

7 January 2022

Consumer Cyclical | Retailing

Senheng New Retail (SENHENG MK)**Malaysia's E&E Retailing Champion**

- **Indicative FV of MYR1.11 on 21x FY22F P/E.** Senheng New Retail will raise MYR267.5m from its IPO. The proceeds will mostly be used to widen its store network within the next 2-3 years, and upgrade existing stores. Priced at a slight premium to its peer average, we believe its valuation is fair, as earnings prospects will be underpinned by the expansion plan as well as digitalisation efforts – further strengthening its strong position in the electric and electronic (E&E) retailing market.
- **Expansion of physical stores to reinforce market leadership in Malaysia.** Senheng is the the biggest retailer of E&E products in Malaysia by revenue, at MYR1.3bn or c.13% market share in FY21. It intends to capture more market share by expanding its store network and upgrading existing stores. A total of 61 “new” stores points to a combination of new store launches as well as refurbishments of existing stores that will be executed in the next three years (from 105 stores currently). 60% of IPO proceeds will be used for this purpose, and this will be a key growth driver. We also forecast 3-year topline CAGR of 12% for the company.
- **Digitalisation efforts to remain relevant in the retail landscape.** Despite the temporary closure of certain stores under National Recovery Plan (NRP), 9M21 revenue and earnings still grew 12% and 21% YoY, partly supported by online sales. Having introduced the seamless retail model in 2017, which integrates digitalisation in its retail strategy by way of the Senheng app, websites and third-party platforms, we believe Senheng will be able to keep up with the shifts in consumer preference for online shopping. This provides it with a competitive advantage, with FY20 online sales contributing 7.4% of total sales – higher than the industry average.
- **Loyal customer base.** With over 3m members under its PlusOne loyalty programme, which contributed 94-98% of FY18-21F total sales, we believe its sticky repeat purchases underpin robust sales growth. By the same token, Senheng's customer loyalty track record puts it in an advantageous position with suppliers – enabling it to secure the distributorship of the latest products and facilitate the further widening of its range of products ahead, from the 10,000 store-keeping units (SKUs) from 280 brands currently.
- **We are projecting a 3-year earnings CAGR of 19%,** driven by its network expansion as well as healthy sales growth assumptions – considering the planned upgrade for existing stores as well as its digitalisation strategy. Our FV of MYR1.11 is based on 21x FY22F P/E, at a 20% premium to our average valuation of consumer retail stocks under our coverage – taking into account Senheng's expansion plan, niche position as an E&E retailer pure-play and solid brand awareness.
- **Risks.** Dependence on major suppliers, low barriers to entry into the E&E retail industry, and slower-than-expected traction in online sales.

Fair Value (Return):	MYR1.11 (+4%)
IPO Price:	MYR1.07
Closing Application Date:	10 Jan 2022
Indicative Listing Date:	25 Jan 2022

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**Company Description**

Senheng is the largest consumer electrical and electronics chain retailer in Malaysia by revenue, with total sales of MYR1.29bn for FY20. The group retails consumer E&E products through its chain of 105 physical stores throughout Malaysia, as well as via online platforms.

IPO Details

Public Issue (%)	25.97
Shares outstanding (m)	1,500
Implied market cap (MYRm)	1,605

Major Shareholders (%)

SQ Digital	57.97
Lim Kim Heng	5.35
Lim Kim Chieng	5.35

Utilisation of IPO Proceeds

Expansion of retail store chain	160.5
Repayment of bank borrowings	46.0
Development of new brand distribution	22.0
Upgrade of logistics network	20.0
Boost digital infrastructure	9.7
Estimated listing expenses	9.3
TOTAL	267.5

Additional Data

Listing Market	Main Market
Bursa Code	5305

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,144.9	1,294.8	1,405.1	1,538.4	1,840.7
Gross profit (MYRm)	245.3	270.0	293.0	323.1	386.5
EBITDA (MYRm)	101.3	113.8	130.8	144.8	173.3
Recurring net profit (MYRm)	49.3	55.3	68.2	78.8	92.9
Recurring net profit growth (%)	-19.2	12.2	23.2	15.5	17.9
Net margin (%)	5.2	4.3	4.3	4.9	5.1
Recurring EPS (MYR)	0.04	0.04	0.05	0.05	0.06
Recurring P/E (x)	27.0	24.0	23.4	20.3	17.2
Return on average equity (%)	47.3	38.3	41.0	47.4	55.9
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Valuation & Financial Overview

We believe that Senheng has a fair value of MYR1.11, derived by pegging 21x to its FY22F EPS of 5.27 sen. The P/E implies a 20% premium to our valuations of other consumer retail stocks including Padini, AEON, Innature and Focus Point (ranging 17x-18x). This reflects:

- i. Senheng's ambitious expansion plan regarding an omni-channel approach, which paves the way for it to win further market share in the E&E retailing industry. It expects to grow its market share to 30% in FY25, from c.13% in FY20, whereas AEON and Padini have relatively more muted expansion targets;
- ii. Senheng's niche positioning as an E&E retail pure-play puts it at an advantage in terms of less competition when compared to the oversaturated supermarket and fashion segment;
- iii. With 280 brands under its belt and the potential to add on to its list of suppliers in the medium term – backed by its PlusOne loyalty programme, with members in excess of 3m – this puts Senheng on the path of better brand awareness ahead.

There is no direct comparison available locally, as none of the listed retailers operate purely in the E&E retail segment. We view AEON as the closest comparable, considering its similar store network as well as product offerings which include E&E products. However, AEON's earnings are primarily underpinned by its shopping mall management and grocery retail businesses. We do not benchmark Senheng against the convenience store (CVS) players Mynews and 7-Eleven, given the different business dynamics and nature of demand.

Figure 1: Peer comparison (financial metrics)

Company	FYE	Country	Price		P/E (x)			Div. Yld (%)	ROE (%)	PBV (x)	EV/EBITDA	PEG	NP Growth (%)	
			5-Jan-22 (Local Currency)	Mkt Cap (USDm)	Actual	1 Yr Fwd	2 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd		1 Yr Fwd	2 Yr Fwd
Local														
Mr DIY Group M	Dec	MY	3.65	5,467.7	68.1	52.6	38.3	0.8	43.0	20.2	28.7	1.0	29.5	37.4
7-Eleven Malaysia	Dec	MY	1.50	403.0	56.9	54.9	24.8	1.7	41.7	20.0	10.0	0.2	3.6	121.2
Padini Holdings	June	MY	2.91	456.6	34.9	22.8	16.4	2.2	10.5	2.4	10.0	0.4	52.6	39.4
AEON Co (M)	Dec	MY	1.40	468.8	47.5	39.7	19.0	1.7	2.9	1.2	6.9	0.2	19.7	108.6
Mynews	Oct	MY	0.84	136.7	-13.1	32.9	19.4	1.1	7.0	2.3	10.0	0.3	-139.7	69.9
Mkt. Cap Weighted Avg.					62.5	49.5	34.4	1.0	37.4	17.1	24.5			

Source: Bloomberg, RHB

Earnings forecasts. We are projecting a 3-year earnings CAGR of 19% for Senheng, mainly driven by its network expansion over the next few years by c.60 stores. We also imputed healthy SSSG assumptions ranging between 2% and 10% for FY21-23F, underpinned by the planned upgrade for existing stores as well as its digitalisation strategy. Note that SSSG in FY18-20 ranged between -1.6% and 33.2%. Its outperformance in FY18 being attributed to the tax holiday that year which supported consumption.

In the grander scheme of things, we are generally positive on the broader reopening of the economy that should take place and sustain in FY22. In addition to consumer spending which is expected to be elevated due to government assistance, we believe that the impending return in foot traffic will bode well for this retailer, especially as restrictions to proceed with its expansion plans should be minimal – with vaccinations reaching a critical mass.

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Figure 2: No of stores to be opened/upgraded

Store concept	Number of stores			Number of stores to be opened/upgraded				Total new stores
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	
Grand Senheng Elite	-	-	-					
New stores				-	3	4	3	12
Upgrades				1	1			
Grand Senheng	9	19	29					
New stores				2	5	12	11	46
Upgrades				9	7			
Grand senQ digital stations	-	-	-					
New stores				-	-	2	3	8
Upgrades				-	3			
senQ digital station	29	29	30					
New Stores				-	2	3	2	7
Senheng	75	57	44					
				-	-	-	-	-
Total	113	105	103	12	21	21	19	73

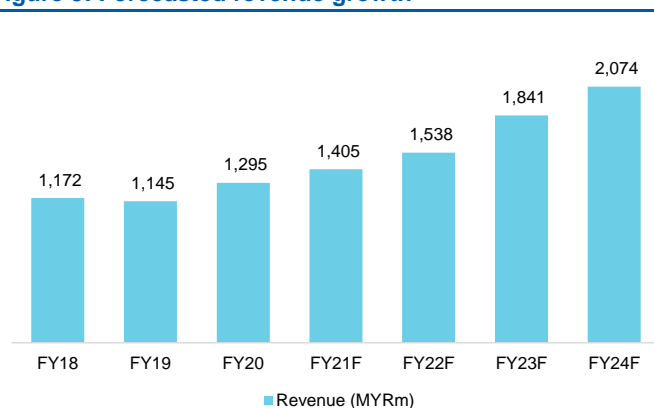
Source: Company data, RHB

Net gearing and dividend payout. Senheng's net gearing stood at 0.1x as at Sep 2021, while the group has been in a net cash position between FY18 and FY20. Post listing, MYR46m of the IPO proceeds will be used to pare down borrowings. The company has no plans to pay dividends for FY21, but has a dividend payout policy of not less than 30%. We forecast prospective yields of 1.3-1.7% in FY21-23, assuming a payout ratio of 30%.

9MFY21 results review. Senheng's 9MFY21 revenue grew by 12.3% YoY, driven by the higher number of "Grand Senheng" stores and the increase in its average monthly sales. This was, in part, aided by the telemarketing automation application that the group began using during the onset of the pandemic in FY20, which enables employees to promote and sell products remotely. Additionally, the refocus towards digital marketing and online stores also mitigated the impact of the temporary store closures during the period under review.

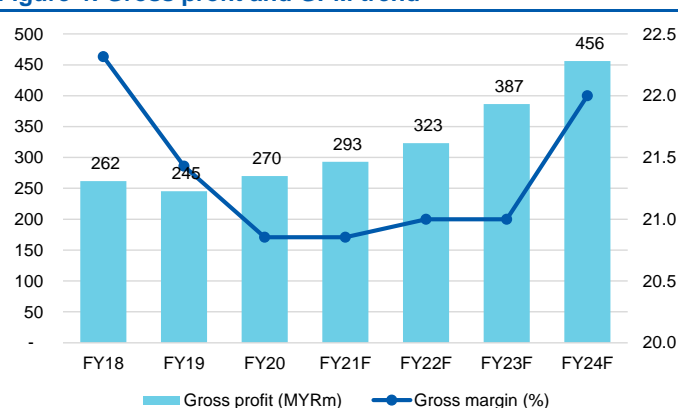
Correspondingly, 9M21 core profit grew by 21% YoY to MYR34.5m, while 9MFY21 gross margin crept up to 20.9% (+0.4ppt). Its GPM depends on the product mix, as certain product categories (audio-visual, home appliances) have higher GPMs compared to others. We gather that cost containment in the form of discounts from suppliers amounting to 16-17% of COGS took place in FY20-FY21F, so we do not rule out the possibility of margins staying at a subdued 20-23%. The higher margin assumptions is premised on the fact that Senheng may be able to source products that fetch better margins, such as those under the brands Jimmy, ROBAM and Delighto. We also believe that incentives from suppliers are likely to still remain elevated going into FY22, as Senheng should be able to meet its sales target, in our view.

Figure 3: Forecasted revenue growth



Source: Company data, RHB

Figure 4: Gross profit and GPM trend



Source: Company data, RHB

Outlook

Upgrading and expanding chain of physical stores

Senheng aims to be the largest E&E retailer in terms of floor space and product range, so as to provide customers with a wholesome retail experience. The target to increase the size of the individual retail outlets is through the opening of new stores, upgrading existing stores and introducing a new store concept "Grand senQ". The Group intends to open 11 "Grand Senheng Elite" stores, 37 "Grand Senheng" stores, 8 "Grand senQ" stores and 7 new senQ stores. It has allocated 60% of its IPO proceeds of MYR160.5m to expand its retail network.

Figure 5: Estimated breakdown of utilisation for store expansion

Details	MYRm	%
Acquisition of new properties	72.5	45.17
Rental expenses	35.0	21.81
Set-up costs for new and upgraded stores	53.0	33.02
Total	160.5	100.00

Source: Company data, RHB

Expansion of product portfolio through a new brand distribution business

Senheng has been appointed the exclusive distributor in Malaysia for two international brands since 2020; "Robam" and "Jimmy", and is involved in the direct import and distribution of these brands. Additionally, the Group has launched its own range of cookware products under house brand "Delighto".

Moving forward, Senheng targets to develop its new brand distribution business so as to offer a wider range of products by continuing to look out to other countries for suitable brands to import and distribute in Malaysia, focusing on kitchen appliances, home electrical items, personal and beauty care appliances, as well as Internet of Things products.

Figure 6: Brands exclusively distributed by Senheng



Source: Company

Increasing warehouse storage space and strengthening logistics network in East Malaysia

The group is in the midst of expanding its Kota Kinabalu regional hub by constructing a new adjacent warehouse and increasing the number of loading bays. Senheng is also in the midst of relocating its Kuching regional hub to a larger warehouse acquired in 2020. Moving forward, the group intends to construct a regional hub in Bintulu which will be the distribution centre for physical stores and customers in Bintulu and Sibul.

Boosting digital infrastructure

Senheng intends to implement the following enhancements to its digital infrastructure over the next 3 years in an effort to support its seamless processes and data analytics:

- i. Establishing a data lake and upgrading existing technology platforms;
- ii. Cloud-based disaster recovery system;
- iii. Enhance the warehouse management system (WMS) and enterprise resource planning (ERP) system;
- iv. Maintenance of its digital infrastructure.

Key Risks

Competition from other industry players

While Senheng is the only retailer specialising in the E&E segment to be listed locally, competition still exists arising from a large number of players offering said products including other consumer E&E product retailers, hypermarkets, department stores and online retailers. They also face competition from mono-brand electronics shops operated by brand principals that exclusively sell their own branded products as well as specialty electronic shops selling digital gadgets and/or audio visual products.

With low barriers to entry for the E&E retail industry – as most of these products are easily sourced and the upfront cost required by a new player can be low if they start with a small range of products – Senheng could potentially face increasing competition from new entrants into the industry, thereby resulting in competition in terms of product range, pricing, outlet locations, product presentation and customer service.

Disruption in the supply of goods from suppliers

Senheng stores carry about 10,000 SKUs from over 280 international and local brands comprising digital gadgets, audio visuals and homes appliances supplied by the brand principals or through their appointed distributors. It is highly dependent on its top 5 suppliers which collectively supply 56.64%, 59.21% and 64.31% of total purchases for FY18, FY19 and FY20.

Any disruption or cessation in supply from its supplies may result in a shortage of supply to retail outlets. This would adversely impact its sales performance as customers resort to shopping elsewhere for these products – considering that demand for many of these brands' categories such as mobile phones, laptop computers and televisions is relatively inelastic.

Figure 7: Senheng's major suppliers

Suppliers	Length of business relationship (years)	Total purchases of the Group (%)		
		FY18	FY19	FY20
Samsung Malaysia Electronics (SME)	16 (32 including other distributors)	19.2	20.2	20.5
Panasonic Malaysia	27	13.8	12.4	8.35
VSTECs (supplies Apple, Asus, HP, Microsoft)	21	8.2	11.6	20.0
Sharp Electronics (Malaysia)	27	8.2	8.4	8.1
Sony (Malaysia)	24	7.3	6.8	7.3
Total		56.6	59.2	64.31

Source: Company data, RHB

Failure to effectively integrate omni-channel model

Having introduced the retail model to integrate online and offline retail channels, Senheng believes that the proportion of sales generated from online stores will continue to gain momentum and become an integral part of its retail strategy. Online sales so far have contributed to 3.1%, 3.3% and 7.4% of total sales for FY18, FY19 and FY20 respectively.

Senheng is dependent on the continued performance, reliability and availability of online stores to sustain the increasing traffic. The inability to provide secure and reliable access to online stores – particularly during peak periods such as sales or festive seasons – may result in the loss of potential sales to competitors.

Company Overview

Senheng is the largest consumer electrical and electronics chain retailer in Malaysia by revenue, with total sales of MYR1.29bn for FY20. The group retails consumer E&E products through its chain of 105 physical stores located throughout Malaysia, as well as via online platforms.

All Senheng stores carry about 10,000 SKUs from over 280 different brands – offering a wide range of digital gadgets, audio-visual items, home appliances and other related products from major international and local brands. More recently, the group ventured into the direct importation and distribution of branded kitchen appliances, home electrical items, personal and beauty care appliances and launched its own range of cookware products under its house brand, Delighto.

Figure 8: Revenue breakdown by products and services

	FY18	FY19	FY20
Digital gadgets	32.1	32.7	35.8
Audio visual	20.5	19.1	18.5
Home appliances	36.8	38.2	36.3
Other products	2.2	2	1.8
Delivery, installation, maintenance and repair services	2.5	2.7	2.7
Warranty services	5.9	5.3	4.9
	100	100	100

Source: Company

Digital gadgets include mobile phones, tablets, personal and gaming computers, smart wearables, cameras, printers, drones, gaming equipment and other related accessories.






























Audio visual items include televisions, home theatre systems, audio players, audio speakers and other related accessories.

Home appliances comprise consumer durables for domestic use including air purifiers, air conditioners, refrigerators, fans, vacuum cleaners, kettles, coffee machines, cooking appliances, hair dryers and other related accessories.

Other products comprise concession sales of products displayed at our stores by third parties, PlusOne membership fees, mobile data plan subscriptions, cookware and home solutions.

Delivery, installation, maintenance and repair services comprise last mile delivery services, installation and commissioning services provided for certain products purchased from Senheng as well as maintenance and repair services to customers and non-customers.

Figure 9: Featured brands available in-store

Source: Company

With approximately 797,000 sqf of physical retail space, Senheng operates its stores under four concepts namely “Grand Senheng Elite”, “Grand Senheng”, “Senheng” and “senQ”. Moving forward, the group continues to expand and upgrade its network of physical stores both by opening new stores and upgrading certain existing stores. The physical stores are operated either directly by the group itself (86 stores) or via an incentive programme with long-serving store managers that participate in the group’s franchise or inventive programme (19 of 105 stores).

Senheng’s own loyalty programme, known as PlusOne, has 3.24m registered members – 2.94m of which have signed up for a paid membership tier as at the time of writing. For the period under review, sales generated by the members contributed over 90% of the group’s annual revenue. Paid members enjoy benefits such as additional extended warranty coverage of up to 24 months free of charge on top of the standard warranty. This is in addition to special members-only prices and promotions, as well as free nationwide delivery subject to terms and conditions. All PlusOne members (save for PlusOne Corporate members) are able to collect S-Coins on their purchases.

Figure 10: “Senheng”, “Grand Senheng”, “Grand Senheng Elite”, “senQ”, “Grand senQ” stores



Source: Company

Management team. Senheng is led by an experienced management team. Since 1989, the management team continues to be led by Lim Kim Heng and Lim Kim Chieng, who serve as Non-Independent Executive Chairman and President/Non-Independent Executive Director. Lim Kim Heng has 40 years of retailing experience and has played a pivotal role in steering the group’s strategic direction, refocusing its business models and leveraging on new digital technologies. Lim Kim Heng and Lim Kim Chieng are assisted by other key senior management personnel with expertise across a broad spectrum of business activities, with an average of 21 years of retail experience or in their respective fields.

IPO Details

IPO proceeds utilisation. Senheng's IPO entails a public issue of 250m new ordinary shares at an IPO price of MYR1.07 per share. Total IPO proceeds will be an estimated MYR267.5m – the bulk of which (60%) will be used to upgrade and expand its existing chain of retail stores, at MYR160.5m. MYR46m or 17.2% of the proceeds will be used to pare down debt. Almost 20% of the proceeds (MYR51.7m) will be utilised for the development and expansion of its distribution and logistical network, as well as the improvement of their digital infrastructure. Other uses of the proceeds are for IPO expenses (underwriting, brokerages, advertising, etc) at 3.5% or MYR9.3m.

Figure 11: Utilisation of IPO proceeds

Details	Amount (MYRm)	Percentage (%)	Estimated timeframe for utilisation upon listing
Enhance customer experience via upgrading and expanding chain of retail stores	160.5	60.00	Within 36 months
Repayment of bank borrowings	46.0	17.20	Within 6 months
Develop new brand distribution business	22.0	8.22	Within 36 months
Expand and upgrade our warehouse and logistics network	20.0	7.48	Within 36 months
Boost our digital infrastructure	9.7	3.63	Within 36 months
Estimated listing expenses	9.3	3.47	Within 3 months
Total Public Issues Proceeds	267.5	100.00	

Source: Company data, RHB

Figure 12: Indicative IPO timeline

Events	Date
Issuance of Prospectus / Opening date of IPO	10:00am, 29 Dec 2021
Closing date of IPO	5:00pm, 10 Jan 2022
Balloting of applications for IPO shares	12 Jan 2022
Allotment of IPO shares to successful applicants	21 Jan 2022
Listing	25 Jan 2022

Source: Company data, RHB

Figure 13: Offering structure

	m shares	% of enlarged share base
Institutional	337.0	22.47%
<i>Bumi</i>	187.5	12.50%
<i>non-Bumi</i>	149.5	9.97%
Retail	52.5	3.50%
<i>Eligible persons (directors, employees and etc)</i>	22.5	1.50%
<i>Public</i>	30.0	2.00%
Total IPO offering	389.5	25.97%

Source: IPO prospectus

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