

Sheng Siong Group

Fresh products keep gaining traction



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SINGAPORE | CONSUMER | 2Q18 RESULTS

2 August 2018

- 2Q18 Revenue and PATMI met expectations
- Both new stores and SSSG drove revenue growth. Market share gains and wider distribution of stores were key ingredients to sales growth
- Gross margins keep touching new highs due to fresh products
- Maintain ACCUMULATE. Forecast and target price unchanged at S\$1.13

Results at a glance

SGD mn	2Q18	2Q17	YoY	Comments
Revenue	213.0	201.5	5.7%	New stores +7.8%, SSSG +4.2%, ex. Woodlands 6A and Verge stores -7.2%, Kunming store +0.9%
Gross profit	58.1	53.5	8.7%	Gross margin +0.9pp to 27.5%
EBITDA	23.7	22.3	6.1%	
EBIT	20.7	19.7	4.8%	Dist. expenses +7% YoY and Admin. Expenses +11%
PATMI	17.2	16.1	6.3%	

Source: Company, PSR

The Positive

- Revenue was strong from new stores and SSSG.** Sales expanded 5.7% YoY in 2Q18 and is trending modestly faster than our modelled 5% rise. Interestingly the weighted average retail area in 2Q18 actually fell 1.3% YoY to 436k sft. However, this was made up by higher sales productivity per store. Same-store sales was around 4.5% in 2Q18. This is much better than the industry supermarket sales of 1% to 3% reported in Apr/May18.
- Gross margins at a record.** Gross margins touched 27.5% in 2Q18. This is a record for any June quarter. A year ago, gross margins were 26.6%. Improvement in margins came from a higher contribution of fresh product sales, to above 45% of total sales. Many more stores have exceeded 50% of total sales from fresh products. Because fresh products have limited shelf life, it is the most challenging product category to manage for any supermarket.

The Negative

- Some of the gains in gross profits offset by opex.** Operating expenses rose 10% YoY in 2Q18. This shaved off some of the gains in gross profits. The rollout of new stores raised fixed cost such as rental and labour whilst revenue is only beginning to trickle in. Admin cost to sales is typically 16-16.5% of sales but rose to 17.5% in 2Q18.

Outlook

The outlook remains positive. Revenue will be supported by the new store openings (four in 1Q18 and two in 2Q18). Organic sales growth stems from improving consumer sentiment plus market share gains from both supermarket based malls and wet-markets. The e-commerce impact for Sheng Siong comes from bulky products such as diapers, beer, etc. Gross margins has further room to improve as more stores raise their fresh product sales mix. Fresh products margins are around 34%. The company has only 1 store in Kunming China but will need in order to test and build their brand.

Maintain ACCUMULATE with unchanged TP at S\$1.13. Our TP is based on an estimated 4.92 cents FY18e EPS and 23x PE multiple. We like Sheng Siong for its attractive financials, with a net cash position of S\$75mn and ROEs of 26%. The company has a leading market position in supermarkets with its value branding and pricing. It is expanding market share through fresh products, more stores and consistent execution.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.07
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 1.13
TOTAL RETURN	8.9%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN) :	1504
MARKET CAP (USD mn / SGD mn) :	181/ 1609
52 - WK HI/LO (SGD) :	11/ 0.9
3M Average Daily T/O (mn) :	4.66

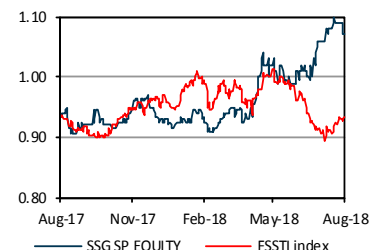
MAJOR SHAREHOLDERS (%)

SS HOLDINGS	29.9%
LIM HOCK CHEE	11.3%
LIM HOCK LENG	11.3%
LIM HOCK ENG	11.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.9	6.7	17.1
STIRETURN	2.02	(6.88)	3.46

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.)	25.7	23.1	21.8	21.3
P/BV, x	6.4	5.9	5.5	5.1
DPS (SGD cents)	3.75	3.30	3.48	3.57
Div Yield, %	3.5%	3.1%	3.3%	3.3%
ROE, %	25.2%	26.7%	26.3%	25.0%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 23x

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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

Source: Company, Phillip Securities Research (Singapore) Estimates

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

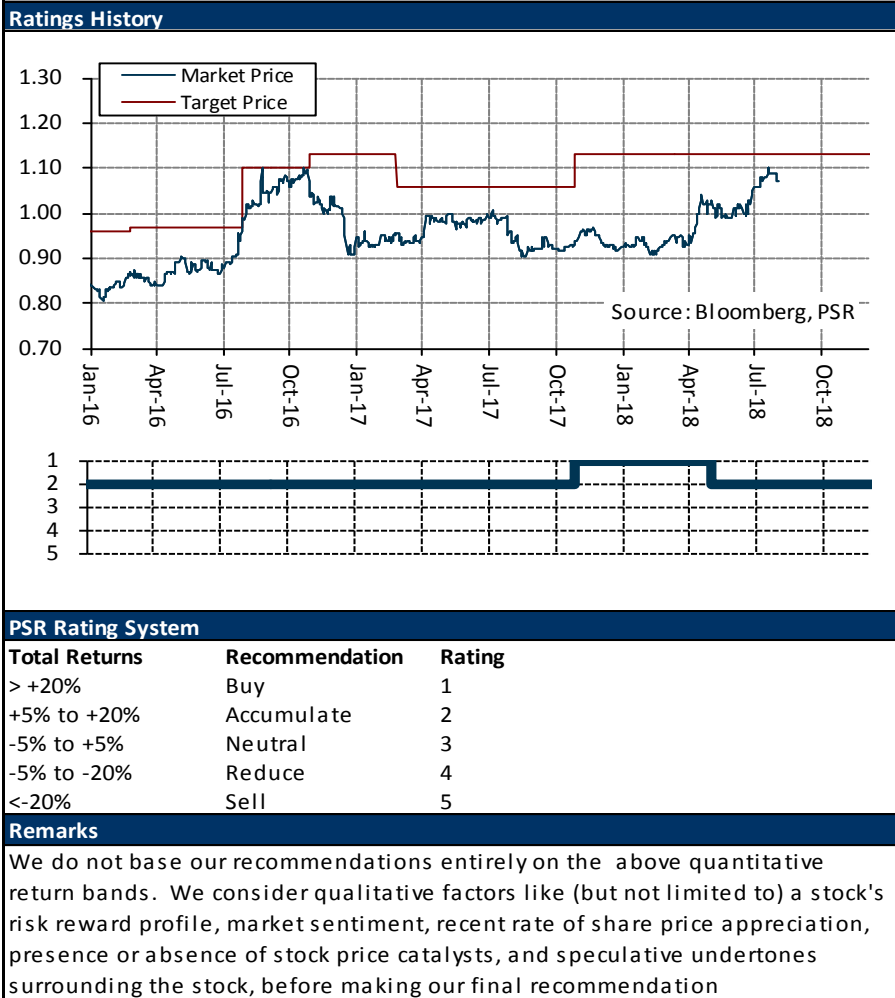
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	28.3	25.7	23.1	21.8	21.3
P/B (X)	6.6	6.4	5.9	5.5	5.1
EV/EBITDA (X), adj.	20.4	18.9	17.3	15.9	15.3
Dividend Yield (%)	3.3%	3.5%	3.1%	3.3%	3.3%

Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
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

	FY15	FY16	FY17	FY18e	FY19e
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



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