

28 August 2019

7-Eleven Malaysia

1H19 Within Expectations

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1H19 CNP of RM25.7m (+17%) at 44%/47% of our/consensus full-year estimates is deemed within expectations as 1H is generally weaker than 2H. The group has been working towards an overhaul of its stores operation and end-to-end supply chain operations, which are showing results with improving margin, albeit at a slow pace. Maintain UP with unchanged TP of RM1.35 based on 27x FY20E EPS (which is in line with regional peers' average PER).

1H19 deemed within expectations. 1H19 CNP of RM25.7m (+17%) at 44%/47% of our/consensus full-year estimates is deemed within expectations as 1H is generally weaker than 2H. No dividend was declared for the quarter as expected, as the group typically pay dividend in 4Q.

YoY, 1H19 CNP surged 17% boosted by: (i) stronger turnover (+7%) on a higher store base at 2,347 (+5% YoY, closed 11 stores, 71 new stores opened since Jan 2019) as well as improvement in SSSG at 4.0% (1H18: -1.6%) with better consumer promotion activity, (ii) expansion in PBT margin by 0.2ppt to 3.2% from 3.0% in 1H18 buoyed by improved merchandise mix, especially with growth in all food and beverage categories, and (iii) adoption of MFRS 16, which increased CNP by RM3.7m (higher depreciation expenses and lower rental expenses). These more than offset the higher effective tax rate of 31.3% (1H18: 25.6%) due to higher non-deductible expenses.

QoQ, 2Q19 CNP rose 31% mainly from: (i) higher GP margin by 1.3ppt to 37.4% from 36.1% in 1Q19 due to improved sales mix, higher marketing income and lower logistics expenses, and (ii) adoption of MFRS 16 which increased CNP by RM1.5m. This was despite: (i) higher effective tax rate of 31.7% (1Q19: 30.1%), and (ii) marginal increase in revenue (+1%) due to lower SSSG compared to the previous quarter of 4.0% (1Q19: 6.0%).

Outlook. The group noted that they have the capacity to open up to 200 new stores for FY19 (currently at 2,311 stores as at March 2019). Besides stores expansion, the group has been working towards an overhaul of its stores operation and end-to-end supply chain operations, which are showing results with improving margin, albeit at a slow pace. The group is facing stiff competition from new players which are revolutionizing the high-margin fresh-food space, which is challenging its sales growth.

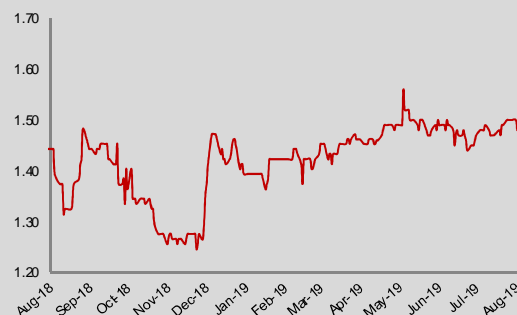
Maintain UNDERPERFORM with Target Price of RM1.35 based on 27x FY20E EPS (which is in line with regional peers' average PER).

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

UNDERPERFORM ↔

Price: RM1.48
Target Price: RM1.35 ↔

Share Price Performance



KLCI	1,590.84
YTD KLCI chg	-5.9%
YTD stock price chg	0.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SEM MK Equity
Market Cap (RM m)	1,733.8
Shares Outstanding	1,171.5
52-week range (H)	1.56
52-week range (L)	1.23
3-mth avg daily vol:	155,429
Free Float	48%
Beta	0.5

Major Shareholders

Tan Sri Dato' Seri Vincent Tan	23.5%
Classic Union Group Ltd	18.0%
True Ascend Sdn Bhd	10.3%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	2,217.0	2,371.0	2,491.7
EBIT	83.8	92.7	97.3
PBT	73.9	83.3	87.9
Net Profit (NP)	51.4	58.3	61.5
Core NP (CNP)	51.4	58.3	61.5
Consensus (NP)	-	54.8	61.0
Earnings Revision	-	-	-
EPS (sen)	4.2	4.7	5.0
EPS growth	2.5%	13.6%	5.5%
NDPS (sen)	5.0	4.0	4.0
BV/Share (RM)	0.08	0.08	0.09
PER (x)	35.9	31.6	30.0
P/BV (x)	19.9	18.1	16.2
Gearing (x)	1.1	1.0	0.9
Net Dvd. Yield	3.3%	2.7%	2.7%

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Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	588.8	583.7	0.9%	557.6	5.6%	1172.5	1093.3	7.2%
Gross Profit	220.4	210.7	4.6%	183.0	20.5%	431.1	376.1	14.6%
Other operating income	2.0	0.7	206.2%	31.7	-93.6%	2.7	32.2	-91.7%
Operating expenses	-190.1	-184.8	2.9%	-168.4	12.9%	-374.9	-372.8	0.6%
PBT	21.4	16.1	32.8%	20.9	2.3%	37.4	33.1	13.2%
Tax expense	-6.8	-4.9	37.2%	-5.2	30.2%	-11.7	-8.5	38.1%
Net Profit (NP)	14.6	11.2	30.8%	13.1	11.1%	25.7	22.1	16.7%
Core Net Profit (CNP)	14.6	11.2	30.8%	13.1	11.1%	25.7	22.1	16.7%
EPS (sen)	1.3	1.0	29.3%	1.2	9.4%	2.3	2.1	10.7%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
Gross margin (%)	37.4%	36.1%		32.8%		36.8%	34.4%	
PBT margin (%)	3.6%	2.8%		3.7%		3.2%	3.0%	
CNP margin	2.5%	1.9%		2.4%		2.2%	2.0%	
Effective tax rate (%)	31.7%	30.7%		24.9%		31.3%	25.6%	

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	1.48	1,733.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.35	UP	
AEON CO (M) BHD	1.65	2,316.6	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	18.6	22.7	20.7	1.1	1.1	5.0%	2.4%	1.70	MP	
AMWAY MALAYSIA HOLDINGS BHD	6.08	999.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.3	17.4	16.4	4.3	4.0	23.8%	4.5%	5.90	MP	
DUTCH LADY MILK INDUSTRIES BHD	63.90	4,089.6	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	33.0	39.9	36.3	38.8	38.2	97.9%	2.5%	54.60	UP	
FRASER & NEAVE HOLDINGS BHD	35.78	13,123.3	Y	09/2019	5.9%	7.0%	9.4%	2.9%	33.1	30.2	29.4	5.7	5.2	18.0%	1.8%	36.60	MP	
HAI-O ENTERPRISE BHD	2.23	647.5	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.7	13.7	13.4	2.0	2.1	15.1%	5.8%	1.95	UP	
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.1	3.0	10.2%	0.7%	1.55	OP	
NESTLE (MALAYSIA) BHD	148.60	34,846.7	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.7	51.9	48.4	53.3	52.5	104.6%	2.0%	128.00	UP	
PADINI HOLDINGS BHD	3.38	2,223.7	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	14.2	11.7	10.3	3.4	2.9	26.8%	3.4%	3.75	OP	
PARKSON HOLDINGS BHD	0.22	234.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	28.4	0.1	0.1	-1.7%	0.0%	0.24	UP	
POWER ROOT BHD	1.96	776.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.4	19.1	17.0	3.5	3.3	18.1%	4.6%	2.30	OP	
QL RESOURCES BHD	6.92	11,227.3	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.8	45.8	44.0	5.6	5.2	12.1%	0.8%	6.05	UP	
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP	
Simple Average					6.9%	4.3%	3.3%	63.7%	29.3	27.6	25.7	11.3	11.0	31.9%	2.5%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	20.06	5,727.7	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	12.2	13.8	13.6	13.6	13.0	84.5%	6.0%	24.40	UP	
CARLSBERG BREWERY MALAYSIA BHD	25.92	7,973.5	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.1	27.2	26.0	46.9	51.2	186.7%	3.9%	25.95	OP	
HEINEKEN MALAYSIA BHD	24.76	7,479.9	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.5	25.7	24.5	20.2	20.0	77.9%	3.8%	23.25	MP	
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.6	22.3	21.3	26.9	28.1	116.4%	4.6%			
CONSENSUS ESTIMATES																		
BERJAYA FOOD BHD	1.55	555.9	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.1	18.5	16.9	1.5	1.5	7.5%	3.0%	1.94	BUY	
BONIA CORPORATION BHD	0.26	205.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.4	14.8	12.5	0.6	0.6	3.2%	2.7%	0.30	SELL	
COCOLAND BHD	1.87	427.9	Y	12/2019	5.7%	7.1%	2.9%	7.0%	13.8	13.4	12.6	1.7	1.7	13.1%	4.1%	2.29	NEUTRAL	
KAWAN FOOD	1.21	435.0	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.1	32.3	20.0	1.4	1.3	4.1%	2.1%	1.14	SELL	
MAGNI-TECH INDUSTRIES BHD	5.19	844.2	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.3	6.9	1.6	N.A.	20.3%	N.A.	6.60	BUY	

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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