COMPANY RESULTS

Sheng Siong Group (SSG SP)

2024: Impacted By Rising Costs; More Stores To Drive Growth In 2025

SSG's 2024 earnings missed our and consensus expectations, though revenue continued to grow consistently and outpace the industry. Total dividend grew, with a stable payout ratio and strong cashflow generation. We anticipate further store openings as competitors scale back. However, staff costs are expected to be elevated due to increased headcount from new stores and higher wages under the progressive wage model. Maintain BUY with a trimmed target price of S$1.92.

4Q24/2024 RESULTS

Year to 31 Dec (S$m)	4Q24	yoy % chg	qoq % chg	2024	yoy % chg
Revenue	351.3	5.5	(3.3)	1,488.3	4.5
Gross profit	106.7	6.2	(6.3)	435.5	6.1
Gross margin (%)	30.4	+0.1ppt	(0.9ppt)	30.5	0.5ppt
Net profit	28.5	(15.1)	(27.1)	137.5	2.9
Net margin (%)	8.1	(2.0ppt)	(2.7ppt)	9.6	(0.2ppt)

Source: Sheng Siong Group, UOB Kay Hian

RESULTS

- **2024 earnings missed expectations...** Sheng Siong Group's (SSG) 2024 earnings came in at 95%/97% of our/consensus expectations respectively. The earnings miss was due to higher-than-expected staff costs, which rose 10% yoy or S$20m to make up 15.4% of revenue vs 14.6% in 2023. This is a result of both higher staff bonuses and increased headcount from new stores. Gross margin improved marginally to 30.5% on a more favourable sales mix, partially offset by higher operating costs.

- **…but revenue exceeded forecast.** Top-line grew 5% yoy in 2024, driven by new store sales (<two years old) and comparable same-store sales (at least two years old) contributing 2.6% yoy and 1.8% yoy growth respectively. SSG's revenue growth continued to surpass Singapore's supermarket and hypermarket retail sales growth on both yearly (+2.6ppt) and quarterly (+3.5ppt) bases, illustrating its increasing market share.

- **Final dividend maintained; stable payout ratio amid earnings growth.** Management has maintained a final dividend of 3.2 S cents/share (2023: 3.2 S cents/share), bringing the total dividend for 2024 to 6.4 S cents/share (2023: 6.25 S cents/share), driven by earnings growth. This translates to a 70% payout ratio, which we expect to remain stable given the company's strong net cash position of S$353m. This is despite S$49m outflow following the acquisition of DFI Retail Group Holdings' (DFI) Jelita properties.

KEY FINANCIALS

Year to 31 Dec (S$m)	2023	2024	2025F	2026F	2027F
Net turnover	1,368	1,429	1,509	1,565	1,620
EBITDA	173	177	189	195	202
Operating profit	155	160	170	176	183
Net profit (rep./act.)	134	138	146	152	158
Net profit (adj.)	134	138	146	152	158
EPS (S$ cent)	8.9	9.1	9.7	10.1	10.5
PE (x)	18.3	17.8	16.8	16.1	15.5
P/B (x)	5.0	4.6	4.2	3.9	3.6
EV/EBITDA (x)	11.8	11.6	10.8	10.5	10.2
Dividend yield (%)	3.8	3.9	4.2	4.3	4.5
Net margin (%)	9.8	9.6	9.7	9.7	9.8
Net debt/(cash) to equity (%)	(65.7)	(66.1)	(69.4)	(72.4)	(75.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	28.3	26.7	26.3	25.3	24.4
Consensus net profit	-	-	146	153	154
UOBKH/Consensus (x)	-	-	1.00	1.00	1.03

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$1.63
Target Price	S$1.92
Upside	+17.8%
(Previous TP:	*S$1.93)*

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$m):	2,450.8
Market cap (US$m):	1,837.0
3-mth avg daily t'over (US$m):	1.6

Price Performance (%)

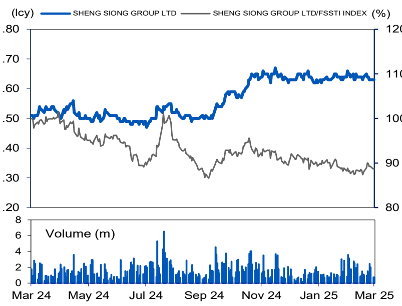
52-week high/low S$1.68/S$1.47

1mth	3mth	6mth	1yr	YTD
(0.6)	(0.6)	8.7	7.9	(0.6)

Major Shareholders	%
Sheng Siong Hldgs	29.9
Lim Hock Chee	8.0
Lim Hock Eng	7.9

FY25 NAV/Share (S$)	0.36
FY25 Net Cash/Share (S$)	0.27

PRICE CHART



Source: Bloomberg

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- **Store opening outlook.** SSG opened six new stores in 2024 (4Q24: two new stores), bringing total retail area across 75 stores in Singapore to 661,534sf (+7% yoy). The group has also opened two new stores this year, and awaits the outcome of eight HDB tenders. We note that four of these tenders were given up by peers, meaning that SSG has increased opportunities to secure new stores. Hence, we have raised our 2025 store openings forecast from three to five.

- **Government vouchers may offer limited impact.** Budget 2025 introduced handouts in the form of Community Development Council (CDC) and SG60 vouchers, leading to over S$4b in financial support for both individuals and households across 2025 and 2026. While some peers are offering promotions to encourage Singapore citizens to use these vouchers at their stores, SSG is not doing so to the same extent. However, we anticipate some revenue boosts closer to the voucher expiration dates (31 Dec 25 for CDC and 31 Dec 26 for SG60), driven by both consumers' urgency to use them before they expire and SSG's strong value offerings.

- **Expect staff costs to remain high in 2025.** During the briefing, management highlighted that staff costs are likely to remain elevated, as the government's subsidies under the Progressive Wage Credit Scheme (PWCS) are progressively lower each year. For the retail sector, 2025 is the final year of the three-year Progressive Wage Model increase. Additionally, SSG foresees increased headcount to support new store openings, with challenges in hiring local Singaporeans while being limited by the foreign labour quota restrictions.

EARNINGS REVISION/RISK

- **We trim 2025/26 earnings by around 2%** to reflect higher staff costs on increased store openings. However, this is partially offset by an increase in our store opening projection of five in 2025 (up from three) and three in 2026. Furthermore, with four of SSG's eight tenders being given up by competitors, SSG has increased chances of securing new stores.

VALUATION/RECOMMENDATION

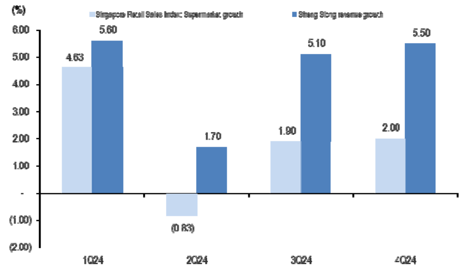
- **Maintain BUY with a slightly lower PE-based target price of S$1.92 (S$1.93 previously),** due to the lowered earnings forecasts. This is pegged to an unchanged 2025F PE of 20x or its five-year average mean PE. We remain positive on SSG as its store count continues to drive its top-line growth and it outpaces industry growth.

SHARE PRICE CATALYST(S)

- Higher-than-expected new store openings and same-store sales growth.

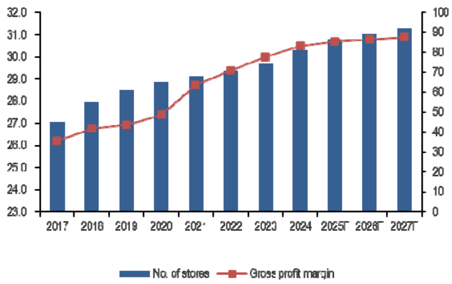
- Boosted demand arising from inflationary environment and GST hike.

SINGAPORE RETAIL SALES INDEX VS SSG REVENUE GROWTH BY QUARTER (2024)



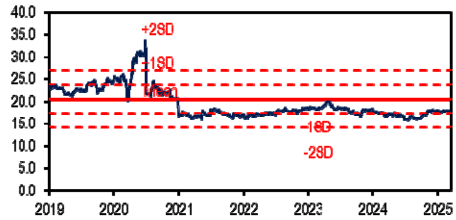
Source: Department of Statistics, Sheng Siong Group

STORE COUNT & GROSS MARGIN



Source: Sheng Siong Group, UOB Kay Hian

HISTORICAL PE CHART



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (S$m)	2024	2025F	2026F	2027F
Net turnover	1,428.7	1,509.1	1,564.9	1,620.4
EBITDA	177.1	189.2	194.8	201.9
Deprec. & amort.	17.5	18.7	18.7	18.7
EBIT	159.7	170.5	176.1	183.3
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	0.0	0.0	0.0	0.0
Tax	8.3	8.6	10.2	10.2
Minorities	168.0	179.0	186.3	193.5
Net profit	(30.4)	(32.4)	(33.7)	(35.1)
Net profit (adj.)	0.0	(0.3)	(0.3)	(0.3)

BALANCE SHEET

Year to 31 Dec (S$m)	2024	2025F	2026F	2027F
Fixed assets	304.5	304.0	303.5	303.0
Other LT assets	158.3	158.3	158.3	158.3
Cash/ST investment	353.4	401.9	452.3	504.3
Other current assets	118.9	127.3	132.0	136.7
Total assets	935.1	991.5	1,046.1	1,102.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	304.3	316.4	325.0	333.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	92.5	92.5	92.5	92.5
Shareholders' equity	534.9	578.8	624.5	671.9
Minority interest	3.4	3.7	4.0	4.3
Total liabilities & equity	935.1	991.5	1,046.1	1,102.3

CASH FLOW

Year to 31 Dec (S$m)	2024	2025F	2026F	2027F
Operating	219.0	186.2	193.1	199.9
Pre-tax profit	168.0	179.0	186.3	193.5
Tax	(29.2)	(32.4)	(33.7)	(35.1)
Deprec. & amort.	17.5	18.7	18.7	18.7
Working capital changes	31.2	3.8	3.9	3.9
Non-cash items	(0.0)	0.0	0.0	0.0
Other operating cashflows	31.5	17.1	18.0	19.0
Investing	(54.3)	(5.2)	(3.5)	(3.5)
Capex (growth)	(18.2)	(18.2)	(18.2)	(18.2)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	(36.3)	13.0	14.7	14.7
Financing	(136.9)	(132.5)	(139.2)	(144.3)
Dividend payments	(96.2)	(102.4)	(106.6)	(110.7)
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	(40.7)	(30.1)	(32.6)	(33.6)
Net cash inflow (outflow)	27.7	48.5	50.4	52.1
Beginning cash & cash equivalent	324.4	353.4	401.9	452.3
Changes due to forex impact	1.2	0.0	0.0	0.0
Ending cash & cash equivalent	353.4	401.9	452.3	504.3

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	12.4	12.5	12.4	12.5
Pre-tax margin	11.8	11.9	11.9	11.9
Net margin	9.6	9.7	9.7	9.8
ROA	15.6	15.2	14.9	14.7
ROE	26.7	26.3	25.3	24.4
Growth				
Turnover	4.5	5.6	3.7	3.6
EBITDA	2.2	6.8	2.9	3.7
Pre-tax profit	3.0	6.6	4.0	3.9
Net profit	2.9	6.4	4.0	3.9
Net profit (adj.)	2.9	6.4	4.0	3.9
EPS	2.9	6.4	4.0	3.9
Leverage				
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	(66.1)	(69.4)	(72.4)	(75.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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