

8 October 2018

Consumer Cyclical | Retailing

## Dairy Farm

**NEUTRAL** (Maintained)

### Slow Route To Recovery; Prefer Sheng Siong

Target Price: USD9.60  
 Price: USD9.13  
 Market Cap: USD12,363m  
 Bloomberg Ticker: DFI SP

**Maintain NEUTRAL, TP of USD9.60, 5% upside. Recently, a post on Facebook suggested there could be a number of *Giant* store closures, or changes in Singapore. While the post was not made by Dairy Farm, we believe the move is in line with management's guidance to close or relocate underperforming stores. As such, we do not expect to see a strong recovery in its food division in 2H, as the growth of the supermarket industry in Hong Kong and ASEAN remains subdued, and the group is still reviewing its store portfolio. Our top sector pick is Sheng Siong (SSG SP, BUY, TP: SGD1.30).**

#### Share Data

Avg Daily Turnover (SGD/USD) 8.4m/6.1m  
 52-wk Price low/high (USD) 9.68 - 7.5  
 Free Float (%) 22.2  
 Shares outstanding (m) 1,353  
 Estimated Return 5%

#### Shareholders (%)

Jardine Matheson Holdings 77.6  
 Franklin Resources 6.8

**More store closures in Singapore.** Recently an unofficial post on Facebook suggested that seven *Giant* supermarket outlets in Singapore could be closed. Of these, two (at Junction 10 and Jalan Tenteram) have already been closed while the Vivocity outlet is officially slated to shut down early next year. Management did not confirm the accuracy of the post, but stated that the group is reviewing the viability of three other outlets.

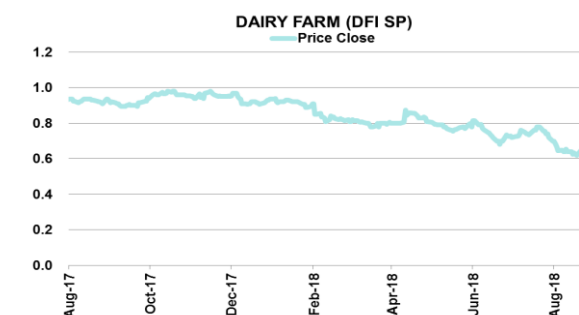
#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.16	0.77	2.93	12.02	20.13
Relative	21.94	(0.80)	4.49	17.89	21.84

**Slow recovery in ASEAN food division.** Although the closure/relocation of underperforming stores is good for the company in the long term, we believe 2H18 margins could be negatively affected by the clearance of stocks for the closing stores. Sales figures at existing stores are also not likely to pick up substantially to cover the shortfall, as the supermarket industry has been flattish in Singapore YTD while competitors, ie Sheng Siong and NTUC Fair Price, gain market share by taking over *Giant's* exited premises.

Source: Bloomberg

We are not expecting a strong pick-up in performance in Malaysia as well, as stronger consumer sentiment – buoyed by its general election in May – has not flowed to the hypermarket/supermarket segment. Malaysia Retailers Association also expects the supermarket industry to remain soft.



Source: Bloomberg

**Downside risks to Hong Kong.** The group's larger-format stores in Hong Kong saw an uptrend in rental rates in 1H18. Since Hong Kong's July and August supermarket sales were flattish, profit conversion should slow down, moving forward. Moreover, Dairy Farm's 1H18 results were largely held up by its strong performance in the health & beauty segment, particularly in Hong Kong and Macau. However, as the CNY depreciated by 5% against the HKD since the start of the year, we think the growth in tourist spending may taper off. As a result, YoY growth in its health & beauty segment could also decelerate.

**Maintain NEUTRAL with an unchanged TP of USD9.60.** In view of the flattish growth in the supermarket industry, rising rental rates in Hong Kong as well as store closures in Singapore, we think it will be hard for Dairy Farm to show decent improvement in its food division margins in 2H18. The health and beauty segment could also see slower growth compared to 1H18. For Singapore-listed retailers, we still prefer Sheng Siong, which is likely to benefit from *Giant* store closures. Sheng Siong currently trades at a discount to Dairy Farm, at 20x FY19F P/E.

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (MYRm)	11200.70	11288.70	11632.27	11761.51	12013.82
Reported net profit (MYRm)	470.10	392.90	497.09	533.39	574.23
Recurring net profit (MYRm)	460.20	467.50	497.09	533.39	574.23
Recurring net profit growth (%)	7.50	1.59	6.33	7.30	7.66
Recurring EPS (MYR)	0.34	0.35	0.37	0.39	0.42
DPS (MYR)	0.21	0.21	0.25	0.27	0.27
Recurring P/E (x)	26.80	26.38	24.81	23.12	21.48
P/B (x)	7.81	7.02	6.29	5.70	5.20
P/CF (x)	22.72	18.37	18.92	16.64	15.32
Dividend Yield (%)	2.30	1.97	1.97	10.52	27.80
EV/EBITDA (x)	19.43	1.78	1.78	1.78	5.19
Return on average equity (%)	31.16	23.88	26.21	25.42	24.88
Net debt to equity (%)	42.57	35.64	36.51	27.77	19.48
Our vs consensus EPS (adjusted) (%)			(2.0)	(5.1)	(6.0)

Source: Company data, RHB

#### Analyst

Juliana Cai  
 +65 6232 3871  
[juliana.cai@rhbgroup.com](mailto:juliana.cai@rhbgroup.com)



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<b>RHB Research Institute Sdn Bhd</b> Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	<b>RHB Securities Hong Kong Ltd.</b> 12 <sup>th</sup> Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	<b>RHB Research Institute Singapore Pte Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
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