

# 7-Eleven Malaysia Holdings (SEM MK)

## FY21 earnings surprised

# BUY

[Prior:HOLD]

Share Price MYR 1.45  
 12m Price Target MYR 1.80 (+26%)  
 Previous Price Target MYR 1.55

### U/G to BUY with a higher TP of MYR1.80

SEM's 4Q21 results were above expectations on lower-than-expected selling and distribution expense. Into FY22, we expect SEM's CVS and pharmacy stores to experience higher store sales on improved store traffic and a general improvement in consumer mobility. Our FY22/FY23E earnings estimates are lifted by 12%/13% and we introduce FY24E. We U/G SEM to BUY with a higher TP of MYR1.80 (+25sen), based on updated 5-year average PER of 28x (-1SD to mean, 27x previously) on FY22E.

### Earnings outperformance on lower S&D expense

4Q21 core net profit of MYR29m (+166% YoY, +1938% QoQ) brought FY21 core net profit to MYR44m (+1% YoY). The latter was above expectations at 174%/152% of our/consensus full-year earnings estimates. The earnings beat was predominantly due to lower-than-expected selling and distribution (S&D) expense.

### 4Q21 convenience store SSSG: +18.8%

SEM's 4Q21 revenue grew 34% YoY driven by higher sales at both its convenience stores (CVS, +22% YoY) and pharmacy stores (+67% YoY) in tandem with relaxed movement restrictions during the quarter. CVS reported 4Q21 SSSG of +18.8% YoY along with higher gross profit margins of 28% (4Q20: 27%). Meanwhile, 4Q21 pre-tax profit grew by a wider 258% YoY on the back of lower S&D expenses (at 25%, as a percentage of sales vs. 25% in 4Q20).

### Positive earnings momentum expected

We raise our FY22/FY23E earnings estimates by 12%/13% upon adjusting for lower S&D cost assumption. Both its CVS and pharmacy store traffic should continue to improve alongside easing restrictions and the reopening of international borders in FY22. Stronger CVS sales growth will also materialise once it is allowed to resume 24 hour operations.

### Company Description

7-Eleven Malaysia Holdings Berhad through its subsidiary 7-Eleven Malaysia Sdn. Bhd. is the owner and operator of 7-Eleven stores in Malaysia.

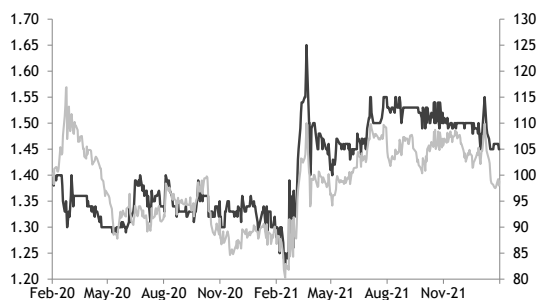
### Statistics

52w high/low (MYR) 1.65/1.22  
 3m avg turnover (USDm) 0.0  
 Free float (%) 14.5  
 Issued shares (m) 1,278  
 Market capitalisation MYR1.9B  
 USD441M

### Major shareholders:

TSAI HONG TU 21.7%  
 TAN CHEE YIOUN 21.5%  
 7-Eleven Malaysia Holdings Bhd. 8.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(3)	12
Relative to index (%)	(4)	(7)	10

Source: FactSet

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,539	2,809	3,122	3,408	3,713
EBITDA	301	352	358	328	325
Core net profit	44	44	73	79	85
Core EPS (sen)	3.8	3.9	6.4	7.0	7.5
Core EPS growth (%)	(19.2)	2.7	63.8	8.2	7.5
Net DPS (sen)	2.3	1.6	3.5	3.8	4.1
Core P/E (x)	35.5	38.1	22.5	20.8	19.3
P/BV (x)	23.3	18.8	13.3	10.3	8.3
Net dividend yield (%)	1.7	1.1	2.4	2.6	2.8
ROAE (%)	35.3	56.6	68.3	56.0	47.6
ROAA (%)	2.5	2.1	3.2	3.3	3.4
EV/EBITDA (x)	6.8	6.4	5.9	6.2	6.1
Net gearing (%) (incl perps)	246.9	264.9	163.7	108.8	74.1
Consensus net profit	-	-	65	71	na
MKE vs. Consensus (%)	-	-	12.0	11.5	na

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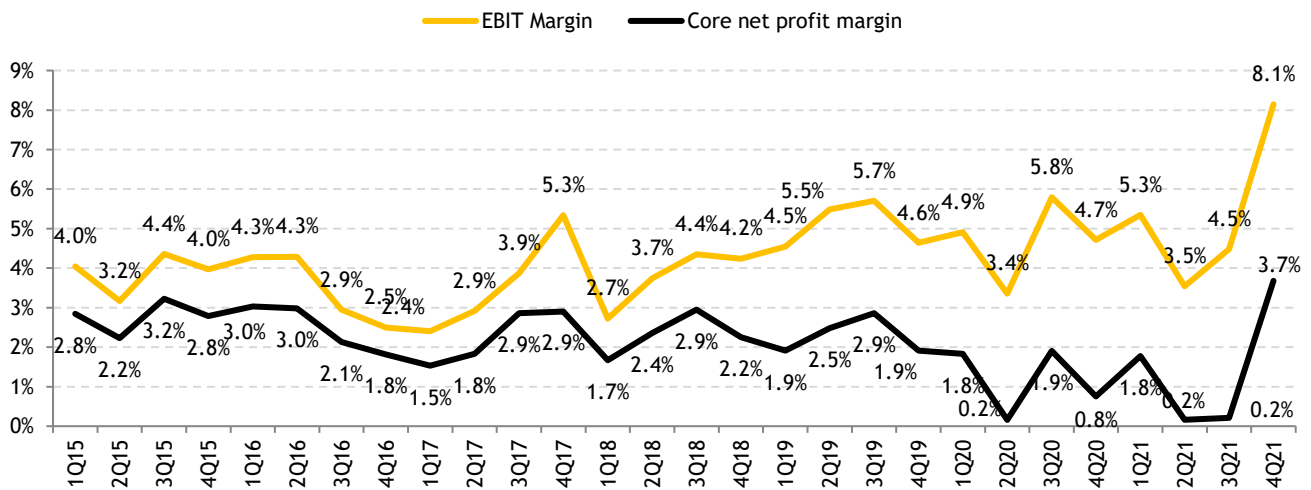
Fig 1: 7-Eleven: Results Summary

FY 31 Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Revenue	795.1	591.4	34.4	680.2	16.9	2,809.1	2,539.0	10.6
Cost of sales	(570.6)	(432.6)	31.9	(498.0)	14.6	(2,049.5)	(1,817.1)	12.8
Gross Profit	224.4	158.8	41.3	182.2	23.2	759.6	721.9	5.2
Other operating income	50.2	55.5	(9.4)	38.6	30.2	171.0	168.1	1.7
Selling & distribution	(164.2)	(139.1)	18.0	(152.6)	7.7	(621.7)	(616.6)	0.8
Admin	(45.6)	(47.2)	(3.3)	(37.7)	21.0	(154.8)	(155.6)	(0.5)
Operating profit	64.8	27.9	>100.0	30.5	>100.0	154.1	117.9	30.7
Finance costs	(15.9)	(14.2)	11.8	(15.8)	0.9	(61.2)	(54.3)	12.8
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	(1.0)	n.m.
Pretax profit	48.9	13.7	>100.0	14.7	>100.0	92.9	62.7	48.3
Income tax	(16.1)	(8.1)	97.4	(5.8)	>100.0	(34.1)	(27.3)	24.7
Minority Interest	(3.6)	(1.1)	>100.0	(7.5)	>100.0	(14.5)	(5.6)	>100.0
Net profit	29.2	4.4	>100.0	1.4	>100.0	44.3	29.8	49.0
E.I.	0.0	6.5	(>100.0)	0.0	n.m.	0.0	14.1	>100.0
Core net profit	29.2	11.0	>100.0	1.4	>100.0	44.3	43.8	1.2
			+/- p.pts YoY		+/- p.pts QoQ			+/- p.pts YoY
GP margin (%)	28.2	26.8	1.4	26.8	1.4	27.0	28.4	(1.4)
Operating margin (%)	8.1	4.7	3.4	4.5	3.7	5.5	4.7	0.8
Pretax margin (%)	6.1	2.3	3.8	2.2	4.0	3.3	2.5	0.8
Net profit (%)	3.7	0.8	2.9	0.2	3.5	1.6	1.2	0.4
Tax rate (%)	32.9	59.6	(26.7)	39.7	(6.8)	36.7	44.7	(8.1)
			% YoY					% YoY
<b>Revenue (MYRm):</b>								
Convenience stores	520.3	427.2	21.8	436.7	19.1	1,810.6	2,063.6	(12.3)
Pharmaceuticals	274.8	164.2	67.4	240.0	14.5	998.5	475.5	>100.0
Total	795.1	591.4	34.4	676.7	17.5	2,809.1	2,539.0	10.6
<b>Revenue split (%):</b>								
Convenience stores	65.4	72.2	(6.8)	64.5	0.9	64.5	81.3	(16.8)
Pharmaceuticals	34.6	27.8	6.8	35.5	(0.9)	35.5	18.7	16.8

Source: Company, Maybank IBG Research

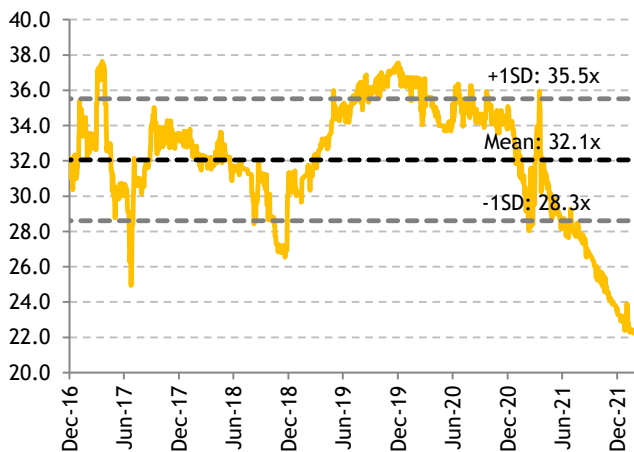
\*4Q20: Impairment loss of investment in associate of MYR6.5m; FY20: corporate acquisition costs related to Caring Pharmacy of MYR7.5m, impairment loss of investment in associate of MYR6.5m

Fig 2: SEM's EBIT & core NP margin trends



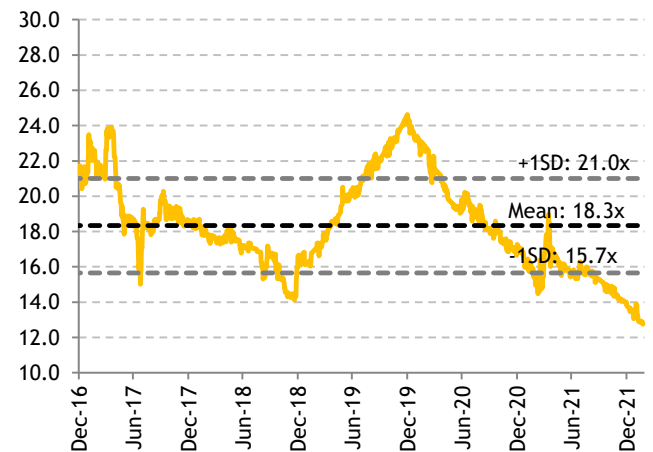
Source: Company

Fig 3: One year forward PER (x)



Source: Bloomberg, Maybank IBG Research

Fig 4: One year forward PBV (x)



Source: Bloomberg, Maybank IBG Research

### Risk statement

There are several risk factors for our earnings estimates, price target, and rating for SEM. As tobacco sales make up est. 30-35% of SEM's total sales, any unfavourable regulatory changes (eg. excise tax shocks) may impact SEM's earnings. Additionally, higher operating expenses through minimum wage hikes could also impact earnings growth negatively.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	51.9	36.9	22.5	20.8	19.3
Core P/E (x)	35.5	38.1	22.5	20.8	19.3
P/BV (x)	23.3	18.8	13.3	10.3	8.3
P/NTA (x)	(4.3)	(4.4)	(4.7)	(5.2)	(5.9)
Net dividend yield (%)	1.7	1.1	2.4	2.6	2.8
FCF yield (%)	7.8	10.7	9.7	7.2	6.3
EV/EBITDA (x)	6.8	6.4	5.9	6.2	6.1
EV/EBIT (x)	17.4	14.7	12.0	11.2	10.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,539.0	2,809.1	3,122.1	3,408.4	3,712.7
EBITDA	301.0	351.9	358.3	327.7	325.4
Depreciation	(183.1)	(197.8)	(184.1)	(146.7)	(136.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	117.9	154.1	174.1	181.0	188.5
Net interest income / (exp)	(54.3)	(61.2)	(54.9)	(52.8)	(51.5)
Associates & JV	(1.0)	0.0	0.0	0.0	0.0
Exceptionals	14.1	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	62.7	92.9	119.3	128.2	137.0
Income tax	(27.3)	(34.1)	(39.4)	(42.3)	(45.2)
Minorities	(5.6)	(14.5)	(7.3)	(7.3)	(7.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.8	44.3	72.6	78.6	84.6
Core net profit	43.8	44.3	72.6	78.6	84.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	135.0	158.0	276.9	352.0	409.7
Accounts receivable	96.2	85.8	95.3	104.1	113.4
Inventory	288.9	383.2	417.3	452.4	490.0
Property, Plant & Equip (net)	346.5	322.5	257.0	239.8	243.9
Intangible assets	425.5	473.3	473.3	473.3	473.3
Investment in Associates & JVs	0.0	0.0	(0.1)	(0.2)	(0.3)
Other assets	744.8	828.2	828.2	828.2	828.2
<b>Total assets</b>	<b>2,036.8</b>	<b>2,250.9</b>	<b>2,348.0</b>	<b>2,449.5</b>	<b>2,558.3</b>
ST interest bearing debt	201.4	84.9	84.9	84.9	84.9
Accounts payable	585.0	640.1	697.2	755.8	818.6
LT interest bearing debt	331.7	555.4	555.4	555.4	555.4
Other liabilities	758.0	789.0	789.0	789.0	789.0
<b>Total Liabilities</b>	<b>1,875.6</b>	<b>2,068.9</b>	<b>2,126.0</b>	<b>2,184.6</b>	<b>2,247.4</b>
Shareholders Equity	66.8	90.0	122.7	158.4	197.0
Minority Interest	94.5	92.1	99.3	106.6	113.9
<b>Total shareholder equity</b>	<b>161.2</b>	<b>182.0</b>	<b>222.0</b>	<b>264.9</b>	<b>310.8</b>
<b>Total liabilities and equity</b>	<b>2,036.8</b>	<b>2,250.9</b>	<b>2,348.0</b>	<b>2,449.5</b>	<b>2,558.3</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	62.7	92.9	119.3	128.2	137.0
Depreciation & amortisation	183.1	197.8	184.1	146.7	136.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(25.6)	(33.1)	13.4	14.8	15.9
Cash taxes paid	(32.9)	(45.4)	(39.4)	(42.3)	(45.2)
Other operating cash flow	2.1	15.0	0.0	0.0	0.0
Cash flow from operations	189.3	227.3	277.4	247.4	244.7
Capex	(68.2)	(46.4)	(118.6)	(129.5)	(141.1)
Free cash flow	121.2	180.9	158.8	117.9	103.6
Dividends paid	(26.5)	(18.0)	(40.0)	(42.9)	(45.9)
Equity raised / (purchased)	(28.3)	(4.2)	0.0	0.0	0.0
Change in Debt	375.7	79.9	0.0	0.0	0.0
Other invest/financing cash flow	(437.0)	(236.7)	0.2	0.2	0.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	5.1	1.9	119.0	75.2	57.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.5	10.6	11.1	9.2	8.9
EBITDA growth	7.8	16.9	1.8	(8.5)	(0.7)
EBIT growth	(2.0)	30.7	13.0	3.9	4.2
Pretax growth	(18.3)	48.3	28.4	7.5	6.9
Reported net profit growth	(44.9)	49.0	63.8	8.2	7.5
Core net profit growth	(18.9)	1.2	63.8	8.2	7.5
<b>Profitability ratios (%)</b>					
EBITDA margin	11.9	12.5	11.5	9.6	8.8
EBIT margin	4.6	5.5	5.6	5.3	5.1
Pretax profit margin	2.5	3.3	3.8	3.8	3.7
Payout ratio	88.9	40.7	55.0	54.6	54.3
<b>DuPont analysis</b>					
Net profit margin (%)	1.2	1.6	2.3	2.3	2.3
Revenue/Assets (x)	1.2	1.2	1.3	1.4	1.5
Assets/Equity (x)	30.5	25.0	19.1	15.5	13.0
ROAE (%)	35.3	56.6	68.3	56.0	47.6
ROAA (%)	2.5	2.1	3.2	3.3	3.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(47.0)	(36.9)	(32.8)	(32.9)	(32.9)
Days receivable outstanding	12.2	11.7	10.4	10.5	10.5
Days inventory outstanding	51.5	59.0	64.5	64.7	64.7
Days payables outstanding	110.7	107.6	107.8	108.1	108.1
Dividend cover (x)	1.1	2.5	1.8	1.8	1.8
Current ratio (x)	0.6	0.8	0.9	1.0	1.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	246.9	264.9	163.7	108.8	74.1
Net gearing (%) (excl. perps)	246.9	264.9	163.7	108.8	74.1
Net interest cover (x)	2.2	2.5	3.2	3.4	3.7
Debt/EBITDA (x)	1.8	1.8	1.8	2.0	2.0
Capex/revenue (%)	2.7	1.7	3.8	3.8	3.8
Net debt/ (net cash)	398.1	482.2	363.3	288.3	230.5

Source: Company; Maybank

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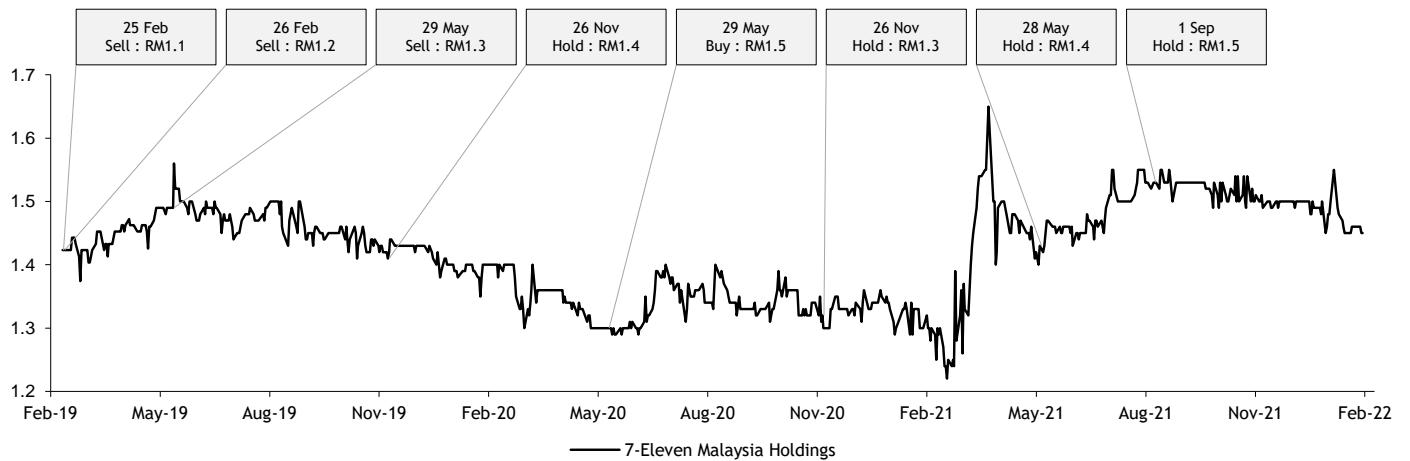
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## Historical recommendations and target price: 7-Eleven Malaysia Holdings (SEM MK)



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