

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

29 Feb 2024

HOLD

Last Traded Price (28 Feb 2024): S\$1.56 (STI : 3,138.93)
Price Target 12-mth: S\$1.62 (4% upside)

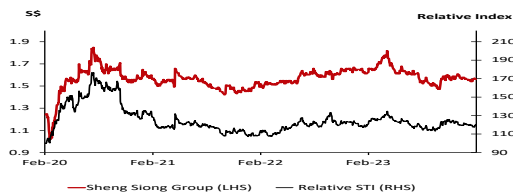
Analysts

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What's New

- FY23 results track our estimates, but revenue under due to weaker 4Q23, given high 4Q22 base on early CNY stockpile
- 4Q23 same-store sales reverted to a 0.9% decline while gross margin expanded by 1.1% point y-o-y
- Raised FY24F/25F earnings by +0.9%/+4.3% on higher store count and gross margins
- Maintain TP on 17x forward PE ratio peg on marginally higher earnings given higher-for-longer base case

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Revenue	1,339	1,368	1,437	1,507
EBITDA	213	207	224	239
Pre-tax Profit	163	163	175	186
Net Profit	133	134	144	152
Net Pft (Pre Ex.)	133	134	144	152
Net Pft Gth (Pre-ex) (%)	0.4	0.3	8.1	5.0
EPS (S cts)	8.87	8.89	9.61	10.1
EPS Pre Ex. (S cts)	8.87	8.89	9.61	10.1
EPS Gth Pre Ex (%)	0	0	8	5
Diluted EPS (S cts)	8.87	8.89	9.61	10.1
Net DPS (S cts)	6.22	6.25	6.73	7.06
BV Per Share (S cts)	30.1	32.8	35.7	38.7
PE (X)	17.6	17.5	16.2	15.5
PE Pre Ex. (X)	17.6	17.5	16.2	15.5
P/Cash Flow (X)	14.1	13.2	11.5	10.8
EV/EBITDA (X)	9.7	9.8	8.6	7.7
Net Div Yield (%)	4.0	4.0	4.3	4.5
P/Book Value (X)	5.2	4.8	4.4	4.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	30.8	28.3	28.0	27.1
Earnings Rev (%):			1	4
Consensus EPS (S cts):			9.4	9.6
Other Broker Recs:		B: 4	S: 1	H: 1

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

Margins continue to defy expectations

Investment Thesis:

Procurement team with track record of securing products at competitive prices. Sheng Siong Group (SSG) has been able to deliver consistent gross margin expansion due to its ability to procure products at competitive prices. With its strength in competitive sourcing, SSG is well positioned to supply price-competitive offerings while being able to grow its margins consistently over time.

Growth in FY24/35 to come from new stores and continued margin expansion. With one tender secured and 10 upcoming for the year, we believe the company has more than an even chance of securing at least four stores this year (versus the previous expectation of three). In addition, given the strong gross margin showing in FY23, we also made an upward revision to our gross margin assumptions for FY24F/25F, from 29.9%/30.0% to 30.2%/30.4%.

Look out for upcoming HDB tender results. We are closely monitoring the upcoming HDB tenders. Apart from the winning bid, we are also watching the timeline of the tender process. We are seeing early signs pointing at the normalisation of the tender approval process, with the Oct-22 tender results announced in Jan-24, within the typical three-month timeframe. This solidifies our optimism for the tender results that are to be announced this year for the 10 pending stores and thus the growth of SSG's overall store count.

Maintain HOLD with no change in TP of S\$1.62. We have adjusted our earnings forecast on the back of higher store count growth and faster gross margin expansion. While we continue to like the company's pace of execution, we do not see any material near-term re-rating catalysts. Given the higher-for-longer base case scenario, we applied a valuation peg of 17x forward PE ratio (similar to our previous valuation peg), and four-year average forward PE, on marginally higher, revised FY24F earnings.

Key Risks

Global recession could lead to a significant upside valuation re-rating due to the defensive nature of the company.

At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (S\$m/US\$m)	2,346 / 1,745
Major Shareholders (%)	
S & S Holdings Inc	29.9
Lim Hock Chee	8.1
Lim Hock Eng	8.0
Free Float (%)	46.1
3m Avg. Daily Val (US\$m)	1.6

GIC Industry : Consumer Staples / Food & Staples Retailing



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WHAT'S NEW**FY23 marks another year of strong gross margin expansion**

Slightly lower-than-expected top line in 4Q23. Sheng Siong Group (SSG) reported FY23 revenue of S\$1.37bn, slightly lower than the expectation of S\$1.39bn, with 4Q23 revenue at S\$331m. Management mentioned that comparable store sales declined by 0.9% in 4Q23 due to a high base effect in 4Q22. It noted that consumers had stocked up in the last week of Dec 22, ahead of the earlier Chinese New Year (CNY) (22 Jan 23 versus 10 Feb 24). In addition, the continued strong recovery of outbound travel could have also dampened demand.

Bottom line as expected, strong gross margin expansion to continue. SSG reported FY23 net income of S\$133.7m, which is in line with expectations despite the revenue shortfall. This was largely achieved by higher-than-expected gross margin expansion. The company recorded its fourth consecutive year with a margin expansion that is above 0.5% points, with a 0.6% points expansion in FY23. The company attributed the continued margin expansion to a marginally better product mix in terms of the higher margin fresh category and house brands.

Competition continues to be fierce ahead of CNY. Retailers have been very aggressive in trying to capture as much of the Community Development Council (CDC) voucher (distributed by the government to alleviate living costs pressure and can be used at heartland stores and supermarkets) value as possible by offering attractive return vouchers when consumers pay using CDC vouchers pre-CNY. However, management highlighted that the CDC vouchers have likely had a limited effect on overall consumption or the choice of retailer. It added that the likely material effect is a shift in payment mode from cash to vouchers. Management is optimistic about achieving higher revenue y-o-y for the CNY period but has limited clarity on the margin.

Secured two new locations in Bukit Batok and Clementi. The company informed us that it has successfully secured two new sites from the Oct-23 tender in Jan-24. The Bukit Batok site belongs to a competitor and is located close to one of SSG's existing stores. Management stated that it plans to operate these two stores as one existing store, with a combined store space of about 7,000sqft. The company has bid for all four leases in the tender which closed on 8 Feb-24, and plans to bid on all six remaining leases available for the year.

Our Views

Gross margin expansion likely to exceed our previous expectations. Given SSG's continued track record in margin expansion, we are now more confident in assigning a higher gross margin of 30.2% (vs. 29.9%) for FY24F and 30.4% (vs. 30.0%) for FY25F.

Expect higher new store wins with enlarged pool of 10 leases up for tender, coupled with one recently secured Clementi store.

Given the company's plan to combine the Bukit Batok store with its existing store, we are considering that a new store. Nonetheless, with one new store secured and 10 stores up for tender this year, we adjusted our new store count forecast to four (previous: Three).

Based on the above changes in our assumptions, we revised our FY24F/25F revenue by +0.0%/+1.5%, with new stores contributing more towards FY25F. For earnings, we adjusted our FY24F/25F projections by +0.9%/+4.3%, largely on a higher margin. We applied a 17x PE peg, and four-year average forward PE, on higher FY24F earnings, and accordingly **maintain our TP of S\$1.62.**

While we continue to like the company's strong pace of execution, in the short term, we believe the higher-for-longer interest rates will continue to put a cap on its share price. As such, we continue to **maintain our HOLD recommendation.**

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 / Interim Income Statement (S\$m)

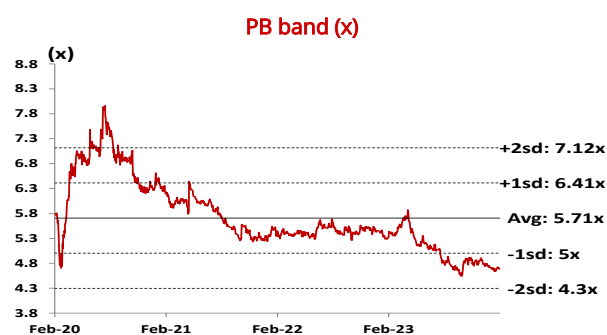
FY Dec	4Q2022	3Q2023	4Q2023	% chg yoy	% chg qoq
Revenue	329	346	331	0.7	(4.2)
Cost of Goods Sold	(233)	(241)	(231)	(0.8)	(4.1)
Gross Profit	96.3	105	100	4.3	(4.3)
Other Oper. (Exp)/Inc	(54.6)	(65.5)	(62.7)	14.7	(4.3)
Operating Profit	41.7	39.4	37.8	(9.4)	(4.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.84	nm	nm
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	1.31	1.92	2.35	79.3	22.3
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	43.0	41.4	41.0	(4.7)	(1.0)
Tax	(9.7)	(6.6)	(8.6)	(11.9)	30.0
Minority Interest	(0.1)	0.0	0.95	nm	(2,127.7)
Net Profit	33.2	34.7	33.3	0.5	(4.0)
Net profit bef Except.	33.2	34.7	33.3	0.5	(4.0)
EBITDA	54.6	52.7	52.2	(4.4)	(0.9)
Margins (%)					
Gross Margins	29.2	30.3	30.3		
Opg Profit Margins	12.7	11.4	11.4		
Net Profit Margins	10.1	10.0	10.1		

Source: Company, DBS Bank Ltd

Historical PE and PB band



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



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

Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Rev per sqft	2,398	2,272	2,272	2,279	2,325
Operation Area (sqft)	571,150	607,822	618,349	642,349	654,349
Number of stores	63.0	67.0	69.0	73.0	75.0

Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (\$m)					
Singapore	1,370	1,339	1,368	1,437	1,507
Total	1,370	1,339	1,368	1,437	1,507
Operating Profit (\$m)					
Singapore	162	161	154	168	180
Total	162	161	154	168	180
Margins (%)					
Singapore	11.8	12.0	11.2	11.7	12.0
Total	11.8	12.0	11.2	11.7	12.0

Source: Company, DBS Bank Ltd

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	1,370	1,339	1,368	1,437	1,507
Cost of Goods Sold	(976)	(946)	(957)	(1,003)	(1,049)
Gross Profit	393	393	411	434	458
Other Opng (Exp)/Inc	(231)	(233)	(257)	(266)	(278)
Operating Profit	162	161	154	168	180
Other Non Opng (Exp)/Inc	0.0	1.48	1.60	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.2)	0.90	7.71	6.73	5.33
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	161	163	163	175	186
Tax	(27.9)	(29.4)	(29.1)	(29.7)	(33.4)
Minority Interest	(0.3)	(0.3)	(0.3)	(0.6)	(0.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	133	133	134	144	152
Net Profit before Except.	133	133	134	144	152
EBITDA	214	213	207	224	239
Growth					
Revenue Gth (%)	(1.7)	(2.2)	2.1	5.0	4.9
EBITDA Gth (%)	(1.3)	(0.3)	(3.0)	8.2	6.7
Opg Profit Gth (%)	(2.3)	(0.9)	(4.3)	9.2	7.3
Net Profit Gth (Pre-ex) (%)	(4.2)	0.4	0.3	8.1	5.0
Margins & Ratio					
Gross Margins (%)	28.7	29.4	30.0	30.2	30.4
Opg Profit Margin (%)	11.8	12.0	11.2	11.7	12.0
Net Profit Margin (%)	9.7	10.0	9.8	10.1	10.1
ROAE (%)	33.8	30.8	28.3	28.0	27.1
ROA (%)	18.6	17.5	16.5	16.9	16.7
ROCE (%)	29.6	26.5	23.3	23.7	23.4
Div Payout Ratio (%)	70.2	70.2	70.3	70.1	70.0
Net Interest Cover (x)	129.9	NM	NM	NM	NM

Source: Company, DBS Bank Ltd

Quarterly Income Statement (\$m)

FY Dec	4Q2022	1Q2023	2Q2023	3Q2023	4Q2023
Revenue	329	357	334	346	331
Cost of Goods Sold	(233)	(254)	(232)	(241)	(231)
Gross Profit	96.3	103	102	105	100
Other Oper. (Exp)/Inc	(54.6)	(64.0)	(65.1)	(65.5)	(62.7)
Operating Profit	41.7	38.9	37.2	39.4	37.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.84
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.31	1.70	1.74	1.92	2.35
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	43.0	40.6	38.9	41.4	41.0
Tax	(9.7)	(7.2)	(6.7)	(6.6)	(8.6)
Minority Interest	(0.1)	(0.1)	(0.1)	0.0	0.95
Net Profit	33.2	33.2	32.1	34.7	33.3
Net profit bef Except.	33.2	33.2	32.1	34.7	33.3
EBITDA	54.6	51.9	50.4	52.7	52.2
Growth					
Revenue Gth (%)	(1.3)	8.3	(6.3)	3.6	(4.2)
EBITDA Gth (%)	5.3	(4.9)	(3.0)	4.6	(0.9)
Opg Profit Gth (%)	8.5	(6.8)	(4.4)	6.1	(4.3)
Net Profit Gth (Pre-ex) (%)	1.2	0.2	(3.4)	8.1	(4.0)
Margins					
Gross Margins (%)	29.2	28.8	30.6	30.3	30.3
Opg Profit Margins (%)	12.7	10.9	11.1	11.4	11.4
Net Profit Margins (%)	10.1	9.3	9.6	10.0	10.1

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	303	292	284	238	190
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	79.5	97.3	102	102	102
Cash	247	275	324	417	518
Inventory	98.4	101	91.8	100	105
Debtors	11.6	19.5	28.5	23.6	24.8
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	739	785	830	880	940
ST Debt	5.00	0.0	0.0	0.0	0.0
Creditor	212	197	200	206	216
Other Current Liab	53.1	68.3	64.0	64.1	67.8
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	52.2	64.1	69.2	69.2	69.2
Shareholder's Equity	413	452	494	537	583
Minority Interests	2.92	2.93	3.20	3.80	4.40
Total Cap. & Liab.	739	785	830	880	940
Non-Cash Wkg. Capital	(156)	(145)	(144)	(146)	(154)
Net Cash/(Debt)	242	275	324	417	518
Debtors Turn (avg days)	4.2	4.2	6.4	6.6	5.9
Creditors Turn (avg days)	83.0	83.7	80.2	78.2	77.7
Inventory Turn (avg days)	34.8	40.8	39.0	37.0	37.8
Asset Turnover (x)	1.9	1.8	1.7	1.7	1.7
Current Ratio (x)	1.3	1.5	1.7	2.0	2.3
Quick Ratio (x)	1.0	1.1	1.3	1.6	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	628.6	N/A	N/A	N/A	N/A

Source: Company, DBS Bank Ltd

Sheng Siong Group

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	161	163	163	175	186
Dep. & Amort.	51.6	52.6	53.0	55.7	58.4
Tax Paid	(32.6)	(21.2)	(34.0)	(29.6)	(29.7)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(7.8)	(25.7)	2.87	2.55	3.72
Other Operating CF	0.58	(1.9)	(7.9)	0.0	0.0
Net Operating CF	173	167	177	203	218
Capital Exp.(net)	(31.4)	(8.6)	(10.1)	(10.1)	(10.1)
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	1.12	3.67	11.2	0.0	0.0
Net Investing CF	(30.3)	(5.0)	1.17	(10.1)	(10.1)
Div Paid	(91.7)	(94.0)	(92.0)	(101)	(106)
Chg in Gross Debt	(25.0)	(5.0)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(33.2)	(34.5)	(37.4)	0.0	0.0
Net Financing CF	(150)	(133)	(129)	(101)	(106)
Currency Adjustments	0.23	0.50	0.12	0.0	0.0
Chg in Cash	(7.3)	28.9	48.9	92.1	102
Opg CFPS (S cts)	12.0	12.8	11.6	13.4	14.3
Free CFPS (S cts)	9.40	10.5	11.1	12.9	13.8

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Mar 23	1.66	1.89	BUY
2:	03 May 23	1.81	1.89	HOLD
3:	19 Jun 23	1.66	1.89	BUY
4:	31 Jul 23	1.64	1.76	HOLD
5:	04 Aug 23	1.61	1.76	HOLD
6:	30 Oct 23	1.52	1.62	HOLD

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

Source: DBS Bank Ltd

Analyst: Zheng Feng CHEE

Andy SIM, CFA

DBS Bank Ltd 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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