

30 October 2024

Consumer Cyclical | Retailing

## Sheng Siong (SSG SP)

**Buy** (Maintained)

### Outlets And Margins Driving Earnings; Maintain BUY

- Maintain BUY and higher SGD2 TP from SGD1.88, 27% upside and 4% yield.** We like Sheng Siong for its earnings growth momentum, attractive valuation (near -1SD or c.17x from its historical mean forward P/E of c.19x), strong cashflow generation, stable balance sheet, and good dividend payout. 3Q24 outperformed our estimates on the back of better margins and a larger store network. We raise our FY24F-26F earnings by 6% each. We roll our TP from 21x blended FY24-25F P/E to FY25F's earnings base.
- 3Q24 net profit above on better sales mix.** Revenue came in at SGD363m (+5% YoY) while earnings rose 12.6% YoY to SGD39m – above expectations. Revenue was in line with estimates, with growth largely led by four new stores and SSSG of 1.5% YoY. Gross margins outperformed our estimates at 31.3% on better sales mix. EBIT was also above expectations at SGD46m (+16% YoY) due to better gross margin and higher progressive wage credit grant from the Government. Operating margins improved 1.2ppts to 12.6%.
- Raise FY24F-26F's earnings by 6% each.** 3Q24 tuned in a better-than-expected performance. While revenue was in line, the earnings uplift was due to better sales mix and gross margins. Operating margins were also helped by higher government grants. Based on the current run rate, we have imputed higher gross margin assumptions, which results in lifting our FY24F-26F earnings by 6% each. We have also raised our TP as we roll forward our valuation from 21x blended FY24F-26F P/E previously to 21x FY25F P/E.
- Expect growth to be driven by store network.** SSG has outperformed our store opening target of three for the year, having opened four new stores. There are four other bids awaitng tender results and a new confirmed Toa Payoh outlet opening in the coming months. The Housing & Development Board (HDB) will also have one more tender put up for bidding in 4Q24. According to HDB's upcoming units scheduled for tender, there will be one supermarket available for tender by 31 May 2025 at Mount Vernon Road. China now has six outlets – having opened one in 2Q24 – and now contributes 2.6% of 3Q24's revenue. We now expect a more positive earnings outlook, driven by contribution from newer outlets and better gross margins.
- 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 SSG's performance to remain resilient as it targets the mass market value segment, which will enjoy effects of downtrading in a soft consumption environment, in our view. Our TP includes a 2% discount to the intrinsic value, as SSG's ESG score of 3.0 is below the 3.1 country median.

Target Price (Return): SGD2 (26.5%)  
 Price (Market Cap): SGD1.58 (USD1,792m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 2.79m/2.13m

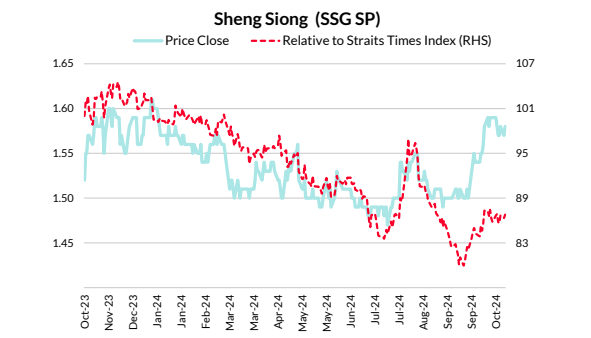
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#### Share Performance (%)

|                            | YTD    | 1m  | 3m  | 6m    | 12m   |
|----------------------------|--------|-----|-----|-------|-------|
| Absolute                   | (1.3)  | 5.3 | 5.3 | 1.9   | 7.5   |
| Relative                   | (12.1) | 4.8 | 1.1 | (7.5) | (9.8) |
| 52-wk Price low/high (SGD) |        |     |     | 1.47  | –1.61 |



Source: Bloomberg

| Forecasts and Valuation         | Dec-22   | Dec-23   | Dec-24F  | Dec-25F  | Dec-26F  |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (SGDm)           | 1,339    | 1,368    | 1,424    | 1,453    | 1,500    |
| Recurring net profit (SGDm)     | 134      | 134      | 143      | 149      | 156      |
| Recurring net profit growth (%) | 0.4      | 0.3      | 6.4      | 4.4      | 4.2      |
| Recurring P/E (x)               | 17.73    | 17.68    | 16.62    | 15.92    | 15.27    |
| P/B (x)                         | 5.3      | 4.8      | 4.4      | 4.0      | 3.6      |
| P/CF (x)                        | 14.24    | 13.42    | 15.61    | 14.02    | 13.37    |
| Dividend Yield (%)              | 3.9      | 4.0      | 4.0      | 4.1      | 4.2      |
| EV/EBITDA (x)                   | 11.57    | 11.86    | 11.23    | 10.43    | 9.79     |
| Return on average equity (%)    | 31.0     | 28.4     | 27.6     | 26.3     | 24.9     |
| 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

SSG 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

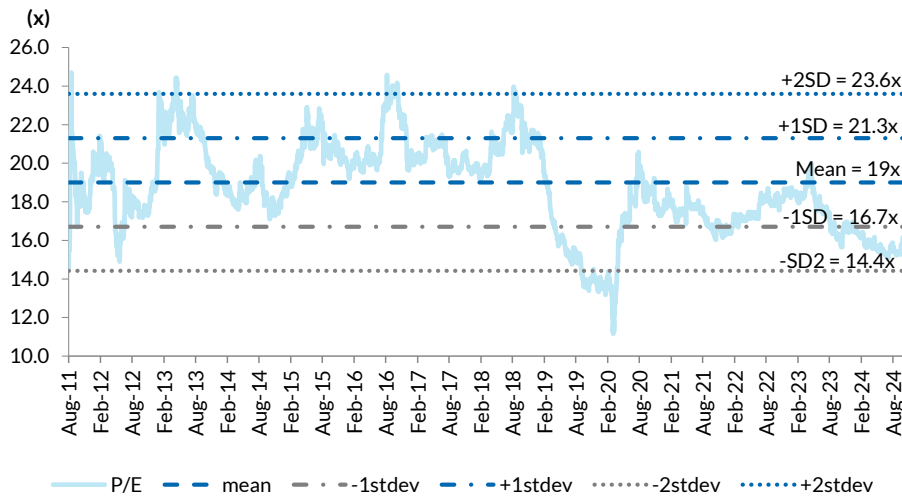
SSG did not have any material data security or privacy issues over the past few years. Its board of directors comprises four independent directors, one non-executive directors, and the group CEO is an executive director.

## 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          | 0.06           | 0.07           | 0.07           |
| <b>Sheng Siong</b>   | BVPS                                | 0.30          | 0.33          | 0.36           | 0.40           | 0.43           |
| SSG SP   | Return on average equity (%)        | 31.0          | 28.4          | 27.6           | 26.3           | 24.9           |
| Buy  |                                     |               |               |                |                |                |
|  | <b>Valuation metrics</b>            | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| <b>Valuation basis</b>   | Recurring P/E (x)                   | 17.73         | 17.68         | 16.62          | 15.92          | 15.27          |
| 21x FY25F P/E  | P/B (x)                             | 5.3           | 4.8           | 4.4            | 4.0            | 3.6            |
|  | FCF Yield (%)                       | 6.7           | 7.0           | 3.8            | 6.7            | 7.0            |
| <b>Key drivers</b>   | Dividend Yield (%)                  | 3.9           | 4.0           | 4.0            | 4.1            | 4.2            |
| i. New store openings;   | EV/EBITDA (x)                       | 11.57         | 11.86         | 11.23          | 10.43          | 9.79           |
| ii. Pick-up in SSSG;   | EV/EBIT (x)                         | 12.97         | 13.22         | 12.41          | 11.61          | 10.89          |
| iii. Gross margin expansion.   |                                     |               |               |                |                |                |
|  | <b>Income statement (SGDm)</b>      | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| <b>Key risks</b>   | Total turnover                      | 1,339         | 1,368         | 1,424          | 1,453          | 1,500          |
| i. Inventory shortage in the event of major supply chain disruptions;  | Gross profit                        | 393           | 411           | 433            | 447            | 462            |
| ii. Inability to find affordable places to rent;   | EBITDA                              | 182           | 173           | 183            | 191            | 197            |
| iii. Price war from competitors.   | Depreciation and amortisation       | (20)          | (18)          | (17)           | (19)           | (20)           |
|  | Operating profit                    | 162           | 155           | 166            | 172            | 177            |
|  | Net interest                        | 1             | 8             | 8              | 8              | 11             |
|  | Pre-tax profit                      | 163           | 163           | 174            | 180            | 187            |
|  | Taxation                            | (29)          | (29)          | (31)           | (31)           | (32)           |
|  | Reported net profit                 | 134           | 134           | 143            | 149            | 156            |
|  | Recurring net profit                | 134           | 134           | 143            | 149            | 156            |
| <b>Company Profile</b>   |                                     |               |               |                |                |                |
| 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. |                                     |               |               |                |                |                |
|  | <b>Cash flow (SGDm)</b>             | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
|  | Change in working capital           | (26)          | 3             | (8)            | 1              | 2              |
|  | Cash flow from operations           | 167           | 177           | 152            | 169            | 178            |
|  | Capex                               | (9)           | (10)          | (61)           | (11)           | (11)           |
|  | Cash flow from investing activities | (5)           | 1             | (61)           | (11)           | (11)           |
|  | Dividends paid                      | (94)          | (92)          | (96)           | (95)           | (98)           |
|  | Cash flow from financing activities | (133)         | (129)         | (96)           | (95)           | (98)           |
|  | Cash at beginning of period         | 247           | 275           | 324            | 320            | 384            |
|  | Net change in cash                  | 28            | 49            | (5)            | 64             | 69             |
|  | Ending balance cash                 | 275           | 324           | 320            | 384            | 453            |
|  | <b>Balance sheet (SGDm)</b>         | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
|  | Total cash and equivalents          | 275           | 324           | 320            | 384            | 453            |
|  | Tangible fixed assets               | 292           | 284           | 327            | 318            | 309            |
|  | Total assets                        | 785           | 830           | 884            | 941            | 1,006          |
|  | Total liabilities                   | 330           | 333           | 340            | 343            | 350            |
|  | Total equity                        | 455           | 497           | 544            | 598            | 656            |
|  | Total liabilities & equity          | 785           | 830           | 884            | 941            | 1,006          |
|  | <b>Key metrics</b>                  | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
|  | Revenue growth (%)                  | (2.2)         | 2.1           | 4.1            | 2.0            | 3.2            |
|  | Recurrent EPS growth (%)            | 0.4           | 0.3           | 6.4            | 4.4            | 4.2            |
|  | Gross margin (%)                    | 29.4          | 30.0          | 30.4           | 30.8           | 30.8           |
|  | Operating EBITDA margin (%)         | 13.6          | 12.7          | 12.9           | 13.2           | 13.1           |
|  | Net profit margin (%)               | 10.0          | 9.8           | 10.0           | 10.3           | 10.4           |
|  | Dividend payout ratio (%)           | 69.8          | 69.9          | 66.3           | 65.5           | 64.7           |
|  | Capex/sales (%)                     | 0.6           | 0.7           | 4.3            | 0.7            | 0.7            |
|  | Interest cover (x)                  | 58.4          | 44.2          | 33.0           | 34.1           | 35.1           |

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.

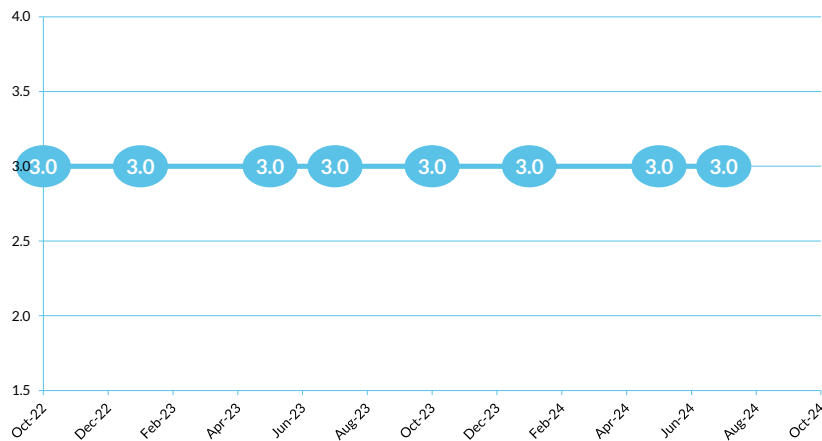
| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|-------------------|--------|--------|--------|
| Scope 1           | 29,114 | 35,454 | 40,652 |
| Scope 2           | 33,821 | 35,415 | 36,440 |
| Scope 3           | -      | -      | -      |
| Total emissions   | 62,935 | 70,869 | 77,092 |

Source: Company data, RHB

## Latest ESG-Related Developments

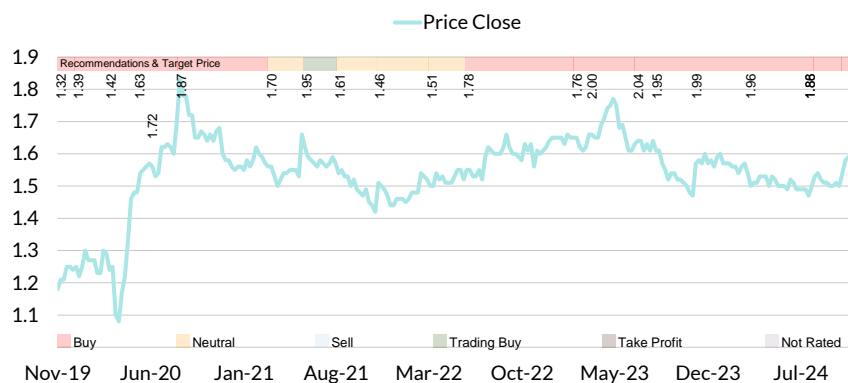
- SSG has reported in accordance with the GRI Standards for the period from 2022, and has developed a roadmap to progressively align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by 2023 based on its four key pillars.
- In line with the TCFD, all board directors have undergone mandatory training on sustainability. SSG has 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 |
|------------|----------------|--------------|-------|
| 2024-10-02 | Buy            | 1.88         | 1.55  |
| 2024-07-30 | Buy            | 1.86         | 1.54  |
| 2024-04-26 | Buy            | 1.96         | 1.53  |
| 2024-02-28 | Buy            | 1.96         | 1.56  |
| 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  |

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

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

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