

### COMPANY RESULTS

## Sheng Siong Group (SSG SP)

2023: Gross Margin Expansion Continues; Brighter Store Opening Outlook Ahead

**SSG's 2023 earnings of S\$134m (+0.3% yoy) is largely in line with expectations, forming 98% of our full-year estimates. However, revenue missed our expectations by 8% due to lower comparable same-stores sales in 4Q23. Gross margin was higher than expected, continuing to expand yoy to 30% on a more favourable sales mix. We expect consumers to continue shifting toward SSG's value-for-money products as inflation persists. Maintain BUY with a 5% lower target price of S\$1.88.**

### 2023/4Q23 RESULTS

Year to 31 Dec (S\$m)	2023	yoy % chg	4Q23	qoq % chg	yoy % chg
Revenue	1,367.7	2.1	331.4	(4.2)	0.7
Gross profit	410.5	4.2	100.4	(4.3)	4.3
Gross margin (%)	30.0	0.6ppt	30.3	n.m.	1.1ppt
PATMI	134.0	0.3	33.6	(3.3)	1.2
Net margin (%)	9.8	(0.2ppt)	10.1	0.1ppt	n.m.

Source: Sheng Siong Group, UOB Kay Hian

### RESULTS

- Slight miss on expectations.** Sheng Siong Group (SSG) reported 2023 revenue and earnings of S\$1.7b (+2.1% yoy) and S\$134.0m (+0.3% yoy) respectively, making up 92% and 98% of our full-year forecasts respectively. The miss in expectations is likely due to lower comparable same-store sales in 4Q23, coming off from a high base in 4Q22 as: a) consumer spending picked up earlier in preparation for Chinese New Year (22 Jan 23 vs 10 Feb 24), and b) the lifting of travel restrictions in most markets fuelled a resurgence in outbound travel in 2023. Top-line growth was sustained by higher contributions from six new stores opened across 2022 and 2023.
- Gross margin climbed despite rising input costs.** Gross profit margin saw an uptick of 0.6ppt yoy to 30.0%, attributable to a more favourable sales mix of higher-margin products such as its non-fresh items. However, operating expenses rose a substantial 10.0% yoy due to: a) higher utility expenses (+S\$13.8m yoy) from SSG's renewal of its electricity contract at a higher market rate at end-22, and b) increased staff costs (+S\$6.6m yoy) from the tight labour market. While the above was partially offset by a better gross profit recorded and higher interest income of S\$11.2m (+205.5% yoy), net margin marginally contracted by 0.2ppt yoy as a result. Moving forward, rising operating expenses may narrow slightly from SSG's renewal of its electricity contract at a lower market rate in 3Q23, offset by the group's store expansion.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,339	1,368	1,396	1,436	1,477
EBITDA	182	173	174	175	178
Operating profit	162	155	156	157	161
Net profit (rep./act.)	133	134	135	137	142
Net profit (adj.)	133	134	135	137	142
EPS (S\$ cent)	8.9	8.9	9.0	9.1	9.4
PE (x)	17.1	17.1	17.0	16.7	16.1
P/B (x)	5.1	4.6	4.3	4.0	3.7
EV/EBITDA (x)	10.6	11.1	11.1	11.0	10.8
Dividend yield (%)	4.1	4.1	4.1	4.2	4.4
Net margin (%)	10.0	9.8	9.7	9.5	9.6
Net debt/(cash) to equity (%)	(60.9)	(65.7)	(68.1)	(72.1)	(75.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	30.8	28.3	26.2	24.7	23.8
Consensus net profit	-	-	141	145	147
UOBKH/Consensus (x)	-	-	0.96	0.94	0.96

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.52
Target Price	S\$1.88
Upside	+23.7%
(Previous TP)	S\$1.97

### 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):	2,285.4
Market cap (US\$m):	1,696.9
3-mth avg daily t'over (US\$m):	1.6

### Price Performance (%)

52-week high/low	S\$1.82/S\$1.47			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.8)	(5.0)	(0.7)	(8.5)	(5.6)

### Major Shareholders

	%
Sheng Siong Hldgs	29.9
Lim Hock Chee	9.2
Lim Hock Eng	9.1
FY24 NAV/Share (S\$)	0.36
FY24 Net Cash/Share (S\$)	0.24

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- New-store opening outlook.** SSG opened two new stores in 2023 and had 69 stores in Singapore as at end-23, totalling a retail area of 618,349sf (+2.6% yoy). Its tendering efforts remain robust, having tendered for all five stores released by HDB in 2023 and all four stores subsequently released in Jan 24. For the 2023 bids, SSG secured three, of which two were awarded in early-24. For the 2024 bids, the outcome is still pending. SSG continues to seek growth through the continuous expansion of its network of outlets in Singapore with a target of at least three store openings annually. The ramp-up in supply of HDB projects provides more tendering opportunities for SSG, with five more supermarket locations expected to be up for tender over the next six months. In China, its operations remain profitable overall, making up 2.4% of 2023 revenue. SSG expects its sixth store in Kunming to be operational in 2Q24.
- Higher final dividend declared; dividend payout ratio maintained.** SSG proposed a final dividend of 3.22 S cents/share (2022: 3.07 S cents/share). Together with the interim dividend of 3.05 S cents/share (2022: 3.15 S cents/share) already paid, 2023 dividend totals 6.25 S cents/share (2022: 6.22 S cents/share). This translates to a consistent dividend payout ratio of around 70%, which we expect to be maintained going forward with its healthy cash balance of S\$324.4m (+12.2% yoy).
- Elevated inflationary environment to increase consumer spending.** According to the Ministry of Trade and Industry, core inflation is expected to slow to 2.5-3.5% for 2024. The sustained inflationary pressures will continue to push consumers toward more value-for-money purchases. As consumers cut back on dining out, SSG will stand to benefit from boosted sales. As for the additional S\$600 of Community Development Council (CDC) vouchers announced in the Singapore Budget 2024, management is of the opinion that it has limited impact on sales and is rather a different mode of payment.
- Potentially higher procurement costs may erode margins.** The return of El Nino has greatly impacted supply harvests, leading to food operators looking to alternative sources of supply. This, together with the elevated inflationary environment, will lead to higher procurement costs. With SSG's proven capability 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, margin impact from El Nino is expected to be limited.

### EARNINGS REVISION/RISK

- We have trimmed our 2024/25 earnings forecasts by 5%/6% respectively,** as we lower our store openings forecast from five to four across both years amid industry competition and lower net margins from decreased interest income. We have also introduced 2026 estimates.

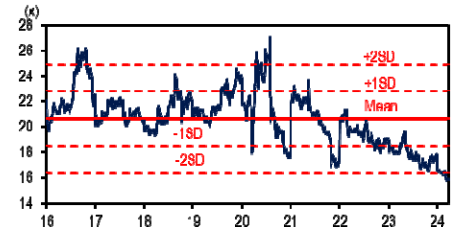
### VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$1.88 (S\$1.97 previously),** pegged to 2024F PE of 21x, or five-year average mean PE. We continue to like SSG for its sustainable growth from the successful execution of steady store expansion, and for it being a beneficiary in the persistent inflationary environment.

### SHARE PRICE CATALYST

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

### HISTORICAL PE CHART



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>1,367.7</b>	<b>1,395.7</b>	<b>1,436.0</b>	<b>1,476.6</b>
EBITDA	173.3	174.1	174.7	178.2
Deprec. & amort.	17.9	18.5	17.9	17.4
EBIT	155.4	155.6	156.8	160.8
Net interest income/(expense)	7.7	8.2	9.7	11.4
<b>Pre-tax profit</b>	<b>163.1</b>	<b>163.7</b>	<b>166.5</b>	<b>172.2</b>
Tax	(29.1)	(28.7)	(29.1)	(30.1)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
<b>Net profit</b>	<b>133.7</b>	<b>134.8</b>	<b>137.0</b>	<b>141.8</b>
Net profit (adj.)	133.7	134.8	137.0	141.8

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>177.1</b>	<b>156.6</b>	<b>172.0</b>	<b>176.4</b>
Pre-tax profit	163.1	163.7	166.5	172.2
Tax	(34.0)	(28.7)	(29.1)	(30.1)
Deprec. & amort.	17.9	18.5	17.9	17.4
Working capital changes	2.9	(9.0)	2.0	1.8
Non-cash items	(0.0)	0.0	0.0	0.0
Other operating cashflows	27.2	12.0	14.7	15.1
<b>Investing</b>	<b>1.2</b>	<b>1.4</b>	<b>2.9</b>	<b>4.5</b>
Capex (growth)	(10.2)	(10.2)	(10.2)	(10.2)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	11.2	11.6	13.0	14.7
<b>Financing</b>	<b>(129.5)</b>	<b>(119.1)</b>	<b>(124.0)</b>	<b>(129.5)</b>
Dividend payments	(92.0)	(94.7)	(96.3)	(99.7)
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	(37.4)	(24.3)	(27.7)	(29.8)
<b>Net cash inflow (outflow)</b>	<b>48.8</b>	<b>38.9</b>	<b>50.8</b>	<b>51.5</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>275.5</b>	<b>324.4</b>	<b>363.3</b>	<b>414.2</b>
Changes due to forex impact	0.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>324.4</b>	<b>363.3</b>	<b>414.2</b>	<b>465.7</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Fixed assets</b>	<b>283.7</b>	<b>276.1</b>	<b>268.3</b>	<b>261.0</b>
Other LT assets	101.8	101.8	101.8	101.8
Cash/ST investment	324.4	363.3	414.2	465.7
Other current assets	120.3	124.5	128.1	131.7
<b>Total assets</b>	<b>830.2</b>	<b>865.7</b>	<b>912.4</b>	<b>960.2</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	264.0	259.2	264.8	270.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	69.2	69.2	69.2	69.2
Shareholders' equity	493.8	533.8	574.5	616.6
Minority interest	3.2	3.5	3.8	4.2
<b>Total liabilities &amp; equity</b>	<b>830.2</b>	<b>865.7</b>	<b>912.4</b>	<b>960.2</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	12.7	12.5	12.2	12.1
Pre-tax margin	11.9	11.7	11.6	11.7
Net margin	9.8	9.7	9.5	9.6
ROA	16.5	15.9	15.4	15.1
ROE	28.3	26.2	24.7	23.8
<b>Growth</b>				
Turnover	2.1	2.0	2.9	2.8
EBITDA	(4.6)	0.4	0.4	2.0
Pre-tax profit	0.0	0.4	1.7	3.5
Net profit	0.3	0.8	1.7	3.5
Net profit (adj.)	0.3	0.8	1.7	3.5
EPS	0.3	0.8	1.7	3.5
<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	(65.7)	(68.1)	(72.1)	(75.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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