

# 7-Eleven Malaysia Holdings (SEM MK)

## 2Q22: Above expectations

### Maintain BUY with unchanged TP of MYR2.05

Stronger-than-expected sales led to the outperformance in 2Q22 results. Both CVS and pharmacy retail sales have experienced strong recovery post-pandemic but we expect the momentum to slowdown in 2H22 on the back of inflationary cost pressures on consumers. Our earnings estimates are unchanged. Maintain BUY with an unchanged TP of MYR2.05 based on 28x FY22E PER, about -1SD to mean.

### Earnings outperformed

SEM's 2Q22 core net profit of MYR26m (+2201% YoY, +6% QoQ) brought 1H22 core net profit to MYR50m (+292% YoY) reflecting 60%/57% of our/consensus full-year earnings estimates. Strong sales during the Hari Raya Aidilfitri festivities contributed to the earnings outperformance.

### Product mix improved

2Q22 revenue grew 40% YoY driven by stronger contribution from both convenience stores (CVS, +48% YoY) and pharmacy retail (+25% YoY) where the reopening of international border (from 1 Apr) and overall eased movement restrictions increased store footfall. Despite increases in labour costs from the hike in minimum wage to MYR1,500/mth (from MYR1,200/mth) effective 1 May 2022, 2Q22 EBIT widened +147% YoY given better product mix from CVS and pharmacy retail.

### Maintain earnings estimates

We leave our earnings unchanged. Strong sales momentum experienced in 1H22 is not expected to sustain in sequential quarters given rising household expenditure and the absence of major festivities to boost sales. SEM will continue focusing on opening 7-Café stores in order to grow its CVS fresh food sales and lift group gross profit margins in the long run. As at end-2Q22, SEM has 31 7 Café stores (+16 stores QoQ).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,539	2,809	3,122	3,408	3,713
EBITDA	301	352	374	353	355
Core net profit	44	44	83	96	105
Core EPS (sen)	3.8	3.9	7.4	8.5	9.3
Core EPS growth (%)	(19.2)	2.7	87.4	15.3	9.1
Net DPS (sen)	2.3	1.6	4.0	4.6	5.0
Core P/E (x)	35.5	38.1	21.2	18.3	16.8
P/BV (x)	23.3	18.8	13.7	10.2	8.0
Net dividend yield (%)	1.7	1.1	2.6	2.9	3.2
ROAE (%)	35.3	56.6	76.3	63.9	53.2
ROAA (%)	2.5	2.1	3.6	4.0	4.1
EV/EBITDA (x)	6.8	6.4	5.9	6.1	5.9
Net gearing (%) (incl perps)	246.9	264.9	157.6	98.4	61.8
Consensus net profit	-	-	85	90	103
MKE vs. Consensus (%)	-	-	(2.2)	6.5	1.7

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## BUY

Share Price	MYR 1.56
12m Price Target	MYR 2.05 (+33%)
Previous Price Target	MYR 2.05

### Company Description

7-Eleven Malaysia Holdings Berhad through its subsidiary 7-Eleven Malaysia Sdn. Bhd. is the owner and operator of 7-Eleven stores in Malaysia.

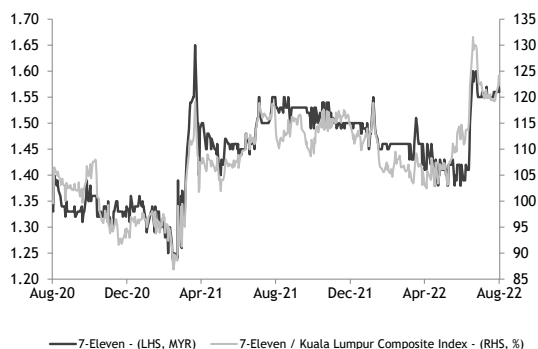
### Statistics

52w high/low (MYR)	1.60/1.38
3m avg turnover (USDm)	0.0
Free float (%)	14.2
Issued shares (m)	1,278
Market capitalisation	MYR2.0B
	USD444M

### Major shareholders:

TAN CHEE YIOUN	21.8%
TSAI HONG TU	21.7%
7-Eleven Malaysia Holdings Bhd.	8.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	10	2
Relative to index (%)	1	15	9

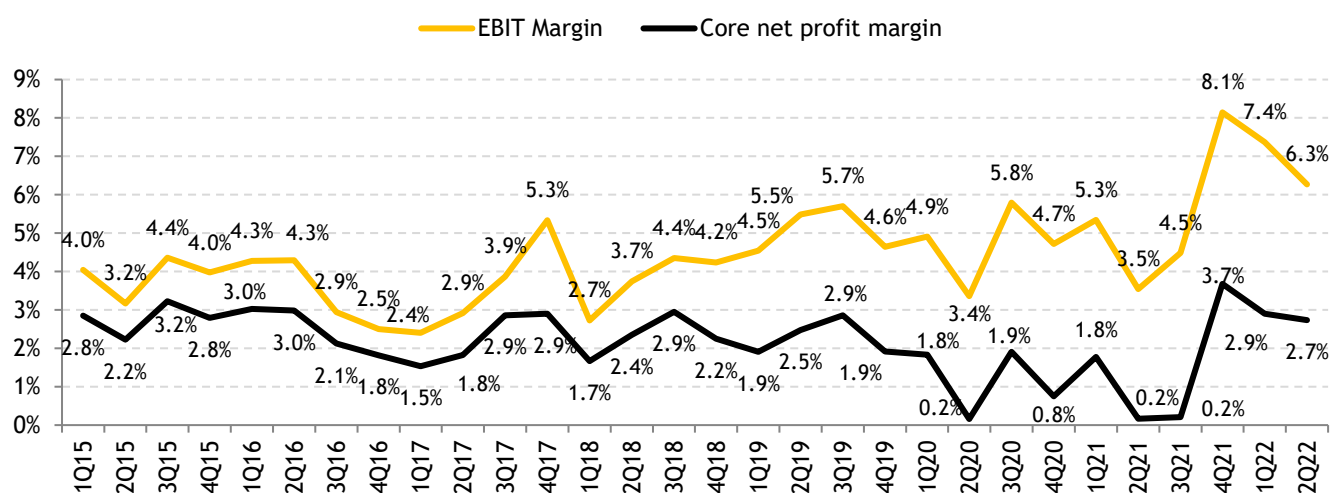
Source: FactSet

Fig 1: 7-Eleven: Results Summary

FY 31 Dec (MYR m)	Quarterly					Cumulative		
	2Q22	2Q21	% YoY	1Q22	% QoQ	1H22	1H21	% YoY
Revenue	943.7	676.7	39.5	840.0	12.3	1783.6	1333.8	33.7
Cost of sales	(672.2)	(499.8)	34.5	(607.5)	10.6	(1279.7)	(980.9)	30.5
<b>Gross Profit</b>	<b>271.5</b>	<b>176.9</b>	<b>53.5</b>	<b>232.5</b>	<b>16.8</b>	<b>503.9</b>	<b>352.9</b>	<b>42.8</b>
Other operating income	43.0	41.7	3.3	44.5	(3.2)	87.5	82.4	6.2
Selling & distribution	(208.3)	(156.9)	32.7	(173.9)	19.8	(382.2)	(304.9)	25.4
Admin	(47.1)	(37.6)	25.1	(41.1)	14.4	(88.2)	(71.4)	23.6
<b>Operating profit</b>	<b>59.2</b>	<b>24.0</b>	<b>&gt;100.0</b>	<b>61.9</b>	<b>(4.4)</b>	<b>121.1</b>	<b>59.1</b>	<b>&gt;100.0</b>
Finance costs	(15.2)	(15.1)	0.9	(16.2)	(6.2)	(31.4)	(29.8)	5.5
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>44.0</b>	<b>8.9</b>	<b>&gt;100.0</b>	<b>45.7</b>	<b>(3.7)</b>	<b>89.6</b>	<b>29.3</b>	<b>&gt;100.0</b>
Income tax	(15.2)	(5.3)	>100.0	(14.5)	4.8	(29.6)	(12.2)	>100.0
Minority Interest	(3.0)	(2.5)	22.0	(6.8)	(55.5)	(9.9)	(4.3)	>100.0
<b>Net profit</b>	<b>25.8</b>	<b>1.1</b>	<b>&gt;100.0</b>	<b>24.4</b>	<b>5.7</b>	<b>50.1</b>	<b>12.8</b>	<b>&gt;100.0</b>
E.I.	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Core net profit</b>	<b>25.8</b>	<b>1.1</b>	<b>&gt;100.0</b>	<b>24.4</b>	<b>5.7</b>	<b>50.1</b>	<b>12.8</b>	<b>&gt;100.0</b>
			+/- p.pts YoY		+/- p.pts QoQ			+/- p.pts YoY
GP margin (%)	28.8	26.1	2.6	27.7	1.1	28.3	26.5	1.8
Operating margin (%)	6.3	3.5	2.7	7.4	(1.1)	6.8	4.4	2.4
Pretax margin (%)	4.7	1.3	3.3	5.4	(0.8)	5.0	2.2	2.8
Net profit (%)	2.7	0.2	2.6	2.9	(0.2)	2.8	1.0	1.9
Tax rate (%)	34.5	59.4	(24.9)	31.7	2.8	33.0	41.5	(8.4)
			% YoY					% YoY
<b>Revenue (MYRm):</b>								
Convenience stores	644.2	436.7	47.5	523.9	23.0	1,168.1	885.8	31.9
Pharmaceuticals	299.4	240.0	24.8	316.1	(5.3)	615.4	448.0	37.4
<b>Total</b>	<b>943.7</b>	<b>676.7</b>	<b>39.5</b>	<b>840.0</b>	<b>12.4</b>	<b>1,783.6</b>	<b>1,333.8</b>	<b>33.7</b>
<b>Revenue split (%):</b>								
Convenience stores	68.3	64.5	3.7	62.4	5.9	65.5	66.4	(0.9)
Pharmaceuticals	31.7	35.5	(3.7)	37.6	(5.9)	34.5	33.6	0.9

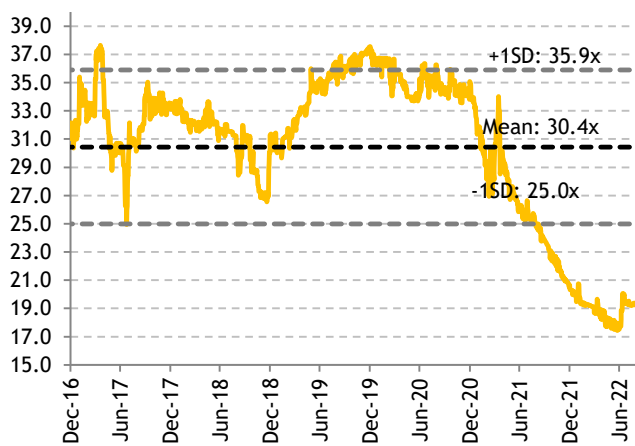
Source: Company, Maybank IBG Research

Fig 2: SEM's EBIT &amp; core NP margin trends



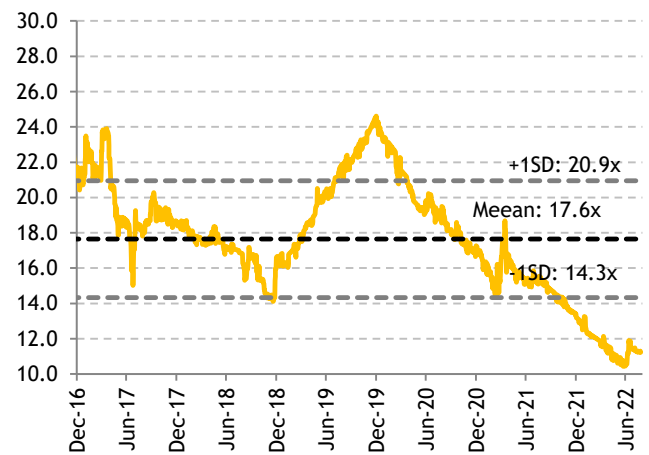
Source: Company

Fig 3: One year forward PER (x)



Source: Bloomberg, Maybank IBG Research

Fig 4: One year forward PBV (x)



Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for SEM. As tobacco sales make up est. 30-35% of SEM's total sales, any unfavourable regulatory changes (eg. excise tax shocks) may impact SEM's earnings. Additionally, higher operating expenses through minimum wage hikes could also impact earnings growth negatively.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	51.9	36.9	21.2	18.3	16.8
Core P/E (x)	35.5	38.1	21.2	18.3	16.8
P/BV (x)	23.3	18.8	13.7	10.2	8.0
P/NTA (x)	(4.3)	(4.4)	(5.1)	(5.8)	(7.0)
Net dividend yield (%)	1.7	1.1	2.6	2.9	3.2
FCF yield (%)	7.8	10.7	9.6	7.7	7.0
EV/EBITDA (x)	6.8	6.4	5.9	6.1	5.9
EV/EBIT (x)	17.4	14.7	11.7	10.4	9.5

**INCOME STATEMENT (MYR m)**

Revenue	2,539.0	2,809.1	3,122.1	3,408.4	3,712.7
EBITDA	301.0	351.9	373.9	353.3	355.0
Depreciation	(183.1)	(197.8)	(184.1)	(146.7)	(136.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	117.9	154.1	189.7	206.6	218.1
Net interest income / (exp)	(54.3)	(61.2)	(54.9)	(52.7)	(51.3)
Associates & JV	(1.0)	0.0	0.0	0.0	0.0
Exceptionals	14.1	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	62.7	92.9	134.9	153.9	166.9
Income tax	(27.3)	(34.1)	(44.5)	(50.8)	(55.1)
Minorities	(5.6)	(14.5)	(7.3)	(7.3)	(7.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.8	44.3	83.1	95.8	104.5
Core net profit	43.8	44.3	83.1	95.8	104.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	135.0	158.0	282.2	365.8	433.6
Accounts receivable	96.2	85.8	95.3	104.1	113.4
Inventory	288.9	383.2	417.3	452.4	490.0
Property, Plant & Equip (net)	346.5	322.5	257.0	239.8	243.9
Intangible assets	425.5	473.3	473.3	473.3	473.3
Investment in Associates & JVs	0.0	0.0	(0.1)	(0.2)	(0.3)
Other assets	744.8	828.2	828.2	828.2	828.2
<b>Total assets</b>	<b>2,036.8</b>	<b>2,250.9</b>	<b>2,353.2</b>	<b>2,463.4</b>	<b>2,582.1</b>
ST interest bearing debt	201.4	84.9	84.9	84.9	84.9
Accounts payable	585.0	640.1	697.2	755.8	818.6
LT interest bearing debt	331.7	555.4	555.4	555.4	555.4
Other liabilities	758.0	789.0	789.0	789.0	789.0
<b>Total Liabilities</b>	<b>1,875.6</b>	<b>2,068.9</b>	<b>2,126.0</b>	<b>2,184.6</b>	<b>2,247.4</b>
Shareholders Equity	66.8	90.0	127.9	172.2	220.8
Minority Interest	94.5	92.1	99.3	106.6	113.9
<b>Total shareholder equity</b>	<b>161.2</b>	<b>182.0</b>	<b>227.2</b>	<b>278.8</b>	<b>334.7</b>
<b>Total liabilities and equity</b>	<b>2,036.8</b>	<b>2,250.9</b>	<b>2,353.2</b>	<b>2,463.4</b>	<b>2,582.1</b>

**CASH FLOW (MYR m)**

Pretax profit	62.7	92.9	134.9	153.9	166.9
Depreciation & amortisation	183.1	197.8	184.1	146.7	136.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(25.6)	(33.1)	13.4	14.8	15.9
Cash taxes paid	(32.9)	(45.4)	(44.5)	(50.8)	(55.1)
Other operating cash flow	2.1	15.0	0.0	0.0	0.0
Cash flow from operations	189.3	227.3	287.9	264.6	264.6
Capex	(68.2)	(46.4)	(118.6)	(129.5)	(141.1)
Free cash flow	121.2	180.9	169.2	135.1	123.5
Dividends paid	(26.5)	(18.0)	(45.2)	(51.6)	(55.9)
Equity raised / (purchased)	(28.3)	(4.2)	0.0	0.0	0.0
Change in Debt	375.7	79.9	0.0	0.0	0.0
Other invest/financing cash flow	(437.0)	(236.7)	0.2	0.2	0.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	5.1	1.9	124.2	83.8	67.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.5	10.6	11.1	9.2	8.9
EBITDA growth	7.8	16.9	6.2	(5.5)	0.5
EBIT growth	(2.0)	30.7	23.1	8.9	5.6
Pretax growth	(18.3)	48.3	45.2	14.1	8.4
Reported net profit growth	(44.9)	49.0	87.4	15.3	9.1
Core net profit growth	(18.9)	1.2	87.4	15.3	9.1
<b>Profitability ratios (%)</b>					
EBITDA margin	11.9	12.5	12.0	10.4	9.6
EBIT margin	4.6	5.5	6.1	6.1	5.9
Pretax profit margin	2.5	3.3	4.3	4.5	4.5
Payout ratio	88.9	40.7	54.4	53.8	53.5
<b>DuPont analysis</b>					
Net profit margin (%)	1.2	1.6	2.7	2.8	2.8
Revenue/Assets (x)	1.2	1.2	1.3	1.4	1.4
Assets/Equity (x)	30.5	25.0	18.4	14.3	11.7
ROAE (%)	35.3	56.6	76.3	63.9	53.2
ROAA (%)	2.5	2.1	3.6	4.0	4.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(47.0)	(36.9)	(32.8)	(32.9)	(32.9)
Days receivable outstanding	12.2	11.7	10.4	10.5	10.5
Days inventory outstanding	51.5	59.0	64.5	64.7	64.7
Days payables outstanding	110.7	107.6	107.8	108.1	108.1
Dividend cover (x)	1.1	2.5	1.8	1.9	1.9
Current ratio (x)	0.6	0.8	0.9	1.0	1.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	246.9	264.9	157.6	98.4	61.8
Net gearing (%) (excl. perps)	246.9	264.9	157.6	98.4	61.8
Net interest cover (x)	2.2	2.5	3.5	3.9	4.3
Debt/EBITDA (x)	1.8	1.8	1.7	1.8	1.8
Capex/revenue (%)	2.7	1.7	3.8	3.8	3.8
Net debt/ (net cash)	398.1	482.2	358.1	274.4	206.7

Source: Company; Maybank IBG Research

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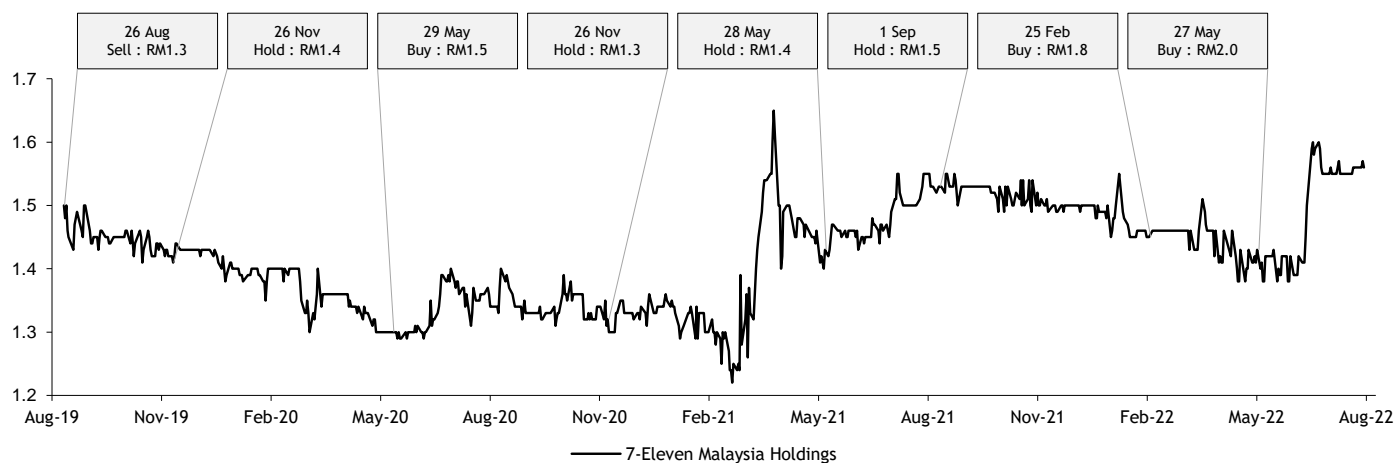
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## Historical recommendations and target price: 7-Eleven Malaysia Holdings (SEM MK)



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