



Asian Insights SparX Restaurants & Catering Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19-Oct-2020

Preparing for a 'new normal'

- We interviewed 16 major restaurant groups that operate a total of 20,000+ eateries across China, Hong Kong, Singapore, Thailand and Indonesia to gauge challenges faced and opportunities from COVID-19
- Our worst-case scenario sees new waves of COVID-19 infections reducing 2020 restaurant sales by 16-32% across these five regions. Government support policies may protect selected operators from spilling red ink, while leading players could gain market share as consolidation accelerates
- We prefer the more resilient, mass- to mid-end restaurant chains like Café de Coral (341.HK), Koufu (KOUFU.SP), and YUM China (9987.HK / YUMC.US). Hotpot players Haidilao (6862.HK) and Xiabu Xiabu (520.HK) could catch the upcoming peak season for a firm recovery

Our survey: Over 60% of restaurant operators believe that a full COVID-19 recovery may be achieved sometime in 2021, while 6% expect this to happen in 2022. Key areas for companies to work on are (1) food safety & hygiene, (2) online food deliveries, (3) store model & operating efficiencies, (4) product innovation, (5) store expansion, (6) live streaming, cloud kitchens and robotics, etc., to optimise their operations under a new normal.

China rebounded the fastest. Safe distancing measures, lack of sizeable banquets / events plus limited tourist arrivals are factors hampering restaurant sales. On the other hand, the Ministry of Commerce cited major restaurant & retail chains in China taking the lead to deliver a positive 4.9% y-o-y growth during the latest Golden Week Holidays (1-8 Oct 2020). Further sequential improvements should help to re-rate the sector.

Target price upgrades. Riding on China's swift recovery and an optimistic medium-term outlook, we upgrade TPs of Haidilao to HK\$68, Xiabu Xiabu to HK\$14.3, and YUM China to HK\$460.58 / US\$59.2. Café de Coral's business in Greater Bay Area trends well and we upgrade to BUY with new TP of HK\$20.60. We are neutral on Jumbo (JUMBO.SP) as the company is in the high-end seafood restaurant category and targets tourists, as well as Minor International (MINT.TB) and Central Plaza (CENTEL.TB) on valuation grounds, slow recovery and the latest political unrest.

HSI: 24,159 STI: 2,524 SET: 1,243 JCI: 5,133

Recommendation & valuation

Company Name	Price Local\$	Target Price Local\$	Recom	Mkt Cap US\$m	PE 21F x
China					
Yum China Holdings (Hkg)* (9987 HK)	410.00	460.58	BUY	22,172	30.5
Yum China Holdings* (YUMC US)	53.34	59.20	BUY	22,355	30.8
Haidilao International Holding* (6862 HK)	55.50	68.00	BUY	37,954	54.6
Xiabuxiabu Cater.Man. (China) Hdg.* (520 HK)	10.94	14.30	BUY	1,527	20.1
Hop Hing Group Holdings (47 HK)	0.056	n.a.	NR	73	n.a.
Hong Kong					
Cafe De Coral Hdg.*# (341 HK)	15.88	20.60	BUY	1,200	19.3
Tai Hing Group Holdings (6811 HK)	1.55	n.a.	NR	200	9.8
Singapore					
Jumbo Group* (JUMBO SP)	0.32	0.21	FV	149	27.1
Koufu Group* (KOUFU SP)	0.66	0.77	BUY	267	14.7
Thailand					
Minor International* (MINT TB)	18.70	21.00	HOLD	3,105	n.a.
Central Plaza Hotel* (CENTEL TB)	20.50	23.50	FV	887	52.3
Mk Restaurant Group (M TB)	45.50	n.a.	NR	1,343	19.9
Zen Corporation (ZEN TB)	9.40	n.a.	NR	90	n.a.
Indonesia					
Map Boga Adiperkasa Pt (MAPB IJ)	1260.00	n.a.	NR	186	n.a.
Pt Sarimelati Kencana (PZZA IJ)	640.00	n.a.	NR	132	11.6

FY3/20: FY3/21; FY3/21: FY3/22

Source: Thomson Reuters, DBS Bank*

Based on closing prices as at 15 Oct 2020



The DBS Asian Insights SparX report is a deep dive look into thematic angles impacting the longer term investment thesis for a sector, country or the region. We view this as an ongoing conversation rather than a one off treatise on the topic, and invite feedback from our readers, and in particular welcome follow on questions worthy of closer examination.

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Note: Prices used as of 15 Oct 2020

Investment Summary

Lockdowns and social distancing. The global outbreak of COVID-19 has seen c.40m cases so far and resulted in periodic lockdowns in various regions this year. Some places are already experiencing second or third waves, substantially dampening restaurant demand as consumers stay-in and dine at home. Post-lockdowns, the pace of recovery could remain slow as distancing measures stay in force and reduce restaurant seating capacities.

The lack of inbound tourists. Aside from weaker consumer appetite, restrictions of nearly 1.5bn international tourist movements this year have also dealt a double blow. Specifically, restaurants in Asian regions that are more tourist dependent, such as Hong Kong, Singapore and Thailand that normally see an estimated 20-24% of restaurant receipts coming from tourist consumption, could remain subdued even though some locals have gone on a “revenge spending” spree.

Where is the cure? The market believes that the negative impact of COVID-19 could start fading once an effective vaccine becomes available. While the timing visibility remains fairly low, recent resurgence of new waves of COVID-19 cases in Indonesia, Malaysia, the UK, Germany, Spain, Russia, etc. all suggest that border re-openings will take time and domestic consumption will dominate in the coming months.

Scenario studies. In this report, we focus on 5 key regions across Asia - China, Hong Kong, Singapore, Thailand and Indonesia - and assess their restaurant performance using different scenarios. Our base case suggests that Hong Kong, Singapore and Indonesia could post 17-23% y-o-y sales decline in 2H20, while the momentum for China and Thailand could be milder, at -1% and -8%, respectively. All regions could potentially achieve >10% sales recovery in 2021, with China to outperform and stage 21% growth. On the other side of the spectrum, our worst case scenario assumes new waves of COVID-19 infections in 4Q20 across-the-board, pointing to 16-32% declines in restaurant receipts in these 5 regions for 2020. While our projections suggest that any sales decline of more than 10% in Hong Kong, Singapore and Indonesia could see most restaurant operators running a loss this year, various Government subsidies and support policies thus far should help to mitigate such losses to a large extent, in our view.

Our survey. In 3Q20, we have interviewed 16 major restaurant groups in the industry, running a total of 20,000+ eateries across Asia to gauge their thoughts on the current pandemic.

Key findings include:

- 1) Expectations of a full recovery in operations sometime in 2021, at the earliest;
- 2) Quick service restaurants (QSR) being the most resilient store format amid the COVID-19 pandemic;
- 3) No. 1 priority is placed on hygiene and food safety;
- 4) Online food deliveries stage strong prospects post COVID-19 - sales contribution jumped 15ppt for selected restaurants;
- 5) Store openings to slow down significantly this year, except for China that swiftly recovers to see its key restaurant & retail chains scoring a 4.9% daily sales growth during the Golden Week (1-8 Oct 2020);
- 6) The emergence of new trends to continue. To name a few, live streaming, cloud kitchens, robot chefs, etc. have become increasingly popular this year

Overall speaking, operators are strategising their business models on all fronts to tap into the new normal.

Mass to mid-end focus. COVID-19 has seen some higher-end full-service restaurants making way for essential foodservice operators like QSR, cha chaan tengs, food courts and deliveries. While most companies have already started to adjust their business models to better fit into new operating landscape, we prefer the more resilient, mass-market restaurant chains that cater to a higher proportion of food delivery & takeaway sales. Among our coverage, we like HK-based Café de Coral (341 HK, BUY) and Singapore-based Koufu (KOUFU.SP, BUY). We are neutral on Jumbo (JUMBO.SP, FULLY VALUED) given its high-end seafood restaurant focus and strong dependence on tourist spending, as well as Minor International (MINT.BK, HOLD), and Central Plaza (CENTEL.BK, FULLY VALUED) on unattractive valuation, slower-than-expected recovery and escalating Thailand protests that increase near-term uncertainties.

China: 5 straight months of recovery. Taking a top-down view, China has so far been recovering the fastest from the pandemic. Many operators resuming their original expansion targets, plus a few others, like Haidilao, even accelerating their store opening plans recently to compensate for a slow 1H20. As such, we believe restaurants in China could deliver firm sequential improvements in 2H20, and are well-poised to come back even stronger in the coming two years. Within our coverage, Haidilao (6862.HK, BUY) and Xiabu Xiabu (520.HK, BUY) should be amongst key recovery plays as we approach the peak hotpot season. Yum China’s (9987.HK / YUMC.US, BUY) QSR division – KFC – is also among the fastest to recover. Coupled with a sound medium-term outlook of the PRC restaurant industry, we raise our target prices across all three names to HK\$68, HK\$14.3 and HK\$460.58/US\$59.2, respectively.



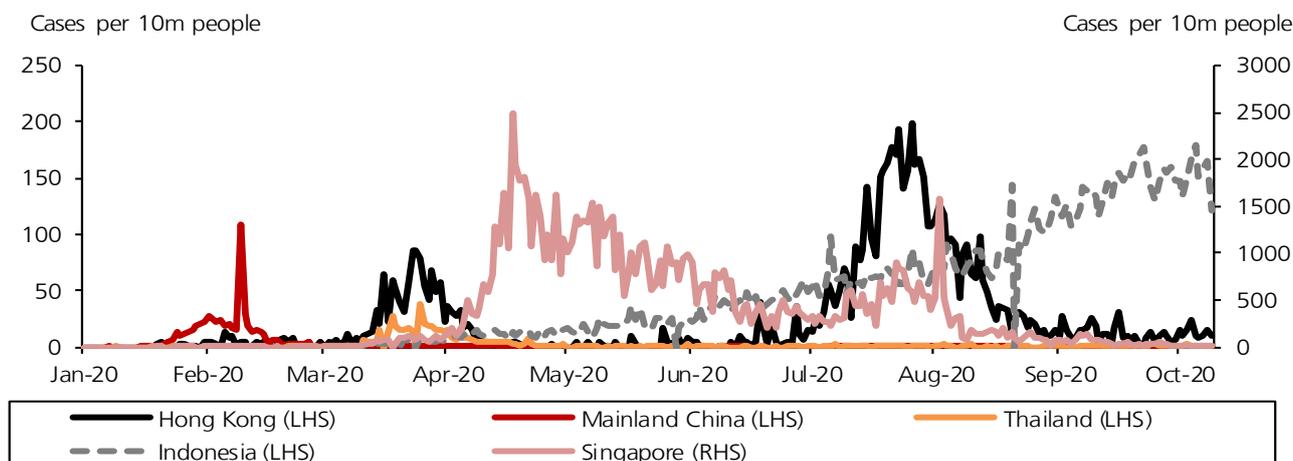
Restaurants & Catering Sector

Regional performance

A low visibility. The outbreak of COVID-19 since late-2019 has already led to c.40m infections globally and over 1.1m deaths, with no visibility as to exactly when the pandemic will be

subsiding. Some expects new and effective vaccines to be the remedy. Others believe new waves of COVID-19 cases could emerge as the effects of the virus become more severe in the colder months ahead.

Daily new confirmed cases per 10 million people

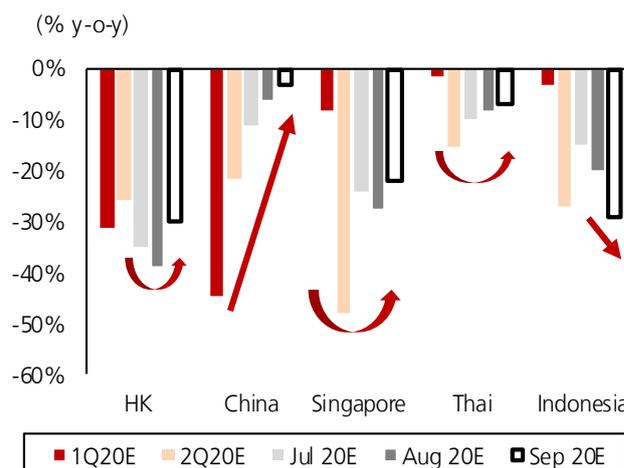


Source: CEIC, DBS Bank

In this report, we take a closer look at how the restaurant & catering industry in Asia will transform following the COVID-19 outbreak. Our analysis is focused on China, Hong Kong, Singapore, Thailand and Indonesia.

Restaurant sales. The restaurant and catering industry is among those that have been substantially affected by the pandemic, especially when cities are locked down and tourists are not visiting. What's more, any new wave of COVID-19 infections could worsen market conditions and dampen restaurant sales. So far, the pandemic is well-controlled in China, with the Ministry of Commerce citing 4.9% y-o-y growth in daily sales among key retail and restaurant enterprises during its latest National Day Golden Week Holiday (1-8 Oct 2020). Overall, China is recovering faster than other regions, followed by Thailand. Singapore and Hong Kong are next. With a significant resurgence of coronavirus infections to c.0.36m cases and over 12,000 deaths, Indonesia reimposed a lockdown in its capital city Jakarta on 14 Sep 2020, and took nearly one month to start re-opening gradually on 12 Oct 2020 for a slow recovery.

Estimated sales trends



Source: Restaurant industry data (China National Bureau of Statistics, HK Census & Statistics Dept., Singstat, BOT), Survey responses, DBS Bank

Our survey. During 3Q20, we have talked to 16 major players in the industry that run a total of over 20,000 eateries across Asia. Key areas of our discussions included: (1) management expectations on recovery trends, (2) recent operational performance, (3) business model adjustments to a new normal, (4) agility to adapt to changes taking place, (5) sourcing and food safety, (6) costs and capital management, (7) deliveries, logistics and online-to-offline (O2O) strategies, and (8) technological applications. As any new waves of COVID-19 that result in large-scale social restrictions would have an immense effect on eateries, operators riding on their YTD experience while looking for the best solutions could survive better ahead.

Our survey

China /				
China	Hong Kong	Singapore	Thailand	Indonesia
Yum China (9987.HK; YUMC.US)	Café de Coral (341.HK)	Jumbo (JUMBO.SP)	Minor International (MINT.TB)	Sarimelati Kencana (PZZA.IJ)
Haidilao (6862.HK)	Tai Hing (6811.HK)	Koufu (KOUFU.SP)	Central Plaza (CENTEL.TB)	Map Boga Adiperkasa (MAPB.IJ)
Xiabu Xiabu (520.HK)	Company B*		MK restaurant (M.TB)	
Hop Hing (47.HK)			Zen Corporation (ZEN.TB)	
Company A^				

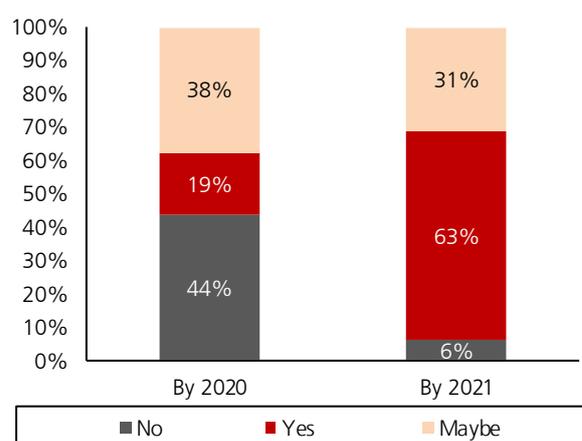
^ Company A: one of the leading global restaurant chains that specialises in pizza deliveries.

* Company B: a leading fast food & restaurant chain operator based in Hong Kong that also operates in China and S. E. Asia.

Source: DBS Bank

Management expectations. Based on our findings from the survey, a majority (63%) of the restaurant groups believe that full recovery can be achieved sometime in 2021, at the earliest. About a third remain sceptical on whether this would happen, while 6% anticipate that we need to wait till 2022 to see a full recovery.

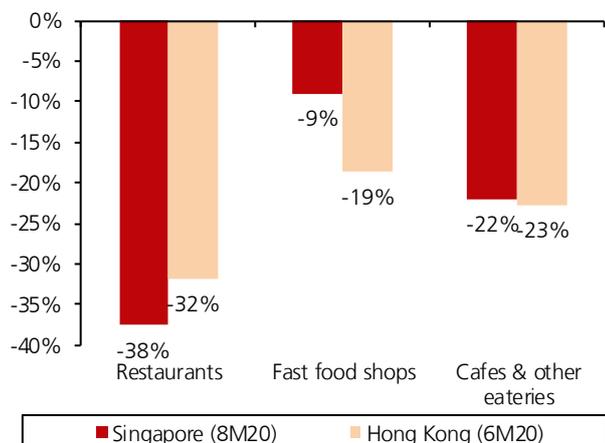
Management expectations: when will a full recovery emerge?



Source: DBS Bank

Category trends. All restaurant formats are suffering from the COVID-19 outbreak. Taking Hong Kong and Singapore as examples, sales declines across fast food shops has been milder compared to cafes & other eateries (e.g. cha chaan tengs (茶餐廳), fast casual diners). Full-service restaurants, on the other hand, were the worst performers as these usually cater for fine or casual dining with a full range of menu options, hence the low proportion of takeaway sales. Some full-service restaurants that also specialise in holding wedding banquets and celebration parties have also been hard hit due to social distancing.

Best resilience: fast food shops



Source: Singstat, HK Census & Statistics

The absence of tourists amid global lockdowns is also putting further pressure on restaurant performance, with exposure estimated at nearly 20% for the Hong Kong restaurant industry; about 24% for the Singapore restaurant sector; and c.20% for Thailand restaurant industry (source: USDA, GAIN).

As a proportion, Indonesia should have far less restaurant receipts coming from tourists and the sector is more domestically driven. PZZA.IJ, which principally operates Pizza Hut restaurants with c.30% of sales from delivery services, registered 17% y-o-y drop in sales in 2Q20, and performed much better than MAPB.IJ, which suffered a significant sales drop of 62% during the same period as many of its Starbucks outlets are located at airports and in office areas where people work from home. Hence, the ability to offer food delivery and takeout options to withstand the pandemic situations has now been brought to the forefront.

Scenario studies

GDP growth projection – a leading indicator. We trace the historical sales trends of restaurant industries across China, Hong Kong and Singapore over the past 10-20 years, and

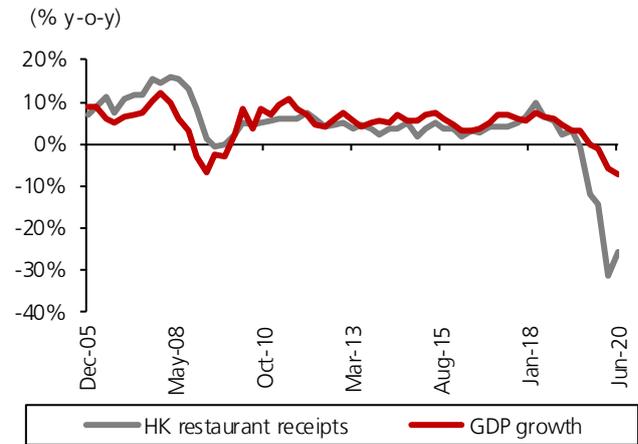
compare them with the respective GDP growth rates. The momentum of both restaurant sales and economic performances are fairly closely correlated to each other. Thus, we believe GDP growth outlook trajectory could provide some signals to help predict restaurant performance in a region.

China: Nominal GDP growth vs. catering sales



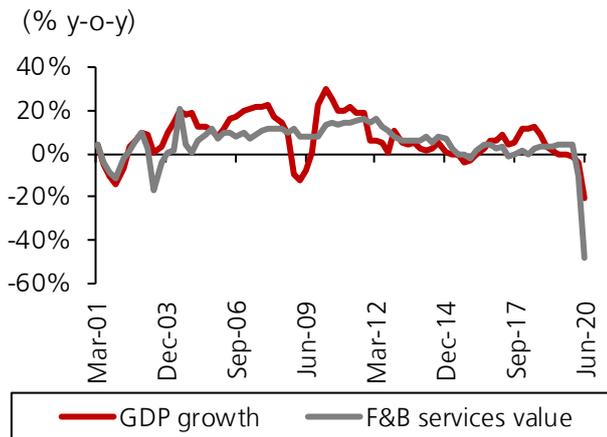
Source: CEIC

HK: Nominal GDP growth vs. restaurant receipts



Source: CEIC

Singapore: Nominal GDP growth vs. F&B services value



Source: CEIC

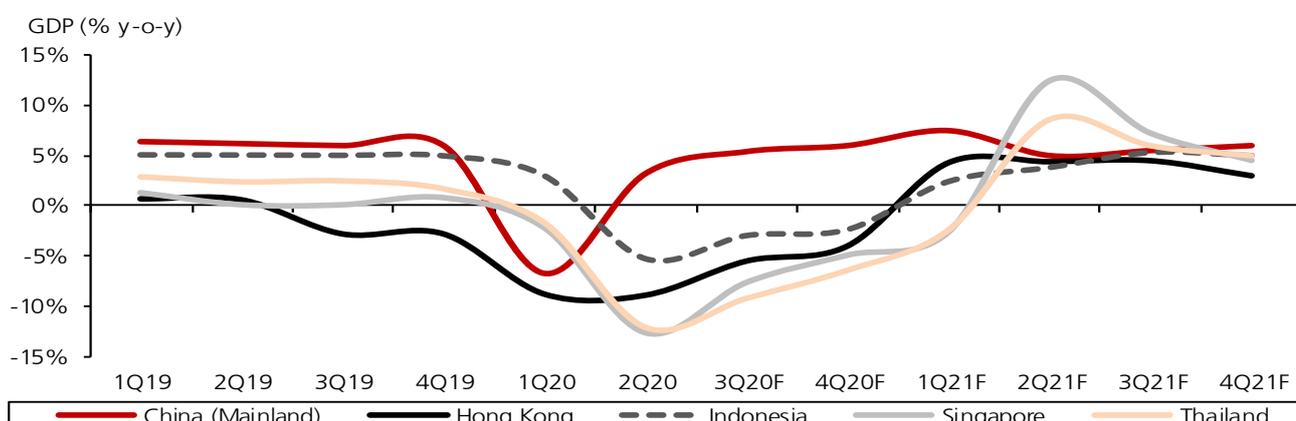
Restaurants & Catering Sector

Among the 5 regions being focused in this report, our economists currently expect a gradual GDP recovery for 2H20, a speedier comeback in 1H21, and more normalised growth by 2H21. Specifically, China may continue to outperform during 2H20-1Q21, and maintain a firm growth thereafter. Hong Kong, Singapore and Thailand that have relied relatively more on tourist expenditure could see similar trends. While Hong Kong may see a better momentum by 1Q21 amid the low base from both social unrest and the COVID-19 outbreak a year ago; Singapore and Thailand could outperform in 2Q21 from low base effects caused by the pandemic. Indonesia could also see better economic growth by 2Q21.

In terms of restaurant sales, we expect comparable trends across these 5 regions, but should see:

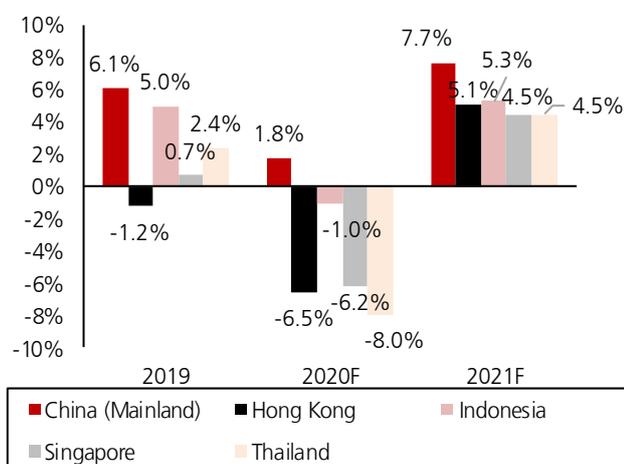
- (1) **Undershooting in 2020** as the latest restaurant performances are largely affected by extensive periodic lockdowns, sustained social distancing policy that reduces restaurant seating capacities, and more home dining given the work from home protocol. These are all very different from any crisis situation that we have experienced or analysed in the past 1-2 decades; and
- (2) **Overshooting in 2021**, on the back of economic rebound and low base effects.

GDP Outlook, 2020-2021



Source: Bloomberg Finance L.P., DBS Bank

GDP growth estimates, 2020-2021

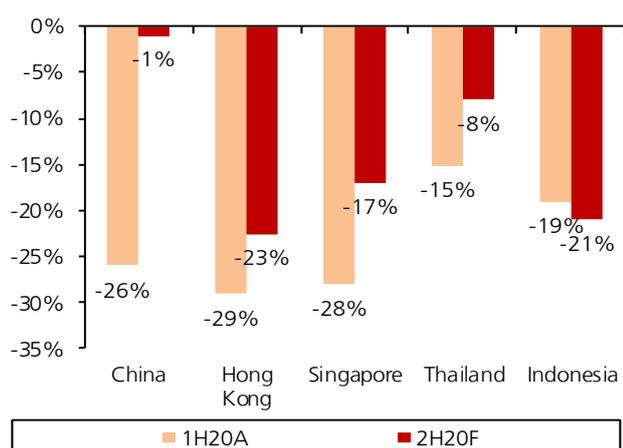


Source: Asian Development Bank, updated in Sep 2020

Restaurants & Catering Sector

Our base case. In our base case scenario, we assume sustained social distancing arrangements in dining places but limited new waves of COVID-19 infections. Hence, our base case projects restaurant sales in China to edge down by 1% y-o-y in 2H20. This compared favourably to expectations of a 17-23% sales drop for Singapore, Hong Kong and Indonesia during the same period, and an 8% decline for Thailand, thus point to a much faster recovery for China plays.

Base case - restaurant industry growth in 2020F



Source: DBS Bank

Best and worst case scenarios. Our best case scenario suggests even faster sales recovery, while our worst case assumes new waves of COVID-19 outbreaks to emerge by late-2020. All in, for the full year 2020, the worst could be over 30% y-o-y reduction in restaurant receipts and the best case is a 10% sales decline in the restaurant industry across the 5 regions.

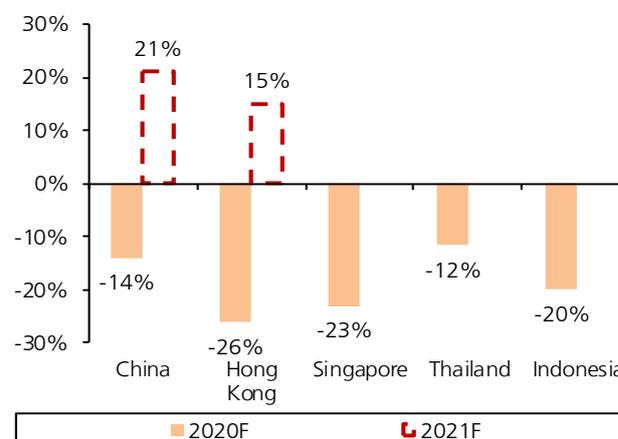
Scenario studies - restaurant industry growth in 2020F

	Worst Case	Base Case	Best Case
China	-28%	-14%	-10%
Hong Kong	-32%	-26%	-22%
Singapore	-28%	-23%	-20%
Thailand	-16%	-12%	-10%
Indonesia	-27%	-20%	-17%

Source: DBS Bank

2021 – coming off a low base. With sluggish restaurant sales this year, particularly in 1H20, we can be more hopeful on comparable performances for next year. As consumers become more used to dealing with COVID-19 protocols, and restaurant operators increasingly adjust their strategies for business sustainability, we anticipate a better year for 2021 especially given the decent GDP growth projections for all 5 regions next year. Our base case scenario points to a 21% y-o-y growth in restaurant sales for China by 2021, and a 15% sales recovery for Hong Kong. The other 3 markets – Singapore, Thailand and Indonesia – might also see at least 10% rebound in restaurant receipts next year.

Base case - restaurant industry growth in 2020-2021F



Source: DBS Bank

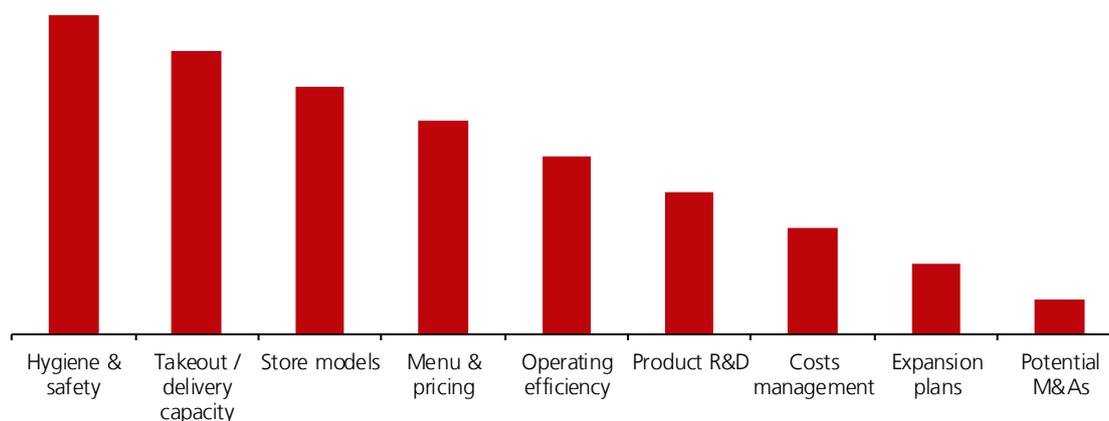
On the whole, all restaurant operators are placing strong efforts to reduce costs this year and combat against negative impacts from the coronavirus pandemic. Leveraging on leaner cost structures and refined business models, together with expectations of a double-digit rebound in restaurant sales by 2021, major players should gradually recover lost ground and stand even stronger ahead.

Changing business models

Entering a new norm. The COVID-19 pandemic has been highly infectious. Even without second/third waves of COVID-19 spread, safe distancing measures for restaurant diners will likely remain in place until an effective vaccine becomes widely available. With social distancing and limits set on groups that result in 30-50% lower restaurant seating capacities in some regions, and perhaps also shorter operating hours, the current situation continues to affect restaurant sales. Therefore, operators will need to react accordingly and re-strategize their business models to survive.

Our survey across main restaurant plays suggests that all of them are fine-tuning their business strategies to adjust to impacts of the pandemic. Key measures include (1) top priority on food safety and store hygiene; (2) more takeaway offerings and discounts & promotions; (3) strengthened delivery capabilities, including collaboration with online food delivery platforms; (4) operating efficiency enhancement, (5) more stringent costs control (e.g. rent re-negotiations, government subsidies), etc. Other strategies, especially for medium-term development, may also include (6) active product differentiation and innovation, (7) store resizing and relocation, (8) adjustment of expansion plans, and (9) M&A opportunities.

Survey: Setting the priorities



Source: DBS Bank

Hygiene & safety. Following the COVID-19 outbreak, most restaurant operators have taken various precautionary measures to minimise the chance of virus spread. Under the current situation, companies view overall hygiene of their restaurants to be of utmost importance, to protect the health of their staff and customers, and safeguard their overall brand image and reputation.

Protective measures taken could include:

- Measurement on body temperature for all staff and customers upon entering the restaurants, including taking down their names and contact numbers whenever possible.
- All staff and guests are requested to wear surgical masks.
- Providing envelopes or plastic bags to customers for safe keeping of used masks.
- Alcohol-based hand sanitisers are offered upon entering the eateries.
- All dining tables and chairs are sanitised immediately after each meal.

- Extra care placed to ensure all kitchen areas remain clean and sanitised.
- More careful sourcing of foodstuff is carried out, including close communication with suppliers to ensure food safety.
- Outdoor dining is encouraged if feasible.
- Seating capacity is reduced to make sure table distance is adequate; there is also a limit on number of diners per table.
- Masks, sanitizers and other hygiene products are being stocked up as a precaution in case of supply shortages.

In a Harvard Business School working paper that researched on Yelp.com a few years ago, it was found that any one-star increase in Yelp rating of an individual restaurant could lead to a 5-9% increase in revenue. As the impact of customer reviews directly link to restaurant sales performance, high standards on hygiene and food safety are crucial to ensure firm business recovery when the COVID-19 pandemic subsides.

On the whole, management of all restaurant groups that we are talking to are fully committed to high standards of hygiene and have placed food and health safety as their No. 1 priority.

Good practices targeted to the current COVID-19 pandemic environment to ensure hygiene & food safety



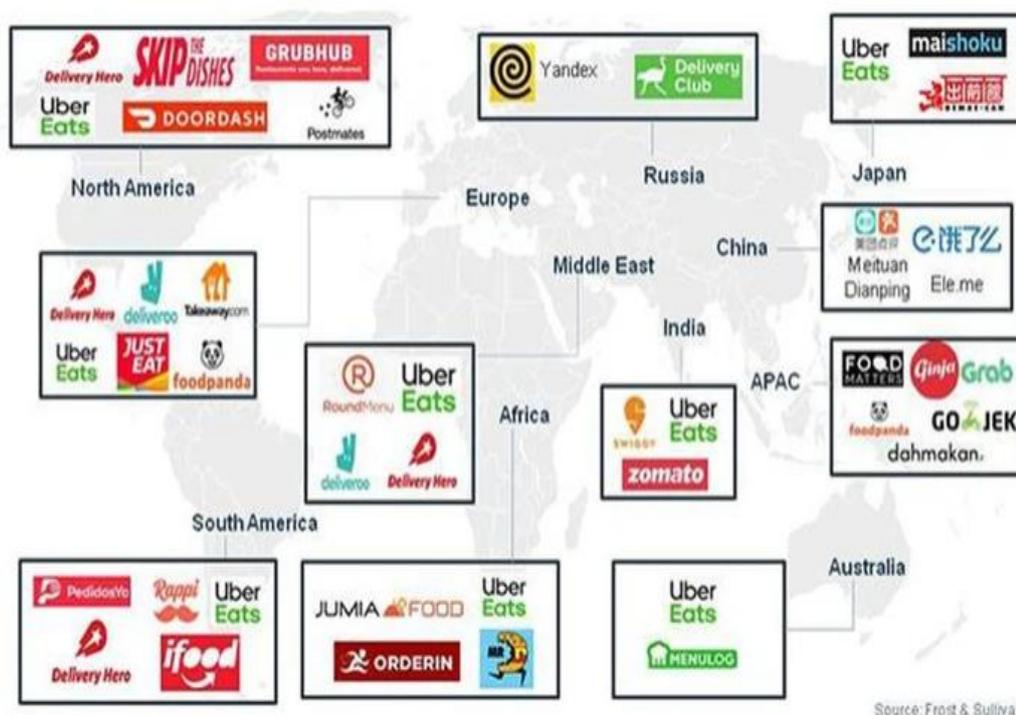
Source: FAO, OIE, WFP, WHO

Restaurants & Catering Sector

Deliveries & takeouts; menus & pricing. On the back of periodic lockdowns and social distancing to combat against the pandemic, dining out has become restrictive from time to time. Hence, food deliveries or takeaways are increasingly popular, especially in conjunction with well-established online delivery organizations that can be easily accessed by consumers via

their mobile apps. Restaurant operators are also trying to raise their capacities for food takeouts to complement deliveries (e.g. new takeaway menus, promotional discounts, etc.), and increase partnerships with third-party food delivery apps to adjust to changing demand under the COVID-19 environment.

Food delivery Apps around the world

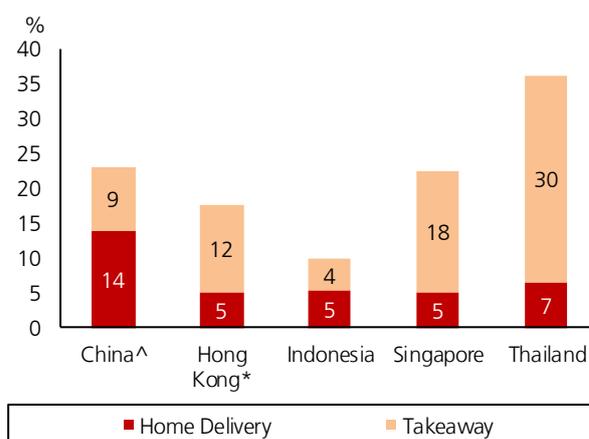


Source: Frost & Sullivan

Source: Frost & Sullivan

(a) China. The country has been among the leaders in online food delivery even before the outbreak of COVID-19, with a 14% penetration and market size of RMB653.6bn (+39% y-o-y) in 2019 (source: Meituan Research). The outbreak of COVID-19 has hastened the development of the industry and there is further room to expand under a new normal. Meituan Research currently expects penetration rate of the food delivery market to reach c.20% in 2020.

Restaurant deliveries & takeaways (2019)



Source: Euromonitor, Meituan Research[^], Statista^{*}, DBS Bank^{*}

China's two biggest food delivery platforms, Meituan (Tencent-owned) and Ele.me (Alibaba-owned) had respective market shares of 67% and 31% as of 1Q20 (source: Trustdata). In Jun 2020, active users of leading player Meituan reached 457.3m, with a presence in over 2,800 cities and counties across China.

The advantages of major food delivery platforms include their large user base, strong logistics network with a fleet of professional riders, plus marketing / data analytics. During the COVID-19 pandemic, key online delivery platforms also raise their bars to ensure high standards of food safety. For instance, Meituan's "Anxin restaurant" (安心餐厅计划) initiatives have included contactless food delivery and daily tracking of restaurants' hygiene as anti-epidemic measures.

Meituan's "Anxin restaurant" (安心餐厅计划)



Source: Meituan (The 'tick' indicates normal temperatures of all staff)

Meituan's live tracking of rider's body temperature



Source: Meituan

Some restaurants in China have opted to develop their own online food delivery platform either via Wechat Mini Program or self-developed apps. The long-term advantages may include significant costs savings, as the restaurant will not have to pay commission (usually around c.20% of value of food order) to online delivery service platforms for every order, while the restaurants are able to amass their own online customer database for ongoing marketing and feedback collection. Aside from building self-operated delivery logistics by hiring their own riders, restaurant groups can also rely on riders from third-party logistics providers such as JD-Dada or SF Express in China. However, it is generally more difficult for a restaurant initially as it takes time to generate organic traffic to their own new platforms.

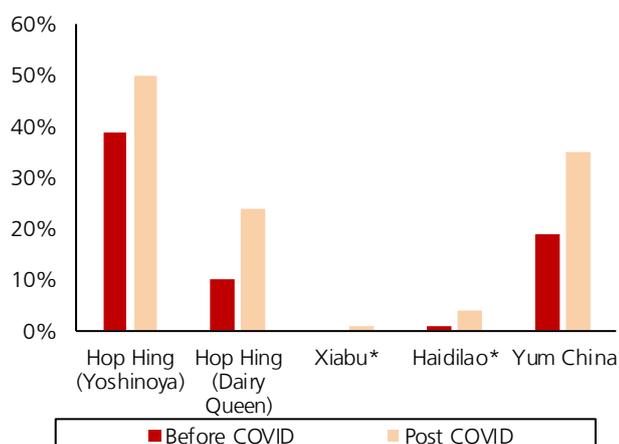
Self-operated O2O deliveries: Kungfu fast food chain



Source: Kungfu fast food restaurants operate their online deliveries via Wechat Mini platform “Kungfu Club”(功夫会), with Kungfu employees streaming live broadcasts on their Wechat Mini platform to share the menu of the day, promotional vouchers, and introduce other value meals to viewers. Any enquiries are also answered immediately in the live streaming (photo to the right). It has successfully completed the online-to-offline delivery logistics with its own ridership network.

China’s online delivery sales has surged substantially this year due to city lockdowns and social distancing measures. Among key restaurant operators that we talk to, contribution from delivery sales has increased by 2-15ppts in 1H20 as compared to 2019. Delivery sales from hotpot chains are 1-4% of sales, while the level is higher for fast casual / fast food chains, at 23-50% of sales. As China has so far recovered relatively faster from the COVID-19 pandemic, we expect its online food delivery market to sustain good growth prospects, given that more customers are getting used to the new norm of online food ordering.

Delivery as % of sales



Source: DBS Bank

(b) Hong Kong market is also dominated by a few delivery e-platforms, such as Deliveroo, Foodpanda and UberEats.

In 1Q20 alone, about 1,500 eateries joined Deliveroo, increased the number of its restaurant partners to c.6,500 restaurant (nearly 40% of all licensed restaurants in Hong Kong), and claimed to have c.60% market share in revenue terms.

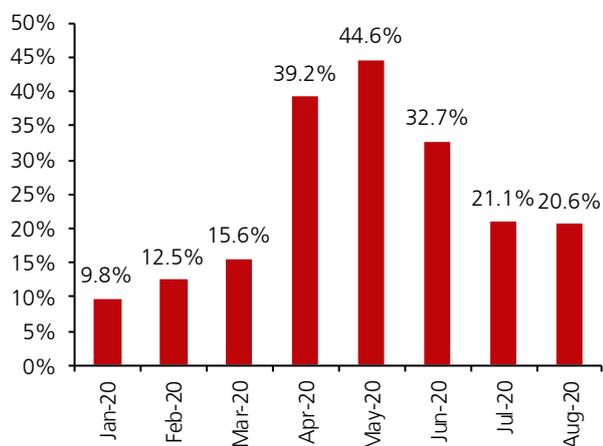
Foodpanda, on the other hand, has over 7,000 restaurant partners and leads in terms of food variety; while UberEats has c.2,500 eateries on its list. Nevertheless, food takeaways are still more popular than deliveries in Hong Kong given the proximity to eateries, especially during the COVID-19 pandemic as selected restaurants were offering substantial takeaway discounts at 30-50% off regular menus, translating into more affordable prices versus what delivery e-platforms are offering.

(c) Across ASEAN, Singapore, Thailand and Indonesia that we focus on in this report, as well as Malaysia, the Philippines and Vietnam should all see good prospects in online food deliveries. Dine-in restrictions implemented during the pandemic have also accelerated the development of this segment.

Taking Singapore as an example, there was substantially higher demand for online food deliveries following the COVID-19 outbreak. Singapore's circuit breaker measures, which was a stay-at-home order, commenced on 7 Apr 2020. Restrictions were gradually lifted from 2 June 2020 onwards for Phase 1, and from 19 June 2020 for Phase 2.

According to Singapore Department of Statistics, online penetration of food deliveries in Singapore still held up at c.21% in Aug 2020 despite a gradual easing of circuit breaker measures. This was more than doubling the 9.8% penetration in Jan 2020, just before Singapore started to confirm local transmission of COVID-19 cases in Feb 2020. The pandemic does seem to have increased customer demand for online deliveries and has set a new norm.

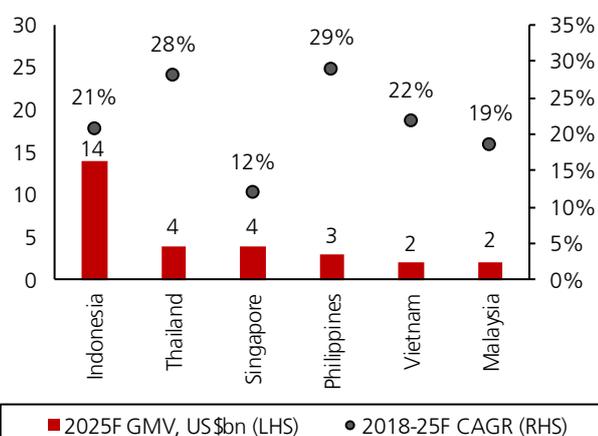
Singapore: F&B service online sales penetration



Source: Singstat

Overall speaking, the top 6 ASEAN countries are expected to achieve at least 21% sales CAGR (2018-25F) in the food delivery market. Industry market size is expected to expand to US\$29bn GMV (general merchandise value) by 2025F. Specifically, countries with a bigger population size should see relatively faster growth momentum in online food deliveries. Indonesia, for instance, which has the largest population size of >250m among ASEAN countries, could be the largest online delivery market in terms of GMV, achieving 21% CAGR to US\$14bn online delivery GMV by 2025F. Countries like the Philippines, Vietnam and Thailand that are more populated (>65-100m residents each) could also offer better growth potential.

Southeast Asia (Top-6): Online food delivery



Source: The Asean Post

While the ASEAN online food delivery market could be fragmented given the existence of various small delivery apps, there are bigger cross-country operators like GrabFood and Foodpanda. As different countries have their own distinctive cultures, operators have to be well-equipped to stand out in the game.

Major online delivery Apps

Country	Apps
Singapore	Deliveroo, Foodpanda, GrabFood, WhyQ, Pickup
Thailand	GrabFood, Gojek, Lineman, Foodpanda
Indonesia	GoFood, GrabFood, Zomato

Source: DBS Bank

Store formats. Most of the restaurant chain operators that we talked to are running multi restaurant formats. These include full-service restaurants, fast food / quick service restaurants (QSR), cafes, food courts, bars, food caterers, etc.

Comparing the recent performances of these formats and taking Hong Kong and Singapore as reference points, fast food shops have shown to be the most resilient store format with the least sales decline (HK: -18.7% y-o-y in 6M20; Singapore: -9% in 8M20), followed by cafes, food courts and other eating places like cha chaan tengs (HK: -22.7% in 6M20; Singapore: -22% in 8M20). Full service restaurants have suffered more and registered more than 30% declines, as they are traditionally designed for dine-in services mainly, and have been hard hit by the social distancing regulations and lockdowns. The larger restaurants have also suffered from the absence of wedding and celebration banquets. Bars and food caterers are hardest hit, with sales plummeting by >40% given stricter lockdowns of bars and a low desire of customers for socialising and night life during the pandemic. Food caterers are also suffering from the lack of parties and events.

Pace of recovery by category

% y-o-y	(8M20)	(6M20)
	Singapore	HK
Restaurants	-38%	-31.8%
Chinese restaurants	n.a.	-35.9%
Non-Chinese restaurants	n.a.	-25.9%
Fast food shops	-9%	-18.7%
Cafes, food courts & other eating places	-22%	-22.7%
Bars	n.a.	-42.3%
Food caterers	-44%	n.a.
Overall	-27.3%	-28.7%

Source: HK Census & Statistics, Singstat, DBS Bank (from latest data available)

According to our understanding, companies that also operate full-service restaurants are actively planning to reformat these outlets, with steps including:

- Reducing total store space by cutting down seating capacity upon lease expiry;
- Adjusting food menus and collaborating with third-party delivery e-platforms to strengthen takeout & delivery capabilities;
- Reducing the proportion of full service restaurants versus fast food shops and cafes;
- For regions that are more tourist dependent: the relocation of full service restaurants and other store formats from prime tourist districts to residential hubs is being considered.

All in, most restaurant operators are speeding up to work out an optimal store-mix that will fit into the new norm.

Recently, KFC introduced its first food truck in Bangkok, Thailand to reach out to other customer groups (e.g. white collar workers) beyond families. The company ensures that there is hot and fresh food to go as compared to its pop-up stores in past events and exhibitions.

KFC introduced its first food truck in Thailand recently



Source: The Smart Local

In recent years, the market has been exploring brand new concepts such as 100% robotic restaurants, and the COVID-19 outbreak might have just sped up this process. For instance, Qianxi Robot Catering Group (subsidiary of Country Garden (2007.HK)) opened the world's first robotic, contactless restaurant complex (GFA: 2,000sm) in Shunde (Guangdong Province of China) on 22 June 2020. The restaurant has separate sections for hot pot, fast food, Chinese food, etc. and has more than 20 robots for different cuisines offering a total of c.200 menu items, to serve a maximum of c.600 diners at any one time. All orders are taken by robots, and food is also cooked and served by robots.

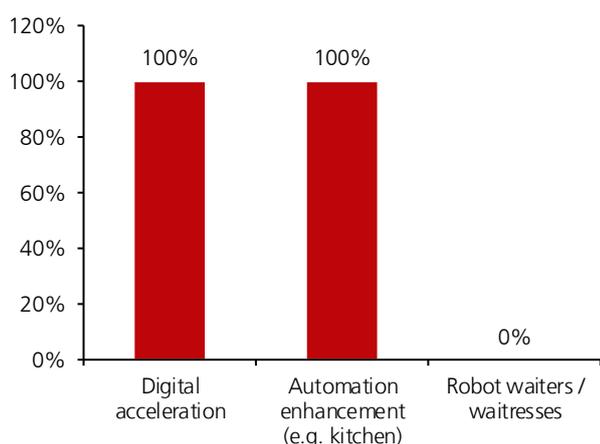
Country Garden builds world's first robotic restaurant



Source: Techwire Asia (Above: Country Garden launched the world's first robotic restaurant in June 2020. Below: the company plans to achieve mass production of robots with an expected output of c.5,000 units per year.)

Our survey reveals that none of the restaurant operators are interested to explore contactless robotic restaurants at the moment, given the high investments required and low returns expected. Most of the restaurant operators will continue to enhance artificial intelligence applications at store level and within their central kitchens. However, they are keeping an open-mind on the concept and development of fully automated robotic restaurants, and may revisit this modern store format in the medium- to long-term when building such stores becomes more cost effective.

Survey: technological advancement



Source: DBS Bank

Operating efficiency & costs management. Artificial intelligence applications are being adapted across industries to improve operational efficiencies. The restaurant sector is no exception. While none of the key restaurant players that we have talked to will invest in fully robotic restaurants any time soon, they all have plans to further enhance automation and digitalisation to improve overall efficiency.

Major restaurant technologies include contactless / mobile payment devices (e.g. order and pay at the table), integrated online ordering solutions via mobile apps, self-order kiosks, facial recognition and personalised menus, etc. These have all become even more popular following the COVID-19 outbreak. Other useful devices also include predictive analytics to estimate product demand under different weather conditions, time of day, traffic situation, etc. to help reducing wastage. Forecasts on transaction volumes should also improve labour scheduling and reduce costs.

Order & pay at table + Facial recognition



Source: news sources

For the back-end functions, inventory monitoring sensors, food warming stations, robotic arms for frying and steaming, just to name a few, are all very useful tools to improve operating efficiency and save costs. In the near future, we could see an increasing number of robot chefs and bartenders in restaurants to attract customers while improving productivity.

Robotic arms: cooking device + attract customers



Source: news sources

Robot bartenders



Source: news sources

Digital cashiers have been introduced into restaurants over the past few years and are now increasingly prominent, particularly for quick service restaurants. Aside from efficiency

enhancement and order accuracy, significant staff cost savings can be achieved. For example, KFC in China used to have 5-6 cashier checkouts per store that were 100% manually operated. Three years ago, the company has started to replace them with digital cashiers in phases. On our estimates, for every 6,000 manned cashiers that have been substituted with digital checkouts, RMB168m could be saved in the first year and RMB242m per annum thereafter. Digital cashiers are also a good option under the current pandemic environment.

KFC replacing manned cashiers with digital cashiers

Description	Rmb'000
(a) Removal of 6,000 cashiers	
(b) Salary per cashier (per annum)	42
(c) =(a)x(b) Total savings from removing manual cashier	252,000
(d) Installation of each digital cashier	12
(e) Annual maintenance of each digital cashier	2
(f) =(d)+(e) Cost of digital cashier (1st year)	14
(g) =(a)x(f) Total cost of digital cashiers installed	84,000
(c)-(g) Net savings (Rmb) (1st year)	168,000
(c)-(a)x(e) Net savings (Rmb) (2nd year and onwards, per annum)	242,000

Source: DBS Bank

In terms of other cost management initiatives, all restaurant operators are actively re-negotiating with landlords for rent cuts, with some of them also selectively closing stores to minimise rental costs. So far, many landlords are willing to provide some rent concessions to partially offset the impact of revenue declines attributable to COVID-19. Take Hong Kong, Singapore and Indonesia as examples, with major operating cost items (e.g. staff expenses, rentals) normally comprising of both variable and fixed costs, we estimate that restaurant chains could still withstand c.10% y-o-y sales decline in 2020 before running into losses.

Restaurant operators are also leveraging on government support schemes and subsidies as much as possible to buffer against pandemic disruptions although such subsidies vary from region to region. Some examples are payment exemption / reduction of Social Security Scheme in China; Employment Subsidy Scheme and Licensed Catering Subsidies in Hong Kong; Jobs Support Scheme as well as rental pass-through from landlords (who get property tax rebates) in Singapore; Soft Loans for SMEs in Thailand; and Stimulus Package (e.g. Social Safety Net Program, Small Micro Medium Enterprises Program, etc.) in Indonesia. In the case of Hong Kong and Singapore, for instance, we anticipate the restaurant sectors to be able to tolerate nearly 40% and 60% sales declines this year, respectively, before going into the red given the support of government subsidies. While these financial aids do make a big difference to their P&L, the management of restaurant

groups that we interviewed are not overplaying the impact, as all these policies will still be decided by the government and restaurant operators have limited control.

Product R&D. Product innovation is increasingly important in most industries as customer demand becomes more sophisticated. Some restaurant groups change their menus more frequently and launch seasonal / flash items to offer additional product options, with the aim of sustaining customer loyalty and attracting new diners. In recent years, more restaurant players have diversified further to extend into complementary segments.

Aside from new lines of branded beverages, cakes & pastries, instant foods have become an alternative revenue stream for restaurant operators, riding on their increasing demand for convenience, growing number of single-person households, and perhaps also optimising utilisation of their central kitchens. The trend for instant foods has become even more visible following the outbreak of COVID-19.

Given the mounting varieties of instant foods, particularly self-heating products such as hotpots, instant rice (bao zai fan) and noodles, we taste tested the top sellers, and conclude that listed companies and bigger names usually (i) have relatively higher average selling prices versus smaller, private brands; (ii) offer more premium ingredients; and (iii) provide clearer "how to use" instructions especially for self-heating meals. Additionally, we did a quick review of customer preferences within our research team, revealing that a majority of us will (iv) buy new instant food products launched by well-recognised brands as we enjoy trying new varieties, and (v) consume from unfamiliar brands if the packaging is attractive enough. Generally speaking, all these outcomes reiterate that listed restaurant players or resourceful food enterprises should enjoy comparative advantages against relatively smaller unlisted operators, as the former provide better product quality, strong branding, and plentiful resources in product development, packaging as well as marketing.

Top selling items on T-mall



Search results > Instant self-heating hotpots

No	Brand	Vol	Rmb/SKU
1	Xianhezhuang (贤合庄)	>120k	9.73
2	Weiqinuo (威其诺)	>110k	10.9
3	Zihai (自嗨)	>88k	15.8
4	Moxiaoxian (莫小仙)	>55k	19.9
5	Haidilao (海底捞)	>26k	23.8
6	Chaotianmen (朝天门)	>1523	10.9

Search results > Instant self-heating instant rice

No	Brand	Vol	Per SKU
1	Moxiaoxian (莫小仙)	>59k	16.6
2	Zihai (自嗨)	>26k	12.5
3	Fanxiaobao (饭小宝)	>21k	15.2
4	Kaixiaozao (UPC) 开小灶 (统一)	>20k	24.8
5	Xianhezhuang (贤合庄)	>14k	9.9

Search results > Instant self-heating noodles

No	Brand	Vol	Per SKU
1	Kangshifu (Tingyi) (康师傅)	>875	30
2	Zhichen (植臣)	>332	9.9
3	Xibeiyou (西贝莜)	>235	29.9

Source: T-mall, DBS Bank

Xiabu Xiabu's beverage brand – Tea Mi Tea (茶米茶)



Source: news sources

Tai Hing's canned food and milk tea products



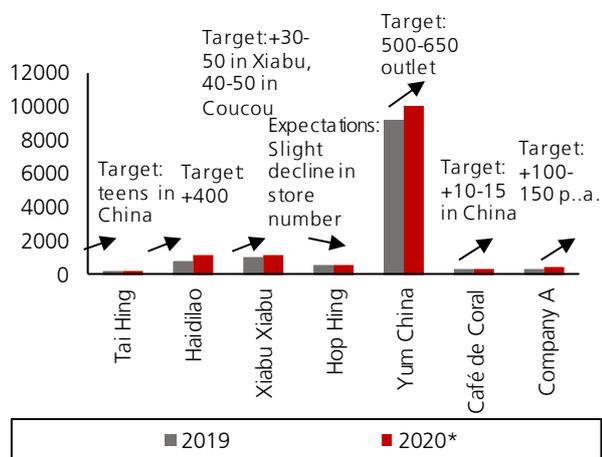
Source: various news sources

On the whole, all new product lines only have minimal contribution to group revenue at this stage. The restaurant players that we feature in this report still continue to focus on core product offerings. Any new try-outs are good to have, with potential to growing bigger and becoming more meaningful in the medium-term.

Sales network expansion. Many restaurant chains have become more cautious in new store openings this year, amid a low visibility and tough operating environment given ongoing social distancing measures or periodic lockdowns now and then. Major players in Hong Kong, Singapore, Thailand and Indonesia that we surveyed are slowing down their expansion pace significantly. As online food deliveries are taking a larger pie, and there is low visibility to the return of tourists, operators in Hong Kong and Singapore could be targeting at net store closures for 2020. Restaurants based in Thailand and Indonesia will also reduce their pace of expansion substantially this year, such as PZZA.IJ and MAPB.IJ that have slashed their store opening plans by more than half and are very selective in choosing new store locations.

On the contrary, China has seen strong recovery YTD, with key restaurant and retail plays registering sales growth during the latest National Day Golden Week Holiday (1-8 Oct 2020). Hence, most restaurant operators that we talked to have maintained their original expansion plans before the pandemic, with one or two such as Haidilao even revising up store expansion target to c.400 restaurant outlets in 2020, versus an earlier goal of 300. Both Xiabu Xiabu and Hop Hing have scaled back their outlet expansion due to their higher exposure to Beijing and Northeast China that were hit by a second wave of COVID-19 cases, while Xiabu Xiabu also intends to re-accelerate its pace of new store openings by 2021.

E.g. Store expansion targets in China for 2020



Source: Companies, DBS Bank estimates

M&As. Acquisition is among the fastest channel for business expansion given sound execution. In China, Haidilao recently announced the acquisition of an 80% stake in Madam Zhu’s Kitchen (漢舍中國菜) for RMB120m, following acquisitions of Hao Noodle (80% stake for RMB21.3m) and UdingU (maocai) last year. Yum China has also just completed its acquisition of Huang-ji-Huang (maocai) recently. In Thailand, MK Restaurant Group acquired Laem Charoen Seafood, enhancing MK’s portfolio with various restaurant formats, including suki restaurants, Japanese eateries, food courts, dessert places as well as seafood restaurants. Minor also bought Coffee Journey to target the mass market, and has exclusively opened stores in Esso Petro Stations starting on 21 Sep 2020.

Overall, key restaurant operators are keeping an open mind to explore suitable M&A opportunities to beef up their brand portfolios, enhance operating efficiencies, or accelerate geographical expansion. The current market conditions should expedite industry consolidation and possibly offer better acquisition prospects, and hopefully some players can secure the right deals at the right prices.

Recent M&As for diversification

Date	Acquirer Company	Target name	Country of Origin		local currency	Stake	Description
Sep-20	Haidilao International	Shanghai Shuhai Catering Management	China	Rmb m	120.00	80%	Operating assets of Madam Zhu's Kitchen (漢舍中國菜)
Jul-20	Koufu	Deli Asia	Singapore	SGD m	22	100%	Acquisition of its largest supplier for fried food and dough products
Apr-20	Yum China	Suzhou Kentucky Fried Chicken	China		n.m		Buyback of franchising rights in Suzhou
Jan-20	Li Bao Tea House	Yaoliang (Shanghai) Food	China	Rmb m	22.4	70%	Acquisition of Shanghai Sun Kau Kee (store counters) which specialises in roast duck which will be offered in Freshippo stores
Nov-19	Haidilao International	Hao Noodle, Hao Noodle & Tea	US	Rmb m	21.28	80%	Acquisition of Hao Noodle, 2 New York based outlets
Nov-19	Haidilao International	Shanghai Kiwa Internet Technology	China		n.m		Operation of Haidilao app with functions of ordering, electronic mall for members, online games, member activities and other functioning
Nov-19	Udenna Corporation	Wendy's Philippines Restaurants	Philippines		n.m		Acquisition of 51 restaurants in Philippines
Oct-19	Jollibee Foods Corporation	Tim Ho Wan	HK	Rmb m	600.6	60%	Asia Pacific franchise rights in Tim Ho Wan
Oct-19	Singha Corporation	Santa Fe	Thailand	Thai baht bn	1.52	90%	Acquisition of local steakhouse chain Santa Fe, by Thailand based private equity firm Lakeshore Capital to Singha Corporation
Sep-19	MK Restaurant Group	Laem Chareon Seafood	Thailand	Thai baht bn	2.06	65%	Thai seafood restaurant chain
Sep-19	Breadtalk	Food Junction	Singapore	SGD m	80.00	100%	Acquisition of 12 Food Junction Outlets
Aug-19	Yum China	Huangjihuang	China	Rmb m	1295	100%	Huangjihuang is a casual dining chain focused on maocai (stewed pot) with over 640 outlets across the country
Jul-19	Jollibee Foods Corporation	Coffee Bean & Tea Leaf	US	US\$m	350.00	100%	The Coffee Bean & Tea Leaf brand has >1,200 outlets in a total of 27 countries
Mar-19	Haidilao International	Youdingyou	China	Rmb m	204.1		Acquisition of Youdingyou with 45 restaurants in China
Feb-18	Yum China	Wuxi KFC	China		n.m		Buyback of franchising rights in Wuxi
Aug-17	ThaiBev Corporation	Spice of Asia (Yum Restaurants)	Thailand	Thai baht bn	11.3		Acquisition of 240 existing and developing KFC outlets in Thailand
May-17	Yum China	Beijing Daojia Times Catering Management	China		n.m		Acquisition of a stake in Daojia, online food delivery service provider
Nov-16	Jollibee Foods Corporation	HappyBee Foods Processing Private Limited	China	US\$m	10.34	100%	Manufacturing facilities to support the growth of its Yonghe King business. Yonghe King is Jollibee King's largest business in China, with >300 outlets.
Oct-15	Jollibee Foods Corporation	Smashburger	US	US\$m	335.00	40%	Smashburger has >350 outlets globally.

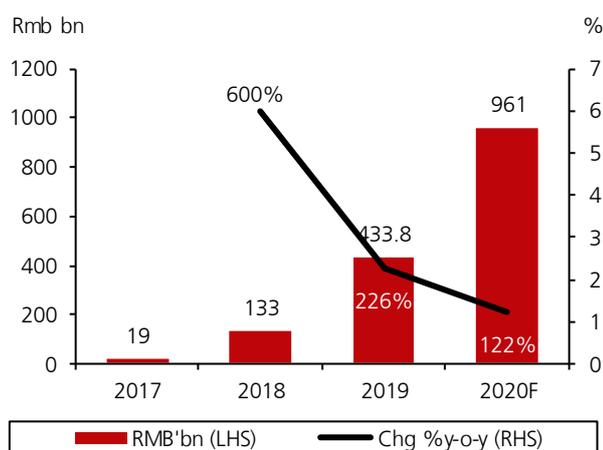
Source: Bloomberg Finance L.P.



Newer trends: live streaming + cloud kitchens

Live Streaming. By including some human elements and interactions between the brands and its customers, live streaming is increasingly gaining popularity, especially in China with Taobao Live (Alibaba’s livestreaming unit) among the pioneers in 2016, mainly as a marketing tool for new product launches and special promotions. The trend has also been accelerated by the COVID-19 pandemic this year. In 2019, China’s live streaming online sales reached RMB433.8bn, and could more than double to RMB961bn in 2020 (source: iiMedia Research). Others like JD.com and Pingduoduo have also followed suit.

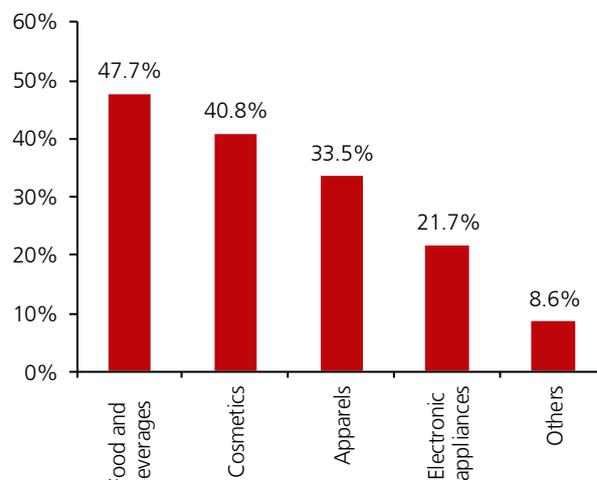
China: market size of live e-commerce (2017-2020F)



Source: iiMedia Research

Based on a 2020 iiMedia research survey in China, food and beverage products scored the highest viewership of 47.7% via live streaming. This implies there is a sizeable audience for restaurants to market their brands, as well as directing online traffic to food deliveries and/or ready-to-cook product sales. The COVID-19 outbreak is also spurring more restaurants to explore livestreaming in China this year. For instance, Alibaba announced that a total of 31 well-known catering companies, including Xibei (西贝) and hot pot chain Xiaolongkan (小龙坎), have reached out to sign with Taobao Live since Feb 2020.

2020 Survey: E-commerce products watched by Chinese viewers via live streaming



Source: iiMedia Research

China: Examples of live streaming by restaurant chains



Source: Taobao Live (On 17 Feb 20, a livestreaming session of hotpot chain Xiaolongkan sold tens of thousands of single-use self-heating hot pot pans within 10 minutes, achieving 1200% increase in single-day sales compared to the previous month.)

Live streaming: Restaurant chef cooking pork belly



Source: Taobao Live (During livestreaming, the chef of Meizhou Dongpo recommended the company's ready-to-cook products such as braised pork belly, and directed customers to its Tmall flagship store and generated sales)

Live streaming: KFC featuring its GM as star guest



Source: Taobao Live (On 26 Apr 20, Pizza Hut China delved into live streaming with its General Manager, Jeff Kuai as the star guest; customers were able to interact with Kuai, and promotions were offered for its Pizza Hut's food delivery on T-mall.)

Cloud kitchens. In recent years, cloud kitchens have become increasingly popular, with the outbreak of COVID-19 expediting the growth. By separating dine-in and distribution, cloud kitchens are delivery-only restaurants with centralised food production facilities that minimise rental and staff costs. Most cloud kitchens occupy industrial building units or underutilised warehouses, with some of these operators offering a revenue share model to attract chefs and restaurants to set up with them, while multiple cuisines could also be produced from each single site to suit demand. Restaurateurs can simply rent a space in the facility and receive online delivery support including online marketing, packaging, delivery logistics, hence lowering the start-up costs and entry to barriers.

Global revenue from cloud kitchens is projected to increase from US\$43bn last year to US\$72bn by 2027 (source: Allied Market Research). In particular, cloud kitchens are springing up across the Asia Pacific.

China: Leading player Panda Selected (熊猫星厨) has opened >100 cloud kitchens across various cities since 2016. Backed by Tiger Global, Beijing-based Panda Selected provides kitchen utensils, helps restaurants to build their brands, arrange third-party riders, and sells data analytics to support restaurants to boost their sales. Panda Selected has claimed that its average catering business receives 290-320 orders a day and can make a profit after about two months of operating a cloud kitchen.

Hong Kong: Spoonful Meals is a delivery-only kitchen operator offering its own brands like NOSH, GA, Sesami, etc. to customers, and partners with Foodpanda for deliveries. Deliveroo has also opened a third site (2,877sf) in Quarry Bay, which together with its locations in Wanchai and Sai Ying Pun should house a total of 17 delivery-only kitchens consisting of 42 brands, including its collaboration with the Pirata Group, Shanghai Lane, Beef & Liberty, Treehouse, Pololi, and Soupday, as well as its own virtual brands such as its latest Wing It (chicken wings brand). The company intends to expand its sites to Kowloon and the New Territories in the near future.

Singapore: Singapore's cloud kitchen start-up, TiffinLabs (backed by property tycoon Kishin RK), currently operates nine digital-first restaurant brands out of its kitchens in Singapore. TiffinLabs leverages on its AI-driven kitchen to produce a menu suitable for delivery, and utilises data analytics to determine food trends and changing consumer preferences, while optimising its supply chains with local smart platforms such as Grab, Uber Eats, Foodpanda etc. to fill the gaps in delivery zones. Within the next 12 months, TiffinLabs targets to have >30 restaurant concepts serving over 15 cuisines in 10 countries at least. In longer run, TiffinLabs plans to create an international network of cloud kitchens in more than 1,000 locations across the US, Europe and Asia.

Thailand: Some major shopping malls have leveraged on their social media accounts (e.g. Line, Facebook) to help restaurant tenants better engage with customers and cater to online restaurant sales during the COVID-19 pandemic. For instance, Bangkok shopping mall operator Siam Piwat has launched Eat at Home service, allowing customers to order food from more than 50 restaurants at Siam Paragon, Gourmet Garden, Paragon Food Hall and IconSiam. The advantage of such initiatives versus food delivery apps is that customers can easily order food, beverages, desserts, etc. in a single order from different restaurants in the same shopping mall.

IconSiam's Eat at Home service



Source: IconSiam

In July 2020, Thailand's leading fast-food restaurant chain, Central Restaurants Group, also opened its first cloud kitchen in Bangkok, with plans to set up 100 cloud kitchens within the next five years. Opening its cloud kitchen service to other restaurants (e.g. recently partnered with another major local restaurant chain, Krua Khun Toi) will allow Central Restaurants to reduce idle capacity and potentially generate additional revenue. Additionally, Gojek's Thai division plans to turn food trucks into cloud kitchens, whereby partner trucks gather at a designated location and make meals for delivery using Get's food delivery service (Gojek's local brand).

Indonesia. The country faces a similar situation whereby cloud kitchens are dominated by the Grab-Gojek duopoly. As of June 2020, Grab opened over 40 locations in Indonesia (and runs another 10 in Thailand, Singapore and the Philippines), while Gojek launched 27 cloud kitchens in the country. Line's (Tokyo-based) local arm has also launched its first cloud kitchen, serving 13 restaurants and offering delivery services within a 25-km radius.

Suffice to say, the rise of cloud kitchen apps could be a threat, or complementary to the development of traditional restaurant chains, depending on whether collaborations can be arranged.

Peers valuation

Company Name	Code	Currency	Price		Recom	Mkt Cap US\$m	Fiscal Yr	EPS growth		PE		Yield		P/Bk		ROE	Performance		
			Local\$	Local\$				20F	21F	20F	21F	20F	21F	20F	21F	20F	1M	3M	12M
Leading Greater China Restaurant and Food Ingredient Plays																			
Haidilao International Holding*	6862 HK	HKD	55.5	68.00	BUY	37,954	Dec	(55.5)	321.4	230.0	54.6	0.5	0.7	22.6	17.9	9.8	(6.6)	69.1	50.9
Yum China Holdings*	YUMC US	USD	53.34	59.20	BUY	22,355	Dec	(49.7)	87.7	57.8	30.8	0.4	0.9	5.1	4.7	10.5	4.2	0.6	22.0
Yum China Holdings (Hkg)*	9987 HK	HKD	410	460.58	BUY	22,172	Dec	(49.7)	87.7	57.3	30.5	0.5	0.9	5.1	4.7	10.5	1.7	n.a	n.a
Xiabuxiabu Cater.Man. (China) Hdg.*	520 HK	HKD	10.94	14.30	BUY	1,527	Dec	(123.1)	n.a.	n.a.	20.1	0.3	2.0	4.6	4.1	(2.9)	6.8	37.3	1.5
Cafe De Coral Hdg.*#	341 HK	HKD	15.88	20.60	BUY	1,200	Mar	454.9	17.0	22.6	19.3	3.1	3.6	3.0	2.9	14.2	(4.0)	10.8	(26.0)
Yihai Intl.Hdg.	1579 HK	HKD	114.1	n.a.	NR	15,413	Dec	40.4	38.9	96.6	69.5	0.3	0.4	27.8	20.6	32.7	(1.2)	18.9	112.6
Jiumaojiu International Holdings	9922 HK	HKD	18.4	n.a.	NR	3,451	Dec	(79.0)	788.2	469.6	52.9	0.1	0.5	9.9	8.4	3.3	(5.3)	38.9	n.a
Gourmet Master	2723 TT	TWD	100.5	n.a.	NR	627	Dec	(26.0)	57.5	26.2	16.6	2.1	2.8	1.7	1.6	6.5	(8.0)	12.3	(28.7)
Fairwood Holdings#	52 HK	HKD	17.78	n.a.	NR	297	Mar	(2.8)	202.8	38.9	12.8	1.8	6.2	3.4	2.8	8.4	(8.0)	8.0	(12.2)
Tai Hing Group Holdings	6811 HK	HKD	1.55	n.a.	NR	200	Dec	(54.9)	305.1	39.7	9.8	1.4	5.4	1.6	1.4	4.0	(10.7)	34.8	(14.2)
Ajisen(China)Holdings	538 HK	HKD	1.12	n.a.	NR	158	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(7.6)	(14.2)	(54.4)
Tao Heung Holdings	573 HK	HKD	0.9	n.a.	NR	118	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(3.2)	(2.2)	(31.3)
Tang Palace (China) Holdings	1181 HK	HKD	0.68	n.a.	NR	94	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(5.6)	0.0	(38.5)
Hop Hing Group Holdings	47 HK	HKD	0.056	n.a.	NR	73	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	(5.1)	(51.7)
Tsui Wah Holdings#	1314 HK	HKD	0.295	n.a.	NR	54	Mar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(7.8)	(1.7)	(39.8)
Average								5.5	211.8	115.4	31.7	1.0	2.3	8.5	6.9	9.7			
Singapore																			
Koufuu Group*	KOUFU SP	SGD	0.655	0.77	BUY	267	Dec	(45.3)	65.0	24.2	14.7	1.5	2.7	3.1	2.9	14.1	(2.2)	(3.0)	(10.3)
Jumbo Group*	JUMBO SP	SGD	0.315	0.21	FV	149	Sep	(130.0)	n.a.	n.a.	27.1	0.0	1.8	3.5	3.1	(5.5)	(4.5)	(8.7)	(14.9)
Old Chang Kee*#	OCK SP	SGD	0.675	0.76	HOLD	60	Mar	6.3	(100.0)	16.7	n.a.	4.4	0.0	2.7	n.a.	16.3	(2.9)	(7.6)	(8.3)
Kimly	KMLY SP	SGD	0.275	n.a.	NR	242	Sep	14.9	0.0	13.8	13.8	3.6	7.3	3.1	3.1	25.6	14.3	24.4	24.4
Abr Holdings	ABR SP	SGD	0.7	n.a.	NR	103	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	27.3	(6.7)
Japan Foods Holding#	JFOOD SP	SGD	0.3	n.a.	NR	38	Mar	70.9	100.0	30.0	15.0	3.3	3.3	1.7	1.6	3.6	(15.5)	(7.7)	(30.2)
No Signboard Holdings	NSB SP	SGD	0.037	n.a.	NR	13	Sep	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.6	5.7	(32.7)
Average								(16.6)	16.3	21.2	17.7	2.6	3.0	2.8	2.7	10.8			
Thailand																			
Minor International*	MINT TB	THB	18.7	21.00	HOLD	3,105	Dec	nm	n.a.	n.a.	n.a.	0.0	0.0	1.2	1.2	(14.2)	(19.4)	(2.1)	(48.4)
Central Plaza Hotel*	CENTEL TB	THB	20.5	23.50	FV	887	Dec	nm	n.a.	n.a.	52.3	0.0	0.8	2.3	2.2	(6.7)	(14.6)	(6.8)	(31.4)
Mk Restaurant Group	M TB	THB	45.5	n.a.	NR	1,343	Dec	(69.3)	163.0	52.4	19.9	2.3	4.9	3.1	3.0	5.6	(7.6)	(12.1)	(41.9)
After You	AU TB	THB	9.6	n.a.	NR	251	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(0.5)	0.0	(22.0)
Zen Corporation	ZEN TB	THB	9.4	n.a.	NR	90	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.9	(0.5)	(35.4)
Mudman	MM TB	THB	1.94	n.a.	NR	66	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(2.6)	6.3	(37.9)
Average								(69.3)	163.0	52.4	19.9	2.3	4.9	3.1	3.0	5.6			
Indonesia																			
Fast Food Indonesia	FAST IJ	IDR	940	n.a.	NR	255	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	3.3	(32.9)
Pt Sarimelati Kencana	PZZA IJ	IDR	640	n.a.	NR	132	Dec	(69.1)	170.2	31.3	11.6	3.8	1.5	1.5	1.4	6.9	8.5	(0.8)	(40.2)
Map Boga Adiperkasa Pt	MAPB IJ	IDR	1260	n.a.	NR	186	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.3	(14.0)	(27.4)
Pioneerindo Gmt.Intl.	PTSP IJ	IDR	4680	n.a.	NR	70	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(3.1)	17.0	(3.7)
Jaya Bersama Indo	DUCK IJ	IDR	310	n.a.	NR	27	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.8	(31.8)	(82.8)
Cipta Selera Mum#	CSMI IJ	IDR	482	n.a.	NR	27	Jan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	114.9	####	n.a
Average								(69.1)	170.2	31.3	11.6	3.8	1.5	1.5	1.4	6.9			

FY20: FY21; FY21: FY22

Source: Thomson Reuters, *DBS Bank

Catering & Restaurants : China

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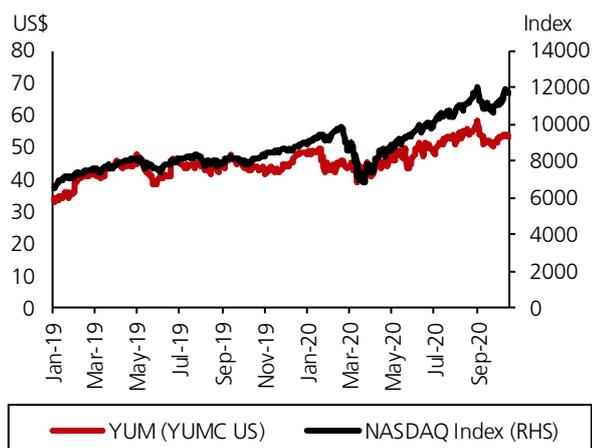
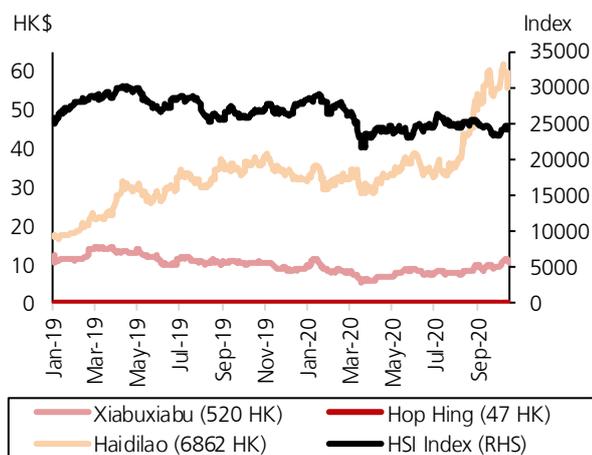
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Recommendation and Valuation

Company Name	Price	Target	Recom	Mkt	PE
	Local\$	Local\$		Cap	21F
				US\$m	x
Yum China Holdings (Hkg)* (9987 HK)	410.00	460.58	BUY	22,172	30.5
Yum China Holdings* (YUMC US)	53.34	59.20	BUY	22,355	30.8
Haidilao International Holding* (6862 HK)	55.50	68.00	BUY	37,954	54.6
Xiabuxiabu Cater.Man. (China) Hdg.* (520 HK)	10.94	14.30	BUY	1,527	20.1
Hop Hing Group Holdings (47 HK)	0.056	n.a.	NR	73	n.a.

Source: Thomson Reuters, *DBS HK
Closing Price as at 15 Oct 2020

Share price performance vs. HSI / NASDAQ Index



Source: Thomson Reuters

A strong comeback

- Catchup spending supportive of an impressive rebound in China's restaurant sector; expect restaurant sales to remain a driving force in China's retail sector
- COVID brought about new opportunities including better locations secured by financially secure restaurant players; "revenge" spending to drive better product upgrades in restaurants while delivery remains a force to be reckoned with, as penetration rises to 20% by end-20E
- Reiterate BUY on Haidilao, Xiabu Xiabu and Yum China

Robust holiday sales point to a promising post-COVID world.

China's economy saw one of the fastest recoveries amid the pandemic. Average daily retail sales rose 4.9% y-o-y during the Golden Week holidays (1-8 Oct) (Source: Ministry of Commerce), while Tmall Global saw retail sales rising by 79% y-o-y over the same period. We also see the following: (i) China's catering sector will continue to be a driving force in the retail sector (2014-19: up 1.2ppts to 11.3% of total retail sales) and should maintain a sustainable growth rate at c.10% p.a., thanks to a consolidation involving rising demand to eat-out and smaller-player closures, (ii) store expansion was temporarily halted in February-March 2020, and began to resume steadily by April, where financially secure players are actively negotiating for better and higher number of locations, (iii) consumers are willing to spend more per ticket as part the 'revenge' spending, and (iv) lastly, delivery sales penetration is forecasted to increase by 6ppts to 20% by end-20E. Digitalisation and alternative revenue trends have also accelerated as a result of COVID-19.

Listed F&B service providers to see profit recovery in 2H20. Thanks to the government's swift actions in tackling COVID-19, there is sequential recovery recorded across the region, with evident recovery seen in transportation hubs and tourist locations. In fact, Trip.com recorded GMV doubling as the number of hotel guests staying for seven straight days during Golden Week rose by 70% m-o-m. Lower-tier cities will become the key focal points as the recovery pace is much stronger relative to higher-tier cities.

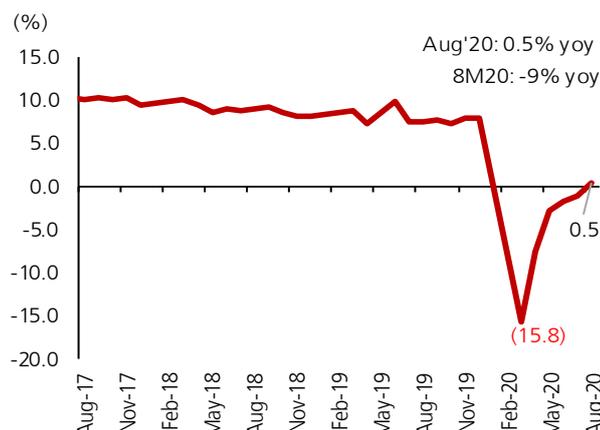
Catch the right recovery play. The restaurant sector has staged a strong recovery, up 51% YTD (or -15% relative to HSI index) and is now trading at 39x FY21F PE, thanks to the expected recovery and decent expected expansion in 2H20. Within our coverage, we prefer Haidilao and Xiabu Xiabu as the key recovery plays in anticipation of their peak season. Yum China's category, fast food, has recovered the quickest, and the company was also buoyed by trading optimism on its dual listing in Hong Kong. We raise our TP across the board, our pecking order (from highest to lowest) is Haidilao>Xiabu Xiabu>Yum China.

Haidilao (6862.HK) One of its kind. After delivering a stronger than expected store target plan in August to open >400 outlets (versus 300) despite COVID lockdown, Haidilao's share price has rallied on optimism as it enters peak seasonality. During the Golden Week, Haidilao achieved table turnover of >5x mainly seeing similar trend in 1H of a better recovery in South China and lower tier cities. We maintain our view that Haidilao will deliver the strongest store number CAGR of 34% in FY19-22F to 1,870 outlets by end-FY22F, thus becoming the largest hotpot chain globally. Against China recovery in consumption activities, we expect key catalysts include stronger than expected rebound in SSSG in 2H, the resumption of store openings overseas, and the development of secondary brands ahead. We raise our TP to HK\$68, based on 2x 3-year CAGR PEG, equivalent to 66x FY21x PE (Previously 1.6x 1-year PEG ratio). We believe this premium is justified as Haidilao brand poses strong overseas growth opportunity, equivalent to players such as Shake Shack (SHAK.US) and Chipotle (CMG.US), which are trading at >600x and 60x FY21F PE.

Xiabu Xiabu (520.HK) Strongest sequential improvement ahead. Barring no further outbreak in North China (Beijing, Hubei and other regions), Xiabu Xiabu (XBXB) is posed to record the strongest sequential improvement in sales recovery against peers pending its peak season. During the Golden Week, Coucou achieved store recovery of c.114% y-o-y, while XBBX is c.97%. We further introduce FY22 earnings and expect the Group to deliver earnings CAGR of 26% in FY19-22F. This will be delivered through store openings from XBBX (FY19-22F store CAGR of 7%) and Coucou (FY19-22F store CAGR of 34%). We expect the Group's total store number to reach close to 1,500 by end-FY22F. We raise our TP to HK\$14.3, based on 1x 3-year CAGR PEG ratio, which is equivalent to 26x FY21F PE (roughly its 5-year historical average) (Previously 1.35x 1-year PEG).

Yum China (9987.HK; YUMC.US) Strong chest to build stores. Following a welcoming debut onto HKEX in September to raise US\$2.2bn with the sale of c.41.7m shares, Yum China will have built formidable cash position of >US\$3.7bn by end-FY20F to expand the company's restaurant network and investment in digitalisation. By end 2Q20, system sales have recovered to 96%, with a total of 169 new stores opened in 1H20. Catalysts include the resumption of quarterly dividends, and stronger than expected store expansion. We forecast Yum China to deliver new store build of 7.5% in FY19-22F, driven by KFC (+6.7%) while Pizza Hut will stay stagnant. Our TP is raised to US\$59.20/ HK\$460.58, equivalent to 34.6x FY22F PE, or 1 S.D. above its trading average since listing to account for its recovery (Previously 30x FY21F).

Total retail sales value growth (%)



China's epidemic prevention has been swift against the outbreak of COVID-19. Post-outbreak, the government has enacted pro-growth policies to prompt the resumption of work and domestic consumption. China's economy saw a solid V-shaped recovery, with retail sales recording a solid rebound on a sequential basis. Meanwhile, China's retail sales saw a reversal in sales trend and recorded 0.5% growth in August 2020. In 8M20, retail sales declined by 9% y-o-y to Rmb23,803bn.

At its worst, China retail sales fell to its lowest declines of -16% in March 2020, and -8% in April 2020.

Source: CEIC, National Bureau of Statistics

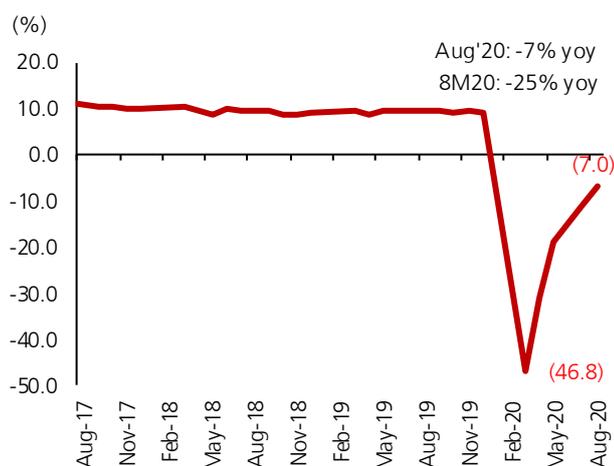
Consumer confidence index



China's consumer confidence index (CCI) was impacted by the COVID-19 outbreak. Since February 2020, CCI has been trending lower q-o-q. June 2020 saw an 11% y-o-y decline to 112.6, partly due to a resurgence in cases in Beijing and Northeast China. Subsequently in July 2020, CCI recorded a 4% m-o-m improvement.

Source: CEIC, National Bureau of Statistics

Total retail sales value growth (%) – catering

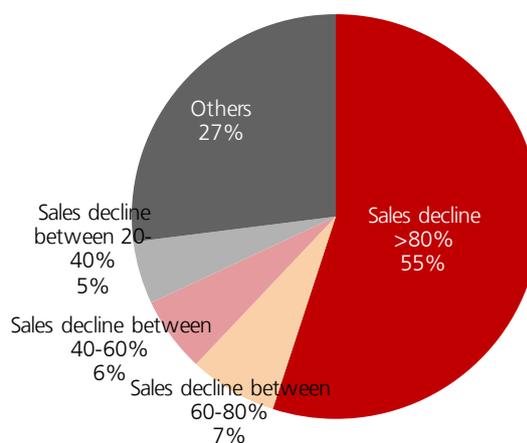


Catering sales have been impacted by the outbreak of COVID-19 and experienced a slower recovery than the overall retail sector due to store closures, social distancing measures, and increase in household consumption due to fears of regional outbreak. China catering sales declined 47% in March 2020, and 31% in April 2020.

Catering sales decline narrowed to 7% in August 2020. In 8M20, sales dropped by 25% to Rmb2,151bn, equivalent to 9% of industry retail sales.

Source: CEIC, National Bureau of Statistics

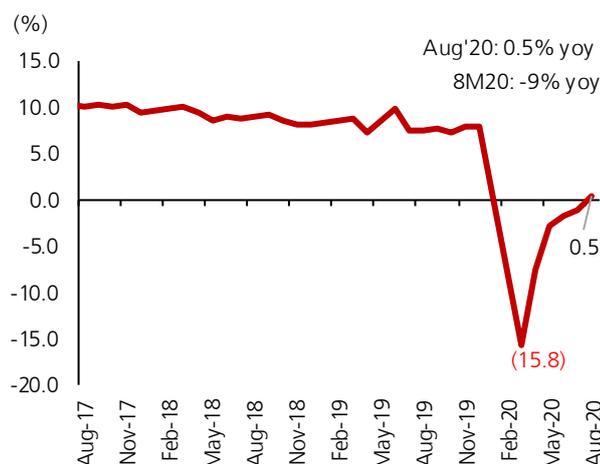
At its worst: Chinese New Year sales was down >80%



During Chinese New Year, over 55% of participants in a Xinhua survey reported sales declines of above 80%, 7% between 60-80%, 6% between 40-60%, and 5% between 20-40%.

Source: Xinhua.net

Total retail sales value growth (%)

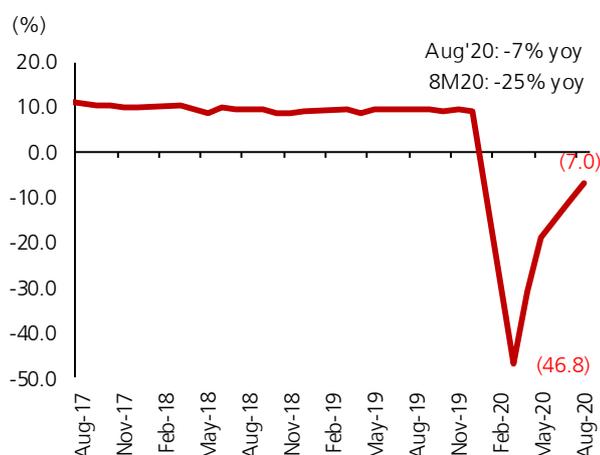


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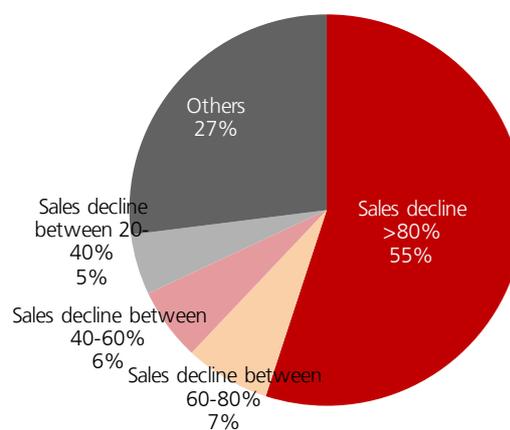
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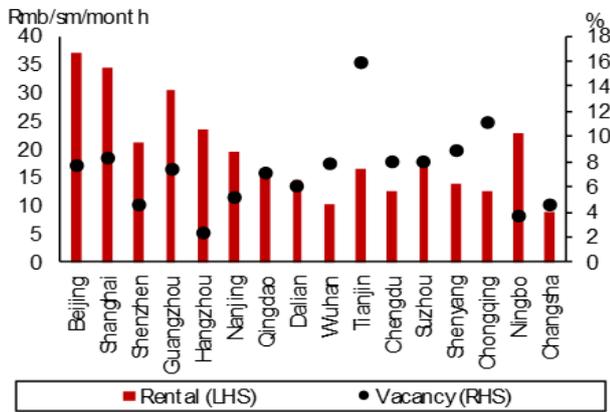


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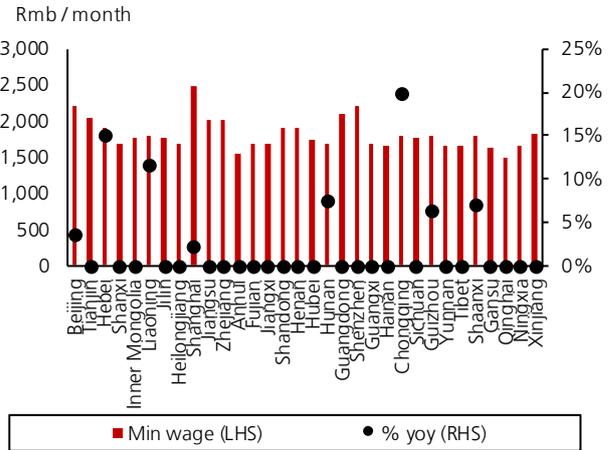
Rental mall rental trend 2Q20



According to CBRE, overall vacancy is up 1.4ppts in retail malls, with average ground floor rents down 1% q-o-q in 2Q20. DBS's survey covering selected landlords indicates that foot traffic is back at 90%+ for CR Land, Longfor at 70-80%, Joy City up to 92% by May. By end-Aug, Longfo, Joy City and Vanke recorded tenant sales resuming back to 90%+, while CR Land recorded positive same store tenant sales since May and had sped up in July and August.

Source: CBRE, DBS Bank

Minimum wage increases temporarily eased in some provinces

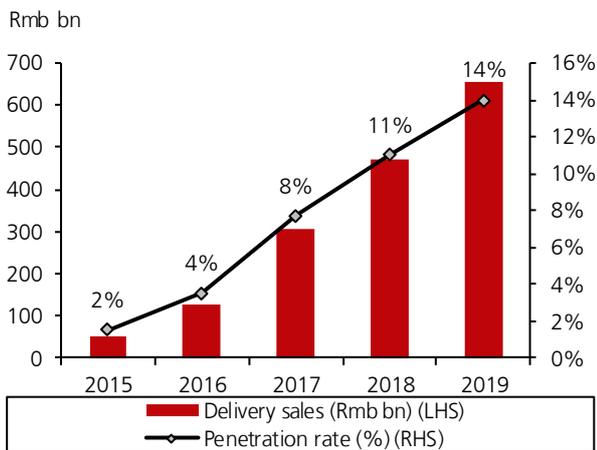


In 2020, Fujian (+6%), Qinghai (+13%), Guangxi (+8%) raised their minimum wages, while Beijing, Shanghai and Tianjin have indicated that there will not be an increase in minimum wage in 2020 due to COVID-19.

In 2019, Shanghai recorded the highest minimum wage of Rmb2,480 (+2.4% y-o-y), followed by Beijing at Rmb2,200 (+3.8% y-o-y). Hebei, Liaoning, and Chongqing recorded the highest increases of 15%, 12% and 20% respectively in 2019.

Source: CEIC, Ministry of Human Resources

China food delivery market penetration to reach 20%

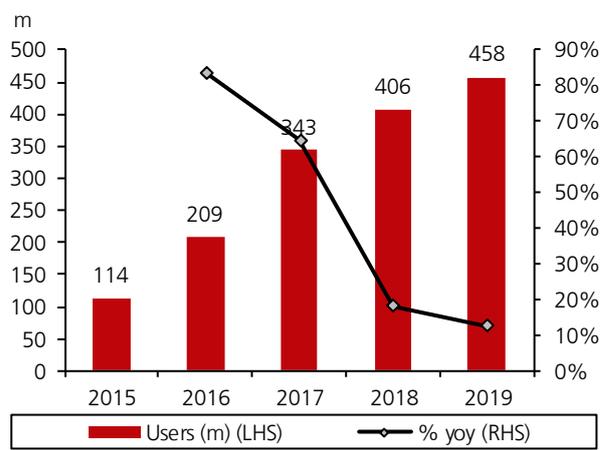


China's delivery market size rose 39% to Rmb653.6bn in 2019, with penetration rate rising by 3ppts to 14%. Market leader Meituan recorded solid growth, with transaction volume increasing by 39% to Rmb392.7bn, equivalent to 60% of market share.

In 2020E, the delivery market's penetration rate is expected to reach 20%, on the back of the pandemic, according to Meituan Research.

Source: Meituan Research, DBS Bank

Number of China food delivery users reached 54% of urban population

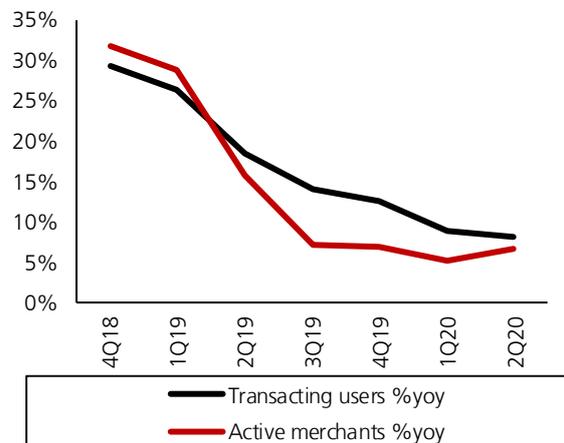
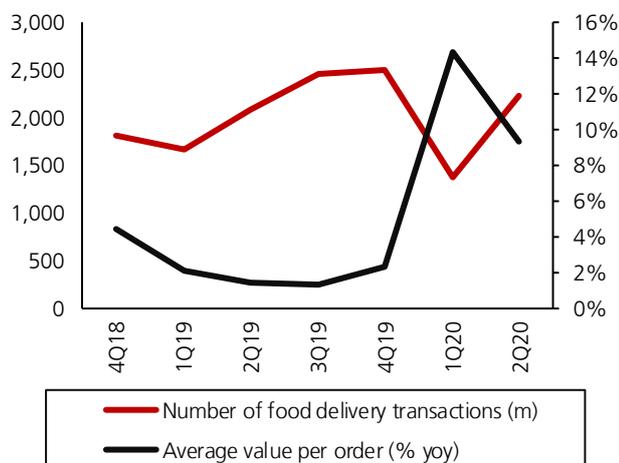


Total urban population reached 848m, whereas total number of delivery users has reached 458m, equivalent to 54% of total urban population.

Source: Meituan Research, DBS Bank

Restaurants & Catering Sector

Meituan: Number of food delivery transactions vs. average value per order (% y-o-y) Meituan: Number of transacting users versus active merchants (% y-o-y)



During the pandemic, Meituan introduced 'contactless delivery' to support a secure supply chain. The Group also launched initiatives to establish trust between customers and restaurants including "Anxin Restaurant" code label on the Meituan and Dianping apps, where restaurants would disclose in-store safety service information in a timely manner. Food festivals and heritage days were held to promote traditional food enterprises.

Post lockdown control measures, Meituan's number of food delivery transactions recovered by 7% y-o-y to 2.2bn in 2Q20, while average value per order rose by 9% y-o-y to Rmb48.8. In 1H20, overall food delivery transaction declined 3.9% yoy.

In 2017-19, the number of food delivery transactions rose at a CAGR of 46% to 8.7bn. Average value per order rose 3.5% to Rmb44.8 over the same period.

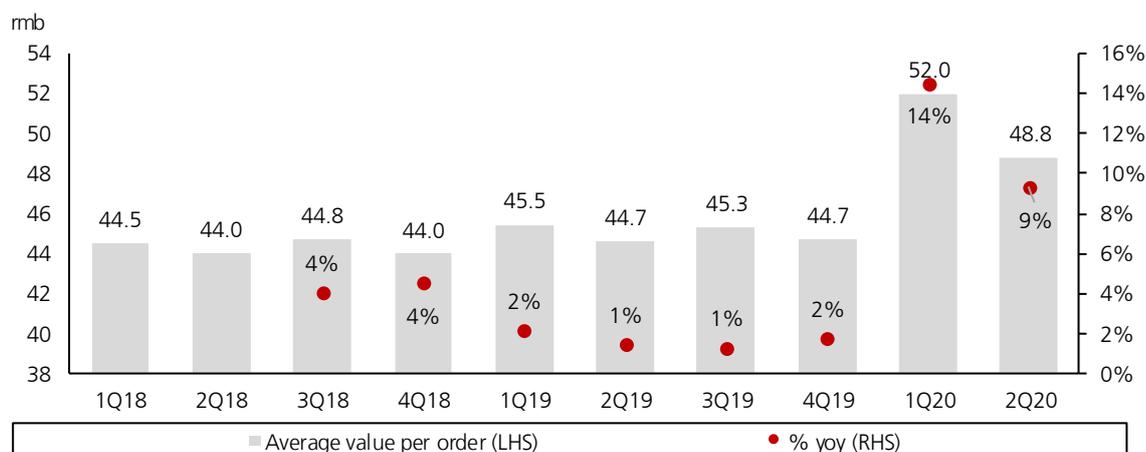
Meituan's number of transacting users and active merchants on Meituan rose 8% y-o-y to 457.3m, and increased 7% to 6.3m respectively as of 2Q20.

In 2017-19, the number of transacting users rose at a CAGR of 21%, while the number of active merchants posted a 19% CAGR.

Source: Company, DBS Bank

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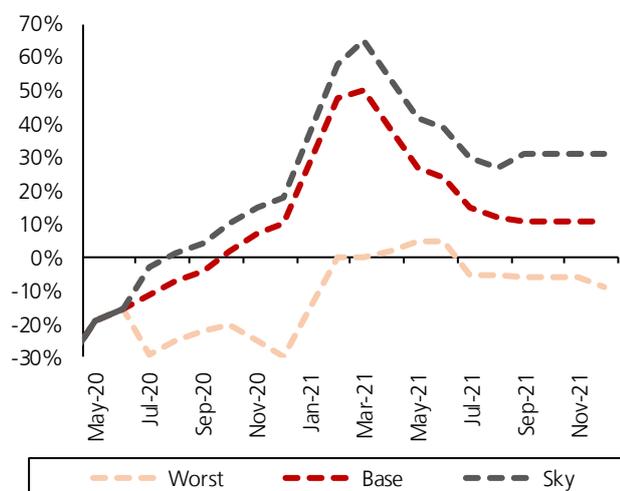
Meituan: Average value per order on the rise



In 2017-19, average value per order rose 3% to Rmb44.7. In 2Q20, average value per order rose 9% yoy or 6% mom to Rmb48.8.

Source: Company, DBS Bank

Scenario analyses on potential resurgence of COVID-19



China has been swift in tackling any resurgence of COVID-19 in specific regions. We made three assumptions in our scenario analysis (a) worst case, (b) base case, and (c) best case.

Source: CEIC, DBS Bank estimate

Assumptions on F&B Foodservice recovery scenario

	Worst	Base	Best
1Q20	-46%	-46%	-46%
2Q20	-19%	-19%	-19%
3Q20E	-25%	-7%	1%
4Q20E	-25%	6%	14%
1Q21E	0%	50%	65%
2Q21E	4%	29%	44%
3Q21E	-5%	13%	29%
4Q21E	-7%	11%	31%
2020E	-28%	-14%	-10%
2021E	-2%	21%	37%

In our base-case scenario, we expect catering sales to decline by 14% in 2020E, and rebound by 21% in 2021E. We forecast the industry to record an operating profit of between Rmb534bn and Rmb750bn, assuming no government subsidies. We expect sales recovery to be -2%/21%/37% in worst /base/sky scenarios.

Source: CEIC, DBS Bank estimate

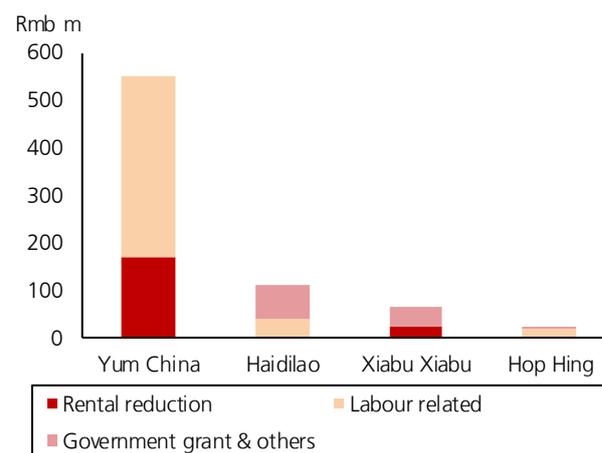
Industry P&L

Industry P&L	Rmb bn	% of revenue
Catering sales	4,672	100.0%
Restaurant purchases	1,635	35.0%
Gross profit	3,037	65.0%
Staff cost	1,402	30.0%
Fixed	1,121	80.0%
Variable	280	20.0%
Rental	607	13.0%
Fixed	425	70.0%
Variable	182	30.0%
Other expenses	514	11.0%
Total operating costs	2,523	54.0%
EBIT	514	11.0%
Tax	386	25.0%
Net profit	129	2.8%

We estimate that average operating margin stood at mid-to-high teens. Assuming both labour and rental costs hold a variable and fixed component, we estimate that revenue could drop by up to 21% to reach operational breakeven.

Source: DBS Bank estimates

COVID-19 subsidies uneven in 1H20

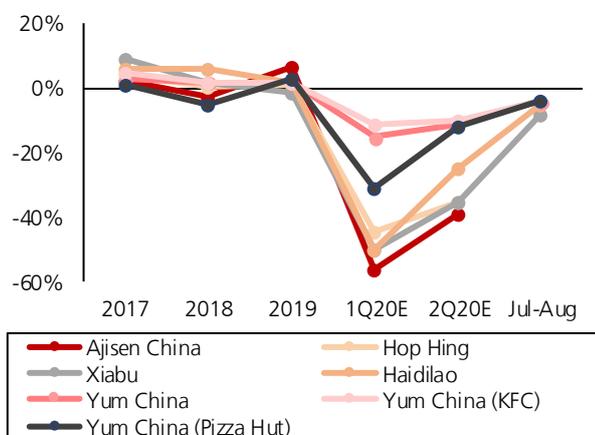


Overall government support and rental concession have been uneven across provinces, mainly coming from the reduction in social insurance payments. Rental concession varies with half-rent during the period of Feb/Mar, or rental free period offered in Feb to support tenants.

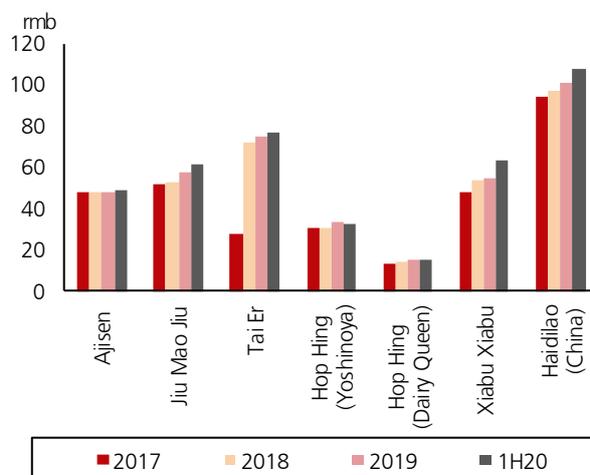
Source: Company data, DBS Bank estimate

Company Specific

SSSG trend



ASP trend



The rate of resumption of restaurant operations' has reached over 90%, with consumption spending recovering to 76% by May. Overall, most restaurant players recorded a steady recovery with 90-99% of their stores being operational by June 2020 (Source: Meituan Research). Most reported sequential improvements in April and May, but June sales softened due to regional outbreaks. Overall recovery remains uneven with East China recovering faster than North China. By end Aug, overall operations have resumed over 80-90% to prior year sales, with certain outlets performing even better than last year.

Some players have been more severely affected, such as Xiabu which has 44% of outlets located in affected regions in Beijing and Northeast China.

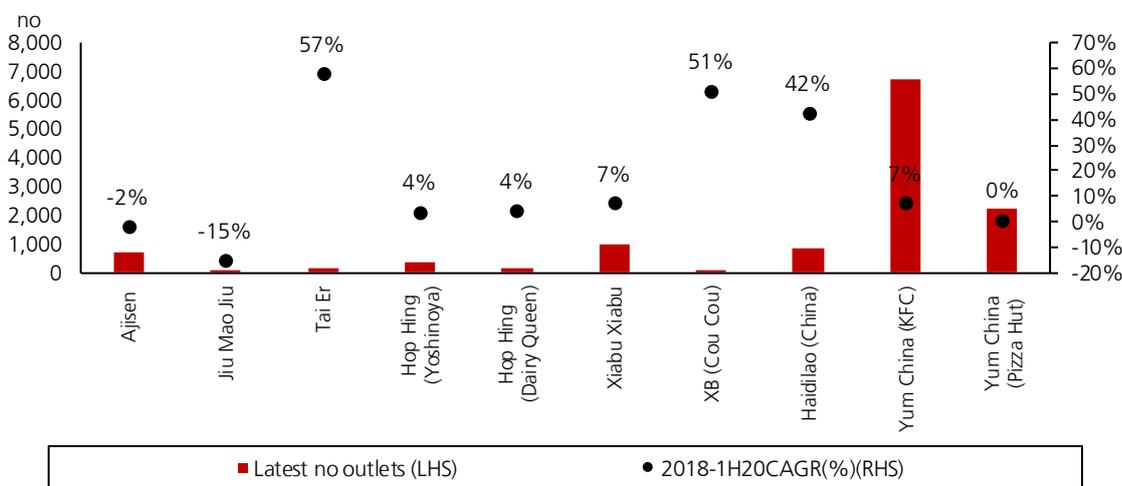
Source: Meituan Research, Company data, DBS Bank estimates

The companies saw their average spending ticket diverge depending on their pricing strategy on delivery services. In most cases, delivery ASP is higher than dine-in ticket due to a higher volume of packaged sets. Also, restaurants are compensating for higher operating cost from delivery, as well as weaker foot traffic. On average, ASP rose 7% in 1H20.

Fast-food average spending is roughly Rmb23, main-meal restaurants average stood at Rmb63, according to Meituan.

Source: Meituan, Company data, DBS Bank

Store expansion

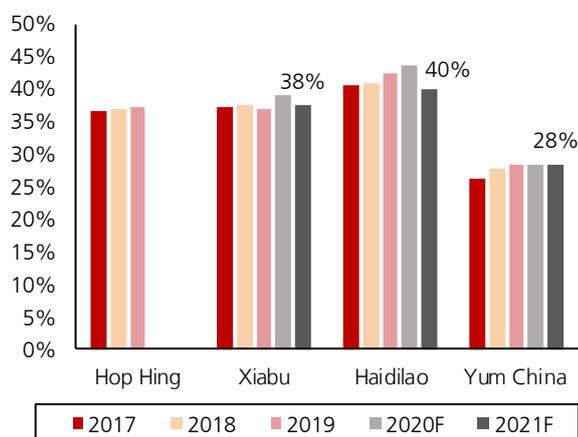


Based on our sample size of six companies, net store openings reached 965/1,275/267 in 2018/19/1H20. Players with strong financial positions have maintained store expansion plans. In fact, Haidilao has exceeded its earlier store expansion target to >400 versus earlier target of 300. However, Xiabu Xiabu, Hop Hing and Jiumaojiu (brand) have scaled back their unit expansion due to higher exposure to Beijing and Northeast China are hit by a second wave of the pandemic as well as change in brand focus strategy. A private company with higher proportion in delivery sales expects to meet its original store expansion target set prior to COVID, with efficient unit sizes of c.120sqm.

Besides core brand expansion, the development of secondary brands has proven important in diversifying brand portfolio and players should continue to identify fast-growing sub-segment categories due to the fast changes in consumption demand (live streaming). Haidilao recently announced the acquisition of “漢舍中國菜,” along with its prior acquisitions of Hao Noodle (80% stake) and UdingU (maocai). Xiabu Xiabu’s premium brand, Coucou, thanks to its store expansion in 2H19, should continue to see steady expansion ahead. Yum China recently completed its acquisition of Huang-ji-Huang (maocai).

Source: Company data, DBS Bank estimates

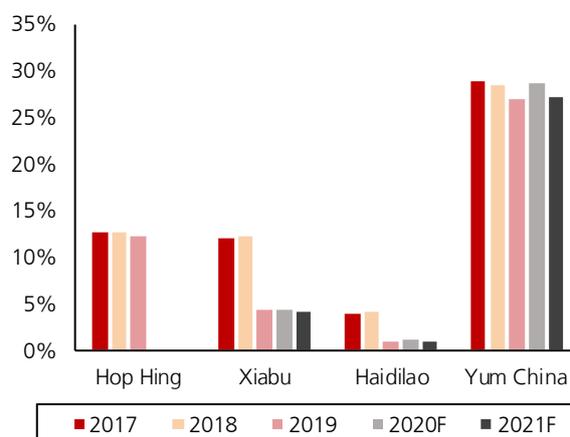
Raw material cost as % of sales



Restaurants have continued to innovate their menus with new development in value set menus to encourage individual and small-group dine-ins, as well as launching unique SKUs to drive higher ASP. Haidilao has developed a selection of house-brands such as beer and yogurt, while Coucou has unique SKUS to encourage customers to try. Raw material costs swung higher on pork prices, but are largely not a cause for concern for most parties.

Source: Company data, DBS Bank estimates

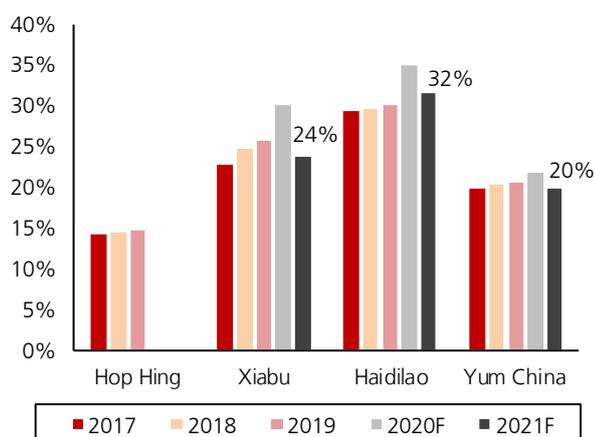
Rental costs as % of sales



The implementation of IFRS-16 has resulted in the different classifications on leases. Yum China’s operating expenses are distorted by its royalty fees to parentco and other expenses. During COVID-19, players are able to negotiate rental reduction with landlords and with the support of the government. We understand popular brands continue to garner demand from malls with attractive rental terms such as lower rent with longer number of years secured, or longer period of rental free period.

Source: Company data, DBS Bank estimates

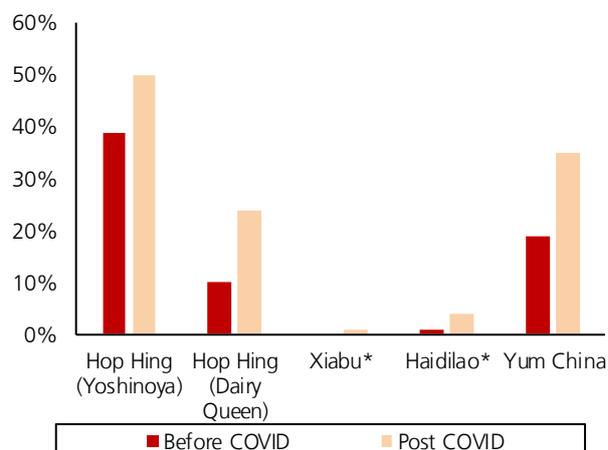
Staff costs as % of sales



Staff costs as a percentage of sales have been inching up due to sales deleveraging. Part-time workforce has been significantly reduced, and restaurant chains are seeking to mildly reduce their average number of workers to return to profitability.

Source: Company, DBS Bank

Delivery as % of sales



Due to city lockdowns and social distancing measures, dine-in volumes have declined significantly across the board. As a result, delivery sales contribution has surged. Overall sales contribution rose by 1-16ppts in 1H20 as compared to 2019 with contribution ranging from 1-4% for hotpot chains, and 23-50% for fast-casual and fast food chains.

A private company we interviewed reported delivery sales contribution of up to 70% prior to COVID and saw its sales reaching >90% during the pandemic. The company developed its own delivery fleet in its operating regions to maintain sustainable margins ahead. Third-party aggregator orders would also be delivered by their own fleet. Hop Hing also has its own delivery fleet in Beijing. Currently, it has no plans to expand its delivery fleet in other regions due to the cost of upkeep.

Source: Company, DBS Bank

Strategies post COVID-19

China has been successful in tackling the COVID-19 pandemic. Restaurants with more resilient financial positions can weather through COVID-19 with sequential

recovery seen a quarter on quarter basis. We have summarised a series of different strategies executed by our sampling.

Key strategies under a new normal

Key strategies under a new normal

• Operating strictly under government protocols

- Abide by government-enforced social distancing measures
- Communicate with customers on changes in operating hours, and required hygiene procedures directly in person or via social media

• Unit expansion

- Players with strong financial positions have maintained store expansion targeting lower-tier cities
- Besides core brand expansion, the development of secondary brands has proven important in diversifying brand portfolio and players should continue to identify fast-growing sub-segment categories due to the fast changes in consumption demand

• Adapting to consumers' new normal

- Changes in ordering habits
 - Restaurants to maintain constant communication with customers through digital strategy
- Driving store traffic through value and unique SKUs
 - Restaurants have introduced innovative menus (value sets) to encourage individual, and small-group dine-ins, as well as launched unique SKUs to increase their product range

• Development of supplementary income

- Packaged foods are highly popular with the younger generation, and driven by structural changes in household sizes. COVID-19 has accelerated the demand for instant food products. Key players such as Yum China, Haidilao (under sister company, Yihai) and Xiabu Xiabu all have hotpot condiment offerings. Besides this, Xiabu Xiabu also offers crafted milk tea
- Established presence on delivery platforms such as Foodpanda and Deliveroo

• Maintaining balance between delivery and dine-in volume

- Delivery sales rose significantly across the board due to community lockdowns and a change in consumption habits. Apart from hotpot chains, delivery sales contribution rose to double digits across the board
- A private company we interviewed reported delivery sales contribution of up to 70% prior to the COVID-19 outbreak, and saw such sales exceeding 90% during the pandemic. The company has set up its own delivery fleet in its operating regions to maintain sustainable margins ahead. Third-party aggregators' orders would also be delivered by their own fleet. Hop Hing also has its own delivery fleet in Beijing. Currently, it has no plans to expand its delivery fleet in other regions due to the cost of upkeep

Source: Company, DBS Bank

Guidance

Notice on the issuance of guidance for the prevention and control of business and service of retail and catering enterprises during the outbreak of COVID-19.

Key summary is as stated below:

- (1) Each operating unit must establish a prevention and control working group, formulate an emergency plan and collection of data services,
- (2) To record and be fully aware of employees' travelling history and whether they have any symptoms,
- (3) Preparation of protective materials including but not limited to medical surgical masks, medical disinfection water/alcohol, ultraviolet air disinfection lamps for air conditioning systems, hand sanitisers and other protective equipment,
- (4) For areas where the outbreak is severe, the operating unit must obtain clearance from the relevant department before starting operations,
- (5) Business hours should be flexibly adjusted according to the actual situation in the region,
- (6) Supervise the internal management on the prevention and control standards,
- (7) To actively cooperate with follow-up investigations on confirmed or suspected cases,
- (8) Daily collection of employees' information, of which employees with Wuhan history must be strictly isolated for 14 days,
- (9) Temperature must be taken daily, and masks must be worn by employees,
- (10) Large-scale dinners will be halted, unless with the permission of superiors
- (11) Increase delivery service opportunity,
- (12) Business units that provide snacks should stop supplying until the pandemic ends,
- (13) Qualified business enterprises can reduce the number of tables and chairs, and rearrange them to increase the distance between diners,
- (14) Create a full traceability system with customers and requirement to follow food safety protocols including wearing of masks,
- (15) Restaurants are encouraged to implement the contactless distribution standard

Source: NDRC, DBS Bank

Timeline

Date	Events
Jan-20	<ul style="list-style-type: none"> - China confirms COVID-19 outbreak in the Huanan Seafood Wholesale Market in Wuhan, China - China imposed a lockdown in Wuhan and nearby cities in efforts to contain the virus. Certain measures include only one person from each household is permitted to leave every two days, except for medical reasons, or to work at shops or pharmacies. Other cities also implemented similar measures, including Wenzhou, Hangzhou, Fuzhou, Harbin, and Jiangxi. -31 provinces initiated first-level response to major public health emergencies. -Starbucks announced the closure of 50% of its 4,300 outlets in China -Haidilao suspends all restaurant operations in China from 26-Jan to 31-Jan
Feb-20	<ul style="list-style-type: none"> - In Feb-20, subsequent cities in Tianjin, Anhui, Liaoning, Shandong, Shaanxi, Guangxi, Sichuan, Fujian, Heilongjian, Zhejiang, Jiangxi, Jilin, Henan imposed household-based outdoor restrictions. - Several cities imposed "closed management of communities", which limits the entrance and exit of each household, with curfew imposed. Citizens were required to wear masks, and receive temperature tests. In total, 207 cities (including 26 provincial capitals and sub-provincial cities) announced the implementation of closed management. -Haidilao further extends suspension period in view of the situation -Yum China announced the closure of more than 30% of its outlets since late-January
Mar-20	<ul style="list-style-type: none"> -Starbucks noted almost all of its outlets have reopened -Shanghai Restaurant and Cuisine Association guided that all restaurants should provide chopsticks, and spoons on each table, with hand sanitizers. Restaurant staff will be required to wear masks and register temperature twice a day. -Haidilao announces the reopening of first batch of restaurants in China -Movie theatres, KTV and other entertainment venues were required to remain closed -Apart from Beijing, Tianjin, Hebei, Hubei, 27 provinces lowered to second level response to major public emergencies.
Apr-20	<ul style="list-style-type: none"> -Wuhan lifts all lockdown, and resumes all transportations -Heilongjiang saw a resurgence from imported cases.
Jun-20	<ul style="list-style-type: none"> -Beijing reported its first new coronavirus case, which resulted in the sealing of certain neighbourhoods and a wholesale market. -40 neighbourhoods in Beijing were under strict level of control measures, with over 7000 neighbourhoods adopting "closed management" to ensure verification of entry, and temperature checks. -7 neighbourhoods in Beijing were removed from list
Jul-20	<ul style="list-style-type: none"> -Cinemas re-open with strict rulings including screenings to be limited to 30% capacity, and the number of movies shown capped at 50% volume. Customers must sit at least a metre apart.
Oct-20	<ul style="list-style-type: none"> - Golden Week holiday recorded retail sales of Rmb466.6bn, implying 21% fewer trips and 30% less spending, but reflects decent recovery in consumption. - China to test 9m citizens in Eastern City of Qingdao, after nine cases linked to a hospital were found

Source: News sources, DBS Bank

Haidilao International (6862 HK Equity, HK\$55.50, BUY, Target Price 12-mth HK\$ 68.00 (Prev. HK\$57.5))

Forecast & Valuation

FY Dec (RMB m)	2019A	2020F	2021F	2022F
Turnover	26,556	34,044	50,963	66,560
EBITDA	5,232	4,508	10,244	12,899
Pre-tax Profit	3,247	1,415	6,077	7,653
Net Profit	2,345	1,044	4,401	5,543
Net Profit Gth (Pre-ex) (%)	35.4	(55.5)	321.4	25.9
EPS (RMB)	0.47	0.21	0.88	1.11
EPS (HK\$)	0.54	0.24	1.02	1.29
EPS Gth (%)	35.4	(55.5)	321.4	25.9
Diluted EPS (HK\$)	0.54	0.24	1.02	1.29
DPS (HK\$)	0.07	0.31	0.39	0.00
BV Per Share (HK\$)	2.46	2.47	3.11	3.70
PE (X)	102.5	230.0	54.6	43.3
P/Cash Flow (X)	58.7	116.1	51.4	41.0
P/Free CF (X)	347.0	nm	312.0	128.7
EV/EBITDA (X)	45.2	53.0	23.3	18.6
Net Div Yield (%)	0.1	0.5	0.7	0.0
P/Book Value (X)	22.6	22.6	17.9	15.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	24.4	9.8	36.6	37.7
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		0.22	0.85	1.13
Other Broker Recs:		B:21	S:2	H:9

General Data

At A Glance

Issued Capital (m shrs)	5,300
Mkt Cap (HK\$m/US\$m)	316,145 / 37,954
Major Shareholders (%)	
NP United Holding Ltd	34.0
Zhang (Yong)	26.4
Shi (Yonghong)	16.0
Shu (Ping)	7.8
Free Float (%)	15.9
3m Avg. Daily Val. (US\$m)	46.14
GICS Industry: Consumer Discretionary / Consumer Services	

Income Statement (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Turnover	26,556	34,044	50,963	66,560
Cost of Goods Sold	(11,239)	(14,834)	(20,453)	(27,489)
Gross Profit	15,317	19,211	30,511	39,071
Other Opn (Exp)/Inc	(12,137)	(17,874)	(24,507)	(31,591)
Operating Profit	3,180	1,336	6,003	7,480
Other Non Opn (Exp)/Inc	95	95	95	95
Associates & JV Inc	65	85	110	143
Net Interest (Exp)/Inc	(93)	(101)	(132)	(66)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	3,247	1,415	6,077	7,653
Tax	(900)	(368)	(1,671)	(2,105)
Minority Interest	(2)	(3)	(4)	(6)
Preference Dividend	0	0	0	0
Net Profit	2,345	1,044	4,401	5,543
Net profit before Except.	2,345	1,044	4,401	5,543
EBITDA	5,232	4,508	10,244	12,899
Sales Gth (%)	56.5	28.2	49.7	30.6
EBITDA Gth (%)	77.7	(13.8)	127.3	25.9
Opn Profit Gth (%)	44.0	(58.0)	349.3	24.6
Effective Tax Rate (%)	27.7	26.0	27.5	27.5

Cash Flow Statement (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Pre-Tax Profit	3,247	1,415	6,077	7,653
Dep. & Amort.	949	872	822	793
Tax Paid	(900)	(368)	(1,671)	(2,105)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chq in Wkq. Cap.	4,825	258	(416)	(409)
Other Operating CF	(4,031)	(107)	(138)	(72)
Net Operating CF	4,090	2,070	4,674	5,860
Capital Exp.(net)	(3,398)	(4,500)	(3,904)	(3,994)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(252)	(597)	(176)	(1,249)
Net Investing CF	(3,649)	(5,097)	(4,079)	(5,242)
Div Paid	(345)	(703)	(313)	(1,320)
Chq in Gross Debt	(181)	0	0	0
Capital Issues	0	0	0	0
Other Financing CF	(8)	1,234	0	0
Net Financing CF	(533)	530	(313)	(1,320)
Currency Adjustments	0	0	0	0
Chq in Cash	(93)	(2,497)	281	(702)

Balance Sheet (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Net Fixed Assets	7,690	10,077	13,159	16,359
Invt in Assocs & JVs	281	281	281	281
Other LT Assets	5,443	5,443	5,443	5,443
Cash & ST Invt	4,026	1,529	1,811	1,108
Inventory	1,200	1,583	2,183	2,934
Debtors	1,917	1,327	1,697	2,125
Other Current Assets	58	58	58	58
Total Assets	20,614	20,299	24,632	28,308
ST Debt	145	145	145	145
Other Current Liab	5,519	5,181	6,742	7,854
LT Debt	85	85	85	85
Other LT Liabilities	4,239	4,239	4,239	4,239
Shareholder's Equity	10,623	10,643	13,411	15,970
Minority Interests	3	6	10	16
Total Cap. & Liab.	20,614	20,299	24,632	28,308
Non-Cash Wkq. Cap	(2,345)	(2,213)	(2,804)	(2,737)
Net Cash/(Debt)	3,796	1,300	1,581	879

Segmental Breakdown (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Revenues (RMB m)				
Restaurant operation	25,588	32,661	49,306	64,576
Delivery business	449	807	969	1,163
Sales of condiment products and others	520	576	688	822
Total	26,556	34,044	50,963	66,560

Source: Company, DBS HK

Hop Hing Group (47 HK Equity, HK\$0.056, NOT RATED)

Forecast & Valuation

FY Dec (HK\$m)	2016A	2017A	2018A	2019A
Turnover	2,091	2,218	2,376	2,386
EBITDA	284	322	281	546
Pre-tax Profit	177	241	180	172
Net Profit	125	167	123	118
Net Pft (Pre Ex.)	125	167	123	118
EPS (HK\$)	0.01	0.02	0.01	0.01
EPS Gth (%)	90.9	35.7	(27.2)	(2.5)
Diluted EPS (HK\$)	0.01	0.02	0.01	0.01
DPS (HK\$)	0.01	0.01	0.01	0.00
BV Per Share (HK\$)	0.05	0.06	0.07	0.06
PE (X)	4.4	3.3	4.5	4.6
P/Cash Flow (X)	1.7	1.8	2.7	1.3
P/Free CF (X)	2.7	4.0	n.m.	2.3
EV/EBITDA (X)	0.1	(0.4)	(0.3)	1.6
Net Div Yield (%)	11.1	14.8	12.9	5.0
P/Book Value (X)	1.1	0.9	0.8	1.0
Net Debt/Equity (X)	Cash	Cash	Cash	0.6
ROAE (%)	26.2	28.9	18.6	18.9

Income Statement (HK\$ m)

FY Dec	2016A	2017A	2018A	2019A
Turnover	2,091	2,218	2,376	2,386
Cost of Goods Sold	(753)	(810)	(875)	(888)
Gross Profit	1,338	1,409	1,501	1,498
Other Opg (Exp)/Inc	(1,155)	(1,184)	(1,319)	(1,278)
Operating Profit	184	225	182	220
Other Non Opg (Exp)/Inc	(12)	7	(10)	(6)
Associates & JV Inc	-	-	(0)	(1)
Net Interest (Exp)/Inc	5	8	8	(40)
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	177	241	180	172
Tax	(52)	(73)	(58)	(54)
Minority Interest	-	-	-	-
Preference Dividend	-	-	-	-
Net Profit	125	167	123	118
Net Profit before Except.	125	167	123	118
EBITDA	284	322	281	546
Turnover Gth (%)	2.0	6.1	7.1	0.4
EBITDA Gth (%)	33.2	13.6	(12.7)	94
Opg Profit Gth (%)	77.3	22.6	(19.1)	20.6
Net Profit Gth (%)	89.4	34.3	(26.7)	(3.7)

Cash Flow Statement (HK\$ m)

FY Dec	2016A	2017A	2018A	2019A
Pre-Tax Profit	177	241	180	172
Dep. & Amort.	100	97	99	327
Tax Paid	(45)	(80)	(71)	(54)
Assoc. & JV Inc/(loss)	-	-	0	1
(Pft)/ Loss on disposal of FAs	-	-	-	-
Non-Cash Wkg. Cap.	86	38	(25)	(29)
Other Operating CF	8	19	19	18
Net Operating CF	325	314	202	435
Capital Exp. (net)	(95)	(117)	(121)	(141)
Other Invt. (net)	(24)	(90)	161	(81)
Invt. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	-	(48)	(203)	(31)
Net Investing CF	(119)	(255)	(164)	(252)
Div Paid	(25)	(60)	(82)	(58)
Chg in Gross Debt	10	-	(10)	(242)
Capital Issues	(19)	(2)	(12)	(10)
Other Financing CF	(14)	18	10	2
Net Financing CF	(48)	(44)	(93)	(309)
Chg in Cash	158	15	(55)	(126)
Opg CFPS (HK\$)	0.03	0.03	0.02	0.04
Free CFPS (HK\$)	0.02	0.01	(0.00)	0.02

Source: Bloomberg Finance L.P., Thomson Reuters

General Data

At A Glance

Issued Capital (m shrs)	10,070
Mkt Cap (HK\$m/US\$m)	564 / 73
Major Shareholders (%)	
Winner Planet Ltd.	16.1
Creative Mount Ltd.	15.8
Earn Field International Ltd.	14.0
True Force Ventures Ltd.	14.0
ARISAIG Partners (Asia) Pte. Ltd.	6.9
Free Float (%)	33.2
3m Avg. Daily Val. (US\$m)	0.07
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (HK\$ m)

FY Dec	2016A	2017A	2018A	2019A
Net Fixed Assets	189	213	208	931
Invt in Assocs & JVs	-	-	11	10
Other LT Assets	82	96	102	145
Cash & ST Invt	537	690	637	555
Inventory	95	111	109	164
Debtors	8	18	20	21
Other Current Assets	71	98	141	195
Total Assets	981	1,227	1,228	2,020
ST Debt	10	10	-	208
Creditors	118	154	128	144
Other Current Liab	326	385	411	382
LT Debt	-	-	-	675
Other LT Liabilities	23	25	24	25
Shareholder's Equity	504	654	665	585
Minority Interests	-	-	-	-
Total Cap. & Liab.	981	1,227	1,228	2,020
Non-Cash Wkg. Cap	(271)	(311)	(270)	(147)
Net Cash/(Debt)	527	680	637	(328)

Segmental Breakdown (HK\$ m) / Key Assumptions

FY Dec	2016A	2017A	2018A	2019A
Revenues (HK\$ m)				
Yoshinoya	-	-	2,020	2,022
Dairy Queen	-	-	250	262
Other	-	-	106	102
Quick Service Restaurants	2,091	2,218	-	-
Yoshinoya	-	-	2,020	2,022
Total	2,091	2,218	2,376	2,386

Xiabuxiabu Catering Management (520 HK Equity, HK\$10.94, BUY, Target Price 12-mth HK\$ 14.30 (Prev. HK\$10.0))

Forecast & Valuation

FY Dec (RMB m)	2019A	2020F	2021F	2022F
Turnover	6,030	5,167	7,469	8,698
EBITDA	1,427	790	1,752	1,964
Pre-tax Profit	503	(75)	616	710
Net Profit	288	(67)	503	580
Net Profit Gth (Pre-ex) (%)	(37.7)	N/A	N/A	15.3
EPS (RMB)	0.27	(0.06)	0.47	0.54
EPS (HK\$)	0.31	(0.07)	0.55	0.63
EPS Gth (%)	(37.7)	N/A	N/A	15.3
Diluted EPS (HK\$)	0.31	(0.07)	0.55	0.63
DPS (HK\$)	0.13	0.03	0.22	0.25
BV Per Share (HK\$)	2.58	2.41	2.68	3.06
PE (X)	35.0	nm	20.1	17.4
P/Cash Flow (X)	9.9	nm	12.5	12.5
P/Free CF (X)	34.2	nm	14.3	14.3
EV/EBITDA (X)	6.5	12.4	5.3	4.5
Net Div Yield (%)	1.1	0.3	2.0	2.3
P/Book Value (X)	4.3	4.6	4.1	3.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.5	(2.9)	21.5	22.0
Earnings Rev (%)		Nil	Nil	New
Consensus EPS (RMB)		0.04	0.47	0.59
Other Broker Recs:		B: 2	S: 0	H: 0

General Data

At A Glance

Issued Capital (m shrs)	1,080
Mkt Cap (HK\$m/US\$m)	12,312 / 1,527
Major Shareholders (%)	
Ho (Kuang-Chi)	41.6
General Atlantic LLC	19.1
Hillhouse Capital Advisors, Ltd.	5.3
Invesco Hong Kong Limited	5.1
Free Float (%)	28.8
3m Avg. Daily Val. (US\$m)	6.08
GICS Industry: Consumer Discretionary / Consumer Services	

Income Statement (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Turnover	6,030	5,167	7,469	8,698
Cost of Goods Sold	(2,225)	(2,015)	(2,801)	(3,262)
Gross Profit	3,805	3,152	4,668	5,436
Other Opq (Exp)/Inc	(3,217)	(3,137)	(3,962)	(4,646)
Operating Profit	588	15	706	790
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(85)	(90)	(90)	(80)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	503	(75)	616	710
Tax	(213)	11	(111)	(128)
Minority Interest	(3)	(3)	(3)	(3)
Preference Dividend	0	0	0	0
Net Profit	288	(67)	503	580
Net profit before Except.	288	(67)	503	580
EBITDA	1,427	790	1,752	1,964
Sales Gth (%)	27.4	(14.3)	44.6	16.5
EBITDA Gth (%)	73.9	(44.7)	121.8	12.1
Opq Profit Gth (%)	(1.9)	(97.5)	4,708.8	11.9
Effective Tax Rate (%)	42.2	N/A	18.0	18.0

Cash Flow Statement (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Pre-Tax Profit	503	(75)	616	710
Dep. & Amort.	837	150	150	150
Tax Paid	(163)	(213)	11	(111)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chq in Wkq.Cap.	100	(124)	84	56
Other Operating CF	534	191	46	103
Net Operating CF	1,022	(173)	805	806
Capital Exp.(net)	(727)	(100)	(100)	(100)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(179)	12	12	12
Net Investing CF	(906)	(88)	(88)	(88)
Div Paid	(167)	(27)	(201)	(232)
Chq in Gross Debt	0	0	0	0
Capital Issues	0	0	0	0
Other Financing CF	(505)	(153)	0	0
Net Financing CF	(672)	(180)	(201)	(232)
Currency Adjustments	0	0	0	0
Chq in Cash	(556)	(441)	516	486

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020F	2021F	2022F
Net Fixed Assets	1,313	1,463	1,713	1,963
Invt in Assocs & JVs	0	0	0	0
Other IT Assets	2,306	2,306	2,306	2,306
Cash & ST Invt	785	144	360	547
Inventory	712	499	694	808
Debtors	378	294	425	495
Other Current Assets	131	131	131	131
Total Assets	5,626	4,838	5,629	6,250
ST Debt	0	0	0	0
Other Current Liab	1,714	1,305	1,727	1,980
LT Debt	0	0	0	0
Other LT Liabilities	1,525	1,301	1,424	1,441
Shareholder's Equity	2,375	2,217	2,462	2,810
Minority Interests	11	14	16	19
Total Cap. & Liab.	5,626	4,838	5,629	6,250
Non-Cash Wkq. Cap	(492)	(381)	(477)	(547)
Net Cash/(Debt)	785	144	360	547

Yum China Holdings (9987 HK Equity, HK\$410.00, BUY, Target Price 12-mth HK\$ 460.58)

Yum China Holdings (YUMC US Equity, US\$53.34, BUY, Target Price 12-mth US\$ 59.20 (Prev. US\$52.2))

Forecast & Valuation

FY Dec (US\$ m)	2019A	2020F	2021F	2022F
Turnover	8.776	7.789	9.005	10.096
EBITDA	964	1,028	1,529	1,681
Pre-tax Profit	1,003	570	1,047	1,161
Net Profit	713	397	746	831
Net Pft (Pre Ex) (core profit)	713	397	746	831
Net Profit Gth (Pre-ex) (%)	0.7	(44.3)	87.7	11.3
EPS (US\$)	1.83	0.92	1.73	1.93
EPS (HK\$)	14.21	7.15	13.42	14.94
EPS Gth (%)	2.3	(49.7)	87.7	11.3
Diluted EPS (HK\$)	14.21	7.15	13.42	14.94
DPS (HK\$)	3.72	1.86	3.72	3.72
BV Per Share (HK\$)	61.30	80.77	87.53	94.80
PE (X)	28.9	57.3	30.5	27.4
P/Cash Flow (X)	17.4	42.4	13.6	13.9
P/Free CF (X)	27.4	114.5	21.3	22.2
EV/EBITDA (X)	19.7	19.5	12.7	11.3
Net Div Yield (%)	0.9	0.5	0.9	0.9
P/Book Value (X)	6.7	5.1	4.7	4.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	24.0	10.5	16.0	16.4
Earnings Rev (%):		Nil	Nil	New
Consensus EPS (US\$)		1.20	2.05	2.38
Other Broker Recs:		B:20	S:0	H:4

Income Statement (US\$ m)

FY Dec	2019A	2020F	2021F	2022F
Turnover	8.776	7.789	9.005	10.096
Cost of Goods Sold	(2.479)	(2.215)	(2.564)	(2.928)
Gross Profit	6.297	5.574	6.441	7.168
Other Opq (Exp)/Inc	(5.396)	(5.080)	(5.470)	(6.083)
Operating Profit	901	494	971	1.085
Other Non Opq (Exp)/Inc	63	37	37	37
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	39	39	39	39
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	1.003	570	1.047	1.161
Tax	(260)	(148)	(271)	(301)
Minority Interest	(30)	(25)	(30)	(30)
Preference Dividend	0	0	0	0
Net Profit	713	397	746	831
Net profit before Except.	713	397	746	831
EBITDA	964	1,028	1,529	1,681
Sales Gth (%)	4.3	(11.2)	15.6	12.1
EBITDA Gth (%)	(29.1)	6.7	48.7	9.9
Opq Profit Gth (%)	(4.3)	(45.2)	96.6	11.8
Effective Tax Rate (%)	25.9	25.9	25.9	25.9

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020F	2021F	2022F
Pre-Tax Profit	743	422	776	861
Dep. & Amort.	767	497	521	559
Tax Paid	(147)	(168)	(197)	0
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chq in Wka.Cap.	(344)	(249)	289	204
Other Operating CF	166	35	289	15
Net Operating CF	1.185	537	1.678	1.638
Capital Exp.(net)	(435)	(338)	(610)	(610)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(475)	0	0	0
Net Investing CF	(910)	(338)	(610)	(610)
Div Paid	(181)	(140)	(150)	(207)
Chq in Gross Debt	0	0	0	0
Capital Issues	(265)	1,154	(220)	(220)
Other Financing CF	(43)	(30)	(92)	(15)
Net Financial CF	(489)	985	(462)	(442)
Currency Adjustments	(6)	0	0	0
Chq in Cash	(220)	1,184	606	587

Source: Company, DBS Bank

General Data

At A Glance

Issued Capital (m shrs)	376
Mkt Cap (HK\$/US\$m)	156,416 / 22,172
Major Shareholders (%)	
Invesco Advisers, Inc.	9.5
Free Float (%)	90.5
3m Avg. Daily Val. (US\$m)	53.07
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (US\$ m)

FY Dec	2019A	2020F	2021F	2022F
Net Fixed Assets	1.594	1.598	1.687	1.738
Invt in Assoc & JVs	0	0	0	0
Other LT Assets	3.097	3.097	3.097	3.097
Cash & ST Invt	1.657	2.841	3.447	4.034
Inventory	380	340	393	449
Debtors	88	78	90	101
Other Current Assets	134	141	148	155
Total Assets	6.950	8.094	8.862	9.573
ST Debt	0	0	0	0
Other Current Liab	1.736	1.444	1.805	2.083
LT Debt	0	0	0	0
Other LT Liabilities	2,039	2,039	2,039	2,039
Shareholder's Equity	3,077	4,489	4,865	5,268
Minority Interests	98	123	153	183
Total Cap. & Liab.	6.950	8.094	8.862	9.573
Non-Cash Wka. Cap	(1,134)	(885)	(1,174)	(1,378)
Net Cash/(Debt)	1,657	2,841	3,447	4,034

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020F	2021F	2022F
Revenues (US\$ m)				
KFC	6,039	5,408	6,387	7,285
Pizza Hut	2,055	1,688	1,925	2,117
Others	682	693	693	693
Total	8,776	7,789	9,005	10,096

Catering & Restaurants : Hong Kong

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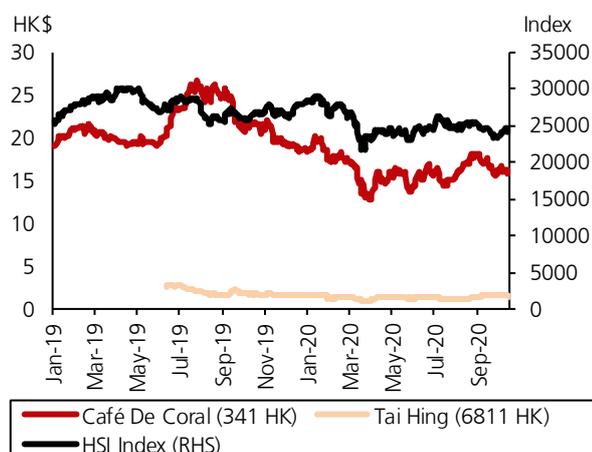
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Recommendation and Valuation

Company Name	Price Local\$	Target Price Local\$	Recom	Mkt Cap US\$m	PE 21F x
Cafe De Coral Hdq.*# (341 HK)	15.88	20.60	BUY	1,200	19.3
Tai Hing Group Holdings (6811 HK)	1.55	n.a.	NR	200	9.8

Source: Thomson Reuters, *DBS Bank
Closing price as at 15 Oct 2020

Share price performance vs. HSI index



Source: Thomson Reuters

Challenges are easing

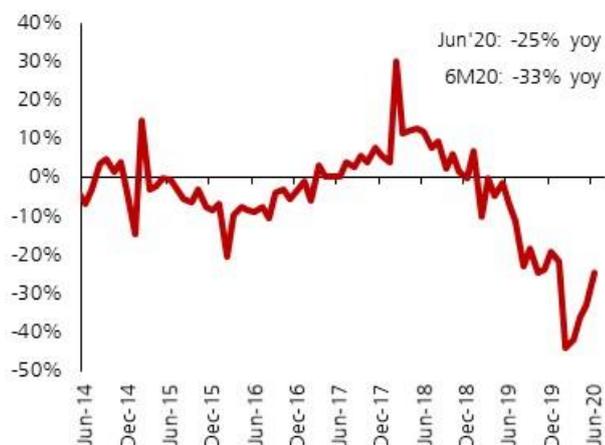
- Expect structural changes in operating costs, further net store closures, and changes arising from delivery services in Hong Kong's restaurant sector
- Unlikely to regain former market size with the absence of tourism and potential continuation of social unrest, but expect sequential improvement on low-base effect
- Stay defensive and prefer fast food players such as Café de Coral, given their more resilient nature than peers

Expect structural changes in the restaurant sector. Hong Kong's restaurant sector has been battered by a slew of events, including social unrests and COVID-19. Our survey reveals that major players are preparing for structural changes ahead: cost structure will see an adjustment on the back of weaker store traffic, which will lead to a reduction in rental costs. Based on our house view, HK retail rents are expected to fall by as much as 25% in FY20E. Delivery contribution has risen from a low single digit to double digit of sales in 1H20. With delivery becoming a more integral part, dine-in area could be adjusted accordingly to the sizes of their kitchen and dining spaces. Lastly, most players are temporarily scaling back store expansion on the prolonged impact of COVID-19, and social unrest.

Sequential improvement is well-expected, but sector may not return to former levels in the medium term. Under the stringent social distancing measures implemented; HK restaurant receipts declined 29% to HK\$42.9bn in 1H20. While we expect the third wave to subside by end-3Q, sector utilisation will not reach 100% in FY20-21F on the significant contraction in tourist arrivals and strict social distancing measures in place. Overall, we expect a sequential SSSG recovery, on gradual recovery of business activities and reopening of borders. But until the release of a vaccine and normalisation of cross-border traffic, the sector is unlikely to reach its former levels with the absence of tourism, prolonged social unrest and softer economic trends.

Select Café de Coral with the worst behind us. With weaker economic environment, Café de Coral's firm position in the QSR space suggests that the group is likely more resilient than peers. Its operations in the Greater Bay Area is also trending better in 2H FY21. We upgraded Café de Coral to BUY as we believe the worst is over with the support of government subsidies, the resumption of schools as well as leaner cost structure. HK-listed restaurant players are trading at 14.3x FY21F PE, against their 5-year average of 22x. Key catalysts include news which are encouraging to the improvement of foot-traffic, including loosening of social distancing measures, re-opening of borders with Macau and Guangzhou, and success of a vaccination.

Impacted by COVID-19, retail sales plunged 33% YTD

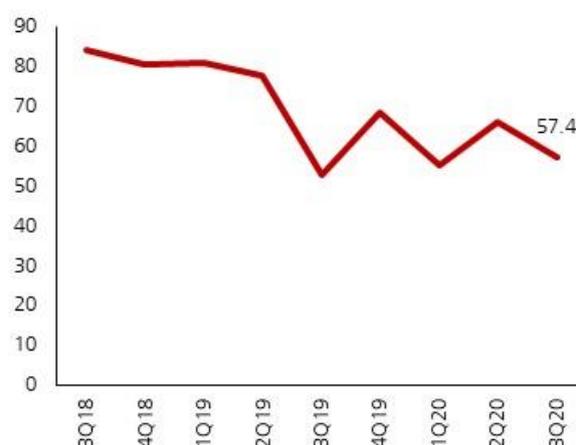


The outbreak of COVID-19 shook the retail market in 1H20. Exacerbated by a significant decline in tourist arrivals and fears of COVID-19 which impacted domestic consumption, Hong Kong retail sales declined 44% in February 2020 and 42% in March 2020.

With initial signs of stabilisation, retail sales began to show signs of improvement, and narrowed its decline to 25% in June 2020. In 6M20, retail sales declined by 33% y-o-y to HK\$160bn.

Source: CEIC, Census and Statistics Department HK

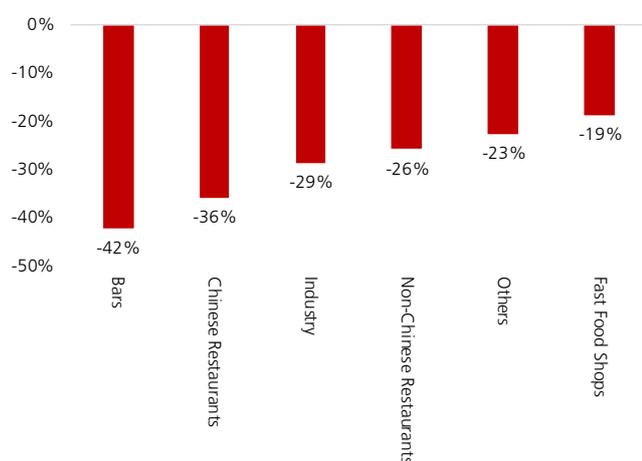
Consumer confidence index reflects y-o-y recovery but remains weak against prior years



Hong Kong's consumer confidence index has been impacted by a myriad of events arising from social unrest in 2019, and thereafter the outbreak of COVID-19. In 3Q20, overall consumer confidence, as compiled by City University, reflected a downturn post resurgence of COVID at 57.4 (+8.7% y-o-y, -13.3% q-o-q). This was based on five main aspects including property purchases, stock investments, standard of living, employment and commodity prices.

Source: CityU, DBS Bank

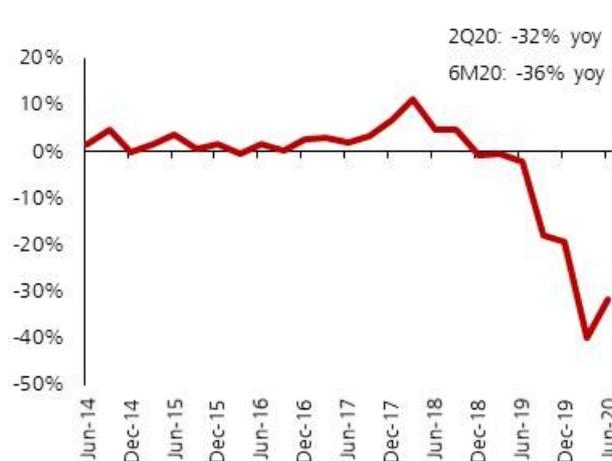
Restaurant receipts declined by 29% YTD to HK\$42.9bn



Contributing to roughly 2% of GDP, the restaurant sector was negatively impacted by the outbreak of COVID-19 due to implementation of social distancing measures, work-from-home arrangements, and a plunge in tourist arrivals. Restaurant receipts declined 31% y-o-y in 1Q20, and narrowed to a 26% drop in 2Q20. Year-to-date, restaurant receipts fell by 29% to HK\$42.9bn.

Source: CEIC, Census and Statistics Department HK

Chinese restaurant saw the second most severe decline at 36% y-o-y to HK\$16.2bn

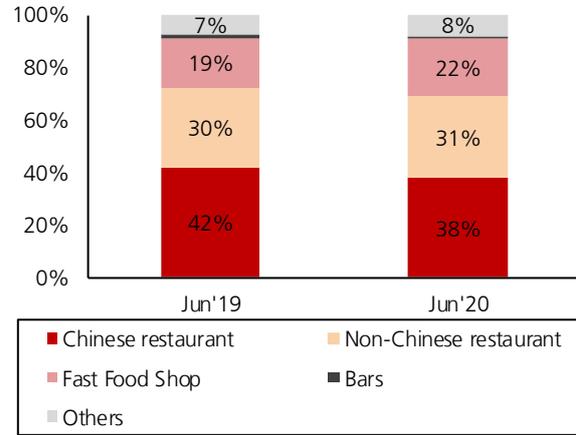


Chinese restaurants saw the second most severe decline after bars. Restaurant receipts plunged 40% in 1Q20, with a milder contraction of 32% in 2Q20. This was due to a decline in banquets, and a higher number of infections found in cha-chaan tengs and Chinese restaurants.

Source: CEIC, Census and Statistics Department HK

Total restaurant receipts quarterly growth (%) –fast-food

6M20 restaurant receipts breakdown (%)



Fast food category was the least impacted, thanks to its higher reliance on domestic consumption, and larger skew toward delivery vs peers. In 2Q20, receipts declined by 20% y-o-y.

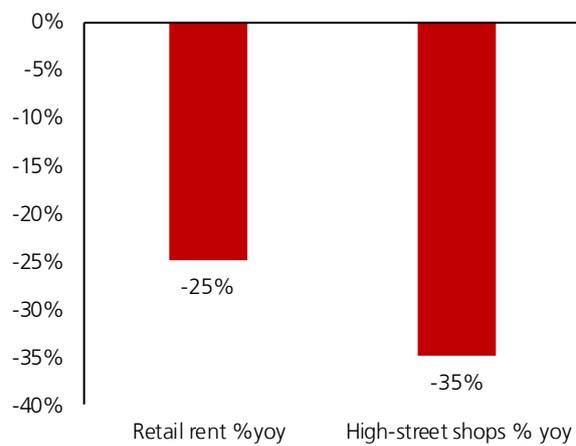
Chinese restaurants were the most impacted amidst the COVID-19 pandemic, with its contribution to total restaurant receipts contracted from 42% in 6M19 to 38% in 6M20.

Source: CEIC, Census and Statistics Department HK

Source: Census and Statistics Department HK

Total retail sales value growth (%) – supermarket

DBS rental trend forecast 2020



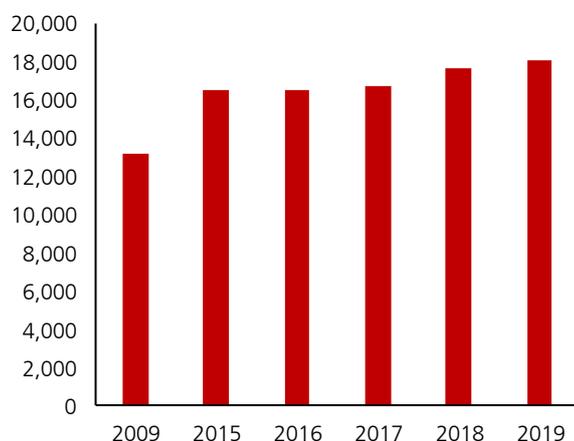
With a higher percentage of consumers staying at home, supermarket sales have been strong year to date. In 6M20, sales rose 11% y-o-y, with signs of easing demand in June 2020 (+5% y-o-y). With the resurgence of cases, supermarket sales should stay firm in 3Q.

Our house view forecast overall retail rents to decline by 25% in 2020F, and -5% in 2021F. Rentals for high-street shops could decline at a higher rate of >35% in 2020. Suburban malls could report negative reversionary growth of 10-20%, while prime mall rentals could see 30-40% lower rates upon lease renewals.

Source: CEIC, Census and Statistics Department HK

Source: DBS Bank estimates

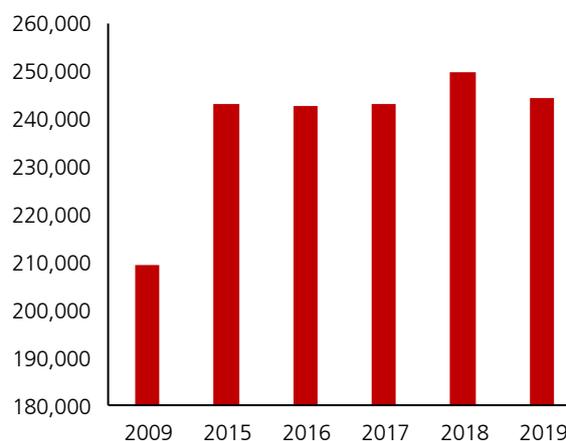
Total number of establishment breakdown



In 2019, there were roughly 18,100 establishments related to F&B Foodservices. In 2009-2019, total number of establishments posted a CAGR of 3.2%.

Source: Census and Statistics Dept HK, DBS Bank

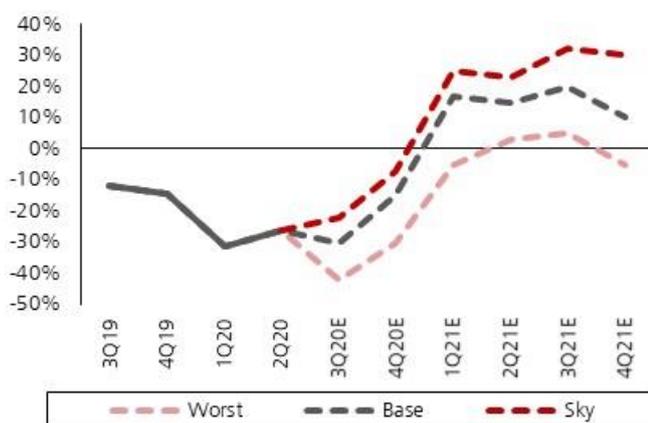
Number of persons engaged in the food and beverage industry



A total of 244,300 persons were engaged in F&B Foodservices. Compared with the total number of establishments, the number of workers engaged grew at a slower rate of 1.6% over the same period, which suggests fewer workers per outlet. This indicates a higher gear towards smaller outlets, as well as efficiency gain.

Source: Census and Statistics Dept HK, DBS Bank

COVID-19 resurgence in 4Q could increase losses by up to HK\$2bn



With stricter social distancing measures implemented during the third wave of COVID-19, we have done a scenario analyses based on the following assumptions (a) worst case (COVID-19 fourth wave revival in 4Q20), (b) base case (no resurgence) and lastly, (c) best-case: re-opening of borders with China. We expect the industry to incur operating losses of between HK\$7.6bn and HK\$12.8bn at its worst in FY20E, before taking consideration of government subsidies. In FY21F, we expect sales recovery under our base case scenario to reach HK\$108.7bn, with operating profit to resume at HK\$1.7-9.6bn.

Source: HKstat, DBS Bank estimates

Assumptions on F&B Foodservice recovery scenario

	Worst	Base	Sky
3Q19	-12%	-12%	-12%
4Q19	-14%	-14%	-14%
1Q20	-31%	-31%	-31%
2Q20	-26%	-26%	-26%
3Q20E	-42%	-30%	-22%
4Q20E	-30%	-15%	-7%
1Q21E	-5%	17%	25%
2Q21E	3%	15%	23%
3Q21E	5%	20%	32%
4Q21E	-5%	10%	30%
2020E	-32%	-26%	-22%
2021E	-1%	15%	28%

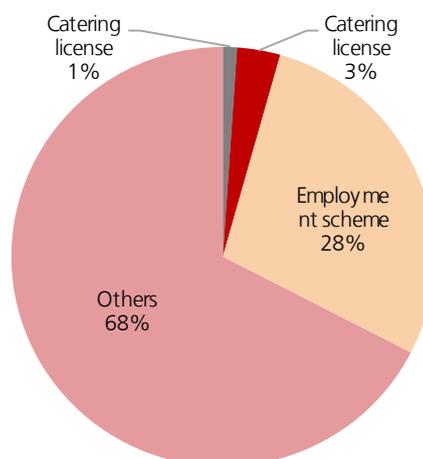
We forecast the operating margin will turn positive in FY21E on base effect and recovery driven by pent-up consumption demand. We expect sales recovery under our worst/ base /best scenario to be -1%/15%/28% in FY21E.

Source: HKstat, DBS Bank estimates

Industry P&L (2019)

Industry P&L	HK\$m	% of revenue
Total restaurant receipts	112,469	100.0%
Restaurant purchases	36,085	32.1%
Gross profit	76,384	67.9%
Staff cost	32,616	29.0%
Rental	17,995	16.0%
Other expenses	17,545	15.6%
Total operating costs	68,157	60.6%
EBIT	8,227	7.3%
Tax	1,234	15.0%
Net profit	6,993	6.2%

Government-related support scheme reached HK\$287bn



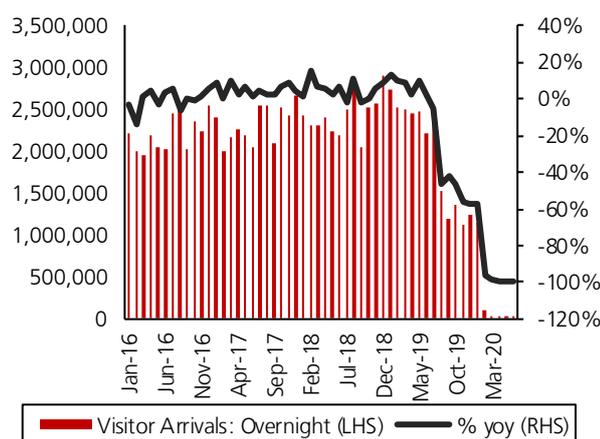
Based on the Annual Survey of Economic Activities and Census and Statistic Department, we estimate average operating margin to stand at 7-8%. Assuming both labour and rental costs hold a roughly 60% fixed/40% variable component, we estimate that revenue could drop by as much as 11% before reaching breakeven.

Source: HKstat, info.gov.hk, DBS Bank estimate

The government has rolled out a series of measures including: 1) one-off catering subsidy scheme of up to HK\$3.1bn, 2) employment subsidy scheme of up to HK\$81bn (of which we estimate HK\$11bn to be related to the restaurant industry), and lastly 3) subsidy scheme for licensed catering outlet up to HK\$9.5bn. Based on our estimates, sales could decline by as much as 38% before reaching breakeven. Year to date, restaurant receipts have been lower by 29%.

Source: HKstat, DBS Bank estimate

Visitor Arrivals: Overnight

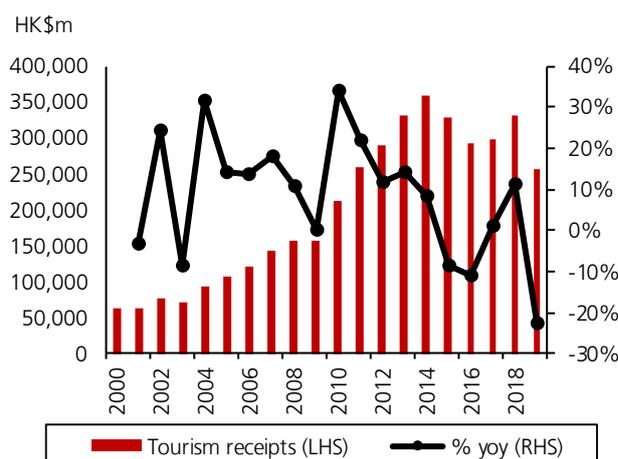


Hong Kong's visitor arrivals has been on a decline since July 2019. In 2020 YTD, visitor arrivals have plunged by 99% on strict border controls to contain COVID-19.

In 2019, the number of incoming visitors reached 55.9m, equivalent to 7.5x of the size of Hong Kong's total population. Out of this, visitor arrivals from Mainland China was 43.8m, accounting for 78% of total visitor arrivals.

Source: Census and Statistics Dept HK, DBS Bank

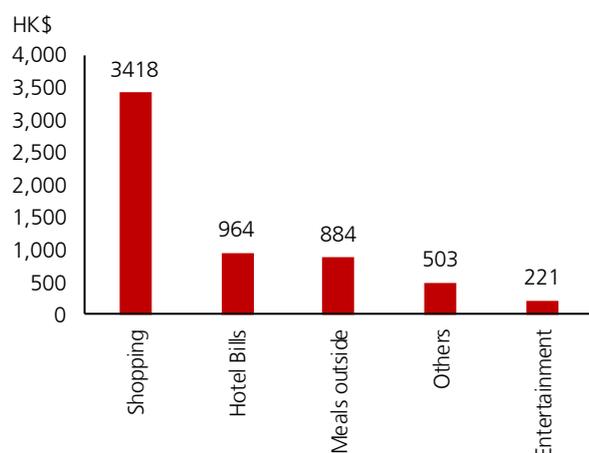
Annual tourism receipts



Prior to COVID-19, Hong Kong tourism receipts recorded its largest drop from its peak by 23% to HK\$256bn in 2019. For comparison purposes, during the SARS period (2003), tourism receipts declined by 9%.

Source: Census and Statistics Dept HK, DBS Bank

China overnight visitors: Per capita spending breakdown



When China's border reopens, what would be the impact on the restaurant sector? China accounted for 94% of Hong Kong's same-day visitors' tourism receipts, and 70% of its overnight visitors' tourism receipts in 2019. On average, China overnight visitors' per capita spending stood at HK\$5,990 and that for same-day visitors was HK\$2,193.

Source: Census and Statistics Dept HK, DBS Bank

Scenario analysis: Impact of number of visitors on the restaurant sector (HK\$ bn)

		Overnight Visitor Spending per capita vs. 2019				
		40%	50%	60%	70%	100%
No. of visitors vs. 2019	10%	0.9	1.2	1.4	1.7	2.4
	20%	1.9	2.4	2.8	3.3	4.7
	30%	2.8	3.5	4.3	5.0	7.1
	40%	3.8	4.7	5.7	6.6	9.5
	50%	4.7	5.9	7.1	8.3	11.8

Prior to the third-wave outbreak, Hong Kong was in discussions to reopen the travel bubble between Hong Kong, Macau and Guangdong. Note that the number of visitors from Macau declined 97% y-o-y in July but rose 228% on a m-o-m basis, after Guangdong lifted the 14-day quarantine requirement on visitors effective from 15 July. Under our base-case scenario for FY21F, we project overnight visitors to make up 15% of 2019 total China visitor arrivals (same-day and overnight visitors). We assume food spending amount of up to 15% of per capita spending and estimate that this could add up to HK\$2.1bn of sales to the restaurant sector.

Source: Census and Statistics Dept HK, DBS Bank

Government subsidies

Government support schemes related to restaurant sector

HK\$81bn Employment Support Scheme

- The government will provide wage subsidies to eligible employers who undertake not to retrench workers during the subsidy period, and to spend 100% of the subsidy to pay employees' wages
- Employers who have been making contributions to MPF, or have set up ORSO are eligible
- Wage subsidies for each employer calculated as 50% of salary in a "specified month" (capped at a salary of HK\$18,000) for six months in two tranches
- One-off lump sum subsidy of HK\$7,500 to 215,000 self-employed persons who had made MPF contributions in the past 15 months
- About 800,000 persons in three sectors (i.e. construction, catering and road transport) will be covered by their respective sector-specific schemes

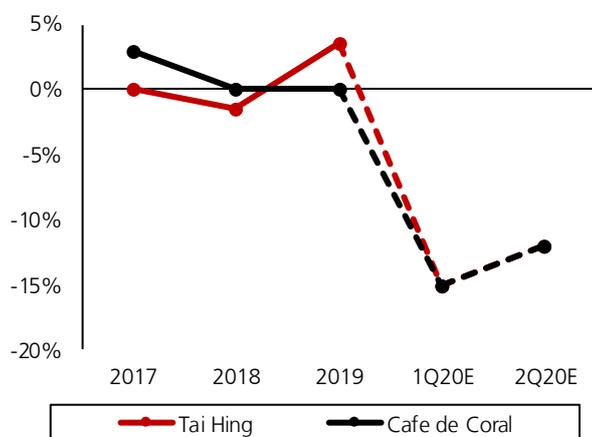
Provide subsidies to businesses affected by the pandemic

- Eligible holders of food licenses to receive one-off grant of HK\$80,000 or HK\$200,000 each. Over 23,000 applications have been approved, totaling HK\$3.1bn
- Subsidies ranging from HK\$250,000 to HK\$2.2m (paid in two tranches during a 6-month period) for licensed catering outlets selling or supplying food for consumption at their premises. To support employment, catering outlets receiving the subsidies are not allowed to retrench staff during the subsidy period. At least 80% of the subsidy amount is to be used to pay staff salaries. About 16,000 licensed catering outlets and their employees are expected to benefit, involving roughly HK\$9.5bn

Source: Company, DBS Bank

Company specific

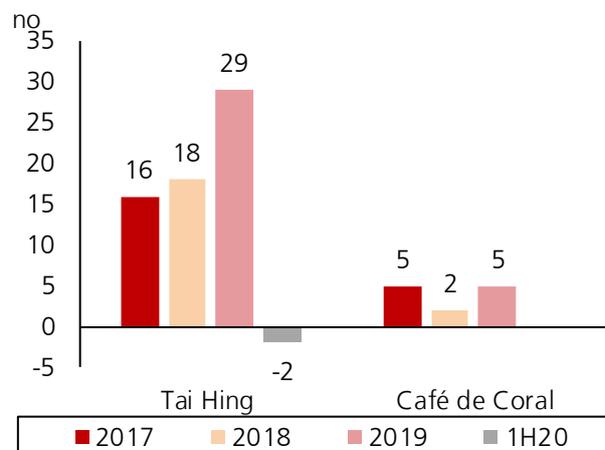
Company: SSSG (%)



Overall HK-listed restaurant players recorded a steady recovery of up to 80% in June 2020. However, with the outbreak of COVID-19 cases in July 2020 being more severe than during 1Q, the government has implemented stricter social distancing measures including the closure of restaurants between 6pm and 5am, and limitation on gatherings to two persons.

Source: Company, DBS Bank

Company: Net store opening

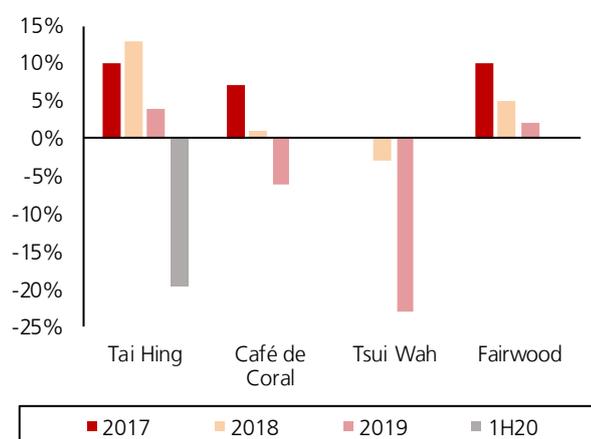


Store expansion plans will be on a more cautious mode due to a change in consumption behaviour in Hong Kong with a reduction of visitor arrivals and higher transaction volumes in residential locations. Based on our survey, all three companies indicated slower expansion or net store closure plans in 2020E. Café de Coral and Tai Hng targets to add 20 and 25-27 outlets respectively in 2020E, targeted in Greater Bay Area.

Source: Company, DBS Bank

Group basis (including China, Macau, Taiwan and overseas)

Sales trend

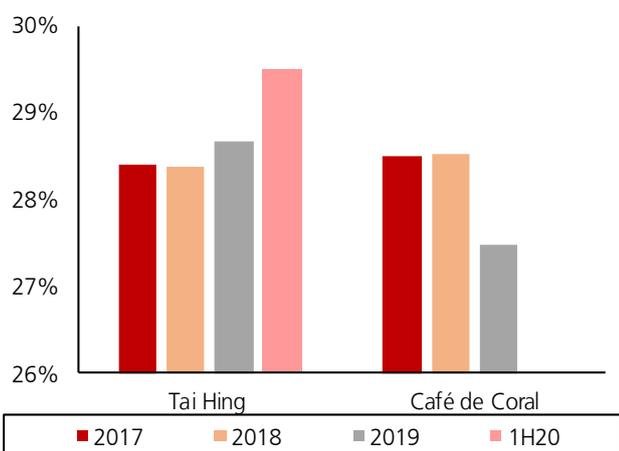


Sales have been impacted by social events. Tsui Wah has been hit particularly hard due to its stronger reliance on tourism.

Source: Company, DBS Bank

Café de Coral, Tsui Wah & Fairwood: 2019: Mar-20 YE, 2018: Mar-19 YE

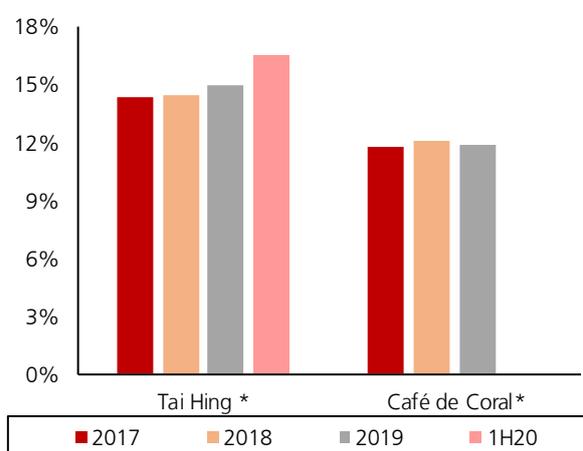
Cost: Raw material cost as % of sales



Raw material costs, apart from pork prices, have remained largely stable, thanks to strong international procurement.

Source: Company, DBS Bank
Café de Coral: 2019: Mar-20 YE, 2018: Mar-19 YE

Cost: Rental cost as % of sales

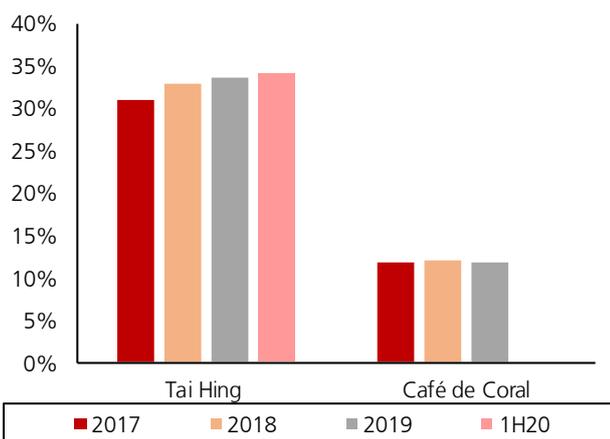


We understand street-level landlord has been more flexible in rental negotiation versus malls. In some cases, tenants have negotiated for zero base rent. Further discussion on fixed and variable component will be crucial given the volatility of the environment.

Overall, rental negotiations have been in favour of tenants due to the contraction in retail sales.

Source: Company, DBS Bank
Café de Coral: 2019: Mar-20 YE, 2018: Mar-19 YE

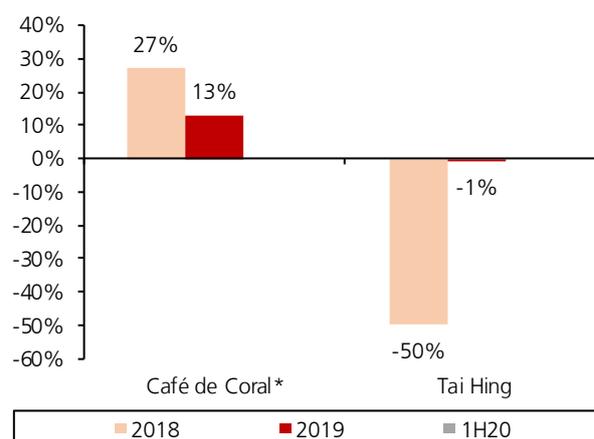
Cost: staff cost as % of sales



Through active labour scheduling, this could include reduction in working hours, as well as an adjustment in part-time and full-time employees. Most players have opted for the reduction of part-time staff, and reduction of working hours to ensure no retrenchment. Also, government subsidies under "Employment Support Scheme" is expected to alleviate cost pressure. Lastly, the industry is unlikely to see upward pressure on minimum wages this year.

Source: Company, DBS Bank
Café de Coral: 2019: Mar-20 YE, 2018: Mar-19 YE

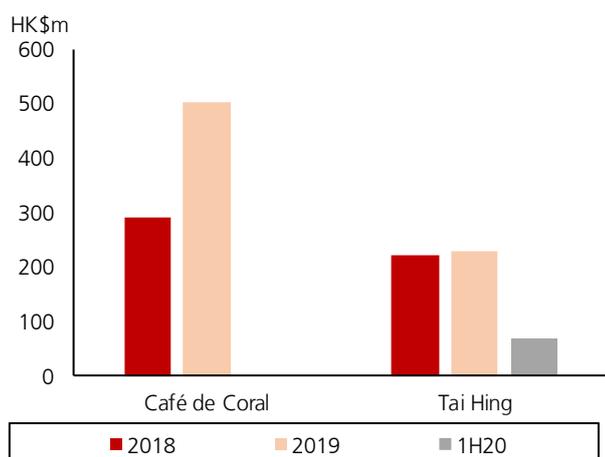
Financial positions: Net cash (debt) to equity



Cash positions have generally been weakening due to the sales decline. With impact from the outbreak of COVID-19, Café de Coral has not declared any final dividend for FY2020 to maintain a healthy cash flow.

Source: Company, DBS Bank
Café de Coral: 2019: Mar-20 YE, 2018: Mar-19 YE

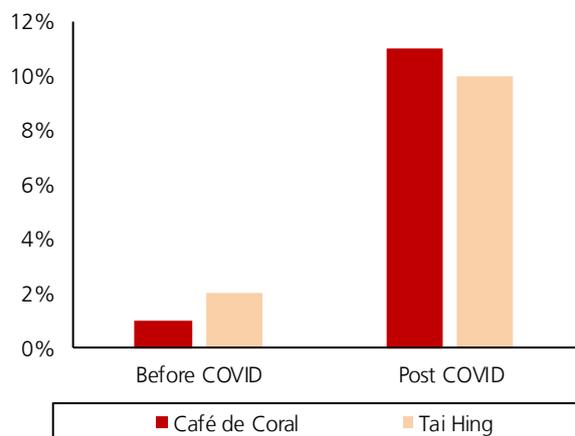
Company: capex



With weaker consumption expected in Hong Kong in the next couple of years, players such as Café de Coral and Tai Hing are bullish in their expansion in Greater Bay Area due to (1) its close proximity to Hong Kong, and (2) similar consumption taste in the region. In recent years, Café de Coral has been steadily expanding in China through a single-brand strategy, with outlets now situated Guangzhou, Weizhou, Shenzhen, Dongguan, Jiangmen, Zhuhai, Macau etc. Café de Coral plans to expand in 1st-2nd tier cities, thereafter, penetrate lower tier cities, with target to expand 20-30 outlets in China, with 50% in community areas. Tai Hing, equally targeting Greater Bay Area, have adopted two brands – Tai Hing and Men Wah Beng Teng, on its store expansion in China.

Source: Company, DBS Bank
Café de Coral: 2019: Mar-20 YE, 2018: Mar-19 YE

Company: Delivery % of total sales



Delivery has been less commonly adopted in Hong Kong in comparison to other countries previously due to the city's convenience and high delivery mark-up cost of 20-30%. The popularity of online retailing has skyrocketed on the back of pandemic. In fact, Café de Coral and Tai Hing saw revenue from food delivery doubling in 1H20, with the support of delivery platforms such as Deliveroo and Foodpanda.

While some acknowledged it may be an ongoing trend, players are seeking ways to encourage dine-in by offering pick-up discounts of up to 50%. Taste Gourmet uses delivery platform during non-peak hours to establish its presence on the platforms.

Source: Company, DBS Bank
Café de Coral: 2019: Mar-20 YE, 2018: Mar-19 YE

Strategies under new normal

Key strategies under the new normal

Key strategies under a new normal

- **Operate strictly under government protocols**

- Abide by government enforced social distancing measures
- Communicate with customers on changes in operating hours, and required hygiene procedures through in-person or social media

- **Seek better cost flexibility**

- Renegotiation on rental contracts on fixed and variable component
- Active labour scheduling includes reducing in working hours, adjustment in part-time and full-time staff

- **Adapt to consumers' new normal**

- Changes in customer behaviour (e.g. eating times, increase in dining-at-home)
 - Restaurants to develop promotional strategies to encourage dine-in at targeted hours
 - Prepaid coupons (Cafe de Coral promotions to lure customers back through value-sets such as HK\$100 for 3 dishes, and pre-paid coupons.)
- Changes in restaurant designs
 - Chinese banquets, typically takes up >10,000 sq.ft, would likely see a reduction in store sizes and store numbers on weaker demand
 - Casual dining may see adjustment in kitchen design on higher reliance on central kitchen to expand dine-in space.
- Reinventing menu selection
 - With higher proportion of work-from-home status still in place, customers may opt for set-menu to feed families. Tai Hing introduced several value sets to attract customers to order for dinner.

- **Adoption in digitalisation and delivery**

- Reach out to first-time and existing customers through loyalty programs, specific offerings and presence on delivery platform. Tai Hing has developed its own application to encourage customer loyalty, and self-pick up on food orders.

- Establish presence on delivery platforms such as Foodpanda and Deliveroo

- **Expansion into Greater Bay Area**

- Players such as Café de Coral and Tai Hing are bullish in their expansion in Greater Bay Area due to (1) its close proximity to Hong Kong, and (2) similar consumption taste in the region.
- Café de Coral has been steadily expanding in China through a single-brand strategy, with outlets now situated Guangzhou, Weizhou, Shenzhen, Dongguan, Jiangmen, Zhuhai, Macau etc. Café de Coral plans to expand in 1st-2nd tier cities, thereafter, penetrate lower tier cities, with target to expand 20-30 outlets in China, with 50% in communities.
- Tai Hing, equally targeting Greater Bay Area, have adopted two brands – Tai Hing and Men Wah Beng Teng, on its store expansion in China.

Source: Company, DBS Bank

Timeline on social distancing measures

Date	Events
Jan-20	Hong Kong declares viral outbreak to be at highest warning tier Hong Kong suspends high-speed rail service between HK and China starting 30 January
Mar-20	Suspension of indoor and outdoor public gatherings of more than four people, for 14 days starting from 29 March. Restaurants are required to operate at half capacity and to set tables at least 1.5m apart.
Apr-20	Temporary closure of KTV, nightclub and mahjong premises All pubs and bars ordered to close for 14 days Social distancing measures extended beyond 14 days; cap on number of customer capacity for restaurants relaxed HK\$80bn employment support scheme launched
May-20	Cap on public gathering expanded from four to eight people; businesses such as beauty salons and gyms to be reopened subject to measures. The number of people in restaurants per table could be increased from four to eight. Schools expected to resume classes in stages from 27 May.
Jul-20	Third wave of COVID begins as the number of cases reach >100 cases per day Dine-in at restaurants to be prohibited from 6pm to 5am; wearing of masks mandatory Social distancing rules tightened through limiting public gatherings to two people, dining-in at restaurants banned and wearing of face masks made compulsory at all public places Ban on dine-in lifted due to a high number of workers eating out on the street
Aug-20	The government extends the ban on dine-in at night until 25 August Starting 28 August, masks are no longer mandatory in country parks, and during exercise outdoors. Dine-in hours are extended by three hours to 9pm.
Sep-20	From 11-17 September, HK eateries can extend dine-in services until 10pm (previously 9pm), but are still restricted to operate at 50% capacity. Each table can have up to four patrons (versus two previously). After 10pm, customers can purchase food via takeaway. Starting 18th September, HK eateries operational hours were extended by two hours until 12am, while bars were allowed to re-open. The limit on public gathering will be kept at four people.

Source: Company, DBS Bank

Café de Coral (341 HK EQUITY, HK\$15.88, BUY, Target Price 12-mth HK\$ 20.60)

Forecast & Valuation

FY Mar (HK\$m)	2019A	2020A	2021F	2022F
Turnover	8,494	7,963	7,168	7,841
EBITDA	1,155	581	960	1,051
Pre-tax Profit	700	114	512	601
Net Profit	570	74	409	478
EPS (HK\$)	0.98	0.13	0.70	0.82
EPS Gth (%)	24.3	(87.1)	454.9	17.0
Diluted EPS (HK\$)	0.98	0.13	0.70	0.82
DPS (HK\$)	0.84	0.19	0.49	0.57
BV Per Share (HK\$)	5.42	4.55	5.25	5.40
PE (X)	16.2	125.2	22.6	19.3
P/Cash Flow (X)	4.8	6.4	5.5	5.2
P/Free CF (X)	5.5	9.8	7.0	6.8
EV/EBITDA (X)	7.2	15.3	8.8	8.0
Net Div Yield (%)	5.3	1.2	3.1	3.6
P/Book Value (X)	2.9	3.5	3.0	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.9	2.5	14.2	15.3
Earnings Rev (%):			Nil	Nil
Consensus EPS (HK\$)			0.77	0.92
Other Broker Recs:		B:6	S:0	H:1

General Data

At A Glance

Issued Capital (m shrs)	586
Mkt Cap (HK\$m/US\$m)	9,470 / 1,200
Major Shareholders (%)	
Wandels Investment Ltd.	15.7
Lo (Hoi Kwong Sunny)	11.0
Lo (Hoi Chun)	6.2
MMW Holding Corporation	5.4
Free Float (%)	61.7
3m Avg. Daily Val. (US\$m)	3.66
GICS Industry: Consumer Discretionary / Consumer Services	

Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021F	2022F
Turnover	8,494	7,963	7,168	7,841
Cost of Goods Sold	(7,267)	(7,232)	(6,581)	(6,726)
Gross Profit	1,227	731	587	1,115
Other Opq (Exp)/Inc	(428)	(522)	17	(433)
Operating Profit	800	209	604	682
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(99)	(94)	(92)	(82)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	700	114	512	601
Tax	(128)	(40)	(102)	(122)
Minority Interest	(2)	(1)	(1)	(1)
Preference Dividend	0	0	0	0
Net Profit	570	74	409	478
Net profit before Except.	570	74	409	478
EBITDA	1,155	581	960	1,051
Sales Gth (%)	0.8	(6.2)	(10.0)	9.4
EBITDA Gth (%)	26.3	(49.7)	65.2	9.5
Opq Profit Gth (%)	40.4	(73.9)	189.2	13.0
Effective Tax Rate (%)	18.3	34.9	20.0	20.3

Cash Flow Statement (HK\$ m)

FY Mar	2019A	2020A	2021F	2022F
Pre-Tax Profit	700	114	512	601
Dep. & Amort.	1,204	1,234	1,151	1,138
Tax Paid	(116)	(112)	(60)	(102)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chq in Wkq.Cap.	119	34	57	118
Other Operating CF	12	175	12	12
Net Operating CF	1,920	1,445	1,672	1,767
Capital Exp.(net)	(232)	(501)	(350)	(420)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	6	18	0	0
Net Investing CF	(226)	(483)	(350)	(420)
Div Paid	(680)	(488)	0	(391)
Chq in Gross Debt	0	0	0	0
Capital Issues	(11)	(37)	0	0
Other Financing CF	(941)	(936)	(892)	(850)
Net Financing CF	(1,632)	(1,461)	(892)	(1,241)
Currency Adjustments	(29)	(12)	(4)	(23)
Chq in Cash	33	(511)	426	83

Source: Company, DBS Bank

Balance Sheet (HK\$ m)

FY Mar	2019A	2020A	2021F	2022F
Net Fixed Assets	2,160	2,194	2,171	2,224
Invt in Assocs & JVs	0	0	0	0
Other IT Assets	3,501	3,152	3,056	2,984
Cash & ST Invt	857	347	773	856
Inventory	241	261	235	257
Debtors	165	167	150	164
Other Current Assets	39	101	95	100
Total Assets	6,965	6,221	6,478	6,585
ST Debt	0	0	0	0
Other Current Liab	1,681	1,616	1,564	1,683
LT Debt	0	0	0	0
Other LT Liabilities	2,104	1,934	1,834	1,734
Shareholder's Equity	3,175	2,667	3,075	3,162
Minority Interests	5	5	5	6
Total Cap. & Liab.	6,965	6,221	6,478	6,585
Non-Cash Wkq. Cap	(1,235)	(1,088)	(1,085)	(1,162)
Net Cash/(Debt)	857	347	773	856

Segmental Breakdown (HK\$ m) / Key Assumptions

FY Mar	2019A	2020A	2021F	2022F
Revenues (HK\$ m)				
Hong Kong	7,342	6,873	6,005	6,592
PRC	1,152	1,090	1,163	1,249
Total	8,494	7,963	7,168	7,841

Key Assumptions

Food cost as % of sales	27.5	27.7	27.7	27.5
Staff cost as % of sales	31.4	32.9	33.7	32.4
Rental cost as % of sales	12.0	13.1	14.1	12.4

Tai Hing Group (6811 HK Equity, HK\$1.55, NOT RATED)

Forecast & Valuation

FY Dec (HK\$m)	2016A	2017A	2018A	2019A
Turnover	2,513	2,771	3,126	3,252
EBITDA	382	410	534	694
Pre-tax Profit	248	271	358	117
Net Profit	109	116	305	77
Net Pft (Pre Ex.)	109	116	305	77
EPS (HK\$)	n.a.	n.a.	n.a.	0.09
EPS Gth (%)	n.a.	n.a.	n.a.	n.a.
Diluted EPS (HK\$)	n.a.	n.a.	n.a.	0.09
DPS (HK\$)				0.05
BV Per Share (HK\$)	n.a.	n.a.	n.a.	0.97
PE (X)	n.a.	n.a.	n.a.	17.9
P/Cash Flow (X)	n.a.	n.a.	n.a.	2.0
P/Free CF (X)	n.a.	n.a.	n.a.	3.7
EV/EBITDA (X)	n.a.	n.a.	n.a.	3.8
Net Div Yield (%)	-	-	-	3.3
P/Book Value (X)	n.a.	n.a.	n.a.	1.6
Net Debt/Equity (X)	1.5	4.3	0.8	1.3
ROAE (%)	n.a.	34.2	108.2	11.5

Income Statement (HK\$ m)

FY Dec	2016A	2017A	2018A	2019A
Turnover	2,513	2,771	3,126	3,252
Cost of Goods Sold	(735)	(787)	(887)	(933)
Gross Profit	1,778	1,984	2,239	2,320
Other Opg (Exp)/Inc	(1,525)	(1,708)	(1,852)	(2,137)
Operating Profit	253	276	387	183
Other Non Opg (Exp)/Inc	1	0	(11)	(19)
Associates & JV Inc				
Net Interest (Exp)/Inc	(6)	(6)	(18)	(47)
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	248	271	358	117
Tax	(51)	(61)	(53)	(40)
Minority Interest	(88)	(94)		(0)
Preference Dividend	-	-	-	-
Net Profit	109	116	305	77
Net Profit before Except.	109	116	305	77
EBITDA	382	410	534	694
Turnover Gth (%)	-	10.3	12.8	4.0
EBITDA Gth (%)	-	7.4	30.4	30
Opg Profit Gth (%)	-	9.4	39.9	(52.8)
Net Profit Gth (%)	-	6.5	163.6	(74.8)

Cash Flow Statement (HK\$ m)

FY Dec	2016A	2017A	2018A	2019A
Pre-Tax Profit	248	271	358	117
Dep. & Amort.	129	133	148	511
Tax Paid	(48)	(48)	(72)	(11)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	6	16	211	2
Non-Cash Wkg. Cap.	(171)	(180)	251	(18)
Other Operating CF	3	(13)	(368)	76
Net Operating CF	166	180	528	677
Capital Exp. (net)	(231)	(297)	(222)	(230)
Other Invt. (net)	(50)	71	221	2
Invt. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	-	(57)	58	1
Net Investing CF	(281)	(283)	56	(228)
Div Paid	(14)	(15)	(20)	(72)
Chg in Gross Debt	145	130	(482)	(629)
Capital Issues	-	0	-	723
Other Financing CF	(4)	2	(5)	(2)
Net Financing CF	127	116	(507)	19
Chg in Cash	12	12	77	469
Opg CFPS (HK\$)	n.a.	n.a.	n.a.	0.76
Free CFPS (HK\$)	n.a.	n.a.	n.a.	0.42

General Data

At A Glance

Issued Capital (m shrs)	1,000
Mkt Cap (HK\$m/US\$m)	1,550 / 200
Major Shareholders (%)	
Chun Fat Co Ltd	53.8
Free Float (%)	46.2
3m Avg. Daily Val. (US\$m)	0.41
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (HK\$ m)

FY Dec	2016A	2017A	2018A	2019A
Net Fixed Assets	735	757	815	2,284
Invt in Assocs & JVs	-	-	-	-
Other LT Assets	406	176	167	196
Cash & ST Invt	157	166	243	711
Inventory	40	39	57	77
Debtors	8	19	19	25
Other Current Assets	902	578	98	113
Total Assets	2,247	1,734	1,399	3,405
ST Debt	890	1,019	112	688
Creditors	97	113	110	121
Other Current Liab	333	328	310	329
LT Debt	-	-	425	1,251
Other LT Liabilities	61	77	76	46
Shareholder's Equity	478	198	366	967
Minority Interests	388	-	-	4
Total Cap. & Liab.	2,247	1,734	1,399	3,405
Non-Cash Wkg. Cap	519	195	(247)	(235)
Net Cash/(Debt)	(733)	(854)	(294)	(1,228)

Segmental Breakdown (HK\$ m) / Key Assumptions

FY Dec	2016A	2017A	2018A	2019A
Revenues				
Revenue from Restaurant Operations	2,455	2,712	3,062	3,186
Tai Hing	1,868	1,901	2,024	-
Tea Wood	392	537	555	-
Trusty Congee king	115	150	208	-
Meh Wah Bing Teng	-	26	120	-
Pho Le	-	21	96	-
Tokyo Tsukiji	29	29	24	-
Others	31	30	18	-
Fisher & Farmer	18	18	14	-
Rice Rule	-	-	2	-
Revenue from sale of food products	58	59	64	66
Total	2,513	2,771	3,126	3,252

Source: Bloomberg Finance L.P., Thomson Reuters

Catering & Restaurants : Singapore

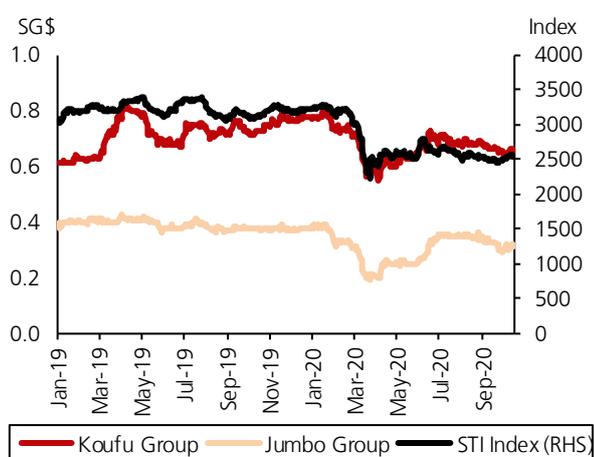
Alfie Yeo +65 6682 3717
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Recommendation and Valuation

Company Name	Price	Target	Recom	Mkt	PE
	Local\$	Local\$		Cap	21F
				US\$m	x
Jumbo Group* (JUMBO SP)	0.32	0.21	FV	149	27.1
Koufu Group* (KOUFU SP)	0.66	0.77	BUY	267	14.7

Source: Thomson Reuters, *DBS Bank
Closing price as at 15 Oct 2020

Share price performance vs. STI index



Source: Thomson Reuters

Muted F&B outlook

- F&B Foodservice spending has declined by 25% YTD due to Circuit Breaker
- Loss of tourists will cap F&B Foodservice growth outlook
- Prefer low to mid-range F&B to higher-end tourist-dependent plays
- BUY for Koufu and FULLY VALUED for Jumbo

Circuit Breaker has led to shift in F&B Foodservice spending.

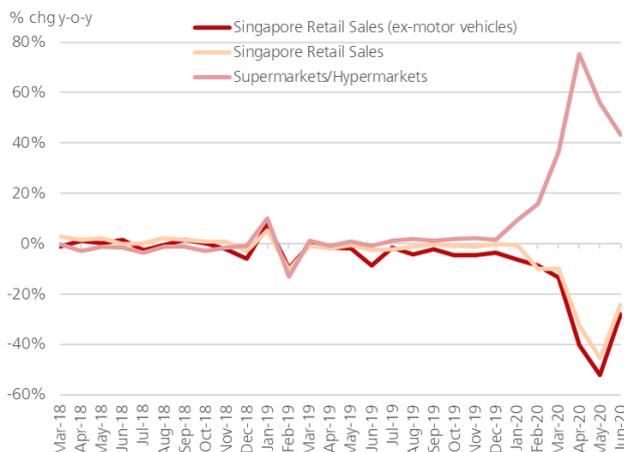
Supermarket sales remained robust as people stayed home during the Circuit Breaker. Likewise, lower- to mid-end F&B are more essential and hence more resilient than higher-end F&B. Restaurants were the hardest hit as April and May retail sales declined by as much as 70% y-o-y. Fast food remains popular and resilient, declining by not more than 30% y-o-y in April and May. Caterers' sales declined by about 60% y-o-y as socialising was minimised. Coming out of Circuit Breaker, we see demand picking up, but slowly due to safe distancing measures still in place.

Anticipate slow recovery, normalisation in 2022. YTD, F&B Foodservice retail sales have fallen by 25% y-o-y. Based on our recovery scenario, we expect the industry's F&B Foodservice retail sales to fall by 20-28% for 2020. We anticipate normalisation to pre-COVID-19 levels in 2022, in line with our GDP recovery scenario. As consumption demand picks up from Circuit Breaker levels, full domestic demand would still fall short of pre-COVID-19 levels due to absence of tourists, whose F&B demand is about 24% of F&B Foodservice sales. To achieve normalisation, the following will need to occur: 1) lengthening of the currently shorter operating hours, 2) increase in dine-in capacity, 3) reopening of entertainment outlets, 4) resumption of large-scale events, 5) easing of limits to groups of five, and 6) return of tourists to spend in Singapore. However, there is no visibility to tourist arrivals recovering for now. F&B demand would be at around 75% of pre-COVID-19 levels at best.

Bearing with the new norm for now. F&B operators need to conform to the new norm, namely lower revenue from footfall, shorter operating hours, lower capacity, more takeouts and deliveries. Higher costs to ensure food and dining safety would result in lower margins as well. Companies are adopting strategies to scale down higher-end dining while expanding the lower- to mid-end segment. With low margins, the sector will likely consolidate if the drop in F&B demand persists. Otherwise, operating costs such as rents and/or staff costs may have to ease for the F&B Foodservice sector to be profitable.

Favour stocks that offer more essential F&B. We prefer low- to mid-end F&B Foodservice stocks, as their offerings are more essential than that of high-end and tourist-dependent F&B stocks. Hence, we are positive on Koufu and negative on Jumbo.

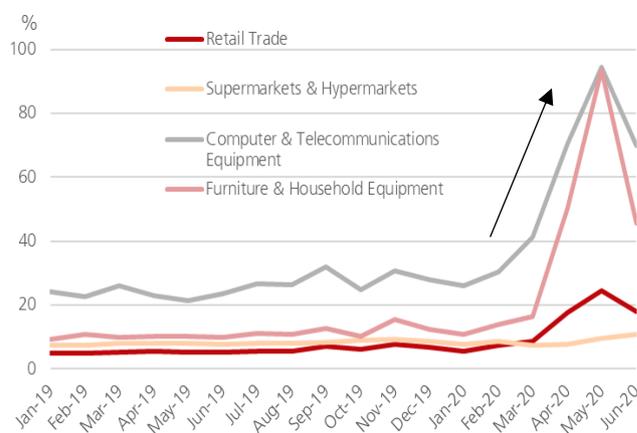
Singapore retail sales



Circuit Breaker has left consumers at home. Overall Singapore retail sales suffered in 2020 with sales falling by as much as 52% y-o-y due to the Circuit Breaker. Supermarket sales rose as people stayed home.

Source: Singstat, DBS Bank

Retail sales moved online as Singapore consumes from home



Singapore retail sales have shifted to consumption demand from home. Online sales spiked sharply as most of the physical shops were closed and movement was discouraged. Home equipment sales rose in Computer & Telecommunication Equipment and Furniture & Household Equipment segments, with people setting up home-based offices.

Source: Singstat, DBS Bank

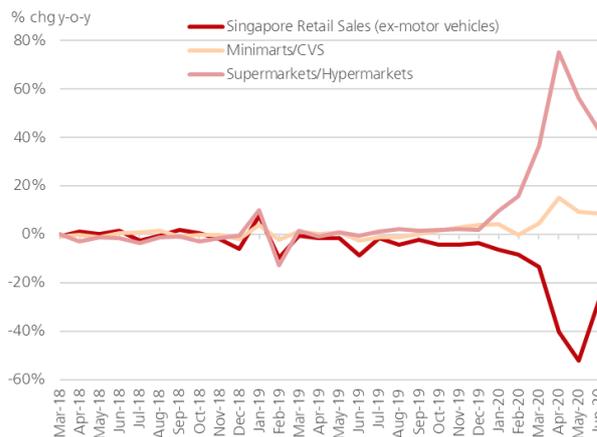
F&B Foodservice retail sales



Fall in F&B Foodservice demand, spending is much less on higher-end restaurants. The revenue of F&B Foodservices fell sharply, declining by as much as 50-52% y-o-y in April and May. As consumers stayed home, F&B Foodservices outlets that thrive on commensality were affected. More staple options such as Fast Food and Other Eating Places including Foodcourts and coffee shops were more resilient despite taking an overall fall in total demand. The most affected businesses were Food Caterers and Restaurants which thrive more on commensality. Restaurants' takings fell by as much as 70% y-o-y in April and May.

Source: Singstat, DBS Bank

Supermarket sales rose



Supermarket sales rose due to consumers staying home. Supermarkets were key beneficiaries due to their staple nature among consumers. Consumers have turned to supermarkets as a key source for food, being more economical than takeaways. The data validates that Supermarkets are a popular choice of food source among consumers staying at home. This is expected to normalise as the Circuit Breaker ends and more activities take place outside of homes.

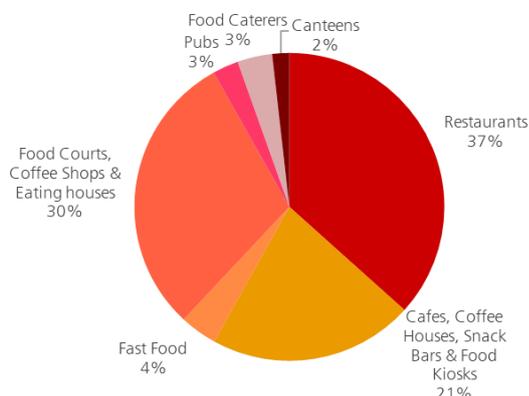
Source: Singstat, DBS Bank

Key events post COVID-19

Event	Date	Note
Doscron Orange	7 Feb	Part of the workforce started working from home
Singapore budget	18 Feb	Jobs Support Scheme (JSS) for three months (starting from October 2019), commercial property rebate introduced
Resilience budget	26 Mar	JSS increased from 8% to 50% and from 3 months to 9 months (till July 2020), wage ceiling upped from S\$3,600 to S\$4,600
Solidarity budget	6 Apr	JSS for April set at 75%
Circuit Breaker (CB)	7 Apr	End of CB scheduled for 4 May, only essential services allowed to operate
Extension of CB	21 Apr	Tighter measures till 4 May. CB extended till 1 June
Fortitude budget	26 May	JSS extended by one month to 10 months (till August 2020)
Phase 1 reopening	2 Jun	Workplaces, school, essential care services resume; households allowed to receive visitors
Phase 2 reopening	19 Jun	Almost all sectors of the economy have reopened
Staggered reopening	From 26 Jun	Cinemas, places of worship, museums, libraries, tourism-related businesses (attractions, hotels)
Extension of JSS	17 Aug	JSS extended by another seven months from September 2020 to March 2021

Source: MOH, MOF, gov.sg, DBS Bank

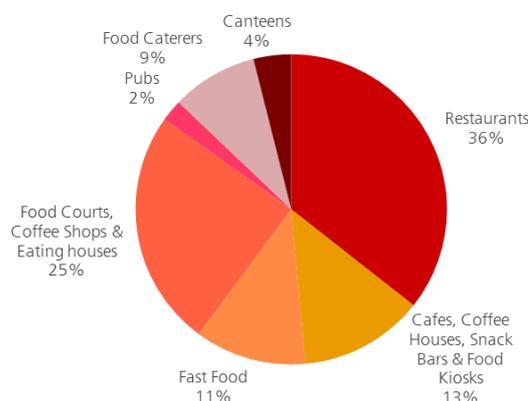
Breakdown of formats by store count



Coffeeshops, café, restaurants dominate F&B outlets. Based on Singstat’s retail sales value for F&B Foodservice, Singapore’s F&B Foodservices segment enjoyed S\$10.5bn sales in 2019 with monthly sales per outlet ranging between S\$26,000 and S\$33,200. Key categories in Singapore retail sales reporting format are Restaurants, Fast Food, Caterers and Others. We believe the discrepancy between Euromonitor and Singstat’s figures is due to foodstall licences.

Source: Singstat, DBS Bank

Breakdown of formats by sales value



Restaurants a key contributor to Singapore F&B retail sales. Restaurants have suffered the sharpest category decline in Singapore F&B Foodservice retail sales during COVID-19. Yet Restaurants are the single largest contributor to F&B Foodservice retail sales. While categories like Fast Food have held up better, Restaurants are the key cause of decline in F&B Foodservice retail sales. Fast Food enjoys relatively higher sales per outlet and has held up well during this period.

Source: Singstat, DBS Bank

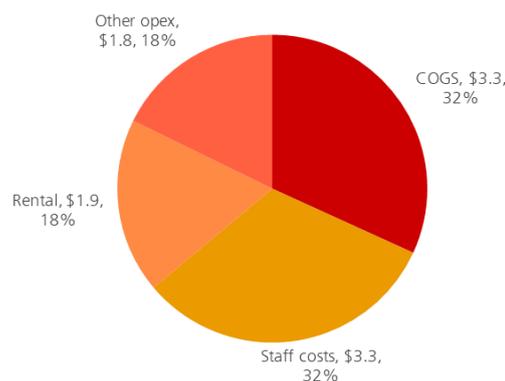
Industry P&L

	S\$m	Margin %
Average revenue	10,959	
COGS	-3,288	30% of sales
Gross profit	7,671	70% gross margin
Staff costs	-3,309	30% of sales
Rental	-1,901	17% of sales
Other expense	-1,830	17% of sales
Total operating costs	-7,040	64% of sales
EBIT/Pre-tax	631	6% margin
Tax	-107	17% tax rate
Net profit	524	5% net margin

Margins are thin, little room for error. We forecast the F&B Foodservice industry’s net profit margins to be at around 5%. With relatively fixed operating costs like rental and staff expenses at close to 50% of revenue, the sector can only withstand a revenue decline of 10% (based on our simulated estimates) to still achieve breakeven. Beyond this, F&B Foodservice companies would need to cut their operating costs to remain profitable or consolidation will be on the cards.

Source: Euromonitor, Singstat, DBS Bank estimates

\$S10.3bn of expenses paid for real estate, human resource, food and others



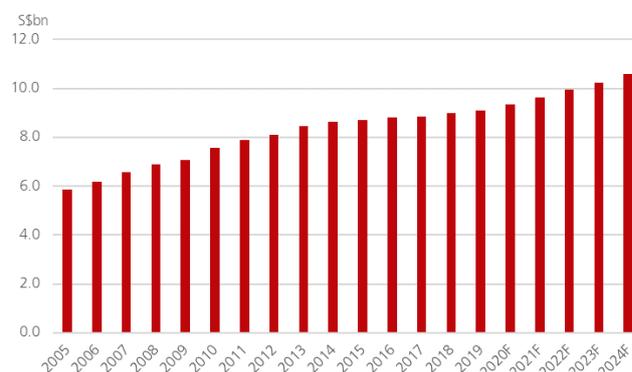
Profitability is likely strained with COVID-19 and significant fixed costs. Based on our estimates, the F&B Foodservice industry has a total industry opex of S\$10.3bn annually, with about half of expenses dedicated to rent and staff costs. At around 30% cost of sales, about S\$3.3bn is dedicated to food procurement and other direct costs. Other opex including utilities, depreciation, as well as miscellaneous operation costs amount to S\$1.8bn.

Source: Euromonitor, Singstat, DBS Bank estimates

2020 JSS estimate (excluding January to March 2021)

		Apr & May 2020	Rest of 2020	Sep-Dec 2020
Months		2	8	4
Quantum		75%	50%	30%
Wage bill	S\$3.3b			
No. of workers	228,400			
Foreign worker DRS	38%			
Implied no. of locals	141,608			
Median wage	S\$2,300	S\$1,725	S\$1,150	S\$690
Assumed avg wage	S\$2,530	S\$1,898	S\$1,265	S\$759
Total wage support	S\$2.4b	S\$537m	S\$1.4b	S\$430m

Euromonitor projects F&B Foodservice in Singapore to grow at 3% CAGR led by street stalls/kiosks



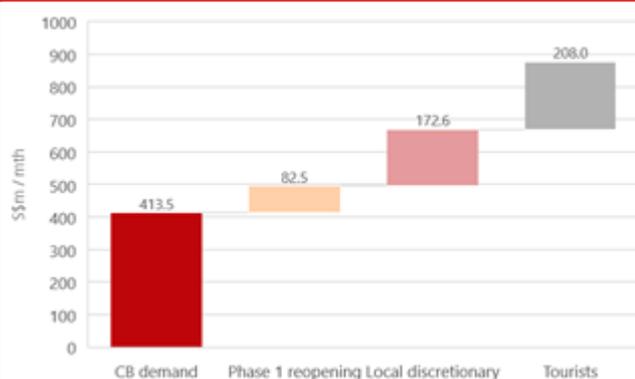
Wage support at S\$2.4bn sufficient for 2020. We estimate wage support to be S\$2.4bn for 2020 based on our assumed average wage. This should enable the F&B Foodservice industry to withstand a 60% drop in revenue for the year but yet achieve breakeven. Headline revenue for F&B Foodservice retail sales is down by 25% YTD, with restaurants retail sales down by 40%. With our breakeven analysis tracking ahead of our assumed cost structure, wage and payout assumptions, we believe the JSS is sufficient to help buffer further declines in F&B Foodservice retail sales.

Source: Singstat, DBS Bank

2020 should see a decline in F&B Foodservice takings. The Singapore F&B Foodservice revenue grew at a CAGR of 3.2% for the past 14 years till 2019. Growth was led by the rise of street stalls/kiosks category followed by café/bars, and limited service restaurants. Euromonitor projects foodservice growth for the next five years to be at a 3% CAGR led by street stalls/kiosks and café/bars. With COVID-19 affecting Singapore’s Foodservice industry, we disagree with Euromonitor’s recovery scenario to some extent. We believe that 2020F should see a decline, followed by a recovery scenario that reflects a loss of demand from tourists as well.

Source: Euromonitor, DBS Bank

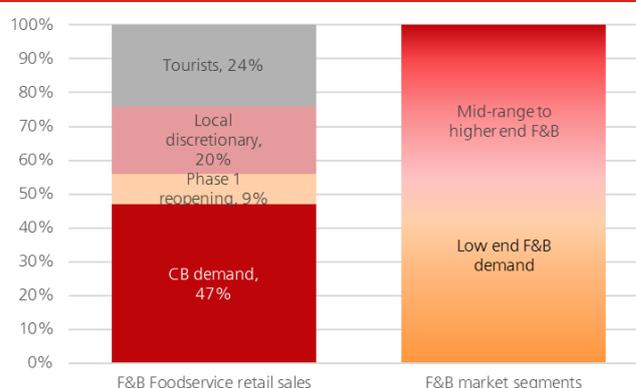
Base F&B Foodservice demand during Circuit Breaker is about c.50%



Low- to mid-range dining F&B dominates demand. Singapore F&B Foodservice retail sales averaged at about S\$876m per month in 2019. We estimate about 47% of F&B Foodservice spending each month to be on essential, basic dining. About 20% are discretionary dining which may include higher-end establishments, with social and commensality dining that includes tourists.

Source: Singstat, Singapore Tourism Board, DBS Bank estimates

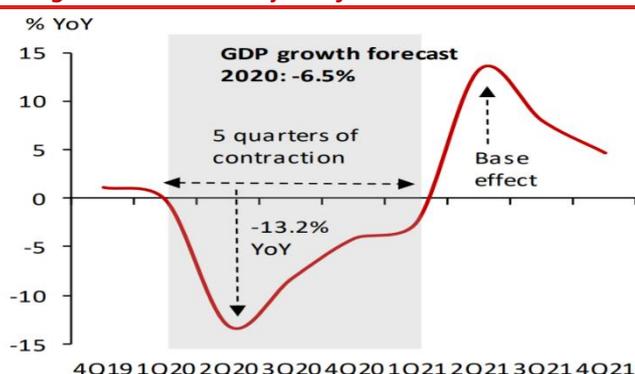
Tourist demand estimated at 18% of F&B Foodservice retail sales



Normalisation of F&B Foodservice demand depends on tourists returning. According to Singapore Tourism Board, tourists spent S\$2.5bn on F&B in 2019, working out to about 24% of 2019 F&B Foodservice retail sales. Higher-end restaurants and foodservice outlets may benefit as local discretionary demand kicks in. However, the absence of tourists will cap demand for F&B Foodservice.

Source: Singstat, Singapore Tourism Board, DBS Bank estimates

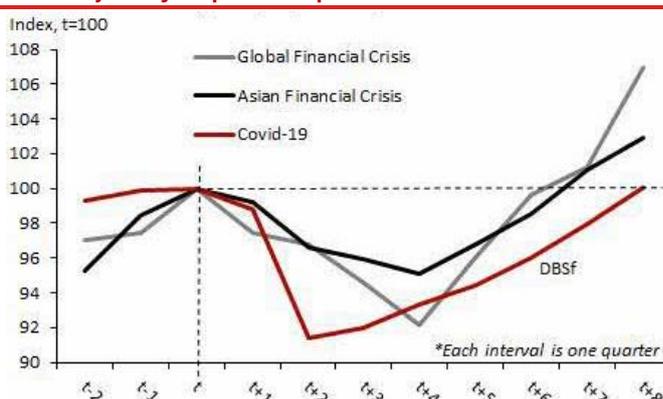
DBS growth forecast trajectory



Sequential recovery of economic activities assumed. Based on our economist’s forecast, Singapore’s GDP for 2020 will decline by 6.5% followed by a 5.5% growth for 2021. Singapore’s GDP recovery is likely to be gradual, with GDP growth back at pre-COVID-19 levels after 2021. Due to the Circuit Breaker, consumption in 2Q20 is anticipated to be the worst. However, as Singapore comes out of the Circuit Breaker, consumption demand is expected to improve.

Source: DBS Bank

GDP trajectory of past and present recessions



Hyped recovery in 2021 due to low base. 2021’s GDP recovery is projected to be exceptionally strong due to low-base effect in 2020. However, the economy is still expected to revert to pre-COVID-19 levels after six quarters from the bottom. Assuming 2Q20 is the worst, normalisation will occur only after 2021. For now, recovery is expected to be subdued with safe distancing measures remaining in place and tourist demand yet to return.

Source: DBS Bank

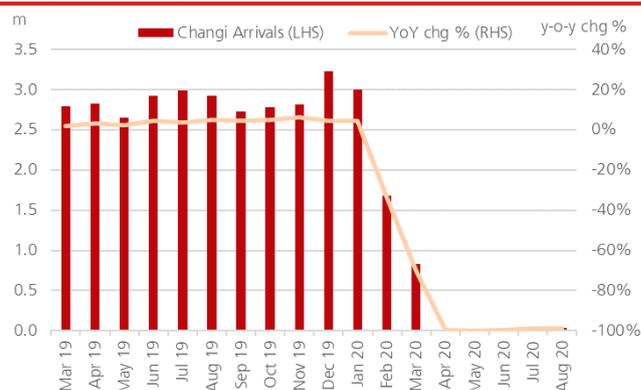
Tourist arrivals plunged from February and March



No visibility to tourist arrivals. Visitor arrivals to Singapore have declined sharply and there is low visibility for mass travel recovery currently. While there are resummptions of flights, Terminals 2 and 4, and some flight kitchens remain closed. For now, even though there is some progress made to facilitate business travel and airlines are resuming flights, we believe passenger throughput at Changi will remain muted as long as discretionary mass travel does not return. Signs of recovery will include resumption of the closed facilities.

Source: Singstat, DBS Bank

Changi’s passenger arrivals dived completely from April



F&B outlets that rely heavily on tourists have suffered. Some of the F&B demand is tied to tourists. For instance, Jumbo has a significant number of tourist diners at its Seafood restaurants, while Koufu enjoys substantial tourist footfall at its key foodcourt located at MBS. An increase in mass travel and tourism is required for such segments to recover. Non-residents’ expenditure locally as a percentage of GDP is around 15%.

Source: Singstat, DBS Bank

F&B Foodservice recovery scenarios in 2020



Margins are thin, little room for error. We forecast the F&B Foodservice industry’s net profit margins to be at around 5%. With relatively fixed operating costs like rental and staff expenses at close to 50% of revenue, the sector can only withstand a revenue decline of 10% (based on our simulated estimates) to still achieve breakeven. Beyond this, F&B Foodservice companies would need to cut their operating costs to remain profitable or consolidation will be on the cards.

Source: CEIC, DBS Bank estimates

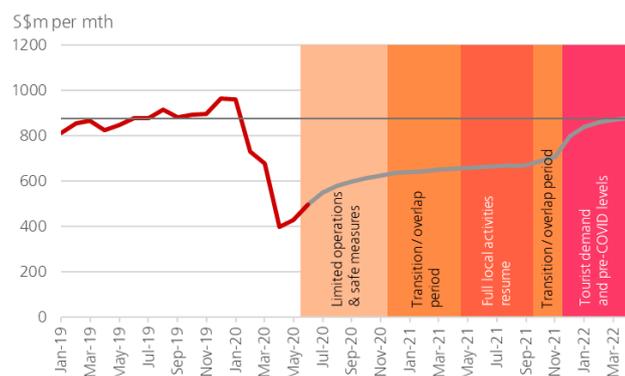
Assumptions to F&B Foodservice recovery scenarios

F&B scenario		Best	Better	Weak	Worst
Actual chg y-o-y	Jan	9%	9%	9%	9%
	Feb	-17%	-17%	-17%	-17%
	Mar	-24%	-24%	-24%	-24%
	Apr	-53%	-53%	-53%	-53%
	May	-50%	-50%	-50%	-50%
	Jun	-44%	-44%	-44%	-44%
	Jul	-25%	-25%	-25%	-25%
	Aug	-29%	-29%	-29%	-29%
Assumed chg y-o-y	Sep	-10%	-15%	-20%	-30%
	Oct	-2%	-10%	-18%	-28%
	Nov	0%	-8%	-16%	-25%
	Dec	0%	-7%	-15%	-22%
2020 chg y-o-y %		-20%	-23%	-25%	-28%

Detailed assumptions for four scenarios. The actual numbers from January to June reflect the percentage changes in F&B retail sales on a y-o-y basis. We derive a four-case scenario chart showing the possible revenue recovery paths. The industry’s revenue growth will likely be between -20% and -28% y-o-y, from our best- to worst-case assumptions. F&B businesses whose revenues track in line with the industry will have a chance of registering a revenue change within this range.

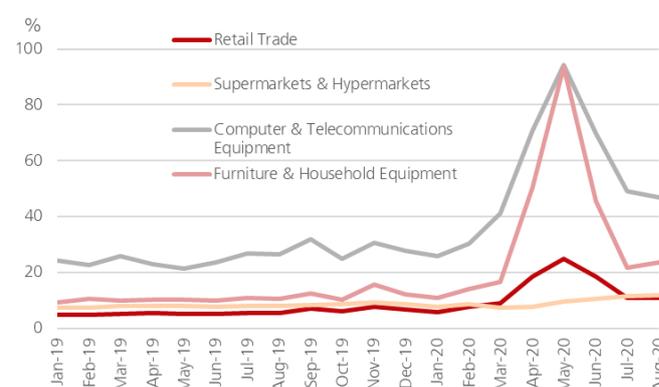
Source: Singstat, DBS Bank

Assumed recovery scenario of F&B Foodservice retail sales Online sales as % of respective sales categories up in April



Subdued demand for F&B Foodservice. Until a vaccine is found, we expect limited operations and safe measures to be in place. These include workforce staying home, limited operations including capacity, operating hours, absence of mass events/gatherings. Impact to businesses include lower capacity, transactions, table turns, footfall, higher costs to ensure hygiene, shorter operating hours, loss of tourist demand, more takeouts and online orders.

Source: Singstat, DBS Bank estimates



Demand shifting more to home-based consumers. F&B outlets that are exposed to the low- to mid-end segment especially in heartlands continue to expand as part of the workforce continues to work from home, while those exposed to tourists are seen not to expand or are scaling down operations. Opportunities now lie in local demand and in the low- to mid-range segment. Multi-segment F&B outlets are also focusing more on lower-end demand.

Source: Singstat, DBS Bank

New norm

	New norm	Observation and response from F&B Foodservice players	Implications to F&B businesses
1	Lower transactions	<p>Reduced non-essential business and non-business dining</p> <p>Shorter operating hours</p> <p>Reduced capacity due to safe distancing</p> <p>Lower footfall due to safe measures (e.g. maximum of five pax for dining)</p> <p>Loss of tourists</p> <p>With entertainment still prohibited, pubs and bars remain affected</p>	<p>Run rate during Circuit Breaker was as low as 20% for higher-end and/or tourist-dependent outlets and 50-60% for low- to mid-range foodservice segment outlets.</p> <p>Anticipate new normal footfall to be between 50% and 80%. Margins are thin (net 5%), with little room to be profitable. Costs have to normalise if footfall slips.</p>
2	Delivery and takeouts	<p>Increasing delivery and takeouts</p> <p>Difficult to operate pure delivery model profitably due to commission rates charged by online platforms</p>	<p>Mid-range F&B online sales is in the sweet spot, with higher-end F&B being more social and communal and low-end F&B outlets readily accessible by consumers especially in the heartlands.</p>
3	Lower margin outlook	<p>Higher costs for additional food safety measures in place</p> <p>Lower-than-expected sales</p> <p>Lower online sales margins</p>	<p>Online orders used to complement outlets' spare capacity for incremental revenue. Profitability for pure online is challenging with outlet sales decline.</p>
4	More targeted growth strategies	<p>Higher-end segment consolidating, expanding lower-end outlets</p> <p>Menu changes to accommodate lower-priced online items</p> <p>Expansion intact with some delays</p> <p>Cloud kitchen and online-related strategies are ongoing</p> <p>More online promotions and deals</p>	<p>Shift in demand from higher-end to mid-lower end dining sees corresponding consolidation strategy shifts.</p> <p>High-end F&B could consolidate if demand remains sluggish permanently.</p>
5	Recovery expectations	<p>Will take time as low- to mid-end segment is expected to lead recovery.</p> <p>Need tourists, large-scale events, workforce back at offices, resumption of entertainment dining aid demand recovery for F&B</p>	<p>Businesses are generally cautious on outlook and recovery. While there is some improvement, normalisation will take time.</p>
6	Technology and Sourcing	No changes	<p>Productivity enhancements still ongoing.</p> <p>Generally no changes to how food is sourced.</p>

Source: MOH, MOF, gov.sg, DBS Bank

Jumbo Group (JUMBO SP EQUITY, S\$0.315; FULLY VALUED, Target Price : S\$ 0.21)

Forecasts and Valuation

FY Sep (\$m)	2019A	2020F	2021F	2022F
Revenue	154	96.9	136	177
EBITDA	19.6	3.56	16.3	22.6
Pre-tax Profit	14.0	(4.3)	9.14	15.5
Net Profit	11.7	(3.5)	7.43	12.6
Net Pft (Pre Ex.)	12.2	(2.6)	7.43	12.6
EPS (S cts)	1.82	(0.5)	1.16	1.96
EPS Pre Ex. (S cts)	1.91	(0.4)	1.16	1.96
EPS Gth (%)	6	nm	nm	69
EPS Gth Pre Ex (%)	13	nm	nm	69
Diluted EPS (S cts)	1.82	(0.5)	1.16	1.96
Net DPS (S cts)	1.20	0.0	0.58	0.98
BV Per Share (S cts)	10.7	8.97	10.1	11.5
PE (X)	17.3	nm	27.1	16.1
PE Pre Ex. (X)	16.5	nm	27.1	16.1
P/Cash Flow (X)	13.8	nm	9.1	11.1
EV/EBITDA (X)	8.1	49.6	9.6	6.4
Net Div Yield (%)	3.8	0.0	1.8	3.1
P/Book Value (X)	2.9	3.5	3.1	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.4	(5.5)	12.1	18.1
Earnings Rev (%)		0	0	0
Consensus EPS (S cts):		(0.2)	1.30	2.00

Income Statement (\$m)

FY Sep	2019A	2020F	2021F	2022F
Revenue	154	96.9	136	177
Cost of Goods Sold	(55.7)	(36.3)	(51.0)	(66.3)
Gross Profit	97.9	60.5	85.4	111
Other Opng (Exp)/Inc	(83.8)	(69.6)	(78.0)	(95.6)
Operating Profit	14.1	(9.1)	7.41	15.3
Other Non Opng (Exp)/Inc	0.85	6.32	2.50	1.00
Associates & JV Inc	(0.8)	(0.3)	(0.3)	(0.3)
Net Interest (Exp)/Inc	0.34	(0.4)	(0.5)	(0.6)
Exceptional Gain/(Loss)	(0.6)	(0.9)	0.0	0.0
Pre-tax Profit	14.0	(4.3)	9.14	15.5
Tax	(3.1)	0.95	(2.0)	(3.4)
Minority Interest	0.81	(0.2)	0.32	0.54
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	11.7	(3.5)	7.43	12.6
Net Profit before Except.	12.2	(2.6)	7.43	12.6
EBITDA	19.6	3.56	16.3	22.6
Sales Gth (%)	0.0	(37.0)	40.8	29.9
EBITDA Gth (%)	8.6	(81.8)	356.3	39.2
Opg Profit Gth (%)	11.8	(164.4)	(181.4)	106.3
Net Profit Gth (%)	5.9	N/A	N/A	69.1
Effective Tax Rate (%)	22.2	N/A	22.2	22.2

Cash Flow Statement (\$m)

FY Sep	2019A	2020F	2021F	2022F
Pre-Tax Profit	14.0	(4.3)	9.14	15.5
Dep. & Amort.	5.44	15.8	15.8	15.8
Tax Paid	(3.1)	0.95	(2.0)	(3.4)
Assoc. & JV Inc/(loss)	0.82	0.25	0.25	0.25
Chq in Wkg.Cap.	(2.9)	(8.2)	8.24	(0.7)
Other Operating CF	0.36	(8.3)	(9.2)	(9.2)
Net Operating CF	14.6	(3.8)	22.2	18.2
Capital Exp.(net)	(6.1)	(6.3)	(2.0)	(2.0)
Other Invt.(net)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(0.6)	(0.7)	(0.5)	(0.5)
Div from Assoc & JV	0.38	0.0	0.0	0.0
Other Investing CF	(0.6)	0.0	0.0	0.0
Net Investing CF	(6.9)	(7.0)	(2.5)	(2.5)
Div Paid	(7.7)	(7.7)	0.0	(3.7)
Chg in Gross Debt	0.0	2.15	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0
Net Financing CF	(7.7)	(5.5)	0.0	(3.7)
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	0.0	(16.3)	19.7	12.0

General Data

Issued Capital (m shrs)	640
Mkt. Cap (\$m/US\$m)	202 /149
Major Shareholders (%)	
JBO Holdings Pte Ltd	45.6
Sim Chye Hock	10.0
Tan Gee Jian	6.6
Free Float (%)	37.8
3m Avg. Daily Val (US\$m)	0.05
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (\$m)

FY Sep	2019A	2020F	2021F	2022F
Net Fixed Assets	21.8	21.4	16.8	12.2
Invt in Associates & JVs	1.45	1.89	2.14	2.39
Other LT Assets	4.30	20.3	20.3	20.3
Cash & ST Invt	47.0	30.7	50.4	62.4
Inventory	1.71	1.89	2.66	3.45
Debtors	14.1	14.6	13.5	17.5
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	90.3	90.8	106	118
ST Debt	0.0	1.26	1.26	1.26
Creditor	13.5	5.97	13.8	18.0
Other Current Liab	4.52	14.4	14.4	14.4
LT Debt	0.0	0.89	0.89	0.89
Other LT Liabilities	0.37	7.34	7.34	7.34
Shareholder's Equity	68.7	57.5	64.9	73.8
Minority Interests	3.32	3.47	3.15	2.61
Total Cap. & Liab.	90.3	90.8	106	118
Non-Cash Wkg. Capital	(2.2)	(3.9)	(12.1)	(11.4)
Net Cash/(Debt)	47.0	28.6	48.3	60.3

Segmental Breakdown

FY Sep	2019A	2020F	2021F	2022F
Revenues (\$m)				
Singapore	126	78.6	104	135
PRC	27.2	18.2	32.7	42.5
Total	154	96.9	136	177

Source: Company, DBS Bank

Koufu Group Ltd (KOUFU SP EQUITY, S\$0.655; BUY, Target Price : S\$ 0.77)

Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	238	197	241	246
EBITDA	118	99.7	114	115
Pre-tax Profit	34.0	18.0	30.5	31.3
Net Profit	27.7	15.1	25.0	25.7
Net Pft (Pre Ex.)	31.3	15.5	25.0	25.7
EPS (S cts)	4.99	2.73	4.50	4.62
EPS Pre Ex. (S cts)	5.63	2.79	4.50	4.62
EPS Gth (%)	5	(45)	65	3
EPS Gth Pre Ex (%)	13	(50)	61	3
Diluted EPS (S cts)	4.99	2.73	4.50	4.62
Net DPS (S cts)	2.50	1.00	1.80	2.31
BV Per Share (S cts)	18.4	20.2	22.9	25.2
PE (X)	13.2	24.2	14.7	14.3
PE Pre Ex. (X)	11.7	23.6	14.7	14.3
P/Cash Flow (X)	3.3	5.5	3.3	3.3
EV/EBITDA (X)	2.4	2.5	1.5	0.7
Net Div Yield (%)	3.8	1.5	2.7	3.5
P/Book Value (X)	3.6	3.3	2.9	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	28.6	14.1	20.9	19.3
Earnings Rev (%)		0	0	0
Consensus EPS (S cts)		2.80	4.50	5.10

Income Statement (\$m)

FY Dec	2019A	2020F	2021F	2022F
Revenue	238	197	241	246
Cost of Goods Sold	(36.9)	(31.1)	(38.0)	(38.7)
Gross Profit	201	166	203	207
Other Opng (Exp)/Inc	(160)	(154)	(169)	(172)
Operating Profit	40.9	11.9	34.0	34.6
Other Non Opg (Exp)/Inc	0.0	11.0	0.0	0.0
Associates & JV Inc	0.22	0.0	0.90	0.83
Net Interest (Exp)/Inc	(3.6)	(4.5)	(4.4)	(4.1)
Exceptional Gain/(Loss)	(3.6)	(0.4)	0.0	0.0
Pre-tax Profit	34.0	18.0	30.5	31.3
Tax	(6.1)	(3.5)	(5.5)	(5.6)
Minority Interest	(0.1)	0.62	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	27.7	15.1	25.0	25.7
Net Profit before Except.	31.3	15.5	25.0	25.7
EBITDA	118	99.7	114	115
Sales Gth (%)	6.1	(17.0)	22.3	2.0
EBITDA Gth (%)	175.2	(15.3)	14.2	1.3
Opg Profit Gth (%)	34.8	(70.9)	185.1	1.8
Net Profit Gth (%)	13.3	(45.3)	65.0	2.7
Effective Tax Rate (%)	18.0	19.4	18.0	18.0

Cash Flow Statement (\$m)

FY Dec	2019A	2020F	2021F	2022F
Pre-Tax Profit	34.0	18.0	30.5	31.3
Dep. & Amort.	76.6	76.8	79.0	79.9
Tax Paid	(6.1)	(3.5)	(5.5)	(5.6)
Assoc. & JV Inc/(loss)	(0.2)	0.0	(0.9)	(0.8)
Chq in Wkq.Cap.	0.88	(24.2)	8.03	7.27
Other Operating CF	4.98	0.0	0.0	0.0
Net Operating CF	110	67.1	111	112
Capital Exp.(net)	(26.4)	(34.0)	(25.3)	(8.5)
Other Invt.(net)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.22	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	32.3	0.0	0.0	0.0
Net Investing CF	6.09	(34.0)	(25.3)	(8.5)
Div Paid	(12.2)	(5.5)	(10.0)	(12.8)
Chg in Gross Debt	(0.5)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0
Other Financing CF	(74.0)	0.0	0.0	0.0
Net Financing CF	(86.8)	(5.5)	(10.0)	(12.8)
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	29.4	27.5	75.8	90.7

General Data

Issued Capital (m shrs)	555
Mkt. Cap (\$m/US\$m)	366 / 267
Major Shareholders (%)	
Jun Yuan Holdings	77.2
Free Float (%)	22.8
3m Avg. Daily Val (US\$m)	0.24
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (\$m)

FY Dec	2019A	2020F	2021F	2022F
Net Fixed Assets	210	167	113	42.1
Invt in Associates & JVs	0.0	0.0	0.90	1.73
Other LT Assets	32.5	40.7	45.6	45.6
Cash & ST Invt	95.0	123	198	289
Inventory	1.44	1.36	1.67	1.70
Debtors	9.96	21.6	16.5	10.1
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	349	353	377	390
ST Debt	0.61	0.61	0.61	0.61
Creditor	41.2	36.7	44.9	45.8
Other Current Liab	70.8	70.8	70.8	70.8
LT Debt	4.11	4.11	4.11	4.11
Other LT Liabilities	129	129	129	129
Shareholder's Equity	102	112	127	140
Minority Interests	0.73	0.11	0.11	0.11
Total Cap. & Liab.	349	353	377	390
Non-Cash Wkg. Capital	(101)	(84.5)	(97.5)	(105)
Net Cash/(Debt)	90.3	118	194	284

Segmental Breakdown

FY Dec	2019A	2020F	2021F	2022F
Revenues (\$m)				
Outlet and mall	120	104	115	117
F&B retail business	117	93.4	127	129
Others	N/A	N/A	N/A	N/A
Total	238	197	241	246
Operating profit (\$m)				
Outlet and mall	18.4	10.4	14.9	15.2
F&B retail business	25.9	16.8	24.0	24.5
Others	(3.7)	(15.3)	(5.0)	(5.1)
Total	40.6	11.9	34.0	34.6
Operating profit Margins (%)				
Outlet and mall	15.3	10.0	13.0	13.0
F&B retail business	22.1	18.0	19.0	19.0
Others	N/A	N/A	N/A	N/A
Total	17.1	6.0	14.1	14.1

Source: Company, DBS Bank

Catering & Restaurants : Thailand

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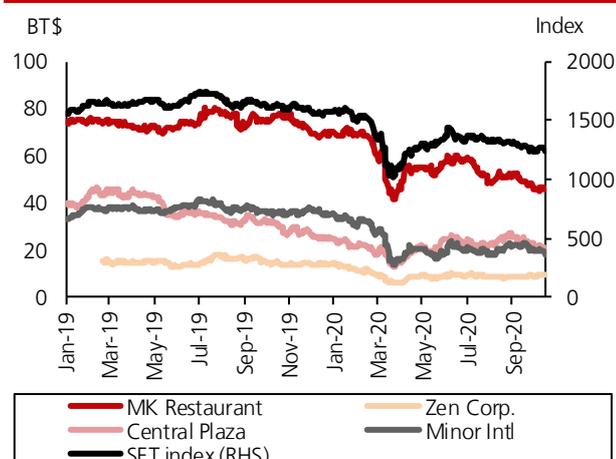
Recommendation and Valuation

Company Name	Price Local\$	Target Price Local\$	Recom	Mkt Cap US\$m	PE 21F x
Minor International* (MINT TB)	18.70	21.00	HOLD	3,105	n.a.
Central Plaza Hotel* (CENTEL TB)	20.50	23.50	FV	887	52.3
Mk Restaurant Group (M TB)	45.50	n.a.	NR	1,343	19.9
Zen Corporation (ZEN TB)	9.40	n.a.	NR	90	n.a.

Source: *DBSVTH, Thomson Reuters

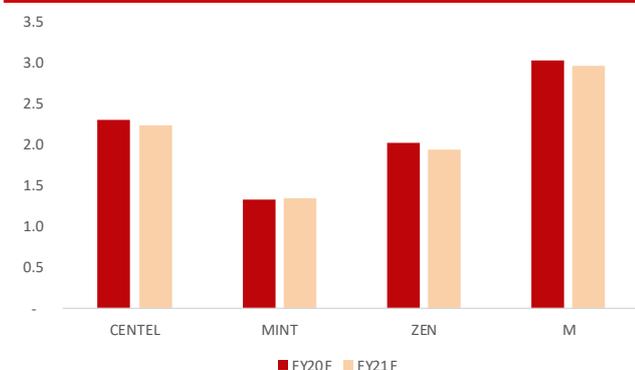
Closing price as at 15 Oct 2020

Share price performance vs. STI index



Source: Thomson Reuters, DBS Bank

Thailand: P/B valuation



Source: DBSVTH, Bloomberg Finance L.P., DBSVTH

The recovery is in the price

- Trough is reached but cloud over local economy remains
- Negatives seen in 2Q20 but things will improve
- Keep FULLY VALUED call for CENTEL and HOLD for MINT

Economy took a tumble in 1H20. Thailand's GDP suffered the steepest contraction of 12% since the Asian Financial Crisis in 1998, no thanks to the full city lockdowns during April and the first half of May, as well as the international travel ban. While overall restaurant sales maintained its growth in January and February 2020, y-o-y sales contraction was seen from March 2020. Similar to the Thai economy, restaurant sales hit the bottom in April 2020 (-24.7% y-o-y) before showing some improvement by declining at a slower 11% y-o-y in May 2020 on the back of the reopening of dine-in services of restaurants and malls from mid-May 2020.

Listed F&B service operators stayed in the red in 2Q20: Although delivery sales have surged from the change in consumer behaviour during the lockdown period, especially for QSR brands like The Pizza Company (MINT) and KFC (CENTEL), this was not able to compensate for the impact of the closure of dine-in services that dragged some players into the red. We note that the revenue contribution from delivery channels was less than 10-15% in the pre-COVID-19 era. Nonetheless, we expect the performance of restaurants to improve q-o-q in upcoming quarters.

However, in the wake of the COVID-19 pandemic, operators have adapted to ensure their survival by focusing more on delivery services and cost-saving initiatives. Post COVID-19, we expect delivery services to remain a priority for operators, which will also strive for better operating efficiency (especially labour).

Recovery baked in share price but restaurants still lag behind SET Index's rebound. Compared to the SET Index, the overall share price of restaurant operators still underperformed by declining 32% YTD (vs. a 20% decline of SET Index) given the negative earnings sentiment in 2Q20 that saw all operators post losses. Among the key listed food operators, CENTEL's share price performed the best by decreasing 14% YTD due to the strong recovery of its food business and rumours of a local KFC deal, while MINT delivered the weakest share price performance (-45.8% YTD). At the moment, we have a FULLY VALUED call for CENTEL and a HOLD call for MINT, as we believe that the market has priced in the solid recovery of their food business – even though we are still concerned about the recovery of their hotel business.

Thailand: I) The Macro Picture

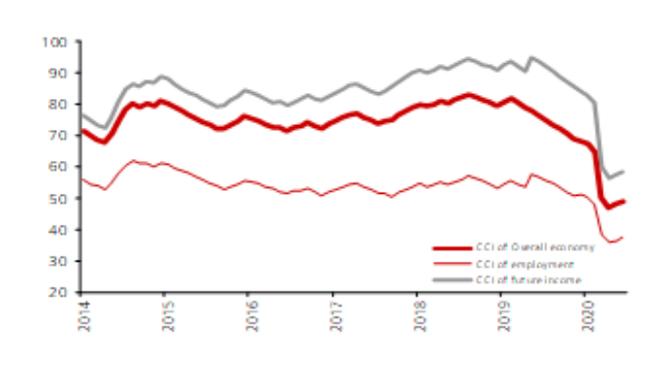
Thailand: GDP forecast and breakdown

(% y-o-y)	2019	2020F		2021F	
		Jun-20	Sep-20	Jun-20	Sep-20
GDP Growth	2.4	-8.1	-7.8	5.0	3.6
Private consumption	4.5	-3.6	-3.5	2.5	2.0
Private investment	2.8	-13.0	-11.4	5.6	4.2
Government consumption	1.4	3.8	3.4	3.1	5.1
Public investment	0.2	5.8	8.8	14.1	11.4
Exports of goods & services	-2.6	-22.7	-21.2	8.4	4.3
Imports of goods & services	-4.4	-18.9	-16.6	7.3	4.4
Current Account (US\$bn)	37.9	15.5	14.0	20.2	14.6
Value of merchandise exports	-3.2	-10.3	-8.2	4.5	4.5
Value of merchandise imports	-5.4	-16.2	-13.7	4.1	4.4
Headline inflation	0.7	-1.7	-0.9	0.9	1.0
Core inflation	0.5	0.0	0.3	0.1	0.2
Assumptions					
Number of tourists arrivals (m)	39.8	8.0	6.7	16.2	9.0
Dubai oil price (US\$/barrel)	63.5	35.1	41.5	37.0	45.8

In June 2020, The Bank of Thailand (BOT) cut its GDP growth forecast for 2020 to -8.1% from -5.3% forecasted earlier. The Thai economy would contract more than previously assessed due to the COVID-19 pandemic, especially in the areas of exports, tourist arrivals, private investment, and private consumption. However, in September 2020, BOT raised its GDP growth forecast to -7.8% on the back of more positive view on the recovery of Thailand and the World economy.

Source: BOT, DBSVTH

Thailand: Consumer Confidence Index (CCI)



Thailand's CCI declined from 82.0 in March 2019 (during the general election) and hit the lowest point of 47.2 in April 2020, which is the all-time low in the past 21 years and seven months – due to macro uncertainties and the COVID-19 outbreak. However, all malls and retail stores were allowed to reopen from 17 May 2020 and as the domestic COVID-19 situation showed some recovery, the CCI has improved m-o-m since then and stayed at 50.1 in May 2020.

Source: University of the Thai Chamber of Commerce

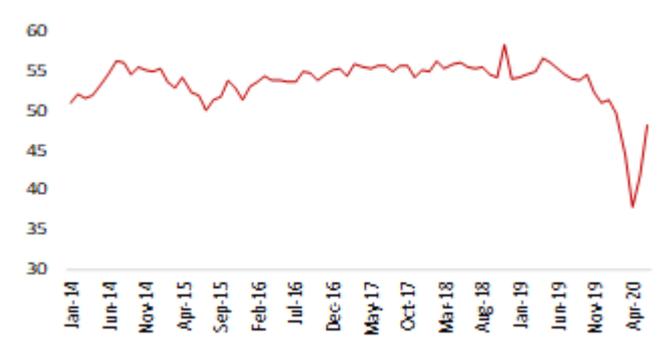
Thailand: Bloomberg consensus for quarterly GDP growth



Thailand's GDP tumbled 12.2% y-o-y in 2Q20, mainly due to the COVID-19 lockdown since late March until mid-May for most businesses, and to June for some. This has resulted in suspension of business activities for about half a quarter. The GDP for 2Q20, however, should have marked the bottom but the recovery will be slow, on the back of weak tourism and consumer demand.

Source: Bloomberg Finance L.P., BOT, DBSVTH

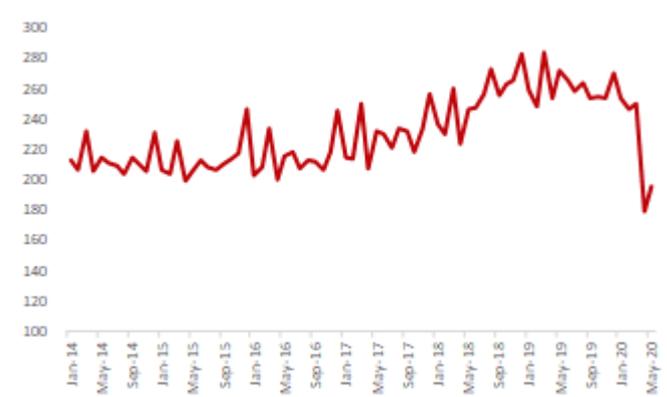
Thailand: Business Sentiment Index



Meanwhile, Thailand's Business Sentiment Index has shown a trend that is similar to the other leading indicators. The index hit the lowest point of 37.8 (-33.3% y-o-y) as a result of the suspension of some businesses and activities during the city lockdown period. Nonetheless, the index enjoyed a V-shaped recovery after the reopening of businesses from May 2020.

Source: BOT

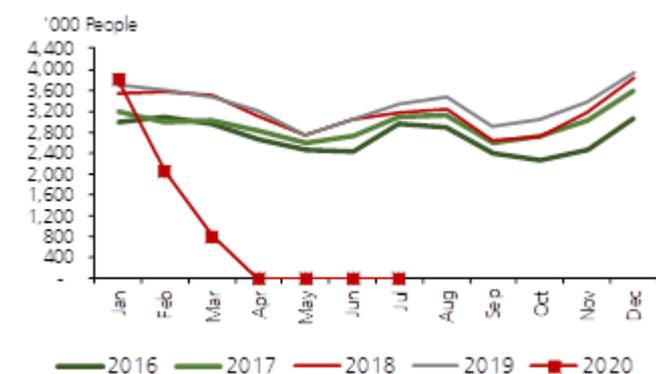
Thailand: Monthly Retail Sales Index



No thanks to the COVID-19 pandemic, retail sales contracted 14.6% in 5M20. Retail sales in February 2020 showed the smallest contraction by declining 0.9% y-o-y, supported by the growth in non-durable goods (+4.5% y-o-y) – especially pharmaceutical and medical goods (+20.0% y-o-y) and tobacco products (+11.4% y-o-y). The Retail Sales Index hit the lowest point in April 2020 by plunging 29.4% y-o-y following the full-month city lockdown. In May 2020, this improved slightly with a y-o-y contraction of 27.9% as the Thai government started to ease the lockdown measures (phase by phase) from May 2020.

Source: BOT, DBSVTH

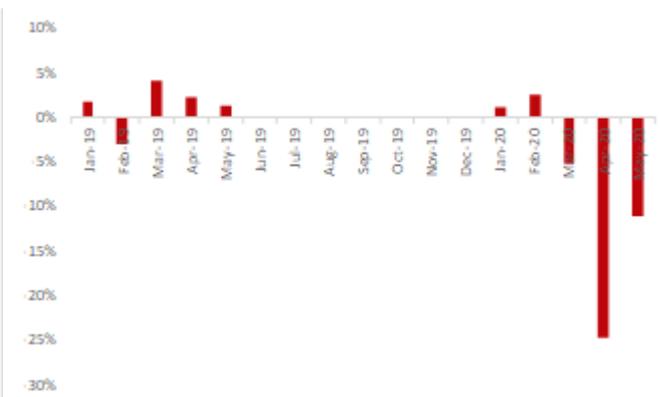
Thailand: International tourist arrivals



The tourism sector is one of the key sectors for Thailand that was adversely hit by the COVID-19 pandemic and weighed down Thailand's GDP this year. In 7M20, total international tourist arrivals to Thailand dropped by 71% y-o-y to 6.7m in the wake of the government's ban on international travel since 25 March 2020. We note that from 3 July 2020, the government has allowed some foreigners to enter Thailand with specific conditions.

Source: Ministry of Tourism & Sports

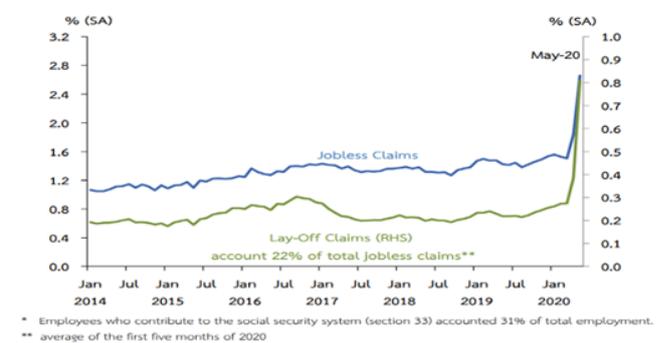
Thailand: Retail sales of food in restaurants (y-o-y growth)



Restaurants maintained their positive y-o-y sales growth in January and February 2020, with the local COVID-19 situation still under control and the government yet to impose a ban on international tourist arrivals then. However, the government subsequently imposed city lockdowns (that led to the closure of dine-in services of restaurants and malls) on 22 March 2020, and this weighed on restaurant sales from March-May 2020. Similar to total retail sales, restaurant sales hit the bottom in April 2020 with sales dropping 24.7% y-o-y before showing some improvements by declining 11% y-o-y in May 2020 after the reopening of dine-in services of restaurants and malls from mid-May 2020.

Source: BOT, DBSVTH

Thailand: Ratio of jobless claims to total contributors



* Employees who contribute to the social security system (Section 33) accounted 31% of total employment.
 ** average of the first five months of 2020

According to data from the BOT, the labour market seems more vulnerable as the social security system showed an increase in the ratio of jobless claims to the total social security system contributors by >100% compared to the normal levels.

Source: BOT, DBSVTH

Relief measures announced by the government

Phase 1 measures announced on 10 March 2020		
Relief measures for Thai		
1.	Cash handouts for medical staff	Bt1,500/person/shift for doctors Bt1,000 per person for nurses and others
2.	Relief expenses related to electricity usage	
3.	Reduced contribution to the Social Security Fund by employers and employees	Mor-33 from 9% to 5%, mor-39 from 9% to 7%
4.	State agencies and state enterprises will reduce service fees and rents	
5.	To build confidence in the capital market	Increased the cap on Super Saving Fund (SSF) to Bt400,000 from Bt200,000
Relief measures for SME		
1.	Low interest rate loans totalling Bt150bn	At 2% interest for a period of two years, not exceeding Bt20m per SME
2.	A moratorium on principal repayments	For members of SFls, interest cuts, delayed debt payments
3.	Bank of Thailand to help debtors affected by the virus impact	i.e. easing of debt-classification criteria
4.	The Social Security measures to promote employment	Soft loans with a total amount of Bt30bn, and interest rates starting from 3% per year for a period of three years for entrepreneurs registered with the SSO
5.	Increase liquidity to SMEs by reducing withholding tax	Reducing withholding tax from 3% to 1.5% from April-September 2020
6.	VAT refunds for exporters	Will be refunded within 15 days for online filing and 45 days for normal filing
7.	Increase efficiency for 2020 budget disbursement	Decrease steps and operating period
8.	Reduced interest payment burden	1.5x deduction of interest expenses for SMEs that take part in debt-restructuring programmes
9.	Relief expenses related to electricity usage	i.e. bill reductions or payment delays
10.	Reduced contribution to the Social Security Fund by employers and employees	Mor-33 from 9% to 5%, mor-39 from 9% to 7%
11.	To promote stable employment	3x deduction of expenses incurred by salary payments for SMEs which are members of the SSO
12.	State agencies and state enterprises will delay service fees and rents for entrepreneurs	
Phase 2 measures announced on 24 March 2020		
Relief measures for affected employees/freelancers that are not in the SSF		
1.	Bt5,000 handout per month for three months	For 3m workers not covered by Social Security Fund (SSF). Those under the SSF will get increased unemployment compensation to 50% of salaries.
2.	Bt10,000 emergency loan per person, with total budget of Bt40bn	At 0.1% per monthly interest, collateral not required
3.	Bt50,000 special loan per person, with total budget of Bt20bn	At 0.35% monthly interest, collateral required
4.	State-owned pawnshops charge a lower rate	Rate not exceeding 0.125% per month, with total budget of Bt2bn
5.	Extension of time for personal income tax filing	Extended to August 2020
6.	Health insurance premium deduction	Increased to Bt25,000 from Bt15,000
7.	Tax exemption on risk payments	For medical workers
8.	Provision of training for income earners	To improve skills
Relief measures for SME		
1.	Loans of up to Bt3m for SMEs	At 3% interest rate for the first two years, total budget of Bt10bn
2.	Extended time for corporate income tax filing	To August (por-ngor-dor 50) and September (pod-ngor-dor 51)
3.	Extended filing of other taxes for affected operators	Extended by one month
4.	Extended filing of excise tax by service businesses	Extended by three months
5.	Extended filing of excise tax for oil-related products	Extended to within the 15 th (from 10 th) of the following months for three months
6.	Exemption of import duty for products related to the	Exempted for six months
7.	Exemption of taxes and fee cuts for debt restructuring with non-financial institution creditors	i.e. personal loan, hire purchase, leasing, from 1 Jan to 31 Dec 2021

Phase 3 measures announced on 7 April 2020

1. Government to borrow Bt1tr through bond issuances
 - A total of Bt600bn will go towards implementing health-related plans and giving financial aid to affected individuals, including financial aids to farmers.
 - A total of Bt400bn will go to economic and social rehabilitation, aiming to create jobs, strengthen communities and build community infrastructure.
2. BOT to provide Bt500bn soft loans for the business sector, especially SMEs
 - BOT to provide Bt500bn soft loans for SMEs (with existing credit lines of under Bt500m) at a low interest rate of 2.0% p.a. A 6-month grace period for SMEs with existing credit lines of under Bt100m.
3. To stabilise the financial market with Bt400bn fund
 - Establishment of Bt400bn Corporate Bond Liquidity Stabilisation Fund (BSF). BOT can buy corporate bonds through the BSF to keep liquidity flowing.

Source: DBSVTH

Relief measures announced by BOT on 19 June 2020

1. Cutting maximum (ceiling) interest rate from 1 Aug 2020

Loan type	Current	New	Note
Credit card	18%	16%	For existing and new contracts
Personal loan			
Revolving loan	28%	25%	For existing and new contracts
Instalment loan	28%	25%	For new contracts
Auto-title loan	28%	24%	For new contracts

2. Credit line expansion for good debtors (from 1.5x to 2.0x salary)

Good debtors with salaries or income of lower than Bt30k/month will be eligible for a temporary expansion of credit card and personal loans (revolving loans and instalment loans) of up to 2.0x their salaries (from 1.5x) over the period of 1 August 2020 - 31 December 2021.

3. Guidance for preemptive loan restructuring (for non-NPL debtors only)

Similar to Phase I measures, BOT provides the minimum guidance for financial providers to help their respective clients. These programmes are opt-in (not automatic); as such, participants' registration (1 Jul - 31 Dec 2020) is required. As these programmes are considered pre-emptive, those participants will retain their normal credit status on the National Credit Bureau (NCB).

Source: BOT

Domestic tourism boosting scheme from government to kick off from July 2020

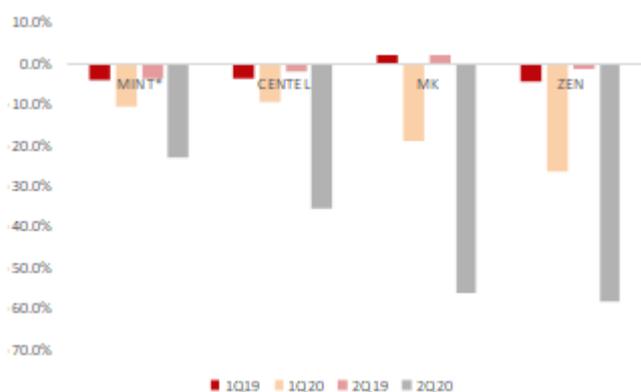
The cabinet approved a domestic tourism package worth Bt22.4bn for the period of July 2020 - October 2020 to stimulate the tourism sector that was severely hit by the COVID-19 pandemic. The three packages approved are:

1. The Kam Lung Jai package with a total budget of Bt2.4bn, which offers a subsidy not exceeding Bt2,000 for domestic travelling (for trips involving at least two days and one night) to medical personnel and health volunteers, as well as the general public.
2. The Tiew Pan Suk package with a total budget of Bt2bn, which offers a subsidy of 40% (not exceeding Bt1,000) for domestic travelling via domestic flights, bus and car rental services.
3. The Rao Pai Tiew Kan package with a total budget of Bt18bn, which offers accommodation subsidies amounting to Bt5m nights under a co-pay scheme. The government will subsidise 40% of the room rate (not exceeding Bt3,000 per night) and also provide an additional subsidy of Bt600-900 for leisure and food expenses per night per room.

Source: DBSVTH

Thailand: II) Company Performance

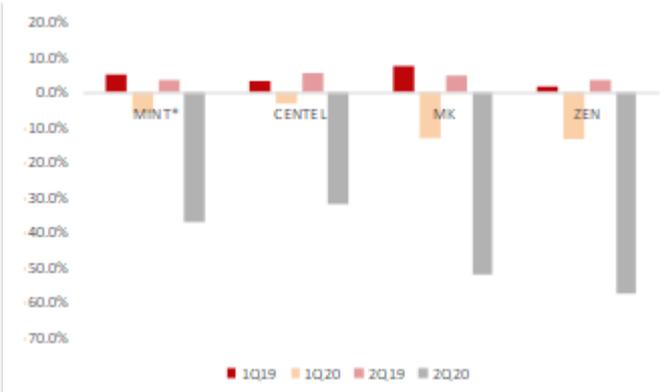
Thailand: Key players' SSSG



The SSSG of Thai-listed F&B service operators tumbled in 2Q20, mainly arising from mall closures in April until the first half of May. We note that M (MK) and ZEN suffered a steeper decline in performance, as their main F&B services mostly rely on dine-in services and were not suitable for delivery channels (i.e. Japanese restaurants, family restaurants, etc.). However, the traffic in most restaurants is showing strong improvements post reopening and is now at c.70-80% of the normal traffic levels.

Source: Company, DBSVTH

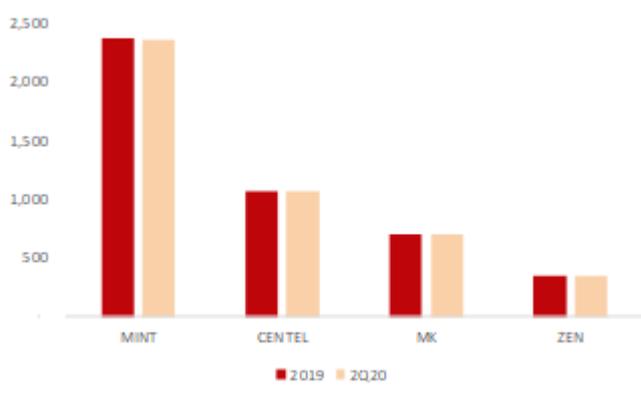
Thailand: Key players' TSSG



The TSSG of Thai-listed restaurants showed a similar trend with SSSG but with a smaller magnitude of decline, as the impact of COVID-19 was partially offset by store expansion between quarters.

Source: Company, DBSVTH

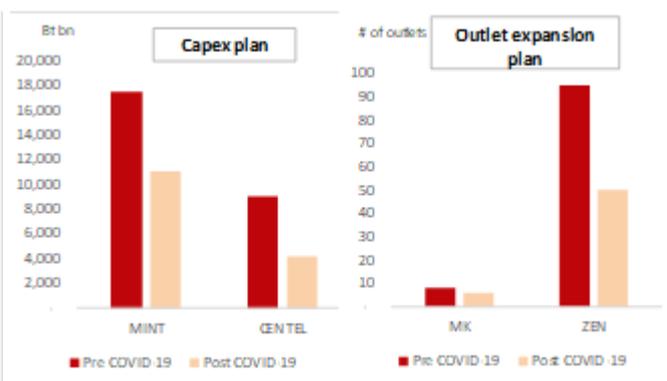
Thailand: Key players' no. of outlets



Most of the F&B companies opened new outlets in 1H20 but they also closed some of their unprofitable stores. Hence, the net addition of outlets was lower than 1% of the total outlets as at end-2019. We expect more stores to be rolled out in 2H20 though we gather that almost all companies have trimmed their 2020 expansion plans vs. their plans prior to COVID-19.

Source: Company, DBSVTH

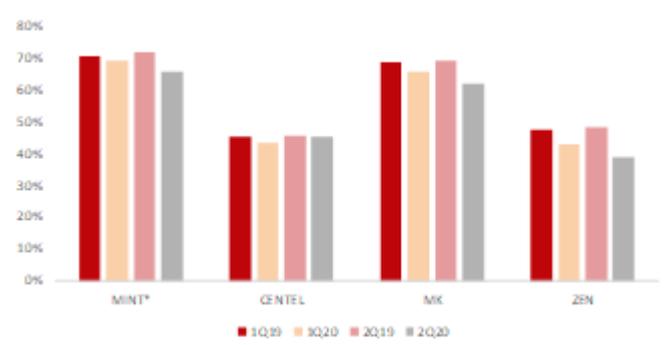
Thailand: Key players' capex



Both the capex and number of new outlets have been cut by >50% for most F&B companies. The capex for this year is likely to focus on committed capex and mandatory capex. On the other hand, they will continue to monitor closely the expansion of their outlets in 2H20 (which could be tweaked depending on the situation).

Source: Company, DBSVTH

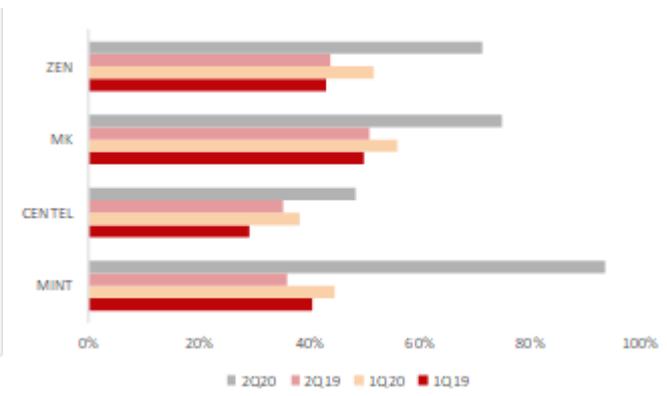
Thailand: Key players' gross margin



The gross margins of F&B companies have narrowed since 1Q20, further declining by 9ppts in 2Q20 mainly due to lower economies-of-scale benefits, lower margins for delivery channels and more promotions including discounts to boost sales during the period.

Source: Company, DBSVTH

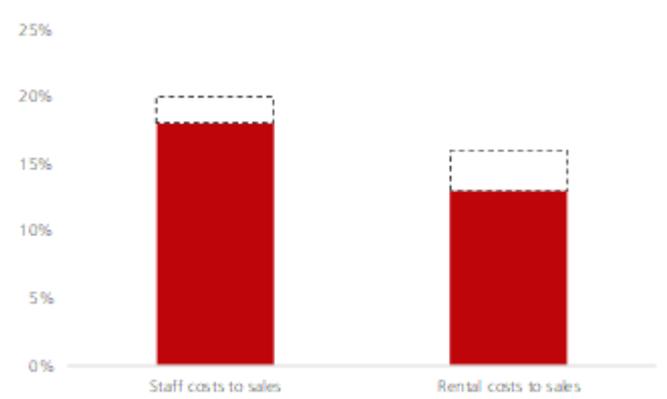
Thailand: Key players' SGA to sales



On the other hand, SGA-to-sales spiked significantly in 2Q20 due to lower sales that resulted in lower cost leverage. The key SGA expenses pertained to personnel, rental and depreciation costs.

Source: Company, DBSVTH

Thailand: Key players' key areas for cost cutting



Staff cost-to-sales ranged from high teens to 20% of total sales, while rental cost-to-sales fell in the range of low teens to mid-teens of total sales. Amid the COVID-19 pandemic, many companies have executed a slew of cost-cutting programmes, including the termination of temporary staff, offering leave without pay, requesting for rent waivers and negotiating rental discounts. Hence, the above ratios post COVID-19 did not show any significant changes vs. the pre-COVID-19 levels. Moving forward, we expect F&B companies to ramp up the efficiency of their workforce as most companies do not plan to rehire all their staff. We also expect their rental discounts to continue in 2H20 but the discounts will be much lower than those received in 2Q20 (i.e. up to 50% for outlets that remained open).

Source: Company, DBSVTH

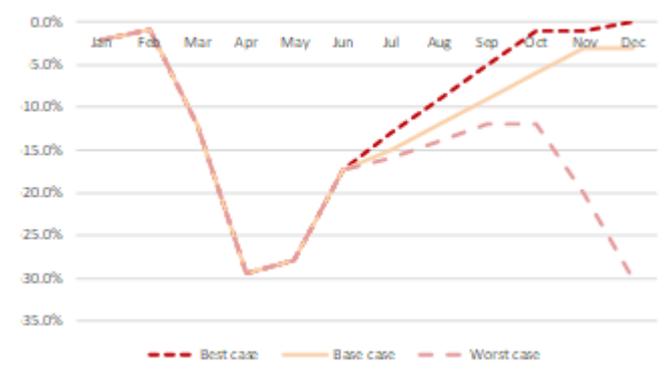
Thailand: Net gearing ratio



The adoption of the TFRS16 accounting standard in January 2020 has significantly affected the net gearing ratios of all F&B services operators. However, after stripping out the impact of TFRS16, we note that the net gearing for MINT and CENTEL has merely inched up and this was mainly due to the losses generated by their hotel business. In comparison, M and ZEN's balance sheets remain strong with a net cash position.

Source: Company, DBSVTH

Thailand: Restaurant sales recovery scenarios in 2020



According to pre-COVID-19 data, the fixed costs to sales (the bulk of which are costs related to staff and fixed costs) ranged from c.35-50% while the net margin was c.4-14% (average of 8-9%) for the listed F&B service operators. Based on our calculation, most of the companies would still deliver a profit if their sales do not fall by more than 20%.

However, amid this COVID-19 situation, the companies have implemented several cost reduction plans to support their businesses. This has helped them to lessen the losses incurred in 2Q20 and even enabled some companies to record a profit (CENTEL's food business remained profitable despite a 32% drop in SSSG). We note that the F&B operators received rent discounts of c.30-50% in 2Q20, depending on their locations. At the moment, the rent discounts remain but are estimated to decline to c.10-30% after 2Q20.

Source: Company, DBSVTH

Thailand: Assumptions of sales recovery scenarios in 2020

	Best	Base	Worst
Actual (% chg y-o-y)			
Jan	-2.1%	-2.1%	-2.1%
Feb	-0.9%	-0.9%	-0.9%
Mar	-12.1%	-12.1%	-12.1%
Apr	-29.4%	-29.4%	-29.4%
May	-27.9%	-27.9%	-27.9%
Jun	-17.4%	-17.4%	-17.4%
Assumed (% chg y-o-y)			
Jul	-13.0%	-15.0%	-16%
Aug	-9.0%	-12.0%	-14%
Sep	-5.0%	-9.0%	-12%
Oct	-1.0%	-6.0%	-12%
Nov	-1.0%	-3.0%	-20%
Dec	0.0%	-3.0%	-30%
FY20F (%chg y-o-y)	-10.0%	-11.6%	-16.3%

The actual numbers from January-June reflect the percentage changes in F&B retail sales on a y-o-y basis where restaurant sales declined 15.1%. We derive a three-case scenario chart showing the possible revenue recovery paths. The industry's revenue growth will likely be between -10% and -16% y-o-y, from our best- to worst-case assumptions. In our worst-case scenario, we assumed the second wave of COVID-19 pandemic to break in from mid-November and lead to another city lockdown.

However, we believe that this is unlikely to happen given the good control of the pandemic in Thailand although the country will allow long-stay foreign tourists to enter the country from October. So far, most of the listed companies have showed their in-line revenue trend in base=case scenarios but ranging in different magnitudes depending on the type and nature of the restaurants along with the capability of the particular company.

Source: Company, DBSVTH

Central Plaza Hotel (CENTEL TB EQUITY; Bt20.50; FULLY VALUED, Target Price : Bt 23.50)

Forecasts and Valuation

FY Dec (Btm)	2019A	2020F	2021F	2022F
Revenue	20,737	13,652	18,719	23,968
EBITDA	3,464	1,147	2,758	4,827
Pre-tax Profit	2,070	(914)	686	2,782
Net Profit	1,744	(861)	529	2,212
Net Pft (Pre Ex.)	1,721	(861)	529	2,212
EPS (Bt)	1.29	(0.6)	0.39	1.64
EPS Pre Ex. (Bt)	1.27	(0.6)	0.39	1.64
EPS Gth (%)	(20)	nm	nm	318
EPS Gth Pre Ex (%)	(21)	nm	nm	318
Diluted EPS (Bt)	1.29	(0.6)	0.39	1.64
Net DPS (Bt)	0.52	0.0	0.16	0.66
BV Per Share (Bt)	10.1	8.96	9.36	10.8
PE (X)	15.9	nm	52.3	12.5
PE Pre Ex. (X)	16.1	nm	52.3	12.5
P/Cash Flow (X)	7.3	36.5	9.5	6.7
EV/EBITDA (X)	9.5	32.5	13.3	7.2
Net Div Yield (%)	2.6	0.0	0.8	3.2
P/Book Value (X)	2.0	2.3	2.2	1.9
Net Debt/Equity (X)	0.3	0.7	0.7	0.4
ROAE (%)	13.1	(6.7)	4.3	16.2
Earnings Rev (%):		0	0	N/A
Consensus EPS (Bt):		(0.7)	0.41	1.02

Income Statement (Btm)

FY Dec	2019A	2020F	2021F	2022F
Revenue	20,737	13,652	18,719	23,968
Cost of Goods Sold	(10,151)	(7,509)	(9,230)	(10,472)
Gross Profit	10,586	6,143	9,489	13,497
Other Opng (Exp)/Inc	(8,807)	(6,996)	(8,770)	(10,743)
Operating Profit	1,779	(852)	719	2,753
Other Non Opng (Exp)/Inc	452	0.0	0.0	0.0
Associates & JV Inc	29.4	191	195	199
Net Interest (Exp)/Inc	(214)	(252)	(228)	(170)
Exceptional Gain/(Loss)	23.4	0.0	0.0	0.0
Pre-tax Profit	2,070	(914)	686	2,782
Tax	(260)	119	(89.2)	(501)
Minority Interest	(64.9)	(66.2)	(67.6)	(68.9)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	1,744	(861)	529	2,212
Net Profit before Except.	1,721	(861)	529	2,212
EBITDA	3,464	1,147	2,758	4,827
Sales Gth (%)	(4.7)	(34.2)	37.1	28.0
EBITDA Gth (%)	(16.2)	(66.9)	140.5	75.0
Opg Profit Gth (%)	(38.3)	(147.9)	(184.4)	282.9
Net Profit Gth (%)	(19.9)	N/A	N/A	317.9
Effective Tax Rate (%)	12.6	N/A	13.0	18.0

Cash Flow Statement (Btm)

FY Dec	2019A	2020F	2021F	2022F
Pre-Tax Profit	2,070	(914)	686	2,782
Dep. & Amort.	1,203	1,808	1,844	1,875
Tax Paid	439	260	(119)	89.2
Assoc. & JV Inc/(loss)	(29.4)	(191)	(195)	(199)
Chg in Wkg.Cap.	45.8	(189)	527	35.4
Other Operating CF	70.9	(17.0)	157	(460)
Net Operating CF	3,799	758	2,900	4,123
Capital Exp.(net)	(1,964)	(4,279)	(2,406)	(2,206)
Other Invt.(net)	111	0.0	500	100
Invt in Assoc. & JV	8.57	(10.5)	(10.7)	(10.9)
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	(749)	(26.3)	(4.6)	(22.6)
Net Investing CF	(2,594)	(4,316)	(1,921)	(2,140)
Div Paid	(877)	(708)	0.0	(215)
Chg in Gross Debt	472	2,278	(985)	(2,308)
Capital Issues	0.0	0.0	0.0	0.0
Other Financing CF	(57.8)	26.2	26.5	477
Net Financing CF	(463)	1,597	(958)	(2,046)
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	742	(1,961)	20.3	(62.8)

General Data

Issued Capital (m shrs)	1,350
Mkt. Cap (Btm/US\$m)	27,675 / 887
Major Shareholders (%)	
Tiang Chirathivat Co Ltd	5.0
The Bank Of New York Mellon	3.8
Thai NVDR	3.0
Free Float (%)	46.6
3m Avg. Daily Val (US\$m)	4.1
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (Btm)

FY Dec	2019A	2020F	2021F	2022F
Net Fixed Assets	17,997	20,468	21,031	21,362
Invt in Associates & JVs	525	536	546	557
Other LT Assets	4,406	4,432	4,037	4,060
Cash & ST Invt	2,812	850	371	208
Inventory	871	645	792	899
Debtors	765	503	690	884
Other Current Assets	214	203	193	183
Total Assets	27,590	27,637	27,660	28,152
ST Debt	1,967	6,405	5,628	3,986
Creditor	2,649	1,959	2,408	2,732
Other Current Liab	514	516	518	520
LT Debt	5,698	3,539	3,331	2,665
Other LT Liabilities	2,618	2,645	2,671	3,148
Shareholder's Equity	13,670	12,101	12,631	14,628
Minority Interests	473	473	473	473
Total Cap. & Liab.	27,590	27,637	27,660	28,152
Non-Cash Wkg. Capital	(1,313)	(1,124)	(1,251)	(1,286)
Net Cash/(Debt)	(4,853)	(9,093)	(8,588)	(6,443)

Segmental Breakdown

FY Dec	2019A	2020F	2021F	2022F
Revenues (Btm)				
Revenue from hotel (Btm)	8,439	3,495	6,475	10,735
Revenue from food (Btm)	12,299	10,158	12,244	13,234
	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Total	20,737	13,652	18,719	23,968

Source: Company, DBSVTH

Minor International (MINT TB EQUITY, Bt18.70, HOLD, Target Price : Bt 21.00)

Forecasts and Valuation

FY Dec (Btm)	2019A	2020F	2021F	2022F
Revenue	118,961	66,197	100,343	121,937
EBITDA	22,363	1,731	10,922	19,730
Pre-tax Profit	12,789	(13,259)	(1,588)	7,647
Net Profit	10,698	(11,393)	(1,365)	5,986
Net Pft (Pre Ex.)	7,009	(11,393)	(1,365)	5,986
EPS (Bt)	1.93	(2.0)	(0.3)	1.08
EPS Pre Ex. (Bt)	1.26	(2.0)	(0.3)	1.08
EPS Gth (%)	93	nm	88	nm
EPS Gth Pre Ex (%)	19	nm	88	nm
Diluted EPS (Bt)	1.93	(2.0)	(0.3)	1.08
Net DPS (Bt)	0.0	0.0	0.0	0.32
BV Per Share (Bt)	16.3	15.9	15.3	16.1
PE (X)	9.7	nm	nm	17.3
PE Pre Ex. (X)	14.8	nm	nm	17.3
P/Cash Flow (X)	4.3	nm	35.7	3.7
EV/EBITDA (X)	9.5	122.9	20.5	10.9
Net Div Yield (%)	0.0	0.0	0.0	1.7
P/Book Value (X)	1.1	1.2	1.2	1.2
Net Debt/Equity (X)	1.2	1.0	1.2	1.0
ROAE (%)	14.5	(14.2)	(1.6)	6.9
Earnings Rev (%)		0	0	N/A
Consensus EPS (Bt):		(2.7)	0.01	0.80

Income Statement (Btm)

FY Dec	2019A	2020F	2021F	2022F
Revenue	118,961	66,197	100,343	121,937
Cost of Goods Sold	(65,194)	(44,002)	(56,877)	(64,824)
Gross Profit	53,767	22,195	43,465	57,113
Other Opng (Exp)/Inc	(41,414)	(30,648)	(40,690)	(46,310)
Operating Profit	12,353	(8,453)	2,776	10,803
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	828	613	1,036	1,659
Net Interest (Exp)/Inc	(4,081)	(5,420)	(5,401)	(4,816)
Exceptional Gain/(Loss)	3,689	0.0	0.0	0.0
Pre-tax Profit	12,789	(13,259)	(1,588)	7,647
Tax	(1,794)	1,326	159	(1,376)
Minority Interest	(296)	541	64.8	(284)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	10,698	(11,393)	(1,365)	5,986
Net Profit before Except.	7,009	(11,393)	(1,365)	5,986
EBITDA	22,363	1,731	10,922	19,730
Sales Gth (%)	58.7	(44.4)	51.6	21.5
EBITDA Gth (%)	38.4	(92.3)	531.0	80.7
Opg Profit Gth (%)	25.9	(168.4)	(132.8)	289.2
Net Profit Gth (%)	96.5	N/A	88.0	N/A
Effective Tax Rate (%)	14.0	N/A	N/A	18.0

Cash Flow Statement (Btm)

FY Dec	2019A	2020F	2021F	2022F
Pre-Tax Profit	12,788	(13,260)	(1,589)	7,646
Dep. & Amort.	9,181	9,570	7,109	7,267
Tax Paid	(1,374)	(1,794)	1,326	159
Assoc. & JV Inc/(loss)	(828)	(613)	(1,036)	(1,659)
Chg in Wkg.Cap.	(1,121)	(354)	(2,892)	15,016
Other Operating CF	5,300	4,274	(65.9)	(161)
Net Operating CF	23,947	(2,178)	2,852	28,269
Capital Exp.(net)	(13,611)	(12,901)	(17,901)	(17,901)
Other Invts.(net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	800	(127)	(130)	(132)
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	9,030	(6,717)	(3,622)	(3,638)
Net Investing CF	(3,781)	(19,745)	(21,652)	(21,672)
Div Paid	(1,848)	0.0	0.0	0.0
Chg in Gross Debt	(14,512)	11,644	(639)	(3,505)
Capital Issues	3.88	12,532	1,935	1,935
Other Financing CF	(3,240)	11,875	1,900	1,925
Net Financing CF	(19,595)	36,052	3,196	355
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	571	14,129	(15,605)	6,952

General Data

Issued Capital (m shrs)	5,182
Mkt. Cap (Btm/US\$m)	96,909 / 3,105
Major Shareholders (%)	
Minor Holding (Thai)	16.5
UBS AG Singapore Branch	11.9
William Ellwood Heinecke	8.6
Free Float (%)	50.9
3m Avg. Daily Val (US\$m)	43.2
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (Btm)

FY Dec	2019A	2020F	2021F	2022F
Net Fixed Assets	123,129	126,439	136,385	146,045
Invts in Associates & JVs	6,360	6,487	6,617	6,749
Other LT Assets	86,096	89,832	91,287	92,876
Cash & ST Invts	13,331	27,460	11,855	18,807
Inventory	4,139	4,975	6,431	7,329
Debtors	15,554	13,199	20,007	24,312
Other Current Assets	5,575	5,686	5,800	5,916
Total Assets	254,184	274,077	278,381	302,035
ST Debt	9,960	13,752	16,149	15,640
Creditor	20,036	18,083	23,374	43,512
Other Current Liab	5,596	5,708	5,822	5,938
LT Debt	102,386	110,239	107,202	104,206
Other LT Liabilities	30,338	30,945	31,564	32,195
Shareholder's Equity	75,461	84,737	83,443	89,501
Minority Interests	10,407	10,615	10,827	11,044
Total Cap. & Liab.	254,184	274,077	278,381	302,035
Non-Cash Wkg. Capital	(364)	69.4	3,042	(11,892)
Net Cash/(Debt)	(99,015)	(96,531)	(111,496)	(101,039)

Segmental Breakdown

FY Dec	2019A	2020F	2021F	2022F
Revenues (Btm)				
Hotel Business	85,489	37,308	66,864	85,411
Food & Beverage	22,666	17,848	20,852	22,240
Rental income	0.0	376	391	407
Residential Properties	5,889	3,189	3,826	4,049
Others	0.0	3,292	4,010	5,100
Total	118,961	66,197	100,343	121,937

Source: Company, DBSVTH

MK Restaurants Group PCL (M TB Equity, BT45.50, NOT RATED)

Forecast & Valuation

FY Dec (BTm)	2016A	2017A	2018A	2019A
Turnover	15,115	16,073	16,770	17,409
EBITDA	3,126	3,727	3,831	3,851
Pre-tax Profit	2,584	2,964	3,131	3,163
Net Profit	2,100	2,425	2,574	2,604
Net Pft (Pre Ex.)	2,100	2,425	2,574	2,604
EPS (IDR)	2.30	2.65	2.79	2.83
EPS Gth (%)	12.7	15.2	5.3	1.4
Diluted EPS (IDR)	2.28	2.63	2.79	2.83
DPS (IDR)	2.10	2.20	2.40	2.60
BV Per Share (IDR)	14.62	15.02	15.39	15.54
PE (X)	19.8	17.2	16.3	16.1
P/Cash Flow (X)	13.4	11.7	11.2	12.2
P/Free CF (X)	67.4	45.4	43.0	110.1
EV/EBITDA (X)	10.2	8.6	8.4	8.9
Net Div Yield (%)	4.6	4.8	5.3	5.7
P/Book Value (X)	3.1	3.0	3.0	2.9
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
ROAE (%)	15.9	17.8	18.4	18.3

Income Statement (BTm)

FY Dec	2016A	2017A	2018A	2019A
Turnover	15,115	16,073	16,770	17,409
Cost of Goods Sold	(4,952)	(5,174)	(5,295)	(5,483)
Gross Profit	10,163	10,899	11,475	11,926
Other Opg (Exp)/Inc	(7,901)	(8,027)	(8,463)	(8,853)
Operating Profit	2,262	2,872	3,012	3,074
Other Non Opg (Exp)/Inc	232	(0)	(1)	(1)
Associates & JV Inc	(20)	(22)	(1)	(41)
Net Interest (Exp)/Inc	110	113	121	132
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	2,584	2,964	3,131	3,163
Tax	(484)	(539)	(558)	(553)
Minority Interest	-	-	-	(7)
Preference Dividend	-	-	-	-
Net Profit	2,100	2,425	2,574	2,604
Net Profit before Except.	2,100	2,425	2,574	2,604
EBITDA	3,126	3,727	3,831	3,851
Turnover Gth (%)	4.4	6.3	4.3	3.8
EBITDA Gth (%)	11.8	19.2	2.8	1
Opg Profit Gth (%)	15.4	27.0	4.9	2.0
Net Profit Gth (%)	13.1	15.5	6.1	1.2

Cash Flow Statement (BTm)

FY Dec	2016A	2017A	2018A	2019A
Pre-Tax Profit	2,584	2,964	3,131	3,163
Dep. & Amort.	865	854	819	777
Tax Paid	(467)	(479)	(520)	(574)
Assoc. & JV Inc/(loss)	20	22	1	41
(Pft)/ Loss on disposal of FAs	4	3	100	6
Non-Cash Wkg. Cap.	40	226	279	127
Other Operating CF	44	(16)	(84)	(107)
Net Operating CF	3,090	3,575	3,727	3,434
Capital Exp. (net)	(654)	(644)	(542)	(659)
Other Invs. (net)	(584)	(837)	(13)	(74)
Invs. in Assoc. & JV	-	-	(647)	(224)
Div from Assoc. & JV	-	-	-	-
Other Investing CF	-	-	-	-
Net Investing CF	(1,238)	(1,481)	(1,201)	(957)
Div Paid	(1,820)	(2,013)	(2,210)	(2,394)
Chg in Gross Debt	-	-	-	-
Capital Issues	5	6	-	-
Other Financing CF	-	-	-	-
Net Financing CF	(1,816)	(2,007)	(2,210)	(2,394)
Chg in Cash	35	87	316	83
Opg CFPS (IDR)	3.39	3.90	4.05	3.73
Free CFPS (IDR)	0.67	1.00	1.06	0.41

Source: Bloomberg Finance L.P., Thomson Reuters, DBSV TH

General Data

At A Glance

Issued Capital (m shrs)	921
Mkt Cap (BT\$m/US\$m)	41,906 /1,343
Major Shareholders (%)	
Thirakomen (Yupin)	37.6
Hanjitkasem (Somchai)	16.0
Thirakomen (Rit)	13.4
Hanjitkasem (Amporn)	8.9
BBL Asset Management Co., Ltd.	5.1
Free Float (%)	18.9
3m Avg. Daily Val. (US\$m)	6.65
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (BTm)

FY Dec	2016A	2017A	2018A	2019A
Net Fixed Assets	4,545	4,279	3,987	3,975
Invs in Assocs & JVs	98	76	720	902
Other LT Assets	601	1,352	1,888	4,324
Cash & ST Invs	9,611	9,746	9,812	8,033
Inventory	324	350	329	358
Debtors	28	29	33	63
Other Current Assets	436	451	405	286
Total Assets	15,642	16,283	17,174	17,942
ST Debt	-	-	-	13
Creditors	410	471	615	520
Other Current Liab	1,531	1,638	1,897	1,934
LT Debt	-	-	-	39
Other LT Liabilities	324	345	486	810
Shareholder's Equity	13,377	13,829	14,176	14,306
Minority Interests	-	-	-	320
Total Cap. & Liab.	15,642	16,283	17,174	17,942
Non-Cash Wkg. Cap	(1,154)	(1,278)	(1,744)	(1,747)
Net Cash/(Debt)	9,611	9,746	9,812	7,982

Segmental Breakdown (BTm) / Key Assumptions

FY Dec	2016A	2017A	2018A	2019A
Revenues				
Foods	15,115	16,073	16,770	17,409
Beverages	-	-	-	-
Sales discount	-	-	-	-
Total	15,115	16,073	16,770	17,409

ZEN Corp PCL (ZEN TB Equity, BT9.40, NOT RATED)

Forecast & Valuation

FY Dec (BTm)	2016A	2017A	2018A	2019A
Turnover	2,158	2,425	2,853	3,027
EBITDA	293	298	366	318
Pre-tax Profit	111	102	173	128
Net Profit	90	82	140	106
Net Pft (Pre Ex.)	90	82	140	106
EPS (IDR)	n.a.	n.a.	0.86	0.36
EPS Gth (%)	n.a.	n.a.	n.a.	(58.1)
Diluted EPS (IDR)	n.a.	n.a.	0.86	0.36
DPS (IDR)				
BV Per Share (IDR)	n.a.	n.a.	2.08	4.78
PE (X)	n.a.	n.a.	10.9	26.1
P/Cash Flow (X)	n.a.	n.a.	6.3	9.1
P/Free CF (X)	n.a.	n.a.	570.6	n.m.
EV/EBITDA (X)	n.a.	n.a.	5.5	7.5
Net Div Yield (%)	-	-	-	-
P/Book Value (X)	n.a.	n.a.	4.5	2.0
Net Debt/Equity (X)	1.6	1.6	1.0	Cash
ROAE (%)	n.a.	25.8	33.6	11.2

Income Statement (BTm)

FY Dec	2016A	2017A	2018A	2019A
Turnover	2,158	2,425	2,853	3,027
Cost of Goods Sold	(1,669)	(1,879)	(2,219)	(1,621)
Gross Profit	489	546	634	1,405
Other Opg (Exp)/Inc	(362)	(422)	(438)	(1,277)
Operating Profit	127	125	196	129
Other Non Opg (Exp)/Inc	-	-	-	-
Associates & JV Inc	-	-	-	-
Net Interest (Exp)/Inc	-	-	-	-
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	111	102	173	128
Tax	(21)	(20)	(32)	(21)
Minority Interest	0	0	(0)	(0)
Preference Dividend	-	-	-	-
Net Profit	90	82	140	106
Net Profit before Except.	90	82	140	106
EBITDA	293	298	366	318
Turnover Gth (%)	-	12.4	17.6	6.1
EBITDA Gth (%)	-	1.8	22.7	(13)
Opg Profit Gth (%)	-	(1.9)	57.1	(34.2)
Net Profit Gth (%)	-	(8.7)	71.4	(24.2)

Cash Flow Statement (BTm)

FY Dec	2016A	2017A	2018A	2019A
Pre-Tax Profit	111	102	173	128
Dep. & Amort.	166	174	170	189
Tax Paid	(24)	(31)	(40)	(43)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAS	0	2	2	14
Non-Cash Wkg. Cap.	(42)	93	(30)	20
Other Operating CF	16	24	(32)	(6)
Net Operating CF	227	363	242	301
Capital Exp. (net)	(100)	(161)	(115)	(303)
Other Invts. (net)	(178)	(34)	2,664,130	5
Invts. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	0	-	(2,664,137)	(1)
Net Investing CF	(279)	(195)	(123)	(299)
Div Paid	(0)	(304)	(124)	(101)
Chg in Gross Debt	99	143	(70,000,001)	(632)
Capital Issues	6	-	84	952
Other Financing CF	-	(2)	-	-
Net Financing CF	105	(163)	(70,000,041)	219
Chg in Cash	54	5	(69,999,921)	221
Opg CFPS (IDR)	n.a.	n.a.	1.49	1.03
Free CFPS (IDR)	n.a.	n.a.	0.02	(0.36)

Source: Bloomberg Finance L.P., Thomson Reuters, DBSVTH

General Data

At A Glance

Issued Capital (m shrs)	300
Mkt Cap (BT\$m/US\$m)	2,820 /91
Major Shareholders (%)	
AGB Siblings Holding Limited	25.0
Chirathivat (Sakkanon)	7.2
Chirathivat (Jomkwan)	7.2
Free Float (%)	60.6
3m Avg. Daily Val. (US\$m)	0.36
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (BTm)

FY Dec	2016A	2017A	2018A	2019A
Net Fixed Assets	789	844	771	924
Invts in Assocs & JVs	-	-	-	-
Other LT Assets	412	459	473	522
Cash & ST Invts	128	134	143	363
Inventory	79	97	108	95
Debtors	17	19	38	78
Other Current Assets	26	36	31	62
Total Assets	1,450	1,589	1,564	2,044
ST Debt	557	699	631	1
Creditors	105	176	190	220
Other Current Liab	410	201	187	261
LT Debt	2	1	1	0
Other LT Liabilities	108	146	86	128
Shareholder's Equity	269	366	469	1,434
Minority Interests	(0)	(0)	0	0
Total Cap. & Liab.	1,450	1,589	1,564	2,044
Non-Cash Wkg. Cap	(394)	(224)	(200)	(246)
Net Cash/(Debt)	(430)	(567)	(490)	362

Segmental Breakdown (BTm) / Key Assumptions

FY Dec	2016A	2017A	2018A	2019A
Revenues				
Foods	-	-	-	-
Beverages	-	-	-	-
Sales discount	-	-	-	-
Total	-	-	-	-

Catering & Restaurants : Indonesia

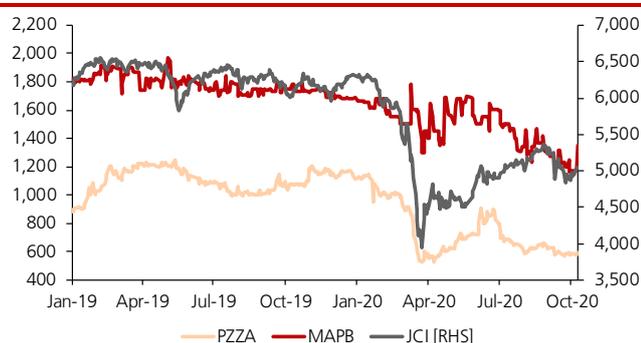
Cheria Christi Widjaja +62 2130034931
christiwidjaja@dbs.com

Recommendation and Valuation

Company Name	Price Local\$	Target Price Local\$	Recom	Mkt Cap US\$m	PE 21F x
Map Boga Adiperkasa Pt (MAPB IJ)	1260.00	n.a.	NR	186	n.a.
Pt Sarimelati Kencana (PZZA IJ)	640.00	n.a.	NR	132	11.6

Source: Thomson Reuters
Closing price as at 15 Oct 2020

Share price performance vs. JCI index



Source: Bloomberg Finance L.P. DBSVI

Adapting to new way of business

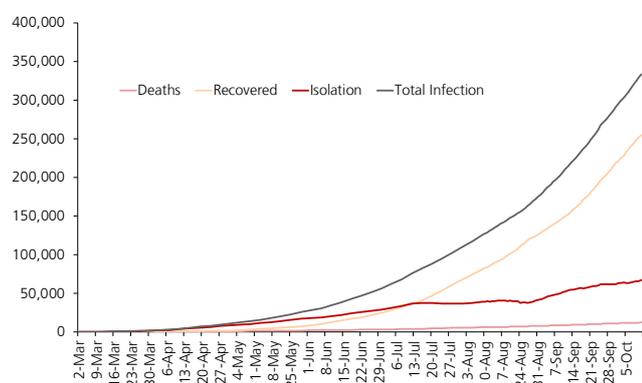
- COVID-19 has shifted people's meal preference from eating out to home-cooked meals
- Sales of F&B companies dropped sharply in 2Q20 due to store closures and social distancing measures
- Expect gradual recovery as new COVID-19 cases in Indonesia have yet to slow down and purchasing power is still low

Meal preference shift. The COVID-19 pandemic has changed consumers' perception of eating out, which will impact the F&B businesses in Indonesia. A consumer survey conducted by us in June reveals a huge shift from the number of people who preferred to eat out before the pandemic to cooking at home post COVID-19. Based on the survey results, consumption of home meals surged to 69% (vs. 42% before COVID-19), with a pivotal shift away from eating out which dropped to only 5% (vs. 35% before COVID-19). Online food delivery was a popular choice especially among the younger generation due to its convenient and quick services, driven by the rising of food aggregator apps.

F&B companies were heavily impacted by COVID-19. The impact from COVID-19 was first felt in 1Q20, but was most severe in 2Q20 during which the large-scale social restrictions (PSBB) were imposed in early April until mid-June. During the PSBB, restaurants reduced their working hours or adopted a full closure policy. Some F&B outlets such as Starbucks and Pizza Hut were only open for takeaway or online delivery. A significant decline in mall traffic where some of PZZA and MAPB's stores are located led to lower sales. PZZA and MAPB reported 2Q20 sales declines of 17% and 62% y-o-y respectively.

Recovery might take time. The government has eased its social distancing restrictions since mid-June. F&B companies have re-opened their stores for dine-in and we expect sales to gradually pick up in 2H20. Recently, we noticed that restaurants near residential areas are getting crowded, although the ones inside the malls are still relatively quiet. However, as new COVID-19 cases in Indonesia have yet to slow down, we do not expect store traffic to return to pre-COVID levels yet. Furthermore, purchasing power is still weak due to the impact of COVID-19 on the economy and businesses.

Implications on F&B companies. The length and impact of COVID-19 is uncertain at this stage, we think that it is important for companies to adapt to the new trend. We suggest that companies pay more attention on food cleanliness as well as hygiene and safety inside the restaurants, focus on takeaway or delivery services (through food aggregators or own online apps), introduce creative menus (e.g. frozen or ready-to-cook products) and improve efficiency or productivity at stores.

I) The Macro Picture:**Total number of COVID-19 infection vs time**

COVID-19 was declared as a pandemic by WHO on 11 March 2020. In Indonesia, the first COVID-19 case was confirmed and reported on 2 March 2020. The government has enacted several policies to reduce its spread, such as introducing partial lockdowns or large-scale social restrictions (PSBB) starting on 10 April 2020. This has impacted the economy and caused consumer spending to collapse. Unemployment figures have increased, and recession could happen (or is already happening). According to the Manpower Ministry, more than 3.06 million Indonesians had either been laid-off or furloughed as of May 2020 amid the pandemic impact. In mid-June, the government eased its social distancing restrictions and businesses have since started to reopen. At the time of writing, Jakarta announced the relaxation of PSBB (by entering the transitional phase once again) after the re-implementation of the full PSBB for about a month starting 14 September 2020. During this transitional period, restaurants will be allowed to serve dine-in customers at 50% of their maximum capacity. Moreover, the plan to reopen cinemas (at 25% of maximum capacity) inside the malls will also help to increase the traffic at F&B stores located in the malls. However, the number of new COVID-19 cases in Indonesia has yet to slow down (still at about 3,000-4,000 new cases per day) and thus, the pace of the economic recovery may not be rapid.

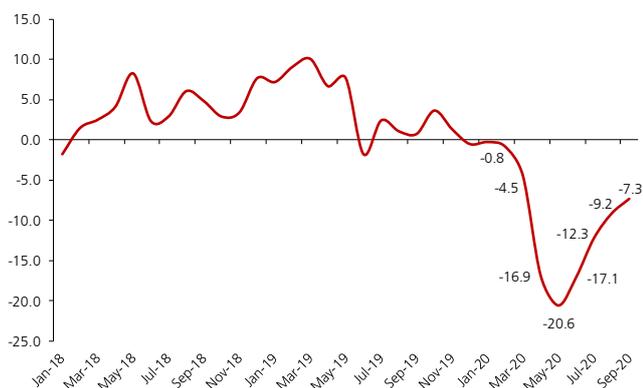
Source: <https://covid19.go.id/>

Consumer confidence index has dropped below 100

The consumer confidence index (CCI) dropped to its lowest level of 77.8 in May 2020 from 121.7 in January 2020 (before COVID-19 became an issue in Indonesia). CCI started to drop below 100 (optimistic level) in April 2020, when it declined to 84.8 from 113.8 in March 2020 as the government started to implement PSBB. Although CCI recovered slightly to 86.9 in August 2020, driven by relaxation of social distancing measures, it was still below the 100 level. In September 2020, the CCI dropped again to 83.4 as Jakarta re-imposed full PSBB starting 14 September 2020, driven by the high positivity rate and number of new cases (e.g. around 1,000 cases per day on average in September 2020). The weakening of consumer optimism was mainly due to the decline in consumer perceptions of current economic conditions, driven by the deepest declines in the current income and job availability indices. We expect October's CCI to be better as Jakarta has just announced the relaxation of PSBB (by entering the transitional phase once again) starting 12 October 2020.

Source: Bank of Indonesia

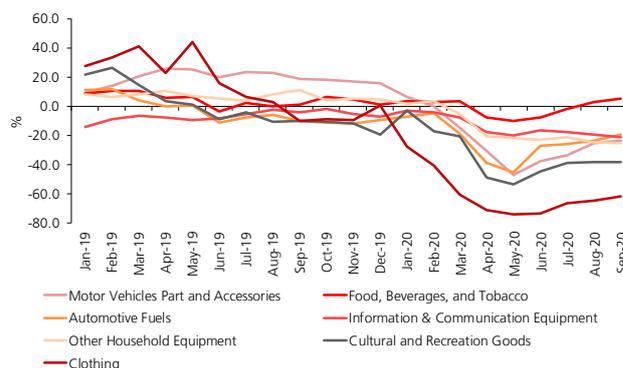
Retail sales index still in negative trend (% , y-o-y)



Due to the COVID-19 situation, the Indonesian government encouraged people to stay home as much as possible and only go out when necessary. During the PSBB period in April-June, most non-essential shops such as malls or restaurants were closed, and only supermarkets, minimarkets, and pharmacies were allowed to open. Thus, we saw a significant 16.9% drop in retail sales index in April, and the index slumped to the lowest growth in May at -20.6% despite the Lebaran season. During this COVID-19 outbreak, we believe that consumers held back their spending on unnecessary items and only spent on staple products such as food. In August, we could see some recovery in retail sales index growth to -9.2% as businesses have reopened since mid-June, and the Central Bank expects this to improve further in September although being still in the negative zone at -7.3%. Even though social distancing restrictions have eased and malls or restaurants have reopened (with limited capacity allowed), some people (mostly from the middle- to upper-income class) are still reluctant to get out of their houses in fear of getting infected.

Source: Bank of Indonesia

Breakdown of retail sales index



The slowdown of the retail sales index in August was caused by slower growth in Clothing (-65% y-o-y), Cultural and Recreation Goods (-38% y-o-y), Motor Vehicles Part and Accessories (-25% y-o-y), Automotive Fuels (-24% y-o-y), Other Household Equipment (-24% y-o-y), as well as Information & Communication Equipment (-19% y-o-y). Meanwhile, Food, Beverages, and Tobacco segment reported positive growth of 3% y-o-y. Due to COVID-19 situation which caused the economic slowdown, we believe that people were switching their consumption to staple products such as food or groceries from discretionary products like clothing.

Source: Bank of Indonesia

F&B Industry P&L (Margin %)

	Before COVID-19 FY19	After COVID-19 1H20
Revenue	100%	100%
COGS	31%	33%
Gross profit	69%	67%
Staff costs	22%	25%
Rental + Depreciation	12%	15%
Other expense	29%	33%
Total operating costs	63%	73%
EBIT	6%	-6%
Net profit	5%	-6%

In normal situation (before COVID-19), F&B service companies generally booked an average net profit margin of 5%. Staff costs, rental, and depreciation expenses were the largest operating expenses (30-40% of sales) and are somewhat largely fixed, save for staff overtime and/or temporary expenses. In 1H20, we saw F&B companies sinking into the red or they were barely profitable due to operating deleveraging caused by lower sales. Although the companies managed to cut some costs, this was not enough to cover the sales decline.

Source: DBS Bank estimates, DBSVI

Scenario Analysis in 2020F

	Sales dropped by 10% Breakeven	Sales dropped by 20% Base case
Revenue	100%	100%
COGS	33%	33%
Gross profit	67%	67%
Operating expense	66%	70%
EBIT	1%	-3%
Net profit	0%	-3%

Based on our scenario and estimates, the sector can only withstand a revenue decline of 10%, driven by large operating expenses (60-70% of total sales) of which some are relatively fixed costs. In our base-case scenario, we project sales to decline by 20%, driven by social distancing measures (e.g. 50% maximum capacity allowed for dine-in) and the shift in consumer behaviour from eating out to cooking at home. Thus, we expect F&B companies to see losses in 2020F.

Source: DBS Bank estimates, DBSVI

Additional stimulus package to deal with COVID-19 worth Rp695tr as of June 2020

1. COVID-19-related healthcare: Rp87.55tr
2. Social safety net (mainly for the poor/low-income earners): Rp203.9tr
 - a. **Family assistance programme (PKH)**: Rp37.4tr. Target recipients: 10 million households.
 - b. **Food aid**: Rp43.6tr. Target recipients: 20 million households.
 - c. **Non-cash subsidy for Jabodetabek area only**: Rp6.8tr. Target recipients: 1.9 million households. Extended period from July – December. Food aid subsidy decreases to Rp300,000 monthly (6 times) until end of the year.
 - d. **Cash subsidy for Non-Jabodetabek area**: Rp32.4tr. Target recipients: 9 million households. The amount decreases to Rp300,000 monthly (6 times) until end of the year.
 - e. **Village fund**: Rp31.8tr. Target recipients: 11 million households. Extended from July – September with smaller value of Rp300,000 monthly (3 times).
 - f. **Workers card**: Rp20tr. Target recipients: 5.6 million households.
 - g. **Electricity discount**: Rp6.9tr.
 - h. Budget for logistic support for basic needs: Rp25tr
3. Business incentive: Rp120.61tr.
4. Small Micro Medium Enterprises (UMKM): Rp123.46tr
5. Corporate financing: Rp53.57tr
6. Budget for sectoral and local government: Rp106.11tr

Source: Ministry of Finance

Indonesia's consumption is still domestic driven and impacted by consumption of low- to middle-income earners. In addition, consumption of the low-income group relies on social subsidies or assistance from the government. As of June, President Jokowi has introduced additional stimulus package to deal with COVID-19, to help the poor and the economy; worth Rp695tr. About Rp203.9tr of that number would be allocated for social safety net programme (mainly for the poor/low income) such as Family Assistance Programme (PKH), Food aid, and Cash subsidy. In the latest update in August 2020, the realisation of this budget was still below 50% (although some programmes have reached 70%), but the government is expediting this additional stimulus to the poor to boost spending. Thus, this would hopefully help support consumption in Indonesia during the COVID-19 pandemic.

II) Consumer Survey:**Shift from eating out to cooking at home is unreal!**Prior COVID-19 **VS** Post COVID-19

Source: DBS consumer survey

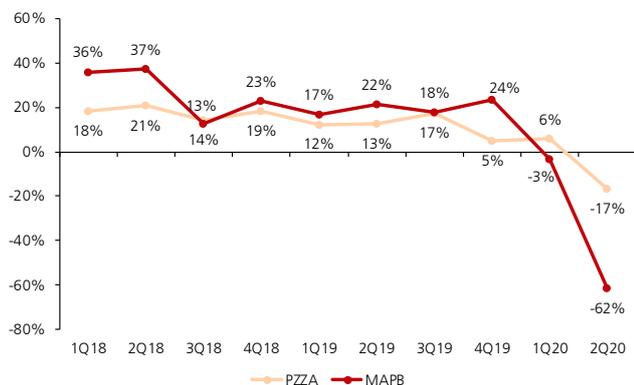
We launched an online survey to gather insights into consumer behaviour, with one of our focus areas on attitude towards meal consumption. Our survey was conducted over two weeks from mid-June to early July. This, in our view, was appropriate as it was about 10 weeks into the restricted movement, and respondents would have been reasonably settled into their new routine. Our responses were gathered from across the archipelago, but with a major skew towards Java and Greater Jakarta, although 13% were from outside of Java island. In terms of age profile, we reached across various age groups, similar to the demographic age of the nation. In terms of gender, we had a greater percentage of female respondents at 60% vs male (40%), and over 90% are currently employed.

The COVID-19 pandemic has changed consumers' perception of eating out and consumption of meals outside of home, which will impact the F&B businesses in Indonesia. The survey reveals a huge shift from the number of people who preferred to eat out before the pandemic to cooking at home post COVID-19. Based on the survey results, consumption of home meals surged to 69% (vs. 42% before COVID-19 emerged), with a pivotal shift away from eating out which dropped to only 5% (vs. 35% before COVID-19), as people stayed home and cared more about food hygiene. Online food delivery was opted as a more popular choice driven by the popularity of food aggregator apps especially among the younger generation due to its convenient and quick services.

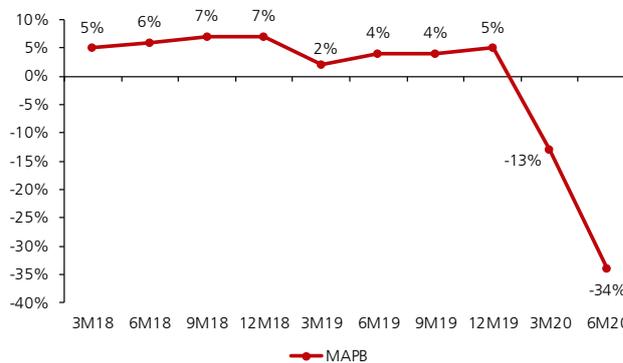
F&B businesses in Indonesia should recognise this new trend and try to adapt. We suggest that companies pay more attention on food cleanliness as well as hygiene and safety inside the restaurants, focus on takeaway or delivery services, enter partnerships with online food aggregator apps or launch their own online apps, introduce creative menus that are easy to take home (e.g. frozen or ready-to-cook products), improve efficiency or productivity at stores, and introduce digital initiatives to improve customer shopping experience both offline and online.

III) Company Performance:

Sales trend



SSSG trend



The impact from COVID-19 was first seen in 1Q20, but was most severe in 2Q20, when the PSBB started in early April until mid-June. During the PSBB, restaurants reduced their working hours or adopted a full closure policy. Some F&B outlets such as Starbucks and Pizza Hut were only open for takeaway or online delivery. A significant decline in mall traffic where some of PZZA and MAPB’s stores are located led to lower sales. The drop in the number of tourists visiting Indonesia also affected sales of PZZA and MAPB in tourist cities. During this period, the companies focused on delivery orders, especially those from online food aggregator apps.

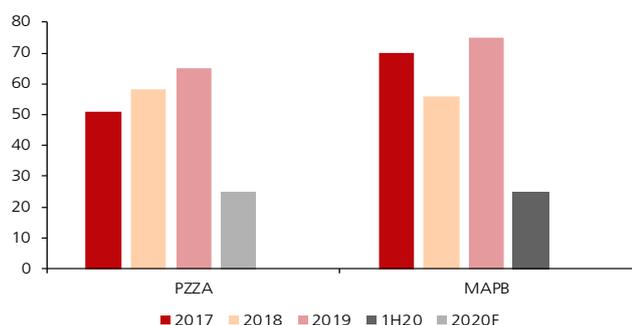
Before COVID-19 emerged, PZZA and MAPB projected revenue growth of 10% and a low- to mid-teen rate respectively in 2020. After the outbreak, the companies could not offer any guidance, given the uncertainties. However, we will not be surprised if F&B companies experience negative growth due to social distancing measures as well as lower purchasing power. In addition, the recovery process really depends on when the COVID-19 ends and consumer sentiment picks up. After reopening their stores for dine-in in June/July, both PZZA and MAPB saw some improvement in traffic but they have yet to recover to pre-COVID-19 levels.

Source: Company

Due to COVID-19, more people have been staying home (working and also studying at home), causing a shift in preference towards eating or cooking at home instead of eating out at restaurants. In addition, people travelled less and were prohibited from having meetings or gatherings outside. This caused sales to drop for Starbucks (MAPB’s main source of revenue) especially takings from outlets in corporate areas (workplaces), airports, or tourist attractions. Furthermore, a significant decline in mall traffic where the majority of MAPB’s stores are located heavily impacted the company’s sales. During this time, the company tried to maximise its digital distribution channels including; i) “Chat & Buy” programme where customers can shop via Whatsapp, and ii) delivery aggregators. In mid-June, the company reopened its outlets and began to allow customers to dine in but with at a limited capacity. This has led to a gradual pick-up in store traffic, albeit still below pre-COVID-19 levels. The plan to reopen cinemas (at 25% of maximum capacity) inside the malls hopefully can help to increase traffic at MAPB’s stores located in the malls, thus leading to better sales.

Source: Company

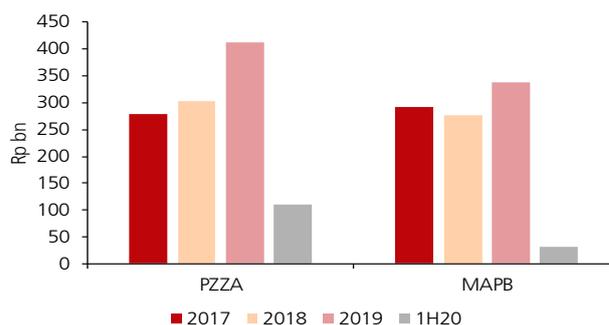
Net store opening



COVID-19 has caused companies to exercise caution in their store expansion plans. Before COVID-19, MAPB tended to add 60 Starbucks outlets per year. Meanwhile, PZZA’s initial plan was to open 50 new outlets in 2020. However as the COVID-19 situation got worse, both companies indicated that they will postpone most of the contracts, if possible; they are also more selective in terms of location. They will/have stopped less essential capex and spend only on maintenance capex as they prefer shore up its cash position. Now PZZA expects to open only 25 new stores in 2020, while MAPB might only add a few new Starbucks outlets in 2H20 having already added 25 new outlets in 1H20 (22 stores added in 1Q20). This lower new store opening will negatively impact the companies’ top-line growth.

Source: Company

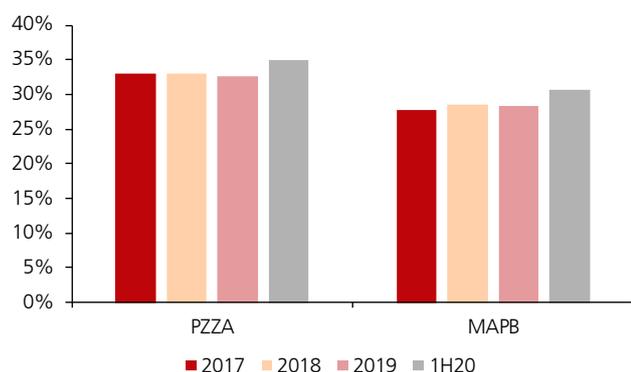
Capex



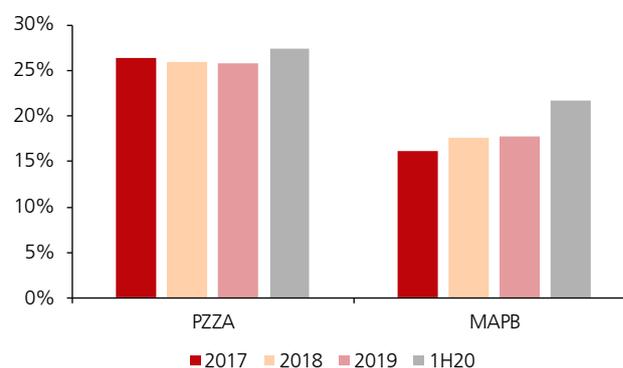
F&B companies usually utilise the majority of their capex for store expansion. Based on the current COVID-19 situation, both PZZA and MAPB would mostly likely spend lower capex in 2020, showing in 1H20’s numbers. Companies have indicated that they will continue to complete projects that they had started, while taking a more judicious approach towards new ones yet to commence, particularly in new store expansion. Before COVID-19, PZZA planned to expand to smaller cities and outside Java (eastern part of Indonesia) but the plan got delayed due to COVID-19. Going forward, PZZA will invest in smaller store format and design the store to focus more on taking delivery/takeaway orders. This is to adjust with a shift in consumer behaviour from dine in to delivery/takeaway post COVID-19. Furthermore, both PZZA and MAPB will introduce more experiential and digital features in stores (use technology such as digital payments, mobile order services, or tablets). Recently (after the relaxation of PSBB), we also noticed that restaurants near residential areas are getting crowded, while the ones inside the malls are still relatively quiet as people are still avoiding the malls. Thus, F&B companies may also consider opening new stores near residential areas.

Source: Company

Cost: COGS as % of sales



Cost: Salaries as % of sales



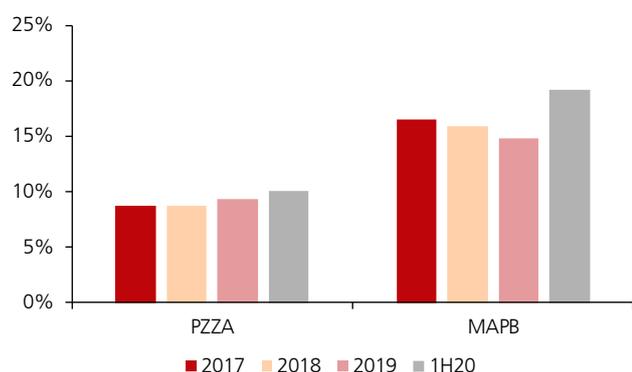
Costs of raw materials or COGS were relatively stable in the past years. However, we saw an increase in COGS as a percentage of sales in 1H20 mostly due to aggressive promotion during PSBB to push sales. For instance, PZZA ran aggressive promotions such as buy-one get-one in March-June to push sales, but this action sacrificed the margin. In addition, delivery usually commands a lower margin compared to dine-in because people will less likely to order beverages which tend to have higher margin. PZZA also saw an increase in packaging (boxes) costs required for delivery orders. MAPB also gave promotional orders/discounts through online delivery apps or social media in order to boost sales. Rupiah depreciation will also impact on PZZA's margins because 25% of COGS is linked to USD (the company sources cheese from US/New Zealand due to its franchise agreement). Impact on rupiah depreciation is milder on MAPB, as its raw materials are mainly sourced locally.

Source: Company

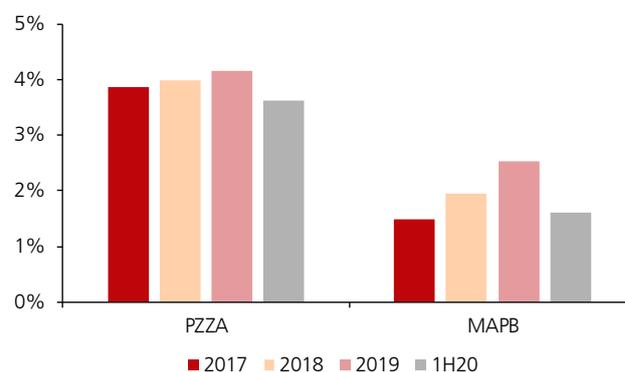
Salaries and staff benefits are the biggest opex for F&B companies. Due to COVID-19, we saw higher staff costs as a percentage of sales in 1H20 mostly due to operating deleveraging caused by lower top-line growth. Both PZZA and MAPB did not terminate any of their employees, but they also did not extend any expiring contracts for temporary staffs. MAPB has also reduced managements' salaries in order to manage costs. Meanwhile, PZZA assigned more of its employees to serve delivery and takeaway orders instead.

Source: Company

Cost: rental (+depreciation*) as % of sales



Cost: A&P as % of sales



Rental is another large component in F&B companies' opex. MAPB's rental cost is higher than PZZA's because the majority of MAPB's outlets are located in regional malls and office buildings. Meanwhile, only some of PZZA's outlets are located in malls while others are standalone outlets located in residential areas. During PSBB and mall closures, both PZZA and MAPB negotiated with their landlords and they received some rental discounts for 1-3 months. Because MAPB is one of major tenants in regional malls, rental negotiation with its landlords could be more favourable for the company. Note that we have added rental and depreciation expenses together due to the new accounting rule of IFRS 16 Leases in 2020.

Source: Company

*PZZA = total depreciation; MAPB: depreciation right-of-use assets

During the pandemic, both PZZA and MAPB placed more digital advertisements such as those through social media. PZZA still ran TV commercials mostly because spot rates for TV commercials dropped due to the outbreak. Recently, some of PZZA's employees were also seen selling their products in the street such as offering four boxes of pizza for Rp100,000 to boost sales. Before COVID-19, MAPB tended to organise promotional events such as offering different kinds of promotional drinks at Starbucks outlets every month, but due to COVID-19, the company switched to do more digital campaigns.

Source: Company

What the F&B companies are doing to adapt to COVID-19?

- ✓ Increase sales through food aggregators, own delivery services, mobile order services (chat and buy), and drive-through/takeaway. According to the companies, online sales (from food aggregators or own online delivery apps) grew significantly during the PSBB period and accounted for the bulk of sales in 2Q20. Although PZZA's stores have reopened for dine-in, most of the orders still came from food aggregators until July.
- ✓ Focus more on food cleanliness and hygiene environment. Make sure that staffs wear gloves and masks, and practise social distancing, as well as regularly clean and disinfect the outlets area.
- ✓ Be more flexible and adjust to shifting consumer behaviours quickly (e.g. from dine in to delivery/takeaway). Make sure to have the right product mix, menu and promotions.
- ✓ Reassess store locations especially for new store openings (expand to good locations only).
- ✓ Create a safe and secure ambience after reopening the dine-in option. Introduce more experiential or digital features in stores.
- ✓ Control costs as efficiently as possible during this COVID-19 period, especially operating expenses. However, COVID-19 has also imposed costs like (i) additional measures related to COVID-19 including sanitising, disinfecting, cleaning, and testing for staffs, and (ii) increasing commission fees for third-party online platforms (food aggregators).
- ✓ Keep sufficient cash to maintain healthy cashflows and liquidity amid lower sales growth caused by COVID-19. This is done by reducing capex and securing loan facilities (PZZA). Both PZZA and MAPB were in net cash positions in 2019.

Map Boga Adiperkasa (MAPB IJ Equity, RP1,260, NOT RATED)

Forecast & Valuation

FY Dec (Rpbn)	2016A	2017A	2018A	2019A
Turnover	1,623,864	2,047,988	2,576,852	3,094,880
EBITDA	250,698	309,046	353,724	457,224
Pre-tax Profit	156,982	150,335	160,198	230,894
Net Profit	115,950	105,960	110,687	165,725
Net Pft (Pre Ex.)	115,950	105,960	110,687	165,725
EPS (IDR)	n.a.	49.00	51.00	76.00
EPS Gth (%)	n.a.	n.a.	4.1	49.0
Diluted EPS (IDR)	n.a.	49.00	51.00	76.00
DPS (IDR)	n.a.	n.a.	n.a.	n.a.
BV Per Share (IDR)	n.a.	461.97	498.11	569.20
PE (X)	n.a.	25.7	24.7	16.6
P/Cash Flow (X)	n.a.	8.9	6.9	5.4
P/Free CF (X)	n.a.	n.m.	23.4	16.4
EV/EBITDA (X)	n.a.	7.7	6.9	5.3
Net Div Yield (%)	-	-	-	-
P/Book Value (X)	n.a.	2.7	2.5	2.2
Net Debt/Equity (X)	2.0	Cash	Cash	Cash
ROAE (%)	41.1	18.4	10.6	14.3

Income Statement (Rpbn)

FY Dec	2016A	2017A	2018A	2019A
Turnover	1,623,864	2,047,988	2,576,852	3,094,880
Cost of Goods Sold	(450,028)	(569,756)	(736,753)	(877,015)
Gross Profit	1,173,836	1,478,232	1,840,099	2,217,865
Other Opg (Exp)/Inc	(1,017,342)	(1,308,038)	(1,677,848)	(1,994,387)
Operating Profit	156,494	170,194	162,251	223,478
Other Non Opg (Exp)/Inc	-	(8,064)	-	-
Associates & JV Inc	-	-	-	-
Net Interest (Exp)/Inc	-	(11,795)	-	-
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	156,982	150,335	160,198	230,894
Tax	(41,031)	(44,373)	(49,510)	(65,168)
Minority Interest	(1)	(2)	(1)	(1)
Preference Dividend	-	-	-	-
Net Profit	115,950	105,960	110,687	165,725
Net Profit before Except.	115,950	105,960	110,687	165,725
EBITDA	250,698	309,046	353,724	457,224
Turnover Gth (%)	23.0	26.1	25.8	20.1
EBITDA Gth (%)	25.4	23.3	14.5	29
Opg Profit Gth (%)	25.3	8.8	(4.7)	37.7
Net Profit Gth (%)	43.0	(8.6)	4.5	49.7

Cash Flow Statement (Rpbn)

FY Dec	2016A	2017A	2018A	2019A
Pre-Tax Profit	156,982	150,335	160,198	230,894
Dep. & Amort.	94,204	138,852	191,473	233,746
Tax Paid	(195,083)	(60,739)	(53,664)	(63,847)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	719	2,112	1,672	184
Non-Cash Wkg. Cap.	-	-	-	-
Other Operating CF	243,639	76,767	94,464	103,432
Net Operating CF	300,461	307,327	394,143	504,409
Capital Exp. (net)	(201,403)	(293,467)	(277,393)	(337,968)
Other Invt. (net)	719	2,112	(98,328)	(7,816)
Invt. in Assoc. & JV	(241,500)	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	(19,805)	(62,436)	(77,550)	(86,923)
Net Investing CF	(461,989)	(353,791)	(453,271)	(432,707)
Div Paid	-	(14,600)	-	-
Chg in Gross Debt	725,002	-	-	-
Capital Issues	159,220	-	74,000	-
Other Financing CF	(382,833)	24,594	(106,756)	(17,964)
Net Financing CF	501,389	9,994	(32,756)	(17,964)
Chg in Cash	339,861	(36,470)	(91,884)	53,738
Opg CFPS (IDR)	n.a.	141.57	181.56	232.35
Free CFPS (IDR)	n.a.	(0.34)	53.78	76.67

Source: Company, DBSVI

General Data

At A Glance

Issued Capital (m shrs)	2,171
Mkt Cap (Rp\$m/US\$m)	2,735,460 /186
Major Shareholders (%)	
PT Mitra Adiperkasa Tbk	79.1
GA Robusta F&B Company Pte. Ltd.	19.4
Free Float (%)	1.5
3m Avg. Daily Val. (US\$m)	1.16
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (Rpbn)

FY Dec	2016A	2017A	2018A	2019A
Net Fixed Assets	505,651	750,181	929,460	1,117,723
Invt in Assocs & JVs	-	-	-	-
Other LT Assets	128,724	183,285	208,352	252,856
Cash & ST Invt	406,950	370,480	280,003	333,741
Inventory	68,354	79,651	102,644	131,377
Debtors	46,711	115,706	68,439	70,119
Other Current Assets	77,438	130,932	152,086	161,471
Total Assets	1,233,828	1,630,235	1,740,984	2,067,287
ST Debt	-	611	866	1,020
Creditors	57,259	121,611	144,137	177,562
Other Current Liab	296,621	436,998	432,006	535,467
LT Debt	699,702	1,075	882	789
Other LT Liabilities	32,594	67,030	81,729	116,754
Shareholder's Equity	147,648	1,002,900	1,081,357	1,235,687
Minority Interests	4	10	7	8
Total Cap. & Liab.	1,233,828	1,630,235	1,740,984	2,067,287
Non-Cash Wkg. Cap	(161,377)	(232,320)	(252,974)	(350,062)
Net Cash/(Debt)	(292,752)	368,794	278,255	331,932

Segmental Breakdown (Rpbn) / Key Assumptions

FY Dec	2016A	2017A	2018A	2019A
Revenues				
Foods	1,156,716	1,362,964	1,701,919	1,993,583
Beverages	371,559	580,624	725,334	841,878
Sales discount	95,589	104,400	149,599	259,419
Total	1,623,864	2,047,988	2,576,852	3,094,880

Sarimelati Kencana PT (PZZA IJ Equity, RP640, NOT RATED)

Forecast & Valuation

FY Dec (RPbn)	2016A	2017A	2018A	2019A
Turnover	2,695,314	3,027,007	3,573,974	3,986,701
EBITDA	313,028	340,584	394,847	449,837
Pre-tax Profit	176,295	189,457	232,137	268,883
Net Profit	n.a.	n.a.	173,096	200,021
Net Pft (Pre Ex.)	n.a.	n.a.	173,096	200,021
EPS (IDR)	n.a.	n.a.	61.00	66.00
EPS Gth (%)	n.a.	n.a.	n.a.	8.2
Diluted EPS (IDR)	n.a.	n.a.	61.00	66.00
DPS (IDR)	n.a.	n.a.	28.64	
BV Per Share (IDR)	n.a.	n.a.	401.27	443.39
PE (X)	n.a.	n.a.	10.5	9.7
P/Cash Flow (X)	n.a.	n.a.	7.3	5.0
P/Free CF (X)	n.a.	n.a.	n.m.	n.m.
EV/EBITDA (X)	n.a.	n.a.	4.1	4.2
Net Div Yield (%)	-	-	4.5	-
P/Book Value (X)	n.a.	n.a.	1.6	1.4
Net Debt/Equity (X)	0.5	1.0	Cash	Cash
ROAE (%)	n.a.	n.a.	21.9	15.7

Income Statement (RPbn)

FY Dec	2016A	2017A	2018A	2019A
Turnover	2,695,314	3,027,007	3,573,974	3,986,701
Cost of Goods Sold	(872,601)	(1,001,536)	(1,181,118)	(1,303,370)
Gross Profit	1,822,714	2,025,471	2,392,856	2,683,331
Other Opg (Exp)/Inc	(1,615,827)	(1,802,954)	(2,135,312)	(2,408,877)
Operating Profit	206,887	222,517	257,544	274,454
Other Non Opg (Exp)/Inc	-	-	-	-
Associates & JV Inc	-	-	-	-
Net Interest (Exp)/Inc	-	-	-	-
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	176,295	189,457	232,137	268,883
Tax	(45,867)	(48,133)	(59,042)	(68,862)
Minority Interest	-	-	-	-
Preference Dividend	-	-	-	-
Net Profit	-	-	173,096	200,021
Net Profit before Except.	-	-	173,096	200,021
EBITDA	313,028	340,584	394,847	449,837
Turnover Gth (%)	8.1	12.3	18.1	11.5
EBITDA Gth (%)	41.4	8.8	15.9	14
Opg Profit Gth (%)	69.3	7.6	15.7	6.6
Net Profit Gth (%)	-	-	-	15.6

Cash Flow Statement (RPbn)

FY Dec	2016A	2017A	2018A	2019A
Pre-Tax Profit	176,295	189,457	232,137	268,883
Dep. & Amort.	106,141	118,067	137,303	175,382
Tax Paid	(34,808)	(70,941)	(66,261)	(56,334)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	30,430	867	3,653	3,033
Non-Cash Wkg. Cap.	-	-	-	-
Other Operating CF	51,067	(71,433)	(59,083)	(1,452)
Net Operating CF	329,125	166,016	247,749	389,512
Capital Exp. (net)	(113,455)	(260,192)	(290,321)	(385,506)
Other Invt. (net)	7,653	(18,528)	3,653	3,033
Invt. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	(25,959)	(15,949)	(39,553)	(45,765)
Net Investing CF	(131,761)	(294,669)	(326,221)	(428,238)
Div Paid	(68,000)	(322,000)	-	(86,548)
Chg in Gross Debt	(126,485)	165,781	(234,026)	(87,259)
Capital Issues	-	-	641,813	-
Other Financing CF	(7)	259,690	(26,602)	(1,244)
Net Financing CF	(194,493)	103,471	381,185	(175,050)
Chg in Cash	2,871	(25,182)	302,712	(213,776)
Opg CFPS (IDR)	n.a.	n.a.	87.31	128.90
Free CFPS (IDR)	n.a.	n.a.	(15.00)	(27.31)

Source: Company, DBSVI

General Data

At A Glance

Issued Capital (m shrs)	3,022
Mkt Cap (RP\$m/US\$m)	1,934,080 / 124
Major Shareholders (%)	
PT Sriboga Raturaya	64.8
Albizia Capital Pte Ltd	5.8
Stewart Investors	5.3
Free Float (%)	24.2
3m Avg. Daily Val. (US\$m)	171.02
GICS Industry: Consumer Discretionary / Consumer Services	

Balance Sheet (RPbn)

FY Dec	2016A	2017A	2018A	2019A
Net Fixed Assets	498,922	670,980	859,209	1,106,612
Invt in Assocs & JVs	-	-	-	-
Other LT Assets	254,879	307,743	353,930	387,929
Cash & ST Invt	112,536	75,462	324,193	110,417
Inventory	148,234	268,742	303,899	273,119
Debtors	11,631	14,503	13,702	16,306
Other Current Assets	125,490	156,575	175,254	214,789
Total Assets	1,151,692	1,494,005	2,030,187	2,109,172
ST Debt	201,094	207,580	87,257	43,502
Creditors	136,242	137,244	143,425	136,933
Other Current Liab	185,397	264,281	254,082	285,681
LT Debt	79,050	226,454	58,770	15,266
Other LT Liabilities	211,328	288,750	274,078	287,914
Shareholder's Equity	338,581	369,696	1,212,575	1,339,875
Minority Interests	-	-	-	-
Total Cap. & Liab.	1,151,692	1,494,005	2,030,187	2,109,172
Non-Cash Wkg. Cap	(36,284)	38,295	95,349	81,599
Net Cash/(Debt)	(167,608)	(358,571)	178,167	51,649

Segmental Breakdown (RPbn) / Key Assumptions

FY Dec	2016A	2017A	2018A	2019A
Revenues				
Foods	2,288,543	2,604,880	3,108,496	3,571,530
Beverages	415,237	428,190	469,136	426,346
Sales discount	(8,466)	(6,063)	(3,658)	(11,174)
Total	2,695,314	3,027,007	3,573,974	3,986,701

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are DBS HK, DBS Bank, DBSV TH. DBSVI, unless otherwise specified.

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