

Sheng Siong Group Ltd

New high in gross margins



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SINGAPORE | CONSUMER | 4Q21 RESULTS

25 February 2022

- FY21 revenue/PATMI beat our estimates at 102%/105% of our forecast. Gross margins were stronger than expected. Excluding grants, PATMI would have risen 41% YoY.
- Improvement in the product mix of higher fresh food and house brands drove the expansion in margins. Households continue to dine at home and shift their fresh food purchases from wet markets to supermarkets.
- Our FY22e PATMI is increased by 13% to S\$114.7mn as we lift sales estimates by 12%. We believe the secular trend of fresh food sales migrating from wet markets to supermarkets continues. Our BUY recommendation is maintained and target price is nudged up to S\$1.75 (prev. S\$1.69). We lower our valuation metrics to 23x PE, a 10% discount to 5-year historical average of 25x PE. Earnings growth will be capped until new stores contribute meaningfully, likely in FY23e. FY22e will be a transition year as household dining may soften as borders reopen, dining restrictions lift and more return to office.

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.49
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.75
TOTAL RETURN	21.1%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1650 / 2240
52 - WK HI/LO (SGD)	1.68 / 1.41
3M Average Daily T/O (mn)	2.06

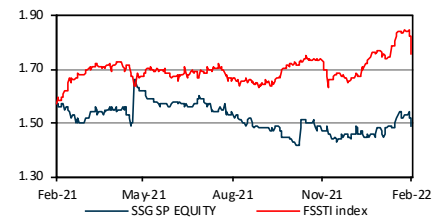
MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	9.2%
LIM HOCK LENG	9.1%
LIM HOCK ENG	9.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.7	3.4	4.1
STI RETURN	3.2	5.5	8.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY20	FY21	FY22e	FY23e
Revenue	1,394	1,370	1,290	1,339
EBITDA	180.1	207.1	214.0	192.4
PATMI	138.7	132.8	114.7	121.3
EPS	9.22	8.83	7.63	8.07
PER, x	16.2	16.9	19.5	18.5
P/BV, x	6.0	5.4	5.0	4.6
DPS (SGD cents)	6.50	6.20	5.50	5.50
Div Yield	4.4%	4.2%	3.7%	3.7%
ROE	40.4%	33.8%	26.8%	26.2%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 23x FY22e

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Results at a glance

SGD mn	4Q21	4Q20	YoY	Comments
Revenue	340.0	319.3	6.5%	+3.2% new stores, +2.8% SSSG, +0.4% China
Gross profit	99.8	87.1	14.6%	Gross margins improved +2.0% pt to record 29%.
Gross Margin	29.4%	27.3%	2.1%	
EBITDA	38.0	39.9	-4.6%	Government grant 4Q21 S\$0.4mn (4Q20: S\$9.3mn).
PATMI	32.54	32.1	1.4%	Excl. grant PATMI up 41% YoY.
DPS (cents)	3.10	3.00	3.3%	FY21 DPS 6.2 cents (FY20: 6.5 cents)
Area (sft 000s)	576.6	571.2	1.0%	1 new store opened 30Dec21.

Source: Company, PSR

The Positive

+ Gross margins still climbing. Margins hit another record high of 29.4% (3Q21: 29.0%). Supporting margins was the higher mix of fresh food and house brands. We believe the disruption last quarter in fresh food supplies diverted even more customers to Sheng Siong. Awareness is growing on the quality and price competitiveness of fresh food compared to wet markets. A similar experience is underway for house brands where more SKUs are being added particularly in the frozen category.

+ Three new stores secured. After almost five quarters without a new store, Sheng Siong managed to open a new 5,500 sft store in Bukit Batok. Another two more stores, totalling 19,000, sft are expected to open in FY22. This will raise Sheng Siong's total store footprint in Singapore by 4.3%.

The Negative

- Nil

Outlook

We expect sales in FY22e to soften as borders reopen, dining restrictions lift and more return to office. Dining more at home also results in a larger budget for higher quality and pricier fresh products. We expect only a modest dip in gross margins. Sales from fresh products can creep up higher with further market share gains from wet markets. A headwind will be rising food cost and price competition.

Maintain BUY with higher TP of S\$1.75 (prev. S\$1.69)

SSG enjoys attractive ROEs of 27%, dividend yields at 3.7% and net cash at S\$241mn (as at Dec2021).

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	991.3	1,394.0	1,369.8	1,289.5	1,339.4
Gross profit	266.9	381.9	393.3	361.1	376.4
EBITDA	128.2	180.1	207.1	214.0	192.4
Other income	8.9	41.2	12.1	9.0	9.0
Depreciation & Amortisation	(41.8)	(50.6)	(51.6)	(79.9)	(50.5)
EBIT	92.6	166.1	162.2	138.1	145.7
Net Finance Inc/(Exp)	(0.7)	(1.0)	(1.2)	2.2	2.5
Profit Before Tax	91.9	165.1	161.0	140.2	148.2
Taxation	(16.2)	(26.0)	(27.9)	(25.2)	(26.7)
Profit After Tax	75.8	139.1	133.1	115.0	121.6
Non Controlling Interest	(0.0)	(0.5)	(0.3)	(0.3)	(0.3)
PATMI	75.7	138.7	132.8	114.7	121.3

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	5.04	9.22	8.83	7.63	8.07
EPS, adj.	5.04	9.22	8.83	7.63	8.07
DPS	3.55	6.50	6.20	5.50	5.50
BVPS	20.83	24.77	27.50	29.53	32.09

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	91.9	165.1	161.0	140.2	148.2
Adjustments	42.4	51.7	52.2	77.7	48.0
WC changes	(2.2)	69.6	(7.8)	(58.9)	1.6
Cash generated from ops	132.1	286.4	205.3	159.0	197.8
Others	(14.8)	(12.3)	(32.6)	(25.2)	(26.7)
Cashflow from ops	117.3	274.1	172.7	133.7	171.1
CFI					
CAPEX, net	(53.5)	(17.1)	(31.4)	(30.0)	(30.0)
Others	1.3	1.0	1.1	3.2	3.0
Cashflow from investments	(52.2)	(16.1)	(30.3)	(26.8)	(27.0)
CFF					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	0.0	30.0	(25.0)	(5.0)	0.0
Dividends	(52.6)	(79.7)	(91.7)	(84.2)	(82.7)
Others	0.0	(31.2)	(2.2)	(1.0)	(0.5)
Cashflow from financing	(52.6)	(80.9)	(118.9)	(90.2)	(83.2)
Net change in cash	12.5	177.1	23.5	16.7	60.9
Effects of exchange rates	(0.0)	0.4	0.2	0.0	0.0
CCE, end	76.4	253.9	246.6	233.4	264.3

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE	295.3	291.6	302.9	308.4	312.9
Others	60.9	48.7	79.5	44.1	39.1
Total non-current assets	356.2	340.3	382.4	352.5	352.1
Accounts receivables	18.0	19.9	11.6	20.1	20.9
Cash	76.4	253.9	246.6	233.4	264.3
Inventories	82.2	77.9	98.4	101.7	105.5
Total current assets	176.6	351.8	356.6	355.2	390.7
Total Assets	532.8	692.1	739.0	707.8	742.8
LIABILITIES					
Accounts payables	140.8	208.1	212.4	165.3	171.5
Lease liabilities	26.7	22.4	27.7	17.7	7.7
Short term loans	0.0	15.0	5.0	0.0	0.0
Others	16.6	29.8	25.4	25.4	25.4
Total current liabilities	184.1	275.2	270.5	208.5	204.6
Lease liabilities	30.2	23.1	48.9	48.9	48.9
Long term loans	0.0	15.0	0.0	0.0	0.0
Others	3.0	3.6	3.2	3.2	3.2
Total non-current liabilities	33.3	41.7	52.2	52.2	52.2
Total Liabilities	217.4	317.0	322.7	260.6	256.8
EQUITY					
Non-controlling interests	2.1	2.7	2.9	3.2	3.5
Shareholder Equity	313.3	372.4	413.4	443.9	482.5

Valuation Ratios

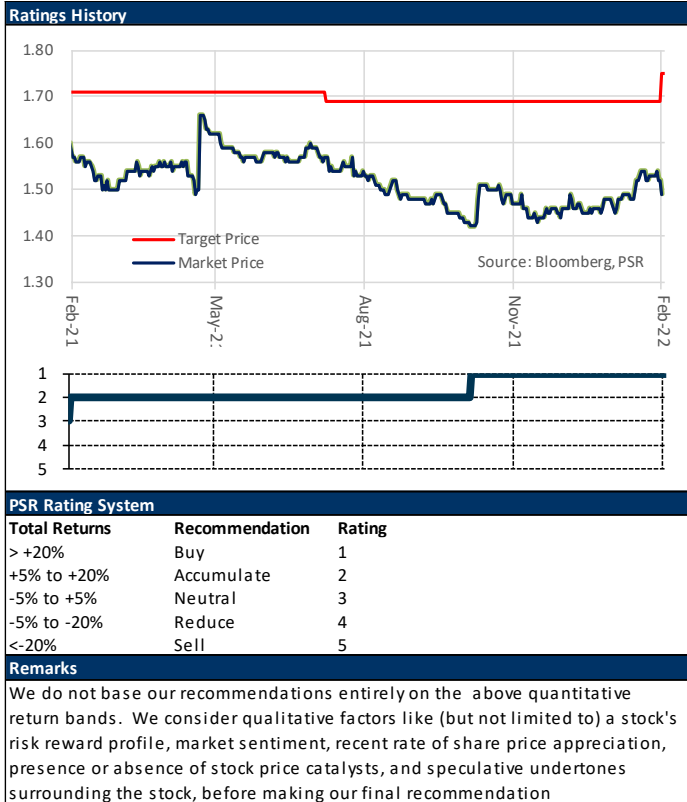
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	29.6	16.2	16.9	19.5	18.5
P/B (X)	7.2	6.0	5.4	5.0	4.6
EV/EBITDA (X)	16.9	11.2	9.7	9.4	10.3
Dividend Yield	2.4%	4.4%	4.2%	3.7%	3.7%

Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	11.3%	40.6%	-1.7%	-5.9%	3.9%
EBITDA	34.9%	40.5%	15.0%	3.3%	-10.1%
EBIT	10.5%	79.4%	-2.4%	-14.9%	5.6%
Net profit	7.0%	83.1%	-4.2%	-13.6%	5.7%
Margins					
Gross margin	26.9%	27.4%	28.7%	28.0%	28.1%
EBITDA margin	12.9%	12.9%	15.1%	16.6%	14.4%
EBIT margin	9.3%	11.9%	11.8%	10.7%	10.9%
Net profit margin	7.6%	9.9%	9.7%	8.9%	9.1%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE	25.1%	40.4%	33.8%	26.8%	26.2%
ROA	15.6%	22.6%	18.6%	15.9%	16.7%
Net Debt/(Cash)	(76)	(224)	(242)	(233)	(264)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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