

7-Eleven Malaysia Holdings (SEM MK)

Robust growth in core segments

Maintain BUY with higher TP of MYR2.35

SEM's 3Q22 results met expectations. We anticipate stronger sequential earnings on the back of higher store footfall and average sales per store during the school holiday and year-end festive periods. We tweak our FY22E-FY24E earnings by c. 1% p.a. on minor housekeeping adjustments. Rolling forward our valuation year to FY23E, we lift our TP to MYR2.35 based on unchanged 28x PER, about -0.5SD to mean.

Within expectations

3Q22 core net profit of MYR14m (+852% YoY, -47% QoQ) brings 9M22 core net profit to MYR64m (+348% YoY). The latter accounted for 77%/73% of our/consensus full-year earnings estimates.

Convenience store segment SSSG: +58.7% YoY

SEM's 3Q22 revenue grew 45% YoY on the back of a recovery in convenience store (CVS) and pharmacy store sales of 63% YoY and 20% YoY respectively led by easing movement restrictions. SSSG for its CVS segment also grew +58.7% YoY. 3Q22's improvement in group gross profit margins (+1.1ppts YoY) was due to better product mix at its CVS stores but partially offset by lower sales of high margin products (eg. COVID-19 test kits & face masks) at its pharmacy stores. On a QoQ basis, despite a 5% revenue growth, higher operating expenses from new store openings resulted in EBIT decline of 7% QoQ. As at end-3Q22, there were 2,446 CVS stores (+41 stores YoY) and 212 pharmacy stores (+29 stores YoY).

Forward earnings estimates tweaked by c.1% p.a.

Our FY22E-FY24E earnings estimates are tweaked by c.1% p.a. on housekeeping adjustments. Going forward, we expect sequential earnings to come in stronger on expectation for consumer spending to improve in the last quarter of FY22. SEM's focus on opening 7-café stores will also drive CVS sales growth along with better gross profit contributions owed to its higher fresh food mix. SEM has a total of 52 7-café stores as at end-3Q22 (c.2% of total CVS store count).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,539	2,809	3,732	4,343	4,998
EBITDA	301	352	449	391	405
Core net profit	44	44	84	96	105
Core EPS (sen)	3.8	3.9	7.4	8.5	9.4
Core EPS growth (%)	(19.2)	2.7	88.8	14.6	9.9
Net DPS (sen)	2.3	1.6	4.4	4.9	5.3
Core P/E (x)	35.5	38.1	22.9	20.0	18.2
P/BV (x)	23.3	18.8	15.4	11.6	9.1
Net dividend yield (%)	1.7	1.1	2.6	2.9	3.1
ROAE (%)	35.3	56.6	78.1	66.4	56.3
ROAA (%)	2.5	2.1	3.5	3.7	3.8
EV/EBITDA (x)	6.8	6.4	5.2	5.8	5.5
Net gearing (%) (incl perps)	246.9	264.9	140.5	82.7	48.0
Consensus net profit	-	-	88	93	103
MKE vs. Consensus (%)	-	-	(4.3)	2.8	2.6

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BUY

Share Price	MYR 1.70
12m Price Target	MYR 2.35 (+41%)
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.

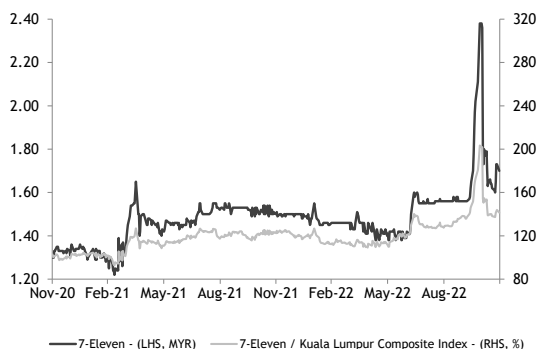
Statistics

52w high/low (MYR)	2.38/1.38
3m avg turnover (USDm)	0.2
Free float (%)	14.2
Issued shares (m)	1,278
Market capitalisation	MYR2.2B USD485M

Major shareholders:

TSAI HONG TU	22.8%
TAN CHEE YIOUN	19.1%
7-Eleven Malaysia Holdings Bhd.	9.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(29)	9	13
Relative to index (%)	(30)	10	15

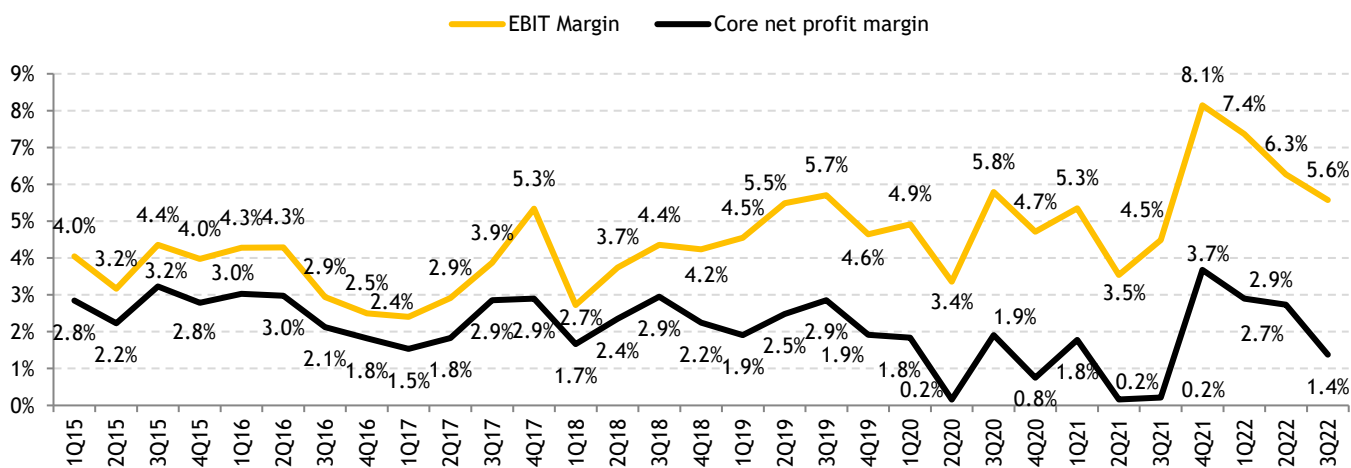
Source: FactSet

Fig 1: 7-Eleven: Results Summary

FY 31 Dec (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Revenue	988.2	680.2	45.3	943.7	4.7	2,771.9	2,014.0	37.6
Cost of sales	(712.5)	(498.0)	43.1	(672.2)	6.0	(1,992.2)	(1,478.9)	34.7
Gross Profit	275.7	182.2	51.3	271.5	1.6	779.7	535.2	45.7
Other operating income	44.5	38.6	15.2	43.0	3.3	132.0	120.8	9.3
Selling & distribution	(213.8)	(152.6)	40.1	(208.3)	2.6	(596.0)	(457.5)	30.3
Admin	(51.2)	(37.7)	35.8	(47.1)	8.9	(139.4)	(109.1)	27.8
Operating profit	55.1	30.5	80.7	59.2	(6.9)	176.2	89.3	97.2
Finance costs	(16.6)	(15.8)	5.7	(15.2)	9.3	(48.1)	(45.3)	6.2
Pretax profit	38.5	14.7	>100.0	44.0	(12.5)	128.1	44.0	>100.0
Income tax	(22.5)	(5.8)	>100.0	(15.2)	48.8	(52.1)	(18.0)	>100.0
Minority Interest	(2.3)	(7.5)	(69.4)	(3.0)	(24.9)	(12.2)	(11.8)	3.0
Net profit	13.7	1.4	>100.0	25.8	(47.0)	63.8	14.2	>100.0
Core net profit	13.7	1.4	>100.0	25.8	(47.0)	63.8	14.2	>100.0
			+/- p.pts YoY		+/- p.pts QoQ			+/- p.pts YoY
GP margin (%)	27.9	26.8	1.1	28.8	(0.9)	28.1	26.6	1.6
Operating margin (%)	5.6	4.5	1.1	6.3	(0.7)	6.4	4.4	1.9
Pretax margin (%)	3.9	2.2	1.7	4.7	(0.8)	4.6	2.2	2.4
Net profit (%)	1.4	0.2	1.2	2.7	(1.3)	2.3	0.7	1.6
Tax rate (%)	58.6	39.7	18.9	34.5	24.1	40.7	40.9	(0.2)
Revenue (MYRm):			% YoY		% QoQ			% YoY
Convenience stores	658.4	404.6	62.7	644.2	2.2	1,826.5	1,290.2	41.6
Pharmaceuticals	329.7	275.6	19.6	299.4	10.1	945.2	723.6	30.6
Total	988.3	680.2	45.3	943.6	4.7	2,771.9	2,014.0	37.6
Revenue split (%):								
Convenience stores	66.6	59.5	7.1	68.3	(1.6)	65.9	64.1	1.8
Pharmaceuticals	33.4	40.5	(7.2)	31.7	1.6	34.1	35.9	(1.8)

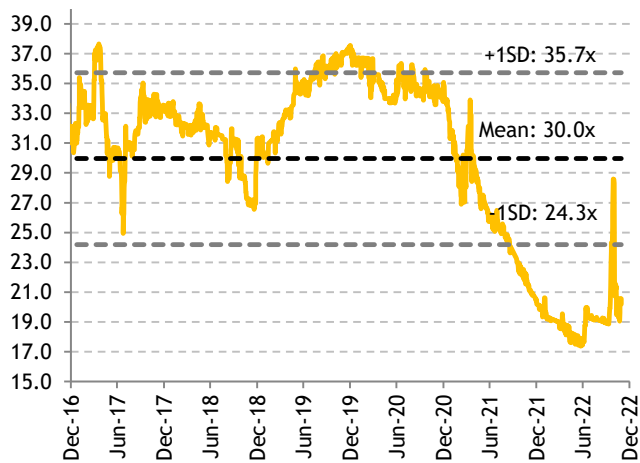
Source: Company, Maybank IBG Research

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



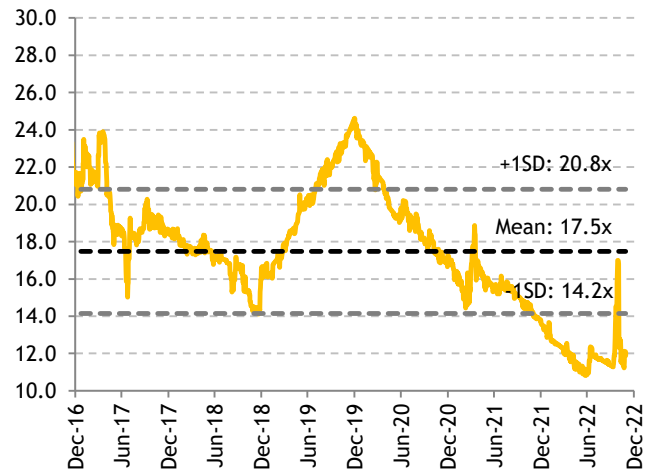
Source: Company

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
Key Metrics					
P/E (reported) (x)	51.9	36.9	22.9	20.0	18.2
Core P/E (x)	35.5	38.1	22.9	20.0	18.2
P/BV (x)	23.3	18.8	15.4	11.6	9.1
P/NTA (x)	(4.3)	(4.4)	(5.5)	(6.2)	(7.3)
Net dividend yield (%)	1.7	1.1	2.6	2.9	3.1
FCF yield (%)	7.8	10.7	10.8	7.5	6.8
EV/EBITDA (x)	6.8	6.4	5.2	5.8	5.5
EV/EBIT (x)	17.4	14.7	9.4	10.0	9.2
INCOME STATEMENT (MYR m)					
Revenue	2,539.0	2,809.1	3,731.7	4,343.4	4,998.0
EBITDA	301.0	351.9	449.0	391.3	404.6
Depreciation	(183.1)	(197.8)	(199.9)	(163.9)	(164.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	117.9	154.1	249.0	227.4	240.0
Net interest income / (exp)	(54.3)	(61.2)	(64.5)	(61.7)	(60.2)
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	184.6	165.7	179.8
Income tax	(27.3)	(34.1)	(85.8)	(54.7)	(59.3)
Minorities	(5.6)	(14.5)	(15.0)	(15.0)	(15.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.8	44.3	83.7	96.0	105.5
Core net profit	43.8	44.3	83.7	96.0	105.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	135.0	158.0	315.0	402.9	473.7
Accounts receivable	96.2	85.8	114.0	132.6	152.6
Inventory	288.9	383.2	498.8	576.5	659.7
Property, Plant & Equip (net)	346.5	322.5	264.3	265.5	290.8
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
Total assets	2,036.8	2,250.9	2,493.5	2,678.8	2,878.0
ST interest bearing debt	201.4	84.9	84.9	84.9	84.9
Accounts payable	585.0	640.1	833.3	963.1	1,102.1
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
Total Liabilities	1,875.6	2,068.9	2,262.1	2,391.9	2,530.8
Shareholders Equity	66.8	90.0	124.4	164.9	210.1
Minority Interest	94.5	92.1	107.1	122.1	137.1
Total shareholder equity	161.2	182.0	231.4	286.9	347.1
Total liabilities and equity	2,036.8	2,250.9	2,493.5	2,678.8	2,878.0
CASH FLOW (MYR m)					
Pretax profit	62.7	92.9	184.6	165.7	179.8
Depreciation & amortisation	183.1	197.8	199.9	163.9	164.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(25.6)	(33.1)	49.4	33.4	35.8
Cash taxes paid	(32.9)	(45.4)	(85.8)	(54.7)	(59.3)
Other operating cash flow	2.1	15.0	0.0	0.0	0.0
Cash flow from operations	189.3	227.3	348.1	308.3	320.8
Capex	(68.2)	(46.4)	(141.8)	(165.0)	(189.9)
Free cash flow	121.2	180.9	206.3	143.3	130.9
Dividends paid	(26.5)	(18.0)	(49.4)	(55.5)	(60.2)
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	157.1	88.0	70.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.5	10.6	32.8	16.4	15.1
EBITDA growth	7.8	16.9	27.6	(12.8)	3.4
EBIT growth	(2.0)	30.7	61.6	(8.7)	5.5
Pretax growth	(18.3)	48.3	98.7	(10.2)	8.5
Reported net profit growth	(44.9)	49.0	88.8	14.6	9.9
Core net profit growth	(18.9)	1.2	88.8	14.6	9.9
Profitability ratios (%)					
EBITDA margin	11.9	12.5	12.0	9.0	8.1
EBIT margin	4.6	5.5	6.7	5.2	4.8
Pretax profit margin	2.5	3.3	4.9	3.8	3.6
Payout ratio	88.9	40.7	59.0	57.8	57.1
DuPont analysis					
Net profit margin (%)	1.2	1.6	2.2	2.2	2.1
Revenue/Assets (x)	1.2	1.2	1.5	1.6	1.7
Assets/Equity (x)	30.5	25.0	20.1	16.2	13.7
ROAE (%)	35.3	56.6	78.1	66.4	56.3
ROAA (%)	2.5	2.1	3.5	3.7	3.8
Liquidity & Efficiency					
Cash conversion cycle	(47.0)	(36.9)	(30.3)	(31.9)	(32.0)
Days receivable outstanding	12.2	11.7	9.6	10.2	10.3
Days inventory outstanding	51.5	59.0	59.5	62.8	63.1
Days payables outstanding	110.7	107.6	99.4	104.9	105.3
Dividend cover (x)	1.1	2.5	1.7	1.7	1.8
Current ratio (x)	0.6	0.8	0.9	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	246.9	264.9	140.5	82.7	48.0
Net gearing (%) (excl. perps)	246.9	264.9	140.5	82.7	48.0
Net interest cover (x)	2.2	2.5	3.9	3.7	4.0
Debt/EBITDA (x)	1.8	1.8	1.4	1.6	1.6
Capex/revenue (%)	2.7	1.7	3.8	3.8	3.8
Net debt/ (net cash)	398.1	482.2	325.2	237.4	166.6

Source: Company; Maybank IBG Research

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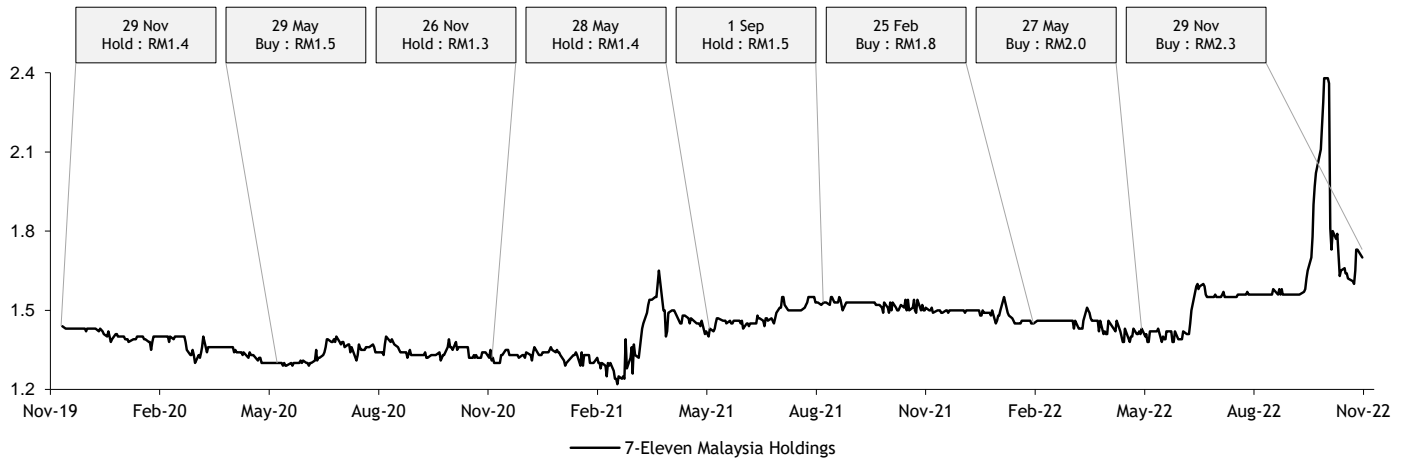
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Historical recommendations and target price: 7-Eleven Malaysia Holdings (SEM MK)



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