EMBARGOED TILL MONDAY, 27 APRIL 2015, 8.00PM

SINGAPORE BUSINESS AWARDS 2015
THE ENTERPRISE AWARD 2014

SHENG SIONG GROUP LTD

BACKGROUND

Born in 1961, Mr Lim Hock Chee is the fifth of nine children (3 boys and 6 girls) who grew up first in Jurong, where his father was a fisherman, then later in Lim Chu Kang and Punggol, when his father turned to rearing pigs. At the height of the business, Cheng Siong Farm had 3,000 pigs.

When he was in Secondary 3 at Chinese High School, he decided to quit and do a two-year car mechanic course at the former Jurong Vocational Institute (JVI). "I was struggling in English, managing just 20 or 30 marks," he says. "The water pump in our farm often broke down, so I figured if I learnt how to fix cars, I could help to fix the pump too since the mechanisms were similar."

The training stayed with him and until a few years ago, he was “Mr Fix It” at Sheng Siong, doing everything from sorting out power outages to welding the handles on trolleys to make them sturdier.
In the early 1980s, a visit to a Savewell provision store in Ang Mo Kio, gave Mr Lim and his family a chance to have a taste of retailing. Noticing it didn’t sell pork, he proposed setting up their own counter in the store from which they could sell off the family farm’s excess supply of pigs as chilled meat. The owner agreed, accepting 20 per cent of Mr Lim’s takings as rental.

Mr Lim and his newly-wed wife managed to clear the meat stocks within nine months. However, a change of events that took place thereafter, led the Lim family to venture into grocery retail for good and to a change of fortunes. Their Cheng Siong Farm, like many others, was forced to close down when the government phased out pig-farming sector in Singapore. At around the same time, the Savewell chain of stores was experiencing difficulties of its own, and was soon forced to put its stores up for sale, offering them to its existing tenants.

Mr Lim and his brothers – elder brother, Mr Lim Hock Eng, and younger brother, Mr Lim Hock Leng, borrowed capital from their father, took over Savewell's Ang Mo Kio outlet for S$30,000, and opened the first Sheng Siong store in 1985.

Sheng Siong got its name from "Cheng Siong", but was modified to mean "rising" and "determined and fresh as pine" in Chinese.

The Lims then focused on offering no-frills products at rock bottom prices. The siblings also offered to deliver heavy items for customers up the stairs – believing in the importance of offering "excellent customer service".

Their hard work paid off. Takings rose from S$2,000 per day in 1985, to over S$19,000 per day in 1988.

Sheng Siong soon opened a second store in Bedok, followed by another in Woodlands, which featured the novel (and popular) concept of a wet-market style fresh produce section. The company continued its no-frills strategy, buying in bulk and keeping prices low, whilst opening stores in areas with little competition that offered lower rents.

Today, Sheng Siong is Singapore's third-largest retailer after NTUC Fairprice and Dairy Farm International (which, among others, owns Cold Storage, Giant, Guardian Pharmacy and 7-Eleven in Singapore). With 35 outlets (as at January 2015) and selling everything from groceries and seafood to stationery and electronics, it strongly believes in offering customers quick and efficient service, and reckons it has the fastest cashiers and shortest queues.

Compared to three stores in the first ten years of operations, Sheng Siong's growth was exponential in the next ten years (1996-2005), with 14 new store openings, the bulk (86 per cent) of which came about in the last five years of that decade. This was despite the fact that domestic and foreign economies were not faring very well with one setback after another – the financial crisis, collapse of the dotcom era, Severe Acute Respiratory Syndrome (SARS) attack and so on. Sheng Siong survived those bad times because of the nature of its business, the hard work and dedication of family members and staff, and the relative ease (including low cost) of obtaining retail space to do business.

After its rapid expansion, Sheng Siong began its internal corporate restructuring to keep pace with its growth. From 2007 onwards, besides continuing to open more retail stores, it embarked on a series of “makeovers” such as revamping its corporate logo and signboards to reinforce “Sheng Siong” as a household name.

It also started to roll out advertising and promotions, an area untouched previously. In conjunction with its first-ever mega sales promotion, “The Sheng Siong Show”, a “live” television variety show, was launched in April 2007 and attracted strong viewership. This mega sales promotion was so successful that "The Sheng Siong Show" became a regular-season (mid-year and year-end) programme on national television, MediaCorp Channel 8.

In 2008, Sheng Siong Supermarket leapt from eighth position to become the third-largest retailer in Singapore by sales volume, according to an Asia-Pacific survey by Euromonitor International. Related figures and statistics were published in “Retail Asia”, a magazine that focuses on various aspects and developments of the retail industry especially in the Asia-Pacific region. In the same year, Sheng Siong emerged as a Superbrand for the first time.

By the end of year 2009, the number of Sheng Siong stores grew to 23 outlets.

On the retail front, Sheng Siong joined hands with Diners Club Singapore to roll out the “Sheng Siong – Diners Club Co-brand Credit Card” in 2008. This marked the first time credit cards (in this instance, Diners Club credit cards) were accepted in all Sheng Siong stores. It used to only offer cash,cheque or NETS payment methods.

In 2010, Sheng Siong received notification from its new landlord at Ten Mile Junction that they would terminate the existing lease with Sheng Siong, as they wanted to conduct major refurbishment works in the mixed development to give the property a new identity. With the closure of Sheng Siong Supermarket at Ten Mile Junction in late November 2010, Sheng Siong was left with 22 retail stores.

On 31 May 2011, the Mandai Link new HQ cum Distribution Centre was awarded TOP by the Building Construction Authority (BCA). On 25 July in the same year, all the staff previously working from 3000 Marsiling Road relocated to 6 Mandai Link, the new headquarters and distribution centre.

On 17 August 2011, Sheng Siong Group Limited reached another corporate milestone by becoming a mainboard-listed company on the Singapore Exchange. Its wholly-owned subsidiaries included Sheng Siong Supermarket Pte Ltd and C M M Marketing Management Pte Ltd.

Sheng Siong continued its expansion mode in response to consumers' request to set up operations in areas which it did not previously serve. The opening of its Geylang store marked the beginning of 24-hour operations for Sheng Siong. Following its success, this round-the-clock operation model was also replicated in two of the newest stores, located in Clementi Ave 1 and Ghim Moh. Subsequently, 29 of its stores operated round the clock.

Sheng Siong also launched an e-commerce platform in the fourth quarter of 2013, on a pilot basis.

The challenges in looking for new retail space resulted in a lull in new store openings. But the company continued to deliver decent revenue growth with gross margins boosted by cost savings at its Mandai Warehouse and better sales mix in its stores.

Since December 2014, Sheng Siong has started to add new outlets. It opened a store in December and another in January 2015. The store it opened in December was in a foreign workers' dormitory complex situated in the Penjuru area, a new market segment, as Sheng Siong has traditionally targeted the mass market segment in HDB housing estates.

Following the Little India riots in 2013, analysts believe that getting into purpose-built recreation and amenity centres in dormitories could spur Sheng Siong's growth, and help expand its overall market share.

In December 2014, Sheng Siong completed the acquisition of Block 506 Tampines Central 1, a commercial building with approximately 41,720 sq ft of gross floor area. It had set up a 9,800 sq ft supermarket on the second floor of the building and intends to expand and/or reconfigure the supermarket in 2016 when most of the existing leases run out.

As at January 2015, Sheng Siong has 35 outlets island-wide.

At the 2013 Singapore Corporate Awards, Mr Lim was named Best CEO for the mid-cap listed companies (companies with S$300 million to less than S$1 billion in market capitalisation) category.

About C M M Marketing Management Pte Ltd

C M M Marketing Management (CMM) was incorporated in the year 2000, to serve as the warehousing and logistics arm of Sheng Siong Supermarket. Over the years, it gradually became the corporate headquarters of all the related companies and provided back-end support to the Sheng Siong supermarket outlets. Functions carried out at CMM included purchasing, marketing, administration, finance, information technology and human resource.

In 2008, housebrand products were developed for and launched in Sheng Siong's chain stores, beginning with staples such as rice, cooking oil, sugar, salt, canned food and non-food necessities such as kitchen towels, bathroom tissue and so on.

New HQ of Sheng Siong/CMM @ 6 Mandai Link Road

In June 2009, together with its sister company, C M M Marketing Management Pte Ltd, Sheng Siong announced plans to invest $65 million to build their new HQ cum Distribution Centre at Mandai Link Road to replace their decade-long facility at 3000 Marsiling Road in Singapore.

The new Distribution Centre was built on 2.32 hectares (or 249,722 sq ft) of land awarded by JTC Corporation, with a lease of 30 + 30 years. Its land size is about twice that of the previous warehouse (120,328 sq ft). The new gross floor area is approximately 543,000 sq ft, about four times bigger than the original HQ, reflecting the group's ambition to grow and expand.

The new Distribution Centre at Mandai Link Road was awarded TOP on 31 May 2011. Its aim was to supply around 70 per cent of the goods to the retail stores.

The custom-built Distribution Centre leverages on modern technologies, such as the Pick-to-Light Warehouse Management System, to improve on its operational productivity and to achieve zero error in goods handling. As the capacity in the new Distribution Centre increased relative to the old warehouse, it can embark on more direct and centralised purchasing in bulk, as well as expansion of the housebrand products' variety, thus enhancing the Group's margins.

Following the move to the new premises in July 2011, the old HQ at 3000 Marsiling Road was sold off to a third party and the sale was completed in early 2012. The new HQ was officially opened in September 2012.

In March 2013, CMM received HACCP certification for its processing of fish, seafood, meat and vegetables from the receiving of raw materials, storage, processing, packaging and transportation of finished products. Its repackaging of dried food and the receiving, storage and transportation of frozen food and fruits were also HACCP-certified.

INITIAL PUBLIC OFFERING AND CURRENT SHARE PRICE

Since its trading debut on the Mainboard of the Singapore Exchange on 17 August 2011, Sheng Siong's share price has been on a steady, upward trend, making it one of the most defensive plays in the Singapore stock market in recent years. Sheng Siong's initial public offering price was S$0.33. It sold 351.5 million shares, comprising 201.5 million new shares and 150 million vendor shares, raising S$116 million. Part of the proceeds was used to expand its grocery retailing operations in Singapore and overseas.

In 2014, the Group reached another milestone when its market capitalisation exceeded S$1 billion following the placement of 120 million new shares at S$0.67 per share in September and since then, has been hovering around S$1.1 billion. At the time of Sheng Siong's IPO in August 2011, its market capitalisation was only S$0.46 billion.

Today, Sheng Siong's share is hovering around 76 cents. The stock offers a dividend yield of about 4 per cent.

EXPANSION PLANS

In August 2014, Sheng Siong Group revealed its next growth engine. Despite having great success in Singapore – the company's profit doubled from S$20.6 million in 2008 to the current S$44 million – many investors have been worried about Sheng Siong's future growth.

Sheng Siong operates solely in Singapore and saw its total retail area grow by only 5.2 per cent per year to 400,000 square feet from 2010 to 2013. As of 30 June 2014, its total retail area was 400,000 square feet.

Sheng Siong announced a proposed joint venture with Kunming Luchen Group Co. Ltd in China. The JV's main purpose is to operate supermarkets in that country.

Kunming Luchen Group is a manufacturer and distributor of food products such as sauces and condiments in China. The JV will have a registered capital of US$10 million. The plan is for Sheng Siong to hold a 60 per cent interest in the JV with Kunming Luchen owning 30 per cent. The remaining 10 per cent of the pie would belong to Sheng Siong's Executive Director, Mr Tan Ling San. The three parties executed a conditional JV agreement on 27 December 2014.

FINANCIAL PERFORMANCE

FY2013

The Group reported a 18.6 per cent year-on-year increase in net profit from its core operations to S$38.9 million for the 12 months ended 31 December 2013, mainly because of higher revenues and gross margins. However, after taking into consideration 1Q2012's non-core items which included the one-time disposal gain of S$10.5 million arising from the sale of the old warehouse and the under provision of the prior year's tax amounting to S$1.6 million, net profit decreased by 6.6 per cent from S$41.7 million in FY2012 to S$38.9 million in FY2013.

Revenue increased 7.9 per cent YoY to S$687.4 million for FY2013, of which 9.9 per cent was contributed by the eleven new stores which opened in 2011 and 2012.

The Group's balance sheet remained strong with net cash of S$99.7 million as at 31 December 2013.

The Board proposed a final dividend of 1.4 cents per share, bringing the total dividend for FY2013 to 2.6 cents per share, equivalent to about 92.5 per cent of net profit after tax.

FY2014

Sheng Siong Group reported a 22.3 per cent year-on-year increase in net profit to S$47.6 million for the full year ended 31 December 2014, mainly because of higher turnover and improved gross margin.

On the future plans of the Group, Mr Lim Hock Chee, the Group's Chief Executive Officer, added, "We are pleased to be back on track for our store expansion plans with the recent opening of two new stores in Penjuru and Tampines in December 2014 and January 2015 respectively. Looking ahead, we will continue to expand our retail network in Singapore, particularly in areas where we do not have a presence. In light of the uncertain economic environment, we will remain prudent and firmly focused on improving our operating margins by leveraging on our Mandai Distribution Centre to lower input costs, optimising our sales mix and improving productivity to deal with the tight labour situation."

To reward shareholders for their continued support, Sheng Siong Group declared a final cash dividend of 1.5 cents per share, taking its total dividend for FY2014 to 3.0 cents per share. The total payout amounted to about 91 per cent of its net profit after tax. It also remains committed to distributing up to 90 per cent of its net profit for FY2015 and FY2016.

The balance sheet remains solid, with S$130.47 million in cash and equivalents and no debt as of 31 December 2014.

FINANCIAL SUMMARY

$Million	2012	2013	2014
Revenue	637.3	687.4	726.0
Profit before Tax	50.4	47.5	57.7
Profit after Tax	41.7	38.9	47.6

EPS (cents)	3.01	2.81	3.17
NAV (cents)	10.96	10.83	15.71