Singapore Management University – Student Research
Services Sector, Food and Staples Retailing Industry
Singapore Exchange
Sheng Siong Group Limited

Date: 14/10/2016	**Current Price: S$1.08 (14/10/2016)**	**Recommendation: Hold**
Ticker – SGX: OV8	**Headquarters: Singapore**	**Target Price: S$0.99**

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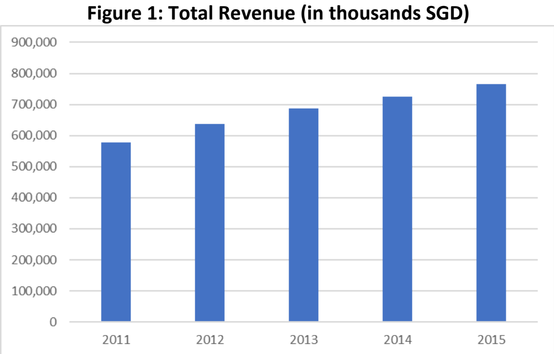
Market Profile	
Closing Price	S$1.08
52-Week High/Low	S$1.10/S$0.81
Average 3-month Volume	3.03M
Shares Outstanding	1,503.54M
Market Cap	S$1,623.82M
Dividend Yield	3.38%
5-Year Beta	0.769
EV/Revenue	2.01x
EV/EBITDA	19.27x

Financial Data

	2012	2013	2014	2015
Rev. Growth	10.2%	7.9%	5.6%	5.3%
Gross Margin	22.1%	23.0%	24.2%	24.7%
EBITDA Margin	9.0%	8.0%	9.1%	10.1%
ROE	27.8%	25.8%	24.7%	23.6%
ROA	12.7%	11.5%	11.7%	11.2%

Figure 1: Total Revenue (in thousands SGD)



Source: Company Data

Executive Summary

Sheng Siong Group Limited ("SSG" or the "Company") is a retailer in Singapore. The Company operates supermarkets across the island city-state. Sheng Siong stores provide fresh and chilled produce as well as general merchandise. We initiate on SSG a Hold recommendation based on a target price of S$0.99. Our recommendation is mainly driven by:

- **Corporate Strategy –** SSG achieves competitive advantage through cost leadership. The Company is able to attract price sensitive consumers by means of competitive pricing. Through positive reputation and strong brand name, SSG differentiates itself from its competitors successfully. SSG main strategy is the strategic selection of stores in high density residential areas in the heartlands of Singapore.

- **Growth Drivers –** SSG is one of the largest retailers in Singapore and the Company aims to penetrate the Singapore market further by opening more stores in areas where it does not have a presence currently. SSG has also undertaken the market development strategy by expanding operations overseas to reach new customers. It has secured licences to operate supermarkets in China. The first store will be located in Kunming, China.

- **Valuation –** Valuation method indicate a current intrinsic value of S$0.99 per share. SSG offers slight long-term upside through the expansion of stores in Singapore and overseas. Discounted Free Cash flow to Equity is the method used to evaluate SSG's intrinsic value.

- **Investment Risks –** SSG faces intensive rivalry from its competitors in a highly competitive industry. It is susceptible to the pricing strategies of its competitors as the products offered by the various supermarkets in Singapore are not well differentiated and customers have minimal switching costs. Also, SSG is at risk of foreign exchange exposure. Foreign currencies may move in a direction which affects SSG adversely. While geographic expansion in China may potentially increase revenues as SSG finds new market segments, the Company will have to compete with local and international brands, many of which are incumbents in the industry. In addition, the need for SSG to close its stores for renovation and other circumstances, unforeseen or envisaged, will negatively impact the Company's financial performance.

Recent News

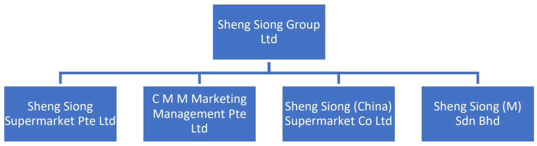
- **Sheng Siong is urged to revamp older stores ASAP** – 05/10/2016: In light of the competition among the local groceries intensifying, SSG is encouraged to renovate older stores which could lead to potential sales growth, or risk erosion of market share by rivals.

- **Will fresh food offerings dispel Sheng Siong's fears of muted earnings?** – 29/09/2016: Threats from e-commerce rivals can be mitigated if SSG expands through direct sourcing, house brands and higher mix of fresh food. Revenue growth can be led by new store openings in areas where SSG has a low presence.

- **Sheng Siong's Q2 income rises 11.3% to S$15.2 Million** – 27/07/2016: Profits for the quarter increased 11.3% to S$15.2M due to store expansions. Revenue rose 5.5% YoY to S$188.8M. Gross profit margin increased 0.9% to 26.1% due to suppliers' rebates and reduced input costs from bulk handling.

- **Sheng Siong Group Ltd. Announces Interim Dividend for the Financial Year Ended 31 December 2016** – 26/07/2016: SSG announced interim dividend of S$1.90 per ordinary share for the financial year ended 31 December 2016. The dividend is payable on 30 August 2016.

Figure 2: SSG Corporate Structure



Source: Company Data

Business Description

Established in 1985, SSG has grown from a family-owned retail store to one of Singapore's largest retailers. In August 2011, SSG became a Mainboard-listed company on the Singapore Exchange. The Company's subsidiaries include Sheng Siong Supermarket Pte. Ltd. and C M M Marketing Management Pte. Ltd. Other subsidiaries consist of Sheng Siong (China) Supermarket Co, Ltd. and Sheng Siong (M) Sdn. Bhd., which are not operational yet and dormant respectively.

Sheng Siong Supermarket Pte. Ltd.

As of July 2016, Sheng Siong Supermarket ("SSS") has over 40 stores with total retail area of 434,800 square feet. Sheng Siong chain stores are designed to offer both "wet and dry" shopping experiences. Customers will be able to choose from a wide variety of products, ranging from live seafood, chilled meat and fresh vegetables to essential household merchandises and toiletries. In 2014, SSS started its online shopping website that provides same-day delivery in selected areas of Singapore.

C M M Marketing Management Pte. Ltd.

Incorporated in the year 2000, C M M Marketing Management ("CMM") originally supplied SSS with warehousing and logistics. Now, it serves as the headquarters of all the related companies and supports SSS from the back end. House brand products has been developed since 2008 for Sheng Siong's chain stores. Under 10 house brands, there are over 400 hundred products including rice, sugar, cooking oil, salt, canned-food and other non-food necessities. CMM is located at 6 Mandai Link Road with a total built-up area of 543,000 square feet.

Sheng Siong (China) Supermarket Co, Ltd.

In May 2015, SSG obtained licences to operate supermarkets in the People's Republic of China. SSG has leased rental space of approximately 54,500 square feet in a shopping mall in Kunming. Operation was initially planned to commence in the fourth quarter of 2016, to coincide with the soft opening of the shopping mall. However, completion of the construction of the mall has been delayed. SSG has been unable to obtain a firm handover date from the landlord and foresee the opening of this supermarket would be delayed till the second quarter of 2017.

Strategy

SSG's main strategy is to continue to expand in areas where potential customers are residing because new stores are vital contributors to revenue. A SWOT Analysis is performed to obtain a quick overview of SSG's strategic situation.

SWOT Analysis	
Strengths	• Cost leadership strategy enables the Company to attract price conscious consumers • Highly quality management • Strategic location in the heartlands allows proximity to customers • Well respected brand name
Weaknesses	• Susceptible to customers switching brands • Faces location constraint as consumers tend to shop near homes
Opportunities	• Increasing affluence and higher levels of disposable income among the people • Stable political situation • Overseas expansion is possible after obtaining licences to operate supermarkets in China
Threats	• Competitors offering similar products • Increasing rental expense

Given the numerous environmental opportunities and substantial internal strengths, the SWOT Analysis suggests that SSG is capable of implementing an aggressive strategy to enhance profitability.

Management and Governance

The success of SSG is mainly driven by its executive management team which is committed to maintaining good corporate governance to protect shareholders' value and improve the Company's performance. The founding shareholders of C M M Marketing Management Pte. Ltd. and Sheng Siong Supermarket are Lim Hock Eng, Lim Hock Chee and Lim Hock Leng. They are brothers and executive directors of the Company. Together with another executive director, one non-executive director and three independent directors, the Board of eight directors bring with them industry knowledge, expertise and experience in areas such as finance, accounting, legal and management. The size and composition of the Board are reviewed annually to ascertain the Board has the necessary competencies for effective decision making.

SSG practises corporate governance in adherence to the principles of the Code of Corporate Governance 2012.

Board conduct – The Board of SSG delegates specific responsibilities to three Board committees - the Nominating Committee (the "NC"), the Remuneration Committee (the "RC") and the Audit Committee (the "AC"). Each Board committee has the right to examine issues and make recommendations to the Board, which is responsible for making all final decisions. If a potential conflict of interest arises, the Director concerned will refrain from exercising influence over other Board members and not participate in discussions.

Nominating Committee – The NC includes non-executive directors and most of them are independent. The Chairman of the NC is neither a substantial shareholder of SSG nor directly associated with any substantial shareholder of the Company. The NC reviews and make recommendations on the Board and its committees' structure, size and composition. It determines the process for selection and appointment of new Board members and decide if a director is independent annually.

Remuneration Committee – The RC comprises non-executive directors and the majority of them are independent. The RC endorses a framework of remuneration for all key management personnel. Some aspects of the framework are Directors' fees, salaries, allowances and bonuses.

Audit Committee – The AC encompasses non-executive directors who are mostly independent. The AC is responsible for ensuring the integrity of the SSG's financial statements and quarterly announcements. It also reviews the Company's risk management and internal controls.

Dealings in securities – SSG has implemented an internal policy on dealings in the Company's securities. The policy Is based on the requirements of the Listing Manual. All the directors and Company's officers are expected to always observe insider-trading laws.

Industry Overview and Competitive Positioning

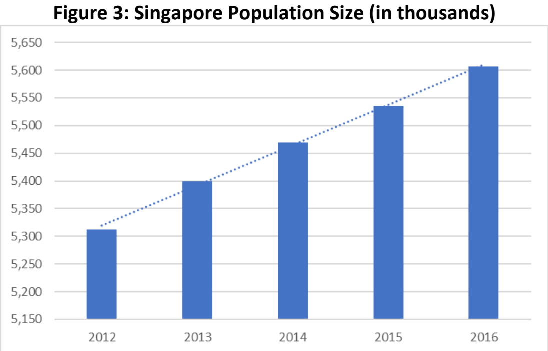
<u>**Demand Drivers**</u>

The demand for SSG product offerings are influenced by competition, consumer behaviour as well as household and meal consumption patterns. Various economic aspects are examined to understand the trends that are shaping the supermarket sector.

Household Income and Expenditure

Among resident employed households which refer to households headed by a Singapore citizen or permanent resident and with at least one working person, median monthly household income from work increased by 4.5% in nominal terms from S$8,292 in 2014 to S$8,666 in 2015. (Government of Singapore, 2016) As for household expenses, a Statistics Singapore Newsletter published in September 2016 indicates that expenditure on food is the highest for all the different age groups. (Government of Singapore, 2016) These factors have encouraging implications for the food and staples retailing Industry.

Figure 3: Singapore Population Size (in thousands)



Source: Department of Statistics Singapore

Demographics

We believe that SSG would benefit from a growing population. As at June 2016, there were 3.93M residents in Singapore, with 3.41M citizens and 0.52M permanent residents. Along with non-residents of 1.67M, Singapore total population was 5.61M. A white paper released in 2013 indicated that the Singapore population is projected to reach 6.9M in 2030. This implies population growth of 23% from 2016 to 2030. The upward trend in population growth will lead to increased grocery spending. Hence we are positive on SSG's outlook in the long run.

Food and Staples Retailing Industry

The Retail Sales Index published by Singapore Department of Statistics measures the short-term performance of retail services industry based on the sales records of retail establishments. According to the Retail Sales Index, supermarket sales decreased 1.3% in August 2016 from July 2016. Compared to August 2015, supermarket sales decreased 4.7% in August 2016. (Government of Singapore, 2016) We expect supermarkets to experience weaker growth in the next five years due to increased competition from food and beverage services. Though consumer trends show a shift to more health-conscious activities and lifestyle decisions and research suggests that meals prepared at home are generally healthier than food prepared outside, hectic lifestyles have resulted in people cooking less often. Moreover, the rise in healthier food establishments in Singapore is another reason to why people are not cooking as frequently as before. Also, the upsurge in food delivery services will reduce home cooking further. Therefore, supermarkets may not be able to benefit from the full potential of increasing household income as they battle with the conveniences brought forth by food and beverage services.

Competitive Positioning

The strategic positioning of SSG is crucial to its survival in the food and staples retailing industry. A brief introduction of SSG major competitors is presented before the forces influencing SSG and overall competitiveness within the industry are analysed using Porter's Five Forces.

Competitors

The major competitors of SSG are NTUC Fairprice Co-operative Ltd ("Fairprice") and Dairy Farm International Holdings Ltd ("DFI").

Fairprice is the largest retailer in Singapore with a network of over 120 outlets, including FairPrice supermarkets, FairPrice Finest and FairPrice Xtra. It also runs a network of over 160 convenience stores, namely FairPrice Xpress and Cheers. Supporting its operations are a Fresh Food Distribution Centre and a centralised warehousing and distribution company.

DFI is a leading pan-Asian retailer. The group operates under numerous brands across four divisions – food, health and beauty, home furnishings and restaurants. In Singapore, DFI manages supermarkets, Cold Storage and Giant, as well as convenience stores, 7-Eleven.

Porter's Five Forces

An analysis of Porter's Five Forces framework illustrates some of the many factors that affect the performance of the food and staples retailing industry.

- **Bargaining power of suppliers** is relatively low because SSG has established a large network of over 1,000 suppliers and contract manufacturers over the past 31 years. The number of suppliers allows SSG to be selective on which supplier it purchases from. Also, SSG attains economies of scale thanks to bulk purchases. Bulk purchasing implies the ability to bargain for lower prices. Indeed, SSG achieves expansion in gross margin on a year-on-year basis due to lower input prices resulting mainly from higher supplier rebates. These rebates were given for volume, display and providing bulk handling services on behalf of the suppliers. Thus, SSG faces low supplier power as the suppliers lack bargaining power and can be substituted.

- **Bargaining power of customers** is high because buyers can buy from SSG's competitors at minimal switching costs. Product differences between those offered by SSG and its competitors are insignificant. This enables consumers to buy from SSG's competitors. Customers also have negotiating power due to Internet marketing which allows customers to make comparisons and purchase decisions easily.

- **Threat of substitutes** is very high. Switching costs are almost non-existent for consumers. Buyer propensity to substitute is high as consumers are inclined to search for lower prices, higher quality and convenience.

- **Threat of potential new entrants** is relatively high because the competitors of SSG have the essential competencies to enter the market. Despite the high capital requirements to open a new supermarket, Fairprice and DFI have the resources to do so. Though SSG primarily targets consumers living in the heartlands of Singapore, Fairprice are located in similar areas too. Hence the strength of SSG's brand identity is diminished by Fairprice's strategies. In addition, SSG faces threat from e-commerce players which can enter the market at low start-up costs.

- **Intensity of competitive rivalry** within the industry is high. High bargaining power and threat of substitutes contribute to the rivalry. There is a possibility of excess industry capacity in the future. Combined with slowing demand growth as home cooking remains a downward trend, the competition within the food and staples retailing industry is set to intensify.

Economic and demographic factors create opportunities for growth in SSG's revenue. However, the addition of new stores will lead to increases in rental and salary expenses. The ability of SSG to capitalise on the Company's economies of scale and strong relationships with its suppliers and contract manufacturers is a valuable and inimitable core competency. Also, SSG has a strong positive brand reputation. Since 2008, SSG has been awarded the "Superbrand" status by Superbrands Singapore. A distinguished brand name is another valuable and inimitable core competency. The resultant competitive advantages derived from SSG's core competencies are cost leadership and differentiation. These competitive advantages will enable SSG to defend its desired strategic position against competitors and earn above-average returns.

Investment Summary

We issue a Hold Recommendation on SSG with a target price of S$0.99 using Discounted Free Cash flow to Equity (FCFE) method. This valuation is supported by various merits and concerns.

Merits

Gaining market share in a highly competitive industry
Since SSG became publicly listed in August 2011, the Company has gained significant market share rapidly. Today, it has more than 40 stores with plans to open more stores in areas where it has no presence. SSG is also able to price its products competitively and attract price conscious consumers successfully.

Superior margins
SSG has been reporting encouraging results for the past two quarters. Despite sluggish retail sales numbers published by the Department of Statistics, SSG was able to report an improvement in net profit for 3Q2016. SSG's net earnings was S$15.6M as of 30 September 2016. The main reason for increment is the presence of new stores. As for 2Q2016, SSG reported profits of S$15.2M. The increase in profitability was due to store expansions, significant supplier rebates and reduced input costs from bulk handling.

Concerns

Intense rivalry in the industry
Not only SSG faces competition from Fairprice and DFI, but also online shopping websites. As food products and household merchandise can be easily substituted, brand loyalty becomes an issue. Though SSG can reduce prices to increase market share, excessive discounts will erode profit margins.

Labour costs
The tightening of the foreign worker policy in Singapore is unlikely to be eased in the near future. Increasing administrative and payroll expenses have negative implications on SSG's profitability.

Store closures
SSG often has to close stores for renovations which affects profit margins. Store closures are necessary to improve older stores that are not performing as well as newer stores. Stores are closed for other reasons as well. In 2017, an important store in Woodlands that contributes favourably to SSG's revenue will be closed temporarily as the area closes for redevelopment.

Uncertainty in overseas expansion

Though the opening of the first overseas store in Kunming, China, brings forth growth opportunities. It is too early to tell whether business in China will generate profits. It is expected that SSG will face intensive competition in Kunming and capital requirements of the new store will be high.

Valuation

Valuation Price Target: **S$0.99** Recommendation: **Hold**

In millions

Year	12	13	14	15	16E	17E	18E
Total Revenue	637	687	726	764	818	861	891
Revenue Growth YoY(%)		7.9	5.6	5.3	7	5.3	3.5
Cost of Goods Sold	496	529	550	576	622	650	668
COGS/Revenue(%)	78	77	76	75	76	76	75
Gross Profit	141	158	176	189	196	211	223
Gross Profit yoy growth(%)		12	11	7.5	3.9	7.4	5.6
Net Income	42	39	48	57	62	67	71

To value the common share of SSG, we used the FCFE method and obtained a sustainable growth rate of FCFE at 2.04%, an average of the previous years' growth. This method is chosen for the following reasons:

- SSG has been maintaining a high payout ratio of above 80% and FCFE is the cash available to the company's shareholders after all operating expenses, taxes and necessary capital investments.
- SSG does not have any long-term debts
- SSG has not adopted a formal dividend policy currently but it strives to maintain a high payout that does not indicate the Company's profitability accurately. According to Annual Report 2015, the payout ratio of up to 90% is preserved until 31 December 2016. We are mindful that the annual report states that future dividend distributions are not definite. Distributions are considered based on Company performance.

We will be using a two-stage growth model. The premier stage uses a thorough year to year forecast up to 2018. The components of FCFE are net income, non-cash charges, fixed and working capital investments. Assumptions include constant growth thereafter for the terminal phase as well as SSG does not plan on borrowing and will maintain a debt ratio of 0.

Sales growth

SSG sales are expected to be high at 7% this year and gradually decrease to long run average of 3.5% in the long-term. This is a conservative estimate because the food and staples retailers will face increased competition from food and beverage services as busy lifestyles discourages home cooking. We do not foresee this behavioural trend to reverse in the long-term. The need to temporarily close and renovate older stores to retain and attract customers will adversely affect revenues and drive up expenditures. Increasing rental expense will erode profit margins in the long run.

Gross and Net profit margin

As SSG is a fairly stable company, we expect it to remain profitable amidst a competitive operating environment. We used a slightly conservative measure of 24% and slowly increasing it to 25% by the end of 2018. This improvement is seen because SSG enjoys lower input prices resulting from higher supplier rebates. It also benefits from savings on utility charges due to falling oil prices. The Consumer Price Index published in September 2016 shows that changes in food prices are minimal. With regards to net profit margin, we also used a conservative measure. We increased SSG's current net profit margin to 8% over the next three years.

Fixed Capital Investments net of Depreciation and Non-cash charges

Estimation was made by taking the ratio of the fixed capital investment net of depreciation and non-cash charges over the increase in revenue in the current year and multiplying with the forecasted increase in revenue.

Cash Flow from Operations

We expect an increase in working capital in 2017 due to expansion in China. To estimate this, we forecast a 7% increase this year in Cash flow from Operations, just like our revenue because of good sales. We maintain the same Cash flow for the subsequent year because of the expansion in china. And then a 3.5% increase just like our revenue.

Year	12	13	14	15	16E	17E	18E
CFO	34.49	46.16	72.64	74.69	79.92	79.92	82.71
Net income	**41.68**	**38.91**	**47.6**	**56.79**	**62.16**	**67.15**	**71.28**
Depreciation and Non-cash cha	-1.507	9.861	13.51	15.36	20.31	15.23	10.15
Fixed Capital investment	12.24	26.3	80.94	30.4	40.18	30.14	20.09
Fixed Cap Inv - Dep & NCC	**13.75**	**16.44**	**67.43**	**15.04**	**19.88**	**14.91**	**9.939**
Changes in non cash Working Capi	**-5.676**	**-2.606**	**11.53**	**2.539**	**-2.555**	**-2.463**	**1.278**
FCFE	22.25	19.87	-8.304	44.29	39.73	49.78	62.62
FCFE per share	0.016	0.014	-0.006	0.029	0.026	0.033	0.042

Required rate of return using CAPM

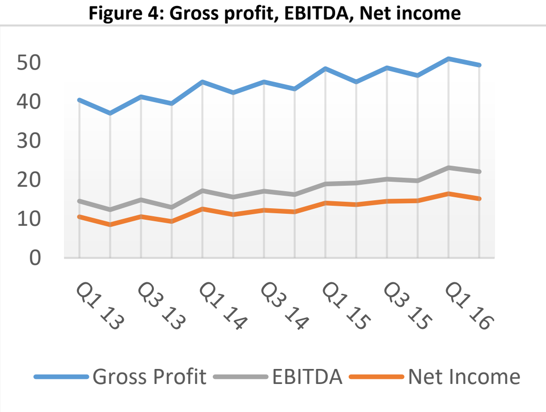
$r = r_f + \beta(r_m - r_f)$ = 6.236% where the beta is 0.8, risk free rate is 1.78% and the implied return on the market is 7.35% as of September 2016.

Financial Analysis

Stable and steady operations

SSG has maintained around a month of inventory days for its goods and we do not expect it to change significantly even with new stores rolling out. SSG's gross profit, EBITDA and Net income have been rising steadily each quarter. Gross profit reached a high of 51% during the first quarter of 2016. Furthermore, the gross margin is maintained around 25%. Its gross margin has increased year on year for the past 4 years from 22.1% to 24.7%. A good reason for this is due to improved earnings thanks to bulk purchases and increased supplier rebates. It has also selected its store locations strategically by maintaining proximity to targeted customers.

Figure 4: Gross profit, EBITDA, Net income

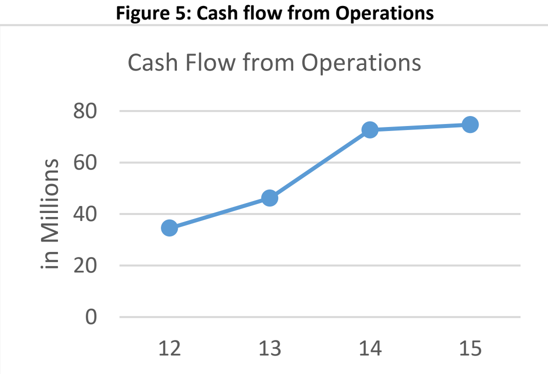


Source: Bloomberg

Increasing total revenue supported by cash flow from operations

The total revenue of SSG is increasing year on year and most of it comes from retail sales. Also, SSG has a sustainable instream of cash flow from operations which indicates that it has solid income from recurring operating activities. We expect revenue to be an upward trend as Singapore's population and household income continue to grow.

Figure 5: Cash flow from Operations



Source: Bloomberg

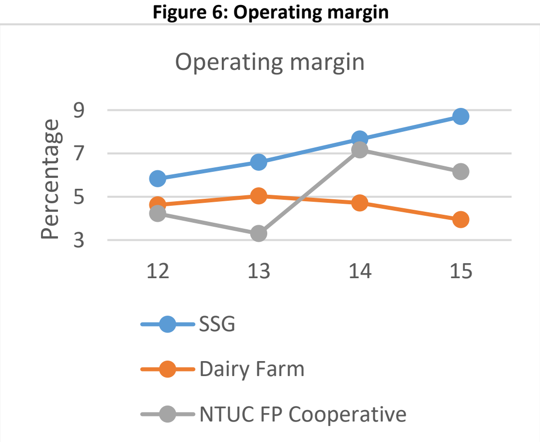
High Liquidity with no debt

SSG does not have any long-term debts. Its current ratio averages to 1.71 over the past 4 years and we foresee it would be able to weather any sudden economic downturns in the near future.

High dividend Payout ratio

SSG has maintained around a 90% dividend payout ratio. Though SSG does not have a formal dividend policy currently, the Company intends to continue this payout ratio to its shareholders for the financial year ending 31 December 2016, in appreciation of the shareholders' participation in the Company's growth.

Figure 6: Operating margin



Source: Bloomberg and Company Data

Greater margins against competitors

In the three-player competition among SSG, Fairprice and DFI, SSG displays superior operating margin and trend for continued and sustainable operation. It boasts an 8.7% operating margin at the end of 2015. We think that SSG will maintain these margins because of cost leadership, well-established relationship with suppliers to bargain for greater discounts and targeting expansions in strategic locations.

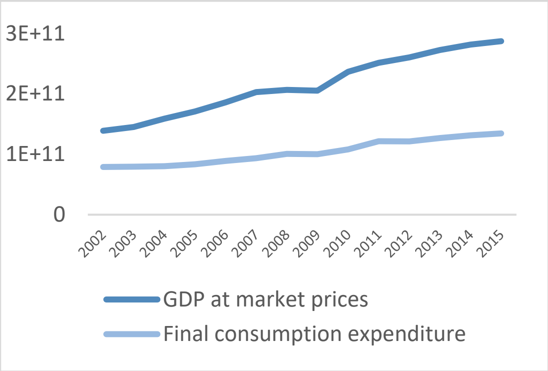
Investment Risks

Market risk

Pricing strategy of competitors

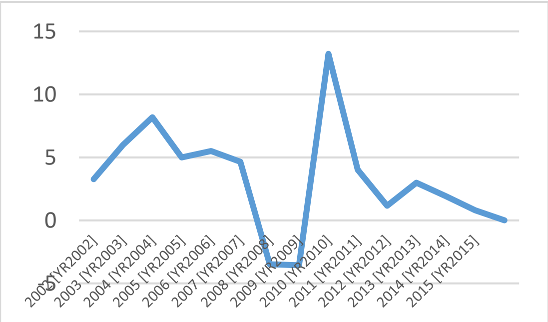
SSG strategizes the business to offer products at competitive prices and provide efficient service that can serve more customers within the same period of time. SSG provides normal groceries at comparatively lower prices than its rivals. The main customers of SSG are price sensitive, especially in key products. They are readily attracted by other supermarkets with lower prices or better substitute goods. If SSG cannot control commodity costs and operation costs, and these costs are passed on to customers, loss of customers would be inevitable. Thus, it is apparent the pricing strategy of SSG is easily affected by its competitors' strategies.

Figure 7: GDP of Singapore



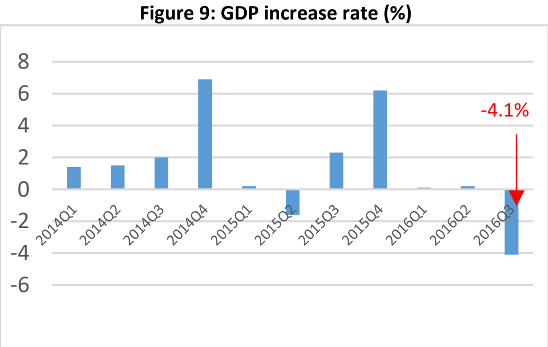
Source: The World Bank Group

Figure 8: GDP per capita growth (annual %)



Source: The World Bank Group

Figure 9: GDP increase rate (%)



Source: The World Bank Group

<u>Economic risks</u>

GDP of Singapore

Annual nominal GDP of Singapore, which continuous to increase from 2002, is obviously faster than most other societies. Final consumption expenditure in Singapore contains stable, around 50%. The most important part of final consumption expenditure is household final consumption expenditure, which is deemed as a reflection of groceries expenditure. In other words, household expenditure experienced a sustainable growth. The stable increase is also a premise of SSG's quick expansion. However, considering the quarterly GDP in 2016, especially 4.1% negative growth in the third quarter, Singapore's development path is significantly affected by uncertain economic conditions worldwide. Meanwhile, the growth rate of GDP per head is also close to zero in recent years. Macroeconomic recession would be a ceiling, limiting the development of SSG in the long-term if the company does not adjust its investment strategy.

Foreign exchange exposure

Limited by the geographical area and production capacity, many groceries in Singapore are produced by neighbouring countries. SSS directly imports fruits, grains and vegetables from countries such as Malaysia, Thailand and China. When SGD strengthens or the transaction currency weakens, SSG will benefit from the lower costs of imports. However, the weakening of SGD or strengthening of the transaction currency will increase costs of imports. This will either erode profit margins or SSG will pass on the costs to customers risking reduction in sales. Hence the profitability of SSG is highly susceptible to currency fluctuations.

<u>Operational risks</u>

Market development in China

SSG plans to enter the Chinese market with its first store in Kunming. The opening of the store has been postponed to 2017. This store represents in shift in SSG's strategy from locating stores in dense residential areas in Singapore to opening a store in a shopping mall in Kunming.

Kunming, the provincial capital and largest city in Yunnan Province, is also a budding transportation gateway to Southeast Asia. Kunming is developing rapidly. Unlike other major cities where diversified shopping malls have proliferated, Kunming has the potential to contain more supermarkets.

However, SSG's business strategy to "maximize profit margins by constantly challenging itself to churn out higher turnover per square feet of retail space" may appear disadvantages. Online shopping is highly prevalent in China, especially for those familiar with smart devices. For example, most of the residents living in the major cities of mainland China can buy groceries from online store, Tmall, and have purchases delivered within three days. Apart from Tmall, there are many other shopping websites. Customers can easily search for lower prices, more efficient delivery speeds and better quality controls. Online shopping will seriously encroach the market share of SSG. Even if SSG introduces its online shopping portal in China, it will still be affected by existing incumbents.

Moreover, SSG will face competition from local brands and international brands such as Walmart and Carrefour. Therefore, we have reasons believe that SSG's decision to enter the Chinese market is risky and capital intensive, at least in the short-term.

Penetration strategy in Singapore

In addition to overseas expansion to reach new customers, SSG needs to pay attention to local expansion plans to increase market share and mitigate loss of sales from the expected closure of stores. For instance, the Woodlands store, a key store that contributes between 5% and 10% to revenue, will be closed in the second quarter of 2017 as the area is being redeveloped. Failure to increase profitability will affect the attractiveness of its shares.

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Selected Ratios from Financial Statements (%)

Year	12	13	14	15
Gross Margin	22.1	23.02	24.2	24.71
Operating margin	5.831	6.593	7.659	8.697
Profit Margin	6.539	5.66	6.557	7.429
Return on Assets	17.26	15.88	16.05	15.93
Return on Common Equity	27.78	25.81	24.66	23.64
Cash Ratio	1.362	1.036	1.225	1.038
Quick Ratio	1.385	1.098	1.272	1.068
Current Ratio	1.89	1.637	1.73	1.567
Inventory Days	28.17	29.51	29.42	30.31
Total Asset turnover	2.64	2.806	2.447	2.145

Year	12	13	14	15
Basic Earnings per Share	0.0301	0.0281	0.0334	0.0378
EPS - 1 Yr Growth(%)	36.1991	-6.6445	18.8612	13.1737
Book Value per Share	0.1096	0.1083	0.1571	0.1624
Cash Flow per Share	0.0249	0.0334	0.051	0.0497
Dividend per share	0.0275	0.026	0.03	0.035
Price Earnings Ratio (P/E)	17.608	21.7082	20.6587	22.2222
Price to Book Ratio	4.8344	5.635	4.3908	5.172
EV/T12M EBITDA	13.4479	13.4371	13.6307	14.2315
Sharesoutstanding	1,383.54	1,383.54	1,503.54	1,503.54

Balance Sheet Items (in millions)

Year	12	13	14	15
Cash and Cash Equivalents	120.399	99.678	130.47	125.931
Mrktable Sec & Oth ST Invts	0	0	0	0
Accounts & Notes Rec	1.967	5.935	4.997	3.691
Inventories	39.987	45.566	43.142	52.459
Other Current Assets	4.717	6.312	5.751	8.071
Current Asst Reported	167.07	157.491	184.36	190.152
Property Plant and Equip Gross	111.557	133.715	213.233	242.47
Accum Deprec	36.933	42.959	52.571	64.821
Property Plant & Equipment Net	74.624	90.756	160.662	177.649
LT Investments & Receivables	0	0	0	0
Oth Asst/Def Chgs&Oth	0	0	0	0
Total Assets	**241.694**	**248.247**	**345.022**	**367.801**
Accounts Payable	57.223	63.925	60.417	68.782
Short Term Debt	0	0	0	0
Other ST Liabilities	31.163	32.259	46.126	52.582
Total Current Liabilities	88.386	96.184	106.543	121.364
Long Term Debt	0	0	0	0
Other LT Liabilities	1.63	2.292	2.204	2.241
Total Liabilities	90.016	98.476	108.747	123.605
Preferred Equity	0	0	0	0
Minority/Non Controlling Interes	0	0	0	0
Total Common Equity	151.678	149.771	236.275	244.196
Tot Sharehldr Eqty	151.678	149.771	236.275	244.196
Total Liabilities and Equity	**241.694**	**248.247**	**345.022**	**367.801**