Eco-Shop Marketing

Every Ringgit Counts

By Thin Yun Jing I thinyj@kenanga.com.my

NOT RATED

IPO Price: RM1.13
Fair Value: RM1.20

ECOSHOP, en route to a Main Market listing on 23 May, operates the largest fixed-price retail chain in Malaysia, offering everyday essentials at consistently low prices. With plans to open 70 new stores annually and establish a new semi-automated distribution centre (DC) in Klang, alongside new DCs in East Malaysia, it is well-positioned for growth in the under-penetrated dollar store market. We performed comparison with MRDIY (see Exhibit 1 and 2), highlighting ECOSHOP's stronger SSSG and faster cash conversion cycle, though counter-balanced by narrower margins. In line with our ascribed multiple for MRDIY, we derived a base fair value of RM1.20 for ECOSHOP based on 26x FY26F PER. Every 1 ppt of margin improvement lifts its FV by c.15 sen, and if net margin edges up to 8% for FY26, FV would map to RM1.27, all else equal.

One-stop destination for ultra-affordable essentials. Established in 2003, Eco-Shop Marketing Bhd (ECOSHOP) has grown to become Malaysia's largest ultra-affordable fixed-price retail chain, with a 68% market share and 358 stores across the country as of March 2025. Renowned for its focus on affordability and convenience, ECOSHOP prices all its products at RM2.60 in West Malaysia and RM2.80 in East Malaysia. Its Eco-Plus format stores, introduced in 2021, extends this model with additional price points ofRM6/RM6.60 and RM10/RM11, capturing a broader market segment and driving higher basket sizes.

IPO proceeds mainly for expansions. Of the RM392.1m raised from the IPO proceeds, more than half (RM200m) is earmarked for land acquisition for a semi-automated distribution centre in Klang, aimed at enhancing logistics capacity and supporting its long-term expansion plan. An additional RM56.3m will fund the opening of 70 new Eco-Shop outlets, deepening its presence in under-penetrated regions across Malaysia.

Appealing to value-seeking consumers. ECOSHOP's wide range of ultra-affordable everyday essentials, including kitchenware, stationery, snacks, toys and household items, resonate strongly with budget-conscious consumers, particularly in times of economic uncertainties when demand for value-for-money products typically rises. With house brands accounting for c.75% of its product range and 56% of total sales, it effectively maintains its margins while delivering low-cost options. Direct sourcing from end-suppliers and in-house repacking further support its competitive edge in the fixed-price segment.

Strategic footprint growth backed by scalable logistics. To support its 70-store expansion plan annually over the next five years, ECOSHOP is boosting its distribution and logistics network with new distribution centres in Sarawak (2025), Sabah (2027), and Klang (2027). This is expected to almost triple its daily throughput capacity from current 4.5m units to 12.3 units by 2027, along with planned fleet expansions, enabling network growth until FY34. According to Frost & Sullivan, the dollar store retail sector in Malaysia is valued at about RM4b in CY24F and is expected to continue to grow at a CAGR of 14.2% until CY29, with Malaysia's dollar store market still under-penetrated at just 23 stores per million population, well below countries like Japan (87), Canada (127) and the United States (119). Hence, ECOSHOP is strategically positioned to capture further market share as demand for value-based retail continues to rise.

Share Price Performance

KLCI	1,571.75
YTD KLCI chg	-4.3%

Post-IPO Major Shareholders

Dato' Sri Lee Kar Whatt	76.0%
Agathis Montana Sdn Bhd	1.9%

IPO proceeds (RM m)

Opening of new stores	56.3
Distribution centre expansion plan	200.0
Investment in IT hardware and software	8.5
Repayment of bank borrowings	100.0
To defray fees and listing expenses	27.3
Total	**392.1**

Summary of IPO

Enlarged Share Cap (m)	5,747.0
IPO Price (RM)	1.13
Market Cap Upon Listing (RM m)	6,494.1
Shariah Complaint	Yes

Summary Earnings Table

FYE May (RM m)	2024A	2025F	2026F
Turnover	2404.0	2909.8	3499.9
EBIT	264.1	305.5	385.0
PBT	241.7	282.4	362.6
Net Profit	**177.3**	**206.2**	**264.7**
Core Net Profit	**182.0**	**206.2**	**264.7**
Core EPS (sen)	3.4	3.6	4.6
Core EPS Growth (%)	69.0	6.1	28.4
NDPS (sen)	1.9	2.0	2.5
BVPS (RM)	0.1	0.1	0.2
Core PER (x)	33.4	31.5	24.5
PBV (x)	11.0	11.0	6.3
Net Gearing (x)	0.7	0.7	0.2
Net Div. Yield (%)	1.6	1.7	2.2

Comparison against its closest listed peer in Malaysia – MRDIY (see Exhibit 1 and 2). ECOSHOP and MRDIY stand as Malaysia's leading value-driven retailers, both focused on household essentials with fixed-price or low-cost models. Yet, their strategies and store-level efficiencies paint different pictures. ECOSHOP's strength lies in store productivity, generating nearly three times the transaction volume per store with a cash conversion cycle (CCC) of just 34 days, compared to MRDIY's 148 days. This efficiency is largely driven by ECOSHOP's focus on fast-moving essentials vs. MRDIY's slower-moving items like hardware and electrical goods, enabling ECOSHOP to turn inventory faster and recover cash more quickly. We note that ECOSHOP's payback period per store is 1.5 years (versus c.2 years for MRDIY). Additionally, ECOSHOP recorded stronger same store sales growth (SSSG) of 2.9% in 1HFY25 (FY24: 11%), which we believe is driven by its more spread-out store density, particularly in suburban and rural areas. In contrast, MRDIY has been reporting flat or negative SSSG (save for most recent 1Q25), which underlines challenges in avoiding location overlaps amid a rapidly expanding network.

On the other hand, MRDIY takes the lead in profitability with EBIT margins of ~18% (ECOSHOP: ~11%) and net margins of ~12% (ECOSHOP: ~8%), leveraging its diversified product range and economies of scale, which also contribute to lower capex per store. In our view, with a more mature supply chain and better negotiation power in leasing terms, MRDIY manages to open stores at just RM0.54m each, compared to RM0.8m for ECOSHOP, supporting its aggressive plan to open 190 new stores in FY25. We also note that management expects ECOSHOP's gearing ratio to decline to 0.4x post-IPO (FY24: 0.7x), compared to MRDIY's 0.1x, which still places ECOSHOP at the higher end of financial leverage among peers.

Considering all the factors above, we believe that ECOSHOP is able to command valuations at 26x PER, which is similar to our ascribed multiple to MRDIY. The implied PER for ECOSHOP, based on IPO price of RM1.13, reflects a 24.5x PER and thus we see some upside potential. At 24.5x PER, it remains slightly higher than the traded PER for MRDIY but is still slightly below the 5-year average for consumer peers (see Exhibit 8).

Exhibit 1: Comparison Analysis of ECOSHOP vs. MRDIY

Category	Item	ECOSHOP (FYE May)	MRDIY (FYE Dec)
Operational efficiency and growth	Revenue per store (RM m)	9.0	3.5
	Same store sales growth, SSSG (%)	11.0	-1.9
	Average basket size (RM)	25.4	25.3
	Transaction volume per store (m)	0.361	0.136
	Cash conversion cycle, CCC (days)	34	148
	Inventory turnover days (days)	69	157
	Store count – as of Mar 2025	358	1465
	Store opening targets next year	70	190
Profitability and capital efficiency	EBIT margin (%)	11.0	18.0
	Core net margin (%)	7.6	12.4
	Per store profitability (RM m)	0.678	0.429
	Capex per store (RM m)	0.80	0.54
	Return on assets, ROA	14.3	15.1
	Return on equity, ROE	33.0	29.7
	Degree of operating leverage, DOL	3.1	0.3
Balance sheet and shareholder value	Net gearing ratio	0.7	0.1
	FY26F dividend yield (%)*	2.2	3.1
	FY26F P/E ratio*	24.5	20.6
	**Based on Kenanga's earnings forecasts*		

Source: Company, Kenanga Research
Note: 1. All figures presented refer to FY24 unless otherwise stated.
2. The net gearing ratio for ECOSHOP refers to its pre-IPO level, which is expected to drop to 0.4x post-IPO.

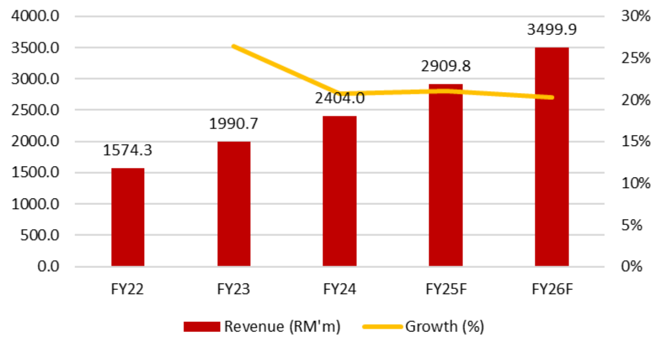
Exhibit 2: Quick Summary of ECOSHOP vs. MRDIY

Category	Advantage	Reason
Operational efficiency	ECOSHOP	Faster cash conversion (34 days vs. 148), higher revenue per store, stronger SSSG
Profitability	MRDIY	Superior margins (EBIT: 18% vs. 11%), stronger core net margins
Capital efficiency	ECOSHOP	Higher ROE (33% vs. 29.7%) despite higher gearing
Store expansion	MRDIY	More aggressive store openings (190 vs. 70), with lower capex per store
Valuation	MRDIY	Lower forward P/E ratio (20.6x vs. 24.5x)

Source: Kenanga Research

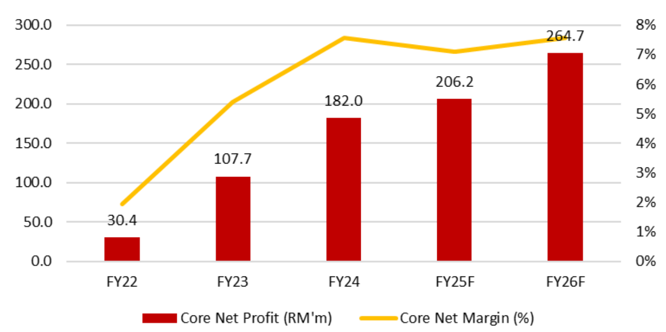
Forecasts. We expect the group's earnings to improve by 13% YoY to RM206m in FY25 on the back of continued store expansion and higher transaction volumes. This includes the planned addition of 70 new stores (10MFY25: 61). For FY26, we project earnings to reach RM265m (+28% YoY), driven by another 70 new store openings, price hikes starting April 2025, and steady margin improvements. While there is some downside risk associated with the possibility of demand elasticity following the new price hikes, management has indicated that previous price increases in Dec 2021 and June 2022 were well-absorbed by consumers, with sales volume rebounding within three months.

Exhibit 3: Revenue and Growth



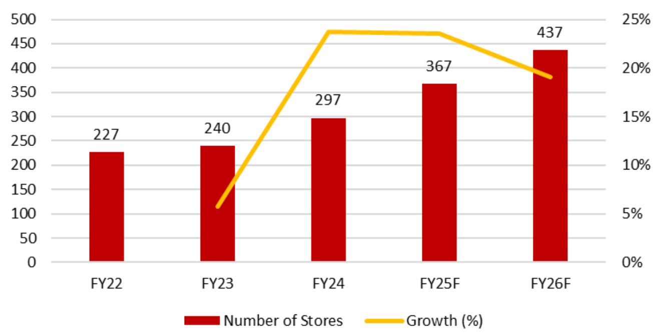
Source: Company, Kenanga Research

Exhibit 4: Net Profit and Margin



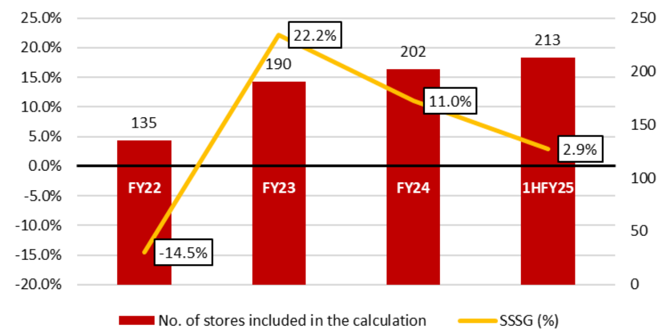
Source: Company, Kenanga Research

Exhibit 5: Store Count and Growth



Source: Company, Kenanga Research

Exhibit 6: Same Store Sales Growth (SSSG)



Source: Company, Kenanga Research

NOT RATED with fair value of RM1.20. We value ECOSHOP at RM1.20 based on 26x FY26F PER, aligning with our ascribed multiple for MRDIY. We believe the ascribed PER of 26x is justified by its market leadership in the dollar store segment, stronger SSSG, and robust medium-term plan to open 70 new stores annually. While we are confident that the target of 70 new store openings is achievable given that 61 stores have already been opened in 10MFY25, we believe the driver of its share price will be its ability to sustain or improve net margins. We have assumed 7.6% net margin for FY26 (FY25: 7.1%), and estimate that every 1 ppt change in this metric will impact FV by around 15 sen. Our FY26 net margin and FV sensitivity analysis are shown in Exhibit 7. Our sensitivity analysis suggests a fair value range of RM0.73 to RM1.71 per share, depending on variations in FY26F net margin (5% to 10%) and adjustments of ±2x in PER; the lower end 5% margin was seen for example in FY23. If ECOSHOP sustains ~20% revenue growth following its recent price hike (effective 14 April 2025) and optimises its cost structure to achieve an 8% net margin, its fair value could rise to RM1.27 at the same 26x FY26F PER. For now, we have assumed there will be marginally higher selling, general and administrative expenses intensity, for example.

According to ECOSHOP, the institutional offering has been fully subscribed while shares offered to the public were oversubscribed by 0.96 times, reflecting steady investor interest. Alongside this, Creador's stake in ECOSHOP, held through its wholly owned subsidiary Agathis Montana Sdn Bhd, will be reduced from 10% to 1.9% post-IPO, alleviating concerns of potential selling pressure after the 3-month lock-up period ends; its founder and largest shareholder Dato' Sri Lee Kar Whatt is subject to a 6-month moratorium.

Exhibit 7: Fair Value Sensitivity Analysis (RM)

PER (x)	FY26F Net Margin 5%	6%	7%	7.6%	8%	9%	10%
24	0.73	0.88	1.02	1.11	1.17	1.32	1.46
25	0.76	0.91	1.07	1.16	1.22	1.37	1.52
26	0.79	0.95	1.11	$\boxed{1.20}$	1.27	1.43	1.58
27	0.82	0.99	1.15	1.25	1.32	1.48	1.64
28	0.85	1.02	1.19	1.30	1.36	1.53	1.71

Note: This is based on our FY26F revenue assumption of RM3499.9m (~20% growth YoY)

Source: Kenanga Research

Exhibit 8: Peers' Comparative Valuation

Company	Market Cap (RM m)	EPS Growth (%)		5-yr Average Fwd. PER (x)	Fwd. PER (x)		Div. Yield (%)	
		2025	2026		2025	2026	2025	2026
99 Speed Mart Retail Holdings*	18,312	19.0	14.5	33.8^	31.6	27.6	1.7	1.9
Mr D.I.Y. Group (M)	15,247	15.8	12.4	31.0	23.1	20.6	2.7	3.1
7-Eleven Malaysia Holdings*	2,320	63.2	11.3	25.4	31.9	28.7	1.6	2.2
myNEWS Holdings*	450	130.8	36.7	27.4	20.0	14.6	1.7	2.3
Simple Average		*57.2*	*18.7*	*29.4*	*26.7*	*22.9*	*1.9*	*2.4*
Eco-Shop Marketing	**6,494**	**6.1**	**28.4**	**N.A.**	**31.5**	**24.5**	**1.7**	**2.2**

**Based on consensus estimates*
^Refers to CY24 average fwd P/E; 99 Speed Mart Retail Holdings listed in Sep 2024

Source: Bloomberg, Kenanga Research

Key risks include: (i) competition from other value-for-money retailers, (ii) supply chain disruptions, and (iii) inability to pass on rising product costs.

Income Statement

FYE May (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	1,574.3	1,990.7	2,404.0	2,909.8	3,499.9
EBITDA	147.2	255.0	367.5	415.4	506.5
Depreciation	-90.0	-95.0	-103.5	-109.9	-121.5
Operating Profit	57.1	160.0	264.1	305.5	385.0
Interest Income	1.0	3.0	2.5	2.5	2.7
Interest Expense	-18.6	-19.0	-24.1	-24.8	-24.4
PBT	39.8	143.7	241.7	282.4	362.6
Taxation	-12.8	-38.7	-64.4	-76.3	-97.9
Minority Interest	0.1	0.1	0.0	0.0	0.0
Net Profit	27.1	105.1	177.3	206.2	264.7
Core Net Profit	30.4	107.7	182.0	206.2	264.7

Balance Sheet

FYE May (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	317.1	315.2	353.4	393.5	572.0
Intangible Assets	8.2	13.0	10.6	14.8	14.8
Other FA	312.0	317.1	370.7	406.0	444.7
Inventories	256.6	278.2	384.1	420.5	474.9
Receivables	40.8	30.2	55.5	51.9	62.4
Other CA	22.7	16.4	46.3	70.3	70.3
Cash	47.9	87.4	55.2	123.2	304.9
Total Assets	1,005.2	1,057.5	1,275.8	1,480.2	1,944.0
Payables	164.6	208.6	220.0	246.2	304.9
ST Borrowings	111.5	6.7	129.2	179.2	79.2
Other ST Liability	43.7	59.0	66.1	72.2	78.8
LT Borrowings	8.9	2.2	0.0	0.0	0.0
Other LT Liability	254.6	257.1	308.1	353.6	389.2
Minorities Int.	-0.1	0.0	0.0	0.0	0.0
Net Assets	422.0	523.9	552.4	629.0	1092.0
Share Capital	2.5	2.5	2.5	2.5	367.3
Reserves	419.5	521.4	549.9	588.0	657.2
Equity	422.0	523.9	552.4	590.5	1024.4

Cashflow Statement

FYE May (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	132.0	246.8	168.9	309.5	380.0
Investing CF	-105.9	-42.3	-119.9	-150.0	-300.0
Financing CF	1.0	-165.0	-81.2	-91.5	101.7

Financial Data & Ratios

FYE May	2022A	2023A	2024A	2025F	2026F
Growth (%)					
Turnover	N.A.	26.4	20.8	21.0	20.3
EBITDA	N.A.	73.3	44.1	13.0	21.9
Operating Profit	N.A.	180.1	65.0	15.7	26.0
PBT	N.A.	261.2	68.2	16.9	28.4
Net Profit	N.A.	287.8	68.7	16.3	28.4
Core Net Profit	N.A.	253.8	69.0	13.3	28.4
Profitability (%)					
EBITDA Margin	9.3	12.8	15.3	14.3	14.5
Operating Margin	3.6	8.0	11.0	10.5	11.0
PBT Margin	2.5	7.2	10.1	9.7	10.4
Core Net Margin	1.9	5.4	7.6	7.1	7.6
Effective Tax Rate	-32.2	-27.0	-26.7	-27.0	-27.0
ROA	3.0	10.2	14.3	13.9	13.6
ROE	7.2	20.6	33.0	34.9	25.8
DuPont Analysis					
Net Margin (%)	1.9	5.4	7.6	7.1	7.6
Assets Turnover (x)	1.6	1.9	1.9	2.0	1.8
Leverage Factor (x)	2.4	2.0	2.3	2.5	1.9
ROE (%)	7.2	20.6	33.0	34.9	25.8
Leverage					
Debt/Asset (x)	0.1	0.0	0.1	0.1	0.0
Debt/Equity (x)	0.3	0.0	0.2	0.3	0.1
Net (Cash)/Debt	347.6	199.9	408.8	439.0	195.6
Net Debt/Equity (x)	0.8	0.4	0.7	0.7	0.2
Valuations					
Core EPS (sen)	0.6	2.0	3.4	3.6	4.6
NDPS (sen)	0.0	2.9	1.9	2.0	2.5
BVPS (RM)	0.1	0.1	0.1	0.1	0.2
Core PER (x)	199.9	56.5	33.4	31.5	24.5
Net Div. Yield (%)	0.0	2.6	1.6	1.7	2.2
P/BV (x)	14.4	11.6	11.0	11.0	6.3

Source: Kenanga Research

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880   Website: www.kenanga.com.my   E-mail: research@kenanga.com.my