

28 July 2023

Consumer Cyclical | Retailing

## Sheng Siong (SSG SP)

**Buy** (Maintained)

Still Positive On Growth; Keep BUY

Target Price (Return): SGD1.95 (+21%)  
 Price (Market Cap): SGD1.61 (USD1,827m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 2.61m/1.95m

- **Maintain BUY with new SGD1.95 TP from SGD2.04, 21% upside and 4% yield.** We remain upbeat on Sheng Siong despite 1H23 earnings underperforming slightly. We see growth fuelled by more new outlets given SSG is capable of securing some of the new Housing Development Board (HDB) pipeline supermarkets up for tender in the next six months. Its valuation remains attractive, close to -1SD from its historical mean forward P/E at c.17x. The stock is supported by c.4% FY24F yield as well.
- **1H23 earnings slightly trailing.** 1H23 earnings of SGD65m (-3% YoY) trailed our estimates slightly. Revenue of SGD690m (+2% YoY) was within expectations, with sales growth driven by new stores, while SSSG declined by 1%. SSG continued to deliver sales growth against normalising Singapore supermarket retail sales which has declined YoY from Jan to May 2023 due to a high base last year. While gross margin improved 1.5ppts to 29.7% on better sales mix, operating margin was lower than expected (11% vs 12%) due to higher utilities and staff costs. Finance income was also better than expected, which helped to buffer our earnings expectations. Apart from the higher-than-expected opex, SSG's sales performance has been encouraging, given the normalising trend of Singapore's supermarket retail sales in 1H23. An interim dividend of 3.05 SG cents was declared, amounting to a payout ratio of 70%.
- **Trim FY23F-25F earnings by 4-5% each.** We have left our revenue estimates largely unchanged since revenue expectations were in line. However, we have factored in the higher-than-expected opex and lower operating margin to reflect higher staff and utilities costs in 1H23, offset by better sales mix, gross margin and higher interest income assumptions. Our TP, based on blended FY23F-24F P/E, is lowered to SGD1.95 accordingly.
- **Outlook still positive with HDB's robust supermarket pipeline.** We remain positive on SSG as we see growth continuing to be led by new stores. HDB has a pipeline for six new supermarkets outlets up for tender over the next six months, with five more lined up beyond the next six months till 2024. We expect SSG to secure some of these outlets which will eventually supplement growth.
- **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 margin 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.
- **ESG.** As SSG's ESG score is 3 out of 4 – on par with the country median – we apply a 0% discount/premium to its intrinsic value to derive our TP.

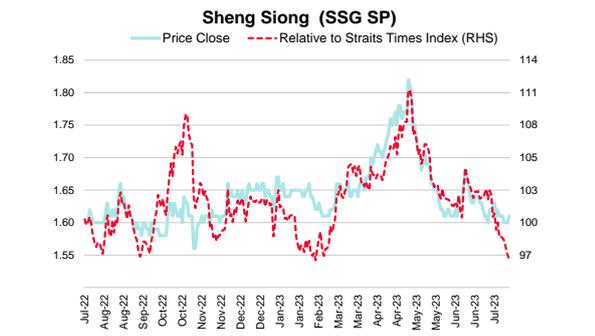
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.4)	(1.2)	(9.0)	(2.4)	0.6
Relative	(5.0)	(5.3)	(10.7)	(0.7)	(3.5)
52-wk Price low/high (SGD)	1.56 – 1.82				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	1,370	1,339	1,400	1,456	1,497
Recurring net profit (SGDm)	133	134	137	143	148
Recurring net profit growth (%)	(4.5)	0.4	2.4	4.2	3.7
Recurring P/E (x)	18.15	18.07	17.64	16.93	16.31
P/B (x)	5.9	5.4	4.9	4.5	4.1
P/CF (x)	14.02	14.51	14.69	14.16	13.76
Dividend Yield (%)	3.9	3.9	4.0	4.2	4.3
EV/EBITDA (x)	11.95	11.82	11.35	10.63	10.04
Return on average equity (%)	33.9	31.0	28.9	27.5	26.3
Net debt to equity (%)	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

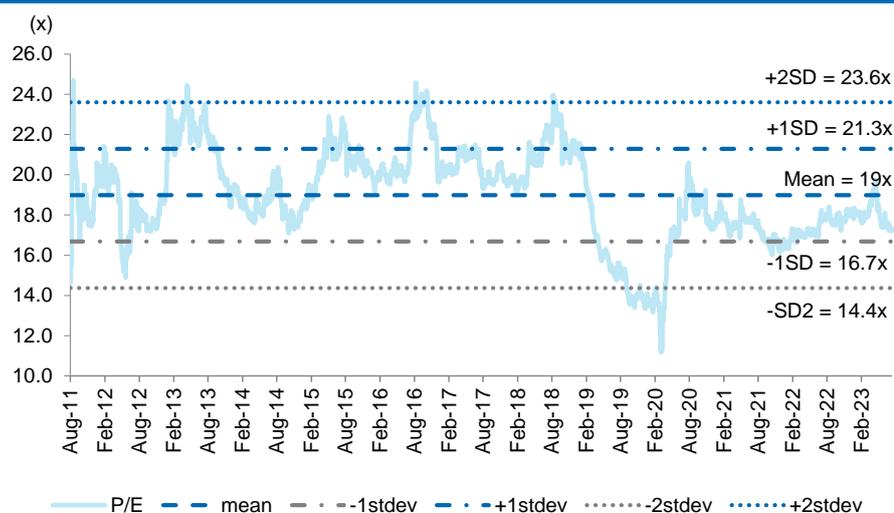
Asia	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.09	0.09	0.09	0.10	0.10
Consumer Cyclical	DPS	0.06	0.06	0.06	0.07	0.07
<b>Sheng Siong</b>	BVPS	0.27	0.30	0.33	0.36	0.39
SSG SP	Return on average equity (%)	33.9	31.0	28.9	27.5	26.3
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	18.15	18.07	17.64	16.93	16.31
21x blended FY23F-24F P/E	P/B (x)	5.9	5.4	4.9	4.5	4.1
	FCF Yield (%)	5.8	6.5	6.4	6.6	6.8
	Dividend Yield (%)	3.9	3.9	4.0	4.2	4.3
<b>Key drivers</b>	EV/EBITDA (x)	11.95	11.82	11.35	10.63	10.04
i. New store openings;	EV/EBIT (x)	13.45	13.24	13.12	12.26	11.57
ii. Pick-up in SSSG;						
iii. Gross margin expansion						
	<b>Income statement (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	1,370	1,339	1,400	1,456	1,497
i. Inventory shortage in the event of major supply chain disruptions;	Gross profit	393	393	418	435	447
ii. Inability to find affordable places to rent;	EBITDA	183	182	184	190	195
iii. Price war from competitors.	Depreciation and amortisation	(20)	(20)	(25)	(25)	(26)
	Operating profit	162	162	159	165	169
	Net interest	(1)	1	7	7	9
	Pre-tax profit	161	163	166	172	178
	Taxation	(28)	(29)	(29)	(29)	(30)
	Reported net profit	133	134	137	143	148
	Recurring net profit	133	134	137	143	148
<b>Company Profile</b>						
With 67 stores located in suburban areas as of FY22, Sheng Siong operates the third-largest supermarket chain in Singapore that caters to the mass market.						
	<b>Cash flow (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(8)	(26)	3	3	2
	Cash flow from operations	173	167	165	171	176
	Capex	(31)	(9)	(11)	(11)	(11)
	Cash flow from investing activities	(30)	(5)	(11)	(11)	(11)
	Dividends paid	(92)	(94)	(92)	(98)	(102)
	Cash flow from financing activities	(150)	(133)	(92)	(98)	(102)
	Cash at beginning of period	254	247	275	338	400
	Net change in cash	(7)	28	62	63	63
	Ending balance cash	246	275	338	400	463
	<b>Balance sheet (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	247	275	338	400	463
	Tangible fixed assets	303	292	277	263	247
	Total assets	739	785	837	890	942
	Short-term debt	5	0	0	0	0
	Total liabilities	323	330	337	346	352
	Total equity	416	455	500	545	590
	Total liabilities & equity	739	785	837	890	942
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	(1.7)	(2.2)	4.5	4.0	2.8
	Recurrent EPS growth (%)	(4.5)	0.4	2.4	4.2	3.7
	Gross margin (%)	28.7	29.4	29.9	29.9	29.9
	Operating EBITDA margin (%)	13.3	13.6	13.1	13.1	13.0
	Net profit margin (%)	9.7	10.0	9.8	9.8	9.9
	Dividend payout ratio (%)	69.9	69.8	70.7	70.4	69.9
	Capex/sales (%)	2.3	0.6	0.8	0.7	0.7
	Interest cover (x)	68.6	58.4	40.0	41.5	42.6

Source: Company data, RHB

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Figure 1: SSG's historical average P/E



Source: Bloomberg, RHB

Figure 2: 1H23 results

	1H22	1H23	% chg
Revenue	676.8	690.5	2.0%
COGS	(477.7)	(485.3)	1.6%
Gross profit	199.1	205.1	3.0%
Other income	5.5	4.2	-22.5%
Distribution expenses	(3.9)	(3.7)	-6.0%
Admin expenses	(115.9)	(127.3)	9.8%
Other operating expenses	(2.6)	(2.4)	-8.3%
Operating expenses	(122.5)	(133.4)	8.9%
EBIT	82.1	76.0	-7.4%
Finance income	0.8	5.5	588.1%
Finance expenses	(1.5)	(2.0)	37.7%
Profit before tax	81.5	79.5	-2.4%
Income tax expenses	(13.9)	(13.9)	0.3%
Minority Interests	(0.1)	(0.2)	24.0%
Net profit	67.4	65.4	-3.1%

Source: Company data, RHB

### Recommendation Chart

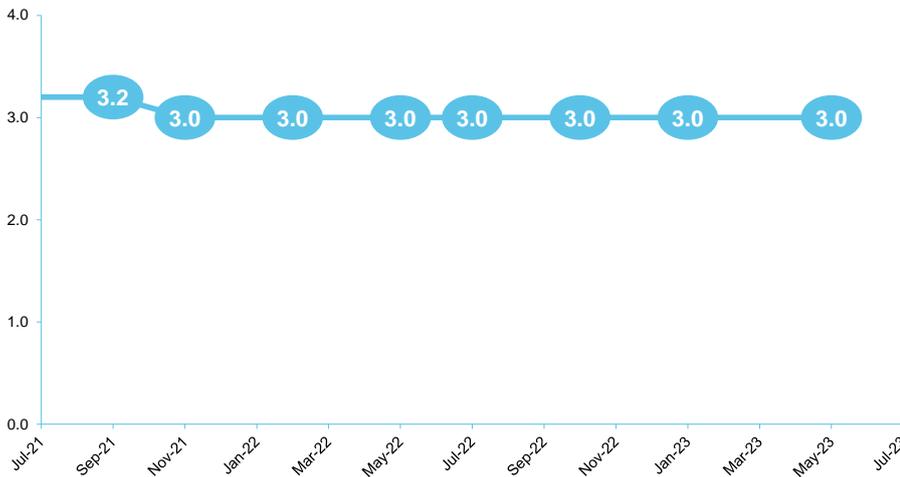


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-02-23	Buy	1.42	1.29
2019-12-10	Buy	1.39	1.26

Source: RHB, Bloomberg

### ESG Rating History



Source: RHB

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