

30 July 2024

Consumer Cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

Outlook Remains Robust; Maintain BUY

- **Maintain BUY and lower SGD1.86 TP from SGD1.96, 24% upside and 4% yield.** We remain upbeat on Sheng Siong on the back of steady consumption demand and store opening opportunities going forward despite missing our 1H24 expectations slightly due to staff costs. We lower our FY24F-26F earnings by 6-7%, but expect demand to remain robust supported by the recently issued Community Development Council (CDC) vouchers to Singaporean households. The stock trades attractively at -1SD (c.17x) from its historical mean forward P/E of c.19x.
- **1H24 earnings below.** Revenue came in at SGD714m (+3.3% YoY) while earnings rose 6.5% YoY to SGD70m – below expectations. Topline was within expectations, with growth largely led by SSSG, (+6% YoY), partly due to a longer run up to the Lunar New Year this year on 10 Feb (as opposed to 22 Jan last year). Annualised sales/sq ft in 1H24 was SGD2,234 (+1.6% YoY). 1H24 gross margin was in line at 30.1% – up 0.4ppts from 29.7% last year – from a better sales mix. EBIT stood at SGD81m (+6.1% YoY) – below expectations – due to higher-than-expected administrative costs led by elevated staff variable bonuses. Operating margins improved 0.3ppts to 11.3%, mainly on better gross margins. 1H24's performance was largely in line except for higher-than-expected staff costs. This has resulted in a slight underperformance of earnings. Imputing staff costs at the current run rate, we have lowered our FY24F-26F earnings by 6-7%. An interim DPS of 3.2 SG cents was declared, amounting to a c.70% payout ratio. Due to our earnings cut, our TP is lowered by c.5% as we roll forward our valuation from 21x FY24F P/E previously to a blended FY24F-25F P/E.
- **Expect outlet openings to be robust.** SSG has met our store opening target of three for the year, having opened two new stores and awarded another new outlet in 1H24. The Housing & Development Board is expected put up another seven stores for tender in 2H24, including Tengah Garden Walk, Tampines Street 96, and Towner Road, which offer opportunities for SSG to increase its store network this year. Its sixth outlet in China opened in 2Q24 and all five existing outlets are profitable. We expect outlook to be positive, fuelled by positive consumption and supported by recent new round of CDC vouchers issued to every Singaporean household in the latest GST support package.
- **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): SGD1.86 (24.3%)
 Price (Market Cap): SGD1.50 (USD1,678m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 2.10m/1.56m

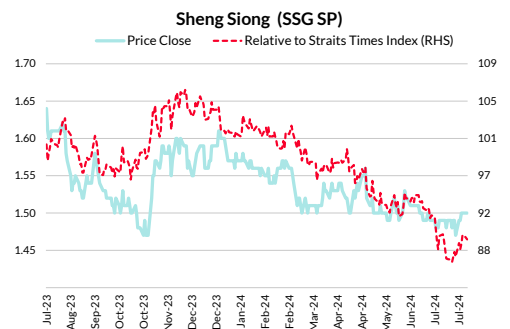
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.3)	0.7	(3.2)	(3.9)	(8.5)
Relative	(12.6)	(2.6)	(8.1)	(13.6)	(10.7)
52-wk Price low/high (SGD)	1.47 – 1.64				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	1,339	1,368	1,419	1,446	1,486
Recurring net profit (SGDm)	134	134	135	138	143
Recurring net profit growth (%)	0.4	0.3	0.3	2.6	3.6
Recurring P/E (x)	16.83	16.79	16.74	16.32	15.76
P/B (x)	5.0	4.6	4.2	3.9	3.6
P/CF (x)	13.52	12.74	15.66	14.37	13.85
Dividend Yield (%)	4.1	4.2	4.2	4.3	4.5
EV/EBITDA (x)	10.91	11.16	10.97	10.50	9.94
Return on average equity (%)	31.0	28.4	26.3	25.0	23.9
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 or 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

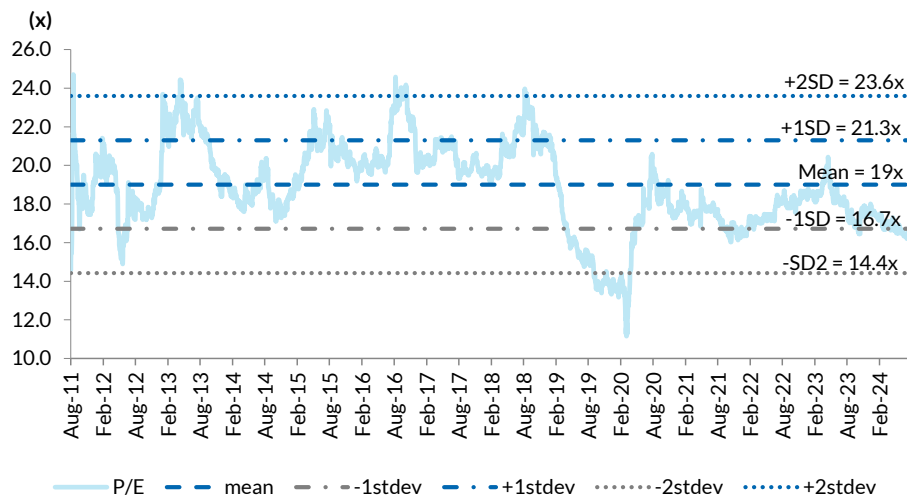
SSG did not have any material data security or privacy issues over the past few years. Its board of directors comprises four independent directors, one non-executive directors, and the group CEO is an executive director.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.09	0.09	0.09	0.09	0.10
Consumer Cyclical	DPS	0.06	0.06	0.06	0.07	0.07
Sheng Siong	BVPS	0.30	0.33	0.35	0.38	0.41
SSG SP	Return on average equity (%)	31.0	28.4	26.3	25.0	23.9
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	16.83	16.79	16.74	16.32	15.76
21x blended FY24-25F P/E	P/B (x)	5.0	4.6	4.2	3.9	3.6
	FCF Yield (%)	7.0	7.4	5.9	6.5	6.7
Key drivers	Dividend Yield (%)	4.1	4.2	4.2	4.3	4.5
i. New store openings;	EV/EBITDA (x)	10.91	11.16	10.97	10.50	9.94
ii. Pick-up in SSSG;	EV/EBIT (x)	12.23	12.44	12.21	11.67	11.04
iii. Gross margin expansion						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	1,339	1,368	1,419	1,446	1,486
i. Inventory shortage in the event of major supply chain disruptions;	Gross profit	393	411	426	435	447
ii. Inability to find affordable places to rent;	EBITDA	182	173	173	176	180
iii. Price war from competitors.	Depreciation and amortisation	(20)	(18)	(17)	(18)	(18)
	Operating profit	162	155	155	158	162
Company Profile	Net interest	1	8	8	8	10
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.	Pre-tax profit	163	163	164	166	172
	Taxation	(29)	(29)	(29)	(28)	(29)
	Reported net profit	134	134	135	138	143
	Recurring net profit	134	134	135	138	143
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(26)	3	(8)	1	2
	Cash flow from operations	167	177	144	157	163
	Capex	(9)	(10)	(11)	(11)	(11)
	Cash flow from investing activities	(5)	1	(11)	(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	362	413
	Net change in cash	28	49	37	52	54
	Ending balance cash	275	324	362	413	468
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	275	324	362	413	468
	Tangible fixed assets	292	284	277	270	262
	Total assets	785	830	876	923	974
	Total liabilities	330	333	341	345	350
	Total equity	455	497	535	578	623
	Total liabilities & equity	785	830	876	923	974
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(2.2)	2.1	3.7	1.9	2.8
	Recurrent EPS growth (%)	0.4	0.3	0.3	2.6	3.6
	Gross margin (%)	29.4	30.0	30.1	30.1	30.1
	Operating EBITDA margin (%)	13.6	12.7	12.2	12.2	12.1
	Net profit margin (%)	10.0	9.8	9.5	9.6	9.6
	Dividend payout ratio (%)	69.8	69.9	70.3	70.7	70.4
	Capex/sales (%)	0.6	0.7	0.7	0.7	0.7
	Interest cover (x)	58.4	44.2	31.9	32.5	33.3

Source: Company data, RHB

Figure 1: SSG's historical average P/E



Source: Bloomberg

Figure 2: Results comparison

SGDm	1H24	1H23	% chg
Revenue	714.2	690.5	-3.3%
Cost of sales	(499.2)	(485.3)	-2.8%
Gross profit	215.0	205.1	-4.6%
Other income	7.3	4.2	-41.7%
Distribution expenses	(113.5)	(3.7)	-96.7%
Administrative expenses	(27.9)	(127.3)	n/m
Other opex	0.0	(2.4)	n/m
Total opex	(141.4)	(133.4)	-5.7%
EBIT	80.9	76.0	-6.1%
Non-operating income	0.0	0.0	n/a
Finance income	6.6	5.5	-17.2%
Finance expenses	(2.5)	(2.0)	-17.9%
JV/associate	0.0	0.0	n/a
Exceptionals	0.0	0.0	n/a
Profit before tax	85.1	79.5	-6.6%
Income tax expenses	(15.1)	(13.9)	-7.6%
Minority interests	(0.1)	(0.2)	n/m
PATMI	69.9	65.4	-6.5%

Source: Company, RHB

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 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.

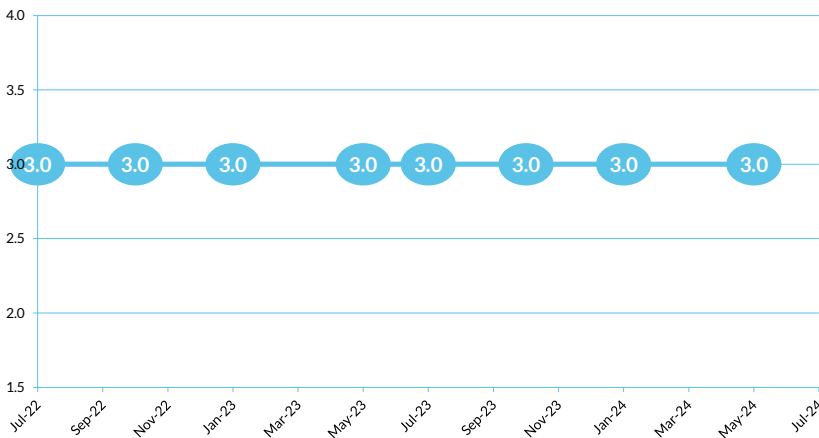
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	29,114	35,454	40,652
Scope 2	33,821	35,415	36,440
Scope 3	-	-	-
Total emissions	62,935	70,869	77,092

Source: Company data, RHB

Latest ESG-Related Developments

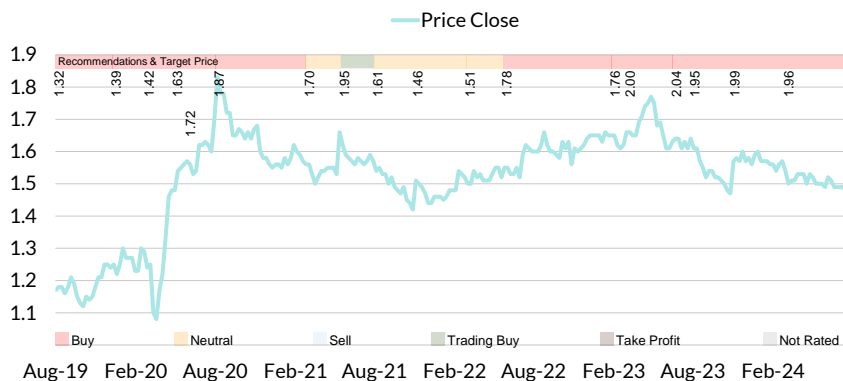
- SSG has reported in accordance with the GRI Standards for the period from 2022, and has developed a roadmap to progressively align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by 2023 based on its four key pillars.
- In line with the TCFD, all board directors have undergone mandatory training on sustainability.
- 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
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
2021-02-25	Neutral	1.70	1.57
2020-08-03	Buy	1.87	1.69

Source: RHB, Bloomberg

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Analyst	Company
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