

17 December 2018

# MyNews Holdings Berhad

## FY18 In Line

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**FY18 core PATAMI of RM26.5m (+10%) came in within expectations at 95%/93% of our/consensus full-year earnings estimates. In tandem with the increasing number of stores, MyNews continued to incur higher operating expenses. Looking ahead, MyNews plans to open c.70 new outlets in FY19, which is lower than the 90 new outlets in FY18 (total 436 outlets as of 31<sup>st</sup> Oct 2018). Maintain UNDERPERFORM with an unchanged TP of RM1.25 based on 27x FY19E EPS.**

**FY18 within expectations.** FY18 core PATAMI of RM26.5m (+10%) came in within expectations at 95%/93% of our/consensus full-year earnings estimates. No dividend was declared for the quarter as MyNews typically pays dividend once a year in the 2Q, which bring full-year DPS to 1.0 sen (FY17:1.0 sen).

**YoY**, FY18 core PATAMI increased only by 10%, with contraction in NP margin by 0.5ppt to 6.8% from 7.3% in FY17 despite a surge in revenue (+20%) mainly due to higher operating expenses (+30%). Gross profit margin, however, improved by 0.9ppt to 37.7% from 36.8% in FY17 due to better merchandise mix, especially from the expansion of its fresh foods offering to more outlets. The higher operating expenses were in tandem with the opening of 80 (net) new outlets to 436 stores as well as higher staff costs, rental expenses, and expenses incurred for the bigger Head Office premises (at Taman Sains, Kota Damansara) and the new Johor Bharu Distribution Centre.

Note that, the group's effective tax rate of 19.3% (FY17:21.7%) is lower than the Malaysian statutory tax rate because one of its wholly-owned subsidiaries, DKE Technology SB is a MSC-status company which enjoys certain tax incentives.

**QoQ**, 4Q18 core PATAMI plunged 17% in spite of higher revenue (+12%) mainly due to: (i) higher effective tax rate of 23.7% (3Q18: 12.7%), (ii) higher operating expenses (+13%) in tandem with the opening of 32 (net) new outlets, and (iii) unfavourable merchandise mix with lower GP margin by 1.5ppt to 36.6% from 38.1% in 3Q18, despite the launching of new in-house brand "Maru Kafe" in the quarter.

**Outlook.** Looking ahead, MyNews plans to open c.70 new outlets in FY19, which is lower than the 90 new outlets addition in FY18. Nonetheless, we expect earnings margin to be limited by: (i) higher staff and rental costs during this expansionary period, and (ii) start-up costs from the commissioning of in-house food-processing facility, which is expected to be fully completed by January 2019 (supported by its JV companies, MyNews Kineya Sdn Bhd and MyNews Ryoyupan Sdn Bhd).

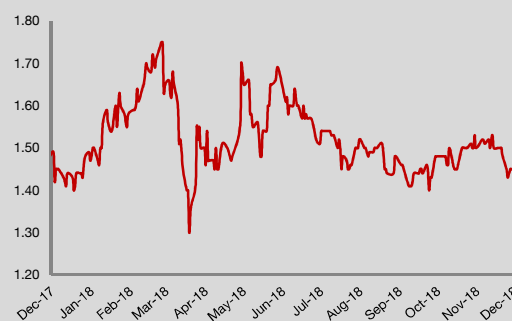
**Maintain UNDERPERFORM with an unchanged Target Price of RM1.25** based on 27x FY19E EPS, which is in line with regional peers' average PER, given the stiff competition and saturated market in the modern convenience stores space, directly related to the regional market trend.

**Key risks to our call** include higher-than-expected sales, and lower-than-expected operating expenses.

## UNDERPERFORM ↔

**Price:** RM1.45  
**Target Price:** RM1.25 ↔

### Share Price Performance



KLCI 1,661.96  
YTD KLCI chg -7.5%  
YTD stock price chg 0.7%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	MNHB MK Equity
Market Cap (RM m)	989.1
Shares Outstanding	682.2
52-week range (H)	1.80
52-week range (L)	1.26
3-mth avg daily vol:	270,981
Free Float	32%
Beta	0.6

### Major Shareholders

D & D Consolidated	57.4%
Kumpulan Wang Persaraan	7.4%
Dang Tai Kien	3.4%

### Summary Earnings Table

FYE Oct (RMm)	2018A	2019E	2020E
Turnover	391.5	498.3	568.8
EBITDA	30.3	46.8	56.3
PBT	32.7	38.6	46.7
<b>Net Profit (NP)</b>	<b>26.5</b>	<b>32.1</b>	<b>38.7</b>
<b>Core Net Profit</b>	<b>26.5</b>	<b>32.1</b>	<b>38.7</b>
Consensus(NP)	28.5	34.9	44.5
Earnings Revision	-	-	new
EPS (sen)	3.9	4.7	5.7
EPS growth	10.3%	21.0%	20.7%
NDPS (sen)	1.0	1.0	1.0
BV/Share (RM)	0.38	0.44	0.49
PER	37.3	30.8	25.5
P/BV (x)	3.8	3.3	3.0
Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield	0.7%	0.7%	0.7%

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FYE Oct (RM m)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	109.3	97.9	11.7%	90.4	21.0%	391.5	327.6	19.5%
Gross Profit	40.0	37.3	7.2%	32.7	22.5%	147.6	120.7	22.4%
Operating Expenses	-31.4	-27.9	12.5%	-23.6	33.3%	-111.7	-85.8	30.3%
Jointly -Controlled (WH Smith)	0.7	0.6	15.9%	0.7	8.8%	2.2	1.9	15.3%
PBT	7.3	8.3	-12.0%	7.1	3.8%	32.2	30.7	5.0%
Tax expense	-1.7	-1.1	64.5%	-1.8	-1.9%	-6.2	-6.7	-7.0%
<b>Net Profit (NP)</b>	<b>6.1</b>	<b>7.3</b>	-16.5%	<b>5.3</b>	14.8%	<b>26.5</b>	<b>24.0</b>	<b>10.3%</b>
<b>Core Net Profit</b>	<b>6.1</b>	<b>7.3</b>	-16.5%	<b>5.3</b>	14.8%	<b>26.5</b>	<b>24.0</b>	<b>10.3%</b>
EPS (sen)	0.9	1.1	-16.0%	1.7	-47.6%	3.9	7.7	-49.9%
DPS (sen)	-	-		-		1.0	1.0	0.0%
Gross margin (%)	36.6%	38.1%		36.1%		37.7%	36.8%	
PBT margin (%)	6.7%	8.5%		7.8%		8.2%	9.4%	
NP margin	5.6%	7.4%		5.8%		6.8%	7.3%	
Effective tax rate (%)	23.7%	12.7%		25.1%		19.3%	21.7%	

Source: Bursa Announcement, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.30	1,467.6	N	12/2018	8.2%	5.2%	3.2%	13.0%	32.0	31.0	27.4	21.7	18.6	64.6%	2.3%	1.30	MP
AEON CO (M) BHD	1.57	2,204.3	Y	12/2018	6.6%	4.1%	13.4%	14.1%	21.0	18.5	16.2	1.1	1.1	6.0%	2.5%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	6.40	1,052.1	Y	12/2018	0.0%	3.0%	-20.6%	37.4%	20.0	25.2	18.3	4.9	4.7	19.1%	3.1%	6.80	MP
DUTCH LADY MILK INDUSTRIES BHD	62.46	3,997.4	Y	12/2018	-2.0%	2.9%	-0.4%	18.0%	32.1	28.0	24.6	38.4	37.7	131.6%	3.5%	64.10	MP
FRASER & NEAVE HOLDINGS BHD	33.20	12,177.0	Y	09/2019	4.2%	4.1%	2.7%	4.0%	30.7	29.9	28.8	5.3	4.9	17.0%	2.0%	33.30	MP
HAI-O ENTERPRISE BHD	2.93	850.9	N	04/2019	4.8%	4.5%	21.3%	4.0%	14.0	10.1	8.4	3.0	2.8	25.0%	7.4%	5.15	OP
MYNEWS HOLDINGS BHD	1.45	989.1	N	10/2018	27.3%	14.2%	21.0%	20.7%	37.3	30.8	25.5	3.6	3.3	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	145.10	34,026.0	Y	12/2018	3.5%	1.1%	11.4%	13.7%	52.7	47.3	41.6	53.2	50.1	109.1%	2.0%	146.50	MP
PADINI HOLDINGS BHD	3.47	2,282.9	Y	06/2019	10.5%	5.1%	1.2%	10.8%	12.8	12.7	11.4	3.5	3.0	25.6%	3.3%	4.90	UP
PARKSON HOLDINGS BHD	0.27	282.8	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	17.5	15.4	0.1	0.1	0.5%	0.0%	0.37	OP
POWER ROOT BHD	1.23	486.2	Y	03/2019	-1.0%	8.6%	43.2%	30.9%	20.6	14.9	11.8	2.3	2.2	16.4%	6.5%	1.90	OP
QL RESOURCES BHD	6.50	10,545.8	Y	03/2019	7.2%	11.1%	3.1%	8.7%	51.1	48.5	45.5	5.6	5.2	11.4%	0.7%	5.70	UP
SPRITZER BHD	2.18	457.7	Y	12/2018	10.4%	4.0%	14.7%	10.9%	16.7	16.8	15.1	1.1	1.2	7.1%	2.8%	2.30	MP
Simple Average					6.5%	5.2%	23.0%	15.4%	28.4	25.5	22.3	11.1	10.4	34.2%	2.8%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	36.02	10,284.8	N	12/2018	-1.5%	0.3%	-12.2%	0.6%	19.7	22.4	22.3	26.9	25.4	116.6%	4.2%	29.10	UP
CARLSBERG BREWERY MALAYSIA BHD	19.76	6,078.6	N	12/2018	9.9%	7.7%	17.2%	9.8%	27.3	23.3	21.2	19.5	19.5	87.2%	4.4%	17.70	UP
HEINEKEN MALAYSIA BHD	20.36	6,150.7	N	12/2018	5.0%	6.1%	1.2%	3.0%	22.8	22.5	21.9	17.1	17.0	75.6%	4.4%	18.60	MP
Simple Average					4.5%	4.7%	2.1%	4.5%	23.3	22.7	21.8	21.2	20.6	93.1%	4.3%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.31	475.4	N	04/2019	10.1%	8.6%	2111.6%	16.4%	404.6	18.3	15.7	1.3	1.2	6.6%	3.3%	1.86	BUY
BONIA CORPORATION BHD	0.25	201.4	Y	06/2019	-6.5%	3.2%	-49.8%	89.3%	10.2	20.3	10.7	0.5	0.4	3.9%	2.4%	0.25	SELL
COCOALAND BHD	2.00	457.6	Y	12/2018	4.6%	2.4%	-7.0%	9.2%	13.7	14.7	13.4	1.9	1.7	13.4%	5.7%	2.45	BUY
LAY HONG BHD	0.36	234.4	Y	03/2019	-1.5%	9.3%	-43.7%	93.7%	6.4	11.4	5.9	0.7	0.7	4.1%	1.4%	0.49	BUY
KAWAN FOOD BHD	2.00	719.0	Y	12/2018	8.5%	17.4%	-13.3%	43.1%	24.7	28.5	19.9	2.3	1.9	7.9%	2.3%	2.45	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.20	683.5	Y	04/2019	13.0%	7.0%	16.0%	11.3%	7.5	6.4	5.8	1.4	N/A	21.0%	N/A	6.45	BUY

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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