

Sheng Siong Group Ltd

Reopening minus and inflation plus



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SINGAPORE | CONSUMER | 1Q22 RESULTS

- 1Q22 revenue/PATMI was within expectations at 28%/31% of our forecast. We have modelled a decline in sales in 2H22.
- Margins continue to climb. The 28.7% gross margin in 1Q22 is the highest for a festive laden quarter where promotions are more prevalent.
- We maintain our FY22e earnings. Our BUY recommendation and target price of S\$1.75 are unchanged. Our valuation is pegged to 23x PE, a 10% discount to the 5-year historical average of 25x PE. The reopening of borders and group restrictions is expected to reduce home dining. This will negatively impact the consumption of groceries. The return of Malaysian workers who were temporarily residing in Singapore is another potential loss of customers. A possible implication of rising inflation is consumers downgrading to home dining or shopping more in value grocers such as Sheng Siong. FY22e will be a transition year but valuations have turned more attractive and the resumption of new store openings will help drive earnings growth.

Results at a glance

SGD mn	1Q22	1Q21	YoY	Comments
Revenue	358.0	337.5	6.0%	+0.3% new stores, +4.7% SSSG, +1.0% China.
Gross profit	102.7	93.5	9.8%	Gross margins improved +1.0% pt to 1Q22 record.
Gross Margin	28.7%	27.7%	1.0%	
EBITDA	53.1	46.1	15.1%	Government grant 1Q22 S\$1.0mn (1Q21: S\$1.8mn).
PATMI	35.1	30.8	13.9%	
Area (sft 000s)	576.6	571.2	1.0%	1 new store opened 30Dec21.

Source: Company, PSR

The Positives

- + Gross margins keep rising.** A higher mix of fresh food drove margins higher, again. SSG's strength is in meat and seafood. There is a higher level of complexity in handling these items than fruits and vegetables due to their higher value and level of freshness and perishability.
- + Guiding three to five new stores per annum.** In 2021, SSG added only 1 new store. The company is guiding 3 to 5 new stores per year over the next three to five years in HDB housing estates. There are another 17 locations planned to be opened in such estates over the next three years.
- + Same-store sales accelerated.** Same-store sales accelerated in 1Q22 to 4.7% YoY. This is faster than 2H22 3.6% YoY. Pre-pandemic, same-store sales grew at 0.1% in 2019 and a negative 1% in 2018.

The Negative

- Nil

Outlook

Borders reopening, lifting of dining restrictions and the return to office will result in less dining at home and grocery shopping. Alternatively, higher grocery prices could lead to consumers shifting more to value grocers or home dining. The secular trend of taking market share from wet markets remains intact. The three new stores will contribute to growth this year as they add another 24.5k sft of space or a 4% increase in total footprint.

Maintain BUY with unchanged TP of S\$1.75

SSG's attractive financial metrics include ROEs of 27%, dividend yields at 3.6% and net cash at S\$254mn (as at Mar2022).

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.53
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.75
TOTAL RETURN	18.0%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1658 / 2300
52 - WK HI/LO (SGD)	1.68 / 1.41
3M Average Daily T/O (mn)	2.03

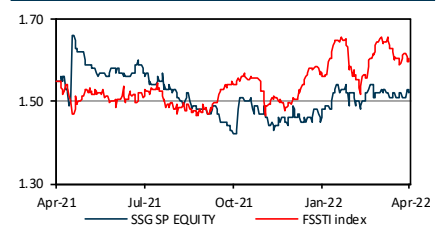
MAJOR SHAREHOLDERS

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	-	4.1	4.1
STI RETURN	(2.4)	2.7	7.1

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	16.6	17.3	20.1	19.0
P/BV, x	6.2	5.6	5.2	4.8
DPS (SGD cents)	6.50	6.20	5.50	5.50
Div Yield	4.2%	4.1%	3.6%	3.6%
ROE	40.4%	33.8%	26.8%	26.2%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 23x FY22e

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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

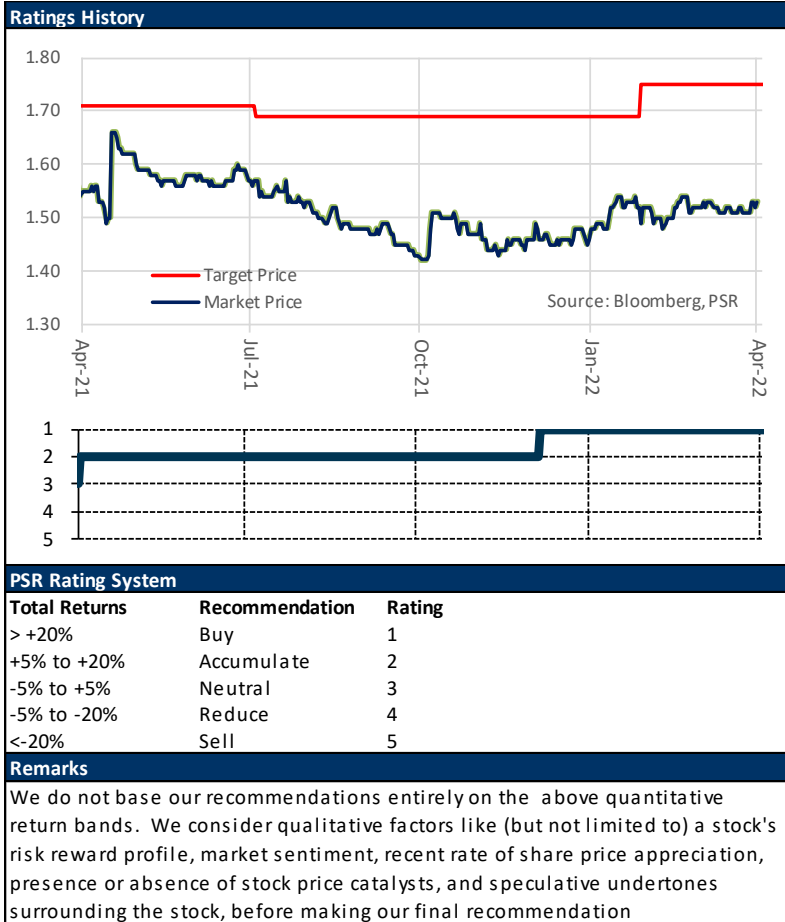
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	30.4	16.6	17.3	20.1	19.0
P/B (X)	7.3	6.2	5.6	5.2	4.8
EV/EBITDA (X)	17.4	11.5	10.0	9.7	10.6
Dividend Yield	2.3%	4.2%	4.1%	3.6%	3.6%

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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