

**HLIB Research**

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**BUY** (Initiate)

**Target Price:** **RM1.98**
**Previously:** **N.A.**
**Current Price:** **RM1.65**

Capital upside	20.0%
Dividend yield	1.8%
Expected total return	21.8%

**Sector coverage:** Consumer

**Company description:** 99SMart operates a chain of mini-market outlets involved in the retailing of FMCG across Malaysia.

**Stock information**

Bloomberg ticker	99SMART MK
Bursa code	5326
Issued shares (m)	8,400
Market capitalisation (RM m)	13,860
SC Shariah compliant	No
F4GBM Index Member	No
ESG rating	NA

**Major shareholders**

Lee YLG Holdings	51.5%
Lee Thiam Wah	25.7%
Ng Lee Tieng	3.2%

**Earnings summary**

FYE (Dec)	FY23	FY24f	FY25f
PATMI – core (RM m)	400.2	485.4	555.4
EPS – core (sen)	4.8	5.8	6.6
P/E (x)	34.6	28.6	25.0

# 99 Speed Mart

## Speedy expansion

Projected FY23-26f revenue and net profit CAGR of 12.4% and 15.2%, will be driven by (i) the opening of 250 retail outlets annually; and (ii) stable SSSG of 2% per annum. The company has committed to a 50% dividend payout policy, supported by its robust free cash flow generation and a healthy net cash position. We initiate coverage on 9SMart with a BUY call and TP of RM1.98 based on 30x PE on FY25 earnings. While this PE implies a ~40% premium to 99SMart's peers, we believe this is warranted on the back of its market leader position coupled with aggressive store expansion.

**Background.** 99SMart operates the popular “99 Speedmart” chain of mini-market stores with 2,651 outlets nationwide as of Jul-24. The company's merchandising strategy focuses on offering a diverse range of daily essentials, primarily fast-moving consumer goods (FMCG) such as food and beverages, personal care and baby care products, and various household items. This approach is designed to meet the everyday needs of its customers while maintaining convenience and affordability.

**Dominant leader in mini-market retail segment.** The group operates within the grocery-based segment of the retail industry, particularly in the mini-market segment that is growing and resilient. According to Frost & Sullivan, 99SMart has a strong market share of 40.1% by sales within the mini market industry in 2023. In 2023, 99SMart had also the largest number of outlets among the Malaysian mini-market players. Despite that, there are still room for expansion in the East Coast regions and East Malaysia which still has a low penetration rate.

**Competitive pricing.** Its high volume of purchases and direct negotiation with principal brand owners and wholesale suppliers allows them to purchase goods at a lower cost. By achieving lower procurement costs, they are able to pass on some of the cost savings to customers. Its large number of outlets enables the group to generate other operating income such as product display fees, target incentives and advertising and promotional fees. These other operating income sources are relatively significant, at 8.7%-9.3% when stacked against its FY20-23 revenue, or 9.1%-9.6% against its gross profit.

**Flexibility to accommodate future growth and scale efficiently** given (i) strategic positioning of outlets; (ii) uniformity of outlets' layout with curated product selection; (iii) prime size of 2k-3k sqft for convenience; and (iv) short payback period of three years with minimal RM300k capex (excluding inventories). Apart from that 99SMart also owns its nationwide network of 19 distribution centres in nine different states that support its retail management and control system.

**Forecast.** We expect 99SMart to record FY23-26f revenue and net profit CAGR of 13.1% and 15.8%, respectively. This projected growth will be driven by (i) the opening of 250 retail outlets annually; and (ii) stable SSSG of 2% per annum. The company is committed to a 50% dividend payout policy, supported by robust free cash flow generation and a healthy balance sheet with a net cash position. Nevertheless, based on its IPO price, its dividend yield is relatively unattractive at 1.8%.

**Initiate with a BUY, TP: RM1.98.** We initiate coverage on 99SMart with a BUY call and TP of RM1.98 based on 30x PE of FY25 earnings. This PE implies a ~40% premium to 99SMart's peers as we believe this is warranted on the back of its market leader position coupled with aggressive store expansion.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Income statement

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Revenue	8,075.3	9,210.5	10,455.9	11,713.8	13,088.7
COGS	-7,343.2	-8,407.5	-9,507.7	-10,680.4	-11,986.7
EBITDA	732.0	803.1	948.2	1,033.4	1,102.0
D&A	-209.0	-222.2	-268.9	-261.9	-256.8
EBIT	523.0	580.9	679.3	771.5	845.2
Finance income	3.1	1.4	1.4	1.4	1.4
Finance cost	-42.0	-44.0	-42.0	-42.0	-42.0
PBT	484.1	538.2	638.7	730.9	804.6
Tax	-157.4	-138.0	-153.3	-175.4	-193.1
PAT	326.7	400.2	485.4	555.4	611.5
Exceptionals	0.0	0.0	23.4	0.0	0.0
<b>Core PAT</b>	<b>326.7</b>	<b>400.2</b>	<b>508.8</b>	<b>555.4</b>	<b>611.5</b>
HLIB/Consensus %			111%	108%	111%

### Balance sheet

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Cash	85.1	137.6	552.0	832.3	1,134.2
Receivables	27.8	41.9	43.0	48.1	53.8
Inventories	1,093.0	1,174.4	1,092.5	1,222.4	1,367.5
PPE	386.1	479.4	535.0	582.3	622.4
Others	788.5	833.0	756.6	695.4	646.5
<b>Assets</b>	<b>2,380.4</b>	<b>2,666.3</b>	<b>2,979.0</b>	<b>3,380.5</b>	<b>3,824.5</b>
Payables	805.2	982.1	1,040.4	1,164.2	1,302.4
Debt	56.5	51.9	51.9	51.9	51.9
Others	886.9	1,090.7	1,090.7	1,090.7	1,090.7
<b>Liabilities</b>	<b>1,748.6</b>	<b>2,124.8</b>	<b>2,183.0</b>	<b>2,306.8</b>	<b>2,445.0</b>
Shareholder's Capital	-	474.5	474.5	474.5	474.5
Reserves	-	(457.0)	(457.0)	(457.0)	(457.0)
Retained earnings	614.4	524.1	778.5	1,056.2	1,362.0
Others	17.5	-	-	-	-
<b>Equity</b>	<b>631.9</b>	<b>541.6</b>	<b>796.0</b>	<b>1,073.7</b>	<b>1,379.5</b>

### Cash Flow Statement

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
PBT	484.1	538.2	638.7	730.9	804.6
D&A	209.0	222.2	268.9	261.9	256.8
WC Changes	(131.9)	121.9	139.2	(11.4)	(12.6)
Others	(159.4)	(140.5)	(227.9)	(273.4)	(291.1)
<b>CFO</b>	<b>401.9</b>	<b>741.8</b>	<b>818.8</b>	<b>708.0</b>	<b>757.7</b>
Capex	(102.3)	(160.2)	(150.0)	(150.0)	(150.0)
Others	317.7	1.1	-	-	-
<b>CFI</b>	<b>215.4</b>	<b>(159.1)</b>	<b>(150.0)</b>	<b>(150.0)</b>	<b>(150.0)</b>
Dividends	(431.8)	(390.5)	(254.4)	(277.7)	(305.7)
Changes in borrowing	5.8	(4.6)	-	-	-
Others	(130.0)	(135.1)	-	-	-
<b>CFF</b>	<b>(555.9)</b>	<b>(530.2)</b>	<b>(254.4)</b>	<b>(277.7)</b>	<b>(305.7)</b>
Starting Cash	23.8	85.1	137.6	552.0	832.3
Changes in Cash	61.3	52.5	414.4	280.3	301.9
Bank Over Draft	-	(0.0)	-	-	-
<b>Ending Cash</b>	<b>85.1</b>	<b>137.6</b>	<b>552.0</b>	<b>832.3</b>	<b>1,134.2</b>

### Quarterly financial summary

FYE Dec	2Q23	3Q23	4Q23	1Q24	2Q24
Revenue	2,235.6	-	-	2,424.9	2,418.9
COGS	(1,790.3)	-	-	(1,885.5)	(1,881.7)
EDITDA	445.2	-	-	539.3	537.2
D&A	(55.6)	-	-	(58.1)	(60.2)
EBIT	389.7	-	-	481.2	476.9
Finance income	(10.4)	-	-	(10.9)	(11.1)
Finance cost	(276.5)	-	-	(291.9)	(296.4)
PBT	102.7	-	-	178.5	169.5
Tax	(27.2)	-	-	(45.3)	(43.9)
PAT	75.5	-	-	133.2	125.5
Exceptionals	-	-	-	-	-
<b>Core PAT</b>	<b>75.5</b>	<b>-</b>	<b>-</b>	<b>133.2</b>	<b>125.5</b>

### Valuation Ratios

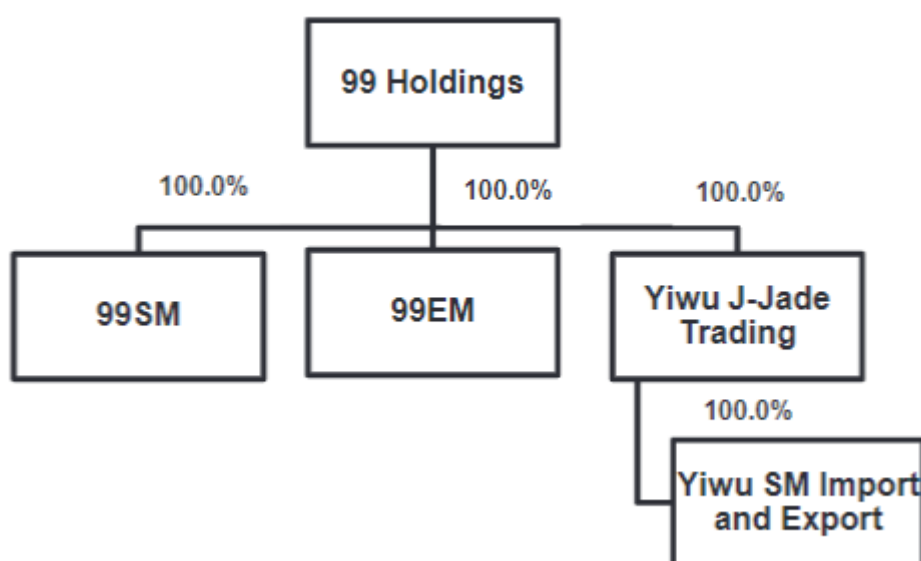
FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Core EPS	3.9	4.8	6.1	6.6	7.3
P/E (x)	42.4	34.6	27.2	25.0	22.7
EV/EBITDA (x)	18.9	17.2	14.6	13.4	12.5
DPS (sen)	5.1	4.6	3.0	3.3	3.6
Dividend yield	3.1%	2.8%	1.8%	2.0%	2.2%
BVPS (RM)	7.5	6.4	9.5	12.8	16.4
P/B (x)	21.9	25.6	17.4	12.9	10.0
EBITDA margin	9.1%	8.7%	9.1%	8.8%	8.4%
EBIT margin	6.5%	6.3%	6.5%	6.6%	6.5%
PBT margin	6.0%	5.8%	6.1%	6.2%	6.1%
Core PATAMI margin	4.0%	4.3%	4.9%	4.7%	4.7%
ROE	51.7%	73.9%	63.9%	51.7%	44.3%
ROA	13.7%	15.0%	17.1%	16.4%	16.0%
Net gearing	Cash	Cash	Cash	Cash	Cash

## Company Background

99 Speed Mart Retail Holdings Bhd (“99SMart”) operates the popular “99 Speedmart” chain of mini-market stores with 2,651 outlets and 19 distribution centres nationwide as of end Jul 2024. The company’s merchandising strategy focuses on offering a diverse range of daily essentials, primarily fast-moving consumer goods (FMCG) such as food and beverages, personal care and baby care products, and various household items. This approach is designed to meet the everyday needs of its customers while maintaining convenience and affordability.

The history of the group can be traced back to 1987 when Lee Thiam Wah established a traditional sundry shop named “Pasar Raya Hiap Hoe” in Klang. This subsequently grew into a mini-market chain called “Pasar Mini 99” in 1992 and by 2000, it started operating under its current trade name, “99 Speedmart” (via 99SM). The group expanded its business operations into East Malaysia (via 99EM) in 2013. In Sep-23, the group incorporated Yiwu J-Jade Trading in China for the purpose of procuring selected merchandise items that are suitable for sale in its mini-market outlets in Malaysia, such as household products.

**Figure #1** 99SMart corporate structure



Company Data

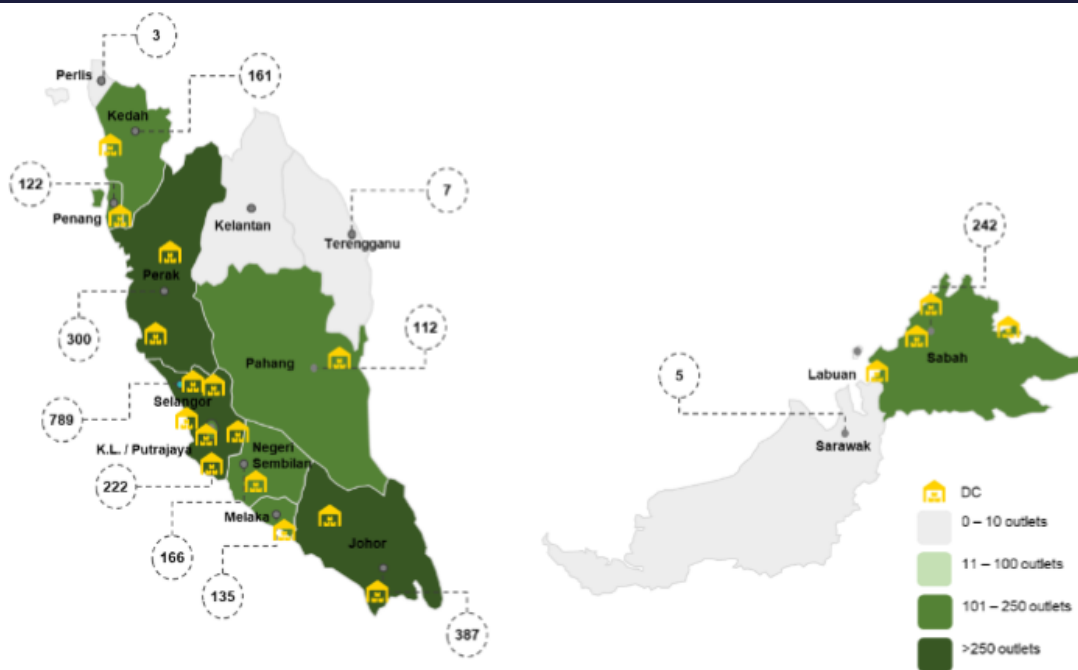
**Figure #2** Key milestones

Year	Event
1987	Lee Thiam Wah set up his first traditional sundry shop named “Pasar Raya Hiap Hoe”
1992	Ninety Nine Market, a sole proprietor was set up by Lee Thiam Wah to operate a mini-market chain business which carried the name “Pasar Mini 99”
2000	99SM was incorporated and started operating under the trade name “99 Speedmart” with its first outlet open in Batu Belah, Klang, Selangor
2002	Opened first head office and DC located at Jalan Kapar, Klang, Selangor was completed and commissioned in October 2002
2003	Acquired the assets and assumed the liabilities of Ninety Nine Market from Lee Thiam Wah comprising 8 outlets and 1 small warehouse
2006	Awarded the first Consumer Choice Award from the Ministry of Domestic Trade and Consumer Affairs, Malaysia (currently known as the MDTCL)
2008	Launched its 100th outlet at Pinggiran Batu Caves, Selangor
2013	99EM was incorporated and its 1st outlet and DC were established in Kota Kinabalu, Sabah
2014	5th DC located in Rawang, Selangor started operations
2015	Commenced operations of new headquarters and DC in East

	Malaysia, located in Kota Kinabalu, Sabah, replacing the one we opened in 2013
2016	Head office was relocated to a self-owned property known as Wisma 99 in Taman Berkeley, Klang, Selangor
2017	Launched 1,000th outlet at Shah Alam, Selangor
2020	10th DC commenced operations at Senai, Johor
2021	Launched its 2,000th outlet in Puncak Sentul, Kuala Lumpur
2022	Introduced "99 Bulksales" via its online website www.99bulksales.my, to retail customers as well as enterprise customers
2023	Subsidiaries in the PRC were incorporated

Company Data

**Figure #3 Geographical breakdown of 99SMart outlets and distribution centres as of Jul 2024**



Company Data

## IPO Details

Based on the IPO price of RM1.65/share to be listed on the Main Market today, the gross proceeds of approximately RM660.0m from the exercise will be mainly utilised for (i) expansion of network of outlets; (ii) establishment of new distribution centres; (iii) purchase of delivery trucks; (iv) upgrading existing outlets; (v) repayment of borrowings; and (vii) defray fees and expenses relating to the IPO and listing (see Figure #4-5). The group expects to raise RM203.9m through the public issue of 190.6m new shares and the IPO exercise also involves an offer for sale of approximately 129.5m existing ordinary shares.

**Figure #4** Details of the IPO

Category	Offer for Sale		Public Issue		Total	
	No. of Shares ('000)	% <sup>(1)</sup>	No. of Shares ('000)	% <sup>(1)</sup>	No. of Shares ('000)	% <sup>(1)</sup>
<b>Retail Offering:</b>						
Eligible Persons:						
- Our Directors	-	-	3,000	*	3,000	*
- Eligible employees of our Group	-	-	7,564	*	7,564	*
- Persons who have contributed to the success of our Group	-	-	31,436	0.4	31,436	0.4
Malaysian Public (via balloting):						
- Bumiputera	-	-	84,000	1.0	84,000	1.0
- Non-Bumiputera	-	-	84,000	1.0	84,000	1.0
<b>Sub-total</b>	-	-	<b>210,000</b>	<b>2.5</b>	<b>210,000</b>	<b>2.5</b>
<b>Institutional Offering:</b>						
- Bumiputera investors approved by the MITI	860,000	10.2	190,000	2.3	1,050,000	12.5
- Malaysian institutional and selected investors	168,000	2.0	-	-	168,000	2.0
<b>Sub-total</b>	<b>1,028,000</b>	<b>12.2</b>	<b>190,000</b>	<b>2.3</b>	<b>1,218,000</b>	<b>14.5</b>
<b>Total</b>	<b>1,028,000</b>	<b>12.2</b>	<b>400,000</b>	<b>4.8</b>	<b>1,428,000</b>	<b>17.0</b>

Company Data, HLIB Research

**Figure #5** IPO Proceeds

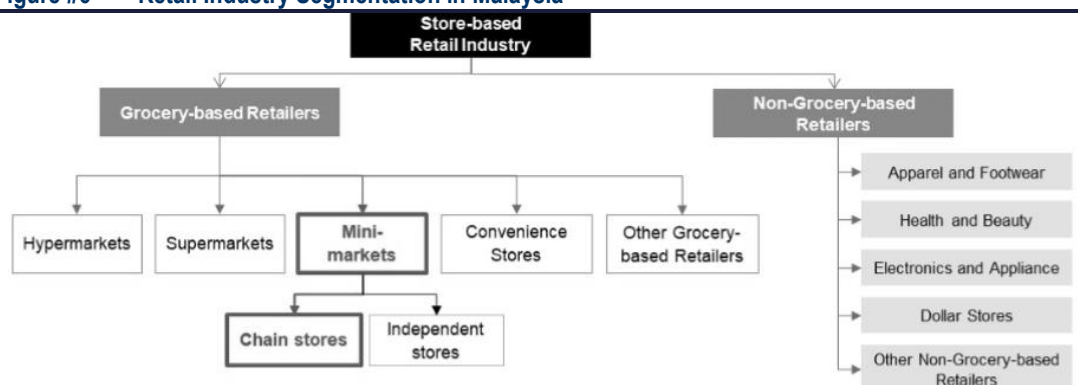
Details of use of proceeds	Estimated timeframe for use from the date of IPO	RM m	%
Expansion of network of outlets	Within 36 months	389.0	59.8
Establishment of new DCs	Within 36 months	100.0	15.2
Purchase of delivery trucks	Within 36 months	55.0	8.3
Upgrading of existing outlets	Within 36 months	47.6	7.2
Repayment of borrowings	Within 6 months	45.0	6.8
Defray fees and expenses relating to IPO and listing	Within 6 months	23.4	3.6

Company Data

## Investment Thesis

### Dominant leader in mini-market retail segment

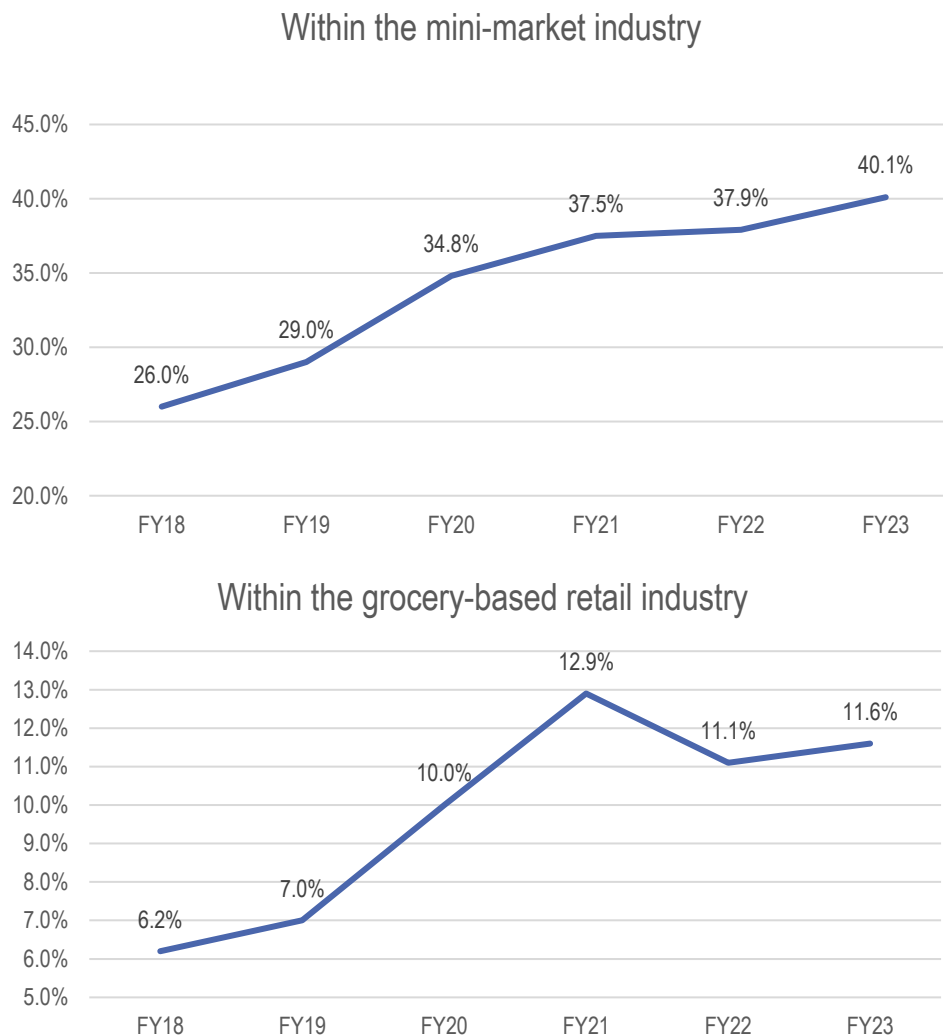
99SMart group operates within the grocery-based segment of the retail industry, particularly in the mini-market segment that is growing and resilient (Figure #6).

**Figure #6** Retail Industry Segmentation in Malaysia

Company Data

According to Frost & Sullivan Report, 99SMart had a strong market share of 40.1% by sales within the mini market industry in 2023. The group is also a leading player in the broader grocery-based retail industry, with a market share of 11.6 % by sales in 2023 (Figure #7). In 2023, 99SMart also commanded the largest number of outlets amongst Malaysian mini-market players. The mini-market retail segment in Malaysia is expected to grow at a CAGR of 5.4% from 2023 to 2028 driven by the expansion of chain retailers as they continue to cater to consumers seeking convenience and accessibility. The group is well-positioned to ride on this growth, especially by implementing its plan to expand its network of outlets across Malaysia.

**Figure #7 99SMart Market Share within the mini market and grocery-based retail industry**



*Company Data*

### Competitive pricing

The group focuses on offering a range of curated and tailored products within the daily necessities product categories with an attractive price-to-quality value proposition, making them well-positioned to benefit from the resilient consumer demand in this segment of the market.

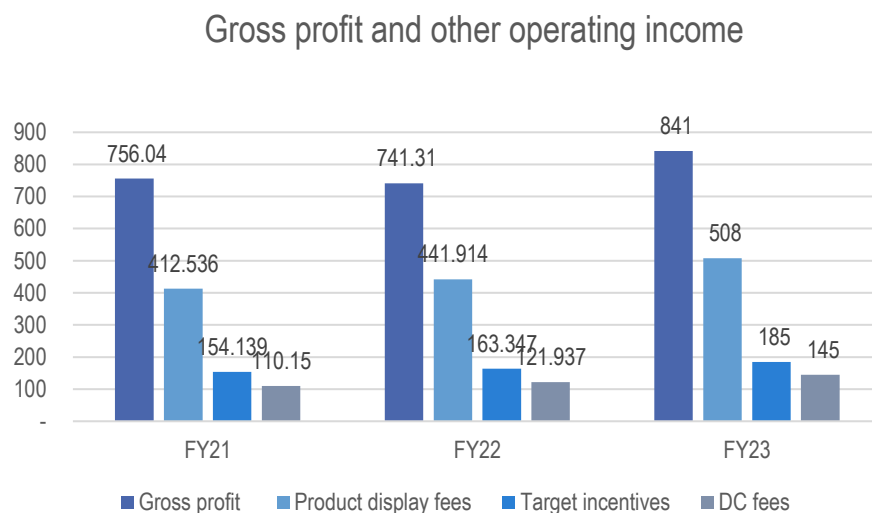
The group has successfully capitalised on this strategy, evidenced by its growing outlet network in Malaysia at a CAGR of 12.0%, from 1,799 outlets as at FY20 to 2,526 outlets by FY23 – alongside its increase in revenue at a CAGR of 10.4%, from RM6.8bn in FY20 to RM9.2bn in FY23.

99SMart's business strategy to achieve high sales volume with sustainable profit margins are backed by true and tested strategies. Its high volume of purchases and direct negotiation with principal brand owners and wholesale suppliers allows them to purchase goods at a lower cost. By achieving lower procurement costs, they are able to pass on some of the cost savings to customers, which enables them to be competitive in their pricing.

While the products are sold at competitive prices, the group is able to achieve sustainable profit margins due to its low fixed operating costs which is achieved through rigorous cost controls and reaping economies of scale.

Its large number of outlets enables the group to generate other operating income such as product display fees, target incentives and advertising and promotional fees. These other operating income sources are relatively significant, at 8.7%-9.3% when stacked against FY20-23 revenue or 9.1%-9.6% against gross profit (Figure #8). The scale of its operations also makes it feasible to operate its own distribution centres and delivery trucks, which helps to reduce transportation cost and improve margins and efficiency.

**Figure #8** Gross profit and other operating income



Company Data

### Robust business platform that offers flexibility to accommodate future growth and scale efficiently

**Strategic positioning of outlets.** With its tagline, “Near ‘n Save”, 99SMart aims to provide customers with a convenient shopping experience at competitive prices. The strategic locations of outlets in close proximity to residential communities in urban, suburban and rural areas, allow customers to easily and conveniently visit its stores, eliminating the need for long commutes or extensive travel. Other factors that are taken into consideration when selecting the location are the area’s population density, proximity to main roads and ease of access. Additionally, its outlets generally operate seven days a week, prioritising convenience for customers.

**Uniformity in outlets’ layout with curated product selection.** 99SMart maintains consistent and standardised design elements, arrangements, and configurations across all its outlets. This improves operational efficiency and ensures that customers can expect a familiar and cohesive shopping experience at all outlets (Figure #9). This includes factors such as the placement of shelves, product displays, aisle layout and overall outlet organisation. 99SMart carries approximately 3.3k SKUs on average, across 50 products categories with carefully selected product offerings of mainly daily necessities, comprising FMCG such as food and beverages, personal and baby care products as well as household products.

**Figure #9** Typical 99SMart outlets’ layout



Company Data

**Prime size outlet for convenience.** A supermarket and hypermarket typically has an average floor size of 5k to 25k sqft and more than 25k sqft respectively, while a convenience store has an average floor size of less than 2k sqft. By having a smaller floor size, typically ranging from 2k-3k sqft the group effectively tailors its product offering to better meet the daily needs of its customers. Most of its outlets consist of two shop lots or one corner shop lot (Figure #10). This enables the group to offer items that resonate more closely with customers' requirements.

**Figure #10** Example of strategic location of corner lot shop and 2 shop lots



*Company Data*

On the other hand, having larger floor size outlets as compared to other convenience stores provides customers with an expanded selection of grocery-related products, enhancing their shopping experience with a wider options.

In addition to that, 99SMart also provides a range of consumer services via its Speedpoint service, including utility bills payment, mobile prepaid reloads, among other offerings. These services enhance convenience for consumers, complement the sales of products in its outlets and enables them to attract more foot traffic.

**Short payback period.** The payback period of its outlets are typically less than three years on average with minimal capex of c.RM300k (excluding inventory). Based on management's guidance, it usually take about three to five years for new outlets to mature and achieve sales levels comparable to other existing outlets in the vicinity.

### Still opportunity for expansion

The mini-market industry in Malaysia, with a revenue of RM21.3bn in 2022, is composed of a significant number of independent mini-market retailers and chain mini-market retailers. Among the chain mini-market retailers, 99SMart stands out as the market leader holding a market share of 75.4% in 2022 (Figure #11) with the largest number of outlets (Figure #12).

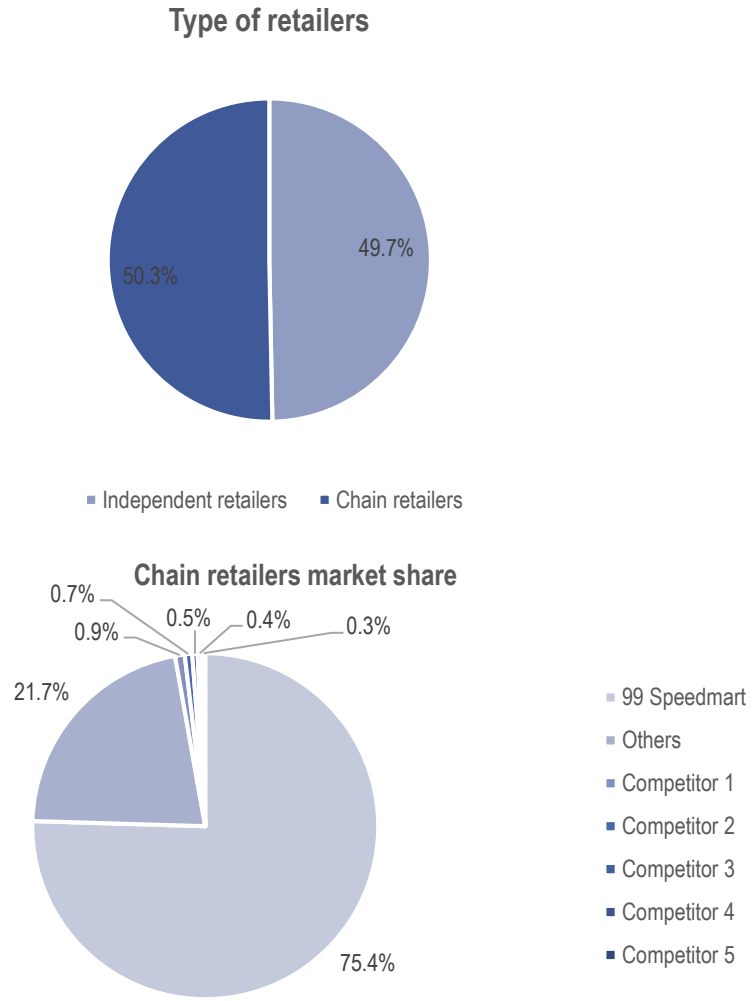
We anticipate a significant growth in its market share in the coming years due to several factors, namely;

- i. The proactive outlet opening strategy and availability of whitespace areas allows the company to expand its presence in various locations across Malaysia to reach new customers and expand its customer base.



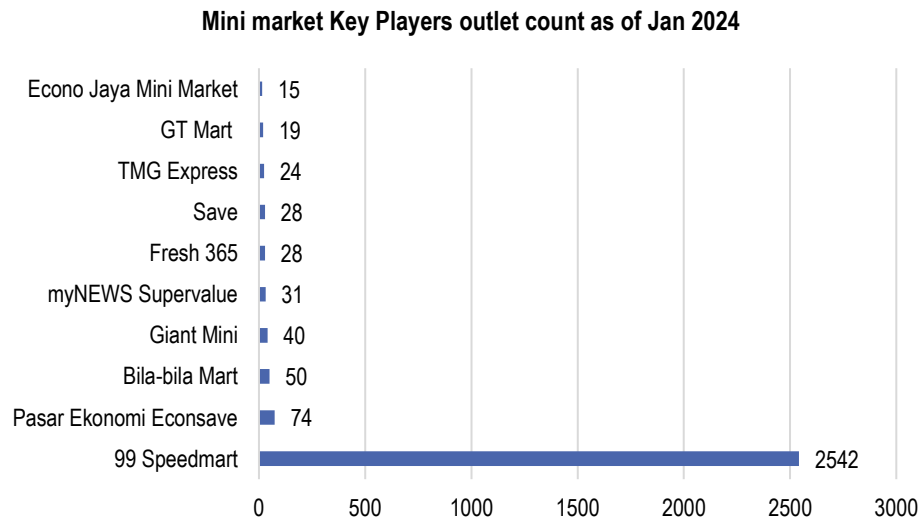
- ii. The large scale of 99SMart’s operations creates a barrier to entry and expansion for other mini-market players in Malaysia, hindering their ability to compete effectively.
- iii. 99SMart also stands out from other mini-market players due to its competitive pricing strategy. By offering affordable prices on a wide range of products, it attracts cost-conscious shoppers and creates a loyal customer base.

**Figure #11 Market share of mini market industry in Malaysia (2022)**



Frost & Sullivan

**Figure #12 Number of outlets of mini market key players**



Frost & Sullivan

There is still potential for growth as the group has a relatively lower outlet penetration in the northern and east coast regions of Peninsular Malaysia, as well as most of East Malaysia, as indicated by the number of households served for every outlet it operates (Figure #13). As of 2022, 99SMart served approximately 8,600 households per outlet in the east coast region compared to approximately 2,300 households per outlet in the central region. This indicates that in addition to continuing to expand in areas with high outlet penetration rate, such as the central and southern regions of Peninsular Malaysia, the group can further expand its footprint in regions with lower outlet penetration rate.

**Figure #13 Breakdown of outlet network in Malaysia by region and population density**

Region	Number of households ('000)	Area (km <sup>2</sup> )	Household density (household/ km <sup>2</sup> )	Outlets count (as of Jul 2024)	Population coverage (household/outlets)
Central	2,359	8,233	286.5	1,011	2,333.0
East coast	1,022	64,124	15.9	119	8,586.6
Northern	1,738	32,504	53.5	586	2,966.2
Southern	1,571	27,631	56.8	688	2,283.0
East Malaysia	1,220	198,363	6.1	247	4,938.1

### Efficient operations with nationwide network of DCs supported by a centralised retail management and control system

The group owns in total 19 distribution centres (DC) to service its nationwide retail network in nine different states that it operates in. The group plans to commission two new DCs, one located in Sarawak and another in Selangor by the end of 2024 and 2025, respectively. The group has also identified Kedah and Sabah as locations to establish two other new DCs to be funded by the proceeds from its IPO. The new DC in Sabah will replace the Sipitang DC which is currently rented.

The built-up area of its DCs range from approximately 10k-120k sqft. The DCs supply inventories to outlets that are generally within a radius of 100 km. Approximately 80% of its purchases are first delivered to the DCs, where they will be stored as inventories for redistribution to outlets based on their requirements. In addition, the group also owns 618 delivery trucks. The use of its own fleet of delivery trucks allows the group to better control logistics operations and achieve greater level of logistical efficiency, as well as to cater to urgent restocking requests by outlets particularly during festive seasons.

With its own network of DCs and delivery trucks, this enables the group to achieve operational efficiency and economies of scale, allowing them to better control its merchandise and retail planning, in particular the allocation of SKUs according to sales trends at respective outlets. Additionally, having its own network of DCs allows them to earn other operating income in the form of DC fees from certain suppliers through the handling of goods.

**Figure #14 Regions and location of its DC**

Region	Location	State coverage
Central	Jalan Kapar	Selangor, Kuala Lumpur and Putrajaya
	Jalan Kebun	
	Balakh	
	Sungai Choh	
East coast	Sungai Tua	Terengganu and Pahang
	Shah Alam	
	Gambang	
Northern	Sungai Petani	Kedah, Penang and Perak
	Batu Kawan	
	Gopeng	
	Hutan Melintang	
Southern	Yong Peng	Johor, Melaka and Negeri Sembilan
	Senai	
	Merlimau	
	Chembong	
East Malaysia	Kota Kinabalu	Sabah and Sarawak
	Sipitang	
	Sandakan	
	Keningau	

Company Data

## Business strategies and plans

### Expand outlet presence across Malaysia

The group aims to open 250 new outlets annually, with plans to expand 600 new outlets in Peninsular Malaysia and 150 new outlets in East Malaysia by the end of 2027. Its primary objective is to further expand its footprint in regions with lower outlet penetration rates such as the northern and east coast regions of Peninsular Malaysia, as well as the whole of East Malaysia. At the same time, it will also continue to expand in areas with high outlet penetration rates when opportunities arise, for instance in areas of new township developments.

### Increase number of DCs across Malaysia.

99SMart has set plans to expand its distribution network and modernize its delivery fleet. The group intends to open two new DCs using internal funds – one in Sarawak by the end of 2024 and another in Selangor by 2025. These new DCs will be strategically located closer to key outlets, supporting the company's growth as it continues to expand its footprint. Additionally, with RM100m from its IPO proceeds, 99SMart aims to establish at least six more DCs within the next three years. Thus far, locations in Kedah, Sabah, and Pahang have been confirmed for three of these new DCs. Notably, the new DC in Sabah is expected to replace the existing rented facility in Sipitang. By the end of 2027, 99SMart aims to operate a total of at least 25 DCs.

On the logistics front, 99SMart is focused on upgrading its delivery fleet by phasing out and replacing trucks that are over 15 years old. The company has earmarked RM55m from its IPO proceeds to fund the purchase of new delivery trucks between 2025 and 2027. This investment is expected to enhance last-mile logistics capabilities and lead to long-term reduction in operating costs.

### Tap into international markets within the Asia Pacific region.

99SMart plans to enhance its sourcing capabilities by exploring new markets in the Asia Pacific region, especially those offering a wide range of competitively priced products. The company has recently started procuring certain household products from China, which it believes can provide better value to its customers. Having an international supply chain makes 99SMart well-positioned to reduce costs and further enables the company to assess opportunities to establish an international outlet presence.

### Facilitate further bulk sales.

In Sep-23, 99SMart introduced its new online bulk sales platform, "99 Bulksales," accessible through its [website](#). This platform is currently available to customers in the Klang Valley and the southern region, catering to both retail and enterprise clients. It offers a convenient way to purchase goods in bulk online, with the added benefit of free delivery, subject to certain terms and conditions.

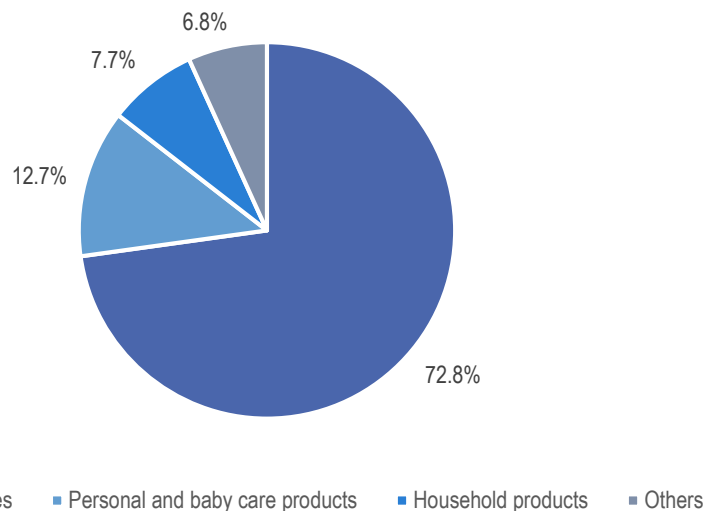
99SMart targets to gradually roll out its bulk sales operations throughout the regions or states in which it operates. The company believes this will appeal to a broader customer base, including retailers and enterprise customers looking to purchase supplies and materials in bulk.

## Financials

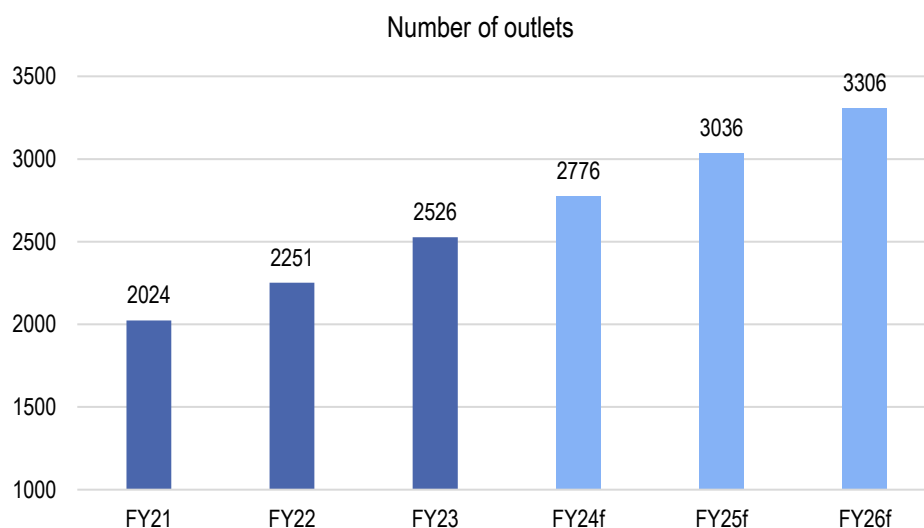
Throughout FY20-23, 99SMart registered uninterrupted annual revenue and core net profit growth with a CAGR of 10.4% and 13.3%, respectively. The strong growth was mainly driven by aggressive store openings and positive SSSG (Figure #16).

Going forward, we expect 99SMart to record FY23-26f revenue and net profit CAGR of 12.4% and 15.2%, respectively. This projected growth will be driven by (i) the opening of 250 retail outlets annually; and (ii) stable SSSG of 2% per annum.

**Dividend.** The company is committed to a 50% dividend payout policy, supported by robust free cash flow generation and a healthy balance sheet with a net cash position. All in, 99SMart is expected to have a dividend yield of 1.8% based on FY24 earnings.

**Figure #15 99SMart revenue breakdown (FY23)**

Company Data

**Figure #16 Historical and projected number of outlets**

Company Data, HLIB

## Valuation and Recommendation

We initiate coverage on 99SMart with a **BUY** call and TP of **RM1.98** based on 30x PE of FY25 earnings. This PE implies a ~40% premium to 99SMart's peers as we believe this is warranted on the back of its market leader position coupled with aggressive store expansion.

**Figure #17 Peers comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY24	FY25	FY24	FY25	FY24	FY25
7-Eleven Malaysia	2196.0	1.98	NA	NA	Dec	19.8	17.8	5.4	4.9	1.5	2.9
MR DIY Group	19381.6	2.05	2.74	BUY	Dec	30.1	26.6	9.4	8.1	1.9	2.1
Mynews Holdings	450.2	0.6	NA	NA	Oct	39.3	20.6	1.8	1.7	0.5	0.8
99 Speed Mart	13860.0	1.65	1.98	BUY	Dec	30.0	27.0	8.3	5.5	1.9	2.1
<b>Average (excluding 99SMart)</b>						<b>29.7</b>	<b>21.7</b>	<b>5.6</b>	<b>4.9</b>	<b>1.3</b>	<b>2.0</b>

HLIB Research

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**Stock rating definitions**

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
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**Sector rating definitions**

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.