

26 November 2019

7-Eleven Malaysia

9MFY19 Within Expectations

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9MFY19 CNP of RM42.7m (+10% YoY) came in within both our/consensus expectations, making up 73%/77% of full-year estimates. The group has been working towards an overhaul of its stores operation and end-to-end supply chain operations to defend its market leader position from newer players which are revolutionizing the high-margin fresh-food space. Maintain MP with a TP of RM1.35 based on 27x FY20E EPS.

9MFY19 within expectations. 9MFY19 CNP of RM42.7m (+10% YoY) came in within both our/consensus expectations, making up 73%/77% of full-year estimates. No dividend was declared for the quarter which is typically paid in 4Q.

YoY, 9MFY19 CNP rose 10% boosted by: (i) stronger turnover (+6%) on a higher store base at 2,382 (+4% YoY, closed 17 stores, 123 new stores opened since Jan 2019) as well as improvement in SSSG at 2.7% (9MFY18: -1.6%) with better consumer promotion activity, and (ii) expansion in PBT margin by 0.2ppt to 3.4% from 3.2% in 9MFY18 buoyed by improved merchandise mix, especially with growth in all food and beverage categories, as well as higher marketing income and improved logistics expenses recovery (on-time suppliers delivery rebates). These more than offset (i) higher effective tax rate of 29.5% (9MFY18: 26.4%) due to higher non-deductible expenses, and (ii) adoption of MFRS 16, which reduced CNP by RM6.0m (lease liability charges recognition).

QoQ, 3QFY19 CNP surged 16% largely from lower effective tax rate of 26.5% (2QFY19: 31.7%), and supported by (i) better turnover (+1%) on a higher store base at 2,382 (+35 new stores) as well as (ii) expansion in PBT margin by 0.3ppt to 3.9% from 3.6% in 2QFY19 from lower lease liability charges recognition with the closure of 6 stores (2QFY19: closed 3 stores). Nevertheless, SSSG was lower at 0.1% compared to 4.0% in 2QFY19.

Outlook. The group noted that they have the capacity to open up to 200 new stores for FY19 (has opened 123 new stores, total of 2,382 stores as at September 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. Nevertheless, the group is facing stiff competition from new players which are revolutionizing the high-margin fresh-food space, which is challenging its sales growth.

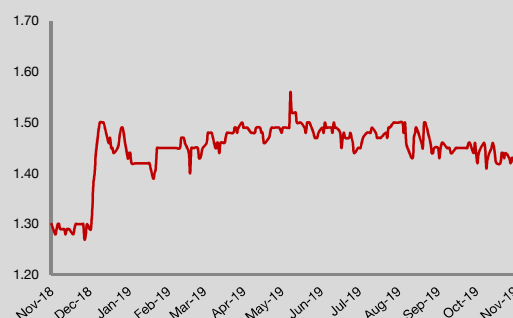
Maintain MARKET PERFORM with Target Price of RM1.35 based on 27x FY20E EPS (which is in line with regional peers' average PER).

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

MARKET PERFORM ↔

Price: RM1.42
Target Price: RM1.35 ↔

Share Price Performance



KLCI 1,591.35
YTD KLCI chg -5.9%
YTD stock price chg -3.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK EQUITY
Market Cap (RM m)	1,633.3
Shares Outstanding	1,150.2
52-week range (H)	1.56
52-week range (L)	1.24
3-mth avg daily vol:	822,779
Free Float	39%
Beta	0.5

Major Shareholders

Tan Sri Dato' Seri Vincent Tan	25.1%
Classic Union Group Ltd	18.3%
True Ascend Sdn Bhd	10.5%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	2,217.0	2,371.0	2,491.7
EBIT	83.8	92.7	97.3
PBT	73.9	83.3	87.6
Net Profit (NP)	51.4	58.3	61.4
Core NP (CNP)	51.4	58.3	61.4
Consensus (NP)	-	55.7	61.9
Earnings Revision	-	-	-
EPS (sen)	4.2	4.7	5.0
EPS growth	2.5%	13.5%	5.3%
NDPS (sen)	5.0	5.0	5.0
BV/Share (RM)	0.08	0.07	0.07
PER (x)	35.9	31.6	30.0
P/BV (x)	19.9	20.6	20.7
Gearing (x)	1.1	1.3	1.5
Net Dvd. Yield	3.3%	3.3%	3.3%



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Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	594.2	588.8	0.9%	568.5	4.5%	1766.7	1661.8	6.3%
Gross Profit	220.8	220.4	0.2%	210.1	5.1%	651.9	607.5	7.3%
Other operating income	2.6	2.0	26.7%	2.1	19.7%	5.2	3.7	42.6%
Operating expenses	-189.5	-190.1	-0.3%	-162.7	16.5%	-564.4	-551.0	2.4%
PBT	23.1	21.4	8.2%	22.2	4.1%	60.6	52.7	14.8%
Tax expense	-6.1	-6.8	-9.4%	-5.4	12.7%	-17.8	-13.9	28.1%
Net Profit (NP)	17.0	14.6	16.4%	16.8	1.3%	42.7	38.8	10.0%
Core Net Profit (CNP)	17.0	14.6	16.4%	16.8	1.3%	42.7	38.8	10.0%
EPS (sen)	1.5	1.3	15.6%	1.5	0.0%	3.8	3.5	8.4%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
Gross margin (%)	37.2%	37.4%		37.0%		36.9%	36.6%	
PBT margin (%)	3.9%	3.6%		3.9%		3.4%	3.2%	
CNP margin	2.9%	2.5%		2.9%		2.4%	2.3%	
Effective tax rate (%)	26.5%	31.7%		24.5%		29.5%	26.4%	

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.			
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.42	1,633.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.1	30.0	28.5	23.6	22.9	77.5%	2.8%	1.35	MP	
AEON CO (M) BHD	1.52	2,134.1	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.2	21.0	19.1	1.1	1.0	5.0%	2.6%	1.70	OP	
AMWAY MALAYSIA HOLDINGS BHD	5.82	956.7	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.6	16.6	15.7	4.1	3.9	23.8%	4.7%	5.90	MP	
DUTCH LADY MILK INDUSTRIES BHD	57.48	3,678.7	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	29.7	35.9	32.6	34.9	34.4	97.9%	2.8%	54.60	UP	
FRASER & NEAVE HOLDINGS BHD	34.58	12,683.2	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.3	29.5	27.9	5.0	4.7	16.5%	1.9%	35.15	MP	
HAI-O ENTERPRISE BHD	2.17	630.0	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.3	13.3	13.0	2.0	2.0	15.1%	6.0%	1.95	UP	
MYNEWS HOLDINGS BHD	1.26	859.5	N	10/2019	27.3%	14.2%	21.0%	20.7%	32.4	26.8	22.2	2.8	2.7	10.2%	0.8%	1.55	OP	
NESTLE (MALAYSIA) BHD	145.00	34,002.5	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.4	50.6	47.2	52.0	51.2	104.6%	2.0%	128.00	UP	
PADINI HOLDINGS BHD	3.46	2,276.4	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	14.5	11.9	10.6	3.5	3.0	26.8%	3.3%	4.35	OP	
PARKSON HOLDINGS BHD	0.250	261.5	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	31.5	27.1	0.1	0.1	0.3%	0.0%	0.270	OP	
POWER ROOT BHD	2.34	946.7	Y	03/2020	13.3%	10.5%	48.6%	9.4%	27.6	19.2	18.1	4.2	3.8	21.1%	3.8%	2.60	OP	
QL RESOURCES BHD	7.40	12,006.0	Y	03/2020	10.9%	4.5%	13.0%	4.2%	55.4	49.0	47.0	5.9	5.5	12.1%	0.7%	6.30	UP	
SPRITZER BHD	2.20	461.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.1	16.6	14.7	1.2	1.1	7.0%	1.8%	2.40	MP	
Simple Average					6.7%	4.0%	66.0%	9.4%	28.6	27.1	24.9	10.8	10.5	32.1%	2.6%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	16.54	4,722.7	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	10.1	14.2	14.5	11.2	10.9	78.1%	6.8%	18.30	MP	
CARLSBERG BREWERY MALAYSIA BHD	27.50	8,459.6	N	12/2019	12.5%	7.4%	8.1%	9.5%	30.9	28.9	27.5	46.8	49.9	174.3%	3.6%	28.70	OP	
HEINEKEN MALAYSIA BHD	26.36	7,963.3	N	12/2019	6.1%	5.0%	2.8%	5.1%	28.2	27.4	26.1	21.5	21.3	77.9%	3.6%	24.25	MP	
Simple Average					0.1%	3.0%	-6.0%	4.2%	23.0	23.5	22.7	26.5	27.4	110.1%	4.7%			

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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