

Sheng Siong Group

No luck for new store so far

SINGAPORE | CONSUMER | 1Q17 RESULTS

- 1QFY17 Revenue/PATMI met 25.8%/24.7% of our full year FY2017 expectations
- New stores growth to drive FY17F topline growth, while FY17F gross margin steady at c.26%
- Lack of new stores starting to worry us

| (SGD mn) | 1Q17 | 1Q16 | y-y (%) | Comments |
|--------------|-------|-------|---------|--|
| Revenue | 217.1 | 208.5 | 4.1% | New stores +6.2%, SSSG +0.1%, temporary closure of Loyang store -2.1% |
| Gross profit | 54.3 | 51.0 | 6.5% | Margin improved on lower input prices Gross margin: 25.0% in 1Q17 vs 24.5% in 1Q16 |
| EBITDA | 22.4 | 19.7 | 13.6% | |
| EBIT | 20.6 | 19.5 | 5.6% | Higher depreciation expenses; lower government grant Operating margin: 9.5% in 1Q17 vs 9.3% in 1Q16 |
| PATMI | 17.1 | 16.4 | 4.4% | |

Source: Company, Phillip Securities Research Pte Ltd estimates

Expect 2Q17 gross margin to revert to its 25.5%-26.0% level. First and third quarters typically register lower gross margins as retailers push for volume amid the festive season. Margins have been improving over the past two years (*refer overleaf for Figure 1 & 2*), thanks to (i) lower input prices; (ii) effective cost management; (iii) improvement of product mix with sales of higher-margin fresh products; and (iv) increase bulk handling. We expect these margin expansion drivers to remain intact throughout FY2017.

Revenue growth slowed; drags mainly came from:

- Loyang store (-2.1% yoy):** Re-opened only in late Feb-17, compared to full quarter contribution in 1Q16. Management noted a lower footfall to Loyang Point compared to pre-renovation period.
- Woodlands store (-0.6% yoy):** Residents moved out with the impending date of closure for redevelopment works (Aug-17).
- Two out of the five new stores opened in 2015 performed below expectations: (i) Penjuru store, along with some other stores in Jurong area, were affected by the slowdown in the oil and gas and construction industries. Foreign workers have been the main patrons to these stores. (ii) Blk 506 Tampines store was affected by the ongoing renovation to the building where it is located.

Putting hopes on 2H17 for new stores to drive growth in FY2018. We are becoming wary of the Group's market share and the lack of future growth driver after nine unsuccessful HDB supermarket bids since 3Q16. Out of the nine bids, NTUC Fairprice had won two, Giant had won one (under Cold Storage's name), and the remaining were won by smaller competitors. Nonetheless, we take some comfort that the irrational bidding seen in end-2016 have eased. The recent two winning supermarket bids were at S\$14.3 psqf and S\$14.8 psqf, which Sheng Siong Group lost out narrowly by only 2 cents and 8 cents respectively. There are six new supermarket units pending completion by Oct 2017 according to data on HDB HBiz website.

Maintained 'Accumulate' rating and TP of S\$1.06, based on unchanged 4.61 cents FY17F EPS and 23x PE multiple. We expect the five new stores opened in 2016, particularly the Yishun Junction 9 store, to provide support to FY17F topline growth. Management is cautiously optimistic that newly renovated and bigger store at Tampines Central store could lift 2H17 sales growth after the renovation work completes in Jun-17. Re-rating catalysts: (i) Successful bidding of new stores; and (ii) Improvement of product mix.

3 May 2017

Accumulate (Maintain)

| | |
|------------------|----------|
| LAST CLOSE PRICE | SGD 0.98 |
| FORECAST DIV | SGD 0.04 |
| TARGET PRICE | SGD 1.06 |
| TOTAL RETURN | 12.4% |

COMPANY DATA

| | |
|--------------------------------|-------------|
| O/S SHARES (MN) : | 1,504 |
| MARKET CAP (USD mn / SGD mn) : | 1056 / 1473 |
| 52 - WK HI/LO (SGD) : | 1.16 / 0.86 |
| 3M Average Daily T/O (mn) : | 2.65 |

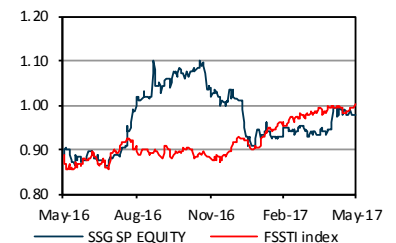
MAJOR SHAREHOLDERS (%)

| | |
|---------------|--------|
| SS HOLDINGS | 29.85% |
| LIM HOCK CHEE | 11.33% |
| LIM HOCK LENG | 11.33% |
| LIM HOCK ENG | 11.33% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1YR |
|------------|-------|-------|-------|
| COMPANY | 3.7 | 5.4 | 14.4 |
| STI RETURN | 0.38 | 4.99 | 15.93 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec | FY 15 | FY 16 | FY 17F | FY 18F |
|------------------|-------|-------|--------|--------|
| Revenue (SGD mn) | 764 | 797 | 841 | 884 |
| EBITDA (SGD mn) | 73 | 82 | 91 | 97 |
| NPAT (adj.) | 57 | 63 | 69 | 74 |
| EPS (adj.) | 3.78 | 4.17 | 4.61 | 4.95 |
| PER, x (adj.) | 21.9 | 22.4 | 21.3 | 19.8 |
| P/BV, x | 5.1 | 5.1 | 5.6 | 5.7 |
| DPS (SGD cents) | 3.00 | 3.50 | 3.75 | 4.20 |
| Div Yield, % | 3.6% | 3.8% | 4.3% | 4.6% |
| ROE, % | 23.6% | 25.2% | 27.2% | 28.4% |

Source: Company Data, PSR est.

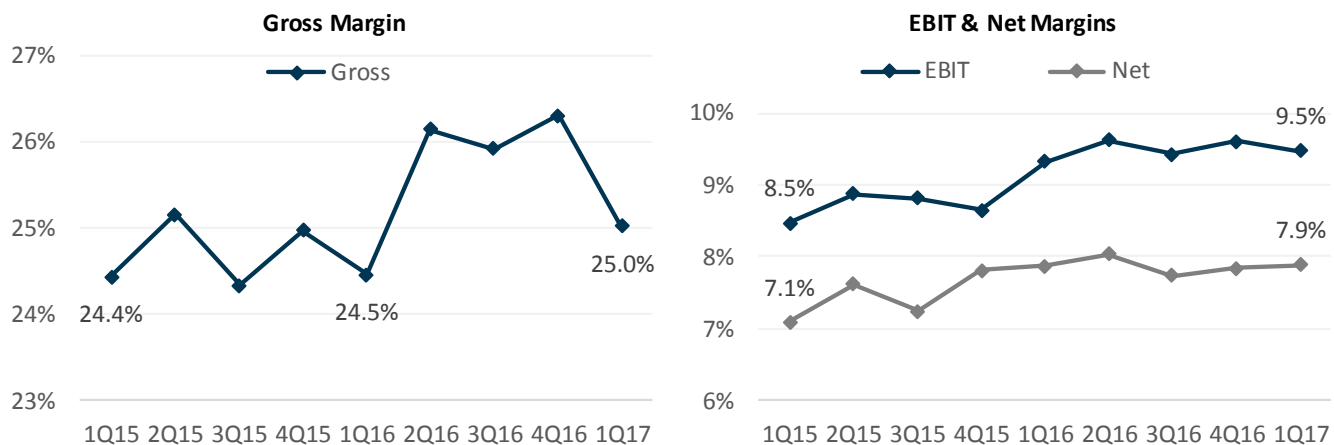
Valuation Method

P/E Multiple @ 23x

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Figure 1 & 2: Expanding margins over the past two years



Source: Company, Phillip Securities Research (Singapore) estimates

Figure 3: Peers comparison

SSG is currently trading below its regional peers' average in terms of trailing P/E multiple.

It also provides an attractive FY17F dividend yield of 4.3%, as compared to its regional peers' average of 1.8%.

| Company | Mkt Cap (SGD mn) | EV/EBITDA TTM | EV/EBITDA FY1 | P/E | P/E FY1 | Net D/E (%) | ROA (%) | ROE (%) | P/B | Div. yield FY1 (%) |
|-------------------------------------|------------------|---------------|---------------|-------|---------|-------------|---------|---------|-------|--------------------|
| Sheng Siong Group | 1,465.9 | 15.1 | 14.9 | 23.2 | 21.7 | Net Cash | 16.6 | 25.2 | 5.8 | 4.3 |
| Singapore | | | | | | | | | | |
| Dairy Farm Intl Hldgs Ltd | 17,016.6 | 15.6 | 17.4 | 26.0 | 23.8 | 40.6 | 9.4 | 32.6 | 8.1 | 2.6 |
| Hong Kong | | | | | | | | | | |
| Lianhua Supermarket Holdings Co Ltd | 648.4 | N/A | N/A | N/A | N/A | Net Cash | -3.0 | -16.2 | 1.1 | 0.0 |
| China Resources Enterprise | 10,842.7 | 14.0 | 13.8 | 73.0 | 29.3 | 21.4 | 1.5 | 4.5 | 3.1 | 1.0 |
| Average | | 13.96 | 13.77 | 72.95 | 29.26 | 21.40 | -0.78 | -5.85 | 2.09 | 0.50 |
| Indonesia | | | | | | | | | | |
| Matahari Putra Prima Tbk PT | 552.1 | 16.2 | 9.5 | 137.0 | 32.0 | 20.6 | 0.6 | 1.6 | 2.2 | 0.7 |
| Hero Supermarket Tbk Pt | 561.0 | 13.2 | N/A | 35.2 | N/A | Net Cash | 1.6 | 2.3 | 1.0 | N/A |
| Ramayana Lestari Sentosa Tbk PT | 966.3 | 10.9 | 13.3 | 22.0 | 20.2 | Net Cash | 9.1 | 12.1 | 2.6 | 2.6 |
| Average | | 13.43 | 11.40 | 64.72 | 26.11 | N/A | 3.78 | 5.29 | 1.92 | 1.62 |
| Malaysia | | | | | | | | | | |
| 7-Eleven Malaysia Holdings Bhd | 565.8 | N/A | 12.5 | 35.7 | 31.6 | Net Cash | N/A | N/A | 22.8 | 2.1 |
| Parkson Holdings | 216.7 | 7.8 | 4.0 | N/A | N/A | 16.4 | -1.0 | -4.2 | 0.3 | 4.4 |
| Average | | 7.79 | 8.23 | 35.75 | 31.60 | N/A | -1.05 | -4.16 | 11.52 | 3.25 |
| Thailand | | | | | | | | | | |
| Big C Supercenter Pcl | 7,373.0 | 15.2 | 13.7 | 28.4 | 23.6 | 25.7 | 6.9 | 13.2 | 3.6 | 1.4 |
| CP All Pcl | 22,250.1 | 19.7 | 17.7 | 33.0 | 28.1 | 258.9 | 4.9 | 36.0 | 10.0 | 1.8 |
| Robinson Department Store Pcl | 2,829.6 | 34.0 | 13.1 | 24.8 | 23.6 | 6.3 | 10.6 | 19.7 | 4.6 | 2.1 |
| Siam Makro Pcl | 6,696.7 | 19.1 | 16.8 | 30.6 | 26.9 | 36.3 | 10.7 | 36.2 | 10.5 | 2.7 |
| Average | | 21.98 | 15.35 | 29.20 | 25.55 | 81.77 | 8.28 | 26.27 | 7.18 | 2.01 |
| Philippines | | | | | | | | | | |
| Robinsons Retail Holdings Inc | 3,046.7 | 13.2 | 12.6 | 22.6 | 20.8 | Net Cash | 6.8 | 10.6 | 2.3 | 0.9 |
| Puregold Price Club | 3,336.7 | 11.5 | 11.4 | 21.6 | 19.2 | 2.5 | 8.9 | 13.5 | 2.8 | 0.8 |
| Average | | 12.35 | 11.96 | 22.13 | 19.99 | N/A | 7.85 | 12.07 | 2.53 | 0.84 |
| Simple Average (Excl. SSG) | | 15.85 | 12.98 | 40.83 | 25.37 | 47.62 | 5.15 | 12.45 | 5.35 | 1.77 |

Source: Bloomberg, PSR estimate

Financials

Income Statement

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17F | FY18F |
|-----------------------------|------------|------------|------------|------------|------------|
| Revenue | 726 | 764 | 797 | 841 | 884 |
| Gross profit | 176 | 189 | 205 | 219 | 232 |
| EBITDA | 65 | 73 | 82 | 91 | 97 |
| Depreciation & Amortisation | 11 | 13 | 15 | 16 | 17 |
| EBIT | 57 | 66 | 76 | 83 | 89 |
| Net Finance Inc/(Exp) | 1 | 1 | 1 | 1 | 1 |
| Profit Before Tax | 58 | 68 | 76 | 84 | 90 |
| Taxation | (10) | (11) | (13) | (14) | (15) |
| Net profit, reported | 48 | 57 | 63 | 69 | 74 |
| Net profit, adj. | 48 | 57 | 63 | 69 | 74 |

Per share data (SGD Cents)

| Y/E Dec | FY14 | FY15 | FY16 | FY17F | FY18F |
|---------------|-------|-------|-------|-------|-------|
| EPS, reported | 3.34 | 3.78 | 4.17 | 4.61 | 4.95 |
| EPS, adj. | 3.34 | 3.78 | 4.17 | 4.61 | 4.95 |
| DPS | 3.00 | 3.50 | 3.75 | 4.20 | 4.50 |
| BVPS | 16.60 | 16.24 | 16.76 | 17.18 | 17.63 |

Cash Flow

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17F | FY18F |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| CFO | | | | | |
| Profit before tax | 58 | 68 | 76 | 84 | 90 |
| Adjustments | 10 | 12 | 14 | 15 | 16 |
| WC changes | 12 | 3 | 1 | 8 | 3 |
| Cash generated from ops | 79 | 82 | 91 | 107 | 108 |
| Others | (7) | (9) | (13) | (14) | (15) |
| Cashflow from ops | 72 | 73 | 78 | 92 | 93 |
| CFI | | | | | |
| CAPEX, net | (81) | (30) | (89) | (25) | (27) |
| Others | 1 | 1 | 1 | 1 | 1 |
| Cashflow from investments | (80) | (29) | (89) | (25) | (26) |
| CFF | | | | | |
| Share issuance, net | 79 | 0 | 0 | 0 | 0 |
| Loans, net of repayments | 0 | 0 | 0 | 0 | 0 |
| Dividends | (40) | (49) | (55) | (63) | (68) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cashflow from financing | 39 | (49) | (55) | (63) | (68) |
| Net change in cash | 31 | (5) | (66) | 5 | (0) |
| Effects of exchange rates | 0 | 0 | 0 | 0 | 0 |
| CCE, end | 130 | 126 | 64 | 68 | 68 |

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17F | FY18F |
|---------------------------------|------------|------------|------------|------------|------------|
| ASSETS | | | | | |
| PPE | 161 | 178 | 252 | 261 | 271 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Total non-current assets | 161 | 178 | 252 | 261 | 271 |
| Accounts receivables | 11 | 12 | 10 | 13 | 13 |
| Cash | 130 | 126 | 64 | 68 | 68 |
| Inventories | 43 | 52 | 62 | 52 | 55 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Total current assets | 184 | 190 | 136 | 133 | 136 |
| Total Assets | 345 | 368 | 388 | 394 | 407 |

LIABILITIES

| | | | | | |
|--------------------------------------|------------|------------|------------|------------|------------|
| Accounts payables | 96 | 109 | 118 | 118 | 123 |
| Short term loans | 0 | 0 | 0 | 0 | 0 |
| Others | 11 | 13 | 13 | 13 | 13 |
| Total current liabilities | 107 | 121 | 131 | 131 | 136 |
| Long term loans | 0 | 0 | 0 | 0 | 0 |
| Others | 2 | 2 | 2 | 2 | 2 |
| Total non-current liabilities | 2 | 2 | 2 | 2 | 2 |
| Total Liabilities | 109 | 124 | 133 | 133 | 139 |

EQUITY

| | | | | | |
|---------------------------|------------|------------|------------|------------|------------|
| Non-controlling interests | 0 | 0 | 3 | 3 | 3 |
| Shareholder Equity | 236 | 244 | 252 | 258 | 265 |

Valuation Ratios

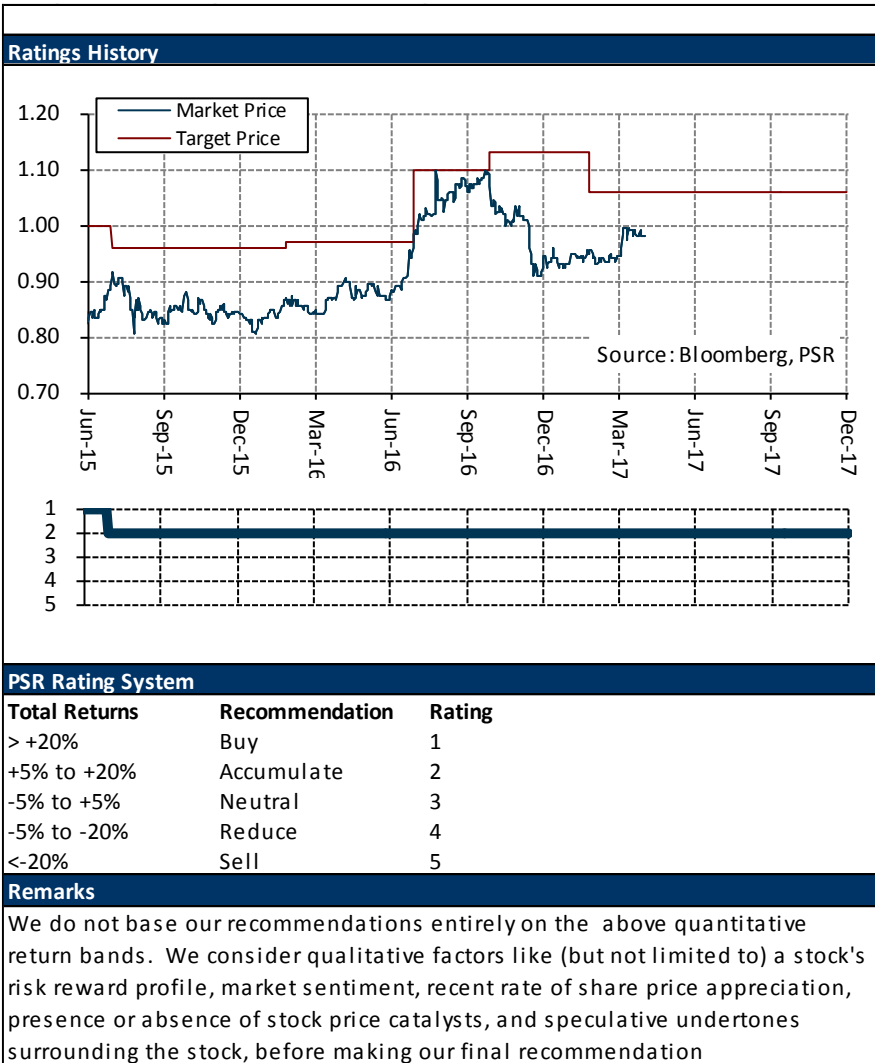
| Y/E Dec | FY14 | FY15 | FY16 | FY17F | FY18F |
|---------------------|------|------|------|-------|-------|
| P/E (X), adj. | 21.0 | 21.9 | 22.4 | 21.3 | 19.8 |
| P/B (X) | 4.2 | 5.1 | 5.6 | 5.7 | 5.6 |
| EV/EBITDA (X), adj. | 13.4 | 15.4 | 16.4 | 15.5 | 14.5 |
| Dividend Yield (%) | 3.1% | 3.6% | 3.8% | 4.3% | 4.6% |

Growth & Margins (%)

| | | | | | |
|-------------------|-------|-------|-------|-------|-------|
| Growth | | | | | |
| Revenue | 5.6% | 5.3% | 4.2% | 5.5% | 5.2% |
| EBITDA | 22.4% | 11.8% | 12.6% | 11.0% | 7.1% |
| EBIT | 22.2% | 17.0% | 13.7% | 9.7% | 7.4% |
| Net profit, adj. | 22.3% | 19.3% | 10.3% | 10.6% | 7.4% |
| Margins | | | | | |
| Gross margin | 24.2% | 24.7% | 25.7% | 26.0% | 26.2% |
| EBITDA margin | 8.9% | 9.5% | 10.3% | 10.8% | 11.0% |
| EBIT margin | 7.8% | 8.7% | 9.5% | 9.9% | 10.1% |
| Net profit margin | 6.6% | 7.4% | 7.9% | 8.2% | 8.4% |

Key Ratios

| | | | | | |
|-----------------|----------|----------|----------|----------|----------|
| ROE (%) | 24.7% | 23.6% | 25.2% | 27.2% | 28.4% |
| ROA (%) | 16.0% | 15.9% | 16.6% | 17.7% | 18.6% |
| Net Debt/(Cash) | (130) | (126) | (64) | (68) | (68) |
| Net Gearing (X) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |



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