

18 March 2020

Consumer Cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

Impact From Malaysia's Movement Control Order

Target Price (Return): SGD1.42 (+38%)
 Price: SGD1.03
 Market Cap: USD1,089m
 Avg Daily Turnover (SGD/USD) 2.41m/1.75m

- **Maintain BUY and TP SGD1.42, 38% upside plus 4% yield.** Share price has fallen 28% from its peak. We note that over the shorter term, there are still some downside risks as share price could continue to trend down along with the sell-down in the market. But in the longer term, Sheng Siong's fundamentals are still intact as food staples demand remains fairly resilient. Barring any prolonged lockdown in regional countries, we do not foresee any major impact on earnings.

- **What's new?** On Monday, Malaysia announced it would enforce movement control measures from 18-31 Mar. This led to some panic buying at grocery retail stores in Singapore due to worries of food supply.

- **Our views.** We think the news is positive to the group in the short run as the panic buying behaviour would give a one-off boost to sales. Given Malaysia's movement control order only lasts for two weeks, we do not see major disruptions in the supply chain as Sheng Siong has increased its days in inventory and diversify its suppliers in anticipation of such situations.

- **Fresh items most impacted if Malaysia's movement control order prolongs.** Majority of the poultry and vegetables are imported from Malaysia. Approximately 45% of Sheng Siong's annual sales is derived from fresh produce. As such, we estimate c.10-15% of sales would be attributed to poultry and vegetables imported from Malaysia.

However, the impact to the group's sales and earnings are less clear as consumers are likely to substitute these shortfalls with other food alternatives which could be higher margin products (eg seafood, beef, pork) or lower margin products (eg frozen chicken, canned food). We estimate the impact on sales would be at a high single digit in the worst case scenario of the prolonged border control in Malaysia.

- **Non-fresh items are less impacted.** We believe non-fresh items are less likely to be impacted. As these items are less or non-perishable, both Sheng Siong and the suppliers are likely to carry additional stock supplies in their inventories to cope with the temporary disruption. Major suppliers are likely to direct more productions to other geographies if Malaysia's movement control order prolongs.

- **Sheng Siong remains a Top Pick in our sector.** While share price has come off along with the market sell-down, we note that earnings profile for the company is still very resilient. The work-from-home trend and general avoidance of crowded areas and gatherings during this COVID-19 pandemic period could also support grocery retail sales.

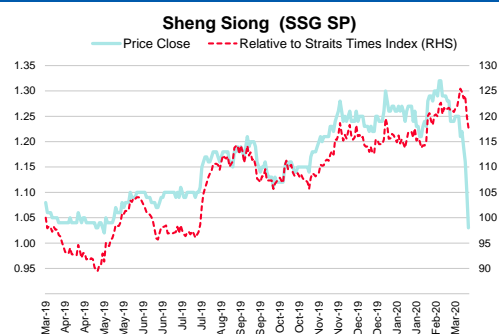
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.9)	(20.8)	(17.6)	(11.2)	(5.5)
Relative	5.7	1.7	4.6	10.9	16.5
52-wk Price low/high (SGD)					1.02 – 1.32



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	891	991	1,069	1,121	1,166
Recurring net profit (SGDm)	71	76	85	91	95
Recurring net profit growth (%)	4.7	7.0	12.0	7.4	4.4
Recurring P/E (x)	21.87	20.45	18.26	17.00	16.28
P/B (x)	5.3	4.9	4.6	4.2	3.9
P/CF (x)	16.79	13.20	14.34	12.55	12.51
Dividend Yield (%)	3.3	3.4	3.8	4.1	4.2
EV/EBITDA (x)	14.60	13.33	11.30	10.34	9.63
Net debt to equity (%)	(29.8)	(24.2)	(33.6)	(44.6)	(53.4)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.05	0.05	0.06	0.06	0.06
Consumer Cyclical	DPS	0.03	0.04	0.04	0.04	0.04
Sheng Siong	BVPS	0.19	0.21	0.23	0.24	0.26
SSG SP						
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	21.87	20.45	18.26	17.00	16.28
	P/B (x)	5.3	4.9	4.6	4.2	3.9
	FCF Yield (%)	4.2	4.1	6.3	7.3	7.3
	Dividend Yield (%)	3.3	3.4	3.8	4.1	4.2
	EV/EBITDA (x)	14.60	13.33	11.30	10.34	9.63
	EV/EBIT (x)	17.47	15.92	13.85	12.64	11.79
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	891	991	1,069	1,121	1,166
	Gross profit	238	267	289	304	316
	EBITDA	100	111	127	134	139
	Depreciation and amortisation	(16)	(18)	(23)	(24)	(26)
	Operating profit	84	93	104	110	114
	Net interest	1	(1)	(1)	0	1
	Pre-tax profit	85	92	103	110	115
	Taxation	(14)	(16)	(18)	(20)	(21)
	Reported net profit	71	76	85	90	94
	Recurring net profit	71	76	85	91	95
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	6.9	(2.2)	(0.3)	8.6	4.3
	Cash flow from operations	92.2	117.3	108.0	123.4	123.8
	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)	(59.4)	(63.1)	(65.7)
	Cash flow from financing activities	(51.1)	(75.9)	(59.4)	(63.1)	(65.7)
	Cash at beginning of period	73.4	87.2	76.4	114.4	164.1
	Net change in cash	14.1	(10.8)	38.0	49.6	47.4
	Ending balance cash	87.6	76.5	114.4	164.1	211.5
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	87	76	114	164	212
	Tangible fixed assets	266	295	282	269	254
	Total assets	436	533	569	603	638
	Total liabilities	144	217	228	235	242
	Total equity	292	315	341	368	396
	Total liabilities & equity	436	533	569	603	638
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	7.4	11.3	7.8	4.9	3.9
	Recurrent EPS growth (%)	4.7	7.0	12.0	7.4	4.4
	Gross margin (%)	26.8	26.9	27.0	27.1	27.1
	Operating EBITDA margin (%)	11.3	11.2	11.9	12.0	11.9
	Net profit margin (%)	7.9	7.6	7.9	8.0	8.0
	Dividend payout ratio (%)	72.2	70.5	70.0	70.1	70.1
	Capex/sales (%)	3.1	5.4	1.0	0.9	0.9
	Interest cover (x)		46	51	54	56

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-23	Buy	1.42	1.29
2019-12-10	Buy	1.39	1.26
2019-10-31	Buy	1.32	1.17
2019-07-30	Buy	1.32	1.15
2019-04-30	Buy	1.23	1.03
2019-03-15	Buy	1.25	1.09
2019-02-27	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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