



# Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

## 2Q19 results update; steering a steady ship

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- **2Q19 results exceeded expectations.** 1H19 revenue of \$238.2mn (+11.8% YoY) this quarter makes up 52.5% of our full year forecast.
- **3 new stores opened this quarter.** 3 new stores opened in Singapore this quarter, with potentially another 3 subjected to tender results in August 19. Second store in China opened in Kunming this June.
- **Focus on fresh food segment.** Focus is on increasing fresh food sales mix to uplift gross margins.
- **Maintain Outperform.** Defensive dividend play with strong net cash position

YE Dec SGD mn	2016	2017	2018A	2019F	2020F
Revenue	796.7	829.9	890.9	935.2	983.9
Operating income	75.6	81.9	83.8	89.5	96.2
Net income	62.7	69.5	70.5	75.6	81.9
EPS (SG cents)	10.3	11.4	1.4	7.1	8.3
DPS (SG cents)	3.8	3.3	3.4	3.5	3.7
Div Yield (%)	4.0	3.6	3.1	3.3	3.4
NAV (SG cents)	16.8	18.0	19.3	20.7	22.3
Price / Book (x)	5.6	5.1	5.6	5.2	4.8
Gross Margin (%)	25.7	26.2	26.8	26.7	26.9
Net Margin (%)	7.9	8.4	7.9	8.1	8.3
ROE (%)	25.2	26.7	25.2	25.2	25.4
Net Debt/Equity	Net cash				

Source: Company Data, KGI Research

**2Q19 revenue exceeded expectations.** Sheng Siong announced revenue of \$238.2mn for 2Q19 (+11.8% YoY) and net profit of \$18.4mn (+7.6% YoY). Total revenue reported in 1H19 makes up 52.5% of our full year forecast (\$935.2mn) and gross margin of 27.4% this quarter surpassed our forecast of 26.7%. The 11.8% increase in total revenue was catalysed by the opening of three new stores in May (Bukit Batok, Anchorvale and Sumang Lane) and good take up within Sheng Siong's China supermarkets. The China subsidiary continued to be profitable despite start-up costs associated to the recent opening of their second store.

**Cautious consumer sentiments.** The broader retail sales index continues to reflect a bearish trend (Mar to May average: -1.5% YoY) since Chinese New Year, where a 10.7% decline YoY was reflected in February. Mar to May figures continued to reveal a preference towards eating out, with the turnover of the Food & Beverage Index averaging at +1.9% against supermarkets & hypermarkets (average +0.1%).

**Flattish operating profit margin.** Operating profit margin dipped marginally to 9.4% this quarter primarily from higher staff cost required in newly opened stores and higher input cost associated with the recent swine flu disease. Increase of fresh food sales mix will continue to be an upside catalyst to profit margins and act as a segment that is likely sheltered from the ongoing ecommerce threat. Sheng Siong's fresh food segment commands much higher gross margins (35%) than the non-fresh food segment (20%). Overall basket weightage is currently equally held between the fresh food and non-fresh food segment.

### Outperform (Maintain)

		Performance (Absolute)	
Price as of 31 Jul 19 (SGD)	1.17	1 Month (%)	6.4
12M TP (SGD)	1.27	3 Month (%)	13.5
Previous TP (SGD)	1.24	12 Month (%)	12.9
Upside, incl div (%)	11.4		

### Trading data

Mkt Cap (\$mn)	1,759
Issued Shares (mn)	1,504
Vol - 3M Daily avg (mn)	1.8
Val - 3M Daily avg (\$mn)	2
Free Float (%)	42.6%

### Perf. vs STI Index (Red)



### Major Shareholders

S & S Holdings Inc	29.9%	29-Apr-19	OP \$1.24
Lim Hock Chee	9.3%	27-Feb-18	OP \$1.24
Lim Hock Leng	9.1%	1-Nov-18	OP \$1.24

### Previous Recommendations

**Awaiting outcome in recent shop tenders.** Sheng Siong tendered for 6 out of 7 shops released by HDB. Tender results will likely be out by Aug 2019. Management communicated confidence in securing about half of their bids, and the ability to then commence operations as soon as Sep. New stores usually record the highest growth within the first 3 years, and break even in c.6 - 18 months. We think that inorganic growth will continue to fuel revenue, in view of stable same store sales.

**Automation to ease labour costs.** Labour cost remains to be the single biggest expense item after rental expense. Automated checkout counters have seen implementation across all of Sheng Siong's stores last quarter. This is estimated to shave 20% - 30% off labour expense by 4Q19.

**Strong growth momentum in market share.** Total local store count grew to 57 this quarter, with market share improving to c.16%, behind NTUC and Dairy Farm. The supermarket industry is undergoing re-organization in the face of industry maturity and slowing economic growth. Competition from Sheng Siong's two biggest competitors looks to be kept at bay, with one shifting focus towards the premium grocery segment and the other undergoing potential contraction.

**Valuation & Action: Maintain OUTPERFORM, TP of \$1.27.** We increase our 12M TP from \$1.24 to \$1.27 in anticipation of the 6 new store openings this year. We like Sheng Siong's stable earnings growth and defensive business model. We anticipate higher dividend yield in the future (currently c.3%) given the growing net cash position.

**Risks:** August tender outcome not meeting expectations, disease outbreak associated with fresh product, competition from smaller supermarket players.

## Financials

FYE 31 December					
INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Revenue	829.9	890.9	935.2	983.9	1,026.3
Cost of sales	(612.5)	(652.6)	(685.5)	(719.2)	(748.2)
<b>Gross profit</b>	<b>217.4</b>	<b>238.4</b>	<b>249.7</b>	<b>264.7</b>	<b>278.1</b>
Other income	10.3	7.6	9.4	9.8	10.3
Distribution expenses	(5.5)	(5.8)	(6.2)	(6.5)	(6.8)
Administrative expenses	(137.9)	(154.0)	(160.8)	(169.2)	(176.5)
Other expenses	(2.4)	(2.3)	(2.4)	(2.6)	(2.7)
<b>Operating income</b>	<b>81.9</b>	<b>83.8</b>	<b>89.5</b>	<b>96.2</b>	<b>102.4</b>
Finance income	0.2	0.9	1.1	1.5	1.7
<b>Profit before tax</b>	<b>82.1</b>	<b>84.7</b>	<b>90.6</b>	<b>97.7</b>	<b>104.1</b>
Tax expenses	(12.6)	(14.1)	(15.0)	(15.8)	(17.2)
<b>Profit after tax</b>	<b>69.5</b>	<b>70.5</b>	<b>75.6</b>	<b>81.9</b>	<b>86.9</b>
Minority interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
<b>PATMI</b>	<b>69.8</b>	<b>70.8</b>	<b>75.8</b>	<b>82.1</b>	<b>87.2</b>
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	73.4	87.2	125.2	143.1	166.3
Inventories	60.8	69.9	74.4	79.0	82.2
Trade and other receivables	14.7	13.0	14.9	17.0	17.8
<b>Total current assets</b>	<b>148.9</b>	<b>170.1</b>	<b>214.4</b>	<b>239.1</b>	<b>266.2</b>
Net Property, Plant & Equipment	254.7	266.2	271.5	276.0	278.2
Other investments	0.0	0.0	55.1	55.1	55.1
<b>Total assets</b>	<b>403.6</b>	<b>436.3</b>	<b>541.1</b>	<b>570.2</b>	<b>599.5</b>
Trade and other payables	111.3	125.7	131.1	136.5	142.0
Other liabilities (inc. lease liabilities)	16.5	15.4	38.2	38.2	38.2
<b>Total current liabilities</b>	<b>127.8</b>	<b>141.1</b>	<b>169.3</b>	<b>174.7</b>	<b>180.2</b>
Deferred tax liabilities	2.6	2.9	2.9	2.9	2.9
Outstanding lease obligations	0.0	0.0	55.1	55.1	55.1
<b>Total liabilities</b>	<b>130.4</b>	<b>144.0</b>	<b>227.3</b>	<b>232.7</b>	<b>238.2</b>
Shareholder's Equity	273.2	292.4	313.9	337.4	361.3
<b>Total liabilities and equity</b>	<b>403.6</b>	<b>436.3</b>	<b>541.1</b>	<b>570.2</b>	<b>599.5</b>
CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
<b>Profit after tax</b>	<b>69.5</b>	<b>70.5</b>	<b>75.6</b>	<b>81.9</b>	<b>86.9</b>
Depreciation & amortisation	14.8	16.5	17.3	18.2	19.0
Other non-cash adjustments	3.6	(1.6)	3.9	3.7	3.7
Changes in working capital	(9.4)	6.9	7.7	8.5	9.4
<b>Cash flows from operating activities</b>	<b>78.5</b>	<b>92.2</b>	<b>104.5</b>	<b>112.2</b>	<b>119.0</b>
Capital expenditure	(17.7)	(28.2)	(22.6)	(21.2)	(19.8)
Other investing cashflow	0.4	1.2	1.1	1.5	1.7
<b>Cash flows from investing activities</b>	<b>(17.3)</b>	<b>(27.0)</b>	<b>(21.5)</b>	<b>(19.7)</b>	<b>(18.1)</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)	(51.1)	(52.9)	(54.5)	(57.6)
Other financing cash flow	0.0	0.0	7.9	(20.1)	(20.1)
<b>Cash flows from financing activities</b>	<b>(51.1)</b>	<b>(51.1)</b>	<b>(45.0)</b>	<b>(74.6)</b>	<b>(77.7)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>10.1</b>	<b>14.1</b>	<b>37.9</b>	<b>17.9</b>	<b>23.2</b>
FX Effects, Others	(0.1)	(0.3)	0.0	0.0	0.0
<b>Beginning Cash</b>	<b>63.5</b>	<b>73.4</b>	<b>87.2</b>	<b>125.2</b>	<b>143.1</b>
<b>Ending Cash</b>	<b>73.4</b>	<b>87.2</b>	<b>125.2</b>	<b>143.1</b>	<b>166.3</b>
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
Core EPS (SGD cents)	4.6	4.7	5.0	5.5	5.8
P/E (x)	20.0	23.0	21.5	19.8	18.7
P/B (x)	5.1	5.6	5.2	4.8	4.5
<b>Growth (%)</b>					
Revenue	4.2	7.4	5.0	5.2	4.3
PATMI	11.4	1.4	7.1	8.3	6.2
EPS	11.4	1.4	7.1	8.3	6.2
DPS	(12.0)	3.0	3.9	5.2	6.2
<b>Profitability (%)</b>					
Gross margin	26.2	26.8	26.7	26.9	27.1
Operating margin	9.9	9.4	9.6	9.8	10.0
PATMI margin	8.4	7.9	8.1	8.3	8.5
ROE	26.7	25.2	25.2	25.4	25.1
ROA	17.6	16.9	15.5	14.8	14.9

Source: Company Data, KGI Research

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