

COMPANY RESULTS

Sheng Siong Group (SSG SP)

3Q23: Results In Line; Opportunities Arise With Steady Supply Of HDB Projects

SSG's 3Q23 net profit of S\$34.8m (+5.7% yoy) was in line with expectations, with 9M23 forming 72.9% of our full-year estimate. 3Q23 revenue rose 3.7% yoy, due to higher contributions from new stores and stronger comparable same-store sales. SSG also recorded slight improvements in its margins, driven by an improved sales mix. We are of the view that demand will remain resilient in the rising inflationary environment. Maintain BUY. Target price: S\$1.97.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	yoy % chg
Revenue	345.8	333.5	+3.7
Gross profit	105.0	98.1	+6.9
Gross margin (%)	30.3	29.4	+0.9ppt
PATMI	34.8	32.9	+5.7
Net margin (%)	10.1	9.9	+0.2ppt

Source: Sheng Siong Group, UOB Kay Hian

RESULTS

- Results in line with expectations.** Sheng Siong Group (SSG) reported 3Q23 earnings of S\$34.8m (+5.7% yoy, +8.1% qoq), in line with our expectation. The 9M23 PATMI accounts for 72.9% of our full-year estimate. 3Q23 revenue rose by 3.7% yoy due to higher contributions from six new stores opened in 2022 and 9M23 and higher comparable same-store sales. This was partially offset by one store closure in Jul 22 upon lease expiry and lower sales from its China operations (-0.1% yoy).
- Stable margins despite rising costs.** SSG registered an improved quarterly gross profit margin of 30.3% (+0.9ppt yoy) while net profit margin also improved marginally by 0.2ppt yoy to 10.1%, attributable to ongoing improvements in its sales mix. Other income has also increased by 9.2% yoy to S\$2.9m, mainly due to higher government grants. However, administrative expenses saw a substantial S\$6.0m (+10.2% yoy) increase during the quarter. This comprised a S\$2.2m yoy increase in staff costs and a S\$3.9m yoy rise in utility expenses arising from SSG's renewal of its electricity contract at a higher market rate at end-22. In spite of this, the steady margins evinced SSG's strong ability to source its supplies effectively as well as the defensive nature of the company's value-for-money product offerings.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,370	1,339	1,482	1,536	1,590
EBITDA	183	182	185	190	194
Operating profit	162	162	165	171	175
Net profit (rep./act.)	133	133	137	142	146
Net profit (adj.)	133	133	137	142	146
EPS (S\$ cent)	8.8	8.9	9.1	9.5	9.7
PE (x)	17.5	17.5	17.0	16.4	16.0
P/B (x)	5.6	5.2	4.7	4.3	4.0
EV/EBITDA (x)	11.0	11.1	10.9	10.6	10.4
Dividend yield (%)	4.0	4.0	4.1	4.3	4.4
Net margin (%)	9.7	10.0	9.3	9.3	9.2
Net debt/(cash) to equity (%)	(58.5)	(60.9)	(65.6)	(70.7)	(75.1)
Interest cover (x)	146.2	n.a.	n.a.	n.a.	n.a.
ROE (%)	33.8	30.8	29.1	27.6	26.2
Consensus net profit	-	-	135	142	146
UOBKH/Consensus (x)	-	-	1.02	1.00	1.00

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.55
Target Price	S\$1.97
Upside	+27.1%

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):	2,330.5
Market cap (US\$m):	1,701.2
3-mth avg daily t'over (US\$m):	2.0

Price Performance (%)

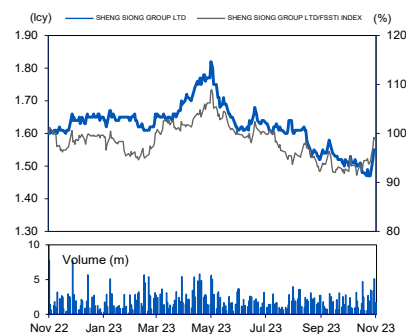
52-week high/low S\$1.82/S\$1.47

1mth	3mth	6mth	1yr	YTD
2.0	(3.7)	(12.4)	(2.5)	(6.1)

Major Shareholders

	%
Sheng Siong Hldgs	29.9
Lim Hock Chee	9.2
Lim Hock Eng	9.1
FY23 NAV/Share (S\$)	0.33
FY23 Net Cash/Share (S\$)	0.22

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- New store opening outlook.** SSG opened two new stores in 9M23 and had 69 stores in Singapore as at end-Sep 23, totalling a retail area of 618,349sf (+2.6% yoy). To meet the increasing housing demand, we note that HDB has ramped up the supply of BTO flats by 34.5% from 17,100 to 23,000 from 2021 to 2023, aiming to launch 100,000 flats from 2021-25. This provides more tender opportunities for SSG, as the group continues to seek growth through the continuous expansion of its network of outlets in Singapore. SSG has bid for three tenders with the outcome pending, while five more HDB supermarket locations up for tender over the next six months. In China, its operations remain profitable overall, making up 2.4% of 3Q23 revenue. SSG has recently announced the lease signing for its sixth store in Kunming last month, and expects the store to be operational by 2Q24.
- Elevated inflationary environment to increase consumer spending.** According to the Ministry of Trade and Industry, core inflation is expected to ease to 2.5-3.0% by Dec 23 and slow to 2.5-3.5% for 2024, while headline inflation is forecast to average around 5% for 2023, and 3-4% for 2024. The sustained inflationary pressures will likely lead to a shift in consumer preferences toward more value-for-money purchases. As consumers cut back on dining out, SSG will stand to benefit from boosted sales. From the latest retail sales index published by Singstat on 5 Oct 23, retail sales of supermarkets and hypermarkets recorded 1.1% yoy and 2.7% mom growth respectively in Aug 23. This is in line with our expectation amid the rising inflationary environment. SSG should continue to enjoy healthy demand with its competitive pricing going forward.
- Improving favourable sales mix to help mitigate potential higher costs.** The inflationary environment, as well as the return of El Nino raising concerns over food supplies, may cause food prices to rise. However, SSG has demonstrated its capabilities in maintaining margins with its focus on improving its sales mix of higher-margin products, increasing selection and types of house brand products, and deriving gains from supply chain efficiencies.

### EARNINGS REVISION/RISK

- We maintain our earnings forecast.

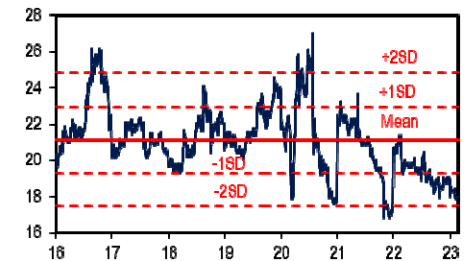
### VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$1.97**, pegged to 21x 2024F EPS, or five-year average mean PE.

### SHARE PRICE CATALYST

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

### SSG'S PE CHART SINCE 2016



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	1,339.5	1,481.9	1,536.0	1,590.2
EBITDA	181.7	185.1	189.9	193.9
Deprec. & amort.	19.5	19.9	19.1	18.4
EBIT	162.2	165.3	170.8	175.5
Net interest income/(expense)	0.9	1.0	1.1	1.1
<b>Pre-tax profit</b>	<b>163.1</b>	<b>166.3</b>	<b>171.8</b>	<b>176.6</b>
Tax	(29.4)	(28.8)	(29.7)	(30.6)
Minorities	(0.3)	0.0	0.0	0.0
<b>Net profit</b>	<b>133.3</b>	<b>137.5</b>	<b>142.1</b>	<b>146.1</b>
Net profit (adj.)	133.3	137.5	142.1	146.1

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	291.6	281.1	270.8	261.2
Other LT assets	97.3	97.3	97.3	97.3
Cash/ST investment	275.5	323.8	379.0	434.8
Other current assets	120.7	139.9	145.1	150.2
<b>Total assets</b>	<b>785.1</b>	<b>842.1</b>	<b>892.1</b>	<b>943.5</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	265.8	281.4	289.2	297.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	64.1	64.1	64.1	64.1
Shareholders' equity	452.2	493.6	535.8	579.2
Minority interest	2.9	2.9	2.9	2.9
<b>Total liabilities &amp; equity</b>	<b>785.1</b>	<b>842.1</b>	<b>892.1</b>	<b>943.5</b>

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>166.8</b>	<b>181.9</b>	<b>193.5</b>	<b>198.0</b>
Pre-tax profit	163.1	166.3	171.8	176.6
Tax	(21.2)	(28.8)	(29.7)	(30.6)
Deprec. & amort.	19.5	19.9	19.1	18.4
Working capital changes	(25.7)	(3.6)	2.7	2.8
Non-cash items	(0.0)	0.0	0.0	0.0
Other operating cashflows	31.1	28.1	29.7	30.7
<b>Investing</b>	<b>(5.0)</b>	<b>(5.1)</b>	<b>(5.1)</b>	<b>(5.1)</b>
Capex (growth)	(8.8)	(8.8)	(8.8)	(8.8)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	3.7	3.7	3.7	3.7
<b>Financing</b>	<b>(133.5)</b>	<b>(128.4)</b>	<b>(133.2)</b>	<b>(137.0)</b>
Dividend payments	(94.0)	(96.1)	(99.9)	(102.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(5.0)	0.0	0.0	0.0
Others/interest paid	(34.5)	(32.3)	(33.3)	(34.3)
<b>Net cash inflow (outflow)</b>	<b>28.4</b>	<b>48.3</b>	<b>55.2</b>	<b>55.8</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>246.6</b>	<b>275.5</b>	<b>323.8</b>	<b>379.0</b>
Changes due to forex impact	0.5	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>275.5</b>	<b>323.8</b>	<b>379.0</b>	<b>434.8</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	13.6	12.5	12.4	12.2
Pre-tax margin	12.2	11.2	11.2	11.1
Net margin	10.0	9.3	9.3	9.2
ROA	17.5	16.9	16.4	15.9
ROE	30.8	29.1	27.6	26.2
<b>Growth</b>				
Turnover	(2.2)	10.6	3.6	3.5
EBITDA	(0.5)	1.9	2.6	2.1
Pre-tax profit	1.3	1.9	3.4	2.8
Net profit	0.4	3.1	3.4	2.8
Net profit (adj.)	0.4	3.1	3.4	2.8
EPS	0.4	3.1	3.4	2.8
<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	(60.9)	(65.6)	(70.7)	(75.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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