

31 October 2018

Consumer Cyclical | Retailing

Sheng Siong

Buy (Maintained)

Target Price: SGD1.30

Price: SGD1.08

Market Cap: USD1173m

Bloomberg Ticker: SSG SP

Higher Administrative Costs From 10 New Stores

Maintain BUY. We place our earnings forecasts and TP under review pending an analyst briefing on today. 3Q18 results announced yesterday slightly missed. Recurring PATMI of SGD17.8m was up 2% YoY, while 9M18's earnings represented 71% of our full-year forecasts. While revenue growth and gross margin expansion were in line, administrative expenses ran ahead of our estimates on aggressive growth in store count. Our current TP of SGD1.30 is derived from a blended DCF valuation and target P/E of 21x.

Sheng Siong released its 3Q18 results. Key highlights:

- 3Q18 revenue was up 8%.** New stores including China contributed 12% growth to the group's overall revenue. This was however offset by closure of the Woodlands 6A outlet in Nov 2017, while same store sales remained flat in line with the industry. Three new stores are set to open in 4Q18. We expect revenue growth for 4Q18 to be stronger, with a smaller impact from the closure of Woodlands 6A outlet and increase store count.
- Gross margin expanded 0.4ppt to 26.5%.** In line with our expectations, gross margin expansion story continued with higher sales mix of fresh produce as well as higher suppliers' rebates and efficiency in its central distribution centre. The distribution centre extension is expected to be ready before 2019's Lunar New Year. We believe the added capacity of Sheng Siong's distribution centre would prolong its gross margin expansion.
- Administrative expenses ran ahead of our expectations.** Administrative expenses as a percentage of sales rose to 17.1% (3Q17: 16.1%). Management attributed the higher cost structure to the opening of 10 new stores in the last 12 months. Given that new stores typically take three years to hit mature revenue, we expect stunted growth to be made up for in 2019 when the stores sales ramp up.

Sheng Siong's 3Q18 results summary

(SGDm)	3Q18	2Q18	3Q17	QoQ (%)	YoY (%)	Comments
Revenue	227.9	213.0	210.9	7.0	8.0	SSSG of 0.2%, new store sales contributed 10.6%, China new store added 1.2%, while closure of Woodlands 6A store contributed -4%.
Gross profit	60.3	58.1	54.5	3.7	10.7	
Gross margin (%)	26.5%	27.3%	25.8%			Higher gross margin mainly led by improved sales mix.
EBITDA	24.9	24.8	24.7	0.4	1.0	Slower growth in EBITDA due to increase in headcount to operate 10 new stores.
EBITDA margin (%)	10.9%	11.7%	11.7%			
Core net profit	17.8	17.2	17.4	4.0	2.4	Higher administrative expenses offset revenue growth and gross margin expansion.
Net margin (%)	7.8%	8.0%	9.3%			

Source: Company data, RHB

Maintain BUY, as we believe Sheng Siong is still a resilient and defensive name in this challenging market environment. We are currently reviewing our earnings forecasts and TP – further highlights would be unveiled after the analyst briefing today.

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (SGD m)	796.7	829.9	904.1	1020.4	1089.0
Reported net profit (SGD m)	62.7	69.3	74.5	84.6	92.4
Recurring net profit (SGDm)	62.7	67.6	75.1	85.0	92.6
Recurring net profit growth (%)	10.4	7.8	11.0	13.2	9.0
Recurring EPS (SGD)	0.04	0.04	0.05	0.06	0.06
DPS (SGD)	0.04	0.03	0.04	0.04	0.05
Recurring P/E (x)	25.9	24.0	21.6	19.1	17.5
P/B (x)	6.4	6.0	5.6	5.2	4.9
P/CF (x)	20.8	20.7	15.4	15.1	14.3
Dividend Yield (%)	3.5	3.1	3.5	3.9	4.3
EV/EBITDA (x)	17.2	16.2	14.6	12.6	11.4
Return on average equity (%)	24.6	25.7	25.8	27.3	27.7
Net debt to equity (%)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Our vs consensus EPS (adjusted) (%)			0.7	3.7	2.7

Source: Company data, RHB

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