

02 Apr 2021

Buy

Price
RM1.02Target Price
RM1.35 (from RM1.00)

Market Data

Bloomberg Code	MNHB MK
No. of shares (m)	682.2
Market cap (RMm)	695.8
52-week high/low (RM)	1.06 / 0.55
Avg daily turnover (RMm)	2.3
KLCI (pts)	1,582.6

Source: Bloomberg, KAF

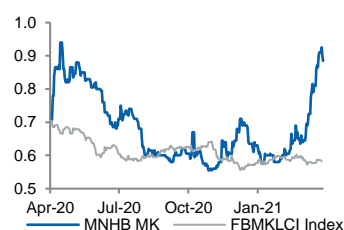
Major Shareholder (%)

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 (%)	61.9	68.6	48.9
Rel Market (%)	66.5	59.4	24.4



Source: Bloomberg, KAF

Analyst

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Mynews

Post MCO key player

Maintain Buy rating with higher TP of RM1.35 (from RM1.00). Our valuation is rolled forward to FY22F EPS pegged 35x PE to reflect more normalized business conditions. This is premised on the complete absence of MCO implementation moving forward. We believe the MCO impact in 1QFY21 understates the FY21F business potential. Moving forward, we expect earnings to be back-end loaded and return to the black in FY21F driven by the opening of 100 convenience stores nationwide and improvement in merchandising mix. Following that, FY22F earnings are expected to double as losses from the FPC narrow coupled with expectations of a more aggressive expansion of CU stores to meet its 500 stores target in the next five years. Even then, we expect FY22F earnings to remain below pre-pandemic levels. YTD, the share price has increased by 70% from its trough, currently trading at 24x forward PE, which we believe is still undervalued.

Financial Highlights

FYE Oct	2019	2020	2021F	2022F	2023F
Revenue (RMm)	518	489	569	772	978
Core net profit (RMm)	27	(7)	12	26	32
Core EPS (Sen)	4.0	(1.0)	1.7	3.8	4.7
EPS growth (%)	8.9	(125.9)	(267.8)	>100	21.4
DPS (Sen)	1.0	0.0	1.0	1.0	1.0
Core PE (x)	25.5	nm	58.7	26.6	21.9
Div yield (%)	1.0	0.0	1.0	1.0	1.0
ROE (%)	10.1	(3.5)	4.3	9.1	10.2
Net Gearing (%)	4.3	10.4	Net Cash	Net Cash	2.4
PBV(x)	2.5	2.5	2.5	2.3	2.2

Source: Company, KAF

Maintain Buy rating with higher TP of RM1.35 (from RM1.00)

Roll forward our valuation to FY22F EPS pegged to 35x PE. We believe our valuation is reflective of more normalised business conditions. This is premised on the complete absence of Movement Control Order (MCO) implementation moving forward. Risks to our call are the country entering another round of MCO with higher daily COVID-19 cases and prolonged restrictions on inter-state travel until 2H21.

MCO impact understates business potential

To recap, Malaysia entered into a second round of MCO lasting through 1QFY21 of the company's financial season. Mynews reported a core net loss of RM9m (vs core profit of RM4m in 1QFY20). This was due to lower sales from shorter operating hours and lesser foot traffic due to the movement restrictions when daily COVID-19 cases were at its peak. We believe the 1QFY21 results are likely to dampen Mynews' full-year earnings, and therefore, we believe the financial results in FY21F would understate the true business potential of the group.

Opened first CU store in Malaysia

Yesterday, Mynews opened its first CU store in Malaysia located at Centre Point, Bandar Utama. The outlet spanning 1,700 sqf offers Ready-to-Eat (RTE) fresh food with South Korean street food flavours, snacks, beverages and beauty products imported from South Korea as well as other confectionaries sourced locally from staples brands. Mynews guided that 60% of the products are in the RTE range, 20% are imported from South Korea and 20% are locally sourced to cater to local demand. There are also indoor and outdoor seating areas with self-serve ramen making station to emulate a similar ambience of a typical convenience store in South Korea. Mynews plans to open 500 CU stores in the next five years. We believe this is achievable as the group is at an inflection point of aggressive expansion mode to grow its presence across Malaysia as we recover from the pandemic.

Expects better gross margin with higher RTE offerings

Mynews is allocating a CAPEX of RM50m to open a total of 100 stores in 2021. This includes up to 50 CU stores, 20 myNEWS SUPERVALUE stores and the remaining for own myNEWS brand stores. Management guided that new CU stores and myNEWS SUPERVALUE stores are expected to take three years to breakeven. To date, the group has over 520 convenience stores across Malaysia. Sales growth is also expected to be supported by improved merchandising mix specially curated to fit the target market of each of its convenience store brands for myNEWS, myNEWS SUPERVALUE, CU and WH Smith. These are expected to improve the utilisation rate of the Food Processing Center (FPC) from current level of 30% up to breakeven point of 70% by end of 2022. Consequently, with more RTE offerings across its outlets and better merchandising mix, gross margin is expected to improve from 32% in 1QFY21 to 35% by the end of FY21F.

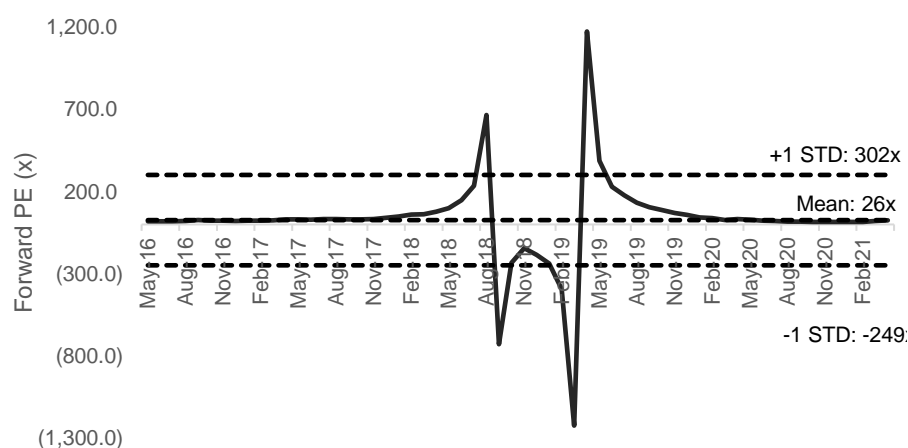
FY22F earnings projection still lower than pre-pandemic levels

Moving forward, we expect FY21F earnings to return to the black at RM12m as the dampening effect MCO was mainly concentrated in 1QFY21. Therefore, earnings are expected to be back-end loaded driven by the opening of 100 convenience stores and improved merchandising mix for FY21F. Onwards to FY22F, we expect earnings to about double to RM26m to be driven by narrowing losses of the FPC as it reaches breakeven point coupled with expectations of a more aggressive plan to increase its stores presence to meet 500 CU stores in the next five years. Even then, we expect FY22F earnings to remain below pre-pandemic levels.

Key player to post MCO environment

YTD the share price has rallied and increased by 70% from its trough in December 2020. It is currently trading at 24x forward PE, which we believe is still undervalued. Note that historically at its peak, the share price has traded as high as 60x forward PE back in 2018 while averaging at 31x post-listing forward PE pre-pandemic. The expected catalysts to the share price performance are 1) Mynews being a key post MCO recovery player with robust earnings growth projections, 2) valuation is reflective of more normalised business conditions premised on the complete absence of MCO implementation moving forward, and 3) continued plan to increase its presence nationwide by opening suitable convenience stores brands in different neighbourhoods.

Exhibit 1: Five-year forward PE band chart



Source: Bloomberg, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Oct (RMm)	2019	2020	2021F	2022F	2023F
Revenue	518	489	569	772	978
EBITDA	76	50	81	105	123
Depreciation/Amortisation	(44)	(55)	(56)	(61)	(72)
Operating income (EBIT)	32	(5)	25	44	52
Other income & associates	3	(1)	1	1	1
Net interest	(3)	(5)	(10)	(10)	(10)
Exceptional items	0	(3)	0	0	0
Pretax profit	33	(14)	16	35	43
Taxation	(9)	(2)	(4)	(9)	(11)
Minorities/pref dividends	3	6	0	0	0
Net profit	28	(10)	12	26	32
Core net profit	27	(7)	12	26	32

Balance Sheet

FYE Oct (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	197	210	231	270	298
Intangible assets	0	0	0	0	0
Other long-term assets	131	148	149	150	150
Total non-current assets	329	358	380	419	449
Cash & equivalent	14	39	116	80	60
Stock	62	67	78	106	134
Trade debtors	58	39	40	42	45
Other current assets	19	25	25	25	25
Total current assets	153	170	259	254	264
Trade creditors	75	75	81	95	110
Short-term borrowings	11	18	18	18	18
Other current liabilities	29	34	64	64	64
Total current liabilities	115	127	163	178	192
Long-term borrowings	15	49	49	49	49
Other long-term liabilities	49	66	136	136	136
Total long-term liabilities	64	115	185	185	185
Shareholders' funds	284	274	279	298	323
Minority interests	18	12	12	12	12

Cash flow Statement

FYE Oct (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	33	(14)	16	35	43
Depreciation/Amortisation	44	55	56	61	72
Net change in working capital	8	(9)	(6)	(16)	(16)
Others	(1)	9	5	0	(2)
Cash flow from operations	83	41	71	80	96
Capital expenditure	(105)	(37)	(77)	(100)	(100)
Net investments & sale of fixed assets	29	16	0	0	0
Others	3	2	0	1	1
Cash flow from investing	(73)	(19)	(77)	(99)	(99)
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)
Cash flow from financing	(19)	4	83	(17)	(17)
Net cash flow	(9)	25	77	(36)	(20)
Net cash/(debt) b/f	24	14	40	117	81
Net cash/(debt) c/f	14	40	117	81	60

Key Ratios

FYE Oct	2019	2020	2021F	2022F	2023F
Revenue growth (%)	34.3	(5.5)	16.3	35.8	26.6
EBITDA growth (%)	>100	(34.5)	62.7	29.8	16.9
Pretax margins (%)	6.4	(2.9)	2.8	4.6	4.4
Net profit margins (%)	5.3	(2.0)	2.1	3.4	3.2
Interest cover (x)	10.7	(1.0)	2.5	4.6	5.3
Effective tax rate (%)	nm	12.8	26.0	26.0	26.0
Net dividend payout (%)	18.3	nm	42.6	19.3	15.9
Debtors turnover (days)	35	39	31	19	16
Stock turnover (days)	38	48	46	43	45
Creditors turnover (days)	45	56	50	42	38

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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