3 August 2020

Consumer Cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

An Exceptional 2Q20; Maintain BUY

Target Price (Return):	SGD1.87 (+10%)
Price:	SGD1.70
Market Cap:	USD1,863m
Avg Daily Turnover (SGD/USD)	6.70m/4.80m

- **Maintain BUY, new SGD1.87 TP from SGD1.72, 10% upside with 3% FY20F yield.** Sheng Siong delivered outstanding 2Q20 results. PATMI surged 1.5x to SGD46m. We note that the exceptional earnings were the result of Singapore's implementation of the "circuit breaker" in Apr-May 2020. We also expect sales growth to taper down, as Singapore moved into the second phase of reopening the economy. Nonetheless, the stock is likely to remain a favourite amongst investors, due to its resilient earnings and strong cash flow.
- **2Q20 beat estimates despite high expectations.** 2Q20 PATMI surged 150% YoY, bringing 1H20 PATMI to SGD75m (+98% YoY) which met 75% of the Street's full-year estimate. The strong earnings growth in 2Q20 was largely attributed to the 76% YoY jump in sales, which saw elevated demand during the lockdown. Sheng Siong also benefitted from the lockdown with market share gains, as most of its outlets are located in the residential estates. As a result, 2Q20 SSSG hit an exceptional high of +61% YoY. Gross margin also hit a record of 28.1%, on lesser promotions and an improved sales mix. Interim DPS doubled to 3.5cents.
- **Growth to taper down from here on.** In view of the second wave of COVID-19 infections seen in other countries, we expect Singapore to take a cautious stance – with some of the work-from-home practises persisting into FY21F. As such, the demand for groceries should remain elevated compared to FY19 (pre-COVID days). That said, we believe it is unlikely for the group to replicate the stellar sales growth booked in 2Q20, due to the unlikelihood of another lockdown being implemented. We expect sales growth to moderate to 20-25% YoY in 2H20 – as consumers slowly switch back to dining out with the reopening of the economy, and on the stabilising number of COVID-19 cases in Singapore. We expect FY21 sales growth to dip slightly to 7% YoY, as new store openings (five new outlets in FY20F, and four in FY21F) should buffer against the effect of consumers no longer panic buying, and post-lockdown demand. We also project FY21 net margin to narrow to 8.6%, from 9.5% in FY20F – on the resumption of promotional activities, the absence of COVID-19 related grants, and a decrease in operating leverage.
- **Change in TP and earnings.** We raise FY20-22F earnings by 22%, 14%, and 4%. This lifts our DCF-derived TP to SGD1.87. Although our implied FY21F P/E of 26.5x is higher than the regional peer average of 25x, we believe Sheng Siong should still be favoured for its defensive nature amid near-term market uncertainties.

Analyst

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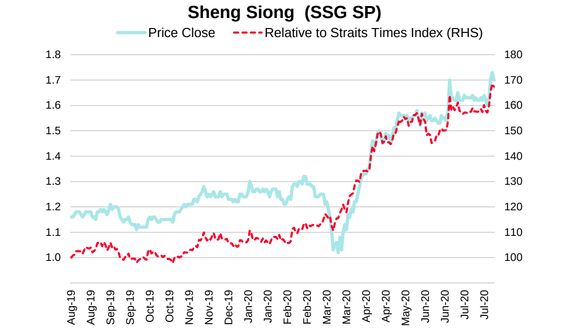
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	37.1	3.0	14.9	38.2	47.8
Relative	58.6	5.3	18.5	58.4	72.3
52-wk Price low/high (SGD)					1.02 – 1.73



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	891	991	1,329	1,234	1,245
Recurring net profit (SGDm)	71	76	126	106	101
Recurring net profit growth (%)	4.7	7.0	66.3	(16.1)	(4.1)
Recurring P/E (x)	36.10	33.75	20.29	24.19	25.22
P/B (x)	8.8	8.2	7.3	6.7	6.2
P/CF (x)	27.71	21.79	16.21	18.95	19.66
Dividend Yield (%)	2.0	2.1	3.5	2.9	2.8
EV/EBITDA (x)	24.65	22.43	13.94	15.75	16.08
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Consumer Cyclical
Sheng Siong
SSG SP
Buy

Valuation basis

DCF

Key drivers

i. New store openings;
ii. Positive SSSG

Key risks

i. Inventory shortage in the event of major supply chain disruptions;
ii. Inability to find affordable areas to lease;
iii. Price war from competitors;
iv. Faster-than-expected recovery from COVID-19

Company Profile

With 61 stores located in suburban areas, Sheng Siong operates the third-largest supermarket chain in Singapore that caters to the country's mass market.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.05	0.05	0.08	0.07	0.07
DPS	0.03	0.04	0.06	0.05	0.05
BVPS	0.19	0.21	0.23	0.26	0.28

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	36.10	33.75	20.29	24.19	25.22
P/B (x)	8.8	8.2	7.3	6.7	6.2
FCF Yield (%)	2.5	2.5	5.8	4.9	4.7
Dividend Yield (%)	2.0	2.1	3.5	2.9	2.8
EV/EBITDA (x)	24.65	22.43	13.94	15.75	16.08
EV/EBIT (x)	29.49	26.81	15.76	18.48	19.23

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	891	991	1,329	1,234	1,245
Gross profit	238	267	363	334	337
EBITDA	100	111	174	151	145
Depreciation and amortisation	(16)	(18)	(20)	(22)	(24)
Operating profit	84	93	154	129	121
Net interest	1	(1)	(1)	0	1
Pre-tax profit	85	92	153	129	122
Taxation	(14)	(16)	(26)	(22)	(21)
Reported net profit	71	76	126	106	100
Recurring net profit	71	76	126	106	101

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	6.9	(2.2)	9.2	4.0	3.0
Cash flow from operations	92.2	117.3	157.7	134.8	130.0
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)	(89.0)	(75.0)	(71.2)
Cash flow from financing activities	(51.1)	(75.9)	(89.0)	(75.0)	(71.2)
Cash at beginning of period	73.4	87.2	76.4	134.5	183.7
Net change in cash	14.1	(10.8)	58.1	49.3	48.2
Ending balance cash	87.6	76.5	134.5	183.7	232.0

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	87	76	134	184	232
Tangible fixed assets	266	295	286	274	261
Total assets	436	533	619	640	673
Total liabilities	144	217	264	251	253
Total equity	292	315	355	388	420
Total liabilities & equity	436	533	619	640	673

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	7.4	11.3	34.1	(7.2)	0.9
Recurrent EPS growth (%)	4.7	7.0	66.3	(16.1)	(4.1)
Gross margin (%)	26.8	26.9	27.3	27.1	27.1
Operating EBITDA margin (%)	11.3	11.2	13.1	12.2	11.6
Net profit margin (%)	7.9	7.6	9.5	8.6	8.0
Dividend payout ratio (%)	72.2	70.5	70.7	71.0	71.2
Capex/sales (%)	3.1	5.4	0.8	0.9	0.9
Interest cover (x)		46	76	64	60

Source: Company data, RHB

Figure 1: 2Q20 result summary

(SGDm)	2Q20	1Q20	2Q19	QoQ (%)	YoY (%)	Comments
Revenue	**418.7**	**328.7**	**238.2**	**27.4**	**75.8**	Strong growth was due to panic buying on COVID-19 fears in 1Q20, and elevated grocery demand due to the lockdown in 2Q20.
SSSG	*61.2%*	*19.7%*	*-0.3%*			
New store growth	*13.3%*	*9.0%*	*11.3%*			
Growth from China	*1.3%*	*2.0%*	*0.8%*			
Gross profit	117.6	88.8	65.2	**32.4**	**80.2**	GPM improved on the better sales mix and reduction in promotional activities.
Gross margin	*28.1%*	*27.0%*	*27.4%*			
Pretax profit	**54.7**	**34.9**	**22.2**	**56.6**	**146.9**	Margin grew on improved operating leverage.
Pretax margin	*13.1%*	*10.6%*	*9.3%*			
Core net profit	**46.1**	**28.7**	**18.4**	**60.7**	**150.4**	
Net margin	*11.0%*	*8.8%*	*7.7%*			

Source: Company data, RHB

Figure 2: DCF calculation

(SGDm)	FY21F	FY22F	FY23F	FY24F
Net Income	105.7	101.3	108.3	113.1
+ Non-Cash Charges	22.3	23.7	25.5	25.5
+ Fixed Capital Investment	(10.6)	(10.6)	(10.6)	(10.6)
+ Change in net working capital	4.0	3.0	0.0	0.0
+ Change in debt	0.0	0.0	0.0	0.0
FCFE	**121.4**	**117.4**	**123.2**	**128.0**
Terminal Value				2786.4
PV	121.4	111.2	110.4	2472.1
Total discounted FCFE	2815.0			
Value/Share (SGD)	**1.87**			
Cost of equity	5.6%			
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
2020-05-28	Buy	1.72	1.52
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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