

25 Mar 2021

## Buy

Price  
RM0.90Target Price  
RM1.00 (from RM0.76)

## Market Data

Bloomberg Code	MNHB MK
No. of shares (m)	682.2
Market cap (RMm)	538.9
52-week high/low (RM)	0.96 / 0.55
Avg daily turnover (RMm)	1.8
KLCI (pts)	1,597.73

Source: Bloomberg, KAF

## Major Shareholder (%)

D & D Consolidated	(57.4%)
EPF	(6.7%)
Standard Life Aberdeen PLC	(5.6%)
Free Float	24.8

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	14.5	31.7	17.0
Rel Market (%)	16.2	21.9	(10.9)



Source: Bloomberg, KAF

## Analyst

**Damia Othman**  
(603) 2171 0507  
damia@kaf.com.my

## Mynews

## 1QFY21: back-end loaded results

Maintain Buy rating with higher TP of RM1.00 (from RM0.76) pegged to 40x PE based on CY21F EPS. Mynews' 1QFY21 recorded core net loss of RM9m due to re-implementation of MCO during the quarter under review. Even then, we believe results are broadly in line with ours and consensus estimates as the earnings are expected to be back-end loaded. Revenue declined to RM99m (-15% QoQ, -30% YoY) due to lower number of outlets of 524 in 1QFY21 (-2 stores QoQ, -11 stores YoY) as well as lower customer footfalls. Management guided that the easing of MCO rules coupled with the commencement of immunisation programme in the country is expected to lead to a gradual recovery in the business. Moving forward, Mynews plans to open up to 50 CU stores, 20 myNEWS SUPERVALUE stores and more myNEWS brand stores at suitable locations this year which are expected to further narrow FPC losses hence strengthening the group's bottom-line in the near term. The stock has rallied recently and performed 50% YTD, even then we believe there is still upside potential due to the expectation of stronger results in 2H21 considering Malaysia is recovering gradually from the pandemic and pent-up consumer demand for discretionary spending.

## Financial Highlights

FYE Oct	2019	2020	2021F	2022F	2023F
Revenue (RMm)	518	489	572	785	1,001
Core net profit (RMm)	27	(7)	14	31	36
Core EPS (Sen)	4.0	(1.0)	2.1	4.5	5.3
EPS growth (%)	8.9	(125.9)	(305.2)	112.5	18.4
DPS (Sen)	1.0	0	1.0	1.0	1.0
Core PE (x)	22.5	(87.0)	42.4	19.9	16.8
Div yield (%)	1.1	0	1.1	1.1	1.1
ROE (%)	9.6	(2.6)	5.1	10.1	10.9
Net Gearing (%)	4.3	10.4	Net Cash	Net Cash	Net Cash
PBV(x)	2.2	2.2	2.2	2.0	1.8

Source: Company, KAF

## Maintain Buy rating with higher TP of RM1.00 (from RM0.76)

Valuation is pegged to 40x (from 30x) PE based on CY21F EPS to ride on the pandemic recovery momentum in the country. Mynews' 1QFY21 recorded core net loss of RM9m due to re-implementation of Movement Control Order (MCO) during the quarter under review. Even then, we believe results are broadly in line with ours and consensus estimates as the earnings are expected to be back-end loaded attributable to relaxation of MCO rules recently. Furthermore, Malaysia has started its immunisation plan since February 2021 and this is expected to improve consumer sentiment in the near term.

## Narrowed losses from Food Processing Center (FPC)

Revenue declined to RM99m (-15% QoQ, -30% YoY) due to lower number of outlets of 524 in 1QFY21 (-2 stores QoQ, -11 stores YoY) as well as lower customer footfalls due to reimplementation of MCO. Whilst loss before tax expanded to RM10m in 1QFY21 from RM7m in the previous quarter and RM5m profit before tax in 1QFY20. This was due to Retail segment reported loss before tax of RM8m in 1QFY21 from profitable levels in 4QFY20 and 1QFY21. This was partially offset by lower loss before tax from the FPC segment of RM3m from RM4m in the previous quarter as well as profitable jointly controlled entity contribution from WH Smith caused by rental rebates being higher than operating losses.

## Relaxation of MCO is expected to lead to gradual recovery

Management guided that the easing of MCO rules coupled with commencement of immunisation programme in the country is expected to lead to gradual recovery in business. Moreover, the first CU store is expected to be launched on 1<sup>st</sup> April 2021 in Center Point, Bandar Utama. Further supporting the group's growth plans, Mynews plans to open between 30-50 CU stores, 20 myNEWS SUPERVALUE stores and more myNEWS brand stores at

suitable locations this year. The various brands of convenience stores operated by Mynews in the country including WH Smith is expected to fasten the gestation period of the FPC thus resulting in stronger bottomline contributions in the near term.

#### Further upside potential for the stock

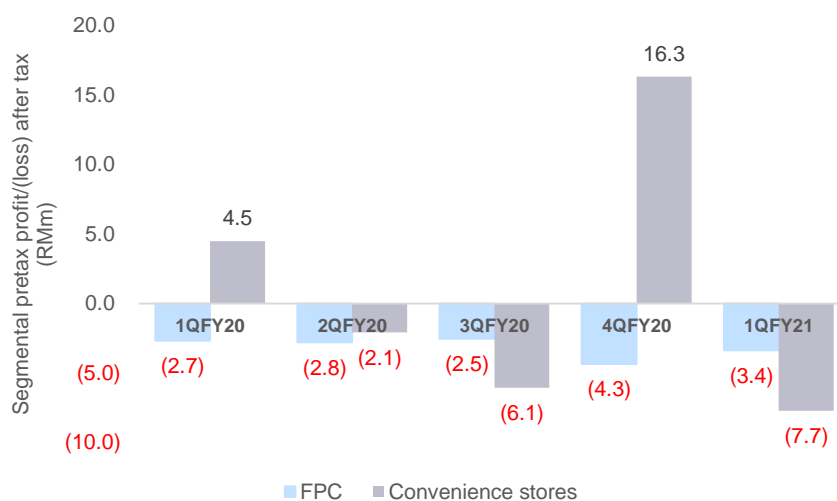
The share price has rallied recently and has increased by 50% YTD following positive news development related to easing of MCO rules, start of the country's immunisation plan as well as excitement for the launch of the first CU store in Malaysia. It is currently trading at 20x forward PE which we believe is undervalued. We believe there is still upside potential for the stock on the back of expectation of stronger results in 2H21 considering Malaysia is recovering gradually from the pandemic and pent up consumer demand for discretionary spending. With projected DPS of 1sen for FY21-23F, this implies a dividend yield of 1%.

**Exhibit 1: Quarterly financial results analysis**

FYE 31 Oct RMm	1QFY20 Jan-20	2QFY20 Apr-20	3QFY20 Jul-20	4QFY20 Oct-20	1QFY21 Jan-21	Change (%)		KAF	
						QoQ	YoY	FY21F	3M/F
Revenue	141	123	110	116	99	(15)	(30)	572	17%
Gross profit	50	41	32	38	31	(17)	(37)	195	16%
<b>EBITDA</b>	<b>19</b>	<b>11</b>	<b>8</b>	<b>10</b>	<b>6</b>	<b>(43)</b>	<b>(70)</b>	<b>85</b>	<b>7%</b>
Depreciation	(13)	(13)	(14)	(12)	(14)	19	10		
EBIT	5	(2)	(6)	(2)	(9)	>100	nm	29	-31%
Net interests	(1)	(1)	(1)	(2)	(2)	(3)	39		
Exceptional items	0	0	(0)	(2)	(0)	nm	nm		
Minority interests	1	1	1	2	2	(23)	25		
Pretax profit	5	(3)	(8)	(7)	(10)	46	nm	20	-52%
Taxation	(2)	(0)	0	(0)	(0)	34	(78)		
Reported profit	4	(2)	(6)	(5)	(9)	74	nm	14	-62%
<b>Normalised net profit</b>	<b>4</b>	<b>(2)</b>	<b>(6)</b>	<b>(3)</b>	<b>(9)</b>	<b>&gt;100</b>	<b>nm</b>	<b>14</b>	<b>-62%</b>
Basic EPS (sen)	1	(0)	(1)	(1)	(1)	75	(305)		
Normalised EPS (sen)	1	(0)	(1)	(0)	(1)	165	(306)		
DPS (sen)	0	0	0	0	0	nm	nm		
						%-pts	%-pts		
Effective tax rate (%)	40	(6)	6	(5)	(5)	0	(45)		
Gross profit margin (%)	36	33	29	33	32	(1)	(4)		
EBITDA margin (%)	13	9	7	8	6	(3)	(8)		
Pretax profit margin (%)	4	(3)	(7)	(6)	(10)	(4)	(14)		
Normalised net margin (%)	3	(2)	(5)	(3)	(9)	(6)	(12)		

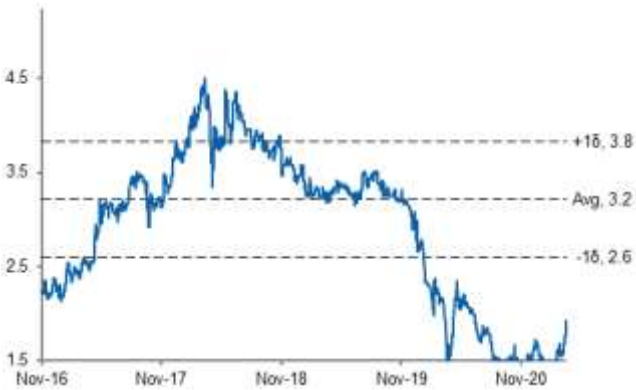
Source: Company, KAF

**Exhibit 2: Narrowing FPC loss before tax QoQ despite reinstatement of MCO in 1QFY21**



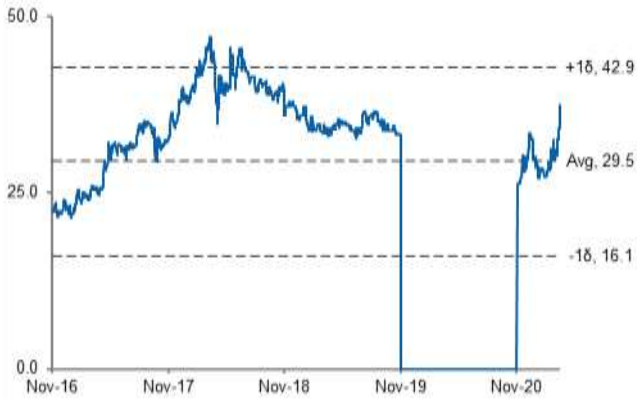
Source: Company, KAF

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>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue	518	489	572	785	1,001
EBITDA	76	50	85	112	130
Depreciation/Amortisation	(44)	(55)	(56)	(61)	(72)
Operating income (EBIT)	33	(8)	29	50	58
Other income & associates	3	(1)	1	1	1
Net interest	(3)	(5)	(10)	(10)	(10)
Exceptional items	0	(3)	0	0	0
<b>Pretax profit</b>	<b>33</b>	<b>(14)</b>	<b>20</b>	<b>42</b>	<b>49</b>
Taxation	(9)	(2)	(5)	(11)	(13)
Minorities/pref dividends	3	6	0	0	0
<b>Net profit</b>	<b>28</b>	<b>(10)</b>	<b>14</b>	<b>31</b>	<b>36</b>
Core net profit	27	(7)	14	31	36

**Balance Sheet**

<b>FYE Oct (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Fixed assets	197	210	231	270	298
Intangible assets	0	0	0	0	0
Other long-term assets	131	148	149	150	151
<b>Total non-current assets</b>	<b>329</b>	<b>358</b>	<b>380</b>	<b>420</b>	<b>449</b>
Cash & equivalent	14	39	119	87	70
Stock	62	67	78	107	137
Trade debtors	58	39	40	42	45
Other current assets	19	25	25	25	25
<b>Total current assets</b>	<b>153</b>	<b>170</b>	<b>262</b>	<b>262</b>	<b>277</b>
Trade creditors	75	75	81	96	112
Short-term borrowings	11	18	18	18	18
Other current liabilities	29	34	64	64	64
<b>Total current liabilities</b>	<b>115</b>	<b>127</b>	<b>163</b>	<b>178</b>	<b>194</b>
Long-term borrowings	15	49	49	49	49
Other long-term liabilities	49	66	136	136	136
<b>Total long-term liabilities</b>	<b>64</b>	<b>115</b>	<b>185</b>	<b>185</b>	<b>185</b>
<b>Shareholders' funds</b>	<b>284</b>	<b>274</b>	<b>282</b>	<b>305</b>	<b>335</b>
Minority interests	18	12	12	12	12

**Cash flow Statement**

<b>FYE Oct (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Pretax profit	33	(14)	20	42	49
Depreciation/Amortisation	44	55	56	61	72
Net change in working capital	8	(9)	(6)	(17)	(17)
Others	(1)	9	4	(2)	(4)
<b>Cash flow from operations</b>	<b>83</b>	<b>41</b>	<b>73</b>	<b>84</b>	<b>100</b>
Capital expenditure	(105)	(37)	(77)	(100)	(100)
Net investments & sale of fixed assets	29	16	0	0	0
Others	3	2	0	1	1
<b>Cash flow from investing</b>	<b>(73)</b>	<b>(19)</b>	<b>(77)</b>	<b>(99)</b>	<b>(99)</b>
Debt raised/(repaid)	(9)	41	100	0	0
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(7)	0	(7)	(7)	(7)
Others	(3)	(37)	(10)	(10)	(10)
<b>Cash flow from financing</b>	<b>(19)</b>	<b>4</b>	<b>83</b>	<b>(17)</b>	<b>(17)</b>
<b>Net cash flow</b>	<b>(9)</b>	<b>25</b>	<b>80</b>	<b>(32)</b>	<b>(17)</b>
<b>Net cash/(debt) b/f</b>	<b>24</b>	<b>14</b>	<b>40</b>	<b>119</b>	<b>87</b>
<b>Net cash/(debt) c/f</b>	<b>14</b>	<b>40</b>	<b>119</b>	<b>87</b>	<b>71</b>

**Key Ratios**

<b>FYE Oct</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue growth (%)	34.3	(5.5)	16.8	37.2	27.6
EBITDA growth (%)	>100	(34.5)	69.8	31.7	16.0
Pretax margins (%)	17.7	(8.8)	10.0	15.2	14.0
Net profit margins (%)	5.3	(2.0)	2.5	3.9	3.6
Interest cover (x)	9.5	(1.5)	2.8	4.9	5.6
Effective tax rate (%)	26.2	24.0	24.0	24.0	24.0
Net dividend payout (%)	18.3	19.5	18.0	15.4	15.4
Debtors turnover (days)	39	82	82	82	82
Stock turnover (days)	8	7	7	7	7
Creditors turnover (days)	16	14	14	14	14

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.

## Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis  
Managing Director  
KAF Equities Sdn Bhd (Reg No. 198501002182)