

# Singapore Company Focus

## Sheng Siong Group

Bloomberg: SSG SP | Reuters: SHEN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Oct 2015

### BUY

Last Traded Price: S\$0.85 (STI : 3,038.11)  
Price Target : S\$1.01 (19% upside) (Prev S\$1.00)

Reason for Report : 3Q15 results

Potential Catalyst: Margin expansion, store growth

Where we differ: In line

#### Analyst

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#### Result Summary

FY Dec (\$ m)	3Q 2015	3Q 2014	2Q 2015	% chg yoy	% chg qoq
<b>P&amp;L Items</b>					
Turnover	200.0	186.4	179.0	7.3	11.7
Gross Profit	48.8	45.1	45.0	8.4	8.4
Opg Profit	15.0	13.4	13.6	12.2	10.5
EBITDA	21.2	17.4	19.2	21.5	10.4
Net Profit	12.7	12.5	12.6	1.5	0.2
<b>Other Data</b>					
Gross Margin (%)	24.4	24.2	25.2		
Opg Margin (%)	7.5	7.2	7.6		
Net Margin (%)	6.3	6.7	7.1		

#### Financial Summary

FY Dec (\$ m)	2014A	2015F	2016F	2017F
Turnover	726	782	846	816
Operating Profit	52	58	65	66
EBITDA	63	71	80	80
Net Pft (Pre Ex.)	47	56	61	61
EPS (\$ cts)	3.1	3.7	4.0	4.1
EPS Pre Ex. (\$ cts)	3.1	3.7	4.0	4.1
EPS Gth (%)	11	19	9	0
EPS Gth Pre Ex (%)	11	19	9	0
Net DPS (\$ cts)	2.9	3.4	3.6	3.7
BV Per Share (\$ cts)	15.7	16.1	16.5	16.9
PE (X)	27.2	22.8	21.0	20.9
PE Pre Ex. (X)	27.2	22.8	21.0	20.9
EV/EBITDA (X)	18.2	16.2	14.4	14.3
Net Div Yield (%)	3.4	3.9	4.3	4.3
P/Book Value (X)	5.4	5.3	5.2	5.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	24.3	23.4	24.9	24.4

#### At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (\$m/US\$m)	1,278 / 916
3m Avg. Daily Val (US\$m)	1.9

ICB Industry : Consumer Services

ICB Sector: Food & Drug Retailers

Principal Business: Sheng Siong is the third largest supermarket operator in Singapore, behind NTUC Fairprice and Dairy Farm International.

Source: Company, DBS Bank, Bloomberg Finance L.P.

### Coming together nicely

- 3Q15 earnings in line, driven by new stores
- Store expansion on track, margins set to improve going forward, long-term drivers intact
- Maintain BUY and S\$1.01 TP

#### Highlights

**3Q15 results in line.** Earnings of S\$14.4m (+19% y-o-y) were in line with our expectations, driven by revenue growth and margin expansion. The strong revenue growth (S\$200m, +7.3% y-o-y) was backed by SSSG of +1.1% and new store contribution of +6.2%. Margins were better than 3Q14 on gross margin expansion and lower opex. However, both gross and EBIT margins were sequentially lower mainly due to lower pricing for SG50 and seventh month festival promotions. Input prices were also a tad higher as 1) deliveries for fresh food were disrupted due to the haze, and 2) to some extent, a stronger USD. Otherwise, opex as a percentage of sales was both lower sequentially and compared to 3Q14.

#### Outlook

**On track for store expansion, margins to improve going forward, longer-term drivers continue to develop.** Sheng Siong has secured another store in Dawson (4,300 sqft) and will have a total of 39 stores by year-end. This is in line with our expectations. The target is to reach 50 stores in Singapore eventually. We see margins normalising going into 4Q15. 1) Input prices for fresh food should ease as logistical disruption and the haze clears up; 2) pricing should be less aggressive post SG50 and seventh month promotions. Online initiative remains in the pilot phase. We continue to see online sales for grocery retail in its infancy in Singapore and therefore believe Sheng Siong can afford to develop this business over a longer time frame. Developments in China continue to be on securing suitable sites in Kunming. As the grocery retail scene in China is facing intensifying competition, especially from online channels, we also believe time is on Sheng Siong's side to land the ideal location.

#### Valuation:

Our target price for Sheng Siong is S\$1.01 based on 25x FY16F PE. Valuation is pegged to below +1SD of its historical mean and below regional peers' average of 27x PE.

**Sheng Siong Group**

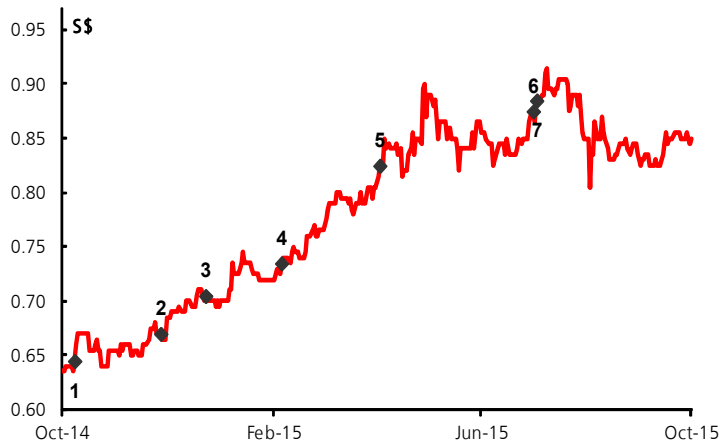
**Key Risks:**

**Revenue growth limited by store openings.** Store expansion in Singapore is largely dependent on the supply of new supermarket retail space released by HDB and its ability to secure the tenders.

**Excessive discounts and promotions may erode margins.**

Heavier discounts and promotions vis-a-vis competitors would drive sales revenue, but this could be gained at the expense of margins.

**Target Price & Ratings History**



*Note: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	29 Oct 14	0.65	0.78	BUY
2:	18 Dec 14	0.67	0.78	BUY
3:	13 Jan 15	0.71	0.82	BUY
4:	26 Feb 15	0.74	0.83	BUY
5:	24 Apr 15	0.83	0.90	BUY
6:	22 Jul 15	0.88	0.98	BUY
7:	24 Jul 15	0.89	1.00	BUY

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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