

# Sheng Siong Group Ltd

(SSG SP/SHEN.SI)

## 4Q19 results update; Steady as it goes

Amirah Yusoff / 65 6202 1195 / [Amirah.Yusoff@kqi.com](mailto:Amirah.Yusoff@kqi.com)

- **FY19 results in line with expectations.** Same-store sales finally recovered in 4Q19 after four quarters of decline since 3Q18, increasing by 1.8% YoY. Gross margins have also remained buoyant above 27% since 2Q19.
- **Covid-19 may help not hurt.** In addition to ample government grants and support for Singaporeans and companies alike, consumers choosing to avoid crowds and increasingly eating at home might help boost grocery consumption. Supply chains have also yet to be disrupted.
- **Room to improve annual revenue/sqft.** Revenue/sqft continues to be weighed down by new stores, especially larger ones that require more time to ramp-up to steady levels; as these stores stabilise and contribute throughout 2020, revenue/sqft may improve to S\$2,000-S\$2,050/sqft from the current S\$1,916/sqft as of 4Q19.
- **Maintain Outperform.** We increase our 12M target price from S\$1.35 to S\$1.40, representing an upside of 11.2% (incl. div) for FY20F.

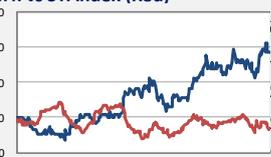
Figure 1: Earnings update

FYE Dec (SGD m)	4Q19	4Q18	YoY % Δ	FY2019	FY2018	YoY % Δ
Revenue	247.9	221.8	11.8%	991.3	890.8	11.3%
Cost of sales	(180.5)	(161.6)	11.7%	(724.4)	(652.6)	11.0%
<b>Gross profit</b>	<b>67.4</b>	<b>60.2</b>	<b>12.0%</b>	<b>266.9</b>	<b>238.3</b>	<b>12.0%</b>
Gross margin (%)	27.2	27.1		26.9	26.7	
<b>Operating profit</b>	<b>21.7</b>	<b>20.5</b>	<b>5.8%</b>	<b>92.6</b>	<b>83.8</b>	<b>10.5%</b>
<b>Net profit</b>	<b>17.4</b>	<b>17.5</b>	<b>-0.4%</b>	<b>75.8</b>	<b>70.5</b>	<b>7.4%</b>
Net margin (%)	7.0	7.9		7.6	7.9	
<b>PATMI</b>	<b>17.4</b>	<b>17.5</b>	<b>-0.8%</b>	<b>75.7</b>	<b>70.5</b>	<b>7.4%</b>

Source: Company, KGI Research

**FY19 results in line with expectations.** Sheng Siong (SSG) reported revenue of \$248mn for 4Q19 (+11.8% YoY), that was supported by the improvement in same-store sales growth (1.8% YoY) in addition to contributions by new stores (8.6% YoY). Gross margins have also proven stable after a consistent three quarters of above 27%. This was held up by higher supplier rebates and an improved sales mix favouring the higher margin fresh food sections, despite the recent increases in pork prices due to the swine flu outbreak in 4Q19. However, operating profit margins for the quarter was dragged down by distribution expenses that has doubled YoY (4Q19: 2.7mn; 4Q18: 1.3mn) due to increasing fleet sizes to cope with an increasing store count.

**Covid-19 may help not hurt.** As consumers shift towards home-cooked meals and away from retail F&B due to Covid-19, we expect an increase in demand for groceries, yet to be further boosted by the support packages for Singaporeans (cash payouts, grocery vouchers, top-ups to Passion Cards etc.) announced in Budget 2020. In addition, the Stabilisation and Support Package is expected to provide an estimated cost relief of S\$1mn based on the Jobs Support Scheme and half-month rental waiver on commercial tenants in government-managed properties. The Corporate Income Tax Rebate of

Outperform - Maintain		Performance (Absolute)	
Price as of 25 Feb 20 (SGD)	1.29	1 Month (%)	1.6
12M TP (SGD)	1.40	3 Month (%)	2.4
Previous TP (SGD)	1.35	12 Month (%)	22.2
Upside, incl div (%)	11.2		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	1,940		
Issued Shares (mn)	1,504		
Vol - 3M Daily avg (mn)	1.5		
Val - 3M Daily avg (\$mn)	1.9		
Free Float (%)	42.6%		
Major Shareholders		Previous Recommendations	
S & S Holdings Inc	29.9%	1-Nov-19	OP \$1.35
Lim Hock Chee	9.3%	31-Jul-19	OP \$1.27
Lim Hock Leng	9.1%	29-Apr-19	OP \$1.24

Financials & Key Operating Statistics					
YE Dec SGD mn	2018A	2019A	2020F	2021F	2022F
Revenue	890.9	991.3	1,093.6	1,197.6	1,268.7
Operating income	83.8	92.6	97.8	109.4	118.5
Net income	70.5	75.8	82.7	92.2	100.2
EPS (SG cents)	4.7	5.0	5.5	6.2	6.7
DPS (SG cents)	3.4	3.5	3.8	4.2	4.5
Div Yield (%)	2.6	2.7	2.9	3.2	3.5
NAV (SG cents)	19.3	20.8	23.4	25.7	27.1
Price / Book (x)	6.7	6.2	5.5	5.0	4.8
Gross Margin (%)	26.8	26.7	26.9	27.1	27.1
Net Margin (%)	7.9	7.7	7.6	7.7	7.9
ROE (%)	25.2	25.2	25.0	25.1	25.3
<b>Net Debt/Equity</b>		Net cash	Net cash	Net cash	Net cash

Source: Company Data, KGI Research

YA2020 is also expected to apply, however the amount of actual rebates is still unclear. We also note that owing to the geographical diversification of suppliers, SSG has not seen much disruption to its supply, other than a temporary shortage in personal hygiene products (masks, anti-bacterial wipes and washes, hand sanitisers).

**FY20 outlook.** As of February 2020, two new stores have been opened and begun operating – 18,000 sqft in Aljunied Ave 2 Blk 118, and 5,540 sqft in Marsiling Drive Blk 202 – bringing its total retail area from 529,480 sqft in 2019 to 553,020 sqft. Management has reiterated that its forward growth strategy will continue to be increasing new store count in areas SSG does not have a presence in.

**Valuation & Action: Maintain OUTPERFORM, TP of \$1.40.** We factored in a higher store count and total retail area in line with SSG's fairly aggressive expansion, especially given that the new Aljunied outlet that opened 1 Jan 2020 already takes up 18,000 sqft. SSG (23x FY20F P/E) continues to trade within a comfortable range, near its 5 year historical average of 22.5x.

**Risks:** Slower-than-expected growth as consumers' demand for retail F&B returns once Covid-19 stabilises, supply chain disruption that could impact its inventories, longer than expected stabilisation period for new stores.

## Financials

FYE 31 December					
INCOME STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
Revenue	890.9	991.3	1,093.6	1,197.6	1,268.7
Cost of sales	(652.6)	(724.4)	(799.4)	(873.0)	(922.4)
<b>Gross profit</b>	<b>238.4</b>	<b>266.9</b>	<b>294.2</b>	<b>324.5</b>	<b>346.4</b>
Other income	7.6	8.9	10.9	12.0	12.7
Distribution expenses	(5.8)	(7.7)	(7.7)	(8.4)	(8.9)
Administrative expenses	(154.0)	(172.8)	(196.9)	(215.6)	(228.4)
Other expenses	(2.3)	(2.8)	(2.9)	(3.1)	(3.3)
<b>Operating income</b>	<b>83.8</b>	<b>92.6</b>	<b>97.8</b>	<b>109.4</b>	<b>118.5</b>
Net finance income	0.9	(0.7)	0.9	1.0	1.4
<b>Profit before tax</b>	<b>84.7</b>	<b>91.9</b>	<b>98.7</b>	<b>110.4</b>	<b>119.9</b>
Tax expenses	(14.1)	(16.2)	(16.0)	(18.2)	(19.7)
<b>Profit after tax</b>	<b>70.5</b>	<b>75.8</b>	<b>82.7</b>	<b>92.2</b>	<b>100.2</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>83.0</b>	<b>92.5</b>	<b>100.5</b>
BALANCE SHEET (SGD mn)	2018A	2019F	2020F	2021F	2022F
Cash and cash equivalents	87.2	76.4	83.8	118.4	155.1
Inventories	69.9	82.2	87.8	95.9	101.3
Trade and other receivables	13.0	18.0	18.9	20.7	22.0
<b>Total current assets</b>	<b>170.1</b>	<b>176.6</b>	<b>190.6</b>	<b>235.0</b>	<b>278.4</b>
Net Property, Plant & Equipment	266.2	295.3	330.3	335.3	318.6
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>581.8</b>	<b>631.3</b>	<b>657.9</b>
Trade and other payables	125.7	140.8	151.8	165.7	175.1
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>195.1</b>	<b>209.1</b>	<b>214.5</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>228.4</b>	<b>242.4</b>	<b>247.8</b>
Shareholder's Equity	292.4	315.4	353.4	388.9	410.1
<b>Total liabilities and equity</b>	<b>436.3</b>	<b>532.8</b>	<b>581.8</b>	<b>631.3</b>	<b>657.9</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>82.7</b>	<b>92.2</b>	<b>100.2</b>
Depreciation & amortisation	16.5	41.8	18.6	20.4	21.6
Other non-cash adjustments	(1.6)	2.0	4.2	4.6	4.5
Changes in working capital	6.9	(2.2)	4.4	4.1	2.7
<b>Cash flows from operating activities</b>	<b>92.2</b>	<b>117.3</b>	<b>109.9</b>	<b>121.3</b>	<b>129.0</b>
Capital expenditure	(28.2)	(53.6)	(25.4)	(4.8)	(4.8)
Other investing cashflow	1.2	1.4	1.0	1.1	1.5
<b>Cash flows from investing activities</b>	<b>(27.0)</b>	<b>(52.2)</b>	<b>(24.4)</b>	<b>(3.7)</b>	<b>(3.3)</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)	(54.8)	(59.7)	(65.6)
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>(78.1)</b>	<b>(82.9)</b>	<b>(88.9)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>14.1</b>	<b>(10.8)</b>	<b>7.4</b>	<b>34.6</b>	<b>36.8</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>83.8</b>	<b>118.4</b>
<b>Ending Cash</b>	<b>87.2</b>	<b>76.4</b>	<b>83.8</b>	<b>118.4</b>	<b>155.1</b>
KEY RATIOS	2018A	2019F	2020F	2021F	2022F
Core EPS (SGD cents)	4.7	5.0	5.5	6.2	6.7
P/E (x)	27.7	25.8	23.6	21.2	19.5
P/B (x)	6.7	6.2	5.5	5.0	4.8
<b>Growth (%)</b>					
Revenue	7.4	11.3	10.3	9.5	5.9
PATMI	1.4	7.2	9.3	11.5	8.6
EPS	1.4	7.2	9.3	11.5	8.6
DPS	3.0	4.0	6.2	11.5	8.6
<b>Profitability (%)</b>					
Gross margin	26.8	26.7	26.9	27.1	27.1
Operating margin	9.4	9.3	8.9	9.1	9.3
PATMI margin	7.9	7.7	7.6	7.7	7.9
ROE	25.2	25.2	25.0	25.1	25.3
ROA	16.9	15.7	14.9	15.3	15.6

Source: Company Data, KGI Research

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