

Singapore Company Guide

Sheng Siong Group

Version 19 | Bloomberg: SSG SP | Reuters: SHEN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Apr 2020

BUY

Last Traded Price (21 Apr 2020): S\$1.45 (STI : 2,551.92)

Price Target 12-mth: S\$1.56 (8% upside) (Prev S\$1.50)

Analyst

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What's New

- Extension and tightening of Circuit Breaker will result in more people staying at home for another month
- Stronger sales growth ahead for Sheng Siong as there is now a narrower selection of F&B foodservice options
- Raised FY20-21F earnings by 3-4%
- Maintain BUY raise TP to S\$1.56

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2018A	2019A	2020F	2021F
Revenue	891	991	1,191	1,288
EBITDA	92.6	125	152	164
Pre-tax Profit	84.7	91.9	113	118
Net Profit	70.8	75.7	93.8	98.4
Net Pft (Pre Ex.)	70.8	75.7	93.8	98.4
Net Pft Gth (Pre-ex) (%)	1.8	6.9	23.9	5.0
EPS (S cts)	4.71	5.04	6.24	6.55
EPS Pre Ex. (S cts)	4.71	5.04	6.24	6.55
EPS Gth Pre Ex (%)	2	7	24	5
Diluted EPS (S cts)	4.71	5.04	6.24	6.55
Net DPS (S cts)	3.40	3.55	4.37	4.58
BV Per Share (S cts)	19.3	20.8	22.7	24.7
PE (X)	30.8	28.8	23.2	22.1
PE Pre Ex. (X)	30.8	28.8	23.2	22.1
P/Cash Flow (X)	23.6	18.6	13.5	14.2
EV/EBITDA (X)	22.6	16.8	13.3	11.9
Net Div Yield (%)	2.3	2.4	3.0	3.2
P/Book Value (X)	7.5	7.0	6.4	5.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	25.2	25.1	28.7	27.6
Earnings Rev (%)			4	3
Consensus EPS (S cts)			5.8	6.2
Other Broker Recs:		B: 6	S: 1	H: 1

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

Circuit Breaker to spark better sales

Maintain BUY and lift TP to S\$1.56. We maintain our positive stance on Sheng Siong as we see sales growth improving further on the extended and tighter Circuit Breaker measures. We raised FY20-21F earnings by 3-4% to reflect 1) the Circuit Breaker extension; 2) even more people staying home, and 3) substitution effect with narrower foodservice options and restrictions on wet markets. With some F&B outlets and manufacturers among those to suspend operations during this period. We could see some swing in food consumption patterns from locally manufactured/outlet produced food to imported/packaged snacks, desserts, and beverages available in supermarkets. We have also imputed the impact of the 75% wage subsidy under the Jobs Support Scheme that is now extended to include both April and May. This results in a 3-4% increase in earnings for FY20-21F and a higher TP of S\$1.56. We continue to like Sheng Siong for its exposure to Singapore grocery consumption. A longer than expected COVID-19 situation would provide further upside to earnings.

Where we differ. Our estimates are above consensus as we believe the market has yet to factor in the full impact of the circuit breaker.

Potential catalysts. We believe that Sheng Siong, with its strong store network and logistics chain, could be a takeover target for online players eventually. Online players such as Alibaba's Hema (盒马鲜生) and Amazon (Wholefoods) are taking the online-to-offline route and operating physical stores.

Valuation:

Our target price for Sheng Siong is raised to S\$1.56, based on 25x FY20F PE, pegged to regional peers.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (S\$m/US\$m)	2,180 / 1,523
Major Shareholders (%)	
S & S Holdings Inc	29.9
Lim Brothers	27.4
Mondrian Investment Partners Ltd	6.1
Free Float (%)	36.6
3m Avg. Daily Val (US\$m)	3.6

GIC Industry : Consumer Staples / Food & Staples Retailing



Live more, Bank less

Sheng Siong Group

CRITICAL DATA POINTS TO WATCH

Critical Factors

Store expansion. Sheng Siong operated 59 stores as of FY19. Compared to the other local operators, it has scope to expand its store network, particularly in areas such as Serangoon and Hougang, where it has a smaller presence. In the past six years, up to 10 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.

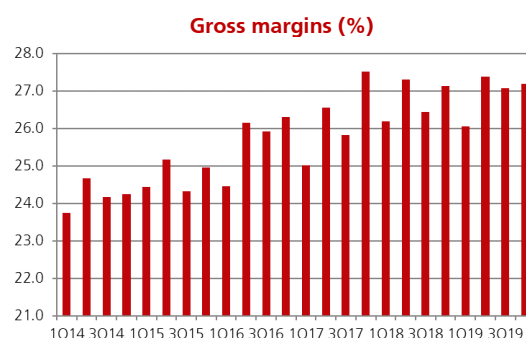
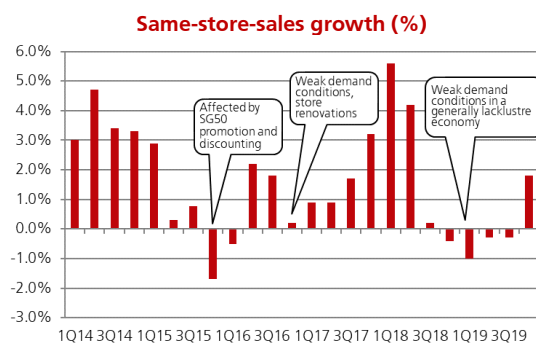
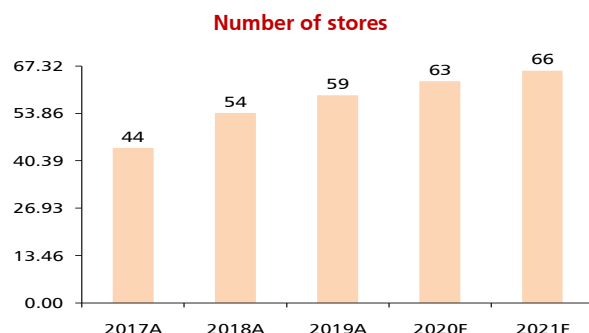
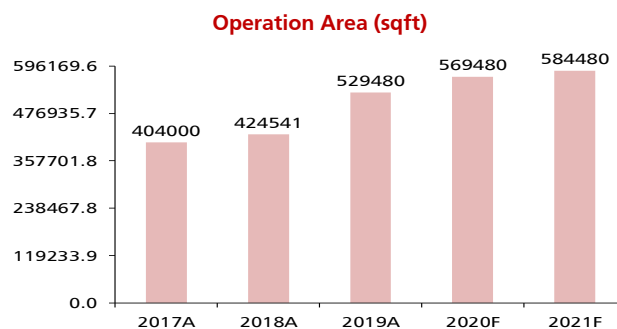
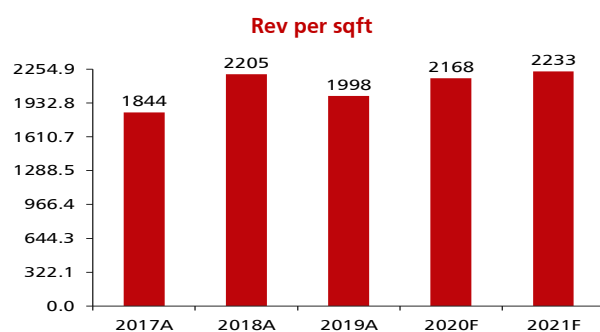
Gross margin expansion through better sales mix. The gross margin for fresh products is estimated to be 30%, and close to 20% for non-fresh grocery items. Sheng Siong's product mix stands at approximately 40% fresh vs 60% non-fresh. We see headroom for its sales mix to improve to 50% for each as it skews its store offerings 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 90% of capacity. Expansion of the warehouse going forward will help support more new stores. 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 high-demand products, and effective marketing. SSSG was affected partly by the renovation of the Loyang store from 3Q16 to 1Q17. The SSSG would have been positive had the Loyang store performed similarly to the previous year and was not shut down for renovation. SSSG was positive in 1Q18 to 3Q18 but was slightly negative from 4Q18 to 3Q19 at between -0.3% and -1%. Positive SSSG will support earnings growth as well.

Kunming store in China. Its first store in Kunming (40,000 sqft) commenced operations in 2017, broke even in 1Q19 and is now profitable. Downside for the JV is limited to its US\$6m paid-up capital, which is sufficient to open 2-3 new stores. We expect higher contribution going forward. It opened a second store in June 2019.

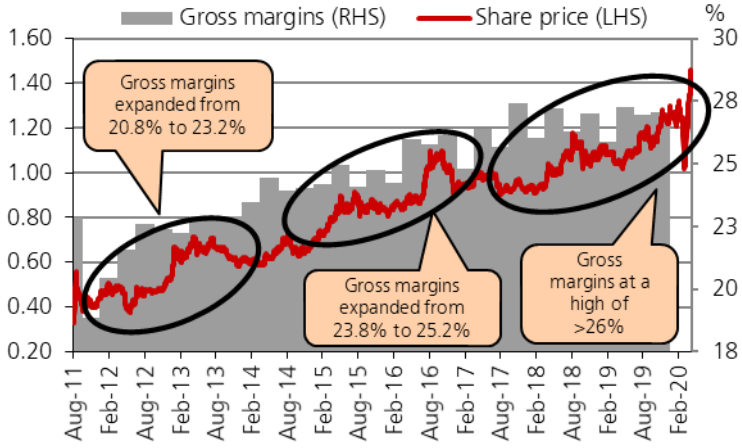


Source: Company, DBS Bank

Sheng Siong Group

Appendix 1: A look at 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

Sheng Siong Group

Balance Sheet:

Net cash of c.S\$76m or c.4.5 Scts per share as at end-FY19. The excess cash allows for strategic store acquisitions 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 eight years, the business had generated between S\$28-92m of operating cashflow each year. Dividend payout has been attractive at over 70%. We expect this to be maintained as long as there is no significant requirement for cash funding. Hence, there is scope for a higher dividend payout.

Share Price Drivers:

Strong earnings growth performance. Sheng Siong's financial performance has consistently met our expectations, delivering earnings growth (6-year CAGR of 11.7% since FY13) 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 is 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 alternative 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 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.

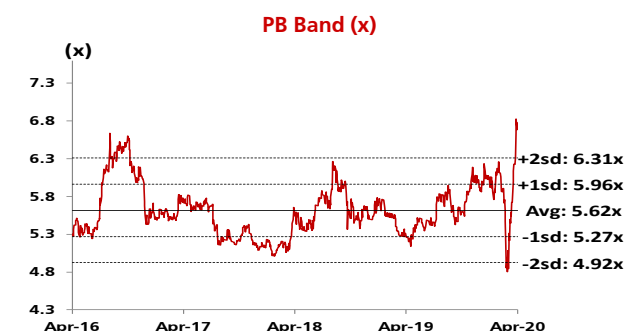
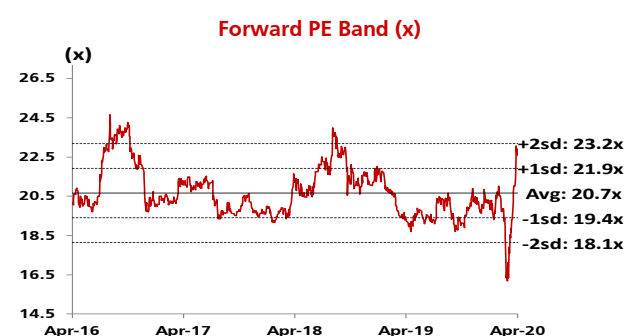
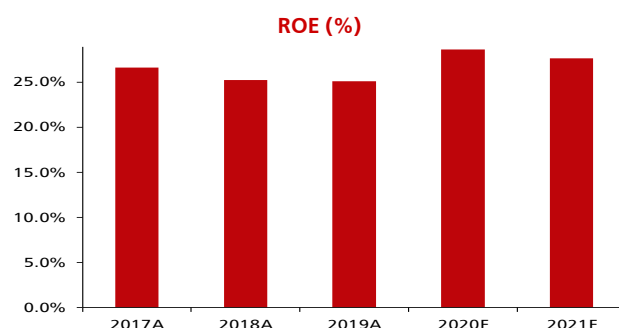
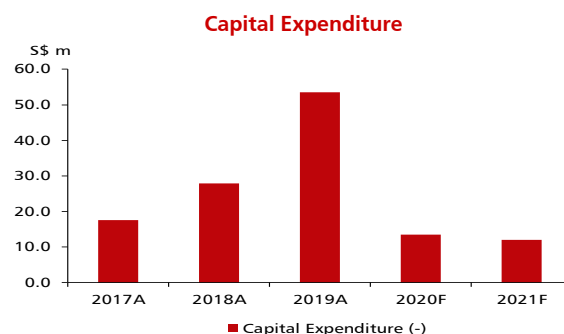
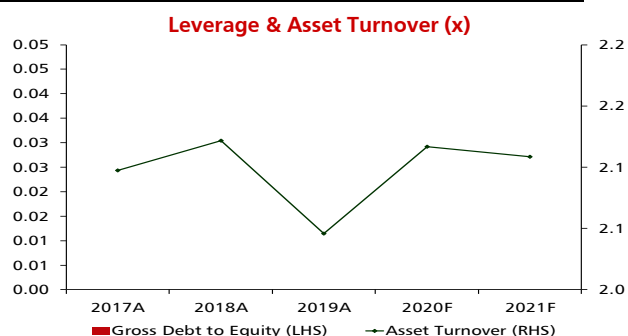
Heavier discounts and promotions vis-a-vis competitors would drive sales revenue, but this could be gained at the expense of margins.

Environment, Social, Governance:

Sheng Siong's sustainability journey is built on five key pillars of Business Excellence, Care for Customers, Care for Employees, Care for the Community, and Care for the Environment.

Company Background

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



Source: Company, DBS Bank

Sheng Siong Group

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Rev per sqft	1,844	2,205	1,998	2,168	2,233
Operation Area (sqft)	404,000	424,541	529,480	569,480	584,480
Number of stores	44.0	54.0	59.0	63.0	66.0

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Singapore	830	891	991	1,191	1,288
Total	830	891	991	1,191	1,288
Operating profit (\$\$m)					
Singapore	71.5	76.2	83.7	101	110
Total	71.5	76.2	83.7	101	110
Operating profit Margins					
Singapore	8.6	8.6	8.4	8.5	8.5
Total	8.6	8.6	8.4	8.5	8.5

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	830	891	991	1,191	1,288
Cost of Goods Sold	(612)	(653)	(724)	(869)	(940)
Gross Profit	217	238	267	322	348
Other Opng (Exp)/Inc	(146)	(162)	(183)	(220)	(238)
Operating Profit	71.5	76.2	83.7	101	110
Other Non Opg (Exp)/Inc	10.3	7.61	8.93	12.0	8.00
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.24	0.89	(0.7)	(0.8)	0.52
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	82.1	84.7	91.9	113	118
Tax	(12.6)	(14.1)	(16.2)	(18.8)	(19.8)
Minority Interest	0.0	0.27	0.0	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	69.5	70.8	75.7	93.8	98.4
Net Profit before Except.	69.5	70.8	75.7	93.8	98.4
EBITDA	86.3	92.6	125	152	164
Growth					
Revenue Gth (%)	4.2	7.4	11.3	20.2	8.2
EBITDA Gth (%)	7.9	7.3	35.4	20.9	8.2
Opg Profit Gth (%)	9.9	6.5	9.8	21.3	8.2
Net Profit Gth (Pre-ex) (%)	10.9	1.8	6.9	23.9	5.0
Margins & Ratio					
Gross Margins (%)	26.2	26.8	26.9	27.0	27.0
Opg Profit Margin (%)	8.6	8.6	8.4	8.5	8.5
Net Profit Margin (%)	8.4	7.9	7.6	7.9	7.6
ROAE (%)	26.6	25.2	25.1	28.7	27.6
ROA (%)	17.6	16.9	15.6	16.7	16.1
ROCE (%)	22.7	22.2	21.4	23.3	23.3
Div Payout Ratio (%)	71.4	72.2	70.5	70.0	70.0
Net Interest Cover (x)	NM	NM	123.7	132.7	NM

Source: Company, DBS Bank

Sheng Siong Group

Quarterly / Interim Income Statement (\$5m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	222	251	238	254	248
Cost of Goods Sold	(162)	(186)	(173)	(185)	(180)
Gross Profit	60.2	65.5	65.2	68.7	67.4
Other Oper. (Exp)/Inc	(41.4)	(44.6)	(44.8)	(46.4)	(47.4)
Operating Profit	18.7	21.0	20.4	22.3	20.0
Other Non Opg (Exp)/Inc	1.77	2.39	1.89	2.94	1.71
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.29	(0.1)	(0.2)	(0.2)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	20.8	23.3	22.2	25.0	21.4
Tax	(3.4)	(3.9)	(3.7)	(4.5)	(4.0)
Minority Interest	0.08	0.00	0.0	0.0	0.0
Net Profit	17.5	19.4	18.4	20.6	17.4
Net profit bef Except.	17.5	19.4	18.4	20.6	17.4
EBITDA	24.7	32.6	32.5	35.8	33.4

Growth

Revenue Gth (%)	(2.7)	13.4	(5.3)	6.6	(2.4)
EBITDA Gth (%)	(0.9)	32.2	(0.6)	10.3	(6.6)
Opg Profit Gth (%)	(1.2)	11.8	(2.6)	9.0	(10.2)
Net Profit Gth (Pre-ex) (%)	(1.8)	10.5	(4.8)	11.7	(15.6)

Margins

Gross Margins (%)	27.1	26.1	27.4	27.1	27.2
Opg Profit Margins (%)	8.5	8.3	8.6	8.8	8.1
Net Profit Margins (%)	7.9	7.7	7.7	8.1	7.0

Balance Sheet (\$5m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	255	266	295	259	216
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.0	60.9	60.9	60.9
Cash & ST Invts	73.4	87.2	76.4	158	232
Inventory	60.8	69.9	82.2	96.4	98.5
Debtors	14.7	13.0	18.0	18.2	22.2
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	404	436	533	593	629
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	111	126	141	170	176
Other Current Liab	16.5	15.4	43.3	45.6	46.5
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	2.56	2.92	33.3	33.3	33.3
Shareholder's Equity	271	290	313	341	371
Minority Interests	2.50	2.14	2.11	2.16	2.21
Total Cap. & Liab.	404	436	533	593	629
Non-Cash Wkg. Capital	(52.4)	(58.2)	(84.0)	(101)	(102)
Net Cash/(Debt)	73.4	87.2	76.4	158	232
Debtors Turn (avg days)	5.5	5.7	5.7	5.5	5.7
Creditors Turn (avg days)	69.9	68.0	71.2	69.3	71.4
Inventory Turn (avg days)	37.5	37.5	40.7	39.8	40.1
Asset Turnover (x)	2.1	2.1	2.0	2.1	2.1
Current Ratio (x)	1.2	1.2	1.0	1.3	1.6
Quick Ratio (x)	0.7	0.7	0.5	0.8	1.1
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)	8.5	10.6	8.7	8.5	8.4

Source: Company, DBS Bank

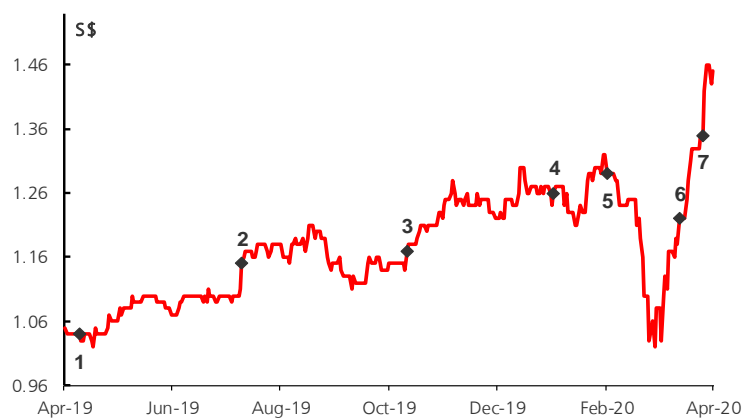
Sheng Siong Group

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	82.1	84.7	91.9	113	118
Dep. & Amort.	14.8	16.5	41.8	50.2	54.3
Tax Paid	(8.9)	(14.9)	(14.8)	(16.6)	(18.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(9.4)	6.88	(2.2)	14.9	0.30
Other Operating CF	(0.1)	(0.9)	0.63	0.0	0.0
Net Operating CF	78.5	92.2	117	161	154
Capital Exp.(net)	(17.6)	(27.9)	(53.5)	(13.5)	(12.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt 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	0.24	0.89	1.34	0.0	0.0
Net Investing CF	(17.3)	(27.0)	(52.2)	(13.5)	(12.0)
Div Paid	(51.1)	(51.1)	(52.6)	(65.7)	(68.9)
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	0.0	(23.3)	0.0	0.0
Net Financing CF	(51.1)	(51.1)	(75.9)	(65.7)	(68.9)
Currency Adjustments	(0.1)	(0.3)	0.0	0.0	0.0
Chg in Cash	9.93	13.8	(10.8)	82.0	73.1
Opg CFPS (S cts)	5.85	5.68	7.95	9.73	10.2
Free CFPS (S cts)	4.05	4.28	4.24	9.82	9.44

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Apr 19	1.04	1.25	BUY
2:	30 Jul 19	1.15	1.32	BUY
3:	31 Oct 19	1.17	1.32	BUY
4:	22 Jan 20	1.26	1.41	BUY
5:	21 Feb 20	1.29	1.45	BUY
6:	02 Apr 20	1.22	1.45	BUY
7:	15 Apr 20	1.35	1.50	BUY

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

Source: DBS Bank

Analyst: Alfie YEO

Andy SIM, CFA

DBS Bank recommendations are based on 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

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