

Sheng Siong Group Ltd

New stores, house brands, share gains for growth



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SINGAPORE | CONSUMER | 4Q22 RESULTS

- 4Q22 results were within expectations. Excluding a one-off marketing rebate of S\$6mn, FY22 revenue and PATMI were 101%/100% of our forecast.
- Sales was supported by the return of new stores. The number of new stores increased by three to 67 and raised retail area by 5.4% in FY22.
- We expect growth in FY23e to be driven by new stores. We model 3 to 4 new stores per year. Our expectations are GP margins will be stable, supported by house brands. With re-opening and dining out, fresh food sales mix may hit the ceiling in the near term. A future catalyst will be China. Contribution is small currently with 4 stores, but we expect a planned roll-out to 15-20 stores to achieve scale. We raised our FY23e earnings by 6% to S\$135.4mn on more resilient margins and a higher store count. Our BUY recommendation is maintained. The target price is raised to S\$1.98 (prev. S\$1.86). Valuation is pegged to 22x PE, a 10-15% discount to the 5-year historical average of 25x PE. The re-opening will have a dampening impact on same-store sales in the near term.

Results at a glance

SGD mn	4Q22	4Q21	YoY	Comments
Revenue	329.2	340.0	-3.2%	
Gross profit	96.3	99.8	-3.6%	
Gross Margin	29.2%	29.4%	-0.1%	Supported by house brand sales.
EBITDA	45.9	38.0	20.7%	Excluding S\$6.1mn rebate, EBITDA grew 5%.
PATMI	28.2	32.5	-13.4%	Excluding S\$6.1mn rebate, PATMI down 13.4%.
DPS (cents)	3.07	3.10	-1.0%	FY22 DPS 6.22 cents (FY21: 6.2 cents).
Area (sft 000s)	607.8	576.6	5.4%	

Source: Company, PSR

The Positive

+ Back to new stores for growth. There were net 3 new stores in FY22 (4 were opened and 1 closed). In comparison, FY21 saw only 1 store opened. The target remains to open 3 to 5 stores. With HDB ramping up the construction of flats there is more visibility in new stores. There are 13 new stores up for bidding until 1H24. Separately, the average size of the store is also larger with a minimum of 5,000 sft.

The Negative

- Gross margins may hit a ceiling temporarily. 4Q22 gross margins were stable at 29.2%. It remains resilient compared to pre-pandemic levels of around 27%. The ability to raise the mix of fresh food has been the key driver to margin expansion. We believe Sheng Siong has taken market share from wet markets. The next phase of margin expansion will come from house brands. More SKUs are being added.

Outlook

The near-term headwind is softer same-store sales as re-opening triggers more households to dine out. Nevertheless, we expect revenue growth from new stores (3-4% points), CDC grocery vouchers, market share gains in fresh products, and the introduction of more household branded products. China will add at least one new store this year to 5 stores in Kunming.

Maintain BUY with a higher TP of S\$1.98 (prev. S\$1.86)

SSG's attractive financial metrics include ROE of almost 30%, dividend yield at 4% and net cash at S\$228mn (Dec2022).

06 March 2023

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.66
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 1.98
TOTAL RETURN	23.1%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1855 / 2496
52 - WK HI/LO (SGD)	1.67 / 1.46
3M Average Daily T/O (mn)	1.75

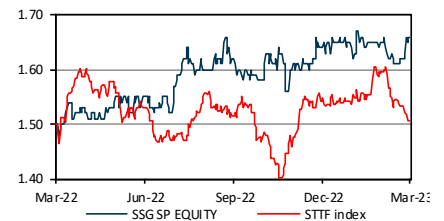
MAJOR SHAREHOLDERS

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	0.6	1.2	0.6
STTF	(4.0)	(0.5)	(0.5)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY21	FY22	FY23e	FY24e
Revenue	1,370	1,339	1,378	1,449
EBITDA	207.1	202.0	216.1	221.9
PATMI	132.8	133.3	135.4	142.2
EPS	8.83	8.87	9.01	9.46
PER, x	18.8	19.4	18.4	17.6
P/BV, x	6.0	5.5	5.1	4.6
DPS (SGD cents)	6.20	6.22	6.30	6.35
Div Yield	3.7%	3.7%	3.8%	3.8%
ROE	33.8%	30.8%	28.6%	27.5%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 22x FY23e

Paul Chew (+65 6212 1851)
Head Of Research
paulchewkl@phillip.com.sg

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	1,394.0	1,369.8	1,339.5	1,377.7	1,448.5
Gross profit	381.9	393.3	393.5	399.5	418.6
EBITDA	180.1	207.1	202.0	216.1	221.9
Other income	41.2	12.1	17.3	8.0	8.0
Depreciation & Amortisation	(50.6)	(51.6)	(52.6)	(57.7)	56.8
EBIT	166.1	162.2	162.2	161.1	167.5
Net Finance Inc/(Exp)	(1.0)	(1.2)	0.9	3.7	5.5
Profit Before Tax	165.1	161.0	163.1	164.8	172.9
Taxation	(26.0)	(27.9)	(29.4)	(28.8)	(30.3)
Profit After Tax	139.1	133.1	133.6	135.9	142.7
Non Controlling Interest	(0.5)	(0.3)	(0.3)	(0.5)	0.5
PATMI	138.7	132.8	133.3	135.4	142.2
PATMI - adjusted	138.7	132.8	128.3	135.4	142.2

Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	9.22	8.83	8.87	9.01	9.46
EPS, adj.	9.22	8.83	8.53	9.01	9.46
DPS	6.50	6.20	6.22	6.30	6.35
BVPS	24.77	27.50	30.08	32.87	35.97

Cash Flow

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	165.1	161.0	163.1	164.8	172.9
Adjustments	51.7	52.2	50.6	54.0	51.3
WC changes	69.6	(7.8)	(25.7)	(31.2)	2.4
Cash generated from ops	286.4	205.3	188.0	187.5	226.7
Others	(12.3)	(32.6)	(21.2)	(28.8)	(30.3)
Cashflow from ops	274.1	172.7	166.8	158.7	196.4
CFI					
CAPEX, net	(17.1)	(31.4)	(8.6)	(20.0)	(2.0)
Others	1.0	1.1	3.7	5.5	6.8
Cashflow from investments	(16.1)	(30.3)	(5.0)	(14.5)	4.8
CFF					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	30.0	(25.0)	(5.0)	0.0	0.0
Dividends	(79.7)	(91.7)	(94.0)	(93.5)	(95.5)
Others	(31.2)	(2.2)	(2.6)	(1.8)	(1.3)
Cashflow from financing	(80.9)	(118.9)	(101.5)	(95.3)	(96.8)
Net change in cash	177.1	23.5	60.3	48.8	104.4
Effects of exchange rates	0.4	0.2	0.5	0.0	0.0
CCE, end	253.9	246.6	275.5	294.3	368.8

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE	291.6	302.9	291.6	290.9	271.2
Others	48.7	79.5	97.3	100.3	105.2
Total non-current assets	340.3	382.4	388.9	391.2	376.4
Accounts receivables	19.9	11.6	19.5	21.5	22.6
Cash	253.9	246.6	275.5	294.3	368.8
Inventories	77.9	98.4	101.2	107.2	112.9
Total current assets	351.8	356.6	396.2	423.1	504.3
Total Assets	692.1	739.0	785.1	814.3	880.7
LIABILITIES					
Accounts payables	208.1	212.4	197.5	174.2	183.4
Lease liabilities	22.4	27.7	33.1	43.1	53.1
Short term loans	15.0	5.0	0.0	0.0	0.0
Others	29.8	25.4	35.3	35.3	35.3
Total current liabilities	275.2	270.5	265.8	252.5	271.8
Lease liabilities	23.1	48.9	62.6	62.6	62.6
Long term loans	15.0	0.0	0.0	0.0	0.0
Others	3.6	3.2	1.5	1.5	1.5
Total non-current liabilities	41.7	52.2	64.1	64.1	64.1
Total Liabilities	317.0	322.7	329.9	316.7	335.9
EQUITY					
Non-controlling interests	2.7	2.9	2.9	3.4	3.9
Shareholder Equity	372.4	413.4	452.2	494.2	540.9

Valuation Ratios

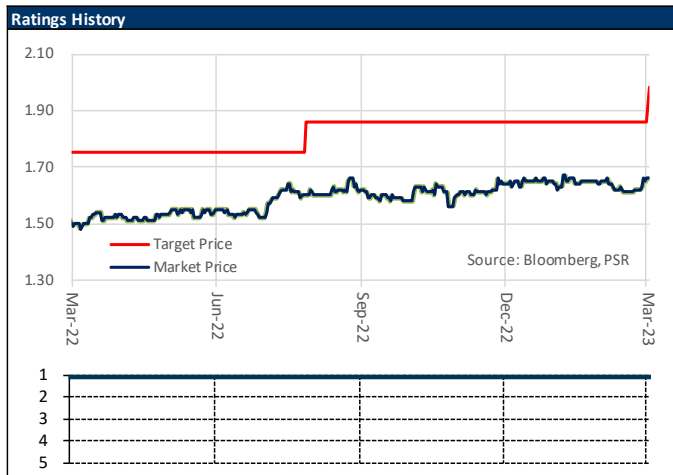
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	18.0	18.8	19.4	18.4	17.6
P/B (X)	6.7	6.0	5.5	5.1	4.6
EV/EBITDA (X)	12.6	10.9	11.0	10.2	9.6
Dividend Yield	3.9%	3.7%	3.7%	3.8%	3.8%

Growth & Margins

Growth					
Revenue	40.6%	-1.7%	-2.2%	2.9%	5.1%
EBITDA	40.5%	15.0%	-2.5%	7.0%	2.7%
EBIT	79.4%	-2.4%	0.0%	-0.7%	4.0%
Net profit - adjusted	83.1%	-4.2%	-3.4%	1.6%	5.0%
Margins					
Gross margin	27.4%	28.7%	29.4%	29.0%	28.9%
EBITDA margin	12.9%	15.1%	15.1%	15.7%	15.3%
EBIT margin	11.9%	11.8%	12.1%	11.7%	11.6%
Net profit margin	9.9%	9.7%	10.0%	9.8%	9.8%

Key Ratios

ROE	40.4%	33.8%	30.8%	28.6%	27.5%
ROA	22.6%	18.6%	17.5%	16.9%	16.8%
Net Debt/(Cash)	-224	-242	-275	-294	-369
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qytina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

US Technology Analyst (Internet)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

US Technology Analyst (Hardware)

Maximilian Koeswoyo – maximilian@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. HakIs Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.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

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