

Sheng Siong Group Ltd

Back to revenue growth



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SINGAPORE | CONSUMER | 2Q23 RESULTS

- 2Q23 results were within expectations. 1H23 revenue and PATMI were 50%/48% of our FY23e forecast. Despite record gross margins, PATMI was down 0.4% YoY due to a jump in wages and utilities.
- After four quarters of decline, revenue grew 4.7% YoY in 2Q23. We estimate growth was driven by new stores (+3.5% pts) and same-store sales (+1.5% pts).
- New stores, recovery in same-store sales, interest income and higher gross margins will support earnings. But any improvement will be offset by a jump in operating expenses led by utilities and wages. Our FY23e expectations are a modest 1.5% earnings growth. No change to our FY23e earnings and target price of S\$1.98, pegged to 22x PE, a 10-15% discount to the 5-year historical average of 25x PE. We upgrade to BUY from ACCUMULATE due to the recent performance of the share prices.

Results at a glance

SGD mn	2Q23	2Q22	YoY	Comments
Revenue	333.9	318.8	4.7%	New stores est. +3.5%, SSS +1.5%, China -0.4%
Gross profit	102.3	96.3	6.2%	
Gross Margin	30.6%	30.2%	0.4%	Lower raw material cost.
EBITDA	48.5	49.8	-2.5%	Higher salary (S\$4.6mn) /electricity (S\$3.4mn).
PATMI	32.1	32.3	-0.4%	
Area (sft 000s)	613.1	576.6	6.3%	
DPS (cents)	3.05	3.15	-3.2%	Payout ratio maintained at 70%.

Source: Company, PSR

The Positives

+ Same-store sales back to growth. After four quarters of decline, we estimate same-store sales rose 1.5% YoY in 2Q23 (1Q23 -3.6% YoY). We believe market share gains and household budgets returning to home dining drove the improvement in same-store sales.

+Gross margins climb to record levels. 2Q23 gross margins rose to a record 30.6%. The drivers to higher margins were leaner inventory relative to peers (especially in fresh products) and lower purchasing costs. The supply chain was less disrupted and fuel costs were falling. Sales contribution from private labels and fresh is relatively stable as a percentage of sales.

The Negative

- 2Q23 operating expenses jumped 13% YoY. The re-contracting to higher electricity expenses and increased wages, caused operating expenses to rise 13% YoY or S\$8mn. Opex to revenue nudged up 1.3% points to 20.1%. Higher wages from the progressive wage model and tight labour conditions will keep fixed costs elevated. An offset will be the lower variable wages or staff bonus.

Outlook

FY23e will be a year of consolidation due to weaker operating margins as utilities and wages gap up to a new level. The release of only two new HDB stores was a disappointment. In FY22, Sheng Siong won three store sites. There were no wins so far so far this year. Growth in stores for China will remain gradual until human capital builds up as traditional markets remain the key fresh food channel for households.

Upgrade from ACCUMULATE to BUY with unchanged TP of S\$1.98

SSG's attractive financial metrics include ROE of 28%, dividend yield 3.8% and net cash at S\$289mn (Jun23).

BUY (Upgraded)

LAST CLOSE PRICE	SGD 1.63
FORECAST DIV	SGD 0.062
TARGET PRICE	SGD 1.98
TOTAL RETURN	25.3%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn /SGD mn):	1837 / 2451
52 - WK HI/LO (SGD):	1.83 / 1.55
3M Average Daily T/O (mn):	1.64

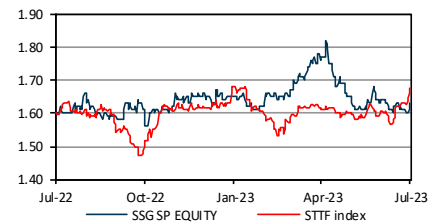
MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	9.2%
LIM HOCK LENG	8.5%
LIM HOCK ENG	8.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.2)	(7.4)	(0.7)
STTF	3.9	3.1	4.7

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	214.1	220.5
PATMI	132.8	133.3	135.3	141.0
EPS	8.83	8.87	9.00	9.38
PER, x	18.4	19.1	18.1	17.4
P/BV, x	5.9	5.4	4.9	4.5
DPS (SGD cents)	6.20	6.22	6.20	6.35
Div Yield	3.8%	3.8%	3.8%	3.9%
ROE	33.8%	30.8%	28.6%	27.2%

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	214.1	220.5
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	159.0	166.0
Net Finance Inc/(Exp)	(1.0)	(1.2)	0.9	5.6	5.5
Profit Before Tax	165.1	161.0	163.1	164.6	171.5
Taxation	(26.0)	(27.9)	(29.4)	(28.8)	(30.0)
Profit After Tax	139.1	133.1	133.6	135.8	141.5
Non Controlling Interest	(0.5)	(0.3)	(0.3)	(0.5)	0.5
PATMI	138.7	132.8	133.3	135.3	141.0
PATMI - adjusted	138.7	132.8	128.3	135.3	141.0

Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	9.22	8.83	8.87	9.00	9.38
EPS, adj.	9.22	8.83	8.53	9.00	9.38
DPS	6.50	6.20	6.22	6.20	6.35
BVPS	24.77	27.50	30.08	32.96	35.99

Cash Flow

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	165.1	161.0	163.1	164.6	171.5
Adjustments	51.7	52.2	50.6	52.0	51.3
WC changes	69.6	(7.8)	(25.7)	(31.2)	2.4
Cash generated from ops	286.4	205.3	188.0	185.4	225.2
Others	(12.3)	(32.6)	(21.2)	(28.8)	(30.0)
Cashflow from ops	274.1	172.7	166.8	156.6	195.2
CFI					
CAPEX, net	(17.1)	(31.4)	(8.6)	(20.0)	(2.0)
Others	1.0	1.1	3.7	9.6	6.8
Cashflow from investments	(16.1)	(30.3)	(5.0)	(10.4)	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)	(92.0)	(95.5)
Others	(31.2)	(2.2)	(2.6)	(4.0)	(1.3)
Cashflow from financing	(80.9)	(118.9)	(101.5)	(96.0)	(96.8)
Net change in cash	177.1	23.5	60.3	50.2	103.3
Effects of exchange rates	0.4	0.2	0.5	0.0	0.0
CCE, end	253.9	246.6	275.5	295.7	369.0

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	295.7	369.0
Inventories	77.9	98.4	101.2	107.2	112.9
Total current assets	351.8	356.6	396.2	424.5	504.5
Total Assets	692.1	739.0	785.1	815.7	880.9
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	495.5	541.1

Valuation Ratios

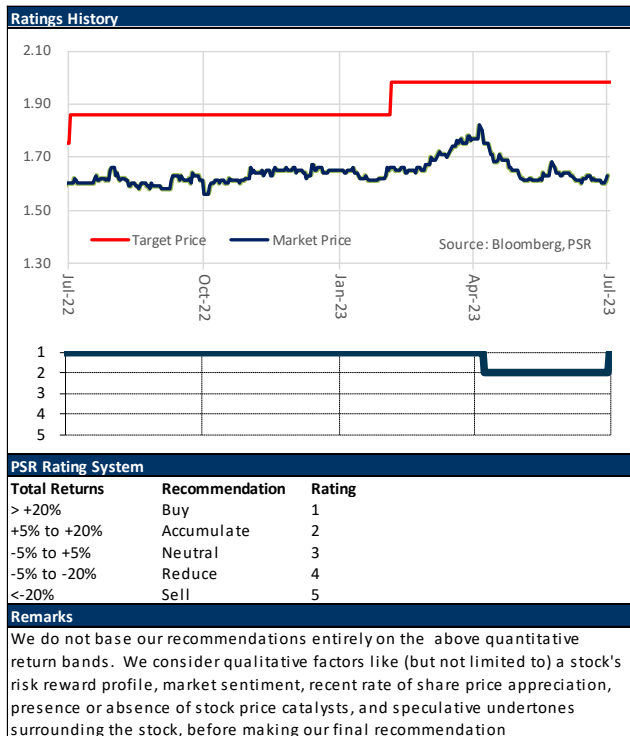
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	17.7	18.4	19.1	18.1	17.4
P/B (X)	6.6	5.9	5.4	4.9	4.5
EV/EBITDA (X)	12.4	10.7	10.8	10.1	9.5
Dividend Yield	4.0%	3.8%	3.8%	3.8%	3.9%

Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	40.6%	-1.7%	-2.2%	2.9%	5.1%
EBITDA	40.5%	15.0%	-2.5%	6.0%	3.0%
EBIT	79.4%	-2.4%	0.0%	-2.0%	4.4%
Net profit - adjusted	83.1%	-4.2%	-3.4%	1.5%	4.2%
Margins					
Gross margin	27.4%	28.7%	29.4%	29.0%	28.9%
EBITDA margin	12.9%	15.1%	15.1%	15.5%	15.2%
EBIT margin	11.9%	11.8%	12.1%	11.5%	11.5%
Net profit margin	9.9%	9.7%	10.0%	9.8%	9.7%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	40.4%	33.8%	30.8%	28.6%	27.2%
ROA	22.6%	18.6%	17.5%	16.9%	16.6%
Net Debt/(Cash)	-224	-242	-275	-296	-369
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 - qystina@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

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Conglomerate | Transport

Peggy Mak – peggyamak@phillip.com.sg

US Technology Analyst (Hardware & Marketplaces)

Maximilian Koeswoyo – maximilian@phillip.com.sg

US Technology Analyst (Digital Media & Entertainment)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

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.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 (DGEX)
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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