Malaysia

ADD *(initiation)*

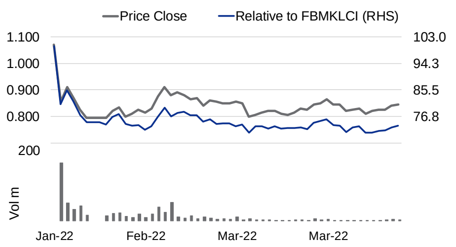
Consensus ratings*:	Buy 0	Hold 0	Sell 0

Current price:	RM0.845
Target price:	RM1.00
Previous target:	RM
Up/downside:	18.3%
CGS-CIMB / Consensus:	na
Reuters:	5305.KL
Bloomberg:	5305 MK
Market cap:	US$300.8m RM1,268m
Average daily turnover:	US$2.67m RM11.03m
Current shares o/s:	1,500m
Free float:	31.3%

**Source: Bloomberg*

Key changes in this note

- N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.6		
Relative (%)	3.8		

Major shareholders	% held
SQ Digital Sdn Bhd	58.0
Lim Kim Heng	5.4
Lim Kim Chieng	5.4

Senheng New Retail Bhd

Malaysia's largest E&E retailer

- We initiate coverage on Senheng, Malaysia's largest consumer E&E retailer with 105 outlets nationwide, with an Add rating.
- We project a net profit CAGR of 13% (FY21-24F), driven by: i) 18% growth in physical retail area, ii) steady SSSG, and iii) robust growth in online sales.
- Our TP of RM1.00 is based on 17.4x CY23F P/E (a 20% discount to CGS-CIMB's consumer discretionary sector's 5-year mean P/E of 21.8x).

Largest chain retailer of consumer E&E products in Malaysia

Senheng New Retail Bhd (Senheng) is Malaysia's largest consumer electrical and electronics (E&E) retailer by revenue (report by Smith Zander in 2021), with a total of 105 outlets nationwide as at end-2021. Besides physical stores (accounted for 89.2% of FY21 revenue), Senheng retails products via online retail channels, including its self-operated app and online store, as well as third-party marketplaces Shopee and Lazada.

Differentiating itself through a seamless retail model

Despite a highly competitive operating environment in the consumer E&E retail space, Senheng's key advantage is its "seamless retail model" with full integration of its physical, online and backend operations (in-house logistics network), in our view. Since 2014, Senheng uses business intelligence to drive business decision-making, while providing uniform pricing across all sales channels (omnichannel marketing). Its sales are backed by its strong PlusOne loyalty programme (c.90% of its FY21 revenue).

Strong operating scale with wide range of products

Over the years, Senheng has built a solid standing and strong operating scale, leveraging on its economies of scale and established relationships with brand principals to offer a wide range of consumer E&E products across all key segments (home appliances, digital gadgets and audio-visual equipment) — it carried c.10k stock keeping units (SKUs) from >280 brands (May 2021). In our view, this is a differentiating factor, as it is able to cater to consumers' E&E needs via a wide product offering (vs. competitors).

Future strategies to cement its market leadership position

We project Senheng to post 12.7% revenue and 13.4% core net profit CAGR over FY21-24F, backed by an 18.1% CAGR in retail floor space and 10.1% CAGR in online channel revenue. Our forecasts are based on its near-to-medium-term strategies, including: i) upgrading/expanding its physical stores, ii) growing its exclusive and own-brand product portfolio, iii) better membership stickiness by enhancing PlusOne, and iv) upgrading its physical and digital backend infrastructure leading to better operational efficiencies.

Initiate coverage with Add rating

We initiate coverage on Senheng with an Add and a TP of RM1.00 (17.4x CY23F P/E, a 20% discount to CGS-CIMB's consumer discretionary sector's 5-year mean P/E of 21.8x). Despite Senheng's leading market position in Malaysia (2021), we apply a discount to account for the competitive nature of the retail E&E sector and its low barrier to entry. Downside risks: supply disruptions, slowdown in consumer E&E sales, and intensifying competition. A strong recovery in footfall is a key potential re-rating catalyst:

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	1,295	1,444	1,647	1,847	2,066
Operating EBITDA (RMm)	114.0	127.0	153.9	176.3	197.2
Net Profit (RMm)	54.69	65.05	77.10	86.70	95.13
Core EPS (RM)	0.036	0.043	0.051	0.058	0.063
Core EPS Growth	20.4%	18.9%	18.5%	12.5%	9.7%
FD Core P/E (x)	23.18	19.48	16.44	14.62	13.32
DPS (RM)	0.008	0.013	0.015	0.017	0.019
Dividend Yield	0.95%	1.54%	1.82%	2.05%	2.25%
EV/EBITDA (x)	11.00	10.02	6.86	6.08	5.48
P/FCFE (x)	24.32	52.84	NA	23.24	18.49
Net Gearing	(8.2%)	2.2%	(38.2%)	(31.8%)	(27.3%)
P/BV (x)	7.63	5.42	2.28	2.06	1.86
ROE	37.8%	32.5%	19.5%	14.8%	14.7%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Malaysia's largest E&E retailer

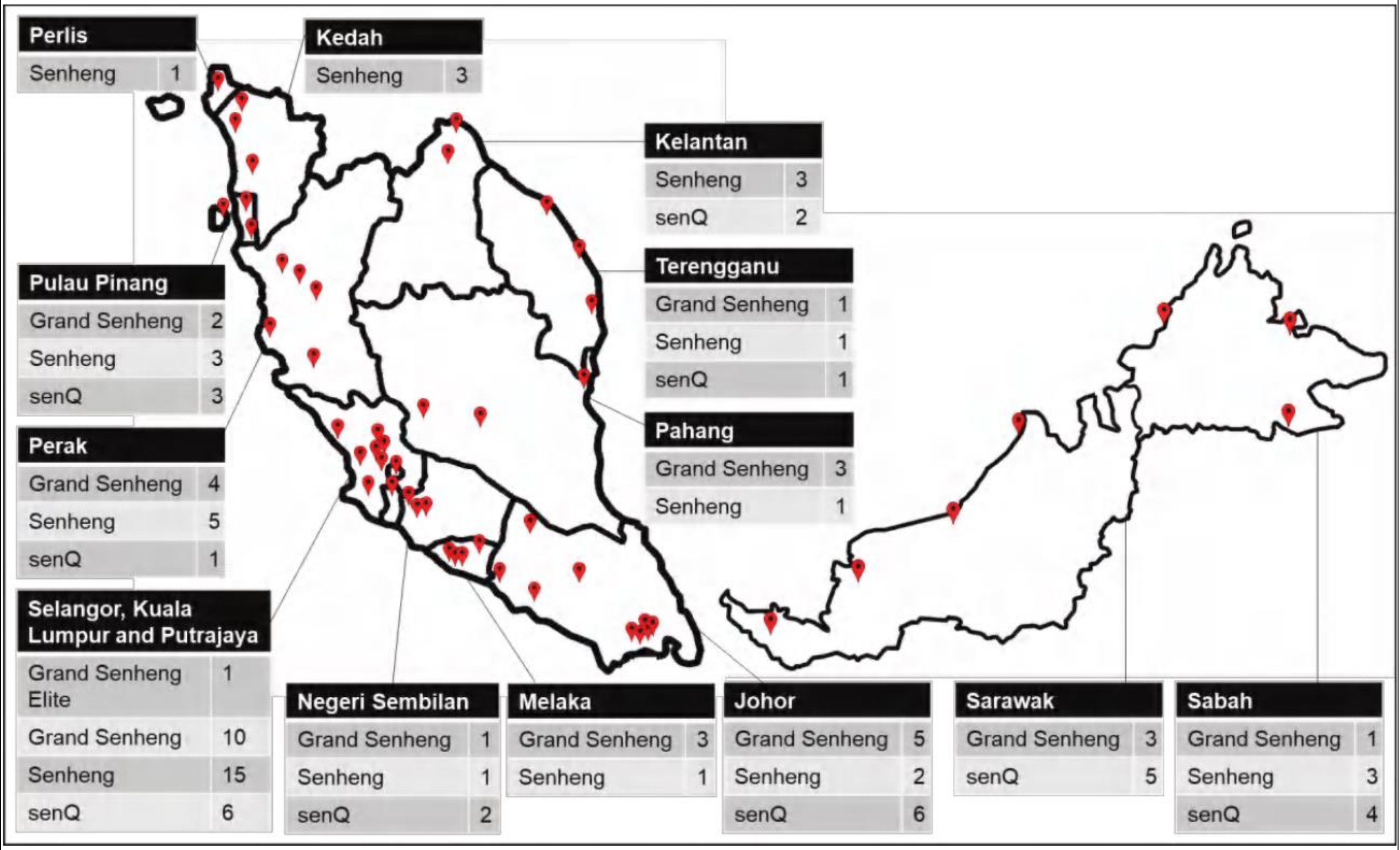
INVESTMENT THESIS

Malaysia's largest consumer E&E retailer

Senheng is Malaysia's largest consumer electrical and electronic (E&E) retail chain operator in Malaysia in terms of revenue (2021), according to Smith Zander, a specialist research and strategy consulting firm. As at end-2021, Senheng operated a total of 105 physical stores covering approximately 816,952 sq ft across every state in Malaysia under five different store concepts: i) "Grand Senheng Elite", ii) "Grand Senheng", iii) "Senheng", iv) "senQ" and v) Grand senQ.

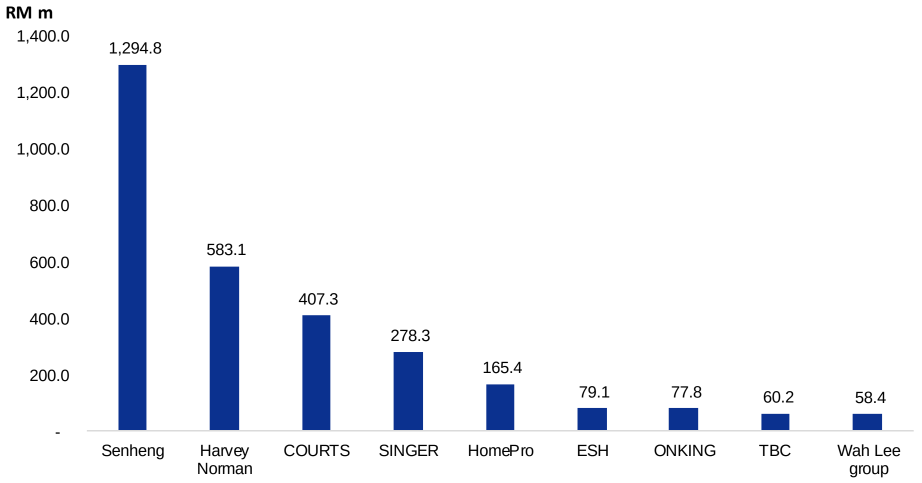
Based on the findings of Smith Zander's industry research, as at May 2021, Senheng had a revenue market share of 12.6% in home appliance retail sales in Malaysia, 0.94% market share in digital gadget retail sales, and 2.57% market share of audio visual equipment retail sales.

Figure 1: Senheng operated a total of 103 physical stores as of May 2021 and had a presence in every state in Malaysia



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Senheng is a clear market leader by revenue in the consumer E&E retail industry*



SOURCES: SMITH ZANDER, CGS-CIMB RESEARCH
*based one latest available financial data:
Senheng: 31 Dec 2020
Elitetrax Marketing Sdn Bhd (Harvey Norman): 30 June 2019
Courts (Malaysia) Sdn Bhd (COURTS): 31 Mar 2020
Singer (Malaysia) Sdn Bhd (SINGER): 31 Dec 2019
Home Product Center (Malaysia) Sdn Bhd (HomePro): 31 Dec 2019
E.S.H. Electrical Sdn Bhd (ESH): 31 Dec 2019
Onking Chain-Store (Malaysia) Sdn Bhd (ONKING): 31 Dec 2019
TBC Elektrik Sdn Bhd (TBC): 31 Dec 2019
Wah Lee Chain-Store Sdn Bhd (Wah Lee group): 31 May 2020

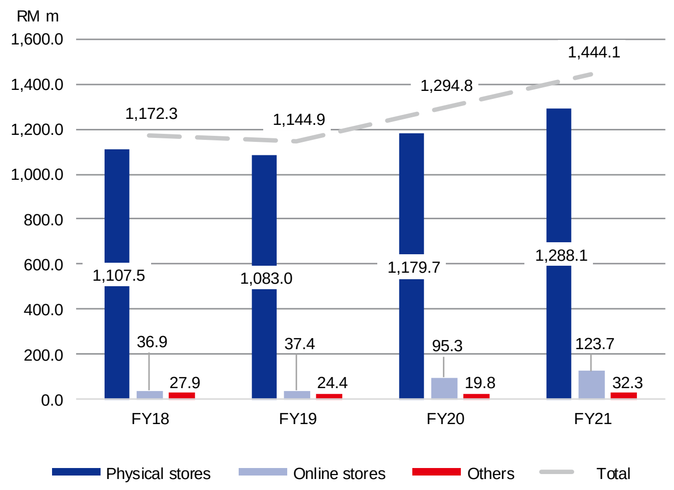
Driving sales and future-proofing its business by implementing a seamless retail business model

Senheng's key strength lies in its seamless business model which began in 2017. Under this business model, it focuses on investing in its capabilities to build and integrate both its online and offline retail presence (creating an omnichannel approach). This is to provide customers with a consistent, convenient and comfortable shopping experience across all of its sales channels (including digital). For example, all product sales (available items for sale, selling prices etc.) and promotional activities are conducted universal across all its sales platforms.

This business model has shown positive results, as Senheng was able to grow its revenue base at a CAGR of 10.1% over 2016-2021 despite gradually closing physical outlets during the period (it had 105 outlets as at end-FY21 vs. 125 outlets as at end-FY16). We also note that Senheng recorded an improvement in average annual revenue per outlet from c.RM7.6m in 2016 to RM12.3m in 2021.

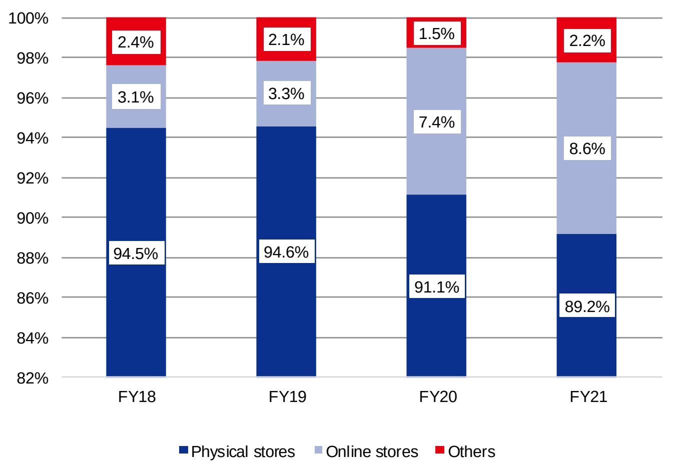
Going forward, Senheng has stated its plans to continue building on its position of strength by enhancing its shopping experience via i) upgrading/expanding its physical retail stores, ii) improving its online touchpoints (website and app), and iii) expanding its exclusive brand and SKU portfolios.

Figure 3: Revenue by sales channel



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: % of revenue breakdown by sales channel

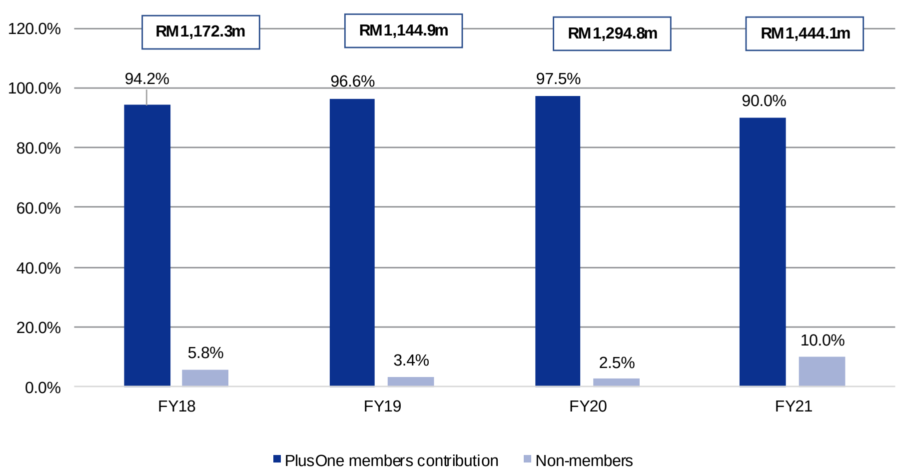


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Strong and longstanding PlusOne loyalty programme membership base

Despite operating in a highly competitive consumer E&E retail market, Senheng has been successful in growing its sales over the years, thanks to its long-standing loyalty programme, PlusOne. Since this programme was launched in 2002, Senheng has grown its member base to 3.3m (end-2021), recording a 5-year CAGR of 7.8% over FY16-21. In FY18-21, sales generated from PlusOne members contributed 90.0-97.5% to Senheng's total revenue.

Figure 5: Steadily growing revenue contribution from its PlusOne membership base



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We understand that Senheng attracts recurring purchases from its members by offering various incentives. The incentives, which vary according to tier, include:

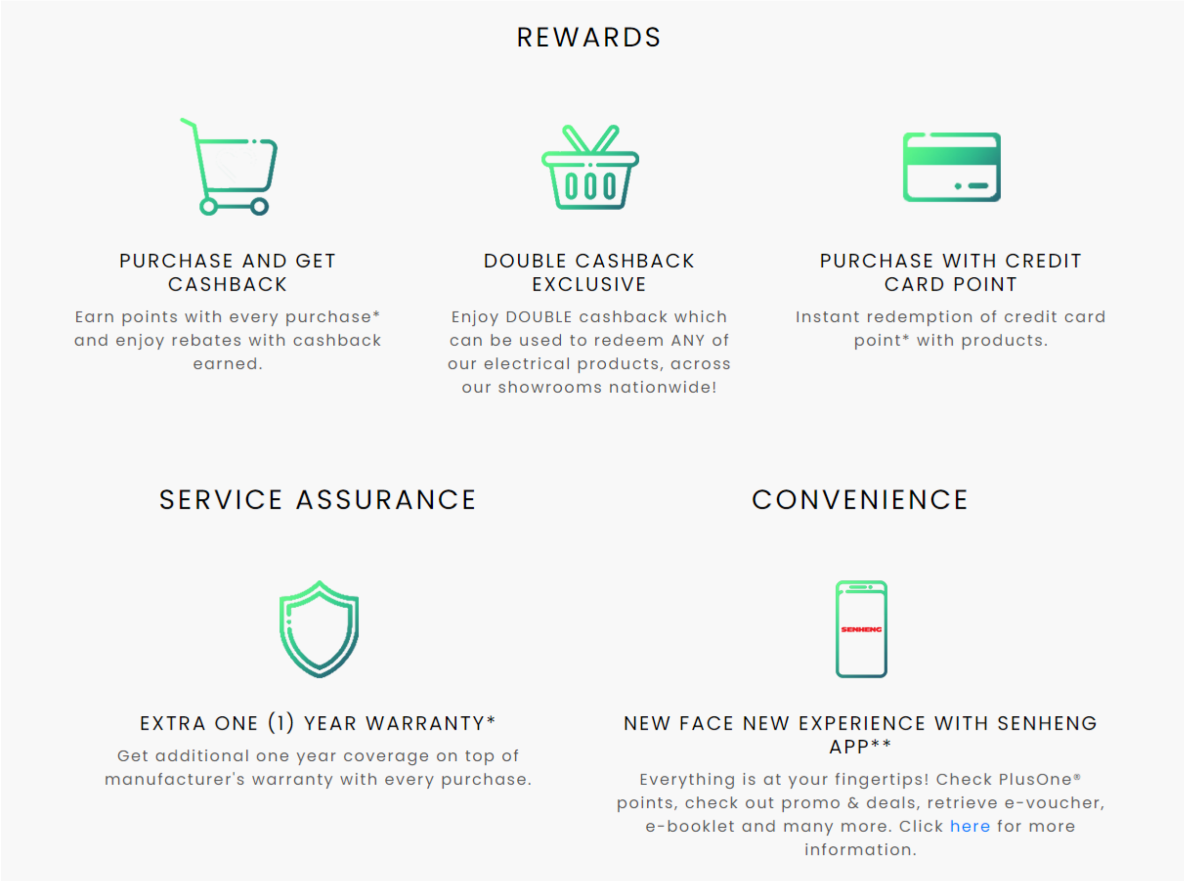
i) extended warranty coverage of up to 24 months on top of manufacturers' standard warranty period,

ii) reward points/credit tokens redemption and collection,

iii) rebates, and

iv) exclusive members' day promotions.

Figure 6: Summary of the PlusOne rewards programme



SOURCES: SENHENG WEBSITE, CGS-CIMB RESEARCH,

In addition to being able to leverage on recurring sales from its member base, Senheng is able to utilise the data obtained to understand its customers' buying patterns. In our view, this allows Senheng to: i) optimise marketing and promotions, ii) preemptive inventory purchasing, and also iii) more effectively manage warranty risks.

Wide product offering to cater for all consumers' E&E product needs ➤

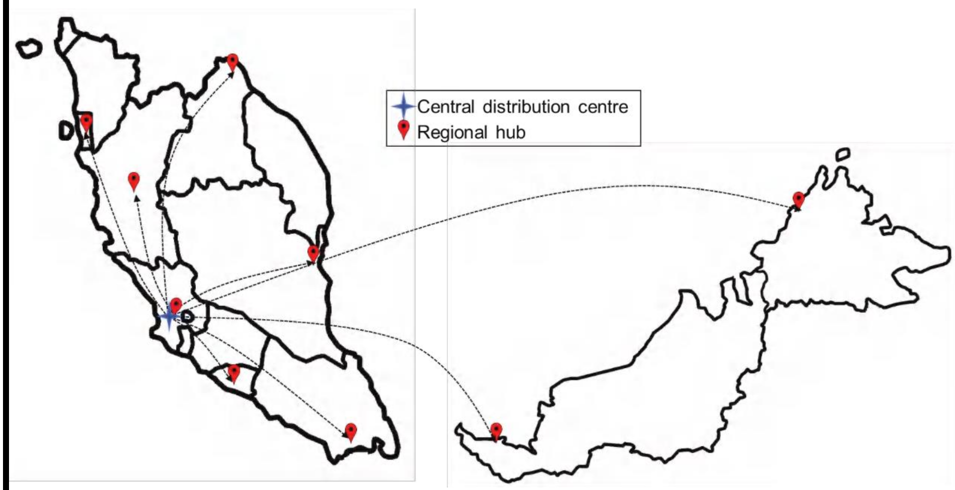
With its solid track record and strong operating scale, Senheng has been able to build established relationships with brand principals across the years. This allows Senheng to carry a wide range of consumer E&E products across all key segments such as home appliances, digital gadgets and audio visual equipment — it carried c.10k stock keeping units (SKUs) from >280 brands (May 2021). In our view, this is a differentiating factor, as it able to cater for all consumers' E&E product purchases across various product segments. This is compared to its other competitors, which may not have the operating scale to carry such a diverse product range across all consumer E&E segments while offering a competitive price.

Operational excellence supported by established physical and digital backend infrastructure ➤

Another key differentiating factor for Senheng compared with other consumer E&E retailers is its extensive and established logistics network. To support its chain of stores nationwide (>100 physical stores) and online sales channels, Senheng adopted a centralised logistics model in 2018; its central distribution centre (CDC) is located in Klang, Selangor, and supported by eight other regional hubs located throughout Malaysia. This centralised network allows Senheng to accept deliveries of products from suppliers at one location and lowers the cost of fulfillment by its suppliers, translating to lower per product costs for Senheng, thereby allowing the company to increase its price competitiveness. Also, Senheng's wide distribution network enhances its ability to deliver the products it sells on any sales channel to its customers nationwide in a prompt manner.

Going forward, Senheng aims to further improve its warehousing capacity and logistics network by: i) expanding its Kota Kinabalu regional hub by 1H22F, ii) relocating its Kuching regional hub to a larger warehouse by 1H22F, and iii) constructing a regional hub in Bintulu to support its stores in Bintulu, Sibu and Miri.

Figure 7: Senheng's logistics network is anchored by its CDC in Klang and supported by eight regional hubs located nationwide



SOURCES: SENHENG IPO PROSPECTUS, CGS-CIMB RESEARCH

In addition to its physical backend infrastructure, Senheng has also established a digital infrastructure to optimise data-driven marketing, operational workflow and enhance its customers' shopping experience. The company has been on a digital transformation drive since 2015. Initiatives include:

i) **digitalising its data collection and business intelligence system** — interconnected and seamless system allowing data-driven decisions for business operations.

ii) **Implementing a fully integrated enterprise resource planning suite of applications** — comprising of a business-to-business (B2B) portal, delivery management system and warehouse management system (WMS).

iii) **e-commerce, marketing and telemarketing automation software for its online retail presence**

Growth driver 1: Cementing its position of strength by expanding and upgrading its physical stores

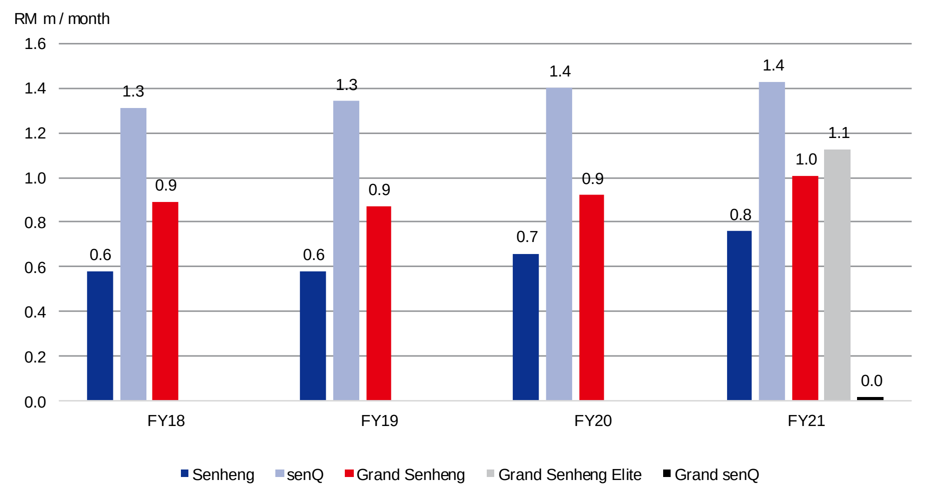
Senheng aims to have the physical presence of a territory champion i.e. by having the largest floor space and largest variety of products of any E&E retail outlet within each outlet's 5km radius. In order to achieve this, Senheng is looking to either open new outlets or upgrade existing "Senheng"-branded outlets to "Grand Senheng", "Grand Senheng Elite" or 'Grand senQ" branded stores, which are on average 50%, 200% and 300% larger than the average "Senheng"-branded store, respectively. The larger store formats will be able to house a wider range of product types and brands, allowing its stores to be one-stop shops offering consumers a more varied browsing experience. While aggressive new store additions are not part of Senheng's strategy to grow its revenue and earnings, enhancing its already large retail presence is key to providing customers with an appealing retail experience, supported by convenient online sales channels, in our view.

Figure 8: New and upgraded physical stores in the pipeline (CGS-CIMB estimates)

	Number of stores to be opened/upgraded			
Store concept	**FY22F**	**FY23F**	**FY24F**	**Total**
Grand Senheng Elite	4	4	3	11
Grand Senheng	12	12	11	35
Grand senQ	3	2	3	8
senQ	2	3	2	7
Total	21	21	19	61

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Gradually improving average monthly revenue per store for all its store concepts



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

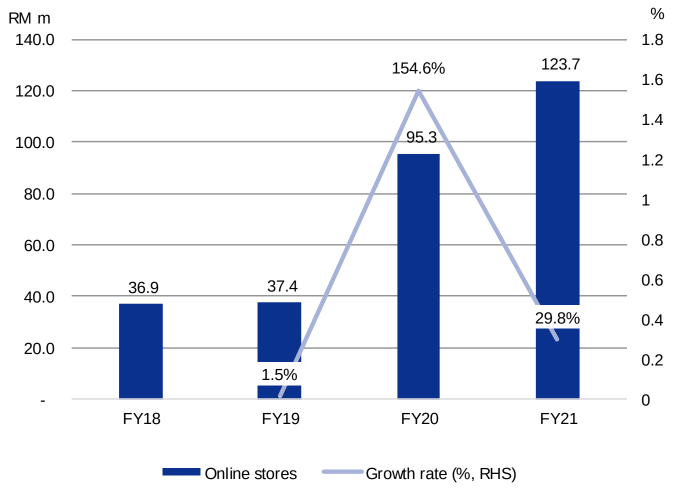
Senheng also has in place an employee incentive programme and a franchise programme that offer store managers the opportunity to operate and/or own their own physical stores. We believe this further aligns the incentives of its store managers with those of the company to drive sales and minimise operational costs.

Growth driver 2: Focusing on growing its digital presence ›

While online sales made up 8.6% of its FY21 revenue (FY18-21 CAGR of 49.7%), Senheng is confident of growing sales from its digital channel further through various initiatives. This includes: i) collaborating with online key opinion leaders (KOLs) to market its products via online sales platform, ii) more promotional activities on its in-house online sales platforms (website and app) as well as on third-party e-commerce websites, and iii) enhancing its in-house online sales channel to provide consumers ease of use. We see Senheng's strong digital presence as giving it an edge over mom-and-pup electrical retailers, most of whom do not have the increasingly important digital presence. Senheng's strong digital presence gives it numerous advantages, including the facilitation of: i) help centre services, ii) warranty claims, and iii) product details and comparison.

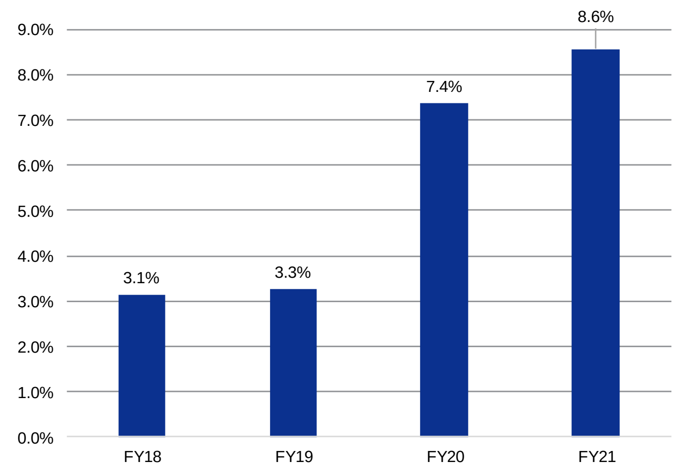
We believe Senheng also has an edge over pure e-commerce consumer E&E retailers, given its: i) renowned and long-standing brand in the market, ii) strong after sales services, and iii) network of physical retail outlets nationwide that allow consumers to view and check out any E&E consumer item.

Figure 10: Online sales channel (online stores sales) and growth rate



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 11: Online sales channels' contribution to total revenue



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Growth driver 3: Future-proofing via other initiatives

We believe Senheng's medium-to-longer-term sales growth prospects could also be driven by its newer initiatives, including:

i) **Expanding exclusive product distribution**

Senheng aims to expand its exclusive brand/product distribution by bringing in foreign brands with minimal or no prior market presence in Malaysia. As of May 2021, Senheng was the exclusive distributor for two China-based international brands in Malaysia: ROBAM-branded kitchen appliances and JIMMY-branded vacuum cleaners and hair dryers; it has been retailing the two brands since 2020. Contribution from exclusive product distribution to its total revenue is small at this juncture. Senheng is on the lookout for other suitable brands to add to this portfolio, with a focus on kitchen appliances, home electricals, personal and beauty care appliances, and Internet-of-Things (IoT) products which it believes have potential in the Malaysian market.

Figure 12: Senheng has exclusive distribution rights for ROBAM-branded kitchen appliances and JIMMY-branded vacuum cleaners and hair dryers in Malaysia

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ii) In-house brands

In addition to exclusive product distribution, Senheng is also exploring adding more in-house brands to its existing product portfolio. In Aug 2021, it launched its own range of cookware products under its in-house brand, Delighto. Delighto-branded products, comprising items such as soup pots, frying pans, sauce pans and woks, among other things, are all produced by third-party contract manufacturers. In addition to distribution via its own physical and online sales channels, Senheng targets to sell Delighto-branded products to other retailers to expand the brand's reach. Over time, we expect Senheng to continue expanding its house-branded product range, which we believe garners higher gross margins compared with its existing product portfolio, which are mostly procured via distributors and wholesalers.

Figure 13: Delighto-branded cookware products are Senheng's first in-house branded products. Senheng aims to prudently expand its in-house and exclusive product distribution, leveraging on its extensive retail presence and experience

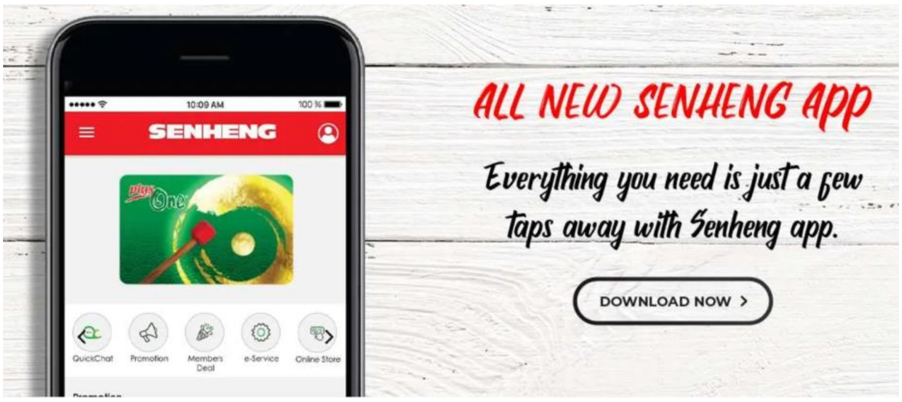
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

iii) Improving the attraction of PlusOne membership via S-Coin rewards programme

The PlusOne membership programme's key reward feature are tokens that consumers earn from purchasing selected products. These tokens are cash equivalents that could be used to pay for or offset payments for products purchased with Senheng up to the expiry of the token. Senheng's reward token was initially called EZ credit but this was discontinued on 31 May 2021 and replaced with S-Coin, launched on 1 Jun 2021.

- **First phase**: Introduction of S-Coin on 1 Jun 2021. PlusOne members earn S-Coin through purchases of goods and services made on the recently relaunched Senheng App. S-Coins can be used as cash equivalents to pay and/or offset payments for products purchased from Senheng at any time with a validity period of two years.
- **Subsequent phase**: Enticing third-party merchants (e.g. food & beverage retailers, leisure services and health, pet, fashion and sportswear brands) to be part of its Senheng App rewards centre with the prospect of access to its large PlusOne membership base.
- **Long term:** Expanding and enhancing its ecosystem to provide other services and value-added benefits to its PlusOne members to improve stickiness.

Figure 14: Senheng's newly upgraded app – serving as a platform for the ecosystem it aims to create to improve the value-add benefits and stickiness of PlusOne



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

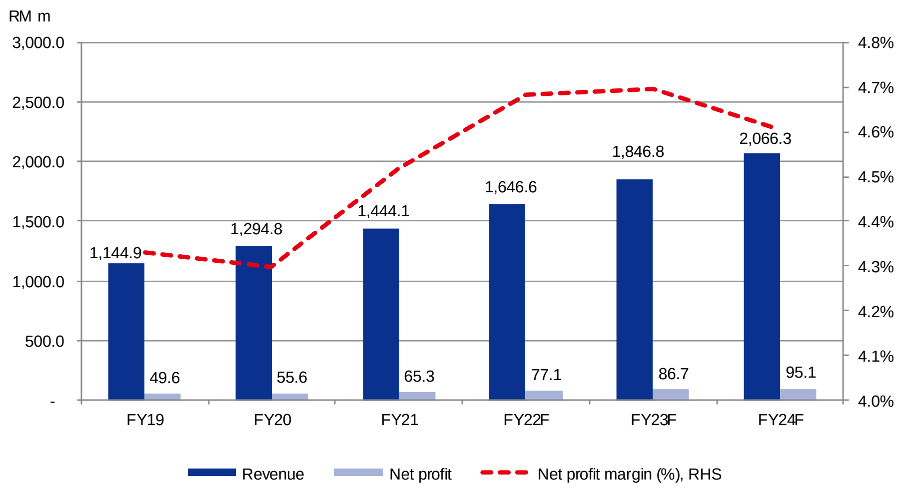
Forecasting 3-year net profit CAGR of 13.4% over FY21-24F, underpinned by stable physical retail sales and robust growth in online sales

We forecast net profit CAGR of 13.4% over FY21-24F, underpinned by a revenue CAGR of 12.7% over the same period. We expect the net profit growth to be driven by a 18.1% CAGR increase in physical retail space area, stable average revenue per sq ft, and a robust 10.1% CAGR in online channel revenues over FY21-24F.

Upside catalysts to our forecasts include: i) stronger-than-expected growth in average revenue per sq ft for its physical sales channel, ii) stronger-than-expected growth in online sales, and iii) expansion of gross profit margins.

Downside risks to our forecasts include: i) slower spending on consumer E&E products post-pandemic (i.e. FY22F onwards), ii) lower-than-expected average revenue per sq ft for its physical retail operations, and iii) slower-than-expected growth in online channel sales.

Figure 15: We forecast a net profit CAGR of 13.4% over FY21-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: Revenue assumptions (CGS-CIMB in-house estimates)

	FY19	FY20	FY21	FY22F	FY23F	FY24F
Total Revenue (RM m)	**1,144.9**	**1,294.8**	**1,444.1**	**1,646.6**	**1,846.8**	**2,066.3**
Physical (RM m)	**1,083.0**	**1,179.7**	**1,288.1**	**1,460.5**	**1,623.7**	**1,803.0**
No of stores	**105**	**103**	**105**	**116**	**126**	**137**
Total area ('000 sq ft)	711.5	744.7	817.0	1,006.6	1,180.1	1,344.3
Growth %		*4.7%*	*9.7%*	*23.2%*	*17.2%*	*13.9%*
Annual revenue per sq ft (RM)	1,522.1	1,584.0	1,576.8	1,451.0	1,375.9	1,341.2
Growth %		*4.1%*	*-0.5%*	*-8.0%*	*-5.2%*	*-2.5%*
Online (RM m)	**37.4**	**95.3**	**123.7**	**137.6**	**152.8**	**165.0**
Own platforms (Senheng online store and senQ online digital stations) (RM m)	15.4	58.4	51.7	57.7	64.1	69.2
Growth %		*280.2%*	*-11.4%*	*11.6%*	*11.0%*	*8.0%*
Third-party onine marketplaces (RM m)	22.1	37.0	72.0	79.9	88.7	95.8
Growth %		*67.4%*	*94.7%*	*11.0%*	*11.0%*	*8.0%*
Others (RM m)	**24.4**	**19.8**	**32.3**	**48.5**	**70.3**	**98.4**
Growth %		*-19.1%*	*63.2%*	*50.0%*	*45.0%*	*40.0%*

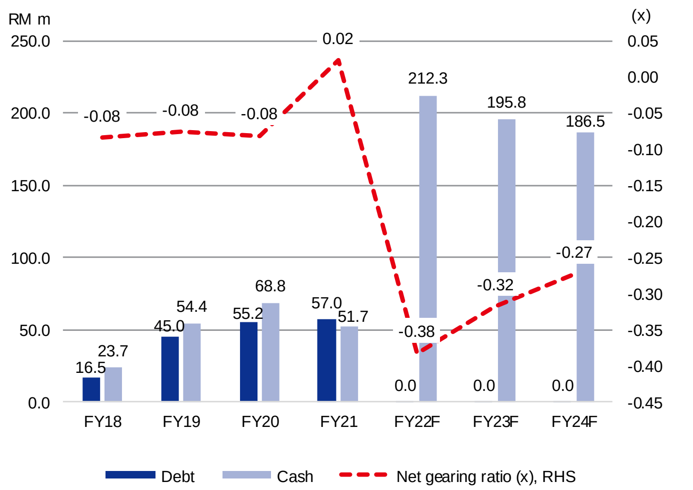
Note: All numbers are rounded to nearest digits.

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Strong balance sheet forecasted for FY22-24F

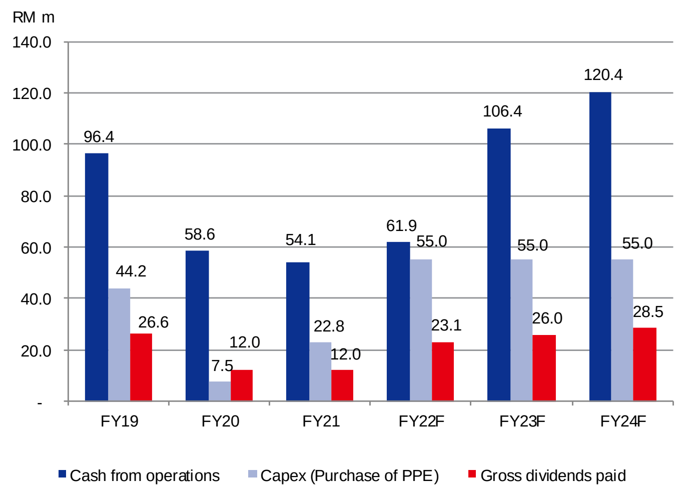
Senheng reported a net gearing ratio of 0.02x as at end-FY21, prior to its IPO on 25 Jan 2022. Of its total IPO proceeds of RM267.5m, RM46.0m has been earmarked for the repayment of bank borrowings within six months of listing. The paring of its debts and strong operating cash flow would result in Senheng having a forecasted net cash of RM212.3m in FY22F, in our estimate. We expect Senheng's free cash flow generation to remain robust (keeping the company in a net cash position), in the range of RM8.2m-65.4m over FY22-24F, premised on its prudent capital expenditure outlays and strong working capital management. We project a capital expenditure outlay of c.RM55m annually over FY22-24F, based on its store upgrading/expansion plans and investments for IT and physical infrastructure.

Figure 17: Net gearing ratio analysis over FY18-24F (CGS-CIMB estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 18: Strong operating cash flow generation to support expected capex outlay and dividend payments (30% payout ratio) over FY22-24F (CGS-CIMB estimates)

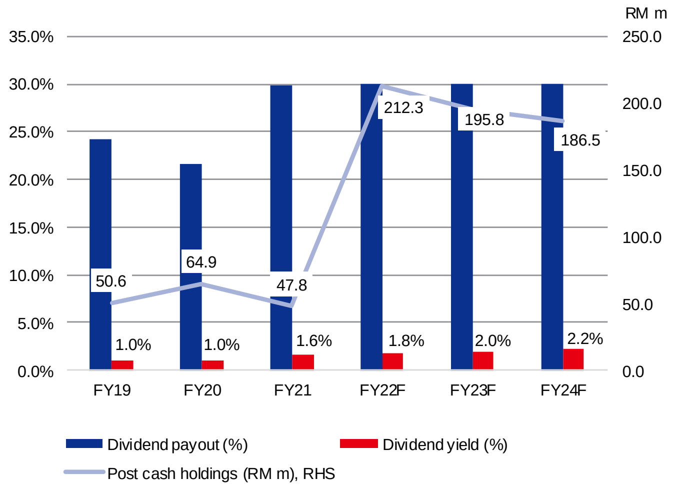


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Dividend: 30% of PAT but potential for higher payout

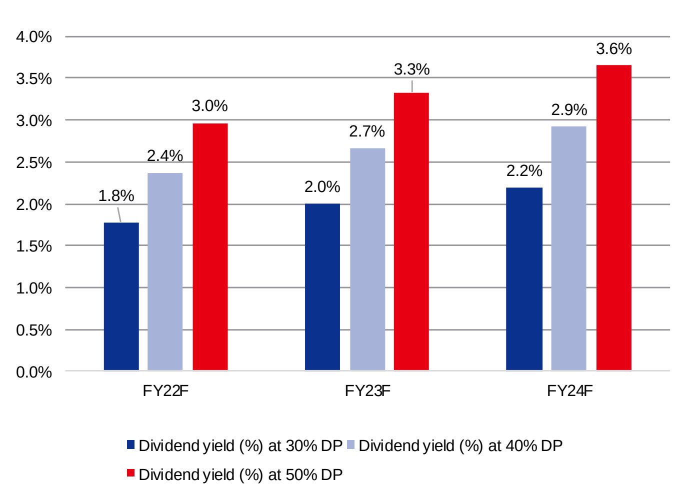
As a part of IPO, Senheng has committed to a dividend policy to pay at least 30% of its net profit as dividends to shareholders. In our assumptions, we have assumed a 30% dividend payout for FY22-24F. In view of our forecast of Senheng's strong operating cash flow, we believe that Senheng has potential to pay more dividends going forward. We have summarized in the table below in Fig 21.

Figure 19: We expect dividend payout (DP) at 30% in FY22-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 20: Potential dividend yields for FY22-24F based on 30%, 40% and 50% of dividend payout (CGS-CIMB estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 21: Sensitivity analysis at 30%/40%/50% of Senheng's dividend payout (CGS-CIMB estimates)

Senheng dividend payout sensitivity analysis	FY19	FY20	FY21	FY22F	FY23F	FY24F
Scenario 1 - 30% dividend payout for FY22-24F						
- Dividend payout (%)	24.2%	21.6%	29.9%	**30.0%**	**30.0%**	**30.0%**
- Post cash holdings (RM m)	50.6	64.9	47.8	**212.3**	**195.8**	**186.5**
- Dividend yield (%)	1.0%	1.0%	1.6%	**1.8%**	**2.0%**	**2.2%**
Scenario 2 - 40% dividend payout for FY22-24F						
- Dividend payout (%)	24.2%	21.6%	29.9%	**40.0%**	**40.0%**	**40.0%**
- Post cash holdings (RM m)	50.6	64.9	47.8	**204.6**	**179.3**	**160.4**
- Dividend yield (%)	1.0%	1.0%	1.6%	**2.4%**	**2.7%**	**2.9%**
Scenario 3 - 50% dividend payout for FY22-24F						
- Dividend payout (%)	24.2%	21.6%	29.9%	**50.0%**	**50.0%**	**50.0%**
- Post cash holdings (RM m)	50.6	64.9	47.8	**196.8**	**162.9**	**134.4**
- Dividend yield (%)	1.0%	1.0%	1.6%	**3.0%**	**3.3%**	**3.6%**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Initiate coverage with TP of RM1.00

We initiate coverage on Senheng with an Add rating and a TP of RM1.00. This is pegged to 17.4x CY23F P/E, a 20% discount to CGS-CIMB consumer discretionary sector's 5-year mean P/E of 21.8x — ex. Mr DIY Group (M) Bhd (MDGM); we exclude MR DIY due to its substantially large market cap size and significantly stronger growth profile). Despite Senheng's market position as Malaysia's largest E&E retailer in Malaysia, we input a discount rate to account for: i) the competitive landscape of Malaysia's consumer E&E market, ii) low barrier of entry and iii) dependence of supply from brand principals.

Our Add rating is premised on the strong recovery in both local and foreign consumer footfall and spending amidst the reopening of border (easing on restriction measures). Downside risks include: i) slowdown in consumer E&E sales post-pandemic, ii) intensifying competition, and iii) supply chain disruptions.

Figure 22: Sector comparison (CGS-CIMB's Malaysia consumer sector coverage)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY22F	Core P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	P/BV (x) CY23F	Recurring ROE (%) CY22F	Recurring ROE (%) CY23F	EV/EBITDA (x) CY22F	EV/EBITDA (x) CY23F	Dividend Yield (%) CY22F	Dividend Yield (%) CY23F
Consumer Staples																
Nestle (Malaysia)	NESZ MK	Hold	134.10	135.00	7,462	53.1	43.0	11.1%	53.4	52.8	101.2%	123.5%	29.2	27.1	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	21.28	29.80	1,852	16.8	15.8	4.8%	2.5	2.3	15.2%	15.0%	9.8	9.0	3.2%	3.4%
QL Resources	QLG MK	Add	5.05	5.40	2,916	46.2	35.9	N/A	4.8	4.4	10.7%	12.7%	20.6	17.2	0.8%	1.0%
Power Root Bhd	PWRT MK	Hold	1.36	1.40	134	23.8	19.6	N/A	2.2	2.1	9.1%	11.0%	13.2	11.4	4.0%	4.9%
Kawan Food	KFB MK	Add	1.65	2.50	140	16.0	13.2	17.0%	1.5	1.4	9.8%	11.0%	8.6	7.1	2.1%	2.4%
MSM Malaysia Holdings	MSM MK	Reduce	1.00	0.93	167	16.3	9.1	43.0%	0.4	0.4	2.6%	4.7%	7.4	6.0	3.1%	5.5%
CCK Consolidated Holdings	CCK MK	Add	0.56	0.76	83	11.1	9.6	13.4%	1.1	1.0	9.9%	10.6%	4.6	4.0	2.5%	3.0%
Weighted Subsector Average						**44.8**	**36.2**	**8.0%**	**32.8**	**32.3**	**64.2%**	**77.7%**	**23.6**	**21.4**	**1.9%**	**2.2%**
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Add	1.43	1.78	382	26.2	23.3	6.8%	14.9	11.9	64.4%	56.6%	5.6	5.0	2.3%	2.6%
Berjaya Food Berhad	BFD MK	Add	3.93	4.40	336	17.0	16.2	14.0%	3.6	3.4	21.9%	21.5%	4.7	4.1	4.1%	4.3%
Bonia Corporation	BON MK	Add	2.05	2.50	97	14.0	12.1	23.7%	1.1	1.0	7.7%	8.5%	5.1	4.6	2.6%	3.6%
DKSH Holdings (Malaysia)	DKSH MK	Add	4.80	6.20	180	8.6	7.8	9.1%	0.9	0.9	11.4%	11.5%	4.8	4.2	2.1%	2.1%
Lee Swee Kiat Group	LSKG MK	Add	0.79	1.63	30	9.4	6.3	27.2%	1.7	1.4	19.6%	25.0%	4.4	2.8	4.2%	6.3%
Mynews Holdings Berhad	MNHB MK	Reduce	0.70	0.50	113	na	41.7	25.9%	2.2	2.1	-6.5%	5.1%	11.5	6.5	0.1%	0.6%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	28.76	31.20	415	18.5	13.8	N/A	2.3	2.3	12.2%	16.4%	9.7	7.3	6.5%	6.9%
InNature Bhd	NATURE MK	Add	0.66	0.84	111	17.2	15.6	28.5%	3.2	3.0	18.9%	19.6%	8.5	7.2	4.1%	4.5%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	3.38	4.20	5,040	38.0	31.8	19.9%	14.3	11.3	42.5%	39.6%	20.1	16.9	1.1%	1.3%
Weighted Subsector Average (ex. MDGM)						**17.1**	**17.6**	**10.9%**	**5.3**	**4.5**	**25.1%**	**25.3%**	**6.9**	**5.5**	**3.7%**	**4.1%**
Senheng New Retail Bhd	**5305 MK**	**Add**	**0.85**	**1.00**	**301**	**16.4**	**14.6**	**12.9%**	**2.3**	**2.1**	**19.7%**	**14.8%**	**6.8**	**6.1**	**1.8%**	**2.1%**
Weighted Average						**29.6**	**24.3**	**7.9%**	**21.7**	**21.2**	**51.5%**	**60.4%**	**15.7**	**14.2**	**1.9%**	**2.3%**
Simple Average						**22.9**	**20.1**	**17.3%**	**9.3**	**8.7**	**31.3%**	**34.6%**	**11.2**	**9.5**	**2.8%**	**3.5%**

Note: MDGM refers to Mr D.I.Y. Group (M) Bhd.

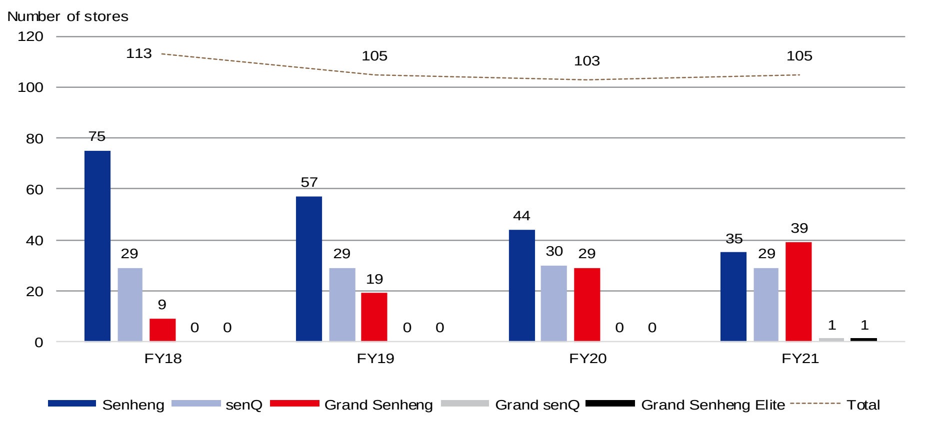
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
*as of 7 Apr 2022

COMPANY BACKGROUND

Malaysia's largest consumer E&E chain retailer ➤

Senheng is an investment holding company in the consumer E&E business via its key subsidiaries. Based on data from Smith Zander, Senheng was the largest consumer E&E retailer in Malaysia in terms of market share by revenue in 2020. Since opening its first store in 1989, Senheng has expanded its total store count in Malaysia to 105 stores as at end-2021 with five store concepts, namely: Grand Senheng Elite, Grand Senheng, Senheng, senQ, and Grand senQ.

Figure 23: Number of outlets



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Senheng's storefront

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 25: Grand Senheng Elite's storefront

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 26: Grand Senheng's storefront

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 27: senQ's storefront

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 28: Grand senQ's storefront

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Major shareholders

Senheng is controlled by its three founders, brothers Lim Kim Heng (KH Lim), Lim Kim Chieng (KC Lim) and Lim Kim Yew (KY Lim).

The company was listed on 25 Jan 2022 and its IPO price was RM1.07 with 1,500m enlarged issued shares. The listing exercise entailed the public issue of 250.0m new shares (16.7% of enlarged shares) and an offer-for-sale of 139.5m existing shares (9.3% of enlarged shares) at an issue price of RM1.07 per share. Post-listing, the public free float was 31.3% and the major shareholder stake fell to 5.4-58.0% (from 10.1-69.6% prior to listing).

Among the major shareholders post-IPO, 58.0% of Senheng's shares are directly owned by SQ Digital, a private limited company equally owned by the three founding brothers, who separately also own direct stakes of 5.4% each.

Figure 29: Senheng's shareholding summary as of 25 Jan 2022

Shareholders	Direct Stake	Description
SQ Digital	57.97%	An investment holding private limited company equally owned by the three founding brothers, KH Lim, KC Lim and KY Lim
KH Lim	5.35%	The group's Non-Independent Executive Chairman. Spearheded the group in an executive capacity since the founding of the business in 1989, with his two brothers KC Lim and KY Lim.
KC Lim	5.35%	The group's President/Non-Independent Executive Director. Currently mainly responsible for the sales, operations and marketing aspects of the group's business.
KY Lim	5.35%	The group's Non-Independent Non-Executive Director. Over the years, was responsible for devising and implementing outlet expansion plans, ERP system and creation of franchise and incentive programme for store managers.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Different store concepts based on location

Senheng's main retail sales channel is its physical outlets, which accounted for 89.2-94.6% of the group's revenue over FY18-21; online sales (via online stores and app) accounted for 3.1-8.6%. The remaining balance accounted for 1.5-2.4% of the group's revenue over FY18-21, namely as "others" channel category.

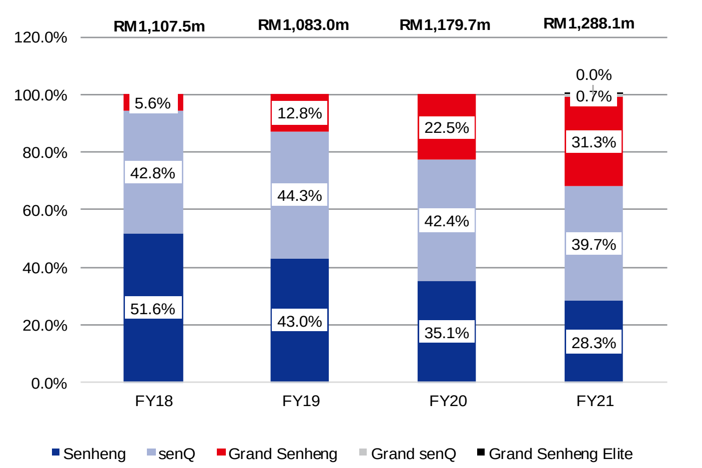
Senheng operates five key physical store concepts under the brand names Grand Senheng Elite, Grand Senheng, Senheng, senQ and Grand senQ. As of 30 May 2021, Senheng had 103 physical stores throughout Malaysia located in commercial areas and shopping malls; 86 of the outlets are self-operated by the group while 17 are either franchised or operated under its store manager incentive programme (details in latter pages). A summary and description of the store formats can be found in Fig 30.

Figure 30: Summary of physical store concepts as at 30 May 2021

Store Concept	Location	Product range	Store size range (sq ft)	Number of stores as of 30 May 2021		
				Self-operated	Franchised	Incentive programme
Grand Senheng Elite	Prime and premium commercial areas in cities such as in Klang Valley, Penang, Johor Bahru, Kuching and Kota Kinabalu	Wide range of high-end consumer electrical and electronic products, including IoT products	14,000-20,000	1	-	-
Grand Senheng	Shop house areas in high foot traffic commercial areas near residential areas.	Wider range of product displayed compared to a "Senheng" store	8,000-12,000	31	2	-
Senheng	Shophouses or hypermarkets near residential areas	Consumer E&E products such as home appliance, digital gadgets and audio visual equipment.	3,000-6,000	31	7	1
Grand senQ	Anchor tenants in shopping malls in prime areas	Wider range of products displayed compared to "senQ" outlets; includes IoT products	24,000-30,000	-	-	-
senQ	Shopping malls	Product range displayed skewed more towards digital gadgets.	8,000-15,000	23	-	7
			Total	**86**	**9**	**8**

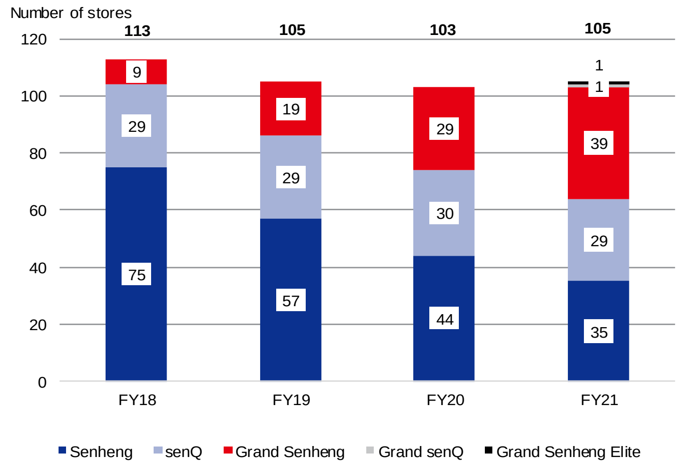
SOURCES: SENHENG WEBSITE, CGS-CIMB RESEARCH

Figure 31: FY18-21 physical store revenue, breakdown by store concept



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 32: A number of Senheng stores was gradually converted into Grand Senheng stores over FY18-21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Incentive and franchise programmes

To retain and encourage optimal staff performance, Senheng offers an incentive programme where store managers who meet certain performance metrics are given the opportunity to receive commissions from sales generated at the store they manage. Store managers under the incentive programme receive a share of the net profit from the sales generated at that physical store for an initial period of three years, which may be renewed at the discretion of the company. Stores operated under the incentive programme are still owned by the group.

At the end of the programme, these store managers will be evaluated to ascertain if they are eligible to be a franchisee under its franchise programme. Compared to the incentive programme, the franchise programme requires a capital investment from the franchisee to operate the store. To be considered a franchisee candidate, one needs to be an existing store manager who displays the necessary capabilities and entrepreneurial spirit. Franchisees are granted the rights by the group to own and operate a physical store for a fixed term of five years; the franchise agreement is renewal upon expiry.

Figure 33: Difference and similarities between Senheng's incentive and franchise programmes

	Incentive programme	Franchise programme
Description	Opportunity for store managers to receive commissions from sales generated at the store. The key performance target is to manage and operate the physical stores efficiently and to ensure sales targets are achieved.	Opportunity for store managers to own and operate their own physical store. Products are sourced from the group on consignment basis.
Eligibility assessment	Store managers who meet certain performance metrics	Identified from participants of the incentive programme who had performed consistenetly and has a clean disciplinary record during the incentive programme period
Ownership	Senheng group	Franchisee
Duration of programme	3 years renewal	5 years renewal
Number of stores under programme*	8	9
Operations	- Operate based on Senheng's business model and operation standards	
	- Same back-end system and offer same products, services, advertising/promotions, loyalty programme and warranty services.	
	- Manager/franchise is responsible for sales aspects of the physical stores, including sales performance, in-store product display and cleanliness, price tag and promotional banner updates, in-store safety stock level and employee management.	
	- The group provides pre-sales and after-sales support in product marketing, inventory management, logistics, finance, human resource, delivery and maintenance services.	
		-Franchisees are responsible to ensure adequate financial resources are available for business operations.
Fees	Authorisation fee - annual fee	Franchise fees - one-time fee at beginning of agreement
		Inventory loyalty fees - Security deposit for use of inventory on consignment basis
	Inventory fees - monthly fee based on percentage of inventory balance	
	Royalty fees - monthly fee for branding and admin support based on percentage of monthly gross turnover	
	Consultancy fees - monthly fee levied for consultations based on percentage of net profit	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
*as of 30 Aug 2021

Key product segments – retail of consumer E&E products and warranty services

Senheng generates all its revenue from Malaysia and has two main revenue segments, i.e. **retail sales of consumer E&E products (via physical retail stores and online)** and **provision of warranty services**.

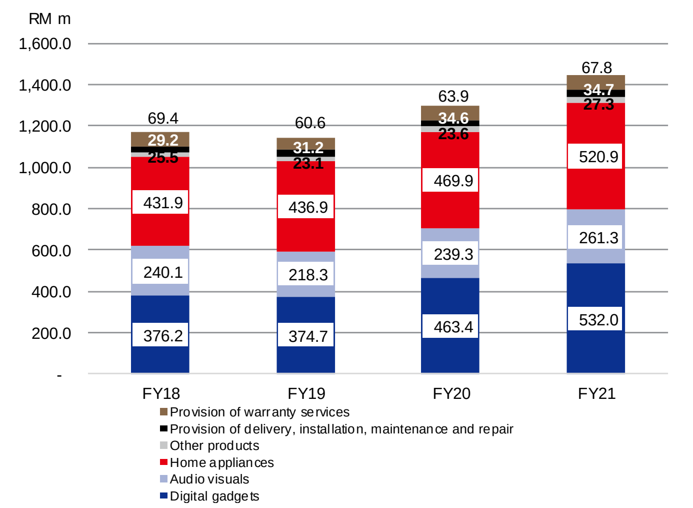
Senheng's retail business can be divided into three key product segments — digital gadgets, home appliances, and audio visual equipment. These three segments accounted for c.95.0% of its total retail sales over FY18-20. Meanwhile, its "others" product segment includes concessions with third parties for space in its physical stores to sell products and other additional services, such as bill payment, credit reload, mobile prepaid products, and electronic paper subscriptions. Senheng also generates revenue from the delivery, installation, maintenance and repair services that it provides to customers.

On top of the manufacturer's warranty, Senheng offers additional warranties for the products it sells:

- **i)** **PlusOne extended warranty:** up to 24 months of extended warranty coverage for PlusOne members depending on tier.
- **ii)** **V-Care extended warranty:** can be purchased at the point of product purchase. PlusOne members can claim for repairs within a specified period upon the expiry of existing the manufacturer warranty and PlusOne extended warranty. Warranty period ranges from 12 to 36 months.
- **iii)** **Swap/replacement warranty:** can be purchased at the point of product purchase. PlusOne members can replace the defective product with a brand new product. Only applies to products with purchase price of less than RM500 or mobile phones with purchase price of less than RM1,599.

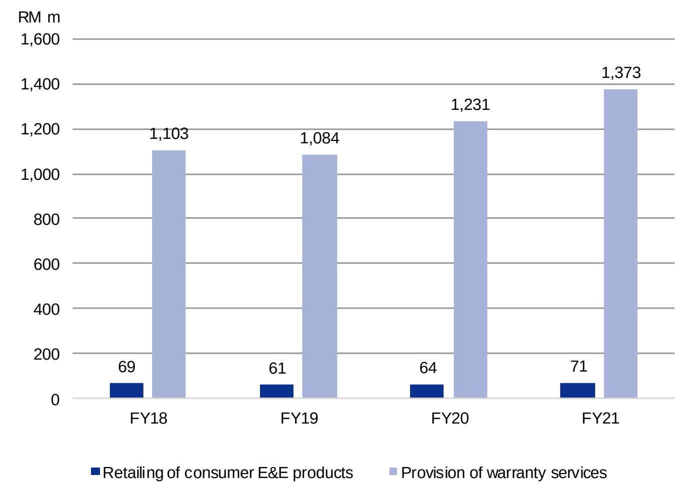
PlusOne extended warranty is offered to all paid PlusOne members free of charge and is 100% insured by a third-party insurance provider. Senheng then reinsures 70% of the warranty liabilities via its 100%-owned subsidiary, Senheng Captive. Reinsurance allows Senheng to provide coverage for itself without being exposed to volatile pricing by external insurance providers.

Figure 34: Revenue breakdown by product type (FY18-21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 35: Revenue breakdown by business segment (FY18-FY21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

PlusOne loyalty programme

Senheng operates a loyalty programme called PlusOne, under which customers can enjoy benefits such as extended warranty coverage, member prices, free delivery, rewards and points redemption. As at end-FY21, Senheng had 3.3m paid registered PlusOne members. As at 30 Jun 2021, the PlusOne programme offers 8 categories of membership (see Fig below), tailored to meet the preferences of different customer demographics. Two of the categories, PlusOne Online and PlusOne Basic, are free membership tiers. The registration fee for paid PlusOne membership ranges from RM12 to RM24 per annum (depending on the category applied for) and membership is valid for a period of 12 months.

Figure 36: Senheng's different PlusOne membership tiers and categories to suit different customer demographics and preferences as at 30 Jun 2021

Note: The figure above is based on financial period ended (FYE) 30 June 2021.

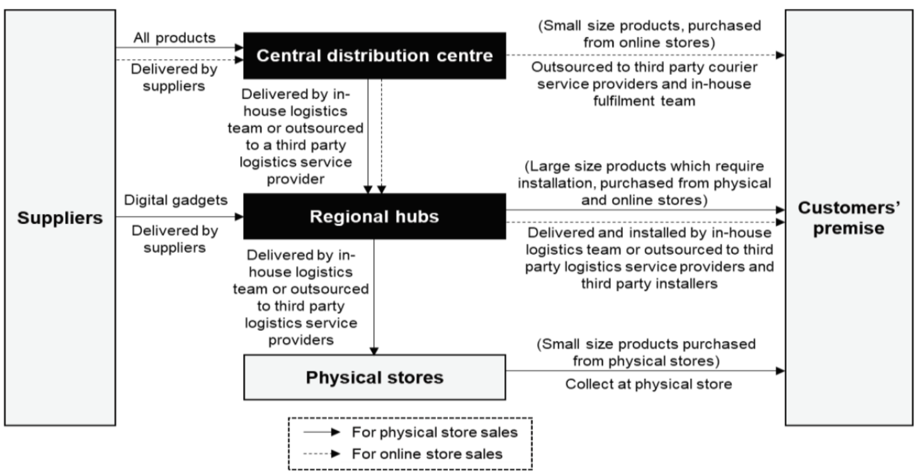
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Senheng's warehouse and logistics network a key cog in its seamless retail machine

Senheng's warehouse framework comprises its central distribution centre (CDC) located in Klang, Selangor, which is supported by eight regional hubs across Malaysia. Its CDC has a built-up area of 200,035 sq ft and a main warehouse area of 157,000 sq ft. Its network of warehouses and physical stores is connected to an in-house logistics team and third-party logistics and courier service providers (for last mile customer product delivery). Most of the products procured from suppliers are delivered to Senheng's CDC before being allocated and delivered to the eight regional hubs.

Senheng also recently announced that it is acquiring a 11,744 sq metre land in Klang, Selangor for RM25.3m. To support its future business expansion, the company aims to build a warehouse to support its distribution business throughout the country. This piece of land is located adjacent to its existing CDC. According to Senheng, its new warehouse is expected to be ready in 2023F.

Figure 37: Summary of Senheng's logistics network



SOURCES: SENHENG WEBSITE, CGS-CIMB RESEARCH

INDUSTRY OUTLOOK

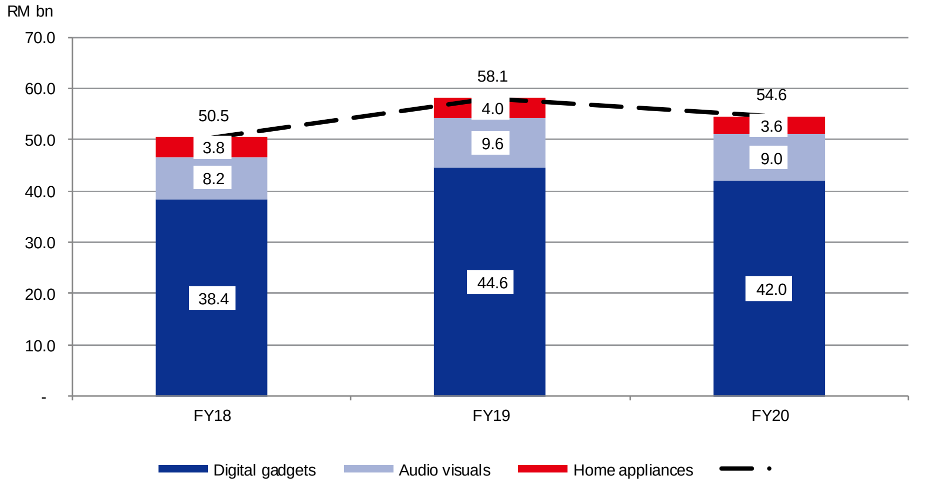
Senheng operates in the consumer E&E retail sector

Senheng mainly operates in the consumer E&E retail sector, which encompasses a broad category of consumer products including digital gadgets, audio visual equipment, and home appliances. Consumer E&E retailers sell products via two channels, physical stores (chain stores, department stores, and specialty outlets) and online platforms (marketplaces, self-operated online stores, and social media).

Total physical retail consumer E&E sales in Malaysia estimated at RM54.6bn in 2020

Smith Zander, with data from the Department of Statistics Malaysia (DOSM), estimates physical E&E retail sales were at c.RM54.6bn in 2020 vs. RM58.1bn in 2019. Smith Zander defines physical E&E retail sales as sales via both consumer E&E retailers and other retailers who offer consumer E&E products through physical retail platforms, such as telecommunication shops, specialty stores, etc. Physical E&E retail sales declined 6.2% in 2020, mainly due to the Covid-19 pandemic-related movement restrictions and the temporary shutdown of stores.

Figure 38: Physical E&E retail sales in Malaysia posted a CAGR of 4.0% over FY18-20

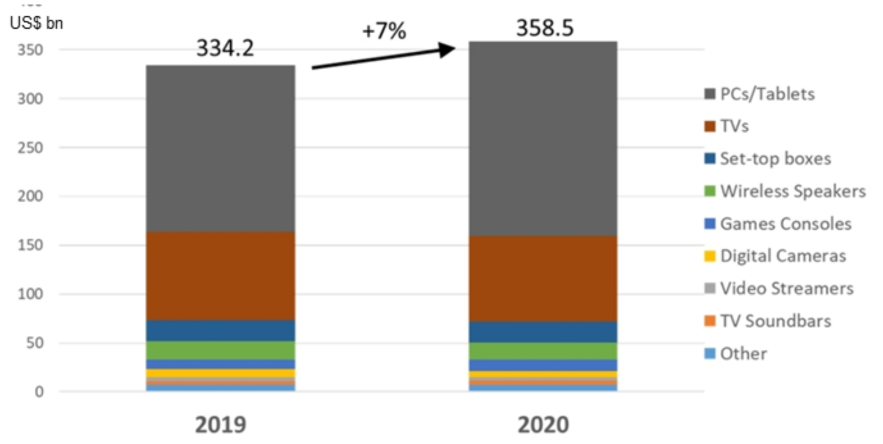


SOURCES: SMITH ZANDER, DOSM, CGS-CIMB RESEARCH

Covid-19 pandemic led to higher sales of consumer electronics globally, and a significant shift to online sales platforms

We believe that the decline in physical E&E retail sales in 2020 was offset by the surge in online sales, which Senheng experienced in FY20, due to increasing demand for digital gadgets as a result of work- and study-from-home arrangements. We also think home appliances, such as cleaning and cooking gadgets, experienced a similar surge in sales as individuals spent more time at home. Global consumer spending on electronics has surged since the Covid-19 pandemic hit. Strategy Analytics, a global market research firm, estimates that consumer electronics revenues increased 7% in 2020 to US$358.5bn, driven by strong demand for home computers, tablets and game consoles.

Figure 39: Global electronics revenue trade value grew 7% in 2020 (US$ bn)

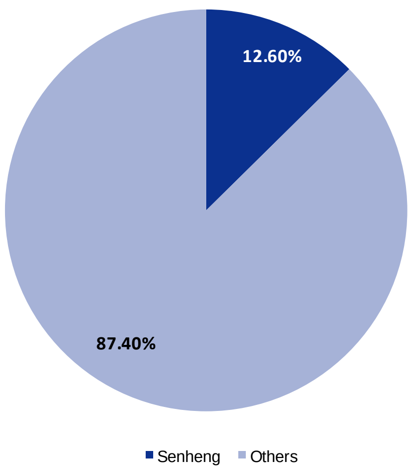


SOURCES: STRATEGY ANALYTICS, CGS-CIMB RESEARCH

Consumer E&E retail industry highly fragmented; Senheng has clear lead in the home appliance segment

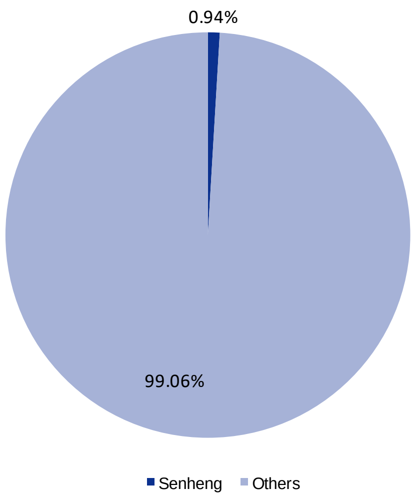
The consumer E&E retail industry is highly fragmented, in our view, as barriers to entry are generally low. Products are easily sourced and the upfront cost to set up an E&E retail operation can be low if the entrant chooses to start with a small range of offerings. Despite Senheng's large scale of operations, it commanded less than 1% of total digital gadget sales and c.2.6% of total audio visual equipment sales in Malaysia in 2020 according to Smith Zander, illustrating the highly fragmented nature of consumer E&E industry segments. We believe Senheng has a clear advantage in the home appliance product segment as commanded c.12.6% of total physical retail sales in 2020 according to Smith Zander. In our view, Senheng's sizeable physical stores and large number of product offerings allow consumers to browse and compare home appliances more easily, leading to a higher probability of purchases at its stores vs. at its competitors' stores.

Figure 40: Home appliance physical retail market share in 2020



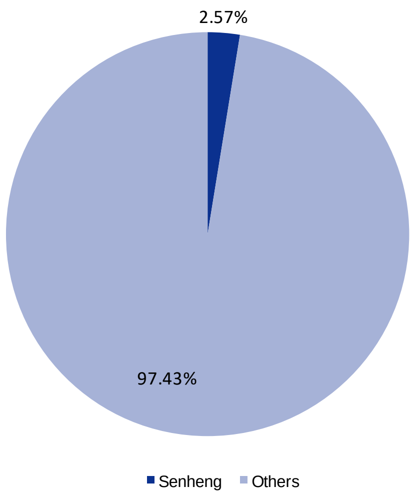
SOURCES: CGS-CIMB RESEARCH, SMITH ZANDER

Figure 41: Digital gadgets physical retail market share in 2020



SOURCES: CGS-CIMB RESEARCH, SMITH ZANDER

Figure 42: Audio visual equipment physical retail market share in 2020



SOURCES: CGS-CIMB RESEARCH, SMITH ZANDER

Key drivers of industry demand

Smith Zander identified four key drivers of industry demand that are expected to contribute to overall industry sales growth in the near to medium term, namely:

- Increasing disposable income and affluence of the population
- Product innovation and sophistication.
- Availability of products on multiple sales platforms combined with a ramp-up in marketing efforts.
- Demand for residential properties and home renovation/ refurbishment, contributing to increasing demand for home appliances and audio visual equipment.

KEY RISKS

Slower spending on consumer electronics post-pandemic ➤

While the pandemic has led to a surge in spending on consumer electronics, such as digital gadgets and home appliances, we believe there is a risk that the momentum will slow down as the pandemic comes under control. We see demand being affected by a multitude of factors, including:

i) affordability issues as the economic fallout from the pandemic reduces discretionary income

ii) shift in share of pocket spend to out-of-home spending, such as tourism, out-of-home dining etc.

iii) replacement cycle for appliances and gadgets being brought forward due to necessity during the pandemic, leading to a delay in subsequent replacement

iv) the reimplementation of the Goods and Services Tax (GST) to replace the Sales and Services Tax (SST) which could lead to higher prices for consumer E&E products.

Intensifying competition ➤

In general, we deem the consumer E&E retail industry as highly fragmented and competitive, without much room for significant differentiation. We also believe the industry has low barriers to entry as most products are easily sourced from brand principals. Senheng faces competition not just from other large consumer E&E retailers but also hypermarkets, department stores, mono-brand electronic stores, small retailers and online stores in areas such as product range, pricing, outlet locations, product presentation and customer service.

Store and product expansion execution risks ➤

A major part of Senheng's business strategy moving forward is the expansion and/or upgrade of its network of physical stores. In our view, risks to its physical expansion strategy include:

i) the inability to identify suitable locations for new physical stores,

ii) slower-than-expected gestation period for new stores impacting profitability in the near term,

iii) weaker-than-expected reception of new larger store concepts, such as Grand Senheng Elite and Grand senQ.

We also think there is the risk that the group's strategy to expand its exclusive and in-house product portfolio could consume more resources (marketing, inventory, product development) than it anticipates without producing the results it hopes for.

Tarnishing of brand and reputation ➤

As one of the most recognised names in the Malaysian consumer E&E retail industry, Senheng's brand and reputation are some of its most valuable assets. Any event that tarnishes either could impact the group's sales as customers choose to shop at other consumer E&E retail outlets.

Disruption in logistics and warehouse network ➤

Senheng moved to a centralised logistics model in 2018, anchored by its CDC in Klang, Selangor, and supported by eight regional hubs throughout Malaysia. While this allows more efficient management of inventories from suppliers, the centralisation of its distribution process poses risks as any disruption (shutdown, fire, flood, system failures) at its CDC could impact its ability to replenish the inventory of all its stores nationwide. Due to the Covid-19 pandemic, its warehouse operations and logistics network were temporarily disrupted when Malaysia implemented its first movement control order (MCO) from 18 Mar to 3 May 2020.

Supplier risks: supply disruption, change in commercial terms

As at 31 May 2021, Senheng's stores carried 10,000 stock keeping units (SKU) from over 280 international and local brands. These products are supplied directly by the brand principals themselves or through appointed distributors. Senheng typically does not have alternative suppliers for the same branded products. Therefore, any disruption or cessation of supply, for whatever reason, whether due to supply chain disruption or unfavourable changes in commercial terms, may result in an inventory shortage. Note that Senheng's top five suppliers collectively supplied 56.6-64.3% of its total inventory purchases over FY18-20.

SWOT ANALYSIS

Figure 43: SWOT analysis

Strengths	Opportunities
Malaysia largest consumer E&E retailer	Growing demand for consumer E&E products nationwide
Seamless retail model	Shorter lifecycle of consumer E&E products
Streamlined logistic network nationwide	Growing consumer E&E via online sales channel
Diversified product sales segment	
Weaknesses	**Threats**
Dependent on suppliers (brand principals themselves or through appointed distributors)	Intensified competition in the consumer E&E industry
	Low barriers to entry

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Strengths: Senheng's strength lies in its extensive retail presence built over the past 30 years that made it the largest consumer E&E retailer in Malaysia. This has allowed Senheng's brands to be well recognised by the bulk of Malaysians. Also, the company has a seamless retail model, which allows it to capture both online and physical sales. We also like Senheng's established streamlined logistics network (central distribution centre in Klang further supported by eight regional hubs throughout the country) which allows it to support customer purchases nationwide (shorter delivery period) and benefit from better efficiencies (bulk purchasing). On top of that, we like Senheng's diversified product sales segment which makes it less susceptible to a slow down in a particular product segment.

Opportunities: We expect demand for E&E retail products to sustain, buoyed by technological advances and the shorter lifecycle of consumer E&E products. Senheng, armed with a wide network of retail outlets as well as strong online presence, is well positioned to capitalise on the growing demand for consumer E&E products nationwide, in our view.

Weaknesses: In our view, a key disadvantage for Senheng lies in the fact that the company's sales are directly dependent on the suppliers of the products it sells (brand principals themselves or through appointed distributors). Hence, any supply disruption/cessation would affect Senheng's sales.

Threats: We believe that competition in the consumer E&E industry is intensifying given the low barriers to entry. In addition, the industry is highly fragmented and competitive, without much room for significant differentiation. Besides the competition from existing players, new players could easily enter the market and compete with Senheng. In addition, competitors could undercut Senheng's prices by lowering their margins.

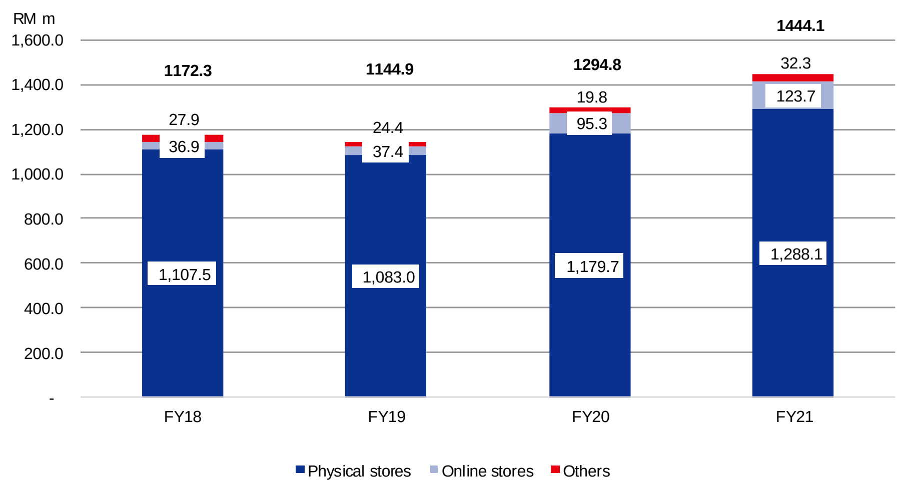
FINANCIALS

FY18-21 revenue CAGR of 7.2%

Over FY18-21, Senheng posted a 3-year revenue CAGR of 7.2%, predominantly driven by improving average physical retail revenue per sq ft, as well as improving online sales across both its own online store and third-party marketplaces. This is despite having a lower store count of 105 as at end-FY21 compared to 113 at end-FY18.

- FY19: Sales normalised post the implementation of SST as Senheng reported a SSSG of -0.6%.
- FY20: SSSG climbed again to 9.9% due to an increase in sales of consumer E&E products as the Covid-19 pandemic hit. Senheng refocused on its digital marketing efforts, capitalised on its PlusOne membership and adopted telemarketing sales tactics to attract customers.
- FY21: As the nation recovered from the pandemic, Senheng saw SSSG at 12.1%.

Figure 44: Senheng reported 7.2% revenue CAGR over FY18-21, driven by steady growth in average revenue per sq ft and increasing contribution from online sales channels



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Margin trend

Senheng's gross profit margin (GPM) remained stable in the range of 20.9-21.4% over FY19-21. GPM trended lower in FY19-21 (vs. 20.9-22.3% in FY18-20) mainly due to increased contribution from the sales of digital gadgets, which garner lower gross margins (12.0-12.9% over FY18-20) compared to home appliances (26.5-27.2% over FY18-20) and audio visual equipment (31.2-33.4% over FY18-20). We believe the increasing contribution from digital gadgets in FY20 was driven by higher sales due to work-from-home and study-from-home trends amid the Covid-19 pandemic, which required the procurement and/or upgrade of personal digital gadgets. GPM trends for each product segment were also affected by changes in product mix as each particular product sub-category garners different GPM.

The group's EBITDA margin remained stable over FY19-21 as operating expenses as a percentage of revenue held steady.

Recovery in core net profit growth in FY20 and FY21

Core net profit declined 25.8% in FY19, mainly due to a decrease in GPM from the sales of audio visual equipment coupled with an increase in staff related expenses in line with the increase in headcount as the group transitioned to larger sized stores, which required a higher number of staff per store.

Core net profit then recovered to growth of 20.4% in FY20 and 17.4% in FY21, on the back of stronger revenue growth from higher sales of digital gadgets and a decrease in advertising expenses as the group focused on more cost-effective digital marketing efforts during the pandemic.

Forecasting a FY21-24F core net profit CAGR of 13.4% on the back of 12.7% revenue CAGR

We forecast revenue CAGR of 12.7% over FY21-24F, driven by:

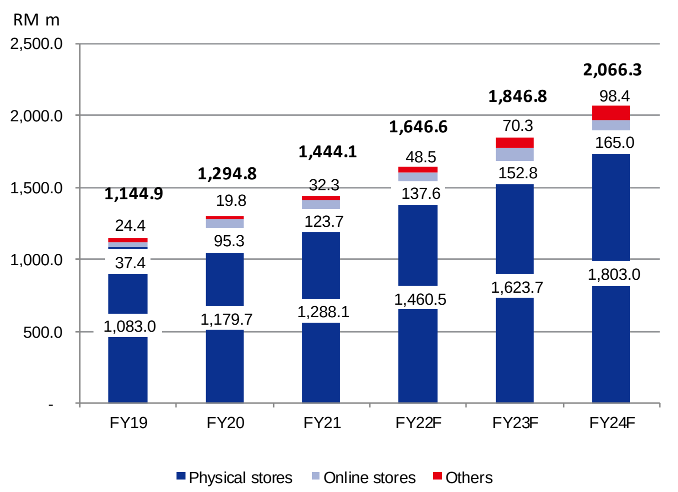
i) An **expansion in physical retail area** (18.1% CAGR in physical retail space over FY21-24F) from the upgrade of existing stores to larger store concepts and new outlets in underserved areas.

ii) **Stable average revenue per sq ft** on the back of Senheng's focus on optimising retail space and aim to become the dominant player within a 5km radius of each store.

iii) Online sales CAGR of 10.1% over FY21-24F as the group focuses on its online sales platform, implementation of its S-Coin rewards programme, and digital marketing efforts.

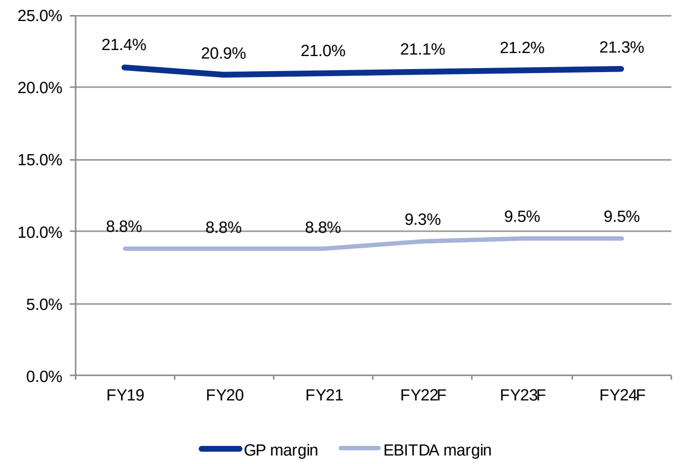
iv) Growing contribution from sales of exclusive and house-branded products.

Figure 45: We forecast 12.7% revenue CAGR over FY21-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 46: We expect GP and EBITDA margins to remain stable

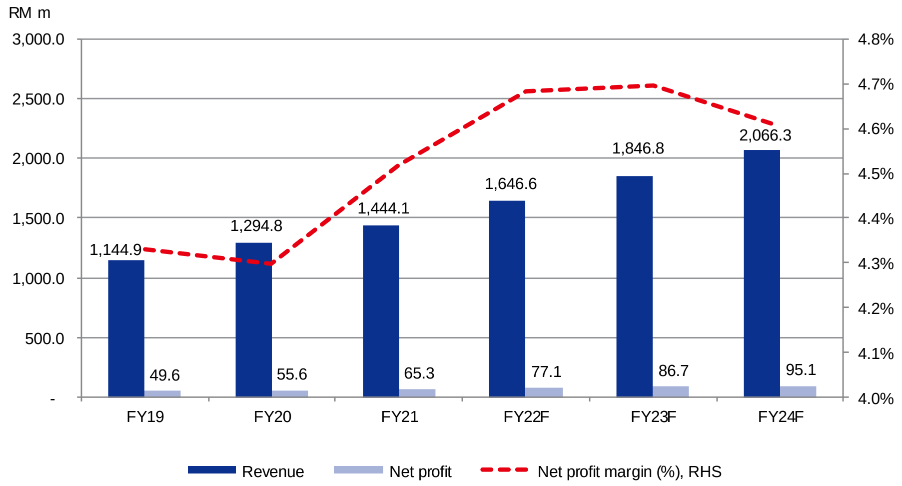


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We expect overall gross margins to remain steady at c.21% over FY22-24F, premised on a stable product mix. We also expect other operating cost items, such as selling, administrative and distribution expenses, to grow in tandem with revenue in FY22-24F. We do not expect rental and depreciation expenses as a percentage of sales to grow substantially as we believe the group will mostly upgrade existing stores instead of significantly expanding its store base over FY22-24F.

Thus, we forecast Senheng to post a core net profit CAGR of 13.4% over FY21-24F, in line with its revenue growth and stable operating margins.

Figure 47: We forecast a net profit CAGR of 13.4% over FY21-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Strong balance sheet, manageable capex

We deem Senheng's balance sheet to be sturdy, premised on its steady net cash position over FY22-24F. We forecast capital expenditure outlay of c.RM55m p.a. over FY22-23F, based on its store upgrading/expansion plans and investments to improve its capabilities. Also, we expect its free cash flow generation to remain strong over FY22-24F, premised on prudent capital expenditure outlays and strong working capital management.

Figure 48: Steady working capital key ratios

days	FY19	FY20	FY21	FY22F	FY23F	FY24F
Inventories days	70	75	81	85	85	85
Trade & other receivable days	23	21	25	25	25	25
Trade & other payable days	50	44	43	40	40	40
Cash conversion cycle (days)	**43**	**52**	**62**	**70**	**70**	**70**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 49: We expct Senheng to remain in a net cash position over FY22-24F

	FY19	FY20	FY21	FY22F	FY23F	FY24F
Current ratio	1.3	1.5	1.7	2.5	2.5	2.4
Gearing ratio	0.4	0.3	0.2	0.0	0.0	0.0
Net gearing ratio	net cash	net cash	0.02	net cash	net cash	net cash

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

VALUATION

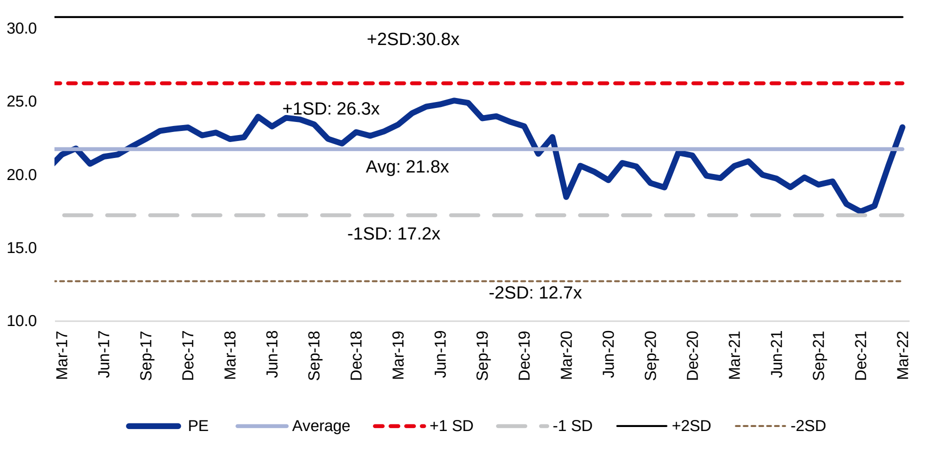
Initiate coverage with Add and TP of RM1.00

We initiate coverage on Senheng with an Add rating and TP of RM1.00. We employ P/E as our primary valuation methodology as we believe an earnings multiple is the most practical way to value retail-based stocks. We are not using the EV/EBITDA multiple as we believe this is less comparable across regional peers which have different capex intensity.

We peg our TP to 17.4x CY23F P/E, a 20% discount to CGS-CIMB consumer discretionary sector's 5-year mean P/E of 21.8x — ex-MDGM, due to its substantially large market cap size and significantly stronger growth profile. Despite Senheng's market position as Malaysia's largest E&E retailer in Malaysia, we input a discount rate to account for: i) the competitive landscape of Malaysia's consumer E&E market, ii) low barrier of entry and iii) dependence of supply from brand principals.

Our Add rating is premised on the strong recovery in both local and foreign consumer footfall and spending amidst the reopening of border (easing on restriction measures). Downside risks include: i) slowdown in consumer E&E sales post-pandemic, ii) intensifying competition, and iii) supply chain disruptions.

Figure 50: Consumer discretionary sector valuation (5-year ex-MDGM)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Only house covering this stock

Senheng was only listed on Bursa Malaysia on 25 Jan 2022 and at this juncture, CGS-CIMB is the only house with an active coverage on the stock, based on Bloomberg data as at 7 Apr 2022. Hence, this stock is under-researched, in our view. Note that, the stock is currently trading at a 23.3% discount to its IPO price of RM1.07/share.

Figure 51: Sector comparison (CGS-CIMB's Malaysia consumer sector coverage)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Consumer Staples																
Nestle (Malaysia)	NESZ MK	Hold	134.10	135.00	7,462	53.1	43.0	11.1%	53.4	52.8	101.2%	123.5%	29.2	27.1	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	21.28	29.80	1,852	16.8	15.8	4.8%	2.5	2.3	15.2%	15.0%	9.8	9.0	3.2%	3.4%
QL Resources	QLG MK	Add	5.05	5.40	2,916	46.2	35.9	N/A	4.8	4.4	10.7%	12.7%	20.6	17.2	0.8%	1.0%
Power Root Bhd	PWRT MK	Hold	1.36	1.40	134	23.8	19.6	N/A	2.2	2.1	9.1%	11.0%	13.2	11.4	4.0%	4.9%
Kawan Food	KFB MK	Add	1.65	2.50	140	16.0	13.2	17.0%	1.5	1.4	9.8%	11.0%	8.6	7.1	2.1%	2.4%
MSM Malaysia Holdings	MSM MK	Reduce	1.00	0.93	167	16.3	9.1	43.0%	0.4	0.4	2.6%	4.7%	7.4	6.0	3.1%	5.5%
CCK Consolidated Holdings	CCK MK	Add	0.56	0.76	83	11.1	9.6	13.4%	1.1	1.0	9.9%	10.6%	4.6	4.0	2.5%	3.0%
Weighted Subsector Average						**44.8**	**36.2**	**8.0%**	**32.8**	**32.3**	**64.2%**	**77.7%**	**23.6**	**21.4**	**1.9%**	**2.2%**
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Add	1.43	1.78	382	26.2	23.3	6.8%	14.9	11.9	64.4%	56.6%	5.6	5.0	2.3%	2.6%
Berjaya Food Berhad	BFD MK	Add	3.93	4.40	336	17.0	16.2	14.0%	3.6	3.4	21.9%	21.5%	4.7	4.1	4.1%	4.3%
Bonia Corporation	BON MK	Add	2.05	2.50	97	14.0	12.1	23.7%	1.1	1.0	7.7%	8.5%	5.1	4.6	2.6%	3.6%
DKSH Holdings (Malaysia)	DKSH MK	Add	4.80	6.20	180	8.6	7.8	9.1%	0.9	0.9	11.4%	11.5%	4.8	4.2	2.1%	2.1%
Lee Swee Kiat Group	LSKG MK	Add	0.79	1.63	30	9.4	6.3	27.2%	1.7	1.4	19.6%	25.0%	4.4	2.8	4.2%	6.3%
Mynews Holdings Berhad	MNHB MK	Reduce	0.70	0.50	113	na	41.7	25.9%	2.2	2.1	-6.5%	5.1%	11.5	6.5	0.1%	0.6%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	28.76	31.20	415	18.5	13.8	N/A	2.3	2.3	12.2%	16.4%	9.7	7.3	6.5%	6.9%
InNature Bhd	NATURE MK	Add	0.66	0.84	111	17.2	15.6	28.5%	3.2	3.0	18.9%	19.6%	8.5	7.2	4.1%	4.5%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	3.38	4.20	5,040	38.0	31.8	19.9%	14.3	11.3	42.5%	39.6%	20.1	16.9	1.1%	1.3%
Weighted Subsector Average (ex. MDGM)						**17.1**	**17.6**	**10.9%**	**5.3**	**4.5**	**25.1%**	**25.3%**	**6.9**	**5.5**	**3.7%**	**4.1%**
Senheng New Retail Bhd	**5305 MK**	**Add**	**0.85**	**1.00**	**301**	**16.4**	**14.6**	**12.9%**	**2.3**	**2.1**	**19.7%**	**14.8%**	**6.8**	**6.1**	**1.8%**	**2.1%**
Weighted Average						**29.6**	**24.3**	**7.9%**	**21.7**	**21.2**	**51.5%**	**60.4%**	**15.7**	**14.2**	**1.9%**	**2.3%**
Simple Average						**22.9**	**20.1**	**17.3%**	**9.3**	**8.7**	**31.3%**	**34.6%**	**11.2**	**9.5**	**2.8%**	**3.5%**

Note: MDGM refers to Mr D.I.Y. Group (M) Bhd.

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

*as of 7 Apr 2022

Secondary valuation method – DCF sanity check

We use the discounted cash flow (DCF) methodology as a sanity check against our primary P/E valuation. Assuming a WACC of 10.2% and long-term growth rate of 2.5%, we arrive at a DCF-based TP of RM0.89 for Senheng; this is a 9.4% discount to the valuation derived using P/E as the basis. Our DCF fair value implies an approximate CY22F P/E of 15.4x.

Figure 52: DCF summary

RM m	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F	FY26F
EBITDA	113.7	101.3	114.0	127.0	153.9	176.3	197.2	212.5	228.7
Less: Tax Expense	(13.9)	(11.9)	(18.0)	(19.3)	(23.7)	(27.4)	(30.0)	(31.9)	(34.8)
Less: Working Capital	(72.8)	30.5	(45.3)	(49.8)	(67.0)	(42.5)	(46.8)	(33.9)	(36.2)
Less: Capex	(31.1)	(44.2)	(7.5)	(22.8)	(55.0)	(55.0)	(55.0)	(40.0)	(40.0)
Free Cash Flow	(4.0)	75.7	43.2	35.2	8.2	51.4	65.4	106.7	117.7
Terminal Value									1,567.0
NPV of FCFF (FY22-26)	268.2								
PV of terminal value	1,062.6								
Enterprise Value	1,330.8								
less: net debt	-								
less: Minority Interest	-								
Equity Value (RM m)	**1,330.8**								
Ltg (%)	2.5%								
WACC (%)	10.2%								
No of shares (m)	1,500.0								
DCF-based TP (RM)	**0.89**								

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 53: WACC & sensitivity analysis

WACC parameters	End-FY22F (RM m)	% of total	Cost of capital (pre-tax)	Cost of capital (post-tax)	Source
Equity capital	555	100.0%	10.2%	10.2%	
Debt capital	0	0.0%	5.5%	4.1%	Average interest rate on debt
Total capital	555	100.0%			
WACC				10.2%	
Cost of equity					
Risk-free rate	3.0%				
Market risk premium	6.0%				
Beta	1.2				Average beta of regional home improvement retailers
Cost of equity	10.2%				
Additional stats					
Terminal growth rate	2.5%				
Tax rate	25.0%				Effective tax rate assumption

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

ESG in a nutshell

ESG

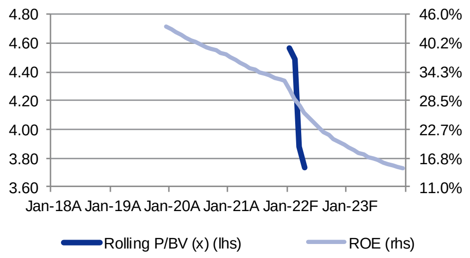
In 2013, Senheng launched its e-waste recycling programme to encourage and facilitate the disposal of electronic waste in a responsible and safe manner. Through this programme, customers can bring their non-bulky electronic appliances such as personal computers, mobile phones, tablet computers, projectors and media players to any of Senheng's physical stores for recycling at no charge. In addition, Senheng also collects for recycling at no added charges any unwanted electronic appliances from customers' premises when it delivers the customers' purchases. The collected electronic waste will then be sent to licensed e-waste recycling centres for processing.

Keep your eye on	Implications
Currently, only two out of seven of Senheng directors are female. This is below the Malaysian Code of Corporate Governance's recommendation of at least 30% woman directors.	While we view this negatively, Senheng has set a target of appointing additional female directors within two years of its listing date (25 Jan 2022).
ESG highlights	**Implications**
Senheng is able to grow its revenue base at a CAGR of 10.1% despite gradually closing physical outlets over 2016-2021 (it had 105 outlets as at end-FY21 vs. 125 at end-FY16). We also note that Senheng has been aggressively expanding its online sales business, with online sales accounting for 8.6% of its revenue in FY21.	We are positive on this matter as the company is showing efforts to reduce its energy consumption (in terms of water and electricity) with a lower number of physical outlets in operations. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.
Trends	**Implications**
Senheng initiated various environmental friendly programme such as "Tree Planting Project" (since 2010), "Paperless Initiatives" (since 2015), "E-waste Recycling Programme" (since 2013) and "Adoption of Bio-Degradable Plastic " (since 2003).	We are positive on the company's efforts on environmental sustainability. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.

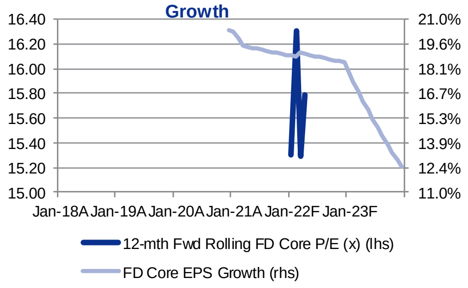
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	**1,295**	**1,444**	**1,647**	**1,847**	**2,066**
Gross Profit	**270**	**304**	**348**	**392**	**440**
Operating EBITDA	**114**	**127**	**154**	**176**	**197**
Depreciation And Amortisation	(37)	(39)	(50)	(60)	(70)
Operating EBIT	**77**	**88**	**104**	**116**	**128**
Financial Income/(Expense)	(4)	(3)	(3)	(2)	(3)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**74**	**85**	**101**	**114**	**125**
Exceptional Items					
Pre-tax Profit	**74**	**85**	**101**	**114**	**125**
Taxation	(18)	(19)	(24)	(27)	(30)
Exceptional Income - post-tax					
Profit After Tax	**56**	**65**	**77**	**87**	**95**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(1)	(0)	0	0	0
Net Profit	**55**	**65**	**77**	**87**	**95**
Recurring Net Profit	55	65	77	87	95
Fully Diluted Recurring Net Profit	**55**	**65**	**77**	**87**	**95**

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	114.0	127.0	153.9	176.3	197.2
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(45.3)	(49.8)	(67.0)	(42.5)	(46.8)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	38.7	41.5	53.1	62.2	72.1
Other Operating Cashflow	(40.3)	(42.5)	(53.1)	(62.2)	(72.1)
Net Interest (Paid)/Received	(2.1)	(1.9)	(1.3)	(0.0)	(0.0)
Tax Paid	(6.4)	(20.3)	(23.7)	(27.4)	(30.0)
Cashflow From Operations	**58.6**	**54.1**	**61.9**	**106.4**	**120.4**
Capex	(7.5)	(22.8)	(55.0)	(55.0)	(55.0)
Disposals Of FAs/subsidiaries	21.9	6.5	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(20.7)	(16.9)	0.0	0.0	0.0
Other Investing Cashflow	(5.0)	1.8	2.6	3.2	3.1
Cash Flow From Investing	**(11.3)**	**(31.3)**	**(52.4)**	**(51.8)**	**(51.9)**
Debt Raised/(repaid)	4.8	1.3	(57.0)	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(12.0)	(12.0)	(23.1)	(26.0)	(28.5)
Preferred Dividends					
Other Financing Cashflow	(26.6)	(29.3)	231.1	(45.0)	(49.3)
Cash Flow From Financing	**(33.8)**	**(40.0)**	**151.0**	**(71.0)**	**(77.8)**
Total Cash Generated	13.5	(17.3)	160.6	(16.5)	(9.3)
Free Cashflow To Equity	**52.1**	**24.0**	**(47.4)**	**54.5**	**68.6**
Free Cashflow To Firm	**49.4**	**24.7**	**10.8**	**54.5**	**68.6**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	68.8	51.7	212.3	195.8	186.5
Total Debtors	74.3	97.2	112.8	126.5	141.5
Inventories	211.4	253.9	302.4	338.8	378.8
Total Other Current Assets	13.0	37.3	37.3	37.3	37.3
Total Current Assets	**367.4**	**440.1**	**664.8**	**698.4**	**744.2**
Fixed Assets	96.4	108.4	154.4	193.1	229.2
Total Investments	15.1	2.9	2.9	2.9	2.9
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	178.0	181.4	230.3	247.9	257.1
Total Non-current Assets	**289.5**	**292.6**	**387.5**	**444.0**	**489.2**
Short-term Debt	14.5	16.9	0.0	0.0	0.0
Current Portion of Long-Term Debt					
Total Creditors	124.8	135.5	142.3	159.4	178.3
Other Current Liabilities	114.1	107.4	121.4	125.0	126.7
Total Current Liabilities	**253.4**	**259.9**	**263.8**	**284.5**	**305.0**
Total Long-term Debt	40.7	40.1	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	188.0	194.2	228.4	237.0	240.9
Total Non-current Liabilities	**228.7**	**234.2**	**228.4**	**237.0**	**240.9**
Total Provisions	8.6	5.1	5.1	5.1	5.1
Total Liabilities	**490.7**	**499.1**	**497.3**	**526.5**	**551.0**
Shareholders' Equity	166.2	233.7	555.1	615.8	682.4
Minority Interests					
Total Equity	**166.2**	**233.7**	**555.1**	**615.8**	**682.4**

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	13.1%	11.5%	14.0%	12.2%	11.9%
Operating EBITDA Growth	12.5%	11.5%	21.1%	14.6%	11.9%
Operating EBITDA Margin	8.80%	8.80%	9.35%	9.55%	9.55%
Net Cash Per Share (RM)	0.01	(0.00)	0.14	0.13	0.12
BVPS (RM)	0.11	0.16	0.37	0.41	0.45
Gross Interest Cover	14.32	17.69	19.02	22.54	22.65
Effective Tax Rate	24.4%	22.8%	23.5%	24.0%	24.0%
Net Dividend Payout Ratio	21.9%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	20.91	21.66	23.27	23.65	23.74
Inventory Days	68.41	74.46	78.18	80.44	80.73
Accounts Payables Days	44.42	41.65	39.04	37.86	37.99
ROIC (%)	26.8%	26.3%	23.8%	20.2%	19.4%
ROCE (%)	40.6%	35.0%	25.1%	20.4%	20.1%
Return On Average Assets	9.39%	9.83%	8.95%	8.08%	8.22%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth %Physical stores	8.9%	9.2%	13.4%	11.2%	11.0%
Revenue Growth %Online stores	154.6%	29.8%	11.3%	11.0%	8.0%
Revenue Growth %Others	-19.1%	63.2%	50.0%	45.0%	40.0%

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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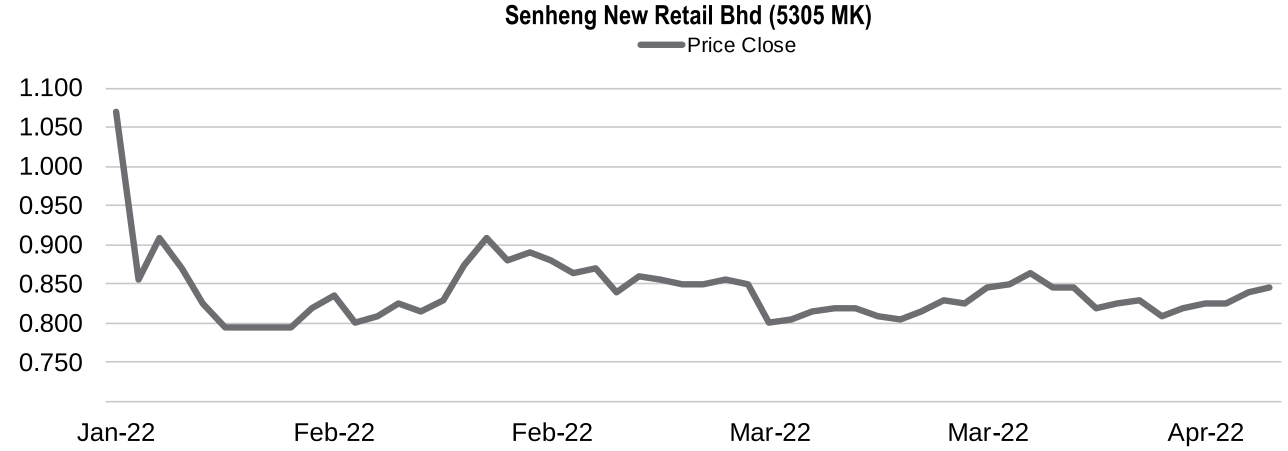
Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021 619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.