

30 May 2019

# 7-Eleven Malaysia

## 1Q19 Within Expectations

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**1Q19 CNP of RM11.2m (+25% YoY, -11% QoQ) at 19%/20% of our/consensus full-year estimates is deemed within expectations as 1Q is generally the weakest quarter. Maintain UP with a higher TP of RM1.35 from RM1.30 as we roll over to FY20E valuation based on an unchanged PER of 27x, in line with regional peers' average.**

**1Q19 deemed within expectations.** 1Q19 CNP of RM11.2m (+25% YoY, -11% QoQ) is deemed within expectations of our/consensus at 19%/20% of full-year estimates. 1Q is generally the weakest quarter for the group. No dividend was declared for the quarter as expected, as the group typically pay dividend on 4Q.

**YoY**, 1Q19 CNP surged 25% boosted by: (i) stronger revenue (+9%) on a higher store base at 2,311 (+3%) as well as improvement in SSSG at 6.1% (1Q18: -0.9%) and better consumer promotion activity, and (ii) expansion in PBT margin by 0.5ppt to 2.8% from 2.3% in 1Q18 buoyed by improved merchandise mix, especially with growth in all food and beverage categories. This more than offset the higher effective tax rate of 30.7% (1Q18: 26.8%) due to higher non-deductible expenses.

Note that for 1Q19, the group closed down eight underperforming stores and opened 32 new stores with total 2,311 stores.

**QoQ**, 1Q19 CNP plunged 11% dragged down by lower GP margin by 1.5 ppt to 36.1% from 37.6% in 4Q18 due to unfavourable sales mix, lower marketing income and higher logistics expenses. This was despite (i) lower effective tax rate of 30.7% (4Q18: 40.8%), (ii) higher revenue (+5%) from higher stores base (+1%), and (iii) better operating expenses allocation of 32% (4Q18: 34% of sales).

**Outlook.** The group noted that they have the capacity to open up to 200 new stores for FY19 (currently at 2,311 stores as at March 2019). Besides stores expansion, the group has been working towards an overhaul of its stores operation and end-to-end supply chain operations, which are showing results with improving margin, albeit at a slow pace. The group has been facing stiff competition from new players which are revolutionizing the high-margin fresh-food space, which is challenging its sales growth.

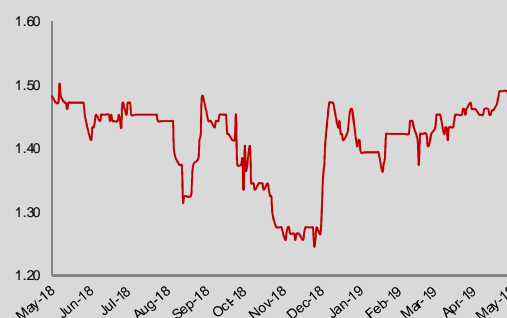
**Maintain UNDERPERFORM with a higher TP of RM1.35 from RM1.30** as we roll over our valuation base to FY20E (from FY19E) based on unchanged PER of 27x, which is in line with regional peers' average PER.

**Key risks to our call include:** higher-than-expected sales, and lower-than-expected operating expenses.

# UNDERPERFORM ↔

**Price: RM1.49**  
**Target Price: RM1.35 ↑**

### Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	1.2%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK EQUITY
Market Cap (RM m)	1,745.5
Shares Outstanding	1,171.5
52-week range (H)	1.50
52-week range (L)	1.23
3-mth avg daily vol:	129,710
Free Float	48%
Beta	0.6

### Major Shareholders

Tan Sri Dato' Seri Vincent Tan	23.4%
Classic Union Group Ltd	18.0%
True Ascend Sdn Bhd	10.3%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	2,216.1	2,490.2	2,611.8
EBIT	83.8	91.8	96.5
PBT	83.8	79.1	83.5
<b>Net Profit (NP)</b>	<b>51.3</b>	<b>58.3</b>	<b>61.5</b>
<b>Core NP (CNP)</b>	<b>51.3</b>	<b>58.3</b>	<b>61.5</b>
Consensus (NP)	-	55.5	61.1
Earnings Revision	-	-	-
EPS (sen)	4.6	4.7	5.0
EPS growth (%)	12.0	12.8	5.5
NDPS (sen)	4.0	4.0	4.0
BV/Share (RM)	0.06	0.07	0.08
PER	32.7	31.6	30.0
P/BV (x)	24.1	21.6	18.9
Gearing (x)	1.6	1.6	1.5
Net Dvd Yield (%)	2.7	2.7	2.7

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<b>Result Highlight</b>					
	<b>1Q</b>	<b>4Q</b>	<b>QoQ</b>	<b>1Q</b>	<b>YoY</b>
<b>FY Dec (RM m)</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>	<b>FY18</b>	<b>Chg</b>
Revenue	583.7	554.3	5.3%	535.7	9.0%
Gross Profit	210.7	208.3	1.2%	193.1	9.1%
Other operating income	0.7	1.8	-64.1%	0.5	39.0%
Operating expenses	-184.8	-186.6	-0.9%	-156.4	18.1%
PBT	16.1	21.1	-23.8%	12.2	31.8%
Tax expense	-4.9	-8.6	-42.7%	-3.3	50.6%
<b>Net Profit (NP)</b>	<b>11.2</b>	<b>12.5</b>	<b>-10.8%</b>	<b>8.9</b>	<b>24.9%</b>
<b>Core Net Profit (CNP)</b>	<b>11.2</b>	<b>12.5</b>	<b>-10.8%</b>	<b>8.9</b>	<b>24.9%</b>
EPS (sen)	1.0	1.1	-10.8%	0.9	12.5%
DPS (sen)	0.0	4.0		0.0	
Gross margin (%)	36.1%	37.6%		36.1%	
PBT margin (%)	2.8%	3.8%		2.3%	
CNP margin	1.9%	2.3%		1.7%	
Effective tax rate (%)	30.7%	40.8%		26.8%	

Source: Bursa Announcement, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>F&amp;B AND RETAIL</b>																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.49	1,745.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.8	31.5	29.9	24.8	24.0	77.5%	2.7%	1.35	UP	
AEON CO (M) BHD	1.47	2,063.9	Y	12/2019	6.5%	3.1%	17.3%	9.2%	19.5	16.6	15.2	1.1	1.0	5.3%	2.7%	2.00	OP	
AMWAY MALAYSIA HOLDINGS BHD	5.91	971.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.8	16.9	15.9	4.1	3.9	23.8%	4.7%	7.25	OP	
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP	
FRASER & NEAVE HOLDINGS BHD	34.20	12,543.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.9	28.0	5.4	5.0	18.0%	1.9%	36.60	MP	
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP	
MYNEWS HOLDINGS BHD	1.36	927.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.0	28.9	24.0	3.3	3.1	11.1%	0.7%	1.25	UP	
NESTLE (MALAYSIA) BHD	147.50	34,588.8	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.3	47.2	45.3	52.9	52.9	114.7%	2.2%	137.00	MP	
PADINI HOLDINGS BHD	3.63	2,388.2	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.4	15.4	12.7	3.7	3.3	22.3%	3.2%	4.00	MP	
PARKSON HOLDINGS BHD	0.245	261.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	31.6	0.1	0.1	-1.7%	0.0%	0.240	MP	
POWER ROOT BHD	1.41	558.2	Y	03/2020	6.3%	8.6%	26.3%	16.8%	16.8	13.8	12.2	2.5	2.3	18.0%	6.4%	1.75	OP	
QL RESOURCES BHD	6.87	11,146.2	Y	03/2019	8.1%	12.2%	11.0%	7.3%	54.0	48.7	45.4	5.9	5.5	12.2%	0.7%	6.05	UP	
SPRITZER BHD	2.26	474.5	Y	12/2019	4.0%	5.0%	3.1%	12.6%	19.6	19.0	16.9	1.2	1.2	6.3%	1.8%	1.90	UP	
<b>Simple Average</b>					<b>4.5%</b>	<b>5.2%</b>	<b>1.8%</b>	<b>64.2%</b>	<b>28.4</b>	<b>25.3</b>	<b>23.9</b>	<b>11.2</b>	<b>11.0</b>	<b>33.7%</b>	<b>2.6%</b>			
<b>SIN</b>																		
BRITISH AMERICAN TOBACCO (M) BHD	31.00	8,851.4	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	18.9	21.4	21.0	21.0	20.0	96.0%	4.4%	29.55	UP	
CARLSBERG BREWERY MALAYSIA BHD	23.86	7,339.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	26.8	25.0	23.9	40.6	44.1	173.9%	4.2%	23.00	MP	
HEINEKEN MALAYSIA BHD	23.36	7,057.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.0	24.3	23.1	19.0	18.8	77.9%	4.1%	23.25	MP	
<b>Simple Average</b>																		
<b>CONSENSUS ESTIMATES</b>																		
BERJAYA FOOD BHD	1.79	641.7	N	06/2019	8.2%	9.9%	2368.1%	15.4%	546.1	22.1	19.2	1.7	1.7	7.3%	2.7%	2.08	BUY	
BONIA CORPORATION BHD	0.260	207.2	Y	06/2019	-5.8%	2.2%	-38.0%	23.6%	10.5	16.9	13.7	0.6	0.4	2.9%	2.7%	0.250	SELL	
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL	
LAY HONG BHD	1.36	488.9	Y	12/2019	16.7%	20.3%	54.9%	23.4%	21.4	13.8	11.2	1.5	1.4	10.4%	2.8%	2.16	BUY	
KAWAN FOOD	4.54	738.5	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.1	7.0	6.3	1.4	N/A	21.0%	N/A	6.45	BUY	
MAGNI-TECH INDUSTRIES BHD	1.79	641.7	N	06/2019	8.2%	9.9%	2368.1%	15.4%	546.1	22.1	19.2	1.7	1.7	7.3%	2.7%	2.08	BUY	

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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