

29 May 2020

Consumer Cyclical | Retailing

## Sheng Siong (SSG SP)

**Buy** (Maintained)

**As Safe As Houses; Maintain BUY**

Target Price (Return): SGD1.72 (+13%)  
 Price: SGD1.52  
 Market Cap: USD1,611m  
 Avg Daily Turnover (SGD/USD) 6.81m/4.79m

- **Reiterate BUY with new TP of SGD1.72** from SGD1.63, 13% upside and c.3% yield. Moving into 2H20, we continue to favour safe haven stock Sheng Siong amid market concerns on weakening global economy, rising US and China trade tensions and COVID-19 resurgence. Earnings wise, we believe outlook still remains optimistic as grocery sales are likely to remain elevated even after the Circuit Breaker due to prevailing work from home measures.

- **Expect 2Q to see stronger sales growth.** Although we have begun to see the panic-buying pattern taper off from March to May, Circuit Breaker measures have shifted the bulk of on-premise food demand to grocery retail. Consumers also turn to supermarkets as a substitute following the closure of more non-essential shops from 22 Apr. Even as Singapore move into Phase One of post-Circuit Breaker on 2 Jun, dining out continues to be prohibited. Those who can, are still expected to work from home while students from non-graduating cohorts still have some forms of home-based learning. As such, grocery demand is likely to remain elevated from April to June. Thus, we believe 2Q20 could see stronger sales YoY growth compared to 1Q20.

- **Growth to moderate in 3Q but likely to stay positive.** Ministers have cited Phase One of post-Circuit Breaker to likely be at least four weeks. Barring a major resurgence of COVID-19 cases in June, we expect Singapore to move into Phase Two at the end of June or some time in 3Q20. The gradual resumption of on-premise dining and social activities in Phase Two would shift some demand away from grocery retail. However, it would not mean returning to pre-COVID days. Employers are likely to be encouraged to adopt work-from-home measures while some forms of social distancing measures should still prevail. We believe 3Q20 will still see decent YoY sales growth amid more time spend at home compared to pre-COVID days but growth would likely have peaked in 2Q20.

- **As safe as houses.** Being a beneficiary of the current exceptional environment, Sheng Siong remains our preferred pick in the consumer sector. We believe the market would also continue to favour this safe haven stock given the uncertain negative lingering impact of COVID-19 on other businesses. We raise our FY20F earnings by 6% on the back of higher sales forecast and government grants. This, together with declining risk free rate in Singapore, raises our DCF-derived TP to SGD1.72, implying 25x FY20F P/E.

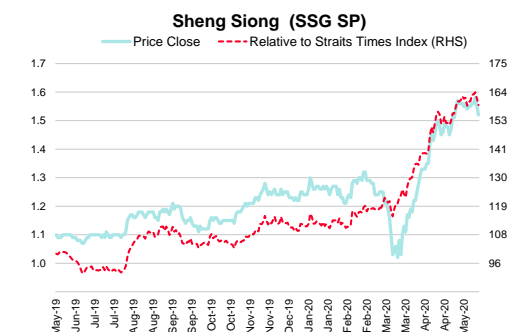
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.6	4.1	22.6	22.6	40.7
Relative	44.6	6.0	39.1	44.0	61.2
52-wk Price low/high (SGD)					1.02 – 1.58



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	891	991	1,186	1,138	1,189
Recurring net profit (SGDm)	71	76	103	92	97
Recurring net profit growth (%)	4.7	7.0	35.5	(10.4)	5.9
Recurring P/E (x)	32.28	30.18	22.27	24.85	23.46
P/B (x)	7.9	7.3	6.6	6.1	5.7
P/CF (x)	24.78	19.48	17.69	18.71	17.90
Dividend Yield (%)	2.2	2.3	3.2	2.9	3.0
EV/EBITDA (x)	21.95	19.98	14.86	15.76	14.77
Return on average equity (%)	25.2	25.1	31.2	25.7	24.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Singapore	Recurring EPS	0.05	0.05	0.07	0.06	0.06
Consumer Cyclical	DPS	0.03	0.04	0.05	0.04	0.05
<b>Sheng Siong</b>	BVPS	0.19	0.21	0.23	0.25	0.27
SSG SP	Return on average equity (%)	25.2	25.1	31.2	25.7	24.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	32.28	30.18	22.27	24.85	23.46
DCF valuation	P/B (x)	7.9	7.3	6.6	6.1	5.7
	FCF Yield (%)	2.8	2.8	5.2	4.9	5.1
<b>Key drivers</b>	Dividend Yield (%)	2.2	2.3	3.2	2.9	3.0
i. New store openings;	EV/EBITDA (x)	21.95	19.98	14.86	15.76	14.77
ii. SSSG	EV/EBIT (x)	26.26	23.88	17.23	18.88	17.77
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Inventory shortage in the event of major supply chain disruptions	Total turnover	891	991	1,186	1,138	1,189
ii. Inability to find affordable areas to lease	Gross profit	238	267	321	308	322
iii. Price war from competitors	EBITDA	100	111	146	135	140
	Depreciation and amortisation	(16)	(18)	(20)	(22)	(24)
<b>Company Profile</b>	Operating profit	84	93	126	112	117
With 61 stores located in suburban areas, Sheng Siong operates the third-largest supermarket operator in Singapore that caters to the country's mass market.	Net interest	1	(1)	(1)	0	1
	Pre-tax profit	85	92	125	113	118
	Taxation	(14)	(16)	(21)	(19)	(20)
	Reported net profit	71	76	103	92	96
	Recurring net profit	71	76	103	92	97
	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	6.9	(2.2)	4.0	5.0	4.6
	Cash flow from operations	92.2	117.3	129.2	122.1	127.7
	Capex	(27.9)	(53.5)	(10.6)	(10.6)	(10.6)
	Cash flow from investing activities	(27.0)	(52.2)	(10.6)	(10.6)	(10.6)
	Dividends paid	(51.1)	(52.6)	(72.7)	(65.4)	(68.4)
	Cash flow from financing activities	(51.1)	(75.9)	(72.7)	(65.4)	(68.4)
	Cash at beginning of period	73.4	87.2	76.4	122.3	168.5
	Net change in cash	14.1	(10.8)	45.9	46.2	48.7
	Ending balance cash	87.6	76.5	122.3	168.5	217.1
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	87	76	122	168	217
	Tangible fixed assets	266	295	286	274	261
	Total assets	436	533	592	615	653
	Total liabilities	144	217	245	238	245
	Total equity	292	315	348	377	408
	Total liabilities & equity	436	533	592	615	653
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	7.4	11.3	19.7	(4.0)	4.5
	Recurrent EPS growth (%)	4.7	7.0	35.5	(10.4)	5.9
	Gross margin (%)	26.8	26.9	27.1	27.1	27.1
	Operating EBITDA margin (%)	11.3	11.2	12.3	11.8	11.8
	Net profit margin (%)	7.9	7.6	8.7	8.1	8.1
	Dividend payout ratio (%)	72.2	70.5	70.8	71.1	71.2
	Capex/sales (%)	3.1	5.4	0.9	0.9	0.9
	Interest cover (x)		46	62	56	58

Source: Company data, RHB

29 May 2020

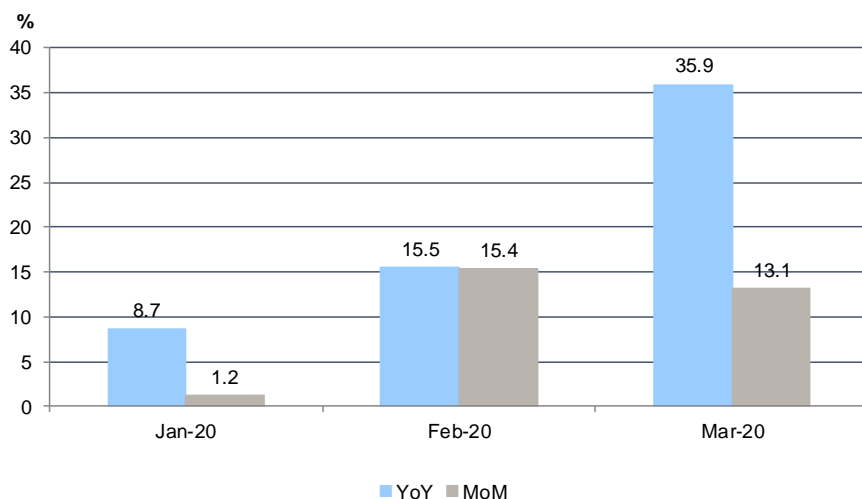
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### Beneficiary of Government's stay home advisory

**Stay home, eat at home.** March retail sales gave a glimpse of what Sheng Siong's sales could achieve in 2Q20. From January-March, Singapore supermarket & hypermarket retail sales grew an average of 20% YoY (Figure 1). Sheng Siong recorded revenue growth of 31% in 1Q20, suggesting market share gain in the first quarter. New store openings aside, we believe the company is able to gain more market traction during this period as all of its outlets are located in the heartland. This made grocery shopping convenient especially when consumers are making bulk purchases to stock up their pantries amidst the pandemic.

- ◆ With its outlets located at residential areas and closer to homes, bulk purchases for panic buying have been made easier when shopping at Sheng Siong.

Figure 1: Change in supermarket & hypermarket retail sales

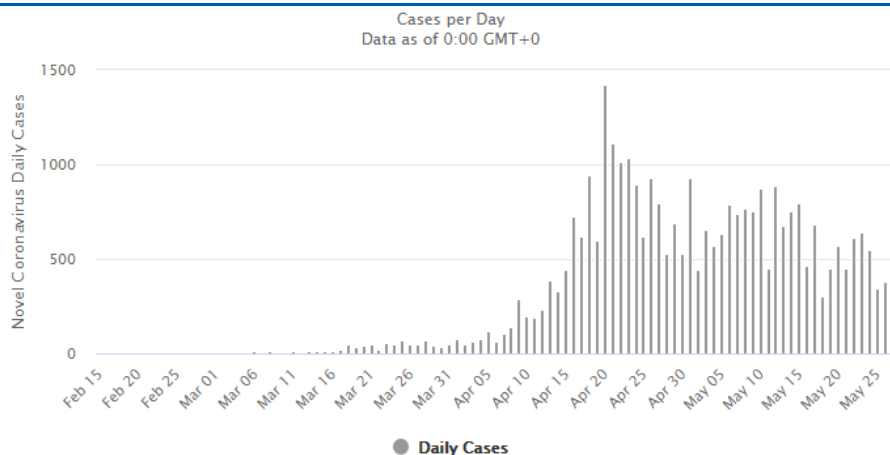


Source: Singstats

Supermarket retail sales growth accelerated from 15.5% in February to 35.9% in March. We note that the strong sales in February was largely triggered by panic buying when Singapore raised the COVID-19 risk assessment to Disease Outbreak Response System Condition (DORSCON) Orange. Subsequently, we saw more spurts of panic buying in March prior to the closure of Malaysia's borders and the delivery of Prime Minister's messages. On top of that, March sales were also supported by the increase in corporates adopting work-from-home measures in light of COVID-19 transmission in the community (Figure 2).

- ◆ Strong supermarket retail sales in March was attributed to both panic buying and increase in the number of residents working from home.

Figure 2: Daily new cases of COVID-19 in Singapore



Source: Worldometers

29 May 2020

Consumer Cyclical | Retailing

We believe supermarket & hypermarket sales growth could be stronger in April as Circuit Breaker measures mandate employers to adopt working from home while school closures also put students on home-based learning. The surge in people staying at home and dining at home, coupled with some panic buying/pantry loading behaviour following government announcements should bring April supermarket sales to a higher peak. Supermarket sales for May and June should remain elevated amidst the lack of options to dine out and higher number of residents at home but we expect sales growth to taper off from the peak in April as consumers adjust to the new normal and reduce the need for pantry loading. Overall, we expect the company's 2Q20 to chart stronger YoY sales growth compared to 1Q20.

**Closure of non-essential stores, make it at home.** The tightening of Circuit Breaker measures announced on 21 Apr has led to the temporary closure of non-essential food and beverage stores such as bubble tea and confectionery shops. We believe some of the demand have shifted to grocery retailers as consumers desperately look for substitutes. Anecdotally, we saw stock out on flour in several supermarkets for a couple of weeks following the tighten measures. Media reports also highlighted the spike in demand for frozen chicken packs in supermarkets amidst the temporary closure of McDonald's outlets in Singapore.

◆ Sheng Siong's 2Q20 sales likely to be stronger QoQ as more people are now staying at home due to the Circuit Breaker, including both workers and students.

◆ Boredom and sudden absence of comfort food amid tightening measures shifted demand to supermarkets.

**Figure 3: Media report on flour shortage during the Circuit Breaker**



Source: Straits Times

**Figure 4: Media report on spike in frozen processed chicken demand**



Source: Money Digest

**Too much time at home, grocery shopping as a solution to cabin fever.** Under the Circuit Breaker and Phase One post-Circuit Breaker, people are advised to stay at home unless it is for essential activities such as purchasing essential goods or going for exercise. Given the limited options available, trips to grocery stores may increase as a result of rising cabin fever.

◆ Grocery shopping also became an escape to cabin fever due to limited options.

### Getting a boost from government grants

The Government rolled out more support measures in the Fortitude Budget which will enhance assistance to retailers with their fixed expenses. The Job Support Scheme (JSS) will be extended for one more month to cover 50% of the wages (capped at gross monthly wage of SGD4,600) for local employees in August. Sheng Siong outlets that are located in Housing Development Board (HDB) premises would also receive two additional months of rental waiver. We expect to additional grants from the Fortitude Budget to make up c.3-4% of PATMI.

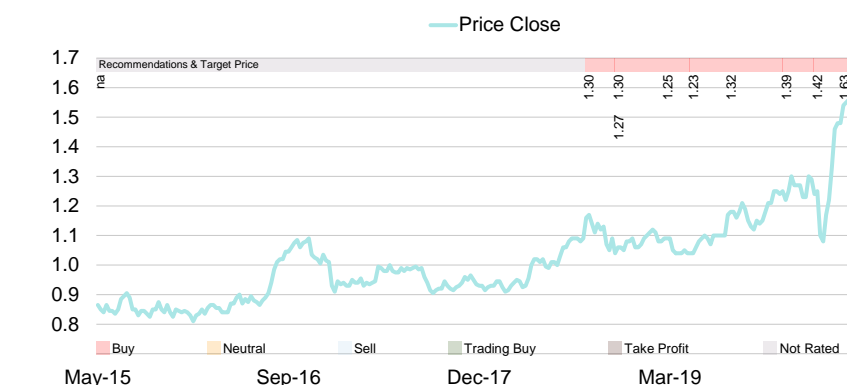
◆ Aside from higher sales, the group also received support from Government grants during this period.

Figure 5: TP derivation

(SGD m)	FY20F	FY21F	FY22F	FY23F	FY24F
Net Income	102.6	92.0	97.4	103.5	107.7
+ Non-Cash Charges	20.1	22.3	23.7	25.5	25.5
+ Fixed Capital Investment	(10.6)	(10.6)	(10.6)	(10.0)	(10.0)
+ Change in net working capital	4.0	5.0	4.6	0.0	0.0
+ Change in debt	0.0	0.0	0.0	0.0	0.0
<b>FCFE</b>	<b>116.2</b>	<b>108.7</b>	<b>115.1</b>	<b>119.0</b>	<b>123.2</b>
Terminal Value					2593.3
PV	116.2	102.7	102.8	100.5	2168.1
Total discounted FCFE	2590.2				
Value/Share (SGD)	1.72				
Cost of equity	5.8%				
Risk free rate	1.0%				
Beta	0.6				
Market return	9.0%				
Terminal growth	1.0%				

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-29	Buy	1.63	1.49
2020-02-23	Buy	1.42	1.29
2019-12-10	Buy	1.39	1.26
2019-10-31	Buy	1.32	1.17
2019-04-30	Buy	1.23	1.03
2019-03-15	Buy	1.25	1.09
2018-11-01	Buy	1.27	1.05
2018-10-31	Buy	1.30	1.08

Source: RHB, Bloomberg



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Analyst	Company
-	-

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