

24 January 2018

Consumer Cyclical | Retailing

## Mynews Holdings

**Buy** (Maintained)

### Multi-Pronged Expansion To Fuel Growth

The outlook for Mynews is likely to be exciting, given forecasted 3-year earnings CAGR of 28% driven by its new outlets expansion. In addition, JVs with Japanese partners to set up food manufacturing plants ought to help attract footfalls to its stores and improve its product mix, due to the high quality of these products. The group's sturdy balance sheet and cash proceeds from a recent private placement should support its multi-pronged expansion plans. All in, we maintain our BUY call on Mynews with a higher DCF-derived TP of MYR1.68 from an ex-bonus TP of MYR1.53 (cum-bonus TP: MYR3.06, 15% upside).

**Japanese quality to capture rising demand.** Mynews Holdings (Mynews) has partnered two established Japanese parties to set up of fresh foods and bakery products manufacturing facilities. These plants are expected to be operational by early 2019 and would be able to supply 150 outlets initially. Management believes these facilities are essential for Mynews to capture the rising demand in the underserved fresh foods market. It also believes that it would help improve the footfall and product mix within its convenience store chain.

**Ramping up outlets expansion.** Total Mynews.com store count has reached 356 stores by Oct 2017, after having opened 70 stores each in FY16 (Oct) and FY17. Moving forward, the group is planning for a more aggressive expansion target of 90 stores in FY18, and we believe this target could rise further once its food manufacturing plants are operational by early 2019. As such, we are forecasting new stores expansion of 90, 100 and 100 in FY18-20 respectively. This would power revenue growth of 28% (FY18), 26% (FY19) and 23% (FY20).

**Prospects look tasty.** We are projecting capex of MYR115m and MYR45m in FY18-19 respectively, which would cover the manufacturing plants (MYR36m), its new head office and warehouse in Kota Damansara (MYR54m), and annual store expansion of MYR35m/year. This capex would be funded by the cash proceeds of c.MYR73m that was recently raised from a private placement, as well as its internally-generated funds. We view the ambitious expansion plans positively, as it signifies management's confidence and optimism over Mynews' business prospects and growth sustainability moving forward.

**Maintain BUY.** We raise our FY18F-19F net profits by 3% and 4% respectively to reflect the higher store expansion targets. Correspondingly, our DCF-derived TP (WACC: 6.7%, TG: 1.5%) is raised to MYR1.68 (from MYR1.53) after adjusting for the bonus issue and revision in our risk assumptions. The TP implies 33.8x P/E FY18F, which represents a premium of 15% over the implied P/E of our TP for 7-Eleven Malaysia (7-Eleven) (SEM MK, NEUTRAL, TP: MYR1.40). We believe this premium is more than justified, given Mynews' exciting earnings growth moving forwards (ie a 3-year earnings CAGR of 28%), ambitious multi-pronged expansion plans, and services of an entrepreneurial and driven management team leading the group. Risks to our recommendation include higher-than-expected operating costs and more-severe-than-expected competition.

Target Price: MYR1.68  
Price: MYR1.46  
Market Cap: USD254m  
Bloomberg Ticker: MNHB MK

#### Share Data

Avg Daily Turnover (MYR/USD) 0.94m/0.23m  
52-wk Price low/high (MYR) 0.89 - 1.50  
Free Float (%) 25  
Shares outstanding (m) 682  
Estimated Return 15%

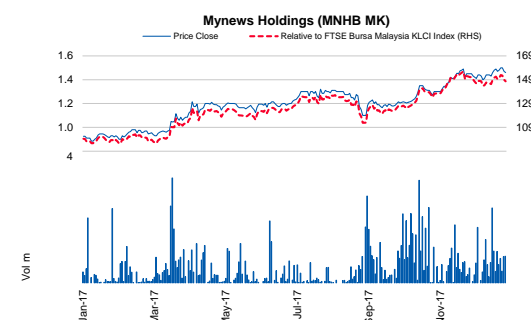
#### Shareholders (%)

D&D Consolidated 65.6  
Hwang-DBS Unit Trust 2.4  
Morgan Stanley 1.8

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.4	0.7	20.2	21.7	57.0
Relative	(0.9)	(3.7)	14.7	17.2	47.0

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
Total turnover (MYRm)	264	326	418	528	650
Reported net profit (MYRm)	18.1	24.0	33.8	40.7	50.4
Recurring net profit (MYRm)	18.1	24.0	33.8	40.7	50.4
Recurring net profit growth (%)	34.2	32.6	40.5	20.4	24.0
Recurring EPS (MYR)	0.03	0.04	0.05	0.06	0.07
DPS (MYR)	0.01	0.01	0.01	0.02	0.02
Recurring P/E (x)	54.9	41.4	29.5	24.5	19.7
P/B (x)	6.53	4.12	3.73	3.35	2.98
P/CF (x)	50.9	50.4	27.9	21.2	17.2
Dividend Yield (%)	0.5	0.6	0.9	1.1	1.3
EV/EBITDA (x)	34.9	26.4	17.5	13.8	11.2
Return on average equity (%)	17.4	12.2	13.3	14.4	16.0
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			7.7	4.6	15.5

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on: 2018-01-24.

Asia	<b>Financial summary</b>	<b>Oct-16</b>	<b>Oct-17</b>	<b>Oct-18F</b>	<b>Oct-19F</b>	<b>Oct-20F</b>
Malaysia	Recurring EPS (MYR)	0.03	0.04	0.05	0.06	0.07
Consumer Cyclical	EPS (MYR)	0.03	0.04	0.05	0.06	0.07
<b>Mynews Holdings</b>	DPS (MYR)	0.01	0.01	0.01	0.02	0.02
Bloomberg MNHB MK	BVPS (MYR)	0.22	0.35	0.39	0.44	0.49
<b>Buy</b>	Weighted avg adjusted shares (m)	682	682	682	682	682
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Oct-16</b>	<b>Oct-17</b>	<b>Oct-18F</b>	<b>Oct-19F</b>	<b>Oct-20F</b>
DCF valuation.	Recurring P/E (x)	54.9	41.4	29.5	24.5	19.7
<b>Key drivers</b>	P/E (x)	54.9	41.4	29.5	24.5	19.7
i. Faster-than-expected expansion;	P/B (x)	6.53	4.12	3.73	3.35	2.98
ii. Better-than-expected outlet sales growth;	FCF Yield (%)	(0.4)	(0.2)	(8.0)	0.2	2.3
iii. Lower-than-expected operating costs.	Dividend Yield (%)	0.5	0.6	0.9	1.1	1.3
<b>Key risks</b>	EV/EBITDA (x)	34.9	26.4	17.5	13.8	11.2
i. Intense competition;	EV/EBIT (x)	42.1	32.3	21.5	17.8	14.3
ii. Labour shortages;	<b>Income statement (MYRm)</b>	<b>Oct-16</b>	<b>Oct-17</b>	<b>Oct-18F</b>	<b>Oct-19F</b>	<b>Oct-20F</b>
iii. Weaker-than-expected consumer sentiment.	Total turnover	264	326	418	528	650
<b>Company Profile</b>	Gross profit	94	120	155	198	244
Mynews Holdings' (Mynews) principal business activity is press and convenience retailing, which involves the conceptualisation, development, expansion, management and operations of a press and convenience retail chain throughout Malaysia under its homegrown trade names of <i>myNEWS.com</i> , <i>newsplus</i> , <i>MAGBIT</i> , <i>THE FRONT PAGE</i> . It also operates under the trade name of <i>WHSmith</i> (under an equal JV with WH Smith Travel Ltd) that retail news, books and convenience products within international airports in the country.	EBITDA	26	33	55	70	86
	Depreciation and amortisation	(4)	(6)	(10)	(16)	(19)
	Operating profit	22	27	45	54	67
	Net interest	(1)	(0)	(1)	(1)	(1)
	Pre-tax profit	24	31	44	53	66
	Taxation	(5)	(6)	(10)	(12)	(15)
	Recurring net profit	18	24	34	41	50
	<b>Cash flow (MYRm)</b>	<b>Oct-16</b>	<b>Oct-17</b>	<b>Oct-18F</b>	<b>Oct-19F</b>	<b>Oct-20F</b>
	Change in working capital	(6.2)	(8.0)	(4.3)	(6.0)	(6.7)
	Cash flow from operations	19.6	19.8	35.7	46.9	58.0
	Capex	(23.7)	(21.7)	(115.0)	(45.0)	(35.0)
	Cash flow from investing activities	(86.5)	(71.1)	(57.2)	(45.0)	(35.0)
	Proceeds from issue of shares	0.0	71.4	0.0	0.0	0.0
	Dividends paid	(4.7)	(6.2)	(8.7)	(10.5)	(13.0)
	Cash flow from financing activities	76.1	64.2	4.6	(0.5)	(28.0)
	Cash at beginning of period	7.0	16.7	21.9	5.7	8.5
	Net change in cash	9.2	12.8	(16.9)	1.4	(5.0)
	Ending balance cash	16.2	29.6	4.9	7.1	3.5
	<b>Balance sheet (MYRm)</b>	<b>Oct-16</b>	<b>Oct-17</b>	<b>Oct-18F</b>	<b>Oct-19F</b>	<b>Oct-20F</b>
	Total cash and equivalents	71	130	56	59	55
	Tangible fixed assets	65	81	185	214	231
	Total investments	9	0	0	0	0
	Total other assets	3	4	8	10	13
	Total assets	204	284	329	377	407
	Short-term debt	2	2	15	25	10
	Total long-term debt	7	6	6	6	6
	Other liabilities	3	3	3	3	3
	Total liabilities	52	43	62	80	73
	Shareholders' equity	152	242	267	297	334
	Total equity	152	242	267	297	334
	Net debt	(63)	(122)	(34)	(27)	(38)
	Total liabilities & equity	204	284	329	377	407
	<b>Key metrics</b>	<b>Oct-16</b>	<b>Oct-17</b>	<b>Oct-18F</b>	<b>Oct-19F</b>	<b>Oct-20F</b>
	Revenue growth (%)	21.4	23.6	28.2	26.1	23.2
	Recurrent EPS growth (%)	34.2	32.6	40.5	20.4	24.0
	Gross margin (%)	35.8	36.7	37.0	37.5	37.5
	Operating EBITDA margin (%)	10.0	10.1	13.2	13.3	13.2
	Net profit margin (%)	6.9	7.4	8.1	7.7	7.8
	Dividend payout ratio (%)	25.7	25.8	25.8	25.8	25.8
	Capex/sales (%)	9.0	6.7	27.5	8.5	5.4
	Interest cover (x)	43.6	64.2	57.7	39.0	53.1

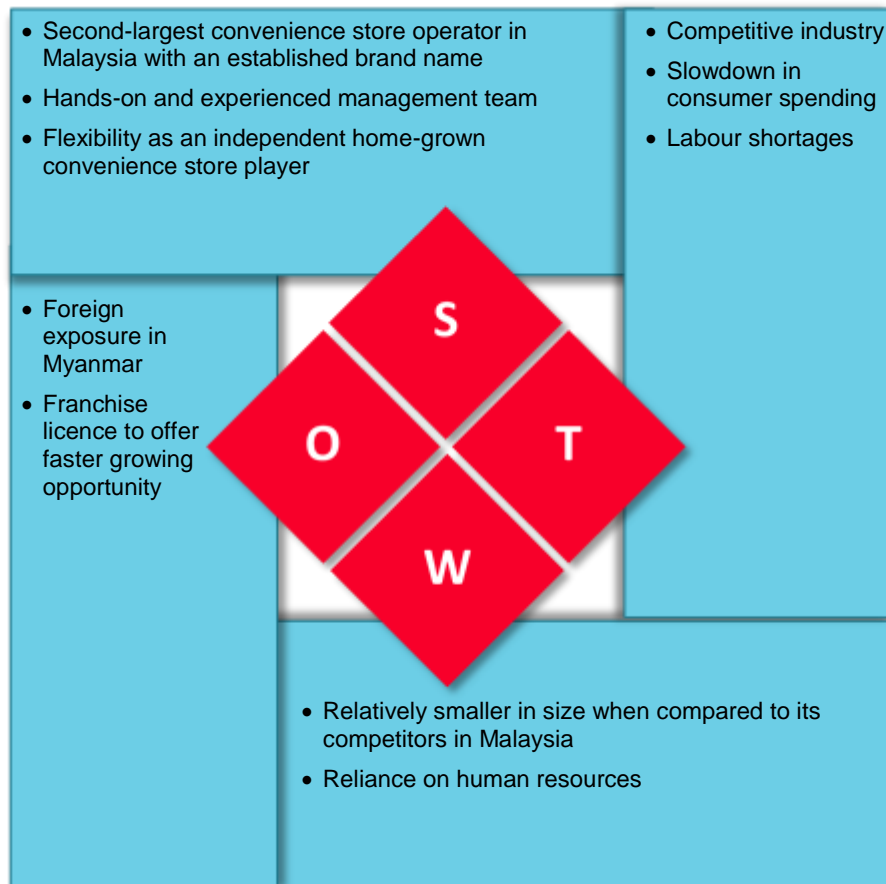
Source: Company data, RHB

Figure 1: Mynews' DCF valuation

FYE Oct (MYRm)	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F
EBIT	45	54	67	80	95	110	126	143	161	179
EBIT*(1-tax rate)	34	41	51	61	72	84	96	109	122	136
Add: D&A	10	16	19	21	23	25	28	29	32	36
Less: WC investments (WC Inv)	(4)	(6)	(7)	(7)	(8)	(8)	(8)	(9)	(9)	(10)
Less: Fixed investments (FC Inv)	(115)	(45)	(35)	(40)	(40)	(40)	(45)	(45)	(45)	(75)
FCFF	-75	6	28	35	47	61	70	84	100	87
Disc. FCFF	-70	6	23	27	34	41	45	50	56	46
Terminal value at T=10	1716									
PV of terminal value	901									
NPV	257									
Less Debt	-16									
Equity Value of Firm	1143									
Equity Value per share (MYR)	1.68									
Implied FY18F P/E (x)	33.8									
Rf	4.0%									
Beta (x)	0.7									
Risk premium	4.9%									
Rm	8.9%									
TG (%)	1.5%									
CoE	7.3%									
CoD	5.5%									
WACC	6.7%									

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-08-07	Buy	3.06	1.27

Source: RHB, Bloomberg

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