



Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

In line with expectations, earnings to stabilise

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- 9M20 revenue made up c.77% of full year forecasts.** Results were in line with expectations of elevated, but slowed demand growth in 3Q20. Revenue in 3Q20 grew 28.9% YoY to S\$327mn, driven by strong same store sales growth (SSSG) of 19.1%, while net profit increased 54% YoY to S\$31.8mn. Gross margins maintained at 27%.
- Expect SSG to fall off growth trajectory in the next year due to Covid-19 tender freeze.** The main driver of SSG's growth is its ability to open new stores in locations where it does not already have a presence. However, due to the Covid-19 measures and construction disruptions, HDB has temporarily frozen the release of new shops, potentially until the beginning of next year when conditions improve.
- Maintain NEUTRAL as earnings expected to stabilise from 2021.** In July and August consecutively, we have observed supermarket sales trending downwards, and believe that while it will not return to pre-Covid levels in the near term, supermarket sales will continue to taper as Singapore enters Phase 3 of its reopening, and as more return to the office and spend less time cooking at home.

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	Net cash	Net cash	Net cash

Source: Company Data, KGI Research

Earnings in line with expectations. 3Q20 saw a much slower pace of growth as compared to 2Q20, in line with our expectations given the easing of restrictions for dining out and gatherings since Phase 2. Revenue per square feet has remained elevated for 9M20 at S\$1,866 (9M19: S\$1,540). Operating margins inched up 1.8 percentage points to 11.7%, although gross margins returned to SSG's 'normal' of 27.0%.

Prospects for new store openings. A pause on further expansions in 2H20 will affect revenue growth in the next 12 months as new store sales growth typically account for a significant portion of YoY revenue growth. However, we expect a slew of new shops to be released next year as the backlog gets cleared, and HDB has also released information on up to 18 supermarkets pending completion between 2021-2023 scattered across the island. Therefore, we think that long term growth prospects are still intact as Sheng Siong continues to focus on increasing its retail area, especially in high-density housing areas.

Supermarket sales to stabilise, competition remains stiff. In July and August consecutively, we have observed

Neutral (Maintain)

Price as of 3 Nov 20 (SGD)	1.65	Performance (Absolute)	
12M TP (SGD)	1.58	1 Month (%)	-0.6
Previous TP (SGD)	1.58	3 Month (%)	-0.4
Upside, incl div (%)	(0.5)	12 Month (%)	44.2
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	2,481		
Issued Shares (mn)	1,504		
Vol - 3M Daily avg (mn)	4.1		
Val - 3M Daily avg (\$mn)	7.00		
Free Float (%)	42.7%		
Major Shareholders		Previous Recommendations	
S & S Holdings Inc	29.9%	30-Aug-20	N \$1.58
Lim Hock Chee	9.2%	30-Apr-20	OP \$1.46
Lim Hock Leng	9.1%	26-Feb-20	OP \$1.40

supermarket sales trending downwards month-on-month (MoM): in July, sales dipped almost 10% from June when circuit breaker measures were eased; sales in August dropped further by almost 8% MoM, equivalent to just 22% growth YoY for the month. As restrictions are eased further and Singapore begins to enter Phase 3 of its reopening, we expect home-cooking to gradually decrease as a result of more employees returning to work. Price wars have also seemingly reignited among competitors, and may affect SSG's competitive advantages especially as sales volumes taper off.

Strong cash position. Operating cash flow remains exceptionally high due to net profit growth, net cash amounted to S\$180mn as at 30 Sep 2020 (31 Dec 2019: S\$76.4mn). Given the level of its cash balances and strength and defensiveness of its cash flows even through normal times, we think this opens up possibilities for SSG to further improve its operational efficiencies and accelerate its growth in the coming years through new store openings. SSG could even consider a special dividend payout for its shareholders in lieu of its phenomenal performance this year.

Valuation & Action: Maintain NEUTRAL, and TP of S\$1.58.

We maintain our recommendation based on a DCF derived TP of S\$1.58. Results have been in line with expectations and there have been no new catalysts for further growth. Performance for FY2020 is expected to be a one-off event but we expect growth to revert to pre-Covid levels once restrictions are eased further and Singaporeans begin to spend less time at home.

Risks: Increased competition but decreased sales volumes as more return to work and spend less time cooking at home; inability to secure new shops in 2021, faster than expected recovery through to Phase 3 reopening.

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

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