9 April 2020

Consumer Cyclical | Retailing

Dairy Farm (DFI SP)

Neutral (Maintained)

Positive On Groceries, Negative For Other Formats

Target Price (Return):	USD4.95 (+2%)
Price:	USD4.85
Market Cap:	USD6,561m
Avg Daily Turnover (USD/USD)	6.12m/6.12m

- **Maintain NEUTRAL with new TP of USD4.95,** from USD5.05, 2% upside. More countries are imposing movement restrictions to contain the spread of COVID-19. Dairy Farm, being a major player in the grocery retail segment, is likely to see its supermarket sales improve on the increased number of people staying at home. However, this positive upswing could be offset by declines in its other formats.
- **Regional grocery sales rose amidst COVID-19 fear.** Fear of the pandemic and implementation of social distancing measures have led to panic buying in supermarkets around the world. Based on the latest statistics, February supermarket sales for Hong Kong (Dairy Farm's largest market) was up 12.2% YoY. Taiwan supermarket sales jumped 13.4% YoY, while Singapore supermarket sales surged 15.5% YoY, despite the usual post-Lunar New Year lull season. We expect Dairy Farm's other regional markets, including Malaysia and Indonesia, to see similar robust sales for the supermarket category as the Movement Control Order in Malaysia and lockdown in Jakarta, Indonesia, would increase the demand for food at home.
- **Expect supermarket sales to remain resilient for some time.** Though the panic buying behaviour is likely to taper off, we believe stay home measures would only be eased in stages so long as COVID-19 remains. This is because a sudden surge of people going back to work and school could trigger another wave of viral contagion. The increased awareness and need for the virus containment are likely to lead to a decline in dining out and a preference for eating at home instead.
- **Other formats would be negatively affected.** While we see some positive respite from the supermarket formats, other retail trade is likely to suffer as social distancing and lockdown measures kick in, deterring consumers from going out. We expect to see sales decline for its home and furnishing and convenience segments. Contribution from its associate, Maxim's, is also expected to be adversely impacted. The health and beauty segment could see some positives from increased sales of COVID-19 prevention products such as masks, hand sanitisers and healthcare in the earlier months when stocks are still available, but sales of other beauty products are likely to be affected.
- **Changes in earnings and TP.** We trim our FY20F-22F earnings by c.1-2% as the decline in other formats are offset by the increase in supermarket sales, which resulted in a lower DCF-derived TP. Investors with a longer investment horizon could look to accumulate if the share price falls below USD4.50.

Analyst

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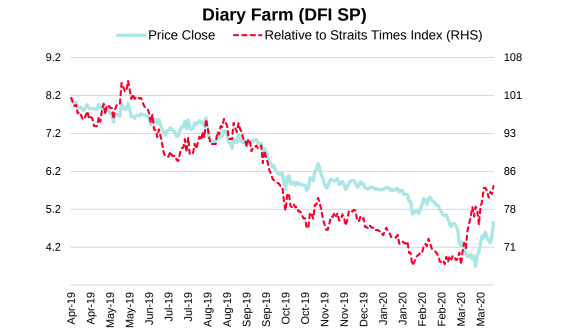
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.1)	4.5	(16.0)	(20.9)	(40.0)
Relative	5.1	17.7	4.8	(3.9)	(17.4)
52-wk Price low/high (USD)					3.70 – 8.10



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	11,749	11,192	11,290	11,553	12,164
Recurring net profit (USDm)	92	326	275	329	401
Recurring net profit growth (%)	(77.1)	254.6	(15.7)	19.8	21.8
Recurring P/E (x)	71.31	20.11	23.86	19.92	16.35
P/B (x)	4.5	5.4	5.5	5.2	4.7
P/CF (x)	10.80	4.72	13.12	10.12	8.53
Dividend Yield (%)	4.3	4.3	4.1	4.1	4.3
EV/EBITDA (x)	17.15	3.72	8.97	8.11	7.10
Return on average equity (%)	5.9	24.6	22.8	26.8	30.3
Net debt to equity (%)	49.9	66.2	91.1	89.9	75.7

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Consumer Cyclical
Dairy Farm
DFI SP
Neutral

Valuation basis

DCF

Key drivers

i. Higher-than-expected sales from the grocery and health and beauty segments;
ii. Turnaround of ASEAN supermarkets.

Key risks

i. Slowdown in consumption spending and soft SSSG in the region;
ii. Labour cost and rental pressures.

Company Profile

Dairy Farm is the largest retailer in Asia ex-Japan, with a strong market presence in China, Hong Kong, Taiwan, India and ASEAN. The company operates hypermarkets, supermarkets, convenience stores, pharmacies, home furnishing and restaurants- through its 50% associate Maxim's. Its brands, which are well-known, include Wellcome, Cold Storage, Giant, Hero, Mannings and Guardian. Dairy Farm is a member of the Jardine Matheson Group and is headquartered in Hong Kong and listed on the London Stock Exchange, Bermuda and Singapore.

Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.07	0.24	0.20	0.24	0.30
DPS	0.21	0.21	0.20	0.20	0.21
BVPS	1.07	0.89	0.89	0.93	1.03
Return on average equity (%)	5.9	24.6	22.8	26.8	30.3

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	71.31	20.11	23.86	19.92	16.35
P/B (x)	4.5	5.4	5.5	5.2	4.7
FCF Yield (%)	5.4	16.8	3.2	5.5	7.3
Dividend Yield (%)	4.3	4.3	4.1	4.1	4.3
EV/EBITDA (x)	17.15	3.72	8.97	8.11	7.10
EV/EBIT (x)	66.93	12.48	13.84	12.37	10.65

Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	11,749	11,192	11,290	11,553	12,164
Gross profit	3,649	3,534	3,568	3,651	3,844
EBITDA	308	1,428	619	681	755
Depreciation and amortisation	(229)	(1,002)	(218)	(235)	(252)
Operating profit	79	426	401	446	503
Net interest	(33)	(158)	(43)	(45)	(45)
Pre-tax profit	179	394	345	408	492
Taxation	(101)	(69)	(72)	(80)	(92)
Reported net profit	92	326	275	329	401
Recurring net profit	92	326	275	329	401

Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(55)	25	(27)	34	79
Cash flow from operations	607	1,389	500	648	769
Capex	(256)	(287)	(290)	(290)	(290)
Cash flow from investing activities	(501)	(265)	(290)	(290)	(290)
Dividends paid	(284)	(284)	(284)	(271)	(271)
Cash flow from financing activities	(186)	(217)	(111)	(271)	(271)
Cash at beginning of period	332	296	301	181	144
Net change in cash	(80)	907	99	88	209
Ending balance cash	253	1,204	401	269	353

Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	296	301	181	144	228
Tangible fixed assets	848	820	876	916	940
Total investments	2,067	2,102	2,158	2,224	2,303
Total assets	5,390	8,370	8,606	8,734	9,037
Short-term debt	1,026	938	200	200	200
Total long-term debt	15	184	1,100	1,100	1,100
Total liabilities	3,899	7,130	7,377	7,447	7,621
Total equity	1,491	1,240	1,229	1,287	1,416
Total liabilities & equity	5,390	8,370	8,606	8,734	9,037

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	4.1	(4.7)	0.9	2.3	5.3
Recurrent EPS growth (%)	(77.1)	254.5	(15.7)	19.8	21.8
Gross margin (%)	31.1	31.6	31.6	31.6	31.6
Operating EBITDA margin (%)	2.6	12.8	5.5	5.9	6.2
Net profit margin (%)	0.8	2.9	2.4	2.9	3.3
Dividend payout ratio (%)	308.7	87.1	98.4	82.2	70.8
Capex/sales (%)	2.2	2.6	2.6	2.5	2.4
Interest cover (x)	2.41	2.69	9.33	9.95	11.21

Source: Company data, RHB

Figure 1 : DCF valuation

USD m	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
Net income	274.9	329.3	401.2	433.3	463.6	491.4
D&A costs	217.5	234.7	251.8	254.3	260.0	260.0
Net capex	(290.0)	(290.0)	(290.0)	(280.0)	(270.0)	(260.0)
Change in net working capital	(27.1)	33.5	78.9	0.0	0.0	0.0
Change in debt	177.8	0.0	0.0	0.0	0.0	0.0
Free cash flow to equity (FCFE)	353	308	442	408	454	491
Terminal value						6,945.0
Present value	353.2	284.3	377.8	322.3	331.6	5026.8
Total discounted FCFE	6696.1					
Value/ share (USD)	4.95					
Cost of equity	8.15%					
Risk-free rate	2.00%					
Beta	0.80					
Country risk premium	0.15%					
Market expected return	9.50%					
Terminal growth	1.00%					

Source : RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-06	Neutral	5.05	4.64
2019-09-23	Neutral	na	6.81
2019-08-05	Neutral	na	7.31
2019-05-29	Neutral	na	7.83
2019-03-20	Buy	na	7.74
2019-03-04	Neutral	na	8.65
2018-10-08	Neutral	na	8.95
2018-07-30	Neutral	na	8.74

Source: RHB, Bloomberg

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-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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