

Company update

Sheng Siong Group

Singapore | Consumer Staples

Rating HOLD (as at 28 February 2022)

Last Close SGD 1.52

Fair Value SGD 1.62

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 Equity Research

Good ending to 2021

- **Record gross profit margin of 29.4% in 4Q21**
- **Total dividend of 6.2 S cents per share declared**
- **Expecting to open 2 new stores in 1H22**

Investment thesis

Sheng Siong Group's (SSG) results came in within our expectations. 4Q21 revenue rose 6.5% YoY to SGD340.0m while PATMI increased 1.9% YoY to SGD32.5m. On a full-year basis, revenue fell 1.7% YoY to SGD1.4b while PATMI was down 4.3% YoY to SGD133.1m, mainly due to the high base effect in FY20 on the back of elevated demand. A final dividend of 3.1 S cents per share was declared, taking total dividend for FY21 to 6.2 S cents per share (-4.6% YoY). SSG opened one new store in Singapore and two stores in China in FY21 as tender process and construction of HDB flats were delayed by the Covid-19 pandemic. Management plans to open two new stores in 1H22. Singapore has been taking the lead in Asia's borders reopening with the expansion of Vaccinated Travel Lanes and its commitment to "living with the endemic strategy". As borders reopen and domestic safe management measures ease in Singapore, we believe demand for groceries will taper off. After adjustments, we lower our fair value estimate marginally from SGD1.63 to SGD1.62.

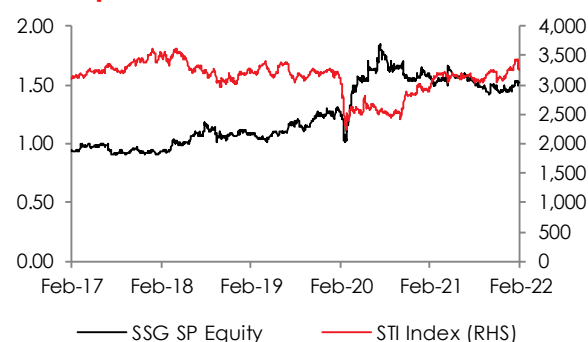
Investment summary

- **In-line set of results** – Sheng Siong Group's (SSG) 4Q21 revenue rose 6.5% YoY to SGD340.0m while PATMI increased 1.9% YoY to SGD32.5m, supported by workers continuing to work from home and tightened safe management measures due to the Omicron variant. On a full-year basis, revenue fell 1.7% YoY to SGD1.4b while PATMI was down 4.3% YoY to SGD133.1m, mainly due to the high base effect in FY20 on the back of elevated demand. Comparable same store sales decreased 4.8% YoY in FY21, but were partially offset by a 2.9% growth from the full year contributions of five new stores which opened in FY20. Gross profit margin increased by 1.3 ppt YoY to 28.7% for FY21, largely due to improved sales mix of higher margin products. A final dividend of 3.1 S cents per share was declared,

Security information

Ticker	SSG SP
Market Cap (SGD b)	2.3
Daily turnover (SGD m)	4.1
Free Float	43%
Shares Outstanding (m)	1,504
Top Shareholder	SS HOLDINGS 29.9%

Price performance chart



Financial summary

SGD mn	FY21	FY22F	FY23F
Revenue	1,370	1,301	1,340
Operating Profit	150	131	133
PATMI	133	115	116
EPS (S-cents)	8.8	7.6	7.7
DPS (S-cents)	6.2	5.4	5.5

Key ratios

	FY21	FY22F	FY23F
EBIT margin (%)	11.0	10.0	9.9
ROE (%)	26.5	25.7	24.2
Dividend yield (%)	4.1	3.6	3.6

Source: Bloomberg, Company, Internal estimates

taking total dividend for FY21 to 6.2 S cents per share (-4.6% YoY).

- **SSG opened 1 new store in Singapore for FY21** – SSG opened one new store in Singapore and two stores in China in FY21 as tender process and construction of HDB flats were delayed by the Covid-19 pandemic. As at 31 Dec 2021, SSG has 64 stores in Singapore and four stores in China. Management plans to open two new stores in 1H22. To mitigate cost pressures amid rising inflation, management will ensure a diversified base of supplies which continues to be SSG's strategy, and to introduce cheaper and more affordable products to customers. However, the challenge comes from customer's acceptance of new products due to brand loyalty. In addition, SSG may consider more bulk buying at cheaper prices but will avoid increasing inventory unnecessarily. Importantly, SSG would like to retain price competitiveness compared to its competitors.
- **Modest adjustment to fair value estimate** – Singapore has been taking the lead in Asia's borders reopening with the expansion of Vaccinated Travel Lanes and its commitment to "living with the endemic strategy". As borders reopen and domestic safe management measures ease in Singapore, we believe demand for groceries will taper off and estimate a 5% YoY decline in SSG's sales for FY22, partially offset by contribution from new stores opened in FY21 and FY22. After adjustments, we lower our fair value estimate marginally from SGD1.63 to SGD1.62.

ESG Updates

- Sheng Siong Group (SSG) demonstrates strong labour management and quality management initiatives, as well as initiatives to address data privacy and security as compared to its peers. Its exposure to labour-related risks is also lower than that of peers due to its smaller workforce. However, SSG lags better positioned peers in tapping growing opportunities from eco-friendly and healthier products. SSG's governance ranks higher than that of industry average but its environment score trails its global peers due to its limited efforts to reduce carbon footprint.

Potential catalysts

- Higher-than-expected GPM
- More-than-expected new store openings

Results highlights

SGD mn	4Q20	4Q21	% Chg
Revenue	319.3	340.0	6.5%
Cost of sales	-232.2	-240.2	3.4%
Gross Profit	87.1	99.8	14.6%
Distribution costs	-0.6	-1.8	230.6%
Administrative expenses	-58.6	-58.7	0.2%
Other operating expenses	-1.2	-1.3	2.8%
Profit from operations	26.8	38.0	42.1%
Finance income	0.2	0.3	32.2%
Finance expenses	-0.5	-0.7	51.5%
Other income	10.9	2.1	-81.1%
Profit before tax	37.5	39.7	6.0%
Income tax expense	-5.3	-7.1	33.2%
Net profit	32.1	32.6	1.5%
PATMI	31.9	32.5	1.9%
DPS (\$ cents)	3.0	3.1	3.3%

Source: Company

Investment risks

- Slowdown in same-store-sales growth
- Aggressive expansion by online grocery platforms

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
SHENG SIONG GROUP LTD (SSG SP)	20.3	19.0	5.1	5.0	12.2	12.0	3.5	3.6	26.6	26.6
DAIRY FARM INTERNATIONAL HOLDI (DFI SP)	27.0	13.9	3.0	2.8	6.9	6.2	3.4	5.3	9.2	17.3
HAI-O ENTERPRISE BHD (HAIO MK)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SUMBER ALFARIA TRIJAYA TBK PT (AMRT IJ)	25.6	20.6	5.3	4.7	8.8	7.8	2.4	3.0	24.8	27.9
SUN ART RETAIL GROUP LTD (6808 HK)	21.2	13.5	0.8	0.8	1.9	1.2	1.5	2.4	3.9	6.2

Source: Bloomberg

Price/Earnings chart



Source: Bloomberg

Price/Book chart



Source: Bloomberg

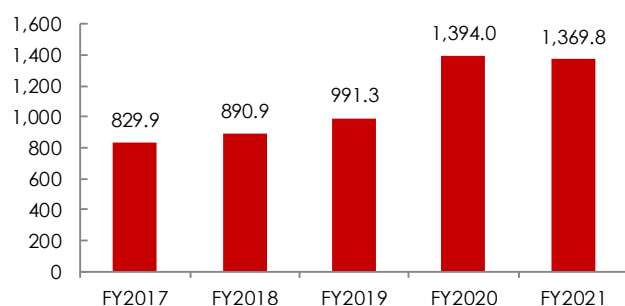
Company overview (as of 31 December 2021)

Company description

Established in 1985 and listed in August 2011, Sheng Siong Group Ltd is one of Singapore's largest retailers with 64 supermarket/grocery stores located all across the island. The stores are designed to provide customers with both "wet and dry" shopping options ranging from a wide assortment of live, fresh and chilled produce, such as seafood, meat and vegetables to packaged, processed, frozen and/or preserved food products as well as general merchandise, including toiletries and essential household products. Sheng Siong has also been developing a selection of house brands to offer customers alternatives to national brands at substantial savings, and to date, has over 1400 products under more than 23 house brands.

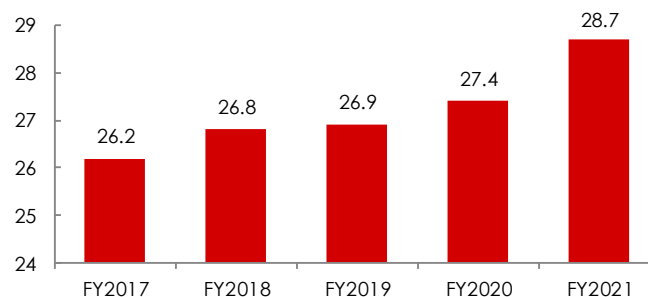
In 2014, Sheng Siong also started its online shopping platform for groceries, which offers e-commerce services in selected postal districts in Singapore. Sheng Siong's first overseas store in Kunming, China, commenced operation in 2017.

Revenue (\$m)



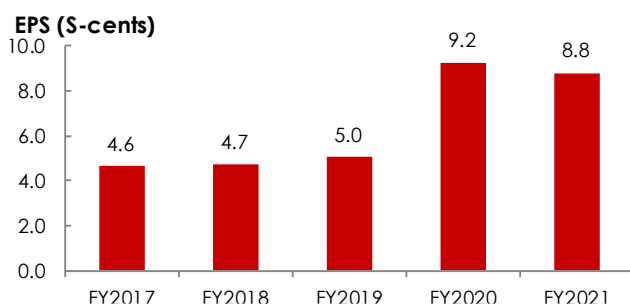
Source: Company

Gross profit margin (%)



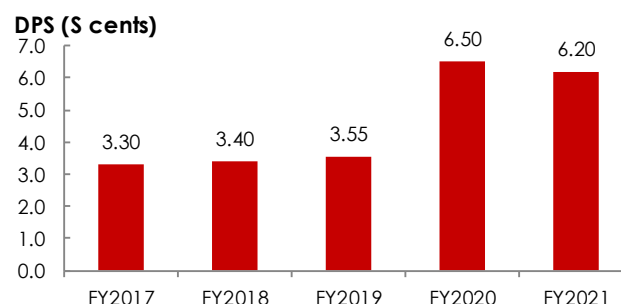
Source: Company

Earning per share (\$-cents)



Source: Company

Dividends per share (\$-cents)



Source: Company

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Revenue	829.9	890.9	991.3	1,394.0	1,369.8
- Cost of Revenue	612.5	652.6	724.4	1,012.1	976.5
Gross Profit	217.4	238.4	266.9	381.9	393.3
+ Other Operating Income	10.3	7.6	8.9	41.2	12.1
- Operating Expenses	145.9	162.5	183.7	258.3	243.8
Operating Income or Losses	81.8	83.5	92.1	164.8	161.6
- Interest Expense	0.0	0.0	2.0	2.0	2.4
- Foreign Exchange Losses (Gains)	0.0	-0.3	-0.5	-1.3	-0.6
- Net Non-Operating Losses (Gains)	-0.2	-0.9	-1.3	-1.0	-1.1
Pretax Income	82.1	84.7	91.9	165.1	161.0
- Income Tax Expense (Benefit)	12.6	14.1	16.2	26.0	27.9
Income Before XO Items	69.5	70.5	75.8	139.1	133.1
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0
- Minority/Non Controlling Interests (Credits)	-0.3	-0.3	0.0	0.5	0.3
Net Income/Net Profit (Losses)	69.8	70.8	75.7	138.7	132.8
Net Inc Avail to Common Shareholders	69.8	70.8	75.7	138.7	132.8
Abnormal Losses (Gains)	0.1	-0.1	0.0	0.1	-0.4
Tax Effect on Abnormal Items	0.0	0.0	0.0	0.0	0.1
Normalized Income	69.9	70.7	75.8	138.8	132.5
Basic Earnings per Share	0.0	0.0	0.1	0.1	0.1
Basic Weighted Avg Shares	1,503.5	1,503.5	1,503.5	1,503.5	1,503.5
Diluted EPS Before Abnormal Items	0.0	0.0	0.1	0.1	0.1
Diluted EPS Before XO Items	0.0	0.0	0.1	0.1	0.1
Diluted EPS	0.0	0.0	0.1	0.1	0.1
Diluted Weighted Avg Shares	1,503.5	1,503.5	1,503.5	1,503.5	1,503.5

Profitability Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Returns					
Return on Common Equity	26.70	25.24	25.10	40.44	33.81
Return on Assets	17.64	16.86	15.63	22.64	18.56
Return on Capital	26.34	24.94	23.29	34.23	28.48
Return on Invested Capital	24.64	23.07	21.60	31.71	26.44
Margins					
Operating Margin	9.86	9.37	9.29	11.82	11.80
Incremental Operating Margin	20.66	2.77	8.53	18.07	-13.25
Pretax Margin	9.89	9.50	9.27	11.84	11.75
Income before XO Margin	8.38	7.92	7.64	9.98	9.72
Net Income Margin	8.41	7.95	7.64	9.95	9.70
Net Income to Common Margin	8.41	7.95	7.64	9.95	9.70
Additional					
Effective Tax Rate	15.30	16.71	17.57	15.73	17.32
Dvd Payout Ratio	73.25	72.21	70.48	70.49	70.18
Sustainable Growth Rate	7.14	7.02	7.41	11.94	10.08

Credit Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Total Debt/EBIT	0.00	0.00	0.62	0.46	0.51
Net Debt/EBIT	-0.90	-1.04	-0.21	-1.08	-1.02
EBIT to Interest Expense	—	—	45.71	81.75	68.36
Long-Term Debt/Total Assets	0.00	0.00	5.68	5.51	6.62
Net Debt/Equity	-26.88	-29.84	-6.16	-47.56	-39.62

Source: Bloomberg

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