

Sheng Siong Group

Another marvellous year in store expansion



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SINGAPORE | CONSUMER | 2Q19 RESULTS

31 July 2019

- 2Q19 revenue was above our expectations. PATMI was marginally below estimates due to higher operating cost from new stores and S\$800k negative impact from the new lease accounting standard.
- After opening three stores in May, SSG is tendering for another six new stores in 2H19.
- The interim dividend was raised by 6% to 1.75 cents.
- We modestly reduced our FY19e profit forecast due to the change in accounting method. Our recommendation is lowered from BUY to ACCUMULATE following the share price performance. Our target price of S\$1.30 is unchanged. SSG is still riding on the growth of its store expansion and market share gains.

ACCUMULATE (Downgraded)

LAST CLOSE PRICE	SGD 1.15
FORECAST DIV	SGD 0.037
TARGET PRICE	SGD 1.30
TOTAL RETURN	16.3%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1272 / 1744
52 - WK HI/LO (SGD)	1.19 / 1.01
3M Average Daily T/O (mn)	1.82

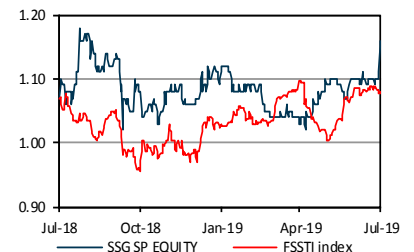
MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	9.3%
LIM HOCK LENG	9.1%
LIM HOCK ENG	9.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.5	13.5	11.0
STIRETURN	127	0.36	5.46

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	829.9	890.9	980.0	1,009.4
EBITDA (SGD mn)	88.8	95.0	125.5	134.9
NPAT (adj.)	69.8	70.8	77.5	88.3
EPS (adj.)	4.64	4.71	5.15	5.87
PER, x (adj.)	24.8	24.4	22.3	19.6
P/BV, x	6.4	6.0	5.5	5.1
DPS (SGD cents)	3.3	3.4	3.7	4.2
Div Yield	2.9%	3.0%	3.2%	3.7%
ROE	26.7%	25.2%	25.7%	27.2%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 25x

Paul Chew (+65 6212 1851)

Head Of Research

paulchewkl@phillip.com.sg

Results at a glance

SGD mn	2Q19	2Q18	YoY	Comments
Revenue	238.2	213.0	11.8%	New stores +11.3%, SSSG -0.3%, Kunming store +0.8%
Gross profit	65.2	58.1	12.2%	Gross margin up +0.1pp to 27.4%
EBITDA	30.6	23.2	31.9%	
EBIT	22.3	20.7	8.0%	Dist. expenses +2.8% YoY and admin. Expenses +14.6%
PATMI	18.4	17.2	7.4%	Under old accounting standard, PATMI is S\$19.2mn

The Positives

+ Sales growth was healthy. 2Q19 sales growth of 11.8% YoY was above our modeled 7%. Growth was due to the expansion of 10 new stores last year. Sheng Siong (SSG) is taking market share as the supermarket industry contracted by 0.8% in 2QMay19. SSG is growing more than 10x faster than the industry.

+ Bidding for at least six new stores. SSG is tendering for six new HDB stores, with the results expected in August. Assuming a hit rate of 50%, three new stores could be opened in September. This will boost the total number of stores by 11%. We believe there is further upside in new stores for SSG. It excludes four HDB stores available for online bidding and any tenders by private shop owners from supermarket tenants that are exiting.

+ Gross margins improved but could have been better. The contribution of fresh product to group sales continue to rise and pull up margins. Margins could have been better. Raw material costs has been higher than anticipated due to volatile weather and swine flu. It was highlighted that in a weak economy, households tend to cook more at home.

The Negatives

- Operating cost high due to new stores. As a percentage of sales, administrative expenses rose to 17.9% of sales. The rise was due to additional headcount for the new stores. The run-rate when stores are mature is around 16.5% of sales (FY14-17).

- Same-store sales improved but remained soft. 2Q19 same-store sales improved from last quarter but remain sluggish. In 1H19, SSG same-store sales declined 0.6% YoY, this is better than the 1.1% decline for supermarket sales located in malls.

Outlook

The outlook is positive for SSG. We see multiple growth drivers over the next two years. Growth drivers include market share gains, store expansions, improved sales or productivity per sft and operating leverage as sales improve.

Downgrade to ACCUMULATE with unchanged TP of S\$1.30.

Our TP is based on an estimated multiple of 25x PE FY19e. The downgrade is due to the recent rally in share price. We view SSG as enjoying stable growth and offers attractive metrics from its 3.2% dividend yield, 25% ROE and S\$87mn net cash balance sheet.

Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	796.7	829.9	890.9	980.0	1,009.4
Gross profit	204.7	217.4	238.4	261.7	269.5
EBITDA	81.8	88.8	95.0	125.5	134.9
Depreciation & Amortisation	14.9	14.8	16.5	38.4	39.0
EBIT	75.6	81.9	83.8	92.5	105.5
Net Finance Inc/(Exp)	0.6	0.2	0.9	0.6	0.7
Profit Before Tax	76.2	82.1	84.7	93.1	106.2
Taxation	(13.5)	(12.6)	(14.1)	(15.8)	(18.0)
Profit After Tax	62.7	69.5	70.5	77.3	88.1
Non Controlling Interest	0.0	(0.3)	(0.3)	(0.2)	(0.2)
Net profit, reported	62.7	69.8	70.8	77.5	88.3
Net profit, adj.	62.7	69.8	70.8	77.5	88.3

Per share data (SGD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	4.17	4.64	4.71	5.15	5.87
EPS, adj.	4.17	4.64	4.71	5.15	5.87
DPS	3.75	3.30	3.40	3.70	4.20
BVPS	16.76	18.00	19.30	20.77	22.45

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	76.2	82.1	84.7	93.1	106.2
Adjustments	14.1	14.7	15.6	37.8	38.3
WC changes	0.8	-9.4	6.9	-0.5	1.3
Cash generated from ops	91.0	87.5	107.1	130.5	145.7
Others	-13.0	-8.9	-14.9	-15.8	-18.0
Cashflow from ops	78.1	78.5	92.2	114.6	127.7
CFI					
CAPEX, net	-89.3	-17.6	-27.9	-29.4	-30.3
Others	0.6	0.2	0.9	0.6	0.7
Cashflow from investments	-88.7	-17.3	-27.0	-28.8	-29.6
CFF					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	0.0	0.0	0.0	0.0	0.0
Dividends	-54.9	-51.1	-51.1	-55.5	-63.0
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from financing	-54.9	-51.1	-51.1	-55.5	-63.0
Net change in cash	-65.5	10.1	14.1	30.4	35.1
Effects of exchange rates	0.4	-0.1	-0.3	0.0	0.0
CCE, end	63.5	73.4	87.2	97.8	113.1

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	252.0	254.7	266.2	277.0	288.1
Others	0.0	0.0	0.0	60.0	60.0
Total non-current assets	252.0	254.7	266.2	337.0	348.1
Accounts receivables	10.4	14.7	13.0	14.8	15.2
Cash	63.5	73.4	87.2	97.8	113.1
Inventories	61.9	60.8	69.9	70.9	73.0
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	135.8	148.9	170.1	183.4	201.3
Total Assets	387.8	403.6	436.3	520.4	549.4
LIABILITIES					
Accounts payables	117.5	111.3	125.7	127.9	131.8
Short term loans	0.0	0.0	0.0	30.0	30.0
Others	13.0	16.5	15.4	15.4	15.4
Total current liabilities	130.5	127.8	141.1	173.3	177.2
Long term loans	0.0	0.0	0.0	30.0	30.0
Others	2.4	2.6	2.9	2.9	2.9
Total non-current liabilities	2.4	2.6	2.9	32.9	32.9
Total Liabilities	133.0	130.4	144.0	206.2	210.1
EQUITY					
Non-controlling interests	2.8	2.5	2.1	1.9	1.7
Shareholder Equity	252.1	270.7	290.2	312.2	337.5

Valuation Ratios

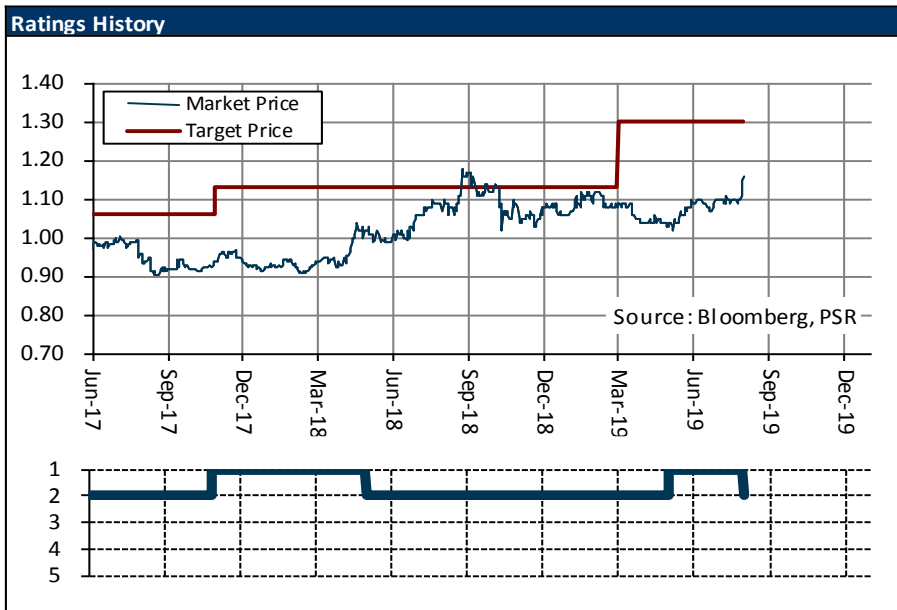
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	27.6	24.8	24.4	22.3	19.6
P/B (X)	6.9	6.4	6.0	5.5	5.1
EV/EBITDA (X), adj.	20.4	18.7	17.3	13.5	12.4
Dividend Yield (%)	3.3%	2.9%	3.0%	3.2%	3.7%

Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	4.2%	4.2%	7.4%	10.0%	3.0%
EBITDA	12.6%	8.5%	7.0%	32.2%	7.4%
EBIT	13.7%	8.2%	2.4%	10.4%	14.0%
Net profit, adj.	10.3%	11.4%	1.4%	9.5%	14.0%
Margins					
Gross margin	25.7%	26.2%	26.8%	26.7%	26.7%
EBITDA margin	10.3%	10.7%	10.7%	12.8%	13.4%
EBIT margin	9.5%	9.9%	9.4%	9.4%	10.5%
Net profit margin	7.9%	8.4%	7.9%	7.9%	8.7%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE (%)	25.2%	26.7%	25.2%	25.7%	27.2%
ROA (%)	16.6%	17.6%	16.9%	16.2%	16.5%
Net Debt/(Cash)	-64	-73	-87	-38	-53
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Siti Nursyazwina - syazwina@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

REITs

Natalie Ong - natalieongpf@phillip.com.sg

US Equity

Edmund Xue – edmundxueij@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

Technical Analysis

Chua Wei Ren - chuawr@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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