

30 April 2019

Consumer Non-cyclical | Retailing

Sheng Siong

Buy (Maintained)

More Good News Than Bad; Reiterate BUY

Target Price (Return) SGD1.23 (+18%)
 Price: SGD1.04
 Market Cap: USD1,149m
 Avg Daily Turnover (SGD/USD) 1.4m/1m

- Reiterate BUY with high end of consensus TP of SGD1.23 TP, 18% upside, plus 4% yield.** Sheng Siong remains one of our Preferred Picks. 1Q19 results met consensus but slightly missed our expectations due to the lower-than-expected gross margin. We trim FY19F-21F PATMI by 1-4% on delays in the completion of the distribution centre extension, and accounting changes in SFRS 16, which we forecast to have c.1-2% negative impact to its bottomline.
- Revenue growth held up by new stores.** 1Q19 revenue was up 10.1% YoY, exceeding our expectation, largely driven by the three stores opened in 2017 and 10 stores opened in 2018. In total, the 13 new stores opened in 2017-2018, contributing +10.6% to revenue. China Kunming outlet, which commenced operations in Nov 2017, further added 0.5% to growth. These were however partially offset by -1% SSSG due to a less vibrant pre-Lunar New Year (CNY) sales for 2019. We believe this is in part due to an earlier CNY, a high base effect in 2018, and softer sentiment this year.
- Gross margin declined but not structural.** Gross margin fell marginally by 0.1ppt compared to 1Q18. Management cited this was largely a timing issue. According to management, the firm's bargaining powers and input costs for suppliers have not changed significantly compared to previous quarters, suggesting that the decline was not a structural issue. However, the completion of distribution centre extension is likely to delay till the end of the year. As such, we lower FY19F gross margin to 27.1% (+0.3ppt compared FY18 gross margin).
- On a positive note, China operations broke even.** Although it is still early days, we note that the group's first outlet in Kunming, China broke even in 1Q19. This gives us more confidence in the second Kunming outlet, which is expected to open 2H19. The second outlet is half the size of the first outlet. Given the lower fixed costs, we expect the second outlet to turn around faster than the first store.
- E-commerce also profitable.** E-commerce currently only constitutes c.1% of Sheng Siong sales. Despite its small scale, management highlighted during the analysts' briefing that its e-commerce business is now profitable.
- Outlook remains positive.** On the ground, we see that Singapore consumer sentiment is weaker compared to last year. However, we remain optimistic on Sheng Siong's performance, given the positive boost from stores opened in the last two years. The group also announced that it has secured three new stores, which are expected to open in 2Q19.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.9)	0.0	(4.6)	(3.7)	2.0
Relative	(12.9)	(6.0)	(11.5)	(18.0)	6.7
52-wk Price low/high (SGD)	0.98 – 1.19				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	829.9	890.9	974.9	1041.5	1079.1
Recurring net profit (SGDm)	67.6	70.8	77.5	84.9	92.2
Recurring net profit growth (%)	7.8	4.7	9.5	9.5	8.5
Recurring P/E (x)	23.1	22.1	20.2	18.4	17.0
P/BV (x)	5.8	5.4	5.0	4.7	4.3
P/CF (x)	19.9	17.0	16.6	14.7	13.9
Dividend Yield (%)	3.2	3.3	3.6	3.9	4.2
EV/EBITDA (x)	15.4	14.7	13.2	11.8	10.7
ROE (%)	25.7	24.3	24.7	25.3	25.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	na	na	na	na	na

Source: Company data, RHB

Figure 1: 1Q19 result summary

(SGDm)	1Q19	4Q18	1Q18	QoQ (%)	YoY (%)	Comments
Revenue	251.4	221.8	228.3	13.4	10.1	Driven by 13 new stores opened throughout 2017-2018 but partially offset by -1% SSSG.
Gross profit	65.5	60.2	59.8	8.9	9.6	
Gross margin	26.1%	27.1%	26.2%			Gross margin declined by 0.1ppt YoY on timing effect of suppliers' rebates.
Pretax profit	23.3	20.8	22.0	11.9	5.9	
Pretax margin	9.3%	9.4%	9.6%			
Core net profit	19.4	17.5	18.3	10.5	5.9	
Net margin	7.7%	7.9%	8.0%			

Source: Company data, RHB

Figure 2: TP derivation

DCF Valuation (SGD m)	FY19F	FY20F	FY21F	FY22F	FY23F
Net Income	77.5	84.9	92.2	102.8	107.51
+ Non-Cash Charges	18.1	19.0	19.8	20.0	20.0
+ Fixed Capital Investment	(12.4)	(6.6)	(4.6)	(7.0)	(10.0)
+ Change in net working capital	6.2	3.2	1.7	3.0	3.0
+ Change in debt	0.0	0.0	0.0	0.0	0.0
FCFE	89.4	100.5	109.0	118.7	120.5
Terminal Value					2097.6
PV	89.4	94.1	95.6	97.4	1704.9
Total discounted FCFE	2081.4				
Value/Share (SGD)	1.38				
Cost of equity	6.8%				
Risk free rate	2.8%				
Beta	0.6				
Market return	9.5%				
Terminal growth	1.0%				
Relative valuation					
Average forward P/E	21				
Value/share (SGD)	1.08				
RHB target price (average of relative and DCF valuation)	1.23				

Source: Company Data, RHB

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