

Sheng Siong Group

Expecting to capture more market share

SINGAPORE | CONSUMER | RESULTS

26 October 2015

- Higher 3Q15 revenue and net profit in line with PSR/consensus estimates.
- Muted comparable same-store sales growth (SSSG) amidst intense competition and lacklustre demand. New stores and newly renovated stores helped to cushion the weak sales growth. Continue expansion and rejuvenation plans.
- New store at Dawson Road (expected to start in Nov-15) will bring retail space up by 6.4% y-y and the total number of stores to 39 by end of this year.

Results at a glance

(SGD mn)	3Q15	3Q14	y-y (%)	2Q15	q-q (%)	Comments
Revenue	200.0	186.4	7.3%	179.0	11.7%	6.2% from new stores, 1.1% from higher same store sales; keen competition
Gross profit	48.7	45.1	8.0%	45.0	8.0%	Margin pressure due to (i) seasonality, (ii) supply disruption, and (iii) stronger USD
EBITDA	21.0	17.5	19.9%	15.9	32.0%	
EBIT	17.6	14.7	19.7%	16.2	8.9%	Higher depreciation due to purchase of Blk 506 Tampines Central, renovation and upgrading
Net profit	14.5	12.2	18.7%	13.6	6.2%	Higher other income and better cost management

Source: Company, Phillip Securities Research (Singapore)

Analyst briefing key takeaways

- **Intense competition on volume growth in expense of lower prices.** 3Q15 gross profit margin edged up 0.1 p.p. y-y to 24.3%, but fell on quarterly basis. Margin pressures came from:
 - Seasonality sales mix shift**
Typically, retailers would compete for volume sales during Lunar New Year and the Lunar Seventh Month. Sales mix shift to higher groceries sales, as supermarkets often offer bundled goods, e.g. hamper. In addition to the competitive pricing, demand were softer as compared to last year's due to subdued economy and weak consumer sentiment.
 - Prolonged smog**
Vegetables prices rose on supply squeeze from Malaysia, thanks to the haze. Although the fresh food prices could be adjusted daily, SSG is reluctant to pass on the additional costs to consumers, in its effort to drive volume. Prolonged smog will continue to negatively impact fresh foods, which are the margin drivers.
 - Stronger greenback**
Fresh foods imported outside the ASEAN region (e.g. poultry from Brazil and U.S., fruits from Australia, Europe and South Africa, etc.) felt a pinch from USD strengthening. Similarly, higher costs were absorbed by SSG.
- **New store and expansions will gradually lift revenue from 2016**
 - The new HDB-leased store of approximately 4,300 sq ft at Dawson Road is expected to be operational in Nov-2015, bringing the total number of stores to 39.
 - The store at Block 506 Tampines could be expanded to ~20,000 sq ft by end-2016. With most of the leases with the existing tenants would have expired, the Group could re-configuring the retail layout thus capturing more footfall.
 - The store at Block 258 Loyang Point (~6,000 sq ft) will be closed for 15 months starting from the 2Q2016, due to renovation by HDB. Subsequently, retail area in Loyang is expected to increase to ~8,000 sq ft.
- **Cautious approach amid China's slowdown.** The prevailing uncertainties in the business environment have deferred its expansion plan in China. The Group and its partner are still on the lookout for potential sites in Kunming and expect to kick start its first supermarket earliest in 2016.

Accumulate (Maintain)

CLOSING PRICE	SGD 0.89
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 0.96
TOTAL RETURN	12.4%

COMPANY DATA

O/S SHARES (MN) :	1,504
MARKET CAP (USD mn / SGD mn) :	952 / 1331
52 - WK HV/LO (SGD) :	0.93 / 0.64
3M Average Daily T/O (mn) :	3.19

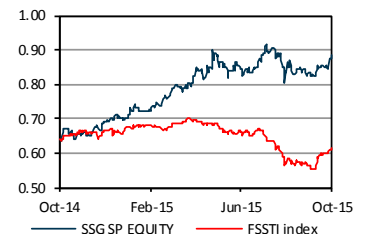
MAJOR SHAREHOLDERS (%)

SS HOLDINGS	29.85%
LIM HOCK CHEE	11.33%
LIM HOCK LENG	11.33%
LIM HOCK ENG	11.33%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	5.4	3.1	43.1
STIRETURN	7.89	(7.29)	(2.00)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 13	FY 14	FY 15F	FY 16F
Revenue	687	726	765	789
EBITDA	58	57	68	77
NPAT (adj.)	39	48	55	56
EPS (adj.)	2.81	3.34	3.83	3.94
PER, x (adj.)	21.8	21.0	22.8	22.2
P/BV, x	5.7	4.2	5.2	5.0
DPS (SGD)	2.60	3.00	3.45	3.55
Div Yield, %	4.2%	4.3%	3.9%	4.1%
ROE, %	25.8%	24.7%	22.8%	22.9%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple

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- **Strategic approach on E-Commerce.** The still-growing retail network across Singapore should help SSG to build an optimal logistics distribution route as it ramp up volume for its e-commerce. A decentralized warehouse management would help to SSG to increase efficiency (e.g. faster delivery time).
- **Waiting for competition to normalize and an economic turnaround**
 - a. Persistent competition alongside a still-temperid economic outlook has put consumers into cautious mode.
 - b. Labor cost pressure due to domestic restructuring remains a headwind to the Group, while lower electricity tariffs due to lower oil prices will continue to benefit the Group.
 - c. Nonetheless, the five new stores opened since December 2014 as well as newly renovated stores will continue to support sales.
 - d. The company will also continue to expand its domestic retail network while nurturing the six new stores (inclusive of Dawson Road) as well as rejuvenating old stores to revive footfall. The management also shared that, seeing the tail end of 2011 building frenzy, where new HDB-leased stores supply is expected to ebb, competition for retail space will remain keen.

How do we view this?

SSG's 3Q15 performance affirms our optimistic view on its outlook. We think that SSG's growth strategy will position it to capture market share when the business cycle turnaround.

Investment Actions

We maintain our **"Accumulate"** rating with **TP of S\$0.96**, based on estimated S\$3.83 cents FY15 EPS and a P/E ratio of 25.0x.

3Q15 Results at a Glance

S\$ '000	3Q15	3Q14	%yoy	9M15	9M14	%yoy
Revenue	199,980	186,356	7.3%	577,335	547,616	5.4%
Profit before tax	17,963	14,973	20.0%	51,211	43,777	17.0%
Profit for the period	14,481	12,204	18.7%	42,178	35,810	17.8%
EPS (S\$ cents)	0.96	0.86	11.6%	2.81	2.56	9.8%
Margin						
Gross profit margin	24.3%	24.2%		24.6%	24.2%	
Net profit margin	7.2%	6.5%		7.3%	6.5%	
Cash Flow						
CF from Operating Activities	25,359	26,559	-4.5%	54,823	50,772	8.0%
Cash and cash equivalents at end of the period	131,681	95,643	37.7%	131,681	95,643	37.7%

Source: Company, Phillip Securities Research (Singapore)

SSG Historical P/E Ratio



Source: Bloomberg, Phillip Securities Research (Singapore) estimates

Figure 1: SSG's Healthy Growth in Retail Area

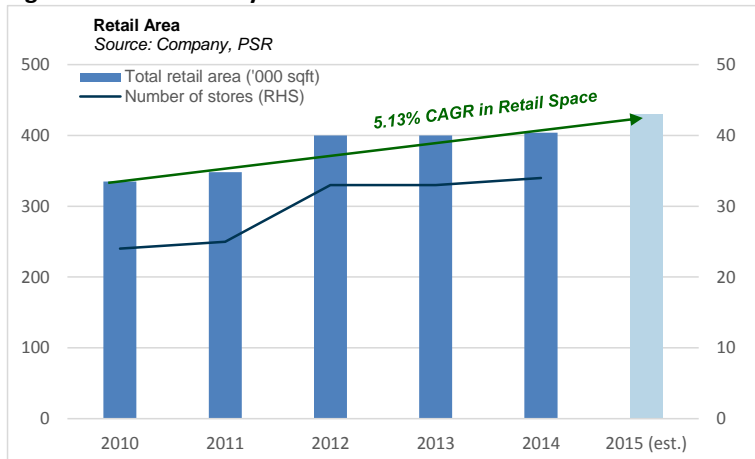


Figure 2: SG Retail Sales Landscape

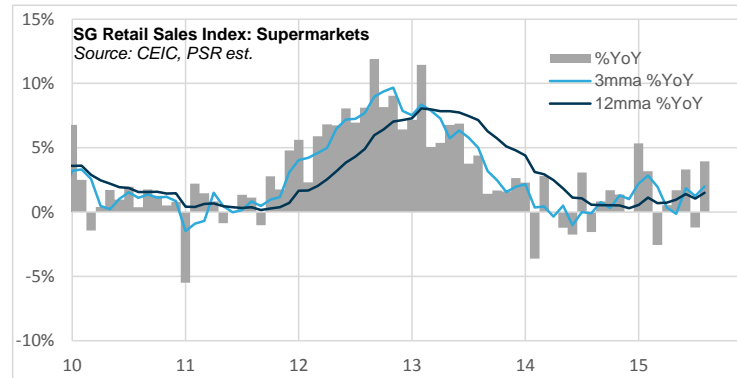
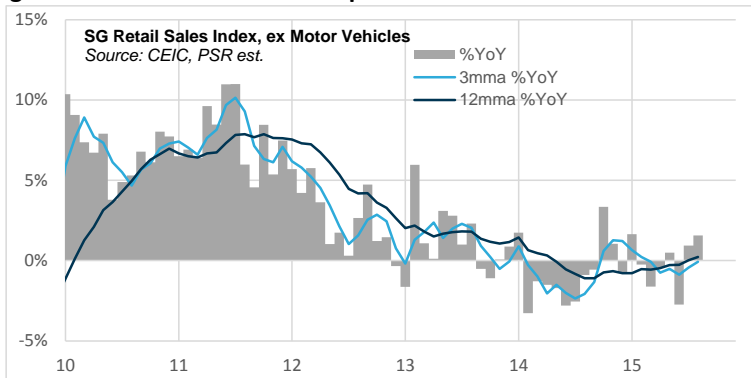


Figure 3: SG Inflation and Cost Outlook

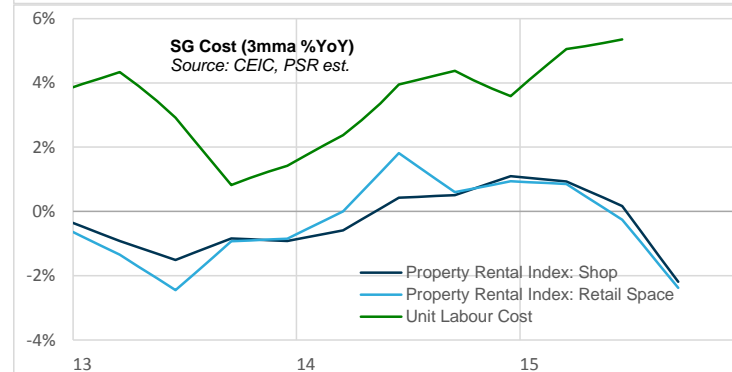
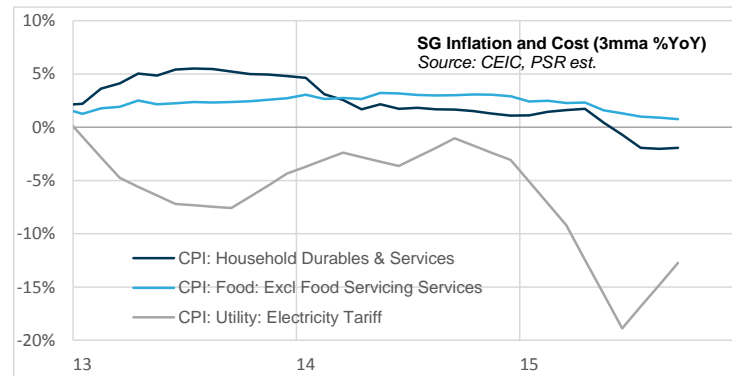
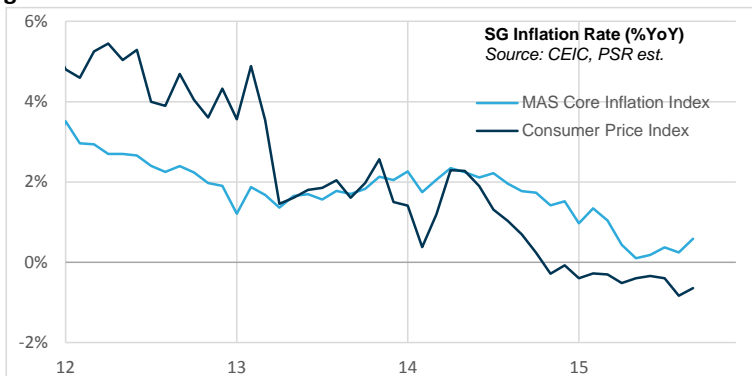


Figure 4: SSG Peer Comparison Table

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	BEst PEG FY1	Net D/E (%)	ROA (%)	ROE (%)	P/B
Sheng Siong Group	SSG SP	1,315.6	1,183.9	15.6	15.4	15.0	24.1	22.8	22.2	2.1	Net Cash	15.7	22.8	5.4
Singapore														
Dairy Farm Intl Hldgs Ltd	DFI SP	12,303.4	13,215.0	18.7	13.9	12.6	18.9	19.5	17.6	3.4	Net Cash	10.4	35.0	6.4
Hong Kong														
Lianhua Supermarket Holdings Co Ltd	980 HK	777.4	-426.4	N/A	N/A	N/A	N/A	N/A	150.1	N/A	Net Cash	-0.3	-1.3	1.0
China Resources Enterprise	291 HK	6,555.8	10,043.2	18.3	11.9	10.1	1,449.1	36.5	31.1	N/A	11.8	-3.1	-11.5	0.8
Average				18.3	11.9	10.1	1,449.1	36.5	31.1	2.1	11.8	-1.7	-6.4	0.9
Indonesia														
Matahari Putra Prima Tbk PT	MPPA IJ	1,417.5	1,441.2	16.6	13.7	11.8	26.4	24.4	20.9	2.5	Net Cash	8.4	19.9	4.9
Hero Supermarket Tbk Pt	HERO IJ	665.1	669.8	33.7	N/A	N/A	N/A	N/A	N/A	N/A	Net Cash	-0.9	-1.5	1.2
Ramayana Lestari Sentosa Tbk PT	RALS IJ	509.4	329.9	7.3	6.2	5.6	14.5	17.4	15.8	87.0	Net Cash	7.2	10.8	1.5
Average				19.2	10.0	8.7	20.4	20.9	18.3	44.7	N/A	4.9	9.7	2.6
Malaysia														
7-Eleven Malaysia Holdings Bhd	SEM MK	584.6	523.5	N/A	12.3	10.0	30.1	29.4	23.7	1.7	Net Cash	N/A	N/A	9.1
Parkson Holdings	PKS MK	380.7	800.9	5.8	4.4	4.0	43.6	8.9	7.6	N/A	Net Cash	0.5	1.6	0.4
Average				5.8	8.3	7.0	36.9	19.2	15.6	1.7	N/A	0.5	1.6	4.8
Thailand														
Big C Supercenter Pcl	BIGC TB	6,509.8	7,151.2	12.6	12.6	11.6	22.1	21.2	19.0	2.0	32.1	7.8	18.5	3.8
CP All Pcl	CPALL TB	17,544.2	24,709.9	23.2	19.7	17.3	38.0	34.0	27.4	1.2	470.8	3.8	42.1	14.8
Robinson Department Store Pcl	ROBINS TB	1,744.0	1,874.9	32.6	10.3	9.2	22.2	20.7	17.8	1.0	5.6	9.4	16.9	3.6
Siam Makro Pcl	MAKRO TB	7,348.9	7,552.5	25.3	21.2	17.8	35.5	32.8	27.8	1.7	9.4	13.8	41.5	13.9
Average				23.4	15.9	14.0	29.4	27.1	23.0	1.5	129.5	8.7	29.8	9.0
Philippines														
Robinsons Retail Holdings Inc	RRHI PM	3,157.1	3,081.9	16.5	15.2	12.8	25.8	23.9	20.7	1.5	Net Cash	7.5	10.3	2.5
Puregold Price Club	PGOLD PM	2,982.4	3,078.8	13.7	12.1	10.6	20.4	19.9	17.7	1.9	Net Cash	10.0	14.2	2.7
Average				15.1	13.6	11.7	23.1	21.9	19.2	1.7	N/A	8.8	12.2	2.6
Simple Average (Excl. SSG)				18.7	12.8	11.1	145.5	24.0	30.6	10.4	105.9	5.7	15.1	4.8

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Financials

Income Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15F	FY16F
Revenue	637	687	726	765	789
Gross profit	141	158	176	190	197
EBITDA	58	57	68	77	79
Depreciation & Amortisation	8	10	11	12	13
EBIT	50	47	57	65	66
Net Finance Inc/(Exp)	1	1	1	1	1
Profit Before Tax	50	48	58	66	68
Taxation	(9)	(9)	(10)	(11)	(11)
Net profit, reported	42	39	48	55	56
Net profit, adj.	31	39	48	55	56

Per share data (SGD Cents)

Y/E Dec	FY12	FY13	FY14	FY15F	FY16F
EPS, reported	3.01	2.81	3.34	3.83	3.94
EPS, adj.	2.26	2.81	3.34	3.83	3.94
DPS	2.75	2.60	3.00	3.45	3.55
BVPS	10.96	10.83	16.60	16.98	17.38

Cash Flow

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15F	FY16F
CFO					
Net Profit	42	39	48	55	56
Depreciation & Amortisation	8	10	11	12	13
WC changes	-6	-3	12	-4	1
Net finance inc/(exp)	-1	-1	-1	-1	-1
Tax paid	-8	-9	-7	-11	-11
Others	-2	9	10	11	11
Cashflow from ops	34	45	72	62	69
CFI					
CAPEX, net	-12	-26	-81	-15	-24
Others	15	1	1	1	1
Cashflow from investments	3	-25	-80	-14	-23
CFF					
Share issuance, net	0	0	79	0	0
Loans, net of repayments	0	0	0	0	0
Dividends	-38	-41	-40	-49	-50
Others	0	0	0	0	0
Cashflow from financing	-38	-41	39	-49	-50
Net change in cash	-2	-21	31	-2	-4
Effects of exchange rates	0	0	0	0	0
CCE, end	120	100	130	129	124

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15F	FY16F
ASSETS					
PPE	75	91	161	164	175
Others	0	0	0	0	0
Total non-current assets	75	91	161	164	175
Accounts receivables	7	12	11	13	13
Cash	120	100	130	129	124
Inventories	40	46	43	47	49
Others	0	0	0	0	0
Total current assets	167	157	184	189	186
Total Assets	242	248	345	352	361

LIABILITIES

Accounts payables	80	88	96	98	101
Short term loans	0	0	0	0	0
Others	9	8	11	11	11
Total current liabilities	88	96	107	108	111
Long term loans	0	0	0	0	0
Others	2	2	2	2	2
Total non-current liabilities	2	2	2	2	2
Total Liabilities	90	98	109	111	113

EQUITY

Non-controlling interests	0	0	0	0	0
Shareholder Equity	152	150	236	242	247

Valuation Ratios

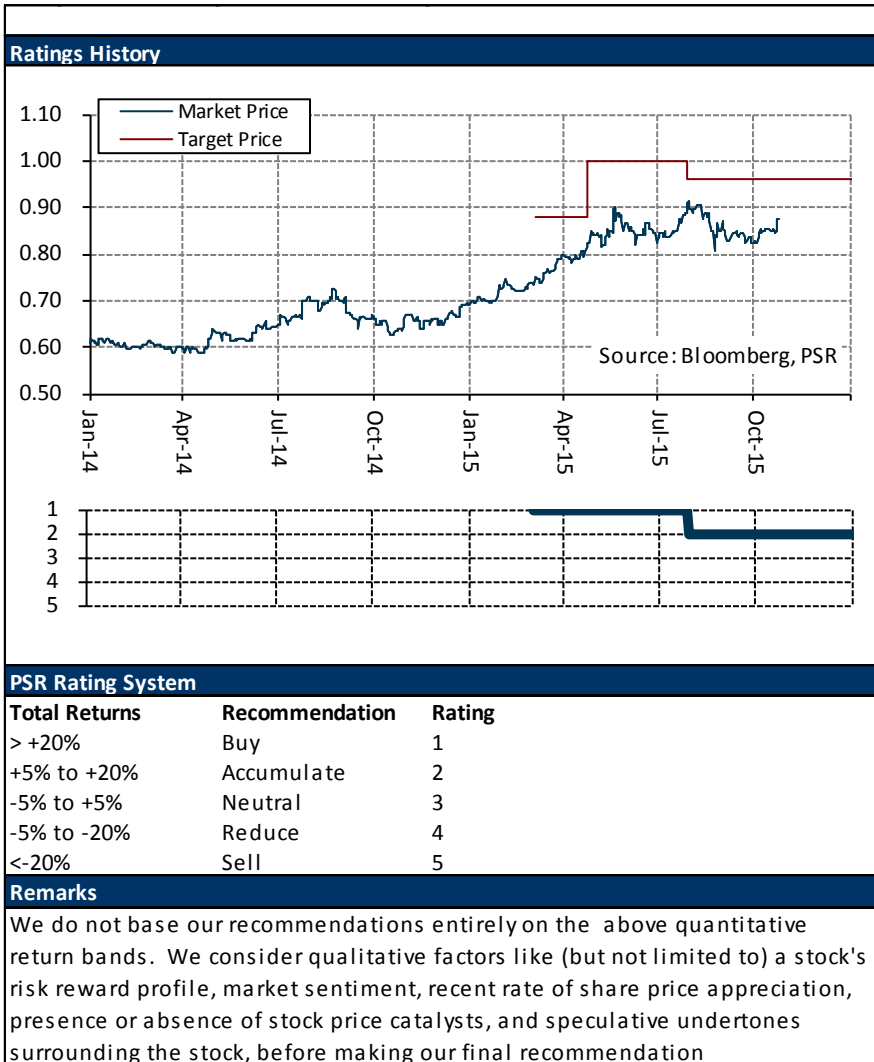
Y/E Dec	FY12	FY13	FY14	FY15F	FY16F
P/E (X), adj.	27.0	21.8	21.0	22.8	22.2
P/B (X)	5.6	5.7	4.2	5.2	5.0
EV/EBITDA (X), adj.	12.4	13.2	12.9	14.5	14.2
Dividend Yield (%)	4.5%	4.2%	4.3%	3.9%	4.1%

Growth & Margins (%)

Growth					
Revenue		7.9%	5.6%	5.4%	3.1%
EBITDA		-2.7%	19.8%	13.4%	2.9%
EBIT		19.7%	22.2%	13.7%	2.8%
Net profit, adj.		24.7%	22.3%	14.7%	2.8%
Margins					
Gross margin	22.1%	23.0%	24.2%	24.8%	25.0%
EBITDA margin	9.1%	8.2%	9.3%	10.0%	10.0%
EBIT margin	7.8%	6.8%	7.8%	8.4%	8.4%
Net profit margin	4.9%	5.7%	6.6%	7.1%	7.1%

Key Ratios

ROE (%)	20.6%	25.8%	24.7%	22.8%	22.9%
ROA (%)	12.9%	15.9%	16.0%	15.7%	15.7%
Net Debt/(Cash)	(120)	(100)	(130)	(129)	(124)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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