

Sheng Siong Group Ltd

Tough comparison but better-than-expected sales



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SINGAPORE | CONSUMER | 3Q22 RESULTS

- 3Q22 revenue and PATMI beat expectations. YTD22 revenue and PATMI were 78%/82% of our FY22e forecast.
- Same-store sales declined 7% YoY in 3Q22, as it was a tough base year. In 3Q21 Jurong Fishery Port and Pasir Panjang Wholesale Centre closure diverted huge fresh food sales to Sheng Siong stores. The four new stores added 2.6% points of revenue growth.
- We lift FY22e earnings by 5% to S\$127.8mn. The increase in GST from 1 January 2023 could also pull some sales into 4Q22. Our BUY recommendation is maintained. The target price is unchanged at \$1.86. Valuation is pegged to 22x PE, a 10-15% discount to the 5-year historical average of 25x PE. Revenue is normalising post-relaxation of COVID-19 restrictions but at a run-rate around 25% higher than the pre-pandemic period. We believe Sheng Siong's strength in fresh food continues to drive its grocery market share.

Results at a glance

SGD mn	3Q22	3Q21	YoY	Comments
Revenue	333.5	348.1	-4.2%	+2.6% new store, -7.2% SSG, +0.4% China.
Gross profit	98.1	100.9	-2.8%	
Gross Margin	29.4%	29.0%	0.4%	
EBITDA	49.2	52.0	-5.3%	Government grant 3Q22 S\$0.5mn (3Q21: S\$0.7mn).
PATMI	32.8	34.4	-4.6%	
Area (sft 000s)	602.5	571.2	5.5%	3 new stores 30.5k, 1 store closure 5k sft.

Source: Company, PSR

The Positives

+ Still healthy margins. The higher contribution from fresh food helped Sheng Siong (SSG) margins to creep up. The ability to manage fresh food effectively from direct sourcing to processing (meat/seafood) in the stores gives SSG the edge over peers, in our opinion. Food inflation has also seen the downgrading by consumers into SSG higher margin house brands. To cater to the store expansions, SSG will need a larger distribution centre with more automation and specialised equipment

+ Store roll-out normalising. This quarter SSG added a new 10,000 sft store in Margaret Drive. Meantime there was a closure of a 5,000 sft Yishun store. The increase in the store footprint in 3Q22 was 5.5% YoY. A new 6,000 sft store in Sanja Valley will be added in 4Q22. This will increase total sft in FY22e to 608k sft, a 5% rise. Expectations are for 3 to 5 new stores per annum over the next five years.

The Negative

- Weak same-store sales. 3Q22 same-store sales are down 7.2% YoY. It is the 2nd consecutive quarter of decline in same-store sales and accelerating from the 2Q22 5% decline. Since the relaxation of COVID-19 control measures in April, we expect less home dining as household activities normalise.

Outlook

We expect weakness in revenue for SSG until 1H23. The relaxation of border controls, return to office and removal of dining restrictions will be the drag in sales as home dining declines. Our expectations are for growth to resume in 2H23 from the expansion of its store footprint.

Maintain BUY with an unchanged TP of S\$1.86

SSG's attractive financial metrics include ROE of 30%, dividend yield at 4% and net cash at S\$228mn (as at Sep2022).

31 October 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.56
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 1.86
TOTAL RETURN	23.2%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1661 / 2346
52 - WK HI/LO (SGD)	1.67 / 1.42
3M Average Daily T/O (mn)	2.46

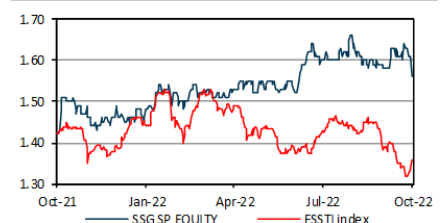
MAJOR SHAREHOLDERS

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	(1.9)	(0.6)	11.1
STI RETURN	(1.8)	(3.7)	1.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY20	FY21	FY22e	FY23e
Revenue	1,394	1,370	1,324	1,373
EBITDA	180.1	207.1	231.5	202.1
PATMI	138.7	132.8	127.8	127.1
EPS	9.22	8.83	8.50	8.46
PER, x	16.9	17.7	18.4	18.4
P/BV, x	6.3	5.7	5.2	4.8
DPS (SGD cents)	6.50	6.20	6.25	5.50
Div Yield	4.2%	4.0%	4.0%	3.5%
ROE	40.4%	33.8%	29.7%	27.1%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 22x 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	1,324.0	1,372.9
Gross profit	266.9	381.9	393.3	390.6	391.3
EBITDA	128.2	180.1	207.1	231.5	202.1
Other income	8.9	41.2	12.1	9.0	8.0
Depreciation & Amortisation	(41.8)	(50.6)	(51.6)	(80.5)	(51.1)
EBIT	92.6	166.1	162.2	154.8	153.6
Net Finance Inc/(Exp)	(0.7)	(1.0)	(1.2)	0.6	1.1
Profit Before Tax	91.9	165.1	161.0	155.4	154.7
Taxation	(16.2)	(26.0)	(27.9)	(27.2)	(27.1)
Profit After Tax	75.8	139.1	133.1	128.2	127.6
Non Controlling Interest	(0.0)	(0.5)	(0.3)	(0.4)	(0.5)
PATMI	75.7	138.7	132.8	127.8	127.1

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	5.04	9.22	8.83	8.50	8.46
EPS, adj.	5.04	9.22	8.83	8.50	8.46
DPS	3.55	6.50	6.20	6.25	5.50
BVPS	20.83	24.77	27.50	29.74	32.60

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	91.9	165.1	161.0	155.4	154.7
Adjustments	42.4	51.7	52.2	79.9	50.0
WC changes	(2.2)	69.6	(7.8)	(59.1)	2.5
Cash generated from ops	132.1	286.4	205.3	176.1	207.3
Others	(14.8)	(12.3)	(32.6)	(27.2)	(27.1)
Cashflow from ops	117.3	274.1	172.7	148.9	180.2
CFI					
CAPEX, net	(53.5)	(17.1)	(31.4)	(30.0)	(30.0)
Others	1.3	1.0	1.1	3.2	3.1
Cashflow from investments	(52.2)	(16.1)	(30.3)	(26.8)	(26.9)
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	20.6	67.1
Effects of exchange rates	(0.0)	0.4	0.2	0.0	0.0
CCE, end	76.4	253.9	246.6	237.2	274.3

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	307.7	311.6
Others	60.9	48.7	79.5	44.1	39.1
Total non-current assets	356.2	340.3	382.4	351.9	350.8
Accounts receivables	18.0	19.9	11.6	20.7	21.4
Cash	76.4	253.9	246.6	237.2	274.3
Inventories	82.2	77.9	98.4	102.3	107.6
Total current assets	176.6	351.8	356.6	360.2	403.3
Total Assets	532.8	692.1	739.0	712.1	754.1
LIABILITIES					
Accounts payables	140.8	208.1	212.4	166.2	174.8
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	209.4	207.9
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	261.5	260.1
EQUITY					
Non-controlling interests	2.1	2.7	2.9	3.3	3.8
Shareholder Equity	313.3	372.4	413.4	447.2	490.1

Valuation Ratios

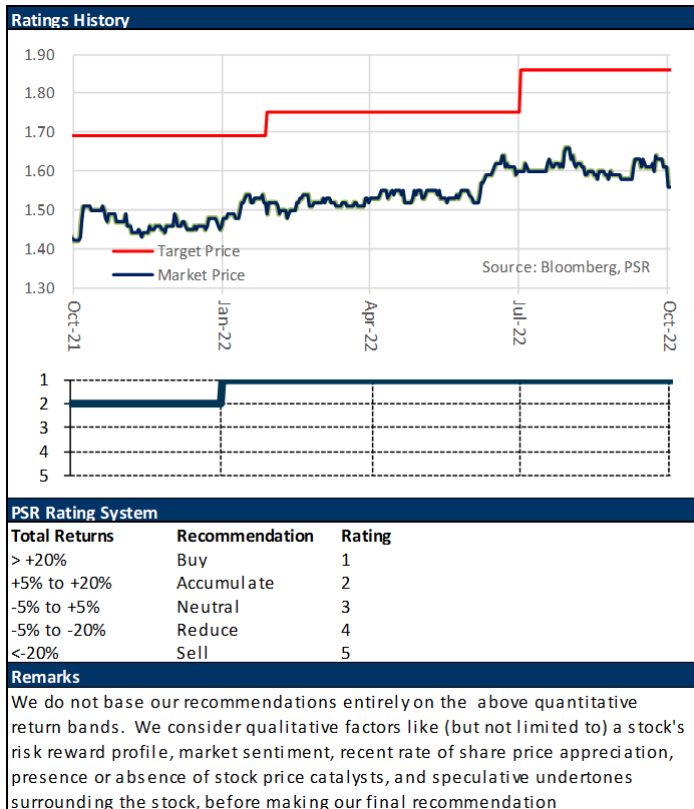
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	31.0	16.9	17.7	18.4	18.4
P/B (X)	7.5	6.3	5.7	5.2	4.8
EV/EBITDA (X)	17.7	11.8	10.2	9.1	10.3
Dividend Yield	2.3%	4.2%	4.0%	4.0%	3.5%

Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	11.3%	40.6%	-1.7%	-3.3%	3.7%
EBITDA	34.9%	40.5%	15.0%	11.8%	-12.7%
EBIT	10.5%	79.4%	-2.4%	-4.6%	-0.7%
Net profit	7.0%	83.1%	-4.2%	-3.8%	-0.5%
Margins					
Gross margin	26.9%	27.4%	28.7%	29.5%	28.5%
EBITDA margin	12.9%	12.9%	15.1%	17.5%	14.7%
EBIT margin	9.3%	11.9%	11.8%	11.7%	11.2%
Net profit margin	7.6%	9.9%	9.7%	9.6%	9.3%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE	25.1%	40.4%	33.8%	29.7%	27.1%
ROA	15.6%	22.6%	18.6%	17.6%	17.3%
Net Debt/(Cash)	-76	-224	-242	-237	-274
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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