

Singapore Company Update

Sheng Siong Group

Bloomberg: SSG SP | Reuters: SHEN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Feb 2022

BUY

Last Traded Price (24 Feb 2022): S\$1.49 (STI : 3,276.06)
Price Target 12-mth: S\$1.76 (18% upside) (Prev S\$1.58)

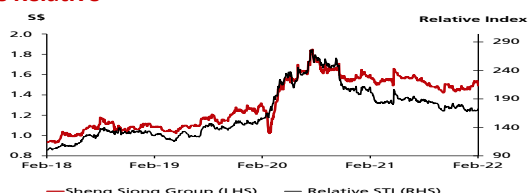
Analyst

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What's New

- 4Q21 PATMI increases to S\$32.5m (+6.6% y-o-y) as gross margin sets another record high
- 3.1 Scts dividend proposed for 2H21, bringing FY21 dividend to 6.2 Scts
- Three new stores and margin expansion to offset demand normalisation
- Maintain BUY with higher TP of S\$1.76

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	1,394	1,370	1,329	1,378
EBITDA	217	212	203	213
Pre-tax Profit	165	161	152	161
Net Profit	139	133	126	133
Net Pft (Pre Ex.)	139	133	126	133
Net Pft Gth (Pre-ex) (%)	83.1	(4.2)	(5.3)	5.5
EPS (S cts)	9.22	8.83	8.36	8.82
EPS Pre Ex. (S cts)	9.22	8.83	8.36	8.82
EPS Gth Pre Ex (%)	83	(4)	(5)	6
Diluted EPS (S cts)	9.22	8.83	8.36	8.82
Net DPS (S cts)	6.50	6.20	5.90	6.20
BV Per Share (S cts)	24.8	27.5	30.0	32.6
PE (X)	16.2	16.9	17.8	16.9
PE Pre Ex. (X)	16.2	16.9	17.8	16.9
P/Cash Flow (X)	8.2	13.0	12.5	11.4
EV/EBITDA (X)	9.3	9.4	9.5	8.7
Net Div Yield (%)	4.4	4.2	4.0	4.2
P/Book Value (X)	6.0	5.4	5.0	4.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	40.4	33.8	29.1	28.2
Earnings Rev (%):			11	10
Consensus EPS (S cts):			7.20	7.8
Other Broker Recs:		B: 2	S: 2	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Proving its worth

Investment Thesis:

Change in consumption patterns to support sales psf.

Numerous reports have found that there is a shift in consumption patterns to focus on "value for money", following the economic toll caused by COVID-19. We believe this is positive for Sheng Siong, as the brand resonates the "value" proposition in Singapore, which should support sales psf, even as demand normalises. Accordingly, we have projected sales psf to remain c.24% above pre-COVID levels in FY23F, which implies that future store expansions will be more profitable.

Emerging dividend play. Based on the current share price, Sheng Siong remains a good dividend play with a yield of c.4% per annum. Our forecasts show that the group is on track to pay a dividend of over 5.90 Scts/share in FY22F, which would represent a yield of c.4%.

Margin improvement could mitigate headwinds. We believe Sheng Siong's efforts in improving margins (through the pursuit of fresh food and house brand sales growth) could mitigate inflationary pressures and a normalisation in demand. Indeed, the group has achieved successive q-o-q margin improvements since 3Q20, with it rising from 27.0% to 29.4% in 4Q21.

Valuation:

Maintain BUY with a higher TP of S\$1.76 based on Sheng Siong's pre-COVID PE multiple of 21.0x, which represents the stock's pre-COVID average forward PE. We expect supermarket sales to gradually normalise in FY22 as Singapore transitions to "living with COVID-19".

Where we differ:

Our estimates are above the consensus, as we believe normalisation will take place at a slow pace with Singapore's transition to living with the pandemic.

Key Risks to Our View:

Higher input costs such as energy expenses and excessive promotions by competitors could result in lower margins.

At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (S\$m/US\$m)	2,240 / 1,653
Major Shareholders (%)	
S & S Holdings Inc	29.9
Lim Hock Chee	9.2
Lim Hock Leng	9.1
Free Float (%)	42.7
3m Avg. Daily Val (US\$m)	2.2

GIC Industry: Consumer Staples / Food & Staples Retailing



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WHAT'S NEW

Proving its worth

Financials in line; gross margins continue steady climb

- 4Q21 revenue up 6.5% y-o-y to S\$340.0m; FY21 revenue declined 1.7% y-o-y to S\$1.37bn and formed 100% of our forecasts
- 4Q21 PATMI grew 6.6% y-o-y to S\$32.5m; FY21 PATMI declined 4.2% y-o-y to S\$132.8m and formed 102% of our forecasts
- Gross margin increased to 29.4% in 4Q21, marking another high after the 29.0% margin recorded in 3Q21. FY21 gross margin at 28.7%
- Dividend of 3.1 Scts proposed for 2H21 (3.0Scts for 2H20); FY21 dividend at 6.2 Scts (FY20: 6.5 Scts)

Key quarterly financial metrics

S\$m	4Q21	4Q20	y-o-y change	3Q21	q-o-q change
Revenue	340.0	319.3	6.5%	348.1	-2.3%
Gross Profit	99.8	87.1	14.6%	100.9	-1.1%
Operating Profit	40.1	37.7	6.4%	41.7	-3.8%
Gross Profit Margin	29.4%	27.3%	2.1ppt	29.0%	0.4ppt
Operating Margin	11.8%	11.8%	0.0ppt	12.0%	-0.2ppt
Dividend per share	3.10	3.00	3.3%	na	nm
Sales psf (ann.)	2,381	2,310	3.1%	2,438	-2.3%
Retail Area (sq ft)	571,150	552,980	3.3%	571,150	0.0%
Store Count	63	61	3.3%	63	0.0%

Source: Company, DBS Bank

Respectable FY21 performance driven by higher same-store sales and improved sales mix. Despite expectations of a normalisation in demand, Sheng Siong's FY21 revenue decline was small, helped by COVID-19 and the opening of new stores. Indeed, the group had also received c.S\$30m less in wage subsidies in FY21, but managed to make up a bulk of the shortfall through margin improvements. The gross margin was steadily stronger throughout the year, stemming from growth in fresh food and house brand sales.

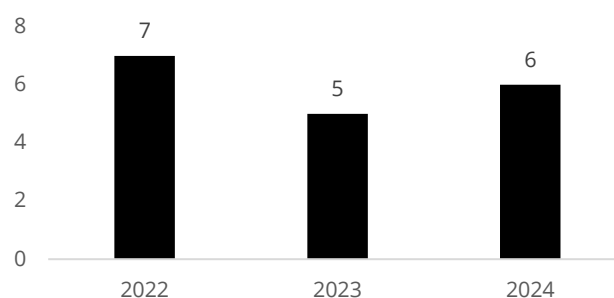
Outlook

Sheng Siong to open at least three new Singapore stores in FY22.

The group secured three store leases in 2021, of which one already has a store that opened on 30 Dec 2021. Sheng Siong expects to open the remaining two stores by 1H22, bringing its total retail area to an estimated c.596,000 sqft

by end-1H22. In China, Sheng Siong opened two stores in 2H21, bringing the group's store count in China to four. Sheng Siong remains on the lookout for opportunities to expand in China but has no concrete plans for new stores at the moment.

HDB's pipeline of supermarket stores for tender



Source: HDB, DBS Bank

Higher input costs to bite, but Sheng Siong better positioned than most.

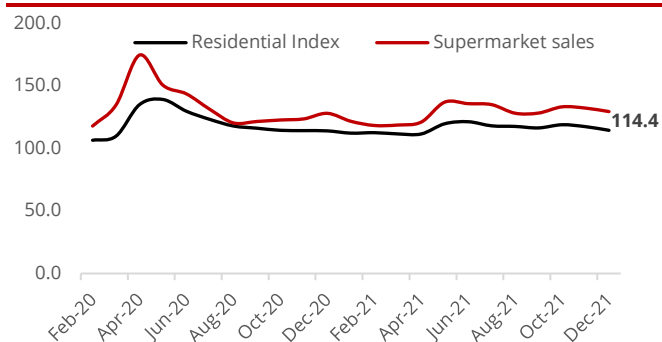
As part of its outlook, Sheng Siong mentioned two key risks in the form of higher input costs and a normalisation in demand as Singapore reopens. For the former, while supply chain pressures and energy costs look set to rise in the near term, we believe the group's efforts in improving margins (through the pursuit of fresh food and house brand sales growth) could mitigate inflationary pressures. We also think Sheng Siong's established relationships with its suppliers could help slow input price growth. As such, we are forecasting FY22F gross margins to grow at a gradual pace of 0.3ppt to 29.0%, lower than the 1.3ppt growth achieved in FY21 but still expanding.

COVID-19 is here to stay; normalisation in demand likely to be gradual.

The COVID-19 pandemic has undoubtedly boosted sales at supermarkets, as more people stayed home and ate out less. Indeed, we calculated a correlation of $r = 0.84$ between more people staying at home and supermarket sales. At present, we think COVID-19 could become a seasonal virus that comes in waves. This may mean a future where social gatherings are "tightened" as a wave hits and "relaxed" when a wave subsides. Such a scenario would still mean more people staying home compared to pre-COVID levels. As such, we have projected FY22F revenue per sqft to be c.5% lower than FY21 but c.24% higher than FY19, at S\$2,278 psf.

Sheng Siong Group

Singaporean residents are still staying home despite the relaxation of restrictions (100.0 = pre-COVID mobility)



Source: Singstat, Google, DBS Bank

Maintain BUY on Sheng Siong with a higher TP of S\$1.76.

We revised our FY22F/23F earnings up by 11%/10%, given the group's three new store leases and expectations of continued margin growth. In turn, our valuation for Sheng Siong is adjusted to S\$1.76, pegged to the stock's pre-COVID mean forward PE of 21.0x.

Company Background

Sheng Siong is the third-largest supermarket operator in Singapore, behind NTUC Fairprice and Dairy Farm International. The group has a reputation for quality products and competitive prices and ventured into China in 2017. Sheng Siong was established in 1985 and listed on the Singapore Exchange in 2011.

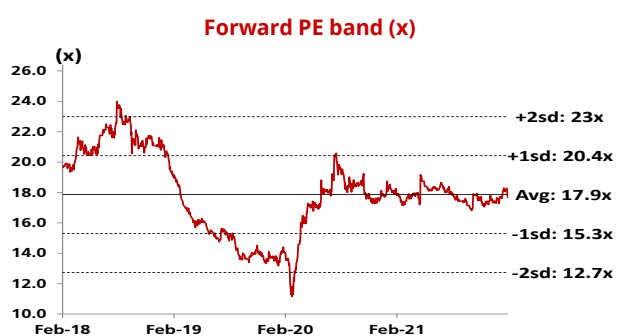
Sheng Siong Group

Quarterly Income Statement (\$m)

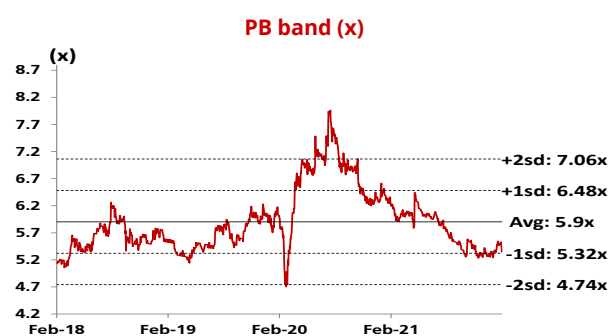
FY Dec	4Q2020	3Q2021	4Q2021	% chg y-o-y	% chg h-o-h
Revenue	319	348	340	6.5	(2.3)
Cost of Goods Sold	(232)	(247)	(240)	3.4	(2.8)
Gross Profit	87.1	101	99.8	14.6	(1.1)
Other Oper. (Exp)/Inc	(51.0)	(59.2)	(59.7)	17.2	0.8
Operating Profit	36.2	41.7	40.1	10.9	(3.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.2)	(0.3)	(0.4)	(70.4)	(53.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	35.9	41.4	39.7	10.6	(4.2)
Tax	(5.3)	(7.0)	(7.1)	33.2	1.4
Minority Interest	0.0	(0.1)	(0.1)	(28.3)	0.0
Net Profit	30.5	34.4	32.5	6.6	(5.3)
Net profit bef Except.	30.5	34.4	32.5	6.6	(5.3)
EBITDA	49.3	41.7	40.1	(18.6)	(3.8)
Margins (%)					
Gross Margins	27.3	29.0	29.4		
Opg Profit Margins	11.3	12.0	11.8		
Net Profit Margins	9.6	9.9	9.6		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Sheng Siong Group

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Rev per sqft	1,933	2,533	2,398	2,278	2,278
Operation Area (sqft)	529,480	571,150	571,150	595,640	613,640
Number of stores	59.0	63.0	63.0	66.0	69.0

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	991	1,394	1,370	1,329	1,378
Cost of Goods Sold	(724)	(1,012)	(976)	(944)	(977)
Gross Profit	267	382	393	385	401
Other Opng (Exp)/Inc	(174)	(216)	(231)	(232)	(239)
Operating Profit	92.6	166	162	154	162
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.7)	(1.0)	(1.2)	(1.5)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	91.9	165	161	152	161
Tax	(16.2)	(26.0)	(27.9)	(25.9)	(27.3)
Minority Interest	0.0	(0.5)	(0.3)	(0.5)	(0.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	75.7	139	133	126	133
Net Profit before Except.	75.7	139	133	126	133
EBITDA	134	217	212	203	213

Growth

Revenue Gth (%)	11.3	40.6	(1.7)	(3.0)	3.6
EBITDA Gth (%)	34.0	61.3	(2.2)	(4.3)	4.9
Opg Profit Gth (%)	10.5	79.4	(2.3)	(5.3)	5.2
Net Profit Gth (Pre-ex) (%)	6.9	83.1	(4.2)	(5.3)	5.5

Margins & Ratio

Gross Margins (%)	26.9	27.4	28.7	29.0	29.1
Opg Profit Margin (%)	9.3	11.9	11.8	11.6	11.7
Net Profit Margin (%)	7.6	9.9	9.7	9.5	9.6
ROAE (%)	25.1	40.4	33.8	29.1	28.2
ROA (%)	15.6	22.6	18.6	16.5	16.5
ROCE (%)	23.7	35.9	29.6	26.0	25.5
Div Payout Ratio (%)	70.5	70.5	70.2	70.6	70.3
Net Interest Cover (x)	137.0	161.0	129.9	100.4	145.1

Gross margin growth pace to slow as higher input costs bite

Source: Company, DBS Bank

Sheng Siong Group

Quarterly Income Statement (\$\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	319	338	344	348	340
Cost of Goods Sold	(232)	(244)	(245)	(247)	(240)
Gross Profit	87.1	93.1	99.4	101	99.8
Other Oper. (Exp)/Inc	(51.0)	(55.2)	(56.9)	(59.2)	(59.7)
Operating Profit	36.2	37.9	42.5	41.7	40.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	35.9	37.6	42.2	41.4	39.7
Tax	(5.3)	(6.7)	(7.0)	(7.0)	(7.1)
Minority Interest	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	30.5	30.8	35.1	34.4	32.5
Net profit bef Except.	30.5	30.8	35.1	34.4	32.5
EBITDA	49.3	50.1	55.6	41.7	40.1

Growth

Revenue Gth (%)	(2.4)	5.7	1.9	1.2	(2.3)
EBITDA Gth (%)	(3.4)	1.8	10.9	(25.0)	(3.8)
Opg Profit Gth (%)	(5.6)	4.8	12.3	(2.0)	(3.8)
Net Profit Gth (Pre-ex) (%)	(3.9)	1.0	13.8	(2.1)	(5.3)

Margins

Gross Margins (%)	27.3	27.6	28.9	29.0	29.4
Opg Profit Margins (%)	11.3	11.2	12.4	12.0	11.8
Net Profit Margins (%)	9.6	9.1	10.2	9.9	9.6

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	295	292	303	269	233
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	60.9	48.7	79.5	79.5	79.5
Cash & ST Invts	76.4	254	247	317	404
Inventory	82.2	77.9	98.4	105	103
Debtors	18.0	19.9	11.6	11.2	11.6
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	533	692	739	781	831
ST Debt	0.0	15.0	5.00	0.0	0.0
Creditor	141	208	212	222	230
Other Current Liab	43.3	52.1	53.1	53.6	55.0
LT Debt	0.0	15.0	0.0	0.0	0.0
Other LT Liabilities	33.3	26.7	52.2	52.2	52.2
Shareholder's Equity	313	372	413	450	490
Minority Interests	2.11	2.71	2.92	3.42	4.02
Total Cap. & Liab.	533	692	739	781	831
Non-Cash Wkg. Capital	(84.0)	(162)	(156)	(159)	(170)
Net Cash/(Debt)	76.4	224	242	317	404
Debtors Turn (avg days)	5.7	5.0	4.2	3.1	3.0
Creditors Turn (avg days)	71.2	66.2	82.8	88.5	88.9
Inventory Turn (avg days)	40.7	30.4	34.7	41.5	41.0
Asset Turnover (x)	2.0	2.3	1.9	1.7	1.7
Current Ratio (x)	1.0	1.3	1.3	1.6	1.8
Quick Ratio (x)	0.5	1.0	1.0	1.2	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	57.0	628.6	N/A	N/A
Z-Score (X)	9.4	7.6	9.6	7.9	7.9

Source: Company, DBS Bank

Sheng Siong Group

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	91.9	165	161	152	161
Dep. & Amort.	41.8	50.6	49.7	49.2	51.0
Tax Paid	(14.8)	(12.3)	(32.6)	(25.4)	(25.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	(2.2)	69.6	(7.8)	2.70	10.1
Other Operating CF	0.63	1.13	2.47	0.0	0.0
Net Operating CF	117	274	173	179	196
Capital Exp. (net)	(53.5)	(17.1)	(31.4)	(15.0)	(15.0)
Other Invs. (net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.34	0.98	1.12	0.0	0.0
Net Investing CF	(52.2)	(16.1)	(30.3)	(15.0)	(15.0)
Div Paid	(52.6)	(79.7)	(91.7)	(88.7)	(93.2)
Chg in Gross Debt	0.0	30.0	(25.0)	(5.0)	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(23.3)	(31.2)	(33.2)	0.0	0.0
Net Financing CF	(75.9)	(80.9)	(150)	(93.7)	(93.2)
Currency Adjustments	0.0	0.35	0.23	0.0	0.0
Chg in Cash	(10.8)	177	(7.3)	69.9	87.5
Opg CFPS (S cts)	7.95	13.6	12.0	11.7	12.3
Free CFPS (S cts)	4.24	17.1	9.40	10.9	12.0

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 21	1.57	1.77	BUY
2:	02 Aug 21	1.54	1.77	BUY
3:	01 Nov 21	1.43	1.58	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Woon Bing Yong

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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