

# Singapore Industry Focus

## Singapore Consumer

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Apr 2020

### Retail sales shifting to supermarkets

- New COVID-19 circuit breaker measures will lead to even stronger supermarket sales
- Spending on grocery food items to remain robust as more of Spore's workforce and students stay home
- February retail sales already showing a shift from discretionary to staples especially supermarkets
- Maintain positive stance on supermarkets and avoid higher end-restaurants

**New COVID-19 measures bode well for supermarkets and mass market foodservices.** With the circuit breaker measures announced, non-essential workplaces have been ordered to close from 7 April to 4 May to help to contain the spread of COVID-19. Food establishments and hawkers will remain open but only for takeaway or delivery services. This is positive for supermarkets and affordable mass market foodservices outlets. As people are encouraged to stay home as far as possible, we expect retail spending on food staples to strengthen further.

**Supermarket sales to continue to be brisk after strong showing in Feb.** Retail sales in February declined by 8.6% y-o-y (-10.2% excluding motor-vehicles). Supermarkets bucked the trend, growing strongly by 15.5% y-o-y. Discretionary sales plunged, with sales for watches & jewellery, department stores, and apparel & footwear falling between 23-41% y-o-y.

**Closure of workplaces and schools to increase demand for food at home.** We see a stronger shift of food consumption at workplaces and schools to homes during the next month. This will result in brisk sales at grocery retailers, F&B foodservice outlets near residential areas, and online channels. On the other hand, this is a bane for restaurant operators as a significant number of Singapore's workforce stays away from their workplace.

**Reiterate BUY on supermarket plays and avoid restaurants.** We reiterate our positive stance on supermarkets and buy recommendations on Sheng Siong and Dairy Farm International (DFI), while avoiding higher end restaurant operator Jumbo. Earnings risks prevail for Koufu as outlets at Marina Bay Sands and Macau are exposed to tourists, even though footfall at heartlands continue to be decent. For BreadTalk, we urge shareholders to accept the offer given that about half of operating profit is from the Din Tai Fung restaurant franchises in Singapore, Thailand and the UK.

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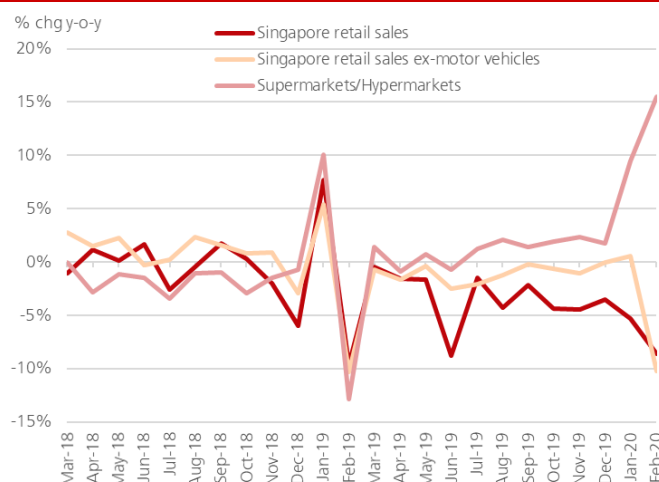
#### STOCKS

	Price US\$	Mkt Cap US\$m	12-mth Target Price US\$	Performance (%)		Rating
				3 mth	12 mth	
Dairy Farm	4.31	5,830	4.70	(25.0)	(47.6)	BUY
Sheng Siong	1.22	1,274	1.45	(6.2)	17.3	BUY
Koufu Group	0.55	212	0.84	(29.0)	(31.3)	BUY
Jumbo Group	0.198	88.1	0.18	(47.9)	(53.4)	HOLD
BreadTalk Group Ltd	0.735	288	0.49	13.1	(15.5)	ACCEPT THE OFFER
Japan Foods	0.30	36.3	NR	(34.8)	(31.0)	NR
Old Chang Kee Ltd	0.60	50.6	NR	(20.0)	(23.1)	NR

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 3 Apr 2020

#### Supermarkets buck Singapore Retail Sales for Jan and Feb



Source: Singstat, DBS Bank



Live more, Bank less

## Circuit breaker implemented to control spread of COVID-19

**Workplaces to close from 7 April to 4 May.** The Singapore government on Friday 3 April 2020 implemented stricter measures to combat the spread of COVID-19 in Singapore. Most workplaces will close from 7 April 2020 to 4 May 2020 and only companies operating essential services and business which can operate remotely will not face suspension. Schools will transit to full home-based learning during this period.

**Companies in the 10 essential services sectors allowed to operate.** Essential services sectors that are still allowed to continue include 1) Health and social services; 2) Food; 3) Energy; 4) Water; 5) Waste & Environmental; 6) Transport & Storage; 7) Information and Communication; 8) Defence & Security; 9) Construction, Facilities management and critical public infrastructure; 10) Manufacturing & Distribution, 11) Banking and Finance; and 12) Other services including hardware, pet supplies and vehicle recovery.

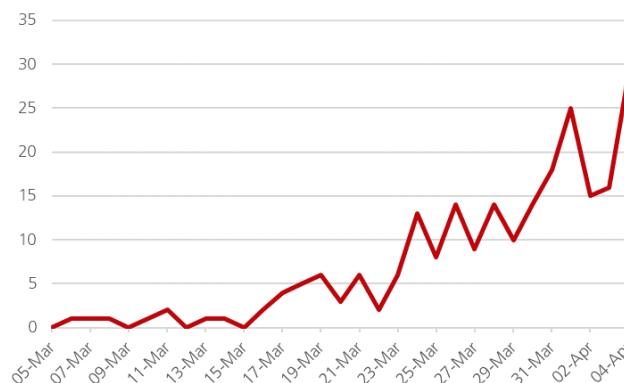
### Essential Services Exempted from Suspension



Source: Ministry of Trade and Industry, DBS Bank

**Aimed at controlling the spread of new cases.** The move is aimed at preventing the situation from getting worse. The number of unlinked new cases have been on an uptrend since the beginning of March. There is a possibility of new unlinked cases growing exponentially if people continue to move around. This circuit breaker hopes to control further spread by limiting movements of students and most of the workforce.

## Daily new unlinked cases have been on an uptrend



Source: Gov.sg, DBS Bank

## Supermarket sales to benefit along with consumer staples as residents encouraged to stay home

**Food demand to benefit grocers, economical F&B Foodservice outlets and online channels.** With more of Singapore's population staying home instead of being at their workplace or schools for the next one month, we see a substitution effect on food consumption from these places to homes. As opposed to having the freedom to dine across Singapore previously, residents are encouraged to stay at home. This should lead to a shift in food consumption patterns to benefit grocery retailers, F&B foodservice outlets near residential areas, and online channels. We believe that higher end restaurants would continue to be affected during this period where they can only be open for takeaway or delivery services.

**Food supply chain intact.** As an essential service, supermarkets, wet markets, hawker centres and food establishments will continue operating. For F&B foodservice outlets, only takeaway and food delivery services will be allowed as a stricter measure.

## Singapore retail sales in February pointed to a shift in retail spending to supermarkets/hypermarkets

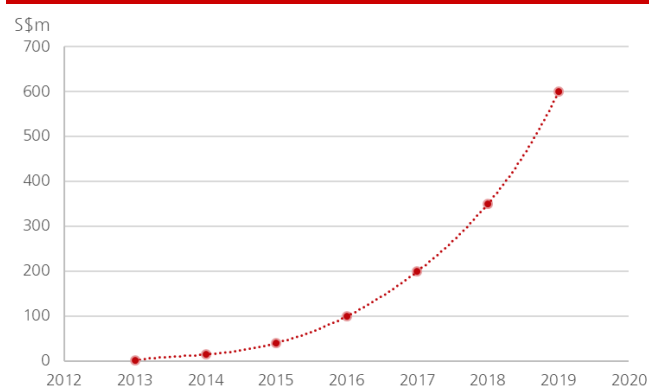
**Two consecutive months of y-o-y retail sales decline for January and February attributed to shoppers avoiding crowds.**

Combined January and February 2020 retail sales saw the sharpest drop at >10%, similar to Jan-Feb 2009 during the GFC. (We combine Jan-Feb sales due to timing of Chinese New Year - a positive or negative January usually reverses itself in February). This can be attributed to shoppers staying away from crowds and lower tourist arrivals. Luxury items, and departmental store sales have dropped sharply by 24% and 36% y-o-y respectively.

**Supermarket retail sales will benefit for another month as students and most of the workforce stay home.** The outlook for Singapore retail sales is stronger for food staples and weaker on discretionary items for the next few months. The status in Singapore was raised to DORSCON orange in early February and February retail sales largely represented only a portion of the workforce from various outbreak clusters working from home for most part of the month. We expect March numbers to point to stronger supermarkets sales and lower discretionary spending with stricter measures implemented to control crowds. With Friday's announcement of closure of non-essential services and only essential services remaining open, April's retail sales would be even more skewed to supermarkets and low-priced food establishments.

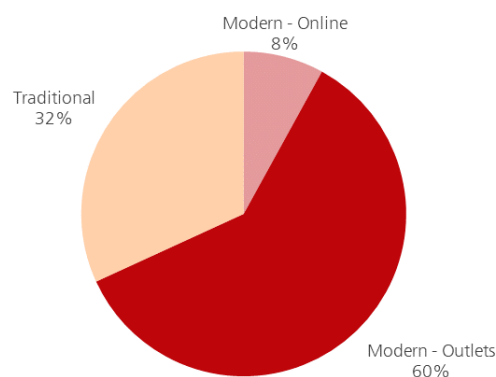
**Online grocery retail sales now at 8% of total supermarket sales.** Singstat has started to disclose online sales as a percentage of supermarket sales since its January 2002 report. Online grocery sales was higher at 8.5% in February 2020, versus 7.8% in January 2020. At 8-8.5% of Singapore's S\$7.5bn grocery market, we estimate the size of the online market is S\$600-637m, with Redmart Ltd holding about 50% market share. Online orders should steadily increase over this period as most workers and students are encouraged to stay home.

### We estimated online grocery market to be c.S\$600m



Source: Euromonitor, Singstat, DBS Bank estimates

### Estimated breakdown of Singapore Grocery Retail market



Source: Euromonitor, Singstat, DBS Bank estimates

### Fast food and foodcourts resilient, bane for restaurants and caterers

**Social distancing has led to slowdown in restaurant sales.** As previously anticipated, social distancing since the risk assessment was raised to DORSCON Orange on 7 February has led to a fall in restaurant sales. Food caterers' revenues declined 31.5% as gatherings dropped. There would be less of a Chinese New Year swing effect as 2020's Chinese New Year occurred on 25 January while 2019's Chinese New Year fell on 5 February; post Chinese New Year restaurant dining festivities in 2020 would have occurred largely in February.

### Resilience in lower ticket food items

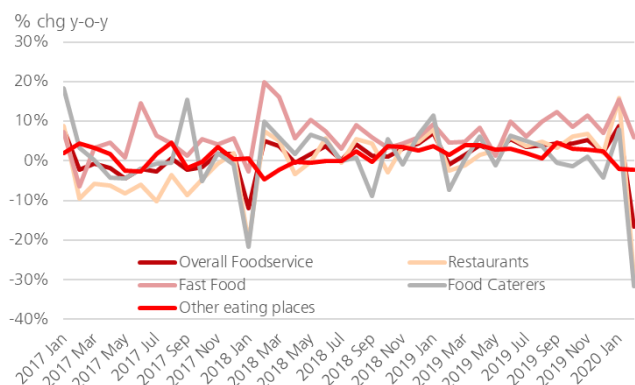
Change In Food & Beverage Sales By Industry					
Restaurants			Fast Food Outlets		
Year-on-Year		Month-on-Month <sup>1</sup>	Year-on-Year		Month-on-Month <sup>1</sup>
-29.1%		-33.9%	+5.8%		+3.2%
Food Caterers			Cafes, Food Courts & Other Eating Places		
Year-on-Year		Month-on-Month <sup>1</sup>	Year-on-Year		Month-on-Month <sup>1</sup>
-31.5%		-24.8%	-2.3%		-5.6%

<sup>1</sup> Seasonally adjusted

Source: Singstat, DBS Bank

**Lower priced dining options relatively resilient.** Fast food and foodcourts sales remain resilient relative to restaurant sales. Convenience and more economically priced food options in the wake of social distancing has led to strong fast food sales but a slight decline at other eating places. We believe the bulk of decline in other eating places are the mid-range casual mass market dining options, offset by foodcourts which offer an economical, convenient, low priced dining option.

### Steepest decline in F&B Foodservice since 2018



Source: Singstat, DBS Bank

### Online F&B sales at only 1.3% of the entire market.

Singapore's F&B foodservice market was worth S\$10.5b in 2019 and according to Euromonitor, e-commerce for food and drink is worth only S\$141m representing only 1.3% of online sales. We expect sales to pick up during this period with more people staying home.

**Anticipate online and lower value F&B Foodservices to be in demand.** We see near term outlook for F&B Foodservice skewed towards companies with online presence and lower end selection like hawker centres, coffeeshops and foodcourts, with lower demand for restaurants (ABR Holdings (NR)) and mid-range mass market cafes (Japan Foods Holdings (NR), Katrina Group (NR), Sakae Holdings (NR)), and pubs. Fast food has always led F&B Foodservice demand and will likely continue to do so. As larger fast food players have a robust food delivery system, demand should remain resilient. Demand for kiosk players would largely depend on location. For instance, Old Chang Kee Ltd (NR) has a mix of outlets in major malls, suburban malls, petrol stations, MRT stations, tourist attractions, heartlands, airport and educational institutions. Without online presence, its sales would be limited to the heartlands or suburban areas.

### We do not expect Singapore to run out of food

**We believe Singapore's food supply is secure.** We do not expect Singapore to run out of food anytime soon as we believe there is minimal pressure on the food supply chain. There are enough inventories at the retailer and distributor levels, with the Ministry of Trade and Industry working with Australia, Brunei Darussalam, Canada, Chile, Myanmar, New Zealand to secure essential supplies. Furthermore, Singapore has food manufacturing capabilities (flour production, bakeries, processed food manufacturing and industrial kitchens etc.) locally to ensure continual food supply. Based on our channel checks, food imports continue to flow into Singapore.

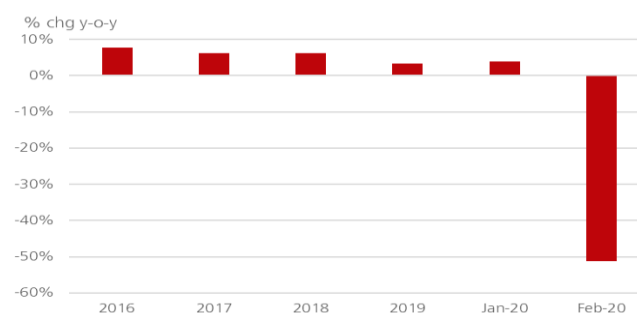
### Maintain positive stance on supermarkets

**Circuit breaker positive curbing spread of new cases, supermarkets, and lower priced food options.** We believe demand for supermarket would be robust over the next month as more of Singapore's population spends more time at home. We see more people cooking at home, taking away from convenient F&B outlets as well as ordering online. With dining in disallowed, sales of outlets dedicated to dine-in customers especially restaurants and pubs are facing challenges. Our Singapore consumer strategy advocates staying with the supermarkets and avoiding restaurants.

**Enhanced Jobs Support Scheme to F&B Foodservice, but earnings risks prevail.** Relief for F&B foodservices in the Enhanced Jobs Support Scheme is estimated to be about S\$4-7m from S\$1-2m previously. This is after co-funding of wages increased from 8% for 3 months to 50% for 9 months, with monthly wage ceiling increased from S\$3,600 to S\$4,600. Despite this, downside risk to revenue and earnings prevail for F&B Foodservices if travel restrictions and limited social interactions/dining out become long drawn.

**Stay with Dairy Farm International and Sheng Siong.** We reiterate our positive stance on Sheng Siong and Dairy Farm International in anticipation of a surge in sales in the coming month. Although Koufu offers low priced foodcourt meals, it has exposure to higher end full-service restaurants and tourists in Macau and MBS outlets. In addition, as Koufu has more than c.50% of Singapore foodcourt outlets in malls, tertiary institutions and commercial offices, we expect this circuit breaker measure to affect sales as well. We avoid Jumbo whose primary source of revenue is derived from a significant number of tourists and other locals dining at Jumbo Seafood Restaurants. We note that tourist arrivals to Singapore plunged by over 50% y-o-y to around 732,000 in February, compared to 3-8% in previous years and that will have an impact on Jumbo. Accept the offer for BreadTalk given poor outlook vis-à-vis offer valuation, and exposure to the Din Tai Fung restaurant franchises in Singapore, Thailand and the UK.

### Tourist arrivals declined 51% y-o-y in February 2020



Source: Singapore Tourism Board, DBS Bank

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

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*\*Share price appreciation + dividends*

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