

Company Initiation

Dairy Farm International

Sector Update

SG Coal Sector Update

Disclaimer

The information contained in this presentation has been obtained from public sources which Phillip Securities Research Pte Ltd (“PSR”) has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this presentation are based on such information and are expressions of belief only. PSR has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this presentation is subject to change, and PSR shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will PSR be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

This presentation is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person.

You should seek advice from a financial adviser regarding the suitability of the investment product, taking into account your specific investment objectives, financial situation or particular needs, before making a commitment to invest in such products.



Company Initiation

Dairy Farm International

Proxy to North Asian consumers boom

Soh Lin Sin

Phillip Securities Research Pte Ltd

02 October 2017

Associated Retail Partners:



Key Investment Thesis

1. Earnings back to growth track with sustainable high single-digit growth in FY17-18e
2. Store rationalization enhanced profitability; Higher margin sales mix and economies of scale to lift margins further
3. Fast growing associates with average earnings growth at 17% p.a. in FY17-18e
4. Attractive valuation after share price retracement

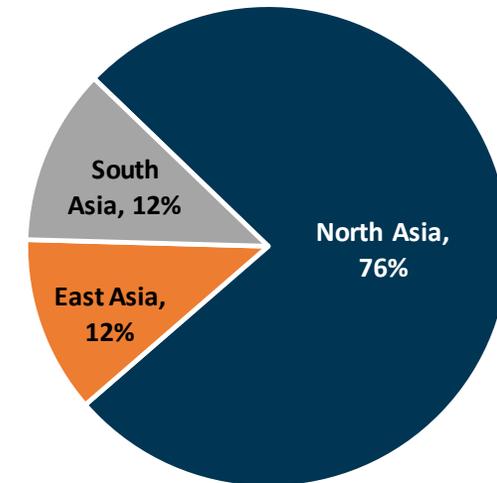
Business Overview

A leading Pan-Asian retailer

- Operated over 6,600 outlets across 12 markets, with FY2016 total sales* exceeding US\$20bn
 - * Total sales include 100% revenue of its associates and joint ventures
- Four divisions: 1) Food (Supermarkets, Hypermarkets and Convenience Stores); 2) Health and Beauty; 3) Home Furnishings (IKEA businesses); and 4) Restaurants (Maxim's, a leading Hong Kong restaurant chain)

Dairy Farm is incorporated in Bermuda and has a standard listing on the London Stock Exchange, with secondary listings in Bermuda and Singapore. It is a member of the Jardine Matheson Group.

FY2016 Sales by Geographical Locations

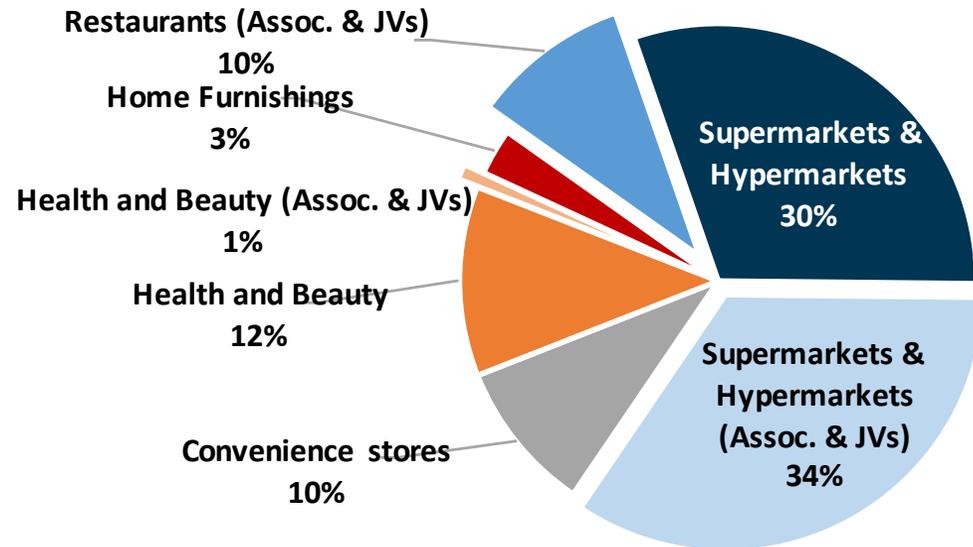


Source: Company

North Asia: China, Hong Kong, Macau, Taiwan
East Asia: Malaysia, Brunei, Indonesia, Vietnam, Thailand
South Asia: Singapore, Cambodia, The Philippines

Sales and EBIT Mix

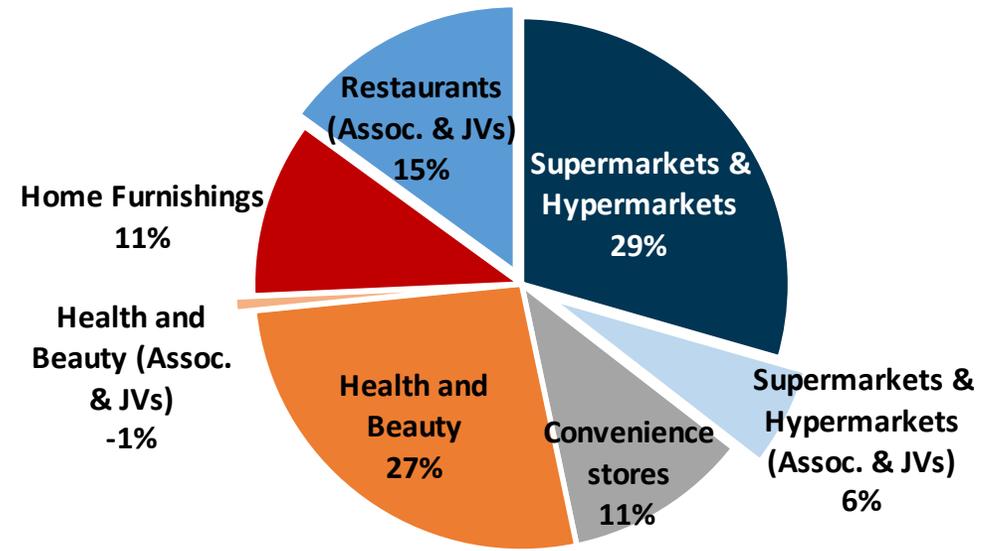
FY2016 Revenue Mix (including 100% sales from Assoc. & JVs)



Source: Company

- Size of its Assoc. & JVs grows to be comparable to its Core Business Units'
- Sales from Core Bus: Assoc. & JV = 55:45

FY2016 EBIT Mix (Operating Profit and Share of results from Assoc. & JVs)

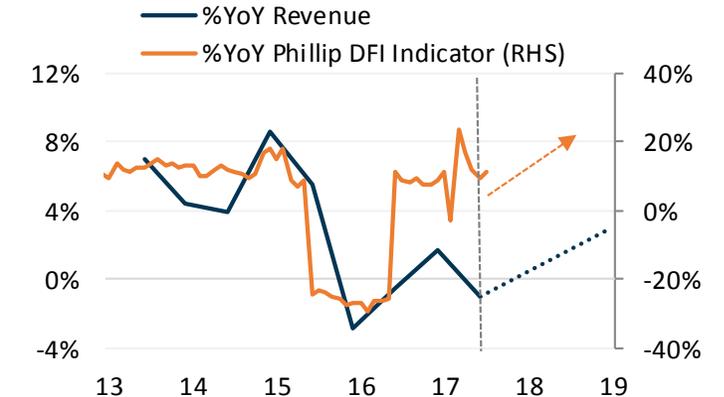


- Shares of results from Assoc. & JVs are gaining more significant: 20% of EBIT in FY16 to 24% in 1H17

Earnings to grow c.10% p.a. in FY17-18e

- Higher turnover on expanding store network and e-commerce sales
- Expect demand in Hong Kong/Macau, and Singapore to pick up
- Improved same-store-sales after store rationalization exercise
- **Margin enhancement initiatives**
- **Higher contributions from associates**

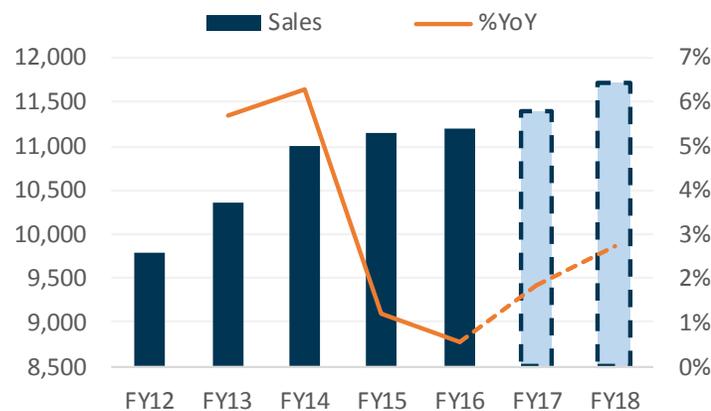
Positive momentum to continue in FY17-18e



Source: CEIC, PSR

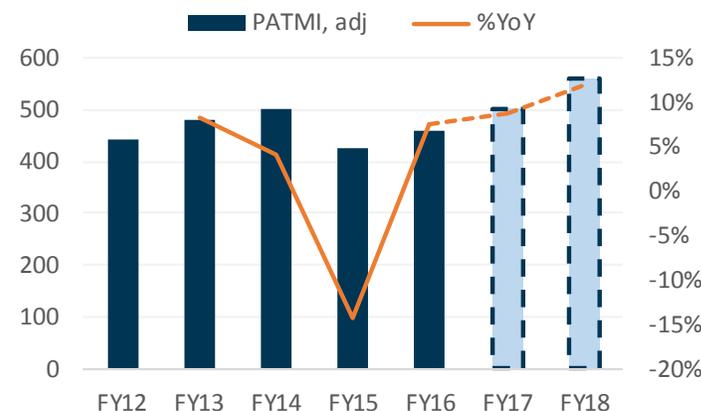
* Phillip DFI Indicator is an index of retail sales from the countries which the Group operates in. It is weighted based on contribution of respective regions.

Revenue bottomed out in FY17e



Source: Company, PSR

Earnings to grow c.10% p.a. in FY17-18e



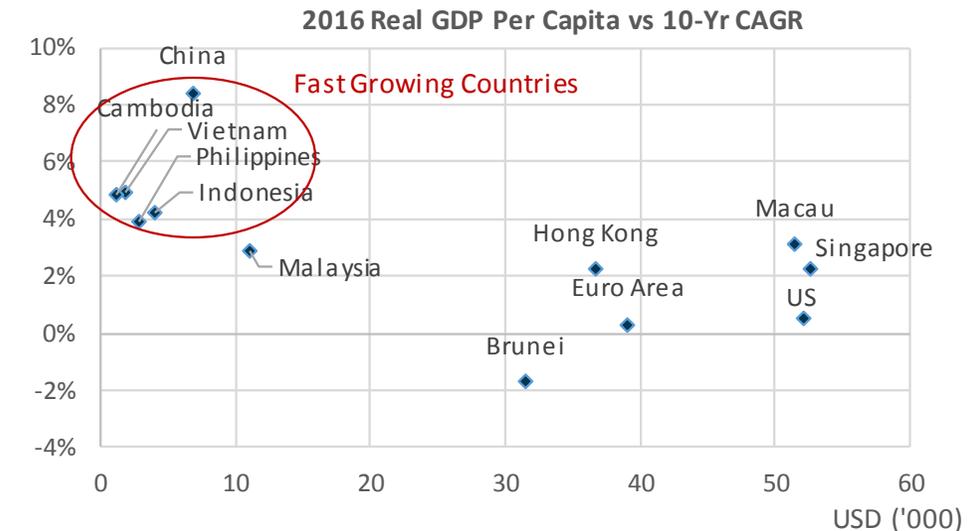
Source: Company, PSR

Tapping Onto Fast Growing Markets

- **Rising consumer affluence** spurs demand for quality goods and services. Imported goods are preferred over local products.
- Consumers are **willing to pay a premium for convenience-enhanced services**.
- **Rising foreign direct investments into modern retail formats** and **government's push to redevelop traditional markets** into a modern retail distribution system would promote higher market penetration of modern trade.
- **Urbanization** underpins demand for affordable quality home furnishings.
- **Improving infrastructure and distribution systems** increases market accessibility.

These underlying factors will underpin the long-term growth trajectory of New Markets, which also helps to mitigate the slowdown in HK/Macau, SG and MY

Emerging markets' growing disposable income and buoyant economies



Source: World Bank, PSR

* Taiwan data unavailable

Expanding its brick-and-mortar store network

Changed to expansion mode, post-store rationalization exercise in 2015-16

- Expanding 7-Eleven footprint in Guangdong, China
7-Eleven is one of the leading convenience stores in China
Store count in Guangdong: **828 (as at end-Dec 16)**
Target to reach 900 stores by FY17e, and could reach 1,000 stores in the subsequent year
Could eventually be double its Hong Kong's size. As compared to Hong Kong's c.930 stores serving population of 7.4mn, Guangdong has much room to expand on the back of 110mn consumer pool.
Note: Guangdong has only 1,877 convenience stores (as at 2015)
- A fourth IKEA store in Hong Kong is scheduled to open later this year (Oct-17) and a site for a second store in Jakarta had been secured.

7-Eleven in Guangdong



Source: Company

Pop-up Store in Tsuen Wan



Source: Company

Extending Reach Via e-Commerce

Online platform complements in-store sales, while pick-up points and delivery services enable efficient customer services

▪ Health and Beauty

E-prescription and Online Pharmacist services in Rose Pharmacy (Philippines) and collaboration with MyDoc in Guardian (Singapore)

E-Prescription

Follow these simple to Order Online:

STEP 1: Search your prescription in the search box above

STEP 2: Add the medicine to your shop cart and complete the checkout

STEP 3: Attach a copy of your doctors prescription during checkout.

We are required by law to only dispense prescription drugs upon presentation of a valid prescription.

Please attach a copy of your prescription during your online purchase check-out. Our online pharmacist will call you for verification of your prescription order.

Source: Rose Pharmacy Website

▪ IKEA

Online shopping service was first rolled out in Hong Kong and Indonesia in 2016, followed by Taiwan in 2017

The Group also plans to rollout parcel pick-up services at selected 7-Eleven stores in Hong Kong

Pick-up Point in Hsinchu County, Taiwan, provides the locals a convenient alternative instead of travelling to IKEA Taoyuan

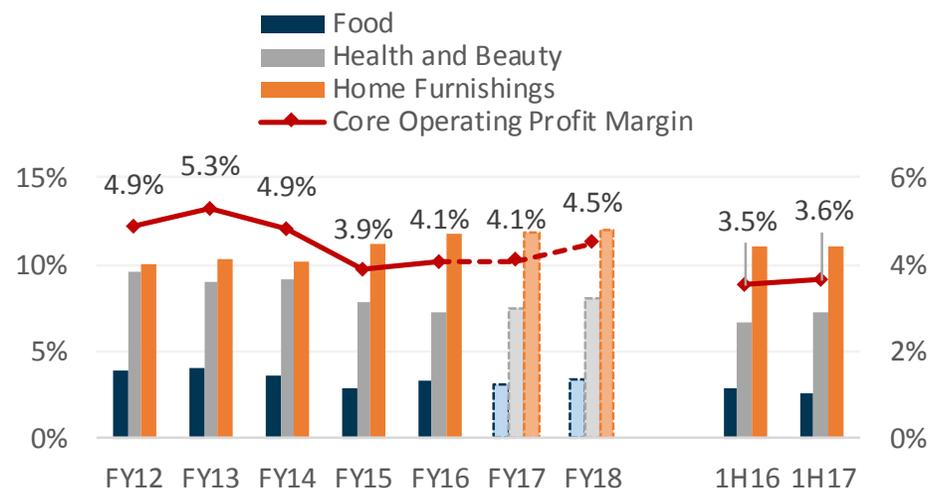


Source: IKEA Taiwan website

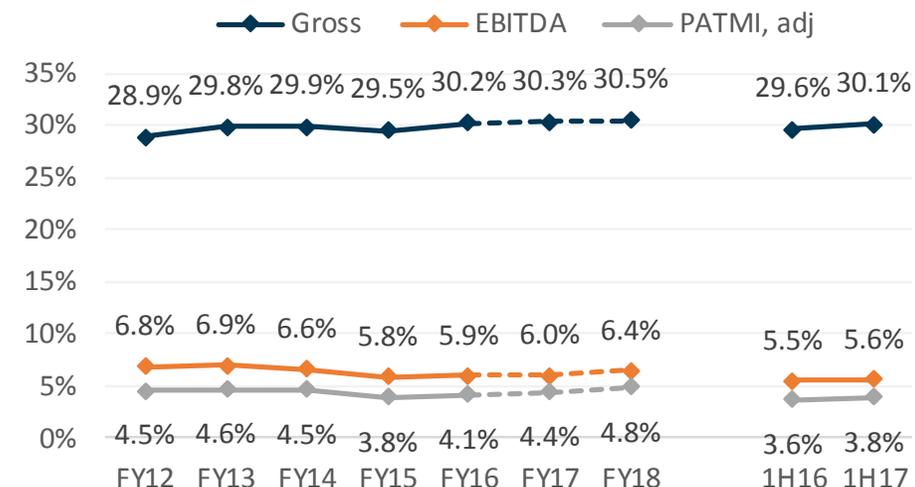
Multiple Levers to Drive Up Margins

- Higher margin sales mix: increase fresh penetration, corporate brands participation, moving upscale and expand RTE range
- Improved economies of scale, better stock management, and consolidation of supply chain across the Group

Core EBIT margin to hit 4.5% by end-FY18e



Strong Assoc. & JVs to prop up another 20 bps p.a. at net margin level in FY17-18e



1. Higher Fresh Participation

- **Fresh participation rate is still lagging** behind NTUC Fairprice and Sheng Siong
- Commenced **new 75k sqft fresh food distribution centre in Singapore** (May-16), levelling its playing field with its rivals, and bode well with its plan to increase fresh participation
- Management shared that lead time from farm to shelf in Singapore has shorten by 50%
- The additional capacity also **enables higher value food production** – such as processing of fresh products
- **Two additional new fresh distribution centres** that will commence operations this year – Philippines (opened in May-17) and Malaysia (target to open in 2H17)

Increase Fresh participation



Source: Company

2. Increase Corporate Brand Penetration

- Has over 10,000 SKUs under its Corporate Brands (a.k.a. private labels) across Food and Health and Beauty segments
- **Low penetration rate:** DFI's mid-single digit percentage vs mainstream retailers' 25% to 50%
- More scope for growth and margin expansion. In particular, its Health and Beauty division in New Markets:

Launched >900 new Corporate Brand products in 2016; Introduced >450 of these products into Vietnam, Cambodia, Indonesia and the Philippines (which recorded 117% sales growth)

SKUs and new Corporate brands launched under its grocery segment



Source: Company

3. Capturing Upscale Market

- Include more imported and exclusive brands which demand higher margins
- Also, expect the Group to benefit from its plan to increase its ownership in Rustan's to 100% with the acquisition of the remaining 34% interest from its joint venture partner

Rustan Supercenters Inc. is the pioneer and best performing brand in Philippines' modern grocery retailing



Source: Company

4. Capitalizing on convenience

More Ready-to-Eat (RTE) products and enhanced service offerings in Convenience Stores

- Sales of RTE products grew over 10% YoY in FY16, double the rate of overall growth in Convenience Store
- Revamped store format to incorporate a small dining in or seating area
- Introduced enhanced service offers, such as establishing pick-up points and e-lockers services to complement the booming e-commerce industry, as well as cash withdrawal services, bill payment facilities, courier services, and prepaid card top-ups services over the counter

More than just a convenience store



Source: Company

5. Improving Economies of Scale

Strengthening and streamlining supply chain and boosting stock management capability

- Establishing distribution centres across the region
 - (i) Higher bulk handling
 - (ii) Provide capacity to create higher value food production and bringing wider range of products
- Efficient inventory management via technology
- Shortening supply chain via direct sourcing.
 - (i) Improve local and international sourcing. E.g. collaboration with 7-Eleven Japan to source exclusive and unique Japanese products for its Singapore and Hong Kong markets
 - (ii) Manages common sourcing in general merchandise

New Fresh DC in SG enables bulk handling



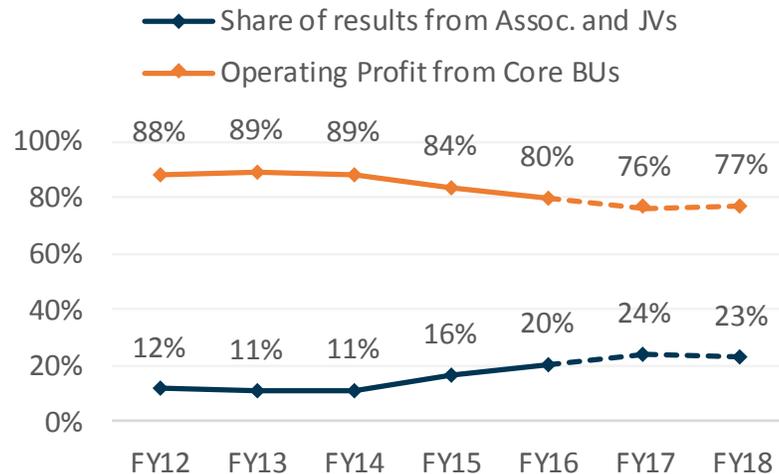
Source: Company

Fruition from its investment in Associates and JVs

Contribution from Associates and JVs to Group's EBIT increased over the past two years since the acquisition of Yonghui

We expect its contribution to stay above 20% of EBIT going forward

Strategic investment in Yonghui and Maxim's are bolstering EBIT growth



Source: Company, PSR

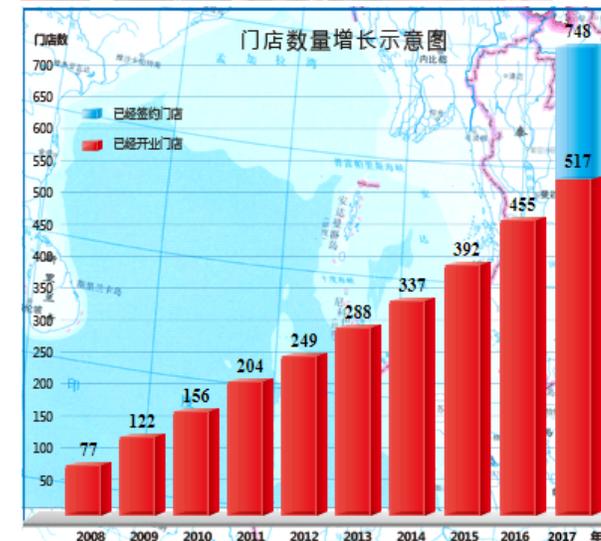
Stores expansion and margin gains in Yonghui

- Yonghui's size, in terms of turnover, has already outpaced the Group's Supermarket and Hypermarket businesses
- Currently, Yonghui has nearly 500 stores. It targets to roll out another 100 outlets per year in the next two years.

Its major shareholders include Dairy Farm (19.99%) and JD.com (10%)

- Its strategic partnerships with Dairy Farm will expand its product scope; and JD.com will expand scale up its e-commerce and O2O (online-to-offline) capabilities
- On the other hand, Dairy Farm could enhance margins from increase direct sourcing in mainland China via Yonghui
- Yonghui could also potentially provide a distribution platform for Dairy Farm's private labels

China's 4th largest hypermarket operator



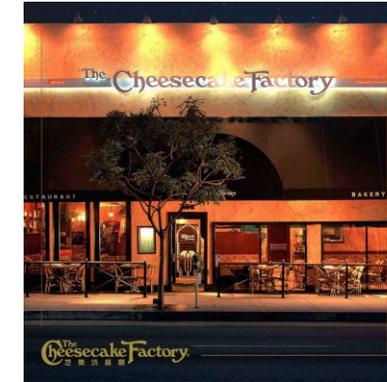
Source: Yonghui Website, as at 29 Sep-17

Maxim's Expands Organically and Inorganically

A leading restaurant and catering company in Hong Kong and aims to become one of Asia's leading F&B companies

- Operates >1,000 outlets across Greater China and Southeast Asia
- >70 brands comprising Chinese, Asian and European restaurants, quick service restaurants, bakery shops and institutional catering
- Also the licensee of renowned brands including Starbucks Coffee, Genki Sushi and IPPUDO ramen and The Cheesecake Factory in various territories

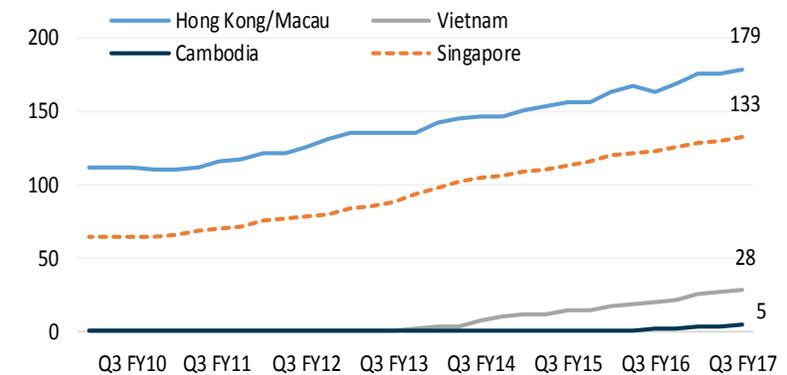
The Cheesecake Factory in HK



Source: Company

Hong Kong Caterers and Dairy Farm each holds 50% of Maxim's stakes

Growing Starbucks business



Source: Starbucks 3QFY17 Results, PSR

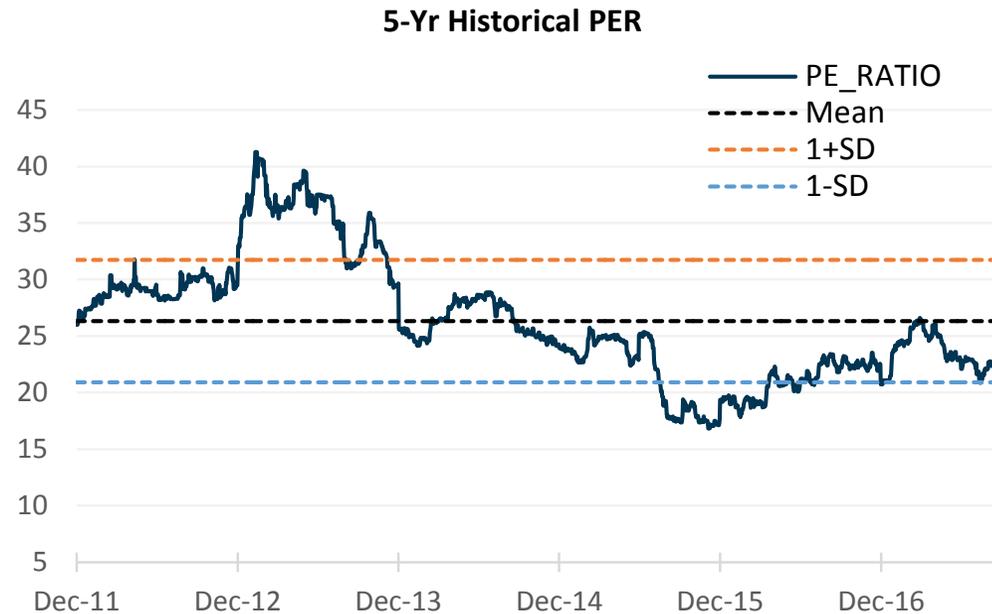
Valuation

Sum-of-parts Valuation

Equity affiliate	Mkt Cap (USD mn)	EV (USD mn)	Stake (%)	EV to DFI (USD mn)	
Yonghui Superstores Co., Ltd	11,108	10,498	19.99	2,099	
Unlisted Associate	FY18e Sales (USD mn)	Peer's Fwd EV/Sales (x)	EV (USD mn)	Stake (%)	EV to DFI (USD mn)
Restaurants	2,273	0.5	1,136	50.0	568
Core Businesses	FY18e EBITDA (USD mn)	Peer's Fwd EV/EBITDA (x)	EV to DFI (USD mn)		
Food	367	9.5	3,482		
Health and Beauty	270	20.0	5,396		
Home Furnishings	113	20.0	2,264		
	750		11,142		
Total EV (US\$ mn)	13,809				
Less: Debt	733				
Less: Minority Interest	74				
Plus: Cash	372				
Total Market Value (US\$ mn)	13,373				
Total Sum-of-parts					
No. of shares (mn)	1,352				
NAV/Share (TP US\$)	9.89				
Current share price (US\$)	7.48				
% upside/downside	32.2%				
FY18e EPS (US\$)	0.41				
<i>Implied FY18e P/E (x)</i>	<i>23.9</i>				

Source: Bloomberg, PSR

Historical PER



Source: Bloomberg, PSR

- Dairy Farm is currently trading at trailing PER of 21x, which is near one standard deviation below its 5-year average

Our SOTP TP of US\$9.89 implied 26.7x/23.9x FY17/18e PER

Peers' Comparison

Comparables

Company	FYE	Mkt Cap (USD mn)	EV (USD mn)	EV/EBITDA FY1	P/S FY1	EV/S FY1	P/E	P/B	Div Yield (%)	Net D/E (%)	ROE (%)
DAIRY FARM INTL HLDGS LTD	12/2016	10,116	10,873	15.2	0.9	1.0	21.0	6.4	2.8	40.6	32.5
Yonghui Superstores Co Ltd	12/2016	11,108	10,498	25.0	1.3	1.2	43.4	3.8	1.6	Net Cash	10.4

Food

Sun Art Retail Group Ltd	12/2016	8,610	7,491	6.5	0.5	0.5	20.0	2.7	3.3	Net Cash	13.8
Sheng Siong Group Ltd	12/2016	1,021	972	14.0	1.7	1.6	21.5	5.4	3.7	Net Cash	25.4
Zhongbai Holdings Group Co Ltd	12/2016	967	947	18.4	0.4	0.4	30.5	2.1	0.9	21.4	6.9
Jiajiayue Group Co Ltd	12/2016	1,134	740	8.7	0.6	0.4	22.4	3.2	2.2	Net Cash	15.1
Chengdu Hongqi Chain Co Ltd	12/2016	1,234	1,185	23.8	1.2	1.1	59.8	3.6	0.3	Net Cash	6.4
Sumber Alfaría Trijaya Tbk PT	12/2016	2,157	2,672	10.4	0.4	0.6	40.6	5.7	0.6	109.5	12.1
Matahari Putra Prima Tbk PT	12/2016	255	279	11.8	0.2	0.3	N/A	1.5	N/A	20.6	-4.5
Aeon Co M Bhd	12/2016	676	867	7.5	0.7	0.9	35.7	1.5	1.5	46.3	4.2
Robinsons Retail Holdings Inc	12/2016	2,719	2,692	15.8	1.2	1.2	27.2	2.8	0.7	Net Cash	10.8
Metro Retail Stores Group Inc	12/2016	290	235	6.2	0.4	0.3	15.4	2.0	1.2	Net Cash	13.3
Cosco Capital Inc	12/2016	1,229	1,783	6.4	0.4	0.6	12.3	1.2	0.9	Net Cash	9.7
Puregold Price Club Inc	12/2016	2,725	2,820	13.5	1.1	1.2	24.1	3.0	0.6	2.5	13.3
Lawson Inc	02/2017	6,593	7,473	6.6	1.1	1.3	19.8	2.7	3.4	51.9	14.1
FamilyMart UNY Holdings Co Ltd	02/2017	6,453	8,451	9.0	0.6	0.8	27.6	1.4	2.0	58.4	5.9
Market Cap Weighted Average (Food)				9.7	0.8	0.8	25.0	2.7	2.2	28.3	11.5

Dairy Farm is trading at a discount to its peers' average of 25x for retailers

Health & Beauty

Sa Sa International Holdings Ltd	03/2017	1,131	1,006	12.5	1.1	1.0	26.6	4.0	5.8	Net Cash	14.5
It's Hanbul Co Ltd	12/2016	501	531	8.8	2.2	2.4	N/A	1.1	2.7	Net Cash	9.4
Beauty Community PCL	12/2016	1,326	1,294	32.8	12.5	12.1	50.5	31.6	2.0	Net Cash	67.4
Market Cap Weighted Average (Health & Beauty)				21.0	6.4	6.2	32.8	15.9	3.5	0.0	37.3

Home Furnishing

Test Rite International Co Ltd	12/2016	380	563	9.7	0.3	0.5	16.5	1.6	4.8	68.3	9.5
Siam Global House PCL	12/2016	1,805	2,050	22.2	2.9	3.3	38.6	4.7	1.0	47.1	10.9
Market Cap Weighted Average (Home Furnishing)				20.1	2.4	2.8	34.8	4.2	1.7	50.8	10.7

Restaurant

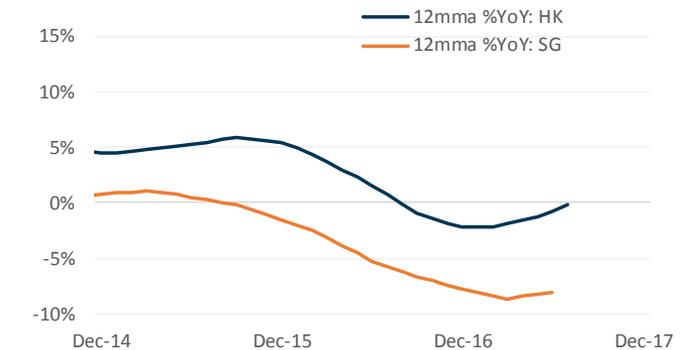
Tsui Wah Holdings Ltd	03/2017	199	144	5.5	0.8	0.6	17.2	1.3	5.0	Net Cash	N/A
BreadTalk Group Ltd	12/2016	324	366	5.3	0.7	0.8	21.4	3.3	3.2	29.1	15.8
Market Cap Weighted Average (Restaurant)				5.3	0.7	0.7	19.8	2.6	3.9	18.1	9.8

Source: Bloomberg

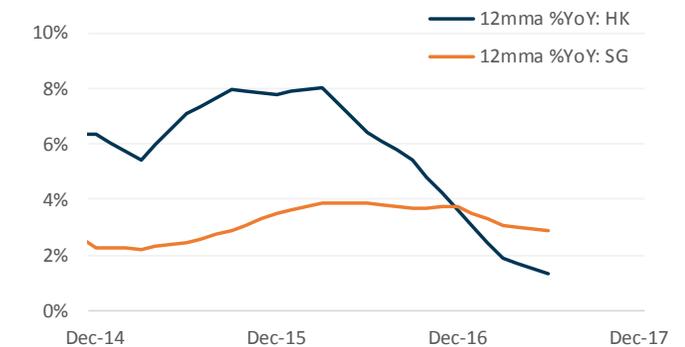
Key Investment Risks

1. Prolonged macro headwinds in Hong Kong, Macau, Indonesia and Malaysia could dampen consumer confidence and weigh on performance.
2. Intensifying competition and increasing operating costs, especially labour and rental costs could crimp profit growth.
3. Regulatory risk in operating countries, such as:
 - New regulations curtailing late night alcohol sales in Singapore
 - The introduction of GST (Apr-15) and Anti-Profiteering Act (early-17) in Malaysia
 - A substantial cigarette tax hike (Jul-15) in Macau
4. Unfavourable exchange rate movements will affect the Group's US dollar reported results and led to lower underlying earnings for the period.
5. Cancellation, termination, or unfavourable renegotiation terms and conditions of concessions, franchises and key contracts could have an adverse effect on the business operations.

Property Rental Index: Retail



Average Monthly Wage



Source: CEIC, PSR

Key Investment Thesis

1. Earnings back to growth track with sustainable high single-digit growth in FY17-18e
2. Store rationalization enhanced profitability; Higher margin sales mix and economies of scale to lift margins further
3. Fast growing associates with average earnings growth at 17% p.a. in FY17-18e
4. Attractive valuation after share price retracement

Singapore Coal Sector

Foresee a coal price correction soon

Chen Guangzhi
Phillip Securities Research Pte Ltd
02 October 2017

Singapore Coal Sector

(BUY)

What is the news?

China

Establish coal stockpiles system, aiming to set up both the minimum and maximum requirement of coal inventories

- Minimal storage
- Bans stockpiling to ensure stable coal supply for peak seasons

Resume coal procurement from North Korea

Indonesia

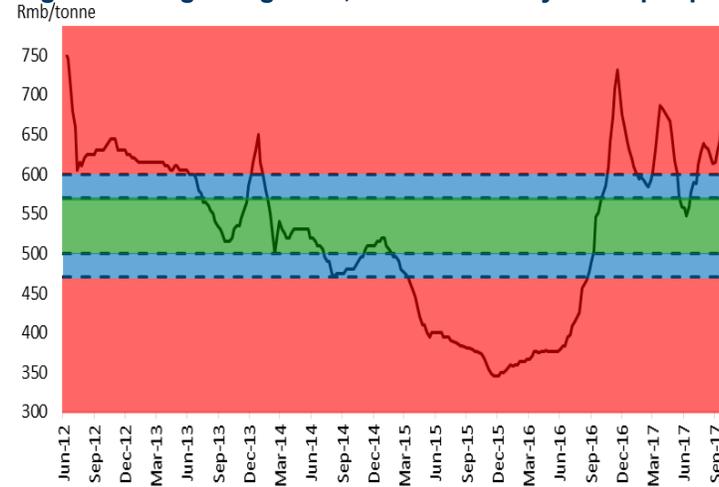
Draft new rules to determine coal prices for domestic supplies, aiming to reduce electricity prices

- To devise a new pricing formula
- No timeframe is given to implement

Singapore Coal Sector (BUY)

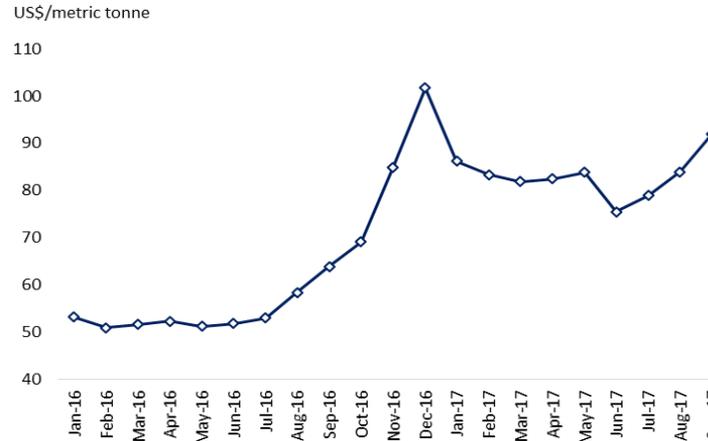
The current coal price level is unfavorably high for both China and Indonesia

Figure 1: Qinghuangdao 5,500 GAR weekly FOB spot price



Source: Bloomberg, PSR

Figure 1: Indonesia coal price reference (HBA)



Source: Coalspot.com, PSR

- China will gradually move price downward to reflect supply and demand
- Indonesia Domestic Market Obligation (DMO) price control could cause a hard landing for domestic coal price

Singapore Coal Sector

(BUY)

The regulatory headwinds have limited impacts on three counters

- **Golden Energy and Resources:** the group has the discretion to lift the percentage of export sales to buffer the domestic price that is possibly below the market rate
- **Geo Energy Resources:** the stability of the coal price within the given range provides relatively clear visibility for GEO's margin
- **Blackgold Natural Resources:** the sales are based on a “cost-plus” model

Investment action

- May see a speed bump on the recent coal price recovery
- The ramp-up of production is still on track
- Maintain the **BUY** rating on coal sector

Disclaimer

The information contained in this presentation has been obtained from public sources which Phillip Securities Research Pte Ltd (“PSR”) has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this presentation are based on such information and are expressions of belief only. PSR has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this presentation is subject to change, and PSR shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will PSR be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

This presentation is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person.

You should seek advice from a financial adviser regarding the suitability of the investment product, taking into account your specific investment objectives, financial situation or particular needs, before making a commitment to invest in such products.

Ask Questions!

Archived Webinar videos can be accessed at:

<https://www.poems.com.sg/education/webinars/>



Analysts

Paul Chew, Head of Research

Pei Sai Teng, Macro

Jeremy Ng, Technical Analysis

Jeremy Teong, Banking & Finance

Soh Lin Sin, Consumer | Healthcare

Richard Leow, Transport | REITs (Industrial)

Dehong Tan, REITs (Commercial, Retail, Healthcare) | Property

Ho Kang Wei, US Equity

Chen Guangzhi, Oil and Gas | Energy

By Phillip Securities Research

Mohamed Amiruddin, Operations Exec