

14 August 2018

Consumer Cyclical | Retailing

Mynews

Buy (Maintained)

Exciting Times Ahead

Reiterate BUY with unchanged TP of MYR2.03, offering 35% upside. We visited Mynews' new headquarters in KD and came away feeling assured of its exciting medium to long term prospects. Its RTE and bakery manufacturing plants have been relocated to KD and scheduled for commissioning by Feb 2019. We believe the supply of quality hygienic fresh foods will attract higher footfalls at its stores. Management is cautiously optimistic of a stronger 2HFY18, having observed a pick-up in consumer spending post-GE14.

Minor tweak in upstream expansion plans. The ready-to-eat (RTE) and bakery products manufacturing plants will be housed in an existing building behind its new headquarters in Kota Damansara (KD), instead of Rawang as previously planned. This is due to KD's more strategic location, which will lead to better operational efficiency as we also expect potential capex savings in the range of MYR10-15m. However, the completion date is now delayed slightly to Feb 2019 from end-2018 – we are not concerned as this is necessary in order to meet the strict guidelines and specifications demanded by its Japanese partners.

No surprises expected in 3QFY18 results. Management has observed an encouraging pick-up in consumer spending post GE14, which is in line with the solid surge in consumer sentiment as reported in 2Q18. We believe the removal of political uncertainty and zero-rating of GST are important feel-good factors. Meanwhile, store openings this year are on track to meet the target of 90 stores, having opened 55 new stores and bringing the total store count to 425 as at Aug 2018. We expect 3QFY18 results, due to be announced in late-Sep 2018, to be broadly in line.

Exciting times ahead. All in, we came away from the visit feeling assured of Mynews' medium to long term prospects – this will be largely underpinned by upstream expansion to capture the underserved RTE food segment, and we believe Family Mart's success serves as a testament to the huge potential for the convenient fresh food market. The partnership with established Japanese parties is essential in ensuring adequate supply of hygienic quality fresh food products to cater to Mynews' sizeable chain of stores. The initial capacity would be able to supply 150 stores before ramping up to 300 stores, and there will be a wide varieties of RTE and bakery products (25 SKUs each) on offer with competitive pricing.

Reiterate BUY. Post visit, we make no changes to our earnings forecasts and DCF-derived TP of MYR2.03 (WACC: 6.6%, TG: 1.5%). We continue to like Mynews for its attractive value proposition with exciting earnings growth ie 3-year earnings CAGR of 28%, ambitious multi-pronged expansion plans, and entrepreneurial and driven management team.

Risks to our recommendation include higher-than-expected operating costs and stronger-than-expected competition.

Forecasts and Valuations	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
Total turnover (MYRm)	264	326	420	540	673
Reported net profit (MYRm)	18.1	24.0	30.1	40.3	50.4
Recurring net profit (MYRm)	18.1	24.0	30.1	40.3	50.4
Recurring net profit growth (%)	34.2	32.6	25.1	34.2	24.9
Recurring EPS (MYR)	0.03	0.04	0.04	0.06	0.07
DPS (MYR)	0.01	0.01	0.01	0.02	0.02
Recurring P/E (x)	56.4	42.6	34.0	25.4	20.3
P/B (x)	6.71	4.23	3.88	3.48	3.09
P/CF (x)	52.3	92.6	32.1	22.3	18.0
Dividend Yield (%)	0.5	0.6	0.8	1.0	1.3
EV/EBITDA (x)	36.0	27.3	19.7	14.3	11.5
Return on average equity (%)	17.4	12.2	11.9	14.5	16.1
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			5.0	9.6	7.1

Source: Company data, RHB

Target Price: MYR2.03
Price: MYR1.50
Market Cap: USD250m
Bloomberg Ticker: MNHB MK

Share Data

Avg Daily Turnover (MYR/USD)	0.62m/0.15m
52-wk Price low/high (MYR)	1.10 - 1.75
Free Float (%)	25
Shares outstanding (m)	682
Estimated Return	35%

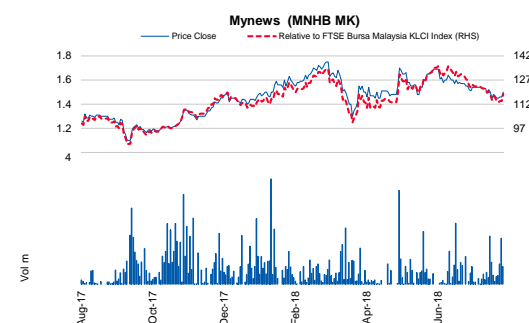
Shareholders (%)

D&D Consolidated	57.4
Kumpulan Wang Persaraan	6.9
Employee Provident Fund	5.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.2	(1.3)	1.4	(3.9)	15.4
Relative	5.0	(4.9)	4.8	(1.2)	14.5

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-08-13.

Asia		Financial summary	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
Malaysia		Recurring EPS (MYR)	0.03	0.04	0.04	0.06	0.07
Consumer Cyclical		EPS (MYR)	0.03	0.04	0.04	0.06	0.07
Mynews		DPS (MYR)	0.01	0.01	0.01	0.02	0.02
Bloomberg	MNHB MK	BVPS (MYR)	0.22	0.35	0.39	0.43	0.49
Buy		Weighted avg adjusted shares (m)	682	682	682	682	682
Valuation basis		Valuation metrics	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
DCF valuation		Recurring P/E (x)	56.4	42.6	34.0	25.4	20.3
Key drivers		P/E (x)	56.4	42.6	34.0	25.4	20.3
Faster-than-expected expansion, better-than-expected outlet sales growth, lower-than-expected operating costs.		P/B (x)	6.71	4.23	3.88	3.48	3.09
Key risks		FCF Yield (%)	(0.4)	(1.0)	(8.1)	0.6	1.6
Intense competition, labour shortage, weaker-than-expected consumer sentiment.		Dividend Yield (%)	0.5	0.6	0.8	1.0	1.3
Company Profile		EV/EBITDA (x)	36.0	27.3	19.7	14.3	11.5
Mynews' principal business activity is press and convenience retailing, which involves the conceptualisation, development, expansion, management and operation of a press and convenience retail chain throughout Malaysia under its home-grown trade names of <i>myNEWS.com</i> , <i>newsplus</i> , <i>MAGBIT</i> , <i>THE FRONT PAGE</i> ; as well as the trade name of <i>WHSmith</i> (under its equal JV with WH Smith Travel) that retail news, books and convenience products within international airports in Malaysia.		EV/EBIT (x)	43.3	33.3	24.8	18.4	14.7
		Income statement (MYRm)	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
		Total turnover	264	326	420	540	673
		Gross profit	94	120	160	208	259
		EBITDA	26	33	50	70	86
		Depreciation and amortisation	(4)	(6)	(10)	(16)	(18)
		Operating profit	22	27	40	54	67
		Net interest	(1)	(0)	(1)	(1)	(2)
		Pre-tax profit	24	31	39	53	66
		Taxation	(5)	(6)	(9)	(12)	(15)
		Recurring net profit	18	24	30	40	50
		Cash flow (MYRm)	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
		Change in working capital	(6.2)	(8.0)	(4.4)	(6.5)	(7.3)
		Cash flow from operations	19.6	11.0	31.9	45.9	56.8
		Capex	(23.7)	(21.7)	(115.0)	(40.0)	(40.0)
		Cash flow from investing activities	(86.5)	(71.1)	(57.2)	(40.0)	(40.0)
		Proceeds from issue of shares	0.0	71.4	0.0	0.0	0.0
		Dividends paid	(4.7)	(6.2)	(7.8)	(10.4)	(13.0)
		Cash flow from financing activities	76.1	64.3	5.6	(0.4)	(13.0)
		Cash at beginning of period	7.0	16.7	21.9	2.9	9.7
		Net change in cash	9.2	4.3	(19.8)	5.5	3.8
		Ending balance cash	16.2	21.0	2.1	8.3	13.5
		Balance sheet (MYRm)	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
		Total cash and equivalents	71	130	53	60	65
		Tangible fixed assets	65	81	185	210	231
		Total investments	9	0	0	0	0
		Total other assets	3	4	8	10	13
		Total assets	204	284	327	374	420
		Short-term debt	2	2	15	25	25
		Total long-term debt	7	6	6	6	6
		Other liabilities	3	3	3	3	3
		Total liabilities	52	43	63	80	89
		Shareholders' equity	152	242	264	294	331
		Total equity	152	242	264	294	331
		Net debt	(63)	(122)	(32)	(28)	(34)
		Total liabilities & equity	204	284	327	374	420
		Key metrics	Oct-16	Oct-17	Oct-18F	Oct-19F	Oct-20F
		Revenue growth (%)	21.4	23.6	28.8	28.3	24.8
		Recurrent EPS growth (%)	34.2	32.6	25.1	34.2	24.9
		Gross margin (%)	35.8	36.7	38.0	38.5	38.5
		Operating EBITDA margin (%)	10.0	10.1	11.9	12.9	12.7
		Net profit margin (%)	6.9	7.4	7.2	7.5	7.5
		Dividend payout ratio (%)	25.7	25.8	25.8	25.8	25.8
		Capex/sales (%)	9.0	6.7	27.3	7.4	5.9
		Interest cover (x)	43.6	64.2	51.4	38.7	40.6

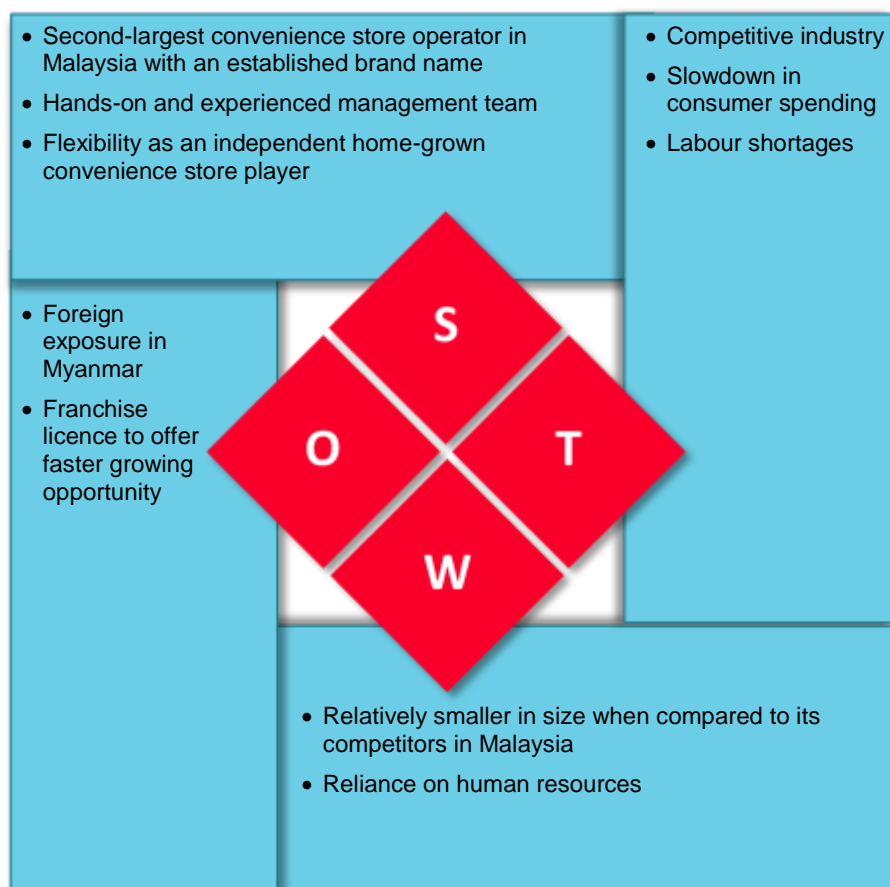
Source: Company data, RHB

Figure 1: Mynews' DCF valuation

FYE Oct (MYRm)	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
EBIT	54	67	82	99	116	134	154	173	193	216
EBIT*(1-tax rate)	41	51	62	75	88	102	117	131	147	164
Add: D&A	16	18	21	24	27	31	34	38	42	48
Less: WC investments (WC Inv)	(7)	(7)	(8)	(9)	(10)	(10)	(11)	(11)	(11)	(13)
Less: Fixed investments (FC Inv)	(40)	(40)	(55)	(55)	(55)	(65)	(65)	(65)	(85)	(115)
FCFF	10	22	21	35	51	58	75	94	93	85
Disc. FCFF	10	20	17	27	38	41	50	58	55	47
Terminal value at T=10	1885									
PV of terminal value	1044									
NPV	363									
Less Debt	-22									
Equity Value of Firm	1385									
Equity Value per share (MYR)	2.03									
Implied FY19F P/E (x)	34.3									
Rf	4.0%									
Beta (x)	0.5									
Risk premium	4.9%									
Rm	8.9%									
TG (%)	1.5%									
CoE	6.6%									
CoD	5.5%									
WACC	6.1%									

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-03-27	Buy	2.03	1.51
2018-01-24	Buy	1.68	1.50
2017-08-07	Buy	3.06	1.27

Source: RHB, Bloomberg

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