Consumer Staples

Malaysia

Mynews Holdings (MNHB MK)

3QFY18: In line

HOLD

Share Price	MYR 1.41
12m Price Target	MYR 1.44 (+2%)
Previous Price Target	*MYR 1.44*

Maintain HOLD

MNHB's 3QFY10/18 results were within expectations. We expect sales growth momentum to continue in the near-term but operating cost to rise as MNHB attempts to meet its internal FY18 store opening target. We keep our earnings forecasts for now. Maintain HOLD with an unchanged TP of MYR1.44 (27.6x CY19 PER; peer average).

Results within expectations

MNHB's 3QFY18 net profit of MYR7m (+18% YoY, +6% QoQ) brought 9MFY18 net profit to MYR20m (+9% YoY). This accounted for 71% of both our and consensus full-year estimates. As expected, no dividend was declared this quarter as they are historically declared in 2Q.

Higher operating expense

3QFY18 net profit grew 18% YoY largely on the back of stronger revenue (+20% YoY, +4% QoQ) driven by growth in new stores, higher other income (i.e. A&P income) and better product mix from both existing stores and new outlets. However, this was partially offset by higher admin expenses (+32% YoY, +3% QoQ) from higher staff, relocation and F&B start-up costs. Hence, 3QFY18 EBIT grew by a lower 4% YoY.

Store openings to pick-up in 4Q18

Sales growth momentum should continue in the near-term on the back of better consumer demand and new store openings. YTD 9MFY18, MNHB has opened 48 new stores (net) which brings its total store count to 404. Given MNHB's internal target of opening 90 new stores in FY18, we expect to see a ramp-up in store openings in 4QFY18. Our model imputes 75 store openings in FY18 (FY17: 62 new stores). We understand that MNHB is keeping its targeted geographical mix of 80:20 between central and other regions in the near term.

Company Description

Mynews's principal business activity is press and convenience retailing.

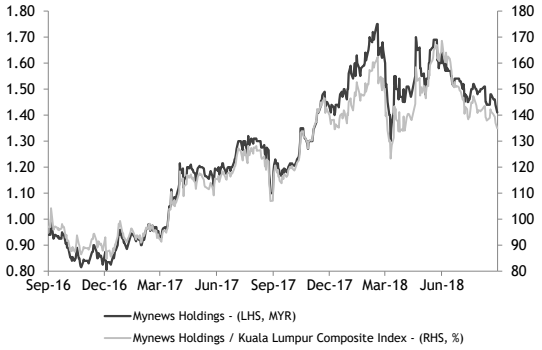
Statistics

52w high/low (MYR)	1.75/1.10
3m avg turnover (USDm)	0.1
Free float (%)	25.8
Issued shares (m)	682
Market capitalisation	MYR961.8M
	USD233M

Major shareholders:

D&D Consolidated Sdn. Bhd.	57.4%
Kumpulan Wang Persaraan	6.8%
Employees Provident Fund	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(12)	28
Relative to index (%)	(5)	(18)	25

Source: FactSet

FYE Oct (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	264	328	395	461	528
EBITDA	27	35	38	56	64
Core net profit	19	24	29	34	41
Core EPS (sen)	2.8	3.5	4.2	5.0	6.0
Core EPS growth (%)	42.6	24.6	19.7	19.7	19.5
Net DPS (sen)	0.7	0.9	1.1	1.3	1.6
Core P/E (x)	30.2	34.4	33.5	28.0	23.4
P/BV (x)	3.8	3.4	3.7	3.3	3.0
Net dividend yield (%)	0.8	0.8	0.8	0.9	1.1
ROAE (%)	17.4	12.2	11.4	12.5	13.5
ROAA (%)	12.7	9.7	9.4	10.3	11.1
EV/EBITDA (x)	19.2	20.1	24.3	16.4	14.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	28	36	47
MKE vs. Consensus (%)	-	-	1.2	(4.6)	(12.8)

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Mynews: Results Summary Table

	Quarterly					Cummulative		
FYE Oct (MYR'm)	**3QFY18**	**3QFY17**	***% YoY***	**2QFY18**	***% QoQ***	**9MFY18**	**9MFY17**	***%YoY***
Revenue	97.9	81.7	*19.8*	94.2	*3.9*	282.2	237.2	*19.0*
Cost of sales	(60.6)	(51.3)	*18.1*	(57.8)	*4.8*	(174.6)	(149.2)	*17.0*
Gross Profit	**37.3**	**30.4**	***22.6***	**36.4**	***2.5***	**107.6**	**88.0**	***22.3***
Other operating income	0.7	0.4	*59.7*	0.8	*(7.4)*	2.5	2.1	*18.2*
Admin	(27.9)	(21.1)	*32.3*	(27.1)	*3.2*	(80.3)	(62.2)	*29.1*
Other expenses	(2.3)	(2.1)	*11.6*	(1.9)	*18.3*	(6.1)	(5.2)	*17.0*
Operating profit / EBIT	**8.4**	**8.1**	***3.9***	**8.7**	***(3.6)***	**25.2**	**24.0**	***5.1***
Finance costs	(0.1)	(0.1)	*(8.3)*	(0.1)	*(4.8)*	(0.3)	(0.3)	*(8.1)*
Associates	0.6	0.4	*54.7*	0.6	*10.1*	1.5	1.3	*18.7*
Pretax profit	**8.3**	**8.0**	***4.0***	**8.6**	***(3.6)***	**24.9**	**23.6**	***5.3***
Income tax	(1.1)	(1.8)	*(42.1)*	(1.8)	*(41.3)*	(4.5)	(4.9)	*(8.9)*
Minority Interest	0.0	0.0	*n.m.*	0.0	*n.m.*	0.0	0.0	*n.m.*
Net profit	**7.3**	**6.2**	***17.7***	**6.8**	***6.4***	**20.4**	**18.7**	***9.1***
E.I.	0.0	**0.0**	*n.m.*	**0.0**	*n.m.*	**0.0**	**0.0**	*n.m.*
Core net profit	**7.3**	**6.2**	***17.7***	**6.8**	***6.4***	**20.4**	**18.7**	***9.1***
Margins								
Gross profit (%)	38.1	37.2	*0.9*	38.7	*(0.5)*	38.1	37.1	*1.0*
Operating profit (%)	8.6	9.9	*(1.3)*	9.3	*(0.7)*	8.9	10.1	*(1.2)*
Pretax profit (%)	8.5	9.8	*(1.3)*	9.2	*(0.7)*	8.8	10.0	*(1.1)*
Net profit (%)	7.4	7.6	*(0.1)*	7.3	*0.2*	7.2	7.9	*(0.7)*
Tax rate (%)	12.7	22.8	*(10.1)*	20.9	*(8.2)*	17.9	20.7	*(2.8)*

Source: Company, Maybank KE

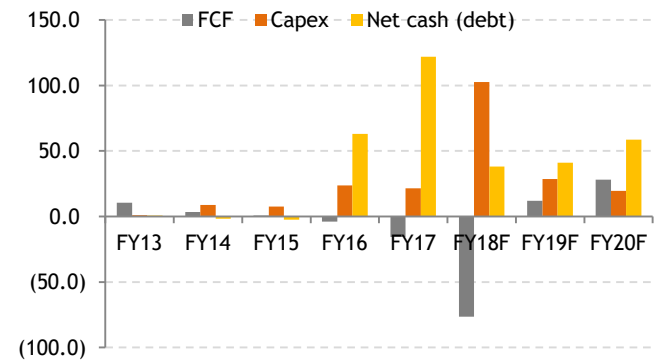
Sensitivity of higher minimum wage

Our earnings forecasts have yet to impute for the MYR50 p.m. rise in minimum wage in Peninsular and MYR130 p.m. rise in East Malaysia effective Jan 2019. MNHB has a staff force of 1.4-1.5k (staff count per store of 3.8). We estimate that most employees are currently taking home more than MYR1,200 p.m. (including incentives and allowances) vs. the new minimum wage of MYR1,050 p.m. (Peninsular, East Malaysia). On the assumption that the higher minimum wage will push up the entire staff costs due to the "knock on" effect, we estimate that every MYR50 rise in the monthly wage would negatively impact MNHB by 3% (using FY19E earnings as reference). However, with this being an industry wide cost inflation issue, we expect MNHB and its peers to eventually pass on the higher costs through higher merchandise and product prices.

Value Proposition

- Full autonomy over its trade name and brands. It has >380 stores in Malaysia. Targets to open 70-90 stores/year over the next three years.
- 80% of store locations in the Central region of Peninsular Malaysia (high footfall traffic area) and 20% in the rest of Malaysia.
- Under-penetration of convenience stores, which are the fastest growth segment (CAGR 14% FY07-FY17) suggests opportunities for *Mynews* to grow its store network.
- Estimated MYR100m capex for FY18E on acceleration of store growth and a new food distribution and processing facility.
- Expect heavy capex plans to weigh on FCF in the near-term.

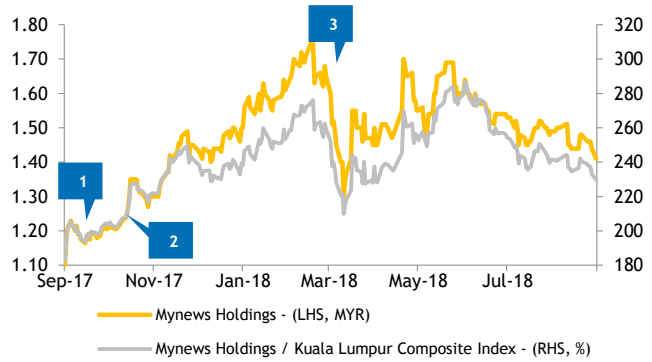
FCF, Capex, Net cash (debt)



Source: Company

Price Drivers

Historical share price trend



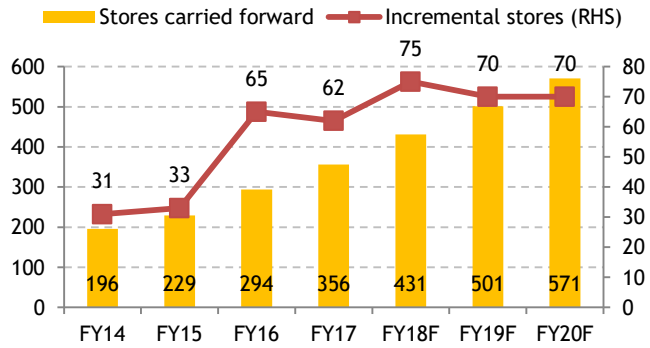
Source: Company, Maybank Kim Eng

1. Entered into two separate JVAs for its food processing facility to develop, produce and sell ready-to-eat and bakery products.
2. MNHB completed a private placement which raised MYR78m for working capital and to purchase a warehouse.
3. 1QFY18 results fell short due mainly to higher-than-expected expenses related to its F&B project.

Financial Metrics

- We assume 70-75 new stores a year which would lift revenues by approximately 15-20% p.a. for FY18-20E.
- Operating expenses as a percentage of sales would have to be monitored during this expansion phase (i.e. due to a lag in revenue growth relative to operating expenses).
- No formal dividend policy, but positive FCF following current heavy capex cycle could allow for a more generous dividend payout.

MNHB's year-end no. of stores vs. new store openings



Source: Company

Swing Factors

Upside

- Quicker-than-expected ramp-up in store sales.
- Further improvement in product mix (e.g. food), which translates into wider margins.

Downside

- Price competition.
- Poor execution or inability to find right locations could delay new store openings and revenue growth.
- Slower consumption demand growth, especially for cigarettes, resulting in falling same store sales.
- Unfavourable regulatory changes (e.g. labour and wage requirements, and excise taxes relating to tobacco).
- Higher operating expenses, such as rents or wage costs.

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FYE 31 Oct	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	28.3	30.3	33.5	28.0	23.4
Core P/E (x)	30.2	34.4	33.5	28.0	23.4
P/BV (x)	3.8	3.4	3.7	3.3	3.0
P/NTA (x)	3.8	3.4	3.7	3.3	3.0
Net dividend yield (%)	0.8	0.8	0.8	0.9	1.1
FCF yield (%)	nm	nm	nm	1.6	3.4
EV/EBITDA (x)	19.2	20.1	24.3	16.4	14.0
EV/EBIT (x)	23.0	24.3	30.2	23.1	19.2
INCOME STATEMENT (MYR m)					
Revenue	264.0	327.6	394.9	460.5	527.8
Gross profit	94.5	120.7	145.3	171.3	196.3
EBITDA	27.1	35.0	38.0	56.0	64.4
Depreciation	(4.5)	(6.0)	(7.4)	(16.2)	(17.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	22.6	29.0	30.6	39.8	47.1
Net interest income /(exp)	(0.1)	(0.2)	3.5	1.0	1.1
Associates & JV	1.1	1.9	2.1	2.6	3.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	23.6	30.7	36.3	43.4	51.2
Income tax	(5.5)	(6.7)	(7.5)	(9.0)	(10.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18.1	24.0	28.8	34.4	41.1
Core net profit	19.3	24.0	28.8	34.4	41.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	71.4	128.8	45.0	48.0	65.5
Accounts receivable	25.4	42.1	50.8	59.2	67.8
Inventory	29.8	31.7	38.3	44.3	50.8
Property, Plant & Equip (net)	65.3	80.6	175.9	188.3	190.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2.7	4.6	6.8	9.3	12.4
Other assets	9.9	2.0	2.0	2.0	2.0
Total assets	**204.4**	**289.8**	**318.7**	**351.2**	**389.1**
ST interest bearing debt	1.3	1.4	1.4	1.4	1.4
Accounts payable	40.4	36.4	44.0	50.9	58.4
LT interest bearing debt	7.0	5.5	5.5	5.5	5.5
Other liabilities	3.0	5.0	5.0	5.0	5.0
Total Liabilities	**52.0**	**48.2**	**55.7**	**62.7**	**70.1**
Shareholders Equity	152.4	241.6	263.0	288.5	319.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**152.4**	**241.6**	**263.0**	**288.5**	**319.0**
Total liabilities and equity	**204.4**	**289.8**	**318.7**	**351.2**	**389.1**
CASH FLOW (MYR m)					
Pretax profit	23.6	30.7	36.3	43.4	51.2
Depreciation & amortisation	4.5	6.0	7.4	16.2	17.3
Adj net interest (income)/exp	0.0	0.0	3.5	1.0	1.1
Change in working capital	3.8	(22.6)	(7.7)	(7.5)	(7.7)
Cash taxes paid	(5.4)	(5.6)	(7.5)	(9.0)	(10.1)
Other operating cash flow	(5.8)	(0.9)	0.0	0.0	0.0
Cash flow from operations	20.4	5.9	26.3	44.0	51.8
Capex	(23.6)	(21.6)	(102.7)	(28.6)	(19.5)
Free cash flow	(3.2)	(15.7)	(76.4)	15.4	32.3
Dividends paid	(4.7)	(6.2)	(7.4)	(8.9)	(10.6)
Equity raised / (purchased)	88.7	72.2	0.0	0.0	0.0
Change in Debt	(1.3)	(1.4)	0.0	0.0	0.0
Other invest/financing cash flow	(71.8)	(42.0)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	7.7	7.0	(83.8)	6.6	21.7

FYE 31 Oct	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	21.4	24.1	20.5	16.6	14.6
EBITDA growth	28.9	29.0	8.8	47.3	15.0
EBIT growth	29.8	28.0	5.7	30.1	18.2
Pretax growth	33.4	30.0	18.1	19.7	18.1
Reported net profit growth	34.2	32.5	19.7	19.7	19.5
Core net profit growth	42.6	24.6	19.7	19.7	19.5
Profitability ratios (%)					
EBITDA margin	10.3	10.7	9.6	12.2	12.2
EBIT margin	8.6	8.8	7.8	8.6	8.9
Pretax profit margin	8.9	9.4	9.2	9.4	9.7
Payout ratio	25.7	25.8	25.8	25.8	25.8
DuPont analysis					
Net profit margin (%)	6.9	7.3	7.3	7.5	7.8
Revenue/Assets (x)	1.3	1.1	1.2	1.3	1.4
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.2
ROAE (%)	17.4	12.2	11.4	12.5	13.5
ROAA (%)	12.7	9.7	9.4	10.3	11.1
Liquidity & Efficiency					
Cash conversion cycle	10.6	23.7	34.8	35.3	35.6
Days receivable outstanding	31.8	37.1	42.3	43.0	43.3
Days inventory outstanding	54.7	53.5	50.5	51.4	51.7
Days payables outstanding	75.9	66.9	58.0	59.1	59.4
Dividend cover (x)	3.9	3.9	3.9	3.9	3.9
Current ratio (x)	3.0	5.2	2.9	2.8	3.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.9	6.0	5.7	5.6	5.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	141.3	na	na	na
Debt/EBITDA (x)	0.3	0.2	0.2	0.1	0.1
Capex/revenue (%)	8.9	6.6	26.0	6.2	3.7
Net debt/ (net cash)	(63.2)	(121.9)	(38.1)	(41.1)	(58.6)

Source: Company; Maybank

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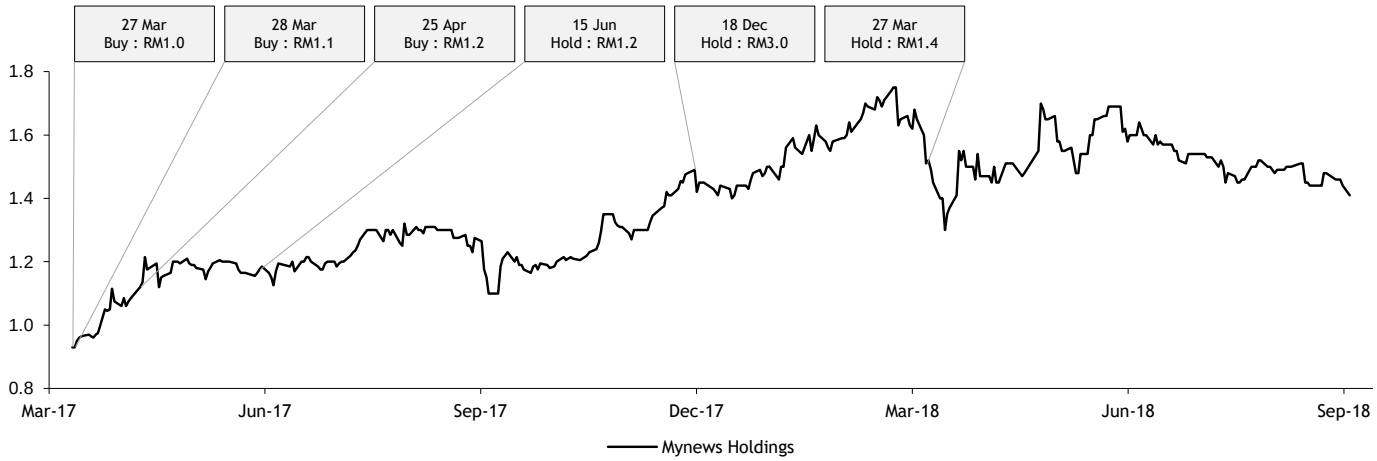

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