

Sheng Siong Group
SSG SP

Target (SGD): **0.73** → **0.73**

Upside: **11.5%**

1 Oct price (SGD): **0.66**

- 1 Buy
- 2 Outperform (unchanged)
- 3 Hold
- 4 Underperform
- 5 Sell

Company visit reaffirms positive view

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- Management highlighted initiatives to boost SSS growth
- We favour the stock for its defensive qualities
- Maintain Outperform rating and SGDo.73 target price

■ **What's new**

Following our recent meeting with Sheng Siong's management, we believe the company remains focused on executing its operational plan at a measured pace despite facing some challenges, and note that it is progressing with initiatives to revive SSS growth.

■ **What's the impact**

Management said that it expects SSS to be flat or decline by 1% YoY for 2013 (our forecast: flat). It attributes this to several factors, including: 1) construction activity affecting customers' accessibility at several outlets, 2) renovation of two outlets so far this year resulting in lost sales, and 3) maturing/ageing estates where consumer spending has declined.

Still, management highlighted a host of initiatives that could have a positive impact on the company's SSS growth going forward. These include: 1) continuing to renovate its older stores

– it targets to renovate 2-5 more stores by end-2014 at a cost of approximately SGD800,000/store, 2) ongoing product mix enhancements to encourage sales of its higher-margin in-house label products, which it expects to increase to 10% of total sales over the next five years (from 5% currently), and 3) converting its existing stores into 24-hour ones – a further 10 outlets will operate for 24 hours with effect from 1 October, bringing the total to 25 of its 33 stores.

By comparison, key competitor National Trades Union Congress FairPrice (NTUC FairPrice) (Not listed) currently operates about 50 of its 118 outlets for 24 hours (excluding its chain of 16 Xpress outlets situated at petrol stations which also operate for 24 hours).

Management said that despite not having opened any new stores so far this year, it continues to target 2-3 new store openings per year, in areas where the Sheng Siong brand has limited exposure. The company remains on track to achieve its 2013 revenue guidance of high single-digit growth (our forecast: 9.7% YoY). We continue to expect a revenue CAGR of 10.7% for the 2012-15 period, as we believe the company's store-opening cycle should kick into gear.

■ **What we recommend**

We maintain our Outperform (2) rating on Sheng Siong with a DCF-based six-month target price of SGDo.73. We like the stock for what we see as its exposure to a defensive business within the Singapore consumer sector, supported by a strong balance sheet and reasonable-looking 2013E dividend yield of 3.9%.

Sheng Siong stock trades currently at a 2013E PER of 23.3x based on

our EPS (about a 16% discount to peer Dairy Farm International Holdings' (DFI) 2013E PER of 27.1x, based on Bloomberg consensus EPS). Further delays in opening new stores would be a key risk to our positive view.

■ **How we differ**

Our 2013-15 EBITDA forecasts are 9-20% above those of the Bloomberg consensus, probably because we are more optimistic than the market on operating-margin improvements from the company's margin-enhancing initiatives.

Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	0.46-0.71
Market cap (USDbn)	0.72
3m avg daily turnover (USDm)	0.61
Shares outstanding (m)	1,384
Major shareholder	Lim Brothers (69.4%)

Financial summary (SGD)

Year to 31 Dec	13E	14E	15E
Revenue (m)	699	803	865
Operating profit (m)	46	56	65
Net profit (m)	39	48	55
Core EPS (fully-diluted)	0.028	0.034	0.040
EPS change (%)	24.6	22.1	15.1
Daiwa vs Cons. EPS (%)	(3.0)	10.8	13.0
PER (x)	23.3	19.1	16.6
Dividend yield (%)	3.9	4.7	5.4
DPS	0.025	0.031	0.036
PBR (x)	5.9	5.4	5.1
EV/EBITDA (x)	13.8	11.1	9.5
ROE (%)	25.5	29.7	31.7

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales/sq ft (SGD)	1,735	1,744	1,884	1,666	1,597	1,700	1,750	1,800
Total floor space (Sq ft)	351,654	358,532	333,532	347,293	399,193	431,128	465,619	502,868

■ Profit and loss (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Supermarkets operations	610	625	628	578	637	699	803	865
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total Revenue	610	625	628	578	637	699	803	865
Other income	6	10	6	0	4	4	4	4
COGS	(496)	(497)	(492)	(451)	(496)	(541)	(617)	(661)
SG&A	(88)	(96)	(98)	(91)	(96)	(105)	(120)	(128)
Other op.expenses	(6)	(6)	(6)	(7)	(10)	(12)	(14)	(16)
Operating profit	26	37	39	29	39	46	56	65
Net-interest inc./(exp.)	1	0	0	(0)	1	1	1	1
Assoc/forex/extraord./others	0	6	10	(2)	10	0	0	0
Pre-tax profit	27	43	49	27	50	47	57	66
Tax	(6)	(6)	(6)	(7)	(9)	(8)	(10)	(11)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	21	37	43	20	42	39	48	55
Net profit (adjusted)	21	30	33	22	31	39	48	55
EPS (reported)(SGD)	0.018	0.032	0.037	0.017	0.030	0.028	0.034	0.040
EPS (adjusted)(SGD)	0.018	0.027	0.029	0.018	0.023	0.028	0.034	0.040
EPS (adjusted fully-diluted)(SGD)	0.018	0.027	0.029	0.018	0.023	0.028	0.034	0.040
DPS (SGD)	0.000	0.000	0.000	0.018	0.028	0.025	0.031	0.036
EBIT	26	37	39	29	39	46	56	65
EBITDA	31	41	43	35	48	56	68	79

■ Cash flow (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	27	43	49	27	50	47	57	66
Depreciation and amortisation	5	5	4	6	8	10	12	14
Tax paid	(3)	(8)	(7)	(5)	(8)	(8)	(10)	(11)
Change in working capital	(5)	21	(2)	(10)	(6)	2	4	2
Other operational CF items	0	(7)	(10)	6	(11)	(1)	(1)	(1)
Cash flow from operations	24	54	34	24	34	50	62	69
Capex	(3)	(16)	(38)	(24)	(12)	(6)	(10)	(12)
Net (acquisitions)/disposals	(3)	(40)	31	0	14	0	0	0
Other investing CF items	(1)	1	0	(19)	1	1	1	1
Cash flow from investing	(7)	(55)	(7)	(43)	3	(5)	(9)	(11)
Change in debt	(0)	(0)	22	(22)	0	0	0	0
Net share issues/(repurchases)	0	0	0	78	0	0	0	0
Dividends paid	0	0	(41)	(1)	(38)	(37)	(35)	(43)
Other financing CF items	11	(46)	39	(0)	0	0	0	0
Cash flow from financing	11	(46)	20	55	(38)	(37)	(35)	(43)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	27	(47)	47	36	(2)	8	18	16
Free cash flow	21	38	(4)	1	22	44	52	58

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (SGDm)

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & short-term investment	89	112	86	126	120	128	146	162
Inventory	26	25	26	36	40	42	48	51
Accounts receivable	1	2	1	2	2	2	2	2
Other current assets	12	40	3	5	5	5	6	7
Total current assets	128	179	117	169	167	177	202	222
Fixed assets	19	24	58	72	75	70	69	67
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	7	0	0	0	0	0	0	0
Total assets	154	203	175	241	242	248	271	289
Short-term debt	0	0	3	0	0	0	0	0
Accounts payable	42	51	48	53	57	60	68	73
Other current liabilities	44	38	60	39	31	32	34	36
Total current liabilities	86	89	112	92	88	92	103	109
Long-term debt	0	0	19	0	0	0	0	0
Other non-current liabilities	1	1	1	1	2	2	2	2
Total liabilities	87	89	131	93	90	94	104	110
Share capital	2	16	78	156	156	156	156	156
Reserves/R.E./others	65	98	(34)	(8)	(5)	(3)	10	22
Shareholders' equity	67	114	44	148	152	154	166	178
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	154	203	175	241	242	248	271	289
EV	817	795	843	781	786	778	760	744
Net debt/(cash)	(89)	(112)	(64)	(126)	(120)	(128)	(146)	(162)
BVPS (SGD)	0.048	0.082	0.032	0.107	0.110	0.111	0.120	0.129

■ Key ratios (%)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales (YoY)	n.a.	2.5	0.5	(8.0)	10.2	9.7	14.9	7.8
EBITDA (YoY)	n.a.	34.2	5.3	(18.4)	34.8	18.2	21.2	15.1
Operating profit (YoY)	n.a.	42.3	6.9	(25.3)	34.4	17.5	22.4	15.1
Net profit (YoY)	n.a.	48.5	8.4	(32.8)	40.6	24.6	22.1	15.1
Core EPS (fully-diluted) (YoY)	n.a.	48.5	8.4	(37.8)	25.2	24.6	22.1	15.1
Gross-profit margin	18.7	20.5	21.8	22.1	22.1	22.6	23.1	23.6
EBITDA margin	5.0	6.6	6.9	6.1	7.5	8.1	8.5	9.1
Operating-profit margin	4.2	5.8	6.2	5.0	6.2	6.6	7.0	7.5
Net profit margin	3.4	4.9	5.3	3.8	4.9	5.6	5.9	6.3
ROAE	n.a.	33.7	41.9	23.1	20.8	25.5	29.7	31.7
ROAA	n.a.	17.1	17.4	10.7	12.9	15.9	18.3	19.6
ROCE	n.a.	40.5	43.4	27.2	26.2	30.2	35.3	37.7
ROIC	n.a.	(313.8)	(391.7)	1,497.3	120.5	135.1	205.1	293.9
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	22.6	14.6	12.5	25.4	17.3	17.0	17.0	17.0
Accounts receivable (days)	n.a.	0.9	0.9	1.0	1.1	1.0	1.0	1.0
Current ratio (x)	1.5	2.0	1.0	1.8	1.9	1.9	2.0	2.0
Net interest cover (x)	n.a.	n.a.	n.a.	463.6	n.a.	n.a.	n.a.	n.a.
Net dividend payout	0.0	0.0	0.0	106.9	91.3	90.0	90.0	90.0
Free cash flow yield	2.3	4.2	n.a.	0.1	2.4	4.9	5.7	6.3

Source: FactSet, Daiwa forecasts

■ Company profile

Sheng Siong Group Ltd started its first supermarket operation in 1985 and went public in August 2011. It is now the third-largest provider of daily necessities in Singapore, offering both wet and dry shopping options. It competes mainly with National Trades Union Congress FairPrice (NTUC FairPrice) and Dairy Farm International Holdings Ltd (DFI), for consumers in the low-to-middle income segments. It leases most of its stores from the public housing/ housing development boards (HDB). As at end-2012, the group had direct control of 33 chain-grocery stores in the suburbs. It derives most its revenue from its supermarket operation.

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- "1": the security could outperform the local index by more than 15% over the next six months.
- "2": the security is expected to outperform the local index by 5-15% over the next six months.
- "3": the security is expected to perform within 5% of the local index (better or worse) over the next six months.
- "4": the security is expected to underperform the local index by 5-15% over the next six months.
- "5": the security could underperform the local index by more than 15% over the next six months.

Additional information may be available upon request.

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If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
 - In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
 - For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
 - There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
 - There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
 - Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.
- *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

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