

## COMPANY RESULTS

### Sheng Siong Group (SSG SP)

2Q22: Results In Line; Inflationary Pressure To Drive Demand For Groceries

**SSG's 1H22 net profit of S\$68m (+2% yoy) was in line with expectations, forming 51% of our full-year estimates. 1H22 revenue fell 1% yoy as COVID-19 measures were lifted in 2Q22 but gross margin increased 1.2ppt to 29.4% on a better sales mix. As a result, gross profit rose 3% yoy. We believe SSG should continue to enjoy healthy demand for groceries as rising inflationary pressure will prompt more consumers to dine at home. Maintain BUY and target price of S\$1.91.**

#### 1H22 RESULTS

Year to 31 Dec (S\$m)	1H22	1H21	yoy % chg
Revenue	676.8	681.7	(0.7)
Gross profit	199.1	192.5	3.4
Gross margin (%)	29.4	28.2	1.2ppt
PATMI	67.5	66.1	2.1
Net margin (%)	10.0	9.7	0.3ppt

Source: Sheng Siong Group, UOB Kay Hian

#### RESULTS

- **Results in line with expectations.** Sheng Siong Group (SSG) reported 1H22 earnings of S\$68m (+2% yoy), in line with our expectation. Revenue fell by 1% yoy as COVID-19 measures were lifted in 2Q22, which led to increased outdoor dining and overseas travel. Comparable same store revenue in Singapore decreased by 2.4% yoy, while new stores added 0.9% yoy to total revenue. Contribution to revenue from China increased by 0.8% yoy with the addition of two new stores in 2H21.
- **Record-high gross margin and higher dividend.** 1H22 gross profit margin improved by 1.2ppt to 29.4% due to a favourable sales mix and we believe SSG is able to raise ASPs in an inflationary environment. SSG declared an interim dividend of 3.15 S cents, a 1.6% increase from the previous interim dividend of 3.10 S cents. We view this increase as a positive signal that future earnings should remain healthy.
- **We believe SSG should continue to enjoy healthy demand for groceries** as rising inflationary pressure will prompt more consumers to dine at home. Amid a cautious spending outlook, there may be belt-tightening from consumers to focus on essentials and to make price-conscious choices. Consumers may prepare meals at home more frequently or look towards house brand products for affordable value products to ease inflation and wallets.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,394	1,370	1,422	1,482	1,536
EBITDA	187	183	182	187	192
Operating profit	166	162	161	167	173
Net profit (rep./act.)	139	133	133	137	142
Net profit (adj.)	139	133	133	137	142
EPS (S\$ cent)	9.2	8.8	8.8	9.1	9.4
PE (x)	17.4	18.1	18.2	17.6	17.0
P/B (x)	6.5	5.8	5.3	4.9	4.5
EV/EBITDA (x)	11.5	11.8	11.9	11.5	11.2
Dividend yield (%)	4.1	3.9	3.9	4.0	4.1
Net margin (%)	9.9	9.7	9.3	9.2	9.2
Net debt/(cash) to equity (%)	(60.1)	(58.5)	(55.9)	(61.2)	(65.6)
Interest cover (x)	181.0	146.2	132.9	144.7	157.7
ROE (%)	40.4	33.8	30.6	28.9	27.5
Consensus net profit	-	-	125	128	135
UOBKH/Consensus (x)	-	-	1.06	1.07	1.05

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.60
Target Price	S\$1.91
Upside	+19.4%

#### 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):	2,405.7
Market cap (US\$m):	1,744.0
3-mth avg daily t'over (US\$m):	3.2

#### Price Performance (%)

52-week high/low S\$1.64/S\$1.42

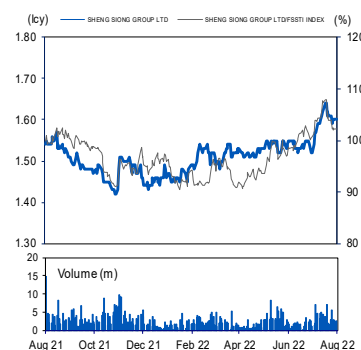
1mth	3mth	6mth	1yr	YTD
4.6	4.6	8.1	2.6	9.6

#### Major Shareholders

	%
Sheng Siong Hldgs	29.9
Lim Hock Chee	9.2
Lim Hock Eng	9.1

FY22 NAV/Share (S\$)	0.30
FY22 Net Cash/Share (S\$)	0.17

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **New store opening outlook.** For the past two years, SSG has seen the supply of new HDB commercial space being affected for various reasons. However, this is expected to improve gradually. SSG seeks growth through the continuous expansion of its network of outlets in Singapore, especially in areas without presence, all in tandem with the ramp-up in supply of HDB BTO estates for 2022 and 2023. During 2021, SSG successfully secured leases for three stores. SSG targets to open 3-5 new stores per year for the next 3-5 years, focusing on areas that it does not have a presence in.
- **SSG will continue to improve its operational efficiencies** by ensuring a diversified source of suppliers to mitigate any potential disruptions, staying vigilant on performance of existing stores, focusing on core competencies and undertaking ongoing initiatives to automate work processes. This is to improve operational efficiency and increase gross margin.
- **To continue to enhance its margin,** SSG aims to improve sales mix of higher margin products, increase selection and types of house brand products, and derive efficiency gains from the supply chain.

### EARNINGS REVISION/RISK

- We maintain our earnings forecast.

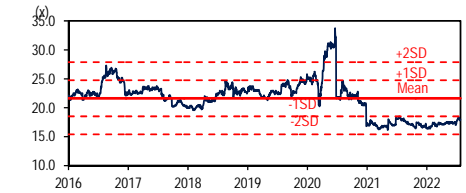
### VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$1.91,** pegged to 2023F PE of 21x, or five-year average mean PE.

### SHARE PRICE CATALYST

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

### SSG'S PE CHART SINCE 2016



Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	1,369.8	1,422.2	1,482.5	1,536.5
EBITDA	182.7	181.6	187.0	192.4
Deprec. & amort.	20.4	20.6	20.2	19.9
EBIT	162.2	161.1	166.8	172.6
Net interest income/(expense)	(1.2)	(1.4)	(1.3)	(1.2)
<b>Pre-tax profit</b>	<b>161.0</b>	<b>159.7</b>	<b>165.5</b>	<b>171.4</b>
Tax	(27.9)	(27.1)	(28.6)	(29.6)
Minorities	(0.3)	0.0	0.0	0.0
<b>Net profit</b>	<b>132.8</b>	<b>132.5</b>	<b>136.9</b>	<b>141.7</b>
Net profit (adj.)	132.8	132.5	136.9	141.7

**BALANCE SHEET**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	302.9	297.3	292.1	287.2
Other LT assets	79.5	79.5	79.5	79.5
Cash/ST investment	246.6	258.0	306.8	356.3
Other current assets	110.0	134.3	140.0	145.1
<b>Total assets</b>	<b>739.0</b>	<b>769.1</b>	<b>818.3</b>	<b>868.1</b>
ST debt	5.0	5.0	5.0	5.0
Other current liabilities	265.5	256.2	264.8	272.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	52.2	52.2	52.2	52.2
Shareholders' equity	413.4	452.8	493.4	535.5
Minority interest	2.9	2.9	2.9	2.9
<b>Total liabilities &amp; equity</b>	<b>739.0</b>	<b>769.1</b>	<b>818.3</b>	<b>868.1</b>

**CASH FLOW**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>172.7</b>	<b>149.3</b>	<b>191.0</b>	<b>196.1</b>
Pre-tax profit	161.0	159.7	165.5	171.4
Tax	(32.6)	(27.1)	(28.6)	(29.6)
Deprec. & amort.	20.4	20.6	20.2	19.9
Working capital changes	(7.8)	(33.6)	2.9	2.6
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	31.9	29.8	30.9	31.9
<b>Investing</b>	<b>(30.3)</b>	<b>(13.9)</b>	<b>(13.9)</b>	<b>(13.9)</b>
Capex (growth)	(31.7)	(15.0)	(15.0)	(15.0)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	1.1	1.1	1.1	1.1
<b>Financing</b>	<b>(149.9)</b>	<b>(124.1)</b>	<b>(128.3)</b>	<b>(132.7)</b>
Dividend payments	(91.7)	(93.2)	(96.2)	(99.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(25.0)	0.0	0.0	0.0
Others/interest paid	(33.2)	(30.9)	(32.1)	(33.1)
<b>Net cash inflow (outflow)</b>	<b>(7.5)</b>	<b>11.3</b>	<b>48.8</b>	<b>49.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>253.9</b>	<b>246.6</b>	<b>258.0</b>	<b>306.8</b>
Changes due to forex impact	0.2	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>246.6</b>	<b>258.0</b>	<b>306.8</b>	<b>356.3</b>

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	13.3	12.8	12.6	12.5
Pre-tax margin	11.8	11.2	11.2	11.2
Net margin	9.7	9.3	9.2	9.2
ROA	18.6	17.6	17.2	16.8
ROE	33.8	30.6	28.9	27.5
<b>Growth</b>				
Turnover	(1.7)	3.8	4.2	3.6
EBITDA	(2.2)	(0.6)	3.0	2.9
Pre-tax profit	(2.5)	(0.8)	3.7	3.5
Net profit	(4.2)	(0.2)	3.3	3.5
Net profit (adj.)	(4.2)	(0.2)	3.3	3.5
EPS	(4.2)	(0.2)	3.3	3.5
<b>Leverage</b>				
Debt to total capital	1.2	1.1	1.0	0.9
Debt to equity	1.2	1.1	1.0	0.9
Net debt/(cash) to equity	(58.5)	(55.9)	(61.2)	(65.6)
Interest cover (x)	146.2	132.9	144.7	157.7

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