

8 June 2020

Consumer Cyclical | Retailing

Grocery Retail

Overweight (Maintained)

April Grocery Spending Spikes On Circuit Breaker

Stocks Covered 2
 Rating (Buy/Neutral/Sell): 1/1/0
 Last 12m Earnings Revision Trend: Positive

- OVERWEIGHT; grocery spending spike much higher than anticipated.** Supermarket and hypermarket retail sales in April soared 75% YoY and 30% MoM from the implementation of “circuit breaker” (CB) measures. The growth is much stronger than our estimate, and in line with our positive stance on Sheng Siong, Singapore’s third-largest supermarket operator and a direct CB beneficiary. As there is potential earnings upside for Sheng Siong, we maintain BUY and our SGD1.72 TP.
- Demand for food from stay-at-home measures > demand from panic buying.** After the last wave of panic buying before the CB implementation on 7 Apr, the hoarding trend tapered down. This was on the back of the Government’s continued reassurance on intact supply lines and inventory sufficiency on food and necessities. On top of that, NTUC FairPrice pledged to “remain open, come what may”. As there were more rounds of panic buying in March – stemming from events like Prime Minister Lee Hsien Loong’s speech on Singapore’s COVID-19 situation and Malaysia’s lockdown – the sales surge in April (+75% YoY) vs March’s numbers (+36% YoY) suggests that demand for groceries attributed to increased cooking at home should be greater than the demand from panic buying and pantry-loading. This was further supported by a big 39% MoM fall in food & beverage (F&B) sales in April, which signals that consumers have shifted food demand from F&B service providers to grocery retailers.
- Strong online sales not a major threat to brick-and-mortar players, for now.** While COVID-19 infections rose, online delivery services gained traction as consumers avoided crowded spaces to minimise contagion risks – especially from March to early May, when the number of COVID-19 cases increased, and fear of infection rose. Based on our calculations, online sales for all categories grew 33% MoM in April. News reports also said that Redmart, one of Singapore’s most popular grocery e-commerce platforms, saw sales quadruple since the implementation of the CB. Nevertheless, we do not think it is a major threat to brick-and-mortar grocery retailers at the moment, given the strong growth in overall demand for groceries. On top of that, online sales only constituted 7.7% of total grocery sales in April, vs 7.5% in March. We do not expect the sales growth of online grocery stores to continue to accelerate from hereon, as the recent decline in the number of new COVID-19 cases daily has assuaged fears.
- Impact on stocks we cover.** April’s statistics affirm our earlier view that 2Q20F sales growth will likely to be stronger than that of 1Q20. While sales from panic buying should dissipate going into May and June as fears over COVID-19 decrease, the elevated demand should remain in place, as more residents continued to work from home compared to pre-COVID-19 days. This, coupled with margin growth from the higher sales mix in fresh produce for home-dining and improved operating leverage, should further boost earnings. We believe the market has not fully priced in this level of strong demand, which gives more room for earnings upside, for the grocery retailers under our coverage.
- Sheng Siong still our Top Pick** as the majority of its market exposure is in Singapore. With most of its stores located in the heartland, we believe it could gain market share and grow faster than the industry average. Dairy Farm’s grocery segment is also likely to benefit, with varying levels of lockdowns in place across its ASEAN markets. However, we remain NEUTRAL on the stock, as new protests in Hong Kong are likely to dampen its health & beauty segment in the near term.

Top Picks

Sheng Siong (SSG SP) - BUY

Target Price

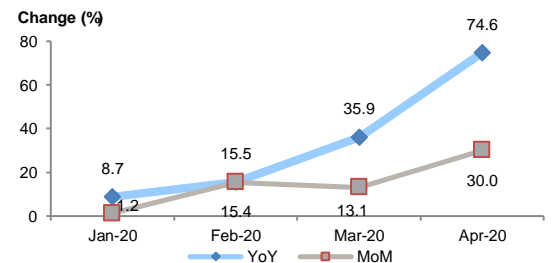
SGD1.72

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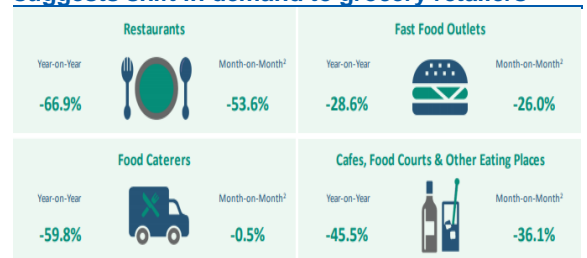


YoY and MoM change in supermarket and hypermarket retail sales



Source: Singstats

MoM decline in April food and beverage sales suggests shift in demand to grocery retailers



Source: Singstats

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	11.1	22.7	6.8	3.1
Dairy Farm	NEUTRAL	USD4.95	5.2	23.1	5.3	4.3

Source: Company data, RHB

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