

COMPANY RESULTS

Sheng Siong Group (SSG SP)

2Q24: Record-high Gross Margin; More Stores Slated To Open

SSG's 2Q24 earnings of S\$34m (+5% yoy) are in line with expectations, bringing 1H24 to form 52% of our full-year estimate. Gross margin hit a record high of 30.9% due to a more favourable sales mix. A higher interim dividend was declared. SSG has opened four new stores and been awarded three tenders to date. We expect SSG's growth to be driven by the full impact of the new store openings while it continues to secure new locations. Maintain BUY with a target price of S\$1.88.

2Q24 RESULTS

| Year to 31 Dec (S\$m) | 2024  | 2023  | yoy % chg |
|-----------------------|-------|-------|-----------|
| Revenue               | 338.0 | 333.9 | 1.2       |
| Gross profit          | 104.4 | 102.3 | 2.0       |
| Gross margin (%)      | 30.9  | 30.6  | 0.3ppt    |
| PATMI                 | 33.6  | 32.1  | 4.6       |
| Net margin (%)        | 10.0  | 9.6   | 0.4ppt    |

Source: Sheng Siong Group, UOB Kay Hian

RESULTS

- 2Q24 results in line.** Sheng Siong Group's (SSG) 2Q24 results are in line with consensus and our estimates, with 1H24 forming 51%/52% of consensus and our 2024 forecasts respectively. 2Q24 revenue was up 1.2% yoy from better comparable same-store contributions, while gross margin edged up to a record 30.9%, from a better sales mix of higher-margin fresh produce which offset the slightly lower contribution from house brands.
- Sales outperformed the industry; new stores expected to contribute.** SSG's 2Q24 revenue growth outperformed Singapore's softer supermarket and hypermarket retail sales (Apr/May/Jun 24: -3.1%/-1.1%/+1.6% yoy), demonstrating its strong performance. This was largely driven by the 4.8% yoy increase in comparable same-store sales. On the other hand, new-store sales declined 3.2% yoy, attributable to two store openings in 2023 and two in 1H24. We think that SSG's growth will be driven by the full impact of the new store openings as it continues to secure new locations. To date, SSG has opened four new stores, in line with our expectations.
- Higher interim dividend declared.** A higher interim dividend of 3.2 S cents was declared, a 5% increase from the previous interim dividend of 3.05 S cents. We view this as a positive signal that future earnings should remain healthy.

KEY FINANCIALS

| Year to 31 Dec (S\$m)         | 2022   | 2023   | 2024F  | 2025F  | 2026F  |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover                  | 1,339  | 1,368  | 1,396  | 1,436  | 1,477  |
| EBITDA                        | 182    | 173    | 174    | 175    | 178    |
| Operating profit              | 162    | 155    | 156    | 157    | 161    |
| Net profit (rep./act.)        | 133    | 134    | 135    | 137    | 142    |
| Net profit (adj.)             | 133    | 134    | 135    | 137    | 142    |
| EPS (S\$ cent)                | 8.9    | 8.9    | 9.0    | 9.1    | 9.4    |
| PE (x)                        | 17.1   | 17.1   | 17.0   | 16.7   | 16.1   |
| P/B (x)                       | 5.1    | 4.6    | 4.3    | 4.0    | 3.7    |
| EV/EBITDA (x)                 | 10.6   | 11.1   | 11.1   | 11.0   | 10.8   |
| Dividend yield (%)            | 4.1    | 4.1    | 4.1    | 4.2    | 4.4    |
| Net margin (%)                | 10.0   | 9.8    | 9.7    | 9.5    | 9.6    |
| Net debt/(cash) to equity (%) | (60.9) | (65.7) | (68.1) | (72.1) | (75.5) |
| Interest cover (x)            | n.a.   | n.a.   | n.a.   | n.a.   | n.a.   |
| ROE (%)                       | 30.8   | 28.3   | 26.2   | 24.7   | 23.8   |
| Consensus net profit          | -      | -      | 138    | 143    | 145    |
| UOBKH/Consensus (x)           | -      | -      | 0.97   | 0.96   | 0.98   |

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

|              |         |
|--------------|---------|
| Share Price  | S\$1.52 |
| Target Price | S\$1.88 |
| Upside       | +23.7%  |

COMPANY DESCRIPTION

Sheng Siong Group is a mass-market supermarket operator in Singapore. It is the third-largest player in Singapore by market share.

STOCK DATA

|                                 |                  |
|---------------------------------|------------------|
| GICS sector                     | Consumer Staples |
| Bloomberg ticker:               | SSG SP           |
| Shares issued (m):              | 1,503.5          |
| Market cap (S\$m):              | 2,285.4          |
| Market cap (US\$m):             | 1,744.2          |
| 3-mth avg daily t'over (US\$m): | 2.0              |

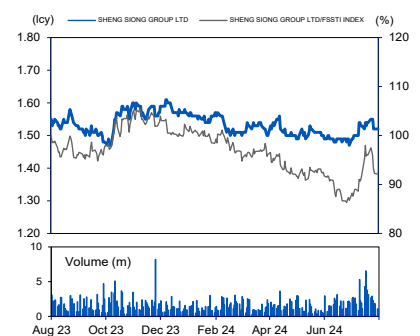
Price Performance (%)

|                  |                 |
|------------------|-----------------|
| 52-week high/low | S\$1.61/S\$1.47 |
| 1mth             | 3.4             |
| 3mth             | 1.3             |
| 6mth             | (2.6)           |
| 1yr              | (3.2)           |
| YTD              | (5.0)           |

Major Shareholders

|                           |      |
|---------------------------|------|
| Sheng Siong Hldgs         | 29.9 |
| Lim Hock Chee             | 8.0  |
| Lim Hock Eng              | 7.9  |
| FY24 NAV/Share (S\$)      | 0.36 |
| FY24 Net Cash/Share (S\$) | 0.24 |

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Healthy store opening outlook; opportunity arises as other players undergo rationalisation.** SSG opened two new stores in 1H24, bringing its total retail area across 71 stores in Singapore up to 633,106sf (+3.3% yoy). Its tendering opportunities are greater as HDB has ramped up the number of tenders, with 10 released in 1H24 and seven to be put up in 2H24. We note that the majority of these tenders are re-tenders (1H24: seven; 2H24: four), suggesting that some supermarket players are undergoing rationalisation. As the number of bidders dwindle, we expect SSG to continue its tendering efforts to build a presence in new and existing HDB housing estates. To recap, the group has been awarded three tenders in 1H24, and awaits the outcome of another three tenders submitted in the same period.
- Supermarket retail sales slowdown not a major concern, given SSG's ability to weather downturn.** According to the Singapore Department of Statistics, local retail sales at supermarkets and hypermarkets dipped around 11% qoq and 1% yoy in 2Q24. However, SSG's same-store sales has managed to outperform the Singapore supermarket & hypermarket sales, demonstrating its ability to adapt in a challenging environment. Also, SSG has strong bargaining power given its size and market share, which can help it to weather any slowdown in the Singapore economy.

### EARNINGS REVISION/RISK

- We maintain our forecasts.

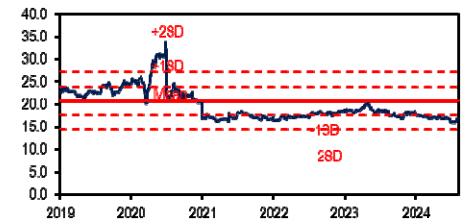
### VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$1.88**, pegged to an unchanged 2024F PE of 21x, or five-year average mean PE. We continue to like SSG for its sustainable growth, from the successful execution of steady store expansion, and as a beneficiary of the persistent inflationary environment.

### SHARE PRICE CATALYST

- Higher-than-expected new-store openings and same-store sales growth.
- Boosted demand arising from inflationary environment and GST hike.

### HISTORICAL PE CHART



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

| Year to 31 Dec (\$m)          | 2023    | 2024F   | 2025F   | 2026F   |
|-------------------------------|---------|---------|---------|---------|
| Net turnover                  | 1,367.7 | 1,395.7 | 1,436.0 | 1,476.6 |
| EBITDA                        | 173.3   | 174.1   | 174.7   | 178.2   |
| Deprec. & amort.              | 17.9    | 18.5    | 17.9    | 17.4    |
| EBIT                          | 155.4   | 155.6   | 156.8   | 160.8   |
| Net interest income/(expense) | 7.7     | 8.2     | 9.7     | 11.4    |
| Pre-tax profit                | 163.1   | 163.7   | 166.5   | 172.2   |
| Tax                           | (29.1)  | (28.7)  | (29.1)  | (30.1)  |
| Minorities                    | (0.3)   | (0.3)   | (0.3)   | (0.3)   |
| Net profit                    | 133.7   | 134.8   | 137.0   | 141.8   |
| Net profit (adj.)             | 133.7   | 134.8   | 137.0   | 141.8   |

### CASH FLOW

| Year to 31 Dec (\$m)             | 2023    | 2024F   | 2025F   | 2026F   |
|----------------------------------|---------|---------|---------|---------|
| Operating                        | 177.1   | 156.6   | 172.0   | 176.4   |
| Pre-tax profit                   | 163.1   | 163.7   | 166.5   | 172.2   |
| Tax                              | (34.0)  | (28.7)  | (29.1)  | (30.1)  |
| Deprec. & amort.                 | 17.9    | 18.5    | 17.9    | 17.4    |
| Working capital changes          | 2.9     | (9.0)   | 2.0     | 1.8     |
| Non-cash items                   | (0.0)   | 0.0     | 0.0     | 0.0     |
| Other operating cashflows        | 27.2    | 12.0    | 14.7    | 15.1    |
| Investing                        | 1.2     | 1.4     | 2.9     | 4.5     |
| Capex (growth)                   | (10.2)  | (10.2)  | (10.2)  | (10.2)  |
| Proceeds from sale of assets     | 0.1     | 0.0     | 0.0     | 0.0     |
| Others                           | 11.2    | 11.6    | 13.0    | 14.7    |
| Financing                        | (129.5) | (119.1) | (124.0) | (129.5) |
| Dividend payments                | (92.0)  | (94.7)  | (96.3)  | (99.7)  |
| Issue of shares                  | 0.0     | 0.0     | 0.0     | 0.0     |
| Proceeds from borrowings         | 0.0     | 0.0     | 0.0     | 0.0     |
| Others/interest paid             | (37.4)  | (24.3)  | (27.7)  | (29.8)  |
| Net cash inflow (outflow)        | 48.8    | 38.9    | 50.8    | 51.5    |
| Beginning cash & cash equivalent | 275.5   | 324.4   | 363.3   | 414.2   |
| Changes due to forex impact      | 0.1     | 0.0     | 0.0     | 0.0     |
| Ending cash & cash equivalent    | 324.4   | 363.3   | 414.2   | 465.7   |

### BALANCE SHEET

| Year to 31 Dec (\$m)                  | 2023         | 2024F        | 2025F        | 2026F        |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets                          | 283.7        | 276.1        | 268.3        | 261.0        |
| Other LT assets                       | 101.8        | 101.8        | 101.8        | 101.8        |
| Cash/ST investment                    | 324.4        | 363.3        | 414.2        | 465.7        |
| Other current assets                  | 120.3        | 124.5        | 128.1        | 131.7        |
| <b>Total assets</b>                   | <b>830.2</b> | <b>865.7</b> | <b>912.4</b> | <b>960.2</b> |
| ST debt                               | 0.0          | 0.0          | 0.0          | 0.0          |
| Other current liabilities             | 264.0        | 259.2        | 264.8        | 270.2        |
| LT debt                               | 0.0          | 0.0          | 0.0          | 0.0          |
| Other LT liabilities                  | 69.2         | 69.2         | 69.2         | 69.2         |
| Shareholders' equity                  | 493.8        | 533.8        | 574.5        | 616.6        |
| Minority interest                     | 3.2          | 3.5          | 3.8          | 4.2          |
| <b>Total liabilities &amp; equity</b> | <b>830.2</b> | <b>865.7</b> | <b>912.4</b> | <b>960.2</b> |

### KEY METRICS

| Year to 31 Dec (%)        | 2023   | 2024F  | 2025F  | 2026F  |
|---------------------------|--------|--------|--------|--------|
| <b>Profitability</b>      |        |        |        |        |
| EBITDA margin             | 12.7   | 12.5   | 12.2   | 12.1   |
| Pre-tax margin            | 11.9   | 11.7   | 11.6   | 11.7   |
| Net margin                | 9.8    | 9.7    | 9.5    | 9.6    |
| ROA                       | 16.5   | 15.9   | 15.4   | 15.1   |
| ROE                       | 28.3   | 26.2   | 24.7   | 23.8   |
| <b>Growth</b>             |        |        |        |        |
| Turnover                  | 2.1    | 2.0    | 2.9    | 2.8    |
| EBITDA                    | (4.6)  | 0.4    | 0.4    | 2.0    |
| Pre-tax profit            | 0.0    | 0.4    | 1.7    | 3.5    |
| Net profit                | 0.3    | 0.8    | 1.7    | 3.5    |
| Net profit (adj.)         | 0.3    | 0.8    | 1.7    | 3.5    |
| EPS                       | 0.3    | 0.8    | 1.7    | 3.5    |
| <b>Leverage</b>           |        |        |        |        |
| Debt to total capital     | 0.0    | 0.0    | 0.0    | 0.0    |
| Debt to equity            | 0.0    | 0.0    | 0.0    | 0.0    |
| Net debt/(cash) to equity | (65.7) | (68.1) | (72.1) | (75.5) |
| Interest cover (x)        | n.a.   | n.a.   | n.a.   | n.a.   |

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