

# Sheng Siong Group (SSG SP)

## Positive prospects and NDR highlights

### Robust sales growth and good expansion pipeline

1Q18 results were in line, earnings met 25% of ours and consensus FY18E. Revenue and earnings grew 5.1% and 6.6% YoY, respectively driven by robust new store sales growth and comparable store sales growth. Key highlights in our post-results NDR: 1) ample new stores opened since 4Q17 and healthy consumer sentiment are expected to drive growth; 2) fresh products remain a key differentiator to defend against online threats and competitors; 3) good expansion pipeline as more new stores are up for tender; and 4) further penetration into new market segments and China. Maintain BUY and DCF TP of SGD1.20 (7.7% WACC, 1.5% LTG).

### Impressive new and comparable store sales growth

The new store sales growth of 6.7% came from 7 new stores, where 6 of them only started since 4Q17, and there should be ample room for them to grow further before reaching a steady state. SSG operates 48 stores as of 1Q18. On the other hand, the comparable store sales growth reached a new record 5.6%, attributable to: 1) the recovery in consumer sentiment started in 2H17; and 2) re-opening and expansion of stores, as well as spill-over of customers to nearby stores after the closure of two major stores. In addition, gross margin increased 1.2ppt YoY due to a higher sales mix of fresh products and supplier rebates. These positive forces are expected to sustain in 2018.

### New stores and healthy pipeline to sustain growth

We expect future earnings growth to remain healthy from: 1) ramping up of 7 new stores opened since 4Q17 and 2 more new stores targeted to open in 2Q18; 2) healthy comparable store sales growth from good consumer sentiment; and 3) ample expansion pipeline, where around 10 new supermarket sites are up for tender, much higher compared to the past two years. In addition, we see upside from margin expansion as SSG increases its sales mix of fresh products, more automation, and completion of its central warehouse expansion, targeted in end-2018. Beyond that, management is seeking to penetrate into new market segments by engaging with the millennial in new housing estates and targets to expand further via 2-3 new stores in Kunming, China, over the next 1-2 years.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	797	830	862	910	960
EBITDA	90	97	103	110	116
Core net profit	63	67	72	77	82
Core EPS (cts)	4.2	4.5	4.8	5.1	5.5
Core EPS growth (%)	10.4	7.4	7.5	6.8	6.7
Net DPS (cts)	3.8	3.3	3.4	3.6	3.8
Core P/E (x)	24.5	22.8	21.2	19.9	18.6
P/BV (x)	6.1	5.7	5.2	4.9	4.5
Net dividend yield (%)	3.7	3.2	3.3	3.5	3.8
ROAE (%)	25.3	26.6	25.7	25.4	25.1
ROAA (%)	16.6	17.0	17.4	17.4	17.4
EV/EBITDA (x)	15.1	13.6	14.0	12.9	11.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	72	75	80
MKE vs. Consensus (%)	-	-	0.5	3.0	2.8

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## BUY

Share Price	SGD 1.02
12m Price Target	SGD 1.20 (+18%)
Previous Price Target	SGD 1.20

### Company Description

Mass-market supermarket operator. Third largest in Singapore by market share.

### Statistics

52w high/low (SGD)	1.04/0.91
3m avg turnover (USDm)	2.3
Free float (%)	34.4
Issued shares (m)	1,504
Market capitalisation	SGD1.5B
	USD1.2B

### Major shareholders:

Sheng Siong Holdings Pte Ltd.	29.8%
Lim Hock Chee	11.3%
Lim Hock Eng	11.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	10	10	4
Relative to index (%)	5	8	(8)

Source: FactSet

Fig 1: 1Q18 results summary

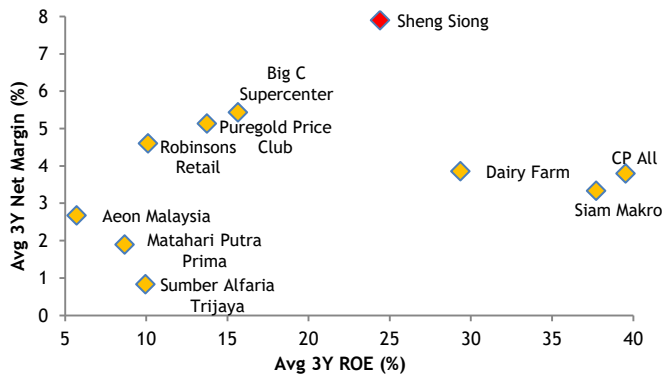
FYE Dec	1Q18 (SGD m)	4Q17 (SGD m)	1Q17 (SGD m)	Change (QoQ %)	Change (YoY %)	MBKE FY18E	% of FY forecast	Comments
Revenue	228.3	200.3	217.1	14.0	5.1	862.4	26.5	In line. Driven by seven new store growth of 6.7% and comparable store growth of 5.6%, which came from: 1) the recovery in consumer sentiment, which started in 2H17; 2) store expansion at Block 506 Tampines Central 1; 3) pickup in sales in the Loyang store after it re-opened in Feb 2017; and 4) customers migrating to the Jalan Berseh and Woodlands Block 301 stores after the closure of the Verge and Woodlands Block 6A stores.  Also, the new store in China contributed 0.8% YoY growth.  These were being offset by 8.0% drag from closure of two major stores.
Cost of sales	(168.5)	(145.2)	(162.8)	16.0	3.5	(636.4)	26.5	
<b>Gross Profit</b>	<b>59.8</b>	<b>55.1</b>	<b>54.3</b>	<b>8.5</b>	<b>10.0</b>	<b>225.9</b>	<b>26.5</b>	
Other income	2.4	4.0	2.5	(40.5)	(6.0)	10.0	23.7	
Distribution exp	(1.5)	(1.3)	(1.4)	15.6	3.6	(5.8)	25.6	
Administrative exp	(38.3)	(36.7)	(34.2)	4.3	11.8	(140.6)	27.2	
Other exp/gains/losses	(0.6)	(0.6)	(0.6)	0.3	(6.9)	(2.4)	24.6	
<b>EBIT</b>	<b>21.8</b>	<b>20.5</b>	<b>20.6</b>	<b>6.2</b>	<b>6.1</b>	<b>87.2</b>	<b>25.0</b>	
Net finance inc/(exp)	0.2	0.1	0.0	133.8	679.2	0.3	62.3	
<b>Profit Before Tax</b>	<b>22.0</b>	<b>20.6</b>	<b>20.6</b>	<b>6.7</b>	<b>6.9</b>	<b>87.5</b>	<b>25.1</b>	
Taxation	(3.7)	(3.9)	(3.5)	(4.9)	8.2	(15.3)	24.4	
<b>Net profit</b>	<b>18.3</b>	<b>16.7</b>	<b>17.1</b>	<b>9.4</b>	<b>6.6</b>	<b>72.2</b>	<b>25.3</b>	
<b>Recurring net profit</b>	<b>18.3</b>	<b>16.7</b>	<b>17.1</b>	<b>9.6</b>	<b>6.6</b>	<b>72.4</b>	<b>25.3</b>	In line. Expect the subsequent quarters to perform better, especially from newer stores. New stores opened recently and in future include: 1) 3 stores in 4Q17; 2) 4 stores in 1Q18; and 3) 2 stores in 2Q18.
EPS (cts)	1.22	1.11	1.14	9.6	6.6	4.81	25.3	
Recurring EPS (cts)	1.22	1.11	1.14	9.6	6.6	4.81	25.3	
DPS (cts)	-	1.75	-	n/a	n/a		n/a	
Change (ppt)								
Gross margin	26.2	27.5	25.0	(1.3)	1.2	26.2	n/a	Margins expanded YoY mainly because of a higher sales mix of fresh products and suppliers' rebates. The QoQ decline is consistent with seasonal trends, as the industry pushed for volume during the Chinese New Year season.
EBIT margin	9.6	10.2	9.5	(0.7)	0.1	10.1	n/a	
PBT margin	9.6	10.3	9.5	(0.7)	0.2	10.1	n/a	
Net margin	8.0	8.3	7.9	(0.3)	0.1	8.4	n/a	
<b>Revenue growth</b>	<b>5.1%</b>	<b>1.7%</b>	<b>4.1%</b>	<b>3.4%</b>	<b>1.0%</b>			
New store sales	6.7%	2.7%	6.2%	4.0%	0.5%			
Comparable store sales	5.6%	3.2%	0.0%	2.4%	5.6%			
One off store closure	-8.0%	-4.2%	-2.1%	-3.8%	-5.9%			
China store	0.8%	0.0%	0.0%	0.8%	0.8%			

Source: Company, Maybank Kim Eng

## Value Proposition

- Retailer of value-for-money groceries, with low overhead expense. Low prices but products are of reasonably good value and quality.
- Convenient locations in public-housing heartlands. Outlets stock a wide range of consumer staples.
- 19% market share, behind NTUC FairPrice & Dairy Farm.
- Low-cost cash business, financed by suppliers. High FCF supports asset acquisitions and 70% dividend payout.
- ROIC consistently beats WACC by a wide margin, with a significant widening in FY17 to 24.6% from 18.4% in FY11.

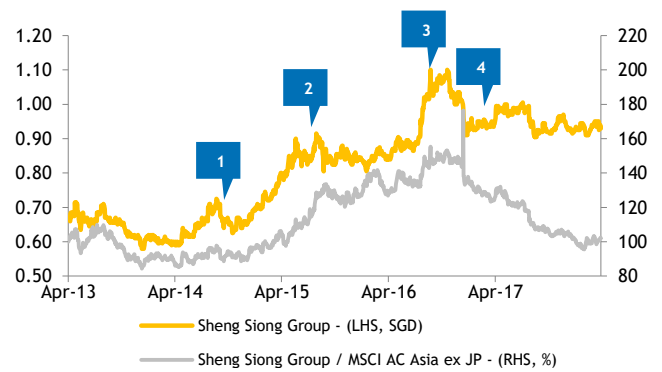
### Profitability vs returns: in the magic quadrant



Source: FactSet, Maybank Kim Eng

## Price Drivers

### Historical share price trend

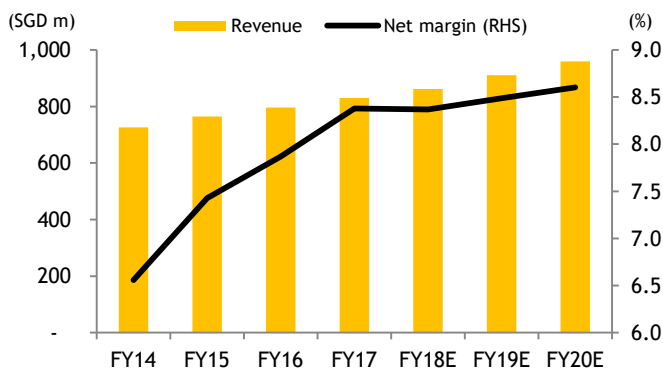


1. Mild correction following 120m new-share placement at SGD0.66.
2. New-store dry spell of 2013-14 ended with opening of five new stores in 2015.
3. Gross margin exceeded 26% level for the first time, in 2Q16, mainly from reduction in input costs from bulk handling supported by central warehouse in Mandai.
4. Stock corrected and stuck in a trading range after news reports relating to Amazon’s plan to enter ASEAN, with Singapore as its first destination, starting in 1Q17.

## Financial Metrics

- We model 2% SSSG for FY18-20E, from further GDP growth and a ramp-up of new stores.
- Expect a 0.1ppt rise in net margins pa, mostly from lower admin costs as a % of sales.
- Capex expected to dwindle from FY19E, after last payment for new warehouse. Capex for new stores estimated at SGD4m pa. Maintenance capex is SGD4m pa.
- We expect FCF to improve further in FY18-20E, as there should be no large capex after paying the remaining SGD16m for its warehouse and no property acquisitions.
- DPS to grow in tandem with EPS, based on 70% payout.

### Revenue and net margins to grow consistently in FY18-20E



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Stronger-than-expected revenue growth on the back of strong GDP, wage and employment growth.
- Better-than-expected food-cost savings or lower labour costs following automation.
- Wins more-than-expected tenders for public-housing sites for new supermarkets.

### Downside

- China supermarket does not take off.
- Unable to pass on higher food costs due to competition.
- Manpower shortages affecting Singapore operations. Due to high mix of fresh food, it may need more workers per store than its competitors.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	22.5	20.6	21.2	19.9	18.6
Core P/E (x)	24.5	22.8	21.2	19.9	18.6
P/BV (x)	6.1	5.7	5.2	4.9	4.5
P/NTA (x)	6.1	5.7	5.2	4.9	4.5
Net dividend yield (%)	3.7	3.2	3.3	3.5	3.8
FCF yield (%)	nm	4.0	4.3	5.6	6.0
EV/EBITDA (x)	15.1	13.6	14.0	12.9	11.9
EV/EBIT (x)	18.0	16.1	16.6	15.2	13.9
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	796.7	829.9	862.4	910.4	959.6
Gross profit	204.7	217.4	225.9	238.5	251.4
EBITDA	90.3	96.7	103.2	109.8	115.8
Depreciation	(14.9)	(14.8)	(16.0)	(16.5)	(16.0)
Amortisation	0.2	(0.0)	0.0	0.0	0.0
EBIT	75.6	81.9	87.2	93.3	99.7
Net interest income / (exp)	0.6	0.2	0.3	0.4	0.4
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	76.2	82.1	87.5	93.6	100.1
Income tax	(13.5)	(12.6)	(15.3)	(16.4)	(17.5)
Minorities	0.0	0.0	0.2	0.0	(0.1)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	62.7	69.5	72.4	77.3	82.5
Core net profit	62.7	67.3	72.4	77.3	82.5
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	63.5	73.4	88.0	120.2	154.6
Accounts receivable	10.4	14.7	15.4	16.2	17.1
Inventory	61.9	60.8	63.8	67.4	71.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	252.0	254.7	261.6	254.7	247.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>387.8</b>	<b>403.6</b>	<b>428.8</b>	<b>458.4</b>	<b>489.8</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	117.5	111.3	115.1	121.5	128.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	15.0	19.0	19.0	19.0	19.0
<b>Total Liabilities</b>	<b>133.0</b>	<b>130.4</b>	<b>134.1</b>	<b>140.5</b>	<b>147.1</b>
Shareholders Equity	252.1	270.7	292.4	315.6	340.3
Minority Interest	2.8	2.5	2.3	2.3	2.4
<b>Total shareholder equity</b>	<b>254.9</b>	<b>273.2</b>	<b>294.7</b>	<b>317.9</b>	<b>342.7</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>387.8</b>	<b>403.6</b>	<b>428.8</b>	<b>458.4</b>	<b>489.8</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	76.2	82.1	87.5	93.6	100.1
Depreciation & amortisation	14.7	14.8	16.0	16.5	16.0
Adj net interest (income)/exp	(0.6)	(0.2)	(0.3)	(0.4)	(0.4)
Change in working capital	0.8	(9.4)	0.0	2.0	2.1
Cash taxes paid	(13.0)	(8.9)	(15.3)	(16.4)	(17.5)
Other operating cash flow	(0.3)	0.2	0.0	0.0	0.0
Cash flow from operations	78.1	78.5	87.9	95.4	100.3
Capex	(89.9)	(17.7)	(23.0)	(9.5)	(8.5)
Free cash flow	(10.6)	61.2	65.2	86.2	92.2
Dividends paid	(54.9)	(51.1)	(50.7)	(54.1)	(57.7)
Equity raised / (purchased)	2.7	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(88.7)	(17.3)	(22.7)	(9.2)	(8.2)
Effect of exch rate changes	0.4	(0.1)	0.0	0.0	0.0
Net cash flow	(62.4)	9.9	14.6	32.2	34.4

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.2	4.2	3.9	5.6	5.4
EBITDA growth	13.1	7.1	6.7	6.3	5.5
EBIT growth	13.7	8.2	6.5	7.0	6.9
Pretax growth	12.6	7.7	6.6	7.0	6.9
Reported net profit growth	10.4	10.9	4.1	6.8	6.7
Core net profit growth	10.4	7.4	7.5	6.8	6.7
<b>Profitability ratios (%)</b>					
EBITDA margin	11.3	11.7	12.0	12.1	12.1
EBIT margin	9.5	9.9	10.1	10.2	10.4
Pretax profit margin	9.6	9.9	10.1	10.3	10.4
Payout ratio	89.9	71.4	70.0	70.0	70.0
<b>DuPont analysis</b>					
Net profit margin (%)	7.9	8.4	8.4	8.5	8.6
Revenue/Assets (x)	2.1	2.1	2.0	2.0	2.0
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.4
ROAE (%)	25.3	26.6	25.7	25.4	25.1
ROAA (%)	16.6	17.0	17.4	17.4	17.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(29.0)	(25.8)	(22.5)	(22.0)	(22.0)
Days receivable outstanding	5.0	5.4	6.3	6.2	6.2
Days inventory outstanding	34.8	36.0	35.2	35.1	35.2
Days payables outstanding	68.8	67.3	64.0	63.4	63.4
Dividend cover (x)	1.1	1.4	1.4	1.4	1.4
Current ratio (x)	1.0	1.2	1.3	1.5	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.9	3.1	3.2	3.3	3.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	11.3	2.1	2.7	1.0	0.9
Net debt/ (net cash)	(63.5)	(73.4)	(88.0)	(120.2)	(154.6)

Source: Company; Maybank

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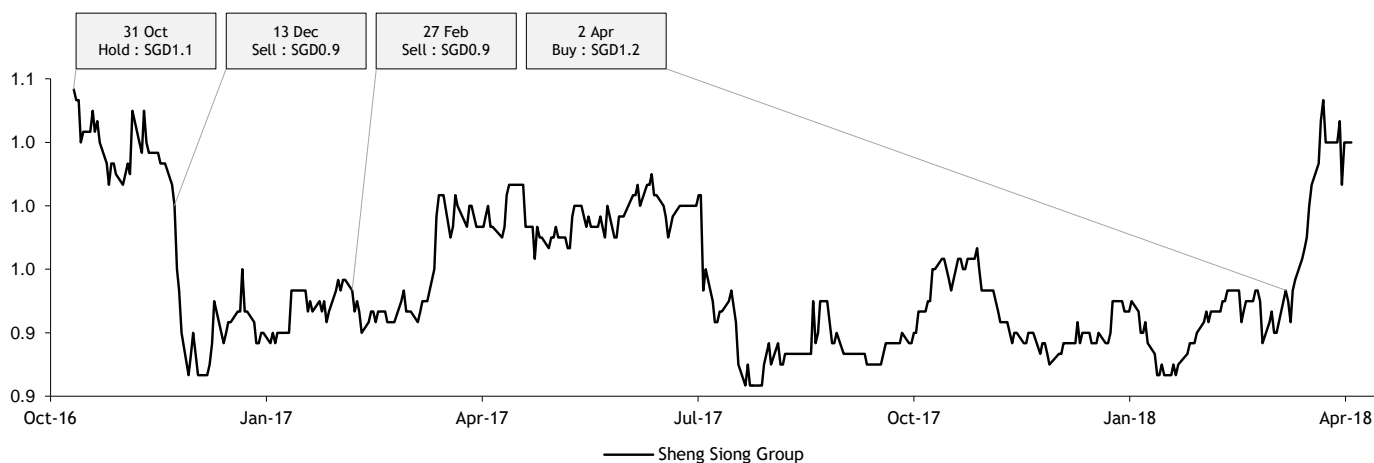
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