

## Malaysia

**HOLD** (previously ADD)

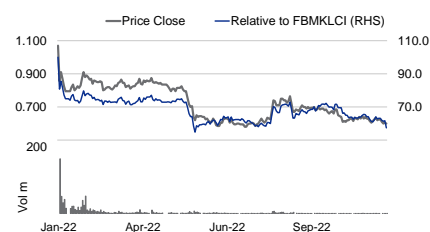
Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	RM0.60
Target price:	RM0.62
Previous target:	RM0.90
Up/downside:	3.3%
CGS-CIMB / Consensus:	-31.1%
Reuters:	SENH.KL
Bloomberg:	5305 MK
Market cap:	US\$200.2m
	RM900.0m
Average daily turnover:	US\$0.06m
	RM0.26m
Current shares o/s:	1,500m
Free float:	31.3%

\*Source: Bloomberg

**Key changes in this note**

- FY22-24F EPS lowered by 9.1-26.6% to account for lower revenue and margin assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.8	-17.3	
Relative (%)	-8.6	-19.7	

**Major shareholders**

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

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# Senheng New Retail Bhd

## Bracing for a demand slowdown

- 9MFY22 core net profit of RM46.0m (+13.6% yoy) was below our expectation (62.2% of FY22F) due to higher-than-expected operating costs.
- We see weaker earnings prospects for Senheng from 4Q22F onwards due to lower consumer spending power and higher operating costs.
- Downgrade from Add to Hold, with a lower TP of RM0.62 (15.2x CY24F P/E).

**9M22 core net profit rose 13.6% yoy; below expectations**

Senheng New Retail Bhd's (Senheng) 3Q22 core net profit (CNP) came in at RM12.9m (-3.0% yoy), bringing 9M22 CNP to RM46.0m (+13.6% yoy), below expectations at 62.2% of our FY22F estimate. In our view, the earnings underperformance was mainly due to higher-than-expected operating costs in 3Q22, which led to opex as a percentage of revenue rising to its highest level since listing at 14.6% in 3Q22. We believe the increase in operating costs was largely due to its ongoing store expansion. However, 9M22 GP margin improved to 22.1% (+0.5% pts yoy) on a more favourable sales mix while EBITDA margin remained flat at 8.4%.

**3Q22 CNP plunged 35.4% qoq on lower sales and higher costs**

On a qoq basis, 3Q22 revenue fell 11%, possibly due to waning pent-up demand, absence of festive sales and seasonal demand slowdown for Senheng's products amid weaker consumer affordability for big-ticket discretionary items, in our view. While GP margin improved to 23.1% (+1.1% pts qoq) on better sales mix, EBITDA margin declined to 8.5% (-0.8% pts qoq) as opex increased by 2.1% qoq with the launch of four new upgraded stores in the quarter. No dividend was declared in the quarter, as we expected.

**Target for store expansion in FY22F may not be met**

Senheng's store count stood at 107 as of 3Q22. It upgraded four stores in the quarter, bringing the total new/upgraded stores to 11 in 9M22. Senheng aims to launch another 5 such stores in 4Q22F, potentially bringing the total to 16, but this still falls short of its target of 21 for FY22F. We believe Senheng is slowing down its store expansion given the weakening operating environment. That said, the expansion slowdown could mean a more gradual pace in operating cost increases while its ongoing efficiency projects could partially cushion any potential margin compression, in our view. Its over 3.45m PlusOne members (accounts for c.90% of its total revenue) could partially support demand as well.

**Downgrade to Hold; TP lowered to RM0.62 (15.2x CY24F P/E)**

We cut our FY22-24F EPS by 9.1-26.6% due to lower sales and higher operating costs. Hence, our TP falls to RM0.62 (15.2x CY24F P/E, a 30% discount to CGS-CIMB's consumer discretionary sector's 5-year mean P/E of 21.8x). Note that we impute a higher discount (previously 17.6x P/E; 20% discount) to account for weakening consumer sentiment for big-ticket consumer discretionary products amid the high inflation and rising interest rate environment from 4Q22F onwards. We have also rolled over our valuation base year to CY24F. Nonetheless, we believe Senheng's current valuation (14.7x CY24F P/E) has largely priced in its weaker earnings prospects.

**Financial Summary**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	1,295	1,444	1,557	1,512	1,505
Operating EBITDA (RMm)	114.0	127.0	140.8	142.1	146.0
Net Profit (RMm)	54.69	65.05	67.22	62.11	61.22
Core EPS (RM)	0.036	0.043	0.045	0.041	0.041
Core EPS Growth	20.4%	18.9%	3.3%	(7.6%)	(1.4%)
FD Core P/E (x)	16.46	13.83	13.39	14.49	14.70
DPS (RM)	0.008	0.013	0.013	0.012	0.012
Dividend Yield	1.33%	2.17%	2.24%	2.07%	2.04%
EV/EBITDA (x)	7.78	7.13	4.79	4.63	4.38
P/FCFE (x)	17.27	37.52	NA	11.13	11.68
Net Gearing	(8.2%)	2.2%	(41.0%)	(40.9%)	(41.0%)
P/BV (x)	5.41	3.85	1.64	1.52	1.42
ROE	37.8%	32.5%	17.2%	10.9%	10.0%
% Change In Core EPS Estimates			(9.1%)	(20.5%)	(26.6%)
CGS-CIMB/Consensus EPS (x)			0.91	0.80	0.73

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Bracing for a demand slowdown

**Figure 1: Results Comparison**

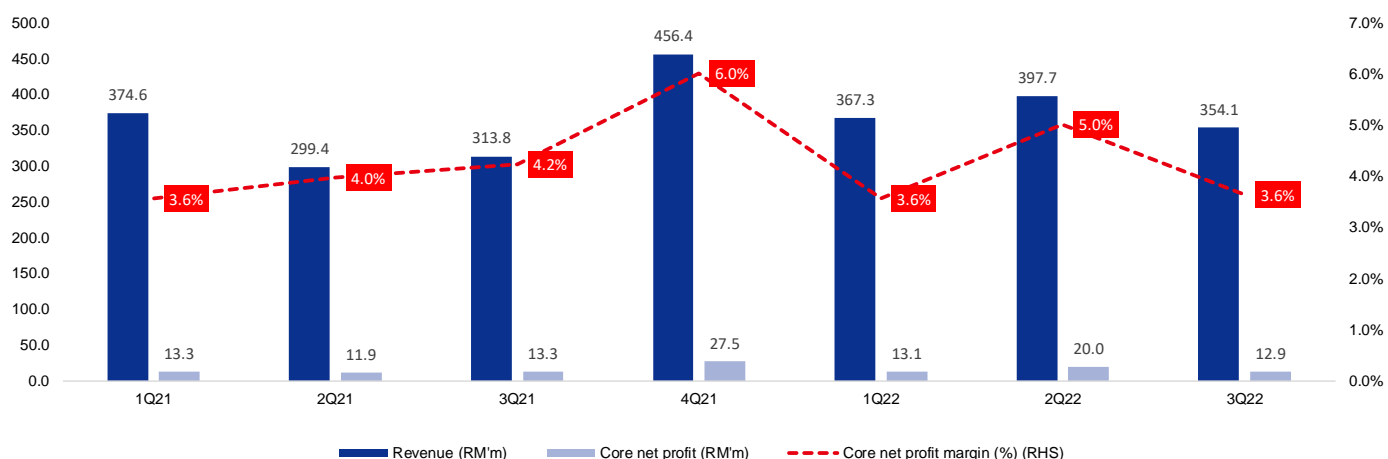
FYE Dec (RM m)	3QFY22	3QFY21	yoy % chg	qoq % chg	9MFY22 Cum	9MFY21 Cum	yoy % chg	Prev. FY22F	Comments
Revenue	354.1	313.8	12.8	(11.0)	1,119.1	987.7	13.3	1601.9	Higher revenue yoy due to higher number of upgraded/new stores on its ongoing expansion strategy, higher consumer footfall following easing of Omicron wave as well as its more effective marketing strategy
Cost of sales	(272.2)	(246.6)	10.4	(12.2)	(871.9)	(781.4)	11.6	(1259.4)	
<b>Gross profit</b>	<b>81.9</b>	<b>67.2</b>	<b>22.0</b>	<b>(6.6)</b>	<b>247.3</b>	<b>213.8</b>	<b>15.7</b>	<b>342.4</b>	
GP margin %	23.1%	21.4%	1.7	1.1	22.1%	21.6%	0.5	0.2	Higher GP margin yoy due to more favourable product mix in 9M22
Operating costs	(51.7)	(41.8)	23.7	2.1	(152.8)	(130.9)	16.7	(1452.2)	Higher yoy and qoq due to higher operating and administrative expenses, primarily for expansion and upgrading of stores, and included listing expenses on the Main Market of Bursa Malaysia
<b>EBITDA</b>	<b>30.2</b>	<b>25.4</b>	<b>19.1</b>	<b>(18.5)</b>	<b>94.4</b>	<b>82.9</b>	<b>14.0</b>	<b>149.7</b>	
EBITDA margin (%)	8.5%	8.1%	0.4	(0.8)	8.4%	8.4%	0.1	9.3	9M22 EBITDA margin flat as operating costs increased at a faster pace than revenue
Depn & amort.	(11.4)	(10.0)	14.1	4.4	(32.4)	(29.5)	10.0	(50.3)	
<b>EBIT</b>	<b>18.8</b>	<b>15.4</b>	<b>22.3</b>	<b>(28.1)</b>	<b>62.0</b>	<b>53.4</b>	<b>16.2</b>	<b>99.4</b>	
Interest expense	(1.0)	(1.4)	(30.0)	(13.2)	(3.4)	(3.9)	(13.1)	(5.4)	
Interest & invt inc	0.9	0.6	35.6	65.9	1.7	1.3	38.2	2.7	
Exceptionals & revaln	1.7	(2.6)	(163.5)	(142.5)	(6.4)	(6.4)	nm	0.0	9M22 included one-off listing expenses of RM1.7m in 1Q22 (not recurring), forex gains and losses and impairment loss
<b>Pretax profit</b>	<b>20.4</b>	<b>14.6</b>	<b>39.2</b>	<b>(6.1)</b>	<b>53.9</b>	<b>44.3</b>	<b>21.8</b>	<b>96.7</b>	
Tax	(5.8)	(3.9)	47.8	4.0	(14.3)	(10.2)	40.5	(22.7)	
Tax rate (%)	28.5%	26.9%	1.7	2.8	26.6%	23.1%	3.6	23.5%	Certain expenses are non tax deductible
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	nm	0.0	
<b>Net profit</b>	<b>14.5</b>	<b>10.7</b>	<b>36.0</b>	<b>(9.6)</b>	<b>39.5</b>	<b>34.1</b>	<b>16.1</b>	<b>74.0</b>	
<b>Core net profit</b>	<b>12.9</b>	<b>13.3</b>	<b>(3.0)</b>	<b>(35.4)</b>	<b>46.0</b>	<b>40.5</b>	<b>13.6</b>	<b>74.0</b>	<b>Below expectation at 62.2% of our FY22F full year estimates</b>
EPS (sen)	1.0	0.7	36.0	(9.6)	2.6	2.3	16.1	4.9	
Core EPS (sen)	0.9	0.9	(3.0)	(35.4)	3.1	2.7	13.6	4.9	

SOURCES: CGS-CIMB, COMPANY REPORTS

**Figure 2: Earnings revision**

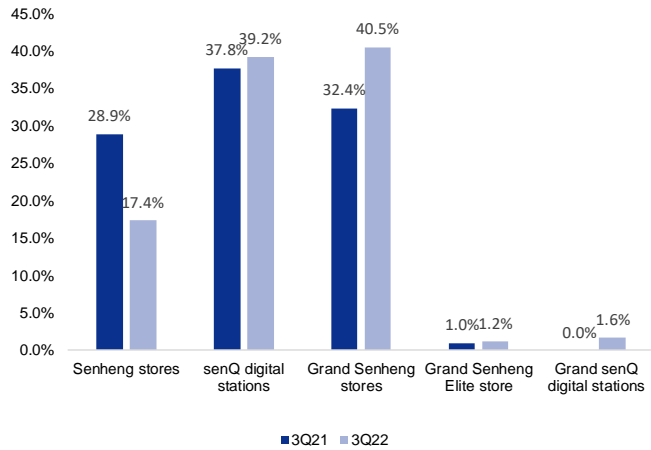
RM m	FY21			FY22F			FY23F			FY24F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg		
Revenue	1444.1	1601.9	1557.0	-2.8%	1727.1	1512.4	-12.4%	1862.6	1505.4	-19.2%		
EBITDA	127.0	149.7	140.8	-5.9%	164.9	142.1	-13.8%	181.5	146.0	-19.6%		
Core pretax profit	84.5	96.7	87.9	-9.1%	102.8	81.7	-20.5%	109.7	80.6	-26.6%		
Core net profit	65.1	74.0	67.2	-9.1%	78.1	62.1	-20.5%	83.4	61.2	-26.6%		
Core EPS (sen)	4.3	4.9	4.5	-9.1%	5.2	4.1	-20.5%	5.6	4.1	-26.6%		

SOURCES: CGS-CIMB, COMPANY REPORTS

**Figure 3: Quarterly trend of revenue, core net profit and core net profit margin**


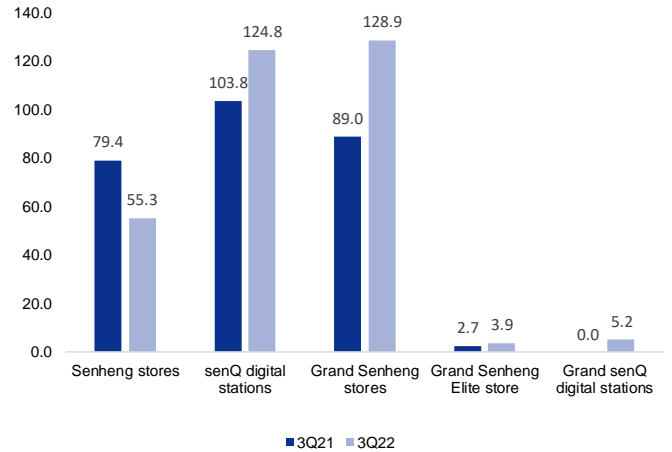
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: Revenue breakdown by physical store formats in 3Q22 vs. 3Q21 (%)**



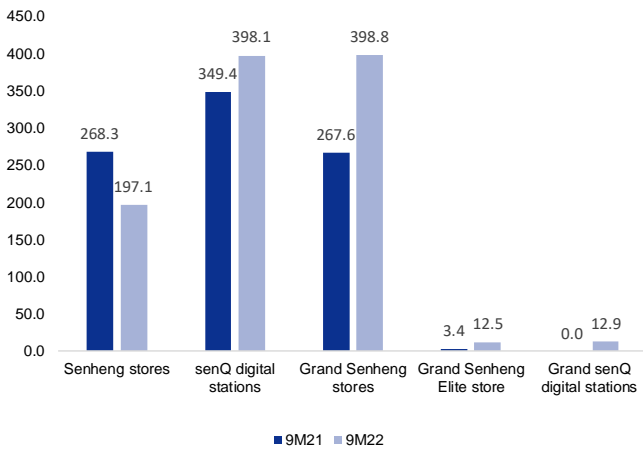
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 5: Revenue breakdown by physical store formats in 3Q22 vs. 3Q21 (RM'm)**



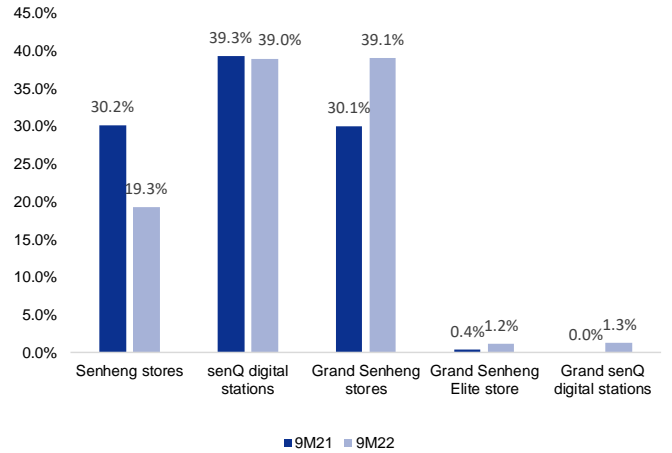
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 6: Revenue breakdown by physical store formats in 9M22 vs. 9M21 (RM'm)**



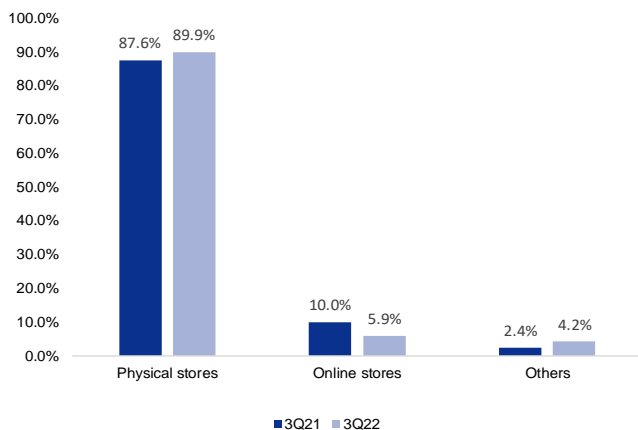
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 7: Revenue breakdown by physical store formats in 9M22 vs. 9M21 (%)**



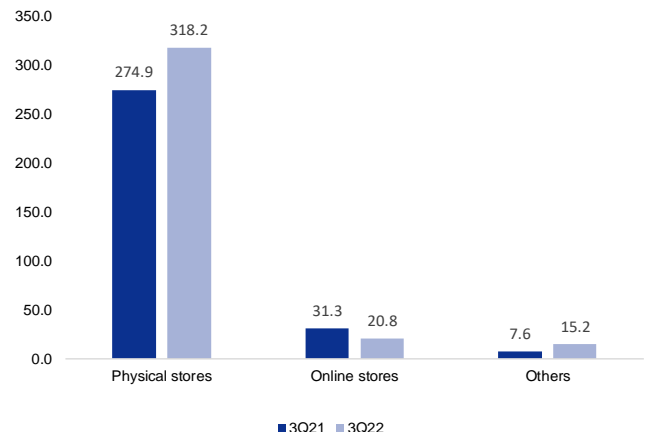
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 8: Revenue breakdown by retail channels in 3Q22 vs. 3Q21 (%)**



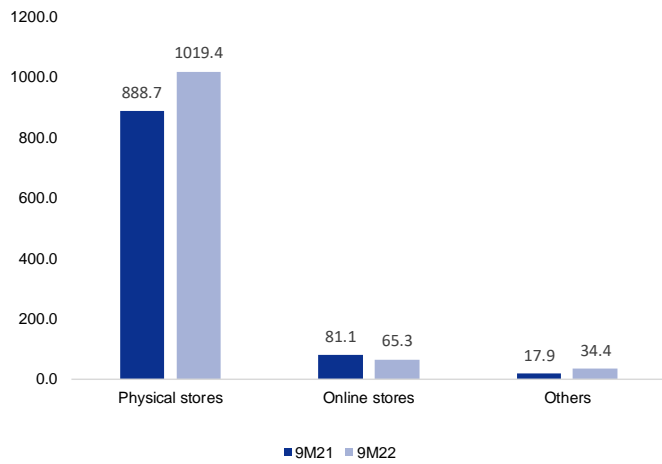
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 9: Revenue breakdown by retail channels in 3Q22 vs. 3Q21 (RM'm)**



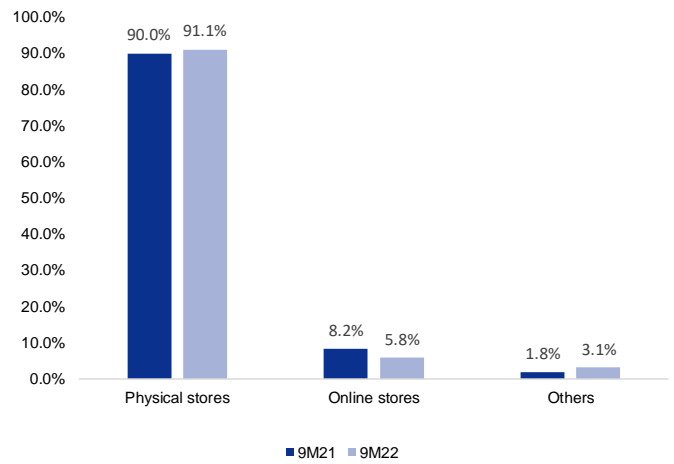
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 10: Revenue breakdown by retail channels in 9M22 vs. 9M21 (RM'm)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 11: Revenue breakdown by retail channels in 9M22 vs. 9M21 (%)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Potential upside and downside risks

**Potential upside risks:** A strong recovery in footfall and lower-than-expected operating expenses.

**Potential downside risks:** supply disruptions, slowdown in consumer E&E sales, sharp rise in operating expenses and intensifying competition.



## ESG in a nutshell

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 collects for recycling at no added charge any unwanted electronic appliances from customers’ premises when it delivers customers’ purchases. The collected electronic waste will then be sent to licensed e-waste recycling centres for processing.

### Keep your eye on

Currently, only two out of Senheng’s seven directors are female. This is below the Malaysian Code of Corporate Governance’s recommendation of at least 30% female directors.

### Implications

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

Senheng was 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.

### Implications

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 operation. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.

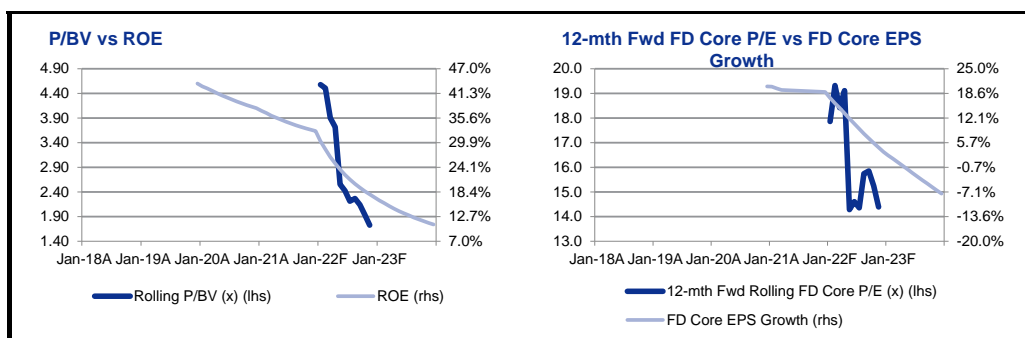
### Trends

Senheng has initiated various environmentally friendly programmes, 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).

### Implications

We are positive on the company’s efforts towards 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**

**Profit & Loss**

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>1,295</b>	<b>1,444</b>	<b>1,557</b>	<b>1,512</b>	<b>1,505</b>
<b>Gross Profit</b>	<b>270</b>	<b>304</b>	<b>333</b>	<b>327</b>	<b>326</b>
<b>Operating EBITDA</b>	<b>114</b>	<b>127</b>	<b>141</b>	<b>142</b>	<b>146</b>
Depreciation And Amortisation	-37	-39	-50	-59	-65
<b>Operating EBIT</b>	<b>77</b>	<b>88</b>	<b>91</b>	<b>83</b>	<b>81</b>
Financial Income/(Expense)	-4	-3	-3	-2	-1
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>74</b>	<b>85</b>	<b>88</b>	<b>82</b>	<b>81</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>74</b>	<b>85</b>	<b>88</b>	<b>82</b>	<b>81</b>
Taxation	-18	-19	-21	-20	-19
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>56</b>	<b>65</b>	<b>67</b>	<b>62</b>	<b>61</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	-1	-0	0	0	0
<b>Net Profit</b>	<b>55</b>	<b>65</b>	<b>67</b>	<b>62</b>	<b>61</b>
Recurring Net Profit	55	65	67	62	61
<b>Fully Diluted Recurring Net Profit</b>	<b>55</b>	<b>65</b>	<b>67</b>	<b>62</b>	<b>61</b>

**Cash Flow**

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	114.0	127.0	140.8	142.1	146.0
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(45.3)	(49.8)	(47.4)	10.0	1.6
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	38.7	41.5	53.0	60.4	65.4
Other Operating Cashflow	(40.3)	(42.5)	(53.0)	(60.4)	(65.4)
Net Interest (Paid)/Received	(2.1)	(1.9)	(1.3)	(0.0)	(0.0)
Tax Paid	(6.4)	(20.3)	(20.6)	(19.6)	(19.3)
<b>Cashflow From Operations</b>	<b>58.6</b>	<b>54.1</b>	<b>71.5</b>	<b>132.5</b>	<b>128.2</b>
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	2.8	3.4	3.9
<b>Cash Flow From Investing</b>	<b>(11.3)</b>	<b>(31.3)</b>	<b>(52.2)</b>	<b>(51.6)</b>	<b>(51.1)</b>
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)	(20.2)	(18.6)	(18.4)
Preferred Dividends					
Other Financing Cashflow	(26.6)	(29.3)	231.1	(45.0)	(40.5)
<b>Cash Flow From Financing</b>	<b>(33.8)</b>	<b>(40.0)</b>	<b>154.0</b>	<b>(63.7)</b>	<b>(58.8)</b>
Total Cash Generated	13.5	(17.3)	173.3	17.2	18.2
<b>Free Cashflow To Equity</b>	<b>52.1</b>	<b>24.0</b>	<b>(37.6)</b>	<b>80.8</b>	<b>77.1</b>
<b>Free Cashflow To Firm</b>	<b>49.4</b>	<b>24.7</b>	<b>20.6</b>	<b>80.8</b>	<b>77.1</b>

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	225.0	242.2	260.4
Total Debtors	74.3	97.2	106.6	103.6	103.1
Inventories	211.4	253.9	285.1	276.0	274.6
Total Other Current Assets	13.0	37.3	37.3	37.3	37.3
<b>Total Current Assets</b>	<b>367.4</b>	<b>440.1</b>	<b>654.0</b>	<b>659.1</b>	<b>675.4</b>
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	226.0	208.3	186.3
<b>Total Non-current Assets</b>	<b>289.5</b>	<b>292.6</b>	<b>383.2</b>	<b>404.3</b>	<b>418.4</b>
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	134.2	129.9	129.2
Other Current Liabilities	114.1	107.4	121.4	117.5	113.9
<b>Total Current Liabilities</b>	<b>253.4</b>	<b>259.9</b>	<b>255.6</b>	<b>247.4</b>	<b>243.2</b>
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	219.3	211.0
<b>Total Non-current Liabilities</b>	<b>228.7</b>	<b>234.2</b>	<b>228.4</b>	<b>219.3</b>	<b>211.0</b>
Total Provisions	8.6	5.1	5.1	5.1	5.1
<b>Total Liabilities</b>	<b>490.7</b>	<b>499.1</b>	<b>489.1</b>	<b>471.8</b>	<b>459.3</b>
Shareholders' Equity	166.2	233.7	548.2	591.7	634.6
Minority Interests					
<b>Total Equity</b>	<b>166.2</b>	<b>233.7</b>	<b>548.2</b>	<b>591.7</b>	<b>634.6</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	13.1%	11.5%	7.8%	(2.9%)	(0.5%)
Operating EBITDA Growth	12.5%	11.5%	10.9%	0.9%	2.7%
Operating EBITDA Margin	8.80%	8.80%	9.05%	9.40%	9.70%
Net Cash Per Share (RM)	0.01	-0.00	0.15	0.16	0.17
BVPS (RM)	0.11	0.16	0.37	0.39	0.42
Gross Interest Cover	14.32	17.69	16.63	16.22	17.57
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	23.89	25.37	25.13
Inventory Days	68.41	74.46	80.36	86.39	85.46
Accounts Payables Days	44.42	41.65	40.20	40.66	40.22
ROIC (%)	26.8%	26.3%	20.8%	15.1%	14.2%
ROCE (%)	40.6%	35.0%	22.2%	15.2%	13.9%
Return On Average Assets	9.39%	9.83%	7.90%	6.08%	5.75%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth %Physical stores	8.9%	9.2%	10.4%	-3.4%	-0.8%
Revenue Growth %Online stores	154.6%	29.8%	-29.8%	-1.0%	1.0%
Revenue Growth %Others	-19.1%	63.2%	50.0%	10.0%	5.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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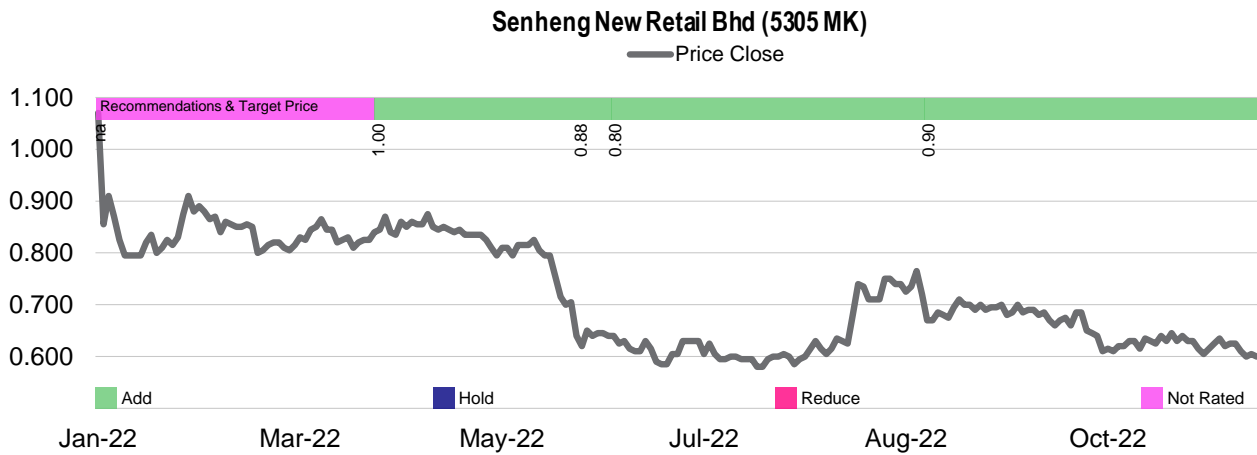
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2022		
646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



**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.