

Sheng Siong Group

Continues to deliver with a one-off tax refunds boost



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SINGAPORE | CONSUMER | 3Q17 RESULTS

30 October 2017

- 9MFY17 Revenue/PATMI met 75%/76% of our full year FY2017 expectations
- Trading environment continue to recover; Sales from mature stores extended uptick with 3% growth after six consecutive contractionary quarters before 2Q17
- Upgrade to BUY with higher TP at S\$1.13 (previously S\$1.06), as we roll forward to FY18e

Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	210.9	202.4	4.2%	New stores +3.9%, SSSG +1.7% (ex. Woodlands 6A store, SSSG +2.7%), Loyang Point and Verge -1.4%
Gross profit	54.5	52.5	3.8%	Stable gross margin <i>Gross margin: 25.8% in 3Q17 vs 25.9% in 3Q16</i>
EBITDA	23.2	21.1	9.9%	
EBIT	21.0	19.1	10.3%	Lower operating expenditures <i>Operating margin: 10.0% in 2Q17 vs 9.4% in 2Q16</i>
PATMI	19.7	15.7	25.7%	\$2.2m tax refunds; ex. tax refunds, PATMI +12.0%

Source: Company, PSR

The positives

- Closure of two underperforming stores to lift profitability in FY17/18e.** Both Woodlands Blk 6A and The Verge stores have to make way for government's redevelopment projects. Despite being profitable, both the stores have been adversely affected by the exodus of residents and neighbouring stores. While we will see the full impact of the two store closures in FY18e sales, operating margin should steady at the current 10% level as we expect store productivity to improve by c.11%, from S\$1.8k psf (per square feet) to S\$2k psf. Rent saved from closure of The Verge and Bedok Blk 209 store, which is now self-owned, also contributed to the lower operating expenses.
- One-off refund of prior years' taxes amounting to \$2.2m boosted net profit, and will be distributed back to shareholders via dividends.** No change in dividend payout guidance at c.70% of earnings.

The negatives

- Competition remains keen with influx of online retailers; Brick-and-mortar competitors are also driving fresh penetration.** The Group's effort to strengthen its fresh product offerings has been matched by NTUC Fairprice.

Outlook

- Gross margin to sustain at 26.0%/26.2% in FY17/18e** on efficiency gains derived from the central distribution centre and favourable input prices. Management shared that it is still a buyer's market for groceries.
- New stores continue to drive FY18e growth.** Three new HDB stores gained from the recent bidding exercise (see Figure 2) would partially mitigate the closure of two big stores. Including the expanded Loyang and Tampines stores, as well as the new Fajar Road store (opened in Aug-17), retail area -0.9% YoY by end-FY17. We expect the four new stores opened in 2017 coupled with the improving consumer's sentiment to lift FY18e Revenue and PATMI by 5% and 6.9% respectively.

Buy (Upgraded)

LAST CLOSE PRICE	SGD 0.94
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 1.13
TOTAL RETURN	24.5%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1504
MARKET CAP (USD mn / SGD mn)	1027 / 1406
52 - WK HI/LO (SGD)	109 / 0.9
3M Average Daily T/O (mn)	2.73

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	1Y R
COMPANY	11	(5.0)	(10.0)
STIRETURN	4.55	181	22.62

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	764	797	841	883
EBITDA (SGD mn)	73	82	90	98
NPAT (adj.)	57	63	69	74
EPS (adj.)	3.78	4.17	4.61	4.93
PER, x (adj.)	21.9	22.4	20.3	19.0
P/BV, x	5.1	5.6	5.2	4.8
DPS (SGD cents)	3.50	3.75	3.25	3.45
Div Yield, %	3.7%	4.0%	3.5%	3.7%
ROE, %	23.6%	25.2%	26.4%	26.1%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 23x

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- **Healthy pipeline of new stores up for bidding in the next 6 months.** There are 10 new supermarkets units pending completion by Mar-18 and 18 more in 2Q2018 to 4Q2021, according to data on HDB HBiz website. However, management shared its concern on the proximity of these locations with existing stores, which include those under Sheng Siong's brand.
- **Net cash position of S\$64.5mn with zero debt as at end Sep-17 to support CapEx.** We adjusted our FY17/18 CapEx (capital expenditure) as the earmarked CapEx for the construction of central warehouse has been deferred into FY18. We expect FY18 CapEx to be around \$31mn, including S\$20mn from Warehouse, and the remaining being new stores' fitting costs and maintenance CapEx.

Upgrade to 'Buy' rating with higher TP at S\$1.13 (previously S\$1.06), as we roll forward to FY18e. Our TP is based on an upgraded estimated 4.93 cents FY18e EPS and 23x PE multiple.

We adjusted FY18e PATMI 1.6% upwards on better operating margin. We kept dividend payout for FY18e to c.70%, which gives an implied dividend yield of 3.5%.

Re-rating catalysts: (i) Successful bidding of new stores; and (ii) Improvement of product mix.

Figure 2: Changes in Retail Space/ Business Area

	Location	Targeted / Effective Date	Total Gross Floor Area	Remarks
A. Closure				
1.	The Verge	Jun-17	45,000 sqft	
2.	Woodlands Blk 6A	Oct-17 (postponed from Aug-17)	41,500 sqft	HDB is redeveloping the area. Used to be key store contributing between 5% and 10% to total revenue. However, sales are slowing as residents gradually moved out with the impending date of closure for redevelopment works. Notwithstanding that, the store remains profitable, contributed 4.5% to 9M17 sales.
B. New				
3.	Fajar, Bukit Panjang	Sep-17	4,000 sqft	
4.	Woodlands St 12	Dec-17	11,800 sqft	
5.	Edgedale Plains Blk 660A	Dec-17	3,100 sqft	
6.	Anchovale Crescent Blk 338	Dec-17	5,100 sqft	
C. Larger Retail Area				
7.	Loyang Point	Feb-17	8,000 sqft	Retail area expanded by an additional 2,000 sqft.
8.	Blk 506 Tampines Central	Jun-17	25,000 sqft	Retail area expanded by an additional 15,000 sqft.
D. Other				
9.	Kunming, China	end-17	50,000 sqft	Renovation of the supermarket has been completed and the new supermarket is expected to be operational in end-2017 once regulatory approvals are obtained. It will be partially rented to concessionaires.
10.	Land adjacent to central warehouse	4Q18	550,000 sqft	50,000 sqft of additional storage space to cater the demand for 50 to 53 stores. Construction costs is estimated to be c.S\$20mn.

Source: Company, PSR

SSG is currently trading at 20.6x trailing PER, which is below its regional peers' average of 32.5x.

It also provides an attractive FY17e dividend yield of 3.5%, as compared to its regional peers' average of 1.7%.

Figure 2: Peers comparison

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	1,405.8	15.4	14.6	20.6	23.0	Net Cash	17.4	25.4	5.5	3.5
Singapore										
Dairy Farm Intl Hldgs Ltd	14,814.3	16.9	16.2	22.4	21.8	40.6	9.6	32.5	6.9	2.9
Hong Kong										
Lianhua Supermarket Holdings Co Ltd	656.1	N/A	N/A	N/A	N/A	Net Cash	-2.8	-17.0	1.3	0.0
China Resources Enterprise	12,578.8	15.7	14.9	51.2	32.7	21.4	2.8	8.2	3.3	0.9
Market Cap Weighted Average		14.9	14.2	48.7	31.0	20.3	2.5	6.9	3.2	0.9
Indonesia										
Matahari Putra Prima Tbk PT	310.4	11.8	12.5	N/A	N/A	20.6	-1.6	-4.5	1.4	1.1
Hero Supermarket Tbk Pt	457.7	10.3	N/A	23.0	N/A	Net Cash	2.0	3.2	0.8	N/A
Ramayana Lestari Sentosa Tbk PT	641.0	7.5	5.9	11.6	14.9	Net Cash	9.4	15.3	1.7	3.7
Market Cap Weighted Average		9.4	5.4	12.7	6.8	4.5	4.6	7.0	1.4	1.9
Malaysia										
7-Eleven Malaysia Holdings Bhd	559.2	N/A	14.9	44.6	41.1	188.2	N/A	N/A	2007.6	1.7
Parkson Holdings	230.8	5.6	3.2	N/A	18.6	Net Cash	-1.3	-5.0	0.3	4.0
Market Cap Weighted Average		5.3	3.8	2.2	19.7	9.3	-1.2	-4.7	99.8	3.9
Thailand										
Big C Supercenter Pcl	6,717.3	17.3	13.0	27.9	21.5	25.7	6.3	11.7	3.1	1.3
CP All Pcl	25,858.3	24.6	20.0	35.7	32.6	258.9	5.3	38.4	11.4	1.6
Robinson Department Store Pcl	3,322.7	54.6	15.8	28.5	29.0	6.3	11.2	19.7	5.4	1.7
Siam Makro Pcl	7,007.2	19.0	17.9	28.9	28.0	36.3	11.8	38.4	10.5	2.6
Market Cap Weighted Average		24.9	18.2	32.8	29.9	166.4	7.0	32.8	9.5	1.7
Philippines										
Robinsons Retail Holdings Inc	3,470.2	13.4	14.9	25.8	25.3	Net Cash	7.4	10.8	2.7	0.8
Puregold Price Club	3,691.0	12.9	13.6	24.3	22.7	2.5	9.7	13.3	3.1	0.6
Market Cap Weighted Average		13.1	14.2	25.0	24.0	1.3	8.6	12.1	2.9	0.7
Market Cap Weighted Average (Excl. SSG)		20.2	16.6	32.5	27.7	101.3	6.8	25.8	21.1	1.7

Source: Bloomberg, PSR

Figure 3. Trading below at its 3-Year Historical PER average



Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	726	764	797	841	883
Gross profit	176	189	205	219	231
EBITDA	65	73	82	90	98
Depreciation & Amortisation	11	13	15	16	16
EBIT	57	66	76	83	88
Net Finance Inc/(Exp)	1	1	1	1	1
Profit Before Tax	58	68	76	84	89
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	FY17e	FY18e
EPS, reported	3.34	3.78	4.17	4.61	4.93
EPS, adj.	3.34	3.78	4.17	4.61	4.93
DPS	3.00	3.50	3.75	3.25	3.45
BVPS	16.60	16.24	16.76	18.12	19.60

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit before tax	58	68	76	84	89
Adjustments	10	12	14	15	15
WC changes	12	3	1	8	2
Cash generated from ops	79	82	91	106	107
Others	(7)	(9)	(13)	(14)	(15)
Cashflow from ops	72	73	78	92	92
CFI					
CAPEX, net	(81)	(30)	(89)	(17)	(31)
Others	1	1	1	1	1
Cashflow from investments	(80)	(29)	(89)	(16)	(30)
CFF					
Share issuance, net	79	0	0	0	0
Loans, net of repayments	0	0	0	0	0
Dividends	(40)	(49)	(55)	(49)	(52)
Others	0	0	0	0	0
Cashflow from financing	39	(49)	(55)	(49)	(52)
Net change in cash	31	(5)	(66)	27	10
Effects of exchange rates	0	0	0	0	0
CCE, end	130	126	64	90	100

Source: Company, Phillip Securities Research (Singapore) Estimates

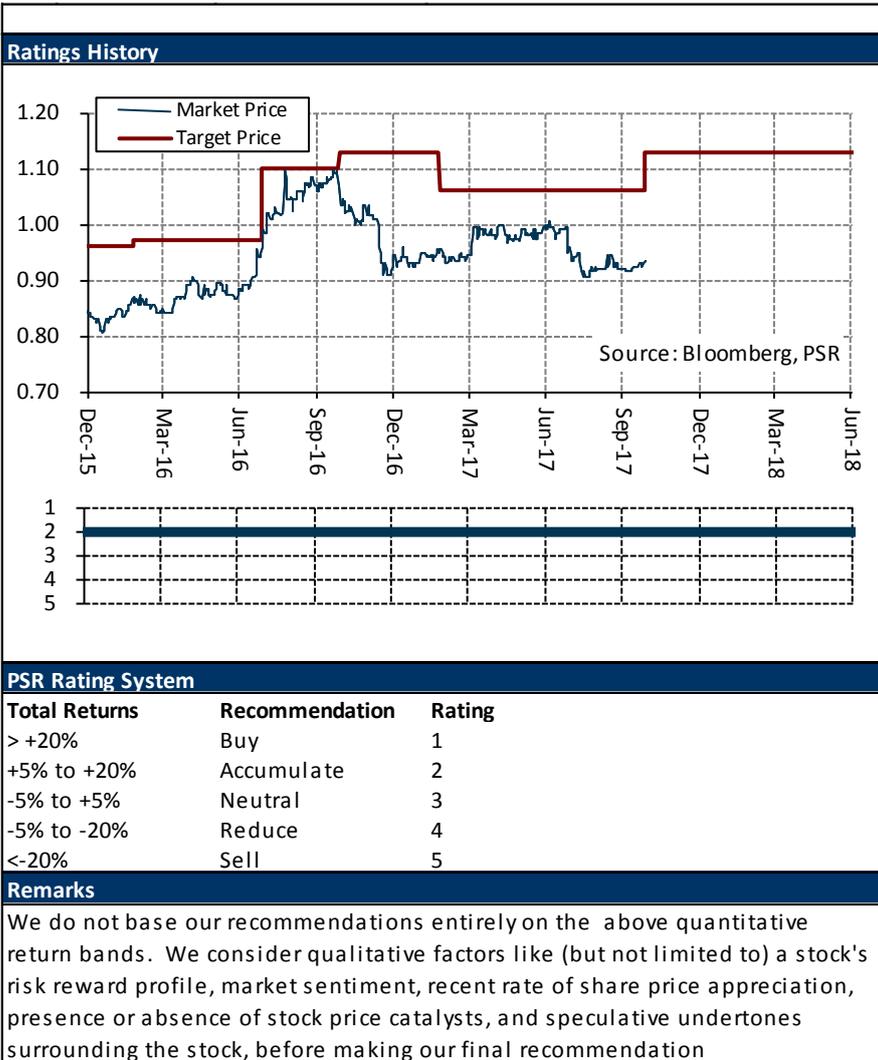
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PPE	161	178	252	253	268
Others	0	0	0	0	0
Total non-current assets	161	178	252	253	268
Accounts receivables	11	12	10	13	13
Cash	130	126	64	90	100
Inventories	43	52	62	52	54
Others	0	0	0	0	0
Total current assets	184	190	136	155	168
Total Assets	345	368	388	408	436
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	273	295

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	21.0	21.9	22.4	20.3	19.0
P/B (X)	4.2	5.1	5.6	5.2	4.8
EV/EBITDA (X), adj.	13.4	15.4	16.4	14.6	13.4
Dividend Yield (%)	3.2%	3.7%	4.0%	3.5%	3.7%
Growth & Margins (%)					
Growth					
Revenue	5.6%	5.3%	4.2%	5.5%	5.0%
EBITDA	22.4%	11.8%	12.6%	10.5%	8.4%
EBIT	22.2%	17.0%	13.7%	9.7%	6.7%
Net profit, adj.	22.3%	19.3%	10.3%	10.6%	6.9%
Margins					
Gross margin	24.2%	24.7%	25.7%	26.0%	26.2%
EBITDA margin	8.9%	9.5%	10.3%	10.8%	11.1%
EBIT margin	7.8%	8.7%	9.5%	9.9%	10.0%
Net profit margin	6.6%	7.4%	7.9%	8.2%	8.4%
Key Ratios					
ROE (%)	24.7%	23.6%	25.2%	26.4%	26.1%
ROA (%)	16.0%	15.9%	16.6%	17.4%	17.5%
Net Debt/(Cash)	(130)	(126)	(64)	(90)	(100)
Net Gearing (X)	Net Cash				



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