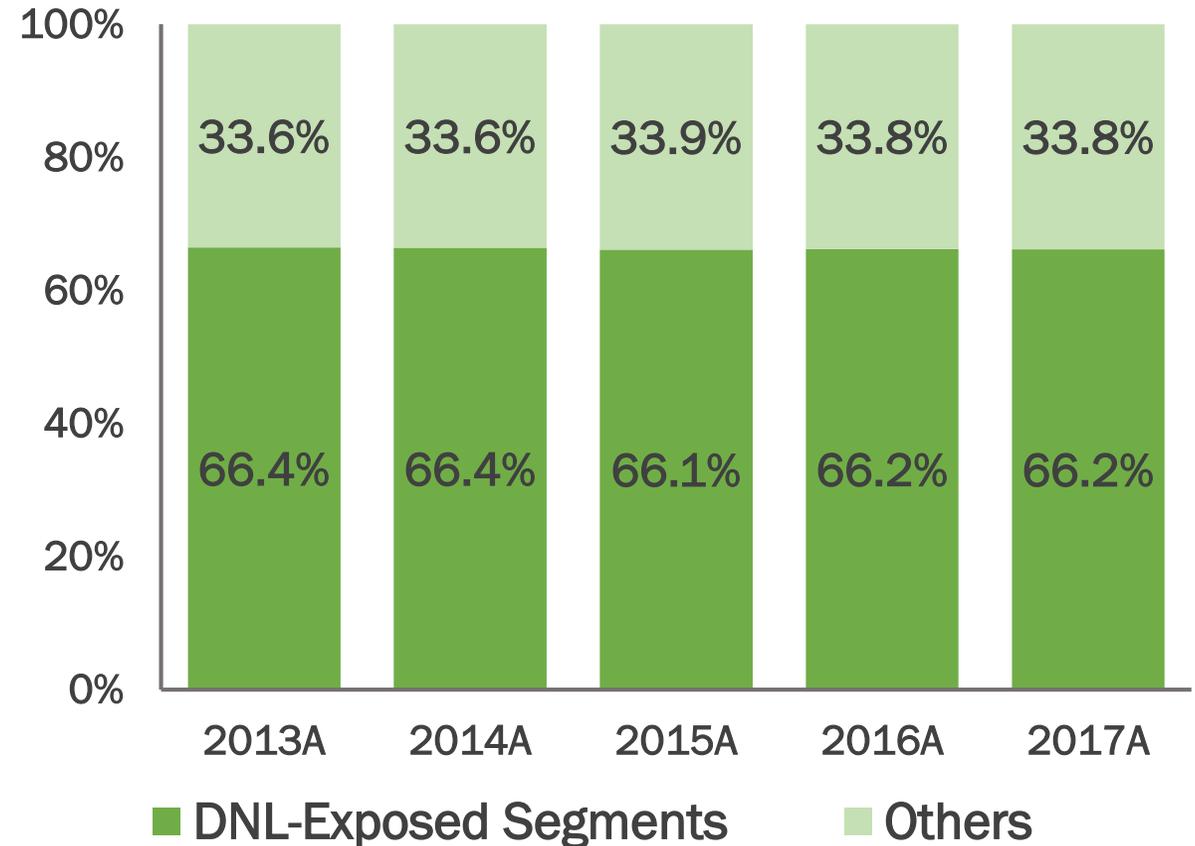
Food and Non-Alcoholic Beverages

Utilities, Gas and Fuels

Transportation

Household Furnishings and Equipment

As a % of Household Consumption



Sources: Company Information, Philippine Statistics Authority

1 | High-Margin Specialized Products

Customized products give rise to signature offerings

Fast Food Chicken



Soft Serve and Dessert



Doughnuts and Confectionery



Sauces and Dressings



... and have faster topline growth

Products with DNL inputs Sales CAGR



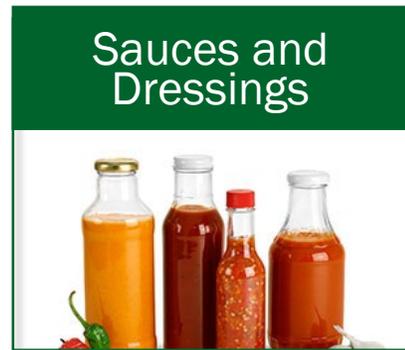
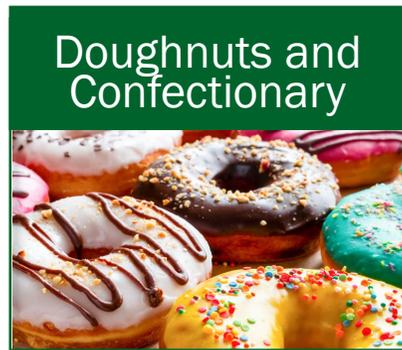
Products without DNL inputs Sales CAGR



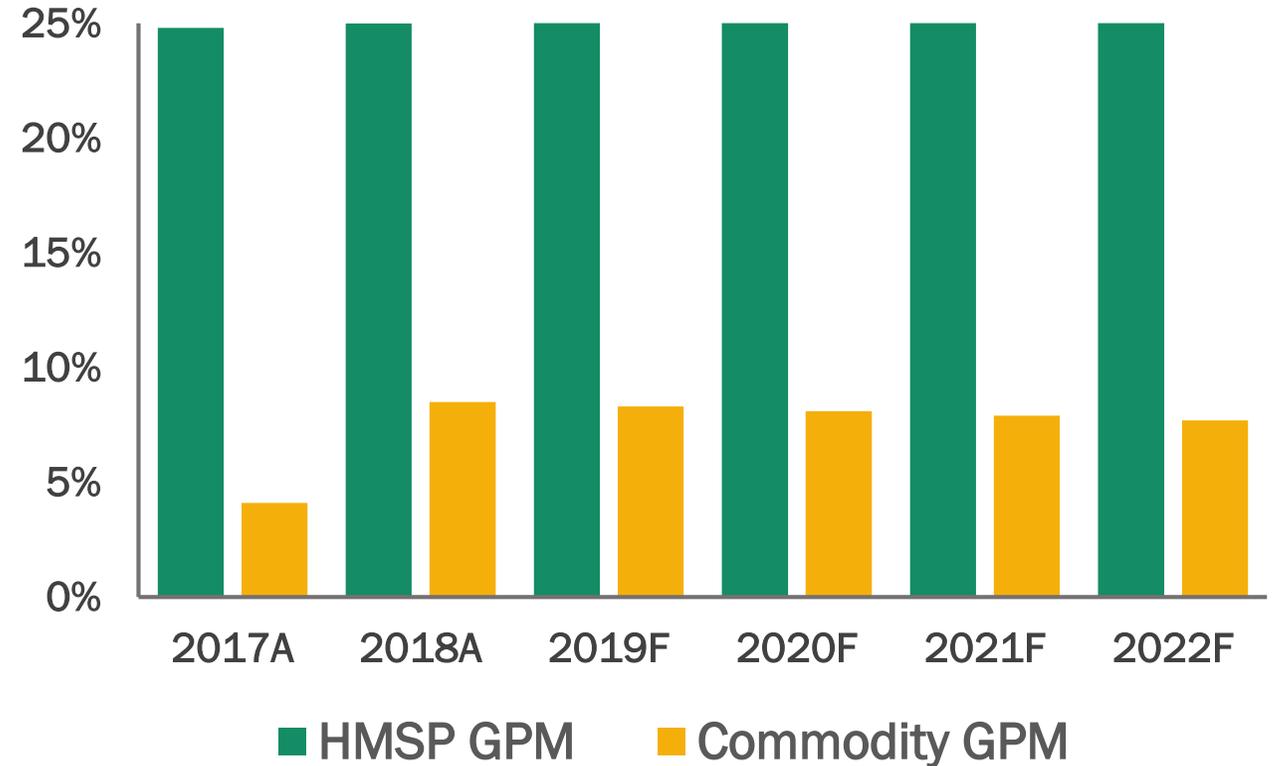
Source: Euromonitor, Company Information

1 | High-Margin Specialized Products

Customized products give rise to signature offerings



... that have higher margins than commodity products



Source: Company Information, Team Estimates

1 | High-Margin Specialized Products

Customized products give rise to signature offerings

Fast Food Chicken



Soft Serve and Dessert



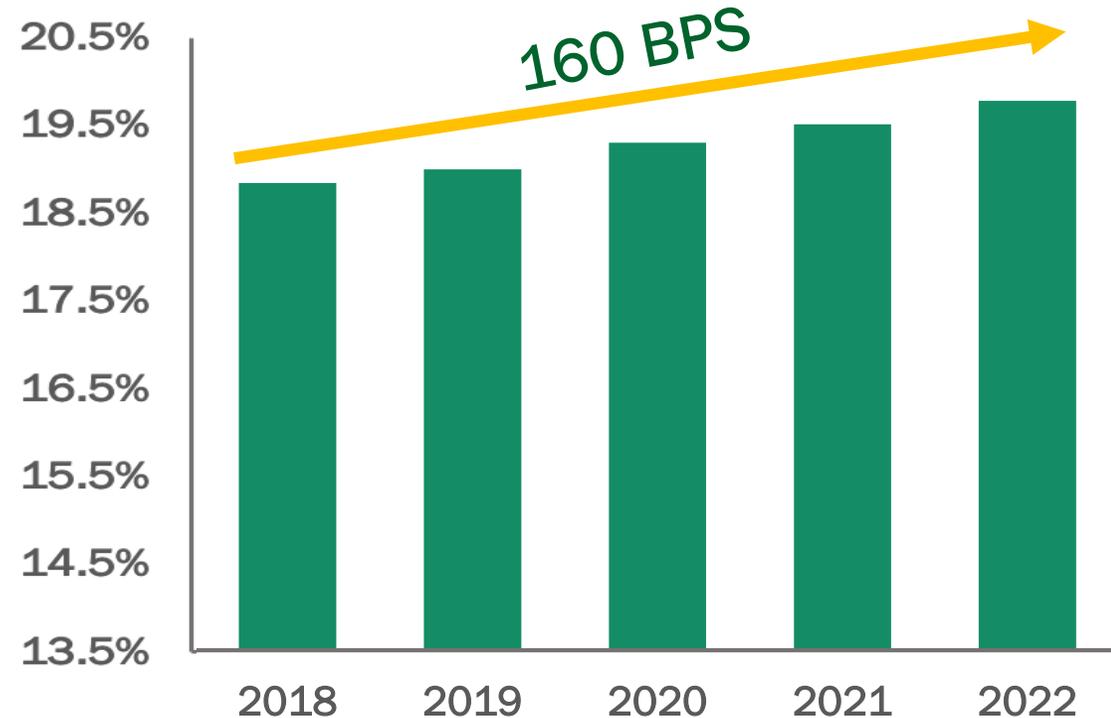
Doughnuts and Confectionary



Sauces and Dressings



... driving gross margin expansion



Source: Company Information, Team Analysis

1 | Long-standing Relationships

Client relationships that span decades

>10 years



>20 years



>30 years



Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

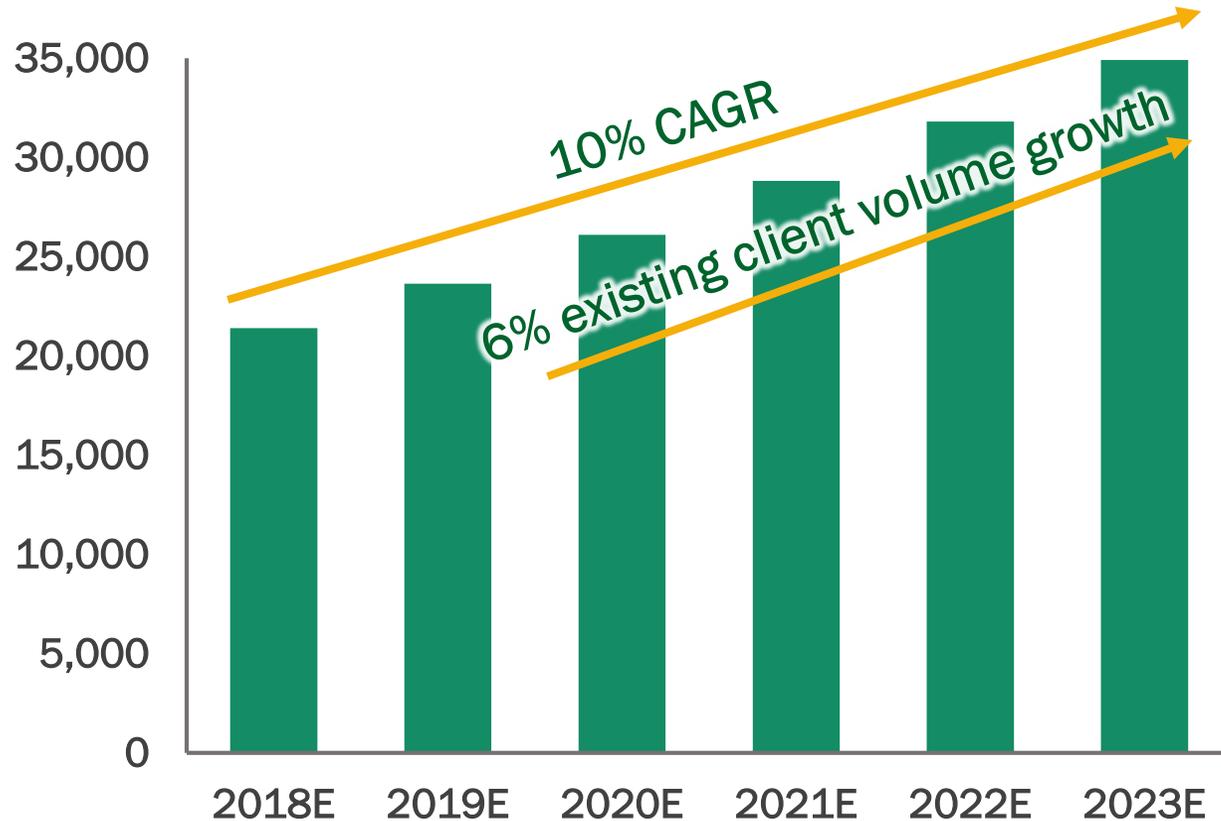
LONG-RUN
PROFITABILITY

VALUATION

RISKS

1 | Favorable Domestic Position

Steady domestic gains



Domestic Revenue (in Php mn)

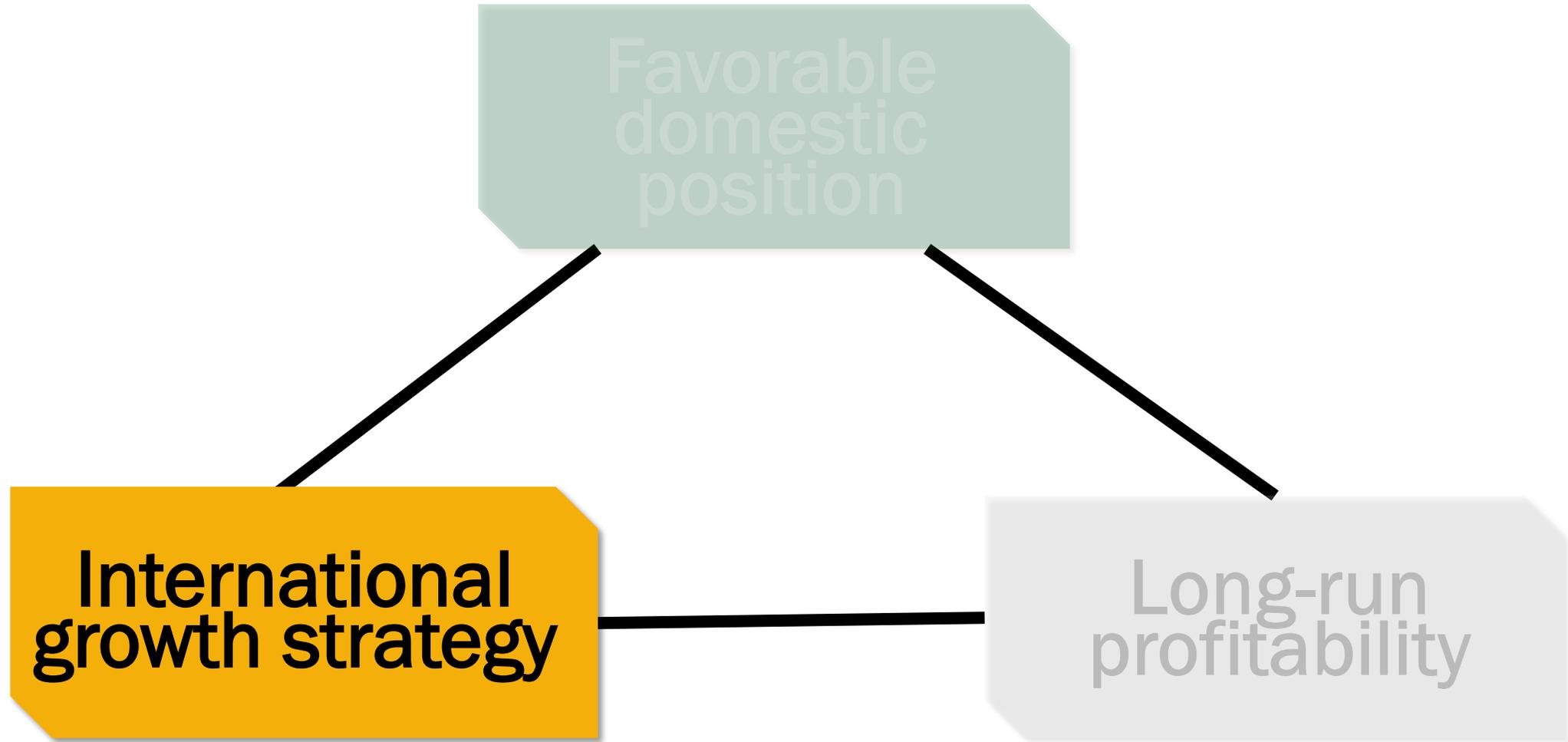
Source: Company Information, Team Analysis

Integrated back-end position

Shift to specialized products

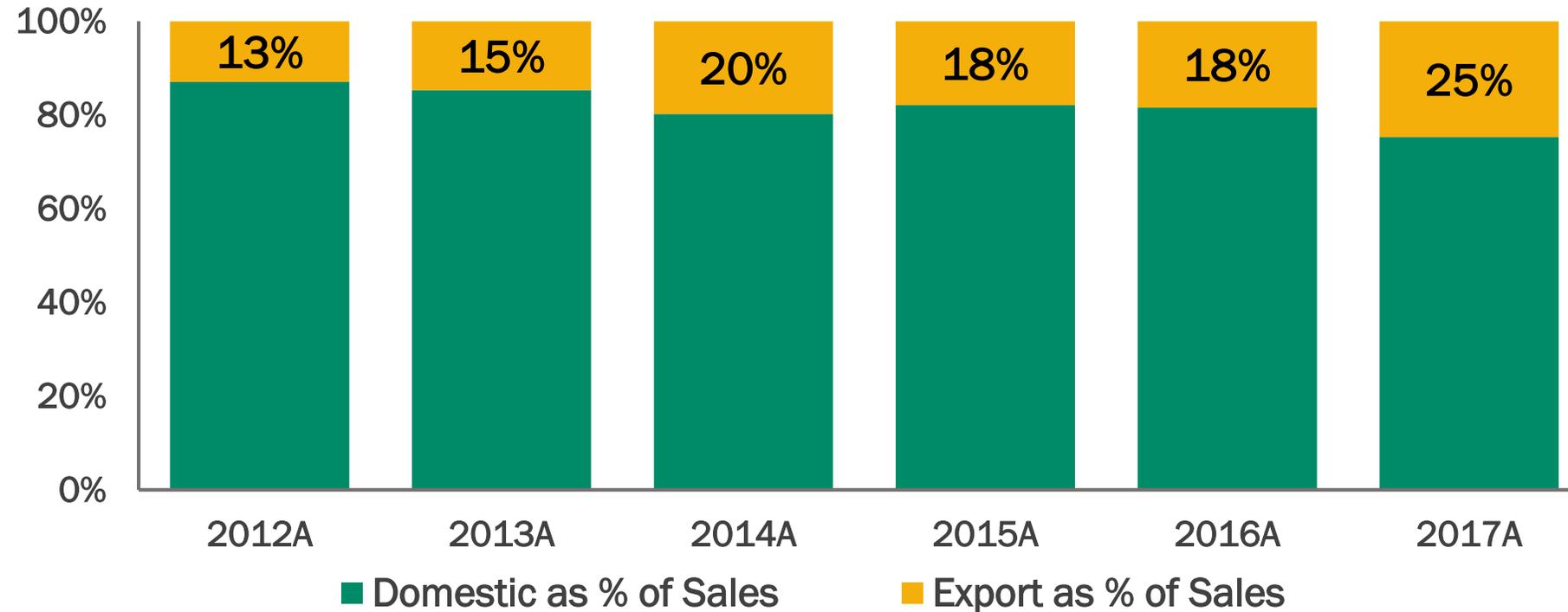
Long-standing Relationships

Why BUY DNL?



2 | Strong Growth Potential in Exports

Exports outpacing strong growth in domestic sales



\$260 bn APAC Specialty Chemicals Market

Source: Company Information, MarketLine

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

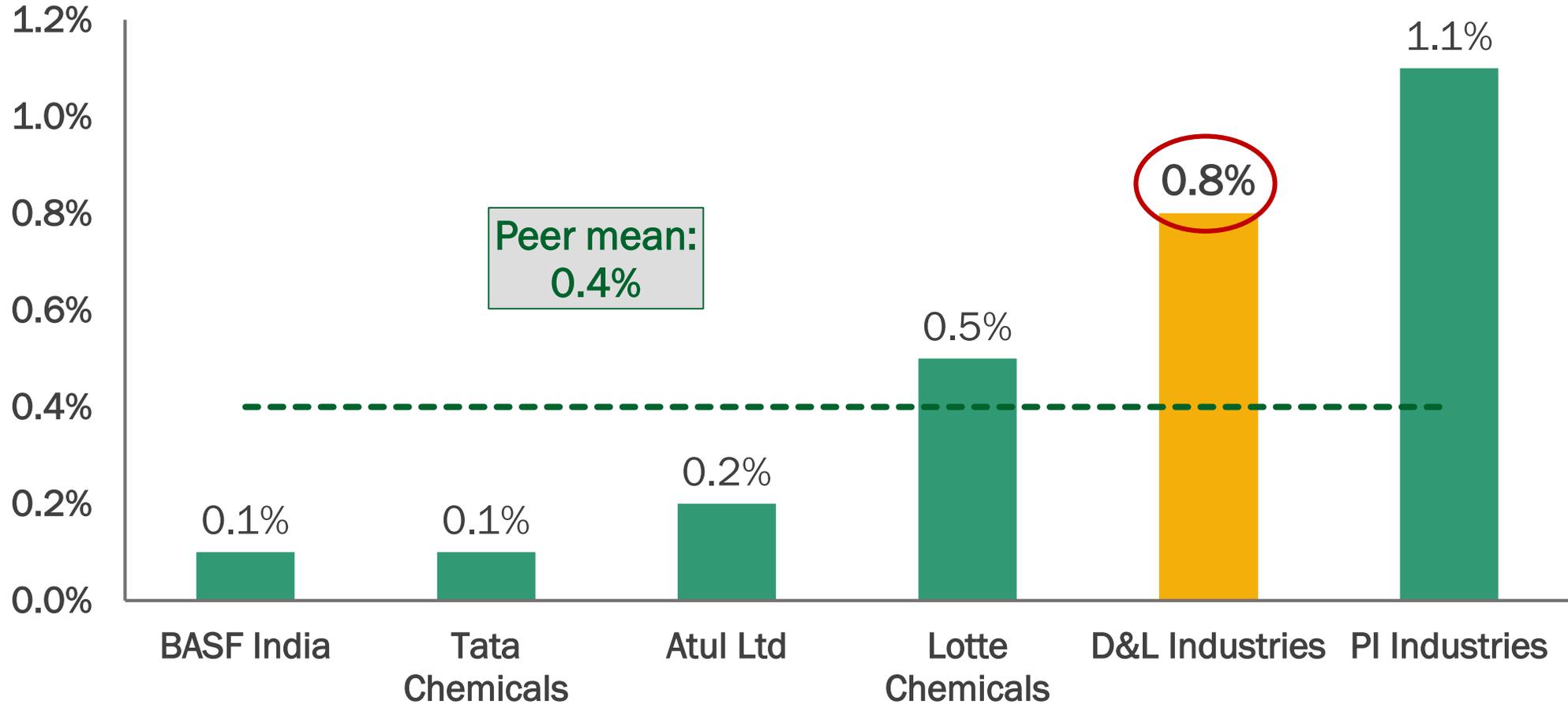
LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Competitive Edge in R&D

Higher R&D as % of sales vs. regional peers



Source: Euromonitor, Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Strategic International Partnerships

Client-specific formulations



Strategic export partnerships



Source: Company Information

R&D drives more than 70% of export sales

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Strategic International Partnerships

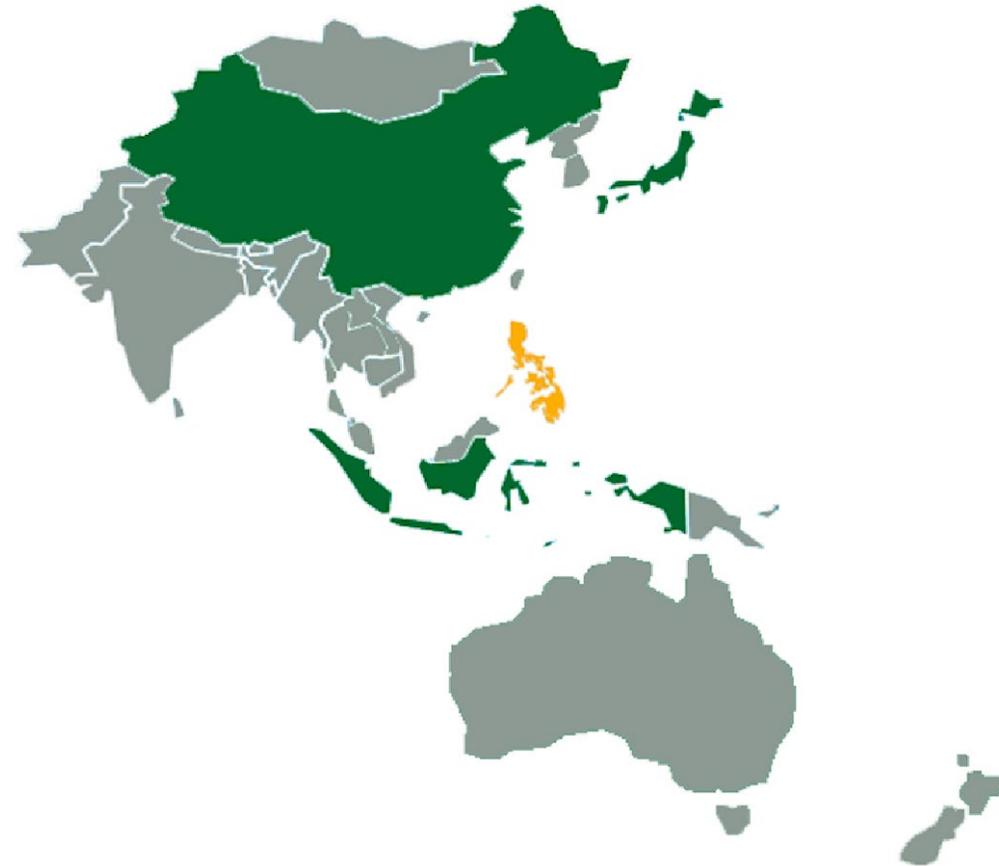


Ventura Foods

Export Brands



Current markets serviced with Ventura partnership



Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Strategic International Partnerships



Ventura Foods

Export Brands



Current markets serviced with Ventura partnership



 Burger King Branches

Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Strategic International Partnerships

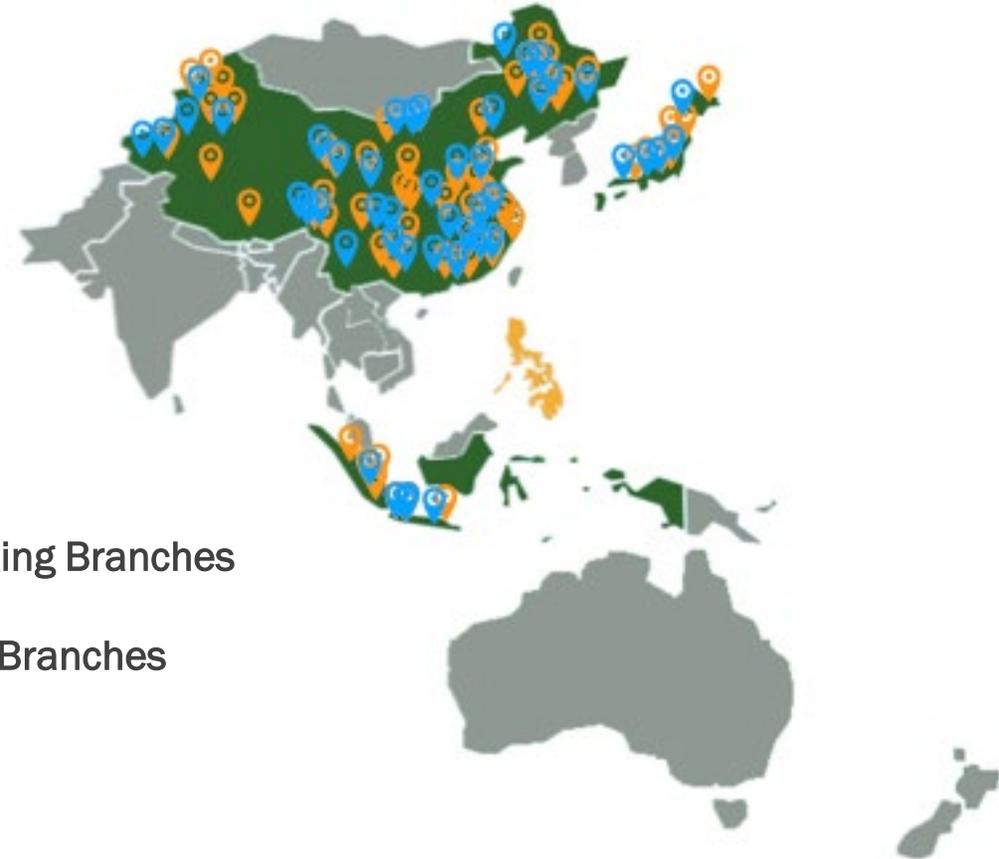


Ventura Foods

Export Brands



Current markets serviced with Ventura partnership



-  Burger King Branches
-  Subway Branches

Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Strategic International Partnerships

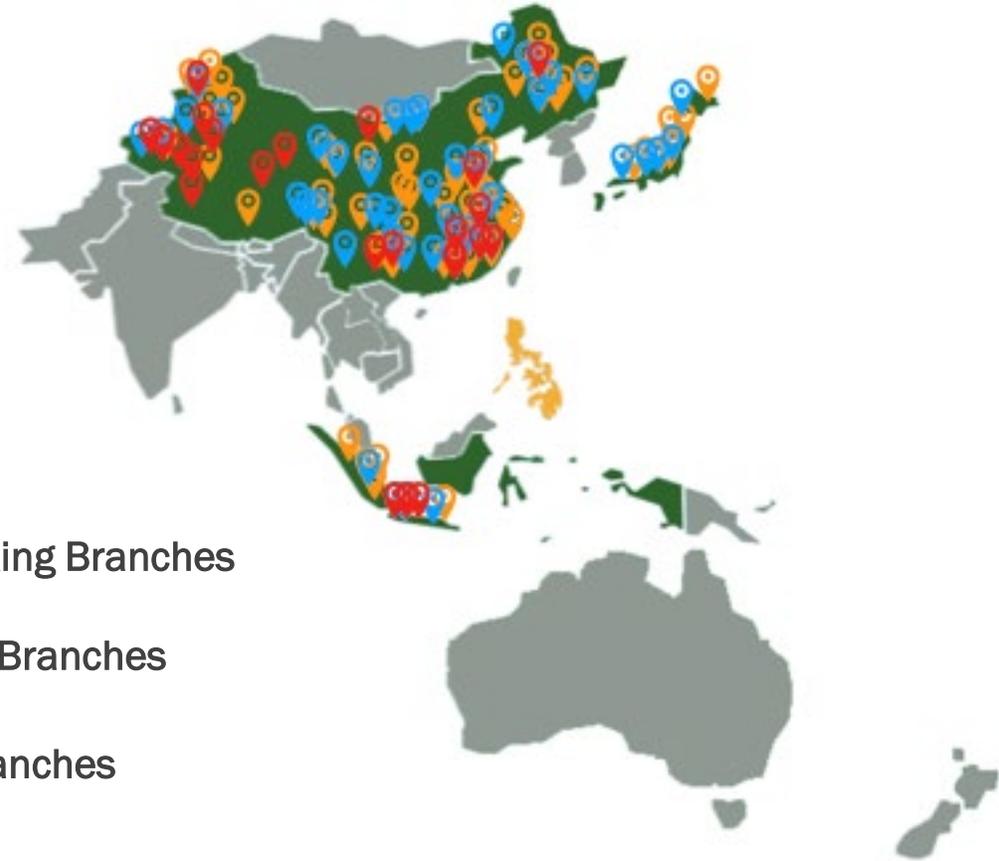


Ventura Foods

Export Brands



Current markets serviced with Ventura partnership



-  Burger King Branches
-  Subway Branches
-  A&W Branches

Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

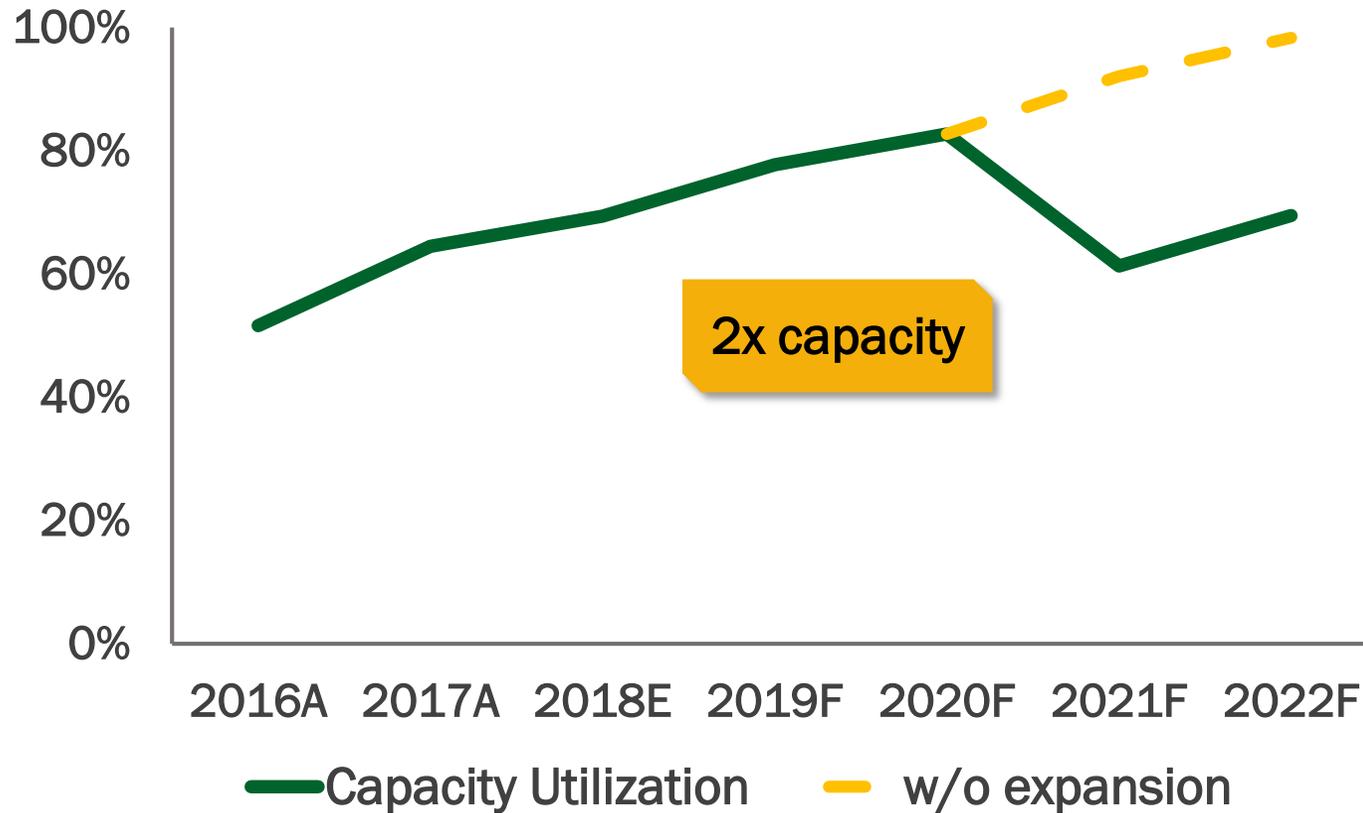
LONG-RUN
PROFITABILITY

VALUATION

RISKS

2 | Export Capacity Expansion

Capacity Expansion



Source: Company Data, Team Analysis



FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

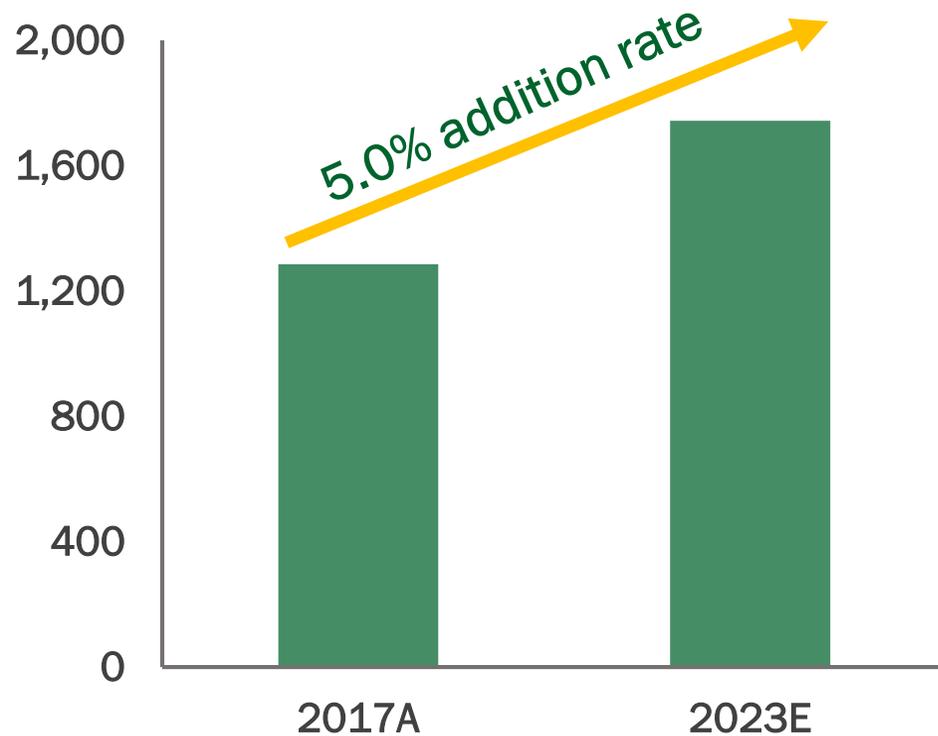
LONG-RUN
PROFITABILITY

VALUATION

RISKS

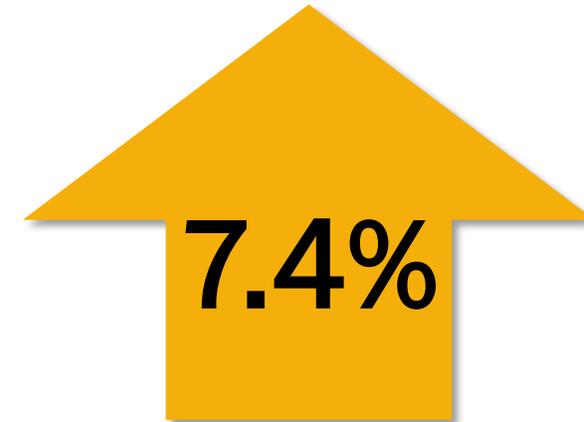
2 | International Growth Strategy

More aggressive expansion for foreign accounts



Source: Company Data, Team Analysis

Set to capture strong regional demand

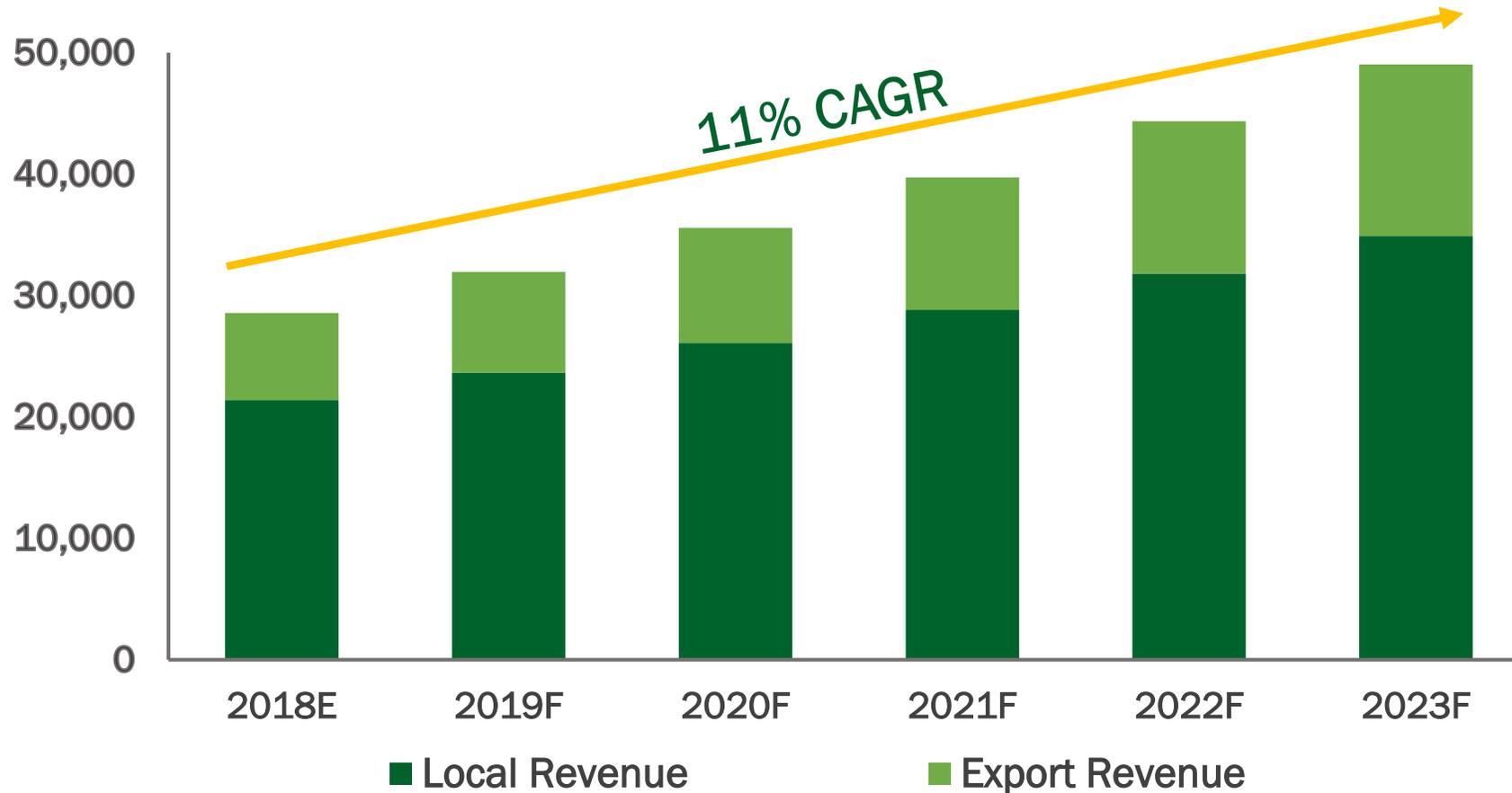


APAC Specialty Chemicals Market CAGR

Source: MarketLine

2 | International Growth Strategy

Sales (in Php mn) and Sales Growth



Source: Company Data, Team Analysis

FAVORABLE
DOMESTIC POSITION

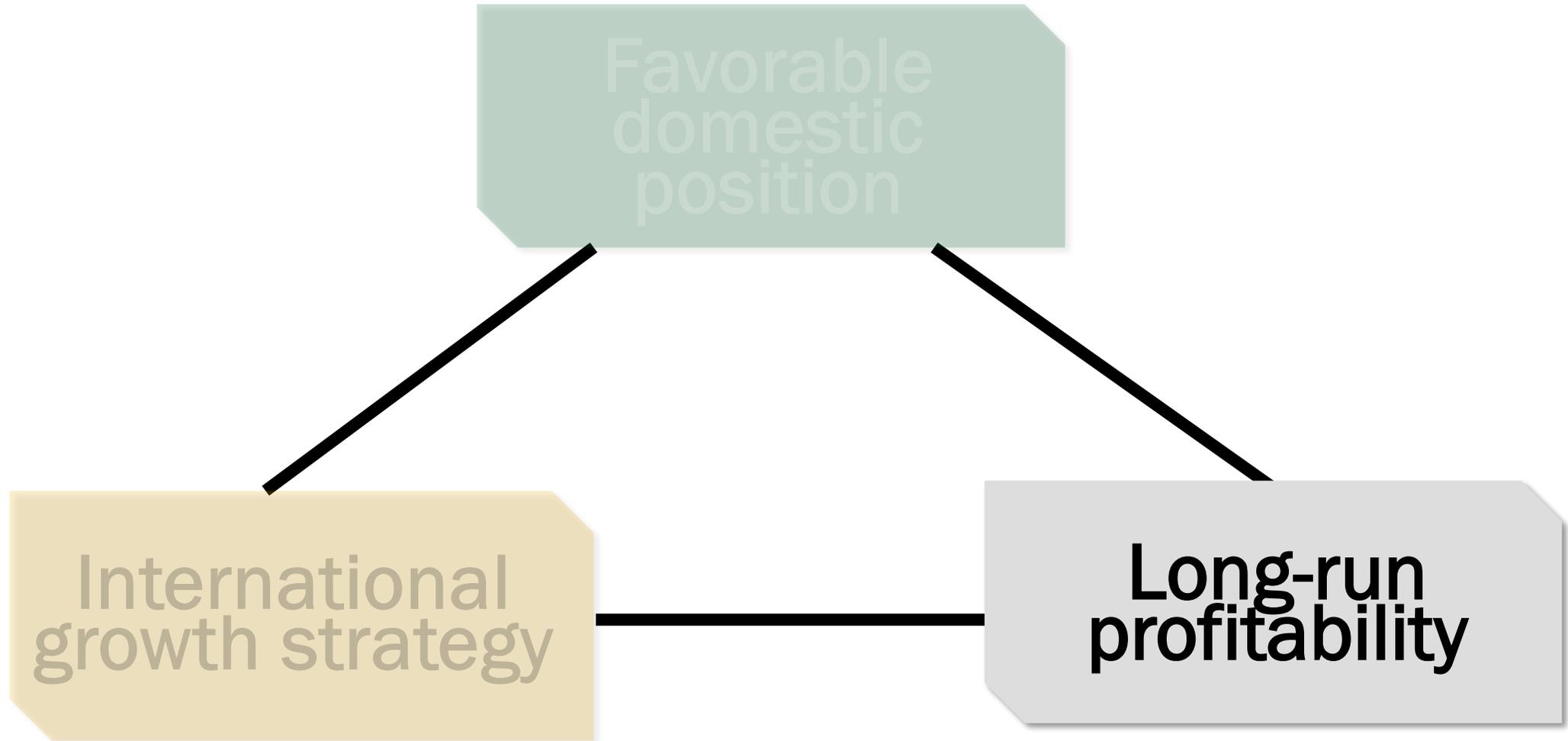
APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

Why BUY DNL?



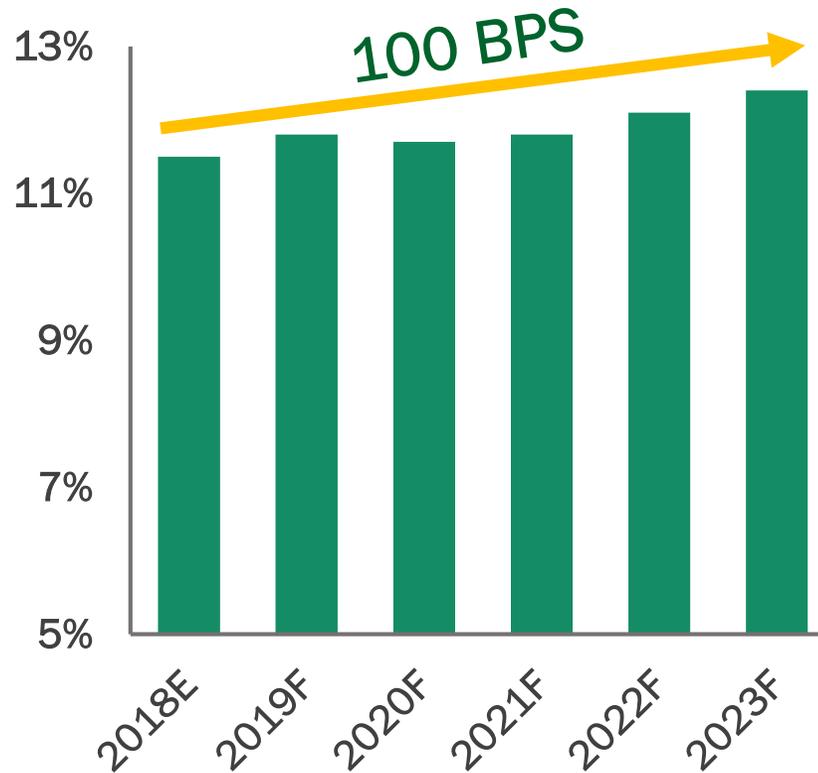
3 | Long-run Profitability

Shift to specialized products

Rapid export sales growth

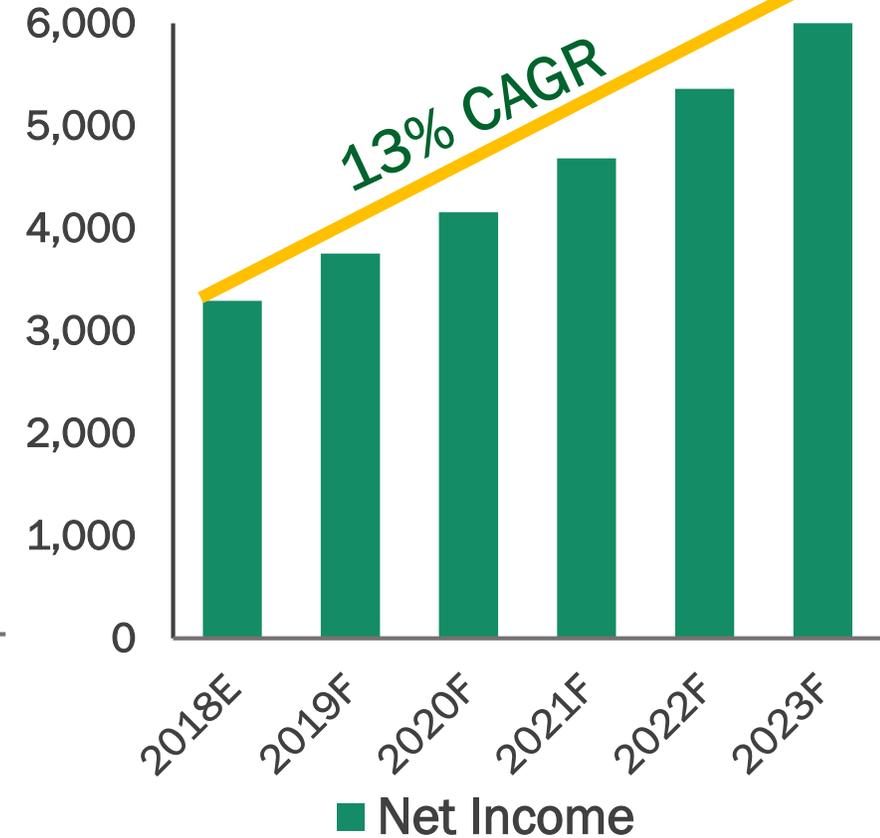
Operational efficiency

Net Income Margin Expansion



Source: Company Information, Team Analysis

Earnings Growth (in Php mn)



Source: Company Information, Team Analysis

FAVORABLE DOMESTIC POSITION

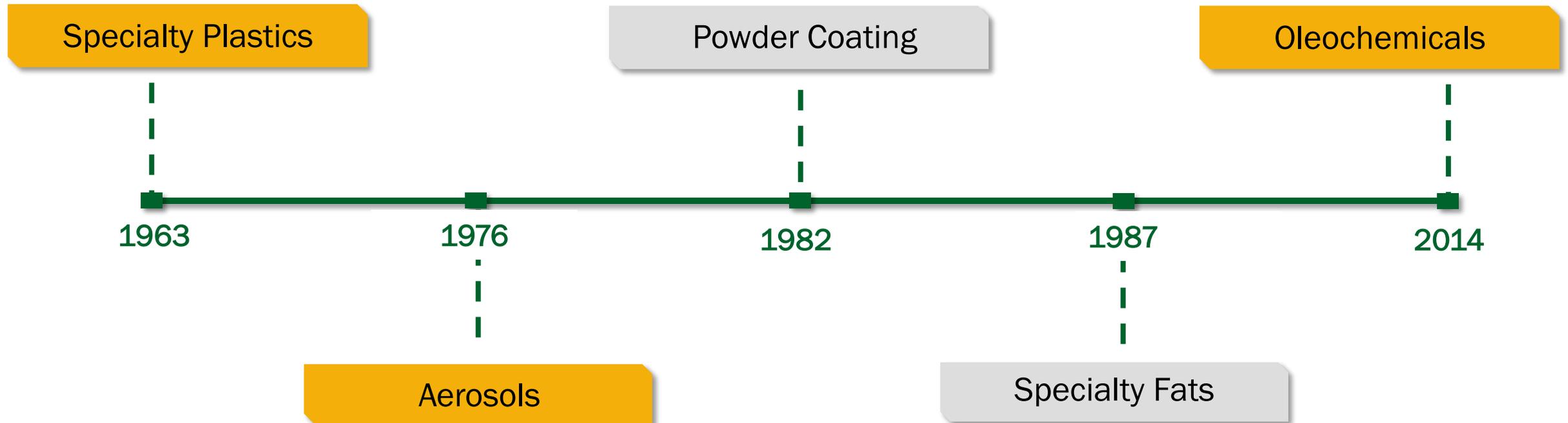
APAC GROWTH STRATEGY

LONG-RUN PROFITABILITY

VALUATION

RISKS

3 | Strategic Diversification



Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

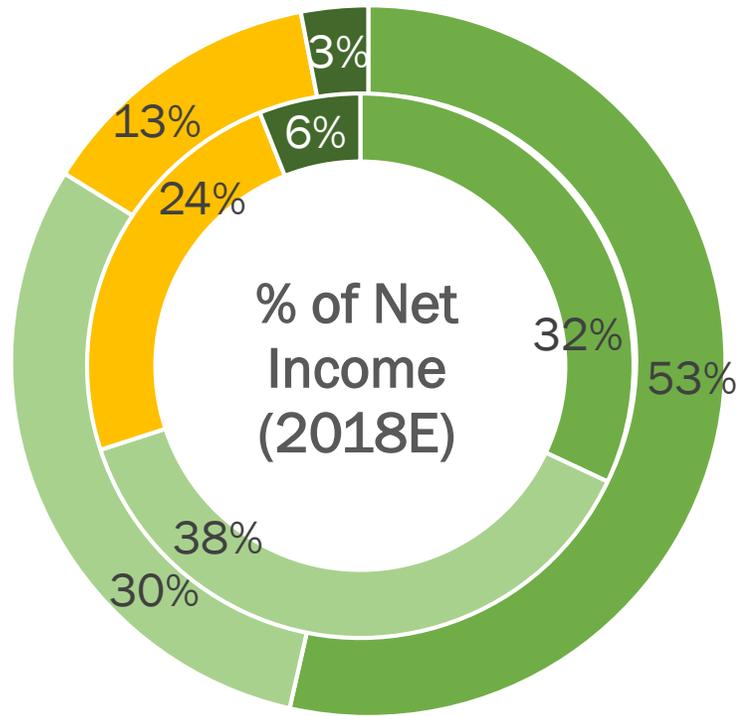
LONG-RUN
PROFITABILITY

VALUATION

RISKS

3 | Strategic Diversification

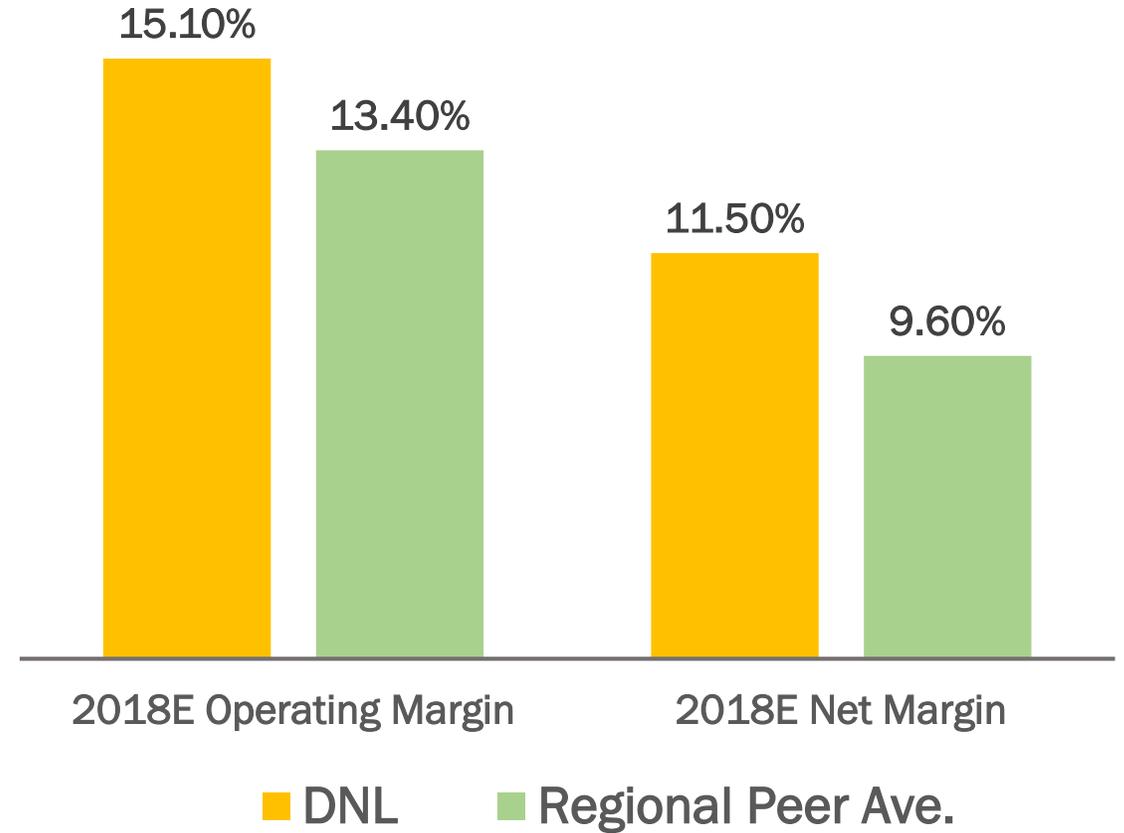
% of Revenues (2018E)



- Food Ingredients
- Oleochemicals
- Plastics
- Aerosols

Source: Company Information

Margins superior over peers



Source: Company Information, Bloomberg, Team Estimates

FAVORABLE DOMESTIC POSITION

APAC GROWTH STRATEGY

LONG-RUN PROFITABILITY

VALUATION

RISKS

3 | Maintaining Profitability



10kMT BARGE CAPACITY



33kMT STORAGE CAPACITY



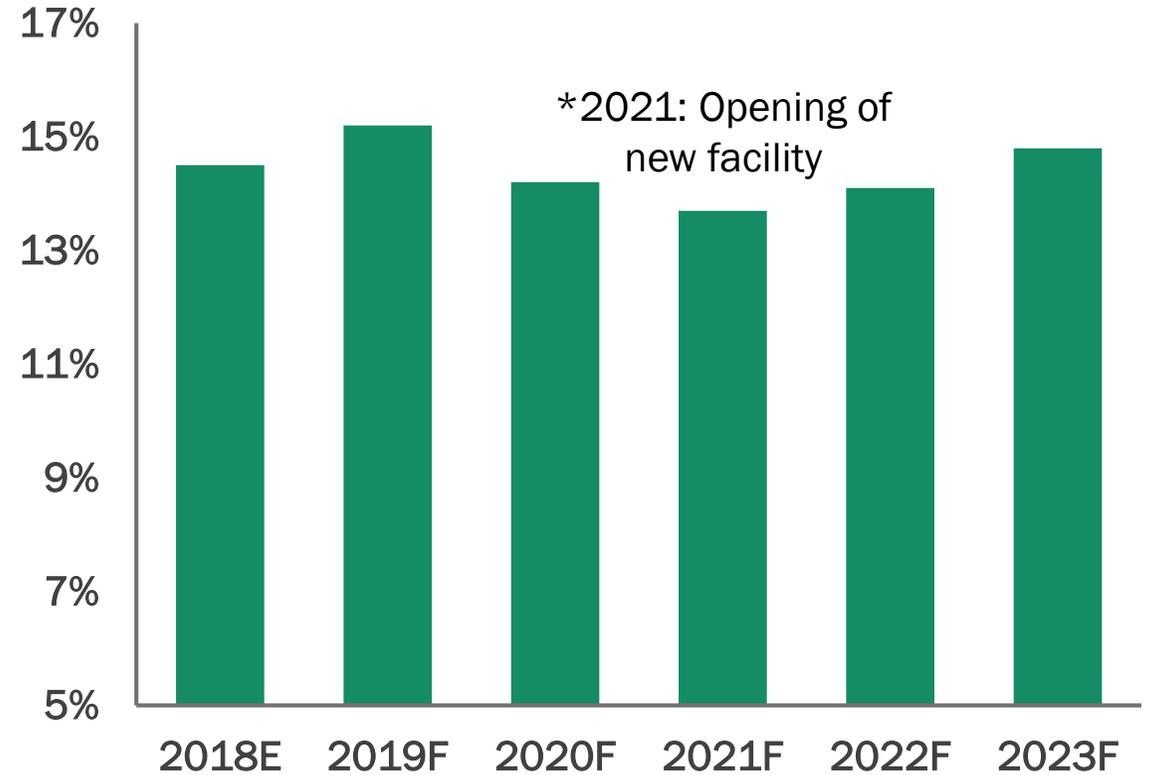
INTERCONNECTED LOGISTICS



NEW FACILITY IN 2021

Source: Company Information

Improving Return on Assets



Source: Company Data, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

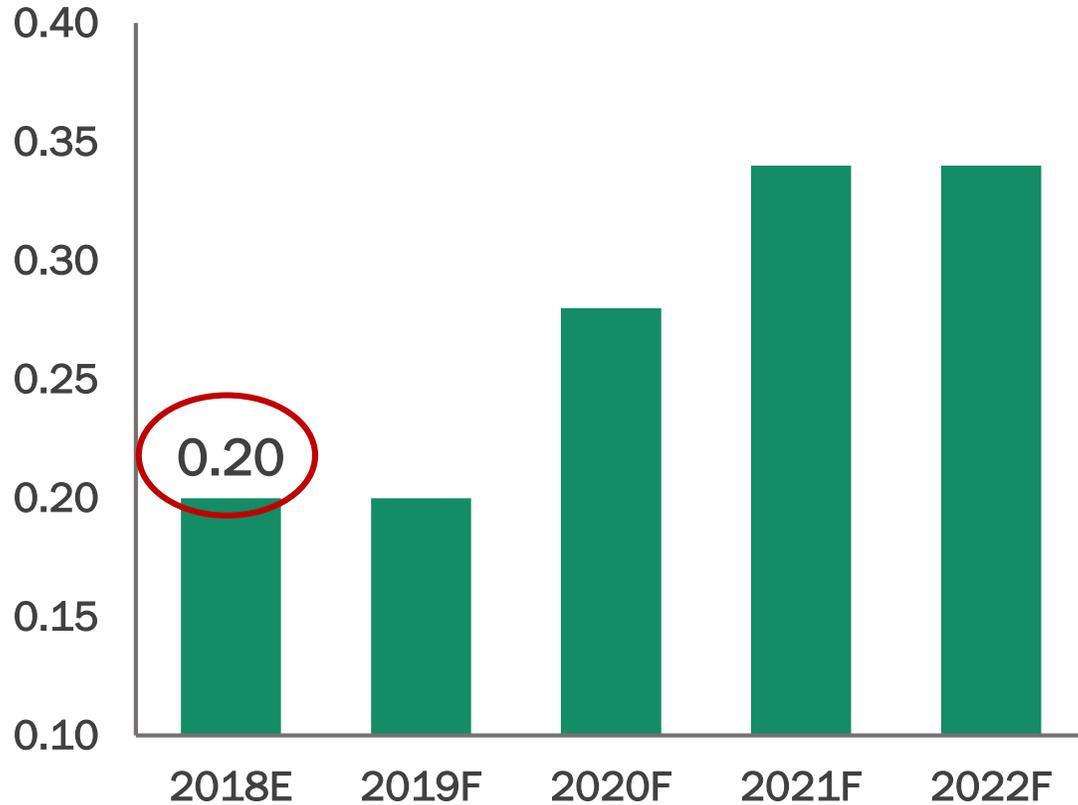
LONG-RUN
PROFITABILITY

VALUATION

RISKS

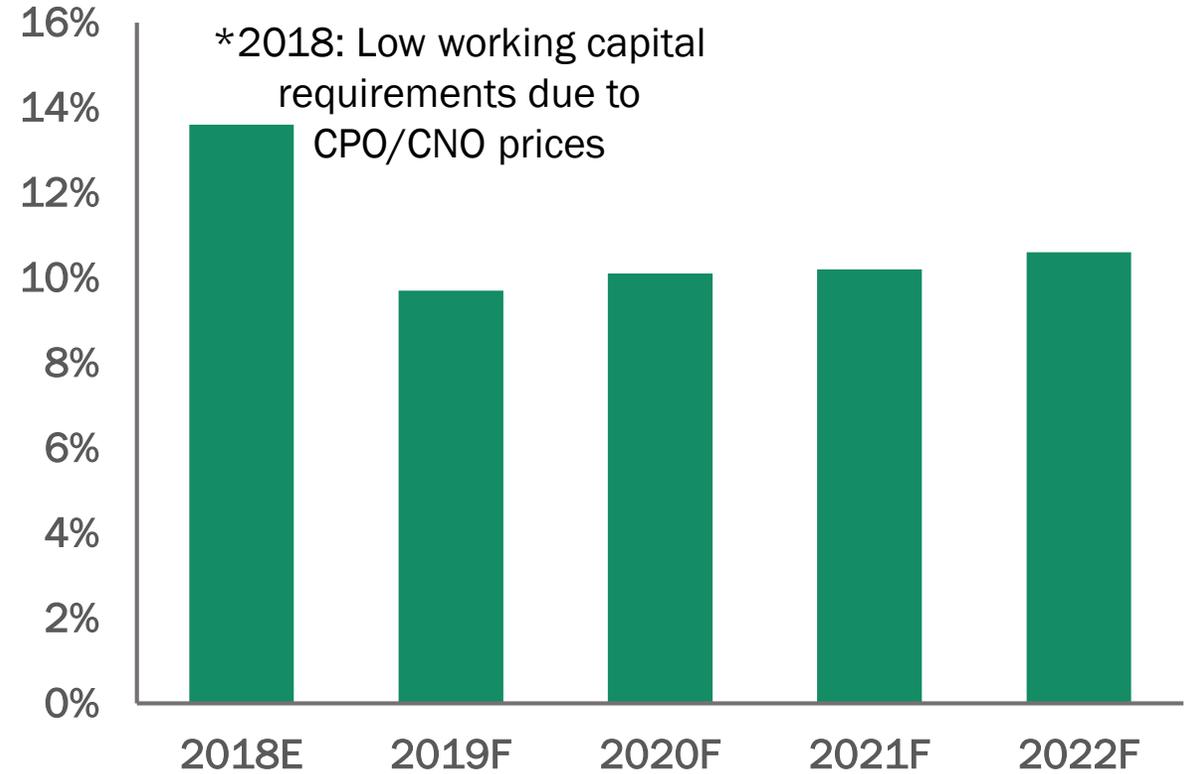
3 | Long-run Profitability

Underleveraged Capital Structure (Net D/E)



Source: Company Data, Team Analysis

Strong Cash Flow Generation (CFO-to-Revenue)



Source: Company Data, Team Analysis

FAVORABLE DOMESTIC POSITION

APAC GROWTH STRATEGY

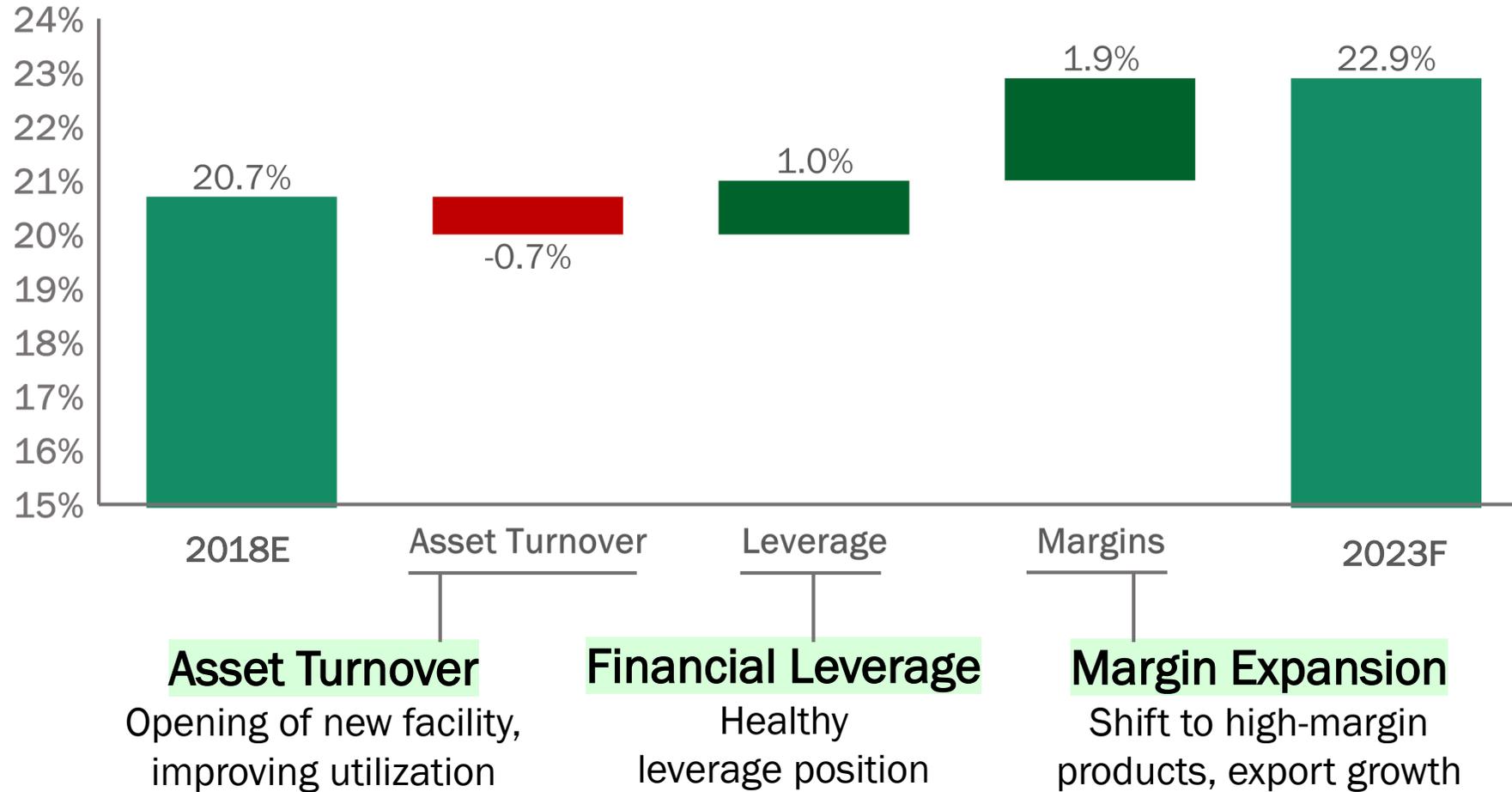
LONG-RUN PROFITABILITY

VALUATION

RISKS

3 | Long-run Profitability

ROE Expansion



Source: Company Information, Team Analysis

FAVORABLE DOMESTIC POSITION

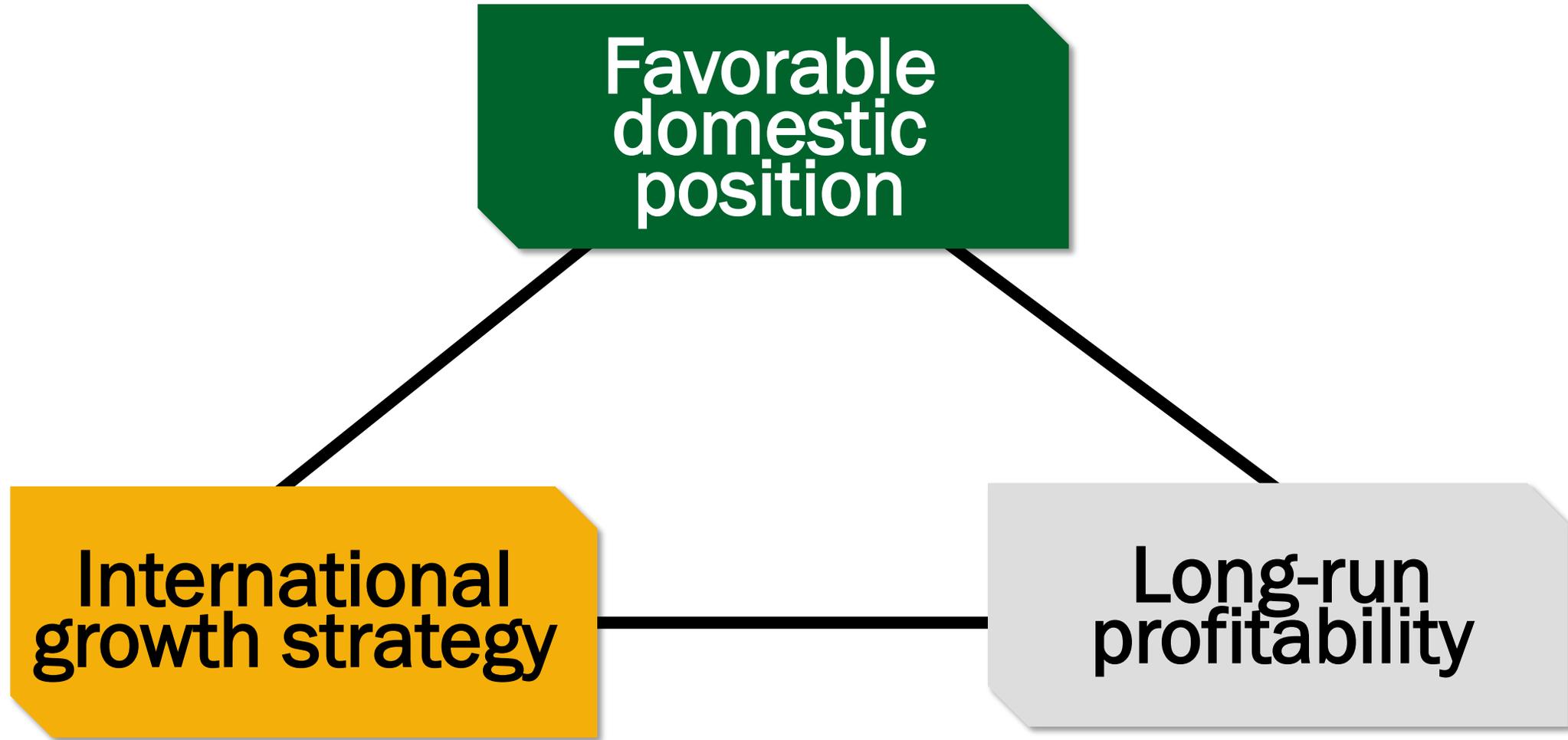
APAC GROWTH STRATEGY

LONG-RUN PROFITABILITY

VALUATION

RISKS

Why BUY DNL?



Valuation Method

BUY

METHODOLOGY

Discounted Cash Flow
(DCF) Analysis

WACC

9.0%

Terminal
Growth

3.5%

Php 13.30 / sh

**18%
UPSIDE**

Php 11.24/sh
April 17, 2019

Sources: Bloomberg, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

Valuation Method

WACC	9.0%	Terminal Growth Rate	3.5%
Risk-free Rate	6.25%	Long-run PH Inflation	3.5%
Beta	0.75	Long-run APAC Consumption Growth	3.8%
Equity Risk Premium	5.5%	Specialty Chemicals Growth in Mature Markets	3.7%
Cost of Equity	10.4%		
Cost of Debt	7.0%		

Sources: Bloomberg, Team Analysis

FAVORABLE
DOMESTIC POSITION

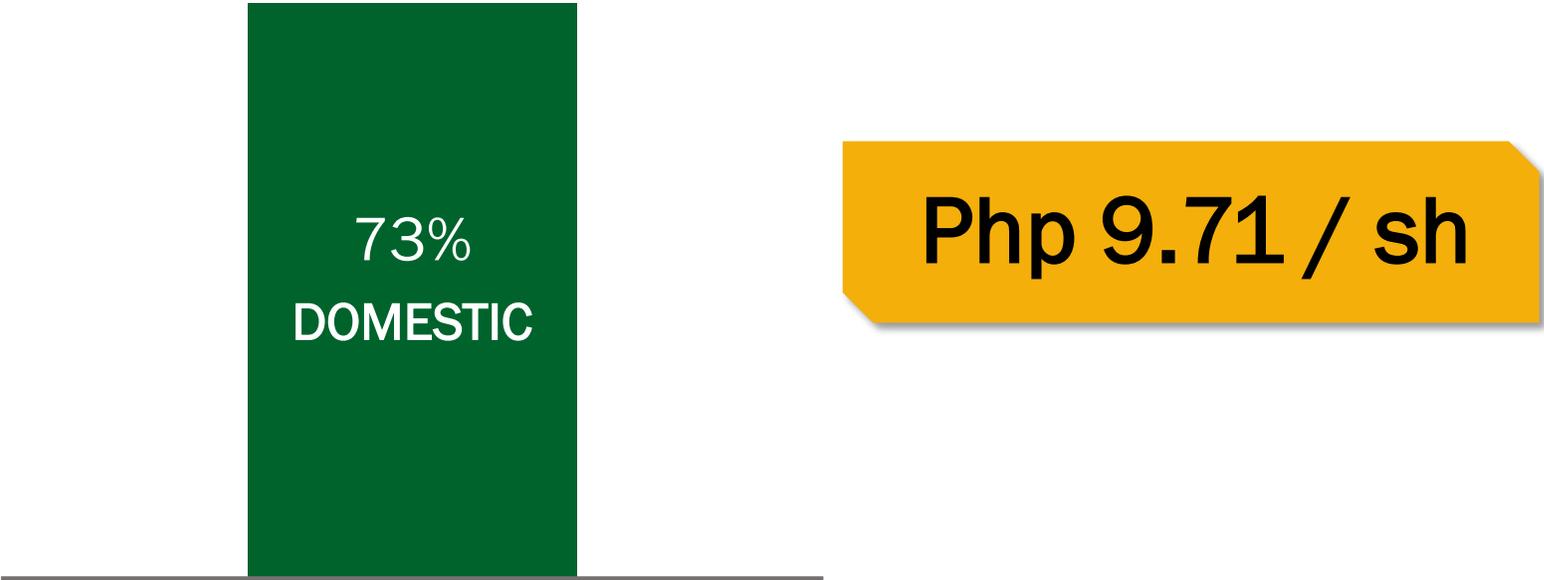
APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

Target Price Decomposition



Sources: Bloomberg, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

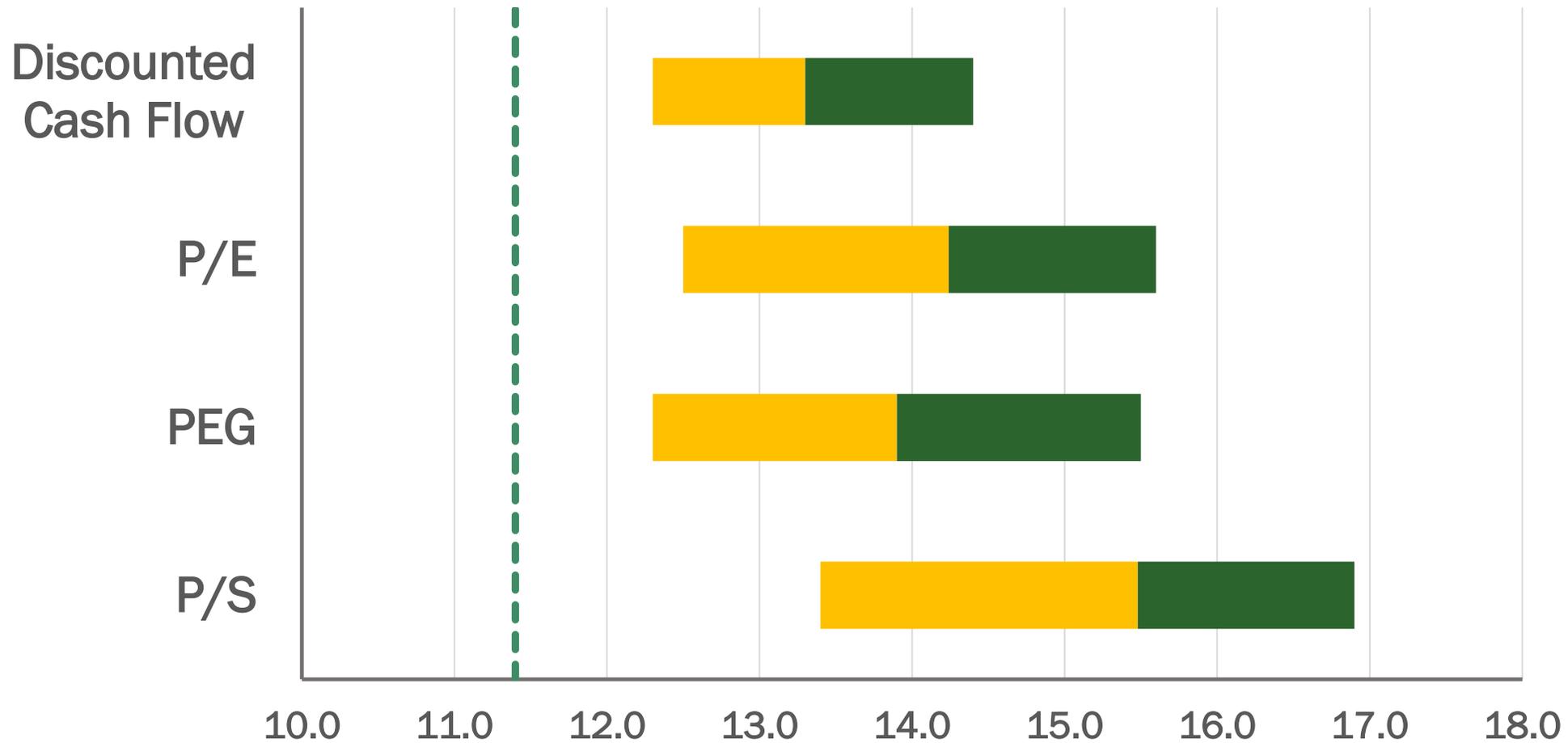
RISKS

Target Price Decomposition



Sources: Bloomberg, Team Analysis

Relative Valuation Metrics and Ranges



Source: Bloomberg, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

Relative Valuation

Ticker	Market Cap (in USD mn)	P/E	PEG	ROE
Century Pacific Food Inc	1,046	16.2	1.31	17.5
San Miguel Food and Beverages	13,012	28.5	1.59	23.2
Jolibee Food Corporation	6,414	31.9	2.17	17.6
Universal Robina Corporation	5,977	27.7	1.46	13.0
Domestic Ave		26.1	1.63	17.8
House Foods Group	3,889	33.7	1.23	5.3
Foshan Haitian Flavouring & Food	35,107	37.5	2.74	33.2
Atul Ltd	1,514	19.8	Nm	17.0
Indofood CBP Sukses Makmur	7,560	22.2	2.18	20.3
PI Industries	2,042	27.6	2.29	20.8
Nongshim Co.	1,451	17.2	nm	5.5
Regional Ave		26.3	2.10	17.0
Overall Ave		26.2	1.91	17.3
Overall Median		27.7	1.90	17.7
DNL PM Equity	1,553	21.7	1.55	21.1

Source: Bloomberg, Team Analysis

FAVORABLE
DOMESTIC POSITION

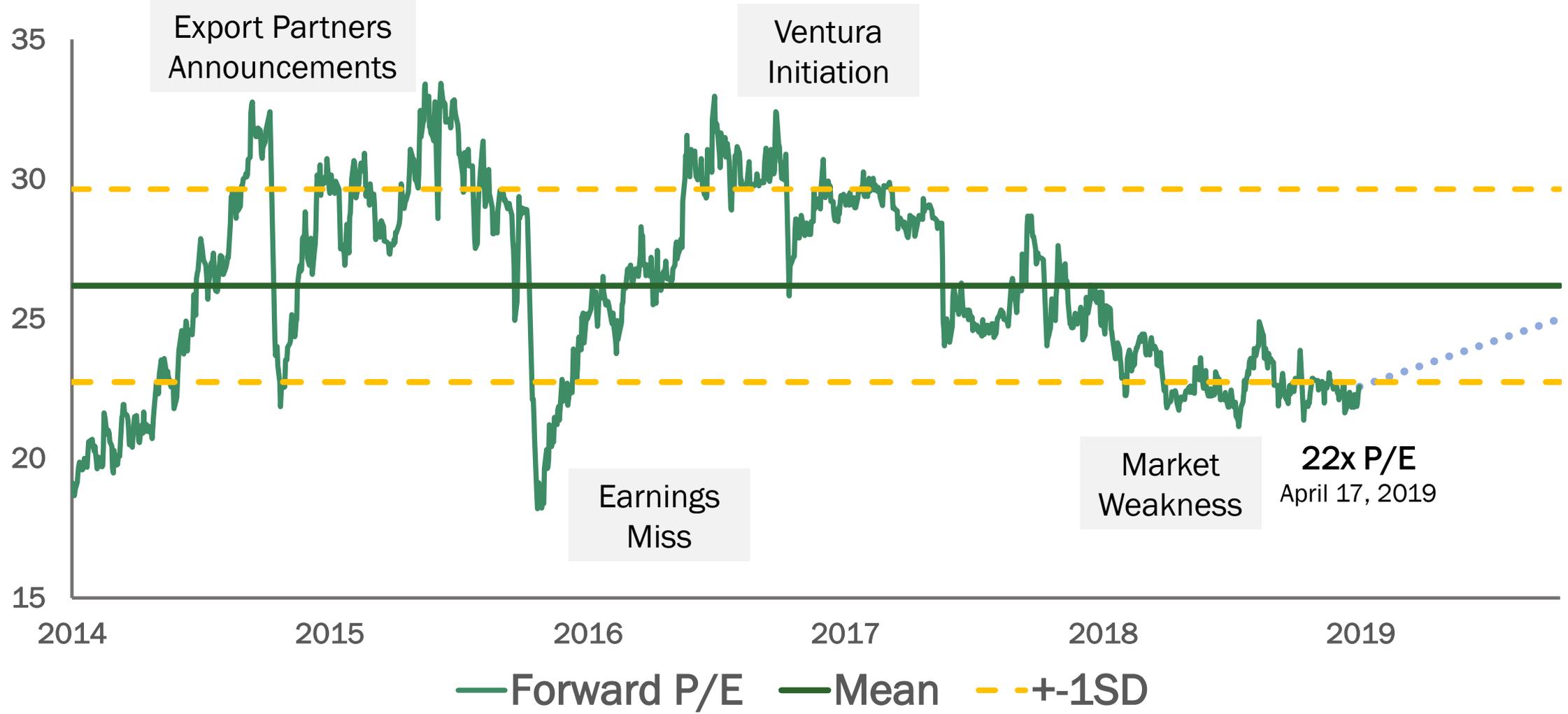
APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

Relative Valuation



Source: Bloomberg, Team Analysis

FAVORABLE DOMESTIC POSITION

APAC GROWTH STRATEGY

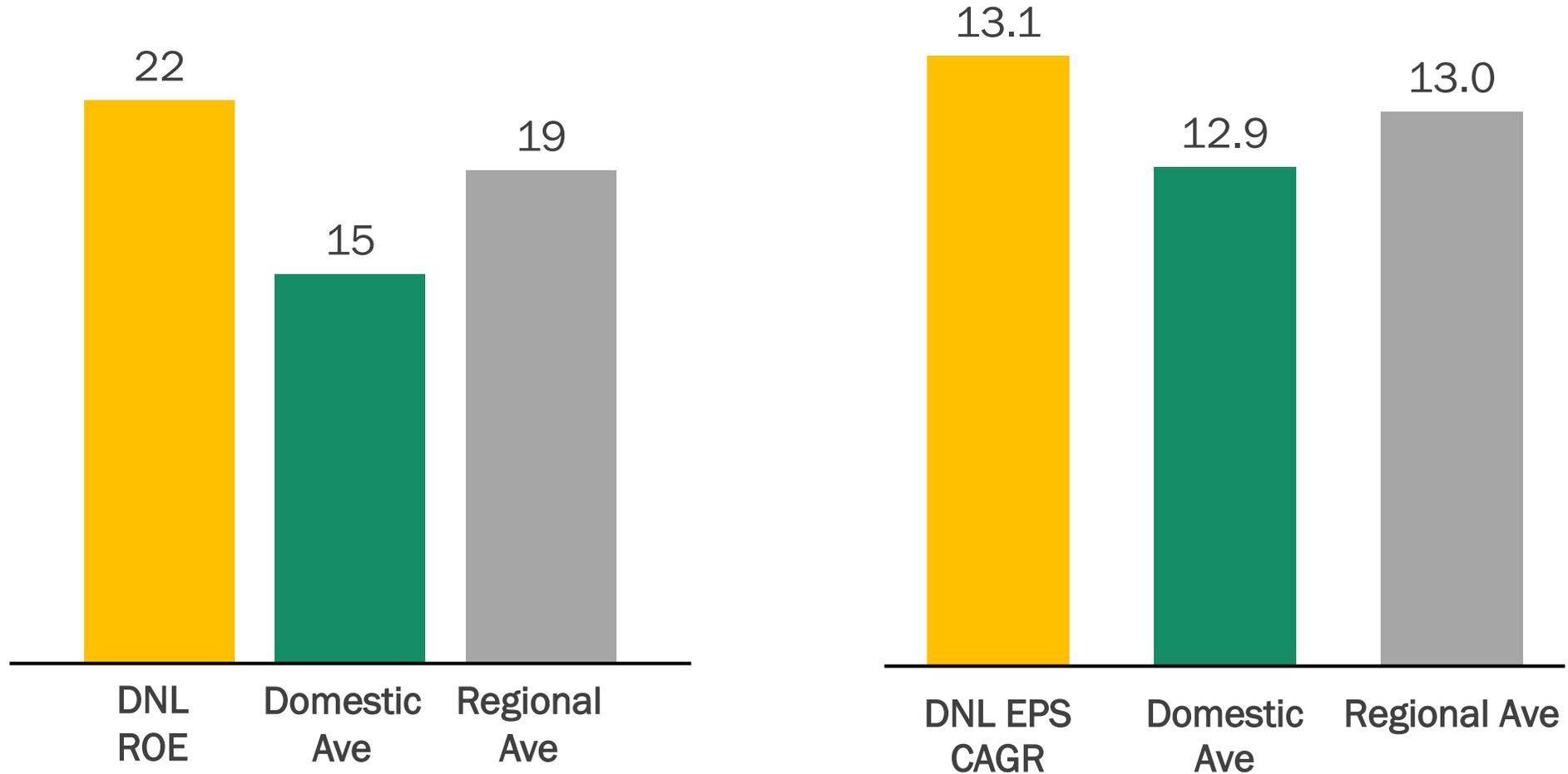
LONG-RUN PROFITABILITY

VALUATION

RISKS

Other Valuation Metrics

Strong earnings growth and industry-leading ROE merits valuations



Source: Bloomberg, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

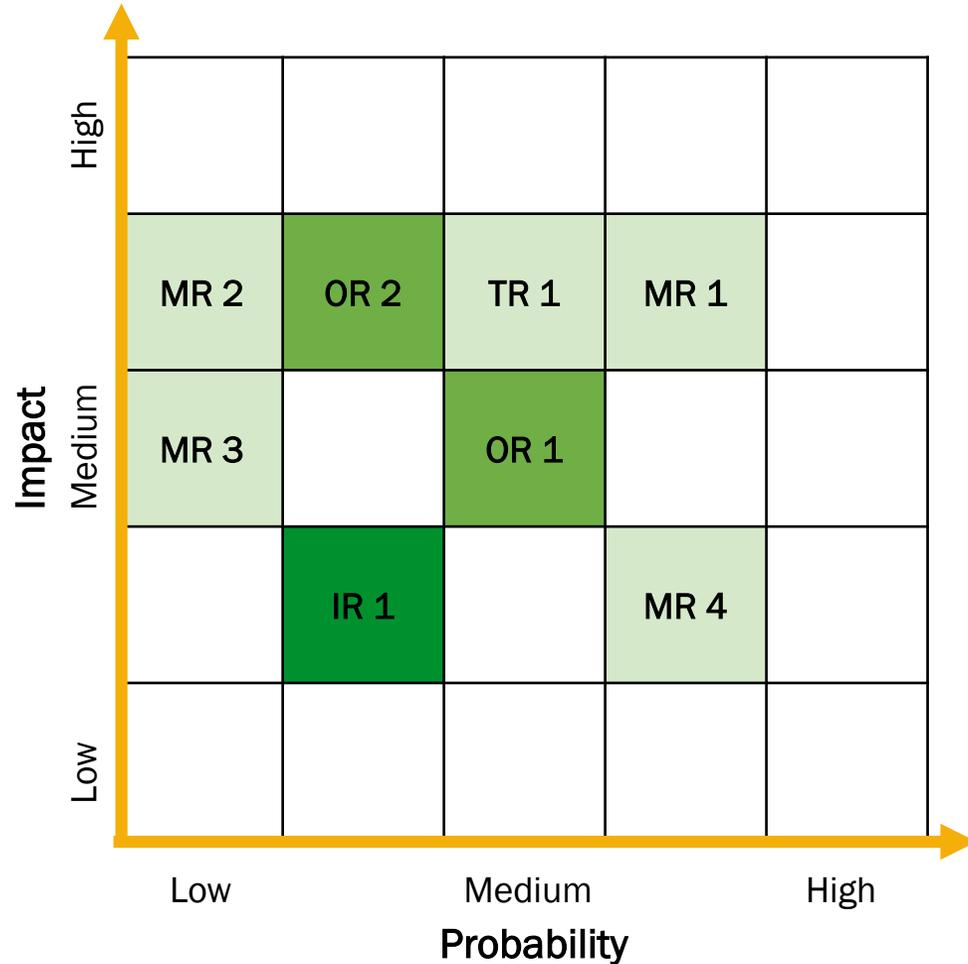
LONG-RUN
PROFITABILITY

VALUATION

RISKS

Investment Risks

Risk Matrix



Market Risks

- MR1 | Potential slowdown in consumption
- MR2 | Raw material price risk
- MR3 | Foreign exchange risk
- MR4 | Interest rate risk

Taxation Risks

- TR1 | Possible loss of tax incentives

Industry Risks

- IR1 | Export competition risk

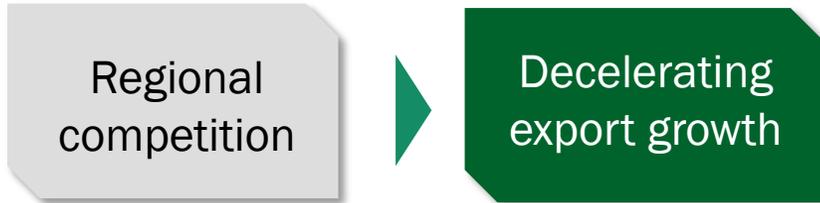
Operational Risks

- OR1 | Corporate governance risk
- OR2 | Customer concentration risk

Source: Team Analysis

Export Competition Risk

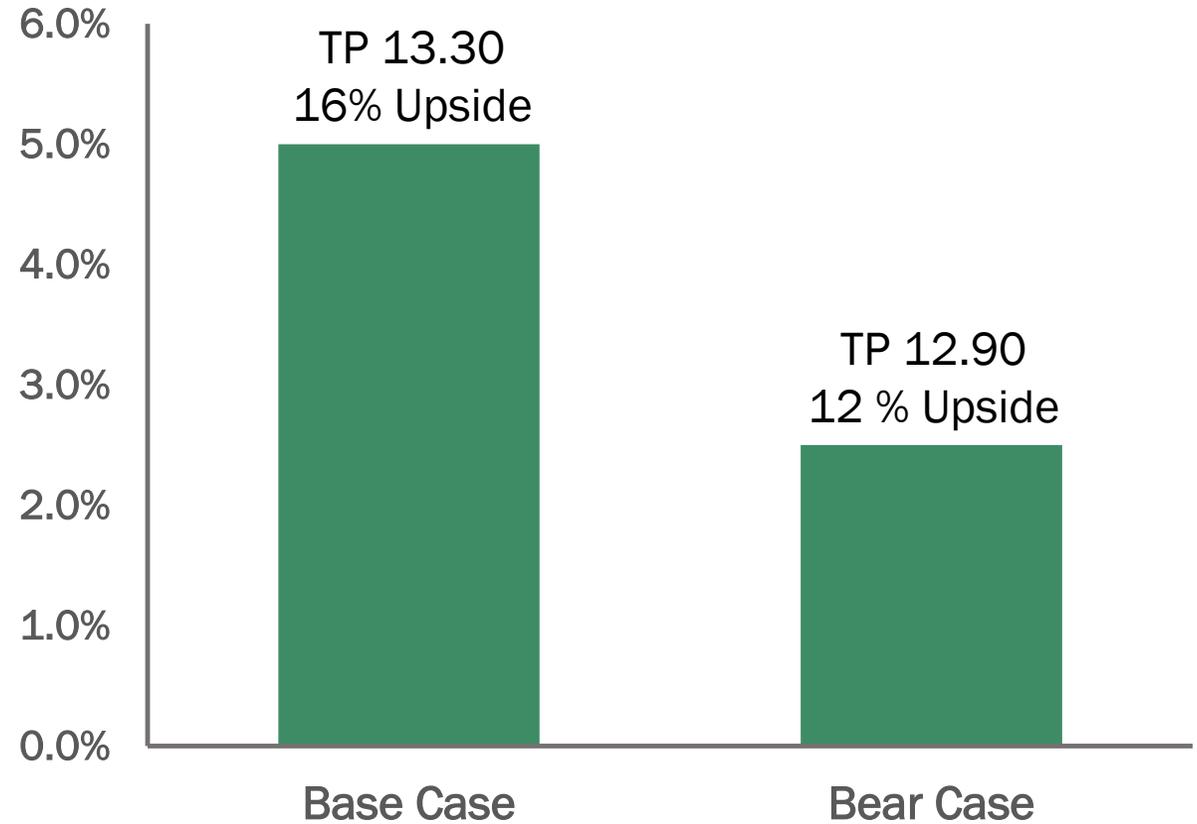
Drivers



Mitigating Factors



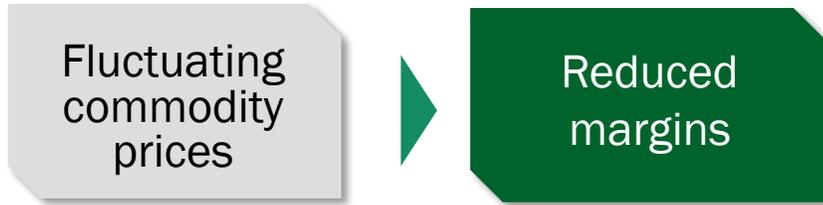
Sensitivity Analysis: Foreign Account Addition Rate



Sources: Company Data, Team Analysis

Raw Material Price Risk

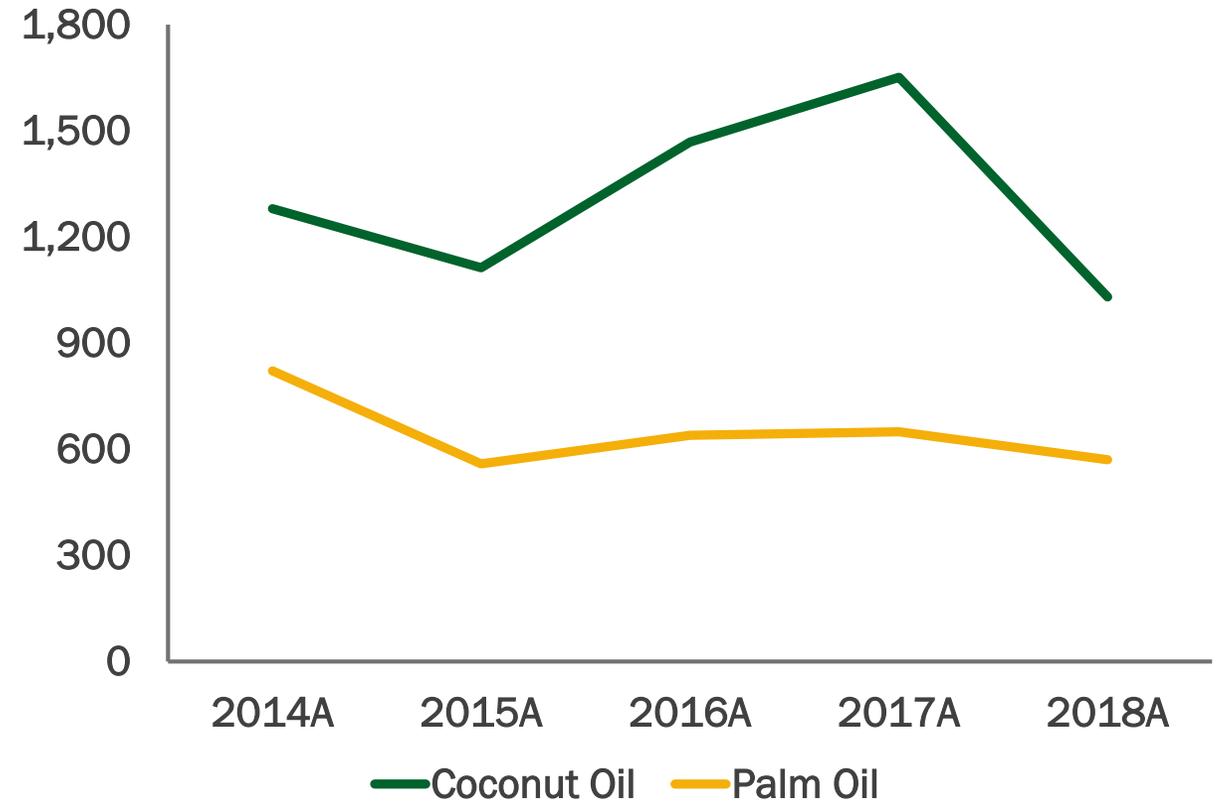
Drivers



Mitigating Factors



Coconut and Palm Oil Prices (in USD/MT, 2014A-2018A)



Sources: Bloomberg, World Bank, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

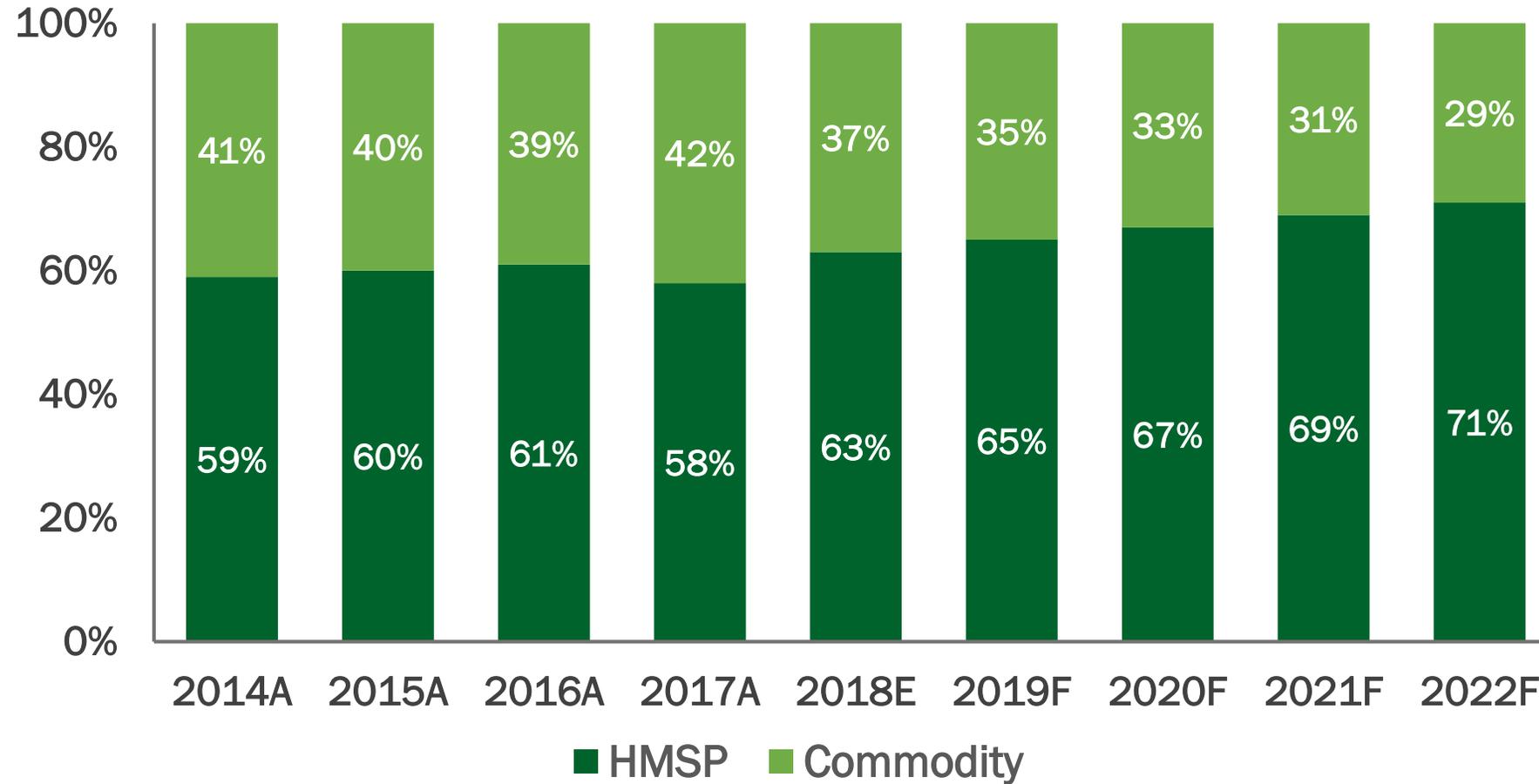
LONG-RUN
PROFITABILITY

VALUATION

RISKS

Raw Material Price Risk

HMSP and Commodity Revenue Contribution



Sources: Company Data, Team Analysis

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

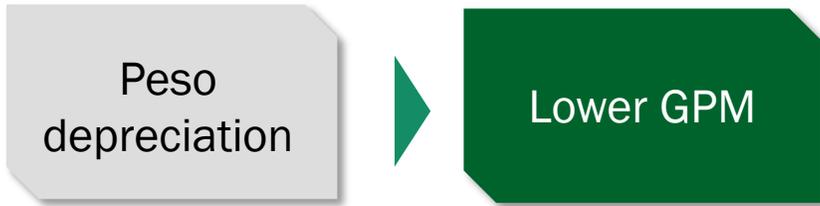
LONG-RUN
PROFITABILITY

VALUATION

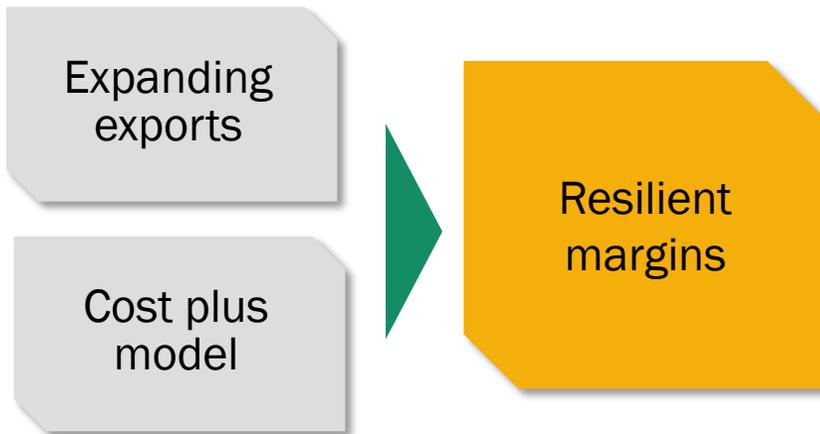
RISKS

Foreign Exchange Exposure

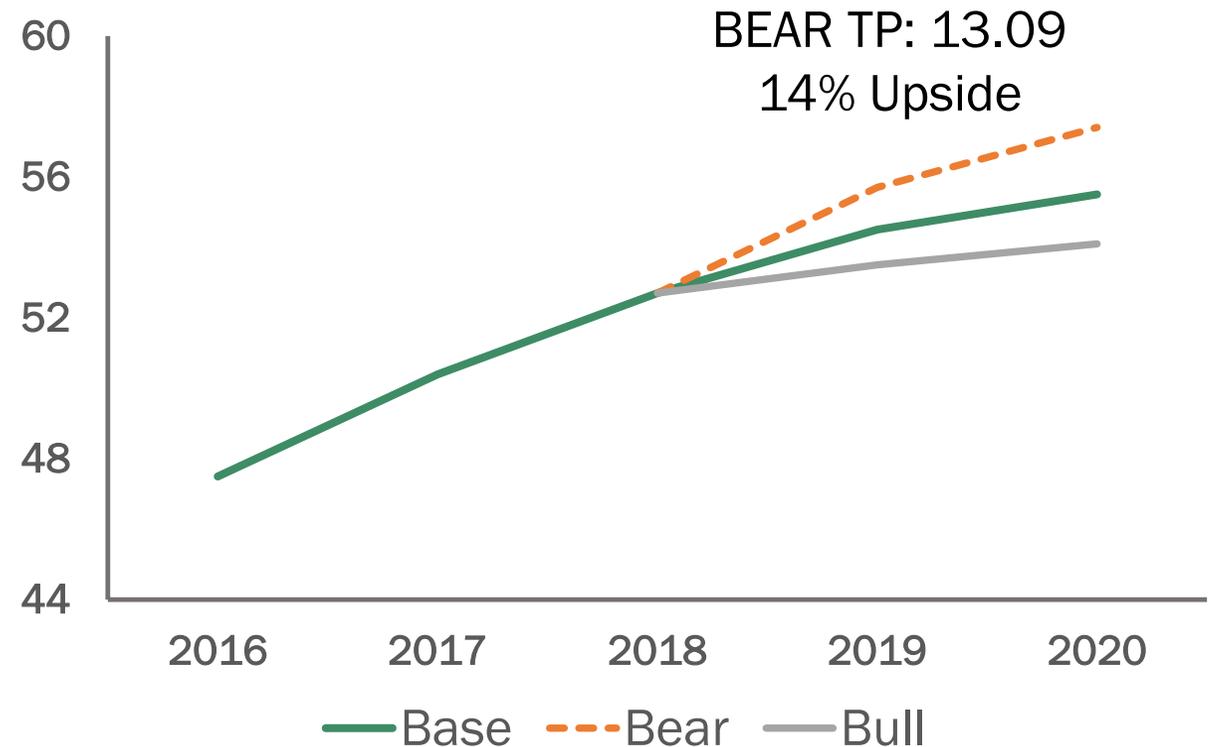
Drivers



Mitigating Factors



USD to PHP Forecast



Sources: Company Information, Team Analysis, Bloomberg

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

Corporate Governance

Board of Directors



John L. Lao
Vice Chairman
Experience: Aero-pack
Industries, Inc.



Yin Yong L. Lao
Chairman & Director
Experience: LBL Prime
Properties; Association
of Petro Manufacturers



Alvin D. Lao
CEO & President
Experience: D&L
Industries; Axis REIT;
Urban Land Institute

Independent Directors



**Mercedita S.
Nolledo**
Experience: Ayala
Corp.; BPI
Investment;
Xurpas Inc.



**Corazon Dela
Paz-Bernardo**
Experience:
PricewaterhouseCoo
pers Phil.; Social
Security System;



**Lydia Balatbat-
Echauz**
Experience: Far Eastern
University; Metro
Pacific Investments



Filemon Berba
Experience: Globe;
Manila Water;
Institute of
Corporate Directors

Source: Company Information

FAVORABLE
DOMESTIC POSITION

APAC GROWTH
STRATEGY

LONG-RUN
PROFITABILITY

VALUATION

RISKS

BUY

18% UPSIDE

Php 13.30/sh

Favorable industry position

Dominant back-end position

Specialized products

Long-standing relationships

R&D-backed APAC expansion

R&D expertise

Strategic partnerships

Capacity expansion

Long-run profitability

Improving margins

Healthy gearing

Efficient turnover