

Sheng Siong Group Ltd

Sales normalising, but with exceptional margins



StocksBnB.com

SINGAPORE | CONSUMER | 2Q22 RESULTS

31 July 2022

- 1H22 PATMI beat expectations at 59% of our FY22 forecast. Gross margins surprised on the upside, a record 30.2% in 2Q22 (2Q21: 28.8%).
- Revenue is beginning to contract with the relaxation of social and work restrictions. Grocery demand will soften with less home dining post-pandemic. A 5% net increase in store footprint will be supportive of revenue in 2H22.
- We are lifting our FY22e earnings by 6%, from higher gross margins. Our BUY recommendation is maintained. The target price is lifted from S\$1.75 to S\$1.86, due to higher earnings. Valuation is pegged to 23x PE, a 10% discount to the 5-year historical average of 25x PE. We expect revenue to normalise in FY22e/FY23e, placing downward pressure on growth. New store openings of three to five per year, rising market share and improving gross margins will help stem part of the earnings decline.

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.60
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 1.86
TOTAL RETURN	20.2%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1740 / 2406
52 - WK HI/LO (SGD)	1.65 / 1.41
3M Average Daily T/O (mn)	2.89

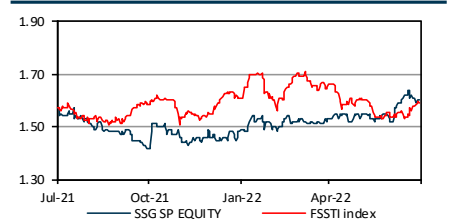
MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	9.2%
LIM HOCK ENG	9.1%
LIM HOCK LENG	8.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	5.3	6.7	11.8
STI RETURN	3.6	(3.4)	5.0

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	223.0	192.4
PATMI	138.7	132.8	121.6	120.7
EPS	9.22	8.83	8.09	8.03
PER, x	17.4	18.1	19.8	19.9
P/BV, x	6.5	5.8	5.5	5.0
DPS (SGD cents)	6.50	6.20	6.25	5.50
Div Yield	4.1%	3.9%	3.9%	3.4%
ROE	40.4%	33.8%	28.5%	26.3%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 23x FY22e

Paul Chew (+65 6212 1851)

Head Of Research

paulchewkl@phillip.com.sg

Results at a glance

SGD mn	2Q22	2Q21	YoY	Comments
Revenue	318.8	344.1	-7.4%	
Gross profit	96.3	99.0	-2.7%	
Gross Margin	30.2%	28.8%	1.5%	
EBITDA	49.8	52.1	-4.4%	Government grant 2Q22 S\$0.4mn (2Q21: S\$1.8mn).
PATMI	32.3	35.1	-8.1%	
Area (sft 000s)	596.7	571.2	4.5%	3 news stores (Dec21, Apr22, May22)
DPS (cents)	3.15	3.10	1.6%	Payout ratio maintained at 70%.

Source: Company, PSR

The Positives

+ Record gross margins, again. Despite rising food inflation, SSG has managed to raise gross margins due to a higher sales mix of fresh food sales. SSG's competitive edge or pricing in fresh food stems from direct sourcing from overseas exporters, ability to reduce wastage from repackaging and repricing, value add from fresh food specialists and tactical purchasing due to seasonality or dislocation in the supply chain.

+ Store expansion resumes. No change in management guidance of opening 3 to 5 new stores per year over the next three to five years. There will be three new stores opened this year. 1H22 saw the opening of two stores (April, May) of 20k sft. Another new store in Margaret Drive will be opening in August. However, the net increase in footprint in 2H22 will be only around 5k sft, including the closure of a store on a private lease. There are four stores currently at the bidding stage.

The Negative

- Same-store sales contracted. Same-store sales fell 5% YoY in 2Q22. It is the first such decline since 3Q19. We expect the contraction to continue into 2H22.

Outlook

A transition year is underway as grocery demand normalises from less dining at home. New stores, rising market share and improving gross margin will help mitigate some of the decline in sales. With only 66 stores, there is a runway to double the footprint as the largest competitor in Singapore has around 200 stores.

Maintain BUY with a higher TP of S\$1.86 (prev. S\$1.75)

SSG's attractive financial metrics include ROEs of 27%, dividend yields at 3.9% and net cash at S\$234mn (as at Jun2022).

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	374.0	376.4
EBITDA	128.2	180.1	207.1	223.0	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	147.1	145.7
Net Finance Inc/(Exp)	(0.7)	(1.0)	(1.2)	0.6	1.0
Profit Before Tax	91.9	165.1	161.0	147.7	146.7
Taxation	(16.2)	(26.0)	(27.9)	(25.9)	(25.7)
Profit After Tax	75.8	139.1	133.1	121.9	121.0
Non Controlling Interest	(0.0)	(0.5)	(0.3)	(0.3)	(0.3)
PATMI	75.7	138.7	132.8	121.6	120.7

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	5.04	9.22	8.83	8.09	8.03
EPS, adj.	5.04	9.22	8.83	8.09	8.03
DPS	3.55	6.50	6.20	6.25	5.50
BVPS	20.83	24.77	27.50	29.33	31.76

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	91.9	165.1	161.0	147.7	146.7
Adjustments	42.4	51.7	52.2	79.2	49.5
WC changes	(2.2)	69.6	(7.8)	(59.8)	2.5
Cash generated from ops	132.1	286.4	205.3	167.1	198.7
Others	(14.8)	(12.3)	(32.6)	(25.9)	(25.7)
Cashflow from ops	117.3	274.1	172.7	141.3	173.0
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)	(94.0)	(84.2)
Others	0.0	(31.2)	(2.2)	(2.6)	(2.0)
Cashflow from financing	(52.6)	(80.9)	(118.9)	(101.5)	(86.2)
Net change in cash	12.5	177.1	23.5	12.9	59.8
Effects of exchange rates	(0.0)	0.4	0.2	0.0	0.0
CCE, end	76.4	253.9	246.6	229.6	259.3

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	229.6	259.3
Inventories	82.2	77.9	98.4	100.3	105.5
Total current assets	176.6	351.8	356.6	350.0	385.8
Total Assets	532.8	692.1	739.0	702.6	737.8
LIABILITIES					
Accounts payables	140.8	208.1	212.4	163.0	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	206.2	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	258.3	256.8
EQUITY					
Non-controlling interests	2.1	2.7	2.9	3.2	3.5
Shareholder Equity	313.3	372.4	413.4	441.0	477.6

Valuation Ratios

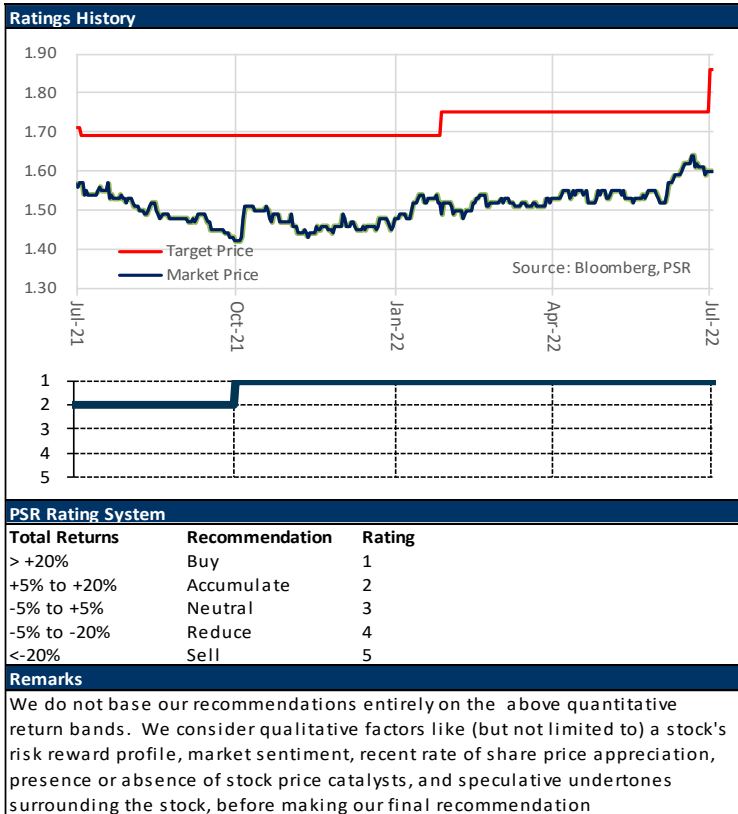
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	31.8	17.4	18.1	19.8	19.9
P/B (X)	7.7	6.5	5.8	5.5	5.0
EV/EBITDA (X)	18.2	12.1	10.5	9.8	11.2
Dividend Yield	2.2%	4.1%	3.9%	3.9%	3.4%

Growth & Margins

Growth					
Revenue	11.3%	40.6%	-1.7%	-5.9%	3.9%
EBITDA	34.9%	40.5%	15.0%	7.7%	-13.7%
EBIT	10.5%	79.4%	-2.4%	-9.3%	-0.9%
Net profit	7.0%	83.1%	-4.2%	-8.5%	-0.7%
Margins					
Gross margin	26.9%	27.4%	28.7%	29.0%	28.1%
EBITDA margin	12.9%	12.9%	15.1%	17.3%	14.4%
EBIT margin	9.3%	11.9%	11.8%	11.4%	10.9%
Net profit margin	7.6%	9.9%	9.7%	9.4%	9.0%

Key Ratios

ROE	25.1%	40.4%	33.8%	28.5%	26.3%
ROA	15.6%	22.6%	18.6%	16.9%	16.8%
Net Debt/(Cash)	-76	-224	-242	-230	-259
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - gystina@phillip.com.sg

Construction | Industrial | Conglomerates

Terence Chua – terencechuatl@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

US Technology Analyst (Internet)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

Credit Analyst

Shawn Sng - shawnsngkh@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapi.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.