Industry Focus

ASEAN Grocery Retail

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Jul 2015

Whetting ASEAN's appetite

- Modern grocery retail's growth is outpacing traditional retail in ASEAN
- Pockets of growth are in Philippines, Indonesia, and convenience store formats
- Companies will develop scale to strengthen their market positions
- Top picks are Singapore-listed grocery retailers SSG and DFI

Modern retail is underpenetrated. Growing wealth, urbanisation, affluence and a rising middle class in ASEAN has fuelled changing consumer spending habits from needs to wants, better consumption and shopping experiences. We see ASEAN modern grocery retail continuing to develop at a FY14-17F earnings CAGR of 4-28%, driven by store openings and margin expansions. We identify the fastest areas for growth in ASEAN grocery retail to be Indonesia, Philippines, and convenience store formats.

Rising middle class driving food retail growth. Penetration of modern retail remains low in Malaysia, Thailand, Indonesia and Philippines at <50%. Besides, ASEAN's middle class population is expected to double to 500m by 2020. We believe the demand for better quality food and shopping experiences will drive the growth of modern grocery retail going forward.

Modern retailers are in expansion mode. Store expansion remains a key theme in the growth of modern grocery retailers. Companies are developing scale to strengthen their bargaining power and are constantly looking to improve operating efficiencies. We identify DFI, SSG, BIGC, CP All, and NTUC Fairprice to be the more efficient grocery retailers in the region.

Prefer stocks with good growth potential and attractive valuations. We like the sector for its attractive ROE, defensive qualities, strong cash-generating ability and headroom for earnings growth. We like DFI for its attractive valuations, SSG for its growth traction and yield, and CP All for its strong earnings growth. We are Neutral on BIGC as growth is expected to be slower going forward. We are avoiding Indonesian plays due to high valuations of c.30x PE.

OVERWEIGHT

STI :	3,373.48
KLCI :	1,724.13
SET 50 Index :	964.19
JCI :	4,869.85
PCOMP :	7,541.17

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STOCKS

	Price LCY	Mkt Cap US$m	Target Price LCY	Performance (%) 3 mth	12 mth	Rating
Dairy Farm	8.70	11,764	10.42	(6.8)	(19.4)	BUY
Sheng Siong Group	0.87	949	0.98	8.8	30.1	BUY
Big C Supercenter	191	4,572	214	(18.0)	(10.3)	HOLD
CP ALL	45.75	11,924	50.00	7.7	(3.7)	BUY

Source: DBS Bank, DBS Vickers,
Closing price as of 20 Jul 2015

Dairy Farm : Leading Pan-Asian retailer operating supermarkets, hypermarkets, health and beauty stores, convenience stores, and home furnishings stores.

Sheng Siong Group Ltd : Retailer principally engaged in operating the Sheng Siong Groceries Chain.

Big C Supercenter : Big C is a leading hypermarket operator in Thailand, mainly located across between greater Bangkok and upcountry.

CP ALL : The Company's main business is the operation of convenience store retail outlets under the trademark of "7-Eleven" in Thailand.

Table of Contents

Executive Summary

Modern retail is growing

Modern retail is penetrating ASEAN. Economic growth and development in ASEAN has led to urbanisation, rising incomes, growing middle class, increases in consumer spending, higher living expectations and changing consumer habits. Better wealth and lifestyles have increased the demand for quality goods, services as well as a more conducive retail environment. Retail channels have thus evolved over time, from traditional to modern formats. Penetration of modern grocery retail in Thailand, Indonesia, Malaysia and Philippines has risen from 11-38% in 2009 to 16-45% in 2014. We expect this trend to continue on the back of a continued urbanisation and the rising middle class in ASEAN. According to Euromonitor's market estimates, we calculate that each of ASEAN 5's modern grocery retail growth rate from 2014-2019F ranges between 2-8%.

Demographics are ripe for modern grocery retail's picking. Higher education and literacy rates will support the new generation's appetite for better quality products and a more organised/conducive shopping environment. The middle class population in ASEAN has been forecast by Nielsen to grow at a 9.8% CAGR to the rest of population's 8.7% from 2012 to 2020. Average (simple) urbanisation rate from 2010-2015 of ASEAN 5 countries is 2.3%, outstripping the long-term population growth rate of 1.5%.

More significant growth opportunities in Indonesia, Philippines and convenience stores. We find that Indonesia and Philippines have low modern grocery retail penetration at 16% and 28% respectively. This may be due to their slower development and relative larger size by population and land area. Nonetheless, we see higher potential headroom for growth opportunities in modern grocery retail in terms of penetration. While Malaysia and Thailand have higher modern grocery retail penetration rates, there is still potential for growth in convenience stores. Singapore, meanwhile, is fully urbanised and the penetration of grocery retail is highly saturated based on the number of grocery outlets per population. Room for growth is therefore relatively limited.

Key beneficiaries include leading grocery retailers in these segments. Based on market share statistics of companies operating in the various spaces, we expect the following companies to benefit. Most of these operators are market leaders in their respective segments and already have a meaningful number of stores countrywide to exploit growth going forward.

Retailers are strengthening their position in the marketplace

Companies are expanding to new areas, establishing new formats and introducing new product lines. Store network expansion and improving operating efficiencies continue to be a theme among ASEAN grocery retailers. While SSSG is expected to be in the low single-digit range, growth will be mainly driven through store expansion. Key grocery retailers which we track including Sheng Siong, 7-Eleven Malaysia, Dairy Farm and Big C are all on the store expansion mode.

Achieving scale and operating efficiency to strengthen their market position. Companies are building up operating efficiencies and scale to compete better in the marketplace. Better operating efficiencies will enhance cashflow-generation ability, while improving economies of scale will increase profitability. Among our ASEAN consumer coverage, we find DFI to be the most efficient in terms of working capital management, while SSG has the highest net profitability due to its low rental rates and higher variable staff cost structure.

Who are operating efficiently?

Companies with strong margins and good cashflows. We have identified Sheng Siong, BIG C, DFI, NTUC Fairprice and CP All to be among ASEAN's best retailers operationally. We have found them to either have good cashflows, strong working capital management, or good margins.

How can competition get ahead?

The various ways companies can differentiate themselves. We find the grocery retail business to be localised. Businesses need to consider local purchasing, eating and shopping habits before investing in ASEAN grocery retail. Even the largest player DFI, invests and takes up stakes in established local retailers (Rustan's in Philippines, Lucky supermarkets in Cambodia, San Miu Supermarkets in Macau). Larger players can leverage on their scale to compete, while smaller players can be more nimble in their strategy and find their niche in specialising (e.g. Sheng Siong in mass market supermarket space in Singapore). Food offering can help to differentiate retailers from the competition and loyalty programmes will help gain customer traction. Lastly, the decision to go into private labels will help to improve margins. But companies may lose display shelf income from the loss of carrying other suppliers' products.

Alternate growth drivers

E-commerce supplements growth of modern grocery retail over the longer term. We believe online grocery is still a new concept and will take time to catch on. In most urban cities in ASEAN, modern grocery retail is well penetrated through supermarkets, convenience stores and hypermarkets. Doorstep delivery of grocery items is therefore a good service to have. We identified several challenges for e-commerce providers. Online grocers need to deliver fresh products to consumers in a economically viable manner. In lesser developed ASEAN, consumers' lack of trust in online payment systems is impeding the growth of e-commerce. Offering good consumer experience is key to winning market share. But that involves providing variety, convenience, competitive pricing, and quality. In fact, e-commerce's main competitor is its own physical stores. We see a gap between what consumers expect and what online grocers can economically provide. These include differences in product quality, assortment, delivery area and pricing. While online grocery shopping is taking off in a small way, we believe it will not replace physical stores anytime soon and both will likely co-exist and complement each other if and ever e-commerce takes off.

Top picks are DFI and SSG

We are positive on the sector. The food retail sector is generally defensive and has an attractive ROE of over 25%. Companies are still growing. Historical 5-year earnings CAGR among our five stocks ranged from 5% to 45%. We expect earnings growth of between 4-28% for our stock coverage, mainly driven by store opening and penetration.

Region trades at 27x forward PE. We note that valuations for regional grocery retail stocks are at an average of 27x forward PE. Indonesia peers trade at a slight premium of c.30x PE. This is largely due to scarcity of modern grocery retail stocks in Indonesia and on the back of strong mass grocery retail growth anticipated in the country. On an ex Indonesia basis, regional peers would be trading at 25x PE.

Prefer stocks with good growth potential and attractive valuations. We like the sector for its attractive ROE, defensive qualities, strong cash generating ability and headroom for earnings growth. We like DFI for its attractive valuations, SSG for its growth traction and yield. We find CP All's valuation relatively stretched even though earnings growth is expected to be strong. We are Neutral on BIGC as growth is expected to be slower going forward. We are avoiding Indonesia plays due to high valuations of c.30x PE.

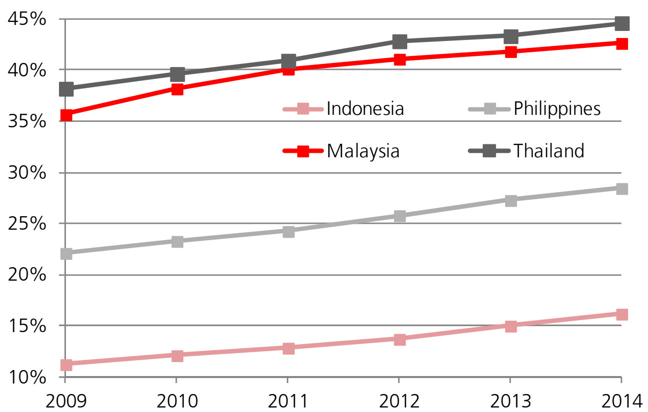
Modern grocery retail has been gaining traction in ASEAN markets

Regional growth opportunities

Growth opportunities in ASEAN. Regional growth opportunities in modern grocery retail generally lie in Indonesia, Philippines and convenience stores. There is growth headroom for Indonesia and Philippines' modern retail space as these markets are underpenetrated. Convenience stores dominate developing markets and despite growing strongly over the past five years, the number of convenience stores to population size is still lower than in Hong Kong, New Zealand, Taiwan and South Korea. Traditional grocery retail in developing markets will continue to co-exist even though it is losing share to modern grocery retail. ASEAN's developing nations continue to buy from traditional wet markets as prices are generally cheaper. However, initial penetration of modern trade can be done through convenience stores since the outlay is relatively lower and more targeted product range and more convenient operating hours will ease market into using modern channels. As cities become more urbanised, there will be opportunities for more growth in supermarkets.

Modern grocery retail has been penetrating ASEAN regional markets. Economic growth and development in ASEAN has spurred the urbanisation and modernisation of city centres. Rising income has resulted in ASEAN's growing middle class, fuelling increases in consumer spending, higher living expectations and changing consumer habits. Improving wealth and lifestyles in these markets have led to greater demand for better quality goods, services as well as retail environment. Retail formats have therefore evolved over time, transiting from traditional to modern channels.

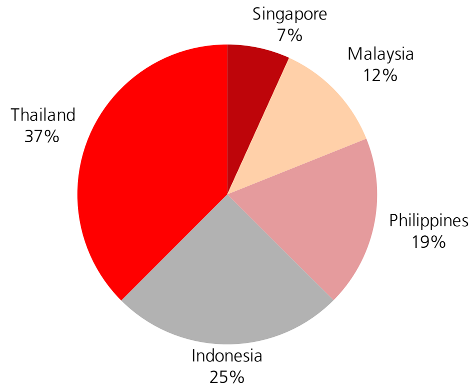
Modern grocery retail in developing ASEAN has been gaining share over traditional grocery retail



Source: Euromonitor, DBS Bank

A c.US$60bn market in ASEAN 5 and growing. In ASEAN, modern grocery retail has been growing – faster than traditional grocery retail channels. Modern grocery retail in 5 key ASEAN nations today is worth c.US$60bn and currently 15% penetrated on an overall basis. We believe that can only increase as regional affluence grows.

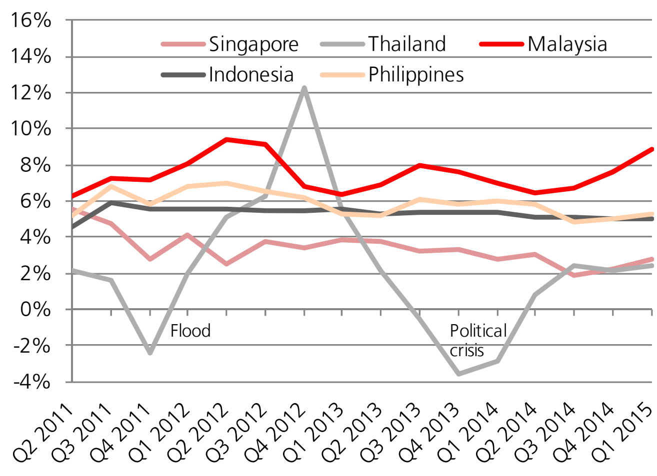
Thailand dominates modern grocery retail value in ASEAN 5



Source: Euromonitor, DBS Bank

Philippines and Indonesia have the largest headroom for growth of modern of grocery retail. Penetration of these countries is low at c.28% and c.16%. Both countries have better potential for urbanisation and modern retail has more headroom to grow.

ASEAN's consumption (ex-crisis) has been growing at 2-9% y-o-y



Source: Thomson Reuters Datastream, DBS Bank

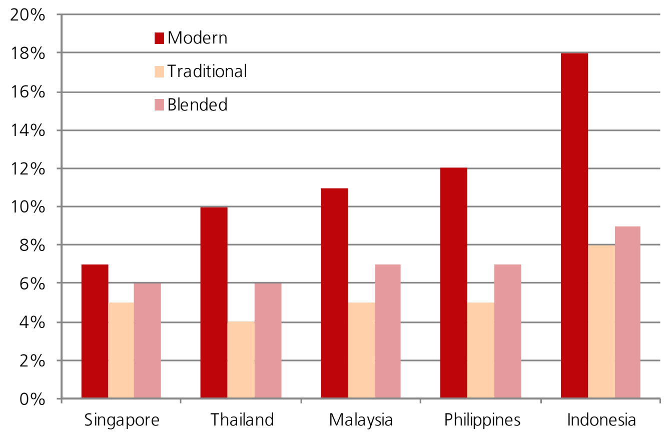
Modern grocery retail is more than providing basic products to customers. The evolution of retail business has been rapid. In the developed cities of ASEAN, delivery of retail business has gone beyond the provision of basic needs into providing what customers want. Consumer choices from product variety to quality have become essential to today's increasingly demanding consumers. Food safety and greater demand for healthy diet have also influenced suppliers and retailers' product lines. Beyond products, we believe delivering customer satisfaction has become critical in providing consumers with a holistic shopper experience. The retail environment hence encompasses part of the shopper experience.

Consumer expectations of retailing based on affluence

Source: DBS Bank

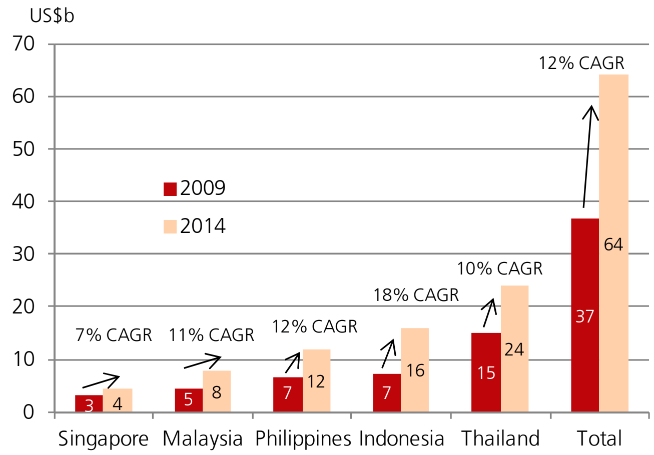
Modern grocery retail in ASEAN has grown at a 12% CAGR for the past five years. Modern grocery retail's growth far outstrips traditional grocery retail's growth of 6%. Share of modern grocery retail (vs traditional grocery retail) has increased substantially from 24% in 2009 to 29% in 2014. Growth was mainly driven by 1) Indonesia across all store formats; 2) Convenience store penetration including suburban areas in Thailand, Philippines and Malaysia; 3) Hypermarkets in the Philippines; 4) Supermarkets in Malaysia. Apart from Singapore, penetration rates are increasing in Malaysia, Thailand, Indonesia and Philippines.

Grocery retail 5-year CAGR 2009-2014



Source: Euromonitor, DBS Bank

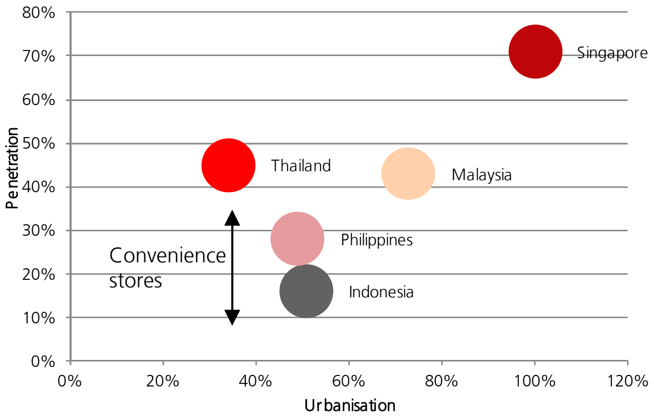
ASEAN 5's modern grocery retail has grown by 12% in 5 years



Source: Euromonitor, DBS Bank

Direct relationship between urbanisation and grocery retail penetration. There is a direct relationship between urbanisation and grocery retail penetration. Based on our findings, Singapore is fully (100%) urbanised and has a high modern grocery retail penetration (71%). At the other end of the spectrum, Indonesia and Philippines are <55% urbanised and have low modern retail penetration (<25%).

Direct relationship between urbanisation and modern grocery retail penetration



Source: CIA world Factbook, DBS Bank

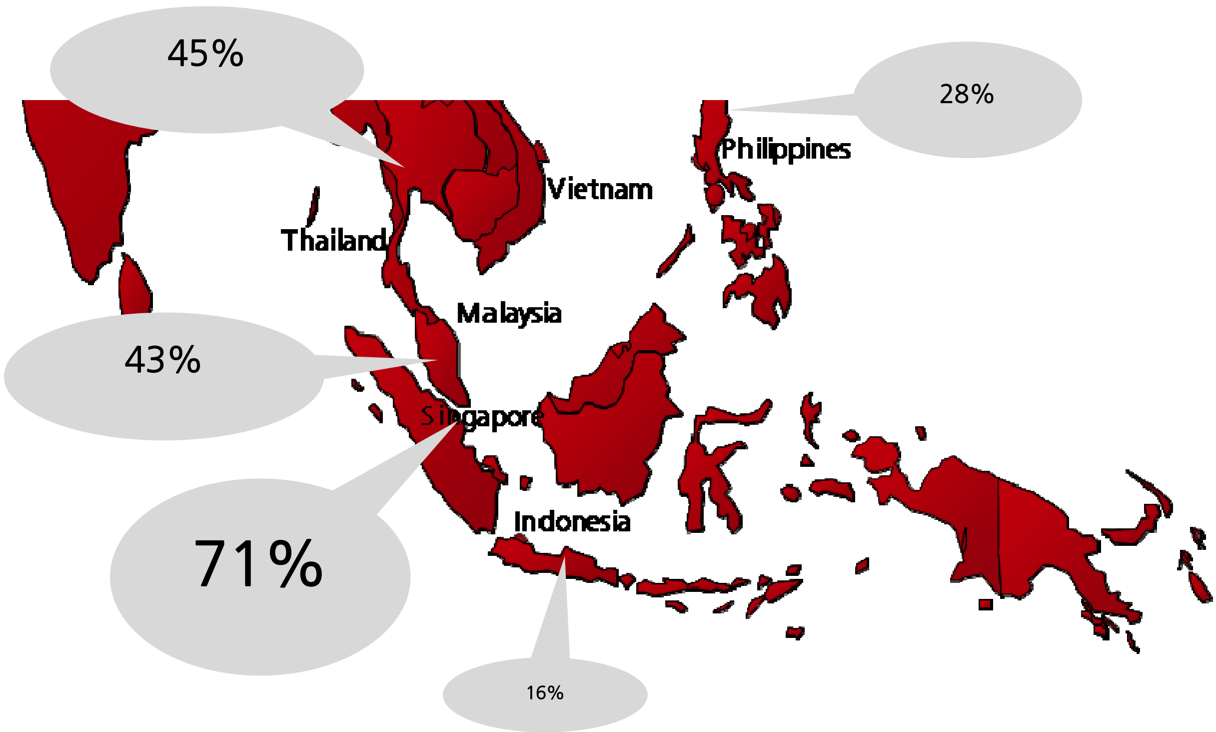
ASEAN 5 urbanised population stats

Million	Urban population 2011	Rate of urbanisation 2010-2015 est	Population million	Weighted average urbanised population
Singapore	100%	1.1%	5	5
Malaysia	72.8%	2.49%	30	22
Thailand	34.1%	1.6%	65	22
Indonesia	50.7%	2.45%	255	129
Philippines	48.8%	2.16%	*100	49
Total		2.3%	455	227

** Estimate*

Source: CEIC, CIA world Factbook, DBS Bank

Regional penetration of modern retail



Source: Euromonitor, DBS Bank

ASEAN's demographics, rising middle class and urbanisation bode well for modern grocery retail

Growing consumption to drive modern grocery retail's growth. We identify the key demand driver to be growing consumption in ASEAN, fuelled by urbanisation, wealth and affluence, rising middle income and an improving, highly urbanised lifestyle.

Urbanisation

Urbanisation, a key trend in supporting modern grocery retail. Regional urbanisation is offering opportunities for the rural population to become affluent. ASEAN individual economies' urbanisation rate is estimated to be between 1-3% by the CIA. Furthermore, ASEAN's urbanised population has headroom to grow, with several of its nations' urbanised population at below 50%.

Emerging ASEAN 5 is urbanising at rates in excess of 2%

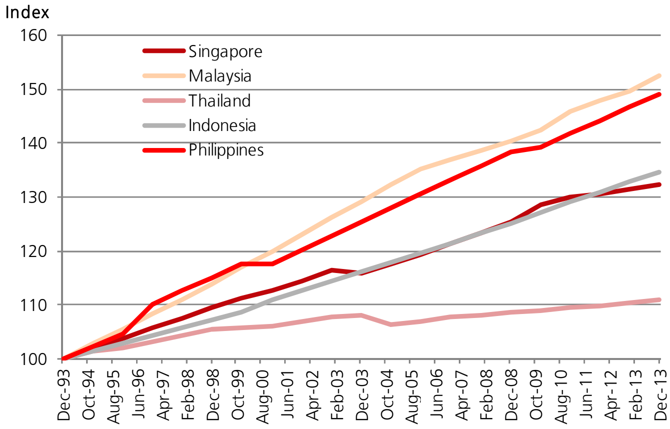
	Urbanisation rate (2010-15 est)	Urbanised population
Thailand	2.97%	49.2%
Singapore	2.02%	100%
Philippines	1.32%	44.5%
Malaysia	2.66%	74%
Indonesia	2.69%	53%

Source: CIA World Factbook, DBS Bank

Positive drivers of modern grocery retail as urbanisation rate outstrips population growth rate. We calculate that ASEAN 5's urbanisation rate on a population weighted average basis is 2.3% (from 2010 to 2015). This outstrips its population growth rate of 1.5%. While population growth is a fundamental driver of food demand, urbanisation provides opportunities for modern retail to grow. Higher selling prices in urbanised societies also raise the value demand. This is normally backed by higher disposable incomes and better marginal propensity to spend. The role of urbanisation towards growth of modern grocery retail is hence positive.

Regional population growth at 1.5%. Population weighted average growth of ASEAN 5 has registered a rate of c.1.5% for the last 10 and 20 years. Malaysia was the fastest-growing country at 2%, followed by Philippines (1.9%), Indonesia (1.4%), Singapore (1.3%) and Thailand (0.5%). Malaysia's rapid population growth was driven by the Malays. According to its Department of Statistics, Malays form 50% of total population and this is expected to reach 54% in 2040.

20-year weighted average population growth rates at c.1.5%

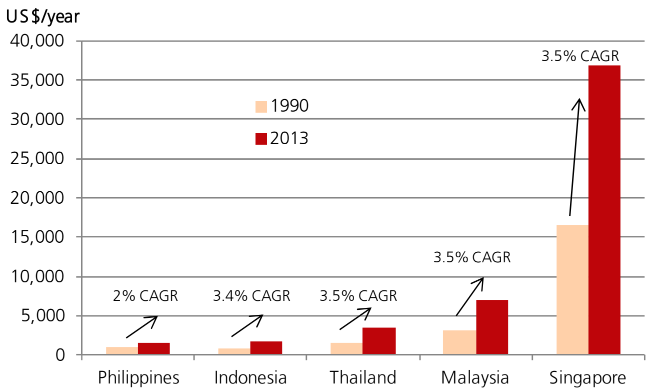


Source: ThomsonReuters Datastream, DBS Bank

Wealth

Increasing disposable incomes. GDP per capita in ASEAN 5 countries has increased at a 23-year CAGR of 2-3.5%. GDP per capita today is between 1.6-2.2x that of 1990. More notably, income per capita between 1990 and 2012 has risen by a higher 2.4-4.2%, fuelling increasing wealth trend in ASEAN 5.

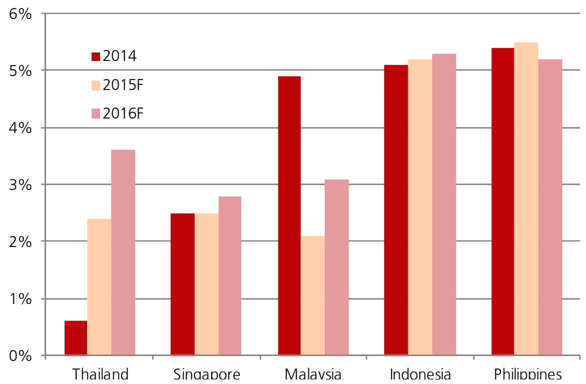
GDP per capita has increased in ASEAN 5



Source: ThomsonReuters Datastream, DBS Bank

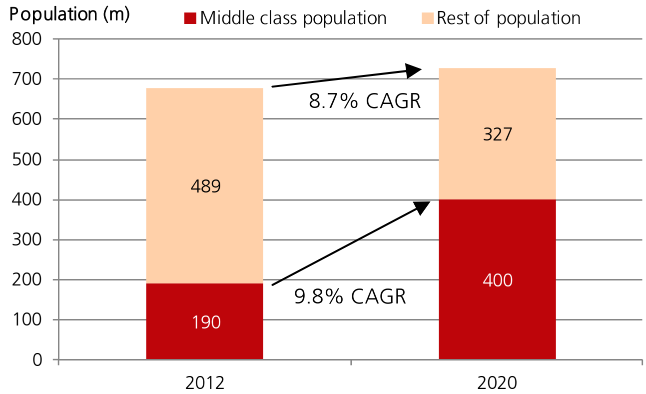
Private consumption growth is positive in ASEAN. Private consumption in ASEAN economies appears mixed over the short term. While consumption growth in Singapore, Thailand, and Indonesia is expected to accelerate, we expect that in the Philippines and Malaysia to decelerate.

Private Consumption growth y-o-y



Source: DBS Bank

ASEAN's middle class population to grow at c.10% CAGR



Source: Nielsen estimates, DBS Bank

Lifestyle

More educated, increasing needs and wants. Higher level of education and greater exposure to international products, particularly food, is a key factor to changing consumer demand. With higher education levels and increasing wealth, consumers can better afford imported food items. Consumer habits will hence transit from basic to branded and packaged food items. In addition, a more educated society with growing white collar workforce will seek convenience and comfort of grocery shopping in a more conducive and organised environment.

Literacy rates, lifting consumer demand from needs to wants

	Literacy rates	Tertiary education	>Upper secondary	Penetration
Thailand	96.4%	11.8%	27.0%	45%
Singapore	96.4%	27.3%	68.8%	71%
Philippines	95.4%	15.9%	55.8%	28%
Malaysia	93.1%	16.4%	50.9%	43%
Indonesia	92.8%	7.9%	28.9%	16%

Source: CIA World Factbook, UNESCO Institute of Statistics, DBS Bank

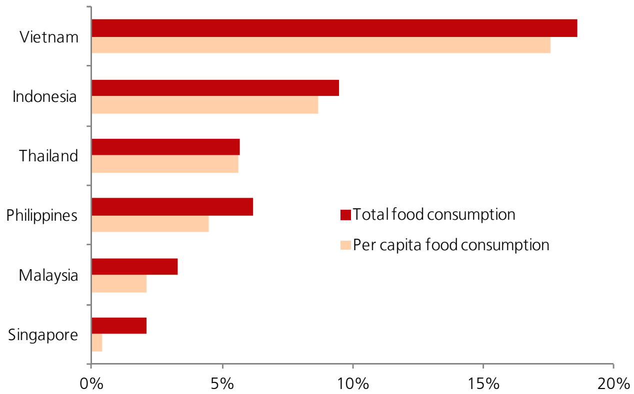
Rising middle class

Rising middle class will fuel food consumption. According to Nielsen, the middle class is defined as the category of people with the financial means to make purchase decisions of between US$16-100 per day based on their level of disposable income. It further estimates that ASEAN's middle class population in 2012 of 190m (28% of population) will double to 400m (55% of population) by 2020. This is largely attributed to regional economic growth.

Robust end demand

Robust demand for food. With the rising middle class and affluence trend, growth of food demand is expected to be buoyant in ASEAN (with the exception of Singapore). On a (2013) population-weighted basis, demand for food consumption and per capita food consumption will grow at a rate of 9.6% and 8.6% respectively.

Food consumption growth forecasts 2015-2019F



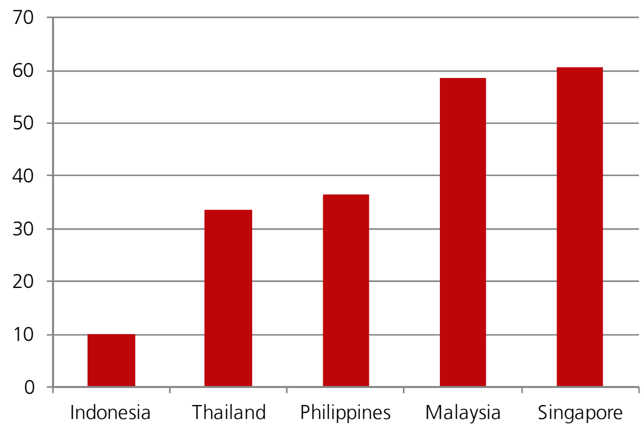
2013-2018 forecasts for Philippines
Source: BMI Research, ThomsonReuters Datastream, DBS Bank

Good growth opportunities in Indonesia, Philippines and convenience store formats

Different formats are used to penetrate different customer segments

Supermarkets can be found in higher-density areas. Supermarkets retail fresh and packaged food items and have retail space larger than convenience stores but smaller than hypermarkets. It is where consumers are able to replenish and stock up on the grocery items they use daily. They are typically self serviced, more organised and offer more product variety than traditional grocery retailers. Supermarkets position themselves across various consumer segments. Mass market supermarkets include Sheng Siong, NTUC Fairprice, Giant Express and Wellcome, while upscale supermarkets include Dairy Farm's Hero, Cold Storage and Marketplace. Supermarkets are well penetrated in high density areas such as city centres and high-density towns. Many supermarkets across ASEAN can be found within shopping malls and highly built-up suburban towns.

Number of supermarkets per 1m urban population



Source: Thomson Reuters Datastream, Euromonitor, DBS Bank

Key supermarket operators regionally

Market	Market leader	Market share	Stores 2014
Singapore	NTUC Fairprice	50.2%	98
Indonesia	Super Indo	8.6%	157
Malaysia	Econsave	17.1%	56
Philippines	SM Supermarket	13.1%	40
Thailand	Tops	19.7%	98
Total			449

Source: Euromonitor, DBS Bank

Find more extensive product variety and bigger shopping experience in hypermarkets. Being an extension of supermarkets, hypermarkets carry a wider variety of products which may include furniture, electrical and electronic products, outdoor equipment, automobile accessories, etc. Hypermarkets are commonly found in Big Box formats, due to the product variety they offer and the higher volume of inventory they carry. Hypermarkets dominate areas with lower population densities, where space is not an issue.

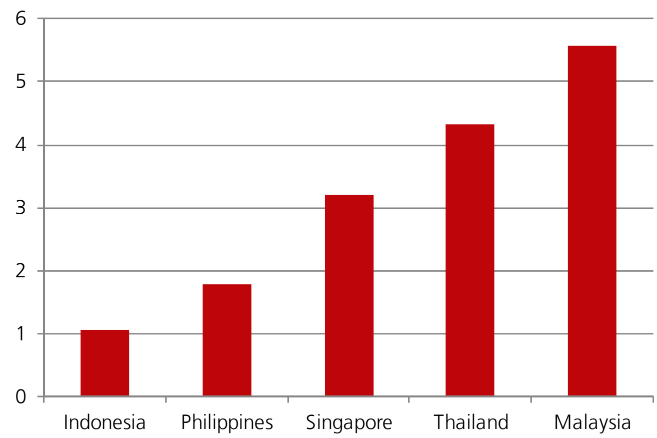
Hypermarket growth more prevalent in lower-density areas. In high population density areas such as Singapore, downtown Bangkok, Kuala Lumpur, Jakarta and Manila, supermarkets will be more common than hypermarkets due to the higher building densities. With the Big Box formats, hypermarkets are typically found outside of key city centres such as central Bangkok. In Singapore, retailers such as "NTUC Extra" offer a hybrid shopping experience between a supermarket and a scaled down hypermarket. NTUC Extra is found in shopping malls, but carry a slightly wider range of products than supermarkets. This can be an alternate hypermarket shopping experience in a high-density area. Based on country size, we find hypermarket growth more prevalent in Malaysia, Thailand, Indonesia and Philippines than in Singapore.

Key hypermarket operators regionally

Market	Market leader	Market share	Stores 2014
Singapore	Giant	55.5%	8
Indonesia	Carrefour SA	35.7%	74
Malaysia	Giant	43.8%	77
Thailand	Tesco	57.8%	151
Total			436

Source: Euromonitor, DBS Bank

Number of hypermarkets per 1m total population



Source: Thomson Reuters Datastream, Euromonitor, DBS Bank

Convenience stores can easily penetrate suburban areas in larger countries. Convenience stores offer more essential items and have a relatively narrower range of products compared to supermarkets and hypermarkets. Key products include tobacco, media, ready-to-eat and fresh food, packaged beverage, services, and personal/essential items. Many convenience stores operate 24 hours to capture "after hours" and "to go" demand. Shoppers at convenience stores may conduct repetitive top-up-shopping and typically do not stock purchases at home. Some stores may even offer dine-in areas for consumers. Convenience stores may have the potential to cannibalise supermarkets and hypermarkets, if consumers of certain markets do not practice stocking up grocery items. Where stores operate round the clock, prices of products are normally higher than supermarkets and hypermarkets to compensate for availability. Convenience stores operate on a smaller floor area. And with higher ASPs, this results in higher sales psf. The lower cost outlay and smaller unit size requirement to establish convenience stores ensures faster penetration in both urban and suburban areas. 7-eleven is the largest convenience store brand in ASEAN with over 10,000 outlets.

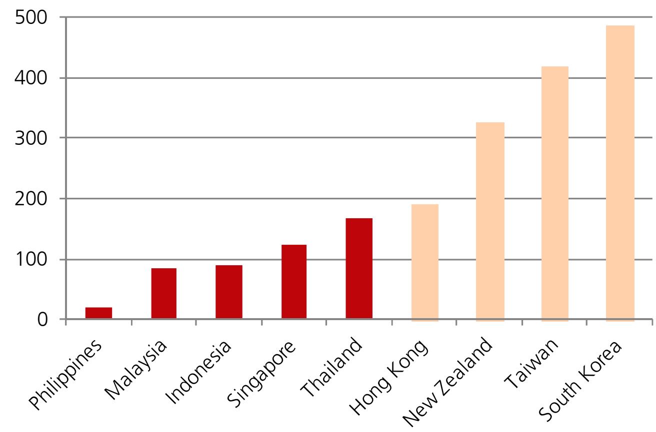
7-eleven convenience store operators

Market	Operator	Parent group	Stores
Thailand	CP All	Charoen Pokphard Group	6,898
Singapore	Dairy Farm Int'l	Jardine Group	445
Philippines	Philippine 7-Eleven	President Chain Stores	1,255
Malaysia	7-eleven Malaysia	Berjaya Group	1,745
Indonesia	Modern Int'l	Asialink Electronics[1]	225
Total			**10,568**

1 Substantial shareholder at <50% stake

Source: DBS Bank

Number of convenience stores per 1m total population



Source: Thomson Reuters Datastream, Euromonitor, Nielsen, DBS Bank

Health & beauty. This format is not strictly a store format under grocery retail. But increasingly, operators have diversified their procurement and retail capabilities into this area. It is evident in Dairy Farm which has Guardian/Mannings brands and NTUC Fairprice which has Unity stores. Dairy Farm has about 1,500 stores in North and South Asia. NUTC has 62 stores in Singapore.

Grocery retail market size (ASEAN 5)

2014 US$m	Super-markets	Hyper-markets	Convenience stores	Total
Indonesia	5,423.3	3,239.2	7,366.1	16,028.6
Malaysia	2,481.0	3,816.8	927.1	7,224.9
Philippines	8,581.4	2,581.2	614.4	11,777.0
Singapore	3,253.5	566.3	434.8	4,254.6
Thailand	4,737.4	8,582.6	9,021.1	22,341.1
Total	**24,476.6**	**18,786.1**	**18,363.5**	**61,626.2**
Store count	5,673	911	38,933	56,633
Sqft m	95	64	59	218
Sales psf	US$257	US$295	US$313	US$283

Source: Euromonitor, DBS Bank

ASEAN 5's sales psf matrices

2014 US$	Supermarkets	Hyper markets	Convenience stores	Total
Indonesia	181.7	181.7	199.9	189.6
Malaysia	100.1	291.3	289.1	175.8
Philippines	343.9	356.5	282.4	342.7
Singapore	823.4	571.2	787.4	774.3
Thailand	404.1	348.5	565.6	427.2
Total	**257.0**	**294.5**	**312.7**	**283.0**

Source: Euromonitor, DBS Bank

Growth opportunities abound

Indonesia has the largest headroom for modern grocery retail growth. Modern grocery retail in Indonesia is underpenetrated at just 16%. Number of outlets to population size lags more developed markets like Singapore and Thailand across all three formats. Yet, urbanisation rate is one of the fastest in ASEAN 5 at 2.69%. Modern grocery retail's growth for the past five years was 18%, the fastest in ASEAN 5 and higher than the 12% average. Fastest growth format was convenience stores (30% CAGR), followed by supermarkets and hypermarkets (12% and 10%).

Philippines offers early entry opportunities for modern grocery retail. We see opportunities in hypermarkets and convenience stores in the Philippines. These two formats have grown at a 5-year CAGR of 19% and 20% respectively. The number of hypermarkets per total population lags Singapore, Thailand and Malaysia, while there are only 20 convenience stores per 1m population, way below Malaysia and Indonesia's ratio of more than 80. Urbanised population and urbanisation rates are the lowest among ASEAN 5 countries at 44.5% and 1.32% respectively, providing early expansion opportunities for modern grocery retailers.

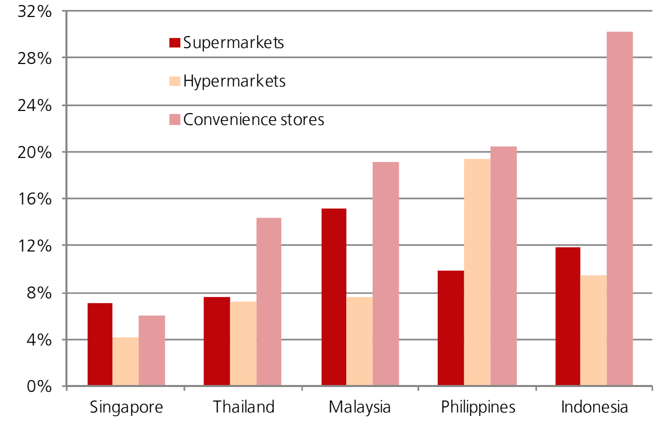
Concentration of stores in Southeast Asia

2014	Supermarkets	Hypermarkets	Convenience stores	Total	Population size	Modern grocery stores per 1m population
Singapore	303	16	621	940	5m	188
Malaysia	1,298	167	2,547	4,012	30m	134
Thailand	1,079	281	10,916	12,276	68m	183
Indonesia	1,362	269	22,818	24,449	254m	96
Philippines	1,631	178	2,031	3,840	108m	36
Total	5,673	911	38,933	45,517	465m	98

Source: Euromonitor, CIA World Factbook, DBS Bank

Growth opportunities for convenience stores in Malaysia. There is room for Malaysia to grow its convenience stores as the number of convenience stores per 1m total population lags behind Indonesia, Singapore and Thailand. However, it leads ASEAN 5 in supermarket and hypermarket outlets-to-population ratio. Among the three main modern grocery retail formats, convenience stores registered the fastest growth from 2009 to 2014 at 17% CAGR.

2009-2014 CAGR growth – Convenience stores and underpenetrated markets grew the fastest



Source: Euromonitor, DBS Bank

More room for convenience store to grow in Thailand. Even though Thailand is well stocked with convenience stores, it still lags that of Hong Kong, New Zealand, South Korea and Taiwan. Consumers outside of cities visit traditional markets for fresh food and supplement other purchases by visiting convenience stores. Convenience stores can potentially be situated within a few hundred metres of each other.

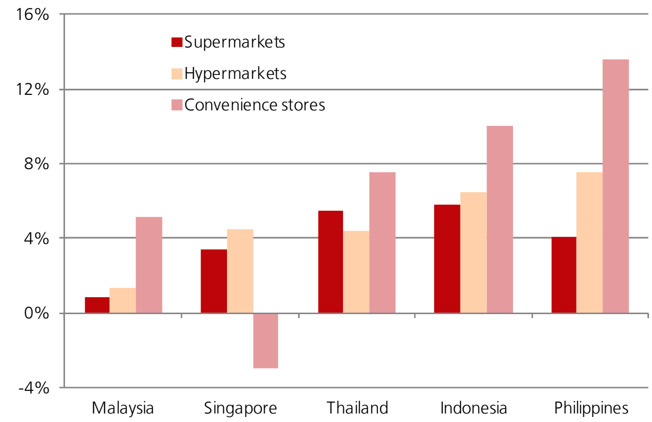
Singapore is fully urbanised with limited room for modern grocery retail to scale. Based on our urbanisation, income, penetration, number of stores-to-population ratio and modern grocery retail's growth statistics, the Singapore market is the most saturated in ASEAN 5. Nonetheless, modern grocery retail is growing ahead of traditional channels, albeit at a low rate. A fully urbanised society and limited wet market operating hours mean that most of Singapore's workforce will have to do their grocery shopping at supermarkets and hypermarkets.

Convenience stores is ASEAN 5's fastest growing format. Convenience stores have been the fastest growing format in ASEAN 5 because of the ease of setting them up in rural areas. Both floor area and capital requirements are lower compared to supermarkets. For places with lower population densities and higher suburban population, convenience stores are seen as a relatively straightforward way to penetrate traditional channels and introduce modern formats into the markets. We identify Indonesia and Philippines as growth areas, since their store-to-population ratios are still low.

Leading retailers are in the sweet spot

Key beneficiaries include 7-eleven Malaysia, Sheng Siong, Dairy Farm's Hero, Giant and Starmart in Indonesia and BIGC. Based on market share statistics of companies operating the various space, we expect the above companies to benefit. Most of these operators are market leaders in their respective segments and already have a meaningful number of stores countrywide to exploit growth going forward.

Growth forecast 2014-2019F CAGR



Source: Euromonitor, DBS Bank

ASEAN 5's growth pockets

Market	Format	Companies	Note
Indonesia	Convenience stores	Indomaret, Alfamart	Low store-to-population ratio. Fastest growth format in ASEAN 5.
	Hypermarkets	Carrefour, Hypermart	Low store-to-population ratio. Second fastest ASEAN 5 growth format.
	Supermarkets	Super Indo, Giant	Low store-to-population ratio
Malaysia	Convenience stores	7-eleven Malaysia	Lags ID, SG, TH's store-to-population ratio. Fastest growth format in MY.
Thailand	Convenience stores	CP All	Store-to-population ratio still lower than Taiwan, Korea, NZ and Hong Kong.
Singapore	Supermarket	Sheng Siong	Saturated but opportunities in niche locations in mass market segment.

Source: Euromonitor, DBS Bank

Understanding local consumption habits and the market leaders who will benefit

Why Indonesia's convenience stores dominate. Traditional grocery retail remains a main channel for grocery retail shopping. Outside of urbanised areas like Jakarta, the population continues to visit wet markets for fresh food in the mornings, and traditional warungs for other daily items ranging from cigarettes, beverages, to snacks and other food items. We believe the direct modernisation of warungs is in the form of convenience stores. Consumers are comfortable visiting these small shops for their purchases, yet are not overwhelmed by modern 10,000-sqft supermarkets. Convenience stores have the ease of being developed in suburban areas as they only require small traditional shop spaces to modernise and operate. Hypermarkets and supermarkets, on the other hand, normally require real estate such as land and shopping malls to be developed, which explains their relatively slower development.

Indomarket and Alfamart are best positioned to grow

	Supermarkets		Hypermarkets		Convenience stores	
No.	Brand	%	Brand	%	Brand	%
1	Super Indo	8.6	Carrefour	35.7	Indomaret	46.4
2	Giant	4.0	Hypermart	33.0	Alfamart	41.5
3	Ramayana	3.0	Giant	25.1	Alfa Midi	6.3
4	Others	84.4	Others	6.2	Others	5.8
	Total	100	Total	100	Total	100

Source: Euromonitor, DBS Bank

Hypermarkets dominate In Malaysia. The layout of many Malaysia towns tends to be spaced out and it is common for people to commute in cars. As such, there are many big box hypermarket developments in Malaysia. Hypermarkets are seen as a convenient place with a wide selection of products for consumers to visit. Supermarkets in suburban neighbourhoods play the role of supplementing hypermarkets, while convenience stores offer 24-hour service.

7-Eleven Malaysia has more headroom to grow

	Supermarkets		Hypermarkets		Convenience stores	
No.	Brand	%	Brand	%	Brand	%
1	Econsave	17.1	Giant	43.8	7-Eleven	75.7
2	Giant	6.6	Tesco	38.4	KK Supermart	12.8
3	My Mydin	4.3	Aeon Big	15.4	99 Speedmart	10.4
4	Others	72	Others	2.4	Others	1.1
	Total	100	Total	100	Total	100

Source: Euromonitor, DBS Bank

Convenient stores offer products and services that are within reach of consumers compared to supermarkets and hypermarkets. People continue visiting wet markets in Thailand as they find prices for fresh food relatively cheaper than in supermarkets. Wet markets in Thailand also operate longer hours than in Singapore, Malaysia and Indonesia. The opportunity to pick up fresh items from wet markets is therefore more convenient for the locals. For other items, locals normally look to convenience stores. Being small, convenience stores are able to penetrate the streets of Thailand easily. This allows locals to obtain grocery, food products, and other items from newspapers to ready-meal products, pay bills, purchase air or bus tickets, insurance and top up mobile phones "down the road" at any time. It is also less time consuming for them to make trips to supermarkets and hypermarkets. Although Thailand's convenience stores are most penetrated in ASEAN 5 by store-to-population ratio, it still lags Hong Kong, South Korea, New Zealand and Taiwan.

7-Eleven is a beneficiary of convenience store growth in Thailand

	Supermarkets		Hypermarkets		Convenience stores	
No.	Brand	%	Brand	%	Brand	%
1	Tops	19.7	Tesco	57.8	7-Eleven	78.1
2	Tesco	7.5	Big C	39.2	Tesco	9.9
3	Big C	3.7	Tesco Lotus Extra	3.0	Family Mart	5.3
4	Others	69.1	Others	0.0	Others	6.7
	Total	100	Total	100	Total	100

Source: Euromonitor, DBS Bank

Singapore is dominated by supermarkets. Singapore is fully urbanised and predominately supermarket dominated. Even though wet markets operate only in the mornings, consumers are able to purchase fresh products from supermarkets after working hours. As such, it is the preferred grocery shopping format for the working crowd. Some supermarkets operate 24 hours, offering a wider selection over convenience stores. Hypermarkets are less common in Singapore due to space constraints.

Most positive on SSG to grow in Singapore supermarkets

	Supermarkets		Hypermarkets		Convenience stores	
No.	Brand	%	Brand	%	Brand	%
1	NTUC Fairprice	50.2	Giant	55.5	7-Eleven	75.7
2	Sheng Siong	17.7	Fairprice Xtra	38.4	I-Econ	12.8
3	Cold Storage	12.0	Sheng Siong	6.1	Cheers	10.4
4	Others	20.1	Others	0	Others	1.1
	Total	100	Total	100	Total	100

Source: Euromonitor, DBS Bank

Retailers will continue to expand

Expanding organically and through acquisitions. In key markets, companies are expanding organically into new geographies. Store growth continues to underpin growth in grocery retail in ASEAN. Acquisitions are strategic, and will take place for the cash-rich or low-gearing companies whenever suitable opportunities at reasonable valuations arise.

Three drivers of growth. In grocery retail, growth is normally delivered by store expansion, SSSG and higher margins. Store expansion can be a function of available real estate, partnership opportunities or motivated by a lack of presence in certain geographies. Same-store-sales growth (SSSG) is the backbone of retailers' core growth. Promotions, enhanced product variety, footfall, and increased operating hours are among the factors that drive SSSG. Lastly, margins are driven by operating costs, direct costs and cost of goods. These can be improved via an operating scale.

Organic or acquire for store growth. Companies may acquire competing chains, or expand using their own resources to bring about growth. More often than not, companies end up growing organically. This is because they have more control over this approach for growth, such as locations and formats. Acquisitions, on the other hand, allow the acquirer to almost instantaneously penetrate and gain market share in markets that it is unfamiliar or has difficulty in entering. The most recent acquisition example is Dairy Farm's entry into Macau with its purchase of San Miu Supermarkets. In this case, Dairy Farm already has 7-Eleven convenience stores, Mannings health and beauty stores, and Starbucks in Macau. Its acquisition has allowed it to instantly enter the Macau mass market supermarket space with 15 stores.

Store growth still a key expansion theme

Companies are expanding to new areas, establishing new formats and introducing new product lines. Store network expansion and improving operating efficiencies continue to be a theme amongst ASEAN grocery retailers. While SSSG are expected to be in the low single-digit range, growth will be mainly driven through store expansion. Key grocery retailers which we track including Sheng Siong, 7-Eleven Malaysia, Dairy Farm, Big C are all on the store expansion mode.

Sheng Siong will expand into HDB estates it is not present in. Sheng Siong continues to look for store expansion opportunities and will open new stores in locations it is not represented. Rental rates are a key consideration to opening new stores since management believes this has a direct impact on store profitability. As such, it will continue bidding for HDB properties to keep rents low. Sheng Siong is present in 38 locations in Singapore, and targets to open 50 stores islandwide eventually.

Dairy Farm focusing on growing in North Asia. We believe DFI will likely concentrate its operations in North Asia as growth has been more encouraging than in ASEAN. It has faced cost pressures in ASEAN particularly in labour, dampening profitability. It has recent investments in North Asia – Macau's San Miu Supermarkets and China-based Yonghui Supermarkets.

Big C still growing store count albeit slower. BIGC will continue to open stores, but has toned down its hypermarket store expansion plan this year to one store (from three previously), postponing the other two store openings to next year. BIG C will however be increasing the number of stores to be renovated from eight to 13. Its new fresh-food distribution center (DC) should enhance its profitability by year-end. BIGC is maintaining its targets for SSSG at 1-2% and EBITDA margins at 11.4%.

CP All still penetrating Thailand with 7-Eleven. Despite softer consumption, SSSG should remain positive in 2Q15 at the targeted 3-5% in FY15, given the positive figures in April and May, efficient merchandising and promotions to counter weaker economic conditions. In FY15, CPALL plans to expand as aggressively as last year (expanded network by 698 outlets vs 600 previously). Meanwhile, CPALL will continue to focus on expanding sales of ready-to-eat food as that would increase traffic to the stores as well as lift gross profit margins. In addition, CPALL is expected to benefit from the lower utility costs, given the lower FT charges since May and the declining MAKRO acquisition-related expenses. CPALL plans to continue to focus on expanding sales of ready-to-eat products as these will attract traffic to its stores and lift GPM. CPALL will expand by 698 outlets in FY15F (from 600 stores previously) to grow by c.9% y-o-y. There is much room for growth, not only in Bangkok area but also in upcountry, after the weak consumption trend has passed.

Store network growth

	Store count	Tgt store opening
Sheng Siong	35	4-5 per year
7-Eleven MY	1,745	About 100-200/yr
Big C	636	188 FY15F
Dairy Farm	5,220*	n/a
CP All	8,127	c.700 FY15F

** excludes 50% owned Maxim's restaurants*
Source: DBS Bank estimates

Store expansion is a faster way to growth. Same-store-sales growth or SSSG is generally driven by various factors including advertising and promotional activities, seasonality (festive seasons), consumer spending and income levels, store/real estate age/maturity and rejuvenation, pricing, operating hours, footfall, population changes around the stores, competition from competitors, other formats and sales channels. In ASEAN, SSSG is low at 2.8%, with topline growth mainly driven by store expansion. Store expansion has enabled ASEAN's leading grocery retailers to slightly outperform (15% revenue growth) Euromonitor's historical growth CAGR of 12%. We believe this is attributable to market leaders deploying more financial resources into growth than smaller modern grocery retailers.

Leading ASEAN retailers are growing through new stores

5-year CAGR %	Revenue	SSSG	Store growth
Dairy Farm	9%	6%	4%
NTUC Fairprice	8%	4%	4%
Sheng Siong	3%	-4%	8%
7-Eleven	10%	0%	10%
CP All	26%	16%	9%
BIG C	12%	-25%	49%
Matahari Putra	4%	-3%	7%
Hero	4%	-8%	12%
Modern Int'l	6%	-31%	54%
Midi Utama	20%	0%	19%
Revenue wgt avg	14.7%	2.8%	13.1%

**3-year CAGR for Indonesia as 5-year data has low base effect*
Source: Thomson Reuters, Euromonitor, DBS Bank estimates

Growth strategies

	Key strategies	What could happen (Corporate activities)	e-commerce ready	Central distribution
Dairy Farm	Expanding into ready to eat products and services in its convenience stores and moving away from publication and tobacco business model. More focus on developing house brands to strengthen margins and bargaining power with suppliers. Improve efficiencies in operations, branding, products offers etc.	Expect mixed outlook on high costs in ASEAN while expansion in North Asia remains buoyant.	Yes	Yes
Sheng Siong	Growth is focused on three fronts – 1) new stores and SSSG in Singapore; 2) Plans for new China JV are on track for store opening in 2H15; 3) Continues to develop e-commerce business.	Store expansion and SSSG is expected to dominate growth in Singapore, while e-commerce will continually develop to capture growing online demand. New outlets in China targeted to open from 2H15.	Yes	Yes
Big C	Focused more on small store format (Mini Big C) expansion and exiting sites renovation. Also, it continues exercising its cost optimisation programme (from logistics, productivity)	Its cost optimization program (i.e. eliminating unnecessary CAPEX in new stores) and increasing rental income are expected to be a growth driver. We could see more of an management of lettable space (i.e. Alcudia renovation) which would create additional rental space to Big C. In addition, Big C will focus more on small store expansion. E-commerce is on track while we expect the business to be profitable within 2-3 years. Also, newly opened fresh food distribution centre should enhance its profitability.	Yes	Yes
7-Eleven Malaysia	Investing in new distribution centre that will increase capacity by 38%. Also investing in core IT systems to improve inventory/logistical operational efficiencies. Introduction of more products and services.	Expect growth to be driven by new stores. Store refurbishment, better product mix (e.g. introduction of fresh food), more services offered (e.g. bill payment, stored value card reload) will support growth. New distribution centre should help improve margins.	n/a	Yes
Hero Supermarket	Indonesia has seen higher labour, food management costs resulting in operational losses for 1Q14. Stores are being rationalized with closure of unprofitable stores.	Expect more focus on more efficient operations from distribution centres and and increased centralisation. It will be expanding ready-to-eat offering at Starmart convenience stores, fresh offering, and private labels. New IKEA segment will contribute.	n/a	Yes

Source: Companies, DBS Bank

Operating efficiently for sustainability and to strengthen market standing

Companies will try to operate efficiently… Companies are constantly looking for ways to improve operating efficiencies, be it by maximising revenue per square feet, improving working capital cashflows, faster logistics, better purchasing power by establishing distribution centres, or expanding margins through higher-value products, sales mix or minimising costs. The benefits of operating efficiently will bring about better cashflows, higher revenue, lower costs, improved margins and better profitability.

…to strengthen their bargaining power. While store expansion drives revenue, an efficient operation improves margins and cashflows. Generating positive working capital is the name of the game – taking on inventories on credit and selling for cash. The ability to generate positive working capital is therefore key. It is therefore how well a retailer obtains longer credit from suppliers at lower costs and how fast it turns over the inventory for cash in high volume. Smaller players will not have sufficient bargaining power with suppliers to purchase inventory on longer credit terms. Players with no scale may even have to purchase inventory on cash terms, resulting negative operating cashflows.

Sheng Siong and Big C are amongst the most efficient retailers in ASEAN. We have found companies operating efficiently to be Sheng Siong, Big C, DFI, CP All and NTUC Fairprice. Our criteria in identifying involve analysis of working capital management and cashflows, margins and growth. Sheng Siong and Big C stand out, and have the best operating matrices in all three areas. Both generate operating cashflows well above peer average as a proportion of both revenue and earnings. They are followed closely by DFI, NTUC Fairprice and CP All and Midi Utama, all of whom have decent net margins and generate positive working capital.

Best profitability – Sheng Siong and BIG C. Sheng Siong and Big C have by far the best net margins because of strong gross margins and efficient opex. Both Sheng Siong and BIG C have no debt and have lean operating costs. Most of Sheng Siong's stores are located in suburban areas which are relatively cheaper in rentals. BIG C has the support of rental income in its operations, which helps to boost margins.

Best working capital management – BIGC, CP All, NTUC Fairprice and DFI. Due to their operating scale, BIG C, CP All and DFI have the best working capital management. The Thai players each has more than 500 stores, while DFI and NTUC Fairprice each has the biggest network of stores regionally and in Singapore. This has given them slightly bigger bargaining power with suppliers (for payment) and with credit card companies (for collection). The key difference for these companies is in the payment days, all of them sport longer-than-average payment days with suppliers. Operators should strengthen their bargaining power with suppliers and maintain decent inventory and collection to achieve good working capital management.

Best cashflow – Sheng Siong, Big C. There are many grocery retailers which generate operating cashflows in excess of earnings and revenue. But BIG C and Sheng Siong stand out. Both operating cashflow generated as a proportion of earnings and in particularly, revenue is impressive. It is however noteworthy that Dairy Farm, NTUC Fairprice and Midi Utama also generate decent amount of operating cashflows due to their working capital management ability.

Operating cashflow

US$m	Op CF	Earnings	OpCF/E	CF/Rev
Sheng Siong	55	43	1.3	0.10
NTUC Fairprice	128	96	1.3	0.06
7-Eleven MY	26	26	1.0	0.05
Big C	723	365	2.0	0.10
CP All	345	267	1.3	0.05
Dairy Farm	676	591	1.1	0.06
Sumber Alfaria	125	43	2.9	0.04
Matahari Putra	40	45	0.9	0.04
Hero	-10	4	-2.7	-0.09
Siam Makro	233	148	1.6	0.05
Modern Int'l	2	3	0.5	0.02
Midi Utama	28	11	2.5	0.06

Source: Thomson Reuters, DBS Bank

Grocery retail operating matrices

	Presence	Type	Inventory days	Payable days	Collection days	CCC	Gross margins	Net margins	Sales psf/yr
Dairy Farm	Pan-Asian	S, H, CS, H&B	48	115	8	-59	30%	4.6%	n/a
NTUC Fairprice	Singapore	S, H, CS, H&B	29	75	3	-44	20%	4.2%	US$1,200
Sheng Siong	Singapore	S	30	62	6	-26	24%	6.6%	US$1,300
Puregold	Philippines	S, H, D, CS	54	57	7	4	17%	5.2%	US$385
Robinsons Retail	Philippines	S, CS, H&B	47	78	6	-24	23%	4.5%	US$396
Philippine Seven	Philippines	CS	29	50	11	-10	25%	5.1%	US$226
7-eleven	Malaysia	CS	39	96	19	-38	29%	3.4%	US$270
Siam Makro	Thailand	S, H	29	57	4	-23	11%	3.4%	US$864
CP All	Thailand	CS	28	76	1	-47	21%	3.2%	US$1,043
BIGC	Thailand	H, D, CS, H&B	39	102	1	-63	15%	6.1%	US$296
Sumber Alfaria	Indonesia	CS	44	47	13	10	11%	1.3%	US$1,242
Matahari Putra	Indonesia	S, H, H&B	80	63	11	28	17%	4.1%	US$146
Hero	Indonesia	S, H, CS, H&B	72	52	9	29	23%	0.3%	US$139
Modern Int'l	Indonesia	CS	98	33	47	112	41%	2.8%	US$60
Midi Utama	Indonesia	CS	50	55	7	2	24%	2.3%	n/a
Simple Average			**48**	**68**	**10**	**-10**	**22%**	**3.8%**	

S – Supermarkets; H – Hypermarkets, CS – Convenience stores; D – Discounters; H&B – Health & Beauty stores

Source: Euromonitor, DBS Bank

How companies can get ahead of the competition

Local knowledge is important in developing modern grocery business

The need to understand different food consumption patterns in various markets. Modern grocery retail vastly differs among various markets. Different markets exhibit different demographics, consumption patterns, wealth, appetite for high/low-end goods, stages of economic growth, and modern retail penetration. For instance, the grocery retail landscape in Singapore is vastly different from Indonesia, as Singapore is developed and urbanised, while Indonesia is still developing. We therefore believe that local knowledge in individual markets is essential in growing modern grocery retail in ASEAN. Different formats would dominate different markets, since food shopping and consumption habits vary. Singapore and Phiippines are characteristed by the high number of supermarkets (54% and 21% of total grocery retail sales respectively). In Malaysia, hypermarkets and supermarkets dominate with 36% of the market, and in Thailand 34% of total grocery sales are attributed to convenience stores and hypermarkets. Some local factors to consider when starting a grocery store include consumer tastes, localised products, sourcing and procurement, trade agreements for importing food products, income levels, acceptance of imported labels, shopping habits across the various formats, location.

Larger players have scale, while smaller players are more nimble in adapting to changes

More resources to expand, being a large grocery retail player. Dairy Farm is the largest Pan Asian retailer. It has presence across more than 10 countries with over 5,000 stores including supermarkets, hypermarkets, convenience stores, health & beauty stores, and home furnishing stores. It has largely a premium positioning in its supermarkets in ASEAN; in Cold Storage in Singapore, Rustan's in Philippines, and Hero Supermarkets in Indonesia. Being the largest Pan Asian retailer, its strong balance sheet allows it to acquire companies and expand much faster than smaller players. Due to its operational scale, it is able to generate above average gross (30%) and net margins (4.6%) vs peer average of 22% and 3.8% respectively. Better cashflows and procurement for better working capital.

Smaller players can be more nimble in their strategy. While scale is an advantage to larger players like Dairy Farm, we find medium-sized players to be more nimble. Although they lack the scale, bargaining power and financial resources of the bigger players, it is easier for these players to quickly reorganise when there are changes in the operating landscape. Sheng Siong, for example, was able to use part-time workers to alleviate potentially higher staff costs when the Singapore government implemented higher foreign worker levies.

Food offering

Growing middle class will be more demanding on quality of food products. A more affluent middle class will drive higher demand for food. That will also mean that with higher standards for food quality. We believe food safety, health, nutritional value and origin of food sources will become increasingly important, product value aside. We believe this will be more prevalent in affluent markets such as Singapore and developed cities where standard of living is higher.

Food producers will need to deliver higher standards to consumers. For food producers, it simply means that the safety and quality of products cannot be compromised. Apart from food quality, branding, packaging and nutritional value will help to build brand identity and traction with consumers. It is then up to retailers to offer such products to enhance their product offering and build customer traction.

Premium products carry better margins. More value can be extracted from the market with "massteige" products. This is basically offering higher-end products to absorb the demand of consumers who are willing to pay more for premium products. Due to branding and product differentiation, these products can command better margins both for the supplier and the retailer.

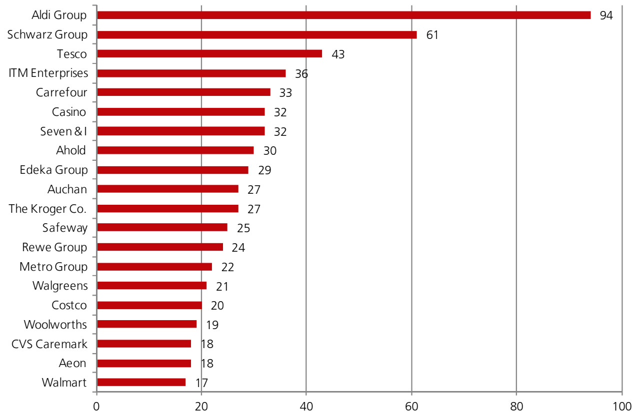
Loyalty programmes

Improves customer loyalty and sales. Loyalty programmes improve sales and boost customer traction. Premiums for loyalty programmes can be sponsored so that retailers will need not bear the costs of running loyalty promotions. They can come from direct sponsorship from suppliers or channeling supplier rebates into the loyalty programmes. By far the simplest programme is the point system, where accumulated purchase amounts are able to earn the customer direct rebates on future purchases. This is followed by accumulating purchases in exchange for premiums over a promotional period and lucky draws. Some lucky draws can be embedded into televised variety show programmes.

How much private label mix should retailers offer?

The private label dilemma. We believe private labels are an area which operators need to take a view on. On the one hand, private labels allow retailers an opportunity to increase profit margins. On the other hand, retailers must offer variety and choices to consumers in terms of their selection. In addition, it will be delicate to manage the relationship with brand owners and suppliers if private labels come in direct competition with their suppliers' products. Bargaining power of retailers aside, any mismanagement could put credit terms, supply allocation and display shelf income at risk. While private labels are normally priced lower and are more affordable to consumers, we believe the food quality of private labels is likely to resonate less with consumers who are familiar with mainstream brands. Unless consumer can identify with the private labels, the products can have an adverse impact on footfall if retailers' proportion of private labels is too high. Private label of Dairy Farm and Sheng Siong currently stands at <10%.

Private label share of net sales by the world's top 20 private retailers in 2010



Source: Statista, DBS Bank

E-commerce is both an opportunity and a potential threat to physical stores

It would take a change in consumer behaviour for grocery retail e-commerce to take off

Grocery retail's physical presence is well penetrated in downtown areas of key cities. Grocery retail is prevalent and well penetrated regionally. Regional store network and expansion plans of grocery retailers are making it more convenient for people to shop. Formats penetrate ASEAN food consumption in different manners. Supermarkets will always be a key feature in malls located in densely populated cities. Convenience stores are strong in penetrating every corner of cities and in obscure locations outside them. Hypermarkets are capable of capturing consumption in more spaced-out locations with high automobile accessibility. With modern and traditional grocery retailers situated in cities and neighbourhoods, it is convenient for consumers to pick up grocery items physically and even on the move. Purchasing habits need to change and online grocery retail may take time to catch on.

Grocery retail channels

Traditional retail → Modern retail → Click and collect → Online

Source: DBS Bank

Online grocery shopping remains a new retail concept. A key benefit of moving physical stores online is savings on high rental costs as opposed to operating a web page. While online shopping is taking off for non-food products in developed cities and places with higher internet penetration, online grocery shopping is still at its infancy. The system needs to prove itself first with the mechanics and economics of delivering fresh food at affordable prices to consumers, followed by the development of a successful payment/delivery system in less-developed areas.

Mechanics of delivering fresh food at viable economics need to be tested. The challenge we feel for food and grocery items is freshness and delivery time. Unlike non-perishable items, freshness of grocery products is a fundamental requirement to making online grocery retail work. With freshness and product quality come added costs. Delivery costs will be relatively higher with efforts to preserve freshness in the delivery channels. Otherwise, products available for online grocery retail would be limited to packaged grocery items with longer shelf lives and expiry dates.

Payment and delivery systems need to withstand integrity in less-developed areas. In less-developed places in ASEAN, internet literacy rates (how to shop online) and the integrity of payment/delivery mechanics need to be in place to facilitate use of online grocery retail channels. Success in payment/delivery systems gives consumers confidence to make online purchases, failing which, a breakdown in the system will trigger a viscous cycle of consumers not purchasing and retailers not offering online solutions.

Chasing quadrality – Convenience, quality, assortment, price. We believe online grocery retailing entails delivering convenience with product variety and quality at a reasonable price. Retailers need to respond at short notice apart from delivering correct orders and above all, freshness to the consumer. Overall online experience is important for it to take off as well, the end game of online grocery shopping is to provide seamless shopping experience from ease of making purchases to successful delivery and customer satisfaction.

Economically not viable for retailers to spread catchment and distribution to more obscure areas. Distribution area and network is another key concern for online grocery retailers. Retailers need to determine their addressable markets and their returns before deploying logistical resources in e-commerce. With fresh products in the mix, delivery time has to be fast and chilled trucks need to be employed, in addition to fuel and staff costs. While delivering to obscure locations is possible, costs for consumers are likely to run up, which deflect online demand in obscure locations back to the stores. The risk is that ticket sizes and transaction volumes do not yield sufficient returns for the online retailer to deliver if delivery costs are absorbed. We believe the only motivation for doing so is to gain market share for delivery orders to more obscure areas.

Gap exists between what retailers can practically offer and consumer expectations

	Consumer expectations	Retailer challenges
Quality	Limited QC	Delivering freshness
Assortment	Expects variety	Limited deliverable range
Delivery	Quick delivery time	Limited coverage area
Pricing	Avoid additional costs	Logistical costs

Source: DBS Bank

Lower QC packaged products to first gain acceptance for deliveries ahead of fresh/chilled food. Consumers have different individual preferences in their selection of fresh grocery items. In fact, the experience to touch, feel and inspect fresh food (e.g. fruits, fresh seafood and vegetables) is a key feature in traditional and modern grocery retail shopping. With packaged products, consumers also have the benefit of inspecting expiry dates. In online grocery retail shopping, consumers lose the right to quality control (QC), particularly over fresh food's physical appearance and expiry dates of packaged products. The Onus is now on the retailers to deliver products in top quality and freshness. Additional responsibilities include ensuring that packaged products are delivered in perfect condition (e.g. no dented cans or torn paper and cracked plastic packaging). For a start, we expect packaged products (especially fluids such as beverages and detergents, etc.) with lower QC requirements to gain online acceptance ahead of fresh food.

Fresh products require more QC than packaged products

Quality control	Fresh & chilled products	Packaged products
Colour, physical appearance	Higher QC	Lower QC
Packaging condition	Lower QC	Higher QC
Expiry date	Higher QC	Lower QC
Overall attention to QC	Higher	Lower

Source: DBS Bank

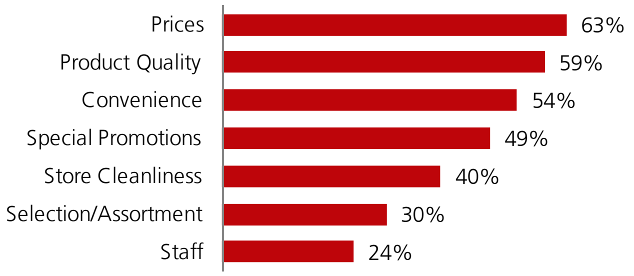
Not all countries are ready for e-commerce. With the exception of Singapore and Malaysia, other ASEAN markets do not appear ready for online business. Low internet penetration, undeveloped logistical infrastructure, little trust in payment systems and even counterparties are key impediments to the growth of e-commerce business.

Singapore and Malaysia are most ready for online business

	Internet penetration	Logistical infrastructure	Payment security	"Banked" population
Singapore	High (80%)	Good	High	98%
Malaysia	High (67%)	Good	Low	66%
Thailand	Low (30%)	Poor	Low	79%
Indonesia	Low (28%)	Poor	Low	20%
Philippines	Low (41%)	Poor	Low	27%
Vietnam	Low (44%)	Poor	Low	21%

Source: Nielson Research, AT Kearney, World Bank, DBS Bank

Price, quality and convenience rank as top switching factors



Source: Nielson Research, DBS Bank

Is Redmart a threat to modern grocery stores?

An internet company that runs two business models. Redmart is a recently established online company selling groceries in Singapore. Its shareholders include Eduardo Saverin, a co-founder of Facebook. Redmart runs two business models. One of which is direct selling, and the other is a platform for suppliers to sell directly to consumers with Redmart taking a percentage of sales. There are over 8,000 products in stock including fresh meats, vegetables, fruits, household essentials and ready-to-cook meal kits. It delivers everyday to any location in Singapore (10am to 10pm). Customers can also collect their groceries at designated collection points (4pm-9pm, 4 days a week). Fees of S$7/S$3 are levied for delivery orders below S$75/S$30 for self collection at designated spots.

Redmart has 0.2% share of the market

Revenue	S$13m
Singapore modern grocery retail market	S$6bn
Share of market	0.2%

Source: ACRA, Euromonitor, DBS Bank estimates

Not a threat for now as Redmart is still running at a loss and share of market is small. According ACRA (Accounting and Corporate Regulatory Authority), Redmart's revenue and earnings for the year ended 30 June 2014 was S$13m and –S$10m respectively. Assuming if all costs remain fixed and gross margins are maintained at 18%, Redmart would need to grow its sales by 5x to S$69m (1.2% market share) to achieve breakeven. Hence, we do not see any threat from Redmart for now. But Singapore grocery retailers would need step up their e-commerce efforts if Redmart does grow aggressively over the next few years.

S$10m losses for FY14, needs to grow sales

Jun (S$m)	FY14	% sales
Revenue	S$12.9m	
Gross profit	S$2.3m	
Gross margin	18%	
Other income	S$0.1m	
Warehousing costs	S$2.6m	20%
Despatch costs	S$1.8m	14%
Marketing and sales expenses	S$1.4m	11%
Technology costs	S$1.0m	8%
Admin expenses	S$5.7m	44%
Total opex	S$12.5m	97%
Net profit	-S$10.1m	

Source: ACRA, Euromonitor, DBS Bank estimates

QR code shopping could be an alternate channel in the future

QR code supermarket in subways. QR code supermarket shopping or virtual supermarket started in Korea in 2011. Pictures of supermarket shelves were plastered on subway platforms with QR codes allowed commuters to shop for groceries over the virtual platform while waiting for trains. Items would be delivered to the customers when they get home.

QR code virtual shelf on subway platforms

Source: gaijitz.com, DBS Bank

QR code grocery shopping in subways

Source: gaijitz.com, DBS Bank

QR code shopping in Singapore. QR code virtual supermarket was available in Singapore from 7 December to 20 December 2011 at Bugis and Boon Lay MRT stations, thanks to Cold Storage (a DFI company). Christmas delicacies including turkey, ham and baby back ribs were available for order. Customers transacted through credit cards.

Cold Storage's Christmas fare for order

Source: Yahoo news, DBS Bank

Convenient for customers. QR shopping saves consumers time as they can shop while waiting for their train. It could well alleviate weekly grocery shopping trips if sufficient items are offered for sale. Besides, delivery allows customers to purchase heavy and bulky items without having the need to physically transport them.

Scan QR code to place order

Source: Yahoo news, DBS Bank

More robust for retailers. With QR code, shelf space is now virtual and resides on walls and pillars like advertisements. Selling now becomes more robust since retailers can place their products at almost "anywhere". They key difference would be cost savings in operating expenses such as labour, store rental and utilities. However the limitation will be availability of advertising space, taking into account the thousands of SKUs available in grocery retail stores.

QR code shopping can be extended on any wall or vertical space

Source: gaijitz.com, DBS Bank

Could be a potential e-commerce space in the future. This form of grocery shopping has yet to take off in a big way, even in Korea. But nonetheless, we believe that there could be a potential market in the future. This is provided the economics and convenience make sense for both service providers and consumers.

QR code virtual shelves on pillars

Source: gaijitz.com, DBS Bank

Conclusion

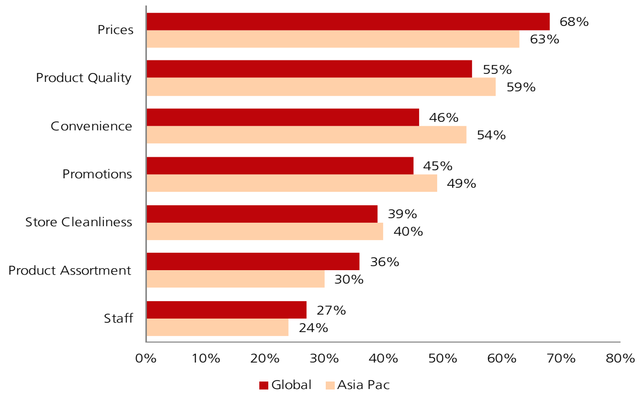
E-commerce is unlikely to replace physical stores in modern grocery retail. Online grocery retail is in its early stages in ASEAN. The market has to gain internet literacy and trust in online transaction systems, especially in less developed markets. Complications also lie in preserving the food's freshness upon delivery. We hence believe that online grocery retail will only take off after non-food items (e.g. clothing, electronic components and furniture), and the click-and-collect business model. The ability of the online business to offer convenience, quality and product assortment to consumers at attractive prices for a profit is currently a challenge. Developed cities – Singapore, Kuala Lumpur and Bangkok – which have higher internet penetration and physical mobility will likely see e-commerce take off first. Ultimately, the business of grocery retail exists for everybody, whether traditional or modern, regardless of store format and internet accessibility or online literacy. Physical stores will therefore continue to exist and the modern grocery retail business remains very much an in-store purchasing experience. Any worries of cannibalisation are alleviated for now as both physical stores and web stores will likely co-exist even if e-commerce in modern grocery retail develops in a bigger manner.

Which grocery retailers are online ready?

	Online store	Distribution centre	Own logistics
SSG	Yes	Yes	Yes
Big C	Yes	Yes	Outsourced
PGOLD	No	No	No
DFI	Yes	Yes	n/a
NTUC	Yes	Yes	Owned & outsourced
Hero	No	Yes	n/a
Redmart	Yes	Yes	Yes

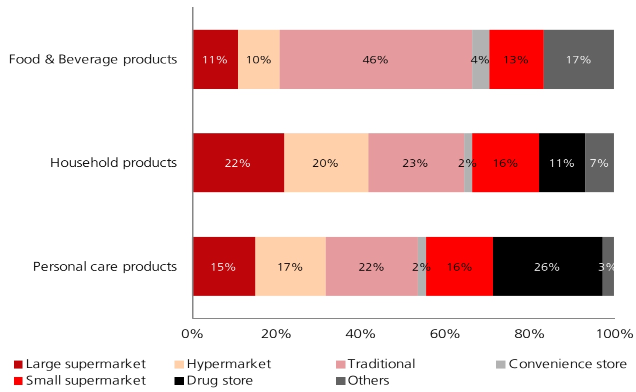
Source: DBS Bank

What do consumers consider when grocery shopping?



Source: Nielsen Research, DBS Bank

Where consumers shop depends on product category (for developing countries)



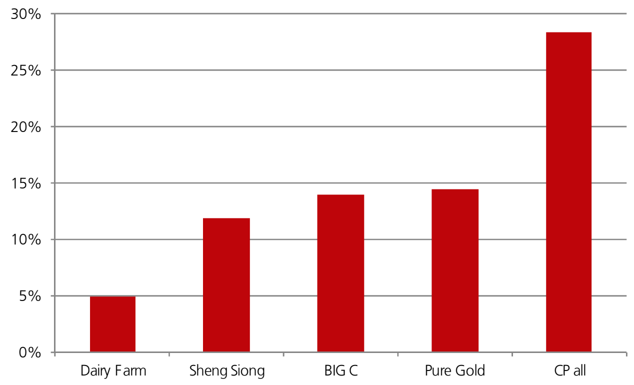
Source: Nielsen Research, DBS Bank

Growth is a main stock theme among regional grocery retailers

Buy growth at reasonable valuations

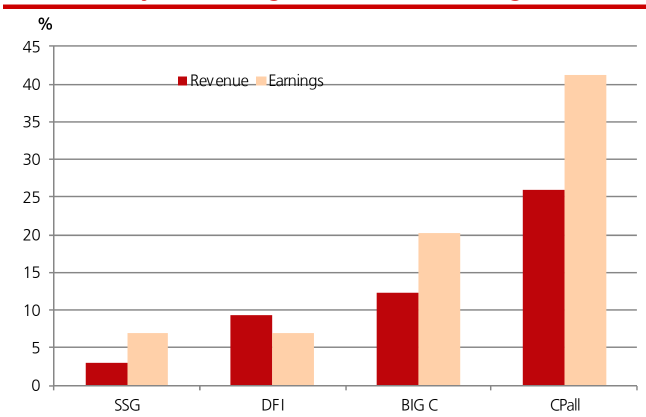
We are positive on the sector. The food retail sector is generally defensive and has attractive ROE of over 25%. Companies are still growing. Historical 5-year earnings CAGR among our five stocks ranged from 5% to 45%. We expect earnings growth of between 4-28% for our stock coverage, mainly driven by store openings and penetration.

2-year earnings CAGR 2014-2016F



Source: DBS Bank

Historical 5-year CAGR growth of our coverage universe



Source: DBS Bank

Valuations

Region trades at 27x forward PE. We note that valuations for regional grocery retail stocks trade at average of 27x forward PE. Indonesia peers trade at a slight premium of 31x PE. This is largely due to scarcity of modern grocery retail stocks in Indonesia and on the back of strong mass grocery retail growth anticipated in Indonesia. On an ex Indonesia basis, regional peers trade at 25x PE.

Stock picks

Top picks are DFI and SSG. Among our coverage, we are more positive on SSG and DFI. We like **DFI** for its attractive valuations, **SSG** for its growth traction and yield. We find **CP All's** valuation relatively stretched even though earnings growth is expected to be strong. We are Neutral on **BIGC** as growth is expected to be slower going forward. We are avoiding Indonesia plays due to high valuations of >30x PE.

Sheng Siong (SSG SP) BUY, TP S$0.98. We like Sheng Siong for its strong operating efficiency, above-average margins, growth through store and margin expansion in Singapore, China expansion and e-commerce initiatives in the longer term. Store expansion has been encouraging this year, having already opened four stores to reach 38 outlets currently. It targets to have presence in 50 locations in Singapore eventually. Margins are expected to continue expanding through 1) more direct sourcing of products; 2) higher usage of distribution centre; and 3) higher fresh food product mix. Its China development is also on track, scheduled to open its first store in 2H15. Topline growth along with ongoing margin expansion initiatives (distribution centre, product mix) is expected to contribute to earnings CAGR growth of 12%. We raise our TP to S$0.98 in anticipation of better than expected earnings on gross margin improvement.

Dairy Farm (DFI SP) BUY, TP US$10.42. We are positive on Dairy Farm's valuations. The stock currently trades at 22x FY16F PE, which is below peer average, despite its relatively much bigger presence, operations and store network. Our SOTP-based method values the stock at US$10.42, a modest PE valuation of 26x. We value its core business at US$9.87 and its 20% stake in Yonghui superstores at US$0.73.

CP All (CPALL TH) BUY, TP Bt50.00. Domestic consumption remains weak. And, given high household debt, weak exports, and low agricultural prices, consumption is unlikely to recover soon. This will continue to drag SSSG of most retailers. Nonetheless, CPALL achieved +0.3% SSSG in 1Q15 and is sticking to its target of 3-5% SSSG in FY15, driven by efficient merchandising and promotions. Earnings growth is expected to be strong, fuelled by a larger network of close to 700 stores and fatter margins. The company will focus on growing sales of ready-to-eat food to increase traffic to its stores, and will also benefit from lower utility costs because of lower FT charges since May, the declining MAKRO acquisition expenses, and smaller interest expense. CPALL is our top pick in the retail sector because it is expected to register strong earnings growth (+28% in FY15F), and there is upside potential from its plan to divest part of its MAKRO stake to strengthen its balance sheet. Also, CPALL offers small ticket size items and is a food staple retailer, which means it will perform better than retailers of discretionary items.

BIG C (BIGC TH) HOLD, TP Bt214. BIGC's operations are recovering, albeit slowly, with net earnings expected to grow by 11% this year. It has paced down its expansion plan because of weak consumption, including opening only one hypermarket instead of three. It will focus on small store format and converting some retail space into rental areas to lift profitability, but the contribution should remain small. We have a HOLD rating for BIGC on expectation of slower growth ahead.

Stock pick comparison

	SSG	DFI	BIG C	CP All
Valuation FY15F PE	24.6x	21.8x	19.7x	31.6x
Market Cap (US$m)	949	11,764	4,572	11,924
Recommendation	BUY	BUY	HOLD	BUY
TP	S$0.98	US$10.42	Bt214	Bt50.00
Dividend Yield	3.7%	2.8%	1.5%	2.2%
Payout	90%	>50% historically	30%	50%
FY14-16F EPS CAGR	11.9%	4.1% (lower due to Yonghui acquisition debt assumption)	13.6%	27.5%
Key positive	Clear market share winner in Singapore's mass market grocery retail space	Stock is relatively cheaper than SSG. Priced similar multiple to SSG yet offers a larger footprint and more diverse grocery retail formats	Big C is a dominant player in Thai hypermarket space with attractive expansion plan	Right business formats and strong operating performance
Exposure	Singapore only, starting Kunming China supermarket JV in 2H14	Pan Asian	Thailand	Thailand
Formats	Supermarkets	Supermarkets, Hypermarkets, Convenience, Health & Beauty stores	Hypermarkets, Supermarkets, Drugstore, E-commerce	Convenience stores
Growth prospects	Margin expansion, SSSG	Acquisitions	Rental space and smaller store expansion, cost optimisation program	Margin expansion
Key negative	Limited growth opportunities in Singapore	Interest cost for Yonghui acquisition debt could weigh down on future earnings growth	No clear sign of recovery in domestic consumption	Slow domestic recovery

Source: DBS Bank

Summary table

	Singapore	Malaysia	Thailand	Indonesia
Modern grocery retail penetration	71%	43%	45%	16%
Value of modern grocery retail 2014	US$4.3bn	US$7.2bn	US$22.3bn	US$16.0bn
Dominant format	Supermarkets	Hypermarkets	Hypermarkets and Convenience stores	Supermarkets and Convenience stores
Growth segments	Supermarkets	Convenience stores	Supermarkets	All formats
Market comments	Limited headroom for growth as penetration is already high, more growth coming from market share gains and margin expansion	Lags Indonesia, Singapore and Thailand in store to population ratio	Low store-to-population ratio in supermarkets	Penetration of modern grocery retail is still low relative to other ASEAN markets
Market leaders	Dairy Farm, Sheng Siong, NTUC Fairprice	Dairy Farm, 7-Eleven Malaysia	Tesco, CP All (includes Siam Makro), BIG C	Modern International,
Number of listed players	3	1	3	4
Market growth rate	2.9%	1.7%	5.9%	7.9%
Stock earnings growth	8%	18%	20%	11%
ROE	29%	30%	36%	18%
Buy recommendations	Dairy Farm Sheng Siong	n/a	CP All	n/a

Source: Euromonitor, DBS Bank estimates

ASEAN 5 grocery retail market trades at valuations of 27x PE

Company	Rating	TP	Market Cap (S$m)	Px Last	PE (Act)	PE (Yr 1)	PE(Yr 2)	P/BV (x)	P/Sales (x)	ROE (%)	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)
South East Asia Retailers													
Dairy Farm Intl	Buy	10.42	16,126	...	23.5x	21.8x	21.7x	7.2x	1.0x	35%	4.8%	4.6%	2.8%
CP ALL	Buy	50	16,345	...	42.1x	31.6x	25.9x	11.3x	1.0x	39%	6.1%	3.2%	2.2%
Big C Supercente	Hold	214	6,267	...	21.8x	19.7x	16.9x	3.3x	1.2x	18%	8.1%	6.1%	1.5%
Siam Makro	Not rated	n/a	7,395	...	35.9x	31.9x	28.8x	12.9x	1.3x	52%	4.0%	3.4%	2.0%
Puregold	Not rated	n/a	3,010	...	22.3x	19.9x	17.0x	2.6x	1.0x	14%	7.4%	5.2%	0.9%
Robinsons Retail	Not rated	n/a	3,123	...	29.0x	24.9x	21.9x	2.4x	1.1x	10%	6.0%	4.5%	0.8%
Sumber Alfaria	Not rated	n/a	2,487	...	45.6x	36.1x	31.3x	7.9x	0.6x	27%	2.1%	1.3%	0.7%
Matahari Putra	Not rated	n/a	1,630	...	27.2x	26.2x	23.7x	5.5x	1.2x	24%	4.6%	4.1%	1.2%
PSC	Not rated	n/a	1,453	...	54.3x	N/A	N/A	14.1x	2.7x	43%	-7.5%	5.1%	0.3%
Sheng Siong	Buy	0.98	1,301	...	27.7x	24.6x	22.2x	5.4x	1.6x	22%	7.4%	6.6%	3.7%
Hero Supermarket	Not rated	n/a	728	...	nm	nm	nm	1.3x	0.5x	1%	-1.4%	0.3%	N/A
7 Eleven	Buy	2.18	704	...	29.6x	25.9x	21.6x	7.2x	0.9x	30%	4.7%	3.4%	1.9%
Modern Internasi	Not rated	n/a	197	...	nm	29.7x	28.5x	1.4x	1.3x	5%	8.2%	2.8%	N/A
Midi Utama ID	Not rated	n/a	231	...	N/A	N/A	N/A	N/A	N/A	31%	3.9%	2.3%	1.8%
				Regional average	16.7x	26.6x	23.6x	6.3x	1.2x	25%	4.2%	3.8%	1.7%

Source: Thomson Reuters, Bloomberg Finance LP, DBS Bank, DBS Vickers

COUNTRY PROFILES

Singapore Grocery Retail Market

Macro Data		Key Players	Format	Sales Val (S$m)
Population, 2014	5,567,301	NTUC FairPrice	Supermarket, hypermarket, convenience store	2,522
GDP (US$m)	307,100	Dairy Farm Int'l	Supermarket, hypermarket, convenience store	1,807
GDP per capita, 2014 (US$)	55,161	Sheng Siong	Supermarket	765
Urbanisation	100%	Prime Supermarket	Supermarket	116
Population below poverty line	0%			
Modern Grocery Retail Landscape		**Segment**	**Value Share**	**5-yr CAGR**
Market Size (SGD m)	5,449	Convenience Store	10%	2.9%
5-yr CAGR	3.2%	Supermarket	77%	4.0%
		Hypermarket	13%	1.2%

Source: CIA Factbook, Euromonitor, DBS Bank

Overview

Singapore is the only ASEAN country with an established modern grocery retail market. The Singapore modern grocery retail landscape is well penetrated with modern channels accounting for 70% of retail value, due to its highly urbanised nature. Modern grocery retail is led by supermarkets, with 54% share. However, traditional formats are not likely to be eliminated due to government support of wet market development and customer loyalty from the older generation. The grocery market grew at a steady pace of 3.2% CAGR from 2009-2014. Supermarket and hypermarket segments observed the fastest growth of 3% and 6% respectively in the past year, a result of expansion by the incumbents.

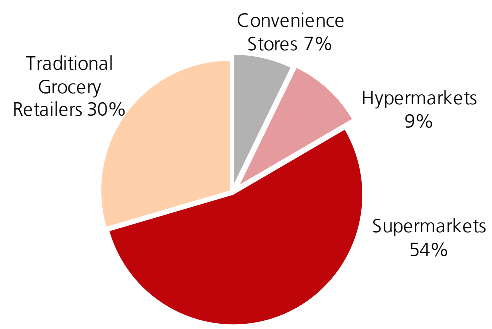
Supermarkets in the lead for modern grocery retail. Chained operators continue to gain share in the supermarket grocery segment at the expense of small independent players. Major players are positioned to target different consumer groups in order to grow both the industry and their share of the pie. For instance, some NTUC outlets now operate 24 hours to effectively compete with convenience store retailers. Sheng Siong, with outlets located in the heartland areas, has become synonymous with mass market and budget buys.

Convenience stores face tapering growth. Convenience stores are well penetrated in Singapore. It is only behind Thailand in terms of population per store within ASEAN 5. Even with its small physical size, convenience stores can be found located within a few hundred metres away from each other. Headroom for growth will therefore be more limited than supermarkets and hypermarkets.

Outlook

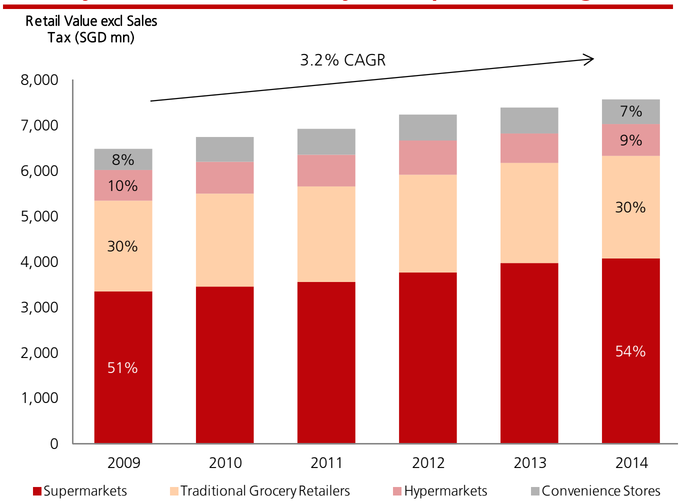
Supermarkets to continue rising. We expect supermarkets to grow ahead of hypermarkets and convenience stores. Headroom for growth will likely come from longer operating hours (24 hours), improved product mix, premiumisation and outlet expansion into immature residential areas such as Punggol. Operators including specialised online grocery retailers have rolled out online platforms, but we believe it will take time for e-commerce to catch on.

Modern retail formats dominate the grocery market



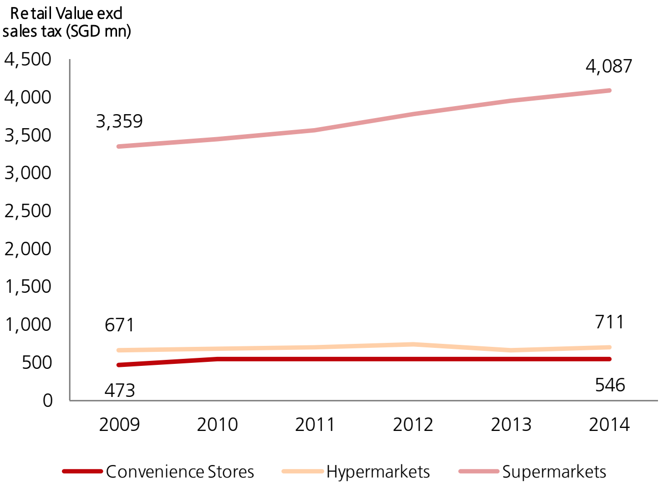
Source: Euromonitor, DBS Bank

Grocery retail channel is led by the supermarket segment



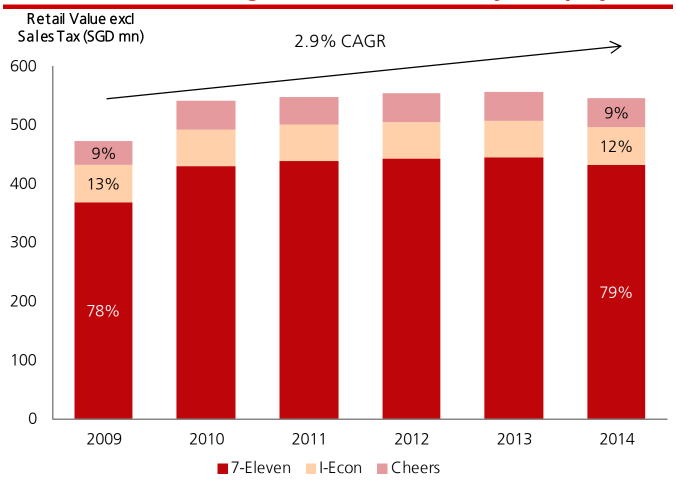
Source: Euromonitor, DBS Bank

Supermarkets saw the fastest retail value growth



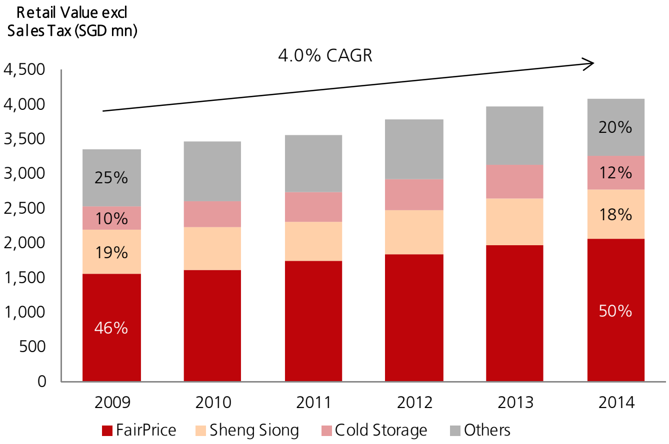
Source: Euromonitor, DBS Bank

Convenience store segment is dominated by few players



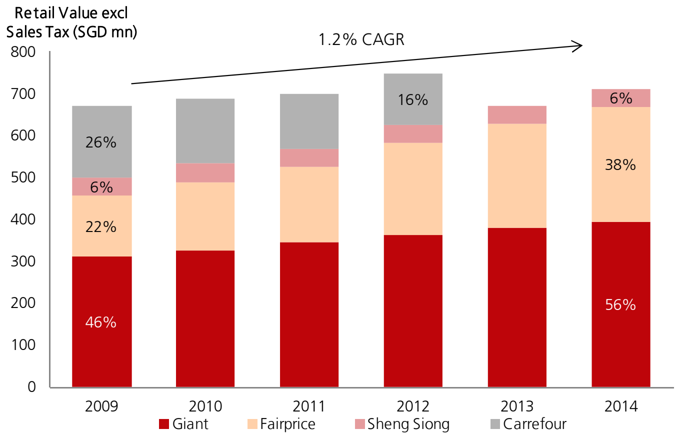
Source: Euromonitor, DBS Bank

NTUC Fairprice and Sheng Siong grow share



Source: Euromonitor, DBS Bank

Giant and Fairprice are leading hypermarket players



Source: Euromonitor, DBS Bank

Malaysia Grocery Retail Market

Macro Data		Key Players	Format	Sales Val (MYRm)
Population, 2014	30,073,353	Dairy Farm Int'l	Hypermarket, supermarket	6,129
GDP (US$m)	336,900	Tesco	Hypermarket	4,749
GDP per capita, 2014 (US$)	11,203	7-Eleven Malaysia	Convenience store	2,279
Urbanisation	74%	AEON Group	Hypermarket, supermarket	1,946
Major urban areas	KL (6.6m) JB (891,000)	Econsave Cash & Carry	Supermarket	1,380
Modern Grocery Retail Landscape		**Segment**	**Value Share**	**5-yr CAGR**
Market Size (MYR m)	23,437	Convenience Store	13%	17.1%
5-yr CAGR	5.5%	Supermarket	34%	13.2%
		Hypermarket	53%	5.8%

Source: CIA Factbook, Euromonitor, DBS Bank

Overview

Modern grocery retail is relatively well penetrated in Malaysia. Traditional grocery retailers despite good modern grocery retail penetration still collectively represent the majority market share at 59%. Traditional formats saw sluggish value growth at a 2.5% 5-yr CAGR as small retailers and wet market operators are unable to compete on price with supermarkets and hypermarkets. As a result, consumers are shifting to modern channels, particularly the supermarket segment that recorded healthy growth of 15% y-o-y.

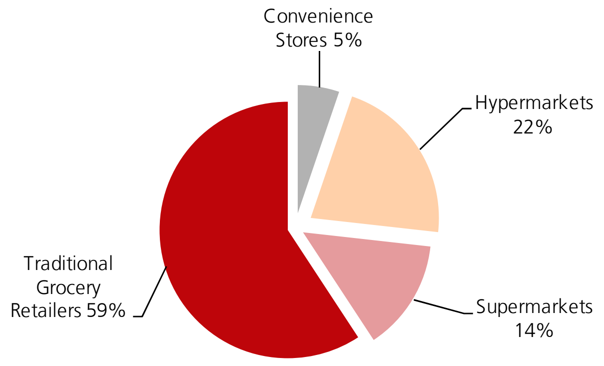
Rising consumer demand for convenience drives healthy growth for convenience stores. Three operators constitute 99% of convenience stores' market share, with 7-Eleven owning 76% share of the pie. The rising KK Super Mart is interesting because it is arguably the most nimble and aggressive among its peers. Keeping its average outlet size small, KK Super Mart has achieved the highest sales per floor area in addition to the fastest expansion in sales, outlets and floor area. These led to a 6% gain whereas 7-Eleven lost 8%.

Supermarket growth is slowing. Premium chains like Cold Storage have been negatively impacted by the weak consumer sentiment and soft economic conditions. Consumers are price-sensitive, preferring to shop at hypermarkets which offer lower prices. Mydin was the only operator to gain share, as it aggressive expanded its footprint in the relatively untapped East Malaysia.

Outlook

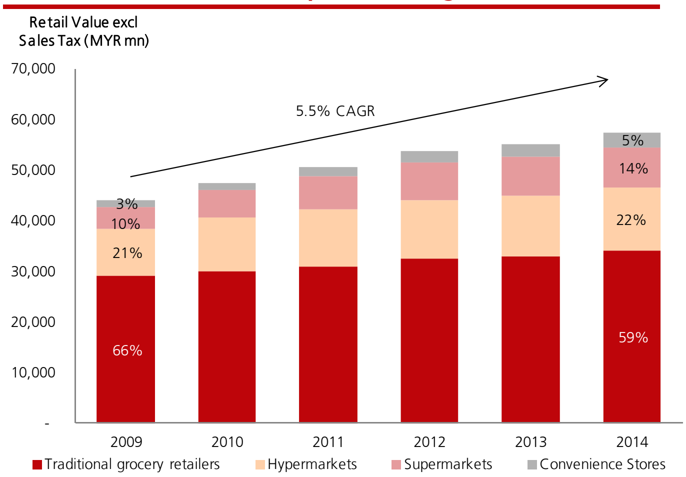
Outlook is positive for convenience stores and hypermarkets. Convenience store retailers such as KK Super Mart and 99 Speedmart are likely to sustain growth, given their aggressive outlet expansion to meet demand for convenience. Unlike KK Super Mart, 99 Speedmart caters to the low income and migrant worker population in high-density neighbourhoods. Hypermarkets, particularly market leaders Giant and Tesco, are likely to benefit from a growing base of price-sensitive consumers as they are able to provide a wide product offering, competitive prices and expansive distribution network.

Modern formats are fairly penetrated in Malaysia



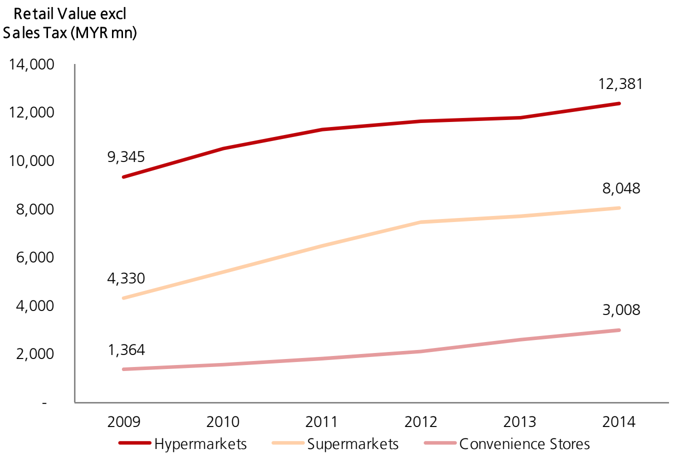
Source: Euromonitor, DBS Bank

Convenience stores and supermarkets gain market share



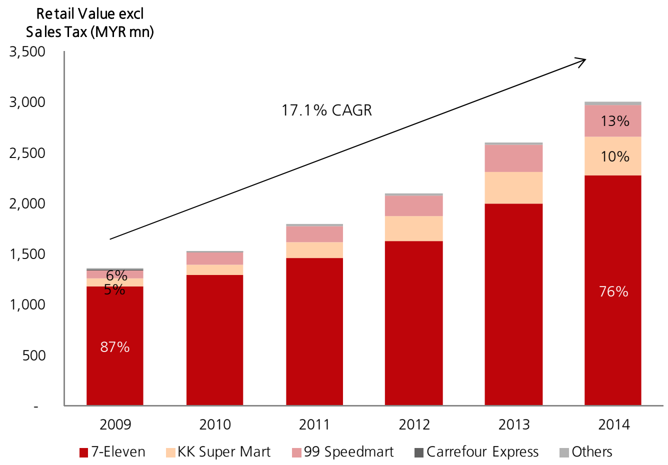
Source: Euromonitor, DBS Bank

Modern grocery retail value is on the rise



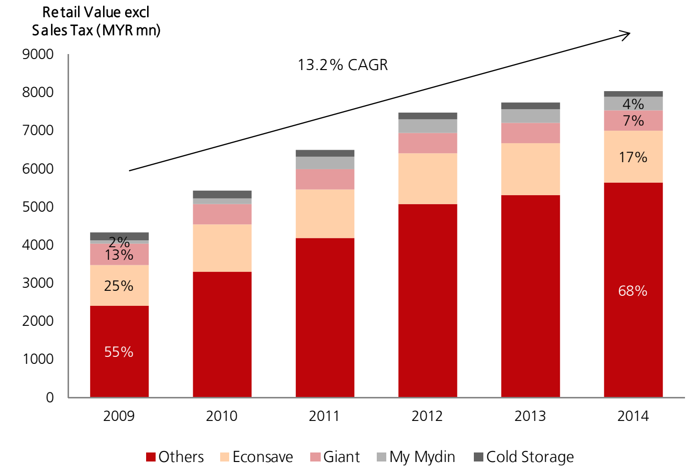
Source: Euromonitor, DBS Bank

Market leader 7-Eleven losing value share



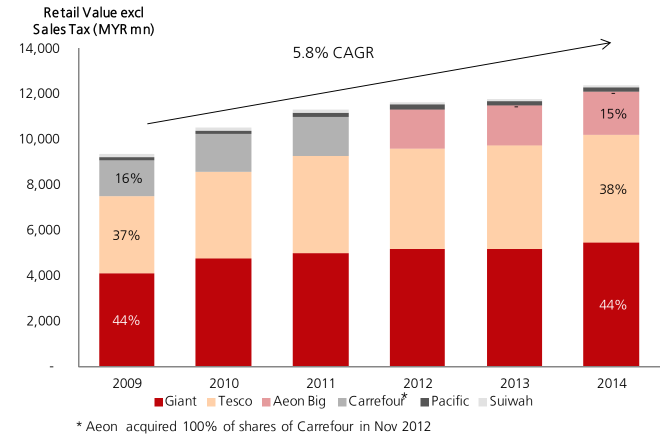
Source: Euromonitor, DBS Bank

Shrinking share for supermarket players



Source: Euromonitor, DBS Bank

Hypermarket leaders Giant & Tesco continue to dominate



Source: Euromonitor, DBS Bank

Thailand Grocery Retail Market

Macro Data		Key Players	Format	Sales Val (THBm)
Population, 2014	67,741,401	CP All	Convenience store	260,832
GDP (US$m)	380,500	Tesco	Convenience store, hypermarket	214,786
GDP per capita, 2014 (US$)	5,617	Casino Guichard-Perrachon	Hypermarket, supermarket	121,484
Urbanisation	49%	Central Retail	Convenience store, supermarket	34,674
Major urban areas	Bangkok (9.1m),	FamilyMart	Convenience store	15,782
Modern Grocery Retail Landscape		**Segment**	**Value Share**	**5-yr CAGR**
Market Size (THB m)	781,115	Convenience Store	40%	13.1%
5-yr CAGR	5.1%	Supermarket	21%	6.4%
		Hypermarket	38%	6.1%

Source: CIA Factbook, Euromonitor, DBS Bank

Overview

Traditional grocery retailers in the lead at 57% share, but modern operators come close. Traditional operators still dominate because consumers value their fresh food offerings, particularly in rural areas as modern retailers are largely located in the cities. The modern grocery market continues to grow, dominated by a handful of domestic and international chained retail players. Hence, it is challenging for new entrants without partnerships and strong financial backing. Supermarkets and convenience stores saw the fastest growth of 9% and 10% y-o-y respectively.

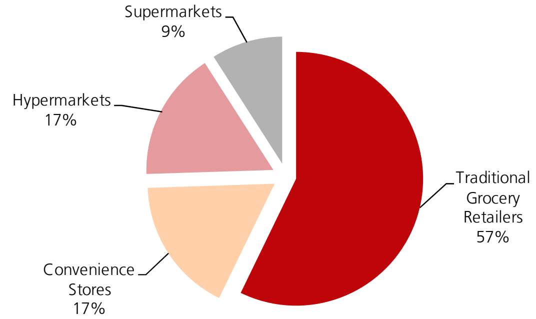
Demand for convenience fuels growth of convenience stores. The convenience store segment enjoyed the fastest growth among modern channels. Convenience stores such as **7-Eleven** and **Tesco Lotus** continue to sprout across the country to meet rising consumer demand for quick and convenient meals. Operators can set up stores fairly easily with low capital and small selling areas. We note that compared to its peers, **7-Eleven** is able to expand more effectively in terms of outlets and sales as it has the smallest average store size but highest sales per sqm.

Slow expansion of hypermarkets. Even though hypermarkets offer more attractive prices, Thai consumers increasingly prefer supermarkets for reasons including convenience and wide product range. Unlike supermarkets located in urban zones, hypermarkets are generally situated in the outskirts and cater to consumers in these areas. Despite the intense competition, hypermarket operators, like market leader **Tesco,** are likely to sustain positive growth on the back of domestic consumer demand and expansion into metropolitan regions.

Outlook

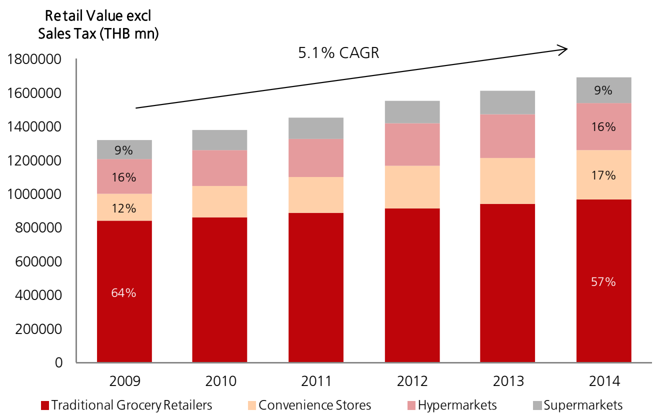
Internet grocery retail is still nascent. With high internet and mobile penetration in Thailand, major supermarket and hypermarket operators such as **Big C**, **Tops** and **Tesco Lotus** have launched online retail platforms. However, these channels have yet to reap significant sales as consumers are used to shopping for groceries at physical stores. With the rise in retail commerce, consumers are likely to shift more purchases to online and mobile channels over time.

Modern grocery retail is fairly penetrated



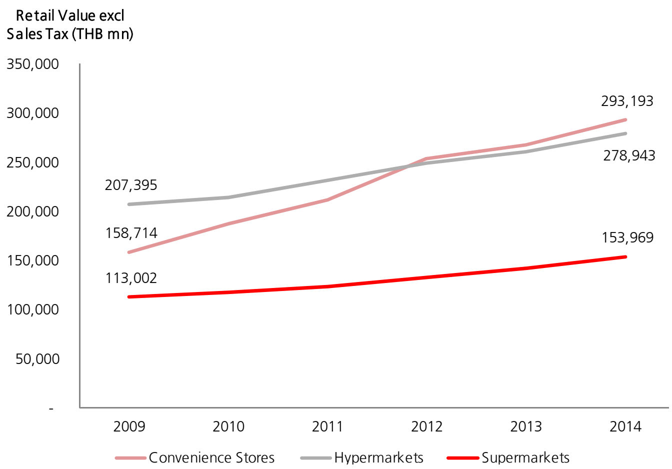
Source: Euromonitor, DBS Bank

Convenience stores saw fastest growth



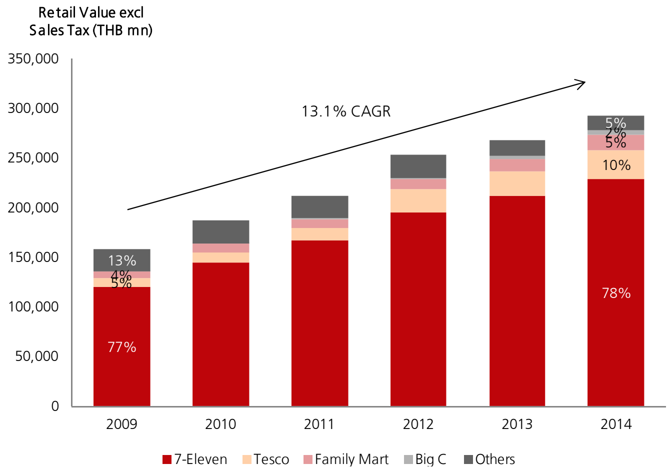
Source: Euromonitor, DBS Bank

Positive retail value growth in Thailand



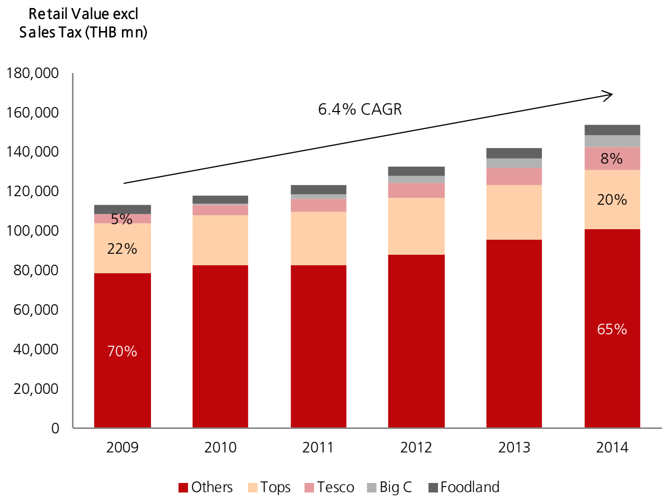
Source: Euromonitor, DBS Bank

7-Eleven remains the leading convenience store operator



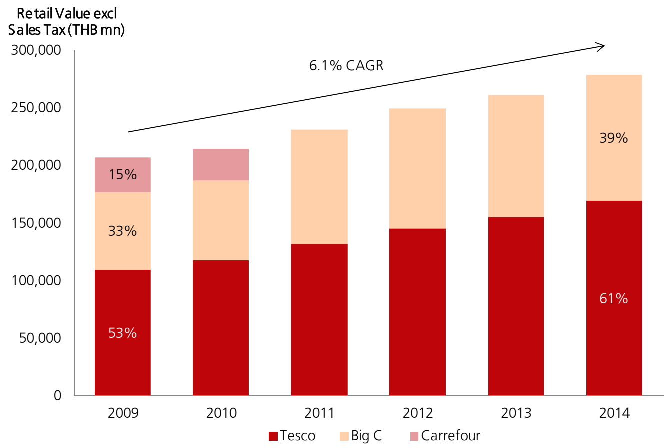
Source: Euromonitor, DBS Bank

Supermarket retailers Tesco and Big C grow value share



Source: Euromonitor, DBS Bank

Hypermarket operator Tesco stays on top



Source: Euromonitor, DBS Bank

Indonesia Grocery Retail Market

Macro Data		Key Players	Format	Sales Val (IDR bn)
Population, 2014	253,609,643	Salim Group	Convenience store	41,061
GDP (US$m)	856,100	Sigmantara Alfindo	Convenience store	36,744
GDP per capita, 2014 (US$)	3,376	Carrefour	Hypermarket	15,858
Urbanisation	53%	Matahari Putra	Hypermarket	13,998
Major urban areas	Jakarta (10.2m), Surabaya (2.8m), Bandung (2.5m), Medan (2.2m), Semarang (1.6m), Palembang (1.5m)	Dairy Farm International	Supermarket, hypermarket	13,071
Modern Grocery Retail Landscape		**Segment**	**Value Share**	**5-yr CAGR**
Market Size (IDR bn)	192,865	Convenience Store	46%	34.0%
5-yr CAGR	12.5%	Supermarket	34%	15.0 %
		Hypermarket	20%	12.7%

Source: CIA Factbook, Euromonitor, DBS Bank

Overview

Plenty of headroom for modern grocery formats to grow. According to Euromonitor, Indonesia's grocery retail saw 61% value growth in five years. Domestic traditional operators still dominate at 84%, particularly in rural areas with inadequate infrastructure to support growth of international modern retailers. However, modern channels are gradually gaining share through expansion of outlets and offerings. Convenience stores enjoyed the fastest y-o-y value growth at 19%, followed by hypermarkets at 16%.

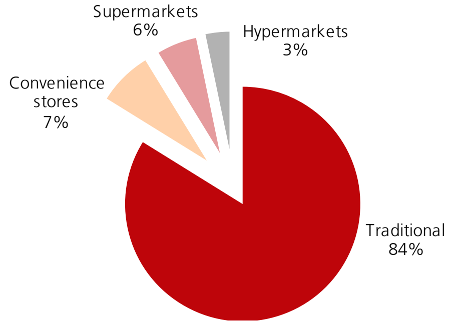
Convenience stores continue to see robust growth and penetration. The popularity of convenience stores across the country, even in rural areas, is largely attributed to the low capital required and established franchise schemes available. Convenience stores such as Indomaret are fast replacing traditional warungs, tapping into the low-mid income level group by offering competitive prices. Although traditional pasars and warungs will lose market share over time, they will not be wiped out as they seek to serve the low-income population.

Expect slower growth for supermarket and hypermarket segments. Supermarkets and hypermarkets are popular among the mid-high income group. Hypermarkets offer reasonable prices for a broad offering of groceries and non-groceries, whereas supermarkets provide premium products at higher prices. While absolute sales for supermarket and hypermarket channels have been on the rise, slower growth is expected as high capital and sales areas required for operations pose barriers to expansion.

Outlook

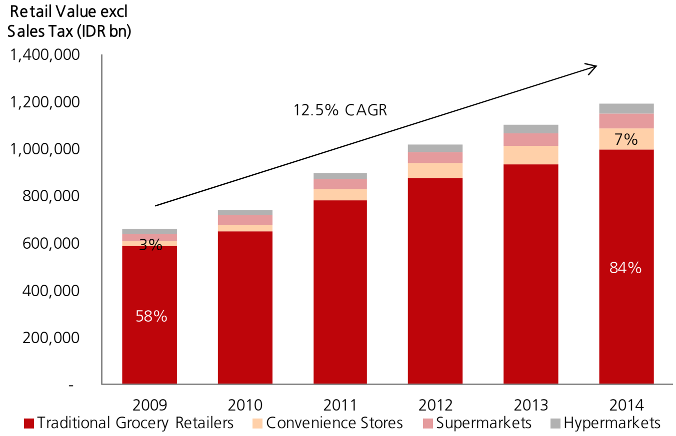
New sales channels coming onstream. Given the weak penetration of modern grocery retail in Indonesia, it is perhaps not surprising that a handful of modern retail operators have jumped on the e-commerce bandwagon to widen their reach. Positive responses were received for innovative initiatives launched such as Carrefour's online retail platform and drive-through-concept service, Click and Drive, as well as Alfamart's e-ecommerce service Alfaonline that targets urban consumers who wish to avoid queues and traffic jams. The internet retail landscape will evolve over time with the emergence of pure-internet grocery retailers such as Sukamart.

Weak penetration of modern grocery retail



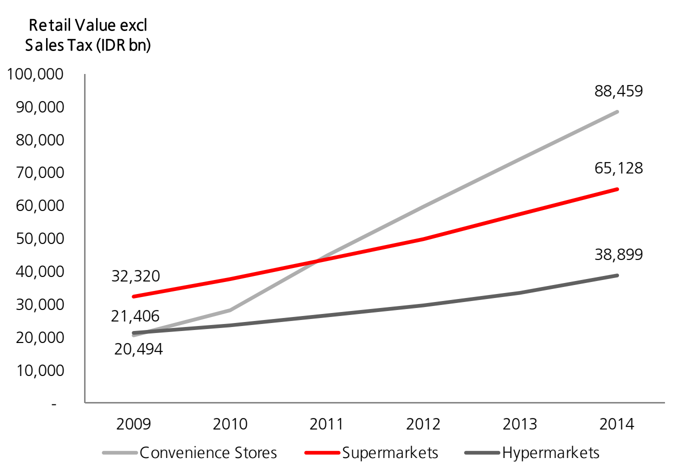
Source: Euromonitor, DBS Bank

Convenience stores penetrating modern trade



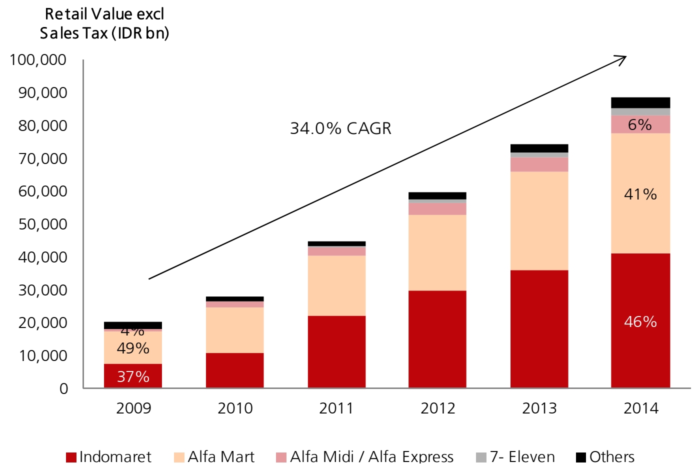
Source: Euromonitor, DBS Bank

Convenience stores a major format in Indonesia



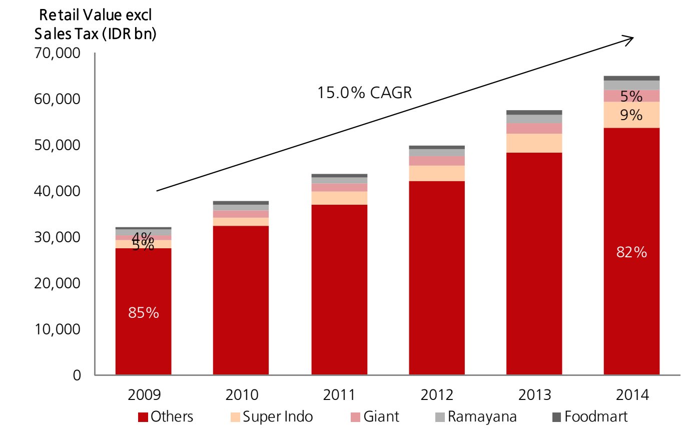
Source: Euromonitor, DBS Bank

Convenience store segment led by Indomaret and Alfamart



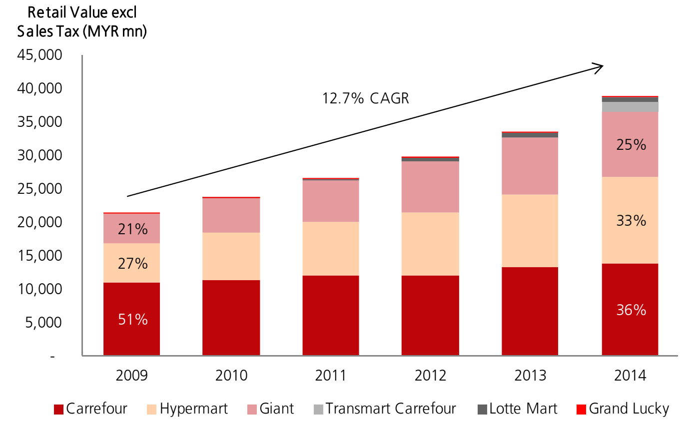
Source: Euromonitor, DBS Bank

Super Indo is the fastest-growing supermarket retailer



Source: Euromonitor, DBS Bank

Leading hypermarket Carrefour losing foothold fast



Source: Euromonitor, DBS Bank

Philippines Grocery Retail Market

Macro Data		Key Players	Format	Sales Val (Php bn)
Population, 2014	107,668,231	SM Retail	Supermarket, hypermarket	104,412
GDP (US$m)	289,700	Puregold Price Club	Supermarket, hypermarket	87,907
GDP per capita, 2014 (US$)	2,691	Rustan Group	Supermarket, hypermarket	35,697
Urbanisation	45%	JG Summit	Supermarket	35,500
Major urban areas	Manila (12.8m), Davao (1.6m), Cebu City (936,000), Zamboanga (912,000)	Philippine Seven Corp	Convenience store	17,387
Modern Grocery Retail Landscape		**Segment**	**Value Share**	**5-yr CAGR**
Market Size (PHP m)	524,493	Convenience Store	5%	18.7%
5-yr CAGR	10.4%	Supermarket	73%	8.3%
		Hypermarket	22%	17.6%

Source: CIA Factbook, Euromonitor, DBS Bank

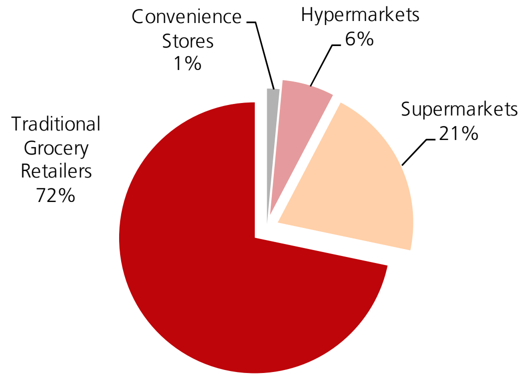
Overview

Weak penetration of modern grocery retail presents opportunity for further growth. The ubiquitous "mom-and-pop" stores, locally known as sari-sari stores, collectively form the traditional grocery retailer segment that still dominates the grocery market at 72% share in terms of sales value. However, its growth is outpaced by modern grocery retail formats due to urbanisation and preference shift towards accessibility and convenience. Convenience store and hypermarket retail recorded the fastest y-o-y growth of 31% and 12% respectively.

De-centralisation of convenience stores boosts growth. The convenience store segment is the fastest growing among modern retail formats. The environment is increasingly competitive and saturated with international players due to rapid outlet growth, particularly in Metro Manila. 7-Eleven continues to be the leading retailer at 63% share, successfully strengthening its position through strategic outlet expansion and localisation into less-penetrated areas like Cebu City. The new Japanese entrant, Family Mart, has also heightened competition although it has not shown significant impact in shaking the market yet.

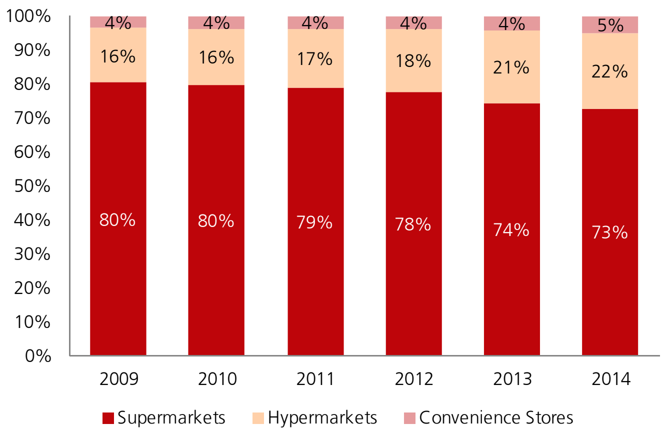
Slowest growth for supermarket retail formats. In the modern grocery retail space, the supermarket segment saw a 7% decline in value share over the past five years, in contrast to a 6% gain for hypermarkets. This is due to a consumer preference for convenience and intense competition from hypermarkets in terms of price and outlet expansion. Given the lacklustre economic conditions, supermarket chains that are able to offer fairly competitive prices such as SM Retail.

Traditional grocery retail formats still dominate



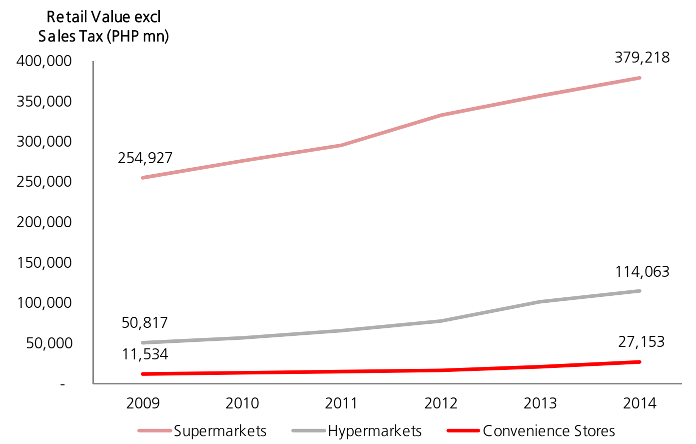
Source: Euromonitor, DBS Bank

Convenience stores and hypermarkets saw fastest growth



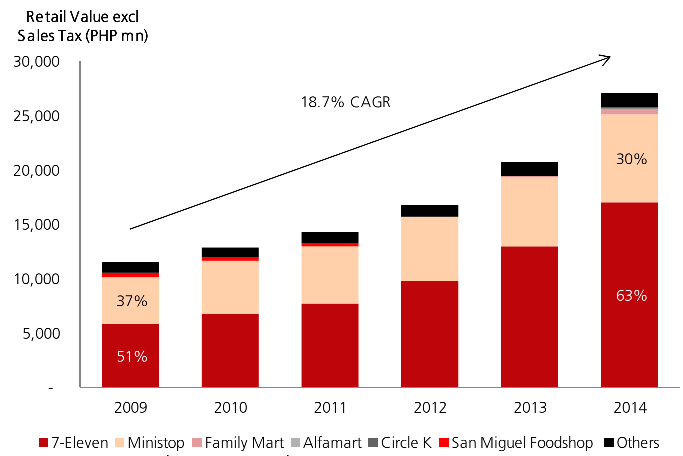
Source: Euromonitor, DBS Bank

Rising value of modern grocery retail



Source: Euromonitor, DBS Bank

Robust growth for convenience store operator 7-Eleven



Source: Euromonitor, DBS Bank

Vietnam Grocery Retail Market

Macro Data		Key Players	Format	Sales Value (VND bn)
Population, 2014	93,421,835	Saigon Union of Trading	Convenience store, supermarket, hypermarket	27,408
GDP (US$m)	187,800	Casino Guichard-Perrachon	Supermarket, hypermarket	11,791
GDP per capita, 2014 (US$)	2,010	Lotte Group	Hypermarket	2,211
Urbanisation	33%	TCT Group	Supermarket	1,447
Major urban areas	Ho Chi Minh (7.1m), Hanoi (3.47m), Can Tho (1.1m), Haiphong (1.041m), Da Nang (926k), Bien Hoa (807k)	Dong Hung	Supermarket	530
Modern Grocery Retail Landscape		**Segment**	**Value Share**	**5-yr CAGR**
Market Size (VND bn)	53,938	Convenience Store	3%	-0.2%
5-yr CAGR	21.8%	Supermarket	70%	22.3%
		Hypermarket	27%	25.8%

Source: CIA Factbook, Euromonitor, DBS Bank

Overview

Traditional grocery retail is deeply entrenched. Given the low urbanisation rate and income levels, it is not startling that traditional retail formats distinctly dominate the grocery market at 96% share. Consumers are generally budget-conscious and prefer traditional channels due to reasons including higher modern retail prices and ingrained habits to purchase from traditional small grocers. Additionally, car ownership is relatively low, making it difficult for consumers to go to large shopping centres in areas further away.

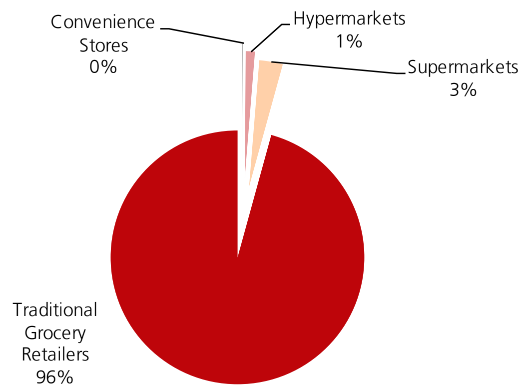
Convenience store segment is the fastest growing channel. Growth was fuelled by experienced foreign entrants as well as Vietnam's young urban population. Aptly located near universities and schools, these stores are regularly frequented by students looking for breakfast and snack options. In 2014, the segment recorded 40% y-o-y value growth. Excluding the dearth of G7 in 2011, the segment saw a healthy 5-year CAGR of 38.7%. Saigon Union and Family Mart lead the segment with about half of the market share.

Supermarkets and hypermarkets continue to grow. Alongside modernisation, both supermarket and hypermarket segments saw double-digit 5-year CAGR growth in retail sales and outlets. However, growth is slower compared to the convenience store segment as expansion of these distribution channels requires higher capital, adequate infrastructure and a shift in behaviour.

Outlook

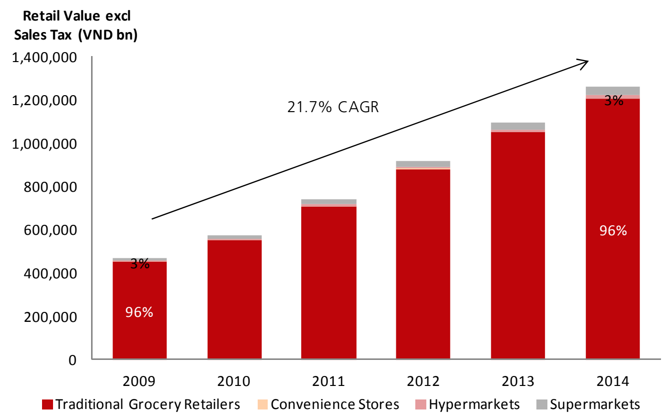
Competition to intensify ahead, but growth potential is huge. The Vietnamese government has opened the market to free trade, inviting competition between existing and new local and foreign players. This will bring about a rise in new players, as well as heightened modernisation and urbanisation. Young urbanites present untapped growth potential, especially for the convenience store segment, given the rise in income levels and importance of convenience. While these consumers are also likely to be tech savvy, the impact of online grocery retail is likely to remain negligible as it would take a long time for the wider population to change their purchasing habits.

Traditional grocery retail is well established



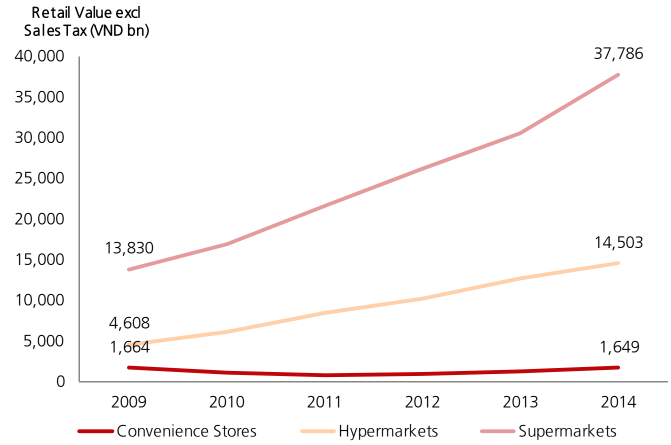
Source: Euromonitor, DBS Bank

Convenience stores and hypermarkets saw fastest growth



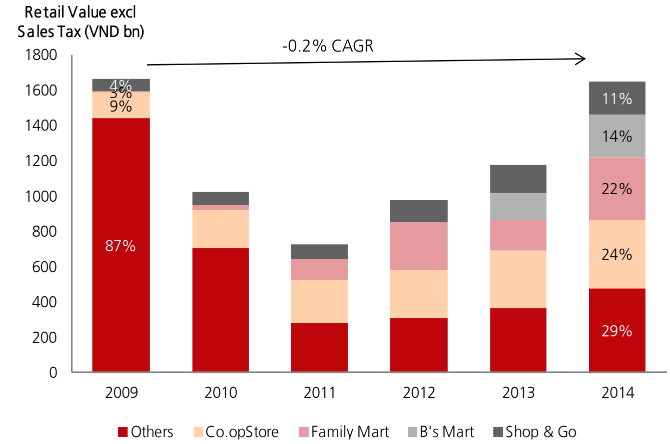
Source: Euromonitor, DBS Bank

Rising value of modern grocery retail



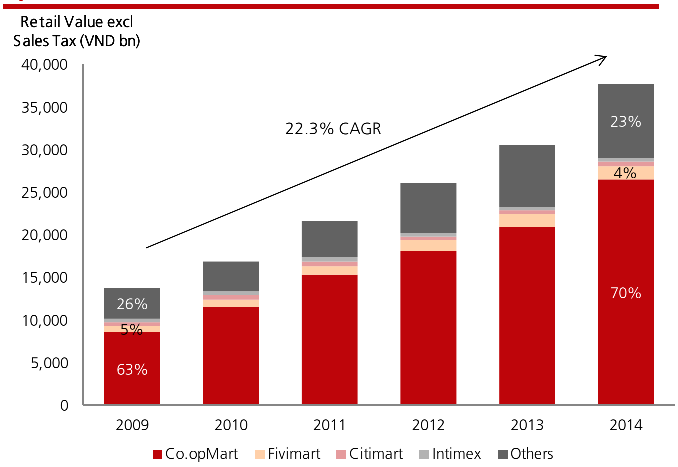
Source: Euromonitor, DBS Bank

Uptick in growth of convenience stores



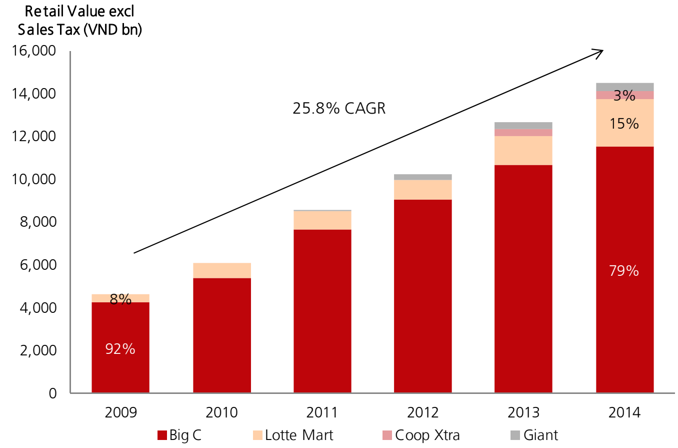
Source: Euromonitor, DBS Bank

Co.op Mart and Fivimart dominate the supermarket space



Source: Euromonitor, DBS Bank

Big C remains the leading hypermarket player



Source: Euromonitor, DBS Bank

Other Grocery Retail Markets

Cambodia

Macro Data	
Population, 2014	15,458,332
GDP, 2014 (US$m)	16,900
GDP per capita, 2014 (US$)	1,093
Urbanization	21%
Major urban area	Phnom Penh (1.7m)
Population below poverty line	20%

Source: CIA Factbook, DBS Bank

Myanmar (Burma)

Macro Data	
Population, 2014	55,746,253
GDP, 2014 (US$m)	65,290
GDP per capita, 2014 (US$)	1,171
Urbanization	34%
Major urban area	Rangoon (4.7m), Mandalay (1.1m), Nay Pyi Taw (1.0m)
Population below poverty line	33%

Source: CIA Factbook, DBS Bank

Laos

Macro Data	
Population, 2014	6,803,699
GDP, 2014 (US$m)	11,710
GDP per capita, 2014 (US$)	1,721
Urbanization	38%
Major urban area	Vientiane (946k)
Population below poverty line	22%

Source: CIA Factbook, DBS Bank

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COMPANY PROFILES

Industry Focus

Dairy Farm

Bloomberg: DFI SP | Reuters: DAIR.SI

Refer to important disclosures at the end of this repor

DBS Group Research . Equity

22 Jul 2015

BUY

Last Traded Price: US$8.70 (STI : 3,373.48)
Price Target : US$10.42 (20% upside)

Potential Catalyst: Store expansion, M&A
DBSV vs Consensus: Below on higher debt ratio and interest costs

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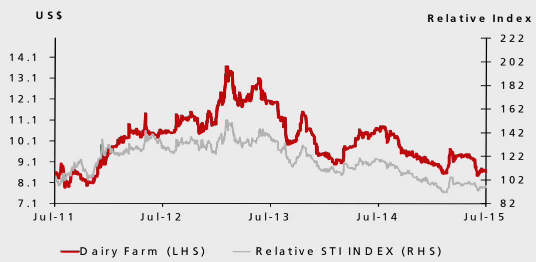
Price Relative



Forecasts and Valuation

FY Dec (US$ m)	2014A	2015F	2016F	2017F
Turnover	11,008	11,664	12,368	13,143
EBITDA	796	895	960	1,035
Pre-tax Profit	601	647	652	712
Net Profit	509	538	542	592
Net Pft (Pre Ex.)	499	538	542	592
EPS (US cts.)	37.7	39.8	40.1	43.8
EPS Pre Ex. (US cts.)	37.0	39.8	40.1	43.8
EPS Gth (%)	2	6	1	9
EPS Gth Pre Ex (%)	5	8	1	9
Diluted EPS (US cts.)	37.7	39.8	40.1	43.8
Net DPS (US cts.)	23.0	24.5	26.0	28.5
BV Per Share (US cts.)	105.8	121.6	136.2	153.0
PE (X)	23.1	21.8	21.7	19.9
PE Pre Ex. (X)	23.5	21.8	21.7	19.9
P/Cash Flow (X)	17.4	13.9	15.9	13.9
EV/EBITDA (X)	14.3	13.5	12.5	11.5
Net Div Yield (%)	2.6	2.8	3.0	3.3
P/Book Value (X)	8.2	7.2	6.4	5.7
Net Debt/Equity (X)	CASH	0.1	0.1	0.0
ROAE (%)	37.6	35.0	31.1	30.3
Earnings Rev (%):		-	-	-
Consensus EPS (US cts.):		40.6	44.4	49.8
Other Broker Recs:		B: 5	S: 1	H: 4

ICB Industry : Consumer Services
ICB Sector: Food & Drug Retailers
Principal Business: Leading Pan-Asian retailer operating supermarkets, hypermarkets, health and beauty stores, convenience stores, and home furnishings stores.
Source of all data: Company, DBS Bank, Bloomberg Finance L.P.

Best beneficiary of MGR growth

- **Growth to be North Asia centric**
- **Trades near -1SD of its mean valuation**
- **Maintain BUY with TP of US$10.42**

Expect growth from North Asia. We believe growth going forward will be driven by both new stores and acquisitions. We are more positive on DFI's growth in North Asia as opposed to Southeast Asia due to the latter's sluggish consumption and higher costs. We see continued expansion in North Asia through higher penetration of stores and performance from Health & Beauty stores, and IKEA's expansion. In North Asia, DFI has acquired a 20% stake in Yonghui Supermarkets (based in Fujian). It has also acquired San Miu Supermarkets in Macau in March 2015, expanding into the Macau Supermarket space.

Valuations below peers. Valuations are currently at -1 SD of its mean at 21.7x FY16F PE and below regional peer average (ex Indonesia) of 25x. DFI operates a Pan Asian business model spanning across North Asia and Southeast Asia and has the largest footprint and store network among regional grocery retailers. Yet the stock is trading cheaply to peers despite its size and operational presence. At current valuations, investors can gain exposure to a Pan Asian MGR business that is a key beneficiary of MGR's growth.

Maintain BUY, TP S$10.42. Our valuation of DFI is based on SOTP methodology, which takes into account both DFI's core business and its 20% stake in Yonghui Supermarkets. We value DFI's core business at US$9.87 per share based on DCF at an implied valuation of 24x PE. DFI's stake in Yonghui is valued at US$0.73 per share based on average market value of RMB31bn at 31x PE. We have factored in a net debt of US$0.18 per share for the financing of Yonghui's acquisition.

At A Glance

Issued Capital (m shrs)	1,352
Mkt. Cap (US$m/US$m)	11,764 / 11,764
Major Shareholders	
Jardine Strategic Holdings Ltd (%)	77.6
Franklin Resources (%)	6.6
Free Float (%)	15.7
Avg. Daily Vol.('000)	180

INVESTMENT THESIS

Profile	Rationale
Dairy Farm is a Pan Asian retailer, operating over 5,600 supermarkets, hypermarkets, health and beauty stores, convenience stores, home furnishing stores and restaurants under well-known brand names in Hong Kong, Taiwan, China, Macau, Singapore, India, Philippines, Cambodia, Brunei, Malaysia, Indonesia and Vietnam.	**Current valuations unjustified.** We previously held the view that the market had factored disappointing earnings expectations while not pricing in the value of DFI's investment in Yonghui Superstores. Following FY14 results which met our expectations, and the imminent completion of the Yonghui acquisition in 1H15, we reiterate our view that current valuations are attractive, taking into account the value of Yonghui and our below-consensus growth expectations. **Yonghui's contribution to even help margins.** Our pre-exceptional earnings growth estimate of 8% for FY15F is arrived after taking into account muted core margins and a stronger dollar, mitigated by Yonghui Superstore's contribution. **Trades below peers and average valuations.** Stock currently trades at an attractive 23x FY15F PE, near -1SD of its mean valuation and below its regional peers.
Valuation	**Risks**
Our target price of US$10.42 is derived from sum-of-parts valuation methodology. We value DFI's core business at US$9.87 based on DCF, net debt (post acquisition financing of Yonghui) at US$0.18 and the 20% stake in Yonghui based on market value at US$0.73. Our valuation implies that the stock is valued at 26x its FY15F earnings, at slightly above historical average valuations.	**Profitability susceptible to rental and labour costs.** As a retailer, labour and rental costs are key operating costs components. Significant changes in these components would affect earnings growth. **Valuation subject to completion of acquisition.** Our valuation is subject to the successful completion of the Yonghui acquisition, which is currently awaiting regulatory approvals.

Source: DBS Bank

Income Statement (US$ m)

FY Dec	2014A	2015F	2016F	2017F
Turnover	11,008	11,664	12,368	13,143
Cost of Goods Sold	(7,717)	(8,188)	(8,682)	(9,227)
Gross Profit	3,291	3,476	3,686	3,917
Other Opng (Exp)/Inc	(2,767)	(2,914)	(3,082)	(3,263)
Operating Profit	524	562	604	653
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	69	91	100	110
Net Interest (Exp)/Inc	(2)	(5)	(52)	(51)
Exceptional Gain/(Loss)	10	0	0	0
Pre-tax Profit	601	647	652	712
Tax	(93)	(111)	(112)	(122)
Minority Interest	1	2	2	2
Preference Dividend	0	0	0	0
Net Profit	509	538	542	592
Net Profit before Except.	499	538	542	592
EBITDA	796	895	960	1,035
Sales Gth (%)	6.3	6.0	6.0	6.3
EBITDA Gth (%)	1.1	12.5	7.3	7.8
Opg Profit Gth (%)	0.0	7.1	7.5	8.2
Net Profit Gth (%)	1.6	5.7	0.7	9.2
Effective Tax Rate (%)	15.5	17.1	17.1	17.1

Balance Sheet (US$ m)

FY Dec	2014A	2015F	2016F	2017F
Net Fixed Assets	1,291	1,368	1,435	1,507
Invts in Associates & JVs	388	1,404	1,504	1,614
Other LT Assets	707	697	688	679
Cash & ST Invts	662	712	791	936
Inventory	1,011	1,073	1,137	1,209
Debtors	252	240	288	306
Other Current Assets	5	5	5	5
Total Assets	4,316	5,499	5,850	6,255
ST Debt	93	93	93	93
Creditor	2,413	2,560	2,715	2,885
Other Current Liab	59	117	118	128
LT Debt	94	859	859	859
Other LT Liabilities	135	135	135	135
Shareholder's Equity	1,429	1,642	1,840	2,066
Minority Interests	94	92	91	89
Total Cap. & Liab.	4,316	5,499	5,850	6,255
Non-Cash Wkg. Capital	(1,204)	(1,360)	(1,402)	(1,493)
Net Cash/(Debt)	475	(240)	(161)	(16)

Cash Flow Statement (US$ m)

FY Dec	2014A	2015F	2016F	2017F
Pre-Tax Profit	601	647	652	712
Dep. & Amort.	203	243	257	272
Tax Paid	(94)	(53)	(111)	(112)
Assoc. & JV Inc/(loss)	(69)	(91)	(100)	(110)
Chg in Wkg.Cap.	(17)	98	41	81
Other Operating CF	52	0	0	0
Net Operating CF	676	844	739	843
Capital Exp.(net)	(294)	(310)	(315)	(334)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	(91)	(925)	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(48)	0	0	0
Net Investing CF	(433)	(1,235)	(315)	(334)
Div Paid	(311)	(324)	(344)	(365)
Chg in Gross Debt	21	765	0	0
Capital Issues	0	0	0	0
Other Financing CF	(3)	0	0	0
Net Financing CF	(293)	441	(344)	(365)
Currency Adjustments	(5)	0	0	0
Chg in Cash	(55)	50	80	145

Rates & Ratio

FY Dec	2014A	2015F	2016F	2017F
Gross Margins (%)	29.9	29.8	29.8	29.8
Opg Profit Margin (%)	4.8	4.8	4.9	5.0
Net Profit Margin (%)	4.6	4.6	4.4	4.5
ROAE (%)	37.6	35.0	31.1	30.3
ROA (%)	12.3	11.0	9.5	9.8
ROCE (%)	25.8	20.0	17.1	17.3
Div Payout Ratio (%)	61.1	61.5	64.8	65.1
Net Interest Cover (x)	275.9	108.0	11.6	12.7
Asset Turnover (x)	2.7	2.4	2.2	2.2
Debtors Turn (avg days)	7.7	7.7	7.8	8.2
Creditors Turn (avg days)	114.7	114.2	114.3	114.1
Inventory Turn (avg days)	48.3	47.9	47.9	47.8
Current Ratio (x)	0.8	0.7	0.8	0.8
Quick Ratio (x)	0.4	0.3	0.4	0.4
Net Debt/Equity (X)	CASH	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.1	0.0
Capex to Debt (%)	156.8	32.6	33.1	35.1
Z-Score (X)	5.8	4.6	4.6	4.6
N. Cash/(Debt)PS (US cts.)	35.2	(17.8)	(11.9)	(1.2)
Opg CFPS (US cts.)	51.3	55.2	51.7	56.5
Free CFPS (US cts.)	28.3	39.5	31.4	37.7

Quarterly / Interim Income Statement (US$ m)

FY Dec	1H2013	2H2013	1H2014	2H2014
Turnover	5,102	5,256	5,299	5,709
Cost of Goods Sold	(3,601)	(3,670)	(3,722)	(3,996)
Gross Profit	1,501	1,586	1,578	1,714
Other Oper. (Exp)/Inc	(1,244)	(1,318)	(1,332)	(1,435)
Operating Profit	257	268	245	279
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	22	45	22	47
Net Interest (Exp)/Inc	(5)	2	2	(3)
Exceptional Gain/(Loss)	1	26	10	(1)
Pre-tax Profit	275	340	279	322
Tax	(43)	(59)	(44)	(49)
Minority Interest	(2)	(10)	(1)	3
Net Profit	229	272	234	275
Net profit bef Except.	228	246	223	276
EBITDA	279	312	267	326
Sales Gth (%)	1.4	3.0	0.8	**7.7**
EBITDA Gth (%)	16.4	11.9	(14.5)	**22.3**
Opg Profit Gth (%)	29.3	4.2	(8.3)	**13.7**
Net Profit Gth (%)	12.6	18.6	(14.0)	17.8
Gross Margins (%)	29.4	30.2	29.8	**30.0**
Opg Margins (%)	5.0	5.1	4.6	**4.9**
Net Profit Margins (%)	4.5	5.2	4.4	4.8

Segmental Breakdown / Key Assumptions

FY Dec	2014A	2015F	2016F	2017F
Revenues (US$ m)				
Food	8,109	8,460	8,827	9,226
Health & beauty stores	2,402	2,646	2,914	3,213
Home furnishings stores	497	558	627	704
Support office/others	N/A	N/A	N/A	N/A
Total	11,008	11,664	12,368	13,143
Operating profit (US$ m)				
Food	299	310	324	339
Health & beauty stores	219	241	265	292
Home furnishings stores	51	57	64	75
Support office/others	(44)	(47)	(49)	(53)
Total	524	562	604	653
Operating profit Margins				
Food	3.7	3.7	3.7	3.7
Health & beauty stores	9.1	9.1	9.1	9.1
Home furnishings stores	10.2	10.2	10.2	10.6
Support office/others	N/A	N/A	N/A	N/A
Total	4.8	4.8	4.9	5.0
Key Assumptions				
Number of outlets	5,220.0	5,401.6	5,590.1	5,786.1
Sales per store blended	2.1	2.2	2.2	2.3

Source: Company; DBS Bank

Sheng Siong Group

Bloomberg: SSG SP | Reuters: SHEN.SI

Refer to important disclosures at the end of this repor

DBS Group Research . Equity

22 Jul 2015

BUY

Last Traded Price: S$0.87 (STI : 3,373.48)
Price Target : S$0.98 (13% upside) (Prev S$0.90)

Potential Catalyst: Store and margin expansion
DBSV vs Consensus: In line

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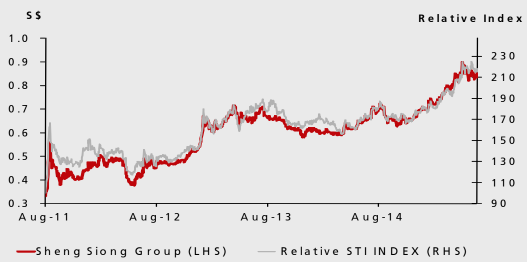
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2014A	2015F	2016F	2017F
Turnover	726	796	846	816
EBITDA	63	72	79	79
Pre-tax Profit	57	65	72	72
Net Profit	47	53	59	59
Net Pft (Pre Ex.)	47	53	59	59
EPS (S cts)	3.1	3.5	3.9	3.9
EPS Pre Ex. (S cts)	3.1	3.5	3.9	3.9
EPS Gth (%)	11	13	11	0
EPS Gth Pre Ex (%)	11	13	11	0
Diluted EPS (S cts)	3.1	3.5	3.9	3.9
Net DPS (S cts)	2.9	3.2	3.5	3.5
BV Per Share (S cts)	15.7	16.1	16.5	16.8
PE (X)	27.7	24.6	22.2	22.2
PE Pre Ex. (X)	27.7	24.6	22.2	22.2
P/Cash Flow (X)	17.6	17.8	16.5	18.0
EV/EBITDA (X)	18.6	16.5	14.7	14.8
Net Div Yield (%)	3.3	3.7	4.1	4.1
P/Book Value (X)	5.5	5.4	5.3	5.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	24.3	22.1	24.0	23.4
Earnings Rev (%):		6	12	-
Consensus EPS (S cts):		3.7	4.0	4.6
Other Broker Recs:		B: 8	S: 0	H: 1

ICB Industry : Consumer Services
ICB Sector: Food & Drug Retailers
Principal Business: Retailer principally engaged in operating the Sheng Siong Groceries Chain.

Source of all data: Company, DBS Bank, Bloomberg Finance L.P.

More room for growth

- **More headroom for store and margin expansion**
- **Growth driven by stronger store opening, direct sourcing, DC usage and better fresh food mix**
- **Raise FY15F/16F earnings by 6%/12% on better-than-expected store opening, margin improvement**
- **Maintain BUY with higher S$0.98 TP**

More stores and more areas to penetrate. We see more room for growth, driven by both store and margin expansion. Store expansion has been positive this year, having already opened four new stores within the first half. With consistent SSSG expectations at 2%, we expect revenue growth to accelerate going forward. Store count currently stands at 38, exceeding our 37 store count expectations set at the beginning of the year. Near-term outlook for store growth remains buoyant with HDB releasing more new units for supermarket space. SSG aims to reach 50 stores islandwide eventually and has yet to have a presence in areas like Hougang, Sengkang and Bukit Batok.

Higher margins from more efficient sourcing and product mix. Gross margins have expanded to 24% currently and we believe there is room to improve through 1) more direct sourcing of fresh food from farms; 2) improving bulk purchase and distribution centre utilisation from 60% to 80%; and 3) improving proportion of fresh food sales mix (currently >40%) closer to the 50% mark. Longer-term growth drivers will come from China and e-commerce.

Raise FY15F/16F earnings by 6%/12% to factor in higher margins. We revise our gross margin assumption from 24.4% to 25% in anticipation of better margin traction. We also raise our sales forecast by 2% from higher new store contribution.

Maintain BUY, TP raised to S$0.98. SSG currently trades at 22x FY16F PE, a discount to peer valuations of 25x. Our TP is pegged to 25x FY156F PE at S$0.98. Maintain BUY.

At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (Sm/USm)	1,301 / 949
Major Shareholders	
SS Holdings (%)	29.9
Lim Family (%)	34.0
Free Float (%)	36.2
Avg. Daily Vol.('000)	2,592

INVESTMENT THESIS

Profile	Rationale
Sheng Siong is the third largest supermarket operator in Singapore, behind NTUC Fairprice and Dairy Farm International.	**Improvement in SSSG, margins.** We expect SSSG to be sustained through marketing initiatives. Margins are also anticipated to expand through more bulk purchase activities and higher sales mix of fresh products. **Cash business.** We like supermarket businesses as they are typically cash generative. Sales are made in cash while purchases for inventory are generally bought on credit. **Stable earnings, attractive dividend yield.** Supermarket businesses are non-cyclical and therefore provide stable earnings and dividends to shareholders. Sheng Siong pays out 90% or more of its earnings as dividends.
Valuation	**Risks**
Our target price for Sheng Siong is S$0.98 based on 25x forward earnings, pegged to peer average.	**Revenue growth limited by store openings.** Store expansion has been tough for Sheng Siong as rental rates have been a consistent challenge. It did not open any new stores in FY13, leaving growth in FY14F solely dependent on same-store sales growthfor supermarkets. For example, it did not open any new stores in 2013 because of slower HDB releases. **Excessive discounts and promotions may erode margins.** Heavier discounts and promotions vis-a-vis competitors would drive sales revenue, but this could be gained at the expense of margins. **Rental and labour costs.** As a retailer, labour and rental costs are key operating costs components. Labour costs have been increasing due to foreign worker dependency ratio and the government's initiative to raise wages. This trend, if it persists, could lead to lower operating margins.

Source: DBS Bank

Income Statement (S$ m)

FY Dec	2014A	2015F	2016F	2017F
Turnover	726	796	846	816
Cost of Goods Sold	(550)	(601)	(637)	(612)
Gross Profit	176	195	209	204
Other Opng (Exp)/Inc	(124)	(136)	(143)	(138)
Operating Profit	52	59	66	66
Other Non Opg (Exp)/Inc	4	5	5	5
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	1	1	1	1
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	57	65	72	72
Tax	(10)	(12)	(13)	(13)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	47	53	59	59
Net Profit before Except.	47	53	59	59
EBITDA	63	72	79	79
Sales Gth (%)	5.6	9.7	6.2	(3.5)
EBITDA Gth (%)	21.9	13.5	11.0	(0.6)
Opg Profit Gth (%)	25.3	12.5	12.1	0.0
Net Profit Gth (%)	20.8	12.6	10.9	0.0
Effective Tax Rate (%)	17.8	18.0	18.0	18.0

Balance Sheet (S$ m)

FY Dec	2014A	2015F	2016F	2017F
Net Fixed Assets	161	178	182	180
Invts in Associates & JVs	0	0	0	0
Other LT Assets	0	0	0	0
Cash & ST Invts	130	123	130	137
Inventory	43	47	50	48
Debtors	11	12	12	12
Other Current Assets	0	0	0	0
Total Assets	345	361	374	376
ST Debt	0	0	0	0
Creditor	96	105	112	108
Other Current Liab	11	12	13	13
LT Debt	0	0	0	0
Other LT Liabilities	2	2	2	2
Shareholder's Equity	236	242	247	253
Minority Interests	0	0	0	0
Total Cap. & Liab.	345	361	374	376
Non-Cash Wkg. Capital	(53)	(58)	(62)	(61)
Net Cash/(Debt)	130	123	130	137

Cash Flow Statement (S$ m)

FY Dec	2014A	2015F	2016F	2017F
Pre-Tax Profit	57	65	72	72
Dep. & Amort.	13	15	16	15
Tax Paid	(7)	(11)	(12)	(13)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	12	4	3	(1)
Other Operating CF	0	0	0	0
Net Operating CF	74	73	79	72
Capital Exp.(net)	(81)	(30)	(18)	(11)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	1	0	0	0
Net Investing CF	(80)	(30)	(18)	(11)
Div Paid	(40)	(48)	(53)	(53)
Chg in Gross Debt	0	0	0	0
Capital Issues	79	0	0	0
Other Financing CF	0	0	0	0
Net Financing CF	39	(48)	(53)	(53)
Currency Adjustments	0	0	0	0
Chg in Cash	33	(5)	8	9

Rates & Ratio

FY Dec	2014A	2015F	2016F	2017F
Gross Margins (%)	24.2	24.5	24.7	25.0
Opg Profit Margin (%)	7.2	7.4	7.8	8.1
Net Profit Margin (%)	6.5	6.6	6.9	7.2
ROAE (%)	24.3	22.1	24.0	23.4
ROA (%)	15.8	15.0	16.0	15.6
ROCE (%)	22.0	19.9	21.8	21.3
Div Payout Ratio (%)	92.1	90.0	90.0	90.0
Net Interest Cover (x)	NM	NM	NM	NM
Asset Turnover (x)	2.4	2.3	2.3	2.2
Debtors Turn (avg days)	5.8	5.2	5.2	5.4
Creditors Turn (avg days)	62.3	62.3	63.5	66.9
Inventory Turn (avg days)	30.0	28.0	28.4	29.8
Current Ratio (x)	1.7	1.6	1.5	1.6
Quick Ratio (x)	1.3	1.2	1.1	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A
Z-Score (X)	10.0	9.5	9.2	9.2
N. Cash/(Debt)PS (S cts)	8.7	8.2	8.6	9.1
Opg CFPS (S cts)	4.1	4.6	5.0	4.9
Free CFPS (S cts)	(0.5)	2.8	4.1	4.1

Quarterly / Interim Income Statement (S$ m)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015
Turnover	172	186	178	198
Cost of Goods Sold	(129)	(141)	(135)	(150)
Gross Profit	42	45	43	48
Other Oper. (Exp)/Inc	(30)	(32)	(30)	(34)
Operating Profit	12	13	14	15
Other Non Opg (Exp)/Inc	1	1	0	2
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	1	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	14	15	14	17
Tax	(3)	(3)	(2)	(3)
Minority Interest	0	0	0	0
Net Profit	11	12	12	14
Net profit bef Except.	11	12	12	14
EBITDA	16	17	16	20
Sales Gth (%)	(9.6)	8.6	(4.3)	11.2
EBITDA Gth (%)	(9.5)	8.5	(5.4)	21.5
Opg Profit Gth (%)	(8.3)	7.8	2.0	6.6
Net Profit Gth (%)	(11.6)	12.6	(5.5)	19.2
Gross Margins (%)	24.7	24.2	24.3	24.4
Opg Profit Margins (%)	7.2	7.2	7.7	7.3
Net Profit Margins (%)	6.5	6.7	6.6	7.1

Segmental Breakdown / Key Assumptions

FY Dec	2014A	2015F	2016F	2017F
Revenues (S$ m)				
Singapore	726	796	846	816
Total	726	796	846	816
Operating profit (S$ m)				
Singapore	52	59	66	66
Total	52	59	66	66
Operating profit Margins				
Singapore	7.2	7.4	7.8	8.1
Total	7.2	7.4	7.8	8.1
Key Assumptions				
Rev per sqft	1,815.0	1,970.7	1,890.0	1,890.0
Operation Area (sqft)	404,000.	436,500.	476,500.	466,500.
Number of stores	34.0	39.0	44.0	47.0

Source: Company; DBS Bank

Industry Focus

CP ALL

Bloomberg: CPALL TB | Reuters: CPALL.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Jul 2015

BUY

Last Traded Price: Bt45.75 (SET : 1,466.71)
Price Target : Bt50.00 (9% upside)

Potential Catalyst: Alcudia renovation and cost optimization
DBSV vs Consensus: In line with consensus

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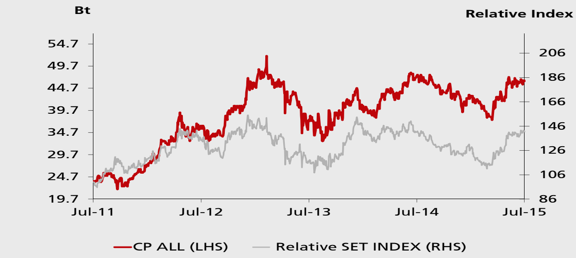
Price Relative



Forecasts and Valuation

FY Dec (Bt m)	2013A	2014A	2015F	2016F
Revenue	272,286	357,766	402,261	442,101
EBITDA	20,064	26,535	31,321	35,944
Pre-tax Profit	12,921	12,530	16,427	20,045
Net Profit	10,537	10,154	13,005	15,899
Net Pft (Pre Ex.)	11,035	9,777	13,005	15,899
EPS (Bt)	1.17	1.13	1.45	1.77
EPS Pre Ex. (Bt)	1.23	1.09	1.45	1.77
EPS Gth (%)	(5)	(3)	28	22
EPS Gth Pre Ex (%)	0	(11)	33	22
Diluted EPS (Bt)	1.17	1.13	1.45	1.77
Net DPS (Bt)	0.86	0.82	1.01	1.24
BV Per Share (Bt)	3.20	3.43	4.05	4.60
PE (X)	39.1	40.5	31.6	25.9
PE Pre Ex. (X)	37.3	42.1	31.6	25.9
P/Cash Flow (X)	19.0	23.1	13.8	11.8
EV/EBITDA (X)	28.6	21.7	18.2	15.3
Net Div Yield (%)	1.9	1.8	2.2	2.7
P/Book Value (X)	14.3	13.4	11.3	9.9
Net Debt/Equity (X)	4.8	4.6	3.8	2.9
ROAE (%)	37.7	34.1	38.7	40.9
Earnings Rev (%):			-	-
Consensus EPS (Bt):			1.47	1.83
Other Broker Recs:		B: 23	S: 4	H: 6

ICB Industry : Consumer Services
ICB Sector: Food & Drug Retailers
Principal Business: The Company's main business is the operation of convenience store retail outlets under the trademark of "7-Eleven" in Thailand.
Source of all data: Company, DBS Vickers, Bloomberg Finance L.P

Promising prospects

- **Strong earnings growth driven by larger network and fatter margins**
- **Upside potential from partial divestment of MAKRO stake**
- **Maintain BUY and Bt50.0 TP, based on 1.4x FY15F PEG**

Strong earnings growth. Despite weak domestic consumption, we expect CPALL to book at least 3% SSSG in FY15 driven by efficient merchandising and promotions. It should also perform better than other retailers of discretionary products because it offers smaller ticket items and food staple. We expect FY15F earnings to surge 28% y-o-y to Bt13bn, fuelled by a larger network of close to 700 stores and fatter margins. The company will focus on offering more ready-to-eat food to increase traffic to its stores, and will benefit from lower utilities costs because of lower fuel adjustment tariff charges since May, declining MAKRO acquisition expenses, and smaller interest expense.

Plans to divest part of MAKRO stake. CPALL plans to sell a part of its stake in MAKRO to the general public. The timing, amount, and price have not been announced. However, CPALL affirmed that it will remain the controlling shareholder after the transaction. The divestment would strengthen its balance sheet as the proceeds would be used to pare down CPALL's debt.

Reiterate BUY. Our TP is intact at Bt50/share, based on 1.4x FY15F PEG. CPALL is our top pick in the retailer segment for its strong growth outlook amid the weak domestic sentiment.

At A Glance

Issued Capital (m shrs)	8,983
Mkt. Cap (Btm/US$m)	410,977 / 11,924
Major Shareholders	
C.P. Merchandising (%)	30.5
Charoen Pokphand Group (%)	10.2
Thai NVDR (%)	4.8
Free Float (%)	58.3
3m Avg. Daily Val (US$m)	20.3

INVESTMENT THESIS

Profile	Rationale
CP ALL PCL is the leading operator of a convenience store chain (7-11) in Thailand with the largest market share in the segment.	Good cost control. CPALL is expected to register lower SG&A to sales ratio as its operations achieve economies of scale in size, utilities costs drop with the lower FT charge, and logistic costs drop along with weak diesel price. Accelerate expansion plan . CPALL will expand by 698 outlets in FY15F (from 600 stores previously) to grow by 9% y-o-y. There is ample room for growth not only in Bangkok, but also in upcountry when the weak consumption trend reverses. The aggressive expansion should also accelerate its scale advantage over competitors in the convenience store market. Sales growth to remain healthy. Despite softer consumption, same store sales growth should remain positive. This could be attributed to efficient merchandising and promotions to match current economic conditions. CPALL will continue to focus on expanding the range of ready-to-eat products as these will attract traffic to its stores and lift GPM.
Valuation	**Risks**
CPALL is our top retailer pick for its strong growth outlook amid weak domestic sentiment. We are retaining our BUY rating with a target price of Bt50/share, based on 1.4x FY15F PEG	Weak consumer confidence. CPALL's business might suffer if consumer confidence (measured mainly by the consumer confidence index) in Thailand weakens, due to an economic slowdown or domestic political unrest. In any case, CPALL tends to adjust their merchandising mix to suit economic conditions in order to secure solid sales. Unfavourable weather. Customer traffic at CPALL's stores are mostly walk-ins. Unfavourable weather could deter such customers. CPALL normally registers softer sales during the rainy season.

Source: DBS Vickers

Income Statement (Bt m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	272,286	357,766	402,261	442,101
Cost of Goods Sold	(210,657)	(281,443)	(315,373)	(345,723)
Gross Profit	61,629	76,323	86,888	96,378
Other Opng (Exp)/Inc	(46,474)	(55,889)	(62,526)	(68,398)
Operating Profit	15,155	20,434	24,362	27,980
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(1,736)	(8,281)	(7,935)	(7,935)
Exceptional Gain/(Loss)	(498)	377	0	0
Pre-tax Profit	12,921	12,530	16,427	20,045
Tax	(2,292)	(2,258)	(3,285)	(4,009)
Minority Interest	(91)	(119)	(137)	(137)
Preference Dividend	0	0	0	0
Net Profit	10,537	10,154	13,005	15,899
Net Profit before Except.	11,035	9,777	13,005	15,899
EBITDA	20,064	26,535	31,321	35,944
Sales Gth (%)	44.3	31.4	12.4	9.9
EBITDA Gth (%)	20.3	32.2	18.0	14.8
Opg Profit Gth (%)	14.6	34.8	19.2	14.9
Net Profit Gth (%)	(4.6)	(3.6)	28.1	22.3
Effective Tax Rate (%)	17.7	18.0	20.0	20.0

Balance Sheet (Bt m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	71,273	80,201	89,801	99,401
Invts in Associates & JVs	0	0	0	0
Other LT Assets	178,773	181,525	180,982	181,987
Cash & ST Invts	25,682	33,436	30,556	30,641
Inventory	19,916	22,167	26,147	28,737
Debtors	848	910	1,257	1,382
Other Current Assets	7,516	8,170	8,987	9,886
Total Assets	304,008	326,410	337,731	352,034
ST Debt	135,143	14,726	14,726	262
Creditor	54,734	59,312	67,043	74,932
Other Current Liab	10,921	17,977	19,741	21,631
LT Debt	50,000	178,301	170,546	163,454
Other LT Liabilities	20,239	21,036	24,960	46,040
Shareholder's Equity	28,747	30,782	36,396	41,353
Minority Interests	4,223	4,276	4,318	4,362
Total Cap. & Liab.	304,008	326,410	337,731	352,034
Non-Cash Wkg. Capital	(37,375)	(46,041)	(50,393)	(56,559)
Net Cash/(Debt)	(159,461)	(159,591)	(154,716)	(133,074)

Cash Flow Statement (Bt m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	12,921	12,530	16,427	20,045
Dep. & Amort.	4,909	6,101	6,959	7,964
Tax Paid	(2,292)	(2,258)	(3,285)	(4,008)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	8,754	1,896	4,307	6,166
Other Operating CF	0	0	0	0
Net Operating CF	21,624	17,775	29,817	34,881
Capital Exp.(net)	(11,272)	(12,203)	(9,600)	(9,600)
Other Invts.(net)	(180,136)	(121)	(122)	(123)
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(1)	13,833	14,109	14,392
Net Investing CF	(191,410)	1,509	4,387	4,668
Div Paid	(8,084)	(8,088)	(7,376)	(9,874)
Chg in Gross Debt	181,000	(25,500)	(5,000)	(29,726)
Capital Issues	0	0	0	0
Other Financing CF	(1,739)	0	0	0
Net Financing CF	171,177	(33,588)	(12,376)	(39,601)
Currency Adjustments	103	0	0	0
Chg in Cash	1,494	(14,304)	21,829	(52)

Rates & Ratio

FY Dec	2013A	2014A	2015F	2016F
Gross Margins (%)	22.6	21.3	21.6	21.8
Opg Profit Margin (%)	5.6	5.7	6.1	6.3
Net Profit Margin (%)	3.9	2.8	3.2	3.6
ROAE (%)	37.7	34.1	38.7	40.9
ROA (%)	5.6	3.2	3.9	4.6
ROCE (%)	9.3	6.9	7.8	8.8
Div Payout Ratio (%)	73.4	72.6	70.0	70.0
Net Interest Cover (x)	8.7	2.5	3.1	3.5
Asset Turnover (x)	1.4	1.1	1.2	1.3
Debtors Turn (avg days)	0.9	0.9	1.0	1.1
Creditors Turn (avg days)	77.4	75.6	74.8	76.7
Inventory Turn (avg days)	25.8	27.9	28.6	29.7
Current Ratio (x)	0.3	0.7	0.7	0.7
Quick Ratio (x)	0.1	0.4	0.3	0.3
Net Debt/Equity (X)	4.8	4.6	3.8	2.9
Net Debt/Equity ex MI (X)	5.5	5.2	4.3	3.2
Capex to Debt (%)	6.1	6.3	5.2	5.9
Z-Score (X)	1.5	2.2	2.3	2.4
N. Cash/(Debt)PS (Bt)	(17.7)	(17.8)	(17.2)	(14.8)
Opg CFPS (Bt)	1.43	1.77	2.84	3.20
Free CFPS (Bt)	1.15	0.62	2.25	2.81

Quarterly / Interim Income Statement (Bt m)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015
Turnover	88,945	87,672	94,991	95,554
Cost of Goods Sold	(70,031)	(68,842)	(74,419)	(75,125)
Gross Profit	18,915	18,831	20,572	20,429
Other Oper. (Exp)/Inc	(13,759)	(13,395)	(15,210)	(13,923)
Operating Profit	5,155	5,436	5,362	6,505
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(2,337)	(2,361)	(2,305)	(2,198)
Exceptional Gain/(Loss)	1	237	(38)	(19)
Pre-tax Profit	2,820	3,312	3,018	4,288
Tax	(542)	(596)	(476)	(842)
Minority Interest	(26)	(28)	(33)	(37)
Net Profit	2,252	2,688	2,509	3,409
Net profit bef Except.	2,250	2,451	2,548	3,428
EBITDA	6,680	7,055	7,041	8,209
Sales Gth (%)	3.2	(1.4)	8.3	0.6
EBITDA Gth (%)	12.0	5.6	(0.2)	16.6
Opg Profit Gth (%)	15.1	5.4	(1.4)	21.3
Net Profit Gth (%)	(16.8)	19.4	(6.6)	35.8
Gross Margins (%)	21.3	21.5	21.7	21.4
Opg Profit Margins (%)	5.8	6.2	5.6	6.8
Net Profit Margins (%)	2.5	3.1	2.6	3.6

Segmental Breakdown / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
Key Assumptions				
Same-store-sales (%)	5.7	(2.6)	3.2	5.0
Spending per ticket (Bt)	62.0	63.0	65.0	68.3
Customers/store/day	1,294.0	1,252.0	1,292.1	1,292.0
New Stores	607.0	698.0	698.0	680.0
Total stores at year end	7,429.0	8,127.0	8,777.0	9,427.0

Source: Company, DBS Vickers

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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 catalysts within this time frame)

Share price appreciation + dividends

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