

Malaysia

August 30, 2022 - 8:35 AM

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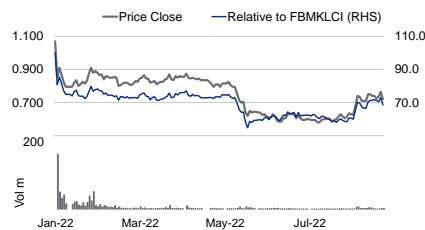
Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price:	RM0.72
Target price:	RM0.90
Previous target:	RM0.90
Up/downside:	25.0%
CGS-CIMB / Consensus:	12.5%
Reuters:	SENH.KL
Bloomberg:	5305 MK
Market cap:	US\$240.5m
	RM1,080m
Average daily turnover:	US\$0.19m
	RM0.85m
Current shares o/s	1,500m
Free float:	31.3%

*Source: Bloomberg

Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (RMm)	73.96	78.11	83.40
Core EPS (RM)	0.049	0.052	0.056
Core EPS Growth	13.7%	5.6%	6.8%
FD Core P/E (x)	14.60	13.83	12.95
Recurring ROE	18.8%	13.5%	13.1%
P/BV (x)	1.95	1.78	1.62
DPS (RM)	0.015	0.016	0.017
Dividend Yield	2.05%	2.17%	2.32%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	17.1	2.1	
Relative (%)	16.5	5	

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

Steadfast in store expansion plan

- We continue to like Senheng post its 2Q22 briefing due to its exciting launch of “S-Rewards Centre” and rollout of new products in 2H22 to drive sales.
- Senheng aims to launch 6 new/upgraded stores in 3Q22 with a focus on growing its “Grand Senheng” outlets, in line with its store expansion strategy.
- We remain positive on Senheng’s earnings growth outlook, driven by a better product mix, higher operational efficiency and more new/upgraded stores.

SSSG of c.9% in 1H22, driven by home appliance and TV sales

- We gathered that Senheng New Retail Bhd’s (Senheng) 1H22 same-store sales growth was c.9%, driven by sales for its higher-margin home appliances (c.+23.0% yoy) and TVs (c.+10% yoy) while gadget sales rose c.2-3% yoy. We attribute the stronger sales of home appliances and TVs to i) consumers moving to new houses/completed properties (on resumption of construction and renovation) and needing home appliances, ii) one-off RM500 voucher for electrical appliance purchases from the Malaysian Family Flood Relief Programme, and iii) greater footfall. Gadget sales saw a higher base in 1H21 due to the work-from-home trend (boosting laptop sales), which tapered off when workers returned to the office from 4Q21 onwards. Online sales contributions declined to c.6% in 1H22 (FY21: 9%, FY20: 7%).

Focus on launching new/upgraded stores to drive earnings growth

- In 1H22, Senheng set up 7 new/upgraded stores in high footfall areas, bringing its total to 107 stores (44 Grand Senheng, 32 Senheng, 29 senQ, 1 Grand Senheng Elite and 1 Grand senQ). Moving into 3Q22, Senheng aims to launch 6 new/upgraded stores (4 Grand Senheng and 1 Grand Senheng Elite and 1 Grand senQ Elite), on track to meet its targeted 21 new/upgraded stores in FY22. Senheng also expects to launch more Internet of Things (IoT) products in 2H22 and it remains confident it can achieve RM60.0m from its in-house and exclusive brands (despite raking in just RM14.9m in 1H22). In our view, Senheng’s store expansion, attractive in-store designs and new higher-margin product selection (in-house and exclusive brands) will continue to drive a more favourable product mix and per-store sales.

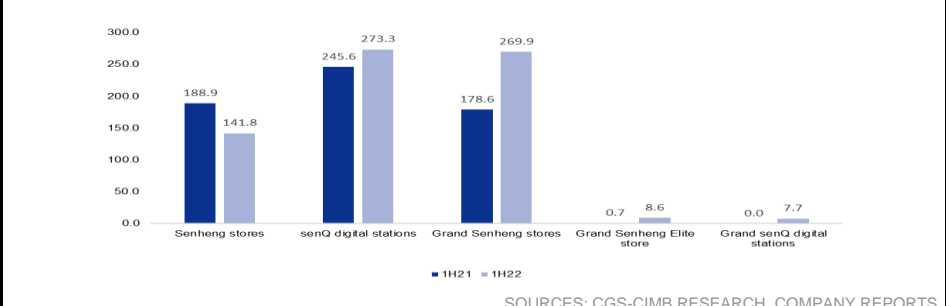
Launch of S-Rewards Centre could enable cross-selling opportunity

- Senheng shared that it plans to launch an S-Rewards Centre, onboarding more than 200 merchants with over 100k stock-keeping units (SKUs) onto its Senheng app in 2H22. Thus, its 3.45m PlusOne paid members (accounted for 92% of group revenue in 1H22) will have access to a wide range of products and services with “S-Coin” cashback (currently about c.75m S-Coins remain to be redeemed). We believe this strategy could help drive repeat purchases.

Reiterate Add, with an unchanged TP of RM0.90

- We retain our FY22-24F EPS forecasts with an Add rating and TP of RM0.90 (17.4x CY23F P/E, a 20% discount to CGS-CIMB’s consumer discretionary sector’s 5-year mean P/E of 21.8x). The discount is to account for the competitive nature of the retail E&E sector. We like Senheng for its: i) leading position in consumer electronics, ii) loyal customer base of 3.5m PlusOne members, and iii) wider product offerings vs. peers.
- Re-rating catalysts: stronger-than-expected sales and margin expansion. Downside risks: a sharp increase in operating costs and lower-than-expected footfall.

Figure 1: Revenue breakdown by physical store formats in 1H22 vs. 1H21 (RM m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Sector / Peers Comparison

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	135.40	133.90	7,072	53.6	43.4	8.7%	53.9	53.3	104.5%	123.5%	28.5	27.4	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	22.94	25.00	1,874	21.0	19.3	0.3%	2.7	2.5	13.5%	13.5%	11.8	10.9	2.7%	2.9%
QL Resources	QLG MK	Add	5.07	5.60	2,748	45.4	34.6	23.8%	4.7	4.4	11.0%	13.2%	18.9	15.9	0.9%	1.1%
Power Root Bhd	PWRT MK	Add	1.88	2.40	174	18.6	15.7	23.7%	3.0	3.0	16.8%	19.2%	11.5	10.1	5.2%	6.1%
Kawan Food	KFB MK	Add	2.11	2.68	169	18.4	15.8	17.0%	1.9	1.8	11.2%	11.7%	9.9	9.0	2.0%	2.3%
MSM Malaysia Holdings	MSM MK	Reduce	0.85	0.58	133	na	1990.7	-77.2%	0.4	0.4	-8.0%	0.0%	na	11.1	0.0%	0.0%
CCK Consolidated Holdings	CCK MK	Add	0.59	0.96	82	8.7	8.0	20.0%	1.1	1.0	13.4%	12.6%	3.7	3.3	3.7%	3.9%
Farm Fresh Berhad	FFB MK	Add	1.66	1.60	687	36.1	29.7	11.9%	4.7	4.2	15.0%	15.1%	24.8	20.7	0.7%	0.8%
Weighted Subsector Average						44.5	56.4	10.3%	31.2	30.7	62.6%	73.6%	22.9	21.4	1.8%	2.1%
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Hold	1.56	1.62	391	21.5	21.2	8.5%	15.1	11.8	84.8%	62.4%	5.7	5.4	2.9%	2.8%
Berjaya Food Berhad	BFD MK	Hold	4.18	4.55	330	14.9	16.6	4.0%	3.1	2.7	23.5%	17.5%	5.0	5.0	1.3%	1.2%
Bonia Corporation	BON MK	Add	2.27	2.88	101	12.6	11.8	23.7%	1.1	1.1	9.6%	9.6%	4.7	4.6	7.6%	7.6%
DKSH Holdings (Malaysia)	DKSH MK	Add	4.50	5.60	158	6.4	7.3	3.4%	0.9	0.8	14.6%	11.2%	3.9	3.9	2.3%	2.2%
Lee Swee Kiat Group	LSKG MK	Add	0.70	1.25	25	8.6	6.8	15.9%	1.6	1.4	20.6%	21.6%	4.3	3.3	4.7%	5.7%
Mynews Holdings Berhad	MNHB MK	Reduce	0.42	0.33	64	na	na	na	1.4	1.5	-12.6%	-4.8%	11.3	6.6	0.0%	0.0%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Reduce	26.18	20.50	354	28.0	19.2	13.2%	1.9	1.9	7.2%	10.1%	10.7	8.5	3.3%	3.8%
InNature Bhd	INNATURE MK	Hold	0.51	0.55	79	16.2	14.9	14.5%	2.4	2.3	15.9%	16.0%	7.3	6.7	4.5%	4.7%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.10	2.71	4,409	39.5	32.1	13.2%	13.8	11.0	40.1%	38.2%	18.6	15.7	1.1%	1.3%
Beshom Holdings Bhd	BESHOM MK	Add	1.49	1.93	100	11.2	8.6	25.7%	1.4	1.3	12.7%	15.7%	6.3	4.8	7.3%	8.5%
Senheng New Retail Bhd	5305 MK	Add	0.72	0.90	241	14.6	13.8	6.0%	2.0	1.8	19.5%	13.5%	5.5	5.2	2.1%	2.2%
Weighted Subsector Average						32.9	27.2	12.1%	11.1	9.0	36.8%	33.8%	15.0	12.8	1.7%	1.9%
Weighted Average						40.7	46.9	10.9%	24.7	23.6	54.2%	60.6%	20.4	18.6	1.7%	2.0%
Simple Average						23.3	124.5	8.8%	7.4	6.9	23.8%	24.7%	11.3	10.0	2.8%	3.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	1,444	1,602	1,727	1,863
Gross Profit	304	342	374	404
Operating EBITDA	127	150	165	182
Depreciation And Amortisation	-39	-50	-60	-70
Operating EBIT	88	99	105	112
Financial Income/(Expense)	-3	-3	-2	-2
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	85	97	103	110
Exceptional Items				
Pre-tax Profit	85	97	103	110
Taxation	-19	-23	-25	-26
Exceptional Income - post-tax				
Profit After Tax	65	74	78	83
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	-0	0	0	0
Net Profit	65	74	78	83
Recurring Net Profit	65	74	78	83
Fully Diluted Recurring Net Profit	65	74	78	83

Balance Sheet

(RMm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	51.7	220.2	214.0	214.5
Total Debtors	97.2	109.7	118.3	127.6
Inventories	253.9	293.3	315.2	339.7
Total Other Current Assets	37.3	37.3	37.3	37.3
Total Current Assets	440.1	660.5	684.8	719.1
Fixed Assets	108.4	154.4	193.1	229.2
Total Investments	2.9	2.9	2.9	2.9
Intangible Assets	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	181.4	228.1	242.2	247.3
Total Non-current Assets	292.6	385.4	438.2	479.4
Short-term Debt	16.9	0.0	0.0	0.0
Current Portion of Long-Term Debt				
Total Creditors	135.5	138.0	148.3	159.9
Other Current Liabilities	107.4	121.4	125.0	126.7
Total Current Liabilities	259.9	259.5	273.4	286.6
Total Long-term Debt	40.1	0.0	0.0	0.0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	194.2	228.4	237.0	240.9
Total Non-current Liabilities	234.2	228.4	237.0	240.9
Total Provisions	5.1	5.1	5.1	5.1
Total Liabilities	499.1	492.9	515.4	532.6
Shareholders' Equity	233.7	552.9	607.6	666.0
Minority Interests				
Total Equity	233.7	552.9	607.6	666.0

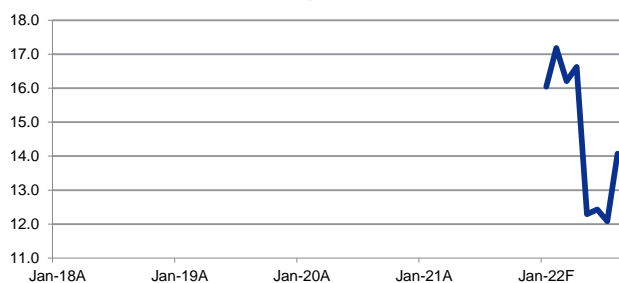
Cash Flow

(RMm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	127.0	149.7	164.9	181.5
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(49.8)	(56.9)	(26.2)	(28.7)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	41.5	53.0	62.1	71.8
Other Operating Cashflow	(42.5)	(53.0)	(62.1)	(71.8)
Net Interest (Paid)/Received	(1.9)	(1.3)	(0.0)	(0.0)
Tax Paid	(20.3)	(22.7)	(24.7)	(26.3)
Cash Flow From Operations	54.1	68.8	114.0	126.4
Capex	(22.8)	(55.0)	(55.0)	(55.0)
Disposals Of FAs/subsidiaries	6.5	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	(16.9)	0.0	0.0	0.0
Other Investing Cashflow	1.8	2.7	3.3	3.4
Cash Flow From Investing	(31.3)	(52.3)	(51.7)	(51.6)
Debt Raised/(repaid)	1.3	(57.0)	0.0	0.0
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(12.0)	(22.2)	(23.4)	(25.0)
Preferred Dividends				
Other Financing Cashflow	(29.3)	231.1	(45.0)	(49.3)
Cash Flow From Financing	(40.0)	151.9	(68.5)	(74.3)
Total Cash Generated	(17.3)	168.4	(6.2)	0.5
Free Cashflow To Equity	24.0	(40.5)	62.3	74.9
Free Cashflow To Firm	24.7	17.8	62.3	74.9

Key Ratios

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	11.5%	10.9%	7.8%	7.8%
Operating EBITDA Growth	11.5%	17.8%	10.1%	10.1%
Operating EBITDA Margin	8.80%	9.35%	9.55%	9.75%
Net Cash Per Share (RM)	-0.00	0.15	0.14	0.14
BVPS (RM)	0.16	0.37	0.41	0.44
Gross Interest Cover	17.69	18.26	20.32	19.86
Effective Tax Rate	22.8%	23.5%	24.0%	24.0%
Net Dividend Payout Ratio	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	21.66	23.57	24.09	24.16
Inventory Days	74.46	79.30	82.04	82.16
Accounts Payables Days	41.65	39.63	38.61	38.66
ROIC (%)	26.3%	22.8%	18.6%	17.7%
ROCE (%)	35.0%	24.2%	18.6%	18.1%
Return On Average Assets	9.83%	8.62%	7.37%	7.38%

12-mth Fwd FD P/E (x) - Senheng New Retail Bhd



Key Drivers

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth %Physical stores	9.2%	12.4%	7.1%	6.9%
Revenue Growth %Online stores	29.8%	-14.8%	1.0%	1.0%
Revenue Growth %Others	63.2%	50.0%	45.0%	40.0%

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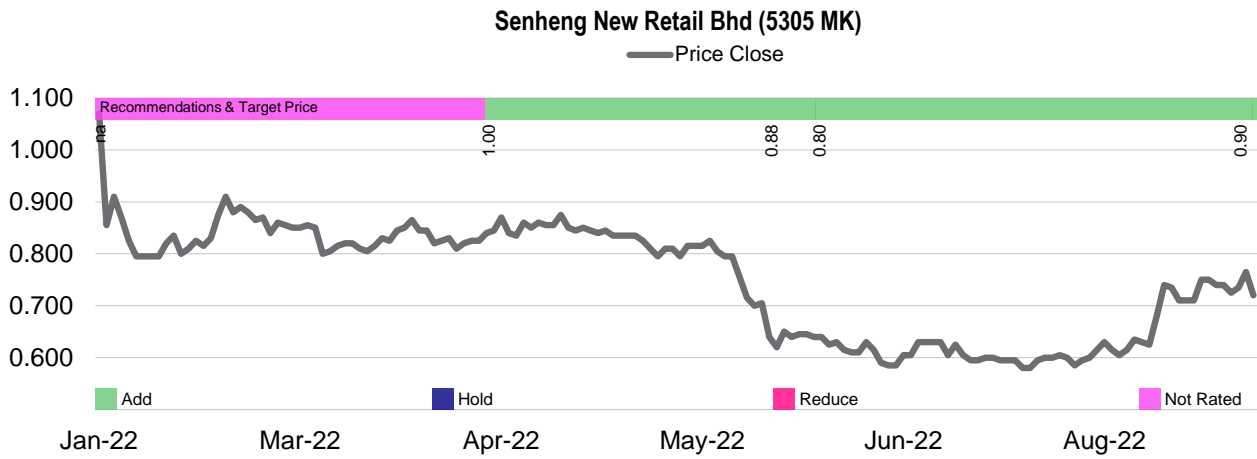
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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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.

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