

7-Eleven Malaysia Holdings (SEM MK)

In a better spot in FY22

Maintain BUY with unchanged TP of MYR1.80

SEM's outlook is positive in FY22 given higher store traffic and average revenue per store, alongside easing movement restrictions. As consumers re-adjust to post-pandemic routines, dry and fresh food uptake at its stores will continue to increase, potentially leading to margin expansion. We make no changes to our earnings estimates. Our TP of MYR1.80 is based on 28x FY22E PER, -1SD to mean.

Improved product mix

During SEM's results briefing, management shared that 4Q21 revenue growth of 34% YoY came from (i) positive SSSG (7-Eleven: +18.8%, Caring: +4.9%), while (ii) eased movement restrictions also saw customer count increased by 7% YoY. Further, expansion of gross profit margins in 4Q21 (+1.4 ppt YoY) was mainly due to lesser contribution from low margin tobacco sales at 36% (vs. 39% in 4Q20).

Store expansion targets to resume in FY22

Total store count stands at 2,427 (+14 stores YoY) convenience stores (CVS) and 191 pharmacy stores as at end-Dec 2021. In light of improved business conditions, SEM plans to open c.100 new CVS stores (7-Eleven stores: +50, 7-Café stores: +50) and c.20-25 new pharmacies under the Caring group. Its new 7-café concept store will spearhead SEM's renewed focus on fresh food in order to lift margins and diversify away from its dependency on tobacco sales. With 8 7-café stores under its belt, we understand that average sales per store is c.1.5 to 3.5x higher than its CVS stores while fresh food contributes to a higher 28-32% of store revenue vs. SEM's overall fresh food contribution of c.10% in 4Q21.

Demand-based extension of operating hours

At present, c.8% of SEM's CVS stores have resumed their regular 24-hour operating hours. Throughout FY22, SEM will selectively transition certain stores back to full operating hours (24 hours) depending on the demand recovery in specific areas. We believe post-midnight sales have not recovered as quickly given that night entertainment outlets have not been allowed to reopen yet. Current industry labour shortages may also hinder its ability to fully revert to 24-hours operating hours, in our view.

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	22.7	20.9	19.5
P/BV (x)	23.3	18.8	13.4	10.4	8.4
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	-	-	72	80	85
MKE vs. Consensus (%)	-	-	1.2	(1.5)	(0.0)

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BUY

Share Price MYR 1.46
12m Price Target MYR 1.80 (+25%)
Previous Price Target MYR 1.80

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.

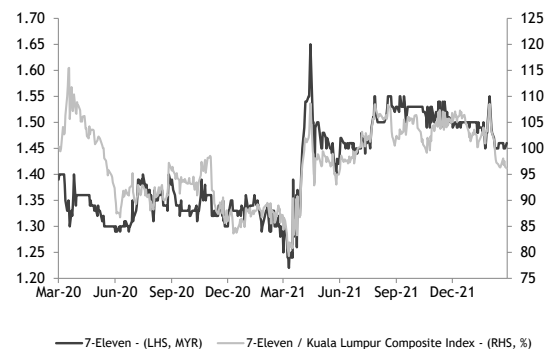
Statistics

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 USD444M

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 (%)	(6)	(3)	12
Relative to index (%)	(11)	(7)	11

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Risk Rating & Score ¹	30.9 (High)
Score Momentum ²	+1.2
Last Updated	14 Apr 2021
Controversy Score ³ (Updated: 15 Aug 2014)	0.0 - No reported incidents

Business Model & Industry Issues

- ESG risks for convenience stores and pharmacies revolve around the usage of single-use plastics, food wastages and energy consumption. SEM has implemented several measures to reduce its contribution towards plastic pollution and organic waste - however its ability to do so is also subject to the initiatives of its suppliers (eg. larger food manufacturers) to adopt sustainable product packaging for a bigger positive impact to the environment.
- Consumer confidence and brand perception are important factors for the success of consumer retail companies. To that end, SEM ensures that all F&B products sold at its stores abide by product quality and safety regulations. Medicines sold at its pharmacies have also been screened by its internal listing committee.
- SEM's ESG strategy is comparable to its peers, and the industry as a whole has moderate ESG exposure, in our view. Its present ESG disclosure is brief and long-term sustainability targets are noticeably absent. Should SEM share more detailed sustainability metrics/goals, its brand perception would be enhanced, we believe.

Material E issues

- SEM has initiated several energy efficiency programmes over the years to lower its overall carbon footprint. A cross-docking system was implemented in 2017 which has lowered trip frequency to its convenience stores by 80%.
- The group also converted its store lighting systems to LED lights which has translated to a 4.5% reduction in electricity consumption from 2018 to 2020.
- SEM implements stringent product management to minimise food wastages at its stores. Hence, the group minimises overstocking, particularly for F&B items with a short shelf life, and uses temperature control settings to avoid food spoilage.
- To reduce plastic waste, SEM has introduced eco-friendly packaging and biodegradable plastic bags at its stores. Styrofoam packaging is also prohibited at all its stores.

Material S issues

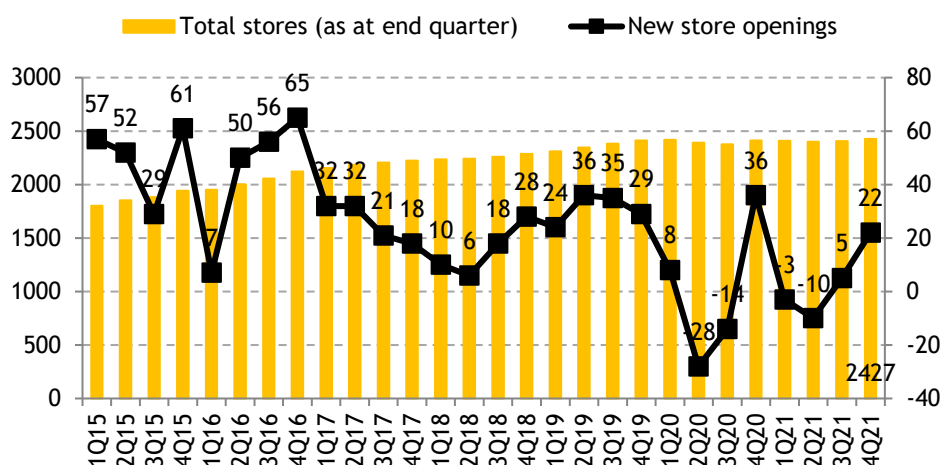
- In FY20, SEM employed 9,186 employees and 1,290 employees under their convenience store (CVS) and pharmacy segments respectively. The CVS male:female ratio was 49:51 (from 54:46 in 2018) while its pharmacy segment workforce is 83% female workers.
- SEM implements annual audit targets on its convenience stores to ensure that quality and food standards are upheld. A total of 1,063 stores were audited in 2020 including 415 fresh food stores (high-risk category) and 648 non-fresh food stores.
- An array of empowerment and donation programmes is conducted through *7-Eleven community care* (i.e. *Semurni Kasih*, *Women of Will* etc.). The group also makes contributions directly to various non-profit foundations.

Key G metrics and issues

- SEM's board of directors (BOD) comprises of 9 members - 4 independent non-executive directors (including the chairman), 3 non-independent non-executive directors, and 2 executive directors.
- Independent directors make up only 44% of its BOD which is below recommended practise for at least 50% share of independent members. SEM has no plans to revise its board composition for now.
- The BOD male:female ratio was 67:33 in 2020, consistent with recommended industry practise of at least 30% women directors for large companies.
- The chairman and CEO positions are held by separate individuals.
- Annual shareholder's approval is required for independent directors serving beyond 9 years. At present, there are no independent directors who have served beyond 9 years.
- Collectively, the CEO's remuneration package was MYR2.8m (c.3% of SEM's FY20 pre-tax profit) while the BOD's total remuneration package equalled MYR4.6m (c.7% of SEM's FY20 pre-tax profit).
- The group does not disclose detailed remuneration of each member of senior management due to confidentiality purposes.
- SEM has been audited by Ernst & Young PLT since its public listing in 2015.
- The group enters into recurring related party transactions mostly involving purchases of goods, digital sales of goods (through *Razer Pay*) and rental of properties. Royalty payments typically account for c.1% of total revenue.

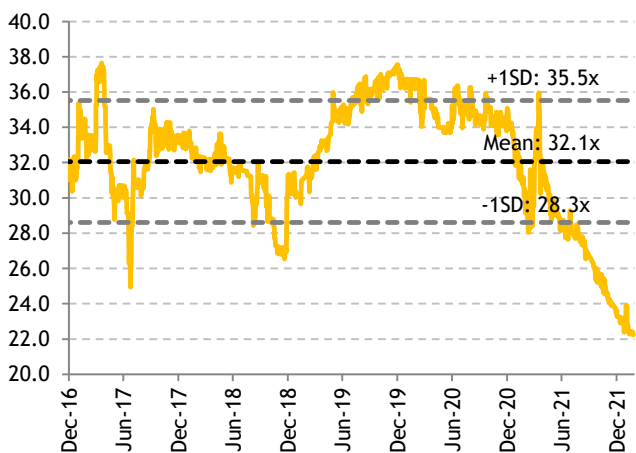
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Total CVS store count and store openings



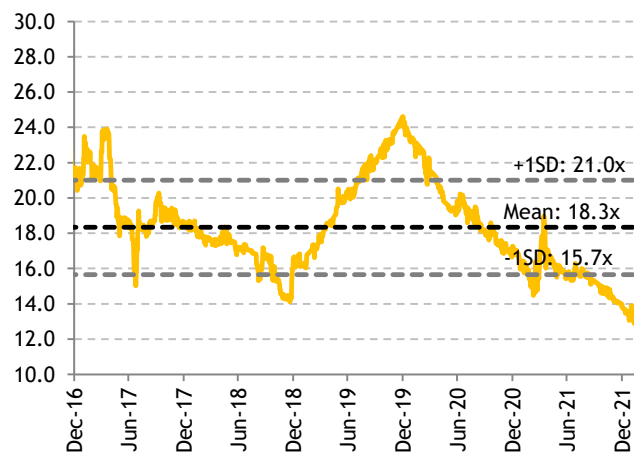
Source: Company

Fig 2: One year forward PER (x)



Source: Bloomberg, Maybank IBG Research

Fig 3: 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
Key Metrics					
P/E (reported) (x)	51.9	36.9	22.7	20.9	19.5
Core P/E (x)	35.5	38.1	22.7	20.9	19.5
P/BV (x)	23.3	18.8	13.4	10.4	8.4
P/NTA (x)	(4.3)	(4.4)	(4.7)	(5.2)	(6.0)
Net dividend yield (%)	1.7	1.1	2.4	2.6	2.8
FCF yield (%)	7.8	10.7	9.6	7.2	6.3
EV/EBITDA (x)	6.8	6.4	5.9	6.2	6.1
EV/EBIT (x)	17.4	14.7	12.1	11.3	10.6
INCOME STATEMENT (MYR m)					
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
BALANCE SHEET (MYR m)					
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
Total assets	2,036.8	2,250.9	2,348.0	2,449.5	2,558.3
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
Total Liabilities	1,875.6	2,068.9	2,126.0	2,184.6	2,247.4
Shareholders Equity	66.8	90.0	122.7	158.4	197.0
Minority Interest	94.5	92.1	99.3	106.6	113.9
Total shareholder equity	161.2	182.0	222.0	264.9	310.8
Total liabilities and equity	2,036.8	2,250.9	2,348.0	2,449.5	2,558.3
CASH FLOW (MYR m)					
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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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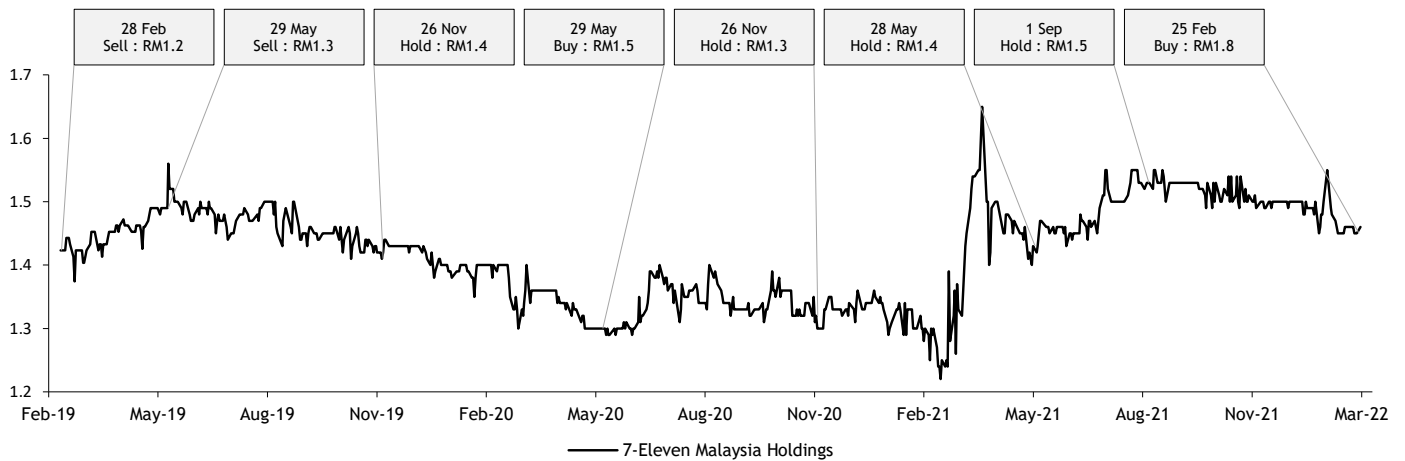
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Historical recommendations and target price: 7-Eleven Malaysia Holdings (SEM MK)



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