

# 7-Eleven Malaysia Holdings (SEM MK)

## Briefing update

### Maintain BUY with unchanged TP of MYR2.35

SEM's outlook remains positive with continued recovery in its convenience store segment and stable pharmacy store performance. The group will focus on increasing operational margins by improving product mix (through 7-Café stores) while balancing continued constraints in recruiting labour for its new stores. Maintain BUY with an unchanged TP of MYR2.35 (28x FY23E PER, about -0.5SD to mean).

### Positive SSSG for CVS and pharmacy stores YoY

At SEM's results briefing, management shared that SSSG, in 3Q22, was strong for both its convenience stores (CVS, +58% YoY) and pharmacy stores (Caring: +10.9% YoY) with higher customer count (+44% YoY) and average sales per store (+57% YoY) attributing to the YoY growth (3Q22 net profit: +852% YoY; 9M22: +348%). The group's 3Q22 average ticket size for CVS has also grown to MYR8.19 (3Q21: MYR7.49, 2Q22: MYR8.43).

### Focusing on 7-Café expansion in FY23

In line with SEM's strategy to grow average daily sales per store and lift group gross profit margins, new CVS store opening targets for FY23 will focus on 7-Café formats given its higher fresh food mix. It plans to open 100 stores in FY23 (7-Café format: +50 stores, 7-Eleven format: +50 stores) and refurbish another 100 existing stores into 7-Café formats with a total capex of >MYR100m, we estimate. SEM has also earmarked c.30 non-performing stores to be closed by 1Q23. Meanwhile, there are also plans to open +10 pharmacy stores domestically in FY23 (currently: 212 stores).

### Labour shortage is still an issue

With increased consumer mobility expected in 4Q22, sales momentum should remain on an upwards trajectory in sequential quarters. That said, SEM's CVS stores have not fully resumed 24-hour operations (currently just >50% stores are operating 24 hours) as it is still experiencing labour shortage. It is in the process of recruiting foreign workers to rectify this. Separately, the high effective tax rate of 59% in 3Q22 was due to the impact of *Cukai Makmur* and non-deductible expenses relating to the issuance of its medium-term notes/debt.

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	21.9	19.1	17.4
P/BV (x)	23.3	18.8	14.8	11.1	8.7
Net dividend yield (%)	1.7	1.1	2.7	3.0	3.3
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	5.1	5.6	5.3
Net gearing (%) (incl perps)	246.9	264.9	140.5	82.7	48.0
Consensus net profit	-	-	87	97	107
MKE vs. Consensus (%)	-	-	(3.6)	(1.0)	(1.7)

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## BUY

Share Price	MYR 1.63
12m Price Target	MYR 2.35 (+47%)
Previous Price Target	MYR 2.35

### 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.

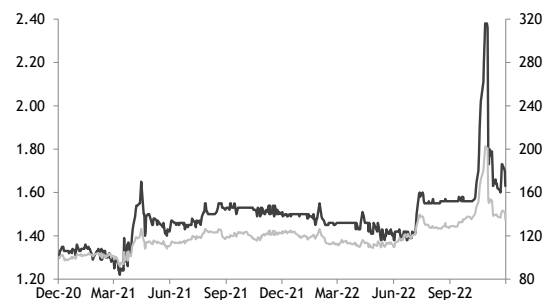
### Statistics

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	MYR2.1B USD468M

### 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 (%)	(32)	4	9
Relative to index (%)	(32)	7	11

Source: FactSet

ESG@MAYBANK IBG

Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	NA
Score Momentum <sup>2</sup>	NA
Last Updated	NA
Controversy Score <sup>3</sup>	NA

## Business Model & Industry Issues

- ESG risks for convenience stores and pharmacies revolve around the usage of single-use plastics, food wastages and energy consumption. SEM has implemented several measures to reduce its contribution towards plastic pollution and organic waste - however its ability to do so is also subject to the initiatives of its suppliers (eg. larger food manufacturers) to adopt sustainable product packaging for a bigger positive impact to the environment.
- Consumer confidence and brand perception are important factors for the success of consumer retail companies. To that end, SEM ensures that all F&B products sold at its stores abide by product quality and safety regulations. Medicines sold at its pharmacies have also been screened by its internal listing committee.
- SEM's ESG strategy is comparable to its peers, and the industry as a whole has moderate ESG exposure, in our view. Its present ESG disclosure is brief and long-term sustainability targets are noticeably absent. Should SEM share more detailed sustainability metrics/goals, its brand perception would be enhanced, we believe.

### Material E issues

- SEM has initiated several energy efficiencies programmes over the years to lower its overall carbon footprint. A cross-docking system was implemented in 2017 which has lowered trip frequency to its convenience stores by 80%.
- The group also converted all its store lighting systems to LED lights which has translated to a 4.5% reduction in electricity consumption from 2018 to 2021.
- SEM implements stringent product management to minimise food wastages at its stores. Hence, the group minimises overstocking, particularly for F&B items with a short shelf life, and uses temperature control settings to avoid food spoilage.
- To reduce plastic waste, SEM has introduced eco-friendly packaging and biodegradable plastic bags at its stores. Styrofoam packaging is also prohibited at all its stores.

### Material S issues

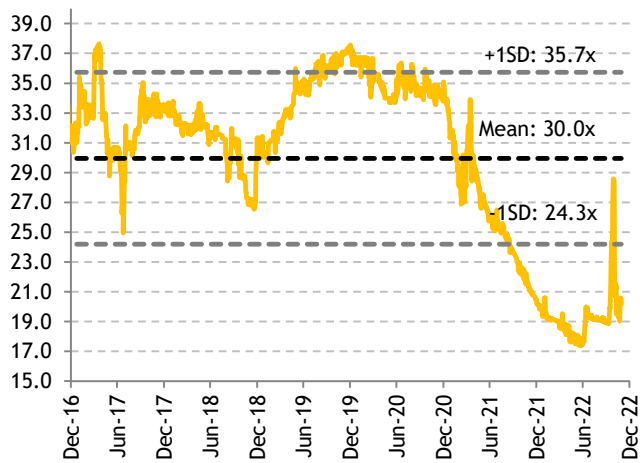
- In FY21, SEM employed a total of 10,139 employees with 8,293 employees under their convenience store (CVS) and 1,846 employees under their pharmacy segments. The CVS male:female ratio was 48:52 (from 54:46 in 2018) while its pharmacy segment workforce is 79% female workers.
- SEM implements annual audit targets on its convenience stores to ensure that quality and food standards are upheld. A total of 993 stores were audited in 2021 including 377 fresh food stores (high-risk category) and 616 non-fresh food stores.
- An array of empowerment and donation programmes is conducted through *7-Eleven community care* (i.e. *Semurni Kasih*, *Women of Will* etc.). The group also makes contributions directly to various non-profit foundations.

### Key G metrics and issues

- SEM's board of directors (BOD) comprises of 9 members - 3 independent non-executive directors, 5 non-independent non-executive directors, and 2 executive directors.
- Independent directors make up only 33% of its BOD which is below recommended practise for at least 50% share of independent members. SEM has no plans to revise its board composition for now.
- The BOD male:female ratio was 78:22 in 2021, below the recommended industry practise of at least 30% women directors for large companies.
- The chairman and CEO positions are held by separate individuals.
- Annual shareholder's approval is required for independent directors serving beyond 9 years. At present, there are no independent directors who have served beyond 9 years.
- Collectively, the co-CEO's remuneration packages amounted to MYR2.5m (c.3% of SEM's FY21 pre-tax profit) while the BOD's total remuneration package equalled MYR3.0m (c.3% of SEM's FY21 pre-tax profit).
- The group does not disclose detailed remuneration of each member of senior management due to confidentiality purposes.
- SEM has been audited by Ernst & Young PLT since its public listing in 2015.
- The group enters recurring related party transactions mostly involving purchases of goods, digital sales of goods (through *Razer Pay*) and rental of properties. Royalty payments typically account for c.1% of total revenue.

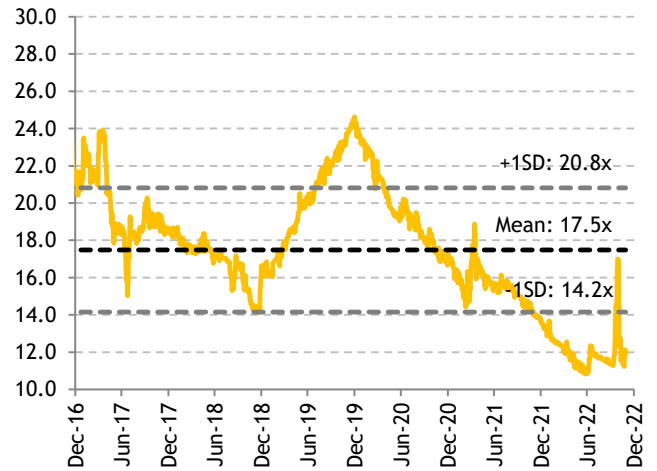
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

One year forward PER (x)



Source: Bloomberg, Maybank IBG Research

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	21.9	19.1	17.4
Core P/E (x)	35.5	38.1	21.9	19.1	17.4
P/BV (x)	23.3	18.8	14.8	11.1	8.7
P/NTA (x)	(4.3)	(4.4)	(5.3)	(6.0)	(7.0)
Net dividend yield (%)	1.7	1.1	2.7	3.0	3.3
FCF yield (%)	7.8	10.7	11.2	7.8	7.1
EV/EBITDA (x)	6.8	6.4	5.1	5.6	5.3
EV/EBIT (x)	17.4	14.7	9.1	9.7	8.9
<b>INCOME STATEMENT (MYR m)</b>					
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
<b>BALANCE SHEET (MYR m)</b>					
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
<b>Total assets</b>	<b>2,036.8</b>	<b>2,250.9</b>	<b>2,493.5</b>	<b>2,678.8</b>	<b>2,878.0</b>
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
<b>Total Liabilities</b>	<b>1,875.6</b>	<b>2,068.9</b>	<b>2,262.1</b>	<b>2,391.9</b>	<b>2,530.8</b>
Shareholders Equity	66.8	90.0	124.4	164.9	210.1
Minority Interest	94.5	92.1	107.1	122.1	137.1
<b>Total shareholder equity</b>	<b>161.2</b>	<b>182.0</b>	<b>231.4</b>	<b>286.9</b>	<b>347.1</b>
<b>Total liabilities and equity</b>	<b>2,036.8</b>	<b>2,250.9</b>	<b>2,493.5</b>	<b>2,678.8</b>	<b>2,878.0</b>
<b>CASH FLOW (MYR m)</b>					
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
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Liquidity &amp; Efficiency</b>					
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
<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	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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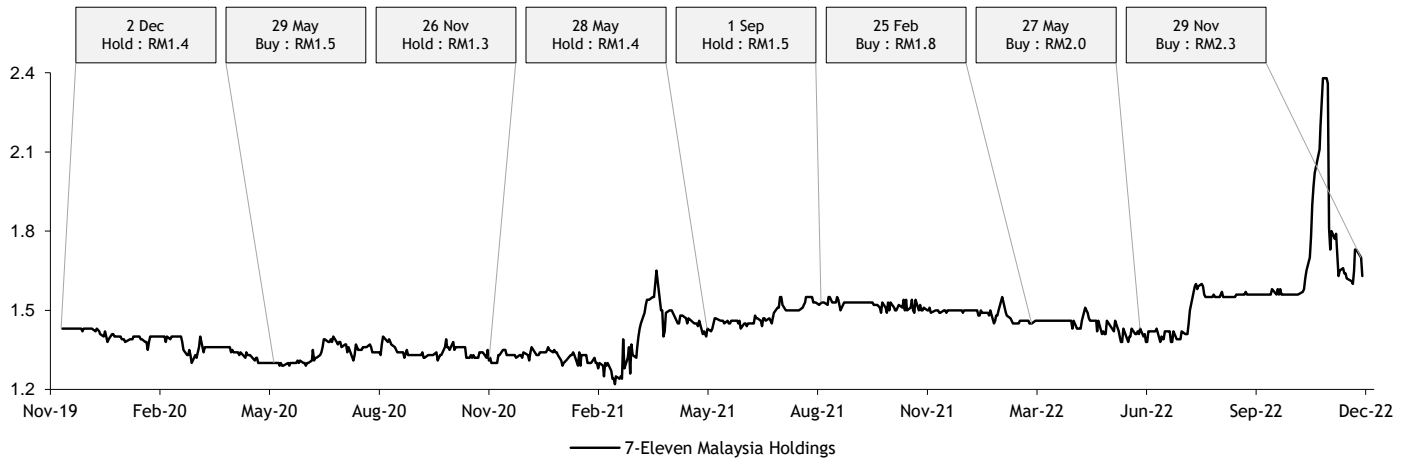
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