

26 November 2021

7-Eleven Malaysia Lifted by Pharma Segment

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9MFY21 CNP came in below expectations on account of unexpected higher corporate exercise expenses. Nonetheless, the addition of Caring Pharmacy is paying dividends as YoY top-line remained resilient driven by the Pharma segment. TP unchanged at RM1.60 – fully valued. We maintain our MARKET PERFORM call.

Below expectation. 9MFY21 CNP of RM26m came in below both/our consensus estimates at 51%/61%, respectively. The wide variance is due to on-going corporate exercise expenses which has stretched by another RM7m to RM18m. No dividend declared as expected as dividends are normally declared in the final quarter.

YoY, top-line remained resilient growing 4% to RM2.01b on account of robust contribution from its Pharma segment. Revenue from the Convenience Store (CVS) segment fell 21% to RM1,290m with most product categories recording lower revenue. Excluding the corporate exercise expenses, the segment ended with a PAT of RM14m (-61%). Pharma segment saw a 132% uptick to RM724m. The acquisition of Phil House and Wellings Group earlier this year contributed RM187m. Group GP margin was still under pressure, shedding 2ppt to 27% while opex was well contained as margins shed 2ppt on wage freeze and lower operational cost on account of shorter operating hours.

QoQ, stronger performance from the PHARMA segment was seen which drove overall top-line up by 0.5ppt to RM680m. The CVS segment was affected by the FMCO affecting footfall and sales productivity. CVS revenue declined 20% to RM405m. Gross profit declined 23% to RM122m. Despite lower opex by 10%, this segment saw LAT of RM1.2m. The Pharma segment saw a 61% uptick in revenue to RM276m in tandem with the continued consumer focus on personal well-being and healthcare. Group CNP ended at RM9m (>100%) after additional corporate exercise expense of RM7m for the quarter.

No change in our view of sequential improvements as more business activities gradually re-open. However, 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 stocked with ample fresh food offerings, as well as (ii) shorter operating hours compared to 24 hours previously. Nonetheless, the foresaid demerits are expected to be cushioned by solid contribution from its pharmacy segment, as demand for pharmaceutical products is anticipated to remain bullish in 2021.

Post results, FY21E earnings revised by -24% to RM39m on the unexpected corporate exercise expense and FY22E earnings maintained.

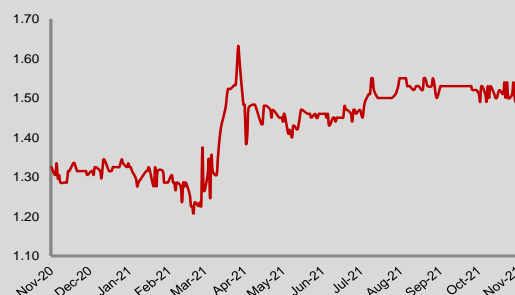
MARKET PERFORM. We maintain our TP at RM1.60 pegged to an unchanged FY22E PER of 24x PER attaching a 0.5SD below its 5-year mean to account for the challenges in its CVS operations and Pharma segment as the pandemic recedes. Fully valued; reiterate **MARKET PERFORM**.

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

MARKET PERFORM ↔

Price: RM1.53
Target Price: RM1.60 ↔

Share Price Performance



KLCI 1,517.60
YTD KLCI chg -6.7%
YTD stock price chg 10.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK Equity
Market Cap (RM m)	1,689.5
Shares Outstanding	1,126.3
52-week range (H)	1.65
52-week range (L)	1.21
3-mth avg daily vol:	82,779
Free Float	41%
Beta	0.4

Major Shareholders

Tan Sri Dato' Seri Vincent Tan	24.1%
Classic Union Group Ltd	20.5%
True Ascend Sdn Bhd	8.5%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	2,537.6	2,719.3	3,648.6
EBIT	300.5	280.1	327.5
PBT	64.0	63.0	112.0
Core NP (CNP)	69.1	38.8	77.0
Consensus (NP)		43.0	69.9
Earnings Revision		-24.5%	0.0%
EPS (sen)	6.0	3.4	6.7
EPS growth (%)	37.6	-43.9	98.6
Sales/Share (RM)	2.2	2.4	3.2
NDPS (sen)	0.0	5.0	6.0
BV/Share (RM)	0.14	0.11	0.12
PER (x)	24.8	44.3	22.3
P/Sales (x)	0.7	0.6	0.5
P/BV (x)	10.7	14.0	12.5
Gearing (x)	2.2	2.3	1.1
Net Dvd Yield (%)	0.0	3.3	4.0

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Result Highlight								
Y/E : Dec (RM m)	3Q21	2Q21	QoQ Chg	3Q20	YoY Chg	9M21	9M20	YoY Chg
Turnover	680.2	676.7	0.5%	677.1	0.5%	2,014.0	1,946.1	3.5%
Gross Profit	182.2	176.9	3.0%	196.6	-7.3%	535.2	561.6	-4.7%
Operating Expenses	(140.1)	(144.9)	-3.4%	(146.9)	-4.6%	(418.1)	(446.8)	-6.4%
EBITDA	80.7	73.6	9.7%	87.9	-99.9%	238.1	229.1	3.9%
EBIT	30.5	24.0	27.2%	39.3	-99.3%	89.6	91.5	-2.1%
PBT/(LBT)	14.7	8.9	65.8%	24.4	-39.5%	44.0	50.3	-12.5%
Taxation	(5.8)	(5.3)	10.7%	(8.6)	-31.8%	(18.0)	(20.5)	-12.2%
Core Net Profit	8.9	3.6	146.4%	15.8	-43.6%	26.0	29.8	-12.7%
Core EPS (sen)	0.8	0.3	146.4%	1.4	-42.8%	2.3	2.6	-11.4%
DPS (sen)	0.0	0.0	N.a	0.0	N.a	0.0	0.0	N.a
Gross Margin	26.8%	26.1%		29.0%		26.6%	28.9%	
Opex Margin	20.6%	21.4%		21.7%		20.8%	23.0%	
EBITDA margin	11.9%	10.9%		13.0%		11.8%	11.8%	
EBIT Margin	4.5%	3.5%		5.8%		4.4%	4.7%	
PBT Margin	2.2%	1.3%		3.6%		2.2%	2.6%	
Core Net Profit Margin	1.3%	0.5%		2.3%		1.3%	1.5%	
ETR	39.7%	59.4%		35.2%		40.9%	40.7%	

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.				
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.50	1,689.5	N	12/2021	7.2%	34.2%	-43.8%	98.5%	24.8	44.2	22.3	10.6	14.0	27.3%	3.3%	1.60	MP	
AEON CO. (M) BHD	1.41	1,979.6	Y	12/2021	-5.2%	13.7%	17.9%	109.4%	47.8	40.6	19.4	1.2	1.2	2.9%	2.0%	1.60	OP	
AMWAY (MALAYSIA) HOLDINGS BHD	5.58	917.3	Y	12/2021	28.1%	-10.0%	19.0%	0.9%	19.6	16.4	16.3	4.1	4.1	25.0%	6.3%	6.05	OP	
DUTCH LADY MILK INDUSTRIES BHD	33.02	2,113.3	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.8	26.4	26.3	12.7	10.2	42.7%	1.8%	40.20	OP	
FRASER & NEAVE HOLDINGS BHD	25.04	9,184.1	Y	09/2022	4.8%	6.4%	0.3%	16.9%	23.2	23.2	19.8	3.3	3.1	13.7%	2.5%	32.45	OP	
MR D.I.Y.	3.56	22,354.2	Y	12/2021	27.4%	37.6%	33.9%	56.6%	66.3	49.5	31.7	25.5	19.2	44.2%	0.8%	4.10	OP	
MYNEWS HOLDINGS BHD	0.905	617.3	N	10/2021	-15.7%	54.7%	-10.2%	-283%	N.A.	N.A.	38.3	2.1	2.2	-3.1%	0.0%	0.900	MP	
NESTLE (MALAYSIA) BHD	133.80	31,376.1	Y	12/2021	1.9%	2.2%	18.2%	-10.0%	56.8	48.0	53.4	56.3	48.4	108.5%	1.8%	138.90	MP	
PADINI HOLDINGS BHD	2.82	1,855.3	Y	06/2022	23.3%	32.2%	75.4%	48.3%	34.4	19.6	13.2	2.3	2.2	11.6%	3.2%	3.20	MP	
POWER ROOT BHD	1.38	581.1	Y	03/2022	8.9%	7.4%	-36.2%	74.0%	20.8	32.5	18.7	2.2	2.0	6.4%	2.8%	1.35	MP	
QL RESOURCES BHD	4.50	10,951.5	Y	03/2022	12.3%	16.9%	-8.0%	21.5%	35.2	38.2	31.5	4.3	4.1	11.4%	0.8%	6.00	MP	
Simple Average					8.9%	17.8%	6.9%	12.1%	35.8	33.9	26.4	11.3	10.1	26.4%	2.3%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	13.92	3,974.6	N	12/2021	5.4%	1.6%	6.4%	2.2%	15.2	14.3	14.0	9.1	8.8	62.5%	6.5%	16.70	OP	
CARLSBERG BREWERY MALAYSIA BHD	20.44	6,249.5	N	12/2021	-1.6%	19.9%	18.4%	32.9%	35.6	30.1	22.6	32.0	24.9	96.1%	2.4%	23.10	MP	
HEINEKEN MALAYSIA BHD	21.88	6,609.9	N	12/2021	3.0%	17.2%	32.8%	15.9%	37.7	28.4	24.5	16.8	16.5	58.6%	3.4%	23.60	MP	
Simple Average					2.3%	12.9%	19.2%	17.0%	29.5	24.3	20.4	19.3	16.7	72.4%	4.1%			

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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