Sheng Siong Group

BUY

Last Traded Price (19 Jun 2017): S$0.975 (STI : 3,230.42)
Price Target 12-mth: S$1.20 (23% upside) (Prev S$1.20)

Analyst
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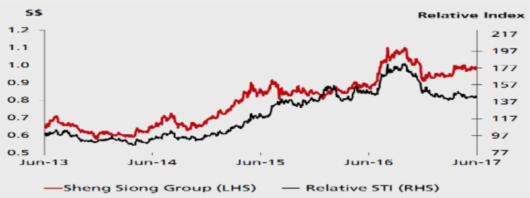
What's New

- **We expect margin improvement to continue on upcoming warehouse expansion**
- **Expanded warehouse will realise higher margins from volumes, SKUs and fresh food**
- **Store network expected to grow on more supply of HDB shops available for bidding**
- **Maintain BUY; S$1.20 TP**

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017F	2018F	2019F
Revenue	797	807	828	878
EBITDA	80.0	87.6	92.2	101
Pre-tax Profit	76.2	82.7	86.9	92.2
Net Profit	62.7	68.6	72.0	76.5
Net Pft (Pre Ex.)	62.7	68.6	72.0	76.5
Net Pft Gth (Pre-ex) (%)	10.4	9.4	4.9	6.2
EPS (S cts)	4.17	4.56	4.79	5.08
EPS Pre Ex. (S cts)	4.17	4.56	4.79	5.08
EPS Gth Pre Ex (%)	10	9	5	6
Diluted EPS (S cts)	4.17	4.56	4.79	5.08
Net DPS (S cts)	3.75	4.10	4.31	4.57
BV Per Share (S cts)	16.8	17.2	17.7	18.2
PE (X)	23.4	21.4	20.4	19.2
PE Pre Ex. (X)	23.4	21.4	20.4	19.2
P/Cash Flow (X)	18.8	19.9	13.6	15.0
EV/EBITDA (X)	17.6	16.1	15.1	13.6
Net Div Yield (%)	3.8	4.2	4.4	4.7
P/Book Value (X)	5.8	5.7	5.5	5.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	25.3	26.9	27.4	28.3
Earnings Rev (%):		0	0	-
Consensus EPS (S cts):		4.50	4.60	4.80
Other Broker Recs:		B: 7	S: 1	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Margin expansion not over yet

Maintain BUY TP S$1.20, more positive on margins. We remain positive on Sheng Siong on the back of better visibility for higher margins. We believe expansion of its distribution centre will grow and sustain gross margins going forward. Margins remain on the uptrend supported by the increase in direct sourcing, bulk handling, and fresh mix, contributing to earnings growth. Stock is trading attractively at 20.4x FY18F PE compared to historical average of 23x since listing. Yield remains attractive at 4.4%.

Where we differ. The market is concerned with competition for shop space, closure of key stores (Verge and Woodlands), online threat, and threat of gross margins being unsustainable. However, we have found that the critical factor driving Sheng Siong's stock price is margins. We believe margins should continue expanding as its distribution centre is being expanded, driving earnings growth.

Potential catalyst. We see added warehousing capacity supporting its margins over the next few years from its warehouse expansion. Higher volume rebates, higher fresh mix, economies of scale, more stock keeping units (SKUs), and better leverage to support more stores in the future will likely improve margins from current levels. With the HDB opening up new estates and putting up more commercial shop spaces for supermarkets, we see more scope for store network expansion going forward, contributing to growth.

Valuation:

Our target price for Sheng Siong is S$1.20 based on 25x FY18F PE. The valuation is pegged at +1SD of its historical mean since listing and below regional peers' average of 30x PE.

Key Risks to Our View:

Store openings, price competition. Revenue growth will be led by new store openings. Excessive discounts and promotions in the market by competitors will ultimately result in lower margins.

At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (Sm/USm)	1,466 / 1,055
Major Shareholders (%)	
SS Holdings	29.85
Lim Family	33.99
Free Float (%)	36.16
3m Avg. Daily Val (US$m)	1.5

ICB Industry: Consumer Services / Food & Drug Retailers

WHAT'S NEW

More margin expansion on the cards

More catalyst in warehouse expansion

Background of the KTM land. When Sheng Siong constructed its present distribution centre at Mandai in 2009, a part of the land next to which the building sits on belonged to the current rail corridor (former KTM railway land). The current 2.32 hectares of land which JTC awarded to Sheng Siong as a result, is constructed in a U shape instead of a regular rectangle. This is due to the nature of land ownership when the land was awarded. Last year, the JTC resolved the rights to the former KTM railway land and Sheng Siong can now utilise the former KTM land. This means that the current U-shaped layout can be flushed into a regular rectangular-shaped building, essentially expanding the distribution centre's capacity.

Sheng Siong to expand Mandai Link warehouse by another 10%. The current distribution centre's capacity is 500,000 sqft. Flushing the building into a regular rectangle from a U-shaped layout will add another 50,000 sqft to the warehouse capacity. With all systems clear and heavy equipment already on site, construction is due to start in June 2017 and is expected to complete in 2018. Sheng Siong will incur S$19m in construction cost with the bulk amounting to c.S$13m to be incurred in 2018, all internally funded. The warehouse will have storage capacity for both chilled and regular storage products.

What does this mean for Sheng Siong?

Beneficial to margins and better economies of scale. A bigger distribution centre will increase warehouse throughput and support volumes for new stores in the future. Besides, margin expansion will be supported by higher fresh food mix, volume discounts from suppliers and scope for higher-margin SKUs (stock keeping units). More cold storage capacity built into the expanded area will support higher mix of fresh food. We do not see any significant increase in manpower and delivery costs for now as its current human resources have scope to increase productivity further.

Higher margins through fresh mix. Sheng Siong is increasing its proportion of fresh offering in stores. Its fresh food mix is currently higher than that of key competitors Dairy Farm and NTUC Fairprice. The higher-margin nature of fresh food over non-fresh grocery items will lead to higher gross margins.

Better margins from higher volume discount and higher-margin SKUs. The existing warehouse space is running at close to full capacity that supports 43 stores currently. Following the expansion, Sheng Siong's warehouse space will increase by another 10%. Higher volume orders from suppliers and increase in higher-margin SKUs will support margin expansion. These will come from better discounts from bulk orders, essentially creating better economies of scale.

Capacity to support more stores in the future. Higher throughput in the future will support a larger store network as well. HDB is constantly putting out commercial shop spaces for supermarkets in various areas. We believe Sheng Siong will eventually increase its store count from the 43 stores currently. A higher warehousing capacity, throughput and higher store count in the future would ultimately help to defray fixed operating costs and support margins.

Consensus is mixed on Sheng Siong, but we are positive on margin expansion

What is the market concerned with? Consensus is generally concerned about competition and Sheng Siong's ability to open new stores. Store opening has been a function of HDB's available supply for shop space and the competition in bidding for them. Competition for shop space has been keen over the past few months, with smaller players winning shop space at aggressive bids. This has fuelled concerns on Sheng Siong's inability to grow store network and open new stores. Besides, there also concerns that two of its stores are due to close in Woodlands (41,500 sqft) in August 2017 and the Verge (45,000 sqft) in June 2017.

Our critical factor for the stock is margin, not top line. We believe consensus has placed too much emphasis on Sheng Siong's top-line growth. This is where we differ and offer our differentiated view from the market in our analysis process. We have found that the correlation for Sheng Siong's stock price to margin is strong (very close to 1) at a reading of 0.9. Hence, earnings growth and margins are driving Sheng Siong's stock price rather than top-line growth. Singapore's grocery retail growth is typically unexciting at 0-5% for top line, yet the stock price has risen in tandem with margin expansion and earnings growth. We are positive on continued margin expansion backed by the higher warehouse capacity we have aforementioned.

Cost management is a critical factor in preserving margins which Sheng Siong is always mindful of. Sheng Siong has >40 stores islandwide with more than 400,000 sqft of selling space. In our opinion, being the third largest supermarket player in Singapore with a Mandai distribution centre, Sheng Siong has both critical mass and economies of scale. We believe focus has been on cost management rather than driving sales. If Sheng Siong's focus was to drive sales, it would be bidding aggressively against the smaller players regardless of price. However, it emerged as the winning bidder in only one out of six supermarket bids this year, at a reasonable S$15 psf, lower than c.S$20 psf bids in 4Q16.

Market is concerned that top line is slowing, but we believe it is short term and see store network increasing eventually. We refute the argument that outlook is unexciting because Sheng Siong has not been winning new shop space. Instead, we believe the market should focus on the rental levels that Sheng Siong is securing new stores, rather than short-term headwinds of two store closures and not winning new stores. Sheng Siong also recently won one 11,000-sqft new store in Woodlands St 12. Meanwhile, the Tampines Central store expansion will add 15,000 sqft to its store network space. These will mitigate the impact of store closures. Also, we believe that footfall for the Verge and Woodlands has been tapering and well accounted for in recent quarters results due to news of their imminent closure. Negative short-term impact should therefore be minimal. With HDB continuing to put up shops earmarked for supermarkets for tender in existing and new estates, there are ample opportunities to secure more stores going forward.

Growing through operating efficiencies. Store count is not the only factor that drives growth. Higher store efficiencies can supplement growth as well along with greater focus on cost. These include running more promotions, quicker checkout process, store layout, new SKUs, higher-margin products to generate greater stock turnover, sales volumes and better profitability.

Online is not a real threat for now. We do not see online business as a significant threat for now. There are supermarkets located across Singapore, making it convenient to pick up groceries. HDB has put up properties earmarked for supermarket over the years and as such, supermarkets are now conveniently located across Singapore. Online businesses although gaining traction, remain in an unprofitable state. Pureplay online grocery retailer Redmart's business remains in core operating losses and negative free cash flow. It has less than S$100m of revenue in a S$6bn Singapore grocery retail market after four years of operation. HDB will release six supermarket and two minimart properties in the next six months, not forgetting future supermarket properties in new estates such as Biddadari. Scope for growing store network abound over the long term. We believe this will give online a run for its money as it remains convenient for consumers to pick up groceries. About 80% of people living in Singapore live in HDB estates (which have planned amenities including grocery shops) and do not live "off the beaten path" to really warrant grocery delivery in our view.

Financial impact

Internally funded. Sheng Siong will internally fund the warehouse expansion to the tune to S$19m comprising construction and fit out. As of 1Q17, Sheng Siong had S$68.3m cash on its balance sheet with no debt. Sheng Siong generates c.S$70-80m in operating cashflow each year, more than sufficient to fund the expansion. There is no further cashflow burden on past property purchases as previous cashflow strain on the purchases of Tampines property (2014, S$65m), Bedok property (2016, S$55m) and Junction 9 (2013, S$55m) have all already been expensed.

Valuation

Maintain BUY, TP S$1.20. We maintain our BUY recommendation on Sheng Siong. We like Sheng Siong for its steady earnings growth, net cash, growing margins and strong dividend yield. Our TP of S$1.20 is derived from 25x FY18F PE.

Sheng Siong's U-shaped layout and location of warehouse expansion

Source: Google map, DBS Bank

Trades below peers' average of 30x PE

Company	Rating	Country	Market Cap (S$m)	Px Last	PE (Act)	PE (Yr 1)	PE(Yr 2)	P/BV (x)	P/Sales (x)	ROE (%)	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)
Sheng Siong	BUY	SGX	1,489	0.98	26.2x	23.7x	21.7x	5.9x	1.9x	25%	8.2%	7.9%	3.8%
South East Asia Peers													
Dairy Farm Intl	BUY	SGX	15,294	8.02	25.8x	23.9x	22.8x	7.3x	1.0x	33%	4.0%	4.2%	2.6%
CP ALL	BUY	SET	22,598	61.75	40.5x	33.4x	27.6x	10.1x	1.3x	36%	6.5%	3.8%	1.5%
Big C Supercntr	FULLY VALU	SET	7,461	222.00	26.6x	23.1x	20.3x	3.5x	1.5x	16%	8.2%	6.3%	1.3%
Siam Makro	NOT RATED	SET	6,986	35.75	29.7x	27.4x	25.5x	9.9x	1.0x	45%	4.1%	3.1%	2.4%
Puregold	HOLD	PSE	3,448	45	25.0x	22.7x	20.8x	2.9x	1.1x	14%	7.2%	4.9%	0.7%
Matahari Putra	FULLY VALU	IDX	428	760	22.5x	53.3x	21.0x	1.6x	0.3x	3%	1.3%	0.5%	0.7%
Sumber Alfaria	NOT RATED	IDX	2,439	565	38.9x	29.3x	25.7x	4.5x	0.4x	14%	2.3%	1.1%	0.8%
PSC	NOT RATED	PSE	2,033	160	63.7x	NaN	NaN	14.1x	2.5x	37%	6.1%	4.1%	0.3%
Hero Supermarket	NOT RATED	IDX	518	1,200	27.7x	26.1x	n/a	0.9x	0.4x	3%	1.6%	1.1%	na
Robinsons Retail	BUY	PSE	3,375	88	28.1x	25.2x	21.8x	2.6x	1.2x	11%	5.2%	4.6%	0.8%
7 Eleven	NOT RATED	KLSE	546	1.37	35.7x	31.2x	28.0x	n/a	0.8x	148%	3.5%	2.5%	1.7%
Bison Cons	NOT RATED	KLSE	234	2.33	36.6x	29.3x	23.4x	4.4x	2.5x	12%	8.9%	6.9%	0.6%
Modern Internasi	NOT RATED	IDX	24	50	nm	NaN	nm	0.2x	0.3x	-3%	6.7%	-4.8%	na
Midi Utama ID	NOT RATED	IDX	264	880	12.6x	NaN	NaN	n/a	n/a	31%	5.0%	2.3%	2.3%
			Regional average		29.5x	29.5x	20.3x	5.2x	1.1x	29%	5.0%	2.9%	1.3%
			Ex-Indonesia average		35.3x	27.0x	24.2x	8.0x	1.3x	47%	5.7%	4.1%	1.5%

Closing as of 19 Jun 2017
Source: DBS Bank

There are 6 HDB supermarkets up for bidding in the next 6 months

S/N	Estate	Precinct Name	Block	Street Name	Commercial Units			
					Minimart	Shop	Supermarket	Eating house
1	BUKIT BATOK	Skyline @ Bt Batok	296A	Bukit Batok Street 22	1	1	-	-
2	JURONG WEST	-	990	Jurong West St 93	-	-	-	1
3	PUNGGOL EAST	Waterway Sundew	660A	Edgedale Plains	-	5	1	1
4	PUNGGOL WEST	Matilda Edge	224A	Sumang Lane	-	5	-	-
5	QUEENSTOWN	Ghim Moh Edge	29A	Ghim Moh Link	-	4	1	-
6	SEMBAWANG	EastLace @ Canberra	115	Canberra Walk	1	4	-	-
7	SENGKANG	Anchorvale Parkview	338	Anchorvale Crescent	-	9	1	1
8	SENGKANG	Fernvale Riverwalk	417	Fernvale Link	-	9	1	1
9	WOODLANDS	Admiralty Flora	691	Woodlands Drive 73	-	4	1	1
10	WOODLANDS	Woodlands Glen	573	Woodlands Drive 16	-	8	1	1
	Total				2	49	6	6

Source: Place2lease, DBS Bank

SSG won one new 11,000-sqft store in Woodlands St 12 at <S$15psf in May 2017

S/N	Bidder	Rental/mth bid	Rate
1	**SHENG SIONG SUPERMARKET PTE LTD**	**$161,000**	**$14.65**
2	U Stars Supermarket Pte	$159,000	$14.47
3	Heng Wei Ming	$152,700	$13.89
4	SHENG SIONG SUPERMARKET PTE LTD	$145,200	$13.21
5	Lukas Lee	$138,000	$12.56
6	NTUC Fairprice Co-operative Limited	$132,000	$12.01
7	To be confirmed	$131,200	$11.94
8	COLD STORAGE SINGAPORE (1983)	$99,000	$9.01
9	ANG MO SUPERMARKET PTE LTD	$83,100	$7.56
10	Hao Mart Pte Ltd	$74,200	$6.75

Source: Place2lease, DBS Bank

Bid prices have corrected from S$21psf last year to S$13-15psf this year

Date	Address	Winning bidder	Floor space (Sqft)	$/sqft	Rental/mth
Dec 2016	Tampines Avenue 8	Yes Supermarket Pte Ltd	3,100	21	S$64,000
Dec 2016	Compassvale Drive	Raymond Chan	3,400	17	S$58,350
19 Jan 2017	Blk 507 Yishun Avenue 4	U Stars Supermarket Pte Ltd	3,750	18	$67,200
2 Mar 2017	Blk 410A Sin Ming Ave	NTUC Fairprice Co-operative Limited	5,800	13	$75,500
31 Mar 2017	Blk 878C Tampines Avenue 8	U Stars Supermarket Pte Ltd	3,100	15	$46,000
20 Apr 2017	Blk 116 Jalan Tenteram	Cold Storage Singapore (1983)	5,400	14	$77,000
12 May 2017	**Blk 4 Woodlands Street 12**	**Sheng Siong Supermarket Pte Ltd**	**11,000**	**15**	**$161,000**

Source: Place2lease, DBS Bank

Market consensus vs DBS's view

	Market's concerns	Our differentiated view
1	Cautious on outlook as competition for new stores is keen and Sheng Siong has been outbid by competitors for new HDB properties	Sheng Siong did not open any new stores for two years from FY13 to FY14, but core earnings grew at a CAGR of 23% due to better operating efficiencies including margin expansion and higher sales psf. We find more operating efficiencies to be realised from upcoming warehouse expansion where economies of scale have scope to improve further. Our critical factor analysis on Sheng Siong has never been on the top-line growth, but margin expansion and earnings growth. It is well noted in the market that grocery retail sales growth is within single-digit levels and SSSG is typically 0-5%. Instead, the correlation between share price appreciation and gross margin expansion is high at 0.9. Players can bid for stores aggressively. But if the aggressive rental bid results in low store ROE, it will ultimately disappoint shareholders. Sheng Siong has a track record of not overpaying rental to secure new stores. Earnings and margins remain key, less on top-line growth.
2	Key big stores such as the Verge and Woodlands are closing	Sheng Siong recently won one 11,000-sqft new store in Woodlands St 12. The Tampines Central store expansion will add 15,000 sqft to its store network space. These will mitigate the impact of store closures. For store closures, we believe that footfall for the Verge and Woodlands has been tapering and well accounted for in recent quarters' results due to news of their imminent closure. Negative short-term impact should therefore be minimal. With HDB putting up shops earmarked for supermarkets for tenders in current and new estates, there are opportunities to secure more stores. The question should be on the rental levels at which new stores are secured, not short-term headwinds two store closures.
3	Online is a threat	Online is not a threat for now. About 80% of people living in Singapore live in HDB estates and do not live "off the beaten path" to warrant grocery delivery, while supermarkets are conveniently located for shoppers to pick up groceries. Redmart's is penetrating the market but remains in core operating losses and negative free cash flow. HDB will release more supermarkets in the next six months and more when new estates are built. Scope for growing store network abound over the long term. We believe this will give online a run for its money as it provides convenience for consumers to pick up groceries.
4	Gross margin expansion may not sustain	Warehouse expansion will have more scope for operating efficiencies to improve. We see increased catering to new SKUs and throughput, resulting in higher volume discounts from suppliers. Sheng Siong is still pushing for higher fresh food mix which will improve gross margins, especially in stores where fresh food mix have room to improve. The expanded warehouse will be completed by FY18F, which secures margin expansion trend beyond that.

Source: DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Store expansion. Sheng Siong currently operates 43 stores (including Loyang Point which is under renovation). Compared to the other local operators, it has scope to expand its store network, particularly in areas such as Serangoon, Hougang and Seng Kang, where it has a low presence. Management targets to ultimately operate 50 stores islandwide. In the past six years, 0-8 stores were opened annually, largely a function of supply of HDB shop space available for tender and Sheng Siong's ability to win the tenders. Sheng Siong mainly operates in HDB estates.

Gross margin expansion through better sales mix. The gross margin for fresh products is estimated to be >30%, and close to 20% for non-fresh grocery items. Sheng Siong's product mix stands at approximately 40% fresh vs 60% non-fresh. We see headroom for sales mix to improve to 50% for each as it skews its store offerings more towards fresh products.

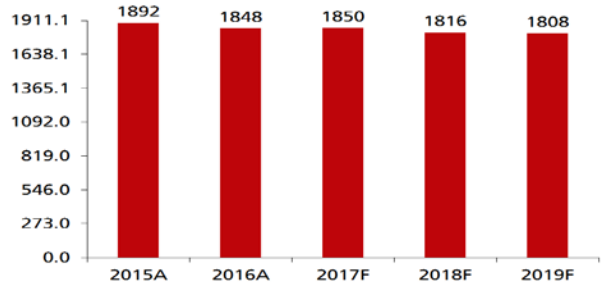
Mandai Distribution Centre to expand. The Mandai Distribution Centre allows Sheng Siong to perform direct sourcing and bulk handling. This effectively drives down input costs, resulting in cost savings and better margins. We estimate that the facility is currently running at only 90% of capacity and a new warehouse adjacent to the current one is expected to start construction in FY17F. It will be able to secure more suppliers and products to trade through the distribution centre to effectively enjoy more bulk handling and higher supplier rebates. Margins are expected to trend up as utilisation increases towards full capacity.

Margin expansion through direct sourcing. Sheng Siong is increasingly sourcing directly from suppliers such as farms instead of from middlemen. The company has the resources to place large orders, which is welcomed by producers.

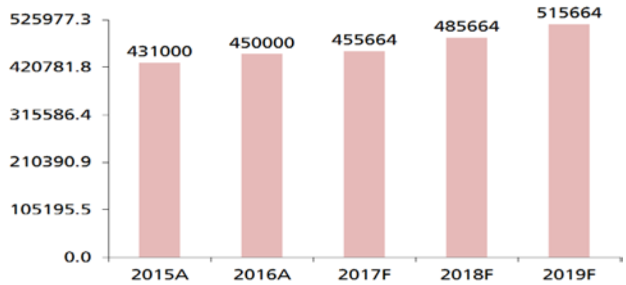
Generating more same-store-sales growth (SSSG) to increase revenue. Sheng Siong has been able to maintain positive SSSG since 4Q13 (excluding 4Q15, 1Q16) through longer operating hours and renovation of older stores, offering the correct products and effective marketing. SSSG from 3Q16 to 1Q17 has been affected partly by the renovation of the Loyang store. The SSSG would have been positive had Loyang store performed similar to the previous year and was not shut down for renovation. Maintaining positive SSSG will support earnings growth.

Kunming store in China to open in 2017. Its first store in Kunming (40,000 sqft) is expected to commence operations in 2017. Downside for the JV is limited to US$6m paid-up capital which is sufficient to open 2-3 new stores.

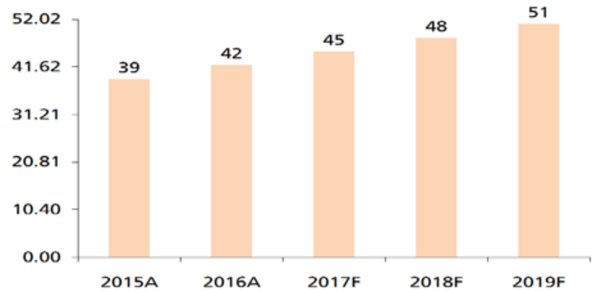
Rev per sqft



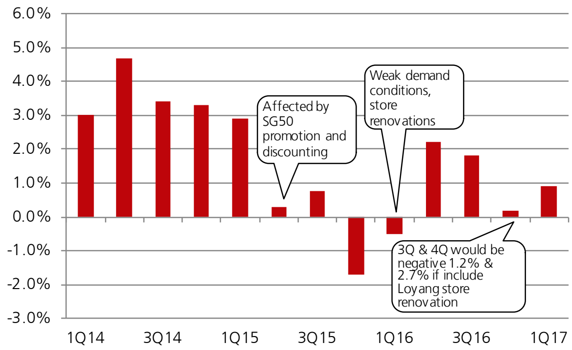
Operation Area (sqft)



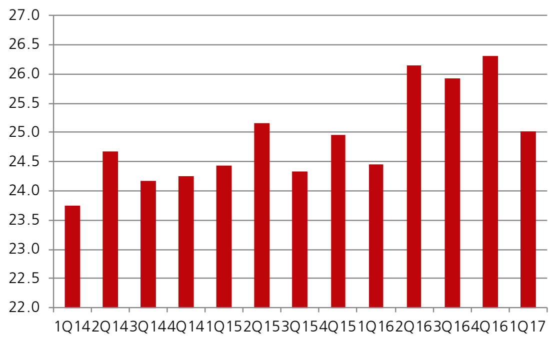
Number of stores



SSSG (%)



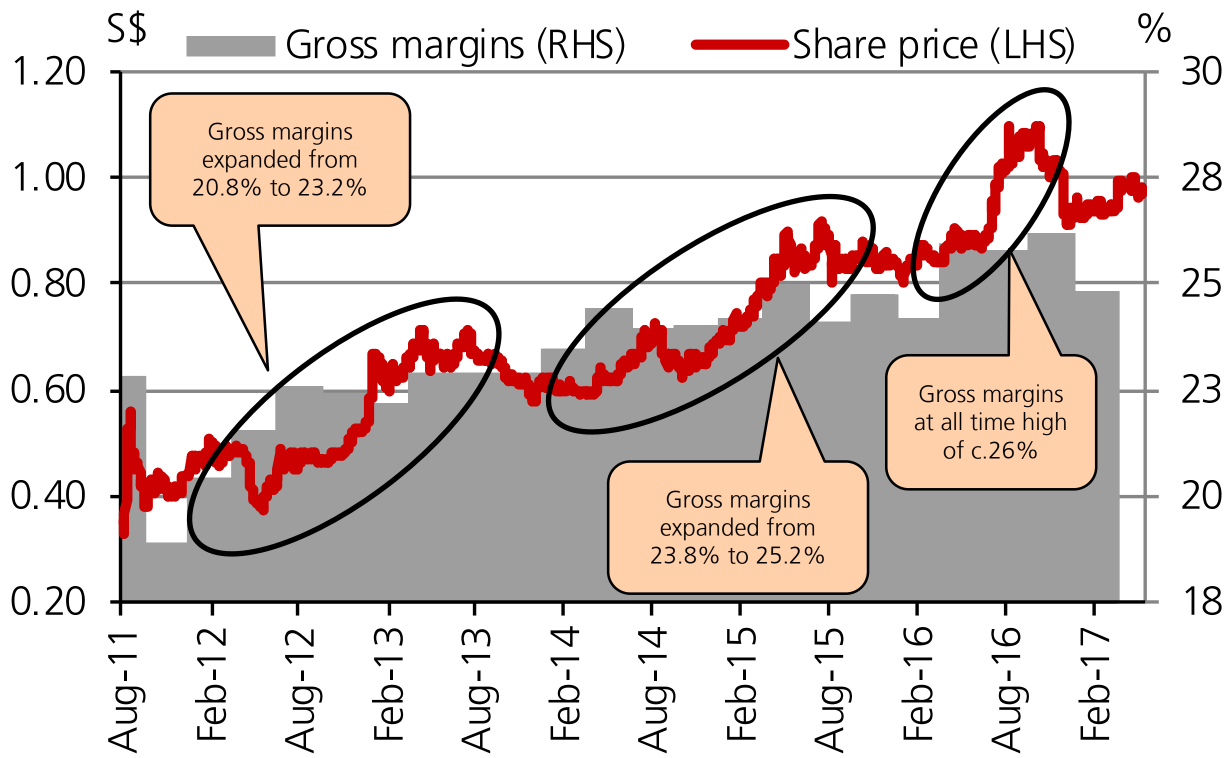
Gross Margins (%)



Source: Company, DBS Bank

Appendix 1: A look at the company's listed history – what drives its share price?

Correlation of stock price to gross margin improvement is strong at 0.9



Source: DBS Bank

Balance Sheet:

Net cash of over S$68m or c.4 Scts per share. The excess cash allows for strategic store acquisitions if suitable real estate arises for it to expand its store presence in the future. The business generates positive working capital. Inventory is purchased on credit, and quickly turned into cash. Over the past seven years, the business has generated between S$20-75m of operating cash flow each year. Dividend payout is attractive at 90%. We expect this to be maintained as long as there is no significant requirement for cash funding.

Share Price Drivers:

Strong earnings growth performance. Sheng Siong's financial performance has consistently met our expectations, delivering earnings growth (5-year CAGR of 18.1% since FY11) through a combination of margin expansion, store growth and SSSG. We believe continued delivery of consistent performance and profit growth will support a strong share price.

China to be a wildcard. We believe Sheng Siong's JV in China is a wildcard. If operations prove to be successful, in time to come, China can provide an alternate source of growth. There is scope for the number of stores to increase should Sheng Siong's business model work. Downside remains limited to US$6m for now should the JV fail.

Key Risks:

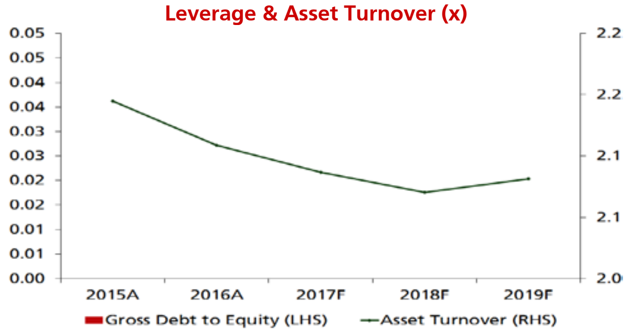
Revenue growth limited by store openings. Store expansion in Singapore is largely dependent on the supply of new supermarket retail space released by HDB and its ability to secure the tenders.

Excessive discounts and promotions may erode margins. Heavier discounts and promotions vis-a-vis competitors would drive sales revenue, but this could be gained at the expense of margins.

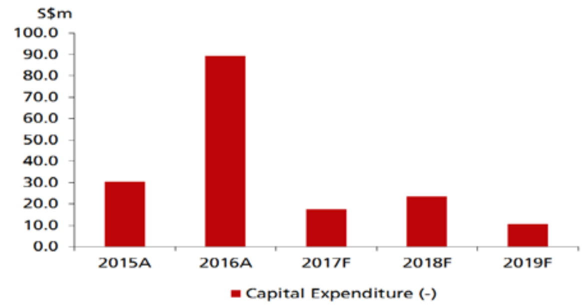
Company Background

Sheng Siong is the third largest supermarket operator in Singapore, behind NTUC Fairprice and Dairy Farm International.

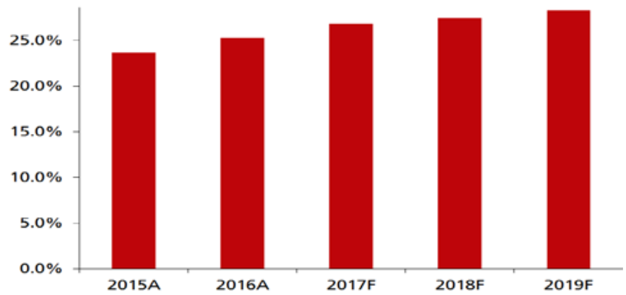
Leverage & Asset Turnover (x)



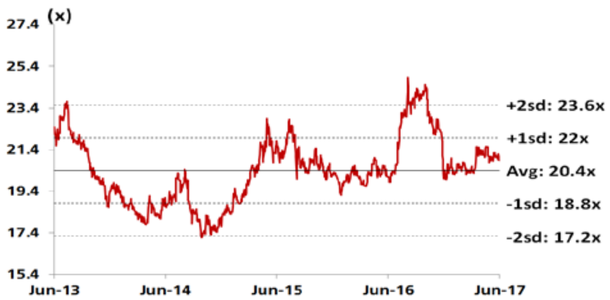
Capital Expenditure



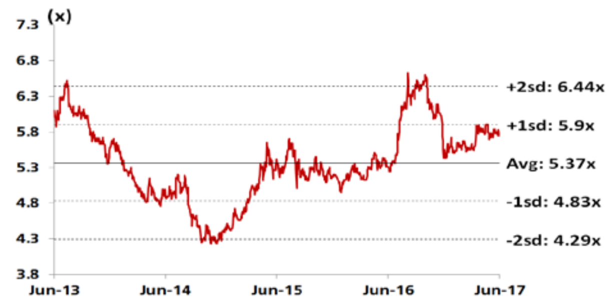
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
Rev per sqft	1,892	1,848	1,850	1,816	1,808
Operation Area (sqft)	431,000	450,000	455,664	485,664	515,664
Number of stores	39.0	42.0	45.0	48.0	51.0

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (S$m)					
Singapore	764	797	807	828	878
Total	764	797	807	828	878
Operating profit (S$m)					
Singapore	57.2	65.1	72.5	76.7	84.3
Total	57.2	65.1	72.5	76.7	84.3
Operating profit Margins					
Singapore	7.5	8.2	9.0	9.3	9.6
Total	7.5	8.2	9.0	9.3	9.6

Income Statement (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	764	797	807	828	878
Cost of Goods Sold	(576)	(592)	(597)	(610)	(645)
Gross Profit	**189**	**205**	**210**	**218**	**233**
Other Opng (Exp)/Inc	(132)	(140)	(137)	(141)	(148)
Operating Profit	**57.2**	**65.1**	**72.5**	**76.7**	**84.3**
Other Non Opg (Exp)/Inc	9.26	10.5	9.58	9.60	7.20
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.22	0.57	0.64	0.58	0.78
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**67.7**	**76.2**	**82.7**	**86.9**	**92.2**
Tax	(10.9)	(13.5)	(14.1)	(14.8)	(15.7)
Minority Interest	0.0	0.0	0.0	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**56.8**	**62.7**	**68.6**	**72.0**	**76.5**
Net Profit before Except.	56.8	62.7	68.6	72.0	76.5
EBITDA	70.6	80.0	87.6	92.2	101
Growth					
Revenue Gth (%)	5.3	4.2	1.3	2.5	6.1
EBITDA Gth (%)	12.1	13.3	9.5	5.2	9.3
Opg Profit Gth (%)	9.7	13.7	11.3	5.8	9.9
Net Profit Gth (Pre-ex) (%)	20.8	10.4	9.4	4.9	6.2
Margins & Ratio					
Gross Margins (%)	24.7	25.7	26.0	26.3	26.5
Opg Profit Margin (%)	7.5	8.2	9.0	9.3	9.6
Net Profit Margin (%)	7.4	7.9	8.5	8.7	8.7
ROAE (%)	23.6	25.3	26.9	27.4	28.3
ROA (%)	15.9	16.6	17.7	18.0	18.1
ROCE (%)	19.8	21.3	23.1	23.8	25.4
Div Payout Ratio (%)	92.7	89.9	89.9	89.9	89.9
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	209	189	202	197	217
Cost of Goods Sold	(158)	(139)	(150)	(145)	(163)
Gross Profit	**51.0**	**49.4**	**52.5**	**51.8**	**54.3**
Other Oper. (Exp)/Inc	(35.4)	(33.3)	(35.6)	(35.3)	(36.3)
Operating Profit	**15.6**	**16.0**	**16.9**	**16.5**	**18.0**
Other Non Opg (Exp)/Inc	3.82	2.14	2.21	2.37	2.53
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.34	0.20	0.02	0.01	0.02
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**19.8**	**18.4**	**19.1**	**18.9**	**20.6**
Tax	(3.4)	(3.2)	(3.4)	(3.5)	(3.5)
Minority Interest	0.0	0.0	0.0	0.0	0.01
Net Profit	**16.4**	**15.2**	**15.7**	**15.4**	**17.1**
Net profit bef Except.	16.4	15.2	15.7	15.4	17.1
EBITDA	23.0	22.1	22.8	22.6	24.3
Growth					
Revenue Gth (%)	11.5	(9.5)	7.2	(2.7)	10.2
EBITDA Gth (%)	16.6	(4.0)	3.3	(1.1)	7.7
Opg Profit Gth (%)	9.9	2.5	5.2	(1.9)	9.0
Net Profit Gth (Pre-ex) (%)	12.4	(7.6)	3.3	(1.5)	11.0
Margins					
Gross Margins (%)	24.5	26.1	25.9	26.3	25.0
Opg Profit Margins (%)	7.5	8.5	8.3	8.4	8.3
Net Profit Margins (%)	7.9	8.0	7.7	7.8	7.9

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	178	252	254	262	256
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invts	126	63.5	58.1	77.6	95.8
Inventory	52.5	61.9	61.3	62.6	66.2
Debtors	11.8	10.4	12.1	11.0	11.6
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**368**	**388**	**386**	**414**	**430**
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	109	118	108	127	135
Other Current Liab	12.6	13.0	14.1	14.8	15.7
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	2.24	2.45	2.45	2.45	2.45
Shareholder's Equity	244	252	259	266	274
Minority Interests	0.0	2.79	2.79	2.89	2.99
Total Cap. & Liab.	**368**	**388**	**386**	**414**	**430**
Non-Cash Wkg. Capital	(57.1)	(58.3)	(48.3)	(68.5)	(72.9)
Net Cash/(Debt)	126	63.5	58.1	77.6	95.8
Debtors Turn (avg days)	5.4	5.1	5.1	5.1	4.7
Creditors Turn (avg days)	66.4	71.5	70.6	72.1	76.1
Inventory Turn (avg days)	31.0	36.2	38.6	38.0	37.4
Asset Turnover (x)	2.1	2.1	2.1	2.1	2.1
Current Ratio (x)	1.6	1.0	1.1	1.1	1.2
Quick Ratio (x)	1.1	0.6	0.6	0.6	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	10.0	9.3	9.9	8.8	8.8

Source: Company, DBS Bank

Cash Flow Statement (S$m)

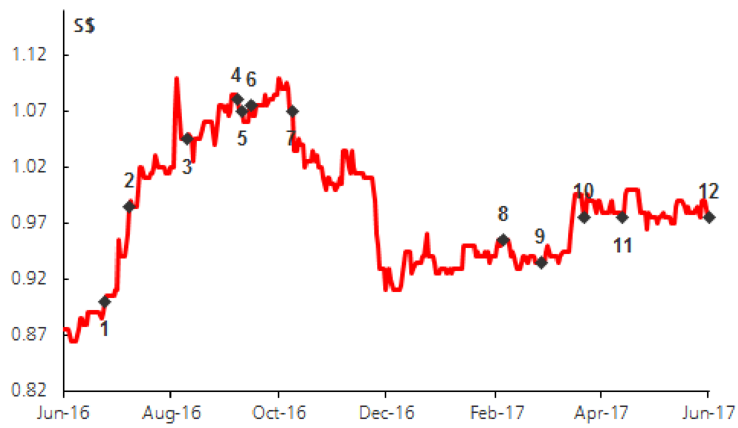
FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	67.7	76.2	82.7	86.9	92.2
Dep. & Amort.	13.4	14.9	15.1	15.5	16.4
Tax Paid	(10.7)	(12.6)	(13.0)	(14.1)	(14.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	2.54	0.77	(11.0)	19.5	3.50
Other Operating CF	0.52	(1.2)	0.0	0.0	0.0
Net Operating CF	**73.5**	**78.1**	**73.7**	**108**	**97.4**
Capital Exp.(net)	(30.4)	(89.3)	(17.5)	(23.5)	(10.5)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.22	0.57	0.0	0.0	0.0
Net Investing CF	**(29.2)**	**(88.7)**	**(17.5)**	**(23.5)**	**(10.5)**
Div Paid	(48.9)	(54.8)	(61.7)	(64.7)	(68.8)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	2.59	0.0	0.0	0.0
Net Financing CF	**(48.9)**	**(52.2)**	**(61.7)**	**(64.7)**	**(68.8)**
Currency Adjustments	0.04	0.40	0.0	0.0	0.0
Chg in Cash	(4.5)	(62.4)	(5.5)	19.6	18.2
Opg CFPS (S cts)	4.72	5.14	5.64	5.87	6.25
Free CFPS (S cts)	2.86	(0.7)	3.74	5.61	5.78

Includes S$13m warehouse capex

Includes S$7m warehouse capex

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Jul 16	0.90	1.04	BUY
2:	27 Jul 16	0.99	1.09	BUY
3:	29 Aug 16	1.05	1.09	BUY
4:	26 Sep 16	1.08	1.09	BUY
5:	29 Sep 16	1.07	1.18	BUY
6:	04 Oct 16	1.08	1.18	BUY
7:	27 Oct 16	1.07	1.19	BUY
8:	24 Feb 17	0.96	1.13	BUY
9:	17 Mar 17	0.94	1.13	BUY
10:	10 Apr 17	0.98	1.13	BUY
11:	02 May 17	0.98	1.14	BUY
12:	20 Jun 17	0.98	1.20	BUY

Source: DBS Bank

Analyst: Alfie YEO
Andy SIM CFA

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 21 Jun 2017 08:42:39 (SGT)
Dissemination Date: 23 Jun 2017 10:46:52 (SGT)

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