SHENG SIONG GROUP LTD.

Business Update for the Third Quarter ended 30 September 2023

A. Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income

	The Group			The Group		
	3 months ended			9 months ended		
	30 Sep 2023	30 Sep 2022	Change	30 Sep 2023	30 Sep 2022	Change
	S$'000	S$'000	+/ (-)	S$'000	S$'000	+/ (-)
Revenue	345,820	333,498	3.7%	1,036,299	1,010,249	2.6%
Cost of sales	(240,869)	(235,359)	2.3%	(726,200)	(713,041)	1.8%
Gross profit	104,951	98,139	6.9%	310,099	297,208	4.3%
Other income	2,866	2,625	9.2%	7,114	8,108	(12.3%)
Selling and distribution expenses	(2,080)	(2,072)	0.4%	(5,777)	(6,006)	(3.8%)
Administrative expenses	(64,958)	(58,926)	10.2%	(192,246)	(174,865)	9.9%
Other expenses	(1,331)	(1,341)	(0.7%)	(3,713)	(3,940)	(5.8%)
Results from operating activities	**39,448**	**38,425**	**2.7%**	**115,477**	**120,505**	**(4.2%)**
Finance income	2,825	991	185.1%	8,282	1,784	364.2%
Finance expenses	(904)	(729)	24.0%	(2,925)	(2,197)	33.1%
Profit before tax	**41,369**	**38,687**	**6.9%**	**120,834**	**120,092**	**0.6%**
Tax expense	(6,600)	(5,800)	13.8%	(20,542)	(19,703)	4.3%
Profit for the period	**34,769**	**32,887**	**5.7%**	**100,292**	**100,389**	**(0.1%)**
Other comprehensive income						
Item that is or may be reclassified subsequently to profit or loss:						
Foreign currency translation differences – foreign operations	127	(235)	N.A.	(77)	(516)	(85.1%)
Total comprehensive income for the period	34,896	32,652	6.9%	100,215	99,873	0.3%

	The Group			The Group		
	3 months ended			9 months ended		
	30 Sep 2023	30 Sep 2022	Change	30 Sep 2023	30 Sep 2022	Change
	S$'000	S$'000	+/ (-)	S$'000	S$'000	+/ (-)
Profit net of tax for the period attributable to:						
Owners of the Company	34,722	32,767	6.0%	100,085	100,140	(0.1%)
Non-controlling interest	47	120	(60.8%)	207	249	(16.9%)
Profit after tax	34,769	32,887	5.7%	100,292	100,389	(0.1%)
Total comprehensive income for the period attributable to:						
Owners of the Company	34,798	32,626	6.7%	100,039	99,831	0.2%
Non-controlling interest	98	26	276.9%	176	42	319.0%
Total comprehensive income	34,896	32,652	6.9%	100,215	99,873	0.3%
Earnings per share						
Basic and diluted (cents)	2.31	2.18		6.66	6.66	

B. Interim Statements of Financial Position

	The Group		The Company	
	30 Sep 2023	**31 Dec 2022**	**30 Sep 2023**	**31 Dec 2022**
	S$'000	**S$'000**	**S$'000**	**S$'000**
Assets				
Property, plant and equipment	285,677	291,608	-	-
Right-of-use assets	78,154	97,286	-	-
Investment in subsidiaries	-	-	82,261	82,261
Non-current assets	**363,831**	**388,894**	**82,261**	**82,261**
Inventories	84,408	101,182	-	-
Trade and other receivables	18,779	19,540	153,846	200,221
Cash and cash equivalents	289,225	275,499	252	202
Current assets	**392,412**	**396,221**	**154,098**	**200,423**
Total assets	**756,243**	**785,115**	**236,359**	**282,684**
Equity				
Share capital	235,373	235,373	235,373	235,373
Merger reserve	(68,234)	(68,234)	-	-
Foreign currency translation reserve	(636)	(590)	-	-
Statutory Reserve	156	156	-	-
Accumulated profits	293,609	285,541	700	46,960
Equity attributable to owners of the Company	**460,268**	**452,246**	**236,073**	**282,333**
Non-controlling interest	3,103	2,927	-	-
Total equity	**463,371**	**455,173**	**236,073**	**282,333**
Liabilities				
Lease liabilities	43,702	62,598	-	-
Deferred tax liabilities	507	1,540	-	-
Non-current liabilities	**44,209**	**64,138**	**-**	**-**
				-
Trade and other payables	186,185	197,455	285	347
Current tax payable	28,536	35,297	1	4
Lease liabilities	33,942	33,052	-	-
Current liabilities	**248,663**	**265,804**	**286**	**351**
Total liabilities	**292,872**	**329,942**	**286**	**351**
Total equity and liabilities	**756,243**	**785,115**	**236,359**	**282,684**

C. Interim Consolidated Statement of Cash Flows

	The Group		The Group	
	3 months ended		9 months ended	
	30 Sep 2023	30 Sep 2022	30 Sep 2023	30 Sep 2022
	S$'000	S$'000	S$'000	S$'000
Operating activities				
Profit for the period	34,769	32,887	100,292	100,389
Adjustments for:				
Depreciation of:				
– property, plant and equipment	4,414	4,862	13,451	14,861
– right-of-use assets	8,793	8,550	26,012	24,798
Gain on disposal of property, plant and equipment	(6)	(16)	(5)	(15)
Unrealised exchange (gain)/loss	120	(375)	(124)	(893)
Interest income	(2,825)	(991)	(8,282)	(1,784)
Interest expense	904	729	2,925	2,197
Tax expense	6,600	5,800	20,542	19,703
	52,769	51,446	154,811	159,256
Changes in:				
– inventories	(938)	(1,887)	16,774	12,764
– trade and other receivables	(3,988)	(2,506)	761	(285)
– trade and other payables	16,055	10,523	(11,270)	(41,526)
Cash generated from operations	63,898	57,576	161,076	130,209
Taxes paid	(9,001)	(6,846)	(28,336)	(19,404)
Cash flows from operating activities	54,897	50,730	132,740	110,805
Investing activities				
Proceeds from disposal of property, plant and equipment	12	42	82	132
Purchase of property, plant and equipment	(2,150)	(1,451)	(7,650)	(6,614)
Interest received	2,825	991	8,282	1,784
Cash flows from/(used in) investing activities	687	(418)	714	(4,698)
Financing activities				
Dividends paid	(45,858)	(47,361)	(92,017)	(93,971)
Repayment of term loan	-	-	-	(5,000)
Payment of lease liabilities	(8,606)	(8,186)	(25,029)	(23,697)
Interest paid on lease liabilities	(852)	(678)	(2,763)	(2,041)
Cash flows used in financing activities	(55,316)	(56,225)	(119,809)	(124,709)
Net increase/(decrease) in cash and cash equivalents	268	(5,913)	13,645	(18,602)
Cash and cash equivalents at beginning of the period	288,993	234,270	275,499	246,642
Effect of exchange rate changes on balances held in foreign currencies	(36)	249	81	566
Cash and cash equivalents at end of the period	**289,225**	**228,606**	**289,225**	**228,606**

D. Notes to the Consolidated Financial Statements

1. Significant items

	Note	The Group 3 months ended 30 Sep 2023 S$'000	The Group 3 months ended 30 Sep 2022 S$'000	The Group 9 months ended 30 Sep 2023 S$'000	The Group 9 months ended 30 Sep 2022 S$'000
Depreciation of property, plant and equipment		4,414	4,862	13,451	14,861
Depreciation of right-of-use assets		8,793	8,550	26,012	24,798
Exchange gain, net		(326)	(128)	(1,087)	(621)
Gain on disposal of property, plant and equipment		(6)	(16)	(5)	(15)
Staff costs	(a)	50,146	47,686	150,390	141,160
Contribution to defined contribution plans, included in staff costs		2,190	2,183	6,782	6,348
Interest income	(b)	(2,825)	(991)	(8,282)	(1,784)
Interest expense	(c)	904	729	2,925	2,197
Finance (income)/ expense, net		(1,921)	(262)	(5,357)	413
Other income:					
Operating lease income	(d)	864	831	2,677	2,186
Sale of scrap materials	(e)	407	729	1,336	2,359
Government grants		815	584	1,703	2,007
Miscellaneous income	(f)	780	481	1,398	1,556
		2,866	2,625	7,114	8,108
Tax expense:					
Current year tax		6,957	5,800	20,899	19,703
Reversal of prior year tax	(g)	(357)	-	(357)	-
		6,600	5,800	20,542	19,703

Notes

(a) Due to the competitive labour market and the requirements of the Progressive Wage Model, the Group increased employees' salaries in FY2022.

(b) Higher interest income resulted from the higher fixed deposit interest rates.

(c) Interest expense pertained to the interest on lease liabilities.

(d) Operating lease income increased due to more rental received from excess retail space rented out.

(e) The reduction in the sale of scrap materials resulted from the fall in the market price of recyclable paper.

(f) Less miscellaneous income was received in 9M FY2023 due to a reduction in advertising income recorded during the period. The miscellaneous income for 3Q FY2023 is higher than last year due to the proceeds collected from the mandatory single-use disposable carrier bag charge.

(g) Reversal of prior year tax arises due to the under-recognition of temporary differences arising from capital allowances.

2. Earnings per share

Basic earnings per share is computed by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

	The Group		The Group	
	3 months ended		9 months ended	
	30 Sep 2023	30 Sep 2022	30 Sep 2023	30 Sep 2022
Basic earnings per share (Singapore cents)	2.31	2.18	6.66	6.66
	No. of shares			
	'000	'000	'000	'000
Total number of shares in issue at the end of the period	1,503,537	1,503,537	1,503,537	1,503,537
Weighted average number of shares during the period	1,503,537	1,503,537	1,503,537	1,503,537

There were no potential dilutive shares during the period reported on.

3. Net asset value

	The Group		The Company	
	As at 30 Sep 2023	As at 31 Dec 2022	As at 30 Sep 2023	As at 31 Dec 2022
Net asset value per ordinary share (Singapore cents)	30.61	30.08	15.70	18.78
Number of shares as at end of period/year ('000)	1,503,537	1,503,537	1,503,537	1,503,537

E. Performance Review of the Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Revenue

For the third quarter ended 30 September 2023, revenue increased by 3.7 per cent year-on-year to S$345.8 million largely driven by the new store sales.

For the nine months ended 30 September 2023, revenue increased by S$26.0 million or 2.6 per cent from S$1.0 billion last year.

	Number of stores	3Q FY2023 vs 3Q FY2022	9M FY2023 vs 9M FY2022
New stores *	6	2.2%	3.0%
Comparable same stores	63	1.8%	0.2%
YC store (#)		(0.2%)	(0.4%)
China (opened 1 store in 9M FY2023)	5	(0.1%)	(0.2%)
Total	74	3.7%	2.6%

* New stores consist of 4 that opened in FY2022 and 2 that opened in 9M 2023.

The store located at Yishun Central was closed in July 2022 as the lease expired.

	30 Sep 2023	30 Sep 2022
Number of stores	69 (Singapore) + 5 (China)	66 (Singapore) + 4 (China)
Retail area (sq ft) **	618,349	602,451
Revenue for the period	S$1.04 billion	S$1.01 billion

** Retail area of Singapore stores only.

Gross Profit

Gross profit margin recorded 30.3 per cent for 3Q FY2023 compared to 29.4 per cent last year. The gross profit margin for 9M FY2023 increased to 29.9 per cent compared to 29.4 per cent previous year attributable primarily to continual improvements in the sales mix.

	3Q FY2023	3Q FY2022	9M FY2023	9M FY2022
Gross profit	S$105.0 million	S$98.1 million	S$310.1 million	S$297.2 million
Gross profit margin	30.3%	29.4%	29.9%	29.4%

Administrative expenses

The administrative expenses increased by S$17.4 million to record S$192.2 million in 9M FY2023 due to higher staff cost and higher energy cost.

	3Q FY2023 vs 3Q FY2022	9M FY2023 vs 9M FY2022	Remarks
	S$'million	S$'million	
Staff cost	2.2	8.3	Employees' salaries were raised in FY2022 due to the tight labour market.
Utilities	3.9	9.8	The Group renewed its electricity supply agreement at the prevailing market rate end of FY2022, which is higher than the previous agreement, resulting in the increase in utility expenses.
Others	(0.1)	(0.7)	
Total	**6.0**	**17.4**	

China Operations

China operations contributed 2.4 per cent of total revenue for 3Q FY2023. It continued to be profitable.

Net Profit

Net profit after tax for 3Q FY2023 was S$34.8 million, an increase of 5.7 per cent or S$1.9 million from S$32.9 million reported a year ago.

Consolidated Statement of Financial Position

As at 30 September 2023, current assets amounted to S$392.4 million, down by S$3.8 million from last year. Inventories balance decreased by S$16.8 million from S$101.2 million as at 31 December 2022 as inventories were built up in December 2022 in anticipation of higher sales during the Lunar New Year in January 2023. Trade and other receivables were reduced by S$0.7 million, mainly due to the higher amounts due from banks in relation to the credit and debit cards in the holiday season last year. These were offset by the increase in the cash and cash equivalents by S$13.7 million.

Non-current assets decreased by S$25.1 million. Property, plant and equipment decreased by S$5.9 million mainly due to the depreciation of S$13.5 million, offset by the additions of S$7.7 million. Right-of-use assets declined by S$19.1 million largely owing to a depreciation of S$26.0 million, offset by the additions of S$6.9 million.

Current liabilities fell by S$17.1 million to record S$248.7 million as at 30 September 2023. The decline was mainly due to the reduction in trade and other payables by S$11.3 million because of the reduction in accruals when the accrued bonuses relating to FY2022 were paid in 9M FY2023.

Consolidated Statement of Cash Flows

Cash generated from operating activities for 3Q FY2023 increased to S$54.9 million, up by S$4.2 million from S$50.7 million reported a year ago, mainly attributable to more funds being utilised to pay the vendors in 3Q FY2022. Higher interest income led to S$0.7 million in cash inflows from the investing activities.

For the 9M FY2023, the cash generated from operating activities increased to S$132.7 million compared to S$110.8 million recorded last year. This is largely due to more funds being utilised to pay accrued bonuses and settle outstanding payment to the suppliers in previous year.

Looking Forward

In a world grappling with persistent geographical tensions, weakening global demand, and tightening monetary and fiscal policies, the recent Israel-Hamas conflict has added yet another layer of complexity to the global economic landscape. This crisis has cast a shadow over the already fragile state of the world economy(1). To combat rising inflation, central banks may opt to maintain higher interest rates for an extended period(2).

Singapore, being heavily dependent on imports for essential goods, remains susceptible to the ripple effects of global price increases. Despite the core inflation dropping for 4th straight month to 3.4 per cent year on year in August 2023, the impending GST hike and carbon tax increase in the year 2024 may push up consumer prices(3), and the Monetary Authority of Singapore has kept the existing monetary policy unchanged(4). Escalating costs in energy, housing, and food may compel consumers to adopt cost-cutting strategies, such as choosing home-cooked meals, patronizing value-driven supermarkets, and opting for more affordable house brand products. Consumers who previously frequented upscale markets may now pivot towards budget-friendly supermarkets in an effort to manage their expenses. To help people cope with rising prices, the government recently announced a new Cost-of-Living support package in addition to the Assurance Package(5). These packages together with the GST voucher scheme will continue to bolster consumer spending, giving supermarket retailers a boost.

(1) https://www.nytimes.com/2023/10/10/business/economy/global-economy-israel-gaza-war.html
(2) https://www.businesstimes.com.sg/international/global/global-central-banks-unite-higher-longer-credo
(3) https://www.straitstimes.com/business/singapore-core-inflation-drops-for-4th-straight-month-to-34
(4) https://www.channelnewsasia.com/singapore/monetary-authority-singapore-mas-monetary-policy-unchanged-3842691
(5) https://www.channelnewsasia.com/singapore/cash-payouts-cdc-vouchers-singaporeans-cost-living-water-prices-3804691

The specter of supply chain disruptions looms large, exacerbated by India's sudden ban on rice exports in September 2023[6]. Climate-related risks and the onset of El Nino weather pattern are set to threaten agriculture yields, potentially driving up food prices due to reduced harvests and more expensive animal feed. As an import-dependent economy, Singapore is vulnerable to such disruptions. The Group will continue our efforts in diversifying our sources of supply, and collaborating closely with our suppliers to mitigate these disruptions. Sheng Siong remains committed to delivering value-for-money products at competitive prices and maintaining a high standard of quality and service.

In a high-inflation environment, competition in the supermarket industry is expected to remain fierce. Higher utility and staff costs and aggressive promotional activities by competitors continue to pose challenges on the margins.

The Group will continue to explore ways to enhance its sales mix and focus on strengthening its core competencies to improve operational efficiency and productivity.

Furthermore, the Group will actively look for retail space in new and existing housing estates, particularly in estates where the Group has no presence.

Lim Hock Chee
Chief Executive Officer

26 October 2023

(6) https://www.businesstimes.com.sg/opinion-features/columns/rice-price-surge-highlights-long-term-climate-risks