



Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

Extraordinary results in extraordinary circumstances

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- 1H20 revenue made up c.66% of full year forecasts.** Revenue increased by an extraordinary 75.8% YoY, while gross profit margins hit an all-time high of 28.1% due to firm selling prices underpinned by strong, unwavering demand. Operating expenses were also depressed by increased operating leverage across stores.
- 3 new stores set to open in 2H20.** 3 new stores that were previously secured in Tampines, Sengkang and Potong Pasir will open in the second half. Management does not expect any further new stores for the year, as the Housing Development Board (HDB) has ceased all open and closed bidding since the circuit breaker measures in April. Total operational stores as at 30 June 2020 stands at 61.
- Maintain NEUTRAL as exceptional performance for 2020 is one-off, and demand is expected to normalise by 2021.** While we have seen strong demand in 1H20, and may continue to see elevated levels of demand in the third and possibly fourth quarter, we believe that the recent 2Q20 demand is unsustainable and will inevitably normalise going into 2021, and growth will return to being dependent on new store openings.

| Financials & Key Operating Statistics | | | | | |
|---------------------------------------|----------|----------|----------|----------|----------|
| YE Dec SGD mn | 2018A | 2019A | 2020F | 2021F | 2022F |
| Revenue | 890.9 | 991.3 | 1,382.6 | 1,299.6 | 1,372.1 |
| Operating income | 83.8 | 92.6 | 157.3 | 126.5 | 137.7 |
| Net income | 70.5 | 75.8 | 132.6 | 107.0 | 116.6 |
| EPS (SG cents) | 4.7 | 5.0 | 8.8 | 7.1 | 7.8 |
| DPS (SG cents) | 3.4 | 3.5 | 6.6 | 5.0 | 5.4 |
| Div Yield (%) | 2.0 | 2.1 | 3.9 | 2.9 | 3.2 |
| NAV (SG cents) | 19.3 | 20.8 | 25.3 | 26.8 | 28.4 |
| Price / Book (x) | 8.7 | 8.1 | 6.7 | 6.3 | 5.9 |
| Gross Margin (%) | 26.8 | 26.9 | 27.3 | 27.2 | 27.2 |
| Net Margin (%) | 7.9 | 7.7 | 9.6 | 8.3 | 8.5 |
| ROE (%) | 25.2 | 25.2 | 38.3 | 27.4 | 28.1 |
| Net Debt/Equity | | | | | |
| | Net cash |

Source: Company Data, KGI Research

The revenue acceleration decomposition, again. Sheng Siong announced revenue of S\$418.7mn for 2Q20 (+75.8% YoY; 27.4% QoQ) and net profit of \$46.2mn (+150.7% YoY; 59.3% QoQ). Gross margins for the quarter also hit an all-time high due to firm selling prices (stronger demand results in less need for promotional prices that cut into profit margins). Comparable same store sales increased 61.2% YoY, boosted mainly by stores in HDB estates. Operating margins were supported by government support packages for Covid-19 as well as operating leverages associated with same store sales growth. While operating cash flow remains eminent due to net profit growth, SSG's unusually high cash balance can also be attributed to: (1) the delayed dividend payments, (2) increases in trade payables as the Group increases its inventory stockholding as a hedge against further disruptions to its supply chains, and (3) deferred 1H20 income tax payments to be made in the second half of the year. Given the level of its cash balances and strength of its operating cash flow, we think that SSG may consider a higher payout ratio in recognition of its phenomenal performance this year.

| Neutral (Maintain) | | Performance (Absolute) | |
|-----------------------------|-------|--------------------------|-----------|
| Price as of 30 Jul 20 (SGD) | 1.70 | 1 Month (%) | 3.0 |
| 12M TP (SGD) | 1.58 | 3 Month (%) | 17.4 |
| Previous TP (SGD) | 1.46 | 12 Month (%) | 50.4 |
| Upside, incl div (%) | (3.4) | | |
| Trading data | | Perf. vs STI Index (Red) | |
| Mkt Cap (\$mn) | 2,556 | | |
| Issued Shares (mn) | 1,504 | | |
| Vol - 3M Daily avg (mn) | 4.4 | | |
| Val - 3M Daily avg (\$mn) | 6.9 | | |
| Free Float (%) | 42.7% | | |
| Major Shareholders | | Previous Recommendations | |
| S & S Holdings Inc | 29.9% | 30-Apr-20 | OP \$1.46 |
| Lim Hock Chee | 9.2% | 26-Feb-20 | OP \$1.40 |
| Lim Hock Leng | 9.1% | 1-Nov-19 | OP \$1.35 |

Consumers re-emerging with caution, moving into Phase 2 of reopening. While dining out is now allowed with restrictions on group size, many are still relatively cautious and reluctant to be spending too much time out and about in restaurants and social events. We think that 3Q20 demand will still shift instead towards takeaway as many start feeling the fatigue of cooking at home. The food & beverage services and retail trade industries expect the business situation to be less favourable for Jul-Dec 2020, with a net weighted balance of -32% and -24% respectively. However, business sentiments have improved significantly from the net weighted balance recorded in 2Q20's survey (covering the Circuit Breaker period) at -96% for food & beverage services and -84% for retailers for the period of Apr-Sep 2020, reflecting more positive sentiments going into the second half of the year.

Operational outlook. Annual revenue/sqft is on track to reach an all-time high in 2020. Including the 3 new stores slated to open in 3Q2020, management expects to have opened only a total of 5 stores (2 opened in 1Q20) for FY20. However, management may have to begin looking for a second distribution centre as its existing centre in Mandai reaches 100% capacity.

Valuation & Action: Maintain NEUTRAL, raised TP of \$1.58. We increased our 12M TP to reflect the higher-than-expected demand in 2020 as most continue to work from home, but remain conservative as we think that it will also accordingly dip slightly in 2021 as more restrictions are relaxed and the Covid-19 situation comes under better control, before returning to normal growth rates in 2022.

Risks: Longer than expected enforcement of work-from-home measures or second wave of cases forcing re-enforcement of circuit breaker measures; worse-than-expected recessionary pressures.

Financials

| FYE 31 December | | | | | |
|---|---------------|---------------|---------------|----------------|----------------|
| INCOME STATEMENT (SGD mn) | 2018A | 2019F | 2020F | 2021F | 2022F |
| Revenue | 890.9 | 991.3 | 1,382.6 | 1,299.6 | 1,372.1 |
| Cost of sales | (652.6) | (724.4) | (1,004.6) | (946.2) | (998.9) |
| Gross profit | 238.4 | 266.9 | 378.0 | 353.5 | 373.2 |
| Other income | 7.6 | 8.9 | 24.9 | 13.0 | 13.7 |
| Distribution expenses | (5.8) | (7.7) | (9.7) | (9.1) | (9.6) |
| Administrative expenses | (154.0) | (172.8) | (232.3) | (227.4) | (236.0) |
| Other expenses | (2.3) | (2.8) | (3.6) | (3.4) | (3.6) |
| Operating income | 83.8 | 92.6 | 157.3 | 126.5 | 137.7 |
| Net finance income | 0.9 | (0.7) | 0.9 | 1.6 | 1.8 |
| Profit before tax | 84.7 | 91.9 | 158.2 | 128.1 | 139.5 |
| Tax expenses | (14.1) | (16.2) | (25.6) | (21.1) | (22.9) |
| Profit after tax | 70.5 | 75.8 | 132.6 | 107.0 | 116.6 |
| Minority interest | (0.3) | (0.2) | (0.3) | (0.3) | (0.3) |
| PATMI | 70.8 | 75.9 | 132.9 | 107.3 | 116.9 |
| BALANCE SHEET (SGD mn) | 2018A | 2019F | 2020F | 2021F | 2022F |
| Cash and cash equivalents | 87.2 | 76.4 | 130.3 | 146.9 | 189.9 |
| Inventories | 69.9 | 82.2 | 110.4 | 103.9 | 109.7 |
| Trade and other receivables | 13.0 | 18.0 | 23.9 | 22.5 | 23.8 |
| Total current assets | 170.1 | 176.6 | 264.6 | 273.4 | 323.4 |
| Net Property, Plant & Equipment | 266.2 | 295.3 | 325.4 | 328.7 | 310.2 |
| Other investments | 0.0 | 60.9 | 60.9 | 60.9 | 60.9 |
| Total assets | 436.3 | 532.8 | 650.9 | 663.0 | 694.5 |
| Trade and other payables | 125.7 | 140.8 | 190.7 | 179.6 | 189.6 |
| Other liabilities (inc. lease liabilities) | 15.4 | 43.3 | 43.3 | 43.3 | 39.4 |
| Total current liabilities | 141.1 | 184.1 | 234.0 | 223.0 | 229.0 |
| 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 |
| Total liabilities | 144.0 | 217.4 | 267.3 | 256.2 | 262.3 |
| Shareholder's Equity | 292.4 | 315.4 | 382.1 | 404.8 | 429.7 |
| Total liabilities and equity | 436.3 | 532.8 | 649.4 | 661.1 | 692.0 |
| CASH FLOW STATEMENT (SGD mn) | 2018A | 2019F | 2020F | 2021F | 2022F |
| Profit after tax | 70.5 | 75.8 | 132.6 | 107.0 | 116.6 |
| Depreciation & amortisation | 16.5 | 41.8 | 23.5 | 22.1 | 23.3 |
| Other non-cash adjustments | (1.6) | 2.0 | 6.2 | 4.6 | 4.8 |
| Changes in working capital | 6.9 | (2.2) | 15.8 | (3.2) | 3.0 |
| Cash flows from operating activities | 92.2 | 117.3 | 178.0 | 130.5 | 147.6 |
| Capital expenditure | (28.2) | (53.6) | (25.4) | (4.8) | (4.8) |
| Other investing cashflow | 1.2 | 1.4 | 1.0 | 1.7 | 1.9 |
| Cash flows from investing activities | (27.0) | (52.2) | (24.4) | (3.1) | (2.9) |
| 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) | (76.4) | (87.4) | (78.4) |
| Other financing cash flow | 0.0 | (23.3) | (23.3) | (23.3) | (23.3) |
| Cash flows from financing activities | (51.1) | (75.9) | (99.7) | (110.7) | (101.7) |
| Net increase/(decrease) in cash and cash equivalents | 14.1 | (10.8) | 54.0 | 16.7 | 43.0 |
| FX Effects, Others | (0.3) | (0.0) | (0.0) | (0.0) | (0.0) |
| Beginning Cash | 73.4 | 87.2 | 76.4 | 130.3 | 146.9 |
| Ending Cash | 87.2 | 76.4 | 130.3 | 146.9 | 189.9 |
| KEY RATIOS | 2018A | 2019F | 2020F | 2021F | 2022F |
| Core EPS (SGD cents) | 4.7 | 5.0 | 8.8 | 7.1 | 7.8 |
| P/E (x) | 36.2 | 33.7 | 19.3 | 23.9 | 21.9 |
| P/B (x) | 8.7 | 8.1 | 6.7 | 6.3 | 5.9 |
| Growth (%) | | | | | |
| Revenue | 7.4 | 11.3 | 39.5 | (6.0) | 5.6 |
| PATMI | 1.4 | 7.2 | 75.0 | (19.3) | 8.9 |
| EPS | 1.4 | 7.2 | 75.0 | (19.3) | 8.9 |
| DPS | 3.0 | 4.0 | 87.5 | (24.7) | 8.9 |
| Profitability (%) | | | | | |
| Gross margin | 26.8 | 26.9 | 27.3 | 27.2 | 27.2 |
| Operating margin | 9.4 | 9.3 | 11.4 | 9.7 | 10.0 |
| PATMI margin | 7.9 | 7.7 | 9.6 | 8.3 | 8.5 |
| ROE | 25.2 | 25.2 | 38.3 | 27.4 | 28.1 |
| ROA | 16.9 | 15.7 | 22.5 | 16.3 | 17.2 |

Source: Company Data, KGI Research

| KGI's Ratings | Rating | Definition |
|---------------|-------------------------|---|
| | Outperform (OP) | 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. |
| | Neutral (N) | We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon. |
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| | Not Rated (NR) | The stock is not rated by KGI Securities. |
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