

Sheng Siong Group Ltd

Lack of new stores



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SINGAPORE | CONSUMER | 4Q23 RESULTS

01 March 2024

- FY23 revenue and PATMI were within expectations at 99%/99% of our forecast. Revenue growth was 2.1% YoY. Same-store sales contracted and new-store expansion was muted.
- For 2023, Sheng Siong only expanded with two new stores or a footprint growth of 1.7% (2022: +5.4%). The lack of new stores will weigh on revenue growth this year. The company aims to expand a minimum of three stores or equivalent 2.4% expansion per year.
- Same-store sales growth is expected to improve as outbound travel normalises. Inflationary pressure will also support more dining at home. The company has secured two stores so far this year in Singapore, with another ten likely to be tendered. We marginally lower our FY24e earnings by 2%. With a more sluggish growth outlook, we lower our target valuations from historical 20x PE to 18x. The target price is reduced to S\$1.66 (prev. S\$1.80). Until new stores accelerate, growth will be muted.

ACCUMULATE (Downgraded)

LAST CLOSE PRICE	SGD 1.56
FORECAST DIV	SGD 0.064
TARGET PRICE	SGD 1.66
TOTAL RETURN	10.5%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN)	1,504
MARKET CAP (USD mn / SGD mn)	1745 / 2346
52 - WK HI/LO (SGD)	1.83 / 1.46
3M Average Daily T/O (mn)	1.40

MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	8.1%
LIM HOCK ENG	7.9%
LIM HOCK LENG	7.9%

Results at a glance

SGD mn	4Q23	4Q22	YoY	Comments
Revenue	331.4	329.2	0.7%	New stores est. +1.8%, SSS -0.9%, China -0.1%
Gross profit	100.4	96.3	4.3%	
Gross Margin	30.3%	29.2%	1.1%	Better mix of fresh and house brands
EBITDA	46.2	44.9	2.8%	
Net finance inc.	2.3	1.3	79.3%	
PATMI	33.6	32.2	4.3%	
Area (sft 000s)	618.3	607.8	1.7%	
DPS - Final (cents)	3.20	3.07	4.2%	Payout ratio maintained at 70%.

Source: Company, PSR

The Positives

+ Rise and rise of margins. Gross margins have been on an upward trajectory since listing. A decade ago, gross margins were 23% in FY13 and now stand at 30%. Scale, distribution centre, direct sourcing, and fresh food mix have been the major driver of margin expansion. The new driver is house brands. Competitors have also been raising prices to pass on their cost of production.

The Negatives

- No new stores. There were no new stores this quarter, and only two were opened this year. Expansion in new stores is a cumulative 8% over three years. Before this lull, new stores grew 7-8% p.a. The lack of new stores was due to fewer tenders made available. Of the five stores tendering in 2023, Sheng Siong has been successful in securing three.

Outlook

Consumers are downtrading due to the high inflation and slower growth environment. But we expect same-store sales to improve in 2024. The lessened impact of travelling, shift to more home cooking due to inflation, and roll-out of more CDC vouchers will support demand. Lower electricity rates and slower wage adjustments will also support operating margins in FY24e. Securing more stores from the ten tendered this year will provide a strong runway for growth in FY25e.

Downgrade to ACCUMULATE from BUY with a lower TP of S\$1.66 (prev. S\$1.80)

SSG's attractive financial metrics include ROE of 27%, dividend yield 4.1% and net cash at S\$324mn.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	-	(1.9)	(2.5)
STTF	(0.2)	2.5	(2.7)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY22	FY23	FY24e	FY25e
Revenue	1,339	1,368	1,451	1,511
EBITDA	197.4	194.1	208.0	209.1
PATMI	133.3	133.7	138.8	142.4
EPS	8.87	8.89	9.23	9.47
PER, x	18.3	17.5	16.9	16.5
P/BV, x	5.2	4.8	4.4	4.0
DPS (SGD cents)	6.22	6.25	6.40	6.50
Div Yield	4.0%	4.0%	4.1%	4.2%
ROE	30.8%	28.3%	27.0%	25.5%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 18x FY24e

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Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Revenue	1,369.8	1,339.5	1,367.7	1,451.5	1,510.7
Gross profit	393.3	393.5	410.5	438.3	451.7
EBITDA	207.1	197.4	194.1	208.0	209.1
Other income	12.1	17.3	14.3	11.5	12.0
Depreciation & Amortisation	(51.6)	(52.6)	(53.0)	(58.5)	(56.7)
EBIT	162.2	162.2	155.4	159.6	162.9
Net Finance Inc.	(1.2)	0.9	7.7	9.4	10.3
Profit Before Tax	161.0	163.1	163.1	168.9	173.2
Taxation	(27.9)	(29.4)	(29.1)	(29.6)	(30.3)
Profit After Tax	133.1	133.6	134.0	139.3	142.9
Non Controlling Interest	(0.3)	(0.3)	(0.3)	(0.5)	(0.5)
PATMI	132.8	133.3	133.7	138.8	142.4
PATMI - adjusted	132.8	128.3	133.7	138.8	142.4

Per share data (SGD Cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	8.83	8.87	8.89	9.23	9.47
EPS, adj.	8.83	8.53	8.89	9.23	9.47
DPS	6.20	6.22	6.25	6.40	6.50
BVPS	27.50	30.08	32.84	35.68	38.73

Cash Flow

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	161.0	163.1	163.1	168.9	173.2
Adjustments	52.2	50.6	45.1	49.1	46.4
WC changes	(7.8)	(25.7)	2.9	(32.9)	2.2
Cash generated from ops	205.3	188.0	211.1	185.1	221.8
Others	(32.6)	(21.2)	(34.0)	(29.6)	(30.3)
Cashflow from ops	172.7	166.8	177.1	155.6	191.5
CFI					
CAPEX, net	(31.4)	(8.6)	(10.1)	(12.0)	(10.0)
Others	1.1	3.7	11.2	11.4	12.3
Cashflow from investments	(30.3)	(5.0)	1.2	(0.6)	2.3
CFF					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	(25.0)	(5.0)	0.0	0.0	0.0
Dividends	(91.7)	(94.0)	(92.0)	(96.2)	(96.5)
Others	(2.2)	(2.6)	(3.3)	(2.0)	(2.0)
Cashflow from financing	(118.9)	(101.5)	(95.3)	(98.2)	(98.5)
Net change in cash	23.5	60.3	82.9	56.7	95.2
Effects of exchange rates	0.2	0.5	0.1	0.0	0.0
CCE, end	246.6	275.5	324.4	351.1	416.3

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE	302.9	291.6	283.7	276.8	267.2
Others	79.5	97.3	101.8	97.2	95.2
Total non-current assets	382.4	388.9	385.5	374.0	362.3
Accounts receivables	11.6	19.5	28.5	22.7	23.6
Cash	246.6	275.5	324.4	351.1	416.3
Inventories	98.4	101.2	91.8	111.0	116.1
Total current assets	356.6	396.2	444.7	484.8	556.0
Total Assets	739.0	785.1	830.2	858.8	918.3
LIABILITIES					
Accounts payables	212.4	197.5	199.9	180.4	188.6
Lease liabilities	27.7	33.1	34.4	39.4	44.4
Short term loans	5.0	0.0	0.0	0.0	0.0
Others	25.4	35.3	29.6	29.6	29.6
Total current liabilities	270.5	265.8	264.0	249.5	262.6
Lease liabilities	48.9	62.6	66.9	66.9	66.9
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	3.2	1.5	2.3	2.3	2.3
Total non-current liabilities	52.2	64.1	69.2	69.2	69.2
Total Liabilities	322.7	329.9	333.2	318.7	331.9
EQUITY					
Non-controlling interests	2.9	2.9	3.2	3.7	4.2
Shareholder Equity	413.4	452.2	493.8	536.4	582.3

Valuation Ratios

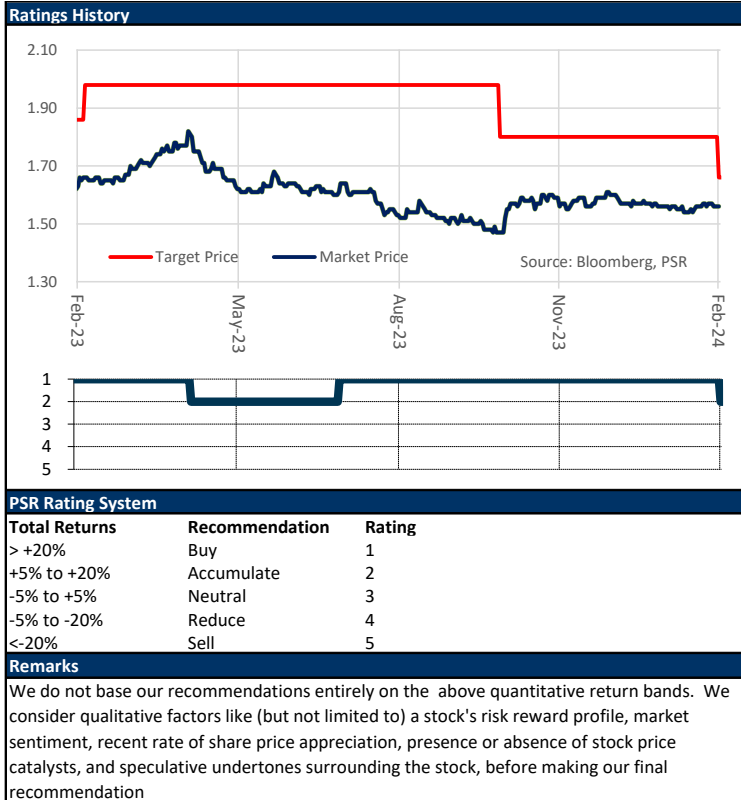
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	17.7	18.3	17.5	16.9	16.5
P/B (X)	5.7	5.2	4.8	4.4	4.0
EV/EBITDA (X)	10.2	10.5	10.4	9.6	9.2
Dividend Yield	4.0%	4.0%	4.0%	4.1%	4.2%

Growth & Margins

Growth					
Revenue	-1.7%	-2.2%	2.1%	6.1%	4.1%
EBITDA	15.0%	-4.7%	-1.7%	7.2%	0.5%
EBIT	-2.4%	0.0%	-4.2%	2.7%	2.1%
Net profit - adjusted	-4.2%	-3.4%	0.3%	3.9%	2.6%
Margins					
Gross margin	28.7%	29.4%	30.0%	30.2%	29.9%
EBITDA margin	15.1%	14.7%	14.2%	14.3%	13.8%
EBIT margin	11.8%	12.1%	11.4%	11.0%	10.8%
Net profit margin	9.7%	10.0%	9.8%	9.6%	9.4%

Key Ratios

ROE	33.8%	30.8%	28.3%	27.0%	25.5%
ROA	18.6%	17.5%	16.5%	16.4%	16.0%
Net Debt/(Cash)	-242	-275	-324	-351	-416
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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