Stocks in Focus:

RRHI: Strong supermarket and drugstore sales drive outperformance in earnings

1Q20 net income up 44.9% y/y to Php923Mil, ahead of estimates. RRHI's 1Q20 net income grew 44.9% y/y to Php923Mil, beating COL and consensus estimates at 22.0% and 19.4% of full-year forecast, respectively. Note that excluding non-core items, core earnings still grew 33% y/y, ahead our estimates accounting for 19.4% of COL forecast (historically around ~17.5% of full-year). The outperformance was mainly driven by the robust performance of Supermarkets and Drugstores, as these formats benefitted from a surge in demand following the enhanced community quarantine. In fact, Supermarket EBITDA jumped 46% y/y% given the strong sales volume and also the turnaround of Rustan's. Similarly, Drugstore EBITDA grew 17% driven by increased demand for maintenance medicines, vitamins, and others. These two formats made up for the double-digit EBITDA decline of RRHI's discretionary stores. In 1Q20, RRHI sales grew 7%, while consolidated same-store-sales growth (SSSG) reached 6.9% vs 4.1% in 1Q19.

Top Stories:

CEB: CEB posts core net loss in 1Q20; underperforms estimates on weak revenues and higher-than-expected opex
AP: 1Q20 earnings below estimates
SSI: FY19 earnings surge on robust sales and better margins, outperforming estimates

Other News:

Economy: BSP eases credit weight of banks' MSME loans
Economy: Philippines signs US$100Mil loan with Word Bank

COVID-19 Update:

	Total Cases	Total Deaths	Total Recoveries
Philippines	**8,212** (+254)	**558** (+28)	**1,023** (+48)
USA	**1,059,992** (+24,227)	**61,508** (+2,242)	**145,904** (+3,666)
Worldwide	**3,212,062** (+75,555)	**227,754** (+9,941)	**997,696** (+44,375)

(AS OF APR 29, 2020)

INDICES

	Close	Points	%	YTD%
PSEi	5,643.97	68.99	1.24	-27.78
All Shares	3,425.28	30.53	0.90	-26.33
Financials	1,169.87	0.52	0.04	-37.23
Holding Firms	5,509.37	44.66	0.82	-27.43
Industrial	7,465.39	50.20	0.68	-22.52
Mining & Oil	4,692.94	57.30	1.24	-42.01
Property	2,887.73	82.50	2.94	-30.49
Services	1,349.00	11.23	0.84	-11.89
Dow Jones	24,101.55	-32	-0.13	-15.55
S&P 500	2,863.39	-15.09	-0.52	-11.37
Nasdaq	8,607.73	-122.43	-1.40	-4.07

INDEX GAINERS

Ticker	Company	Price	%
TEL	PLDT Inc	1270.00	5.31
SMPH	SM Prime Hldgs Inc	30.95	4.21
JFC	Jollibee Foods Corp	147.00	4.11
RRHI	Robinsons Retail Hldgs Inc	64.95	3.92
ALI	Ayala Land Inc	31.00	2.48

INDEX LOSERS

Ticker	Company	Price	%
ICT	Int'l Container Term	86.20	-2.05
BLOOM	Bloomberry Resorts	5.53	-1.95
PGOLD	Puregold Price Club	46.40	-1.28
GLO	Globe Telecom Inc	2230.00	-1.24
AEV	Aboitiz Equity Ventures	41.50	-1.19

TOP 5 MOST ACTIVE STOCKS

Ticker	Company	Turnover
TEL	PLDT Inc	497,833,100
ALI	Ayala Land Inc	390,503,400
PGOLD	Puregold Price Club Inc	345,326,600
JFC	Jollibee Foods Corp	212,998,700
BDO	BDO Unibank Inc	201,859,600

Market Summary:

The local equities market rose on Wednesday amidst thin volumes, tracking mostly upbeat regional markets.

The PSEi rose 68.99 points or 1.23% to close at 5,643.97. The top movers were SMPH (+4.21%), SM (+1.47%), ALI (+2.48%), TEL (+5.31%), and JFC (+4.11%). On the other hand, these were partially offset by decliners such as ICT (-2.05%), AEV (-1.19%), URC (-0.81%), GLO (-1.24%), and PGOLD (-1.28%).

Value turnover declined to Php4.5Bil from Php4.6Bil in the previous session. Meanwhile, foreigners continued to sell shares for the 31st consecutive day, liquidating Php726.1Mil worth of shares.

In the US, major stocks indices (DJIA +2.21%; S&P 500 +2.66%; NASDAQ +3.57%) rallied after Gilead Sciences said it was seeing positive data from the trials of its drug remdesivir to treat Covid-19.

Justin Richmond Cheng
Research Analyst

Robinsons Retail Holdings, Inc.
BUY
PHP74.50

Stocks in Focus:

RRHI: Strong supermarket and drugstore sales drive outperformance in earnings

1Q20 net income up 44.9% y/y to Php923Mil, ahead of estimates. RRHI's 1Q20 net income grew 44.9% y/y to Php923Mil, beating COL and consensus estimates at 22.0% and 19.4% of full-year forecast, respectively. Note that excluding non-core items, core earnings still grew 33% y/y, ahead our estimates accounting for 19.4% of COL forecast (historically around ~17.5% of full-year). The outperformance was mainly driven by the robust performance of Supermarkets and Drugstores, as these formats benefitted from a surge in demand following the enhanced community quarantine. In fact, Supermarket EBITDA jumped 46% y/y% given the strong sales volume and also the turnaround of Rustan's. Similarly, Drugstore EBITDA grew 17% driven by increased demand for maintenance medicines, vitamins, and others. These two formats made up for the double-digit EBITDA decline of RRHI's discretionary stores. In 1Q20, RRHI sales grew 7%, while consolidated same-store-sales growth (SSSG) reached 6.9% vs 4.1% in 1Q19.

Exhibit 1: Results Summary

in PhpMil	1Q19	1Q20	%Change	% of Full year Forecast	
				COL	Consensus
Net Sales	37,350	40,062	*7.3*	*23.0*	*22.5*
Gross Profit	8,470	8,736	*3.1*	*22.5*	*21.3*
Gross Margin (%)	22.7	21.8	-	-	-
Operating Income	1,425	1,673	*17.4*	*21.0*	*20.4*
Operating Margin (%)	3.8	4.2	-	-	-
Core Income	591	784	*32.7*	*19.4*	-
Core Income Margin (%	1.6	2.0	-	-	-
Net Income	637	923	*44.9*	*22.0*	*19.4*
Net Margin (%)	1.7	2.3	-	-	-

Source: RRHI, COL Estimates, Bloomberg

1Q20 sales up 7.3% y/y, buoyed by Supermarket and Drugstore. RRHI's 1Q20 sales grew 7.3% y/y to Php40.1Bil. This is in line with COL and consensus estimates at 23.0% and 22.5% of full-year forecasts, respectively. Growth was mainly driven by Supermarket (+17.7%) and Drugstore (+13.1%). Supermarket sales were robust as consumers stocked up heavily on essential goods. In fact, basket size ballooned to over 20% for the quarter while SSSG jumped to ~19%. This was amid increased orders of canned goods, noodles, powdered milk, and disinfectants, among others. Similarly, RRHI saw higher sales of medicine and vitamins, allowing Drugstore SSSG (13.9%) to sustain double-digit growth despite the high base last year. The strong performance of these two formats made up for the weakness in other store formats that were affected by COVID-19 and the lockdown.

Note that RRHI's other business segments were not allowed to operate after the implementation of the enhanced community quarantine in mid-March. These include RRHI's Department stores, DIY stores, and Specialty stores. As such, these formats saw sales in 1Q20 declining by 10-20%. Meanwhile, convenience stores were allowed to operate, but sales were sluggish, down 1% y/y. This was largely due to shortened operating hours and also because 30% of RRHI's convenience stores were closed given the lack of manpower and closure of buildings where the stores are located.

Sales trends in April remain strong for Supermarkets. Specifically, Robinsons Supermarket SSSG reached teens, while Rustan's supermarket recorded around 30% in SSSG. On the other hand, Drugstore SSSG was flattish as it experienced supply availability issues. Lastly, convenience store SSSG was down significantly in April, due to reduced operating hours and temporary store closure of some of its stores.

Exhibit 2: Segment sales breakdown

	Net Sales		% Change	SSSG	
	1Q19	1Q20		1Q19	1Q20
Supermarket	20,732	24,405	*17.7*	*5.5*	*18.7*
Department Store	3,609	2,741	*-24.1*	*-3.5*	*-21.2*
DIY store	3,303	2,958	*-10.4*	*3.8*	*-13.5*
Convenience store	1,553	1,537	*-1.0*	*-0.6*	*-0.8*
Drugstore	4,415	4,995	*13.1*	*13.9*	*13.7*
Specialty Store	4,172	3,426	*-17.9*	*2.1*	*-14.6*
				4.1	***6.9***

Source: RRHI

Operating margins expand in 1Q20 due to strong sales and cost savings. RRHI's operating margin expanded by 40 bps in 1Q20 to 4.2%. The margin expansion was driven by the strong topline growth in Supermarket and Drugstore. Additionally, the significant turnaround of Rustan's also supported the higher margin as Rustan's booked EBIT of ~Php350Mil in 1Q20 versus the operating loss of ~Php170Mil in 1Q19. Furthermore, the company was able to generate operational cost savings. For example, RRHI was also able to obtain some rental reprieve from its landlords for its stores that are currently not operating. This tempered the impact of the lower sales due to temporary store closures for non-discretionary stores. For the year, management said operational cost savings could reach as much as Php2Bil. In terms of personnel expenses, management said it paid all its employees in full during the first month of the ECQ. Subsequently, employees who do not go to work were asked to use their paid leaves.

Increasing focus on digitalization to prepare for the new normal. RRHI is looking to fast tracking its digitalization efforts in preparation for the new normal in consumer behavior after COVID-19. In fact, management is considering operating their own e-commerce platform and making all their store formats available for online sales. Currently, overall online sales accounts for around 1.5% of RRHI's total sales. However, management shared that since the ECQ, online sales have seen significant growth with basket size 2.5 times higher for supermarket. In addition, year-to-date online supermarket sales through partner Metromart is now 75% of last year's total sales. The company also implemented a click-and-collect service for some of its non-operating stores. RRHI has 20 supermarket stores that offer online retailing, and around 5% of total sales for these 20 stores are now accounted for by online retailing.

Management sets more conservative prospects for 2020 amid COVID-19. RRHI is reducing its store network expansion plan to 60 to 100 stores from its usual 100 to 120 stores. Furthermore, it is lowering its consolidated SSSG target to 0 to 3% from the usual 2 to 4%. The more conservative SSSG guidance is underpinned by management's view that it sees the risk that overall consumption for the Philippines could slow down given the ongoing macroeconomic factors. In light of this outlook, the company will focus on rationalizing capital expenditures and increase cost savings initiatives. Capex budget is set at Php2Bil to Php4Bil versus Php3Bil to Php5Bil guidance last year.

Maintain BUY rating. We are maintaining our BUY rating on RRHI with FV estimate of Php74.5/sh. We continue to like RRHI given its well-diversified portfolio of retail formats. This puts the company at the forefront in benefiting from the favorable growth opportunities in the retail sector. Furthermore, it has allowed the company to be relatively resilient in this challenging time with COVID-19 due to its exposure to staple retail formats apart from its discretionary stores.

Frances Rolfa Nicolas
Research Analyst

Cebu Air Inc.
UNDER REVIEW
N/A

Top Stories:

CEB: CEB posts core net loss in 1Q20; underperforms estimates on weak revenues and higher-than-expected opex

1Q20 core net loss reaches Php389Mil. CEB's 1Q20 net loss reached Php1.2Bil. However, CEB booked non-core items such as forex losses and hedging losses amounting to a Php794Mil during the quarter. Excluding these, 1Q20 core net loss reached Php389Mil, a reversal from the Php2.7Bil core net income registered in 1Q19. Results underperformed our expectation of a full year core net income of Php1.6Bil. The miss in our estimates was due to lower-than-expected revenues amid the COVID-19 pandemic, and higher-than-expected operating expenses.

Exhibit 1: Results Summary

	1Q19	1Q20	% change	% of estimates COL
Revenues	21,177	15,914	*(24.9)*	*24.9*
Operating Expenses	17,345	16,607	*(4.3)*	*28.2*
Operating Income	3,832	-693	*(118.1)*	*(13.9)*
Net Income	3,426	-1,183	*(134.5)*	-
Core net income	2,677	-389	*(114.5)*	*(24.4)*
Net Margin (%)	*12.6*	*(2.4)*	-	-

source: CEB, COL estimates

COVID-19 impacts revenues. CEB's 1Q20 revenues dropped 24.9% y/y to Php15.9Bil, below COL estimates at just 24.9% of our full year forecast. Note that we expected 1Q20 revenues to account ~33% of our full year forecast given the assumption that the enhanced community quarantine (ECQ) would last three months. The decline in revenues was attributable to both decrease in passenger volume and total yield. 1Q20 passenger volume fell 16.5% to 4.4Mil as a result of the travel restrictions imposed due to the COVID-19 pandemic. Recall that the company cancelled flights to China, Hong Kong, Macau, and South Korea during the quarter. Moreover, the company suspended all flights after the ECQ was imposed late-March. Meanwhile, total yield dropped 9.5% to Php3,376 per passenger. Broken down, average tickets decreased by 13.0% to Php2,580 while ancillary revenue per passenger increased by 3.8% to Php796. Likewise, 1Q20 cargo revenues fell 29.7% to Php1.0Bil, due to lower cargo volume and yield.

Moving forward, we expect a more severe impact to the company's revenues in 2Q19 due to the implementation of the ECQ in Luzon. Moreover, even with the resumption of the company's operations after the ECQ period, we expect demand for flying to remain weak as people would likely opt to travel less.

Exhibit 2: Passenger volume

in Php Thousands	1Q19	1Q20	% change
Passengers carried	5,289	4,414	*(16.5)*

source: CEB

Exhibit 3: Total yield breakdown

	1Q19	1Q20	% change
Average fare	2,965	2,580	*(13.0)*
Ancillary	767	796	*3.8*
Total Yield	**3,731**	**3,376**	*(9.5)*

source: CEB, COL estimates

Opex contract due to flight suspensions. Operating expenses in 1Q20 dropped 4.3% to Php16.6Bil mainly due to the flight suspensions brought about by the COVID-19 pandemic. Particularly, fuel expense declined 17.4% to Php4.9Bil as a result of lower consumption and lower jet fuel prices. Note that the average jet fuel price in 1Q20 was 17.8% lower at US$61.4/bbl, vs. the 1Q19 average of US$74.7/bbl. Despite these, 1Q20 opex was higher-than-expected expected, at 28.2% of our full year forecast, due to higher depreciation expense and general and administrative expenses.

Moving forward, we expect opex to remain subdued due to the persisting flight suspensions and the relatively lower jet fuel prices. Note that the average jet fuel price from April 1- Apr 21 is at US$27.8/bbl, down 64.3% from the US$77.8/bbl average in 2Q19.

Exhibit 4: Fuel costs

	1Q19	1Q20	% change
Fuel Expense	5,881	4,857	*(17.4)*
Average jet fuel price per barrel (USD)	74.7	61.4	*(17.8)*

source: CEB, COL estimates, Bloomberg

Estimates under review. In light of the lower-than-expected 1Q20 results, we will be reviewing our estimates on CEB.

George Ching
Senior Research Manager

Aboitiz Power Corporation
BUY
PHP31.20

AP: 1Q20 earnings below estimates

1Q20 earnings below estimates. In a press release, AP disclosed that 1Q20 core earnings declined 49% to Php2.1Bil, below estimates, representing 12.4% of COL forecast and 11% of consensus forecast. We will release a more detail analysis of the 1Q20 results after this afternoon's earnings presentation.

Reviewing estimates. We are reviewing our estimates on AP in light of the 1Q20 results and given that AP's share price has rallied significantly from its lows in March.

Justin Richmond Cheng
Research Analyst

SSI Group, Inc.
BUY
PHP2.60

SSI: FY19 earnings surge on robust sales and better margins, outperforming estimates

FY19 earnings surge on robust sales and better margins. In a press release, SSI disclosed that its net income in 4Q19 jumped 67% y/y to Php401Mil. This brought FY19 net income to Php922Mil, up 52% y/y. Note that this excludes the impact of adopting PFRS16 accounting standards on leases. Full-year earnings outperformed COL and consensus expectations, accounting for 112% and 108% of full-year forecast, respectively. The outperformance was mainly driven by better than expected sales. SSI's 4Q19 sales growth accelerated to 17.0% from only 7.7% as of 9M19. This brought FY19 sales up 11.0% y/y to Php22.5Bil, accounting 103.8% and 103.2% of COL and consensus forecasts, respectively.

Consolidated same-store sales growth reached 8.1% in 4Q19 from only 6.8% in 9M19. Note that sales managed to grow 11%, despite a 1% decrease in total retail space. The opening of key stores for Zara, Shake Shack, and online Philippine Zara website also contributed to the strong sales during the quarter. Meanwhile, operating margins expanded by 20 bps to 7.1% during the fourth quarter as SSI continued to benefit from operating efficiencies from the store and head office level.

Exhibit 1: Results Summary

in PhpMil	4Q18	4Q19	%Change	FY18	FY19	%Change	% of Full year Forecast COL	Consensus
Net Sales	6,439	7,533	*17.0*	20,230	22,456	*11.0*	*103.8%*	*103.2%*
Operating Income	445	533	*19.9*	1,178	1,461	*24.0*	*103.6%*	*112.3%*
Operating Margin %	*6.9*	*7.1*	-	*5.8*	*6.5*	-	-	-
Core Income	293	410	*40.2*	725	976	*34.6*	*114.7%*	-
Core Income Margin %	*4.5*	*5.4*	-	*3.6*	*4.3*	-	-	-
Net Income	240	401	*66.8*	608	922	*51.6*	*112.0%*	*107.7%*
Net Income Margin %	*3.7*	*5.3*	-	*3.0*	*4.1*	-	-	-

Source: SSI, COL Estimates, Bloomberg

Research Analysts

John Martin Luciano, CFA
Frances Rolfa Nicolas
Justin Richmond Cheng
Adrian Alexander Yu
Kerwin Malcolm Chan

Other News:

Economy: BSP eases credit weight of banks' MSME loans

The BSP approved the temporary relaxation in the assigned credit risk weight of loans extended by banks to micro-, small-, and medium-sized enterprises (MSMEs) to free up capital which can be used for lending amid the pandemic. In particular, the banks' exposure to qualified MSME will only be assigned a credit risk weight of 50%, down from 75% previously. This move follows the BSP's recent decision to include MSME loans in computing banks' compliance with reserve requirements. *(Source: BSP, Businessworld)*

Economy: Philippines signs US$100Mil loan with Word Bank

The Department of Finance (DOF) signed a US$100Mil loan agreement with the World Bank to strengthen the country's capacity to respond to the COVID-19 pandemic. The loan has a maturity period of 29 years, inclusive of a 10-year grace period. The World Bank noted that the loan aims to expand the country's laboratory capacity by retrofitting the Research Institute for Tropical Medicine (RITM) and six sub-national and public health laboratories, and financing the construction of laboratories in priority regions that currently do not have these facilities. It will also help the Department of Health (DOH) come up with design standards for hospital isolation and treatment center in managing patients with Severe Acute Respiratory Infections (SARI). *(source: Philstar)*

IMPORTANT RATING DEFINITIONS

BUY

Stocks that have a BUY rating have attractive fundamentals and valuations based on our analysis. We expect the share price to outperform the market in the next six to 12 months.

HOLD

Stocks that have a HOLD rating have either 1) attractive fundamentals but expensive valuations 2) attractive valuations but near-term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely in line or underperform in the market in the next six to twelve months.

SELL

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to12 months.

IMPORTANT DISCLAIMER

COL RESEARCH TEAM

APRIL LYNN TAN, CFA
VP & HEAD OF RESEARCH
april.tan@colfinancial.com

CHARLES WILLIAM ANG, CFA
DEPUTY HEAD OF RESEARCH
charles.ang@colfinancial.com

GEORGE CHING
SENIOR RESEARCH MANAGER
george.ching@colfinancial.com

RICHARD LAÑEDA, CFA
SENIOR RESEARCH MANAGER
richard.laneda@colfinancial.com

JOHN MARTIN LUCIANO, CFA
SENIOR RESEARCH ANALYST
john.luciano@colfinancial.com

FRANCES ROLFA NICOLAS
RESEARCH ANALYST
rolfa.nicolas@colfinancial.com

JUSTIN RICHMOND CHENG
RESEARCH ANALYST
justin.cheng@colfinancial.com

ADRIAN ALEXANDER YU
RESEARCH ANALYST
adrian.yu@colfinancial.com

KERWIN MALCOLM CHAN
RESEARCH ANALYST
kerwin.chan@colfinancial.com

COL FINANCIAL GROUP, INC.

2402-D EAST TOWER, PHILIPPINE STOCK EXCHANGE CENTRE,
EXCHANGE ROAD, ORTIGAS CENTER, PASIG CITY
PHILIPPINES 1605
TEL NO. +632 636-5411
FAX NO. +632 635-4632
WEBSITE: **www.colfinancial.com**