SHENG SIONG GROUP LTD

CASH: TOO MUCH OF IT CAN BE BAD

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CORPORATE MONITOR LIMITED

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2025 RESULTS SUMMARY

Sheng Siong released a strong set of results for 2025. Growth picked up, as revenue rose 9.9% year on year to S$1.57 billion and net profit improved by 8.7% year on year to S$149.5 million. Gross margin continued its upward ascent, hitting a new record high of 31.3% in 2025, up from 30.5% a year ago. Much of the growth is driven by new stores. Sheng Siong opened a record number of 12 new stores, beating its previous record of 10 new stores in 2018. The retailer's total store count stood at 87 at the end of 2025 with a total retail area of 760,000 square feet, a nearly 15% year on year increase from 2024.

Cash flow generation was also strong, and as a result, cash increased to S$435.5 million. Sheng Siong continued its impressive streak of free cash flow generation by churning out S$215.8 million of free cash flow, slightly higher than the prior year's S$200.8 million. As in the past, Sheng Siong continued to be debt-free.

Corporate Monitor Limited (CML) wrote a report on Sheng Siong back in April 2025, which acknowledged Sheng Siong as one of the most profitable retailers in the world by gross and net margins. It also has one of the highest returns on equity (ROE) among its global peers as well as among SGX-listed companies. Its performance since IPO in 2011 has been consistently strong, which also stands out among its SGX peers.

That said, we do see areas of improvement, mostly in the corporate finance decision regarding cash, debt and dividend, which in turn are linked to its ROE.

1. Good ROE can be much better if cash is distributed

Sheng Siong's ROE was unchanged in 2025, at 25.4% for 2025. While this is already a stellar performance, its cash hoard is holding back what could have been a substantially higher ROE. Sheng Siong has always had high cash balance, and stayed debt free. Cash alone comprises 40.6% of the Company's total assets. However, the cash balance in 2025 has reached such a high level that it is not in the best interest of the company and shareholders.

If just half of this cash is paid out as a special dividend, Sheng Siong's ROE will surge to 40% (see **Exhibit 1** below). CML is of the view that Sheng Siong could easily do this without any adverse impact to its financial health.

Exhibit 1 – Sheng Siong's ROE (DuPont Formula)

Sheng Siong - ROE (DuPont)

Fiscal Year	Net Profit (S$ Millions)	Equity (S$ Millions)	ROE	Net Margin	Revenue (S$ Millions)	Total Assets (S$ Millions)	Asset Turnover	Equity (S$ Millions)	Leverage Multiplier	ROE (Check)
2024	137.5	534.9	25.7%	9.6%	1,428.7	935.1	1.53	534.9	1.75	25.7%
2025	149.5	588.0	25.4%	9.5%	1,570.0	1,071.7	1.46	588.0	1.82	25.4%
2025*	149.5	370.3	40.4%	9.5%	1,570.0	854.0	1.84	370.3	2.31	40.4%
*Adjusted equity and total assets for the reduction in half of Sheng Siong's cash balance										
	Cash (2025)	435.5								
	Half of Cash	217.8								

Source: Sheng Siong's financial statements

A main reason for the ROE drag is that Sheng Siong's cash is yielding just 2.1%. If Sheng Siong cannot find a more productive use for the cash, the logical decision is to distribute it to shareholders. In addition, with fixed deposits denominated in US dollars (USD), Sheng Siong is exposed to forex risks in the event that the USD depreciates against the Singapore dollar, as widely expected.

2. Narrow focus on Singapore could limit growth

Sheng Siong has, in recent years, clarified its strategy as growing mainly in Singapore. While this is a proven strategy, and Sheng Siong deserves credit for its almost flawless execution, it may hit saturation at some point. The addition of 12 new stores in 2025 may not be sustainable[1], given management guidance of "3 to 5 new stores per year". The same store sales growth is still positive, although only slightly above 1%. This may turn negative in few years if new stores cannibalise existing stores.

As the Rapid Transit System (RTS) nears completion, Sheng Siong may face customer attrition as more people travel to Johor Bahru (JB) to shop for groceries. This threat[2] is real and imminent, yet Sheng Siong seems to be adopting a wait-and-see attitude.

3. China operations may not be worth keeping

It is time for Sheng Siong to make a strategic decision for its China operations, specifically whether to close or divest. In Kunming, China, the 6 stores reported a year-on-year revenue decline in the second half of 2025. For the whole year, the China operations contributed just 2.4% of total revenue, but reported a loss. Management has repeatedly talked about "intense competition" in Kunming, yet still seems determined to maintain Sheng Siong's presence there. China's macroeconomic outlook is not improving. Sheng Siong's footprint of 6 stores is sub-scale against far larger local competitors. Management needs to decide if the efforts in China only distracts Sheng Siong from its overall growth strategy.

4. Massive new capex should be partially debt-funded

Sheng Siong has a major capital expenditure (capex) plan in the coming years. Last September, the company secured the lease of a piece of land (61,297 square metres) in Sungei Kadut to build a new warehouse, distribution centre (DC), and headquarters (HQ). The lease term is for 33 years commencing 18 December 2025. Sheng Siong's current warehouse, DC and HQ at Mandai Link was originally designed to support around 50 supermarkets, and an extension was built in 2021. However, with the current 87 stores and management's plans to open at least 3 new stores per year in the next 10-15 years (~30-45 new stores), a larger DC and HQ was required. The Sungei Kadut property has a land area 2.5 times that of Mandai Link, and has the capacity to support at least 120 supermarkets. Management should be lauded for planning far ahead and building in anticipation of a larger number of stores.

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[1] 2026 may see a fall in Sheng Siong's overall store count, a first for the Company since its IPO, as it plans to open 1 new store (11 Rivervale Crescent) and close 2 existing stores (at Elias Mall and Thomson Imperial Court) as of this writing.
[2] By contrast, others with a stake in this threat have started to evaluate the potential impact.

Sheng Siong should seriously consider using some debt to fund this capex, which is estimated to cost S$520 million. To be clear, CML is suggesting that Sheng Siong take up a level of debt that does not pose any undue financial risk. Sheng Siong has demonstrated a long track record of profitability and free cash flow, which provides strong debt servicing ability, even in more adverse economic conditions, as food retail is a defensive business. In theory, this capex can be funded by Sheng Siong's current cash balance and future cash generation. However, this will not be an optimal corporate finance decision. Firstly, the cash could be distributed to shareholders and boost Sheng Siong's ROE, as demonstrated in Exhibit 1. Secondly, interest cost is a tax-deductible expense, which improves the tax efficiency. Thirdly, as long as the return on assets is higher than the cost of debt, the use of debt is value accretive.

Conclusion

Overall, we commend Sheng Siong for consistently growing its profits, which in itself is a strong act of creating shareholder value. Sheng Siong could consider whether some growth beyond Singapore might be an offensive move against the potential competition from JB after the RTS opens. On the other hand, China operations could be a drag and distraction. Most importantly, distributing some of the cash as dividend and using an appropriate amount of debt to fund the upcoming capex could create significant shareholder value by lifting ROE.

Although Sheng Siong is already a very good company, it can strive to be an even greater company.