

28 February 2020

# 7-Eleven Malaysia

## FY19 Within Expectations

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**FY19 CNP of RM54.1m (+5% YoY) came in within both our/consensus expectations, at 95% of estimates. The group's efforts in stores expansion and overhauling its supply chain operation have helped to defend its market leader position as evidenced by 6% rise in sales and 2.5% in SSSG. Maintain MP with a TP of RM1.35 based on 27x FY20E EPS.**

**FY19 within expectations.** FY19 CNP of RM54.1m (+5% YoY) came in within both our/consensus expectations, at 95% of estimates. No dividend was declared for the quarter, but we expect effective DPS of 5.0 sen to be declared later as SEM typically announces its dividend pay-out before the release of its audited annual report.

**YoY**, FY19 CNP rose 5% boosted by: (i) stronger turnover (+6%) on a higher stores base at 2,411 (+5% YoY, closed 41 stores, 124 new stores opened since Jan 2019) with improvement in SSSG at 2.5% (FY18: -1.4%) from better consumer promotion activity, and (ii) lower effective tax rate of 29.4% (FY18: 29.5%). All these more than offset: (i) contraction in PBT margin by 0.2ppt to 3.2% from 3.4% in FY18 from higher operating expenses in line with higher number of stores, and (ii) adoption of MFRS 16, which reduced CNP by RM11.3m (lease liability charges recognition).

**QoQ**, 4QFY19 CNP plunged 33%, mainly due to: (i) flat turnover (-0.2%) especially from lower sales in business area during school holidays, (ii) contraction in PBT margin by 1.2ppt to 2.7% from 3.9% in 3QFY19 from higher lease liability charges recognition in tandem with higher stores base (+41 new stores) and less stores closure of 12 stores (3QFY19: closed 18 stores), and (iii) higher effective tax rate of 29.4% (3QFY19: 26.5%).

**Outlook.** The group noted that they have the capacity to open up to 200 new stores. Besides stores expansion, the group has been working towards an overhaul of its stores operation and end-to-end supply chain operation, 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. Its wholly-owned Convenience Shopping (Sabah) SB (CSSSB), is still in the midst of acquiring Caring Pharmacy Group Bhd (acquisition of 25.35% of Caring shares was completed on 27<sup>th</sup> February 2020, with notice of Mandatory Offer served to its board at offer price of RM2.60), and SEM noted that, post-takeover, both stores operations would be operating as usual as there is no synergy in combining them.

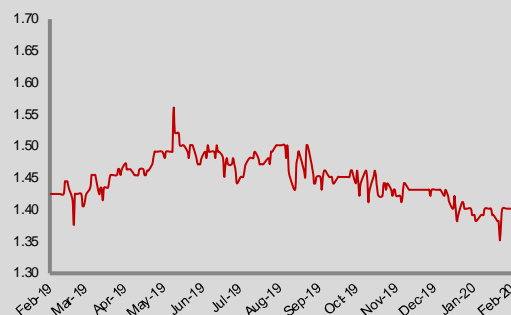
**Maintain MARKET PERFORM with a TP of RM1.35** based on 27x FY20E EPS (which is in line with regional peers' average PER).

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

## MARKET PERFORM ↔

**Price: RM1.38**  
**Target Price: RM1.35 ↔**

### Share Price Performance



KLCI 1,505.59  
YTD KLCI chg -5.2%  
YTD stock price chg -3.5%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK EQUITY
Market Cap (RM m)	1,587.3
Shares Outstanding	1,150.2
52-week range (H)	1.56
52-week range (L)	1.27
3-mth avg daily vol	346,297
Free Float	44%
Beta	0.5

### Major Shareholders

Tan Sri Dato' Seri Vincent Tan	25.2%
Classic Union Group Ltd	18.3%
True Ascend Sdn Bhd	10.5%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	2,359.4	2,546.6	2,668.8
EBIT	120.3	123.1	128.5
PBT	76.7	87.0	89.1
<b>Net Profit (NP)</b>	<b>54.1</b>	<b>61.4</b>	<b>63.3</b>
<b>Core NP (CNP)</b>	<b>54.1</b>	<b>61.4</b>	<b>63.3</b>
Consensus (NP)	-	61.9	60.9
Earnings Revision	-	-	new
EPS (sen)	4.4	5.0	5.1
EPS growth (%)	5.4	13.5	3.1
NDPS (sen)	5.0	5.0	5.0
BV/Share (RM)	0.08	0.08	0.08
PER (x)	31.4	27.7	26.9
P/BV (x)	18.1	18.1	17.8
Gearing (x)	0.5	0.6	0.7
Net Dvd. Yield (%)	3.3	3.3	3.3

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	592.7	594.2	-0.2%	555.2	6.8%	2359.4	2217.0	6.4%
Gross Profit	178.7	220.8	-19.1%	177.7	0.5%	738.7	698.6	5.7%
Other operating income	47.7	32.3	47.5%	32.4	47.3%	144.7	122.7	18.0%
Operating expenses	-198.8	-189.5	4.9%	-164.7	20.7%	-763.2	-737.5	3.5%
PBT	16.1	23.1	-30.3%	21.1	-23.8%	76.7	76.4	0.3%
Tax expense	-4.7	-6.1	-22.7%	-8.6	-45.0%	-22.6	-22.5	0.2%
<b>Net Profit (NP)</b>	<b>11.4</b>	<b>17.0</b>	<b>-33.1%</b>	<b>12.5</b>	<b>-9.1%</b>	<b>54.1</b>	<b>51.3</b>	<b>5.4%</b>
<b>Core Net Profit (CNP)</b>	<b>11.4</b>	<b>17.0</b>	<b>-33.1%</b>	<b>12.5</b>	<b>-9.1%</b>	<b>54.1</b>	<b>51.3</b>	<b>5.4%</b>
EPS (sen)	1.0	1.5	-33.1%	1.1	-10.8%	4.7	4.6	2.2%
DPS (sen)	5.0	0.0		5.0		5.0	5.0	
Gross margin (%)	30.1%	37.2%		32.0%		31.3%	31.5%	
PBT margin (%)	2.7%	3.9%		3.8%		3.2%	3.4%	
CNP margin	1.9%	2.9%		2.3%		2.3%	2.3%	
Effective tax rate (%)	29.4%	26.5%		40.8%		29.4%	29.5%	

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.				
<b>F&amp;B AND RETAIL</b>																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.38	1,587.3	N	12/2019	7.9%	4.8%	13.5%	3.1%	31.5	27.7	26.9	16.7	16.7	60.2%	3.6%	1.35	MP	
AEON CO (M) BHD	1.30	1,825.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	16.7	16.5	16.1	1.1	1.0	6.4%	3.1%	1.65	OP	
AMWAY MALAYSIA HOLDINGS BHD	5.50	904.1	Y	12/2019	-1.0%	2.0%	1.4%	3.7%	17.7	17.4	16.8	4.1	3.9	23.0%	5.0%	5.10	MP	
DUTCH LADY MILK INDUSTRIES BHD	43.84	2,805.8	Y	12/2020	1.7%	1.7%	2.5%	2.3%	26.6	26.0	25.4	19.4	15.4	66.2%	2.5%	43.85	MP	
FRASER & NEAVE HOLDINGS BHD	31.30	11,480.2	Y	09/2020	2.4%	3.0%	2.5%	6.0%	27.3	26.7	25.2	4.5	4.2	16.4%	2.1%	35.20	OP	
HAI-O ENTERPRISE BHD	1.95	566.1	N	04/2020	1.7%	2.3%	-24.9%	8.7%	11.9	15.9	14.6	1.8	1.8	11.4%	5.1%	1.50	UP	
MYNEWS HOLDINGS BHD	0.870	593.5	N	10/2020	24.3%	17.0%	11.2%	20.8%	22.1	19.9	16.5	2.0	1.8	9.5%	1.1%	1.10	MP	
NESTLE (MALAYSIA) BHD	142.00	33,299.0	Y	12/2020	4.1%	1.9%	6.6%	3.7%	51.1	47.9	46.2	49.7	48.6	102.5%	2.0%	124.50	UP	
PADINI HOLDINGS BHD	3.11	2,046.1	Y	06/2020	0.5%	4.8%	3.2%	5.6%	13.1	12.7	12.0	2.8	2.5	20.6%	3.7%	3.70	OP	
PARKSON HOLDINGS BHD	0.195	208.1	Y	06/2020	0.4%	0.5%	-16.7%	-140.6%	N.A.	N.A.	N.A.	0.1	0.1	-12.3%	0.0%	0.145	Ceased	
POWER ROOT BHD	2.30	941.3	Y	03/2020	13.3%	10.5%	53.9%	12.3%	27.1	18.2	16.8	4.1	3.7	21.8%	3.9%	2.75	OP	
QL RESOURCES BHD	8.30	13,466.2	Y	03/2020	10.9%	11.6%	13.1%	9.6%	62.1	55.0	50.1	6.7	6.2	12.1%	0.7%	8.30	MP	
SPRITZER BHD	2.17	455.6	Y	12/2020	1.4%	3.1%	3.2%	3.4%	14.6	14.2	13.7	1.1	1.1	7.6%	2.3%	2.45	OP	
<b>Simple Average</b>					<b>5.3%</b>	<b>5.0%</b>	<b>5.4%</b>	<b>-4.5%</b>	<b>26.8</b>	<b>24.8</b>	<b>23.4</b>	<b>8.8</b>	<b>8.2</b>	<b>26.6%</b>	<b>2.7%</b>			
<b>SIN</b>																		
BRITISH AMERICAN TOBACCO (M) BHD	14.52	4,145.9	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	11.5	12.2	12.7	9.6	9.4	78.2%	7.9%	16.70	OP	
CARLSBERG BREWERY MALAYSIA BHD	33.58	10,267.0	N	12/2020	13.8%	9.2%	12.0%	9.5%	35.6	31.7	29.0	62.2	60.5	200.4%	3.1%	29.00	UP	
HEINEKEN MALAYSIA BHD	27.50	8,307.7	N	12/2020	13.0%	4.0%	16.1%	5.6%	26.5	22.9	21.7	23.2	21.4	97.3%	4.0%	28.90	MP	
<b>Simple Average</b>					<b>5.3%</b>	<b>3.4%</b>	<b>7.5%</b>	<b>3.6%</b>	<b>24.5</b>	<b>22.3</b>	<b>21.1</b>	<b>31.7</b>	<b>30.4</b>	<b>125.3%</b>	<b>5.0%</b>			

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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