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

Sources: Company Information, Bloomberg
Ateneo de Manila University

BUY

18% UPSIDE

Php 13.30/sh

Ticker DNL PM

Mkt Cap (USD mn) 1,524.7
Mkt Cap (Php mn) 80,286.4
Ave. Value T/O (USD mn) 0.56
Ave. Value T/O (Php mn) 30.2
Free Float 30.6%

Source: Bloomberg, Team Analysis
Why BUY DNL?

- Favorable domestic position
- International growth strategy
- Long-run profitability
Why BUY DNL?

Favorable domestic position

- International growth strategy
- Long-run profitability
Dominant Back-end Position

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

Source: Philippine Statistics Authority
1 | Dominant Back-end Position

Value Chain Positioning

- **Input Sourcing**: Raw Material Procurement
- **DNL**: Research and Development
- **Front-end Consumer Companies** (e.g. Restaurants, FMCGs)
- **Retail Channels**

- **Operations**
- **Marketing and Sales**
- **Retailing**

- **Specialty Oil**
- **Glazes and Syrups**
- **Surfactants**
- **Coco Methyl Ester**

Sources: Team Analysis, Company Information
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

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DNL-Exposed Segments</td>
<td>33.6%</td>
<td>33.6%</td>
<td>33.9%</td>
<td>33.8%</td>
<td>33.8%</td>
</tr>
<tr>
<td>Others</td>
<td>66.4%</td>
<td>66.4%</td>
<td>66.1%</td>
<td>66.2%</td>
<td>66.2%</td>
</tr>
</tbody>
</table>

Sources: Company Information, Philippine Statistics Authority
Customized products give rise to signature offerings

- Fast Food Chicken
- Soft Serve and Dessert
- Doughnuts and Confectionary
- Sauces and Dressings

... and have faster topline growth

Products with DNL inputs Sales CAGR
- 11.7%

Products without DNL inputs Sales CAGR
- 6.7%

Source: Euromonitor, Company Information
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

... that have higher margins than commodity products

![Graph showing HMSP GPM and Commodity GPM for 2017A to 2022F]

Source: Company Information, Team Estimates
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
1  Favorable Domestic Position

Steady domestic gains

Source: Company Information, Team Analysis

- Integrated back-end position
- Shift to specialized products
- Long-standing Relationships

Domestic Revenue (in Php mn)


10% CAGR
6% existing client volume growth

Source: Company Information, Team Analysis
Why BUY DNL?

- Favorable domestic position
- International growth strategy
- Long-run profitability
Strong Growth Potential in Exports

Exports outpacing strong growth in domestic sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic as % of Sales</th>
<th>Export as % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012A</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>2013A</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>2014A</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>2015A</td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>2016A</td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>2017A</td>
<td>25%</td>
<td>0%</td>
</tr>
</tbody>
</table>

$260 bn APAC Specialty Chemicals Market

Source: Company Information, MarketLine
Competitive Edge in R&D

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

- BASF India: 0.1%
- Tata Chemicals: 0.1%
- Atul Ltd: 0.2%
- Lotte Chemicals: 0.5%
- D&L Industries: 0.8%
- PI Industries: 1.1%

Peer mean: 0.4%

Source: Euromonitor, Company Information
Client-specific formulations

- Specialty Frying Oil
- Mayonnaise
- Sauces
- Dressings

Strategic export partnerships

- Ventura Foods
- AAK
- MSM Milling
- GEM OF THE WEST MANILDRA GROUP

R&D drives more than 70% of export sales

Source: Company Information
Current markets serviced with Ventura partnership

Export Brands

Source: Company Information
2 | Strategic International Partnerships

Export Brands

Current markets serviced with Ventura partnership

Source: Company Information
2 | Strategic International Partnerships

Current markets serviced with Ventura partnership

Export Brands

- Burger King Branches
- Subway Branches

Source: Company Information
2  |  Strategic International Partnerships

Current markets serviced with Ventura partnership

Export Brands

Burger King Branches
Subway Branches
A&W Branches

Source: Company Information
Export Capacity Expansion

Capacity Expansion

- 2x capacity

Source: Company Data, Team Analysis
International Growth Strategy

More aggressive expansion for foreign accounts

Set to capture strong regional demand

APAC Specialty Chemicals Market CAGR

Source: Company Data, Team Analysis

Source: MarketLine
International Growth Strategy

Sales (in Php mn) and Sales Growth

Source: Company Data, Team Analysis
Why BUY DNL?

- Favorable domestic position
- International growth strategy
- Long-run profitability
3 | Long-run Profitability

Net Income Margin Expansion

- Shift to specialized products
- Rapid export sales growth
- Operational efficiency

Earnings Growth (in Php mn)

- 100 BPS
- 13% CAGR

Source: Company Information, Team Analysis

FAVORABLE DOMESTIC POSITION

APAC GROWTH STRATEGY

LONG-RUN PROFITABILITY

VALUATION

RISKS
3 | Strategic Diversification

- **Specialty Plastics** (1963)
- **Aerosols** (1976)
- **Specialty Fats** (1982)
- **Powder Coating** (1987)
- **Oleochemicals** (2014)

Source: Company Information
3 | Strategic Diversification

% of Revenues (2018E)

Food Ingredients: 6%
Oleochemicals: 13%
Plastics: 24%
Aerosols: 32%

% of Net Income (2018E)

Food Ingredients: 30%
Oleochemicals: 32%
Plastics: 38%
Aerosols: 53%

Margins superior over peers

2018E Operating Margin:
- DNL: 15.10%
- Regional Peer Ave.: 11.50%

2018E Net Margin:
- DNL: 13.40%
- Regional Peer Ave.: 9.60%

Source: Company Information, Bloomberg, Team Estimates
3 | Maintaining Profitability

**Improving Return on Assets**

- 2018E: 15%
- 2019F: 15%
- 2020F: 13%
- 2021F: 11%
- 2022F: 9%
- 2023F: 7%

*2021: Opening of new facility

**Source:** Company Data, Team Analysis

- **10kMT BARGE CAPACITY**
- **33kMT STORAGE CAPACITY**
- **INTERCONNECTED LOGISTICS**
- **NEW FACILITY IN 2021**

**Source:** Company Information
3 | Long-run Profitability

**Underleveraged Capital Structure (Net D/E)**

![Graph showing net debt-to-equity ratio from 2018E to 2022F.](image)

*Source: Company Data, Team Analysis*

**Strong Cash Flow Generation (CFO-to-Revenue)**

![Graph showing cash flow to revenue ratio from 2018E to 2022F.](image)

*Source: Company Data, Team Analysis*

*2018: Low working capital requirements due to CPO/CNO prices*

---

**FAVORABLE DOMESTIC POSITION**

**APAC GROWTH STRATEGY**

**LONG-RUN PROFITABILITY**

**VALUATION**

**RISKS**
3 | Long-run Profitability

ROE Expansion

- **Asset Turnover**
  - 2018E: 20.7%
  - 2023F: 22.9%
  - 2023F: -0.7%

- **Financial Leverage**
  - 2018E: 1.0%

- **Margin Expansion**
  - 2018E: 1.9%

**Source**: Company Information, Team Analysis

**Asset Turnover**
- Opening of new facility, improving utilization

**Financial Leverage**
- Healthy leverage position

**Margin Expansion**
- Shift to high-margin products, export growth

FAVORABLE DOMESTIC POSITION
APAC GROWTH STRATEGY
LONG-RUN PROFITABILITY
VALUATION
RISKS
Why BUY DNL?

Favorable domestic position

International growth strategy

Long-run profitability
Valuation Method

BUY

METHODOLOGY
Discounted Cash Flow (DCF) Analysis

WACC
9.0%

Terminal Growth
3.5%

18% UPSIDE

Php 13.30 / sh

18%

into

Php 11.24/sh

April 17, 2019

Sources: Bloomberg, Team Analysis
Valuation Method

<table>
<thead>
<tr>
<th>WACC</th>
<th>9.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free Rate</td>
<td>6.25%</td>
</tr>
<tr>
<td>Beta</td>
<td>0.75</td>
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<tr>
<td>Equity Risk Premium</td>
<td>5.5%</td>
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<tr>
<td>Cost of Equity</td>
<td>10.4%</td>
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<tr>
<td>Cost of Debt</td>
<td>7.0%</td>
</tr>
<tr>
<td>Terminal Growth Rate</td>
<td>3.5%</td>
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<tr>
<td>Long-run PH Inflation</td>
<td>3.5%</td>
</tr>
<tr>
<td>Long-run APAC Consumption Growth</td>
<td>3.8%</td>
</tr>
<tr>
<td>Specialty Chemicals Growth in Mature Markets</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Sources: Bloomberg, Team Analysis
Target Price Decomposition

73% DOMESTIC

Php 9.71 / sh

Sources: Bloomberg, Team Analysis
Target Price Decomposition

Target Price: Php 13.30 / sh

Sources: Bloomberg, Team Analysis
Relative Valuation Metrics and Ranges

- Discounted Cash Flow
- P/E
- PEG
- P/S

Source: Bloomberg, Team Analysis
## Relative Valuation

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Market Cap (in USD mn)</th>
<th>P/E</th>
<th>PEG</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Century Pacific Food Inc</td>
<td>1,046</td>
<td>16.2</td>
<td>1.31</td>
<td>17.5</td>
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<tr>
<td>San Miguel Food and Beverages</td>
<td>13,012</td>
<td>28.5</td>
<td>1.59</td>
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<tr>
<td>Jollibee Food Corporation</td>
<td>6,414</td>
<td>31.9</td>
<td>2.17</td>
<td>17.6</td>
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<tr>
<td>Universal Robina Corporation</td>
<td>5,977</td>
<td>27.7</td>
<td>1.46</td>
<td>13.0</td>
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<tr>
<td><strong>Domestic Ave</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>House Foods Group</td>
<td>3,889</td>
<td>33.7</td>
<td>1.23</td>
<td>5.3</td>
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<tr>
<td>Foshan Haitian Flavouring &amp; Food</td>
<td>35,107</td>
<td>37.5</td>
<td>2.74</td>
<td>33.2</td>
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<td>Atul Ltd</td>
<td>1,514</td>
<td>19.8</td>
<td>Nm</td>
<td>17.0</td>
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<td>Indofood CBP Sukses Makmur</td>
<td>7,560</td>
<td>22.2</td>
<td>2.18</td>
<td>20.3</td>
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<td>PI Industries</td>
<td>2,042</td>
<td>27.6</td>
<td>2.29</td>
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<td>Nongshim Co.</td>
<td>1,451</td>
<td>17.2</td>
<td>Nm</td>
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<tr>
<td><strong>Regional Ave</strong></td>
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<tr>
<td><strong>Overall Ave</strong></td>
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<tr>
<td><strong>Overall Median</strong></td>
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<tr>
<td><strong>DNL PM Equity</strong></td>
<td>1,553</td>
<td>21.7</td>
<td>1.55</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Team Analysis
Relative Valuation

- Export Partners Announcements
- Ventura Initiation
- Earnings Miss
- Market Weakness 22x P/E April 17, 2019

Forward P/E, Mean, +1SD

Source: Bloomberg, Team Analysis
Other Valuation Metrics

Strong earnings growth and industry-leading ROE merits valuations

Source: Bloomberg, Team Analysis
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
- Regional competition

Decelerating export growth

Mitigating Factors
- Increasing R&D spend

Higher switching costs for clients

Sensitivity Analysis: Foreign Account Addition Rate

<table>
<thead>
<tr>
<th>Case</th>
<th>TP</th>
<th>Upside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>13.30</td>
<td></td>
</tr>
<tr>
<td>Bear Case</td>
<td>12.90</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Company Data, Team Analysis
Raw Material Price Risk

Drivers

- Fluctuating commodity prices
- Reduced margins

Mitigating Factors

- Pass-through pricing
- Hedge vs. higher COGS
- Specialized products shift
- Margin expansion

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

Sources: Bloomberg, World Bank, Team Analysis
Raw Material Price Risk

HMSP and Commodity Revenue Contribution

Sources: Company Data, Team Analysis
Foreign Exchange Exposure

Drivers
- Peso depreciation
- Lower GPM

Mitigating Factors
- Expanding exports
- Resilient margins
- Cost plus model

USD to PHP Forecast

Drivers
- Peso depreciation
- Lower GPM

Mitigating Factors
- Expanding exports
- Resilient margins
- Cost plus model

USD to PHP Forecast

Sources: Company Information, Team Analysis, Bloomberg
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.

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

Corazon Dela Paz-Bernardo
Experience: PricewaterhouseCoopers Phil.; Social Security System;

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

Source: Company Information
Ateneo de Manila University

BUY

18% UPSIDE

P Hp 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