INITIATION Consumer Staples ▪ Singapore

Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

A defensive story for the long haul

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- We initiate coverage on Sheng Siong Group Ltd (SSG) with a **BUY** and DCF based TP of S$1.24, implying a 2018F P/E of 25.1x. SSG is the third largest grocery and household products retailer locally with a 19% market share (by sales), offering a 2018F dividend yield of 3.1% supported by a cash generative business model.
- We believe SSG's investment proposition is twofold, as it provides stable cash returns and offers organic growth through margin expansion. We expect PATMI to grow steadily at 6.5/8.6/7.1% YoY for 2018/19/20F on the back of increased store count and further margin expansion. EPS CAGR (2017 – 2020F): 7.4%.

Financials & Key Operating Statistics

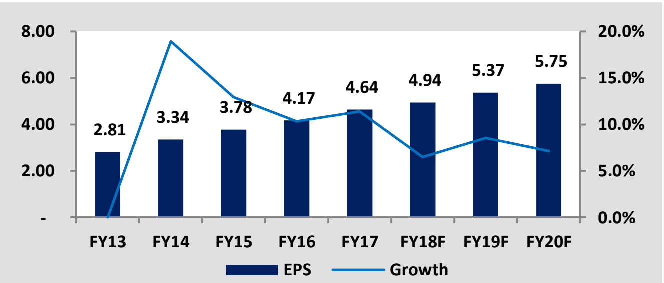
YE Dec SGD mn	2016	2017	2018F	2019F	2020F
Revenue	796.7	829.9	878.7	935.2	983.9
Operating income	75.6	81.9	87.2	94.6	101.5
Net income	62.7	69.5	74.1	80.4	86.2
EPS (SG cents)	10.3	11.4	6.5	8.6	7.1
DPS (SG cents)	3.8	3.3	3.5	3.8	4.0
Div Yield (%)	4.0	3.6	3.1	3.4	3.6
NAV (SG cents)	16.8	18.0	19.5	18.4	19.0
Price / Book (x)	5.6	5.1	5.7	6.0	5.8
Gross Margin (%)	25.7	26.2	26.5	26.7	26.9
Net Margin (%)	7.9	8.4	8.5	8.6	8.8
ROE (%)	25.2	26.7	26.4	28.4	30.7
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company Data, KGI Research

Defensive business model. We believe that SSG's defensive business model remains attractive for investors seeking respite from global financial market gyrations, as it is relatively sheltered from heightened global economic volatility. SSG, in our view, is one of the most appealing contenders in the local consumer staple landscape, offering stable cashflows with little to no impact from shocks in the economy.

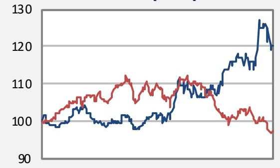
Growth in earnings to be driven by modest margin expansion and new store openings. Gross margins have increased by 4.1ppts since its IPO listing in 2011, from 22.1% to 26.2% as of 2017, and has been a result of a shift in sales mix toward a higher proportion of fresh produce. In our view, margin expansion has not plateaued yet, and will continue modestly alongside steady increase in store count.

Figure 1: Margin expansion driving EPS growth



Source: Company Data, KGI Research

Buy (Initiation)		**Performance (Absolute)**	
Price as of 14 Sep 18 (SGD)	1.11	1 Month (%)	5.7
12M TP ($)	1.24	3 Month (%)	12.6
Previous TP ($)	-	12 Month (%)	24.4
Upside, incl div (%)	14.9		
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	1,684		
Issued Shares (mn)	1,504		
Vol - 3M Daily avg (mn)	2.7		
Val - 3M Daily avg ($mn)	2.9		
Free Float (%)	42.6%		
Major Shareholders		**Previous Recommendations**	
S & S Holdings Inc	29.9%	-	-
Lim Hock Chee	9.3%	-	-
Lim Hock Leng	9.1%	-	-



Attempts to replicate sucesses in China still remains to be seen with limited downside risk. As at 2Q18, China accounts for 0.8% of total revenue. Given the size of its contribution to revenue, we believe that the Chinese operations should not have a significant impact on EPS in the near term. However, if it were to scale faster than expected, EPS should see a meaningful bump in the medium term.

Forecasts. We expect 2018/19/20F earnings growth of 6.5/8.6/7.1% YoY. Our key assumptions are: (1) SSG's margin expansion driven by higher proportion of fresh produce (2) store count to reach 57 (excl. China) by 2020F and (3) a modest increase in market share over the long term. Top line growth is expected to remain fairly stable with growth coming from increased store count.

Key development to watch. SSG has submitted the highest bids for two new shops in Bukit Batok and Woodlands (6,880 sq ft and 10,730 sq ft, respectively), and is pending HDB's acceptance and grant of leases.

Valuation & Action: We initiate coverage on SSG with a **BUY** and DCF based TP of S$1.24, which is an implied 2018F P/E of 25.1x.

Risks: Growth in top line is largely driven by its store count. New store openings are subject to a tender process. Number of supermarket locations up for tender may also be limited. Aggressive competition amongst the other major supermarket players in Singapore may offset any growth in margins from a shift in sales mix. Termination of leases and any outbreak of diseases associated with fresh produce.

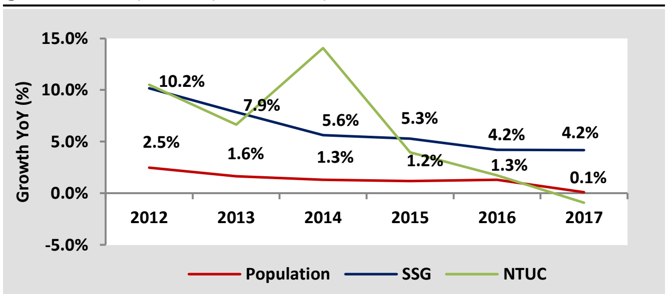
Investment Thesis

Extremely defensive business model with a proven track record. As food and household items are generally household essentials, SSG's turnover tends to be relatively stable, with growth coming from opening new stores and overall consumption growth, driven by population growth, as well as per capita consumption growth, driven by increasing disposable income; this drives growth in net profits as well, along with adjustments to sales mix.

Singapore continues to be one of the most developed food markets in Southeast Asia. With high disposable income and high monthly per capita food expenditure. On a per capita basis, Singapore has the highest food consumption levels in Southeast Asia.

While SSG's revenue growth has been declining since its IPO 2011, we believe this should not be a cause for concern for a matured grocery chain operating in a developed country. Furthermore, given that Singapore's population growth has been slowing, and SSG's revenue is, to a large degree, driven by population growth, SSG's revenue growth should reflect this trend. SSG is a defensive play with a stable and highly cash generative business, and should not be seen has a growth play. We still expect modest growth in revenues of 7.7% YoY from 2018F – 2020F, driven by new store openings.

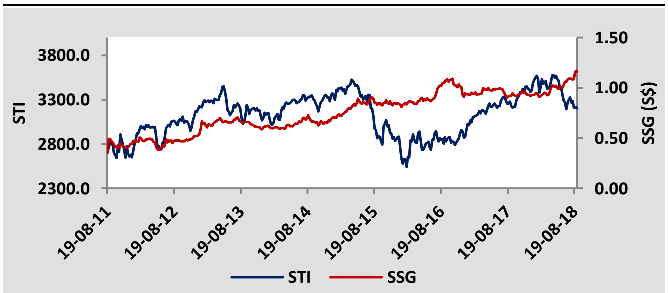
Figure 2: Growth in SSG's and turnover driven by population (one of the growth drivers); CAGR (2011 – 2017): 6.2%



Source: Company Data, KGI Research

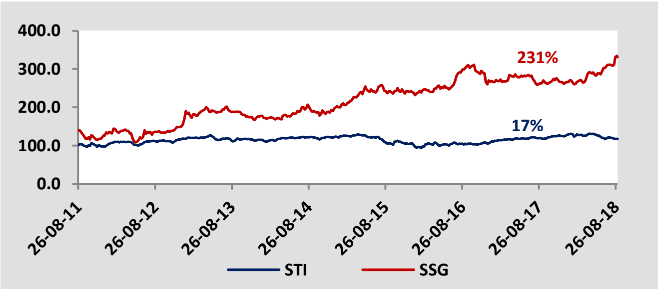
The consumer staples sector has historically fared better than the general market during economic downcycles. We believe the economic landscape has become more uncertain compared to a year ago, with heightened volatility, driven by geopolitical rhetoric, and SSG should offer some respite from the current geopolitical situation.

Figure 3: SSG vs STI performance since IPO



Source: Bloomberg, KGI Research

Figure 4: SSG vs STI 7 year cumulative return (excl. dividends)

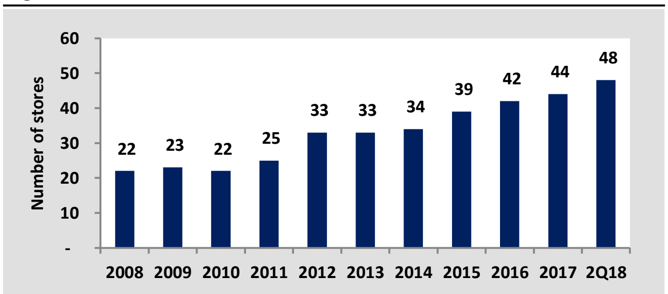


Source: Bloomberg, KGI Research

Further upside from potential new store openings. While new store openings are subject to a bidding process, we believe 9 additional stores (excl. China operations) by 2020F is likely. And given that SSG's store count is a significant growth driver for its top line, we see further upside from the new stores. As at July 2018, there are 7 new commercial units with supermarket spaces pending completion and are expected to be completed by the end of 2018. Average estimated floor space per location stands at 630 sqm (6,780 sq ft). Beyond 2018, from 2019 to 2022, there are 15 new supermarket locations to be completed, as at July 2018. We see further upside for SSG in the medium to longer term as we expect the company to secure at least 9 new stores out of the 15 listed.

These new locations are all within close proximity to planned housing units. The Housing Development Board (HDB) has committed to adding additional housing units in Singapore and should provide new catchment areas for SSG.

Figure 5: Store count

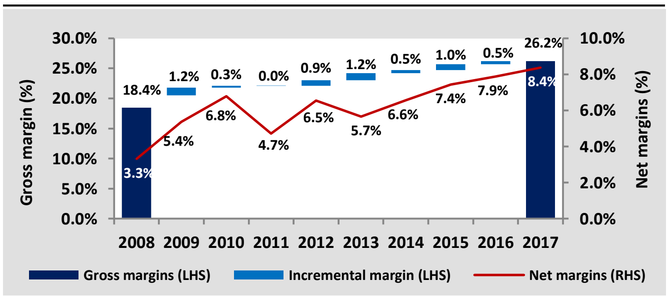


Source: Company Data, KGI Research

Margins at highest levels since IPO; Still room for expansion. Gross margins have increased by 4.1ppts since SSG's IPO listing in 2011. This has been a result of a shift in its sales mix; increasing proportion of revenue to fresh produce. As at Dec 2017, SSG's sales mix comprised of 48% fresh produce and 52% non-fresh produce. Gross margins for fresh produce are typically, ~34% while non-fresh produce margins are ~19%. A shift in emphasis towards direct sourcing and less on third party supplies in the fresh produce segment has also contributed positively to its improving margin over the years.

We still believe there is significant room for margins to expand, but also understand this should pan out steadily over the foreseeable future; 0.2ppt per year (our estimates).

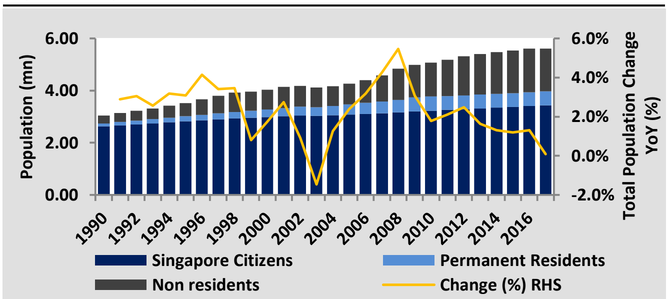
Figure 6: Gross and net margins since IPO



Source: Company Data, KGI Research

Growing population to drive consumption growth in the long run. Singapore's total poulation has grown by 84.2% from 3.0mn in 1990 to 5.6mn in 2017 (average 2.3% YoY). According to a white paper by Singapore's Ministry of Trade and Industry (2013) on Singapore's population, Singapore's projected total population could reach 6.5mn by 2030, albeit growing at a slower pace of 1.1 – 1.4% YoY from 2020 to 2030, compared to 1.3 – 1.6% from 2010 – 2020. These trend should serve as long term tailwinds for the SSG on the basis of higher consumption.

Figure 7: Population growth to boost consumption



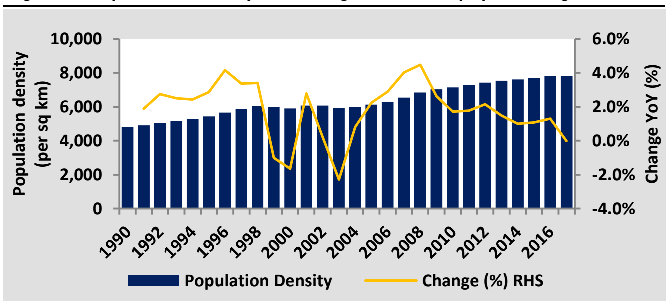
Source: Singapore Department of Statistics, KGI Research

House brands to provide additional support for margin expansion. Today, SSG has over 900 products under 17 housebrands. This has grown from 300 products under 10 brands at IPO, and is expected to continue growing. We understand that house brands command higher margins relative to third party brands. Given SSG's general target segment, we believe expanding its range of house brand products would bode well for the business.

SSG has also historically opened its stores in districts with high population density, and still continues to do so. However, the growth in population density has been slowing since the start of 2009, where growth has been declining by an average of 0.5ppts every year. While the trend should continue as Singapore continues to develop new areas such as, Jurong Lanke District, Woodlands Regional Centre, and Tengah town (24th town in Singapore), the Housing development Board (HDB) will still be adding new flats across the island in both, mature and non-mature estates.

In 2018 alone, HDB will be launching 17,000 new flats, comparable with 17,584 in 2017. Projects typically take 2.5 – 4 years to complete and should present opportunities for SSG in the near to medium term. This would benefit SSG in two ways; through increased same store sales in exisiting stores surrounded by upcoming projects as well as the opportunity to bid for new stores in the newer areas of development where population density is still relatively low.

Figure 8: Population density increasing in line with population growth

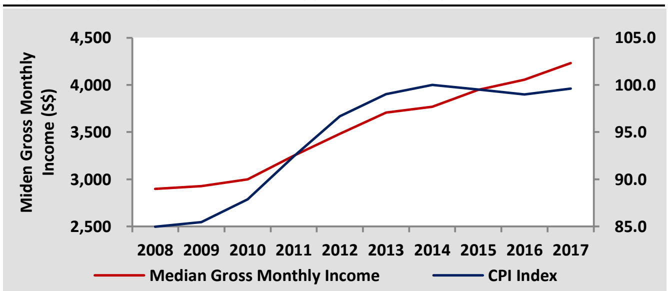


Source: Singapore Department of Statistics, KGI Research

Wet markets under pressure from supermarkets and hypermarkets. According to the National Environmental Agency (NEA), the number of NEA-licensed wet market hawkers declined 12% over the past decade, from 6,264 wet market hawkers in 2006 to 5,485 in 2016. Most of these businesses are family-run businesses which, in our view, are under significant threat from supermarkets. According to management, wet market fresh produce vendors still command about 60% of the fresh produce market share in Singapore. The key drivers that will perpetuate the situation are (1) succession planning and attrition rate, (2) economies of scale and (3) cleanliness and convenience.

Higher affluence to drive consumer grocery spending. According to Euromonitor, Singapore's store-based grocery retailers continue to thrive as consumers spend more in supermarkets, driven mainly by the rising cost of groceries, increased affluence and increaded interest in home cooking. Consumers are also buying more premium grocery products more frequently.

Figure 9: Growing affluence as suggested by rising median month income



Source: Singapore Department of Statistics, KGI Research

Valuation

Our fair value of S$1.24 is based on a DCF valuation methodology, implying a 2018F P/E of 25.1x (similar to its peer average of 24.3x). Our TP represents a 14.9% upside (including a 2018F dividend yield of 3.1%).

We forecast SSG's earnings to grow at a 2017 – 2020F CAGR of 7.4%, on the back of steady growth in store count and modest margin expansion.

Revenues: Revenues are expected to grow at an average of 7.7% YoY from 2018F – 2020F, mainly driven by the addition of new stores. We expect 4/3/2 new stores in 2018/19/20F, and assume additional store space of 10,000 sq ft per new store on average. As for China, we expect at least 3 new stores to be added by 2020F, which in our view is an extremely conservative estimate. A larger retail area (in line with new store openings) and higher revenue (ex. China) per sq ft remain the top line drivers, with revenue per sq ft growing at 3.0%.

Margins: Modest margin expansion should continue into the foreseeable future, on the back of a shift in sales mix to increase proportion of fresh produce. Fresh produce has traditionally commanded higher gross margins (34%) than that of non-fresh produce (19%). Our valuation assumes a constant segment margin, with aggregate gross margins increasing 0.7ppts over the next 3 years. We expect SSG's fresh produce contribution of total revenue to account for 52.7% by 2020F, increasing 4.7ppts from 2017.

Capex: We assume 9 new stores in Singapore and 3 in China by 2020F.

PATMI: 2018F adjusted PATMI to grow 7.4% YoY, mainly driven by higher store count and improving gross margins. PATMI margins should also correspondingly see some improvements of 0.4ppts by 2020F.

Figure 10: DCF valuation

DCF	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
EBIT	**81.9**	**87.2**	**94.6**	**101.5**	**108.0**	**113.9**	**118.3**	**121.8**	**125.5**
YoY Growth (%)		*6.5%*	*8.6%*	*7.3%*	*6.3%*	*5.5%*	*3.9%*	*3.0%*	*3.0%*
EBIT (1-Tax)	69.3	73.8	80.2	86.0	91.4	96.5	100.2	103.2	106.3
Depreciation & amortisation	14.8	15.8	16.8	17.7	18.5	19.1	19.7	20.1	20.5
Non cash charges	12.5	13.1	14.2	15.4	16.3	17.2	17.8	18.2	18.7
Changes in working capital	(9.4)	1.5	(0.9)	(1.6)	1.3	1.1	1.0	0.7	0.7
Capital expenditure	(17.7)	(29.0)	(28.6)	(16.2)	(9.8)	(9.8)	(7.0)	(7.0)	(7.0)
Free cash flow to firm (FCFF)	**69.5**	**75.3**	**81.7**	**101.3**	**117.8**	**124.1**	**131.7**	**135.2**	**139.2**
YoY growth (%)		*8.3%*	*8.5%*	*24.0%*	*16.3%*	*5.4%*	*6.1%*	*2.7%*	*3.0%*
Terminal value									**2,165.2**
Implied enterprise value		**1,795.2**							
Add: Cash		73.4							
Less: Minority interest		(2.5)							
Implied equity value		**1,866.2**							
Weighted average shares outstanding		1,503.5							
Implied target price (S$)		**1.24**							
Upside (%)		*11.8%*							
Implied P/E (x)		**25.1**	**23.1**	**21.6**	**20.3**	**19.2**	**18.5**	**18.0**	**17.4**
Implied EV/EBITDA (x)		**18.6**	**17.4**	**16.1**	**15.1**	**14.2**	**13.5**	**13.0**	**12.7**

Sensitivity Analysis

		WACC						
		6.5%	**7.0%**	**7.5%**	**8.0%**	**8.5%**	**9.0%**	**9.5%**
LTG	**1.0%**	1.51	1.38	1.28	1.18	1.10	1.03	0.97
	1.5%	1.62	1.47	1.35	1.24	1.15	1.07	1.00
	2.0%	1.75	1.57	1.43	1.31	1.21	1.12	1.05
	2.5%	1.91	1.70	1.53	1.39	1.27	1.18	1.09
	3.0%	2.12	1.86	1.65	1.49	1.35	1.24	1.15
	3.5%	2.40	2.06	1.81	1.61	1.45	1.32	1.21
	4.0%	2.79	2.33	2.00	1.75	1.56	1.41	1.28

Assumptions	
Risk free rate	2.7%
Beta	0.6
Market return	11.2%
Cost of equity	8.0%
Cost of debt	0.0%
Tax rate	15.3%
D/C	0.0%
WACC	**8.0%**
Terminal growth rate	**1.5%**

Source: KGI Research

Comparables

Figure 11: Global peers

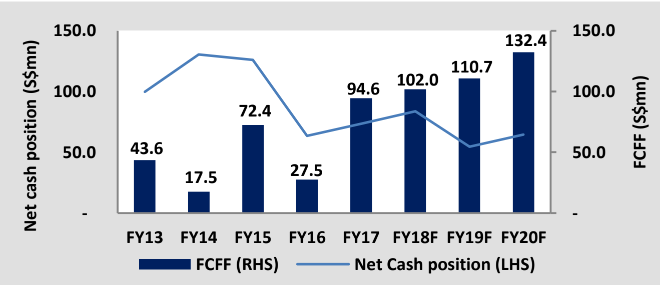
Company Name	Currency	Last Price	Currency Adj. Market Cap (S$ mn)	P/E (x)		P/B (x)		EV/EBITDA(x)		ROE (%)		D/E	Dividend Yield (%)
				FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	FY18F	FY18F
Sheng Siong Group	**SGD**	**1.11**	**1,684**	**23.2x**	**22.5x**	**6.0x**	**5.7x**	**14.3x**	**15.8x**	**26.8%**	**26.7%**	**–**	**3.1%**
Singapore													
Dairy Farm Holdings International	USD	9.22	12,472	30.0x	25.2x	7.5x	6.6x	16.5x	18.5x	25.7%	28.0%	0.6x	2.6%
Malaysia													
7-Eleven Malaysia Holdings	MYR	1.37	373	28.4x	31.9x	18.6x	30.4x	11.7x	12.6x	–	86.3%	2.5x	2.2%
Aeon Co (M) Bhd	MYR	1.95	661	31.8x	23.2x	1.4x	1.4x	6.1x	6.5x	4.4%	5.8%	0.5x	2.0%
Hong Kong													
China Resources Beer (Holdings)	HKD	30.30	12,525	57.3x	43.1x	4.4x	4.4x	14.5x	16.9x	7.9%	10.8%	0.2x	0.8%
Yonghui Superstores Co. Ltd.	CNY	7.49	10,468	40.7x	39.8x	3.8x	3.5x	18.1x	24.9x	9.0%	8.5%	–	1.8%
Sun Art Retail Group Limited	HKD	8.66	10,526	26.2x	25.7x	3.2x	3.0x	7.9x	8.3x	12.6%	12.3%	0.0x	1.5%
Thailand													
CP All Public Company Limited	THB	68.50	18,878	31.7x	28.5x	8.2x	7.3x	16.3x	17.8x	29.8%	27.6%	2.2x	1.8%
Indonesia													
ACE Hardware Indonesia	IDR	1,335.00	1,544	26.0x	24.5x	6.4x	5.6x	17.1x	19.4x	26.3%	25.7%	–	1.5%
PT Mitra Adiperkasa Tbk	IDR	780.00	873	22.1x	20.0x	2.9x	2.9x	6.4x	7.3x	15.5%	14.6%	0.9x	0.6%
PT Erajaya Swasembada Tbk	IDR	2,460.00	529	11.2x	10.2x	1.7x	1.7x	7.4x	8.6x	16.4%	18.0%	0.5x	1.0%
PT Ramayana Lestari Sentosa Tbk	IDR	1,360.00	651	17.5x	18.7x	2.5x	2.5x	8.0x	9.0x	14.6%	13.8%	–	2.6%
Taiwan													
Taiwan FamilyMart Co. Ltd.	TWD	218.50	1,585	30.9x	29.9x	10.6x	8.8x	10.6x	11.1x	35.2%	27.2%	0.5x	2.6%
Japan													
Seven & I Holdings Co. Ltd.	JPY	4,991.00	39,513	23.2x	20.6x	1.9x	1.7x	6.5x	6.9x	8.1%	8.6%	0.4x	1.9%
FamilyMart UNY Holdings Co. Ltd.	JPY	10,390.00	11,758	33.8x	34.0x	2.4x	2.3x	10.8x	11.6x	7.3%	6.9%	1.0x	1.2%
Lawson, Inc.	JPY	6,750.00	6,046	28.9x	23.6x	2.5x	2.4x	6.5x	6.7x	8.7%	10.3%	0.9x	3.8%
Philippines													
Puregold Price Club, Inc.	PHP	44.90	2,298	19.4x	19.1x	2.4x	2.3x	10.1x	11.2x	13.3%	12.8%	0.1x	0.9%
Robinsons Retail Holdings Inc.	PHP	80.00	2,051	20.9x	20.5x	2.1x	1.9x	10.0x	11.3x	10.5%	9.9%	0.1x	0.9%
International													
Walmart Inc.	USD	95.12	278,581	20.0x	19.8x	3.9x	3.7x	9.6x	9.6x	7.0%	16.4%	0.5x	2.2%
Tesco PLC	GBp	234.50	30,105	19.3x	16.6x	1.8x	1.7x	6.9x	7.6x	14.3%	10.9%	0.8x	2.2%
Woolworths Group Ltd	AUD	27.48	25,942	22.3x	19.7x	3.4x	3.2x	9.1x	9.5x	17.2%	16.9%	0.3x	3.7%
Carrefour SA	EUR	16.18	14,929	–	15.8x	1.5x	1.2x	6.9x	7.5x	-16.2%	6.8%	1.3x	2.9%
Average				**25.8x**	**24.3x**	**4.4x**	**4.7x**	**10.3x**	**11.6x**	**12.7%**	**18.0%**	**0.6x**	**1.9%**

Source: Bloomberg, KGI Research

Operational and financial review

Balance sheet & cash flow. Our capex projections incorporate: (1) 4 new stores in 2018F, 3 in 2019F and 2 in 2020F, and (2) additional capex to ramp up its China expansion plans. Since its IPO listing, SSG has always been in a net cash position. In our view, SSG's management is conservative and maintains a prudent stance in their management style. We also believe that SSG's foray into new markets is the way forward, given that opportunities in Singapore remain relatively limited. Free cash flows have also been positive, and are reflecti ve of SSG's cash generative business. We expect them the stay fairly constant over the next three years with further draw down from capex to fund its growth.

Figure 12: Historical cash position



Source: Company Data, KGI Research

Figure 13: FCFF

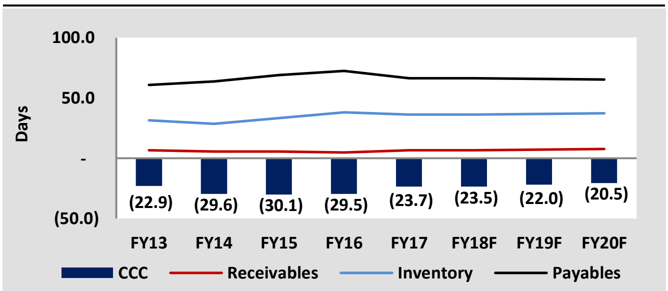
	2013	2014	2015	2016	2017	2018F	2019F	2020F
Operating cash flow (adjusted)	53.8	79.2	82.4	91.0	87.5	104.5	110.6	117.7
YoY Growth (%)		*47.1%*	*4.0%*	*10.5%*	*-3.9%*	*19.5%*	*5.8%*	*6.4%*
Capital expenditure	26.3	80.9	30.4	89.9	17.7	29.0	28.6	16.2
CAPEX % Sales	*3.8%*	*11.1%*	*4.0%*	*11.3%*	*2.1%*	*3.3%*	*3.1%*	*1.6%*
Free cash flow	43.6	17.5	72.4	27.5	94.6	102.0	110.7	132.4

**Figures in SGD millions*

Source: Company Data, KGI Research

Increasing cash conversion cycle (CCC) days. CCC days in 2017 stood at negative 24 days, and is expected to remain negative in the foreseeable future. SSG has maintained a negative working capital cycle since 2008 and is a reflection of its efficient working capital management. Our forecast implies an average CCC days of negative 22 days from 2018F – 2020F, mainly driven by longer collection periods for trade receivables, and new store openings. Given that supermarket chains are highly cash-based businesses, the trend should continue.

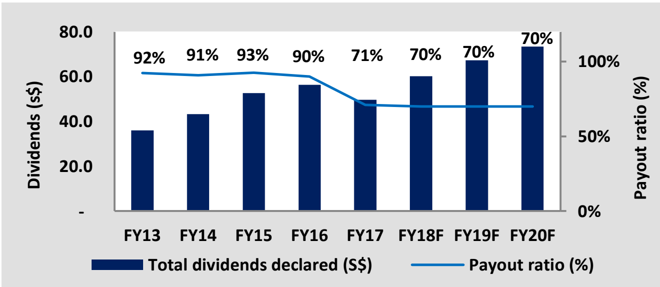
Figure 14: CCC (Days)



Source: Company Data, KGI Research

Dividend payout ratio revised from 90% to 70% sending the wrong signals? Payout ratio has historically been maintained at ~90% but was revised to ~70% in 2017. While this, in our view is significant, a 70% payout is still considered high. Furthermore, given the management's conservative approach to capital management, SSG will likely remain debt free. We understand that this move is for the purpose of funding its growth going forward. We forecast dividends to growth by 5/9/7% in 2018/19/20F.

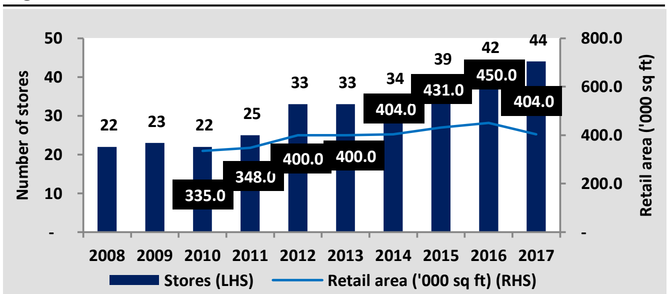
Figure 15: Historical dividends



Source: Company Data, KGI Research

Number of stores and floor area. SSG has added more than 20 stores since 2008 and remains on track towards further expansion. SSG's stores are primarily located in the heartlands of Singapore, and are designed to provide customers with both "wet and dry" shopping options. Store count and floor area are one of the key drivers of top line growth.

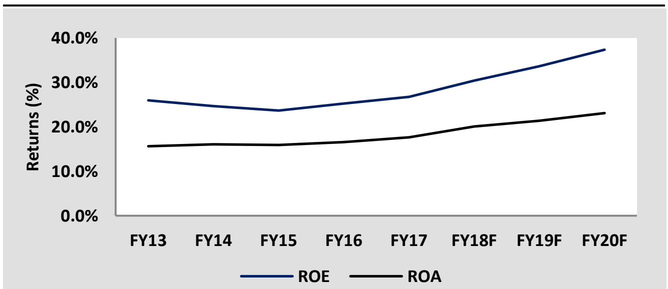
Figure 16: Store count and retail floor area



Source: Company Data, KGI Research

Return metrics. Growth drivers should continue to boost return metrics and lend support to dividend payout, as well as growth plans in the pipeline.

Figure 17: ROA and ROE suggests improving efficiency



Source: Company Data, KGI Research

Key risks

Termination or on-renewal of leases. The duration of store leases is finite and is subject to renewal at the discretion of various landlords. An example would be the closure of the outlet at The Verge in 2016 as the new owners of The Verge had plans to redevelop the entire building. At that point, Sheng Siong's outlet at The Verge contributed to 3.3% of 9M16 total revenues. Renewal upon less favourable terms may have an impact on earnings as SSG looks for alternative sites for existing stores.

Outbreak of diseases associated with fresh produce. This would affect the turnover of fresh produce, which typically command higher margins than non-fresh food, consequently impacting net margins.

Cost pressures could erode margins. Staff costs and rental expenses of outlets make up at least 80% of total administrative costs. Pressure on wage costs would have a trickle-down effect on margins.

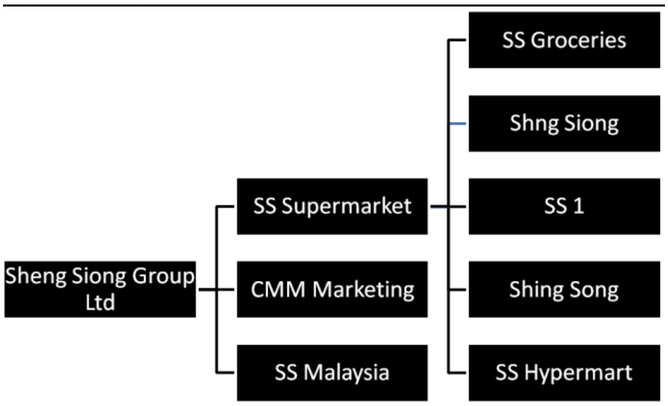
Intense competition from NTUC and Dairy Farm could erode market share. While aggressive promotions would impact both market share and margins of SSG, we think that the chance of a price war is unlikely given the historical trends of SSG and the other supermarkets.

Company Overview

Background. Founded in 1985, Sheng Siong Supermarket is the third largest supermarket chain in Singapore, after NTUC Fairprice and Dairy Farm International. With 48 outlets in Singapore, including 1 store in China (as at 2Q18), SSG sells everything from groceries and seafood to household appliances.

SSG's stores are primarily located in the heartlands of Singapore, and are designed to provide customers with both "wet and dry" shopping options. At the time of listing, SSG had developed a selection of housebrands to offer quality alternatives to national brands at a lower cost. Today, SSG has over 900 products under 17 housebrands.

Figure 18: Company Structure



Source: Company, KGI Research

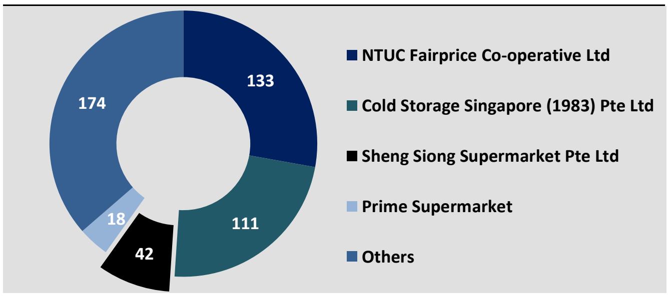
E-commerce. SSG operates an e-commerce platform, "allfor you.sg", which started in 2014. According to management, the threat of brick and mortar grocery retailing from e-commerce players such as Lazada and Amazon are prevalent. However, management still believes shopping will remain a leisure activity among Singaporeans and grocery retailing in brick and mortar stores would complement online offering. Currently, SSG's e-commerce operation only services selected areas in Singapore.

China JV. SSG opened its first overseas store in Kunming, China in 2017. While this is still in its development stages, the business model, which is still under trial, could present significant growth potential in the long term if it takes off.

Fragmented industry with three major players. Singapore's grocery industry is dominated by three key players: NTUC, Dairy Farm and SSG. Together, the three players have a combined market share of about 90% of the local market. Amongst the three key players, the fight for market share continues. Dairy Farm's sales (Cold Storage and Giant) have been declining and reflects the price conscious consumer behaviour, which is a positive sign for SSG. Furthermore, NTUC and SSG, which cater to the middle to lower income masses, have also have premium food options.

Figure 19: Total number of licenses (as at March 2017)

Total	478
NTUC Fairprice Co-operative Ltd	133
Cold Storage Singapore (1983) Pte Ltd	111
Sheng Siong Supermarket Pte Ltd	42
Prime Supermarket	18
Others	174



Source: National Environment Agency, KGI Research

Figure 20: SSG's house brands

Source: Company

Figure 21: New Commercial Units (with supermarket spaces) Pending Completion (Estimated to be completed within the next 6 months)

S/N	Estate	Precinct Name	Block	Street Name	Estimated Floor Area (sqm)	Estimated Completion
1	Woodlands	Admiralty Grove	693	Woodlands Avenue 6	500	2H18
2	Sembawang	Sun Breeze	365	Sembawang Crescent	500	2H18
3	Sembawag	Sun Natura	361	Sembawang Crescent	500	2H18
4	Yishun	Blossom Spring @ Yishun	461	Yishun Avenue 6	1000	2H18
5	Woodlands	Marsiling Greenview	182	Woodlands Street 13	800	2H18
6	Punggol West	Punggol Bayview	322	Sumang Walk	500	2H18
7	Tampines	Tampines GreenRidges	602A	Tampines Avenue 9	600	2H18

As at July 2018

Source: Place2Lease.com, KGI Research

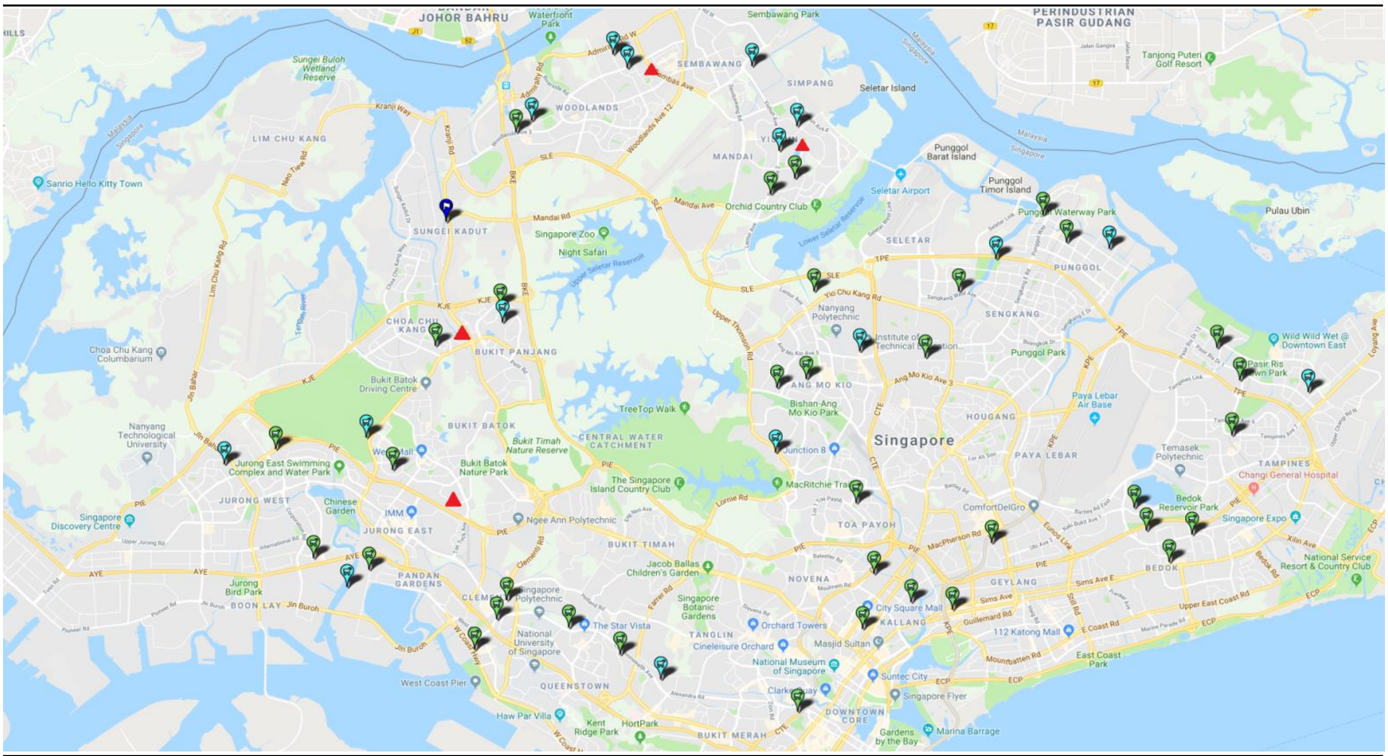
Figure 22: New Commercial Units (with supermarket spaces) Pending Completion (Estimated to be completed from 2Q19 to 3Q22)

S/N	Estate	Precinct Name	Block	Street Name	Estimated Floor Area (sqm)	Estimated Completion
1	Bidadari	Alkaff Vista	105A	Bidadari Park Drive	500	3Q19
2	Sengkang	Fernvale Woods	455	Sengkang West Avenue	1000	3Q19
3	Tampines	Tampines GreenWeave	610	Tampines North Drive 1	400	3Q19
4	Bidadari	Alkaff LakeView	115A	Alkaff Crescent	600	4Q19
5	Bukit Batok	West Plains @ Bukit Batok	467	Bukit Batok West Avenue 9	500	2Q20
6	Queenstown-Dawson	SkyResidence @ Dawson	38	Margaret Drive	1100	4Q20
7	Tampines	Tampines GreenVerge	625B	Tampines Avenue 12/Street 61	500	1Q21
8	Punggol East	Waterway Sunrise II	653A/B	Punggol Drive	500	2Q21
9	Geylang	Dakota Breeze	91	Jalan Satu	500	2Q21
10	Yishun	Forest Spring @ Yishun	471B	Yishun Street 42	500	3Q21
11	Bukit Panjang	Senja Heights	642	Senja Close	800	4Q21
12	Bukit Panjang	Senja Valley	643	Senja Close	500	4Q21
13	Clementi	Clementi NorthArc	209B/210C	Clementi Avenue 6	500	2Q22
14	Bidadari	Woodleigh Hillside	213	Bidadari Park Drive	600	2Q22
15	Sengkang	Rivervale Shores	170A/B	Sengkang East Drive	850	3Q22

As at July 2018

Source: Place2Lease.com, KGI Research

Figure 23: SSG Outlets and HQ; Total 52 stores as at 17 August 2018; New outlets denoted by red triangle



Source: Company, KGI Research

Financials

INCOME STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Revenue	796.7	829.9	1,018.7	1,115.2	1,193.9
Cost of sales	(592.0)	(612.5)	(748.7)	(817.4)	(872.7)
Gross profit	**204.7**	**217.4**	**270.0**	**297.7**	**321.1**
Other income	10.5	10.3	10.2	11.2	11.9
Distribution expenses	(5.1)	(5.5)	(6.8)	(7.4)	(7.9)
Administrative expenses	(132.7)	(137.9)	(169.3)	(185.4)	(198.4)
Other expenses	(1.8)	(2.4)	(3.0)	(3.3)	(3.5)
Operating income	**75.6**	**81.9**	**101.1**	**112.9**	**123.2**
Finance income	0.6	0.2	0.3	0.4	0.3
Profit before tax	**76.2**	**82.1**	**101.3**	**113.2**	**123.5**
Tax expenses	(13.5)	(12.6)	(15.5)	(17.3)	(18.9)
Profit after tax	**62.7**	**69.5**	**85.8**	**95.9**	**104.6**
Minority interest	0.0	(0.3)	(0.3)	(0.3)	(0.3)
PATMI	**62.7**	**69.8**	**86.1**	**96.2**	**104.9**

BALANCE SHEET (SGD mn)	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalents	63.5	73.4	105.8	87.4	111.5
Inventories	61.9	60.8	74.3	82.2	88.9
Trade and other receivables	10.4	14.7	18.4	21.7	24.9
Total current assets	**135.8**	**148.9**	**198.5**	**191.3**	**225.3**
Net Property, Plant & Equipment	252.0	254.7	255.4	253.9	238.6
Investment in subsidiaries	0.0	0.0	0.0	0.0	0.0
Total assets	**387.8**	**403.6**	**453.9**	**445.2**	**463.9**
Trade and other payables	117.5	111.3	136.1	147.5	156.2
Current tax payable	13.0	16.5	16.5	16.5	16.5
Total current liabilities	**130.5**	**127.8**	**152.6**	**164.0**	**172.7**
Deferred tax liabilities	2.4	2.6	2.6	2.6	2.6
Total liabilities	**133.0**	**130.4**	**155.2**	**166.5**	**175.3**
Shareholder's Equity	254.9	273.2	298.7	278.7	288.6
Total liabilities and equity	**387.8**	**403.6**	**453.9**	**445.2**	**463.9**

CASH FLOW STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Prafot after tax	**62.7**	**69.5**	**85.8**	**95.9**	**104.6**
Depreciation & amortisation	14.9	14.8	18.3	20.1	21.5
Other non-cash adjustments	(0.3)	3.6	2.8	3.1	3.5
Changes in working capital	0.8	(9.4)	7.5	0.2	(1.1)
Cash flows from operating activities	**78.1**	**78.5**	**114.5**	**119.2**	**128.4**
Capital expenditure	(89.9)	(17.7)	(19.0)	(18.6)	(6.2)
Other investing cashflow	1.2	0.4	(6.7)	(55.2)	(27.8)
Cash flows from investing activities	**(88.7)**	**(17.3)**	**(25.7)**	**(73.8)**	**(34.0)**
Borrowings raised / (repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised / (bought back)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(54.9)	(51.1)	(56.4)	(63.8)	(70.4)
Other financing cash flow	2.7	0.0	0.0	0.0	0.0
Cash flows from financing activities	**(52.2)**	**(51.1)**	**(56.4)**	**(63.8)**	**(70.4)**
Net increase/(decrease) in cash and cash equivalents	**(62.8)**	**10.1**	**32.4**	**(18.4)**	**24.1**
FX Effects, Others	0.4	(0.1)	0.0	0.0	0.0
Beginning Cash	**125.9**	**63.5**	**73.4**	**105.8**	**87.4**
Ending Cash	**63.5**	**73.4**	**105.8**	**87.4**	**111.5**

KEY RATIOS	2016A	2017A	2018F	2019F	2020F
Core EPS (SGD cents)	4.2	4.6	5.7	6.4	7.0
P/E (x)	22.7	20.0	19.4	17.4	16.0
P/B (x)	5.6	5.1	5.6	6.0	5.8
Growth (%)					
Revenue	4.2	4.2	22.8	9.5	7.1
PATMI	10.3	11.4	23.3	11.7	9.1
EPS	10.3	11.4	23.3	11.7	9.1
DPS	7.1	(12.0)	21.4	11.7	9.1
Profitability (%)					
Gross margin	25.7	26.2	26.5	26.7	26.9
Operating margin	9.5	9.9	9.9	10.1	10.3
PATMI margin	7.9	8.4	8.5	8.6	8.8
ROE	25.2	26.7	30.4	33.6	37.3
ROA	16.6	17.6	20.1	21.4	23.1

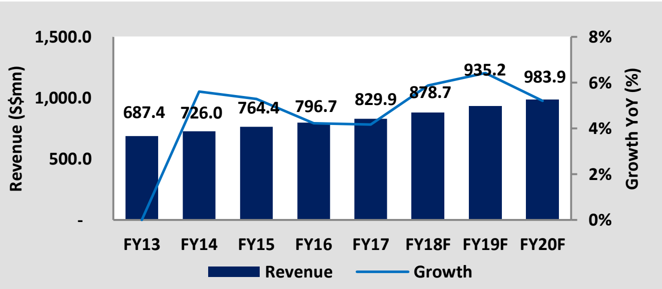
Source: Company Data, KGI Research

Figure 24: Company profile

Sheng Siong Group Ltd is a Singapore-based investment holding company. The Company, through its subsidiaries, is engaged in supermarket operations. The Company operates through the provision of supermarket supplies and supermarket operations segment. The Company is a retailer with over 40 supermarket/grocery stores located all across the island. The Company's chain stores are designed to provide customers with various shopping options ranging from an assortment of live, fresh and chilled produce, such as seafood, meat and vegetables to packaged, processed, frozen and/or preserved food products, as well as general merchandise.

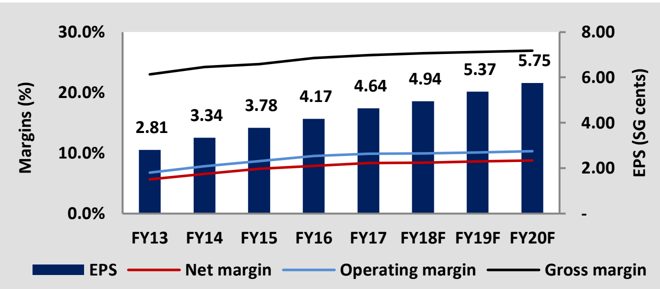
Source: Company

Figure 25: Revenue to continue growing steadily



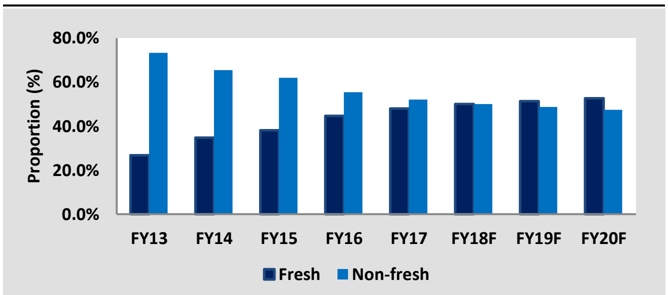
Source: Company Data, KGI Research

Figure 26: Margin and EPS trend



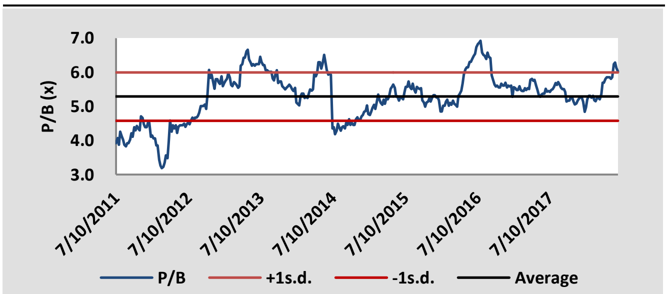
Source: Company Data, KGI Research

Figure 27: Sales mix breakdown



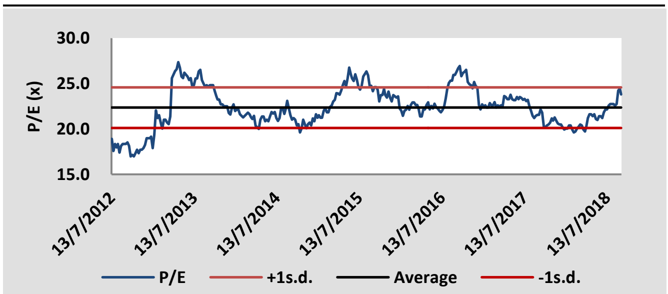
Source: Company Data, KGI Research

Figure 28: P/B band



Source: Company Data, KGI Research

Figure 29: P/E band



Source: Company Data, KGI Research

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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
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