

COMPANY RESULTS

Sheng Siong Group (SSG SP)

1Q23: Results In Line; Resilient Amid Volatile And High Inflation Environment

SSG's 1Q23 net profit of S\$137m (+0.4% yoy) was in line with expectations, forming 24% of our full-year estimate. Revenue fell 0.4% yoy as demand continued to normalise from the easing of COVID-19-related restrictions. Gross margin improved 0.1ppt to 28.7% on a better sales mix. We expect higher input costs, but consumers may increasingly lean toward SSG's value offerings as inflationary pressures persist. Maintain BUY with a 3% higher target price of S\$1.97.

1Q23 RESULTS

Year to 31 Dec (S\$m)	1Q23	1Q22	yoy % chg
Revenue	356.5	358.0	(0.4)
Gross profit	102.8	102.7	0.1
Gross margin (%)	28.8	28.7	0.1ppt
PATMI	33.4	35.2	(5.2)
Net margin (%)	9.4	9.8	(0.4ppt)

Source: Sheng Siong Group, UOB Kay Hian

RESULTS

- Results in line with expectations.** Sheng Siong Group (SSG) reported 1Q23 earnings of S\$33.4m (-5.2% yoy), accounting for 24% of our full-year estimate. Revenue fell slightly by 0.4% yoy, due to continued normalised demand. Compared to 1Q22, mobility restrictions have largely eased, leading to more people dining out and travelling overseas. Comparable same-store sales weakened by 3.6% yoy in Singapore and 0.4% yoy in China, mostly offset by a 3.6% contribution from operations of five new stores opened in 2022 and 1Q23 in Singapore.
- Stable margins amid continued rising costs; higher finance income.** 1Q23 gross profit margin improved by 0.1ppt to 28.8% due to a more favourable sales mix. Despite higher input costs, SSG has managed to maintain its gross margin, proving its ability to pass rising costs on to customers. The defensive nature of consumer staples enables SSG to raise prices without losing consumers. Net margin also remained relatively stable at 9.4%, compressed by higher administrative expenses (+6.5% yoy) incurred. This mainly comprises a S\$2.1m increase in utility expenses arising from SSG's renewal of its electricity contract at a higher market rate, and a S\$1.5m rise in staff wages pushed by the tighter labour market. Meanwhile, interest income increased 606% yoy from S\$0.4m in 1Q22 to S\$2.7m in 1Q23 (+45% qoq), owing to higher fixed deposit interest rates enjoyed during the quarter.

BLUE 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)	19.8	19.7	19.1	18.5	18.0
P/B (x)	6.4	5.8	5.3	4.9	4.5
EV/EBITDA (x)	12.6	12.7	12.5	12.2	11.9
Dividend yield (%)	3.5	3.6	3.7	3.8	3.9
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	-	-	137	143	149
UOBKH/Consensus (x)	-	-	1.00	0.99	0.98

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.75
Target Price	S\$1.97
Upside	+12.6%
(Previous TP)	S\$1.91)

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):	2,631.2
Market cap (US\$m):	1,985.7
3-mth avg daily t'over (US\$m):	3.2

Price Performance (%)

52-week high/low	S\$1.82/S\$1.52			
1mth	3mth	6mth	1yr	YTD
2.3	6.7	8.7	12.9	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 openings.** SSG opened one new store in 1Q23 and had 68 stores in Singapore as at end-Mar 23, totalling a retail area of 613,075sf (+6.3% yoy). The Singapore government's ramp-up in supply of HDB and BTO estates, with 11 HDB supermarket locations up for tender across the next 11 months, supports SSG's expansion agenda of 3-5 store openings per year. As for its China operations, SSG recently successfully opened its fifth store in end-Apr 23, increasing the total retail space in China to 107,802sf (+40.7% yoy).
- Benefitting from China's reopening play.** Although comparable same-store sales fell by 0.4% yoy in China, management notes that all four stores are now profitable, likely due to higher footfall upon China's reopening. With the fifth store commencing contribution from 2Q23, SSG's sales in China may see a slight increase this year.
- Elevated inflationary environment to increase consumer spending.** According to the Ministry of Trade and Industry, overall inflation is forecast at 4.5-5.5% in 2023, while core inflation is forecast at 2.5-3.5% after excluding the impact of the increase in goods and services tax (GST) from 7% to 8% on 1 Jan 23. The sustained inflationary pressure 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. SSG should continue to enjoy healthy demand for groceries and its house brand products with its competitive pricing going forward.

EARNINGS REVISION/RISK

- None.

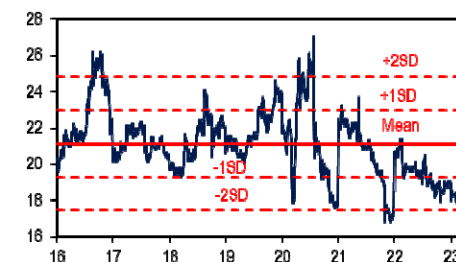
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$1.97 (S\$1.91 previously)**, pegged to 21x 2024F EPS, or five-year average mean PE. We have rolled over our valuation base year from 2023 to 2024.

SHARE PRICE CATALYST

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

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
Pre-tax profit	163.1	166.3	171.8	176.6
Tax	(29.4)	(28.8)	(29.7)	(30.6)
Minorities	(0.3)	0.0	0.0	0.0
Net profit	133.3	137.5	142.1	146.1
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
Total assets	785.1	842.1	892.1	943.5
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
Total liabilities & equity	785.1	842.1	892.1	943.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	166.8	181.9	193.5	198.0
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
Investing	(5.0)	(5.1)	(5.1)	(5.1)
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
Financing	(133.5)	(128.4)	(133.2)	(137.0)
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)
Net cash inflow (outflow)	28.4	48.3	55.2	55.8
Beginning cash & cash equivalent	246.6	275.5	323.8	379.0
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	275.5	323.8	379.0	434.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
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
Growth				
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
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	(60.9)	(65.6)	(70.7)	(75.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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