Eco-Shop Marketing (ECOSHOP MK)

Upgrade After Pullback; Prospects Intact

BUY (Upgraded)	
Share Price	RM1.47
Target Price	RM1.70
Upside	16.4%

Analyst
Philip Wong
philipwong@uobkayhian.com
(603) 2147 1996

Highlights

- Upcoming 2QFY26 SSSG appears soft but is improving. Sentiment coupled with improved store initiatives should underpin a further recovery.
- SSSG softness will be more than offset by gained margins, which could potentially be further enhanced by favourable forex.
- Upgrade to BUY as valuations appear attractive following some pullback, with a target price of RM1.70. The stock offers an appealing three-year CAGR earnings growth of 16.9% as well.

Analysis

- **Raising the bar on store rollouts.** Eco-Shop Marketing (Eco-Shop) is slated to roll out 81 new stores in FY26, with potential to reach as many as 90 – well ahead of its five-year target of 70 openings per annum. It is also planning 15-20 store refurbishments for the year. The number of refurbishments remains lower than new openings due to its relatively small base of older stores and the fact that store expansion has only accelerated in recent years. A newly refurbished store typically records a 15% uplift in basket size.
- **Stabilising SSSG after the slide.** Recall that 1QFY26 SSSG contracted by a sharp 12.7% yoy. The sharp SSSG drop is attributed to a myriad of factors: a) weak consumer sentiment, b) price adjustment impact, c) high base effect (comparable quarter had a strong double-digit growth), and d) stocking out of key products. Looking forward, we gather that 2QFY26's SSSG has improved but remains soft. However, we retain our -6.0% FY26 SSSG assumption at this juncture as it remains within reach as monthly SSSG has been improving and supply chain issues have been resolved. The latter is attributed to re-establishing supply from key biscuit and bread suppliers.
- **Up and ready for MyKasih's next disbursement cycle.** Eco-Shop has increased its MyKasih-participating stores to 181 (from 161 previously) out of its approximately 400-store network, offering roughly 2,000 eligible SKUs out of a total 11,000 — mainly food, household cleaning, and stationery items. Although MyKasih-related sales contributed just 0.3% of 1QFY26 revenue, broad store participation and SKU coverage remain important as they help drive incremental foot traffic, particularly ahead of the next disbursement cycle in 4QFY26. Earlier underrepresentation of SKUs and delayed store qualification for the scheme had redirected foot traffic to competitors, partially contributing to Eco-Shop's subdued 1QFY26 performance.

Key Financials

Year to 31 May (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2,404.0	2,787.5	3,229.8	4,179.3	4,901.1
EBITDA	316.8	376.7	456.2	543.1	659.8
Operating profit	213.3	253.8	313.0	368.3	420.4
Net profit (rep./act.)	177.3	212.4	258.1	300.3	338.9
Net profit (adj.)	177.3	212.4	258.1	300.3	338.9
EPS	3.3	3.7	4.5	5.2	5.9
PE	44.5	39.5	32.5	27.9	24.8
P/B	14.3	8.5	7.6	6.8	6.2
EV/EBITDA	26.4	22.2	18.4	15.4	12.7
Dividend yield	1.3	1.8	1.7	2.1	2.4
Net margin	7.4	7.6	8.0	7.2	6.9
Net debt/(cash) to equity	13.4	10.4	(2.3)	38.1	34.7
Interest cover	14.7	15.3	21.7	14.9	13.4
ROE	23.0	20.3	23.3	25.8	27.5
Consensus net profit	n.a	n.a	258.8	315.6	364.8
UOBKH/Consensus (x)	n.a	n.a	1.00	0.95	0.93

Source: Eco-Shop Marketing, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Consumer Discretionary
Bloomberg ticker	ECOSHOP MK
Shares issued (m)	5,754.0
Market cap (RMm)	8,401.1
Market cap (US$m)	2,061.7
3-mth avg daily t'over (US$m)	3.0

Price Performance (%)

52-week high/low				RM1.66/RM1.13
1mth	3mth	6mth	1yr	YTD
12.3	(4.6)	15.0	n.a	0.0

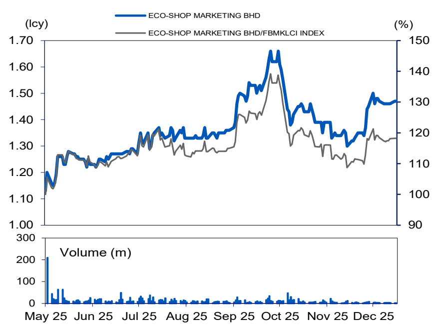
Major Shareholders

Major Shareholders	%
Dato' Sri Lee	75.9

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.19
FY26 Net Debt/Share (RM)	0.00

Price Chart



Source: Bloomberg

Company Description

Eco-Shop is Malaysia's leading fixed-price retailer, offering affordable everyday essentials through a fast-growing nationwide store network.

- **Sustained gross margin expansion to shore up upcoming earnings.** Increased margins of 6.4ppt yoy to 31.8% in 1QFY26 appears to be sustained as well. This follows a favourable product mix and the strengthening of the ringgit vs the renminbi in Apr 25 that has prevailed to 2QFY26. Beyond that, promotional pricing of food and beverage products has ended as well. These higher margins should more than offset the lingering SSSG softness for 2QFY26 earnings to post decent yoy growth for it to at least meet overall expectations.
- **Tailwinds from forex up ahead.** Around 50% of Eco-Shop's COGS is imported from overseas, primarily from China. As a result, the strengthening ringgit vis-à-vis the renminbi impacts Eco-Shop positively. Since Nov 25, the RM/RMB has strengthened marginally by 1.2% since 1QFY26. It takes 2-3 quarters to realise the favourable forex impact due to the company's inventory levels. We estimate that for every +1% in the RM/RMB, it is a +5.8% impact to Eco-Shop's FY26 earnings. It is highly sensitive given Eco-Shop's relatively thin profit margins.
- **Flood-related disruptions manageable losses insured.** The floods in November across the East Coast of Malaysia as well as Perak and Kedah displaced more than 27,000 people and affected a limited number of Eco-Shop outlets. Management indicated that the financial impact is manageable, with losses, if any, covered by insurance.

Valuation/Recommendation

- **Upgrade to BUY with an unchanged target price of RM1.70.** Eco-Shop's valuations now appear relatively attractive following some pullback. While SSSG appears lacklustre, its store rollout led growth off a low-base coupled with robust margins, underpinning an appealing three-year earnings growth of 16.9% (FY25-28).
- We value Eco-Shop at 34.5x FY26F PE, which is the average of our valuation for 99SM (38.9x) and Mr. DIY (30.0x). However, 99SM does deserve a valuation premium given its index-linked status and superior capital efficiency. Eco-Shop merits a premium to Mr. DIY, driven by its more compelling growth trajectory from a significantly lower store base.

Earnings Revision/Risk

- **No changes to earnings.** Key risks include the strengthening of the renminbi against the ringgit and a sharp deterioration in consumer sentiment.

Margin Assumptions

	FY26F	FY27F	FY28F
Avg. base ASP (RM)	2.60	2.63	2.70
Gross margin (%)	31.0	30.5	30.9
Operating margin (%)	16.0	14.8	15.3

Source: Eco-Shop, UOB Kay Hian

Growth And Margin Outlook

	FY26F	FY27F	FY28F
Revenue (RMm)	3230	4179	4901
Growth yoy (%)	15.9	29.4	17.3
Store count	452	522	592
Growth yoy (%)	23.2	18.3	14.4
PAT (RMm)	258	300	339
Growth yoy (%)	21.5	16.4	12.9
3-year CAGR (%)	17.5	20.2	20.7
Gross Margin (%)	31.0	30.5	30.9
EBIT Margin (%)	11.5	10.7	10.4
PAT Margin (%)	8.0	7.2	6.9

Source: Eco-Shop, UOB Kay Hian

Environmental Social Governance (ESG)

Environmental
- Energy & emission efficiency. Eco-Shop achieved a 2.5% reduction in emission intensity in FY24, lowering it from 24.63 to 24.02 tCO2e per million revenue in ringgit, even as store count grew from 240 to 297. LED lighting and passive architectural designs at key distribution centres drive energy conservation.

Social
- Workplace safety & inclusion. Eco-Shop has established a Health and Safety Committee and an OSHA committee that meets quarterly. These bodies oversee safety training, risk audits, and workplace wellness for its over 6,000 employees across operations.

Governance
- ESG oversight and independent validation. While Eco-Shop has not yet received external ESG certification, its sustainability disclosures are incorporated in the IPO prospectus. Financial data, including ESG-linked reporting elements, has been reviewed and assured by PricewaterhouseCoopers (PwC) as part of its reasonable assurance report on the pro forma financials submitted to the Securities Commission Malaysia.

Source: Eco-Shop, UOB Kay Hian

Profit & Loss

Year to 31 May (RMm)	2025	2026F	2027F	2028F
Net turnover	2,788	3,230	4,179	4,901
EBITDA	377	456	543	660
Deprec. & amort.	123	143	175	239
EBIT	254	313	368	420
Total other non-operating income	52	60	77	91
Associate contributions	0	0	0	0
Net interest income/(expense)	(25)	(21)	(36)	(49)
Pre-tax profit	281	352	409	462
Tax	(77)	(94)	(109)	(123)
Minorities	0	0	0	0
Net profit	212	258	300	339
Net profit (adj.)	212	258	300	339

Balance Sheet

Year to 31 May (RMm)	2025	2026F	2027F	2028F
Fixed assets	812	1,031	1,512	1,520
Other LT assets	143	29	29	29
Cash/ST investment	21	124	57	51
Other current assets	874	1,008	1,272	1,497
Total assets	1,851	2,192	2,871	3,097
ST debt	124	99	99	99
Other current liabilities	371	352	455	524
LT debt	0	0	425	425
Other LT liabilities	366	635	666	687
Shareholders' equity	990	1,106	1,226	1,361
Minority interest	0	0	0	0
Total liabilities & equity	1,851	2,192	2,871	3,097

Cash Flow

Year to 31 May (RMm)	2025	2026F	2027F	2028F
Operating	319	227	295	413
Pre-tax profit	289	352	409	462
Tax	(72)	(94)	(109)	(123)
Deprec. & amort.	123	143	175	239
Associates	0	0	0	0
Working capital changes	(21)	(173)	(179)	(164)
Other operating cashflows	1	(1)	(1)	(2)
Investing	(520)	(89)	(509)	(99)
Capex (growth)	(118)	(90)	(510)	(101)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(402)	1	1	2
Financing	166	(35)	147	(320)
Dividend payments	(150)	(142)	(180)	(203)
Issue of shares	420	0	0	0
Proceeds from borrowings	0	200	0	0
Loan repayment	0	0	425	0
Others/interest paid	(103)	(93)	(98)	(116)
Net cash inflow (outflow)	(34)	103	(67)	(6)
Beginning cash & cash equivalent	55	21	124	57
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	21	124	57	51

Key Metrics

Year to 31 May (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	13.2	13.5	14.1	13.5
Pre-tax margin	10.1	10.1	10.9	9.4
Net margin	7.4	7.6	8.0	6.9
ROA	11.3	10.5	11.8	12.8
ROE	30.1	23.3	22.7	22.7
Growth				
Turnover	20.8	16.0	15.9	29.4
EBITDA	44.1	16.5	20.5	20.3
Pre-tax profit	68.2	19.6	21.8	16.4
Net profit	68.9	19.8	21.5	16.4
Net profit (adj.)	68.9	19.8	21.5	16.4
EPS	68.9	12.6	21.5	16.4
Leverage				
Debt to total capital	23.4	12.5	8.9	38.5
Debt to equity	131.0	87.0	98.3	134.2
Net debt/(cash) to equity	5.3	-24.5	-43.0	-6.8
Interest cover	14.7	15.3	21.7	13.4