

07 Feb 2020

Buy

Price
RM0.80

Target Price
RM1.30

Bloomberg code
MNHB MK

Equity | Malaysia | Consumer

Flashnote

Analyst

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Mynews

Working on brand presence

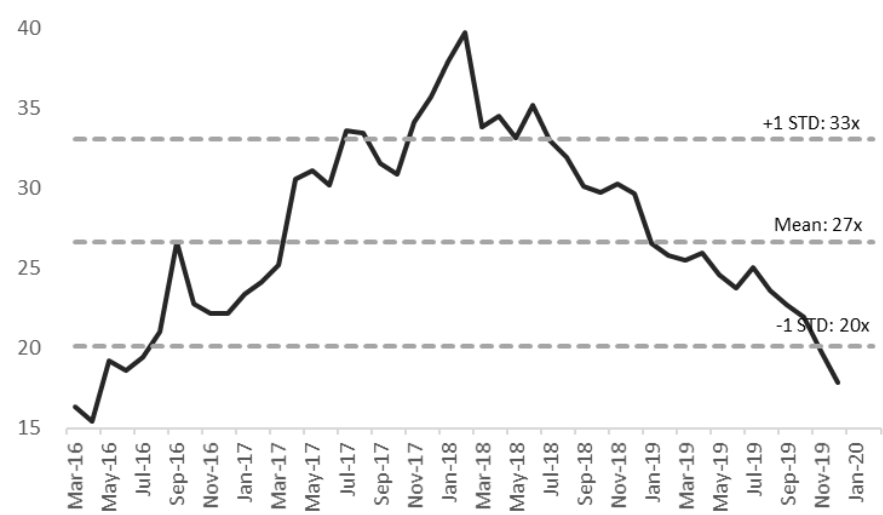
Financial Highlights

FYE Oct	2018	2019	2020F	2021F	2022F
Revenue (RMm)	393	529	689	905	1,212
Core net profit (RMm)	25	27	34	42	52
Core EPS (Sen)	3.7	3.9	4.9	6.2	7.7
EPS growth (%)	(0.4)	6.0	26.6	25.1	24.4
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	21.7	20.4	16.1	12.9	10.4
Div yield (%)	1.3	1.3	1.3	1.3	1.3
ROE (%)	10.5	9.9	11.3	12.8	14.2
Net Gearing (%)	Net Cash				
PBV(x)	2.1	1.9	1.8	1.6	1.4

Source: Company, KAF

- Maintain our Buy rating with TP of RM1.30 – pegged to 26x PE based on FY20F EPS.
- We came back from Mynews' investors briefing feeling optimistic about its near-term growth prospects.
- Management has updated that over the past six-months, the group has embarked on multiple initiatives to better understand its consumers, boost talent through strong hire from reputable retailing experience and enhance analytical capabilities by investing in tools for speed of information and decisions.
- We are positive on these initiatives as these are expected to improve the group's competitiveness within the convenience stores market.
- Mynews has allocated a total CAPEX of RM3m for FY20 in order to increase its brand presence amongst consumers especially across its Ready-to-Eat (RTE) segment through product innovations and identifying sustainable signature offerings.
- On top of that, the group is allocating RM20m to revamp existing outlets to include more modern machineries to cater its products offerings hence increase consumers' footfalls.
- The group has also found that by having better lighting in-store as well as re-organising the RTE display with more ordered layout and better brand representation, RTE sales in store may increase between 20%-40% within two weeks.
- Another area of opportunity which Mynews has identified is to upsell a third item to active customers from the loyalty programme members as they are low hanging fruits to close immediate sales.
- Note that the group has 61,000 loyalty programme members and 25% of them are active with 3.5x larger ticket size than the average of around RM6.50.
- Therefore, we maintain our three-year forward earnings forecasts CAGR of 25% for FY20-22F driven by increasing sales from opening of new stores (100 stores in FY20), more active marketing activities to push sales, and better operational efficiencies post enhancement in value chain systems.
- We project a DPS of 1sen/share for FY20-22F which has been constant since listing and at current level, it implies a dividend yield of 1%.
- YTD, share price has plunged by as much as 29% to a three-year low due to declining consumer sentiment, expectations of earnings dampened by MFRS 16 recognition, FPC still in gestation period and market speculations on the coronavirus outbreak.
- It is currently trading at 14x forward PE which is -2SD below its post-listing forward PE mean of 27x which we believe is undervalued hence provides opportunity to collect.

Exhibit 1: Post listing forward PE band chart



Source: Bloomberg, KAF

Exhibit 2: Product innovations of the month

This promotional banner for myNEWS features three new bun products: Cheezy Mayo Bun (RM3.50 each), Love Bun (RM2.90 each), and Butter Coconut Bun (RM2.99 each). A large pink circle on the left offers 100 bonus points for members, with RM1 = 100 points. The banner also includes QR codes for downloading the myNEWS app and a call to action for non-members to scan and become members. The date February 2020 is noted at the bottom right.

Source: Company, KAF

Exhibit 3: Sample of new layout



Source: Google image, KAF

Exhibit 4: Sample of old layout



Source: Google image, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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