

## COMPANY UPDATE

### Sheng Siong Group (SSG SP)

Staying Defensive Amid Inflation And GST Hike

As the Singapore government increases the GST rate from 7% to 9% in two stages, we believe SSG will continue to enjoy steady demand with changing consumer dining habits. This should offset the reduced demand from the easing of COVID-19 restrictions. SSG's consistent growth in gross margin attests to its ability to pass on cost increases and its favourable sales mix. Maintain BUY and target price of S\$1.91.

#### WHAT'S NEW

- Elevated inflationary environment and GST hike led to more at-home meals.** Singapore has increased its good and services tax (GST) from 7% to 8% on 1 Jan 23. In a bid to cushion the blow of the newly-introduced rate hike, Sheng Siong Group (SSG) has launched a "Counter-Inflation Discount" till 31 Mar 23, where shoppers can get most in-store products at 1% off. Coupled with sustained inflationary pressures, consumers are likely to cut back on dining out and eat more meals at home. This hike is only the first of two planned increases in the rate, and will further increase by 1ppt to 9% on 1 Jan 24. SSG should continue to enjoy healthy demand for groceries with its competitive pricing going forward.
- Steadily growing gross margin a strong testament to ability to pass on costs.** SSG has shown sustainable growth in its gross margin over the years, proving its ability to pass rising costs onto customers. The defensive nature of consumer staples enables the firm to raise prices without losing consumers. Additionally, the demand for higher margin fresh products should continue to grow as these are essential ingredients required for cooking. Hence, rising costs and SSG's ability to maintain gross margin should translate into higher earnings in the future. To recap, SSG's 9M22 gross profit margin improved by 0.9ppt yoy to 29.4% due to a favourable sales mix.
- Supermarket industry's retail sales continued to record mom growth in Nov 22.** According to the latest retail sales index published by Singstat on 5 Jan 23, retail sales of supermarkets and hypermarkets continued to record a 0.3% mom growth in Nov 22. This is in line with our expectations amid the rising inflationary environment. Although the growth is marginal vs the 5.8% yoy decline, we note that the yoy data is not an accurate comparison. In Nov 21, the group sizes for dine-in was capped at two persons till 22 Nov 21 as part of the Stabilisation Phase measures. However, in Nov 22, there were no dine-in restrictions for vaccinated persons. The mom growth in retail sales is therefore viewed positively.

#### KEY FINANCIALS

Year to 31 Dec (\$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 (\$ cent)	9.2	8.8	8.8	9.1	9.4
PE (x)	17.8	18.6	18.6	18.0	17.4
P/B (x)	6.6	6.0	5.4	5.0	4.6
EV/EBITDA (x)	11.6	11.9	11.9	11.6	11.3
Dividend yield (%)	4.0	3.8	3.8	3.9	4.0
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	-	-	129	134	145
UOBKH/Consensus (x)	-	-	1.03	1.02	0.98

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.64
Target Price	S\$1.91
Upside	+16.5%

#### 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 (\$m):	2,465.8
Market cap (US\$m):	1,868.9
3-mth avg daily t'over (US\$m):	2.5

#### Price Performance (%)

52-week high/low	S\$1.67/S\$1.45
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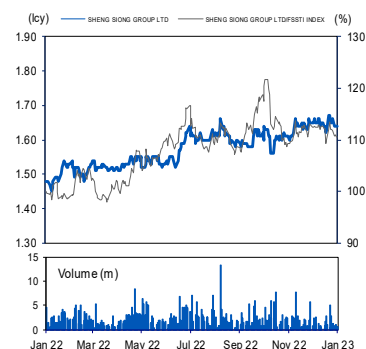
1mth	3mth	6mth	1yr	YTD
(0.6)	1.2	0.0	12.3	(0.6)

#### Major Shareholders

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

FY23 NAV/Share (\$)	0.33
FY23 Net Cash/Share (\$)	0.20

#### PRICE CHART



Source: Bloomberg

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- New store opening outlook.** During 9M22, SSG opened four new stores in Singapore, bringing its total store count to 67. As the supply of new HDB commercial space is expected to increase, management expects to continue achieving its annual target of 3-5 store openings per year. SSG also announced the expansion of its China-based operations on 5 Jan 23. Its fifth store is expected to open by 2Q23, increasing the total retail space in China to 107,802sf (+40.7% yoy). According to the latest Kantar Worldpanel China data in Nov 22, China's fast-moving consumer goods grew 3.6% yoy in 9M22, up from 3.1% in 2021, mainly driven by the recovery of China's take-home grocery market. Value sales in small supermarkets (referring to stores with 1,076-64,583sf) rose by 12.5%, as consumers continue to lean toward proximity channels. Despite the easing of COVID-19 restrictions in China, management does not foresee any fall in demand for household essentials. Any surge in COVID-19 infections in China will likely result in consumers favouring dine-ins, thereby supporting sales. With SSG's strategy of new store openings as its revenue driver, we expect to see continued earnings growth over the next few years.

- Higher operating expenses continue to compress margins.** Input costs including energy expenses and heavy promotions by competitors continue to face upward pressure, which could lead to a reduction in margins. To recap, SSG's total operating expenses increased to S\$62.3m (+4.5% qoq) in 3Q22.

### EARNINGS REVISION/RISK

- None.

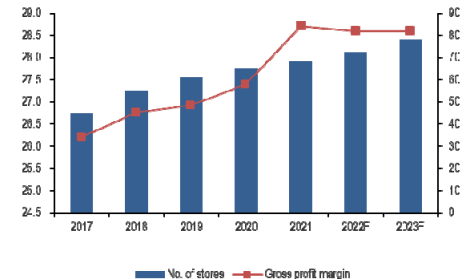
### VALUATION/RECOMMENDATION

- 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

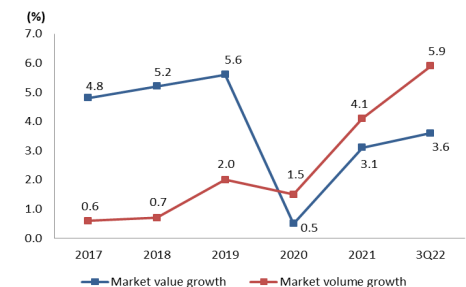
- Boosted demand arising from inflationary environment and GST hike.
- New store openings.

### SSG'S TOTAL STORE COUNT & GROSS MARGIN SINCE 2017



Source: Sheng Siong Group, UOB Kay Hian

### CHINA'S FMCG MARKET VALUE AND MARKET VOLUME GROWTH SINCE 2017



Source: Kantar Worldpanel, 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)
Pre-tax profit	161.0	159.7	165.5	171.4
Tax	(27.9)	(27.1)	(28.6)	(29.6)
Minorities	(0.3)	0.0	0.0	0.0
Net profit	132.8	132.5	136.9	141.7
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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