

Malaysia Consumer

NEUTRAL

 (Unchanged)

Ears on the ground

- Our price study shows that C-store products are priced at a premium of up to 15% over the products in mini-marts, supermarkets, and petro marts.
- Price premium is largely justified by convenience offered but there is room for pricing to narrow over time as economies of scale improve.
- What is more critical for C-stores such as 7EM would be margin enhancement from a shift away from low margin to higher margin product and services. HOLD maintained on 7EM (TP: MYR1.50, fair valuations for now).

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What's New

We conducted a limited price study on merchandise sold at C-stores, mini-markets, supermarkets and petro marts located in the vicinity of our office, the objective of which was to gauge the price gap of on-the-go products sold at these different outlets. C-stores here refer to 7-11 Malaysia (7EM) and Mynews.com stores.

Of the listed retailers, we cover 7-11 Malaysia, (SEM MK, HOLD, TP: MYR1.50) and AEON Co M (AEON MK, HOLD, TP: MYR2.85).

What's Our View

Our findings revealed that average product prices (MKE-selected items; refer to page 4) in C-stores are about 15.1%/13.3%/4.8% higher than mini-marts/supermarkets/petro marts. On a standalone basis, 7EM's merchandise are just about 12.7%/11.0%/2.6% higher, largely justified by the fact that its stores carry higher fixed operating costs for the convenience of staying opened 24/7.

We do think that there is room for the price disparity to narrow over time as economies of scale increase alongside store count growth but pricing aside, 7EM's vast store network accords it the ability to launch more effective nationwide A&P and promotional campaigns to drive sales.

What is more critical for C-stores such as 7EM, in our view, is that there is a more rapid shift away from low margin products to higher margin ones as soon as possible. As it stands, we estimate that low margin tobacco still accounts for a high 36% of total merchandise sales while food & services (higher margins) make up just about 10%. Management has been rolling out fresh/frozen food products throughout its stores and the company now has 164 Quick Win Food Stores and Next-Gen stores (8.8% of total stores).

In-store services, which carry a 100% gross profit margin, have also been broadened to include Touch n'Go top-up services as well as bill payment services for SYABAS (water), Telekom and Astro. Nevertheless, such services currently account for just about 3.5% of total sales and there is room for further expansion here.

Apple vs apple or orange?

Store segments under study

In the price study, we have included convenience stores (7EM, Mynews.com), mini-marts (KK Super Mart, 99 Speedmart), hypermarkets (Aeon, Aeon Big, Cold Storage) and petro marts (BHPetromart-BHP, Select-Shell, Mesra-Petronas). Of all the stores, we believe that only 7EM and KK Super Mart operate around the clock.

We do stress that one of the limitations of this study is the limited sample size, in that we focused solely on the outlets around our office area in Bangsar/Midvalley City. Nevertheless, due to the close proximity of the stores to one another, we do think that the price points should be fairly representative of the level of competition in the vicinity.

A quick look at store counts

In the convenience store (C-store) space, 7EM's leading position is undisputed with about 1,879 stores nationwide currently, while Mynews.com has about 190. Mynews.com's stores are located mainly in shopping malls and train stations in major city areas such as Klang Valley, Johor and Penang, which does mean that most, if not all, are not opened 24 hours, unlike 7EM's stores. 7EM's stores, meanwhile, are also more pervasive in presence and are located nationwide.

KK Super Mart is typically deemed to be a mini-mart but its distinguishing feature is that it is opened 24 hours and would thus rival 7EM in this aspect. Nevertheless, it too has just about 190 stores.

99 Speedmart is also deemed to be a mini-mart but while it is not opened 24 hours, it has the largest network of all the mini-marts, with more than 700 outlets.

In the petro mart space, Petronas' Kedai Mesra is the undisputed leader with about 700 such stores across its petrol stations nationwide.

Findings: C-stores premiums of x%?

Our findings revealed that the average selling prices (MKE-selected items; refer to page 4) in C-stores (blend between 7EM and Mynews.com) are about 15.1% higher than in mini-marts, 13.3% higher than in hypermarkets and 4.8% higher than in petro marts.

We think a certain level of price premium is justifiable as C-stores (i) more often stand to capitalize on impulse buys at high traffic locations, (ii) have fixed operating costs that are generally higher (eg. longer opening hours), (iii) have possibly less purchasing power for inventories compared to larger supermarket chains by volume.

What we do find, however, is that the selling prices for items at Mynews.com tend to be higher than 7EM's, thus skewing average selling prices upwards. This, we believe, is likely a function of the location of

C-store price premiums over...

Mini-mart	15.1%
Hypermarket	13.3%
Petrol Mart	4.8%

Source: Company, Maybank KE
*Not representative of all stores

Mynews.com stores in areas where rentals are higher eg malls and transportation hubs. Nevertheless, it is also likely that because of the high traffic at these locations, Mynews.com is able to price its products at a larger premium.

On a standalone basis (ex Mynews.com), our observation is that 7EM's merchandise are priced only 12.7% higher than those in mini-marts, 11.0% higher than hypermarkets' and just a mere 2.6% higher than petro marts'. This premium level is fairly decent, in our view, given the cost of operating the stores on a 24-hour basis.

7EM price premiums over..

Mini-mart	12.7%
Hypermarket	11.0%
Petrol Mart	2.6%

Source: Company, Maybank KE

*Not representative of all stores

7EM's sales mix has to shift

Much as a price premium may be justified for the conveniences offered by C-stores, we do think that there is room for the price disparity to narrow over time as economies of scale increase alongside store count growth. Our Thailand research counterpart points out that 7-11 stores in Thailand under CP ALL, are generally priced at a 0-15% premium to hypermarkets over a wider range of merchandise.

Besides competing on price, there is vast opportunity for C-stores such as 7EM to improve on and differentiate its product offerings through creative A&P and by targeting the youth population.

Moreover, there is the need to shift the product mix away from low margin products to higher margin ones. We estimate that in its 1H15 results, tobacco contributed about 36% of 7EM's total merchandise sales, with food and services coming in slightly below 10%. Tobacco may be the largest contributor to sales but it is also carries the lowest margins.

Including snacks and beverages, 7EM's F&B portion of merchandise sales works out to be over 40%, we estimate, but then again, CPALL derives more than 70% of its merchandise sales from F&B.

7EM has been expanding its fresh food range but these are mainly on offer at Quick Win Food Store (QWFS) and Next Gen Store. As a recap, QWFS and Next Gen Store have more complete food service infrastructure and a wider selection of goods and products.

To recall, in 2Q15, 7EM saw a jump from 99 to 164 (QoQ) QWFS and Next Gen stores (5.5% to 8.8% of total store mix). The effort to make food more readily available (eg. fresh and frozen food) coupled with creative A&P and the focus on expansion of in-store services could mean that 7EM will eventually see margin improvements in the medium term.

7EM has also been trying to broaden its in-store services offerings and todate, it has rolled out Touch n' Go top-up services across all its stores nationwide and it has also tied up with SYABAS (water), Telekom and Astro for bill payment services at its stores. Next in line are potential tie-ups for the payment of electricity.

In-store services currently account for just about 3.5% of total sales but profit margins here are 100% versus just about 25% for merchandise. As such, the ability to increase contributions from this segment would have a positive impact on the group's earnings, given the full flowthrough of revenue to bottomline.

Price data (undiscounted list price at certain stores in Bangsar, Kuala Lumpur and its immediate suburbs)

	Note	Convenience stores		Mini-mart		Hypermarket			Petrol Mart		
		7-11	My news.com	KK Super Mart	99 Speedmart	Aeon	Aeon Big	Cold Storage	BHPetromart - BHPetrol	Select - Shell	Mesra - Petronas
Store count		1,854	>190	>190	>700	29	28	17	>190	>250	>700
Mineral water (600ml)	Branded	1.90	2.20	1.38	1.00	1.30	1.30	1.69	-	-	1.60
	House	1.60	1.80	1.00	0.53	0.60	0.60	0.84	1.80	1.50	1.27
Coke (can;320ml)		2.15	2.50	1.48	1.40	1.30	1.45	1.72	2.00	2.25	1.90
Fresh milk/ 1 litre	HL	8.25	9.00	7.31	6.79	7.50	6.45	7.32	7.60	8.70	8.20
Bun		0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Candy	Lozenges	4.55	4.60	3.70	3.39	3.90	3.70	3.70	3.70	4.40	3.70
	Mint	6.15	6.50	5.19	5.15	5.70	5.60	5.69	6.00	6.25	5.90
Chocolate bar		3.40	3.90	2.65	2.50	2.65	2.55	2.49	3.00	3.40	3.00
Instant noodle cup		2.55	2.70	1.91	1.75	1.85	1.75	2.10	2.30	2.75	2.12
Cigarettes	VFM	12.30	12.30	12.30	12.30	12.30	12.30	12.30	12.30	12.30	12.30
Cigarettes	Premium	13.80	13.80	13.80	13.80	13.80	13.80	13.80	13.80	13.80	13.80
Beer (can;320ml)	Tiger	8.50	10.50	7.31	5.60	7.90	7.60	5.99	-	-	-
	Carlsberg	8.35	10.10	7.31	5.60	6.90	6.90	5.49	-	-	-
Toothpaste (colgate)		6.15	5.50	5.83	4.45	4.25	4.25	5.50	3.20	6.55	-
Ice (packet)		2.45	2.10	1.80	1.50	-	1.55	2.43	-	-	-
Newspaper		1.20	1.20	1.20	-	-	-	-	1.20	1.20	1.20
Fresh brewed Coffee (machine)		3.00	3.70	-	-	-	-	-	-	-	-

Source: Company Websites, Various, Maybank KE

*Italic - common goods available in all stores

Total price and average MKE-selected basket price (MYR)

	Convenience stores		Mini-mart		Hypermarket			Petrol Mart		
	7-11	My news.com	KK Super Mart	99 Speedmart	Aeon	Aeon Big	Cold Storage	BHPetromart - BHPetrol	Select - Shell	Mesra - Petronas
Total price of common goods available in all stores	55.60	57.95	50.19	48.46	50.45	49.05	50.81	53.35	56.20	53.04
Average	56.78		49.33		50.10			54.20		

Source: Various, Maybank KE

Sector summary table

Company	Share Price (MYR)	Market Cap (MYR m)	Target Price (MYR)	PE		Div Yield		ROE		P/BV		EPS CAGR
				CY15 (x)	CY16 (x)	CY15 (%)	CY16 (%)	CY15 (%)	CY16 (%)	CY15 (x)	CY16 (x)	CY14-16 (%)
BAT	62.38	17,811	63.00	19.0	19.0	5.1	5.5	175.3	168.5	32.7	31.5	1.8
Nestle	72.02	16,889	68.00	29.1	27.6	3.3	3.5	73.8	76.1	21.2	20.8	5.4
Aeon	2.86	4,015	2.85	24.2	20.0	1.4	1.6	9.0	10.3	2.1	2.0	(6.1)
QL Resources	4.20	5,242	4.00	25.6	23.1	1.2	1.2	13.9	14.0	3.5	3.1	13.2
Guinness	13.32	4,024	14.00	18.6	18.2	5.4	5.5	57.4	58.1	10.4	9.8	3.6
Carlsberg	11.60	3,568	12.20	17.2	16.4	5.8	6.0	66.7	69.2	11.2	10.4	1.0
MSM	4.94	3,473	5.50	12.6	12.6	5.2	4.9	13.8	12.6	1.7	1.6	3.6
7-Eleven	1.48	1,803	1.50	30.8	25.1	1.6	2.0	23.6	25.7	6.7	5.9	12.0
Padini	1.39	914	1.35	10.8	9.5	7.2	7.2	20.3	21.3	2.2	2.0	6.3
Oldtown	1.34	605	1.45	12.7	11.5	4.4	4.8	13.1	13.4	1.7	1.5	5.0
Simple average				20.1	18.3	4.1	4.2	46.7	46.9	9.3	8.9	4.6

Source: Bloomberg, Maybank KE

Regional consumer peer comparison

Company	B'berg Code	Shr px (local)	Mkt cap (USD'm)	PER (x)		EV/EBITDA (x)		Div Yield (%)		ROE (%)		3Y EPS ^ CAGR (%)	PEG (x)
				CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16		
CONVENIENCE STORE OPERATORS													
CP ALL	CPALL TB	49.5	12,394	33.7	27.1	19.6	17.3	1.9	2.2	37.6	39.4	26.1	1.3
President	2912 TT	206.5	6,575	24.8	22.4	11.8	10.8	3.3	3.5	30.8	31.8	4.5	5.5
Tw Familymart	5903 TT	206.0	1,408	32.1	27.2	13.2	11.1	2.6	3.2	27.8	32.4	17.0	1.9
Modern	MDRN IJ	182.0	58	24.9	27.4	8.0	8.1	1.1	1.3	2.5	2.2	(2.9)	(8.6)
Simple average				28.9	26.0	13.1	11.8	2.2	2.5	24.7	26.4	11.2	0.0
Mkt cap wtd avg			20,436	30.7	25.6	16.6	14.8	2.4	2.7	34.7	36.4	18.4	2.7
DEPARTMENTAL STORES / SUPERMARKETS / HYPERMARKETS													
Dairy Farm	DFI SP	6.0	8,140	18.0	16.3	12.9	11.7	3.8	4.0	29.8	29.7	4.0	4.6
Big C	BIGC TB	199.5	4,588	20.8	18.7	12.4	11.4	1.4	1.7	17.5	17.3	10.2	2.0
Siam Makro	MAKRO TB	38.5	5,151	32.0	26.9	20.7	17.3	2.3	2.7	42.4	43.8	18.7	1.7
Matahari	LPPF IJ	16,850.0	3,400	26.3	21.7	18.4	15.8	1.8	2.3	n.m.	n.m.	24.4	1.1
Robinson RH	RRHI PM	71.5	2,131	22.4	19.5	14.1	12.0	0.7	0.9	10.5	11.1	17.1	1.3
Robinson DS	ROBINS TB	39.0	1,207	20.1	17.3	10.0	8.9	2.4	2.8	16.5	17.4	14.8	1.4
Sumber Alfaria	AMRT IJ	585.0	1,680	40.2	31.1	11.7	10.0	0.8	0.9	16.2	17.1	17.7	2.3
Mitra Adiperkasa	MAPI J	3,000.0	344	23.6	12.4	7.0	5.8	0.2	0.4	8.0	13.7	100.7	0.2
Ramayana	RALS IJ	570.0	280	13.6	12.2	4.4	3.9	4.6	4.0	9.4	9.5	0.2	70.4
Simple average				24.1	19.6	12.4	10.8	2.0	2.2	20.0	21.2	23.1	10.5
Mkt cap wtd avg			26,921	24.1	20.5	14.7	12.9	2.3	2.6	22.1	22.4	14.0	3.1
BLENDED VALUATIONS													
Simple average				26.5	22.8	12.8	11.3	2.1	2.4	22.3	23.8	17.1	5.2
Mkt cap wtd avg			47,357	26.9	22.7	15.6	13.7	2.4	2.6	27.5	28.4	15.9	2.9

Source: Bloomberg, Maybank KE ^3-year EPS CAGR from CY14-CY17

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