

[Home - Business](#)

## 7-Eleven's FY14 results broadly in line with expectations

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KUCHING: 7-Eleven Malaysia Holdings Bhd's (7-Eleven) financial year 2014 (FY14) results were broadly in line with analysts' expectations, leading to be positive on the group's long term prospects.

In a statement on Bursa Malaysia, 7-Eleven said that for the 12 months ended December 31, 2014, the group's gross profit improved by RM77.4 million or 16.6 per cent compared to the corresponding 12 months in the previous year and this was mainly attributed to the revenue growth of 13.2 per cent and gross profit marking expansion of 0.8 per cent points.

According to RHB Research Institute Sdn Bhd (RHB Research), management declared its first interim dividend per share (DPS) of 2.5 sen and a special dividend of 2.6 sen per share, bringing its total DPS for FY14 to 5.1 sen.

"This came as a surprise to us, as it implies a high payout ratio of close to 100 per cent, versus its targeted ratio of 30-50 per cent.

"Moving forward, we are forecasting for a dividend yield of 2.3-3.2 per cent, pegged to a payout ratio of 50 per cent," the research house said.

RHB Research assigned a lower payout ratio due to management's pending decision on building its own combined distribution centre, which it believes will incur high construction cost.

On store expansion, the research house noted that the fourth quarter (4Q) has seen the opening of another 68 net new stores, bringing 7-Eleven's store count to 1,745 stores at end-2014.

The lower net store openings came in within expectations and would have an immaterial effect on RHB Research's earnings assumptions (less than 0.5 per cent).

"We continue to believe that management is on track to deliver its targeted 600 net store openings by end-2016," it said.

With results coming largely in line, RHB Research's earnings per share (EPS) forecast remains unchanged. We also introduce our FY17 estimates.

"We remain positive on 7-Eleven's growth prospects, as we believe its aggressive store network expansion and refurbishment in the next two years could improve its revenue.

"We also expect a margin improvement through its better product mix and higher commission revenue from more in-store services offered," the research house said.

All in, RHB Research maintained 'buy' on 7-Eleven with a target price of RM2.00 per share, based on an unchanged 28-fold FY15F price-earnings (P/E).

Similarly, the research arm of Maybank Investment Banking Bhd (Maybank IB Research) continues to expect 7-Eleven's top-line growth to be supported by new store openings and also increased contribution from those which were renovated.

"Quicker expansion of in-store services (commission revenue) and improved product mix for 7-Eleven continue to be key to buoyant growth," it said.

Maybank IB Research expects the group to have same-store sales growth (SSSG) of 4.6/5.4 per cent for FY15/16.

While the research arm is positive on the group's long-term prospects, the impact of goods and services tax (GST) on consumer sentiment is what it will be keeping an eye on in the near term.

As such, Maybank IB Research maintained 'hold' on the stock for now, with unchanged earnings forecasts and target price of RM1.73, pegged to an FY15 price earnings ratio (PER) of 26.6-fold.