



# CFA Institute

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## CFA Institute Research Challenge Hosted by CFA Society Philippines Ateneo de Manila University

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Ticker: DNL PM

Consumer Sector: Specialty Chemicals

Current Price: Php 10.40 as of 11/23/18

Date: 02/15/19

Recommendation: BUY (27.8% upside)

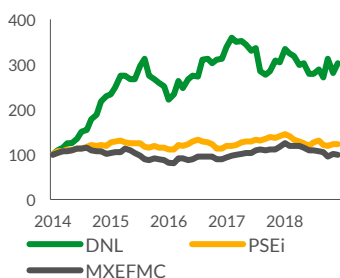
Target Price: Php 13.30

**MARKET SNAPSHOT**

Ticker	DNL PM
Shares Outstanding (mn)	7,142.86
Market Cap (Php mn)	83,000.01
Market Cap (USD mn)	1,583.40
Adj. 52 Week Low (Php/sh)	9.68
Adj. 52 Week High (Php/sh)	12.00
Ave. Daily Turnover (USD mn)	0.76
Foreign Float (%)	18.26
Free Float (%)	32.94

Source: Bloomberg

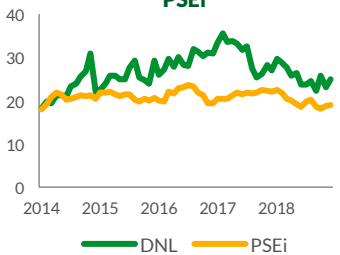
**RELATIVE SHARE PRICE PERFORMANCE**



Source: Bloomberg

\*MXEFMC = MSCI Emerging Markets Mid-Cap Index

**P/E RATIO RELATIVE TO PSEi**



Source: Bloomberg

# DNL: Delving Behind Consumption

## Indirect play on Asia Pacific consumption; initiating with a BUY

We issue a BUY recommendation on D&L Industries, Inc. (DNL) with a DCF-based target price of Php 13.30/sh, presenting 27.8% upside. In our view, DNL is an emerging play on the dynamic Asia Pacific consumption story with its steady domestic gains and regional growth strategy. We expect DNL's margin expansion, alongside its strong exposure to Philippine and APAC consumer drivers, to underpin a robust five-year EPS CAGR of 13.4% 2017A-2022F. Our target price implies a 25.1x 2019F P/E, pegged below DNL's historical valuations of 27.8x P/E (ave. 2016A-2018E).

## Favorable industry position fuels steady domestic gains

DNL is the leading specialty chemicals manufacturer in the Philippines with 50% and 35% market share for food ingredients and oleochemicals respectively. As the supplier of key inputs for top local food service, FMCG, and oil & gas companies (e.g. JFC, URC, PCOR), DNL enjoys a stable domestic position backed by long-standing client relationships and augmented by an increasing shift to customized B2B products. We believe DNL's domestic positioning makes it an indirect beneficiary of Philippine consumption growth, driving a resilient 8.8% CAGR in domestic sales 2017A-2022F while expanding margins (16.8% 2017A GPM to 20.3% 2022F).

## International growth strategy backed by R&D expertise

DNL has a long-term goal of growing its exports segment to account for 50% of sales, which will allow the company to benefit from the larger Asia Pacific consumer base. DNL boasts a competitive edge in R&D, which has led to the creation of over 650 client-specific formulations. We believe R&D is key to DNL's export expansion, as it supports the development of higher-value specialized exports and may attract new foreign partnerships. We view increasing export contributions (from 24.7% of sales in 2017A to 29.2% 2022F) as a key factor in overall topline expansion (9.8% 2017A-2022F CAGR).

## Strong balance sheet, profitability support long-term shareholder value

We expect DNL's sales mix shift and operational efficiency to improve profitability (10.5% 2017A NIM to 12.4% 2022F), which we expect in turn to drive a strong 2019F ROE of 21.7%. Our long-term view is that DNL will continue to pursue organic growth ventures while maximizing horizontal synergies, as seen in its expansion to food ingredients, oleochemicals, and aerosols from initially just specialty plastics. We believe DNL will be able to sustain strong shareholder returns as its underleveraged capital structure (0.2x 2017A net debt-to-equity ratio) and strong cash flow generation are supportive of long-term growth opportunities.

## Value chain positioning, exports segment address key risks

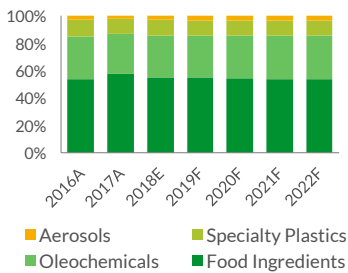
We see a potential slowdown in consumption growth, commodity price volatility, and a possible loss of tax incentives as key risks to our valuation, with the first two already factored in our base case forecasts. We believe DNL will be able to mitigate slower demand with its strong exposure to resilient consumer categories while its pass-through pricing mechanism and shift toward specialized products will partially offset higher raw material costs. Our scenario analysis likewise shows that DNL will maintain its earnings trajectory under the proposed new tax regime.

	2016A	2017A	2018E	2019F	2020F	2021F	2022F	2023F
Revenue (Php mn)	22,232	27,778	28,559	31,945	35,566	39,741	44,369	49,044
EPS (Php/sh)	0.37	0.41	0.46	0.53	0.60	0.68	0.77	0.87
EPS Growth (%)	15.1	10.5	14.3	14.1	12.3	14.3	12.9	13.4
Net Income Margin (%)	11.8	10.5	11.6	11.9	12.0	12.2	12.4	12.7
ROE (%)	19.7	19.9	20.9	21.7	22.1	22.9	23.4	23.9
P/E (x)	30.8	27.0	25.3	22.2	19.8	17.3	15.3	13.5
PEG (x)	2.04	2.57	1.77	1.57	1.61	1.21	1.19	1.01

Source: Company Data, Team Estimates

# Business Description

**FIGURE 1: REVENUE CONTRIBUTION BY SEGMENT (2016A-2022F)**



Source: Company Data, Team Estimates

D&L Industries was established in 1963 as a family enterprise specializing in colorants for plastics. Since then, it has grown into the largest and only integrated manufacturer of specialty chemicals in the Philippines. With its operating scale and industry experience, DNL is the supplier of choice in the local food service, fast-moving consumer goods (FMCG), and oil & gas industries. The company is also an exporter to key markets in the Asia Pacific (APAC) region.

## Dominant player in diversified chemical segments

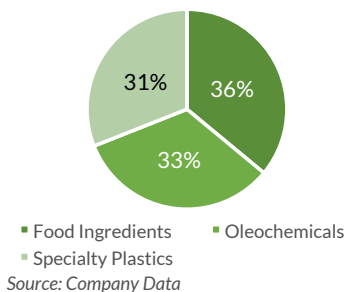
DNL holds a dominant position in the domestic specialty chemicals industry across four segments. The company is a long-standing supplier of food ingredients, oleochemicals, specialty plastics, and aerosols (see revenue mix in Figure 1) to leading front-end consumer names (e.g. JFC, URC, MAXS). We present a snapshot of DNL's segment operations below:

**TABLE 1: SNAPSHOT OF DNL BUSINESS SEGMENTS**

INDUSTRY	SUBSIDIARIES	MARKET SHARE*	PRODUCTS SUPPLIED	FRONT-END CONSUMER CLIENTS	APPLICATIONS TO END CONSUMERS
Food Ingredients	Oleo-Fats Inc.	50%	Specialty ingredients Fats and oils Refined vegetable oils	Food service (e.g. JFC, MAXS) Food manufacturers (e.g. URC)	Fast food offerings Instant noodles Biscuits
Oleochemicals	Chemrez Technologies, Inc. Chemrez Ltd.	35%	Biodiesel Surfactants Resins and additives Powder coatings	FMCG companies (e.g. Unilever) Oil & gas companies (e.g. Petron)	Soaps Detergents Coconut biodiesel
Specialty Plastics	First in Colors Inc. D&L Polymers and Colours Inc.	60%	Colorants Additives Engineered polymers	Vehicle & appliance manufacturers (e.g. Sumito Electric) Home improvement companies (e.g. Boysen)	Film, wires, cables Car wiring Furniture and appliances
Aerosols	Natura Aeropack Corp. Aero-Pack Industries Inc.	70%	Home and personal care product formulations Aerosol cans	FMCG companies (e.g. Bench)	Insect repellants Body mists Carpet cleaners

Source: Company Data, Team Estimates; Note: Market share figures are for domestic sales.

**FIGURE 2: CONTRIBUTION TO EXPORT SALES BY SEGMENT (2017A)**



Source: Company Data

## Exporter to key Asia Pacific markets

DNL is an exporter of specialty flavorings, plastic components, and inputs for soap & detergent production to the APAC region. Among DNL's three export segments, food ingredients contribute the most to export sales (Figure 2). The company's international presence is backed by strategic partnerships that provide DNL access to their partners' client base and distribution network (Appendix B-4).

## Ownership Structure

DNL is majority-owned by the Lao family, with 58.7% owned via the family's holding company Jadel Holdings Co. Inc. and 8.4% via individual family members. The company's public float currently stands at 32.9%.

# Industry Overview and Competitive Positioning

The APAC specialty chemicals industry is currently worth \$361 bn and is expected to grow by 7.4% 2017-2022F CAGR, with local industry expansion seen at a slightly lower 6.8% CAGR. In both local and export markets, food ingredients and oleochemicals are seen to be the fastest-growing segments on the back of strong demand for end-consumer products (Figure 3).

## Domestic outlook: Robust demand to propel industry growth

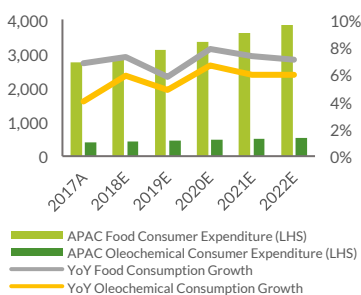
### Consumption growth to normalize as inflation peaks

Resilient demand kept consumption growth healthy at 5.6% 2018A despite inflation reaching a nine-year high (5.2% YoY 2018A). Consumption growth is expected to recover to 6.0% 2019F as a) inflation is expected to normalize with transitory pressures easing, b) rising tourism receipts will continue to boost consumer demand, and c) election spending presents upside risk to growth. DNL's integral position in local supply chains makes it well-poised to capture the expected rebound in consumer spending.

## Public investments support consumption-based economy

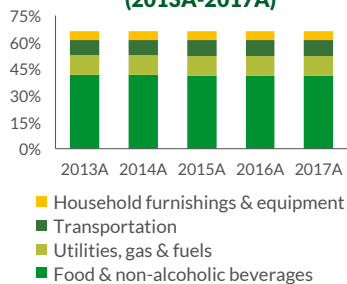
We see the national government's plans of releasing unconditional cash transfers and accelerated infrastructure spending (from 5.4% of GDP 2017A to 7.3% 2022F) to be positive catalysts for domestic consumption. We believe these public investments will benefit DNL as they are expected to increase disposable income (10.3% 2017A-2022F CAGR) and effectively demand for end-products.

**FIGURE 3: APAC CONSUMER EXPENDITURE ON FOOD AND OLEOCHEMICAL PRODUCTS (IN USD MN) (2017A-2022F)**



Source: Euromonitor International

**FIGURE 4: PH BREAKDOWN OF HOUSEHOLD CONSUMPTION (2013A-2017A)**



Source: Philippine Statistics Authority

### Resilient consumer categories offer sustainable growth

Non-discretionary consumer segments such as food & non-alcoholic beverages, gas & fuels, household furnishings & equipment, and transportation are consistent elements of the Philippine consumer basket. These segments account for a combined 66.7% of household consumption on average from 2008A-2017A (Figure 4) and display resilient growth rates (5.7%, 6.1%, 3.9%, and 8.4% 2008A-2017A CAGR respectively). With DNL integrated in the end-product supply chains of these consumer staples, we believe that the company is poised to be an indirect beneficiary of rising consumer spending.

### Uptrend in domestic front-end industries

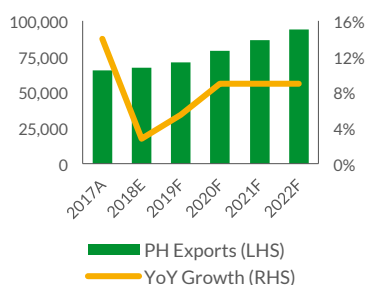
We expect the growth of the retail, food service, automotive, and gas & liquid fuels industries to be favorable for DNL's local operations. A detailed discussion is presented below:

**TABLE 2: DNL DOMESTIC GROWTH INDUSTRIES**

INDUSTRY	2017A-2022F CAGR	DNL BENEFICIARY SEGMENTS	DESCRIPTION
Retail	8.2%	Food Ingredients Specialty Plastics Oleochemicals Aerosols	Headlined by the expansion of convenience stores, improving modern retail penetration drives broad-based growth across all of DNL's local segments that service front-end consumer companies.
Food Service	7.7%	Food Ingredients Specialty Plastics	Industry expansion, with fast food chains at the forefront, boosts demand for DNL's specialty ingredient and plastic packaging products.
Automotive	10.6%	Specialty Plastics	Increased spending on automobiles, motors, and other vehicles will benefit DNL's specialty plastics segment which manufactures engineered polymers in wire harnesses.
Gas & Liquid Fuels	9.7%	Oleochemicals	Parallel to automotive industry growth, rising gas & liquid fuel consumption is a favorable tailwind for DNL's biodiesel products—with upside risk from a potential increase of mandated CME diesel blend (from 2% to 5%) in the Philippines.

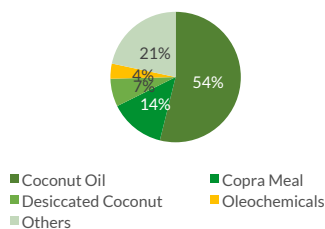
Source: Euromonitor International

**FIGURE 5: PH EXPORTS (IN USD MN) AND YOY GROWTH (2017A-2022F)**



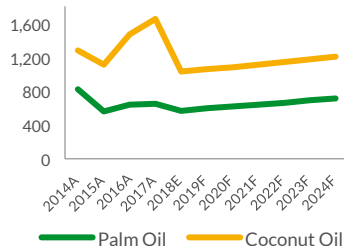
Source: Euromonitor International, Department of Budget and Management

**FIGURE 6: PH COCONUT EXPORT BREAKDOWN (2017A)**



Source: United Coconut Association of the Philippines

**FIGURE 7: COCONUT AND PALM OIL PRICES (USD/MT) (2014A-2024F)**



Source: Bloomberg, World Bank

### Exports outlook: Attractive opportunities for regional expansion

#### Strong Asia Pacific consumer landscape

Consumer expenditures have accounted for a consistent 48.6% of GDP from 2008A-2017A. Consumer spending in the region is expected to grow by 7.0% 2017A-2022F CAGR, buoyed by a rising middle class and increasing urbanization. Robust regional consumption growth will likely drive a 6.1% and 7.7% CAGR for food ingredients and oleochemicals respectively (Appendix C-4).

#### Improved ports to unlock Philippine export business potential

In line with the national government's public infrastructure program, heavy investments are being injected into Philippine seaport improvement. With 139 port development projects from 2016 to 2018 underway, we believe port improvement will facilitate near-term export recovery (5.5% 2019F growth vs. 4.9% 2015A-2018E, Figure 5) as this will address high freight costs and inventory levels. We expect the rollout of port projects (Appendix C-6) and aided export recovery to be beneficial for DNL's expanding APAC operations.

#### Trade agreements and economic integration support export environment

We are positive on ongoing efforts toward a common market in the ASEAN and a regional free trade area as part of the Regional Comprehensive Economic Partnership (RCEP). We expect lower trade barriers and improved access from the ASEAN and RCEP to allow DNL to lower ancillary costs in its export operations and expand to other APAC growth markets.

#### Shift to higher-value exports to benefit oleochemicals segment

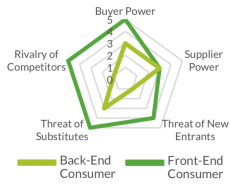
Oleochemical exports from the Philippines are expected to increase steadily due to rapidly growing demand in Asia Pacific consumer and construction markets. We believe that the country's shift to higher-value coconut exports renders a positive outlook for DNL's oleochemicals segment. This is reflected in the increasing share of oleochemicals in Philippine coconut exports (from 3.1% 2016A to 3.7% 2017A, Figure 6).

#### Supply outlook: Palm and coconut oil prices to stabilize

Coconut and palm oil prices are expected to normalize (Figure 7) as both have reached the bottom of their cycles. Crude coconut oil (CNO) prices are expected to firm up (USD 1,187/MT 2019F-2024F) as major producers Malaysia and Indonesia implement production cuts while crude palm oil (CPO) prices are seen to rise (USD 704/MT 2019F-2024F) due to seasonally lower production and higher demand from China and India. Locally, coconut mills have agreed to buy copra directly from farmers to boost CNO farm-gate prices. We expect the firming up of CNO and CPO prices to aid DNL's topline recovery given its cost-plus model.



**FIGURE 8: PORTER'S FIVE FORCES ANALYSIS**



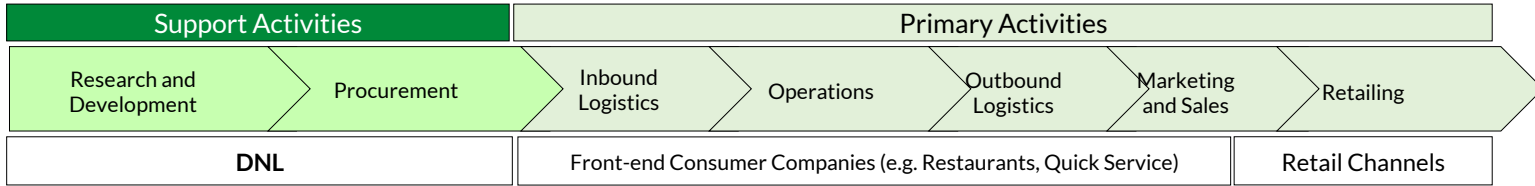
Source: Team Analysis

## Competitive Positioning

### Favorable fundamentals in back-end value chain positioning

As a B2B company, DNL is positioned in the supply side of the product value chain (Figure 9). Despite having no brand equity, the company's unique positioning in the consumer space lets DNL enjoy a) high bargaining power, allowing it to pass on higher raw material costs and attain greater margin stability, and b) low threat of substitutes and competition as compared to retailers and restaurants in the saturated front-end consumer market (Figure 8).

**FIGURE 9: DNL POSITIONING IN THE VALUE CHAIN**

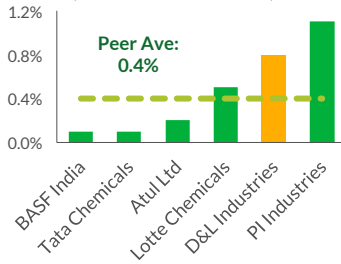


Source: Team Analysis

### Scale, customer relationships cement local dominance

DNL operates across four local industries, facing mostly per segment competition from small, fragmented local players and large foreign multinationals (Appendix C-10). Against local competition, we believe that DNL's long-standing B2B relationships, operational scale, and cross-sectional synergies will allow it to maintain its market share. On the other hand, we believe that DNL's established presence in local supply chains distinguishes it from large foreign players (e.g. DowDuPont, BASF) in the specialty chemicals industry. We expect DNL's competitive advantages to attract multinational consumer companies to shift from foreign suppliers and localize their back-end operations—favorable for DNL's local topline expansion.

**FIGURE 10: DNL VS PEERS R&D AS % OF SALES (AVE. 2015A-2017A)**



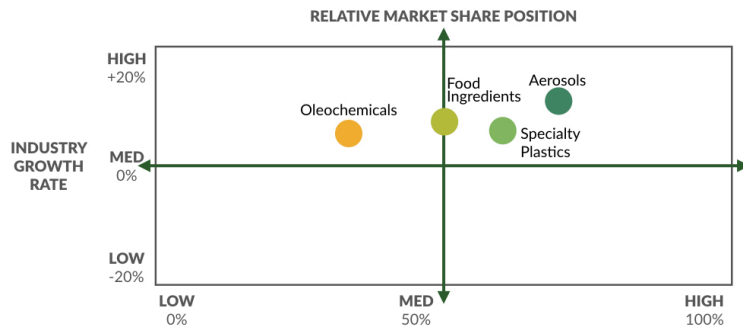
Source: Bloomberg

**TABLE 3: LENGTH OF DNL CLIENT RELATIONSHIPS**

COMPANY	RELATIONSHIP YEARS
Boysen	34
Sumito Electric, Yazaki	27
Nestle, Monde Nissin Corp., URC	23
KFC, Bench, Jollibee, Unilever, Max's	19
McDonald's	15
Petron, 3M, Pancake House, Neumann&Mueller Philippines	11
Shakey's, Krispy Kreme	9
Epson	6

Source: Company Data

**FIGURE 11: DNL SEGMENTS ON GROWTH-SHARE MATRIX**



Source: Euromonitor International, Company Data, Team Analysis

### R&D capabilities to promote regional competitiveness

As DNL gears for long-term export expansion, we believe that the company's research and development (R&D) capabilities will be integral to maintaining competitiveness against larger APAC specialty chemical manufacturers. We note that DNL's R&D spending (0.8% of sales 2015A-2017A) is above the average of regional comparable companies (0.4% 2015A-2017A, Figure 10), reflecting its ongoing efforts at product differentiation.

## Corporate Growth Strategy and Key Directions

### Sustaining domestic dominance

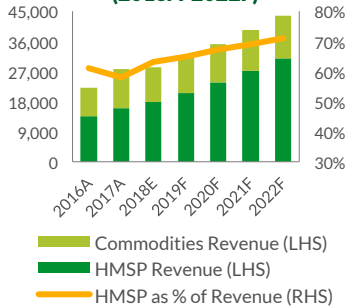
#### Sticky, long-standing relationships to benefit from consumption growth

DNL maintains long-standing customer relationships (Table 3) with key domestic clients who account for approximately 80% and 31% of the quick service restaurant and oil & gas industries respectively. We believe that these long-standing relationships will support sustainable growth for DNL's domestic sales given generally high switching costs for clients' formulations. We also expect DNL's client relationships to provide a track record for companies looking to expand their presence in local supply chains.

#### HMSP shift to boost competitive positioning, margins

DNL is focused on shifting its sales mix (Figure 12) from commoditized to high-margin specialty products (HMSP). HMSP are highly customized inputs used in differentiating end-product offerings in fast food and home care (Appendix C-8). We believe that this shift toward HMSP (71.0% of sales in 2022F from 58.0% 2017A) will a) enhance DNL's competitive advantages as these products have little-to-no threat of substitutes and b) improve margins given specialty products' higher and less volatile margin contribution.

**FIGURE 12: HMSP VS. COMMODITY REVENUE CONTRIBUTIONS (2016A-2022F)**



Source: Company Data, Team Estimates

## Expanding to high growth markets

### Diversifying business portfolio through exports

DNL has a history of pursuing strategic partnerships to strengthen its international operations (Appendix B-4). Via its flagship partnership with leading manufacturer Ventura Foods, DNL became the supplier of customized ingredients for global brands Burger King, Subway, and A&W in China, Hong Kong, and Indonesia. With the Ventura agreement covering the entire APAC region, DNL is set to expand its export footprint. DNL is also likely to secure additional partnerships with other regional distributors as the company can leverage on its record with existing partners and operating scale.

### Well-positioned for B2C expansion

DNL recently ventured into the direct business-to-consumer (B2C) sphere with its MCT oil sales (Appendix B-5), which we see as a potential lever for long-term growth. We believe that DNL's market leadership, R&D capabilities, and large storage capacity will allow the company to smoothly expand into the higher-margin B2C segment.

## Supporting growth through R&D and operational excellence

### Driven by research and development

DNL maintains a competitive edge in R&D, which we view as crucial in staying competitive due to increasing industry demand for specialized, client-specific formulations. DNL's R&D strengths have allowed the company to preserve relationships with key domestic clients and secure contracts with regional manufacturers (e.g. Ventura, Bunge) in line with its goal of export expansion. In our view, R&D will continue to anchor DNL's operations, with R&D as a % of sales expected to increase from 0.7% 2017A to 0.9% 2022F (Figure 13).

### Continuous operational excellence to sustain profitability

We believe that DNL's low operational leverage (fixed expenses represent 9.0% of total costs) and horizontal synergies will allow the company to successfully pursue growth, particularly in its exports segments, while maintaining profitability. We see the company taking advantage of its high-capacity storage facility that can hold 33,000 MT of oil and its integrated supply chain comprised of shared logistics and operational services.

## Investment Summary

We issue a BUY recommendation on DNL with a target price of Php 13.30/sh using our DCF valuation methodology. This presents a 27.8% upside and implies a 25.1x 2019F P/E. We are positive on DNL's ability to deliver a strong EPS CAGR of 13.4% 2017A-2022F CAGR given its a) prime position to capture domestic consumption growth, b) APAC exports expansion propelled by R&D capabilities, and c) healthy financials to maximize shareholder returns.

## Well-positioned to capture domestic consumption growth

DNL is the market leader in the local specialty chemicals industry, with its leadership anchored on long-standing customer relationships. This is furthered by a shift toward specialized products, driving margin expansion (16.8% 2017A GPM to 20.3% 2022F). In our view, DNL's back-end positioning allows it to indirectly benefit from domestic consumption growth while enjoying limited threat of substitutes in local supply chains. We believe DNL is well-positioned to capture rising consumer spending in the Philippines (6.9% 2017A-2022F CAGR), underpinning a steady 8.8% CAGR for DNL's local sales 2017A-2022F.

## APAC exports expansion propelled by R&D capabilities

We believe that DNL's established R&D capabilities make it well-equipped to pursue international expansion, in line with its long-term strategy of growing exports to account for 50% of sales. We see R&D as a key driver of DNL's increasing export contributions (from 24.7% of sales in 2017A to 28.3% 2022F) and effectively, its overall revenue growth (9.8% 2017A-2022F CAGR). In our view, DNL's R&D expertise is key to developing specialized products that can attract foreign partners (e.g. Ventura) and enable DNL's expansion into other high-growth markets in the Asia Pacific region.

## Healthy financials to maximize shareholder returns

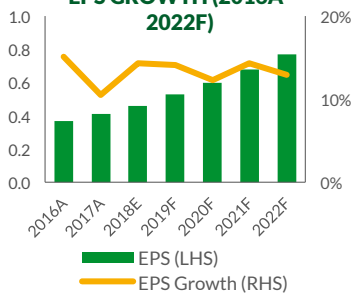
We expect DNL to post a strong ROE of 21.7% in 2019F as the company's sales mix shift toward high-margin specialty products leads to greater profitability (from 10.5% 2017A NIM to 12.4% 2022F, Figure 16). We also believe that DNL's strong cash flow generation and healthy gearing level (2017A net D/E of 0.2x) provide the company flexibility to maximize shareholder returns by pursuing organic expansion. This is backed by DNL's strong track record of extending its operational excellence as it expands horizontally, best reflected in its growth from a plastics supplier to a large-scale, integrated manufacturer of specialty chemicals.

FIGURE 13: R&D AS % OF SALES (2016A-2022F)



Source: Company Data, Team Estimates

FIGURE 14: DNL EPS AND EPS GROWTH (2016A-2022F)



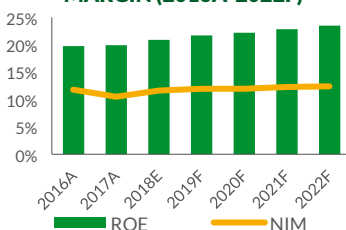
Source: Company Data, Team Estimates

FIGURE 15: DNL BLENDED REVENUE GROWTH BY LOCAL AND EXPORT SALES (2016A-2022F)



Source: Company Data, Team Estimates

FIGURE 16: DNL RETURN ON EQUITY AND NET INCOME MARGIN (2016A-2022F)



Source: Company Data, Team Estimates

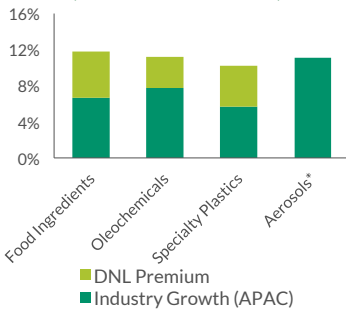
## DCF valuation confirms investment rating

We conducted a DCF valuation to arrive at a target price of Php 13.30/sh for DNL, presenting a 27.8% upside. Our DCF is based on a WACC of 9.0% and a terminal growth rate of 3.5%. While our implied 2019F P/E of 25.1x is already in line with the overall peer average, we note that DNL trades at a discount to a) its regional peers (ave. 28.1x 2019F P/E) and b) its historical average P/E (27.8x 2016A-2018E)—reflecting attractive value for the company's solid growth profile.

## Competitive advantages, exports growth mitigate investment risks

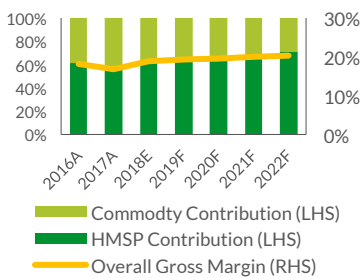
In our view, key downside risks to our valuation are slower consumption growth, fluctuations in raw material prices, and the possible loss of tax incentives. We factored the first two risks in our base case forecasts and conducted a scenario analysis to confirm that DNL will maintain strong earnings growth under the proposed new tax regime. We see DNL's favorable supply chain position as the primary mitigating measure for weaker demand while DNL's cost-plus model and HMSP shift will likely keep margins stable even with higher commodity prices.

**FIGURE 17: DNL REVENUE CAGR REL. INDUSTRY (2018E- 2023F CAGR)**



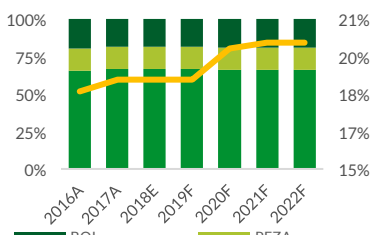
\*Note: Based on Philippine industry growth  
Source: Company Data, Team Estimates

**FIGURE 18: HMSP REVENUE CONTRIBUTION AND OVERALL GROSS MARGIN (2016A-2022F)**



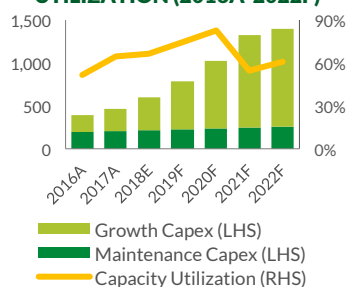
Source: Company Data, Team Estimates

**FIGURE 19: EBT CONTRIBUTIONS AND EFFECTIVE TAX RATE (2016A-2022F)**



Source: Company Data, Team Estimates

**FIGURE 20: DNL CAPEX (IN PHP MN) AND CAPACITY UTILIZATION (2016A-2022F)**



Source: Company Data, Team Estimates

## Valuation

We used a DCF valuation to arrive at our target price of Php 13.30/sh, a 27.8% upside from DNL's closing price of Php 10.40/sh on November 23, 2018.

## Revenues

We forecasted DNL's revenues for each of its segments, dividing each into local and export sales. We benchmarked our forecasts on the growth of key revenue drivers relevant per segment (Table 4). Revenue growth is driven by new accounts and volume growth from existing clients. We used a 5% addition rate of for new client accounts, primarily with foreign partners, while we based volume growth on clients' SSSG. Revenues were adjusted to factor in forecasts for CNO and CPO prices and the USDPHP rate. Our estimates broadly reflect a 3-5% premium above forecasted industry growth rates (Figure 17).

**TABLE 4: DNL REVENUE GROWTH DRIVERS**

SEGMENT	REVENUE DRIVERS*	2018E-2023F CAGR		
		LOCAL REVENUE	EXPORT REVENUE	OVERALL REVENUE
Food Ingredients	Food and Non-alcoholic Beverages Consumption Chained Consumer Food Service Market Size	10.7%	15.8%	11.8%
Oleochemicals	Liquid Fuels Consumption Personal Care (e.g. surfactants, toiletries) Consumption	9.9%	15.1%	11.2%
Specialty Plastics	Household Appliances Consumer Expenditure Automotive Industry Consumer Expenditure	6.1%	12.1%	10.2%
Aerosols	Personal Care (e.g. hair care, body care) Consumption Home Care (e.g. home insecticides, cleaning agents) Market Size	11.0%	N/A	11.0%

\*Note: We based local revenues on Philippine per industry forecasts while export revenues were based on corresponding APAC forecasts.  
Source: Euromonitor International, Team Analysis

## Margins

We estimated DNL's future margins to increase (GPM expansion by 350 bps 2017A-2022F, Figure 18) as a reflection of the company's ongoing sales mix shift towards HMSP. We calculated overall gross margins using the revenue-weighted average of margins from DNL's commodity and HMSP segments. Commodity segment margins were forecasted via regression analysis of normalized commodity prices for coconut and palm oil. We assumed HMSP margins to remain stable, given DNL's ability to pass on costs.

## Taxes

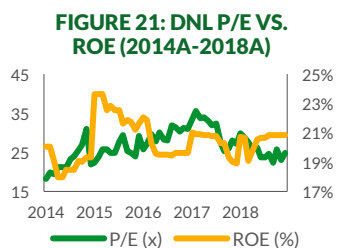
DNL has multiple subsidiaries registered under the Philippine Economic Zone Authority and Board of Investments which allows it to enjoy tax incentives. Our tax assumptions use a blended mix of regular and incentive tax rates from DNL's various subsidiaries (ave. effective tax rate of 19.3% 2017A-2022F, Figure 19). We did not factor in a possible extension for income tax holidays enjoyed by the company's oleochemicals and specialty plastics segments.

## Capital Expenditures

We expect DNL's maintenance capex to grow at a stable 4.0% YoY 2017A-2022F, at pace with inflation. We expect growth capex to ramp up as the company prepares for the opening of its new manufacturing facility in 2021. We forecasted growth capex in line with DNL's increasing capacity utilization (Figure 20), which we see stabilizing to 80% in the long-term. Our overall capex estimates are consistent with management's guidance of 20-25% yearly capex growth.

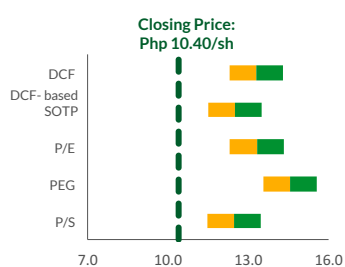
## WACC

We arrived at a WACC of 9.0% for DNL, with our cost of debt factoring in a possible 25 bps rate hike in 2019F and our cost of equity utilizing an adjusted beta. A more detailed breakdown of our WACC assumptions is presented in the table below:



Source: Bloomberg

**FIGURE 22: DNL VALUATION METRICS AND TARGET PRICE RANGES**



Source: Team Analysis, Team Estimates

**TABLE 5: WACC ASSUMPTIONS**

ASSUMPTION	RATE	METHODOLOGY
Risk-free rate	6.5%	Forward yield of 10-year Philippine government bond adjusted for rate hikes
Equity risk premium	5.5%	Excess return of the PSEi above the risk-free rate
Beta (x)	0.69	Adjusted beta based on covariance of DNL's returns vs. PSEi
Cost of equity	10.3%	Calculated via CAPM
Pre-tax cost of debt	7.3%	Estimated future borrowing rate of DNL based on a synthetic rating
Tax rate	30.0%	DNL's incremental statutory tax rate
After-tax cost of debt	5.1%	
WACC	9.0%	Calculated using a target D/E ratio of 0.33x

Source: Bloomberg, Team Estimates

## Terminal Growth Rate

Our terminal growth rate assumption of 3.5% is based on a) the long-run inflation rate of the Philippines (3.5%), b) long-run consumer expenditures growth in the APAC region (3.8%), and c) the growth rate of the specialty chemicals industry in mature markets (3.7%).

## Relative Valuation

Due to the lack of publicly-listed specialty chemical peers in the Philippines with sufficient liquidity and capitalization, we compared DNL to domestic consumer names. We believe that DNL fits into the consumer space as an indirect play on consumption growth. For regional peers, we selected manufacturers of specialty chemicals in the APAC region.

**TABLE 6: RELATIVE VALUATION PEERS TABLE**

TICKER	COMPANY	MKT CAP (USD MN)	P/E (x)		PEG (x)		EV/SALES (x)		ROE (%)	
			2018E	2019F	2018E	2019F	2018E	2019F	2018E	2019F
CNPF PM	Century Pacific Food, Inc.	1,092.55	20.3	18	1.6	1.4	1.6	1.4	18.1	17.8
FB PM	San Miguel Food and Beverage, Inc.	10,319.76	28.4	24.9	1.7	1.5	2.1	1.9	23.6	23.5
JFC PM	Jollibee Foods Corporation	6,670.21	44.3	39.2	3.0	2.7	2.2	1.9	18.1	18.2
MAXS PM	Max's Group, Inc.	267.64	15.6	13.8	7.8	2.0	1.3	1.1	11	11.5
PGOLD PM	Puregold Price Club, Inc.	2,480.68	20.1	18.3	1.7	1.6	1.0	0.9	12.9	12.6
RRHI PM	Robinsons Retail Holdings, Inc.	2,694.80	23.3	21.8	2.1	2.1	0.9	0.9	10.3	9.5
URC PM	Universal Robina Corporation	6,049.52	32.5	28.5	1.8	1.5	2.6	2.5	11.7	12.4
<b>Domestic Ave.</b>			<b>26.4</b>	<b>23.5</b>	<b>2.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>15.1</b>	<b>15.1</b>
2810 JP	House Foods Group, Inc.	3,516.26	39.6	31.7	2.6	1.0	0.8	1.0	4.3	4.8
603288 CH	Foshan Haitian Flavouring & Food Co Ltd.	27,035.13	48.3	40.5	3.3	2.7	11.8	10.2	32.4	32.8
ATLP IS	Atul Ltd.	1,452.36	21.5	18.7	nm	nm	2.5	2.2	17.3	17
ICBP IJ	Indofood CBP Sukses Makmur TBK PT	8,375.73	27.9	25.6	2.5	2.3	3.1	2.9	20.8	20.5
PI IN	PI Industries Ltd.	1,689.34	30	24.2	nm	2.1	4.3	3.6	19.2	20.1
<b>Regional Ave.</b>			<b>33.5</b>	<b>28.1</b>	<b>2.8</b>	<b>2.0</b>	<b>4.5</b>	<b>4.0</b>	<b>18.8</b>	<b>19.0</b>
<b>Overall Ave.</b>			<b>29.3</b>	<b>25.4</b>	<b>2.8</b>	<b>1.9</b>	<b>2.9</b>	<b>2.5</b>	<b>16.6</b>	<b>16.7</b>
<b>DNL PM</b>	<b>D&amp;L Industries, Inc.</b>	<b>1,583.40</b>	<b>25.3</b>	<b>22.2</b>	<b>1.8</b>	<b>1.6</b>	<b>3.0</b>	<b>2.7</b>	<b>20.9</b>	<b>21.7</b>

Source: Bloomberg, Team Estimates; nm = not meaningful

While DNL already trades in line with the domestic peer average, we believe our relative multiples reflect attractive value for DNL given its superior earnings growth and high ROE. We highlight that the company's 2019F PEG of 1.6x is below the overall peer average (1.8x 2019F) and DNL (22.2x 2019F P/E) trades at a discount to regional peers (28.1x 2019F peer ave.).

Our relative valuation TP of Php 13.47 based on the overall average P/E of 25.4x likewise supports our DCF analysis.

## Financial Analysis

### Strong and sustained domestic sales growth

We see DNL sustaining robust growth for its domestic revenues (8.8% 2017A-2022F CAGR), fueled primarily by its food ingredients and oleochemicals segments. We note that these segments account for 5.4 ppts and 2.6 ppts respectively of our forecasted local topline growth, reflecting DNL's strong exposure to consumer categories with resilient expenditure patterns.



**TABLE 7: KEY FINANCIAL RATIOS**

	2016A	2017A	2018E	2019F	2020F	2021F	2022F	2023F
<b>DuPont Analysis</b>								
Gross Margin (%)	18.2	16.8	18.9	19.2	19.6	19.9	20.3	20.6
Operating Margin (%)	14.9	13.4	15.2	15.6	16.0	16.4	16.8	17.2
Interest Burden (%)	97.2	95.8	94.1	93.4	93.3	93.4	92.1	92.2
Tax Burden (%)	81.9	81.4	81.4	81.4	80.2	79.9	79.9	79.9
Net Margin (%)	11.8	10.5	11.6	11.9	12.0	12.2	12.4	12.7
Asset Turnover (x)	1.17	1.28	1.24	1.32	1.31	1.31	1.32	1.31
Return on Assets (%)	13.8	13.4	14.5	15.7	15.7	16.1	16.3	16.6
Financial Leverage (x)	1.42	1.49	1.44	1.38	1.41	1.43	1.44	1.44
Return on Equity (%)	19.7	19.9	20.9	21.7	22.1	22.9	23.4	23.9
<b>Liquidity Indicators</b>								
Current Ratio (x)	2.7	2.3	3.1	3.2	3.2	3.3	3.3	3.4
Quick Ratio (x)	1.8	1.5	2	2.1	2.1	2.1	2.2	2.3
<b>Leverage Indicators</b>								
Debt/Equity (x)	0.34	0.39	0.35	0.29	0.32	0.33	0.35	0.35
Net Debt/Equity (x)	0.12	0.2	0.2	0.15	0.15	0.15	0.15	0.15
<b>Operating Efficiency Indicators</b>								
Inventory Turnover (x)	4.4	4.4	3.9	4.1	4.1	4.2	4.2	4.2
Operating Cycle (Days)	147.4	148.4	161.6	153.6	153.3	152.3	151.7	151.7
Cash Conversion Cycle (Days)	125.7	127.3	140.3	132.8	132.4	131.5	130.9	130.8
<b>Shareholder Indicators</b>								
EPS (Php/sh)	0.37	0.41	0.46	0.53	0.6	0.68	0.77	0.87
EPS growth (%)	15.1	10.5	14.3	14.1	12.3	14.3	12.9	13.4

Source: Company Data, Team Estimates

### Export sales provide high growth platform

We expect DNL’s export sales to grow at a strong 12.8% CAGR 2017A-2022F (Figure 23) on the back of established partnerships with regional manufacturers like Ventura Foods and Bunge. To illustrate, contributions from Ventura alone grew from c3% of sales in 2016A to c10% 2017A even with strong local growth and DNL present in only four of Ventura’s markets in the region. We estimate DNL’s exports to account for 28.3% of total sales by 2022F (from 24.7% 2017A), with upside risk if DNL is able to secure additional export contracts.

### Sales mix shift and operational efficiency lead to improving margins

We expect DNL to continue expanding its HMSP portfolio from 63% in 2018E to 71% in 2022F, in line with its historical sales mix shift (4 pts expansion 2014A-2018E). We expect DNL’s HMSP shift to drive a GPM expansion of 350 bps (from 16.8% 2017A to 20.3% 2022F) and be a key factor in long-run profitability. We likewise believe DNL’s ability to extract horizontal synergies and capacity expansion (70% utilization) will enable DNL to maintain operational efficiency and sustain growth without eroding operating margins (16.8% 2022F OM from 13.4% 2017A, Figure 24).

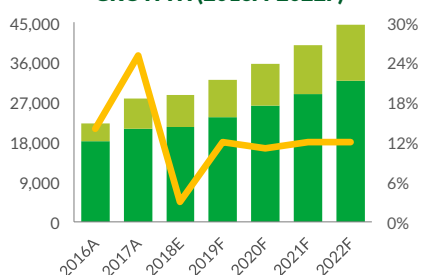
### Healthy leverage and strong cash flow generation support expansion

With its healthy balance sheet and strong cash flow generation, we believe that DNL is well-equipped to pursue future growth ventures. DNL’s low net D/E ratio of 0.2x 2017A shows an underleveraged capital structure that can readily support expansion. In addition, DNL’s strong cash flow generation ability (ave. CFO-to-revenue of 9.4% 2017A-2022F) makes it well-positioned to fund expansion plans with minimal risks of capital raising.

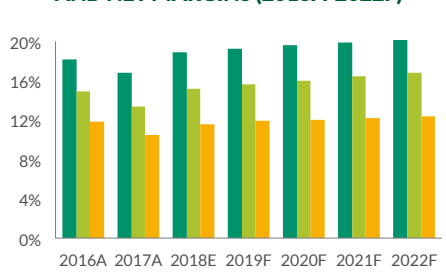
### Superior profitability margins leads to quality shareholder returns

We expect DNL to deliver a robust EPS growth of 13.2% 2017A-2022F CAGR while expanding its net margin (from 10.5% 2017A to 12.4% 2022F) despite potential tax concerns and interest rate repricing. We believe that DNL’s R&D initiatives, strategic shift toward HMSP, and improving operational efficiency will drive net margin expansion moving forward, which in turn will lead to a superior average ROE of 21.8% 2017A-2022F (Figure 25).

**FIGURE 23: DNL SALES MIX AND YOY GROWTH (2016A-2022F)**



**FIGURE 24: DNL GROSS, OPERATING AND NET MARGINS (2016A-2022F)**



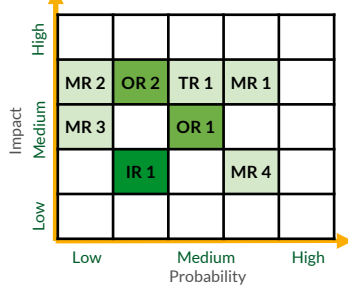
**FIGURE 25: DNL ROE AND EPS GROWTH (2016A-2022F)**



Source: Company Data, Team Estimates

# Investment Risks

**FIGURE 26: DNL INVESTMENT RISK MATRIX**



Source: Team Analysis

**TABLE 8: DNL RISK MITIGATION**

RISKS	MITIGATING FACTORS
<b>MARKET RISKS</b>	
Slowdown in Consumption Growth Risk	Presence in diversified Asia Pacific markets
Raw Material Price Risk	Exposure to resilient consumer categories Pass-through pricing mechanism Inventory hedging, large storage facilities
Foreign Exchange Risk	Pass-through pricing mechanism Expansion of exports, bringing in USD denominated receipts
Interest Rate Risk	Healthy net gearing level Strong interest cover
<b>TAXATION RISKS</b>	
Potential Loss of Tax Incentives	Lower regular rates for corporate income tax Qualified for additional exceptions for R&D expenses
<b>INDUSTRY RISKS</b>	
Local and Global Competition	Customized formulations that lead to sticky relationships
<b>OPERATIONAL RISKS</b>	
Corporate Governance Risk	Third party consultants to evaluate fair value of transactions
Customer Concentration	Sticky, long-standing relationships with clients Investments in R&D to improve specialty products

Source: Team Analysis

## Market Risk | Potential Slowdown in Consumption (MR 1)

We acknowledge that potential second-round inflation effects may weigh on local consumer spending and trade war tensions may slow regional demand. However, we believe that DNL can mitigate this risk given its strong exposure to resilient consumer categories in diversified Asia Pacific markets (Appendix C-11).

## Market Risk | Raw Material Price Risk (MR 2)

DNL is exposed to fluctuating commodity prices, particularly palm oil and coconut oil. We believe that DNL will be able to maintain profitability given its pass-through pricing mechanism, where the company can re-adjust price offerings to clients every 30-45 days. We also expect DNL to leverage on its storage capacity to hedge against volatility in CNO and CPO prices.

## Market Risk | Foreign Exchange Risk (MR 3)

53% of DNL's raw materials are USD-denominated, making it exposed to volatility in USDPHP rates. We note however that DNL's increasing export revenues provide USD-denominated receipts and result in an average net exposure of 8.0% 2017A-2022F, which DNL can pass on to its customers.

## Market Risk | Interest Rate Risk (MR 4)

Given the 175 bps rate hike in 2018, DNL may face higher borrowing costs. We believe however that DNL's healthy gearing level (ave. net debt-to-equity ratio of 0.18x 2017A-2022F) minimizes its exposure to interest rate risk. We also emphasize that DNL's strong interest cover (ave. interest coverage ratio of 16.0x 2017A-2022F) is sufficient to accommodate higher interest expenses.

## Taxation Risk | Possible Loss of Tax Incentives (TR 1)

With the impending Tax Reform for Attracting Better Opportunities (TRABAHO) Bill, DNL may lose special tax rates and income tax holidays that its oleochemicals and aerosols segments currently enjoy. We expect however that a) lower regular rates for corporate taxes and DNL's margin expansion will preserve medium-term profitability and b) DNL is qualified to apply for additional exemptions for its R&D expenditures under the proposed new tax regime.

## Industry Risk | Local and Global Competition Risk (IR 1)

DNL's domestic operations face the threat of local and foreign competition. We believe that it can address the potential entry of new players by leveraging on its strong knowledge of local supply chains and long-standing customer relationships, backed by investments in R&D, which comprise 0.8% of sales 2017A-2022F. We believe that DNL's R&D capabilities will enable them to continuously create customized formulations specific to clients' needs, reducing the risk of losing customers to competitors.

## Operational Risk | Corporate Governance Risk (OR 1)

DNL engages in related party transactions with its parent company, also majority-owned by the Lao family. The company's logistics and storage facilities are leased from a property company under the parent. To mitigate potential conflicts of interest, DNL conducts related party transactions at an arm's length basis and hires third party consultants to evaluate the fair value of transactions and leasing terms.

## Operational Risk | Customer Concentration Risk (OR 2)

DNL may face customer concentration risk among its key customers, with its top ten clients accounting for 50% of consolidated revenues. Its three biggest clients alone are all in the food ingredients segment and combine for 22% of sales. We believe however that the potential loss of a key client is unlikely given DNL's sticky, long-standing relationships with its customers and continuous development of customized products backed by R&D.

# Scenario and Sensitivity Analysis

We identify a) coconut and palm oil prices, b) domestic and regional consumption growth, and c) the USDPHP exchange rate as key variables to our forecasts. Our base case scenario shows the highest sensitivity to coconut and palm oil prices, but we believe DNL's cost-plus model allows it to withstand volatility in commodity price inputs. We summarize the results of our analysis on the next page:

**TABLE 9: SUMMARY TABLE OF KEY INPUTS SENSITIVITY**

	BASE CASE (YoY change)	POSITIVE CASE	NEW TARGET PRICE	NEGATIVE CASE	NEW TARGET PRICE	CHANGE TO HOLD	CHANGE TO SELL
Changes in Coconut Oil Prices	2.5%	3.6%	13.39	1.4%	13.23	-48%	-90%
Changes in Palm Oil Prices	3.7%	4.4%	13.47	3.0%	13.17	-43%	-74%
Change in Domestic Consumption Growth Rate	6.0%	6.0%	13.94	5.0%	12.70	4.7%	3.2%
Change in Regional Consumption Growth Rate	5.5%	6.5%	13.56	4.5%	13.06	3.9%	1.9%
USDPHP Exchange Rate	54.5	53.5	13.48	55.7	13.09	58.6	63.8

Source: Team Estimates, World Bank

We also ran a sensitivity analysis to check a) the impact of changes to the Philippine corporate tax regime and b) the effect of changes to our WACC and terminal growth assumptions.

**TABLE 10: TAX REFORM SENSITIVITY**

	EPS CAGR (2019F-2023F)	EFFECTIVE TAX RATE (2019F-2023F ave.)
Current Regime	12.3%	19.8%
House Bill	11.0%	20.9%
Senate Bill	11.2%	20.0%

Source: Team Estimates

- **Corporate Income Tax Reform:** We estimated the effect of sunset provisions to tax incentives enjoyed by DNL based on provisions in the House of Representatives and Senate versions of the TRABAHO Bill. Our sensitivity analysis confirms that DNL will ensue profitability under both versions, with EPS CAGR at 11.0% and 11.2% 2019F-2024F for the House and Senate versions respectively (Table 10). A more detailed discussion is presented in Appendix D-8.
- **Weighted Average Cost of Capital and Terminal Growth Rate:** We note that our WACC should increase by 35 bps before our recommendation turns into a HOLD and 85 bps before it becomes a SELL (Table 11), with our base case forecasts already factoring in a 25 bps rate hike in 2019F.

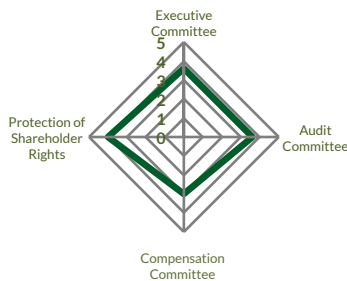
**TABLE 11: VALUATION SENSITIVITY SUMMARY TABLE**

		WEIGHTED AVERAGE COST OF CAPITAL (%)				
		8.50%	8.75%	9.00%	9.25%	9.50%
TERMINAL GROWTH RATE (%)	2.5%	12.94	12.32	11.74	11.21	10.72
	3.0%	13.82	13.11	12.46	11.86	11.31
	3.5%	14.88	14.06	<b>13.30</b>	12.62	11.99
	4.0%	16.18	15.20	14.32	13.53	12.81
	4.5%	17.80	16.62	15.57	14.63	13.78

Source: Team Estimates

## Corporate Governance

**FIGURE 27: CORPORATE GOVERNANCE SNAPSHOT**



Source: Team Analysis

### Corporate governance and social responsibility

DNL is compliant with the principles of good corporate governance and practices corporate social responsibility through various projects, most of which are focused on education (see Appendix E-3). The company’s board of directors consists of various experts with at least 25 years of industry experience. A more detailed evaluation of DNL’s corporate governance policies can be found in Appendix E-4.

### Move from family enterprise to board independence

By appointing four independent members in the board of directors, DNL follows the stipulations in Rule 38 of the Amended IRR of the Securities Regulation Code of the Philippines. The four independent directors (Mercedita Nolloedo, Corazon Dela Paz-Bernardo, Filemon Berba, Lydia Balatbat-Echaz) are also non-executive, allowing them to contribute fair opinions in board decisions. The roles of CEO and Chairman of the Board remain separate, with Alvin Lao as the CEO and Yin Yong Lao as the Chair.

### Related party transactions on an arm’s length basis

DNL engages in related party transactions, although these are reported and evaluated rigorously to determine potential risk issues and ensure that business resources of the company are not misappropriated. Third party auditors and property consultants are hired to determine the fair value of their transactions in an objective and independent manner that complies with Philippine regulatory requirements. In addition, decisions are made with the best interest of DNL’s shareholders in mind, who are given voting, appraisal, and other rights.

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# List of Abbreviations

ABBREVIATION	FULL TERM
DNL	D&L Industries, Inc.
TP	Target Price
DCF	Discounted Cash Flow
CAGR	Compounded Annual Growth Rate
EPS	Earnings Per Share
P/E	Price-to-Earnings Ratio
IPO	Initial Public Offering
APAC	Asia Pacific
R&D	Research and Development
GPM	Gross Profit Margin
ROE	Return on Equity
D/E	Debt-to-Equity Ratio
FCFF	Free Cash Flow to the Firm
PEG	Price/Earnings-to-Growth Ratio
ASEAN	Association of Southeast Asian Nations (Philippines, Singapore, Thailand, Malaysia, Indonesia)
GDP	Gross Domestic Product
RCEP	Regional Comprehensive Economic Partnership
CNO	Crude Coconut Oil
CPO	Crude Palm Oil
B2B	Business-to-Business
BASF	Badische Anilin-und Soda-Fabrik
HMSP	High-Margin Specialty Products
MCT	Medium Chain Triglyceride
B2C	Business-to-Consumer
CFO	Operating Cash Flow
WACC	Weighted Average Cost of Capital
OM	Operating Margin
ROA	Return on Assets
TRABAHO	Tax Reform for Attracting Better Opportunities
CEO	Chief Executive Officer
IRR	Implementing Rules & Regulations

## Appendix A: Financials

### APPENDIX A-1: INCOME STATEMENT

In Php mn	2015A	2016A	2017A	2018E	2019F	2020F	2021F	2022F
Revenue	19,578	22,232	27,778	28,559	31,945	35,566	39,741	44,369
Cost of Revenue	(15,973)	(18,183)	(23,109)	(23,163)	(25,802)	(28,609)	(31,831)	(35,382)
<b>Gross Profit</b>	<b>3,605</b>	<b>4,049</b>	<b>4,669</b>	<b>5,396</b>	<b>6,143</b>	<b>6,958</b>	<b>7,910</b>	<b>8,987</b>
Selling and marketing expenses	(486)	(564)	(654)	(714)	(799)	(889)	(994)	(1,109)
General and administrative expenses	(280)	(268)	(330)	(347)	(364)	(382)	(401)	(421)
Other income, net	117	85	39	-	-	-	-	-
<b>Operating Profit</b>	<b>2,955</b>	<b>3,302</b>	<b>3,724</b>	<b>4,336</b>	<b>4,981</b>	<b>5,686</b>	<b>6,515</b>	<b>7,456</b>
Interest expense	(105)	(113)	(157)	(257)	(327)	(379)	(432)	(589)
Foreign exchange gain (loss)	(53)	22	0	-	-	-	-	-
<b>Income before Income Tax</b>	<b>2,797</b>	<b>3,211</b>	<b>3,567</b>	<b>4,078</b>	<b>4,654</b>	<b>5,307</b>	<b>6,084</b>	<b>6,867</b>
Income Tax Expense	(513)	(581)	(663)	(758)	(864)	(1,052)	(1,220)	(1,377)
<b>Consolidated Net Income</b>	<b>2,284</b>	<b>2,630</b>	<b>2,905</b>	<b>3,321</b>	<b>3,790</b>	<b>4,255</b>	<b>4,864</b>	<b>5,490</b>

Source: Company Data, Team Estimates

## APPENDIX A-2: BALANCE SHEET

In Php mn	2015A	2016A	2017A	2018E	2019F	2020F	2021F	2022F
<b>ASSETS</b>								
<b>Current Assets</b>								
Cash and cash equivalents	3,126	2,780	2,855	2,016	2,891	3,645	4,221	4,836
Receivables, net	3,273	4,614	5,234	5,426	6,038	6,686	7,432	8,253
Inventories, net	3,598	4,641	5,960	5,906	6,554	7,238	8,021	8,881
Due from related parties	111	77	444	286	319	356	397	444
Prepayments and other current assets	1,696	2,061	1,625	2,285	2,556	2,845	3,179	3,550
<b>Total Current Assets</b>	<b>11,804</b>	<b>14,174</b>	<b>16,117</b>	<b>15,919</b>	<b>18,357</b>	<b>20,771</b>	<b>23,250</b>	<b>25,963</b>
<b>Non-Current Assets</b>								
Available-for-sale financial assets	115	112	123	123	123	123	123	123
Property, plant and equipment, net	2,367	2,397	2,476	2,652	2,972	3,486	4,260	5,049
Retirement benefit asset	94	111	107	107	107	107	107	107
Goodwill	3,368	3,368	3,368	3,368	3,368	3,368	3,368	3,368
Other non-current assets	23	114	1,033	571	639	711	795	887
<b>Total Non-Current Assets</b>	<b>5,966</b>	<b>6,102</b>	<b>7,107</b>	<b>6,821</b>	<b>7,209</b>	<b>7,795</b>	<b>8,653</b>	<b>9,535</b>
<b>Total Assets</b>	<b>17,770</b>	<b>20,277</b>	<b>23,224</b>	<b>22,740</b>	<b>25,565</b>	<b>28,566</b>	<b>31,903</b>	<b>35,497</b>
<b>LIABILITIES AND EQUITY</b>								
<b>Current Liabilities</b>								
Trade payables and other liabilities	796	1,366	1,309	1,390	1,548	1,717	1,910	2,123
Due to related parties	2	19	51	23	26	29	32	35
Short-term borrowings	3,179	3,850	5,600	3,600	4,100	4,600	5,100	5,600
Income Tax Payable	42	54	59	59	59	59	59	59
<b>Total Current Liabilities</b>	<b>4,019</b>	<b>5,289</b>	<b>7,019</b>	<b>5,072</b>	<b>5,733</b>	<b>6,404</b>	<b>7,101</b>	<b>7,817</b>
<b>Non-Current Liabilities</b>								
Deferred income tax liabilities, net	1	17	18	18	18	18	18	18
Long-term borrowings	1,000	1,000	1,000	1,000	1,500	2,000	2,500	3,000
Retirement benefit obligation	-	-	-	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>1,001</b>	<b>1,017</b>	<b>1,018</b>	<b>1,018</b>	<b>1,518</b>	<b>2,018</b>	<b>2,518</b>	<b>3,018</b>
<b>Total Liabilities</b>	<b>5,020</b>	<b>6,306</b>	<b>8,037</b>	<b>6,090</b>	<b>7,251</b>	<b>8,422</b>	<b>9,618</b>	<b>10,835</b>
<b>Equity</b>								
Share capital	7,143	7,143	7,143	7,143	7,143	7,143	7,143	7,143
Share premium	3,255	3,255	3,255	3,255	3,255	3,255	3,255	3,255
Reserve for remeasurement on retirement benefit	145	159	164	164	164	164	164	164
Fair value reserve on available-for-sale financial assets	41	45	55	55	55	55	55	55
Retained earnings	2,148	3,347	4,570	6,034	7,698	9,527	11,668	14,046
Non-controlling interest	19	21	-	-	-	-	-	-
Other Changes to Equity	-	-	-	-	-	-	-	-
<b>Total Equity</b>	<b>12,750</b>	<b>13,970</b>	<b>15,187</b>	<b>16,650</b>	<b>18,315</b>	<b>20,144</b>	<b>22,285</b>	<b>24,662</b>
<b>Total Liabilities and Equity</b>	<b>17,770</b>	<b>20,277</b>	<b>23,224</b>	<b>22,740</b>	<b>25,565</b>	<b>28,566</b>	<b>31,903</b>	<b>35,497</b>

Source: Company Data, Team Estimates

## APPENDIX A-3: CASH FLOW STATEMENT

In Php mn	2015A	2016A	2017A	2018E	2019F	2020F	2021F	2022F
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Profit before income tax expense	2,797	3,211	3,567	4,078	4,654	5,307	6,084	6,867
Adjustments for:	0	0	0	-	-	-	-	-
Depreciation and amortization	343	355	383	428	465	506	552	603
Retirement benefit expense	0	0	0	-	-	-	-	-
Loss on direct write-off of receivables	0	1	2	-	-	-	-	-
Provision for impairment of receivables	4	7	0	-	-	-	-	-
Gain on disposal of property and equipment	(83)	(1)	(1)	-	-	-	-	-
(Reversal of) provision for inventory losses	14	18	(2)	-	-	-	-	-
Unrealized foreign exchange (gain) loss, net	35	(14)	(6)	-	-	-	-	-
Income from write-off of liabilities	0	0	(6)	-	-	-	-	-
Dividend income	(0)	(0)	(0)	-	-	-	-	-
Interest income	(4)	(5)	(11)	-	-	-	-	-
Interest expense	105	113	157	257	327	379	432	589
Other non-cash	0	0	29	-	-	-	-	-
<b>Operating Profit before Working Capital Changes</b>	<b>3,211</b>	<b>3,685</b>	<b>4,113</b>	<b>4,763</b>	<b>5,445</b>	<b>6,192</b>	<b>7,067</b>	<b>8,060</b>

continued to next page

(Increase) decrease in:								
Receivables	650	(1,347)	(618)	(193)	(611)	(649)	(745)	(821)
Inventories	208	(1,062)	(1,316)	53	(647)	(684)	(783)	(859)
Due from related parties	(9)	34	(367)	158	(34)	(36)	(42)	(46)
Prepayments and other current assets	(223)	(366)	(578)	(659)	(271)	(290)	(334)	(370)
Retirement benefit assets	3	0	9	-	-	-	-	-
Other non-current assets	749	(83)	66	461	(68)	(72)	(83)	(93)
(Decrease) Increase in	0	0	0					
Trade payables and other liabilities	(400)	571	(53)	80	158	168	193	213
Due to related parties	(25)	17	32	(28)	3	3	3	4
Cash generated from operations	4,165	1,449	1,288	4,637	3,975	4,632	5,276	6,087
Income taxes paid	(369)	(557)	(662)	(758)	(864)	(1,052)	(1,220)	(1,377)
Interest received from banks	4	5	10	-	-	-	-	-
Retirement benefit contribution	0	0	0	-	-	-	-	-
<b>Net cash provided by operating activities</b>	<b>3,800</b>	<b>897</b>	<b>636</b>	<b>3,880</b>	<b>3,111</b>	<b>3,579</b>	<b>4,056</b>	<b>4,710</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Dividends received	0	0	0	-	-	-	-	-
Acquisition of property and equipment	(298)	(389)	(464)	(604)	(785)	(1,020)	(1,326)	(1,392)
Proceeds from disposal of property and equipment	326	5	3	-	-	-	-	-
Other investing activities	0	0	0	-	-	-	-	-
<b>Net cash (used in) provided by investing activities</b>	<b>28</b>	<b>(384)</b>	<b>(461)</b>	<b>(604)</b>	<b>(785)</b>	<b>(1,020)</b>	<b>(1,326)</b>	<b>(1,392)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
Proceeds from borrowings, net	(1,865)	671	1,750	(2,000)	1,000	1,000	1,000	1,000
Reacquisition of shares held by non-controlling interest	0	0	(24)	-	-	-	-	-
Dividends paid	(536)	(1,429)	(1,679)	(1,857)	(2,125)	(2,425)	(2,723)	(3,113)
Interest paid	(109)	(114)	(154)	(257)	(327)	(379)	(432)	(589)
IPO-related	0	0	0	-	-	-	-	-
<b>Net cash used in financing activities</b>	<b>(2,510)</b>	<b>(871)</b>	<b>(107)</b>	<b>(4,115)</b>	<b>(1,452)</b>	<b>(1,804)</b>	<b>(2,155)</b>	<b>(2,702)</b>
Net increase (decrease) in cash and cash equivalents	1,319	-358	67	-839	874	755	575	616
Cash and cash equivalents, Beginning	1,807	3,126	2,780	2,855	2,016	2,891	3,645	4,221
Effect of foreign exchange rate changes	1	12	7	0	0	0	0	0
<b>Cash and cash equivalents, End</b>	<b>3,126</b>	<b>2,780</b>	<b>2,855</b>	<b>2,016</b>	<b>2,891</b>	<b>3,645</b>	<b>4,221</b>	<b>4,836</b>

Source: Company Data, Team Estimates

## APPENDIX A-4: KEY FINANCIAL RATIOS OF PEERS

TICKER	COMPANY	COUNTRY	MKT CAP (USD MN)	EBITDA MARGIN (%)	FCFF YIELD (%)	NET D/E (x)	ASSET TO (x)
CNPF:PM	Century Pacific Food, Inc.	PH	1,024.44	11.5	-2.4	14.9	1.5
FB:PM	San Miguel Food and Beverage, Inc.	PH	9,219.45	11.3	1.3	2.8	1.4
JFC:PM	Jollibee Foods Corporation	PH	6,040.74	8.7	1.3	-15.0	1.6
MAXS:PM	Max's Group, Inc.	PH	212.21	8.9	2.4	63.7	1.1
PGOLD:PM	Puregold Price Club, Inc.	PH	2,262.48	8.3	1.8	-3.3	2.0
RRHI:PM	Robinsons Retail Holdings, Inc.	PH	5,326.09	16.8	3.2	28.7	0.9
<b>Domestic Mean</b>				<b>10.9</b>	<b>1.3</b>	<b>15.3</b>	<b>1.4</b>
2810:JP	House Foods Group, Inc.	JP	3,516.26	9.9	3.0	-20.6	0.8
603288:CH	Foshan Hatian Flavoring & Food Co Ltd.	CH	27,035.13	30.7	N/A	-90.6	1.1
ATLP:IS	Atul Ltd.	IN	1,452.36	15.6	2.2	-1.6	1.1
ICBP:IJ	Indofood CBP Sukses Makmur TBK PT	ID	8,375.73	16.5	1.9	-32.4	1.2
PI:IN	PI Industries Ltd.	ID	1,689.34	24.3	N/A	-12.4	0.9
<b>Regional Mean</b>				<b>18.0</b>	<b>2.1</b>	<b>-23.7</b>	<b>1.1</b>
<b>Overall Mean</b>				<b>14.8</b>	<b>1.6</b>	<b>-6.0</b>	<b>1.2</b>
<b>D&amp;L Industries, Inc.</b>				<b>1,417.92</b>	<b>15.2</b>	<b>4.4</b>	<b>20.4</b>

Source: Bloomberg, Company Data, Team Estimates

# Appendix B: Company Description

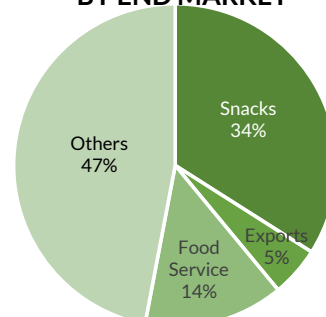
## APPENDIX B-1: SEGMENT DESCRIPTION

**Food Ingredients.** DNL manufactures a line of bulk and specialty fats and oils, culinary and other specialty food ingredients. DNL contract manufactures and provides food ingredient products to most of the leading food manufacturers and quick-service restaurant chains in the Philippines. The company also produces food safety solutions such as cleaning and sanitation agents for various customers.

Category	End Products	% of Revenue
Refined Vegetable Oils	Refined, bleached and deodorized palm oil, palm olein, palm stearin, palm kernel oil and coconut oil	39%
Specialty Fats and Oils	Margarines, confectionery fats, cocoa butter & milk fat substitutes, creaming fats, ice cream fats, culinary fats, frying fats, shortenings & customized fats	54%
Specialty Ingredients	Dry mixes (e.g. flour mixes, seasoning mixes & soft serve ice cream mixes), liquid mixes (e.g. chocolate coatings, syrups & ripples), condiments (e.g. mayonnaise and ketchup)	6%
Food Safety Products	Kitchen & food preparation cleaners, maintenance cleaning & degreasing materials & heavy-duty clean-in-place cleaners, dishwashing machine cleaners & housekeeping & room care products	1%

Source: Company Data

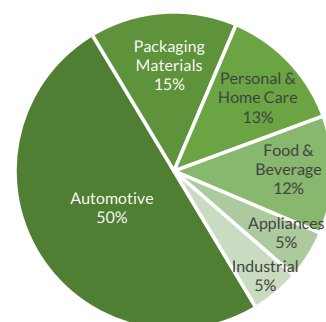
REVENUE BREAKDOWN BY END MARKET



**Specialty Plastics.** DNL manufactures custom-designed and formulated pigment blends, color and additive masterbatches, and engineered polymers for a wide range of applications in the plastics industry. FIC focuses on the domestic market, while DLPC focuses primarily on the export market.

Category	End Products	% of Revenue
Colorants	Color compounding for various resins and soft and rigid PVC compounds; applications include film and tapes, moldings, wires and cables and high-end fibers	50%
Additives	Additive materials dispersed into a plastic base to produce a material with a variety of desired qualities, such as a particular texture	50%
Engineered Polymers	Premix of a wide range of resins and compounds, additives, fillers and colorants PVC compounds	50%

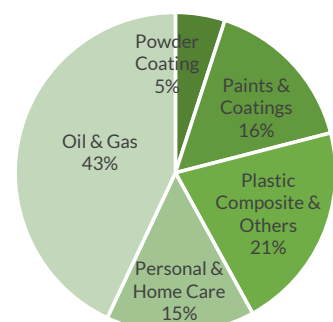
Source: Company Data



**Oleochemicals.** DNL manufactures CME (coco-biodiesel) using the Philippines' first continuous-process methyl ester plant. DNL also manufactures other oleochemicals or chemicals derived from vegetable oils, resins such as polystyrene, acrylic emulsions and polyester, and a line of powder coatings.

Category	End Products	% of Revenue
Biodiesel	Coconut Metyl Ester (CME) or biodiesel, by-products include crude and refined glycerin	73%
Other oleochemicals	Glycerin and other CME derivatives used mainly as surfactants or foaming agents for soaps, lotions and detergents (sold principally in the export markets)	27%
Other specialty chemicals	Resin and additives used in paints and coatings, foam, textile, adhesives, construction and fiber-reinforced plastics	
Powder coating	Powder coatings and protective coating materials used in home appliances, metal and other surfaces	

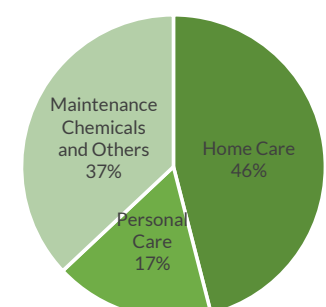
Source: Company Data



**Aerosols.** DNL manufactures three-piece aerosol cans and provides aerosol contract filling and compounding services. DNL is the first and only company in the Philippines to design and develop customized aerosol products focusing on home care, personal care and maintenance chemicals.

Category	End Products	% of Revenue
Home care	Insect control spray, furniture polish, air fresheners & disinfectants, fabric fresheners, ironing aide, upholstery and carpet cleaners, and pan sprays	46%
Personal care	Body sprays, antiperspirant sprays, deodorant body sprays, insect repellants face mist, hair color, hair structuring spray, disinfectant sprays, gel and mousse sprays	17%
Maintenance chemicals	Spray paints, brake cleaners, degreasers, penetrating oil, mould release sprays, chain lubricants, chain grease, aircon-cleaners, automotive interior dressing	36%

Source: Company Data





## APPENDIX B-2: PLANTS AND CAPACITY UTILIZATION

Segment	Facility Name	Products Produced	Rated Capacity (MTPA*)	Capacity Utilization
Food Ingredients	Mercury Plant	High-value food ingredients, marine fats, refined vegetable oils, hydrogenated oils	100,000	60%
	MRI	Refined vegetable oils, fractionated oils	200,000	60%
Specialty Plastics	DLPC	Plastic colors and additives, plastic compounds	60,000	55%
	FIC	Plastic colors and additives	10,000	65%
Oleochemicals	Oleochemicals Facility	Amides, methylesters, glycerides	110,000	44%
	Resins Facility	Polysterene, emulsions, unsaturated polyesters	55,000	61%
Aerosols	API	Aerosol products	18,000,000 pieces	72%

\*Note: MTPA = Metric tons per annum

Source: Company Data

## APPENDIX B-3: SUPPLY CHAIN PROCESS

DNL has a unique asset-light model that sports an integrated supply chain, which promotes operational synergies and maximizes the efficiency of the company's working capital management. DNL can easily sustain and scale its operations given that it does not depend of third-parties to provide logistics, and they are able to anticipate and allocate optimal resources for the transportation of their products. Their key strategic assets are listed in the figure to the right:



### FLEET OF BARGES

Direct access to fleet of 6 barges with an aggregate capacity of 10,000 metric tons to transport crude oils and raw materials to its refineries and storage tanks near the port.



### STORAGE CAPABILITY

Ability to store 33,000 metric tons of oil; refining facility of 300,000 metric tons per annum is strategically located near port, optimizing transportation efficiency.



### INTERCONNECTED TRANSPORT SYSTEM

Superior ground logistics of 42 road tankers with total capacity of over 1,064 metric tons; ensures just-in-time delivery to customer, thereby increasing supply chain efficiency.

Source: Company Data

## APPENDIX B-4: EXPORT PARTNERSHIPS AND DISTRIBUTION NETWORK

Apart from Ventura Foods and Bunge, DNL also has partnerships with other entities through its subsidiary, Oleo-Fats Inc.

Partner	Description
Manildra Group and MSM Milling	DNL through Oleo-Fats Inc. was appointed as the exclusive marketer and distributor of the Manildra Group and MSM Milling's canola derivatives and wheat products in the Philippines. MSM Milling is a fully integrated oilseed crushing, refining and packaging operation, while Manildra Group is a diverse international agribusiness dedicated to developing, manufacturing and delivering innovative products for a global market.
AAK (UK) Limited	AAK (UK) Limited operates the UK's largest edible oils refinery. The company is part of AAK, the world's leading manufacturer of high value-added specialty vegetable fats. Its products are sold throughout the UK and in over 35 countries worldwide. DNL serves as the exclusive distributor of AAK's specialty fats Akopol, Akospread, Silco, and Deliar.

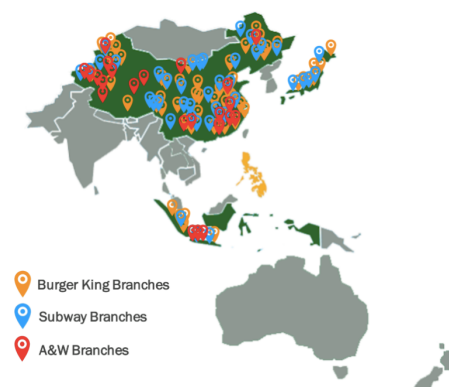
Source: Company Data, Partner Websites

DNL's export presence has reached Europe, Middle East and the Americas, especially for the plastics segment. Below is a map of its export network.



Source: Company Data

DNL's partnership with Ventura includes supplying to leading food brands Burger King, A&W and Subway. Below is a map of the presence of these chains in Asia Pacific markets DNL currently serve.



Source: Company Data, Partner Websites

## APPENDIX B-5: B2C PRODUCTS

DNL recently ventured into expanding its product line, adding its first B2C product to its portfolio through Chemrez Technologies Inc. Its pioneer product, CocoMCT, is marketed under the brand Laurin and is made with Medium Chain Triglycerides (MCT) sourced from the healthiest portions of non-GMO coconuts sustainably grown in the Philippines. The production process is patented only to Laurin CocoMCT, reflecting the superior R&D capabilities of DNL. The product was first distributed via DNL's export channels before being launched locally in 2015. A photo of the product is shown at the right.



Source: Company Data

## APPENDIX B-6: AWARDS AND ACCREDITATIONS

AWARDING BODY	YEAR	AWARD/RECOGNITION
Forbes	2015	Asia's 200 Best Under a Billion
	2016	
FinanceAsia	2014	3rd Best Mid-Cap Company
	2015	Best Mid-Cap Company
		Alvin D. Lao as 2nd Best CFO
	2016	Best Mid-Cap Company
2018	2nd Best Mid-Cap Company	
	2014	Best Managed Company- Small Cap Category (Philippines) candidate
Asian Development Bank	2014	Top 50 Best Performing Philippine-listed Companies - ASEAN Corporate Governance Scorecard
	2015	
FTSE	2015	Global Equity Index Asia Pacific ex Japan All Cap & Small Cap

Source: Company Data

## APPENDIX B-7: BREAKDOWN OF SUBSIDIARIES

COMPANY	DESCRIPTION
First in Colors, Incorporated (FIC)	FIC manufactures a line of pigment blends, color and additive masterbatches, and engineered polymers for a wide range of applications in the plastics industry. These products add properties such as precise coloring, reduced friction, increased resistance to degradation, as well as biodegradability for plastics used in consumer goods, appliances and outdoor furniture. FIC focuses primarily on the local market.
D&L Polymer & Colors Inc. (DLPC)	DLPC manufactures a line of pigment blends, color and additive masterbatches and engineered polymers for a wide range of applications in the plastics industry. These products add properties such as precise coloring, reduced friction, increased resistance to degradation, as well as biodegradability for plastics used in consumer goods, appliances and outdoor furniture. DLPC focuses primarily on the export market.
Oleo-Fats Incorporated (OFI)	Oleo-Fats Inc. is DNL's subsidiary which manufactures a line of industrial fats and oils, specialty fats and oils, and culinary and other specialty food ingredients and provides its food ingredients products to most of the leading food manufacturers and quick-service restaurant chains in the Philippines, and also produces food safety solutions such as cleaning and sanitation agents for various customers.
D&L Premium Foods Corp. (DLPF)	DLPF manufactures a line of bulk and specialty fats and oils, culinary and other specialty food ingredients as a subsidiary of OFI.
Chemrez Technologies, Inc.	Chemrez manufactures CME (coco-biodiesel), oleochemicals or chemicals derived from vegetable oils, resins such as polystyrene, acrylic emulsions and polyester, and a line of powder coatings.
Aero-Pack Industries, Inc.	Aero-Pack manufactures three-piece aerosol cans and components and provides aerosol contract filling and compounding services. The company also toll manufactures a range of related products, including insect control, industrial maintenance chemicals, and home and personal care products, among others.
Natura Aeropack Corporation (NAC)	NAC manufactures of coconut oil fractions, coconut-based surfactants, and downstream consumer products which are sustainable, naturally-derived, mild and non-irritant. Product applications extend to health care, personal care, home care, and baby care.

Source: Company Data

# Appendix C: Industry and Competitive Positioning

## APPENDIX C-1: PORTER'S FIVE FORCES ANALYSIS

PORTER'S FORCE	FRONT-END CONSUMER INDUSTRY	BACK-END CONSUMER INDUSTRY
<b>Bargaining Power of Buyers</b>	High	Moderate
	<p>End consumers the buyers of front-end players. These consumers are generally price-sensitive, and given low switching costs and the large domestic and regional consumer base, buyers possess the power to demand quality, innovation, and lower prices—a especially for undifferentiated products.</p>	<p>Front-end players source their raw material inputs from back-end players, making them the buyers of companies like DNL. For commodities and undifferentiated products, these buyers have strong bargaining power due to their tendency to switch suppliers based on cost.</p> <p>However, for R&amp;D-driven products like those supplied by DNL, product differentiation decreases the bargaining power of buyers. Switching suppliers without compromising product quality becomes difficult, making front-end players dependent on their suppliers.</p>
<b>Bargaining Power of Suppliers</b>	Moderate	Moderate
	<p>The suppliers of front-end players are the back-end players. Given that many front-end players require undifferentiated raw materials, those suppliers have low bargaining power.</p> <p>But with suppliers like DNL who invest heavily in R&amp;D and have full control over formulations and developed products, front-end players are heavily dependent on these suppliers. Therefore, players supplying customized and innovative inputs maintain high bargaining power.</p>	<p>Back-end suppliers need commodity products, and there are multiple players that supply undifferentiated products. Commodity suppliers have no power over pricing, and back-end companies then have to follow market prices.</p>
<b>Threat of New Entrants</b>	High	Low
	<p>The front-end consumer market requires relatively low capital investments compared to back-end suppliers. With accessible suppliers, little intellectual property involved, low customer switching costs, and generally non-restrictive government the threat of new entrants high for the front-end consumer industry.</p>	<p>Given high capital intensity, economies of scale, and logistical network needed to compete in the market, it will be difficult for new entrants to succeed in entering the industry, despite the potential in market growth.</p>
<b>Threat of Substitutes</b>	High	Moderate
	<p>Given the saturation of the consumer market with diverse players at various price points and low switching costs for consumers, the threat of substitutes is high.</p>	<p>The existence of substitutes is dependent on the end-product and industry the player supplies to. In the case of products requiring strict specifications like wiring and food products with distinct flavors, threat of the substitutes is low. For products like biodiesel, however, substitutes exist in the form of diesel and other alternative fuels, thereby making the threat of substitutes high.</p>
<b>Rivalry of Existing Competitors</b>	High	Low
	<p>Competition is intense for front-end players due to the large number of players, ease of expansion, and low switching costs for consumers.</p>	<p>Competition for back-end players in the domestic market is small and fragmented with companies mostly competing in one consumer segment. No domestic player competes with the scale, diverse portfolio, and rate of innovation of DNL. Their customer relationships are sticky due to high product customization and the dependence of buyers on the formulations which they control.</p>

## APPENDIX C-2: SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>Domestic market leadership across industries</li> <li>Cross-sectional synergies and operational efficiencies</li> <li>Wide client base and sticky customer relationships</li> <li>Strong research and development for specialized products (see Table C-1)</li> </ul>	<ul style="list-style-type: none"> <li>53% of raw materials sourced abroad</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>Fast-growing consumer industries (e.g. retail, foodservice, automotive, gas and liquid fuels, biodiesel)</li> <li>Increasing infrastructure investments</li> <li>Increasing household consumption (see Figure C-1)</li> <li>Growth in regional wealth</li> </ul>	<ul style="list-style-type: none"> <li>Foreign exchange risk</li> <li>Potential economic slowdown</li> <li>Political risk</li> <li>Interest rate risk</li> <li>Local and foreign competition risk</li> <li>Commodity price fluctuations</li> </ul>

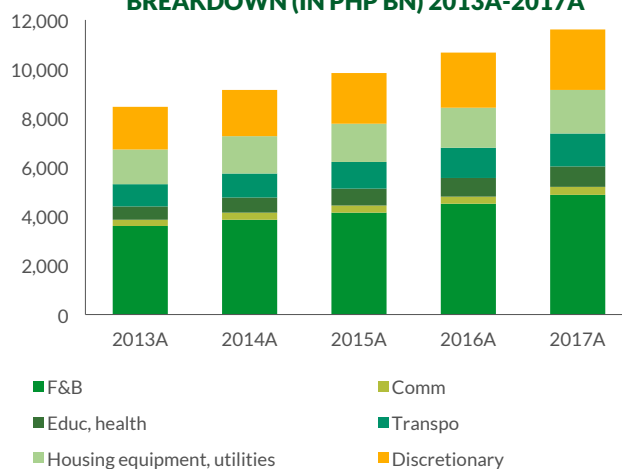
Source: Team Analysis

**TABLE C-1: R&D AS % OF SALES RELATIVE TO REGIONAL PEERS**

INDUSTRY	COMPANY	AVE. % R&D-TO-SALES (2015A-2017A)
Food	Indofood CBP Sukses Makmur	0.0
	Foshan Haitian Flavouring Food & Co.	0.0
	House Foods Group	1.4
	Tata Chemicals Ltd	0.1
	Crown Asia Chemicals Corp.	0.0
Chemicals	PI Industries Ltd	1.1
	BASF India	0.1
	Atul Ltd	0.2
	Lotte Chemicals	0.5
	<b>D&amp;L Industries</b>	<b>0.8</b>

Source: Team Analysis

**FIGURE C-1: PH HOUSEHOLD CONSUMPTION BREAKDOWN (IN PHP BN) 2013A-2017A**



Source: Philippine Statistics Authority

## APPENDIX C-3: KEY PHILIPPINES MACROECONOMIC ASSUMPTIONS

GDP GROWTH FORECASTS (%)						
	2017A	2018E	2019F	2020F	2021F	2022F
Household Consumption (C)	5.8	5.6	6.0	6.0	6.0	6.0
Capital Formation (I)	10.3	13.9	20.3	12.2	12.0	12.0
Government Spending (G)	7.3	12.8	22.0	11.2	10.0	10.0
Exports (X)	19.2	11.4	5.0	12.0	10.5	10.5
Imports (M)	17.6	14.5	13.4	13.9	12.0	12.0
<b>GDP (Y)</b>	<b>6.7</b>	<b>6.2</b>	<b>6.4</b>	<b>6.4</b>	<b>6.7</b>	<b>6.7</b>
Agriculture	4.0	0.8	0.8	0.9	1.0	1.0
Industry	7.2	6.8	6.4	6.6	7.0	7.0
Services	6.8	6.6	7.2	7.0	7.3	7.3
<b>GDP (Y)</b>	<b>6.7</b>	<b>6.2</b>	<b>6.4</b>	<b>6.4</b>	<b>6.7</b>	<b>6.7</b>
<b>Base Case Real GDP Growth</b>	<b>6.7</b>	<b>6.2</b>	<b>6.6</b>	<b>6.6</b>	<b>6.8</b>	<b>6.8</b>
Bear Case Real GDP Growth <i>Slowdown in exports and consumption, delays in pipelined infrastructure projects</i>	6.7	6.2	5.8	4.9	4.7	4.7
Bull Case Real GDP Growth <i>Stronger-than-expected export recovery and government spending</i>	6.7	6.2	7.4	7.6	8.0	8.0

Source: Philippine Statistics Authority, International Monetary Fund, World Bank, Team Estimates



### KEY HISTORICAL ECONOMIC FIGURES (%)

	2013A	2014A	2015A	2016A	2017A
Real GDP Growth (YoY)	7.1	6.1	6.1	6.9	6.7
Unemployment Rate (%)	7.1	6.8	6.3	5.5	5.7
Disposable Income (YoY)	7.9	8.2	7.2	8.5	8.7
Consumption (% of GDP)	69.5	69.1	69.3	69.5	68.9
Capital Formation (% of GDP)	22.1	21.7	24.2	28.2	28.9
Government Expenditure (% of GDP)	10.5	10.2	10.3	10.5	10.5
Exports (% of GDP)	44.8	47.5	48.6	50.8	56.9
Imports (% of GDP)	46.8	48.5	52.4	59.0	65.3

Source: Philippine Statistics Authority, Euromonitor International

### APPENDIX C-4: KEY ASIA PACIFIC MACROECONOMIC ASSUMPTIONS

	2013A	2014A	2015A	2016A	2017A	2018E	2019F	2020F	2021F	2022F
Real GDP Growth (YoY)	5.9	5.6	5.6	5.3	5.7	5.5	5.2	5.3	5.3	5.2
Disposable Income (YoY)	1.3	4.3	0.8	4.9	5.9	8.2	5.3	7.9	7.2	7.3
Consumer Expenditure (YoY)	0.4	3.6	0.2	5.0	5.8	7.9	5.4	7.6	7.1	7.0
Private Consumption (% of GDP)	48.5	48.3	48.2	48.7	48.2	47.9	48.7	49.3	49.3	49.4
Inflation Rate (%)	3.9	3.1	2.6	2.6	2.9	3.7	3.3	3.4	3.3	3.3

Source: Bloomberg, International Monetary Fund, Euromonitor International

### APPENDIX C-5: UNCONDITIONAL CASH TRANSFER PROGRAM

The Unconditional Cash Transfer Program (UCT) is the tax subsidy provided under the Tax Reform for Acceleration and Inclusion (TRAIN) Law designed to help the cushion lower income segments from the policy's adverse economic effects. A total of Php 37.6 billion is allocated for the UCT Program. It targets the poorest 10 million households consisting of the Conditional Cash Transfer Program beneficiaries (4.4 million), social pensioners (3.8 million), and households in the first to seventh income deciles (1.8 million). Households will receive Php 2,400 in the first year (Php 200/month), and Php 3,600 per year for 2019 to 2020 (Php 300/month). We expect this policy to boost consumption growth.

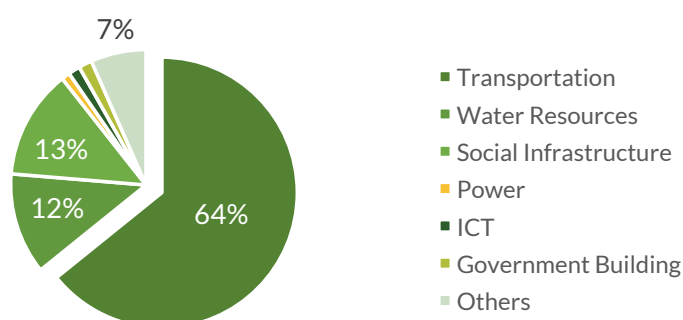
Class of Beneficiaries	Estimated Number of Beneficiaries	Distribution and Payment Period
4Ps Households with existing LBP Cash Cards	1,800,000	February to March 2018
4Ps Households without existing LBC Cash Cards	2,600,000	March 2018
Social Pension Beneficiaries with existing LBP Cash Cards	400,000	March 2018
Social Pension Beneficiaries without existing LBP Cash Cards	2,600,000	July to August 2018
NHTS-PR Households	2,600,000	July to August 2018

Source: Department of Budget and Management, Department of Social Welfare and Development

### APPENDIX C-6: "BUILD, BUILD, BUILD" INFRASTRUCTURE PROGRAM

The Duterte administration's Build, Build, Build Program is an effort to modernize the infrastructure backbone of the Philippines in order to sustain the country's economic growth momentum by provide support to productive sectors of the economy. A total of 75 flagship projects worth \$36 billion in investments has been allocated for infrastructure development. Aside from boosting economic activities, the Build, Build, Build Program is also expected to create 1.7 million jobs by 2022, which is in line with attaining economic inclusion for all Filipinos. We believe that the Build, Build, Build Program will benefit DNL by boosting domestic demand and improving export capacities through its investments in local maritime ports.

**FIGURE C-2: SECTOR BREAKDOWN OF 2017A-2020F INFRASTRUCTURE INVESTMENT TARGETS (% SHARE)**



Source: National Economic and Development Authority

**MARITIME PORT COMPLETION SCHEDULE**

PORT/PROJECT	TARGET COMPLETION	DESCRIPTION
Cebu International Container Port	2022	Will handle all foreign containerized cargo complementing the Cebu Baseport Capacity expected to increase to 14,400 TEUs by 2022 compared to 7,373 TEUs as of 2016
Davao -Sasa Port	Completed	PTB improvements Upgrading of general cargo berth and construction of back-up area Construction of wharf for Rail Mounted Gantry (RMG) crane
General Santos Port (Port of Makar)	2018	Rehabilitation and construction of wharf and port operations building
Isabela Port (Basilan)	2019	Improvement works for existing RC wharf Construction of RoRo ramp and RC platform
Malalag Port	2019	Ongoing construction of RC Wharf, access trestle, back-up area Upgrades being made to existing back-up area and port lightning system

Source: Department of Transportation

**NEDA BOARD APPROVED PROJECTS**

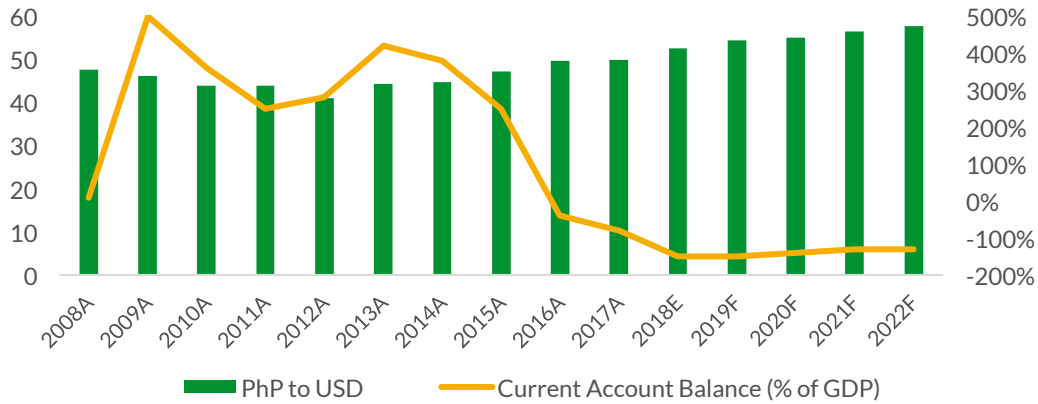
IMPLEMENTING AGENCY	PROJECT TITLE	REGION	TOTAL PROJECT COST (IN PHP MN)	START
DOTr	North-South Commuter Railway System (Calamba-Clark)	NCR, Region III	777,551	2018
MWSS	New Centennial Water Source – Kaliwa Dam Project	NCR, Region IV-A	10,857	2017
DOTr	Clark International Airport New Terminal Building Project	Region III	15,354	2017
DPWH	Bonifacio Global City to Ortigas Center Road Link Project, Phase I, IIA & IIB (Sta Monica-Lawton Bridge)	NCR	1,857	2017
DOTr	MRT-LRT Common Station Project	NCR	2,800	2017
DOTr	Metro Manila BRT – Line 1 (Quezon Avenue)	NCR	4,789	2018
DOTr	Metro Manila BRT – Line 2 (EDSA/Central)	NCR	37,760	2018
DPWH	Cavite Industrial Area Flood Management Project	Region IV-A	9,990	2019
NIA	Chico River Pump Irrigation Project	CAR, Region II	2,696	2017
DOTr	Iloilo Airport	Region VI	30,400	2017
DOTr	New Cebu International Container Port	Region VII	9,200	2017
DOTr	New Bohol Airport	Region VII	4,570	2017
DOTr	Bacolod Airport	NIR	20,260	2017
NIA	Malitubog-Maridagao Irrigation Project, Phase II	ARMM, Region XII	5,445	2011
DPWH	Panguil Bay Bridge Project	Region X	4,859	2017
DOTr	Laguindingan Airport	Region X	14,620	2017
DOTr	Davao Airport	Region XI	40,570	2017
DOTr	Mindanao Rail Project (Phase 1) – Tagum Davao Digos Segment	Region XI	35,257	2018
DOTr	PNR Long-haul (Calamba-Bicol)	Region IV-A, Region V	151,000	2017
<b>Sub-Total (Approved), No. of Projects</b>				<b>19</b>
<b>Sub-Total (Approved), Amount in PhP Million</b>				<b>402,284.69</b>

Source: Department of Budget and Management, Department of Social Welfare and Development

## APPENDIX C-7: CURRENT ACCOUNT DEFICIT AND PESO DEPRECIATION

The Philippine current account balance has reversed to a deficit, mainly due to the widening trade-in-goods account deficit. As the economy continues to grow, so does the country's demand for capital imports. Additionally, the ongoing Build, Build, Build Program adds pressure to imports for construction materials. The sustained expansion of imports is therefore driven by strong domestic economic activity buoyed by the government's big infrastructure projects and business expansion plans. We believe that the current account will rebound from increased exports due to improved port capacity, and it should normalize when major infrastructure projects have been completed.

**FIGURE C-3: USDPHP RATE VS. CURRENT ACCOUNT DEFICIT AS % OF GDP (2008A-2022F)**

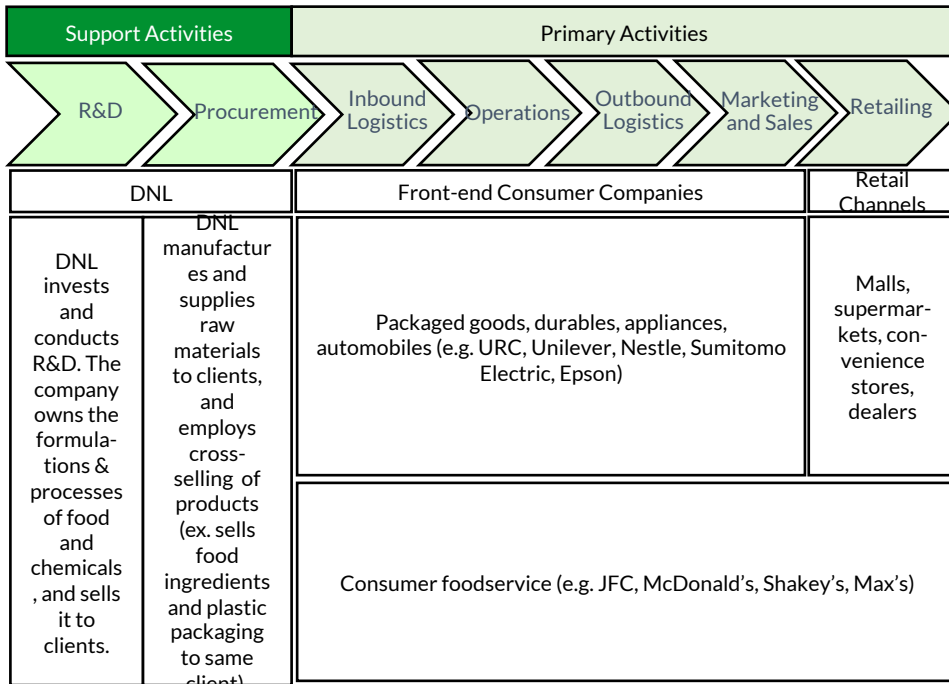


Source: Bloomberg, International Monetary Fund

The Philippine peso has depreciated 5.31% year-to-date. Exchange rates are expected to adjust to market dynamics and absorb shocks in the economy. The peso depreciation is therefore not to be taken as a sign of economic weakness. Although DNL sources 53% of its raw materials abroad, most of which are USD-denominated, we believe that the company's growing export arm will be able to offset the rise in import costs and that the company can pass on costs from a sustained high exchange rate environment.

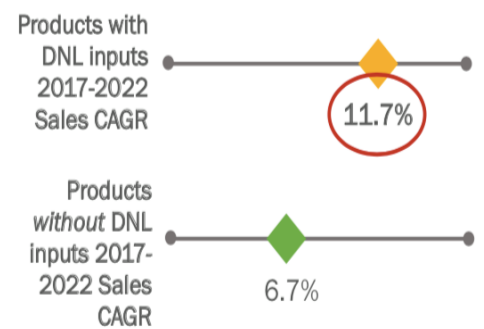
## APPENDIX C-8: VALUE CHAIN POSITIONING

Illustrated below is DNL's positioning in the consumer industry value chain. It is positioned in the back-end, providing added value to front-end consumer products, a good number of which are signature offerings that grow faster versus other menu items. DNL's back-end positioning gives the company high bargaining power due to the company's superior research and development capabilities and their control over processes and formulations. Competitive threats are also low in the back-end of the value chain as compared to the saturated front-end consumer market. Additionally, few back-end companies perform at the scale and level of R&D as DNL.



Source: Team Analysis

DNL's product offerings for specialty products also place it in high-demand and faster-growing food segments.

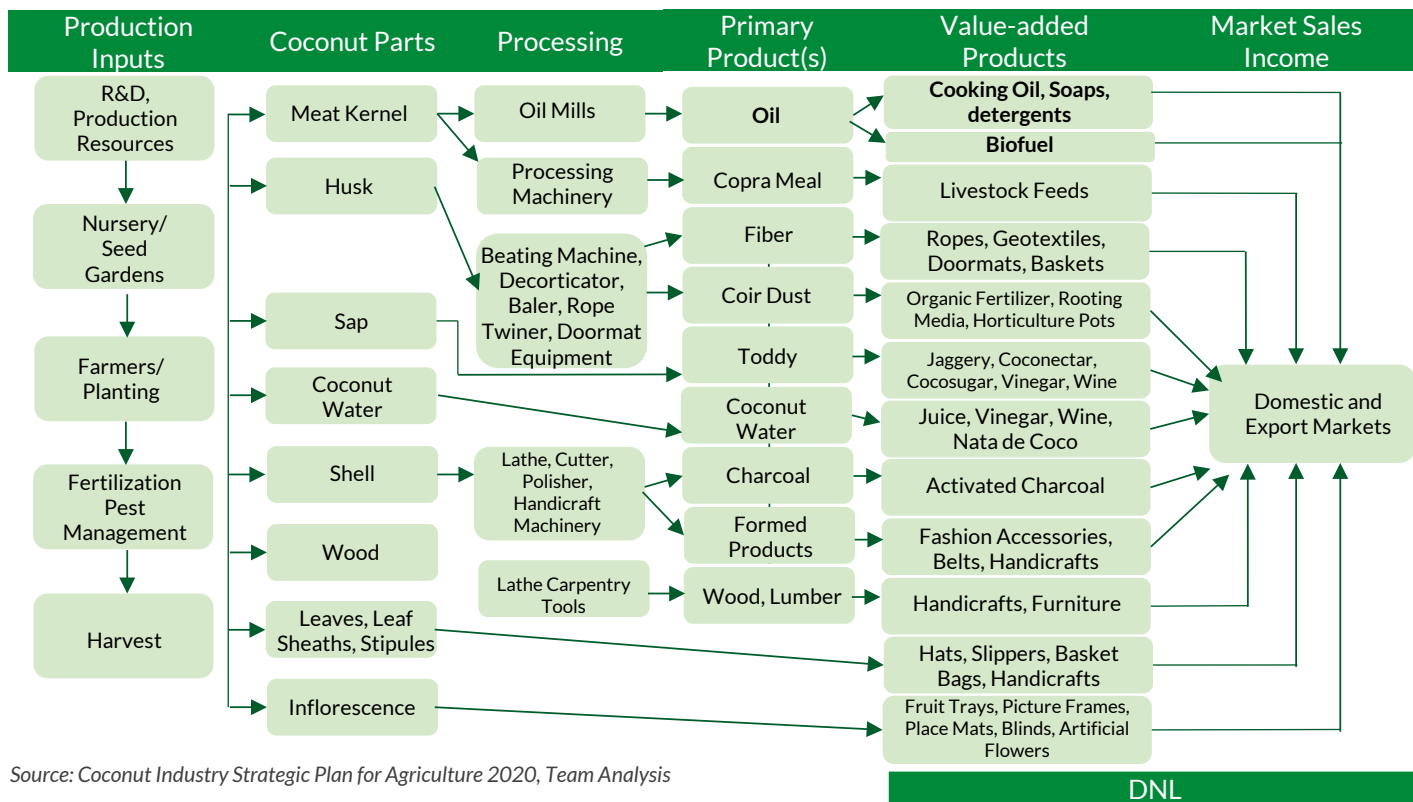


Source: Euromonitor, Company Information

Note: Products with DNL inputs: QSR chicken, chained ice cream and bakery fast food  
Products without DNL inputs: chained Asian, Latin American and Pizza fast food

## APPENDIX C-9: COCONUT OIL VALUE CHAIN ANALYSIS

Illustrated on the next page is the typical supply chain of coconut oil in the Philippines. DNL imports 31% of its coconut oil inputs from major APAC producers, such as Malaysia and Indonesia. With CNO and CPO, the company makes its specialty food ingredients, high-margin oleochemicals, and biodiesel products. DNL also participates in B2C sales with its MCT oil sales, making it a player in value-added products and domestic and export markets.



Source: Coconut Industry Strategic Plan for Agriculture 2020, Team Analysis

### APPENDIX C-10: COMPETITIVE POSITIONING BY SEGMENT

The following tables compare DNL and its competitors for the food and oleochemicals & specialty plastics industries. The companies included are a mix of local and multinational companies that penetrate either the Philippine or Asia Pacific markets. DNL has few direct competitors, most of which have a branded and non-customized product portfolio which cater to other industries outside of DNL’s clientele. Few companies compete with DNL’s specialty products, most of which are multinationals like DowDuPont and BASF which have low Philippine market penetration and moderate APAC penetration. Domestic companies like Caraga Oil and Crown Asia have relatively high Philippine penetration but do not compete at the same scale, product diversification and customization as DNL.

FOOD INGREDIENTS								
COMPANY	PRODUCT TYPES					CUSTOMER INDUSTRIES	PENETRATION	
	Refined Vegetable Oils	Oils and Fats	Specialty Ingredients	Food Safety Products	Custom Ingredients		PH	APAC
Caraga Oil Refining Inc.	X	X				Food service	High	Low
Foshan Haitian Flavouring & Food Co Ltd			X			Retail (branded products)	Low	Moderate
Indofood CBP Sukses Makmur TBK PT			X			Retail, agriculture, animal nutrition, pharmaceuticals	Low	High
Tata Chemicals			X			Retail, agriculture, animal nutrition, pharmaceuticals	Low	High
Cargill Foods India	X		X		X	Food service, agriculture, animal nutrition	Low	Moderate
<b>D&amp;L Industries</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>Foodservice, packaged food</b>	<b>High</b>	<b>Moderate</b>

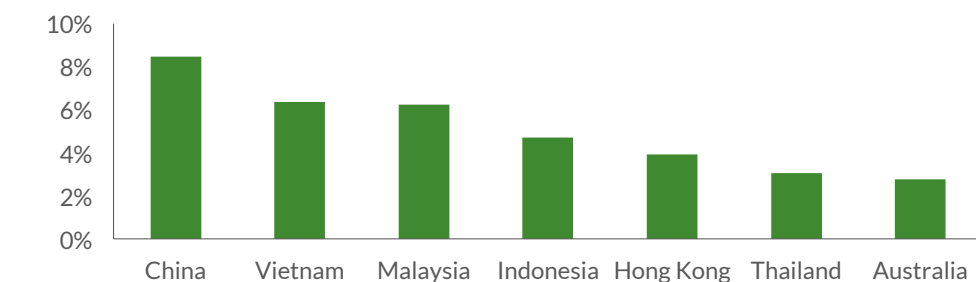
OLEOCHEMICALS AND SPECIALTY PLASTICS										
COMPANY	PRODUCT TYPES							CUSTOMER INDUSTRIES	PENETRATION	
	Colorants	Plastic Additives	Engineered Polymers	Biodiesel	Resins and Additives	Powder Coating	Custom Chemicals		PH	APAC
Crown Asia Chemicals Corporation	X	X	X					Construction	High	Low
Lotte Chemical			X					Construction, home appliance, textile	Low	High
PI Industries							X	Agriculture	Low	High
BASF		X	X				X	Agriculture, automotive, construction, home care	Low	Moderate
DowDuPont		X	X	X	X		X	Agriculture, electronics, health, construction	Low	Moderate
RI Chemical Corporation			X		X			Construction, home improvement, woodworking, furniture, adhesives	High	Moderate
Atul Ltd	X				X			Retail, construction, automotive packaging, pharmaceuticals	Low	Moderate
Pacific Resins	X	X			X			Paint, printing ink, fiberglass reinforced plastic, adhesive	High	Moderate
<b>D&amp;L Industries</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>Home improvement, personal care, home appliances, automotive</b>	<b>High</b>	<b>Moderate</b>

Source: Company Data, Team Analysis



## APPENDIX C-11: HISTORICAL ASIA PACIFIC CONSUMPTION GROWTH

### FIGURE C-4: APAC CONSUMPTION GROWTH (2008A-2017A)



Source: World Bank

## Appendix D: Valuation

### APPENDIX D-1: DCF VALUATION

In Php mn	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
EBIT	4,981	5,686	6,515	7,456	8,444	9,561	10,799	12,053	13,356	14,672
Depreciation and Amortization	465	506	552	603	660	722	788	859	934	1,013
Taxes	(864)	(1,052)	(1,220)	(1,377)	(1,561)	(1,771)	(2,005)	(2,242)	(2,490)	(2,740)
Changes in NWC	(1,402)	(1,488)	(1,708)	(1,880)	(1,877)	(1,960)	(2,081)	(2,071)	(2,225)	(2,419)
Capex	(785)	(1,020)	(1,326)	(1,392)	(1,462)	(1,535)	(1,612)	(1,693)	(1,777)	(1,866)
Unlevered FCFF	2,394	2,632	2,813	3,410	4,204	5,017	5,889	6,905	7,798	8,660
Discount Period (years)	1	2	3	4	5	6	7	8	9	10
Discount Factor	0.92	0.84	0.77	0.71	0.65	0.6	0.55	0.50	0.46	0.42
PV of Unlevered FCFF	2,197	2,215	2,173	2,416	2,733	2,992	3,223	3,467	3,592	3,660

Source: Company Data, Team Analysis

### APPENDIX D-2: COST OF DEBT

EMERGING MARKETS SYNTHETIC CREDIT RATING AND SPREAD		
Interest Coverage Ratio	Rating	Spread
> 12.50	AAA	0.75%
9.50 - 12.50	AA	1.00%
7.50 - 9.50	A+	1.50%
6.00 - 7.50	A	1.80%
4.50 - 6.00	A-	2.00%
3.50 - 4.50	BBB	2.25%
3.00 - 3.50	BB	3.50%
2.50 - 3.00	B+	4.75%
2.00 - 2.50	B	6.50%
1.50 - 2.00	B-	8.00%
1.25 - 1.50	CCC	10.00%
0.80 - 1.25	CC	11.50%
0.50 - 0.80	C	12.70%
< 0.50	D	14.00%

Source: NYU Stern

Since DNL does not issue bonds nor have credit ratings, we estimated its cost of debt based on the current interest rate environment. Our methodology uses a synthetic credit rating based on the company's interest coverage ratio to determine the appropriate spread over the long term government bond of the same maturity.

With DNL's AAA synthetic rating, we get a spread of 0.75%, close to the historical spread in its previous borrowing. Adding this spread to the 10Y Philippines Gov't Yield adjusted for a 25bp hike gives us a cost of debt of 7.25%.

#### TERMINAL VALUE CALCULATION (IN PHP MN)

WACC	9%
Growth to Perpetuity	3.50%
Terminal Value at 2028E	163,143
PV of Terminal Value	68,950
<b>Enterprise Value</b>	<b>97,618</b>
Less: Net Debt (Cash)	2584
Equity Value	95,034
Shares Outstanding (mn)	7,143
<b>Implied Php/sh</b>	<b>13.3</b>

Source: Company Data, Team Analysis

Interest Coverage Ratio	15.25
Synthetic Rating	AAA
Spread	0.75%
Historical Spread	0.63%
PH 10Y Yield (with 25 bp hike)	6.5%
Cost of Debt	7.25%

## APPENDIX D-3: COST OF EQUITY

We calculated DNL's beta by based on its covariance with the PCOMP index to arrive at a value of 0.67. We also used the pure-play method to verify this calculation and arrived at a beta of 0.69, close to our original figure.

	BETA	DEBT/EQUITY RATIO		
CNPF PM Equity	0.55	0.26	Peer-average Unlevered Beta	0.58
FB PM Equity	0.80	0.17	DNL Debt/Equity	28.5%
JFC PM Equity	0.94	0.38	Implied Beta	0.69
MAXS PM Equity	0.81	0.76	Cov. Adjusted Beta	0.67
PGOLD PM Equity	0.65	0.14		
RRHI PM Equity	0.44	0.12		

Source: Team Estimates, Bloomberg

## APPENDIX D-4: DCF-BASED SOTP VALUATION

IN PHP MN	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
<b>Unlevered FCFF</b>	<b>1,504</b>	<b>1,667</b>	<b>1,789</b>	<b>2,177</b>	<b>2,702</b>	<b>3,247</b>	<b>3,847</b>	<b>4,571</b>	<b>5,207</b>	<b>5,822</b>
Discount Period (years)	1	2	3	4	5	6	7	8	9	10
Discount Factor	0.92	0.84	0.77	0.71	0.65	0.6	0.55	0.5	0.46	0.42
<b>PV of Unlevered FCFF</b>	<b>2,197</b>	<b>2,215</b>	<b>2,173</b>	<b>2,416</b>	<b>2,733</b>	<b>2,992</b>	<b>3,223</b>	<b>3,467</b>	<b>3,592</b>	<b>3,660</b>

### TERMINAL VALUE CALCULATION (IN PHP MN)

Growth to Perpetuity	3.70%
FCF in 2028F	5,822
PV of Terminal Value	59,426
Total HMSP EV	78,087
<b>Php/sh (HMSP)</b>	<b>10.6</b>
Commodity EPS 2019F	0.12
Commodity P/E Multiple (Coconut and Palm Oil Ave.)	16
<b>Php/sh (Commodity)</b>	<b>1.93</b>
<b>Php/sh (DNL)</b>	<b>12.53</b>

Source: Team Estimates, Bloomberg

## APPENDIX D-5: MULTIPLE REGRESSION ANALYSIS

DEPENDENT VARIABLE	INDEPENDENT VARIABLES	REGRESSION EQUATION	R <sup>2</sup>
Local Food Revenue	PH Food and Non-alcoholic Beverages Consumption Chained Consumer Food Service Market Size	$y = -2.299 \cdot 10^{-2} x_1 + 3.312 \cdot 10^{-1} x_2 + 18630.757$	0.807
Export Food Revenue	APAC Food and Non-alcoholic Beverages Consumption Chained Consumer Food Service Market Size	$y = 4.732 \cdot 10^{-2} x_1 - 6.910 \cdot 10^{-1} x_2 + 27646.495$	0.575
Local Oleochemicals Revenue	PH Liquid Fuels, Personal Care (e.g. surfactants, toiletries) Market Size	$y = 5.151 \cdot 10^{-2} x_1 - 7.390 \cdot 10^{-1} x_2 + 9337.772$	0.962
Export Oleochemicals Revenue	APAC Liquid Fuels, Personal Care (e.g. surfactants, toiletries) Market Size	$y = -0.323 x_1 + 1.009 x_2 + 559.496$	0.923
Local Specialty Plastics Revenue	PH Household Appliances Market Size, Automotive Industry Market Size	$y = 5.765 \cdot 10^{-1} x_1 - 3.110 \cdot 10^{-1} x_2 - 7130.862$	0.998
Export Specialty Plastics Revenue	APAC Household Appliances Market Size, Automotive Industry Market Size	$y = 1.074 \cdot 10^{-1} x_1 - 2.863 \cdot 10^{-2} x_2 - 948.489$	0.990
Local Aerosols Revenue	PH Personal Care (e.g. hair care, body care), Home Care (e.g. home insecticides, cleaning agents) Market Size	$y = 4.464 \cdot 10^{-3} x_1 - 4.098 \cdot 10^{-2} x_2 + 444.032$	0.990
Commodity Margins	Coconut Oil, Palm Oil Prices	$y = -6.119 \cdot 10^{-5} x_1 - 4.972 \cdot 10^{-5} x_2 + 1.803 \cdot 10^{-1}$	0.866

Source: Team Estimates

## APPENDIX D-6: TERMINAL GROWTH RATE

We based the calculation of the terminal growth rate for DNL at 3.7% on the long-run consumer expenditure growth in the Asia Pacific region (3.8%), long-run Philippine inflation (3.5%), and the long-term growth rate of the specialty chemicals sector in mature markets like the US, UK, and Europe (3.7%). Projections for consumer expenditure were taken from the average historical ratio of consumer expenditures to GDP of the Asia Pacific countries from 1961 to 2017. This was then multiplied to the long-term APAC GDP forecast of 3.9% to arrive at a long-run growth rate of 3.8%.

COUNTRY	AVERAGE CONSUMPTION GROWTH/ GDP GROWTH 2012-2030
Indonesia	106.4%
Malaysia	99.3%
Philippines	90.0%
Thailand	90.4%
Vietnam	95.6%
Australia	106.0%
China	99.7%
India	93.1%
<b>Total Average</b>	<b>97.6%</b>
<b>Long-Run GDP Growth</b>	<b>3.9%</b>
<b>Long-Run Consumption Growth</b>	<b>3.8%</b>

Source: World Bank

## APPENDIX D-7: CRITERIA FOR REGIONAL PEER SELECTION

The regional pool of DNL's peers is comprised of companies that operate in the same segment(s) and region as DNL. The following are the companies that satisfy the conditions stipulated above. The R&D to Sales ratio was evaluated to emphasize the edge that DNL has in the specialty chemicals industry.

COMPANY	TICKER	COMPANY DESCRIPTION	AVE. R&D AS % OF REVENUES (2015A - 2017A)
Indofood CBP Sukses Makmur TBK PT	ICBP IJ Equity	PT Indofood Sukses Makmur TBK provides a wide range of food products. The company is a total food solutions company with operations in all stages of food manufacturing from the production of raw materials and their processing to consumer products on the retailer's shelf. Its sales mix is comprised of 95% packaged food and 5% beverages.	0.0%
Atul Ltd	ATLP IS Equity	Atul Limited is a diversified manufacturer of chemicals. The company's products include agrochemicals, aromatics, cresol and its derivatives, pharmaceutical intermediaries, bulk drugs, and chemicals. Atul also manufactures dyestuff and colors for the textile industry. Specialty and other chemicals comprise 68% of its revenue.	0.2%
Foshan Hatian Flavoring & Food Co Ltd	603288 CH Equity	Foshan Hatian Flavoring & Food Co Ltd. Manufactures food seasoning. The company develops, produces, and distributes condiments including soy sauce, oyster sauce, vinegar, flavoring sauce, chicken stock, monosodium glutamate, and oil. Revenue is composed of 100% packaged food.	0.0%
House Foods Group Inc.	2810 JP Equity	House Foods Group Inc. manufactures and sells spices and flavorings. The company also produces snacks, instant noodles, and ingredients for cooking. House Foods Group serves both household and commercial buyers. Its sales are comprised primarily of packaged food at 65%.	1.4%
PI Industries Ltd.	PI IN Equity	PI Industries Limited manufactures agricultural and fine chemicals, and polymers. The company produces fine chemicals, crop protection, plant nutrients, seeds, and engineering plastics for use in the automobile, electrical, and home appliances industries. Its revenues are 100% composed of chemicals.	1.1%

Source: Bloomberg

## APPENDIX D-8: CORPORATE INCOME TAX REFORM SCHEDULE

Illustrated below are the provisions of the House of Representatives (HB 8083) and Senate (SB 1906) version of the Tax Reform for Accelerating Better Opportunities (TRABAHO) bill. Our sensitivity analysis assumes that the TRABAHO bill will be passed in 2019 and provisions become effective in 2020. Given a five-year income tax holiday, we implemented each version starting 2022. However, these may still future changes, as the passage this bill in its current versions is uncertain. As such, we chose not to factor in other provisions regarding financial incentives, such as deductions for R&D expense.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Corporate Income Tax Rate</b>										
Current Regime	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
HB 8083	30.0%	30.0%	28.0%	28.0%	26.0%	26.0%	24.0%	24.0%	22.0%	22.0%
SB 1906	30.0%	30.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
<b>Special BOI Tax Rate (Post-Income Tax Holiday)</b>										
Current Regime	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
HB 8083	10.0%	10.0%	10.0%	10.0%	26.0%	26.0%	24.0%	24.0%	22.0%	22.0%
SB 1906	10.0%	10.0%	10.0%	10.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
<b>Special PEZA Tax Rate (Post-Income Tax Holiday)</b>										
Current Regime	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
HB 8083	5.0%	5.0%	5.0%	5.0%	26.0%	26.0%	24.0%	24.0%	22.0%	22.0%
SB 1906	5.0%	5.0%	5.0%	5.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%

Source: House of Representatives, Senate of the Philippines

## Appendix E: Corporate Governance

### APPENDIX E-1: DNL BOARD OF DIRECTORS

Name	Years of Affiliation	Position	Affiliations
Yin Yong L. Lao	43	Chairman & Director	<ul style="list-style-type: none"> <li>Served as former president of DNL</li> <li>President and CEO of LBL Prime Properties Incorporated</li> <li>Trustee of the Association of Petrochemical Manufacturers of the Philippines</li> <li>Graduated from the Ateneo de Manila University with a Bachelor of Arts degree in General Studies</li> </ul>
John L. Lao	42	Director & Vice Chairman	<ul style="list-style-type: none"> <li>Served as former president until August 2016</li> <li>President of Aero-Pack Industries, Inc.</li> <li>Graduated from the University of the East with a degree in Business Administration</li> <li>Director, president, and CEO of D&amp;L industries since August 2016</li> <li>Independent director of Xurpas Inc.</li> <li>Director of Axis REIT</li> <li>Vice President of the Technology Club of the Philippines</li> <li>Former president of the Entrepreneurs Organization (EO)</li> </ul>
Alvin D. Lao	19	Director, CEO, & President	<ul style="list-style-type: none"> <li>Member of the Financial Executives Institute of the Philippines (FINEX) and the Wallace Business Forum</li> <li>Member of the Advisory Board of Urban Land Institute - Philippine Branch</li> <li>Graduated from the University of Western Australia with a Bachelor of Science in Information Technology (Honours) and Statistics</li> <li>Holds a Master's degree in Business Administration from the MIT Sloan School of Management</li> </ul>
Mercedita S. Nolleto	3	Independent Director	<ul style="list-style-type: none"> <li>Lawyer and CPA</li> <li>Former Senior Managing Director &amp; Corporate Secretary of Ayala Corp.</li> <li>Chairman of BPI Investment Management</li> <li>Director of Xurpas, Inc.</li> <li>Trustee, - Ayala Foundation and BPI Foundation</li> <li>Graduated from the University of the Philippines with a degree in Business Administration &amp; Bachelor of Laws</li> </ul>

Filemon T. Berba, Jr.	6	Independent Director	<ul style="list-style-type: none"> <li>Member of Institute of Corporate Directors</li> <li>Former President of Globe and Manila Water</li> <li>Graduated from the University of the Philippines with a B.S. in Electrical Engineering</li> <li>Graduated with an M.B.A. from the Wharton School of the University of Pennsylvania</li> </ul>
Corazon S. de la Paz-Bernardo	1	Independent Director	<ul style="list-style-type: none"> <li>Former President &amp; CEO of Social Security System</li> <li>Former Senior Partner and Chair at Joaquin Cunanan &amp; Co (PricewaterhouseCoopers Philippines)</li> <li>First non-European President of the International Social Security Association</li> <li>Graduated with a degree in B.S. Accountancy from University of the East MBA from Cornell University</li> </ul>
Lydia R. Balatbat-Echaz	1	Independent Director	<ul style="list-style-type: none"> <li>Former President of Far Eastern University</li> <li>Director of Metro Pacific Investments</li> <li>Graduated with an A.B. in Economics and Mathematics from St. Theresa's College</li> <li>Graduated with an MBA from Ateneo de Manila University</li> <li>Graduated with a DBA from De La Salle University</li> </ul>

Note: Mr. Dean L. Lao, Mr. Leon L. Lao, and Mr. Alex L. Lao comprise the Advisory Board. Mr. Dean L. Lao serves as Chairman Emeritus.

Source: Company Data

## APPENDIX E-2: DNL SENIOR MANAGEMENT

Name	Years of Affiliation	Position	Affiliations
Amorsolo M. Rosario	7	Chief Financial Officer, Treasurer and Chief Compliance Officer	<ul style="list-style-type: none"> <li>Former SVP of Finance of Nestle Phils.</li> <li>27 years in Nestle (PHL, AUS, UK, &amp; SWI)</li> <li>Graduated with a degree in B.S. Bus Admin &amp; Accountancy from the University of the Philippines</li> <li>Graduated from the Executive Development Program of Switzerland International Institute for Management Development</li> </ul>
Joselito P. Rivera	-	Chief Operating Officer	<ul style="list-style-type: none"> <li>Former Global Head for Leadership at Ericsson Corporate HQ in Sweden</li> <li>Lead Adviser for Marikina Local Government Chairperson, Board of Trustees, and OIC President of Pamantasan Lungsod ng Marikina</li> <li>Graduated with a degree in A.B. Psychology from Ateneo de Manila University</li> </ul>
Dean A. Lao, Jr.	22	Managing Director, Chemrez Technologies	<ul style="list-style-type: none"> <li>Chairman - United Coconut Association of the Phils</li> <li>Director - ASEAN Oleochemical Manufacturing Group, President - Philippine Oleochemical Manufacturers Association &amp; Philippine Biodiesel Association,</li> <li>Graduated from the Advanced Management Program of Harvard Business School</li> </ul>
Lester A. Lao	28	Managing Director of FIC & DLPC	<ul style="list-style-type: none"> <li>Graduated with a Bachelor of Applied Science (Information Business) in Edith Cowan University Australia</li> </ul>
Vincent D. Lao	23	Managing Director of Oleo-Fats	<ul style="list-style-type: none"> <li>Former Assistant Trader at Shuwa Co. Ltd. In Japan, 1994-1995</li> <li>Graduated with a B.A. in Economics and Japanese Studies from the University of Western Australia</li> </ul>

Source: Company Data

## APPENDIX E-3: CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY PRACTICES

The Lao Foundation Incorporated (LFI) - The LFI, along with other partner institutions, hopes to strengthen neighbor communities towards leadership and excellence through education, values formation, and livelihood. It works with institutional partners who help implement the programs and services. LFI's networks include NGOs, schools, denominational reach out communities, youth centers, orphanages, welfare organizations, and all those engaged in similar and related works and ministries. As of 2017, 1% of DNL's annual net income was committed to corporate social responsibility. Through the foundation, the group raised Php 30 million which helped sponsor 96 teachers' salaries, 366 educational assistance scholars, and 677 indigent students for Christmas gift-giving. A table summarizing their main programs are shown on the next page.



Program	Beneficiary
Partner Based Educational Program	College, Technical Vocational, High School, Elementary, and Hearing Impaired students nationwide
Community Based Educational Program	Various communities and elementary schools where DNL plants are located
ELL Teachers' Welfare Program	Retired teachers of Grace Christian High School and of Purple Centers Foundation
LBL Educational Excellence Awards Program	Children of DNL employees

Source: Company Data

## APPENDIX E-4: EVALUATION OF DNL'S QUALITY OF CORPORATE GOVERNANCE

To evaluate the company's quality of corporate governance, each committee of the board is evaluated on a scale of 1 to 4 based on the roles that they have to fulfill and criteria corresponding to these roles as enumerated in CFA Institute Corporate Governance Manual for Investors. The following table summarizes the analysis:

Legend:

- 1 - The company did not follow the criteria at all,
- 2 - The company did not follow the criteria,
- 3 - The company followed the criteria,
- 4 - The company has excellent policies on this criteria.

CRITERIA	DESCRIPTION	RATING	COMPANY POLICIES
<b>EXECUTIVE COMMITTEE</b>			
Independence	Boards must be willing and able to effectively scrutinize strategy and management performance and set reasonable compensation.	4	The board of directors are majority independent and non-executive (4 out of 7).
Accountability	Governance practices should reflect a board that is answerable to its owners.	4	Fiduciary roles, responsibilities, and accountabilities of the board are clearly outlined.
Responsiveness	Directors must be responsive to the wishes of its shareholders as expressed through elections or votes on shareholder proposals and respond accordingly.	2	D&L's corporate governance manual outlines and stipulates the protection of the rights of shareholders, such as: 1. Right to vote on all matters that require 2. their consent or approval; 3. Right to inspect corporate books and records; 4. Right to information; 5. Right to dividends; 6. Appraisal right; and 7. Right to appoint a proxy.
Competence	Directors should add value through skills or expertise in a particular field.	3	The nominations committee considers its candidates on merit against objective criteria and it takes consideration of diversity, allowing for a board comprised of experts from different backgrounds and experiences.
Elections	Annually elected directors	4	There is a detailed screening and electoral process during annual stockholder meetings.
Board Attendance	Annually elected directors, adequate attendance at board and committee meetings.	4	6 out of 7 of all the board members have attended all meetings held during the year.
Directorship	Reasonable number of board directorships.	4	There are 7 directors to the board for the year, as stipulated in the Articles of Incorporation, with 3 advisory board members.
Elections	Majority voting in director elections.	4	Directors are elected through a plurality of votes using the cumulative voting method.
Related Party Transactions	Absence of material related party transactions.	3	Related party transactions are done at an arms-length basis, where fair value for transactions and leasing terms are evaluated objectively by external property consultants.
Board Members	Board of at least 5 but no more than 15 members.	4	The board consists of 7 members, which is within the criteria for good governance.
Independent Members	Board must have greater of: 2 independent directors or 20% independent members of the board..	4	DNL has 4 independent directors, namely Mercedita Nolloedo, Corazon S. Dela Paz-Bernardo, Filemon Berba, and Lydia Balatbat-Echaz

Role Delegation	Role of CEO and chair should be separate	4	The CEO is Alvin D. Lao, while the Chairman of the board is Yin Yong L. Lao
Committees	Established Executive, Audit, Compensation, Nominating, and Compliance Committee	4	There are established Executive, Audit, Compensation, and Nominating committees
<b>AVERAGE SCORE</b>		<b>3.69</b>	
<b>AUDIT COMMITTEE</b>			
Independent Audit	Auditor should provide an impartial and professional opinion. Independence is compromised when the auditor receives significant payments for non-audit work.	4	The audit committee exercises oversight to review and monitor the external auditor's independence and objectivity in accordance with Philippine professional and regulatory requirements.
Independent Audit	Board's Audit Committee should be independent	4	The audit committee is led by independent director Mrs. Corazon de la Paz Bernardo.
Integrity of Financials	Company's financials should have integrity. (Items that raise concerns include changes in auditors, irregularities over many years, material weaknesses in the company's controls, certain restatements, and excessive fees paid for non-audit work)	4	The external auditor is duly accredited by the SEC under group A category. Statements are publicly disclosed with notes to help investors understand how accounts were settled. The committee also ensures that the external auditor has adequate quality control procedures.
Selection of Auditor	Company should allow shareholders to ratify the selection of the auditor	4	The appointment, reappointment, removal, and fees of the external auditor is recommended by the audit committee, approved by the Board, and ratified by shareholders. The lead audit partner is rotated every 5 years.
<b>AVERAGE SCORE</b>		<b>4</b>	
<b>COMPENSATION COMMITTEE</b>			
Performance Metrics	Performance metrics should encourage executives to make decisions that benefit shareholders	3	Compensation is determined by attendance in board meetings. However, the company does not have a management incentive plan as part of its current compensation for Directors and officers
Performance Metrics	Performance Metrics should be communicated to shareholders	4	The Board Charter is publicly available and posted on the company website
Performance Metrics	A portion of executive compensations should be in the form of equity	1	The company does not have any stock option as part of its current compensation for Directors and Officers
Performance Metrics	Shareholders should have an advisory vote on executive compensation	4	The company complies with Sec. 30 of the Corporation Code of the Philippines, which states that compensation other than per diems may be granted to directors by the vote of shareholders representing at least a majority of the outstanding capital stock.
<b>AVERAGE SCORE</b>		<b>3</b>	
<b>PROTECTION OF SHAREHOLDER RIGHTS</b>			
Election	One share, one vote	4	Company's common share has 1 vote for 1 share.
Shareholder Rights	Right to Dividend	4	Shareholders are entitled to dividends subject to the discretion of the board.
Shareholder Rights	Absence of supermajority vote requirements	4	The company reserves the voting requirement prescribed in the Corporation Code and other relevant laws, including those prescribing supermajority.
Shareholder Rights	Right of shareholders to call special meetings	4	The Board recognizes the right of minority shareholders to propose the holding of meetings and inclusion of items that relate directly to the business corporation.
Shareholder Rights	Information	4	Shareholders are entitled to access corporate books, records, and reports without restrictions
Shareholder Rights	Appraisal rights	4	Shareholders may exercise their right to dissent and demand payment for the fair value of their shares, as stated in Section 81 of the Corporate Code of the Philippines.
<b>AVERAGE SCORE</b>		<b>4</b>	
<b>OVERALL RATING</b>		<b>3.67</b>	

Source: Team Analysis