

28 February 2024

Consumer Cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

New Stores And Consumption Driving Growth; BUY

Target Price (Return): SGD1.96 (25.4%)
 Price (Market Cap): SGD1.56 (USD1,746m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 2.09m/1.56m

- **Keep BUY, new SGD1.96 TP from SGD1.99, 25% upside.** We remain upbeat on Sheng Siong with growth fuelled by new outlet wins and better consumption on higher purchasing power from the Budget 2024 announcement. We expect new store openings to be robust on the Housing & Development Board's (HDB) healthy pipeline of new outlets. Valuation at -1SD (c.17x) from its historical mean forward P/E (c.19x) is attractive. The stock is also supported by c.4% FY24F yield.
- **In-line FY23 earnings.** Revenue and earnings of SGD1.4bn (+2% YoY) and SGD134m (0% YoY) were within expectations. New stores have continued to lead growth, with revenue growth driven by six new stores (opened in FY22-23) at +2.5% YoY. SSSG was flat. Annualised sales/sq ft was SGD2,231 (-1.4% YoY), ie slightly below last year's SGD2,262. Gross margins grew by 0.6ppts to 30% on a better sales mix. Operating margins declined 0.7ppts to 11.4%, mainly on lower other income and supplier rebates. Opex and net margin of 9.8% were in line with our forecast. A final 3.2 SGD cents dividend was declared, bringing full-year dividends to 6.25 SGD cents, with the dividend payout ratio amounting to c.70%. As there were no surprises for FY23, we have kept our FY24F-25F earnings largely unchanged.
- **We expect growth to be led by new stores.** HDB has a pipeline of five new supermarkets outlets up for tender over the next six months, with eight more lined up beyond the six months till end 2024. We expect Sheng Siong to secure some of these outlets and assume three outlets pa in our forecast assumptions, adding to the 69 stores it has currently.
- **Sheng Siong is a strong beneficiary** of the recent budget announcement, which will help boost consumer purchasing power and consumption, in our view. Enhancement to Assurance Package and other handouts include: i) SGD600 Community Development Council (CDC) vouchers for all Singaporean households; ii) SGD200-400 cash Cost of Living Special Payment for eligible adults; iii) one-off rebates on U Save, Service, and Conservancy Charges for eligible HDB households; iv) SGD200 in LifeSG credits for national servicemen; v) personal income tax rebates; vi) changes in property tax; and vii) a GST Voucher Fund top-up to defray GST expenses for lower and middle income households. We expect Sheng Siong to directly benefit from the improved purchasing power of consumers, especially the ability to use CDC vouchers for supermarkets.
- **Key downside risks** to our EPS estimates include slower-than-expected store openings, lower sales demand and per sq ft traction, and the inability to maintain gross profit margins at current levels. However, we expect Sheng Siong's performance to remain resilient as it targets the mass market value segment, which will enjoy effects of downtrading in a soft consumption environment. We apply a 2% discount to TP as its ESG score of 3.0 is below the 3.1 country median.

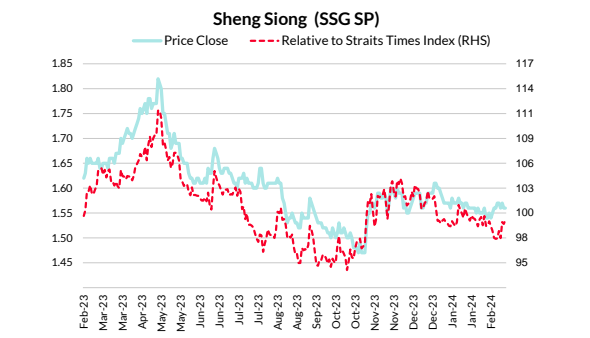
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------|-----|-------|------|-------|
| Absolute | (2.5) | 0.0 | (1.9) | 0.6 | (3.7) |
| Relative | 0.1 | 0.1 | (4.2) | 1.6 | (0.4) |
| 52-wk Price low/high (SGD) | | | | 1.47 | -1.82 |



Source: Bloomberg

| Forecasts and Valuation | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (SGDm) | 1,339 | 1,368 | 1,406 | 1,446 | 1,486 |
| Recurring net profit (SGDm) | 134 | 134 | 144 | 149 | 154 |
| Recurring net profit growth (%) | 0.4 | 0.3 | 7.0 | 3.6 | 3.7 |
| Recurring P/E (x) | 17.51 | 17.46 | 16.32 | 15.75 | 15.19 |
| P/B (x) | 5.2 | 4.8 | 4.3 | 4.0 | 3.7 |
| P/CF (x) | 14.06 | 13.25 | 14.68 | 13.33 | 12.90 |
| Dividend Yield (%) | 4.0 | 4.0 | 4.3 | 4.4 | 4.4 |
| EV/EBITDA (x) | 11.41 | 11.68 | 10.35 | 9.77 | 9.19 |
| Return on average equity (%) | 31.0 | 28.4 | 27.7 | 26.4 | 25.2 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

Sheng Siong has an internal policy framework to improve energy and water use efficiency. It will continue to drive a Reduce, Reuse, Recycle (3R) approach towards resource and waste management.

S: GOOD

The company supports community initiatives and makes charitable donations and sponsorships to the local community. It also continues to work with local town councils to reduce disturbances to the minimum.

G: GOOD

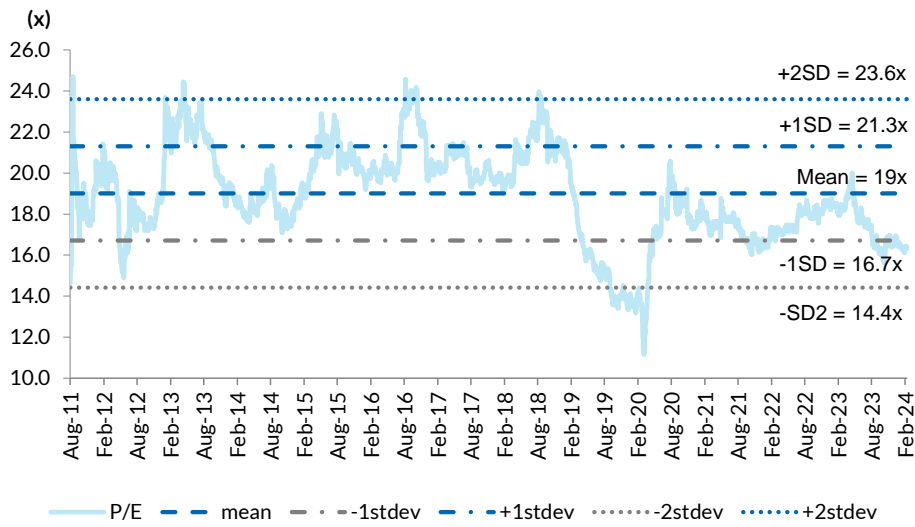
Sheng Siong did not have any material data security or privacy issues over the past few years. Its board of directors comprises four independent directors, one non-executive directors, and the group CEO is an executive director.

Financial Exhibits

| | | | | | | |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (SGD) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Singapore | Recurring EPS | 0.09 | 0.09 | 0.10 | 0.10 | 0.10 |
| Consumer Cyclical | DPS | 0.06 | 0.06 | 0.07 | 0.07 | 0.07 |
| Sheng Siong | BVPS | 0.30 | 0.33 | 0.36 | 0.39 | 0.42 |
| SSG SP | Return on average equity (%) | 31.0 | 28.4 | 27.7 | 26.4 | 25.2 |
| Buy | | | | | | |
| | Valuation metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Valuation basis | Recurring P/E (x) | 17.51 | 17.46 | 16.32 | 15.75 | 15.19 |
| 21x FY24F P/E | P/B (x) | 5.2 | 4.8 | 4.3 | 4.0 | 3.7 |
| | FCF Yield (%) | 6.7 | 7.1 | 6.4 | 7.1 | 7.3 |
| | Dividend Yield (%) | 4.0 | 4.0 | 4.3 | 4.4 | 4.4 |
| Key drivers | EV/EBITDA (x) | 11.41 | 11.68 | 10.35 | 9.77 | 9.19 |
| i. New store openings; | EV/EBIT (x) | 12.78 | 13.03 | 11.94 | 11.26 | 10.59 |
| ii. Pick-up in SSSG; | | | | | | |
| iii. Gross margin expansion. | | | | | | |
| Key risks | Income statement (SGDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| i. Inventory shortage in the event of major supply chain disruptions; | Total turnover | 1,339 | 1,368 | 1,406 | 1,446 | 1,486 |
| ii. Inability to find affordable places to rent; | Gross profit | 393 | 411 | 422 | 434 | 446 |
| iii. Price war from competitors. | EBITDA | 182 | 173 | 190 | 195 | 200 |
| | Depreciation and amortisation | (20) | (18) | (25) | (26) | (27) |
| | Operating profit | 162 | 155 | 165 | 169 | 174 |
| | Net interest | 1 | 8 | 8 | 10 | 12 |
| | Pre-tax profit | 163 | 163 | 173 | 179 | 185 |
| | Taxation | (29) | (29) | (29) | (30) | (32) |
| | Reported net profit | 134 | 134 | 144 | 149 | 154 |
| | Recurring net profit | 134 | 134 | 144 | 149 | 154 |
| Company Profile | Cash flow (SGDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| With 69 stores located in suburban areas as of FY23, Sheng Siong operates the third-largest supermarket chain in Singapore that caters to the mass market. | Change in working capital | (26) | 3 | (9) | 2 | 2 |
| | Cash flow from operations | 167 | 177 | 160 | 176 | 182 |
| | Capex | (9) | (10) | (11) | (11) | (11) |
| | Cash flow from investing activities | (5) | 1 | (11) | (11) | (11) |
| | Dividends paid | (94) | (92) | (95) | (102) | (104) |
| | Cash flow from financing activities | (133) | (129) | (95) | (102) | (104) |
| | Cash at beginning of period | 247 | 275 | 324 | 379 | 442 |
| | Net change in cash | 28 | 49 | 54 | 63 | 68 |
| | Ending balance cash | 275 | 324 | 379 | 442 | 510 |
| | Balance sheet (SGDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Total cash and equivalents | 275 | 324 | 379 | 442 | 510 |
| | Tangible fixed assets | 292 | 284 | 269 | 254 | 238 |
| | Total assets | 785 | 830 | 884 | 936 | 991 |
| | Total liabilities | 330 | 333 | 339 | 345 | 351 |
| | Total equity | 455 | 497 | 545 | 591 | 641 |
| | Total liabilities & equity | 785 | 830 | 884 | 936 | 991 |
| | Key metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Revenue growth (%) | (2.2) | 2.1 | 2.8 | 2.9 | 2.8 |
| | Recurrent EPS growth (%) | 0.4 | 0.3 | 7.0 | 3.6 | 3.7 |
| | Gross margin (%) | 29.4 | 30.0 | 30.0 | 30.0 | 30.0 |
| | Operating EBITDA margin (%) | 13.6 | 12.7 | 13.5 | 13.5 | 13.5 |
| | Net profit margin (%) | 10.0 | 9.8 | 10.2 | 10.3 | 10.4 |
| | Dividend payout ratio (%) | 69.8 | 69.9 | 70.1 | 69.7 | 67.2 |
| | Capex/sales (%) | 0.6 | 0.7 | 0.8 | 0.7 | 0.7 |
| | Interest cover (x) | 58.4 | 44.2 | 46.9 | 48.1 | 49.3 |

Source: Company data, RHB

Figure 1: SSG's historical average P/E



Source: Bloomberg

Emissions And ESG

Trend analysis

Scope 1 emissions have grown by 7.3% CAGR from 2018 to 2022 driven by diesel emissions at the Mandai headquarters and the use of refrigerant refrigerants at its outlets. Scope 2 emissions grew by 52.4% CAGR from 2018, largely driven by purchased electricity at its stores.

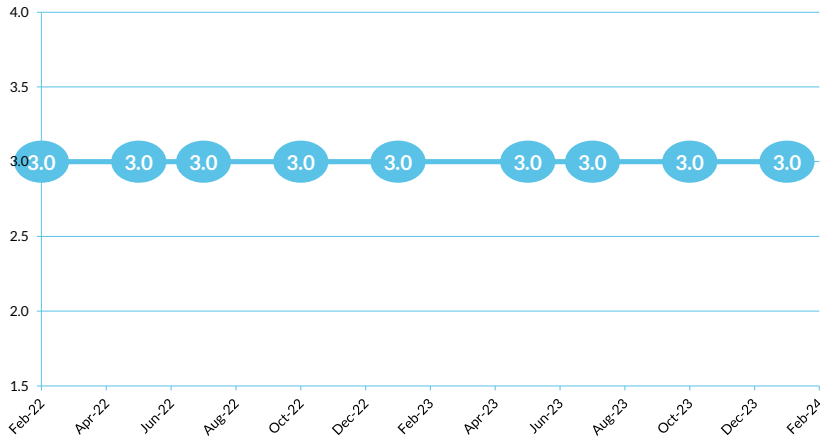
| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|-------------------|--------|--------|--------|
| Scope 1 | 28,044 | 35,740 | - |
| Scope 2 | 33,168 | 33,823 | - |
| Scope 3 | - | - | - |
| Total emissions | 61,212 | 69,563 | na |

Source: Company data, RHB

Latest ESG-Related Developments

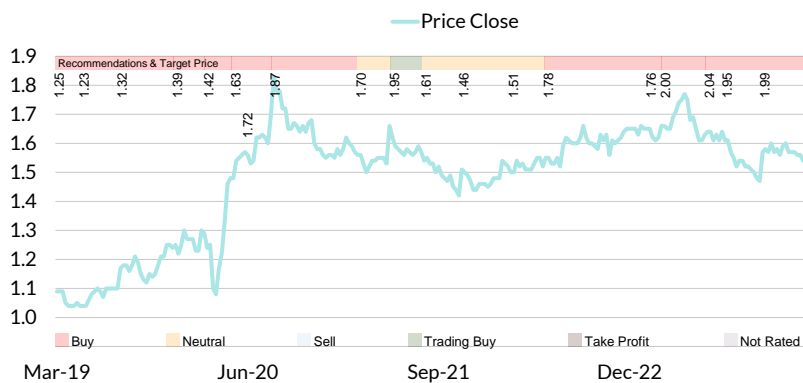
- Sheng Siong has reported in accordance with the GRI Standards for the period from 2022, and has developed a roadmap to progressively align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by 2023 based on its four key pillars.
- In line with the TCFD, all board directors have undergone mandatory training on sustainability.
- It also commenced an exercise to identify, assess, and prioritise climate-related risks and opportunities.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2023-10-27 | Buy | 1.99 | 1.47 |
| 2023-07-28 | Buy | 1.95 | 1.64 |
| 2023-06-15 | Buy | 2.04 | 1.63 |
| 2023-05-02 | Buy | 2.00 | 1.82 |
| 2023-03-01 | Buy | 2.00 | 1.66 |
| 2023-01-25 | Buy | 1.76 | 1.65 |
| 2022-05-23 | Buy | 1.78 | 1.52 |
| 2022-02-28 | Neutral | 1.51 | 1.52 |
| 2021-10-31 | Neutral | 1.46 | 1.42 |
| 2021-08-01 | Neutral | 1.61 | 1.57 |
| 2021-05-16 | Trading Buy | 1.95 | 1.66 |
| 2021-02-25 | Neutral | 1.70 | 1.57 |
| 2020-08-03 | Buy | 1.87 | 1.69 |
| 2020-05-28 | Buy | 1.72 | 1.52 |
| 2020-04-29 | Buy | 1.63 | 1.49 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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