

## Malaysia

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### ADD (no change)

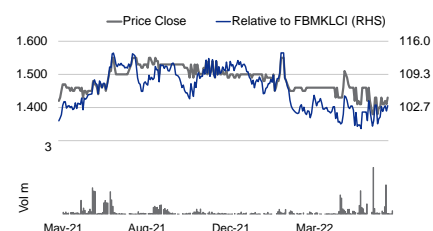
Consensus ratings\*: Buy 6 Hold 0 Sell 0

Current price:	RM1.43
Target price:	RM1.83
Previous target:	RM1.83
Up/downside:	27.7%
CGS-CIMB / Consensus:	-1.6%
Reuters:	SEVE.KL
Bloomberg:	SEM MK
Market cap:	US\$367.8m
	RM1,611m
Average daily turnover:	US\$0.05m
	RM0.24m
Current shares o/s	1,233m
Free float:	49.0%

\*Source: Bloomberg

### Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (RMm)	97.1	102.4	113.9
Core EPS (RM)	0.079	0.083	0.092
Core EPS Growth	58.5%	5.5%	11.2%
FD Core P/E (x)	18.17	17.22	15.49
Recurring ROE	87.5%	67.9%	58.7%
P/BV (x)	13.53	10.29	8.13
DPS (RM)	0.047	0.050	0.055
Dividend Yield	3.30%	3.48%	3.87%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.4	-1.4	2.1
Relative (%)	3.9	1.4	5.1

Major shareholders	% held
Berjaya Retail	51.0
Genesis Investment	6.8
Smallcap world fund	6.2

### Analyst(s)

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# 7-Eleven Malaysia Holdings

## Sales growth to offset rising minimum wage

- SEM believes the impact of the minimum wage hike could be offset by: i) higher volume growth, ii) better overall cost control and iii) better product mix.
- Expansion plans remain intact for its convenience store division (i.e. growing its 7-café stores) and its pharmaceutical division's venture into Indonesia.
- Reiterate Add, with an unchanged TP of RM1.83 (22x CY23F P/E).

### Key factors driving 1Q22 core net profit to RM27.8m (+118% yoy)

- 7-Eleven Malaysia Holdings (SEM) shared that its convenience store (CVS) segment's higher 1Q22 revenue (+16.7% yoy) and core profit (+63% yoy) were driven by: i) higher operating hours of 17.7 hours on average (vs. 1Q21: 16.5 hours), with c.250 stores (10% of total stores) operating 24 hours in 1Q22, ii) higher footfall leading to average per store day sales of RM2,421 (+15.8% yoy) and higher customer count (+6.5% yoy), and iii) increase in average transaction size to c.RM8 (+8.7% yoy) on higher sales volume from higher-margin food and beverage products (GP margin at 21.6% in 1Q22 vs. 1Q21's 19.4%), partly driven by higher sales of fresh food items at its 7-café stores, in our view.
- SEM shared that 1Q22 same-store-sales growth (SSSG) for its CVS was 15.2% yoy, while pharmaceutical segment's was 34% yoy, albeit from a lower base effect as 1Q21 was affected by stricter movement restrictions. The increase in its pharmaceutical 1Q22 core profit (+208.3% yoy) was owing to higher sales (+51.9% yoy) during the Chinese New Year festive period, especially from its higher-margin blue ocean product category (in-house brands), which led its 1Q22 GP margin to expand to 21.6% (1Q21: 19.4%).

### Impact of minimum wage hike likely to be contained

- SEM estimates that c.6000 out of its total c.8000 staff count (or 75%) would be affected by the increase in minimum wage to RM1,500 (from RM1,200) effective 1 May 2022. This could potentially result in an additional c.RM24m p.a. in staff costs, mostly impacting the CVS segment, while impact to Caring is less than c.RM1m p.a.. However, SEM believes the impact of the minimum wage hike could be mitigated by stronger sales growth on higher footfall and longer operating hours upon economic reopening and better overall cost control.
- Currently, as of May 22, SEM has about c.700 stores (c.28.7% of total store count) operating on a 24-hour basis. SEM is also actively reviewing and adopting a more selective approach in extending the 24-hour operating hours to all stores to optimise cost efficiency, as well as minimise food wastages. That said, shortage of manpower is still a dampener to longer operating hours and store expansion in the near term.

### Expansion plans across business divisions remain on track thus far

- In 1Q22, SEM stated that, under its CVS segment, it has opened 13 new 7-Eleven stores (including 12 7-café format stores) and closed 3 non-performing stores, bringing its total 7-Eleven stores to 2,437 as of 31 Mar 22. While at Caring, SEM opened 9 new stores and closed 1 store, with total outlet count at 199 as of 31 Mar 22.
- In our view, this is in line with its CVS expansion strategy thus far, i.e. to open c.100 7-café format stores by end- 2022F; 7-café stores have higher average transaction size of 1.5-2.0x vs. traditional stores due to higher sales contribution of higher-margin fresh food items (30-40% of 7-café's total SKUs, vs. 9-10% at traditional format stores).
- On Caring's joint venture in Indonesia, SEM shared that it has opened 2 "Apotek Wellings" pharmacy stores in Indonesia in 2Q22 and plans to expand to 150 stores over the next 5 years. We view this positively for Caring's long-term growth prospects.

### Reiterate Add, with an unchanged TP of RM1.83; a reopening play

- With no surprises from its 1Q22 briefing, we keep our FY22-24F estimates intact. We reiterate Add, with an unchanged TP of RM1.83 (22x CY23F P/E, 1 s.d. below its 5-year mean P/E of 31.1x, to account for its low liquidity issue and higher gearing profile against peers, which is a risk to rising interest rates).
- Re-rating catalysts: stronger-than-expected SSSG, margin expansion from better sales mix. Downside risks: sharp increase in operating costs, lower-than-expected footfall.