

Company update

Sheng Siong Group

Singapore | Consumer Staples

 Rating HOLD (as at 28 April 2022)
 Last Close SGD 1.52
 Fair Value SGD 1.62

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 Equity Research

Moving towards new normal

- **New store sales were the key revenue driver**
- **Expecting to open 2 new stores in 2Q22**
- **Gross profit margin rose to 28.7%**

Investment thesis

Sheng Siong Group's (SSG) 1Q22 revenue rose 6.0% year-over-year (YoY) to SGD358.0m while PATMI grew 15.0% YoY to SGD35.1m. Gross profit margin increased by 1.0 percentage points (ppt) YoY to 28.7% in 1Q22, largely due to improved sales mix. As of 31 Mar 2022, SSG has 64 stores in Singapore and four stores in China. No new store was open in 1Q22 but SSG is on track to open two new stores in 2Q22. Singapore announced further easing of the domestic and border restrictions, with the Disease Outbreak Response System Condition (DORSCON) level adjusted from orange to yellow. As Singapore transits to new normal life with Covid-19, we believe 2022 will be a year of normalization for SSG. Demand for groceries is likely to taper off in the coming quarters, partially offset by shift in consumption patterns towards a focus on 'value for money' due to inflationary pressure and higher cost of living. We maintain our fair value estimate at SGD1.62.

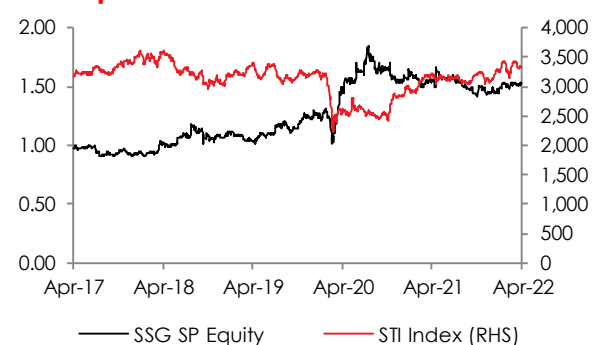
Investment summary

- **1Q22 revenue and PATMI rose 6.0% and 15.0% respectively** – SSG's 1Q22 revenue rose 6.0% YoY to SGD358.0m, contributed by both new stores (+0.3% YoY) and comparable same store sales (+5.7% YoY). Gross profit margin increased by 1.0 ppt YoY to 28.7% in 1Q22, largely due to improved sales mix. PATMI grew 15.0% YoY to SGD35.1m, broadly in-line with our expectations as we expect sales to taper off in the coming quarters as Singapore reopens.
- **No new store was open in 1Q22** – As of 31 Mar 2022, SSG has 64 stores in Singapore and four stores in China. No new store was open in 1Q22. Recall that SSG won three tenders last year but only opened one new store in 4Q21. Management mentioned that they would open the remaining two stores in 2Q22. We understand that SSG submitted one tender recently and is pending the bidding outcome.

Security information

Ticker	SSG SP
Market Cap (SGD b)	2.3
Daily turnover (SGD m)	3.3
Free Float	43%
Shares Outstanding (m)	1,504
Top Shareholder	SS HOLDINGS 29.9%

Price performance chart



Financial summary

SGD mn	FY21	FY22E	FY23E
Revenue	1,370	1,301	1,340
Operating Profit	150	131	133
PATMI	133	115	116
EPS (\$-cents)	8.8	7.6	7.7
DPS (\$-cents)	6.2	5.4	5.5

Key ratios

	FY21	FY22E	FY23E
EBIT margin (%)	11.0	10.0	9.9
ROE (%)	26.5	25.7	24.2
Dividend yield (%)	4.1	3.6	3.6

Source: Bloomberg, Company, Internal estimates

- **Demand could normalize as Singapore transits to new normal life with Covid-19** – Singapore announced further easing of the domestic and border restrictions, with the Disease Outbreak Response System Condition (DORSCON) level adjusted from orange to yellow. From 26 Apr, all workers can return to the workplace, up from the current limit of 75% and capacity limits for events will be removed. Moreover, pre-departure test is no longer required for fully vaccinated travellers to enter Singapore, underscoring Singapore's commitment to reopen. We believe demand for groceries will taper off in 2022 but could be potentially supported by shift in consumption patterns towards a focus on 'value for money' due to inflationary pressure and higher cost of living. Meanwhile, SSG will continue to source for differentiated and reliable supplies to mitigate inflationary pressure and bring cheaper and more affordable products to customers.

Results highlights

\$GD mn	1Q21	1Q22	% Chg
Revenue	337.5	358.0	6.0%
Cost of sales	-244.0	-255.2	4.6%
Gross Profit	93.5	102.7	9.8%
Distribution costs	-1.9	-2.1	13.6%
Administrative expenses	-56.4	-59.4	5.3%
Other operating expenses	-1.4	-1.3	-7.3%
Profit from operations	33.9	39.9	17.8%
Finance income	0.2	0.4	62.3%
Finance expenses	-0.5	-0.8	62.5%
Other income	4.0	3.3	-17.2%
Profit before tax	37.6	42.8	13.8%
Income tax expense	-6.7	-7.7	13.6%
Net profit	30.9	35.2	13.9%
PATMI	30.5	35.1	15.0%

Source: Company

ESG Updates

- SSG demonstrates strong labour management and quality management initiatives, as well as initiatives to address data privacy and security compared to its peers. Its exposure to labour-related risks is also lower than that of peers due to its smaller workforce. However, SSG lags better positioned peers in tapping growing opportunities from eco-friendly and healthier products. SSG's governance ranks higher than that of industry average but its environment score trails its global peers due to its limited efforts to reduce carbon footprint.

Potential catalysts

- Higher than expected gross profit margins
- More than expected new store openings

Investment risks

- Slowdown in same store sales growth
- Aggressive expansion by online grocery platforms

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
SHENG SIONG GROUP LTD (SSG SP)	19.7	19.2	5.1	4.7	11.9	11.9	3.6	3.7	27.4	26.6
DAIRY FARM INTERNATIONAL HOLDI (DFI SP)	19.1	13.8	2.8	2.6	5.6	4.8	4.4	5.5	14.3	19.0
HAI-O ENTERPRISE BHD (HAIO MK)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SUMBER ALFARIA TRIJAYA TBK PT (AMRT IJ)	33.4	26.9	6.9	5.9	14.2	11.4	1.2	1.4	23.4	26.5
SUN ART RETAIL GROUP LTD (6808 HK)	14.7	10.0	0.6	0.6	1.2	0.6	2.5	3.5	3.5	5.9

Source: Bloomberg

Price/Earnings chart



Source: Bloomberg

Price/Book chart



Source: Bloomberg

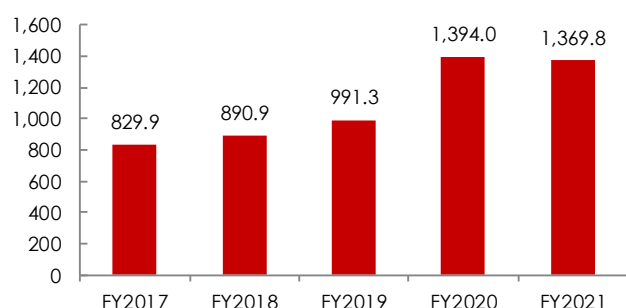
Company overview (as of 31 December 2021)

Company description

Established in 1985 and listed in August 2011, Sheng Siong Group Ltd is one of Singapore's largest retailers with 64 supermarket/grocery stores located across the island. The stores are designed to provide customers with both "wet and dry" shopping options ranging from a wide assortment of live, fresh, and chilled produce, such as seafood, meat, and vegetables to packaged, processed, frozen, and/or preserved food products as well as general merchandise, including toiletries and essential household products. Sheng Siong has also been developing a selection of house brands to offer customers alternatives to national brands at substantial savings, and to date, has over 1,400 products under more than 23 house brands.

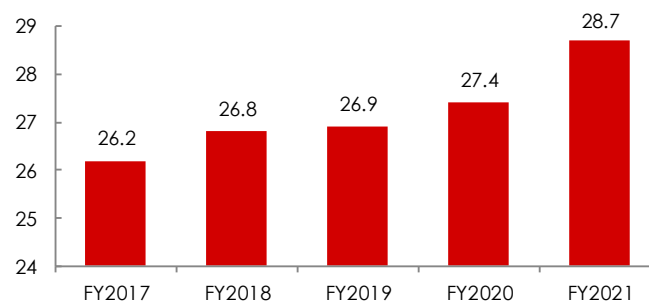
In 2014, Sheng Siong also started its online shopping platform for groceries, which offers e-commerce services in selected postal districts in Singapore. Sheng Siong's first overseas store in Kunming, China, commenced operation in 2017.

Revenue (\$m)



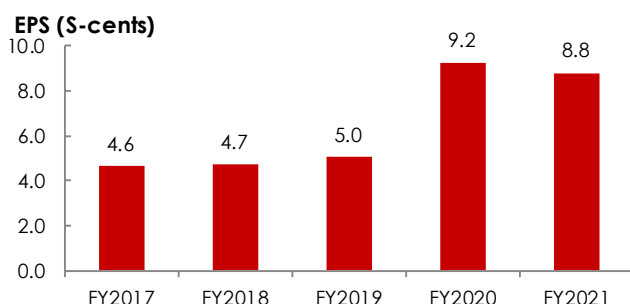
Source: Company

Gross profit margin (%)



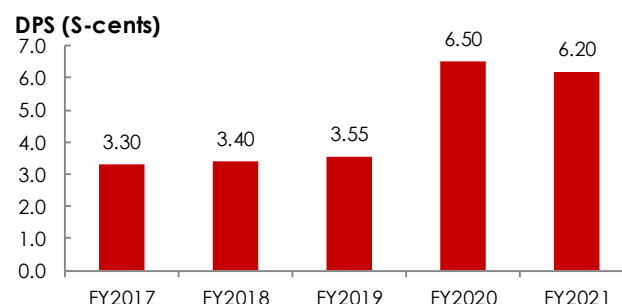
Source: Company

Earning per share (\$-cents)



Source: Company

Dividends per share (\$-cents)



Source: Company

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Revenue	829.9	890.9	991.3	1,394.0	1,369.8
- Cost of Revenue	612.5	652.6	724.4	1,012.1	976.5
Gross Profit	217.4	238.4	266.9	381.9	393.3
+ Other Operating Income	10.3	7.6	8.9	41.2	12.1
- Operating Expenses	145.9	162.5	183.7	258.3	243.8
Operating Income or Losses	81.8	83.5	92.1	164.8	161.6
- Interest Expense	0.0	0.0	2.0	2.0	2.4
- Foreign Exchange Losses (Gains)	0.0	-0.3	-0.5	-1.3	-0.6
- Net Non-Operating Losses (Gains)	-0.2	-0.9	-1.3	-1.0	-1.1
Pretax Income	82.1	84.7	91.9	165.1	161.0
- Income Tax Expense (Benefit)	12.6	14.1	16.2	26.0	27.9
Income Before XO Items	69.5	70.5	75.8	139.1	133.1
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0
- Minority/Non Controlling Interests (Credits)	-0.3	-0.3	0.0	0.5	0.3
Net Income/Net Profit (Losses)	69.8	70.8	75.7	138.7	132.8
Net Inc Avail to Common Shareholders	69.8	70.8	75.7	138.7	132.8
Abnormal Losses (Gains)	0.1	-0.1	0.0	0.1	-0.4
Tax Effect on Abnormal Items	0.0	0.0	0.0	0.0	0.1
Normalized Income	69.9	70.7	75.8	138.8	132.5
Basic Earnings per Share	0.0	0.0	0.1	0.1	0.1
Basic Weighted Avg Shares	1,503.5	1,503.5	1,503.5	1,503.5	1,503.5
Diluted EPS Before Abnormal Items	0.0	0.0	0.1	0.1	0.1
Diluted EPS Before XO Items	0.0	0.0	0.1	0.1	0.1
Diluted EPS	0.0	0.0	0.1	0.1	0.1
Diluted Weighted Avg Shares	1,503.5	1,503.5	1,503.5	1,503.5	1,503.5

Profitability Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Returns					
Return on Common Equity	26.70	25.24	25.10	40.44	33.81
Return on Assets	17.64	16.86	15.63	22.64	18.56
Return on Capital	26.34	24.94	23.29	34.23	28.48
Return on Invested Capital	24.64	23.07	21.60	31.71	26.44
Margins					
Operating Margin	9.86	9.37	9.29	11.82	11.80
Incremental Operating Margin	20.66	2.77	8.53	18.07	-13.25
Pretax Margin	9.89	9.50	9.27	11.84	11.75
Income before XO Margin	8.38	7.92	7.64	9.98	9.72
Net Income Margin	8.41	7.95	7.64	9.95	9.70
Net Income to Common Margin	8.41	7.95	7.64	9.95	9.70
Additional					
Effective Tax Rate	15.30	16.71	17.57	15.73	17.32
Dvd Payout Ratio	73.25	72.21	70.48	70.49	70.18
Sustainable Growth Rate	7.14	7.02	7.41	11.94	10.08

Credit Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Total Debt/EBIT	0.00	0.00	0.62	0.46	0.51
Net Debt/EBIT	-0.90	-1.04	-0.21	-1.08	-1.02
EBIT to Interest Expense	—	—	45.71	81.75	68.36
Long-Term Debt/Total Assets	0.00	0.00	5.68	5.51	6.62
Net Debt/Equity	-26.88	-29.84	-6.16	-47.56	-39.62

Source: Bloomberg

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