

26 Jun 2020

## Hold

Price  
RM0.69Target Price  
RM0.70 (from RM0.86)

## Market Data

Bloomberg Code	MNHB MK
No. of shares (m)	682.2
Market cap (RMm)	477.5
52-week high/low (RM)	1.49 / 0.58
Avg daily turnover (RMm)	0.5
KLCI (pts)	1,502.6

Source: Bloomberg, KAF

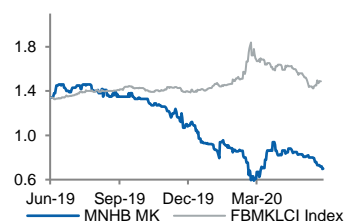
## Major Shareholder (%)

D & D Consolidated	(57.4%)
KWAP	(5.4%)
EPF	(4.8%)
Free Float	25.0

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	15.7	(36.4)	(48.9)
Rel Market (%)	(0.6)	(32.1)	(43.0)



Source: Bloomberg, KAF

## Analyst

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## Mynews

## 1HFY20: Lower-than-expected results

Maintain Hold rating with lower TP of RM0.70 (from RM0.86) pegged to 35x forward PE based on CY20F EPS. Mynews' 1HFY20 core earnings came in below our and consensus estimates due to higher-than-expected cost of operations for its FPC due to fluctuating sales. Other than that, 2QFY20 recorded a net loss due to lower sales caused by closures of some of its stores and lower daily sales from the opened stores since 18<sup>th</sup> March 2020 due to implementation of MCO. We expect earnings to be back-end loaded as Malaysia enters into recovery stage of MCO and consumers are able to return to work as well as visit retail outlets. Share price is currently trading close to -1SD to its post-listing forward mean PE which we believe is approaching its fair value.

## Financial Highlights

FYE Oct	2018	2019	2020F	2021F	2022F
Revenue (RMm)	386	518	587	705	853
Core net profit (RMm)	25	27	12	20	30
Core EPS (Sen)	3.7	4.0	1.8	3.0	4.4
EPS growth (%)	(0.4)	8.9	(54.4)	62.6	47.6
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	19.1	17.5	37.9	23.3	15.8
Div yield (%)	1.4	1.4	1.4	1.4	1.4
ROE (%)	10.5	10.1	4.3	6.7	9.2
Net Gearing (%)	Net Cash	4.3	4.3	Net Cash	Net Cash
PBV(x)	1.8	1.7	1.6	1.6	1.4

Source: Company, KAF

## Maintain Hold rating with lower TP of RM0.70 (RM0.86)

We peg our valuation to 35x forward PE based on CY20E EPS. Mynews' 1HFY20 core earnings of RM2m (-88% YoY) came in below our and consensus estimates accounting for 8% and 10% of full-year forecasts. This was due to higher-than-expected operational expenses. No dividend was declared during the quarter under review (previously 1sen in 2QFY19).

## Operations disrupted by MCO

Although the number of stores increased to 539 stores in 2QFY20 (from 456 in 2QFY19), revenue declined to RM123m (-7% YoY, -12% QoQ). This was due to temporary closure of about 30% Mynews stores and lower daily sales across opened stores caused by Movement Control Order (MCO) implemented on 18<sup>th</sup> March 2020. Moreover, higher cost of operations for its Food Processing Center (FPC) due to fluctuating sales led to pretax loss of RM3m (vs RM10m pretax profit in 2QFY19).

## Earnings expected to be supported by recovery stage of MCO

In 2HFY20, we expect Mynews earnings to be supported by improving sales as Malaysia enters into recovery stage of MCO when consumers are able to return to work in the office and able to visit retail outlets. In order to mitigate rising cost of operations, Mynews is expected to optimise its costs and efficiencies. Note that YTD the group has opened 26 net stores. Moving forward, we believe Mynews will open less stores annually in the near term due to weaker consumer sentiment.

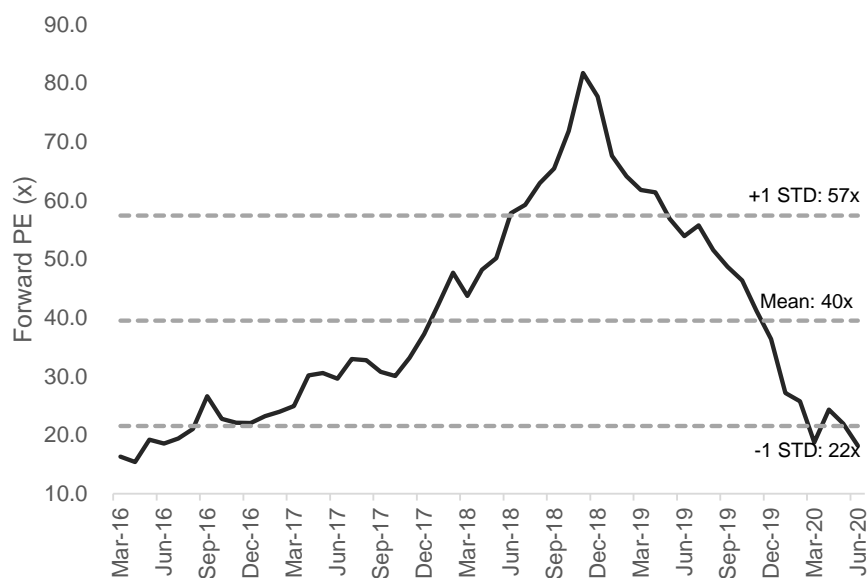
## Stock is pricing in earnings decline

YTD, the share price has declined by 39% (vs -6% for the KLCI) and is currently trading at 18x forward PE which is close to -1SD below its post-listing forward mean PE of 40x. We believe the stock is pricing in the earnings decline caused by MCO. We see potential upside coming from higher-than-expected sales improvement in 2HFY20 as Malaysia enters recovery stage of MCO and lower-than-expected cost of operations as Mynews optimises its costs. We project DPS of 1sen for FY20-22F, which implies a dividend yield of 1% at current level.

**Exhibit 1: Quarterly financial results analysis**

FYE 31 Oct RMm	2QFY19 Apr-19	3QFY19 Jul-19	4QFY19 Oct-19	1QFY20 Jan-19	2QFY20 Apr-19	Change (%)		Cumulative		Chg (%)	KAF	
						QoQ	YoY	1H FY19	1H FY20	YoY	FY20F	6M/F
Revenue	133	132	140	141	123	(12)	(7)	256	264	3	660	40%
Gross profit	46	47	48	50	41	(18)	(12)	92	91	(1)	239	38%
<b>EBITDA</b>	<b>22</b>	<b>20</b>	<b>10</b>	<b>19</b>	<b>11</b>	<b>(41)</b>	<b>(51)</b>	<b>44</b>	<b>29</b>	<b>(33)</b>	<b>84</b>	<b>35%</b>
Depreciation	(12)	(12)	(6)	(13)	(13)	(1)	6	(24)	(26)	11		
EBIT	10	8	4	5	(2)	nm	nm	20	3	(84)	31	11%
Net interests	(1)	(1)	(1)	(1)	(1)	(1)	53	(1)	(2)	61		
Exceptional items	0	(0)	0	0	0	543	(66)	0	0	(33)		
Pretax profit	10	8	4	5	(3)	nm	nm	20	2	(92)	29	5%
Taxation	(2)	(3)	(2)	(2)	(0)	(89)	(90)	(4)	(2)	(46)		
Reported profit	8	7	3	4	(2)	nm	nm	16	2	(88)	22	9%
<b>Normalised net profit</b>	<b>8</b>	<b>8</b>	<b>3</b>	<b>4</b>	<b>(2)</b>	<b>nm</b>	<b>nm</b>	<b>16</b>	<b>2</b>	<b>(88)</b>	<b>22</b>	<b>8%</b>
Basic EPS (sen)	1	1	0	1	(0)	nm	nm	2	0	nm		
Normalised EPS (sen)	1	1	0	1	(0)	nm	nm	2	0	(88)		
DPS (sen)	1	0	0	0	0	nm	nm	1	0	nm		
						%-pts	%-pts			%-pts		
Effective tax rate (%)	21	31	49	40	(6)	(47)	(27)	21	142	>+100		
Gross profit margin (%)	35	36	34	36	33	(2)	(2)	36	34	(1)		
EBITDA margin (%)	17	15	7	13	9	(4)	(8)	17	11	(6)		
Pretax profit margin (%)	8	6	3	4	(3)	(6)	(10)	8	1	(7)		
Normalised net margin (%)	6	6	2	3	(2)	(5)	(8)	6	1	(6)		

Source: Company, KAF

**Exhibit 2: Post-listing forward mean PE**

Source: Bloomberg, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

**Income Statement**

<b>FYE Oct (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue	386	518	587	705	853
EBITDA	37	74	72	96	119
Depreciation/Amortisation	(8)	(41)	(53)	(66)	(75)
Operating income (EBIT)	29	32	18	30	43
Other income & associates	2	3	4	4	5
Net interest	0	(3)	(6)	(8)	(9)
Exceptional items	1	0	0	0	0
<b>Pretax profit</b>	<b>32</b>	<b>33</b>	<b>16</b>	<b>27</b>	<b>39</b>
Taxation	(6)	(9)	(4)	(6)	(9)
Minorities/pref dividends	0	3	0	0	0
<b>Net profit</b>	<b>26</b>	<b>28</b>	<b>12</b>	<b>20</b>	<b>30</b>
Core net profit	25	27	12	20	30

**Balance Sheet**

<b>FYE Oct (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Fixed assets	156	197	244	278	303
Intangible assets	0	0	0	0	0
Other long-term assets	7	131	135	139	144
<b>Total non-current assets</b>	<b>163</b>	<b>329</b>	<b>379</b>	<b>417</b>	<b>447</b>
Cash & equivalent	23	14	14	29	60
Stock	44	62	70	84	102
Trade debtors	65	58	15	18	22
Other current assets	46	19	64	64	64
Total current assets	178	153	162	195	248
Trade creditors	51	75	38	45	55
Short-term borrowings	2	11	11	11	11
Other current liabilities	0	29	86	101	116
<b>Total current liabilities</b>	<b>54</b>	<b>115</b>	<b>134</b>	<b>157</b>	<b>182</b>
Long-term borrowings	2	15	15	15	15
Other long-term liabilities	4	49	84	119	154
<b>Total long-term liabilities</b>	<b>6</b>	<b>64</b>	<b>99</b>	<b>134</b>	<b>169</b>
<b>Shareholders' funds</b>	<b>261</b>	<b>284</b>	<b>289</b>	<b>303</b>	<b>326</b>
Minority interests	19	18	18	18	18

**Cash flow Statement**

<b>FYE Oct (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Pretax profit	32	33	16	27	39
Depreciation/Amortisation	8	41	53	66	75
Net change in working capital	(21)	8	(6)	(10)	(12)
Others	(10)	1	(2)	(3)	(5)
<b>Cash flow from operations</b>	<b>10</b>	<b>83</b>	<b>62</b>	<b>80</b>	<b>97</b>
Capital expenditure	(87)	(105)	(100)	(100)	(100)
Net investments & sale of fixed assets	66	29	0	0	0
Others	22	3	0	0	0
<b>Cash flow from investing</b>	<b>1</b>	<b>(73)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>
Debt raised/(repaid)	(3)	(9)	50	50	50
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(7)	(7)	(7)	(7)	(7)
Others	0	(3)	(6)	(8)	(10)
<b>Cash flow from financing</b>	<b>(10)</b>	<b>(19)</b>	<b>37</b>	<b>35</b>	<b>33</b>
<b>Net cash flow</b>	<b>1</b>	<b>(9)</b>	<b>(0)</b>	<b>16</b>	<b>31</b>
<b>Net cash/(debt) b/f</b>	<b>23</b>	<b>24</b>	<b>14</b>	<b>14</b>	<b>30</b>
<b>Net cash/(debt) c/f</b>	<b>24</b>	<b>14</b>	<b>14</b>	<b>30</b>	<b>61</b>

**Key Ratios**

<b>FYE Oct</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue growth (%)	17.7	34.3	13.4	20.0	21.1
EBITDA growth (%)	5.0	>100	(2.8)	33.7	23.7
Pretax margins (%)	8.4	6.4	8.1	10.7	12.7
Net profit margins (%)	6.9	5.3	2.1	2.9	3.5
Interest cover (x)	921.1	10.7	3.2	3.9	4.5
Effective tax rate (%)	19.3	26.2	24.0	24.0	24.0
Net dividend payout (%)	20.8	18.3	19.5	18.0	15.4
Debtors turnover (days)	43	35	39	39	39
Stock turnover (days)	36	38	8	8	8
Creditors turnover (days)	42	45	16	16	16

Source: Bloomberg, 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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