

26 May 2023

7-Eleven Malaysia

A Race between Top Line and Cost

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SEM's 1QFY23 results met our expectation but disappointed the market. A double-digit jump in its top line helped to partially ease the pain from higher cost. We remain optimistic on SEM's outlook on the back of its 7Café concept store driving better margin, and new fresh food commissaries. We maintain our FY23 earnings forecast and introduce our FY24F numbers. We lift our TP by 40% to RM2.38 (from Rm1.70) and maintain our OUTPERFORM call.

Within expectations. 1QFY23 net profit came within our expectation at 21% of our full-year forecast but disappointed the market at only 18% of the full-year consensus estimate.

YoY, revenue improved 16%, mainly lifted by its convenience store segment (+25.2%) and pharmaceutical segment (+1.5%). The strong showing from the convenience store segment stemmed primarily from higher average per store day (APSD) and higher store traffic as social activities normalised while the pharmaceutical segment benefited from new stores' sales. However, net profit declined by 36% due to (i) higher operating cost on longer operating hours and staff cost as well as (ii) the product mix of its pharmaceutical segment that was skewed towards lower-margin products.

Outlook. We believe that SEM will continue to grow driven by new concept store i.e. 7Café that is positioned to attract customers with fresh food and beverages, and sustained consumer spending backed by a stable job market and reopening of economic activities. We understand that SEM will also improve its product assortments i.e. exclusive products and private label products to drive margin improvement. SEM is poised to complete its new fresh food commissary by 3QCY23 which has the capacity to serve up to 1,000 stores in Klang Valley. This facility will help to improve the quality and consistency of the fresh food products offered to customers.

Forecasts. We maintain our FY23F earnings forecast and introduce FY24F forecast numbers.

We raise our TP by 40% to RM2.38 (from RM1.70) as we roll forward our valuation base year to FY24F (from FY23F) and lift our PER valuation to 28x (from 24x) to be in-line with the industry's average historical 1-year forward PER. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

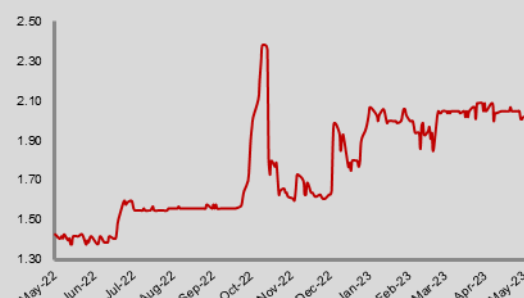
We like SEM for: (i) it being a reopening play (manifested in its weekend traffic having already returned to pre-pandemic level of about 300 customers/day, and poised for further growth), (ii) its long-term growth potential driven by 7Café stores, and (iii) efficiency gains from in-sourcing of product distribution (such as chilled products) as well as improved operating leverage of its food processing unit. Maintain **OUTPERFORM**.

Key risks to our call include: (i) its fresh food and ready-to-eat products fail to gain market traction, (ii) playing field gets more crowded with new entrants or aggressive expansion by existing competitors, and (iii) long-term implication from the generational tobacco ban.

OUTPERFORM ↔

Price: **RM2.04**
Target Price: **RM2.38** ↑

Share Price Performance



KLCI 1,402.48
YTD KLCI chg -6.2%
YTD stock price chg 5.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK Equity
Market Cap (RM m)	2,264.5
Shares Outstanding	1,110.0
52-week range (H)	2.45
52-week range (L)	1.38
3-mth avg daily vol:	59,434
Free Float	13%
Beta	0.6

Major Shareholders

Classic Union Group	26.3%
Tan Chee Yioun	22.3%
Pertubuhan Keselamat	4.6%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	3764	3887	4117
EBIT	210	195	214
PBT	141	130	150
Net Profit (NP)	67	75	94
Core NP (CNP)	67	75	94
Consensus (NP)	-	86.6	95.9
Earnings Revision	-	-	NEW
EPS (sen)	6.0	6.7	8.5
EPS growth (%)	50.8	11.6	26.2
Sales/Share (RM)	3.39	3.50	3.71
NDPS (sen)	5.4	2.7	3.4
BV/Share (RM)	0.21	0.22	0.28
PER (x)	33.9	30.3	24.0
P/Sales (x)	0.6	0.6	0.6
P/BV (x)	9.8	9.1	7.4
Gearing (x)	1.8	0.9	0.5
Net Dvd Yield (%)	2.6	1.3	1.7

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Result Highlight

FYE Dec (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg
Turnover	976.9	992.4	-2%	840.0	16%
Gross Profit	264.7	273.5	-3%	232.5	14%
Operating Expenses	-214.9	-249.0	-14%	-170.0	26%
EBITDA	98.0	88.6	11%	106.9	-8%
EBIT	44.9	35.2	28%	61.9	-27%
PBT/(LBT)	26.1	14.2	84%	45.7	-43%
Taxation	-9.4	-5.7	65%	-14.5	-35%
Net Profit	16.7	8.5	96%	31.2	-46%
PATAMI	15.7	2.6	492%	24.4	-36%
Core EPS (sen)	1.4	0.2	492%	2.2	-36%
DPS (sen)	0.0	5.4	N.m	0	N.M.
Gross Margin	27.1%	27.6%		27.7%	
Opex Margin	22.0%	25.1%		20.2%	
EBITDA margin	10.0%	8.9%		12.7%	
EBIT Margin	4.6%	3.5%		7.4%	
PBT Margin	2.7%	1.4%		5.4%	
Core Net Profit Margin	1.6%	0.3%		2.9%	

Source: Bursa Announcement, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
7-ELEVEN MALAYSIA HOLDINGS BHD	OP	2.04	2.38	16.67%	2,264.5	N	12/2023	6.7	8.5	11.5%	26.3%	30.4	24.0	16.4	57.0%	2.7	1.3%
AEON CO. (M) BHD	OP	1.35	1.80	33.33%	1,895.4	Y	12/2023	9.1	10.0	15.2%	9.4%	14.8	13.5	1.1	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.00	26.99	3.81%	1,664.0	Y	12/2023	116.6	122.7	-16.4%	5.2%	22.3	21.2	3.5	16.3%	60.0	2.3%
FRASER & NEAVE HOLDINGS BHD	OP	25.98	28.44	9.47%	9,528.9	Y	09/2023	118.6	129.1	13.5%	8.8%	21.9	20.1	3.0	14.1%	62.5	2.4%
MR D.I.Y. GROUP (M) BHD	MP	1.62	1.67	3.09%	15,282.0	Y	12/2023	6.3	6.4	24.8%	2.7%	25.8	25.2	9.2	38.1%	4.0	2.5%
MYNEWS HOLDINGS BHD	UP	0.465	0.410	-11.83%	317.2	N	10/2023	1.0	2.2	-135.8%	127.7%	48.8	21.4	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	134.50	121.18	-9.90%	31,540.3	Y	12/2023	303.0	305.1	14.6%	0.7%	44.4	44.1	44.8	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.79	6.00	58.31%	2,493.5	Y	06/2023	35.8	39.7	53.0%	10.8%	10.6	9.5	2.6	25.3%	10.0	2.6%
POWER ROOT BHD	OP	2.05	2.70	31.71%	882.6	Y	03/2024	14.3	15.2	0.8%	6.0%	14.3	13.5	2.5	18.1%	12.0	5.9%
QL RESOURCES BHD	OP	5.63	6.66	18.29%	13,701.5	Y	03/2023	14.3	17.7	60.3%	23.5%	39.3	31.8	4.4	12.1%	6.0	1.1%
SECTOR AGGREGATE					79,569.9					23.5%	8.0%	29.9	27.6	6.3	21.1%		2.3%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.86	12.00	10.50%	3,100.9	N	12/2023	102.1	103.5	11.0%	1.4%	10.6	10.5	7.8	75.4%	99.0	9.1%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.32	23.50	10.23%	6,518.5	N	12/2023	113.7	122.8	13.0%	8.0%	18.7	17.4	33.0	203.3%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	26.74	28.60	6.96%	8,078.1	N	12/2023	144.2	150.4	5.5%	4.3%	18.5	17.8	20.7	111.1%	144.2	5.4%
Sector Aggregate					17,697.5					9.3%	4.7%	16.4	15.7	20.5	129.9%		6.4%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Migrant Worker Welfare	★	★	☆		
	Waste Disposal/Pollution Control	★	★	☆		
	Work Site Safety	★	★			
	Usage of Biodegradable Materials	★	★			
	Supply Chain Auditing	★	★	★		
	Energy Efficiency	★	★			
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**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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