Company update

Sheng Siong Group

Singapore | Consumer Staples

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Equity Research

Rating	BUY (as at 2 November 2021)
Last Close	SGD 1.43
Fair Value	SGD 1.63

Good set of results

- **Record gross margin at 29%**
- **Opened its third store in China**
- **Sales in 4Q21 likely to remain strong but could normalise in 2022**

Investment thesis

Sheng Siong Group's (SSG) 3Q21 results beat expectations due to stronger-than-expected gross profit margins. 3Q21 revenue rose 6.4% YoY to SGD348.1m, while PATMI grew 8.2% YoY to SGD34.4m. SSG opened its third store in China in late Aug 2021 and will open a fourth store in 4Q21. As at 30 Sep 2021, SSG had 63 stores in Singapore and three stores in China. After adjustments, we lower our fair value estimate from SGD1.73 to SGD1.63. We believe demand is likely to remain strong in 4Q21 as Singapore entered the Stabilisation Phase in Sep 2021. Looking into 2022, we expect sales to normalise as Singapore pivots towards the "living with the endemic" approach and opens its borders gradually. However, full relaxation could take time, while social distancing, WFH trend and the tendency to eat more frequently at home are likely to remain. This should help to support supermarket sales growth.

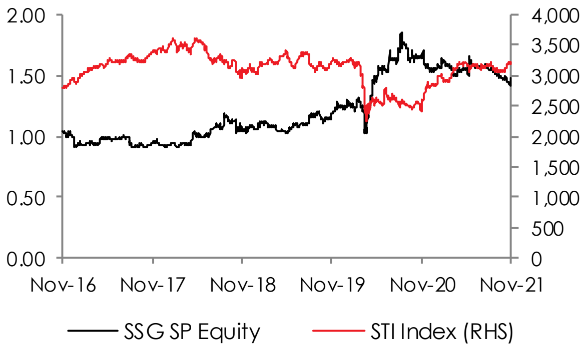
Investment summary

- **3Q21 results beat expectations** – Sheng Siong Group's (SSG) 3Q21 results beat expectations due to stronger-than-expected gross profit margins. 3Q21 revenue rose 6.4% YoY to SGD348.1m, while PATMI grew 8.2% YoY to SGD34.4m. This growth in revenue was largely driven by new stores (+3.2% YoY) and comparable same store growth (+2.8% YoY) while the three stores in China reported a marginal growth of 0.4% YoY. Gross profit margin increased to a record high at 29% (+0.1 ppt QoQ), mainly attributable to higher sales mix of fresh products and house brand. SSG benefitted from the closure of the Jurong fishery port, Pasir Panjang wholesale centre and wet markets, resulting in a surge in fresh food sales.
- **No new stores opened in Singapore** – SSG opened its third store in China in late Aug 2021 and will open a

Security information

Ticker	SSG SP
Market Cap (SGD b)	2.2
Daily turnover (SGD m)	6.6
Free Float	43%
Shares Outstanding (m)	1,504
Top Shareholder	SS HOLDINGS 29.9%

Price performance chart



Financial summary

SGD mn	FY20	FY21F	FY22F
Revenue	1,394	1,380	1,304
Operating Profit	125	145	133
PATMI	139	133	119
EPS (S-cents)	9.2	8.9	7.9
DPS (S-cents)	6.5	6.0	5.2

Key ratios

	FY20	FY21F	FY22F
EBIT margin (%)	9.0	10.5	10.2
ROE (%)	29.5	32.2	26.2
Dividend yield (%)	4.5	4.2	3.6

Source: Bloomberg, Company, Internal estimates fourth store in 4Q21. As at 30 Sep 2021, SSG had 63 stores in Singapore and three stores in China. SSG is still pending the outcome of the two tenders which were submitted in 1H21 and did not open any new stores in Singapore in 9M21. As the Covid-19 situation improves and manpower crunch in the construction sector eases, HDB construction is likely to pick up, bringing in new supply of HDBs. Management mentioned there could be six supermarkets available for bidding in 2022.

- **Lower fair value estimate of SGD1.63** – After adjustments, we lower our fair value estimate from SGD1.73 to SGD1.63. We believe demand is likely to remain strong in 4Q21 as Singapore entered the Stabilisation Phase in Sep 2021 to slow the rate of transmission and protect its healthcare system. Looking into 2022, we expect sales to normalise as Singapore pivots towards the "living with the endemic" approach and opens its borders gradually. However, full relaxation could take time, while social distancing, WFH trend and the tendency to eat more frequently at home are likely to remain. This should help to support supermarket sales growth. Valuations look attractive with SSG trading at 19.7x blended forward P/E, ~1 s.d. below its five-year mean of 21.3x.

Results highlights

SGD mn	3Q20	3Q21	% Chg
Revenue	327.3	348.1	6.4%
Cost of sales	-238.9	-247.2	3.5%
Gross Profit	88.4	100.9	14.2%
Distribution costs	-1.9	-2.2	14.9%
Administrative expenses	-57.4	-58.2	1.4%
Other operating expenses	-1.2	-1.4	14.4%
Profit from operations	27.9	39.2	40.3%
Finance income	0.2	0.3	75.1%
Finance expenses	-0.5	-0.6	18.3%
Other income	10.4	2.5	-75.9%
Profit before tax	38.0	41.4	9.1%
Income tax expense	-6.2	-7.0	13.1%
Net profit	31.8	34.4	8.3%
PATMI	31.8	34.4	8.2%

Source: Company

ESG Updates

- Sheng Siong Group (SSG) demonstrates strong labour management and quality management initiatives, as well as initiatives to address data privacy and security as compared to its peers. Its exposure to labour-related risks is also lower than that of peers due to its smaller workforce. However, SSG lags better positioned peers in tapping growing opportunities from eco-friendly and healthier products. SSG's governance ranks higher than that of industry average but its environment score trails its global peers due to its limited efforts to reduce carbon footprint.

Potential catalysts

- Higher-than-expected GPM
- More-than-expected new store openings

Investment risks

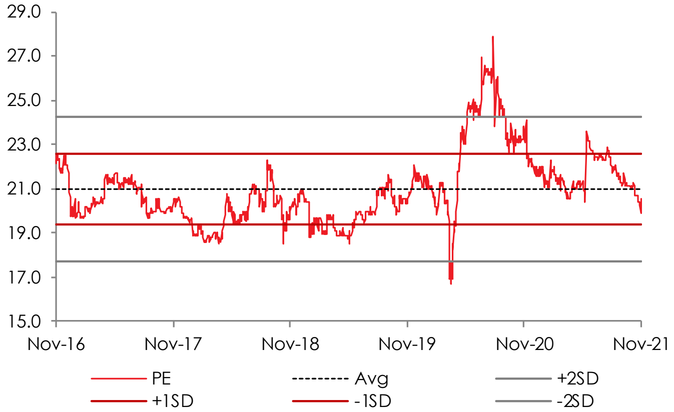
- Slowdown in same-store-sales growth
- Aggressive expansion by online grocery platforms

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
SHENG SIONG GROUP LTD (SSG SP)	17.5	20.4	5.5	5.0	11.7	12.9	3.8	3.5	32.2	25.4
DAIRY FARM INTERNATIONAL HOLDI (DFI SP)	28.9	17.8	3.7	3.4	8.3	9.2	3.0	4.3	13.1	19.6
HAI-O ENTERPRISE BHD (HAIO MK)	16.2	14.9	NA	NA	NA	NA	4.7	5.4	11.7	13.0
SUMBER ALFARIA TRIJAYA TBK PT (AMRT IJ)	27.9	22.9	5.8	5.1	9.6	8.6	2.2	2.8	22.3	23.1
SUN ART RETAIL GROUP LTD (6808 HK)	16.2	13.8	1.1	1.0	3.5	2.7	2.1	2.5	7.3	8.0

Source: Bloomberg

Price/Earnings chart



Source: Bloomberg

Price/Book chart

Source: Bloomberg

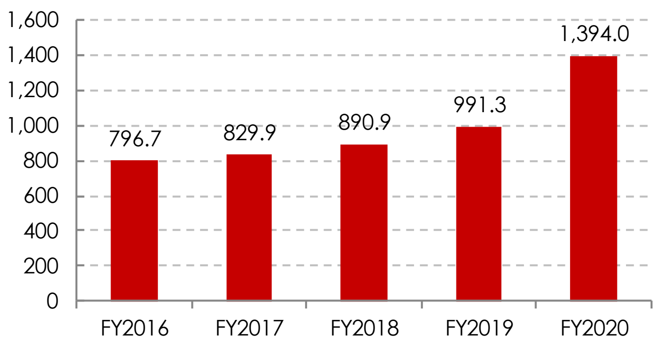
Company overview (as of 31 December 2020)

Company description

Established in 1985 and listed in August 2011, Sheng Siong Group Ltd is one of Singapore's largest retailers with 54 supermarket/grocery stores located all across the island. The stores are designed to provide customers with both "wet and dry" shopping options ranging from a wide assortment of live, fresh and chilled produce, such as seafood, meat and vegetables to packaged, processed, frozen and/or preserved food products as well as general merchandise, including toiletries and essential household products. Sheng Siong has also been developing a selection of house brands to offer customers alternatives to national brands at substantial savings, and to date, has over 900 products under more than 17 house brands.

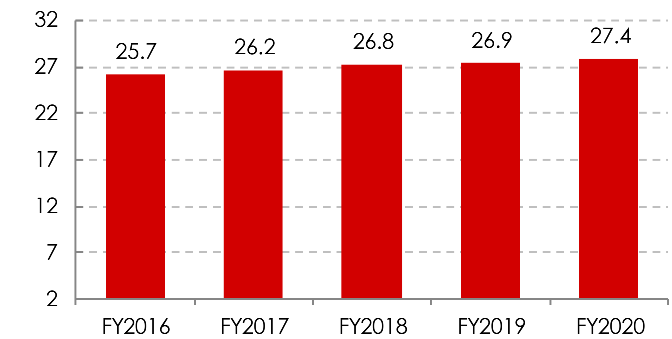
In 2014, Sheng Siong also started its online shopping platform for groceries, which offers e-commerce services in selected postal districts in Singapore. Sheng Siong's first overseas store in Kunming, China, commenced operation in 2017.

Revenue (S$m)



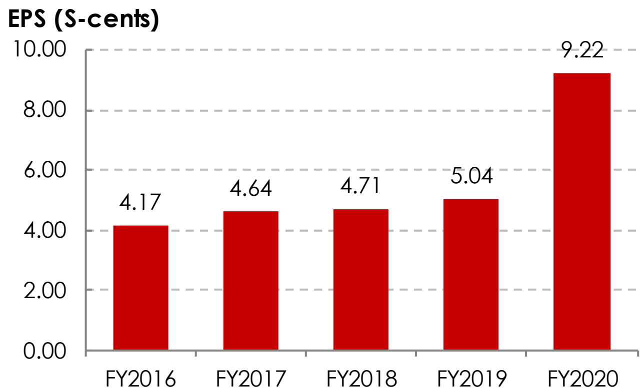
Source: Company

Gross profit margin (%)

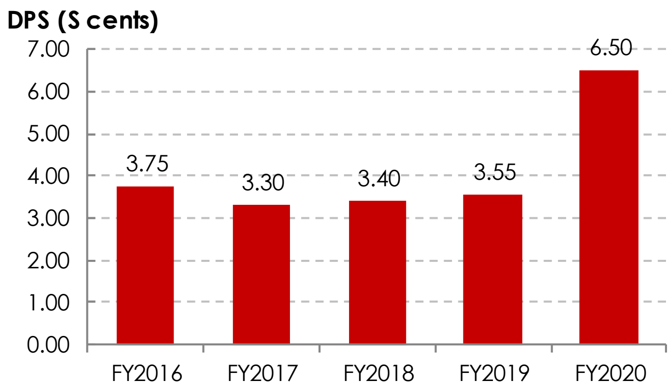


Source: Company

Earning per share (S-cents)



Dividends per share (S-cents)



Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2016 31/12/2016	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020
Revenue	**796.7**	**829.9**	**890.9**	**991.3**	**1,394.0**
- Cost of Revenue	592.0	612.5	652.6	724.4	1,012.1
Gross Profit	**204.7**	**217.4**	**238.4**	**266.9**	**381.9**
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	129.0	135.6	154.6	174.3	215.7
Operating Income or Losses	**75.6**	**81.9**	**83.8**	**92.6**	**166.1**
- Interest Expense	--	--	--	2.0	2.0
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	-0.6	-0.2	-0.9	-1.3	-1.0
Pretax Income	**76.2**	**82.1**	**84.7**	**91.9**	**165.1**
- Income Tax Expense (Benefit)	13.5	12.6	14.1	16.2	26.0
Income Before XO Items	**62.7**	**69.5**	**70.5**	**75.8**	**139.1**
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	0.0	-0.3	-0.3	0.0	0.5
Net Income/Net Profit (Losses)	**62.7**	**69.8**	**70.8**	**75.7**	**138.7**
Net Inc Avail to Common Shareholders	**62.7**	**69.8**	**70.8**	**75.7**	**138.7**
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	**62.7**	**69.6**	**70.4**	**75.8**	**139.2**
Basic Earnings per Share	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**
Basic Weighted Avg Shares	1,503.5	1,503.5	1,503.5	1,503.5	1,503.5
Diluted EPS Before Abnormal Items	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**
Diluted EPS Before XO Items	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**
Diluted EPS	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**
Diluted Weighted Avg Shares	1,503.5	1,503.5	1,503.5	1,503.5	1,503.5

Profitability Ratios

12 Months Ending	FY2016 31/12/2016	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020
Returns					
Return on Common Equity	25.25	26.70	25.24	25.10	40.44
Return on Assets	16.60	17.57	16.79	15.63	22.72
Return on Capital	55.76	52.70	49.20	41.86	33.81
Return on Invested Capital	87.06	71.11	67.50	57.07	64.39
Margins					
Operating Margin	9.49	9.86	9.40	9.34	11.92
Incremental Operating Margin	1.09	1.04	0.95	0.99	1.28
Pretax Margin	9.56	9.89	9.50	9.27	11.84
Income before XO Margin	7.86	8.41	7.95	7.64	9.95
Net Income Margin	7.86	8.41	7.95	7.64	9.95
Net Income to Common Margin	7.86	8.41	7.95	7.64	9.95
Additional					
Effective Tax Rate	17.72	15.30	16.71	17.57	15.73
Dvd Payout Ratio	89.99	71.09	72.20	70.48	70.48
Sustainable Growth Rate	25.02	26.51	25.06	24.92	40.16

Credit Ratios

12 Months Ending	FY2016 31/12/2016	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020
Total Debt/EBIT	0.00	0.00	0.00	0.62	0.45
Net Debt/EBIT	-0.84	-0.90	-1.04	-0.21	-1.07
EBIT to Interest Expense	-	-	-	45.99	82.47
Long-Term Debt/Total Assets	0.00	0.00	0.00	5.68	5.51
Net Debt/Equity	-0.24	-0.26	-0.29	-0.06	-0.47

Source: Refinitiv

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