

31 October 2019

Consumer Non-cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

Value Supermarket, Still a Bargain

Target Price (Return)	SGD1.32 (+16%)
Price:	SGD1.14
Market Cap:	USD1,269m
Avg Daily Turnover (SGD/USD)	1.9m/1.4m

- Reiterate BUY on our Top Pick, Sheng Siong, with a TP of SGD1.32, 16% upside and c.4% yield.** Sheng Siong recorded a strong 3Q19 PATMI of SGD20.6m, up 15% YoY and above consensus' expectation. The group also secured three new stores in the previous HDB tender, two of which were opened during October and one to be opened in 1Q20. We estimate a good performance in FY20F as the five stores which opened in 2019 would continue to fuel earnings growth next year.
- Earnings growth largely led by stronger revenue.** 3Q19 revenue grew 11% YoY to SGD254m mainly driven by the maturing of its 10 stores opened in 2018 and three new stores in 2Q19. Same-store-sales-growth (SSSG) however remained negative at -0.3%. Gross margin expanded 0.6ppt to 27.1% on the back of a higher sales mix in fresh and suppliers' rebates. Other income was SGD1.0m more than last year's due to a subsidy received for a project. Excluding the additional SGD1.0m in other income, 3Q19 results were in line with our expectation.
- Change in store count.** The group secured three new stores in the recent Housing Development Board (HDB) tender, of which two were opened this month and one is expected to open in 1Q20. Sheng Siong would be closing one of its outlets as its lease ends in December and according to the group, the shop has a retail space of 10,000sqft. Thankfully, we do not think the impact would be too significant as it only contributed <1% to the group's 9M19 revenue. The three new stores and the closure of one would bring Sheng Siong's total store count to 59 in Singapore and two in China in 1Q20. Currently, we conservatively forecast the group to open two additional stores in FY20F.
- Still a bargain.** Share price has come off from its peak in early September. We see potential for a share price recovery amidst a strong set of results. Moreover, Sheng Siong is now trading at a 20.2x FY20F P/E, still a discount to its peer's, Dairy Farm (21x FY20F P/E) which could see earnings deterioration as a result of its exposure to the Hong Kong market. The stock also offers a decent yield of c.4% at its current price.

Analyst

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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)	25.4	24.2	22.1	20.2	18.6
P/BV (x)	6.3	5.9	5.5	5.1	4.8
P/CF (x)	21.8	18.6	18.2	16.1	15.2
Dividend Yield (%)	2.9	3.0	3.3	3.6	3.9
EV/EBITDA (x)	(0.7)	(0.8)	(1.0)	(1.2)	(1.5)
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)	n.a	n.a	n.a	n.a	n.a

Source: Company data, RHB

Figure 1: 3Q19 results summary

(SGDm)	3Q19	2Q19	3Q18	QoQ (%)	YoY (%)	Comments
Revenue	253.8	238.2	227.9	6.6	11.4	Driven by 13 new stores opened throughout 2018-3Q19.
SSSG	-0.3%	-0.3%	0.2%			
New store growth	10.4%	11.3%	10.6%			
Growth from China	1.3%	0.8%	1.2%			
Gross profit	68.7	65.2	60.3	5.3	14.0	Gross margin expanded on improved sales mix and higher suppliers' rebates.
Gross margin	27.1%	27.4%	26.5%			
Pretax profit	25.0	22.2	21.0	13.0	19.1	
Pretax margin	9.9%	9.3%	9.2%			
Core net profit	20.6	18.4	17.8	11.7	15.3	
Net margin	8.1%	7.7%	7.8%			

Source: Company data, RHB

Figure 2: TP derivation

DCF Valuation					
(SGD m)	FY20F	FY21F	FY22F	FY23F	FY24F
Net Income	84.9	92.2	98.6	105.89	112.43
+ Non-Cash Charges	19.0	19.8	20.0	20.0	20.0
+ Fixed Capital Investment	(6.6)	(4.6)	(7.0)	(10.0)	(10.0)
+ Change in net working capital	3.2	1.7	3.0	3.0	3.0
+ Change in debt	0.0	0.0	0.0	0.0	0.0
FCFE	100.5	109.0	114.5	118.8	125.4
Terminal Value					2184.2
PV	100.5	102.1	100.4	97.6	1775.2
Total discounted FCFE	2175.8				
Value/Share (SGD)	1.45				

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)	1.19

RHB target price (average of relative and DCF valuation)	1.32
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Source: Bloomberg, RHB

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