

16 June 2020

Consumer Cyclical | Retailing

Retailing

Neutral

Phase 2 Begins This Friday

Stocks Covered: 5
 Rating (Buy/Neutral/Sell): 1/3/1
 Last 12m Earnings Revision Trend: Negative

- Maintain NEUTRAL; Top Pick: Sheng Siong.** Singapore will start its Phase 2 reopening on 19 Jun with the resumption of most activities, subject to some safe distancing measures. Small-group gatherings of up to five persons can resume. All retail businesses may reopen physical outlets. Food & beverage (F&B) dine-ins will be allowed for up to five/table. Overseas travel and large-scale gatherings remain prohibited.
- Our View.** We expect to see some positive respite for the F&B players amid pent-up consumer demand and 2.5-months of cabin fever during the Circuit Breaker and Phase 1 reopening. This should shift some of the food demand from grocery retailers back to foodservices. However, we do not expect a V-shape recovery in retail. We remain NEUTRAL on the Singapore retail sector as the weak GDP outlook and rising unemployment are likely to be a ceiling on consumer purchasing power and could dampen consumer confidence in the near term.
- Foodservice players to see varying degrees of recovery.** With F&B dine-ins permitted, and most retail businesses resuming operations, we expect F&B players to benefit from stronger footfall, while popular F&B names and sub-sectors – like bubble tea stores – could see a short-term sales spike from knee-jerk demand. The resumption of schools for all levels – from 29 Jun – should also create more foot traffic from students. However, we do not see a V-shape recovery in retail. Cautious consumers may not go out/dine out as frequently as they did prior to COVID-19. On top of that, the continuation of work-from-home measures, and prohibition on large social gatherings and tourism inactivity could limit the recovery of F&B concepts and retail locations which rely on these crowds.
- Grocery retail growth to taper down in 2H20F.** Grocery retailers are expected to see strong earnings this year as a result of the stay-home measures during the Circuit Breaker and Phase 1. Revenue growth should taper off in 2H20 as a consequence of the recovery in foodservice retail. Nonetheless, we still expect YoY growth to be positive in 2H20 given that some of the work-from-home measures remain in place.
- Private spending capped by the macro outlook.** Singapore's GDP is expected to contract by 4-7% in 2020. It may not recover strongly in 2021 if other major economies continue to see disruptions arising from a second wave of infections. The overall unemployment rate in Singapore has also hit 2.4% in 1Q20, with citizens' unemployment rate reaching 3.5% – the highest in 10 years. Yet, unemployment is expected to increase in coming months. We believe macro pressures will cap consumer confidence and continue to dampen spending in the near term. A resurgence of COVID-19 cases in the community also remains a key downside risk for the sector.

Top Pick

Sheng Siong (SSG SP) - BUY

Target Price

SGD1.72

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Company Name	Rating	Target Price	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Sheng Siong	BUY	SGD1.72	12.6	22.4	6.7	3.2
Kimly	NEUTRAL	SGD0.24	9.1	11.7	2.8	6.0
Dairy Farm	NEUTRAL	USD4.95	3.1	23.6	5.4	4.2
Japan Foods	NEUTRAL	SGD0.35	5.0	25.4	1.7	2.4
Jumbo Group	SELL	SGD0.19	(33.9)	54.8	2.7	0.2

Source: Company data, RHB

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Market Dateline / PP 19489/05/2019 (035080)

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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