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COMPANY UPDATE

Eco-Shop Marketing (ECOSHOP MK)

Sailing Through Multiple Headwinds

While multiple headwinds have emerged or are emerging, Eco-Shop appears to have navigated them well, supported by resilient demand for its products and a timely, pre-emptive price adjustment. Initial indicators after the adjustment are in line with expectations, setting the stage for a robust FY26. We continue to favour Eco-Shop as our top pick in the sector, backed by its defensive positioning and an attractive three-year profit CAGR of 17.7% (FY24-27). Maintain BUY. Target price: RM1.45.

WHAT'S NEW

- **Eco-Shop Marketing (Eco-Shop) hosted a briefing, represented by Jessica Ng (CEO) and Chong Yew Kai (CFO). Here are our key takeaways:**
  - **Cost pressures mounting…** Several operating costs have increased or are set to increase in the coming months, including minimum wage, EPF contributions for foreign workers, electricity tariffs, and an expanded 8% sales and service tax on commercial rentals. While most of these individual increases (except for the minimum wage hike) are not material to Eco-Shop's earnings, the combined impact — including the minimum wage hike — is estimated at RM40m annually/7.6% of FY26's EBITDA (or RM12m annually excluding the wage adjustment).
  - **…but cushioned by price adjustment.** These cost pressures have cascaded through the supply chain, prompting suppliers to raise prices. In anticipation, Eco-Shop implemented a price adjustment, revising its fixed pricing from RM2.40 to RM2.60 in Apr 25. Management expects this adjustment to offset the overall rise in operating costs.
  - **Past playbook repeats.** The price adjustment in Apr 25 led to a decline in SSSG, in line with management's expectation. Recall, Eco-Shop's previous adjustment to its fixed pricing was in 2022 that saw its fixed price being revised to RM2.40 from RM2.20. It took two months for SSSG to fully recover (foot traffic initially declined by about 10%). This time round, the recovery trajectory appears to be tracking its previous price adjustment.
  - **Speedbump before hitting full throttle in FY26.** The initial drop in foot traffic implies that 4QFY25 could see a contraction in SSSG for the quarter and the resulting full-year SSSG could be flattish as 9MFY25 SSSG was at 2.1%. This is well within our expectations. Positively, the recovery momentum positions Eco-Shop for a double-digit SSSG rebound in FY26, further supported by a planned store revamp. Recall, 2022's SSSG grew by 22.2% following its price adjustment. Over the medium term, management expects to achieve a 5-6% SSSG annually.

KEY FINANCIALS

Year to 31 May (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	1,991	2,404	3,012	3,508	4,287
EBITDA	229	317	352	474	564
Operating profit	134	213	229	302	371
Net profit (rep./act.)	105	177	203	239	289
Net profit (adj.)	105	177	203	239	289
EPS (sen)	1.9	3.3	3.5	4.2	5.0
PE (x)	63.8	37.8	35.0	29.8	24.6
P/B (x)	12.8	12.1	7.0	6.3	5.7
EV/EBITDA (x)	28.9	21.4	19.0	14.1	12.6
Dividend yield (%)	2.3	1.5	1.6	1.8	2.4
Net margin (%)	5.1	7.3	6.8	6.8	6.7
Net debt/(cash) to equity (%)	(16.3)	5.3	(4.8)	(6.4)	27.8
Interest cover (x)	12.1	13.2	14.5	17.1	14.2
ROE (%)	21.6	30.1	22.1	21.2	21.3
Consensus net profit	-	-	201	272	320
UOBKH/Consensus (x)	-	-	1.00	0.88	0.90

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

BUY

(Maintained)

Share Price	RM1.24
Target Price	RM1.45
Upside	28.0%

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	ECOSHOP MK
Shares issued (m):	5,747
Market cap (RMm):	7126.3
Market cap (US$m):	1,693
3-mth avg daily t'over (US$m):	n.a.

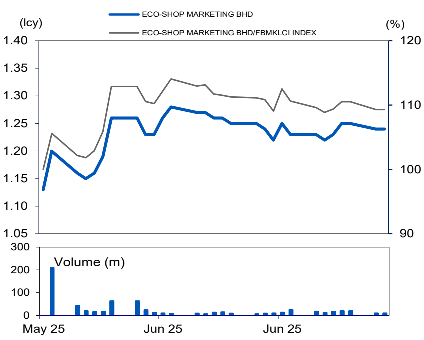
Price Performance (%)

52-week high/low RM1.28/RM1.15

1mth	3mth	6mth	1yr	YTD
0.8	n.a.	n.a.	n.a.	n.a.

Major Shareholders	%
Dato' Sri Lee	75.9
Creador	1.9
FY25 NAV/Share (RM)	0.17
FY25 Net Cash/Share (RM)	(0.05)

PRICE CHART



Source: Bloomberg

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- **Surpassing store rollout target.** Management is committed to rolling out 70 new stores nationwide. For FY25, Eco-Shop has surpassed with well more than 80 new stores. The abundance of premises and its growth off a low base have firmly positioned Eco-Shop to achieve its target of 70 net new stores annually over the medium term. In its pipeline, we gather that it has already largely secured its sites for FY26.

STOCK IMPACT

- **4QFY25 results preview.** Despite the muted SSSG, we expect 4QFY25 sales to grow on a yoy basis primarily off its enlarged store base (around 25%). Sequentially, sales could be subdued due to the price adjustment in Apr 25 which immediately weighed on foot traffic and Ramadhan month falling in the quarter. While 4QFY25 gross margins will see an uplift from the price adjustments, operating margins are likely to see a sequential decline following a full quarter's minimum wage revision impact and an absence of sponsorship and advertising income tied to Eco-Shop's anniversary, an annual event that boosts other income and was recognised in 3QFY25. Resultingly, 4QFY25 core earnings are likely to moderate from RM62.3m, a record high in 3QFY25. Nevertheless, full-year earnings are expected to fall within expectations.

EARNINGS REVISION/RISK

- **No changes to earnings.**

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.45.** Despite the multiple headwinds, we expect Eco-Shop's earnings outlook to remain firmly intact. Growing off a low base, we project a three-year profit CAGR (FY24-27) of 17.7%. It is nearly double that of 99Speedmart (10.1%) and Mr. DIY (7.5%). We value Eco-Shop at 34.5x FY26F PE, which is the average of our valuation for 99Speedmart (38.9x) and Mr. DIY (30.0x). However, 99Speedmart does deserve a valuation premium given its index-linked status and superior capital efficiency, while Eco-Shop merits a premium to Mr. DIY driven by its more compelling growth trajectory from a significantly lower store base and more resilient SSSG.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- **Environmental**
  - **Energy & emission efficiency.** Eco-Shop achieved a 2.5% reduction in emission intensity in FY24, lowering it from 24.63 to 24.02 tCO_2e 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 meet 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.

MARGIN ASSUMPTIONS

	FY23	FY24	FY25F	FY26F	FY27F
Avg. base ASP (RM)	2.40	2.40	2.43	2.60	2.63
Gross margin (%)	26.0	26.4	27.3	28.5	29.2
Operating margin (%)	12.2	15.3	13.2	15.0	14.7

Source: Eco-Shop, UOB Kay Hian

GROWTH AND MARGIN OUTLOOK

	FY24	FY25F	FY26F	FY27F
Revenue (RMm)	**2404**	**3012**	**3508**	**4287**
Growth yoy (%)	20.8	25.3	16.4	22.2
PAT (RMm)	**177**	**203**	**239**	**289**
Growth yoy (%)	68.9	14.8	17.5	20.9
3-year CAGR (%)		96.2	31.6	17.8
Gross Margin (%)	26.4	27.3	28.5	29.2
EBIT Margin (%)	11.0	9.1	10.1	10.1
PAT Margin (%)	7.4	6.8	6.8	6.8

Source: Eco-Shop, UOB Kay Hian

KEY OPERATIONAL METRICS ACROSS THE THREE RETAILERS

Retailer	Eco-Shop	99SM	MRDIY
Store base (end FY)	297	2,778	1,429
3-year SSSG avg. (2022-24)	6.2%	0.9%	-1.5%
Transaction/store/day	988	481	373
Value/transaction (RM)	25.44	21.40	25.30
Sales/sf/day (RM)	3.27	4.13*	1.03^
Sales/store/day (RM)	25,100	10,312	8,767
Operating profit/store/year (RM '000)	983.5	726.9	622.6
Store payback period (years)	1.5-1.8	<1.0	2.0
Operating profit/CAPEX	1.23	2.43	1.15
Revenue 3-year CAGR (2024-27)	21.3%	10.8%	8.5%
Profit 3-year CAGR (2024-27)	17.7%	10.1%	7.5%

Source: Respective companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 May (RMm)	2024	2025F	2026F	2027F
Net turnover	**2,404.0**	**3,012.4**	**3,507.6**	**4,287.1**
EBITDA	316.7	352.2	474.2	564.2
Deprec. & amort.	103.5	122.8	172.2	193.5
EBIT	213.3	229.3	302.0	370.7
Total other non-operating income	50.8	45.2	52.6	64.3
Associate contributions	-0.8	-0.8	-0.8	-0.8
Net interest income/(expense)	-21.6	-24.3	-27.7	-39.8
Pre-tax profit	**241.7**	**249.4**	**326.1**	**394.4**
Tax	-64.4	-73.9	-86.9	-105.1
Minorities	0.0	0.0	0.0	0.0
Net profit	**177.3**	**203.5**	**239.2**	**289.2**
Net profit (adj.)	177.3	203.5	239.2	289.2

BALANCE SHEET

Year to 31 May (RMm)	2024	2025F	2026F	2027F
Fixed assets	698.5	1,061.6	1,125.3	1,587.8
Other LT assets	36.2	15.0	41.7	72.8
Cash/ST investment	55.2	53.5	51.4	58.0
Other current assets	485.9	664.1	765.6	925.5
Total assets	**1,275.8**	**1,794.1**	**1,984.1**	**2,644.1**
ST debt	129.2	49.2	24.2	24.2
Other current liabilities	286.1	345.1	395.2	467.9
LT debt	0.0	0.0	0.0	425.0
Other LT liabilities	308.1	378.3	435.6	482.2
Shareholders' equity	552.4	1,021.5	1,129.1	1,244.8
Total liabilities & equity	**1,275.8**	**1,794.1**	**1,984.1**	**2,644.1**

CASH FLOW

Year to 31 May (RMm)	2024	2025F	2026F	2027F
Operating	**168.9**	**193.1**	**348.3**	**386.0**
Pre-tax profit	241.7	277.4	326.1	394.4
Tax	-56.7	-73.9	-86.9	-105.1
Deprec. & amort.	103.5	122.8	172.2	193.5
Associates	0.0	0.0	0.0	0.0
Working capital changes	-126.0	-132.9	-62.7	-96.2
Other operating cashflows	6.4	-0.3	-0.4	-0.6
Investing	**-119.9**	**-338.9**	**-88.8**	**-508.6**
Capex (growth)	-77.7	-340.0	-90.0	-510.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	-42.9	1.1	1.2	1.4
Financing	**-81.2**	**144.0**	**-261.5**	**129.3**
Dividend payments	-150.0	-111.9	-131.6	-173.5
Issue of shares	0.0	419.9	0.0	0.0
Proceeds from borrowings	27.0	0.0	0.0	0.0
Loan repayment	-6.7	0.0	0.0	425.0
Others/interest paid	48.5	-163.9	-130.0	-122.1
Net cash inflow (outflow)	**-32.2**	**-1.8**	**-2.1**	**6.6**
Beginning cash & cash equivalent	**87.4**	**55.2**	**53.5**	**51.4**
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	**55.2**	**53.5**	**51.4**	**58.0**

KEY METRICS

Year to 31 May (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	13.2	11.7	13.5	13.2
Pre-tax margin	10.1	8.3	9.3	9.2
Net margin	7.4	6.8	6.8	6.7
ROA	11.5	10.8	12.1	12.5
ROE	30.1	22.1	21.2	21.3
Growth				
Turnover	20.8	25.3	16.4	22.2
EBITDA	44.1	8.1	32.6	19.3
Pre-tax profit	68.2	14.8	17.5	20.9
Net profit	68.9	14.8	17.5	20.9
Net profit (adj.)	68.9	14.8	17.5	20.9
EPS	68.9	7.8	17.5	20.9
Leverage				
Debt to total capital	23.4	4.8	2.1	36.1
Debt to equity	131.0	75.6	75.7	112.4
Net debt/(cash) to equity	5.3	-4.8	-6.4	27.8
Interest cover (x)	14.7	14.5	17.1	14.2

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