

Sheng Siong Group

Expansion mode on, not stopping at 50



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SINGAPORE | CONSUMER | 1Q18 RESULTS

- 1Q18 Revenue/PATMI met 26.6%/25.3% of our full year estimations
- Earnings growth driven by new stores contribution, tailwinds from favourable macro backdrop and improving gross margin
- Reaching its 50 stores target by 1H18 from current 48 stores; Will continue to expand its outlet network to grab market share
- Downgraded to ACCUMULATE on recent stock price run-up; TP unchanged at S\$1.13

Results at a glance

(SGD mn)	1Q18	1Q17	YoY (%)	Comments
Revenue	228.3	217.1	5.1%	New stores +6.7%, SSSG +5.6%, ex. Woodlands 6A and Verge stores -8.0%, Kunming store +0.8%
Gross profit	59.8	54.3	10.0%	Gross margin +1.0pp to 26.2%
EBITDA	24.0	22.4	7.2%	
EBIT	21.8	20.6	6.1%	Steady operating expenditures Operating margin +0.1pp to 9.6%
PATMI	18.3	17.1	6.6%	

Source: Company, PSR

The Positive

- A strong set of results driven by new stores contribution and sentiment uplift.** Sales from Singapore operations were up 4.3% YoY, despite being the first quarter to receive the full impact from closure of the Verge and Woodlands Block 6A stores. We expected a flattish to low single digit top line growth for 1Q18. Notwithstanding the boost from the 7 new stores (4 opened in 1Q18 and 3 stores in 2H17), defying expectation was the 5.6% YoY comparable same store sales growth (SSSG). Management attributed the 5.6% SSSG it to higher sales volume, expanded store space in Tampines Blk 506, and customers' loyalty. Customers shifting from the closed Verge and Woodlands Blk 6A stores to neighbouring Jalan Berseh and WL301 stores also contributed to the SSSG.
- Gross margin yet to plateau, continued to gain ground at c.26%.** Thanks to favourable input prices and higher Fresh products penetration rate, 1Q18 gross margin of 26.2% marks the highest 1Q gross margin since listed. Recall that margin for 1Q is seasonally lower as the industry tends to push for volume during the Chinese New Year. 1Q18 sales mix also contrast to the norm of higher groceries purchase during this festive season. This could lead to a higher than expected FY18e gross margin. Our forecasted FY18e gross margin was at 26.2%.

The negatives

- Higher staff costs on absence of new stores in 1Q17.** Administrative expenses for its SG operations went up to 16.7% of its revenue, as compared to 15.8% a year ago. Total headcount increased in conjunction with the addition of 7 stores in 2H17 and 1Q18. There was no new store opened in 1Q17. However, the Group has a solid track record of cost management. We believe that the administrative costs can be contained at below 17% of revenue.
- Kunming China store posts maiden quarterly revenue of S\$1.75mn but loss of S\$0.1mn.** Only 5 months since its first flagship store in China began operations, the Group sees growth potential in the city and intends to add another 1-2 stores.

2 May 2018

Accumulate (Downgraded)

LAST CLOSE PRICE	SGD 1.02
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 1.13
TOTAL RETURN	14.2%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1504
MARKET CAP (USD mn / SGD mn)	165 / 1634
52 - WK HI/LO (SGD)	1.04 / 0.9
3M Average Daily T/O (mn)	3.16

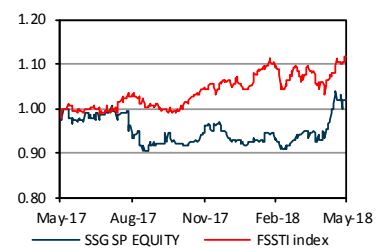
MAJOR SHAREHOLDERS (%)

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	9.7	9.7	7.8
STIRETURN	5.93	3.05	17.58

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	797	830	871	906
EBITDA (SGD mn)	82	89	96	99
NPAT (adj.)	63	70	74	76
EPS (adj.)	4.17	4.64	4.92	5.03
PER, x (adj.)	22.4	22.0	20.7	20.3
P/BV, x	5.6	5.7	5.2	4.9
DPS (SGD cents)	3.75	3.30	3.48	3.57
Div Yield, %	3.7%	3.2%	3.4%	3.5%
ROE, %	25.2%	26.7%	26.3%	25.0%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 23x

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Outlook

Outlook remains positive. Tailwinds from favourable macro backdrop and contributions from the 9 new stores (see Figure 1) should mitigate lost revenue from the two large stores and to underpin FY18e growth. In addition, we believe there are further upsides from potential new stores in coming quarters. There are 9 new supermarkets units pending completion by 2018, 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.

Downgrade to ACCUMULATE with unchanged TP at S\$1.13. Our TP is based on an estimated 4.92 cents FY18e EPS and 23x PE multiple. It has strong financial position with zero debt and cash position of S\$78.6mn as at end-1Q18. We believe that the Group's free cash flow should improve further from FY19 with no huge ticket capital expenditures in plan. Growing free cash flows could be a prelude to a higher dividend payout in future.

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

Operation Updates

- Expanded its store network to 50 stores by 1H18 from 44 stores by end-FY17, reaching its targeted number of stores, and doubling its store count in 2011 (listing year).
- Management shared that it has further room to grab market share (current market share at c.14% vs c.12% in 2011) by expanding its store network. Opportunities prevail in new residential area or redevelopment sites.

Figure 1: 9 new stores to underpin FY18e growth

Location	Date	Retail area (sqft)
Store Opening		
Loyang store	Re-opened in Feb-17	7,000
Store Expansion		
Tampines Block 506	Expanded in Jun-17	+15,000 to 25,000
3 new stores opened in 2017		
Block 446 Fajar Road	Aug-17	4,000
Block 660A Edgedale Plain	Nov-17	3,100
Woodlands Street 12	Dec-17	11,800
6 new stores opened in 1H18		
Block 417 Fernvale Street	18 Jan-18	5,600
Block 338 Anchorvale Crescent	18 Jan-18	5,200
Block 105 Canberra Street	3 Feb-18	11,300
ITE Ang Mo Kio	Early Apr-18	10,000
Bukit Batok Block 440	2Q18	5,900
Yishun Block 675	2Q18	5,320
Store Closure		
The Verge	Closed in Jun-17	45,000
Woodlands Block 6A	Closed in Nov-17	41,500

Source: Company, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	764	797	830	871	906
Gross profit	189	205	217	231	237
EBITDA	73	82	89	96	99
Depreciation & Amortisation	13	15	15	16	17
EBIT	66	76	82	88	91
Net Finance Inc/(Exp)	1	1	0	0	0
Profit Before Tax	68	76	82	89	91
Taxation	(11)	(13)	(13)	(15)	(15)
Profit After Tax	57	63	70	74	76
Non Controlling Interest	0	0	(0)	(0)	(0)
Net profit, reported	57	63	70	74	76
Net profit, adj.	57	63	70	74	76

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	3.78	4.17	4.64	4.92	5.03
EPS, adj.	3.78	4.17	4.64	4.92	5.03
DPS	3.50	3.75	3.30	3.48	3.57
BVPS	16.24	16.76	18.00	19.43	20.90

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	68	76	82	89	91
Adjustments	12	14	15	16	17
WC changes	3	1	-9	9	-5
Cash generated from ops	82	91	87	113	103
Others	(9)	(13)	(9)	(15)	(15)
Cashflow from ops	73	78	79	98	87
CFI					
CAPEX, net	(30)	(89)	(18)	(30)	(27)
Others	1	1	0	0	0
Cashflow from investments	(29)	(89)	(17)	(30)	(27)
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	0	0	0	0	0
Dividends	(49)	(55)	(51)	(52)	(54)
Others	0	0	0	0	0
Cashflow from financing	(49)	(55)	(51)	(52)	(54)
Net change in cash	(5)	(66)	10	16	7
Effects of exchange rates	0	0	(0)	0	0
CCE, end	126	64	73	89	96

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	178	252	255	269	279
Others	0	0	0	0	0
Total non-current assets	178	252	255	269	279
Accounts receivables	12	10	15	13	14
Cash	126	64	73	89	96
Inventories	52	62	61	63	66
Others	0	0	0	0	0
Total current assets	190	136	149	166	176
Total Assets	368	388	404	435	455
LIABILITIES					
Accounts payables	109	118	111	121	119
Short term loans	0	0	0	0	0
Others	13	13	17	17	17
Total current liabilities	121	131	128	138	136
Long term loans	0	0	0	0	0
Others	2	2	3	3	3
Total non-current liabilities	2	2	3	3	3
Total Liabilities	124	133	130	140	138
EQUITY					
Non-controlling interests	0	3	2	2	2
Shareholder Equity	244	252	271	292	314

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	21.9	22.4	22.0	20.7	20.3
P/B (X)	5.1	5.6	5.7	5.2	4.9
EV/EBITDA (X), adj.	15.4	16.4	16.5	15.1	14.6
Dividend Yield (%)	3.4%	3.7%	3.2%	3.4%	3.5%

Growth & Margins (%)

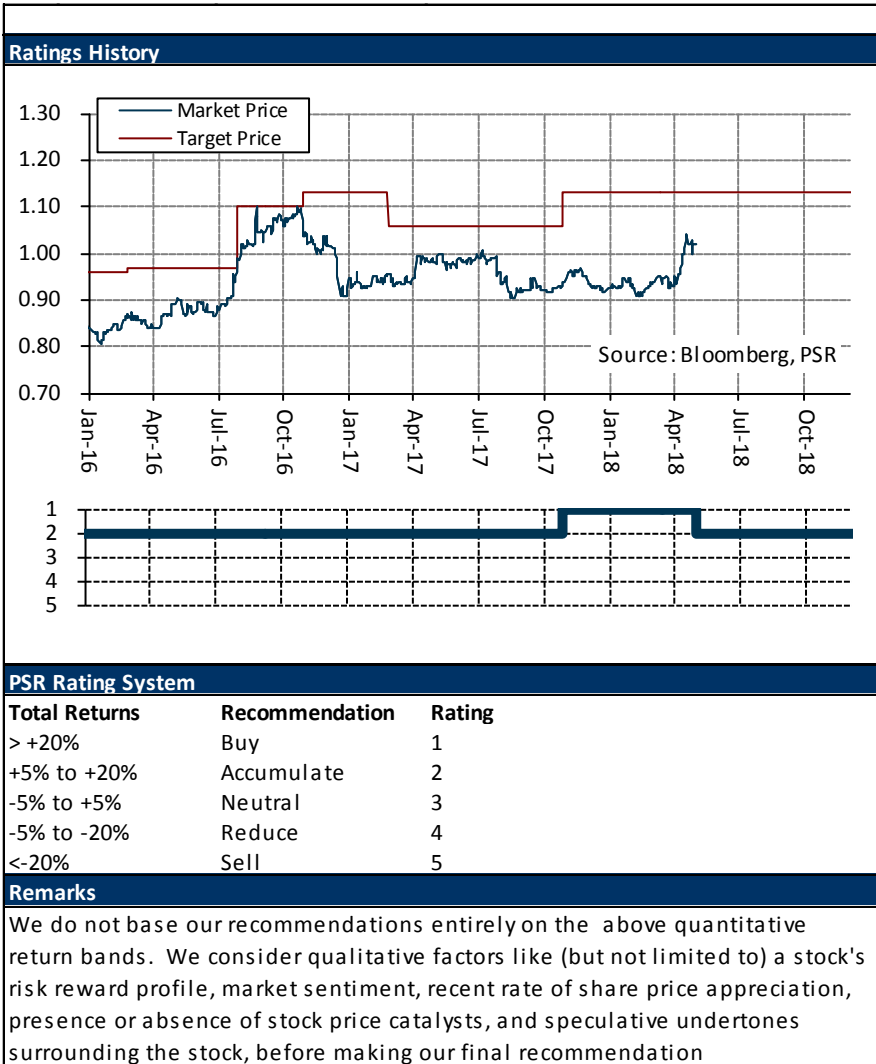
Growth					
Revenue	5.3%	4.2%	4.2%	5.0%	4.0%
EBITDA	11.8%	12.6%	8.5%	8.0%	3.1%
EBIT	17.0%	13.7%	8.2%	8.0%	2.5%
Net profit, adj.	19.3%	10.3%	11.4%	5.9%	2.4%
Margins					
Gross margin	24.7%	25.7%	26.2%	26.5%	26.2%
EBITDA margin	9.5%	10.3%	10.7%	11.0%	10.9%
EBIT margin	8.7%	9.5%	9.9%	10.2%	10.0%
Net profit margin	7.4%	7.9%	8.4%	8.5%	8.4%

Key Ratios

ROE (%)	23.6%	25.2%	26.7%	26.3%	25.0%
ROA (%)	15.9%	16.6%	17.6%	17.6%	17.0%
Net Debt/(Cash)	(126)	(64)	(73)	(89)	(96)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

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



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