F·P·A FINANCIAL

Investment Perspectives

14 July 2023

RETAIL EQUITY RESEARCH

Sheng Siong Group

SGX: OV8
Bloomberg: SSG:SP
ISIN code: SG2D54973185

Country: Singapore, China
Industry: Retail Supermarket & Hypermarket

RECOMMENDATION: HOLD

Current Share Price: S$1.61
Current Target price: S$1.66

Market capitalisation: S$2.42 billion
Issued Shares: 1.50 billion
52-week range: S$1.83 - S$1.55

PRICE PERFORMANCE

COMPANY DESCRIPTION

Sheng Siong Group (collectively defined herein as SSG) is a Singapore-based investment holding company engages primarily in supermarket operations through its subsidiaries. SSG provides customers with both "wet and dry" shopping options ranging from a wide assortment of live, fresh, and chilled produce, such as seafood, meat, fruits, and vegetables to packaged, processed, frozen and/or preserved food products as well as general merchandise, including toiletries and essential household products. To date, they operate 68 outlets in Singapore, offering over 1600 products under its 23 house brands.

SUMMARY

For the full year ended 31 December 2022, SSG's net profit for the year increased by 0.4% year-on-year. This is despite its revenue falling by 2.2% year-on-year due to the normalization of sales with the full reopening of Singapore's economy in 2022, indicating SSG's strong financial resilience. As geopolitical conflicts and the high global inflationary environment continue to weigh on rising cost pressures, SSG's Administrative Expense rose by 2.6% year-on-year which depressed SSG's margins for the year ended 31 December 2022. However, this was offset by higher gross margins due to improved sales mix and a one-off rebate from suppliers in FY2022. SSG's Total Comprehensive Income attributable to the owners of the company for FY2022 was about S$132.8 million, which translates to an EPS of 8.87

RECOMMENDATION

Based on SSG's reported annualised earnings per share of 8.87 cents as at 31 December 2022, it currently has a P/E multiple of 18.2x. Our peer comparison analysis results showed that SSG's P/E ratio of 18.2x was lower than the peer average P/E of 26.6x. Adopting a relative valuation approach, we estimated a target price of S$2.47, if SSG were to trade at the peer average P/E of 26.6x. This may imply that SSG is currently trading at a discount of approximately 46.69% based on its share price of S$1.61. At the same time, based on SSG's reported book value of S$0.30 as at 31 December 2022, it currently has a P/B multiple of 5.4x. Our peer comparison analysis results showed that SSG's P/B ratio of 5.4x was higher than the peer average P/B of 3.2x. We adopted a relative valuation approach to derive an estimated target price of S$0.95, if SSG were to trade at its peer average P/B ratio of 3.2x. This may imply that it is trading at a premium of approximately 40.9%, based on its share price of $1.61. By calculating the average of our estimated target prices based on P/E and P/B, we derived a target price of S$1.66. Our target price of S$1.66 implied an upside potential of 2.9% from its share price of S$1.61. Given the limited upside potential, we recommend a HOLD on SSG.

KEY FINANCIALS

For the year ended 31 December		Revenue S$'000	Profit S$'000	EPS (cents)	P/E	DPS (cents)	Dividend Yield (%)	P/B
Actual	2021	1,369,760	128,308	8.83	18.6	6.20	3.72%	5.9
	2022	1,339,464	127,942	8.87	18.2	6.22	3.84%	5.5
Forecast	2023	1,334,106	128,613	8.55	19.2	5.99	3.65%	-
	2024	1,367,459	137,909	9.17	17.9	6.42	3.92%	-

Contributor: Yang Tian Yuan Joshua
(+65 6323 1788)

CONTENTS

Company Overview

In this section, we will discuss SSG's corporate profile, Operations, Business Strategy, its subsidiaries, and its substantial shareholders.

(I) Corporate Profile

SSG is a Singapore-based investment holding company which engages primarily in supermarket operations through its subsidiaries, with a mission to create value sustainably for its customers in providing a convenient and comfortable shopping environment with good service and quality products at reasonable prices. SSG aspires to be the preferred retailer in the market, starting from Singapore and expanding further ashore.

SSG provides shopping options ranging from a wide assortment of live, fresh, and chilled produce, such as seafood, meat, fruits, and vegetables to packaged, processed, frozen and/or preserved food products as well as general merchandise, including toiletries and essential household products. SSG also develops its own house brands to offer its customers quality alternatives to national brands at substantial savings. Currently, SSG have over 1,600 products under 23 house brands and operates 68 outlets across the island.

Since its establishment, SSG's long history and reputation for quality products at competitive prices has led SSG to become a well-known and trusted household name in Singapore and has become the 3rd largest retailer in Singapore. It has also been awarded the "Superbrand" status by Superbrands Singapore since 2008.

Besides supermarket operations, SSG also engages in the trading of general and wholesale imports and exports through one of its subsidiaries, C M Super brand Marketing Management Pte Ltd.

(II) Operations

SSG has been steadily increasing its presence in Singapore by continually opening new retail supermarkets at strategic locations across Singapore, primarily in the suburban areas (heartlands) and residential districts. Currently, Sheng Siong has 68 outlets located in various parts of Singapore, totalling to approximately 613,100 square feet of retail area. Most of their 68 supermarkets in Singapore operate on a 24-hours basis to provide ease of access to its customers. SSG is also committed to growing and expanding through a wider retail store network across Singapore, with a target of opening at least 3 stores each year. In 2014, SSG also started offering its customers an online shopping platform ("Sheng Siong Online") which offers e-commerce services in almost all postal districts in Singapore. To support its retail operations, the Group also has an extensive distribution network, food-processing facilities, and warehousing facilities.

In 2017, SSG expanded its first overseas outlet in Kunming, China. Today, SSG operates 4 supermarket outlets in China, with another store in the pipeline this year.

(III) Business Strategy

SSG aims to target the mass-market and to position themselves as cheaper alternatives in the groceries space compared to other retailers. Over the years, SSG has adopted various strategies to lower its overall cost of goods — developing its own household brands, establishing distribution centers, digitisation its operations, and opening their outlets in the suburban HDB areas where rent is lower.

SSG also has its own television variety programme named "The Sheng Siong Show" and "Sheng Siong Live" in Singapore, to promote publicity and attract customers to shop at their supermarkets through a variety of prizes. This has proved to be a success and a well-liked entertainment among the locals till this day.

(IV) Subsidiaries

The subsidiaries and their respective principal activities of SSG are shown in **Exhibit 1**.

Exhibit 1: SSG's Subsidiaries

Name of Subsidiaries	Principal Activities	Country of Incorporation	Effective equity interest held by the Group	
			2022	2021
			%	%
Sheng Siong Supermarket Pte Ltd	Supermarket operations	Singapore	100	100
C M M Marketing Management Pte Ltd	Trading of general and wholesale importers and exports	Singapore	100	100
Sheng Siong Supermarket Sdn. Bhd.	Dormant	Malaysia	100	100
Sheng Siong (China) Supermarket Co., Ltd.	Supermarket operations	China	60	60

(V) Substantial Shareholders

The substantial shareholders of SSG are shown in **Exhibit 2**.

Exhibit 2: SSG's Substantial Shareholders

Name	DIRECT INTEREST		DEEMED INTEREST	
	No. of shares	%	No. of shares	%
Lim Hock Eng	137,400,000	9.14	714,574,100	47.53
Lim Hock Chee	138,374,100	9.2	715,707,100	47.6
Lim Hock Leng	127,400,000	8.47	724,574,100	48.19
Sheng Siong Holdings Pte Ltd	448,800,000	29.85	–	–

Market Outlook

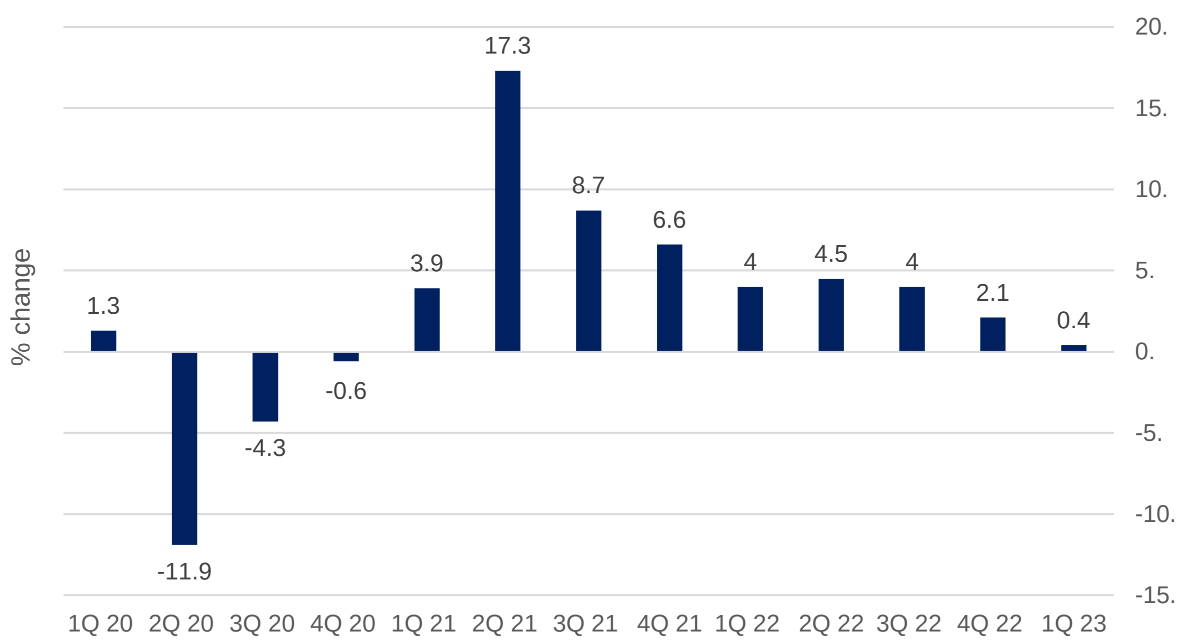
In this section we will be discussing the general outlook of Singapore's economy, and we will be looking into the retail sector and the supermarket and hypermarket industry.

(I) Singapore's Economy

As of May 2023, according to the Ministry of Trade's (MTI), Singapore's GDP growth forecast for 2023 will be between 0.5% to 2.5%, with growth likely to come in at around the mid-point of the range.

For the first quarter of 2023, Singapore's economy grew by 0.4 per cent on a year-on-year basis according to the Ministry of Trade (MTI). This is a drop from the 2.1% expansion in the previous quarter, as shown in **Exhibit 3**. However, this figure for the first quarter of 2023 is still higher than the advance estimate of 0.1% growth released in April..

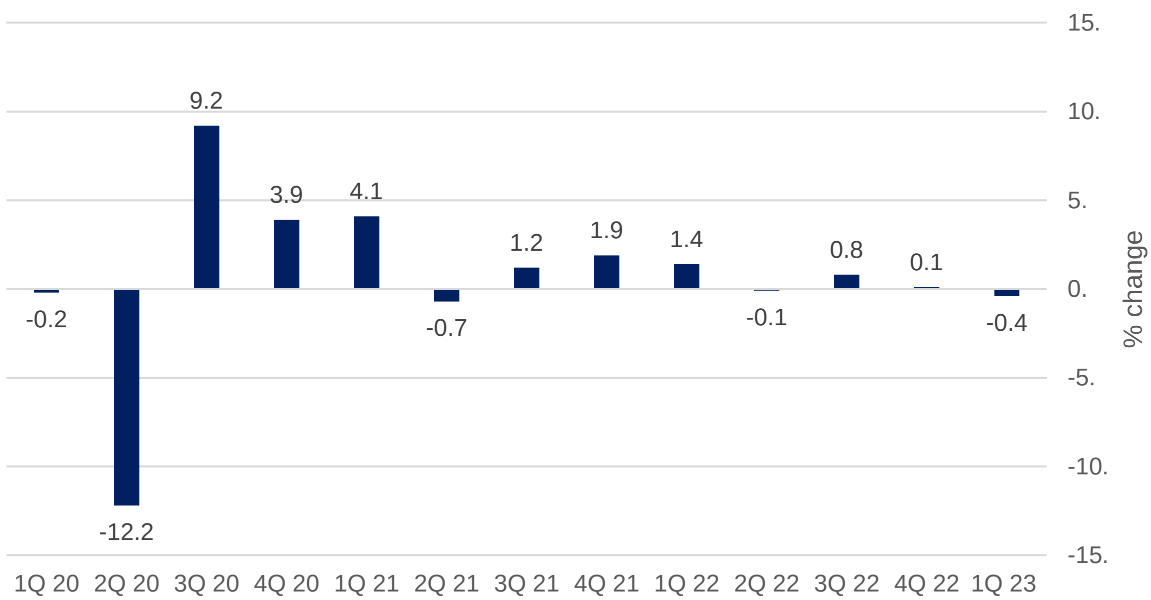
Exhibit 3: Change in Singapore Quarterly GDP (%, yoy)



Source: MTI, FPA

On a quarter-on-quarter seasonally-adjusted basis, the economy contracted by 0.4%, a reversal from the 0.1% growth in the fourth quarter of 2022, as shown in **Exhibit 4**. Again, the result of the first quarter of 2023 results is still better than the previous estimate of a 0.7% decline and a forecast for a 0.6% contraction according to a Bloomberg survey.

Exhibit 4: Change in Singapore Quarterly GDP (%, qoq)

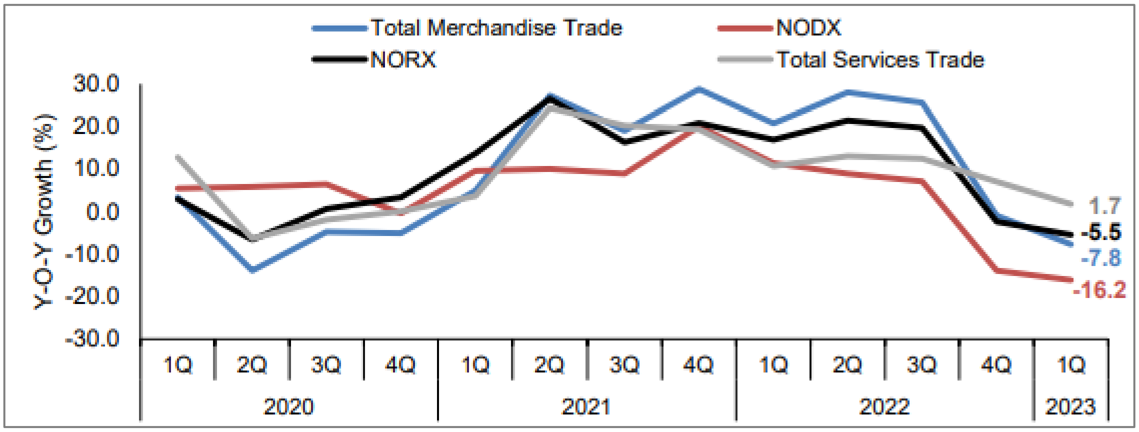


Source: MTI, FPA

MTI noted that Singapore's growth was weighed down by the trade-driven manufacturing, wholesale trade, and finance and insurance sectors, which contracted amid weakness in the global economy and the electronics down cycle. MTI have also signalled that the higher end of their forecast range for growth is likely to be out of reach due to weak global demand for Singapore's exports.

Singapore Non-oil Domestic Exports (NODX), which measures the value of goods exported from Singapore excluding oil and petroleum products, and Total Merchandise Trade have been contracting on a year-on-year basis since the fourth quarter of 2022 as shown in **Exhibit 5**.

Exhibit 5: Singapore's NODX and Total Merchandise Trade



Source: EnterpriseSG

According to EnterpriseSG, both NODX and total merchandise trade came in worse than expected in Q1 2023. NODX slid 16.2% on a year-on-year basis making it the second consecutive quarter of a double-digit percentage y-o-y decline, while total merchandise trade fell by 7.8%. Both contractions are sharper compared to that in 4Q 2022.

In terms of global outlook, the external demand conditions had weakened for global manufacturing and goods exports and prices of key exports have also started to correct from their peak in 2022. Global growth is also expected to slow from 3.4% in 2022 to 2.8% in 2023 according to the International Monetary Fund (IMF). Most of Singapore's key trade partners, including the US, Eurozone and ASEAN-5, are also expected to grow at a slower pace in 2023 due to lagged effects of monetary policy tightening, except China and Japan. On the trade front, the World Trade Organisation (WTO) forecasted global merchandise trade growth to be subdued at 1.7% for 2023, compared to 2.7% in 2022. As such, we expect weaknesses in Singapore's exports and trade to continue weighing down on Singapore's GDP growth in 2023. EnterpriseSG projects a growth forecast of -6.0% and -8.0% for Total Trade Merchandise and NODX in 2023 respectively.

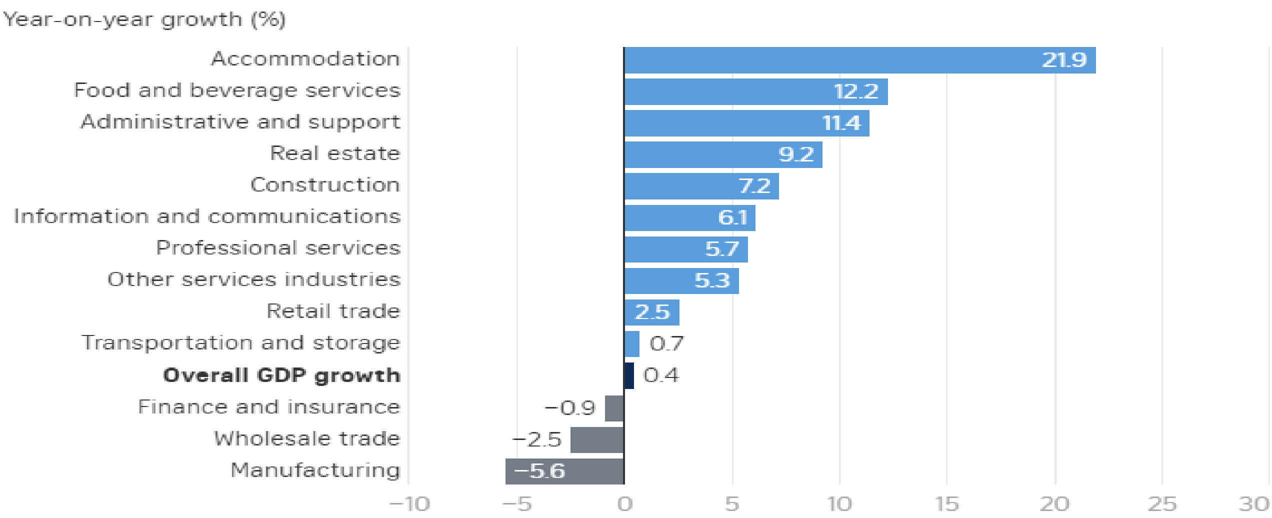
However, despite being weighed down by weaknesses in exports, Singapore may still avoid a technical recession – two consecutive quarters of contraction – due to a resilient recovery in the service sector led by travel- and tourism-related businesses. Most analysts, including those at DBS Bank and Nomura, expects that while the economy will slow, another quarter of negative growth is unlikely. On a year-on-year basis, Singapore's total services trade grew by 1.7% in 1Q 2023, following the increase of 7.0% in the previous quarter, as shown in Exhibit 5 above. Singapore's services, particularly those linked to hospitality and tourism, are expected to remain robust given the increasing number of tourist footfall and tourism receipts since the opening of economies around the world, as shown in **Exhibit 6**. Further improvement in travel activity is expected driven by returning Chinese tourists, which should provide some support for Singapore's growth. Nonetheless, growth is expected to remain slow at around 1.5% in 2023 before rebounding to 2.5% in 2024, according to a Money Authority of Singapore (MAS) survey.

Exhibit 6: Tourists Arrivals and Tourism Receipts

Source: Singapore Tourism Board, FPA

The performances of the various sectors in Singapore for Q1 2023 are shown in **Exhibit 7**.

Exhibit 7: Sector Performances in Q1 2023

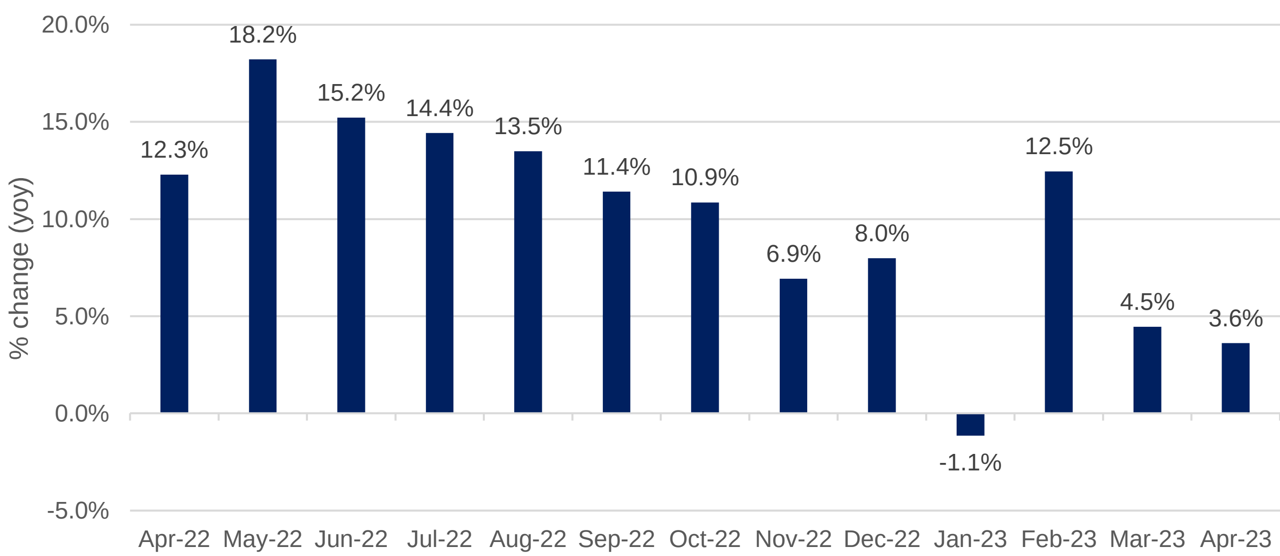


Source: Straits Times, MTI

(II) Singapore's Retail Sector

In the Retail sector, retail sales climbed by 3.6% in April 2023 from the same month a year ago as shown in **Exhibit 8**. This marks the third consecutive month of increase, with the biggest increases coming from food and alcohol, cosmetics and toiletries as tourist arrivals grew. However, it is clear that Singapore's retail sales is losing steam, cooling from a 4.5% increase seen in March, and a 12.6% jump in February that was partly due to the timing of Chinese New Year. Retail sales are expected to continue moderating as pent-up savings from Covid-19 restrictions diminishes and Singapore's economy is headed towards a slowdown.

Exhibit 8: Change in Singapore's Retail Sales Index (%, yoy)

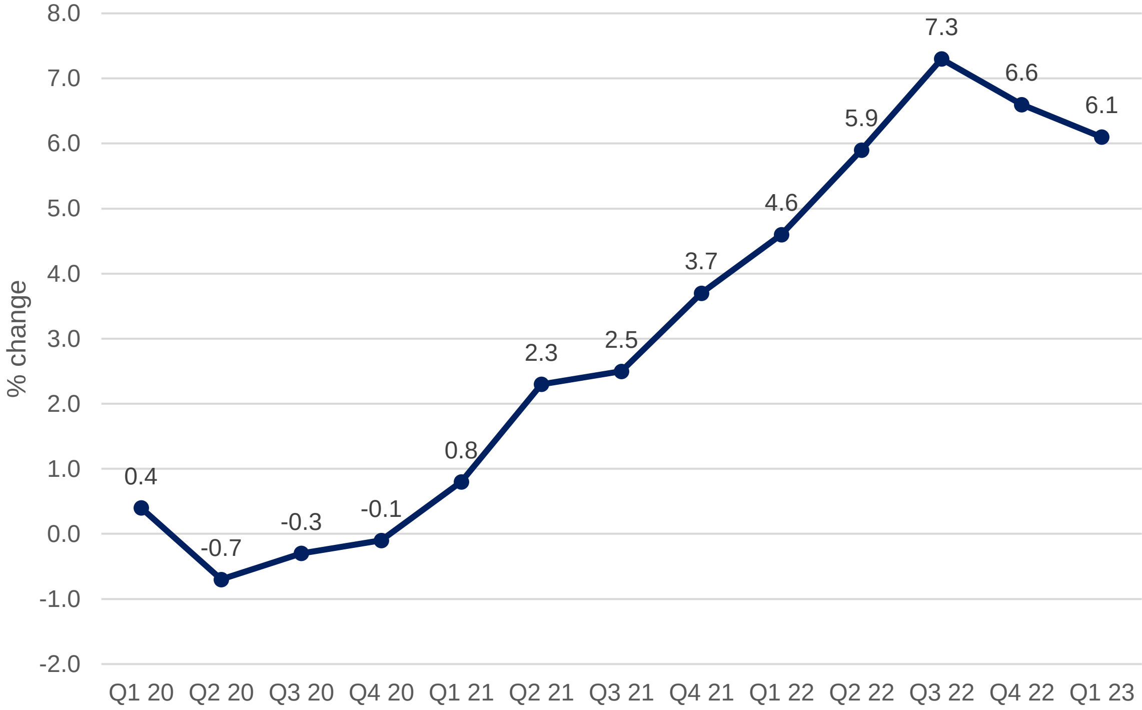


Source: SingStat, FPA

One of the key drivers in dragging retail sales down is the elevated levels of inflation Singapore has been facing. With continued pressures from the high cost of living, consumers' disposable income are sapped and thus this forces consumers to tighten their wallets and cut down on discretionary spending to focus on essentials.

As seen from **Exhibit 9**, Singapore, like many other economies, has been facing elevated inflation due to various factors such as geopolitical tensions between Russia and Ukraine and the surge in demand for goods and services amidst the re-opening of economies globally. Although the rate of price changes is slowing, they remain higher than MAS targets and higher than what consumers have grown accustomed to, especially over the past decade.

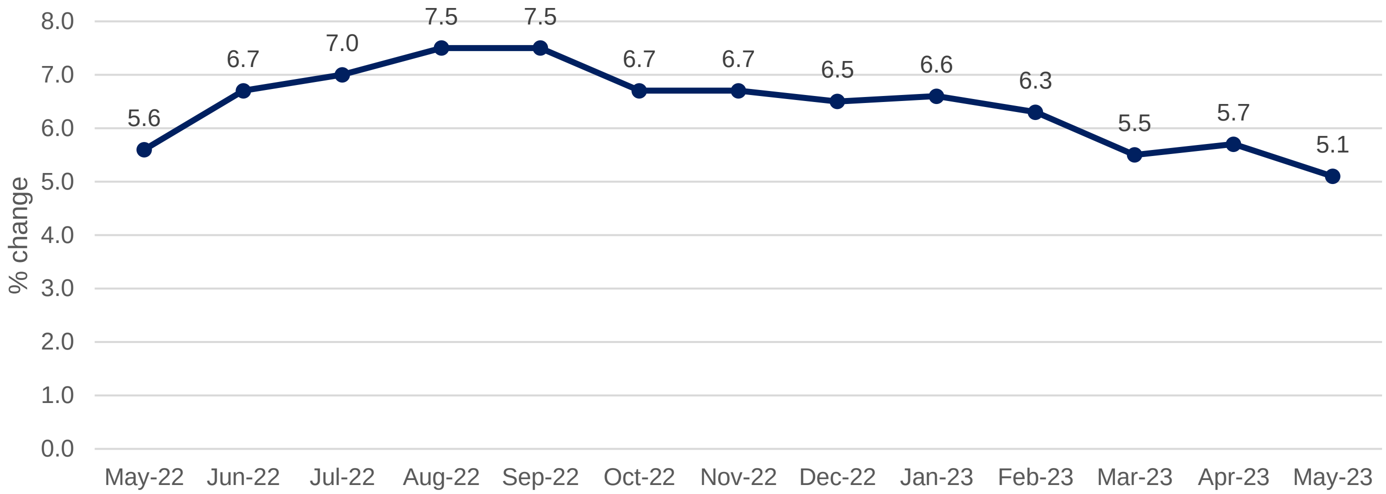
Exhibit 9: Change in quarterly CPI compared to corresponding periods in the base year



Source: SingStat, FPA

Singapore's headline consumer price index, or overall inflation, went up by 5.1% in May 2023, the lowest rate since early 2022, on the back of a fall in inflation for private transportation, services and food, as shown in **Exhibit 10**. It had risen by 5.7% in April. The figure in May was lower than economists' forecast of a rise of 5.5 per cent. With the month-to-month headline inflation and core inflation steadily trending downwards, this suggests that the underlying price pressures are moderating and further declines in year-on-year rates are expected in the months ahead.

Exhibit 10: Change in quarterly CPI compared to corresponding periods in the base year



Source: SingStat, FPA

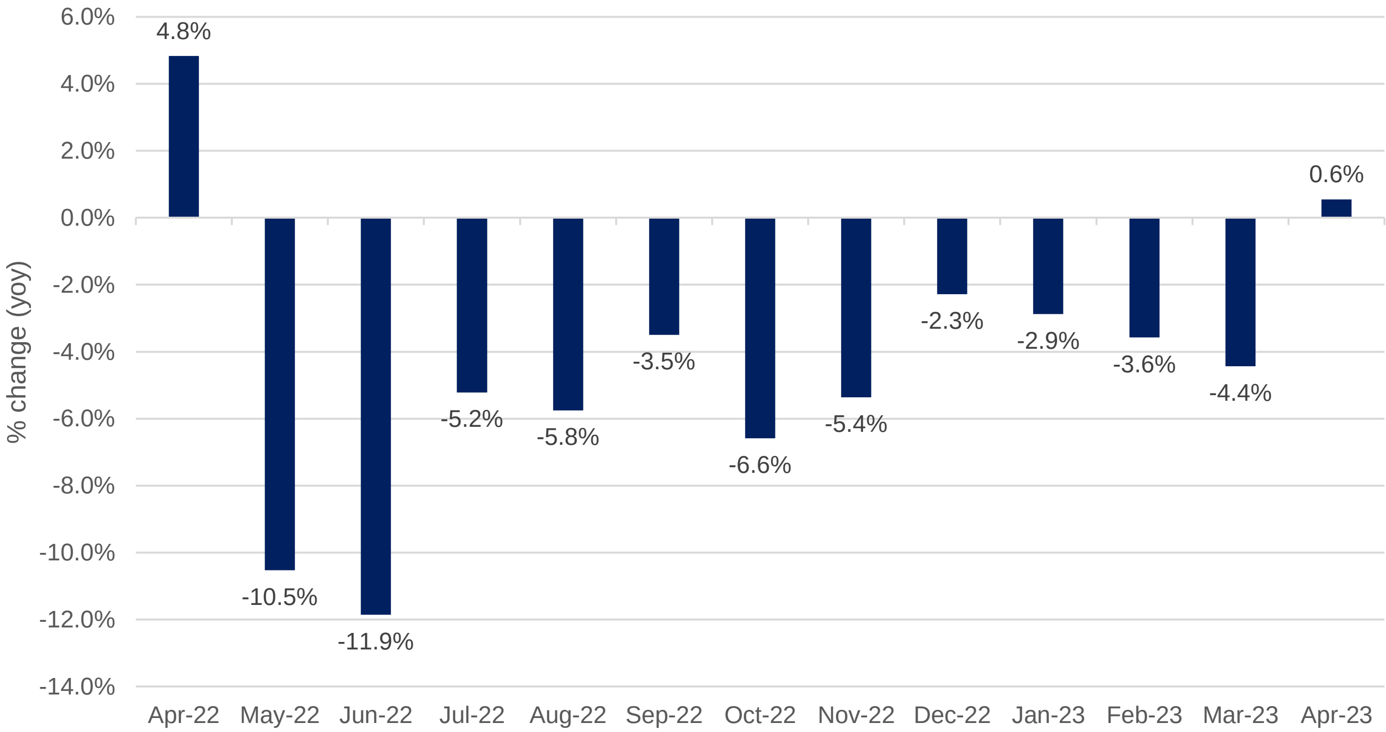
Food prices, which had been a big driver of inflation early in 2023, are falling due to lower global food commodity prices. Accommodation inflation is also expected to soften as a flood of residential property completions come onto the market, ramping up supply and driving down lease prices. Overall, MTI and MAS expect inflation to moderate further in the second half of 2023. However, inflation will be sticky on the way down and remain above pre-pandemic levels. As of 23 June 2023, MTI and MAS projections for headline inflation in 2023 are between 4.5% and 5.5%, while headline inflation for 2024 are between 2.5% to 3.5%. These figures are after taking into account the goods and services tax hike from 7% to 8%, from 1st January 2023 onwards.

Correspondingly, Fitch forecasts household spending to grow by a real rate of 1.5% year-on-year over 2023. While this is slower than growth in 2022, which is estimated at 7.2% year-on-year, growth in 2022 came off a high base due to the recovery effects, with 2023 marking the return to pre-pandemics levels of growth.

(III) Singapore's Supermarket and Hypermarket Industry

Within the Retail Sector, the Supermarket and Hypermarket industry previously benefitted from the surge in spending in groceries due to Covid19 restrictions. However, with the full reopening of the economy and the lifting of Covid19 restrictions, Supermarket and Hypermarket sales have started to lose momentum and begin moderating towards pre-pandemic levels, as seen in **Exhibit 11**.

Exhibit 11: Change in Singapore's Supermarket and Hypermarket Index (%, yoy)



Source: SingStat, FPA

Recent Share Price Developments

In the past year, SSG's share price rose by 0.62% from S$ 1.62 on 15 July 2022 to $$ 1.63 on 14 Jul 2023 as shown in **Exhibit 12**.

Exhibit 12: SSG 1 Year Share Price Performance

On Oct 27 2022, SSG announced its third quarter financial results for the 9 months ended 30 September 2022. Although SSG reported that its third quarter revenue dipped by 4.2% year-on-year to $355.5 million, investors remained positive that this is due to revenue normalizing following the lifting of Covid19 restrictions. Investors noted that despite falling revenue, SSG's gross margin increased to 29.4% from 29% in 3Q 2021, and that its free cash flow jumped 17.8% year on year for 3Q 2022 as the group generated higher operating cash flow and incurred lower capital expenditure. Following the announcement, SSG's share price rose by 2.5% from S$1.56 to S$1.60.

On Feb 27 2023, SSG announced its full year financial results for the year ended 31 December 2022 and reported that its revenue fell 2.2% year-on-year from the high base in 2021. Despite that, gross profit margin increased marginally by 0.7 percentage points to 29.4% in FY2022 compared to FY2021. Similarly, net profit margin increased by 0.3 percentage points to 10.0% in FY2022 compared to FY2021. Earnings per share (EPS) also surpassed analysts' estimates by 1.3%. In view of a resilient financial position, SSG proposed a final dividend of 3.07 cents per share and a total dividend of 6.22 cents per share for FY2022. Following the announcement, SSG's share price rose by 2.5% from S$1.62 to S$1.66.

On 28 Apr 2023, SSG announced its first quarter financial results for the 3 months ended 31 March 2023 and reported that its quarterly revenue fell 0.4% year-on-year while gross profit achieved a marginal gain of 0.1% year-on-year. Again, this showed SSG's resilience and abilities in generating cash flows, defying the odds against normalisation in Singapore's supermarket retail sales. Following the release of SSG's first quarter results, its share price rose from S$1.77 to a 52-week high of S$1.82.

Financial Analysis

In this section, we will review some of the key figures from SSG's financial statements for the year ended 31 December 2022.

(I) Financial Performance Review

Review of Financial Year 2022 Results

Revenue: As shown in **Exhibit 13**, SSG's revenue for the year ended 31 December 2022 fell by 2.2% to S$1,339.5 million from S$1,369.8 million in FY2021, despite opening 4 new stores in Singapore during the year. This is mainly due to the normalisation of sales which was driven by the significant relaxation of COVID-19 measures and mobility restrictions in Singapore since April of FY2022, leading to more consumers dining out. However, although revenue in FY2022 has decreased from FY2021, it still surpassed the S$1 billion mark for the third consecutive year.

Comparing against pre-pandemic times (FY2019), SSG's revenue for FY2022 is still much higher than that of FY2019. SSG's revenue for FY2022 represents an increase of 35.1% year-on-year compared to that in FY2019. This can be attributed to some of the Covid19 restrictions that were still in place for the first half of 2022 in Singapore as well as the rising cost of inflation which attracted more customers.

The subsidiary in China continued to perform well. Revenue from China's operations increased 23.5% year-on-year and contributed to 2.6% of the total revenue in FY2022.

Gross Profit: As shown in **Exhibit 13**, SSG's gross profit increased slightly by 0.1%, from S$393.3 million in FY2021 to S$393.5 million in FY2022, despite the decline in revenue. This is mainly due to an improved sales mix of products with higher margins. The two broad categories of products offered by SSG are fresh and groceries, with the former typically commanding higher margins. Sheng Siong plans to shift its focus towards the fresh category as it seeks to replace the declining wet market industry in Singapore and improve its margins.

Correspondingly, cost of sales decreased by a larger extent compared to revenue in FY2022.

Exhibit 13: SSG's Revenue and Gross Profit

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	FY 2022 $'000	FY 2021 $'000	% change	FY 2019 $'000	% change
Revenue	1,339,464	1,369,760	(2.2%)	991,284	35.1%
Cost of sales	(945,966)	(976,468)	(3.1%)	(724,426)	30.6%
Gross profit	**393,498**	**393,292**	0.1%	**266,858**	47.5%

Source: Sheng Siong, FPA

Other Income: As shown in **Exhibit 14**, SSG reported a 42.9% year-on-year increase in other income to S$17.3 million in FY2022, mainly due to one-off rebates from suppliers, which amounts to approximate S$5.7 million. This have helped to offset the increase in operating expenses for FY2022.

Operating Expenses: As shown in **Exhibit 14**. Administrative Expenses for FY2022 increased by 2.6% year-on-year to S$236.2 million. This is partially due to the operating expenses incurred by the 5 new stores that were opened in FY2021 and FY2022, coupled with a full year's operating expenses of 2 stores opened in China. Another major factor for the increase in Administrative Expense is due to rising rental and electricity prices. SSG stated that it has renewed its electricity contract for a one-year term at a price that is double of its old contract, which was signed 3 years ago. Together, rental, utilities, cleaning expenses and stamp duty make up 46.7% of the increase which is about S$2.8 million. Comparing against pre-pandemic times, Administrative Expense have increased by 36.7% reflecting the escalating cost pressures due to inflation.

Exhibit 14: SSG's Other Income and Operating Expenses

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	FY 2022 $'000	FY 2021 $'000	% change	FY 2019 $'000	% change
Other Income	17,306	12,110	42.9%	8,933	93.7%
Selling and Distribution Expenses	(7,855)	(7,576)	3.7%	(7,669)	2.4%
Administrative Expenses	(236,217)	(230,237)	2.6%	(172,787)	36.7%
Other Expenses	(4,547)	(5,358)	(15.1%)	(2,752)	65.2%
Results from operating activities	**162,185**	**162,231**	(0.0%)	**92,583**	75.2%

Source: Sheng Siong, FPA

Profit for the year: As shown in **Exhibit 15**, SSG's Profit for the Year ending 31 December 2022 increased slightly by 0.4% year-on-year, from S$133.1 million in FY2021 to S$133.6 million in FY2022. However, eliminating the one-off rebate from suppliers approximating S$5.7 million may be a more accurate reflection of SSG's performance for a typical year. Excluding, the one-off rebate from suppliers, SSG's Profit for the Year ending 31 December 2022 would fall by 3.2% year-on-year.

Considering the faster than expected normalisation of sales in the supermarket and hypermarket industry in Singapore, a 3.2% decline in net profits is not abnormal and may instead reflect SSG's resilient financial position despite pressures from escalating costs and normalising sales. Comparing against pre-pandemic times, SSG's net profit for FY2022 is still much higher than before, representing an increase of 76.4% (including one-off rebates from suppliers) or 70.2% (excluding one-off rebates from suppliers).

Finance Income: SSG's Finance Income mainly comprises of interests received from financial institutions. As shown in Exhibit 15, SSG's Finance Income rose by 229.5% year-on-year for FY2022. This is mainly due to the higher inflationary environment which allowed SSG to earn higher interests on their fixed deposits. Furthermore, SSG also has larger ending balances of fixed deposits in FY2022 than in FY2021, indicating an increased investment in fixed deposits.

For the year ended 31 December 2021, SSG had S$192.5 million in fixed deposits that are placed with banks in Singapore and China, earning interest rates between 0.08% to 3.32%. Finance Income totalled S$1.1 million in FY2021

For the year ended 31 December 2022, SSG had S$239.7 million in fixed deposits that are placed with banks in Singapore and China, earning interest rates between 0.48% to 4.87%. Finance Income totalled S$3.7 million in FY202

Exhibit 15: SSG's Profit for the Year

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	FY 2022 $'000	FY 2021 $'000	% change	FY 2019 $'000	% change
Finance Income	3,674	1,115	229.5%	(2,014)	(282.4%)
Finance Expenses	(2,777)	(2,364)	17.5%	1,338	(307.5%)
Profit before tax	163,082	160,982	1.3%	91,907	77.4%
Tax expense	(29,440)	(27,874)	5.6%	(16,152)	82.3%
Profit for the year	**133,642**	**133,108**	0.4%	**75,755**	76.4%
Profit for the year (exclude one-off rebate)	**128,442**	**133,108**	(3.5%)	**75,755**	(7.7%)

Source: Sheng Siong, FPA

Earnings Per Share: As shown in **Exhibit 16**, SSG's Earnings per share increased by 0.5% year-on-year, from 8.83 in FY2021 to 8.87 in FY2022. Comparing against pre-pandemic times, SSG's Earnings per share rose by 76%.

Exhibit 15: SSG's Earnings Per Share

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	FY 2022 $'000	FY 2021 $'000	% change	FY 2019 $'000	% change
Earnings per share					
- Basic and diluted (cents)	8.87	8.83	0.5%	5.04	76.0%

Source: Sheng Siong, FPA

FY2022 Financial Performance: SSG's Consolidated Statement of Profit or Loss and Other Comprehensive Income is shown in **Exhibit 17**.

Exhibit 17: FY2022 Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	FY 2022 $'000	FY 2021 $'000	% change	FY 2019 $'000	% change
Revenue	1,339,464	1,369,760	(2.2%)	991,284	35.1%
Cost of sales	(945,966)	(976,468)	(3.1%)	(724,426)	30.6%
Gross profit	**393,498**	**393,292**	0.1%	**266,858**	47.5%
Other Income	17,306	12,110	42.9%	8,933	93.7%
Selling and Distribution Expenses	(7,855)	(7,576)	3.7%	(7,669)	2.4%
Administrative Expenses	(236,217)	(230,237)	2.6%	(172,787)	36.7%
Other Expenses	(4,547)	(5,358)	(15.1%)	(2,752)	65.2%
Results from operating activities	**162,185**	**162,231**	(0.0%)	**92,583**	75.2%
Finance Income	3,674	1,115	229.5%	(2,014)	(282.4%)
Finance Expenses	(2,777)	(2,364)	17.5%	1,338	(307.5%)
Profit before tax	163,082	160,982	1.3%	91,907	77.4%
Tax expense	(29,440)	(27,874)	5.6%	(16,152)	82.3%
Profit for the year	**133,642**	**133,108**	0.4%	**75,755**	76.4%
Profit attributable to:					
Owners of the Company	133,303	132,833	0.4%	75,732	76.0%
Non-controlling interest	339	275	23.3%	23	1,373.9%
Profit for the year	**133,642**	**133,108**	0.4%	**75,755**	76.4%
Other comprehensive income					
Item that is or may be reclassified subsequently to profit or loss:					
Foreign currency translation differences – foreign operations	(820)	(169)	NM	(137)	NM
Total comprehensive income for the year	**132,822**	**132,939**	(0.1%)	**75,618**	75.6%
Total comprehensive income attributable to:					
Owners of the Company	132,811	132,732	0.1%	75,650	75.6%
Non-controlling interest	11	207	(94.7%)	(32)	(134.4%)
Total comprehensive income for the year	**132,822**	**132,939**	(0.1%)	**75,618**	75.6%
Earnings per share					
- Basic and diluted (cents)	8.87	8.83	0.5%	5.04	76.0%

Source: Sheng Siong, FPA

(II) Balance Sheet Review

Review of Key Figures in Balance Sheet

Cash and Cash Equivalent: Cash and Cash Equivalent comprise cash balances and short-term deposits that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments Historically, SSG has maintained a strong and healthy cash position as a safety buffer against unforeseen circumstances and to take advantage of novel business opportunities. In FY2022, SSG strengthened its cash position as shown in **Exhibit 18**. SSG's Cash and Cash Equivalent increased from S$246.6 million in FY2021 to S$275.5 million in FY2022.

Exhibit 18: SSG's Cash and Cash Equivalent

Statement Of Financial Position	Group	
	2022	2021
	$'000	$'000
Inventories	101,182	98,383
Trade and other receivables	19,540	11,604
Cash and cash equivalents	275,499	246,642
Current assets	**396,221**	**356,629**
Total assets	**785,115**	**739,017**

Source: Sheng Siong, FPA

SSG's cash balance represents 35.1% of its total assets and 111% of its current operating expenses (S$248.6 million). This means that with a cash buffer of $275.5 million, SSG can support its current operating activities for at least 1.1 years approximately, should any unfavourable circumstances occur. This provides a strong safety net for the business.

Term Loan: Historically**,** SSG has kept its debt liabilities at a minimum. In FY2022, SSG's current liabilities was reduced to S$0 after paying off the S$5 million term loan it owed during the year, as shown in **Exhibit 19**. SSG did not have any long-term debt liabilities in both FY2021 and FY2022.

Exhibit 19: SSG's Term Loan

Statement Of Financial Position	Group	
	2022	2021
	$'000	$'000
Liabilities		
Lease liabilities	62,598	48,945
Deferred tax liabilities	1,540	3,229
Non-current liabilities	**64,138**	**52,174**
Trade and other payables	197,455	212,391
Current tax payable	35,297	25,381
Term loan	–	5,000
Lease liabilities	33,052	27,749
Current liabilities	**265,804**	**270,521**

Source: Sheng Siong, FPA

With little need for debt to finance its operations, this means that there is little to no risk of insolvency and there is little conflict of interests between shareholders and bondholders. It also suggest that SSG has superior capital management abilities to manage its cash requirements and that its operating activities are able to generate healthy cash flow on a yearly basis to support its financing and operating needs, both in the short- and long-term.

Lease Liabilities: As shown in **Exhibit 19** above, SSG's non-current lease liabilities increased from S$48.9 million in FY2021 to S$62.6 million in FY2022 while the current lease liabilities increased from S$27.7 million in FY2021 to S$33.1 million in FY2022. This is mostly due to lease agreements entered into for its new outlets during the year as well as in the previous fiscal year. We expect lease liabilities to increase in FY2023 due to the opening of additional new outlets.

FY2022 Balance Sheet: SSG's Statement of Financial Position is shown in **Exhibit 20**

Exhibit 20: SSG's Statement of Financial Position

Statement Of Financial Position	Group 2022 $'000	Group 2021 $'000
Assets		
Property, plant and equipment	291,608	302,883
Right-of-use assets	97,286	79,505
Investment in subsidiaries	–	–
Non-current assets	**388,894**	**382,388**
Inventories	101,182	98,383
Trade and other receivables	19,540	11,604
Cash and cash equivalents	275,499	246,642
Current assets	**396,221**	**356,629**
Total assets	**785,115**	**739,017**
Equity		
Share capital	235,373	235,373
Merger reserve	(68,234)	(68,234)
Foreign currency translation reserve	(590)	(98)
Statutory reserve	156	–
Accumulated profits	285,541	246,365
Equity attributable to owners of the Company	**452,246**	**413,406**
Non-controlling interest	2,927	2,916
Total equity	**455,173**	**416,322**
Liabilities		
Lease liabilities	62,598	48,945
Deferred tax liabilities	1,540	3,229
Non-current liabilities	**64,138**	**52,174**
Trade and other payables	197,455	212,391
Current tax payable	35,297	25,381
Term loan	–	5,000
Lease liabilities	33,052	27,749
Current liabilities	**265,804**	**270,521**
Total liabilities	**329,942**	**322,695**
Total equity and liabilities	**785,115**	**739,017**

Source: Sheng Siong, FPA

(III) Cash Flows Review

Review of Key Figures in Consolidated Statement of Cash Flows

Dividends Paid: SSG has been committed to distributing stable dividends year after year. Historically, SSG has a dividend payout ratio of approximately 70% of its net profit after tax. In FY2021, SSG paid dividends amounting to S$91.7 million which was about 68.9% of its net profit after tax (S$133.1 million) then. In FY2022, SSG paid dividends amounting to S$94.0 million, which is about 70.0% of its net profit after tax (S$133.6 million). Even when looking at pre-pandemic figures, SSG paid dividends amounting to S$52.6 million in FY2019, which is about 69.5% of its net profit after tax then.

Exhibit 21: SSG's Dividends Paid

Consolidated Statement of Cash Flows	2022 $'000	2021 $'000
Financing activities		
Dividends paid	(93,971)	(91,716)

Source: Sheng Siong, FPA

A payout ratio of about 70% of net profit after tax is considered high, but despite that, SSG has been able to sustain it due to strong and stable cash flows from its operating activities and a healthy cash position. Therefore, we do not foresee any drastic changes to SSG's payout ratio in the coming years.

FY2022 Cash Flows: : SSG's Consolidated Statement of Cash Flows is shown in **Exhibit 22**

Exhibit 22: SSG's Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows	2022 $'000	2021 $'000
Operating activities		
Profit for the year	133,642	133,108
Adjustments for:		
Depreciation of:		
– property, plant and equipment	19,539	20,435
– right-of-use assets	33,014	31,179
Gain on disposal of property, plant and equipment	(20)	(205)
Gain on derecognition of right-of-use assets	(12)	(14)
Unrealised exchange gain	(1,017)	(465)
Interest income	(3,674)	(1,115)
Interest expense	2,777	2,364
Tax expense	29,440	27,874
Changes in:		
– inventories	(2,799)	(20,472)
– trade and other receivables	(7,936)	8,345
– trade and other payables	(14,936)	4,302
Cash generated from operations	188,018	205,336
Taxes paid	(21,213)	(32,633)
Cash flows from operating activities	166,805	172,703
Investing activities		
Proceeds from disposal of property, plant and equipment	149	263
Purchase of property, plant and equipment	(8,795)	(31,693)
Interest received	3,674	1,115
Cash flows used in investing activities	(4,972)	(30,315)
Financing activities		
Dividends paid	(93,971)	(91,716)
Repayment of borrowings	(5,000)	(25,000)
Payment of lease liabilities	(31,938)	(31,003)
Interest paid on lease liabilities	(2,569)	(2,158)
Cash flows used in financing activities	(133,478)	(149,877)
Net increase/(decrease) in cash and cash equivalents	28,355	(7,489)
Cash and cash equivalents at beginning of the year	246,642	253,901
Effect of exchange rate changes on balances held in foreign currencies	502	230
Cash and cash equivalents at end of the year	275,499	246,642

Source: Sheng Siong, FPA

Potential Catalysts

In this section, we will discuss some of the potential catalyst that may lend support to SSG's business

(I) Higher Inflationary Environment

A higher and stickier inflationary environment would be a tailwind for SSG. As the costs of living increases or remain at elevated levels for prolonged periods, this will diminish consumers' spending power and disposable income, which may encourage consumers to turn to cheaper alternatives. Since SSG's products are well-perceived as "value-for-money" compared to other grocery retailers in Singapore, a higher inflationary environment may help to boost demand and sales of SSG's products.

(II) Opportunities for New Stores

With the easing of Covid19 restrictions in Singapore, construction of HDB flats should also resume its normal schedule, especially as the government looks to ramp up its public housing supply to meet strong demand and clear the backlog accumulated during the pandemic years. According to National Development Minister Desmond Lee, there will be 150 concurrent built-to-order (BTO) projects by 2025. This presents a good opportunity for SSG, considering that SSG's strategy is to grow its business through steady store expansion primarily in the suburban residential areas in Singapore and where SSG presence is lacking.

SSG has opened 1 new store YTD and is expected to open at least another 2 new stores by the end of the year, in line with their goal of opening 3-5 new stores a year, although it is also worth noting that SSG had opened up to 10 new stores in a single year before. According to SSG, the estimated capital expenditure for each new store ranges around S$1 million to S$1.2 million. However, the actual capital expenditure for a particular year will depend on the speed of expansion. There are currently 6 HDB located stores up for bidding with tender completion by year-end. Each of which could potentially deliver S$14m and S$1.3m to top and bottom-line respectively upon full ramp up, noting that these locations generally have little competition nearby, according to DBS.

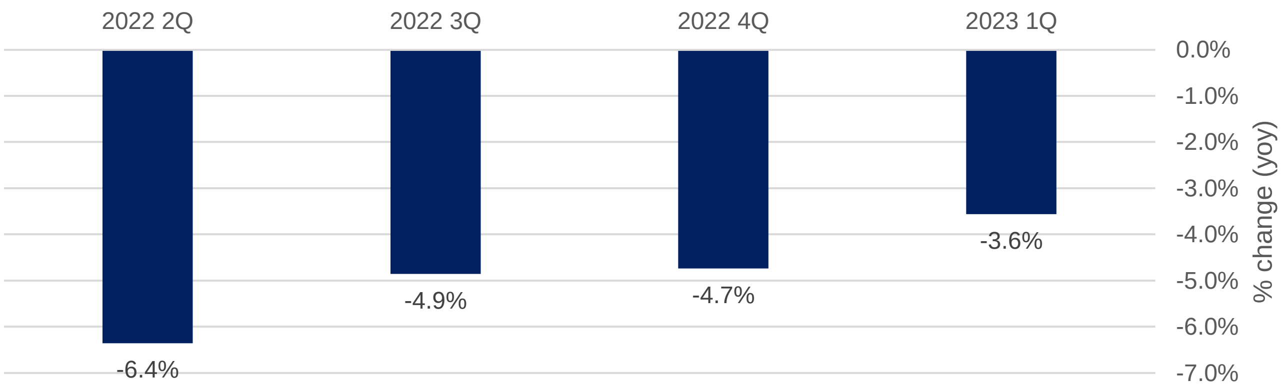
With an additional fifth store due to open in Kunming, China and further expected new stores in Singapore this year, this would provide a boost and support to its sales amid the backdrop of the supermarket and hypermarket industry normalising.

Financial Projections

(I) Revenue and Gross Profit Projection

As highlighted in the Market Outlook Section, Singapore's Supermarket and Hypermarket industry has been declining year-on-year for the past months, and this is expected to continue in the coming months as consumers turn towards dining out. As shown in **Exhibit 23**, in the first quarter of 2023, supermarket and hypermarket retail sales fell by 3.56% year-on-year because of the impact of normalisation after Covid19 restrictions have been fully lifted.

Exhibit 23: Quarterly Supermarket and Hypermarket Retail Sales Index (yoy)



Source: SingStat, FPA

Correspondingly, SSG's revenue has also been moderating as it sees its sales taper further downwards. As shown in **Exhibit 24**, SSG's Q1 2023 revenue fell by 0.4% year-on-year, which is much lesser than the 3.6% year-on-year decline in supermarket and hypermarket retail sales in Singapore for the first quarter of 2023. We also noted that during FY2022, Covid19 restrictions were not fully lifted in Singapore until the second quarter of the year, which would have kept SSG's Q1 grocery retail sales elevated in FY2022. Despite that, SSG's was able to keep its FY2023 Q1 revenue at comparable to that of FY2022 mainly due to SSG opening 4 new outlets in FY2022, which have provided some support to its Q1 2023's revenue amid the normalisation of sales in the supermarket and hypermarket industry.

Exhibit 24: SSG's Q1 2023 Revenue

Consolidated Statement of Profit or Loss and Other Comprehensive Income	1st Quarter ended		% change
	31 Mar 2023 S$'000	31 Mar 2022 S$'000	
Revenue	356,545	357,955	(0.4)%

Source: Sheng Siong, FPA

We find that the backdrop for SSG in FY2023 will be very similar to FY2022. We expect SSG to open 4 new outlets in FY2023 just as they did in FY2022, which will again provide some support to its revenue for FY2023. As of 30 June 2023, SSG has already opened 1 new outlet in Singapore this year and is likely to open another 2 more in Singapore and another 1 is due to open in China this year. Given that SSG's backdrop in FY2023 is similar to that in FY2022, we will assume SSG's Q1 year-on-year revenue growth of -0.4% as a proxy for the whole of FY2023. Therefore, we project SSG's revenue to fall by 0.4% year-on-year to S$1.3 billion in FY2023 as shown in **Exhibit 25**.

We expect that in FY2024, supermarket sales would have fully normalised by then and the business environment would be more similar to pre-pandemic times. Therefore, in FY2024, we do not expect any further decline in year-on-year revenue. As mentioned in page 7 under Market Outlook, MAS forecasts GDP growth to be 2.5% for Singapore in 2024. Using Singapore's 2024 GDP growth as a proxy, we project SSG's revenue to grow by 2.5% yoy in FY2024.

Accordingly, we project SSG' revenue to be approximately S$1.33 billion in FY2023 and S$1.37 billion in FY2024 as shown in **Exhibit 25**.

Exhibit 25: Projected Revenue for FY2023 and FY2024

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast		Actual			
	FY 2024 $'000	FY 2023 $'000	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Revenue	1,377,541	1,334,106	1,339,464	1,369,760	1,393,998	991,284

Source: Sheng Siong, FPA

As shown in **Exhibit 26**, SSG's cost of sales as a percentage of revenue has been declining over the years, from 73.1% in FY2019 to 71.3% in FY2021 and further down to 70.6% for FY2022, due to better sales mix.

Exhibit 26: SSG's Cost of sales as a percentage of revenue

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Actual							
	FY 2022 $'000	% of Revenue	FY 2021 $'000	% of Revenue	FY 2020 $'000	% of Revenue	FY 2019 $'000	% of Revenue
Revenue	1,339,464		1,369,760		1,393,998		991,284	
Cost of sales	(945,966)	70.6%	(976,468)	71.3%	(1,012,140)	72.6%	(724,426)	73.1%
Gross profit	**393,498**	29.4%	**393,292**	28.7%	**381,858**	27.4%	**266,858**	26.9%

Source: Sheng Siong, FPA

As mentioned earlier in under the Market Outlook section, Singapore has been facing elevated inflation due to various factors such as geopolitical tensions between Russia and Ukraine and the surge in demand for goods and services amidst the re-opening of economies globally, which have caused cost prices to soar. From May 2022 to May 2023, monthly CPI growth year-on-year was within the 5% to 7% range. Despite the rising cost pressures, SSG was able to achieve lower cost of sales per unit of revenue and higher gross profit margins over the years, which is indicative of SSG's ability to pass on the increase in costs to their customers. This also showed that SSG's strategy to improve their sales mix had been successful. Therefore, we do not expect SSG's cost of sales as a percentage of revenue to increase even in the current high inflationary environment.

Given that SSG's management have highlighted that they plan to continue improving their sales mix to focus on products that bring in a higher margin, we expect SSG's cost of sales as a percentage of revenue to continue declining for FY2023 and FY2024.

As shown previously in **Exhibit 26**, SSG's cost of sales as a percentage of revenue fell from 73.1% in FY2019 to 72.6% in FY2020, translating to a 0.5% decline year-on-year. Further, SSG's cost of sales as a percentage of revenue fell to 71.3% in FY2021, translating to a 1.3% decline year-on-year. Finally, SSG's cost of sales as a percentage of revenue fell to 70.6% in FY2022, translating to a 0.7% decline year-on-year.

Using the average change in cost of sales as a percentage for the past 3 years as a proxy, we assume cost of sales as a percentage of revenue to fall by 0.83% year-on-year in FY2023 and FY2024.

$$Change\ in\ cost\ of\ sales\ as\ a\ \%\ of\ revenue\ = \frac{Sum\ of\ change\ in\ cost\ of\ sales\ as\ a\ \%\ of\ revenue\ in\ FY2020\ to\ FY2023}{3}$$

$$Change\ in\ cost\ of\ sales\ as\ a\ \%\ of\ revenue = \frac{-0.50\% + (-1.3\%) + (-0.70\%)}{3} = -0.83\%$$

Therefore, assuming that cost of sales as a percentage of revenue falls by 0.83% year-on-year in FY2023 and FY2024 , SSG's cost of sales as a percentage of revenue is expected to be 69.8% in FY2023 and 68.9% in FY2024. Accordingly, we project cost of sales to be approximately S$930.8 million in FY2023 and S$942.7 million in FY2024 as shown in **Exhibit 27.**

Exhibit 27: SSG's Projected Cost of sales

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast				Actual			
	FY 2024 $'000	% of Revenue	FY 2023 $'000	% of Revenue	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Revenue	1,367,459		1,334,106		1,339,464	1,369,760	1,393,998	991,284
Cost of sales	(942,726)	68.9%	(930,806)	69.8%	(945,966)	(976,468)	(1,012,140)	(724,426)

Source: Sheng Siong, FPA

Therefore, as shown in **Exhibit 28**, we project SSG's gross profit to be S$403.3 million in FY2023 and S$424.7 million in FY2024

Exhibit 28: Projected Gross Profit for FY2023 and FY2024

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast		Actual			
	FY 2024 $'000	FY 2023 $'000	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Revenue	1,367,459	1,334,106	1,339,464	1,369,760	1,393,998	991,284
Cost of sales	(942,726)	(930,806)	(945,966)	(976,468)	(1,012,140)	(724,426)
Gross profit	**424,733**	**403,300**	**393,498**	**393,292**	**381,858**	**266,858**

Source: Sheng Siong, FPA

(II) Operating Income Projection

Other Income: Historically, SSG's Other Income accounts for about 0.5%-0.9% of its revenue for FY2019, FY2021 and FY2022 as shown in **Exhibit 29**. SSG's Other Income segment comprise of government grants and rental income from sub-leasing of properties.

In FY2021, a one-time off government grant amount to approximately S$4.8 million was given to SSG, whereas in FY2022, a one-time off rebate from suppliers, amounting to approximately S$5.7 million was given to SSG. Therefore, we have excluded these items in our calculation for other income as they were one-time off items which we do not expect will continue in the following fiscal years, given that the Covid19 situation is now well under control.

Using the 4-year Moving Average as a proxy for Other Income, we project Other Income to be 0.69% and 0.64% of SSG's revenue for the year in FY2023 and FY2024 respectively. Correspondingly, Other Income is projected to be S$9.2 million in FY2023 and S$8.8 million in FY2024.

<u>Exhibit 29: SSG's Other Income</u>

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast				Actual							
	FY 2024 $'000	% of Revenue	FY 2023 $'000	% of Revenue	FY 2022 $'000	% of Revenue	FY 2021 $'000	% of Revenue	FY 2020 $'000	% of Revenue	FY 2019 $'000	% of Revenue
Revenue	1,367,459		1,334,106		1,339,464		1,369,760		1,393,998		991,284	
Other Income	8,752	0.64%	9,205	0.69%	11,606	0.87%	7,310	0.53%	6,443	0.46%	8,933	0.90%

Source: Sheng Siong, FPA

Selling and Distribution Expenses: Historically, SSG's Selling and Distribution Expenses accounts for about 0.5%-0.8% of its revenue for the year, as shown in **Exhibit 30**. We do not foresee any drastic changes to SSG's current Selling and Distribution expenses as it is already a well-recognized brand and already has well-established practices in place for its operations.

Therefore, we project Selling and Distribution Expenses to be 0.61% and 0.57% of SSG's revenue for the year in FY2023 and FY2024 respectively, using a 4-year Moving Average. Correspondingly, we project Selling and Distribution Expenses to be S$6.5 million in FY2023 and S$7.4 million in FY2024.

<u>Exhibit 30:SSG's Selling and Distribution Expense</u>

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast				Actual							
	FY 2024 $'000	% of Revenue	FY 2023 $'000	% of Revenue	FY 2022 $'000	% of Revenue	FY 2021 $'000	% of Revenue	FY 2020 $'000	% of Revenue	FY 2019 $'000	% of Revenue
Revenue	1,367,459		1,334,106		1,339,464		1,369,760		1,393,998		991,284	
Selling and Distribution Expenses	(7,384)	0.57%	(6,537)	0.61%	(7,855)	0.59%	(7,576)	0.55%	(7,222)	0.52%	(7,669)	0.77%

Source: Sheng Siong, FPA

Administrative Expenses: Historically, as shown in **Exhibit 31**, SSG's Administrative Expenses varied from S$172.8 million to S$245.2 million each year for the past 4 years. SSG's Administrative Expenses are influenced by various factors such as utility cost and the cost of opening new outlets & labour costs.

We noted that SSG has renewed its electricity contract for a one-year term at a price that is twice its old contract price and is due to open another store in China this year, and potentially another 2 in Singapore to be in line with its growth expansion plan. Therefore, including the one outlet opened earlier this year, we expect SSG to open 4 new outlets this year, just as it did in FY2022. These are costs that will be largely affected by inflation.

As mentioned previously on page 10 under Market Outlook, MTI and MAS projections for headline inflation in 2023 are between 4.5% and 5.5%, while headline inflation for 2024 are between 2.5% to 3.5%. Using the average of the upper bound and the lower bound figures as a proxy, we project Administrative Expenses to increase by 5% in FY2023 and 3% in FY2024. According, Administrative Expenses are projected to be approximately S$248.0 million in FY2023 and S$255.5 million in FY2024.

Exhibit 31: SSG's Administrative Expenses

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast		Actual			
	FY 2024 $'000	FY 2023 $'000	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Administrative Expenses	(255,469)	(248,028)	(236,217)	(230,237)	(245,159)	(172,787)

Source: Sheng Siong, FPA

Other Expenses: Historically, SSG's Other Expenses accounted for 0.2%-0.4% of its revenue for the year, as shown in **Exhibit 32**. We do not foresee any drastic changes to SSG's current Other Expenses.

Therefore, using a 4-year Moving Average as a proxy for Other Expenses, we project Other Expenses to be 0.33% and 0.35% of SSG's revenue for the year in FY2023 and FY2024 respectively. Correspondingly, we project SSG's Other Expenses to be S$3.6 million in FY2023 and S$4.5 million in FY2024.

$$Projected\ Other\ Expenses\ for\ FY2023 = \frac{sum\ of\ other\ expenses\ as\ a\ \%\ of\ revenue\ from\ FY2019\ to\ FY2022}{4}$$

$$Projected\ Other\ Expenses\ for\ FY2023 = \frac{0.28\% + 0.33\% + 0.39\% + 0.34\%}{4} = 0.33\%$$

$$Projected\ Other\ Expenses\ for\ FY2023 = \frac{sum\ of\ other\ expenses\ as\ a\ \%\ of\ revenue\ from\ FY2020\ to\ FY2023}{4}$$

$$Projected\ Other\ Expenses\ for\ FY2024 = \frac{0.33\% + 0.39\% + 0.34\% + 0.33\%}{4} = 0.35\%$$

Exhibit 32: SSG's Other Expenses

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast				Actual							
	FY 2024 $'000	% of Revenue	FY 2023 $'000	% of Revenue	FY 2022 $'000	% of Revenue	FY 2021 $'000	% of Revenue	FY 2020 $'000	% of Revenu e	FY 2019 $'000	% of Revenue
Revenue	1,367,459		1,334,106		1,339,464		1,369,760		1,393,998		991,284	
Other Expenses	(4,513)	0.35%	(3,602)	0.33%	(4,547)	0.34%	(5,358)	0.39%	(4,580)	0.33%	(2,752)	0.28%

Source: Sheng Siong, FPA

Operating Income: Putting the above together, we project SSG's Operating Income to be S$154.3 million in FY2023 and S$166.1 million in FY2024 as shown in **Exhibit 33.**

Exhibit 33: Projected Operating Income for FY2023 and FY2024

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast		Actual			
	FY 2024 $'000	FY 2023 $'000	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Gross profit	**424,733**	**403,300**	**393,498**	**393,292**	**381,858**	**266,858**
Other Income	8,752	9,205	11,606	7,310	6,443	8,933
Selling and Distribution Expenses	(7,384)	(6,537)	(7,855)	(7,576)	(7,222)	(7,669)
Administrative Expenses	(255,469)	(248,028)	(236,217)	(230,237)	(245,159)	(172,787)
Other Expenses	(4,513)	(3,602)	(4,547)	(5,358)	(4,580)	(2,752)
Results from operating activities	**166,119**	**154,339**	**156,485**	**162,231**	**166,140**	**92,583**

Source: Sheng Siong, FPA

(III) Net Profit Projection

Finance Income: According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for FY2022 was 2.745% while the average SGS 10-year bond yield for the first half of FY2023 was 2.99% as shown in **Exhibit 34**. Therefore, the average SGS 10-year bond yield for the first half of FY2023 increased by 0.245 percentage points.

$$Increase\ in\ \text{average SGS 10−year}\ bond\ yield = 2.99\% - 2.745\% = 0.245\%$$

Exhibit 34: SGS 10-year average bond yield

FY2022	10-Year Bond Yield (%)	FY2023	10-Year Bond Yield (%)
Jan-22	1.77	Jan-23	2.97
Feb-22	1.90	Feb-23	3.34
Mar-22	2.34	Mar-23	2.94
Apr-22	2.53	Apr-23	2.76
May-22	2.71	May-23	2.85
Jun-22	2.98	Jun-23	3.08
Jul-22	2.66		
Aug-22	2.98		
Sep-22	3.48		
Oct-22	3.43		
Nov-22	3.07		
Dec-22	3.09		
Average	**2.745**		**2.99**

Source: MAS, FPA

This increase is largely due to the tightening of monetary policy in Singapore between the period observed which led to higher interest rates. Considering that the SGS 10-year bond yield increased by 0.245 percentage points in the first 6 months of FY2023 from FY2022, we would assume the increase in SGS 10-year bond yield as a proxy for the increase in interests earned on SSG's fixed deposits for FY2023.

As shown in **Exhibit 35**, in FY2022, SSG had approximately S$239.8 million in fixed deposits and its finance income for the year was approximately S$3.6 million, translating to an effective interest rate of 1.53%. Using the SGS10-year bond yield increase as a proxy, we assume that the effective interest rate would increase by 0.245%, to 1.78% in FY2023.

For FY2024, we expect that Singapore may keep rates elevated for a period of time in order to bring inflation towards its target rate. Therefore, we assume SSG's effective interest rate earned on fixed deposits rate to remain unchanged at 1.78% in FY2024. Further, we assume that there is no drastic changes to SSG's fixed deposits for FY2023 and FY2024. Accordingly, we project SSG's Finance Income to be approximate S$4.3 million in FY2023 and FY2024.

Exhibit 35: Finance Income

	Forecast		Actual
	2024	2023	2022
	S$'000	S$'000	S$'000
Fixed Deposits	239,749	239,749	239,749
Finance Income	4,261	4,261	3,674
Effective interest rate	1.78%	1.78%	1.53%

Source: Sheng Siong, FPA

Finance Expense: SSG's Finance Expense mainly comprise of interest expenses incurred due to outstanding lease obligations. Finance Expense has been increasing by about 17% for the past 2 fiscal years due to additional lease agreements entered by SSG for opening their new outlets. We expect SSG's expansion plans for FY2023 and FY2024 to be similar to the previous years, given that SSG plans to increase its outlets steadily by 3 to 4 new outlets a year. Therefore, we project Finance Expense to increase by 17% year-on-year for FY2023 and FY2024, as shown in **Exhibit 36**

Tax Expense: As shown in **Exhibit 36**, we calculated Tax Expense for FY2023 and FY2024 using SSG's tax rate of 17%.

Exhibit 36: Projected Net Profit for FY2023 and FY2024

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast		Actual			
	FY 2024 $'000	FY 2023 $'000	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Finance Income	4,261	4,261	3,674	1,115	984	1,338
Finance Expenses	(3,801)	(3,249)	(2,777)	(2,364)	(2,016)	(2,014)
Profit before tax	166,579	155,351	157,382	160,982	165,108	91,907
Tax expense	(28,318)	(26,410)	(29,440)	(27,874)	(25,975)	(16,152)
Profit for the year*	**138,260**	**128,941**	**127,942**	**133,108**	**139,133**	**75,755**

**Figures are after excluding one-off grants/rebates*

Source: Sheng Siong, FPA

FY2023 and FY2024 Projections: The full projections for SSG's Consolidated Statement of Profitt and Loss and Other Comprehensive Income is shown in **Exhibit 37**

Exhibit 37: Projected Consolidated Statement of Profit and Loss and Other Comprehensive Income

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income	Forecast		Actual			
	FY 2024 $'000	FY 2023 $'000	FY 2022 $'000	FY 2021 $'000	FY 2020 $'000	FY 2019 $'000
Revenue	1,367,459	1,334,106	1,339,464	1,369,760	1,393,998	991,284
Cost of sales	(942,726)	(930,806)	(945,966)	(976,468)	(1,012,140)	(724,426)
Gross profit	**424,733**	**403,300**	**393,498**	**393,292**	**381,858**	**266,858**
Other Income*	8,752	9,205	11,606	7,310	6,443	8,933
Selling and Distribution Expenses	(7,384)	(6,537)	(7,855)	(7,576)	(7,222)	(7,669)
Administrative Expenses	(255,469)	(248,028)	(236,217)	(230,237)	(245,159)	(172,787)
Other Expenses	(4,513)	(3,602)	(4,547)	(5,358)	(4,580)	(2,752)
Results from operating activities	**166,119**	**154,339**	**156,485**	**162,231**	**166,140**	**92,583**
Finance Income	4,261	4,261	3,674	1,115	984	1,338
Finance Expenses	(3,801)	(3,249)	(2,777)	(2,364)	(2,016)	(2,014)
Profit before tax	166,579	155,351	157,382	160,982	165,108	91,907
Tax expense	(28,318)	(26,410)	(29,440)	(27,874)	(25,975)	(16,152)
Profit for the year	**138,260**	**128,941**	**127,942**	**133,108**	**139,133**	**75,755**
Profit attributable to:						
Owners of the Company	137,909	128,613	133,303	132,833	138,650	75,732
Non-controlling interest	352	328	339	275	483	23
Profit for the year	**138,260**	**128,941**	**127,942**	**133,108**	**139,133**	**75,755**

**Figures are after excluding one-off grants/rebates*

Source: Sheng Siong, FPA

Valuation Analysis (incomplete)

(I) Peer Comparison Analysis

The following companies were used as the basis for our comparable company analysis, together with a brief description of each company

(a) Kansai Food Market Limited

Kansai Food Market Ltd, formerly Kansai Super Market Ltd, is a Japan-based company which mainly engages in the supermarket and related business. The Company is engaged in the operation of supermarket chains mainly for food and stores rental.

(b) New Huadu Technology

New Huadu Technology, formerly New Hua Du Supercenter, is a China-based company which operates in the retail industry. The company is engaged in operating hypermarkets, supermarkets, and department stores.

(c) Sanjiang Shopping Club

Sanjiang Shopping Club is a China-based company which mainly engages in the operation of supermarkets, innovative stores and small-scale stores

(d) Yonghui Superstores

Yonghui Superstores is a China-based company, principally engaged in the operation of regular chain supermarkets. The Company primarily engages in the dealing of fresh meat products, agricultural products, processed foods, daily necessities, clothing, household appliances, electronic products and imported goods, among others

(e) Hero Supermarket

Hero Supermarket is an Indonesia-based company that is primarily engaged in the business of supermarkets and specialty stores. The Company's segments include food and non-food.

(f) Dairy Farm Retail Group

DFI Retail Group Holdings Ltd, formerly Dairy Farm International Holdings Limited, is a company primarily engaged in retail business. The Company operates its business through five segments – Food, Health & Beauty, Home Furnishings, Restaurants, and Others.

Our Comparable Companies Analysis is shown in **Exhibit 38**.

Exhibit 38: Peer Comparison Analysis

Company	Stock Listing	Price as at 14 Jul 2023 (in S$)(1)	Market Cap (million)	EPS (cents)(2)	P/E	DPS (cents)(2)	Dividend Yield (%)	Book Value per share (S$)	P/B
Sheng Siong Group	SGX	1.61	2,470	8.87	18.2x	6.22	3.86%	0.30	5.4x
Kansai Food Market Limited	TSE	13.94	794	69.98	19.9x	15.33	1.10%	11.15	1.3x
New HuaduTechnology	SZSE	1.11	795	6.66	16.6x	-	-	0.39	2.8x
Sanjiang Shopping Club	SSE	2.32	1,312	5.37	43.3x	3.70	1.59%	1.09	2.1x
Yonghui Superstores	SSE	0.60	5,425	(5.18)	NM	0.00	0.01%	0.16	3.7x
Hero Supermarket	JKSE	0.12	482	(0.63)	NM	-	-	0.02	4.9x
Dairy Farm Retail Group	SGX	3.79	5,292	(11.93)	NM	3.98	1.05%	0.89	4.2x
Average					**26.6x**		**0.94%**		**3.2x**

(1) Calculated based on respective exchange rate on 14 Jul 2023
(2) Trailing 12-month data
(3) Most recent quarter

Source: Yahoo Finance, Respective companies' annual reports, FPA

(a) P/E Multiple

Based on the results in **Exhibit 38**, SSG is currently trading at a P/E Multiple of 18.2x which is lower than the average P/E ratio of 26.6x, which suggest that SSG is undervalued at the current share price of S$1.61 as of 14 July 2023. Adopting a relative valuation approach, we estimate a target price of S$2.36 if SSG were to trade at the peer average P/E multiple of 26.6x.

$$Estimated\ Target\ Price = Peer\ Average\ P/E\ ratio \times SSG's\ EPS$$

$$Estimated\ Target\ Price\ = 26.8 \times 0.087 =\ S\$2.36$$

The estimated target price of S$2.47 would imply an upside potential of 46.69% from the current price of S$1.61

(b) P/B Multiple

Based on the results in **Exhibit 38**, SSG is currently trading at a P/B Multiple of 5.4x which is higher than the average P/B ratio of approximately 3.2x. This may suggest that it is overvalued at the current share price of S$1.61 as of 14 July 2023. Adopting a relative valuation approach, we estimate a target price of S$0.95 if SSG were to trade at the peer average P/B multiple of 3.2x.

$$Estimated\ Target\ Price = Peer\ Average\ P/B\ ratio \times SSG's\ Book\ Value\ per\ share$$

$$Estimated\ Target\ Price = 3.2 \times 0.3 = S\$0.95$$

The estimated target price of S$1.50 would imply a downside potential of 40.9% from the current price of S$1.61

(c) Dividend Yield

Based on the results in Exhibit 38, SSG's dividend yield is 3.86% which is higher than the average dividend yield of 0.94%. Adopting a relative valuation approach, we estimate a target price of S$6.61 as follows:

$$Estimated\ Target\ Price = \frac{SSG\ dividend\ yield}{Peer\ average\ dividend\ yield} \times SSG\ current\ price$$

$$Estimated\ Target\ Price\ = \frac{3.86\%}{0.94\%} \times 1.61\ =\ S\$6.61$$

However, given that some of the peer comparable companies do not pay out dividend, the estimated target price we have decided to omit using Dividend Yield as part of our valuation analysis for SSG.

(d) Estimated Target Price

Considering the above, SSG is currently undervalued compared to its peers in terms of P/E and but is overvalued compared to its peers in terms of P/B. Based on our estimated target price of S$2.47 and S$0.95, we derived a target price of S$1.71, which is the average price of our estimated target prices based on the peer average P/E and P/B ratios as follows:

$$Target\ Price = \frac{Estimated\ Target\ Price\ from\ P/E\ analysis + Estimated\ Target\ Price\ from\ P/B\ analysis}{2}$$

$$Target\ Price = \frac{S\$2.36 + S\$0.95}{2} = S\$1.66$$

SWOT Analysis

Strengths	Weaknesses
• Strong brand recognition • Experienced Management	• Susceptible to lease and labour price hikes
Opportunities	**Threat**
• Overseas Expansion	• Supply disruptions

(I) Strengths

(a) Strong brand recognition

As mentioned earlier, Sheng Siong is among the top 3 supermarket chain in Singapore, which is well-recognized for its value-for-money products. With its 68 outlets, SSG has a strong presence across various parts of Singapore, and this is expected to further grow as Sheng Siong looks to continue expanding its operations steadily. It also has its own television show titled "The Sheng Siong Show" since 2007 to further raise its profile amongst the national audiences.

We also noted that SSG has been awarded with numerous accolades over the years. Since 2008 onwards, SSG has been awarded with the "Superbrands" status by Superbrands Singapore, a global organization that recognizes the most valued and exceptional brands. Attaining "Superbrands" status can help to strengthen a brands position, adds prestige and reassures consumers and suppliers that they are buying the best brand in its category. To achieve this year on year is a testament of SSG's abilities in consistently delivering quality goods and services that meet the needs of its customers. More recently, they have also been awarded with the SIAS Investors Choice Awards and been recognized as the best customer service provider by Straits Times in 2022, adding further to its portfolio of accolades.

(b) Experienced Management

SSG was founded by the 3 Lim brothers – Lim Hock Eng, Lim Hock Chee and Lim Hock Leng.

Mr Lim Hock Eng, who now serves as the Executive Chairmain, has more than 40 years of experience in grocery retailing. Currently, Mr Lim is responsible for SSG's business strategy, planning and business administration. He also manages the day-to-day operations, including overseeing the setting-up process for the new stores, supervising the preparation and submission of SSG's bids and tenders for new premises, as well as the renovation works, equipment purchases and installations required to fit out such premises.

Mr Lim Hock Chee, who now serves as the Chief Executive Officer, also has more than 40 years of experience in grocery retailing. Currently, he is responsible for managing the day-to-day operations, including overseeing the operations in China and aspects of the meat-related business of the grocery retailing operations, such as selection, supply, processing, storage and quality control.

Mr Lim Hock Leng, who now serves as the Managing Director, has more than 30 years of grocery retailing experience. Currently, he is responsible for overseeing SSG's operations and developing our business in alignment with consumer preferences and consumption patterns.

(II) Weaknesses

(a) Susceptible to utilities, rental, and labour price hikes

As mentioned earlier under our Financial Analysis Segment, Administrative cost increased by 2.6% year-on-year and 46.7% of this increase is attributable to rental and utilities related costs. SSG's utilities contract is due to expire this year, and SSG is due to open another 1 store in China and potentially another 2 stores in Singapore this year. In the current high interest rates environment, SSG's may have to enter into lease agreements and utilities contract at unfavourable rates, which would mean higher rental and utility costs. Labour costs also contribute to a substantial portion of SSG's Administrative Expense. According to Ministry of Manpower (MOM), Singapore's nominal wages went up by 6.5% in 2022. Consequently, SSG's staff cost rose by S$1.5 million year-on-year for the first quarter of 2023. Therefore, if these prices were to continue rising further, these may squeeze into SSG's net profit margins

(III) Opportunities

(a) Overseas Penetration

Although SSG has expanded into China in 2017 and has opened 4 outlets to date in China, these outlets are only located within the Kunming region. We believe that there are many more untapped opportunities to further develop and establish themselves in the other regions of China as well, especially since the outlets in China have proven their abilities to remain profitable over the years. By having more outlets in different regions of China, this will enable SSG to reach out to a larger consumer market, increase its regional presence in Asia, and develop stronger economies of scale. Expanding overseas beyond Singapore can also help to reduce single market reliance, which is especially important since SSG's outlets in Singapore currently contribute to over 95% of its total revenue. Should there be any unfavourable circumstances in Singapore, such as a drastic change of shopping and consumption patterns among Singaporeans, this may negatively affect SSG's sales.

(IV) Threats

(a) Supply Disruptions

There are various factors that could result in supply chain disruptions such as the ongoing geopolitical tensions between Russia and Ukraine and extreme weather conditions which would affect suppliers' produce. All of these may disrupt the supply chain resulting in supply delay or shortage of supply, or even the unavailability of supply. As we have seen during the pandemic, supply chain disruptions can cause food prices to surge drastically. Although SSG has been able to pass on the increase in costs to its customers in FY2021 and FY2022, when cost pressures had been rising, this solution not be suitable for SSG in the long run as it may cause consumers to question whether SSG's goods are still considered value-for-money.

Investment Recommendation

Based on SSG's reported annualised earnings per share of 8.87 cents as at 31 December 2022, it currently has a P/E multiple of 18.2x. Our peer comparison analysis results showed that SSG's P/E ratio of 18.2x was lower than the peer average P/E of 26.6x. Adopting a relative valuation approach, we estimated a target price of S$2.47, if SSG were to trade at the peer average P/E of 26.6x. This may imply that SSG is currently trading at a discount of approximately 46.69% based on its share price of S$1.61.

At the same time, based on SSG's reported book value of S$0.30 as at 31 December 2022, it currently has a P/B multiple of 5.4x. Our peer comparison analysis results showed that SSG's P/B ratio of 5.4x was higher than the peer average P/B of 3.2x. We adopted a relative valuation approach to derive an estimated target price of S$0.95, if SSG were to trade at its peer average P/B ratio of 3.2x. This may imply that it is trading at a premium of approximately 40.9%, based on its share price of $1.61.

By calculating the average of our estimated target prices based on P/E and P/B, we derived a target price of S$1.66.

$$Target\ Price = \frac{S\$2.36 + S\$0.95}{2} = S\$1.66$$

Our target price of S$1.66 implied an upside potential of 2.9% from its share price of S$1.61. Given the limited upside potential, we recommend a HOLD on SSG.

Risks to our Target Price

In this section, we will highlight some key risk factors that may limit the potential upside to SSG's target price.

(I) Lower-than-expected store openings

SSG's revenue growth is largely dependent on their store expansion strategy, which is to steadily open 2 to 3 new outlets every year. With additional outlets opened, SSG can reach out to new customers in areas where SSG has little presence. This also provides ease of convenience to their customers which will help in driving up revenues and profits. Our revenue projections for FY2023 and FY2024 are also dependent on SSG achieving its store expansion strategy of opening 2-3 new outlets every year.

As shown in **Exhibit 39** and **Exhibit 40**, there are 6 HDB supermarkets that are scheduled for tenders for the remainder of 2023, and 5 HDB supermarkets that are scheduled for tenders in 2024, as of 4 July 2023

Exhibit 39: Upcoming commercial units scheduled for tender in 2023

S/No	HDB Town	Precinct Name	Block	Street Name	Shop Types	Estimated Floor Area (sqm)	Estimated Completion Date
1	Tampines	Tampines GreenCourt	633	Tampines North Drive 2	1 Eating House, 1 Supermarket, 2 Restaurants, 12 Shops	500, 800, 250 (each), 50 (each)	N/A
2	Clementi	Clementi NorthArc	209A, 209B	Clementi Avenue 6	1 Supermarket, 1 Eating House, 8 Shops	500, 300, 50 (each)	N/A
3	Toa Payoh	Woodleigh Hillside	212	Bidadari Park Drive	1 Eating House, 1 Restaurant, 1 Supermarket, 8 Shops	400, 200, 600, 50 (each)	N/A
4	Punggol	Waterway Sunrise II	654A	Punggol Drive	4 Restaurants	200 (each)	N/A
5	Woodlands	Marsiling Grove	187C	Marsiling Road	1 Minimart, 4 Shops	100, 50 (each)	N/A
6	Geylang	Eunos Court	37	Eunos Road 2	1 Supermarket, 1 Café	500, 100	N/A
7	Sengkang	RiverVale Shores	170A, 170B, 171	Sengkang East Drive	1 Supermarket, 2 Eating Houses, 2 Restaurants, 8 Shops	850, 360 (each), 200 (each), 50 (each)	N/A
8	Clementi	West Coast Parkview	801	West Coast Crescent	1 Eating House 1 Minimart 1 Shop	300 100 50	N/A
9	Jurong West	Boon Lay Glade	239	Boon Lay Drive	1 Eating House, 1 Minimart,	400 100	N/A
10	Sengkang	Fernvale Vines	465	Fernvale Road	1 Supermarket 1 Eating House 3 Shops	300 300 50 (each)	N/A

Source: Housing & Development Board, FPA

Exhibit 40: Upcoming commercial units scheduled for tender in 2024

S/No	HDB Town	Precinct Name	Block	Street Name	Shop Types	Estimated Floor Area (sqm)	Estimated Completion Date
1	Punggol	Punggol Point Woods	431A, 432B	Northshore Drive	1 Eating House, 1 Supermarket, 7 Shops	300, 500, 50 (each)	31-Mar-24
2	Geylang	Macpherson Blossom	76	Circuit Road	1 Supermarket, 20 Shops	500, 50 (each)	31-Mar-24
3	Tampines	Tampines GreenGem	954C, 954D	Tampines Street 96	1 Eating House, 1 Supermarket, 7 Shops	300, 500, 50 (each)	30-Jun-24
4	Kallang / Whampoa	Tower Crest	150	Tower Road	1 Eating House, 1 Supermarket, 4 Shops	300, 500, 50 (each)	30-Sep-24
5	Tampines	Tampines Green Crest	666	Tampines Street 64	1 Eating House, 1 Minimart, 4 Shops	300, 100, 50 (each)	30-Sep-24
6	Tengah	Gardens Vines @ Tengah	235B, 236B, 240	Tengah Garden Walk	1 Eating House, 1 Supermarket, 8 Shops	300, 500, 50 (each)	31-Dec-24
7	Woodlands	Champions Green	568B, 568C	Champions Way	1 Eating House, 1 Minimart, 4 Shops	300, 100, 50 (each)	31-Dec-24

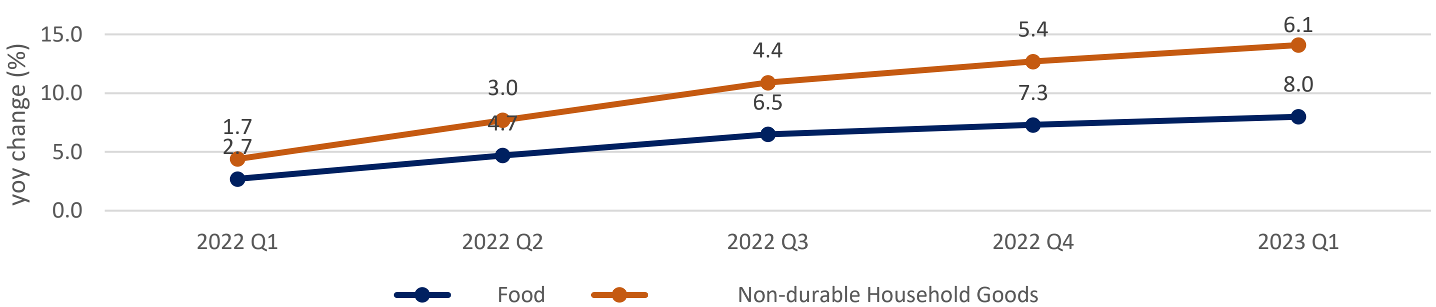
Source: Housing & Development Board, FPA

SSG faces intense competition from other grocery retailers, such as Cold Storage and NTUC FairPrice, in the bidding of these upcoming tenders. Should they be unable to secure sufficient tenders for the rest of FY2023 and for FY2024, this will hinder their expansion plans which will lead to lesser-than-expected revenues and profits in FY2023 and FY2024.

(II) Inability to Maintain Margins

As shown in Exhibit 41, food and non-durable household goods prices have been increasing year-on-year due to strong demand post-pandemic and global events such as geopolitical tensions between Russia and Ukraine. Although SSG has been successful in passing on the increase in the cost of its goods to their customers in the previous years, this may not be beneficial to SSG's branding and strategy in the long-run, as they may lose out on their distinctive selling point, which is to provide goods that are value-for-money. However, if SSG chooses to bear the increase in costs, this will lower SSG's gross profit and net profit margins.

Exhibit 41: Quarterly Prices changes over corresponding periods of previous year (%)



Source: SingStat, FPA

Corporate Governance

(I) Board Composition

Accordingg to the FY2022 annual report, SSG recognizes that establishing and maintaining a diverse Board is important in supporting the Company to achieve its strategic objectives for sustainable development while building an inclusive and collaborative culture within the Company. They believe that effective decision-making can be enhanced by harnessing business experiences, industry knowledge, variety of skill sets, gender, age, ethnicity and culture, geographical background and nationalities, tenure of service, and other distinguishing qualities of the members of the Board. In line with the Code and Rule 710A(1) of the Listing Manual of the SGX-ST, SSG has adopted its Board Diversity Policy during the year.

SSG's Board Composition as of 30 June 2023 comprises of 10 Directors, 5 of whom are non-executive and independent. They are listed as follows:

- Mr. Lim Hock Chee, Chief Executive Officer
- Mr. Lim Hock Eng, Executive Chairman
- Mr. Lim Hock Leng, Managing Director
- Mr. Tan Ling San, Vice Chairman and Executive Director
- Ms. Lin Ruiwen, Executive Director
- Mr. Chee Teck Kwong Patrick, Lead Independent Director
- Mr. Tan Huay Lim, Independent Director
- Ms. Tan Poh Hong, Independent Director
- Mr. Ko Chuan Aun, Independent Director
- Ms. Cheng Li Hui, Independent Director

On 8 June, SGX queried SSG as to why they did not comply with Provision 2.2 and 2.3 of the Corporate Governance Code which states that "Independent directors make up a majority of the Board where the Chairman is not independent". SSG responded and explained that their Nominating Committee (NC) had reviewed it and is of the opinion that the current size of 10 Directors for the Board composition is appropriate, considering the nature and scope of the Group's operations and that the current Board composition represents a well-balanced mix of skills, experience, expertise and knowledge of the Group to facilitate effective decision-making. This was also explained in their FY2022 annual report.

There was no observable impact to SSG share price as a result of SGX query.

The Board has delegated specific responsibilities to three 3 Board committees listed below, which are appointed with written terms of references, in order to facilitate effective management.
(a) the Nominating Committee (the "NC")
(b) the Remuneration Committee (the "RC")
(c) the Audit and Risk Committee (the "ARC")

(a) Nominating Committee
The NC comprises of 5 Non-Executive Directors, all of whom, including the Chairman, are independent. The Lead Independent Director, Mr. Chee Teck Kwong Patrick is the Chairman of the NC. The Chairman of the NC is neither a substantial shareholder of the Company, nor directly associated with a substantial shareholder of the Company. The members of the NC are listed below:

• Mr. Chee Teck Kwong Patrick (Chairman)
• Mr. Tan Huay Lim
• Ms. Tan Poh Hong
• Mr. Ko Chuan Aun
• Ms. Cheng Li Hui

The principal functions of the NC include:

➢ Reviewing the Board and its committees' structure, size and composition and making recommendations to the Board, where appropriate
➢ Reviewing the Board Diversity Policy and targets, and ensuring that the policy has been complied; determining the process for search, nomination, selection and appointment of new Board Members and assessing nominees or candidates for appointment to the Board
➢ Determining, on an annual basis, if a Director is independent
➢ Recommending the nomination of Directors who are retiring by rotation to be put forward for re-election
➢ Deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly when he has multiple board representations
➢ Assessing the effectiveness of the Board as a whole and the contribution of each of the Directors to the effectiveness of the Board
➢ Establishing and reviewing the training programme for the Board.

(b) Remuneration Committee

The RC comprises the following Non-Executive Directors, all of whom, including the Chairman, are independent:

• Ms. Tan Poh Hong (Chairman)
• Mr. Chee Teck Kwong Patrick
• Mr. Tan Huay Lim
• Mr. Ko Chuan Aun
• Ms. Cheng Li Hui

The principal functions of the RC include:

- Recommending to the Board for endorsement, a framework of remuneration for our Directors and key management personnel in respect of all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind
- Recommending specific remuneration on packages for each of our Executive Directors and key management personnel
- Administering the Sheng Siong Share Award Scheme

(c) Audit and Risk Committee

The ARC comprises the following Non-Executive Directors, all of whom, including the Chairman, are independent.

- Mr. Tan Huay Lim (Chairman)
- Mr. Chee Teck Kwong Patrick
- Ms. Tan Poh Hong
- Mr. Ko Chuan Aun
- Ms. Cheng Li Hui

The principal functions of the ARC include:

- Reviewing the significant financial reporting issues and judgments, so as to ensure the integrity of the Group's financial statements and quarterly announcements
- Reviewing the adequacy, effectiveness, independence, scope and results of the external audit and internal audit
- Reviewing the adequacy and effectiveness of the Group's risk management and internal controls, including financial, operational and compliance controls
- Reviewing the assurance from the CEO and the Financial Controller on the financial statements and financial records
- Reviewing the independence and objectivity of the external auditors
- Making recommendations to the Board on the appointment, re-appointment and removal of external auditors and approving the remuneration and terms of engagement of the external auditors
- Reviewing the Company's procedures and policy for concern about possible improprieties in financial reporting and other matters including whistleblowing, and ensuring that arrangements are in place by which staff and any other person may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control, or any other matters and for appropriate follow-up action to be taken

(II) Remuneration

SSG provides their disclosure on remuneration to enable investors to understand the link between the remuneration paid to Directors and Management, and corporate and individual performance. A breakdown of the remuneration of Directors for FY2022 is set out in **Exhibit 41**.

Exhibit 41: Remuneration of Directors

	Salary[1]	Variable Bonus	Director's Fees (S$'000)	Benefits in Kind	Total
Executive Directors					
Mr. Lim Hock Eng	307	5,398	20*	56	5,781
Mr. Lim Hock Chee	377	5,398	20*	37	5,832
Mr. Lim Hock Leng	317	5,398	20*	31	5,766
Mr. Tan Ling San	305	5,398	20*	23	5,746
Ms. Lin Ruiwen	311	–	20*	14	345
Non-Executive Directors					
Ms. Tan Poh Hong	–	–	60**	–	60
Mr. Chee Teck Kwong Patrick	–	–	60**	–	60
Mr. Tan Huay Lim	–	–	60**	–	60
Mr. Ko Chuan Aun	–	–	60**	–	60
Ms. Cheng Li Hui	–	–	60**	–	60

Notes:

* Directors' fees payable by subsidiaries of the Company.

** Directors' fees payable to independent and/or Non-Executive Directors are subject to the approval of shareholders at the forthcoming AGM.

(1) Includes the annual wage supplement and employers' CPF.

The remuneration of SSG's top eight key management personnel for FY2022 is shown in **Exhibit 42**. The total remuneration paid to these personnel (who are not Directors or the CEO of the Company) is approximately S$2.6 million (2021: S$3.2 million).

Exhibit 42: Remuneration of Key Personnels

	Salary[1]	Variable Bonus	Director's Fees	Benefits in Kind	Total
			(%)		
Key management personnel					
S$500,001 to S$750,000					
Mr. Ho Chee Haw, Alvin	20.9	76.6	2.5*	–	100
S$250,001 to S$500,000					
Ms. Joanne Chua Oi Keng[2]	63.3	36.7	–	–	100
Mr. Chow Kee Min	39.2	55.7	5.1*	–	100
Mr. Leong Weng Fong	42.0	53.0	5.0*	–	100
S$1 to S$250,000					
Mr. Fan Hongbo[3]	79.7	20.3	–	–	100
Mdm. Lee Moi Hong[4]	91.9	–	8.1*	–	100
Mr. Woo Chee Kit	67.7	32.3	–	–	100
Mr. Wong Heng San	64.9	35.1	–	–	100

Notes:
* Directors' fees paid by subsidiaries of the Company.
(1) Includes the annual wage supplement, fixed bonus and employers' CPF.
(2) Ms. Joanne Chua Oi Keng left the Group on 28 February 2023.
(3) Mr. Fan Hongbo was appointed as the Financial Controller on 1 September 2022.
(4) Mdm. Lee Moi Hong is the wife of our CEO, Mr. Lim Hock Chee.

DISCLOSURES/DISCLAIMERS

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of FPA Financial Corporation Pte Ltd (“FPA”). This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as FPA may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject FPA and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report (“Information”) has been obtained or derived from sources believed by FPA to be reliable. However, FPA makes no representation as to the accuracy or completeness of such sources or the Information and FPA accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. FPA and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of FPA and its connected persons are subject to change without notice. FPA reserves the right to act upon or use the Information at any time, including before its publication herein.