

28 February 2021

# 7-Eleven Malaysia Pharmaceutical Saviour

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FY20 came in above our and market expectations as its Pharmaceutical segment remained robust throughout the various MCOs imposed. Moving ahead, 2021 will see the full-year impact of its Pharmaceutical segment benefitting from elevated demand of health products. TP is raised to RM1.55 ascribing to higher FY21E PER premised on expected strong contribution from its Pharmaceutical segment.

**Above.** FY20 CNP of RM69m (after accounting for the one-off corporate exercise of RM34m) exceeded expectations accounting for 110%/125% of our/market estimates. The wider variance was due to resilient contribution from Caring pharmacy in 4Q. No dividend was declared which are normally announced following the release of its annual report.

**Results' highlights, YoY.** Overall, FY20 saw uptick in revenue (+8%) to RM2.5b primarily with the Pharma segment contributed 20% to topline. Its convenience store (CVS) operations saw a 19% contraction in revenue to RM2.1b dragged by the shorter operating hours, stores closure and lower retail footfall during the various MCOs. The sharp contraction in NP (-35%) was due to one-off corporate exercise expense and a high ETR expanding 15ppt (due to certain expenses not regulatory deductible). Excluding the one-off corporate exercise, CNP surged by +28% to RM69m.

**QoQ,** revenue took a 13% dip to RM591m as both CVS and Pharmaceutical contracted, 15% and 5% respectively (with the pharma segment remained resilient in the CMCO seeing a +4ppts uptick in topline contribution to +38%). The sharp contraction in NP (-57%) to RM5m was due to the one-off corporate exercise expense (RM12m) and a high ETR expanding 25ppt. Excluding the one-off corporate exercise, CNP contracted by 4% to RM18m.

**Outlook.** While sequential improvements could be expected ahead following the gradual normalisation of retail footfall, we believe the group's CVS business is likely to remain challenging. This is premised on: (i) the intensifying competition within the CVS space following the entrance of new players which are equipped with ample fresh food offerings, as well as (ii) shorter operating hours now amid the Covid-19 restrictions, compared to 24 hours previously given the prevailing lockdown. Nonetheless, the foresaid demerits are expected to be cushioned by solid contribution from its pharmacy segment (from our conservative estimation - 21% of topline), as demand for pharmaceutical products is anticipated to remain bullish in 2021.

**Post results,** we tweaked downwards slightly our FY21E earnings by 3% on housekeeping matters.

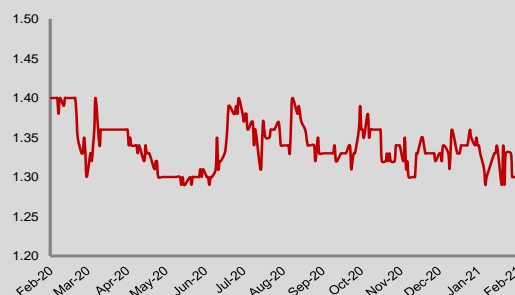
**OUTPERFORM with a higher TP of RM1.55** (from RM1.40) prescribing a higher PER FY21E of 30x (from 27x) implying a 5-year mean. We believe a higher PER is in order premised on the recovery momentum expected in 2021 coupled with a full-year contribution from its Pharmaceutical segment which is expected to grow at a conservative 12% YoY (vs 3-year average of +14%). Upgrade to **OUTPERFORM**.

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

**OUTPERFORM** ↑

Price: **RM1.30**  
Target Price: **RM1.55** ↑

## Share Price Performance



KLCI 1,577.75  
YTD KLCI chg -3.0%  
YTD stock price chg -4.4%

## Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK Equity
Market Cap (RM m)	1,468.0
Shares Outstanding	1,129.3
52-week range (H)	1.43
52-week range (L)	1.21
3-mth avg daily vol:	628,653
Free Float	36%
Beta	0.4

## Major Shareholders

Tan Sri Dato' Seri Vincent Tan	26.8%
Classic Union Group Ltd	20.5%
True Ascend Sdn Bhd	10.7%

## Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	2,537.6	3,285.6	3,458.0
EBIT	119.2	161.4	173.1
PBT	64.0	79.0	90.8
<b>Net Profit (NP)</b>	<b>69.1</b>	<b>58.7</b>	<b>68.3</b>
<b>Core NP (CNP)</b>	<b>69.1</b>	<b>58.7</b>	<b>68.3</b>
Consensus (NP)		<b>62.6</b>	<b>68.8</b>
Earnings Revision	23.0%	-2.7%	New
EPS (sen)	5.6	5.1	6.0
EPS growth (%)	27.7	-8.5	16.6
NDPS (sen)	2.2	2.9	3.0
BV/Share (RM)	0.0	5.0	6.0
PER (x)	21.5	25.3	21.8
P/BV (x)	9.2	11.7	10.7
Gearing (x)	2.2	2.6	2.3
Net Dvd. Yield (%)	0.0	3.8	4.6

28 February 2021

Result Highlight								
	4Q	3Q	QoQ	3Q	YoY	12M	12M	YoY
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	591.4	677.1	-12.7%	594.2	14.0%	2537.6	2359.4	7.6%
Gross Profit	158.8	196.6	-19.2%	220.8	-11.0%	720.4	802.9	-10.3%
Other operating income	55.5	38.2	45.3%	32.3	18.1%	169.8	140.5	20.8%
Operating expenses	-186.3	-195.5	-4.7%	-189.5	3.2%	-770.8	-763.2	1.0%
PBT	13.7	24.4	-43.9%	23.1	5.5%	64.0	76.7	-16.5%
Tax expense	-8.1	-8.6	-5.1%	-6.1	39.9%	-28.6	-22.6	26.8%
<b>Net Profit (NP)</b>	5.5	12.9	<b>-57.3%</b>	17.0	-23.9%	<b>35.4</b>	54.1	<b>-34.6%</b>
<b>Core Net Profit (CNP)</b>	17.7	18.4	<b>-4.1%</b>	17.0	8.5%	<b>69.2</b>	54.1	<b>27.9%</b>
EPS (sen)	0.4	1.1	-65.5%	1.5	-23.6%	5.6	4.7	18.3%
	0.0	0.0		0.0		0.0	5.0	
Gross margin (%)								
PBT margin (%)	26.8%	29.0%		37.2%		28.4%	34.0%	
CNP margin	2.3%	3.6%		3.9%		2.5%	3.2%	
Effective tax rate (%)	3.0%	2.7%		2.9%		2.7%	2.3%	

Source: Bursa Announcement, Kenanga Research

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28 February 2021

## 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	1.30	1,468.0	N	12/2021	29.5%	5.2%	-15.1%	16.4%	21.5	25.3	21.8	9.2	11.7	40.8%	3.8%	1.55	OP	
AEON CO. (M) BHD	1.16	1,628.6	Y	12/2021	3.7%	4.8%	88.6%	15.0%	39.3	20.9	18.1	1.0	0.9	4.6%	1.3%	1.30	OP	
AMWAY (MALAYSIA) HOLDINGS BHD	5.68	933.7	Y	12/2021	0.7%	0.7%	16.4%	7.9%	19.9	17.1	15.9	4.2	4.0	23.8%	4.8%	5.45	MP	
DUTCH LADY MILK INDUSTRIES BHD	34.96	2,237.4	Y	12/2021	5.0%	1.0%	8.9%	0.4%	30.5	28.0	27.9	13.4	11.8	45.0%	2.6%	34.55	MP	
FRASER & NEAVE HOLDINGS BHD	31.26	11,465.5	Y	09/2021	5.0%	2.1%	3.9%	1.5%	28.4	27.3	26.9	4.3	4.0	15.0%	2.0%	32.55	MP	
MYNEWS HOLDINGS BHD	0.650	443.4	N	10/2021	10.2%	24.5%	97.8%	15.9%	N.A.	24.4	21.0	1.5	1.5	6.1%	1.5%	0.480	UP	
NESTLE (MALAYSIA) BHD	137.90	32,337.6	Y	12/2021	1.1%	2.2%	14.4%	2.4%	58.5	51.2	50.0	58.0	56.9	112.4%	1.9%	138.60	MP	
PADINI HOLDINGS BHD	2.94	1,934.3	Y	06/2021	-3.2%	13.0%	2.9%	41.9%	25.7	25.0	17.6	2.5	2.4	10.0%	2.6%	3.50	OP	
POWER ROOT BHD	1.75	739.6	Y	03/2021	-18.8%	13.5%	-26.1%	14.9%	13.3	18.1	15.7	2.8	2.6	15.3%	5.7%	1.80	MP	
QL RESOURCES BHD	6.15	14,967.0	Y	03/2021	13.2%	7.4%	13.6%	9.1%	62.5	55.1	50.5	7.2	6.7	12.6%	0.9%	6.60	MP	
<b>Simple Average</b>					<b>4.6%</b>	<b>7.4%</b>	<b>20.5%</b>	<b>12.5%</b>	<b>33.3</b>	<b>29.2</b>	<b>26.5</b>	<b>10.4</b>	<b>10.3</b>	<b>28.5%</b>	<b>2.7%</b>			
<b>SIN</b>																		
BRITISH AMERICAN TOBACCO (M) BHD	12.82	3,660.5	N	12/2021	-8.0%	-2.4%	-3.5%	4.9%	14.0	14.5	13.9	8.4	8.3	57.4%	6.7%	11.45	UP	
CARLSBERG BREWERY MALAYSIA BHD	23.96	7,325.7	N	12/2021	19.9%	5.3%	52.8%	9.1%	41.7	27.3	25.0	37.5	27.5	120.1%	2.7%	25.65	OP	
HEINEKEN MALAYSIA BHD	25.60	7,733.7	N	12/2021	16.1%	6.1%	54.1%	14.0%	44.1	28.6	25.1	19.6	19.7	68.7%	3.5%	22.35	MP	
<b>Simple Average</b>					<b>9.4%</b>	<b>3.0%</b>	<b>34.5%</b>	<b>9.3%</b>	<b>33.3</b>	<b>23.5</b>	<b>21.3</b>	<b>21.9</b>	<b>18.5</b>	<b>82.1%</b>	<b>4.3%</b>			

Source: Bloomberg, Kenanga Research

28 February 2021

**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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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