



CHINA  
DEVELOPMENT  
FINANCIAL

# Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

## 1Q20 results update; An emanation of Covid-19

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- 1Q20 results boosted by circuit breaker measures.** Revenue increased by 30.7% YoY, mostly attributed to same store sales growth of 19.7% YoY. Operating profit margin increased by 1.4% to 10.7% due to lower relative costs and government rebates (property tax and rental).
- 3 new stores secured, but not signed yet.** While 3 new stores at Tampines, Sengkang and Potong Pasir have been secured, leases have not been signed nor are the stores allowed to be renovated/fitted out, due to the current Covid-19 situation. Signing of leases will only take place after circuit breaker measures are lifted. Total operational stores as at 1Q20 stands at 61.
- Downgrade to NEUTRAL as SSG is fully valued at current price of S\$1.50, and exceptional performance is one-off.** Growth trajectory remains post-2021, and although performance for 1H20 may outperform, we believe that demand will inevitably drop once circuit breaker measures are over, and performance will once again normalise.

**The revenue acceleration decomposition.** Sheng Siong announced revenue of S\$328.7mn for 1Q20 (+30.7% YoY) and net profit of \$29.0mn (+49.9% YoY). Gross margins for the quarter has also surpassed expectations, mainly due to increased sales of home brand products which command a higher gross margin. Operating margins were somewhat supported by government support packages for Covid-19, with much more expected to come (wage support under the Job Support Scheme to be credited in April and May, contributing to 2Q20). A rare occasion, same store sales growth also contributed 19.7% (1Q19: -1.0%) to the total 30.7% growth in revenue for the quarter. All of the growth can be attributed to the shift in consumer spending into supermarkets since eating at home and minimising movements were strongly encouraged at the time.

**The Covid-19 displacement reaction.** Based on the stellar performance in 1Q20, we expect a similar if not better performance in the next quarter as circuit breaker measures are now in full force. Majority of retail are closed, with even bubble tea and dessert shops considered inessential, and malls have also been increasingly stringent with entry measures. Consumers have little choice but to cook and eat at home, unless they do takeaway or are willing to pay the price for food delivery services. Based on the latest Retail Sales and F&B Services Index data for February, two months before any circuit breaker measures were introduced in Singapore, restaurants already saw a 33.9% drop from January (MoM), and 29.1% drop from last February (YoY). On the other hand, supermarkets saw a 15.4% increase MoM, and a similar 15.5% increase YoY.

Neutral (Downgrade)		Performance (Absolute)			
Price as of 30 Apr 20 (SGD)	1.49	1 Month (%)	25.2		
12M TP (SGD)	1.46	3 Month (%)	18.3		
Previous TP (SGD)	1.40	12 Month (%)	49.3		
Upside, incl div (%)	0.9				
Trading data		Perf. vs STI Index (Red)			
Mkt Cap (\$mn)	2,240				
Issued Shares (mn)	1,504				
Vol - 3M Daily avg (mn)	4.8				
Val - 3M Daily avg (\$mn)	6.1				
Free Float (%)	42.7%				
Major Shareholders		Previous Recommendations			
S & S Holdings Inc	29.9%	26-Feb-20	OP \$1.40		
Lim Hock Chee	9.2%	1-Nov-19	OP \$1.35		
Lim Hock Leng	9.1%	31-Jul-19	OP \$1.27		
Financials & Key Operating Statistics					
YE Dec SGD mn	2018A	2019A	2020F	2021F	2022F
Revenue	890.9	991.3	1,139.1	1,246.3	1,318.7
Operating income	83.8	92.6	110.9	113.9	123.1
Net income	70.5	75.8	93.7	96.1	104.2
EPS (SG cents)	4.7	5.0	6.3	6.4	6.9
DPS (SG cents)	3.4	3.5	4.3	4.4	4.7
Div Yield (%)	2.6	2.7	2.8	2.9	3.2
NAV (SG cents)	19.3	20.8	23.9	26.2	27.7
Price / Book (x)	6.7	6.2	6.2	5.7	5.4
Gross Margin (%)	26.8	26.7	26.9	27.1	27.1
Net Margin (%)	7.9	7.7	8.3	7.7	7.9
ROE (%)	25.2	25.2	28.0	25.6	25.8
Net Debt/Equity					
	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company Data, KGI Research

**The inevitable demand resurgence.** It is undeniable that demand for eating out will recover after such a prolonged period of being forced to stay at home. We see little potential for continued outperformance in 2H20 as we believe that demand has peaked during the 'hoarding' or 'stocking up' during the Mar-Apr period when circuit breaker measures were first introduced. We foresee the May-Jun period to reflect the purchase of everyday essentials and potentially even a slight dip as consumers would be using up items from their 'hoarding' in Mar-Apr. We also note that F&B restaurants and outlets are increasingly providing island-wide delivery services, opening up more options for consumers in the months of April and May, albeit with premiums on delivery charges and a streamlined menu.

**Valuation & Action: Downgrade NEUTRAL, raised TP of \$1.46.** We increased our 12M TP to reflect the increased consumption during 1H20, but remain conservative as we think that it will also accordingly dip slightly in 1H21, before returning to normal growth rates in 2022.

**Risks:** Longer than expected enforcement of circuit breaker measures or worse-than-expected recessionary pressures resulting in prolonged period of heightened earnings; the option of 'eating out at home' could cannibalise more sales than expected in 2Q20 resulting in diminished revenues.

**Financials**

FYE 31 December					
INCOME STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
Revenue	890.9	991.3	1,139.1	1,246.3	1,318.7
Cost of sales	(652.6)	(724.4)	(832.7)	(908.6)	(958.7)
<b>Gross profit</b>	<b>238.4</b>	<b>266.9</b>	<b>306.4</b>	<b>337.8</b>	<b>360.0</b>
Other income	7.6	8.9	20.5	12.5	13.2
Distribution expenses	(5.8)	(7.7)	(8.0)	(8.7)	(9.2)
Administrative expenses	(154.0)	(172.8)	(205.0)	(224.3)	(237.4)
Other expenses	(2.3)	(2.8)	(3.0)	(3.3)	(3.5)
<b>Operating income</b>	<b>83.8</b>	<b>92.6</b>	<b>110.9</b>	<b>113.9</b>	<b>123.1</b>
Net finance income	0.9	(0.7)	0.9	1.1	1.6
<b>Profit before tax</b>	<b>84.7</b>	<b>91.9</b>	<b>111.9</b>	<b>115.0</b>	<b>124.7</b>
Tax expenses	(14.1)	(16.2)	(18.1)	(19.0)	(20.5)
<b>Profit after tax</b>	<b>70.5</b>	<b>75.8</b>	<b>93.7</b>	<b>96.1</b>	<b>104.2</b>
Minority interest	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
<b>PATMI</b>	<b>70.8</b>	<b>75.9</b>	<b>94.0</b>	<b>96.3</b>	<b>104.5</b>
BALANCE SHEET (SGD mn)	2018A	2019F	2020F	2021F	2022F
Cash and cash equivalents	87.2	76.4	94.2	128.6	167.7
Inventories	69.9	82.2	91.5	99.8	105.3
Trade and other receivables	13.0	18.0	19.7	21.6	22.8
<b>Total current assets</b>	<b>170.1</b>	<b>176.6</b>	<b>205.4</b>	<b>250.0</b>	<b>295.9</b>
Net Property, Plant & Equipment	266.2	295.3	329.5	333.7	316.1
Other investments	0.0	60.9	60.9	60.9	60.9
<b>Total assets</b>	<b>436.3</b>	<b>532.8</b>	<b>595.8</b>	<b>644.7</b>	<b>672.9</b>
Trade and other payables	125.7	140.8	158.1	172.5	182.0
Other liabilities (inc. lease liabilities)	15.4	43.3	43.3	43.3	39.4
<b>Total current liabilities</b>	<b>141.1</b>	<b>184.1</b>	<b>201.4</b>	<b>215.8</b>	<b>221.4</b>
Deferred tax liabilities	2.9	3.0	3.0	3.0	3.0
Outstanding lease obligations	0.0	30.2	30.2	30.2	30.2
<b>Total liabilities</b>	<b>144.0</b>	<b>217.4</b>	<b>234.7</b>	<b>249.1</b>	<b>254.7</b>
Shareholder's Equity	292.4	315.4	361.1	395.5	418.2
<b>Total liabilities and equity</b>	<b>436.3</b>	<b>532.8</b>	<b>595.8</b>	<b>644.7</b>	<b>672.9</b>
CASH FLOW STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
<b>Profit after tax</b>	<b>70.5</b>	<b>75.8</b>	<b>93.7</b>	<b>96.1</b>	<b>104.2</b>
Depreciation & amortisation	16.5	41.8	19.4	21.2	22.4
Other non-cash adjustments	(1.6)	2.0	4.7	4.6	4.5
Changes in working capital	6.9	(2.2)	6.3	4.2	2.8
<b>Cash flows from operating activities</b>	<b>92.2</b>	<b>117.3</b>	<b>124.0</b>	<b>126.1</b>	<b>133.9</b>
Capital expenditure	(28.2)	(53.6)	(25.4)	(4.8)	(4.8)
Other investing cashflow	1.2	1.4	1.0	1.2	1.6
<b>Cash flows from investing activities</b>	<b>(27.0)</b>	<b>(52.2)</b>	<b>(24.4)</b>	<b>(3.6)</b>	<b>(3.2)</b>
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	(51.1)	(52.6)	(58.5)	(64.7)	(68.3)
Other financing cash flow	0.0	(23.3)	(23.3)	(23.3)	(23.3)
<b>Cash flows from financing activities</b>	<b>(51.1)</b>	<b>(75.9)</b>	<b>(81.8)</b>	<b>(88.0)</b>	<b>(91.6)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>14.1</b>	<b>(10.8)</b>	<b>17.8</b>	<b>34.5</b>	<b>39.2</b>
FX Effects, Others	(0.3)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Beginning Cash</b>	<b>73.4</b>	<b>87.2</b>	<b>76.4</b>	<b>94.2</b>	<b>128.6</b>
<b>Ending Cash</b>	<b>87.2</b>	<b>76.4</b>	<b>94.2</b>	<b>128.6</b>	<b>167.7</b>
KEY RATIOS	2018A	2019F	2020F	2021F	2022F
Core EPS (SGD cents)	4.7	5.0	6.3	6.4	6.9
P/E (x)	27.7	25.8	24.1	23.5	21.6
P/B (x)	6.7	6.2	6.2	5.7	5.4
<b>Growth (%)</b>					
Revenue	7.4	11.3	14.9	9.4	5.8
PATMI	1.4	7.2	23.8	2.5	8.5
EPS	1.4	7.2	23.8	2.5	8.5
DPS	3.0	4.0	20.3	2.5	8.5
<b>Profitability (%)</b>					
Gross margin	26.8	26.7	26.9	27.1	27.1
Operating margin	9.4	9.3	9.7	9.1	9.3
PATMI margin	7.9	7.7	8.3	7.7	7.9
ROE	25.2	25.2	28.0	25.6	25.8
ROA	16.9	15.7	16.7	15.5	15.9

Source: Company Data, KGI Research

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<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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