

7-Eleven Malaysia

Sowing the Seed of Growth

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SEM guided for sustained top line growth driven by new stand-alone 7CAFé stores and the addition of 7CAFé to existing stores, longer operating hours and the return of tourist spending. Its new fresh food processing facility which can supply to c.1,000 stores in the Klang Valley is on schedule for completion by 4QFY23. We maintain our forecasts, TP of RM2.38 and OUTPERFORM call.

We came away from its analyst briefing yesterday feeling reassured of its prospects. The key takeaways are as follows:

1. SEM guided for sustained top line growth in subsequent quarters driven by: (i) 50 new stand-alone 7CAFé stores and the addition of 7CAFé to 122 existing stores, (ii) strong footfall as its store operation normalises with longer operating hours, and (iii) the return of tourist spending. Meanwhile, the completion of the acquisition of new stores in Sarawak and a better product mix should boost 2HFY23 earnings.
2. Its food processing unit under QVI Foods Sdn Bhd is now fully utilized. Its new fresh food processing facility which can supply to c.1,000 stores in the Klang Valley is on schedule for completion by 4QFY23. We understand that SEM is also expanding their private labels products as more stores come online.
3. SEM started in-sourcing of the distribution of chilled products with its new chilled distribution centre since July 2022. The new facility will improve its chilled product supply chain management including inventory management. SEM said that more chilled and fresh food products will be added to the stores.
4. Meanwhile, its pharmaceutical segment will continue to expand and improve its merchandise mix to boost margins, to fill the gaps left by high-margin Covid-related products.

Forecasts. Maintained.

We maintain our TP at RM2.38 based on FY24F PER of 28x, 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).

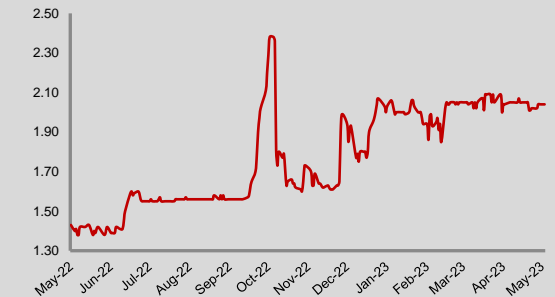
We like SEM for: (i) it being a reopening play (manifested in its weekend traffic having already returned to pre-pandemic level of about 300 customers/day, and poised for further growth), (ii) its long-term growth potential driven by 7CAFé stores, and (iii) efficiency gains from in-sourcing of product 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 failing 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 1,404.93
YTD KLCI chg -6.1%
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.	59,439
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

FYE Dec (RM m)	2021A	2022F	2023F
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)	-	82.6	95.3
Earnings Revision	-	-	-
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
Net Dvd Yield (%)	2.6	1.3	1.7

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	2539.0	2808.5	3764.3	3886.6	4116.6	Growth (%)					
EBIT	117.9	153.9	209.9	194.7	214.1	Turnover	7.5	10.6	34.0	3.3	5.9
Interest Inc/(Exp)	-54.3	-61.5	-65.7	-64.5	-64.5	EBIT	-2.0	30.5	36.4	-7.2	9.9
PBT	62.7	92.4	140.8	130.2	149.5	PBT	-18.3	47.5	52.3	-7.5	14.9
Taxation	-27.3	-33.6	-56.5	-45.6	-52.3	Net Profit	-44.9	49.0	50.8	11.6	26.2
Net Profit	29.8	44.3	66.9	74.6	94.2						
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	EBIT Margin	4.6	5.5	5.6	5.0	5.2
Fixed Assets	346.5	321.0	361.6	560.5	756.7	PBT Margin	2.5	3.3	3.7	3.3	3.6
Intangible Assets	2.0	3.0	4.0	5.0	6.0	Net Profit Margin	1.2	1.6	1.8	1.9	2.3
Other Fixed Assets	1124.1	1252.1	1257.4	1157.7	1157.7	Effective Tax Rate	43.6	36.3	40.1	35.0	35.0
Inventories	288.9	384.1	453.1	481.8	521.2	ROA	18.5	24.4	29.0	30.1	30.7
Receivables	96.2	101.6	220.4	141.8	148.3	ROE	1.5	2.0	2.5	2.7	3.1
OT. Current Assets	46.1	45.3	86.2	0.0	0.0	DuPont Analysis					
Cash	135.0	158.7	298.6	425.7	479.2	Net Margin (%)	1.2	1.6	1.8	1.9	2.3
Total Assets	2038.8	2265.7	2681.2	2772.5	3069.0	Assets Turnover (x)	1.2	1.2	1.4	1.4	1.3
						Lev. Factor (x)	12.6	12.4	11.6	11.2	10.0
Payables	441.5	517.9	668.4	703.4	750.1	ROE (%)	18.5	24.4	29.0	30.1	30.7
ST Borrowings	1.9	1.1	2.0	2.0	2.0	Leverage					
Other ST Liability	448.8	330.5	413.7	401.9	401.9	Debt/Asset (x)	0.16	0.25	0.24	0.23	0.21
LT Borrowings	331.7	555.4	643.5	643.5	643.5	Debt/Equity (x)	2.07	3.06	2.80	2.61	2.10
Other LT Liability	631.7	665.2	691.3	769.0	958.4	Net (Cash)/Debt	351.9	481.5	422.4	219.8	166.3
Net Assets	161.2	182.0	230.2	247.7	307.2	Net Debt/Equity (x)	1.23	2.18	1.51	0.89	0.54
						Valuations					
Reserves	39.90	66.27	103.64	158.40	217.92	Core EPS (sen)	2.7	4.0	6.0	6.7	8.5
Share Capital	1,485.1	1,485.1	1,485.1	1,485.1	1,485.1	NDPS (sen)	1.60	2.60	5.40	2.69	3.39
Total Equity	161.2	182.0	230.2	247.7	307.2	BV/sh (RM)	0.1	0.2	0.2	0.2	0.3
Cashflow Statement						PER (x)	76.1	51.1	33.9	30.3	24.0
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	Div. Yield (%)	0.78	1.27	2.65	1.32	1.66
Operating CF	236.2	263.6	466.0	358.4	291.2	P/B (x)	14.0	12.4	9.8	9.1	7.4
Investing CF	-392.0	-139.7	-179.8	-200.0	-200.0						
Financing CF	194.4	-99.5	-147.5	-29.8	-37.7						

Source: 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	1.33	1.80	35.34%	1,867.3	Y	12/2023	9.1	10.0	15.2%	9.4%	14.6	13.3	1.1	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	25.52	26.99	5.76%	1,633.3	Y	12/2023	116.6	122.7	-16.4%	5.2%	21.9	20.8	3.4	16.3%	60.0	2.4%
FRASER & NEAVE HOLDINGS BHD	OP	25.92	28.44	9.72%	9,506.9	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	1.61	1.67	3.73%	15,187.8	Y	12/2023	6.3	6.4	24.8%	2.7%	25.7	25.0	9.1	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	132.60	121.18	-8.61%	31,094.7	Y	12/2023	303.0	305.1	14.6%	0.7%	43.8	43.5	44.2	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.75	6.00	60.00%	2,467.2	Y	06/2023	34.2	38.6	46.0%	12.8%	11.0	9.7	2.5	24.1%	10.0	2.7%
POWER ROOT BHD	OP	2.10	2.70	28.57%	907.4	Y	03/2024	14.3	15.2	0.8%	6.0%	14.7	13.8	2.6	18.1%	12.0	5.7%
QL RESOURCES BHD	OP	5.56	6.66	19.78%	13,531.1	Y	03/2023	14.3	17.7	60.3%	23.5%	38.8	31.4	4.3	12.1%	6.0	1.1%
SECTOR AGGREGATE					78,777.4					23.0%	8.2%	29.7	27.4	6.2	21.0%		2.3%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.82	10.00	-7.58%	3,089.4	N	12/2023	73.0	74.7	-20.6%	2.4%	14.8	14.5	8.0	54.5%	69.3	6.4%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.10	23.50	11.37%	6,451.3	N	12/2023	113.7	122.8	13.0%	8.0%	18.6	17.2	32.7	203.3%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	27.00	28.60	5.93%	8,156.6	N	12/2023	144.2	150.4	5.5%	4.3%	18.7	18.0	20.9	111.1%	144.2	5.3%
Sector Aggregate					17,697.4					0.9%	5.2%	17.8	16.9	20.5	123.0%		5.5%

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 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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