



CHINA
DEVELOPMENT
FINANCIAL

Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

Navigating Competitive Landscapes

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- **3Q18 results in line.** Sheng Siong reported 3Q18 net profit of S\$17.7mn (-9.9% YoY), below our expectations; 3Q18 revenues grew 8% YoY to S\$227.9mn, in line with estimates.
- **Operating expenses dampens performance.** YoY, administrative expenses as % of sales rose to 17.1% from 16.1%, driven by the opening of new stores in the last 12 months.
- **Total retail area continues to grow but consumer sentiment remains a drag.** Total stores grew to 51 from 44 in 2017 while total retail area grew to 458,200 sq ft from 404,000 sq ft in 2017.

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

Source: Company Data, KGI Research

3Q18 results lacklustre but defensive business model continues to stand out. While net profits and operating expenses were below our expectations, we believe 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.

Figure 1: Results Comparison

FYE Dec (SGD m)	3Q18	3Q17	yoY % chg	FY19F	Comments
Revenue	227.9	210.9	8.0%	159.3	In line with our estimates
Cost of sales	(167.6)	(156.4)	7.1%	(75.2)	
Gross profit	60.3	54.5	10.7%	84.1	Change in product mix and supplier's rebates
Gross margin (%)	26.5	25.8		52.8	
Other income	1.8	2.0	-10.1%	0.0	
Operating expenses	(39.5)	(33.4)	18.1%	(45.5)	Driven by higher administrative expenses, as well as higher staff costs to operate new stores
Net profit/(loss) before tax	21.0	21.1	-0.6%	34.8	
Income tax	(3.3)	(1.5)	120.5%	(3.5)	
Net Profit/(loss) after tax	17.7	19.6	-9.9%	31.3	
Minority interest	(0.2)	(0.1)	nm	0.0	
PATMI	17.8	19.7	-9.4%	31.3	
EPS (cents)	1.2	1.3	-9.4%	12.8	

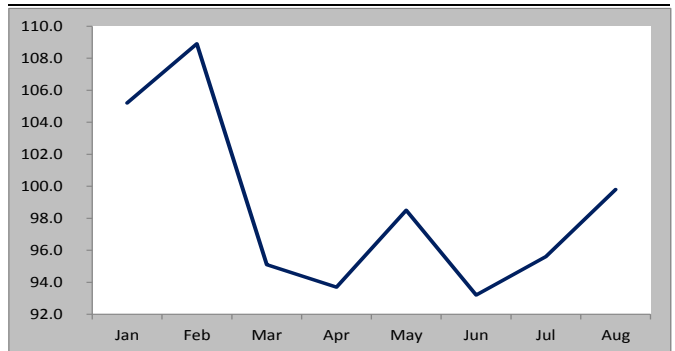
Source: Company Data, KGI Research

Consumer sentiment weakening despite intensifying competition. We understand from management that consumer sentiment has been deteriorating in the past few months and competition has intensified with more new stores added into the market by competitors. As a result, revenue at the new stores will require some time to grow to its normal levels.

Buy - Maintain

Price as of 1 Nov 18 (SGD)	1.07	Performance (Absolute)	
12M TP (\$)	1.24	1 Month (%)	-5.3
Previous TP (\$)	1.24	3 Month (%)	2.5
Upside, incl div (%)	19.2	12 Month (%)	17.0
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	1,609		
Issued Shares (mn)	1,504		
Vol - 3M Daily avg (mn)	2.0		
Val - 3M Daily avg (\$mn)	2.2		
Free Float (%)	42.6%		
Major Shareholders		Previous Recommendations	
S & S Holdings Inc	29.9%	14-Sep-18	1.24
Lim Hock Chee	9.3%	-	-
Lim Hock Leng	9.1%	-	-

Figure 2: Retail Sales Index (Supermarkets & Hypermarkets)



Source: SingStat, KGI Research

Valuation & Action: We maintain a buy on SSG based on a DCF derived 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.

Financials

INCOME STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Revenue	796.7	829.9	878.7	935.2	983.9
Cost of sales	(592.0)	(612.5)	(645.8)	(685.5)	(719.2)
Gross profit	204.7	217.4	232.9	249.7	264.7
Other income	10.5	10.3	8.8	9.4	9.8
Distribution expenses	(5.1)	(5.5)	(5.8)	(6.2)	(6.5)
Administrative expenses	(132.7)	(137.9)	(146.0)	(155.4)	(163.5)
Other expenses	(1.8)	(2.4)	(2.6)	(2.8)	(2.9)
Operating income	75.6	81.9	87.2	94.6	101.5
Finance income	0.6	0.2	0.3	0.3	0.2
Profit before tax	76.2	82.1	87.4	94.9	101.7
Tax expenses	(13.5)	(12.6)	(13.4)	(14.5)	(15.6)
Profit after tax	62.7	69.5	74.1	80.4	86.2
Minority interest	0.0	(0.3)	(0.3)	(0.3)	(0.3)
PATMI	62.7	69.8	74.3	80.7	86.4
BALANCE SHEET (SGD mn)	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalents	63.5	73.4	83.8	54.6	64.5
Inventories	61.9	60.8	64.1	68.9	73.3
Trade and other receivables	10.4	14.7	15.9	18.2	20.5
Total current assets	135.8	148.9	163.7	141.8	158.3
Net Property, Plant & Equipment	252.0	254.7	267.9	279.6	278.1
Investment in subsidiaries	0.0	0.0	0.0	0.0	0.0
Total assets	387.8	403.6	431.6	421.4	436.4
Trade and other payables	117.5	111.3	117.4	123.7	128.8
Current tax payable	13.0	16.5	16.5	16.5	16.5
Total current liabilities	130.5	127.8	133.9	140.2	145.3
Deferred tax liabilities	2.4	2.6	2.6	2.6	2.6
Total liabilities	133.0	130.4	136.5	142.7	147.8
Shareholder's Equity	254.9	273.2	295.2	278.7	288.6
Total liabilities and equity	387.8	403.6	431.6	421.4	436.4
CASH FLOW STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Profit after tax	62.7	69.5	74.1	80.4	86.2
Depreciation & amortisation	14.9	14.8	15.8	16.8	17.7
Other non-cash adjustments	(0.3)	3.6	2.4	2.6	2.9
Changes in working capital	0.8	(9.4)	1.5	(0.9)	(1.6)
Cash flows from operating activities	78.1	78.5	93.8	98.9	105.2
Capital expenditure	(89.9)	(17.7)	(29.0)	(28.6)	(16.2)
Other investing cashflow	1.2	0.4	(2.1)	(45.3)	(20.7)
Cash flows from investing activities	(88.7)	(17.3)	(31.1)	(73.9)	(36.9)
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	(54.9)	(51.1)	(52.3)	(54.2)	(58.5)
Other financing cash flow	2.7	0.0	0.0	0.0	0.0
Cash flows from financing activities	(52.2)	(51.1)	(52.3)	(54.2)	(58.5)
Net increase/(decrease) in cash and cash equivalents	(62.8)	10.1	10.4	(29.2)	9.9
FX Effects, Others	0.4	(0.1)	0.0	0.0	0.0
Beginning Cash	125.9	63.5	73.4	83.8	54.6
Ending Cash	63.5	73.4	83.8	54.6	64.5
KEY RATIOS	2016A	2017A	2018F	2019F	2020F
Core EPS (SGD cents)	4.2	4.6	4.9	5.4	5.7
P/E (x)	22.7	20.0	22.5	20.8	19.4
P/B (x)	5.6	5.1	5.7	6.0	5.8
Growth (%)					
Revenue	4.2	4.2	5.9	6.4	5.2
PATMI	10.3	11.4	6.5	8.6	7.1
EPS	10.3	11.4	6.5	8.6	7.1
DPS	7.1	(12.0)	4.8	8.6	7.1
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	26.4	28.4	30.7
ROA	16.6	17.6	17.8	18.9	20.2

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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