

30 October 2020

Consumer Cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

Possibilities With Huge Cash Pile; BUY

Target Price (Return): SGD1.87 (+13%)
 Price: SGD1.65
 Market Cap: USD1,818m
 Avg Daily Turnover (SGD/USD) 7.12m/5.22m

- Maintain BUY, SGD1.87 TP implies 13% upside with c.4% FY20F yield.** Sheng Siong announced its 3Q20 business update yesterday evening. 3Q20 revenue grew by a strong 29% YoY on higher home consumption demand, as a result of COVID-19. This, together with improved operating leverage and government grants, brought 3Q20 PATMI to SGD31.8m (+54% YoY). 9M20 PATMI of SGD107m met 85% of our full-year estimate, exceeding our and Street expectations.
- Opened 10 new stores in the past two years.** These new stores contributed 9.5ppt to Sheng Siong's 3Q20 YoY revenue growth of 29%. Of these, five stores were opened this year. As the elevated demand from home consumption moderates with the reopening of economic activities and easing of restrictions, we believe sales will continue to be supported by the maturing of these new stores, which should contribute positively to FY21F revenue growth. Although no new shops were released for tender by the Housing Development Board (HDB) this quarter – since construction was delayed due to the pandemic – management expects a slew of new shops to be released for tender, once the backlog is cleared. According to HDB, there will be seven new sites for supermarkets released from now until the end of 2021. As such, the prospects for new store openings remain positive.
- Gross margin remains stable.** 3Q20 gross margin reverted to the norm of 27%, from a high of 28.1% in 2Q20 as sales and promotions in the industry recovered back to pre-pandemic levels. We expect FY21-22 GPM to remain fairly stable, with a slight uplift from 3Q20 levels arising from an improved sales mix.
- Huge cash stash.** As a result of the strong revenue growth this year, Sheng Siong has amassed net cash of SGD180m as at 30 Sep. This is more than double the SGD76.4m it had as of 31 Dec 2019. Given that Sheng Siong is a strong net cash generator even in a normal year, we believe this big cash stash means possibilities for potential M&As, a new distribution centre to enhance operational efficiency, or a special dividend to reward shareholders in the near future.
- Key downside risks include:** Price war from competitors to maintain sales volumes as demand stemming from people staying at home moderates, and the company being unable to secure new stores.

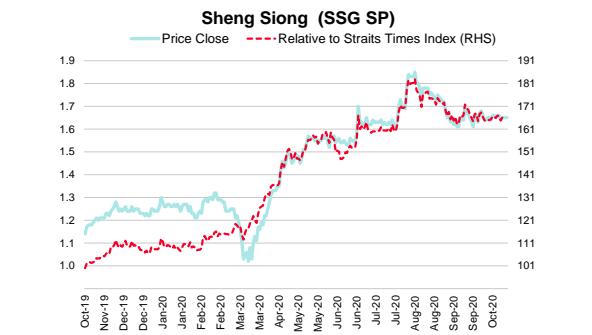
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	33.1	1.2	(4.6)	10.7	43.5
Relative	56.1	0.7	(1.1)	14.3	65.8
52-wk Price low/high (SGD)				1.02	1.85



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)	35.04	32.76	19.69	23.47	24.48
P/B (x)	8.5	7.9	7.1	6.5	6.0
P/CF (x)	26.90	21.15	15.73	18.40	19.08
Dividend Yield (%)	2.1	2.2	3.6	3.0	2.9
EV/EBITDA (x)	23.90	21.75	13.51	15.25	15.57
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

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	0.08	0.07	0.07
Consumer Cyclical	DPS	0.03	0.04	0.06	0.05	0.05
Sheng Siong	BVPS	0.19	0.21	0.23	0.26	0.28
SSG SP						
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	35.04	32.76	19.69	23.47	24.48
	P/B (x)	8.5	7.9	7.1	6.5	6.0
	DCF					
	FCF Yield (%)	2.6	2.6	5.9	5.0	4.8
	Dividend Yield (%)	2.1	2.2	3.6	3.0	2.9
	EV/EBITDA (x)	23.90	21.75	13.51	15.25	15.57
	EV/EBIT (x)	28.59	25.99	15.27	17.89	18.61
	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: 3Q20 business update

(SGDm)	3Q20	2Q20	3Q19	QoQ (%)	YoY (%)	Comments
Revenue	327.3	418.7	253.8	(21.8)	28.9	Strong YoY growth due elevated grocery demand amidst work-from-home measures in Singapore to contain COVID-19.
SSSG	19.1%	61.2%	-0.3%			
New store growth	9.5%	13.3%	10.4%			Five new stores each in 2019 and 2020.
Growth from China	0.3%	1.3%	1.3%			
Gross profit	88.4	117.6	68.7	(24.8)	28.7	GPM declined from 2Q20 as sales and promotional activities recovered back to pre-COVID-19 levels.
Gross margin	27.0%	28.1%	27.1%			
Pretax profit	38.0	54.7	25.0	(30.6)	51.7	YoY margin expansion on improved operating leverage and higher government grants.
Pretax margin	11.6%	13.1%	9.9%			
Core net profit	31.8	46.1	20.6	(31.1)	54.4	
Net margin	9.7%	11.0%	8.1%			

Source: Company data, RHB

Figure 2: Track record in gross margin expansion

(SGD m)	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
2020-08-03	Buy	1.87	1.69
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
2019-07-30	Buy	1.32	1.15
2019-04-30	Buy	1.23	1.03
2019-02-27	Buy	1.25	1.09
2018-11-01	Buy	1.27	1.05
2018-08-20	Buy	1.30	1.11

Source: RHB, Bloomberg

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