

10 December 2019

Consumer Non-cyclical | Retailing

## Sheng Siong (SSG SP)

**Buy** (Maintained)

### More Stores To Come; Maintain BUY

Target Price (Return) SGD1.39 (+13%)  
Price: SGD1.23  
Market Cap: USD1,370m  
Avg Daily Turnover (SGD/USD) 1.2m/1.6m

• **Reiterate BUY, new TP of SGD1.39** from SGD1.32, 13% upside and c.3% FY20F dividend yield. Sheng Siong remains one of our Top Picks for 2020. We believe its growth story remains intact. New store openings and market share gain should continue to drive earnings next year. Currently, the group has more or less secured two new stores. Housing Development Board also still has at least six new commercial units for tenders set aside for supermarkets in FY20.

• **New store openings are key drivers to earnings growth.** Sheng Siong opened six new stores in FY19 (five in Singapore and one in China), bringing its total store count to 61 (59 in Singapore, two in China). We note that retail sales for supermarkets and hypermarkets in Singapore have been fairly flattish this year. Sheng Siong was able to generate 11% YoY growth in 9M19 revenue, solely due to new stores opening. SSSG was slightly negative at 0.5%. Moving into 2020, we believe the industry growth will remain tepid due to uncertainties in the macro-economic environment. However, Sheng Siong should be able to prop up earnings growth with its continued store expansion strategy.

• **Expected new stores.** The group has secured one new store on Marsiling Drive, which is set to open in 1Q20. It also announced a SGD29.5m acquisition of a commercial premise in Aljunied for an additional store. We expect the completion of the property purchase to be done in 1Q20, as well. The commercial unit has a GFA of 2,717sqm. It is currently owned by Dairy Farm and occupied by a *Giant* supermarket. As Sheng Siong's typical size is c.8,000-10,000sq ft, we think group could lease out part of the space for rental income. Besides these two stores, HDB still has at least six new commercial units set aside for supermarkets in FY20F. As such, we think there are still opportunities for the group to expand further in 2020.

• **Market share gain from competitors.** With an increasingly challenging operating environment in Hong Kong, we believe Dairy Farm will be focused on improving its profitability in ASEAN. As such, we think Dairy Farm is unlikely to bid aggressively for new stores next year. Sheng Siong could stand to gain in market share, as Dairy Farm continues on its store rationalisation plan next year.

• **Changes to our forecasts.** We raise our next year's new store assumption from two to four units. This raises our FY20-21F earnings by 1-2% and our TP to SGD1.39 from SGD1.32. Maintain BUY.

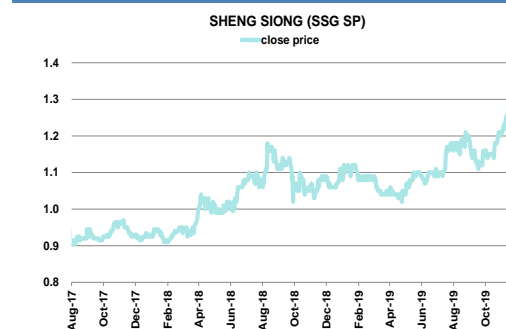
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	17.0	2.5	4.2	12.7	14.8
Relative	13.2	4.9	3.0	12.2	12.5
52-wk Price low/high (SGD)	1.02 – 1.28				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	829.9	890.9	999.7	1078.0	1129.6
Recurring net profit (SGDm)	67.6	70.8	77.5	85.5	93.9
Recurring net profit growth (%)	7.8	4.7	9.5	10.4	9.8
Recurring P/E (x)	27.4	26.1	23.9	21.6	19.7
P/BV (x)	6.8	6.4	5.9	5.5	5.1
P/CF (x)	23.5	20.1	18.6	16.4	15.4
Dividend Yield (%)	2.7	2.8	3.0	3.4	3.6
EV/EBITDA (x)	(0.7)	(0.8)	(1.0)	(0.9)	(1.2)
ROE (%)	25.7	24.3	24.9	25.5	25.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	n.a	n.a	n.a	n.a	n.a

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Singapore	Recurring EPS (SGD)	0.04	0.05	0.05	0.06	0.06
Retail	DPS (SGD)	0.03	0.03	0.04	0.04	0.04
<b>Sheng Siong</b>	BVPS (SGD)	0.18	0.19	0.21	0.22	0.24
SSG SP	ROE (%)	25.69	24.30	24.85	25.53	25.79
	<b>Valuation metrics</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
<b>Valuation basis</b>	Recurring P/E (x)	27.4	26.1	23.9	21.6	19.7
Blended DCF and P/E	P/B (x)	6.8	6.4	5.9	5.5	5.1
<b>Key drivers</b>	FCF Yield (%)	5,121.8	5,407.9	6,838.8	6,104.4	9,199.5
i. New store openings;	Dividend yield (%)	2.7	2.8	3.0	3.4	3.6
ii. Same-store sales growth;	EV/EBITDA (x)	-0.7	-0.8	-1.0	-0.9	-1.2
iii. Cost optimisation	EV/EBIT (x)	-0.9	-1.0	-1.2	-1.2	-1.4
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
i. Slower-than-expected gestation phase;	Total turnover	830	891	1,000	1,078	1,130
ii. Intensifying competition	Gross profit	217	238	270	293	308
	EBITDA (adj.)	97	100	115	126	136
	Depreciation & amortisation	15	16	21	23	24
	Operating profit	82	84	94	103	112
	Net interest	0	1	0	0	0
	Pre-tax profit	82	85	93	103	112
	Taxation	-13	-14	-16	-18	-19
	Net profit	70	71	77	86	93
	Recurring net profit	68	71	78	86	94
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Sheng Siong is the third largest supermarket chain operator in Singapore.	Change in working capital	-9	7	8	4	2
	Cash flow from operations	79	92	99	113	120
	Capex	-18	-28	-18	-40	-11
	Cash flow from investing activities	-17	-27	-18	-40	-11
	Dividends paid	-51	-51	-56	-62	-67
	Cash flow from financing activities	-51	-51	-56	-62	-67
	Cash at beginning of period	64	73	87	112	123
	Net change in cash	10	14	25	11	42
	Ending balance cash	73	87	112	123	165
	<b>Balance sheet (SGDm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Total cash and equivalents	73	87	112	123	165
	Tangible fixed assets	255	266	263	280	266
	Total investments	0	0	0	0	0
	Total assets	404	436	465	499	532
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	130	144	152	162	169
	Total equity	273	292	314	337	363
	Total liabilities & equity	404	436	465	499	532
	<b>Key metrics</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Revenue growth (%)	4.2	7.4	12.2	7.8	4.8
	Recurrent EPS growth (%)	7.8	4.7	9.5	10.4	9.8
	Gross margin (%)	26.2	26.8	27.0	27.2	27.3
	Operating EBITDA margin (%)	11.6	11.3	11.5	11.7	12.1
	Net profit margin (%)	8.1	7.9	7.8	7.9	8.3
	Capex/sales (%)	2.1	3.1	1.8	3.7	0.9
	Interest cover (x)	n.a	n.a	n.a	n.a	n.a

Source: Company data, RHB

Figure 1: TP derivation

DCF Valuation					
(SGD m)	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Net Income	85.5	93.9	99.3	101.6	104.84
+ Non-Cash Charges	23.5	24.5	25.5	25.5	25.5
+ Fixed Capital Investment	(40.1)	(10.6)	(10.6)	(10.0)	(10.0)
+ Change in net working capital	3.7	2.5	1.8	0.0	0.0
+ Change in debt	0.0	0.0	0.0	0.0	0.0
<b>FCFE</b>	<b>72.6</b>	<b>110.3</b>	<b>116.1</b>	<b>117.1</b>	<b>120.3</b>
Terminal Value					2337.3
PV	72.6	103.8	102.9	97.7	1932.1
Total discounted FCFE	2309.2				
Value/Share (SGD)	1.54				
Cost of equity	6.2%				
Risk free rate	2.0%				
Beta	0.6				
Market return	9.0%				
Terminal growth	1.0%				
Relative valuation					
Average forward P/E	22				
Value/share (SGD)	1.25				
<b>RHB target price</b> <b>(average of relative and DCF valuation)</b>	<b>1.39</b>				

Source: RHB

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