

28 Oct 2020

Buy

Price
RM0.57Target Price
RM0.67 (from RM0.60)

Market Data

Bloomberg Code	MNHB MK
No. of shares (m)	682.2
Market cap (RMm)	392.2
52-week high/low (RM)	1.34 / 0.56
Avg daily turnover (RMm)	1.1
KLCI (pts)	1,500.4

Source: Bloomberg, KAF

Major Shareholder (%)

D & D Consolidated	(57.4%)
KWAP	(5.7%)
EPF	(4.8%)
Free Float	24.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(19.0)	(30.7)	(56.8)
Rel Market (%)	(14.1)	(36.7)	(54.8)



Source: Bloomberg, KAF

Mynews

Yet to price in CU and FPC

Upgrade rating to Buy from Hold with higher TP of RM0.67 (from RM0.60) pegged to 30x PE based on CY21F EPS. We came back from a virtual meeting with management feeling positive of Mynews near term earnings outlook. This is on the back of 1) stronger sales growth from opening of new Mynews, SuperSaver and CU stores; 2) the Food Processing Centre is expected to breakeven in 2021; and 3) achieving costs synergies in operating environment across the group while running multiple convenience store brands. Risks to our call are lower-than-expected sales across new stores and later-than-expected break-even period for the FPC. Share price has declined by 49% YTD as 9MFY20 financial results were in the red due to Covid-19 impact on the Retail market in Malaysia. Even then, we find the stock has been oversold and has yet to factor in the projected impact of FPC turning break-even as well as CU stores maiden sales contributions in FY21F especially from a low-base effect of FY20F results.

Financial Highlights

FYE Oct	2018	2019	2020F	2021F	2022F
Revenue (RMm)	386	518	502	629	918
Core net profit (RMm)	25	27	0	13	28
Core EPS (Sen)	3.7	4.0	0.0	1.8	4.2
EPS growth (%)	(0.4)	8.9	(99.7)	nm	>100
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	15.7	14.4	5,507.6	31.1	13.8
Div yield (%)	1.7	1.7	1.7	1.7	1.7
ROE (%)	10.5	10.1	0.0	4.5	9.7
Net Gearing (%)	Net Cash	4.3	4.3	Net Cash	2.6
PBV(x)	1.5	1.4	1.4	1.4	1.3

Source: Company, KAF

Upgrade rating to Buy from Hold with higher TP of RM0.67 (from RM0.60)

Valuation is pegged to 30x PE based on CY21F EPS as this is in-line with peers forward mean PE. We came back from a virtual meeting with management feeling positive of Mynews near term earnings outlook. This is on the back of 1) stronger sales growth from opening of new Mynews, SuperSaver and CU stores; 2) the Food Processing Centre (FPC) is expected to breakeven in 2021; and 3) achieving costs synergies in operating environment across the group while running multiple convenience store brands. Risks to our call are lower-than-expected sales across Mynews and CU stores and later-than-expected break-even period for the FPC.

Diversifying its market reach to increase the convenience stores market share

The group is allocating a total CAPEX of approximately RM100m in FY21 to open up to 50 CU stores and 60 Mynews stores. Furthermore, Mynews plans to open two SuperSaver stores in Melaka and Alor Setar by the end of 2020. Given the highly competitive convenience store market in Malaysia, we find Mynews to be diversifying its reach by offering various unique selling propositions in each store brand. This is expected to increase its market share across the convenience stores retail market in the country. With that, we are projecting a three-year forward sales CAGR of 21% between FY20-22F. Note that Mynews plans to open up to 500 CU stores in the next five years as well as continuously open an average of 100 Mynews stores moving forward.

Opening of CU stores helps to increase FPC utilisation rate

Mynews FPC is currently operating at 35% utilisation rate and the group targets to increase the level to 70% by end of 2021. This is expected to be achieved through 1) opening of new Mynews and CU outlets as well as 2) continuous marketing activities to entice consumer spending on Ready-To-Eat food (RTE) products across the two brands convenience stores. Note that F&B contributes about 40% of Mynews sales while CU stores F&B sales contribution is expected to be around 60% of total CU sales. We believe Mynews has the

Analyst

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

capabilities and expertise to support both Mynews and CU stores RTE requirements therefore, we expect FPC to be able to breakeven in FY21.

Benefits from costs synergies of running multiple convenience store brands

Management guided that some raw materials used in the FPC are expected to overlap between RTE products to be sold in Mynews and CU stores. Hence, we believe Mynews as a group may benefit from economies of scale when ordering ingredients in bigger bulks to cater to a larger number of stores as well as wider range of products across the two store brands. On top of this, management shared that operational functions like warehouse, logistics and other common departments are to be centralised for the running of all its convenience store brands (i.e. Mynews, CU, WH Smith and SuperSaver). Henceforth, we believe Mynews is able to benefit from costs synergies of operations within the group therefore leading to stronger profitability in the medium to long-term.

Share price is oversold

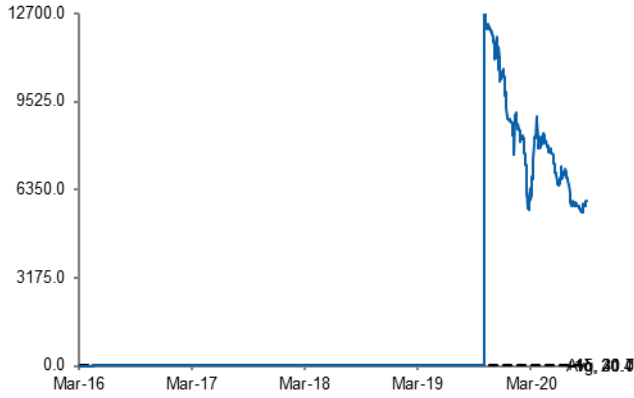
Share price has declined by 49% YTD as 9MFY20 financial results were in the red due and Malaysia is in its third wave of Covid-19 infection. Even then, we believe share price has been oversold after testing current support level twice in the last two-months. We find the market has yet to factor in the projected impact of FPC turning break-even as well as CU stores maiden sales contributions in FY21F especially from a low-base effect of FY20F results.

Exhibit 1: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 2: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Oct (RMm)	2018	2019	2020F	2021F	2022F
Revenue	386	518	502	629	918
EBITDA	37	74	60	90	133
Depreciation/Amortisation	(8)	(41)	(53)	(66)	(86)
Operating income (EBIT)	29	32	7	25	47
Other income & associates	2	3	(3)	1	1
Net interest	0	(3)	(4)	(8)	(9)
Exceptional items	1	0	0	0	0
Pretax profit	32	33	0	17	38
Taxation	(6)	(9)	0	(4)	(10)
Minorities/pref dividends	0	3	0	0	0
Net profit	26	28	0	13	28
Core net profit	25	27	0	13	28

Balance Sheet

FYE Oct (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	156	197	244	318	332
Intangible assets	0	0	0	0	0
Other long-term assets	7	131	129	129	130
Total non-current assets	163	329	373	447	462
Cash & equivalent	23	14	14	35	18
Stock	44	62	60	75	110
Trade debtors	65	58	57	60	68
Other current assets	46	19	19	19	19
Total current assets	178	153	151	190	215
Trade creditors	51	75	74	82	101
Short-term borrowings	2	11	11	11	11
Other current liabilities	0	29	44	74	74
Total current liabilities	54	115	129	167	186
Long-term borrowings	2	15	15	15	15
Other long-term liabilities	4	49	84	154	154
Total long-term liabilities	6	64	99	169	169
Shareholders' funds	261	284	277	283	304
Minority interests	19	18	18	18	18

Cash flow Statement

FYE Oct (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	32	33	0	17	38
Depreciation/Amortisation	8	41	53	66	86
Net change in working capital	(21)	8	1	(10)	(23)
Others	(10)	1	7	3	(2)
Cash flow from operations	10	83	61	76	99
Capital expenditure	(87)	(105)	(100)	(140)	(100)
Net investments & sale of fixed assets	66	29	0	0	0
Others	22	3	0	0	1
Cash flow from investing	1	(73)	(100)	(140)	(99)
Debt raised/(repaid)	(3)	(9)	50	100	0
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(7)	(7)	(7)	(7)	(7)
Others	0	(3)	(4)	(9)	(10)
Cash flow from financing	(10)	(19)	39	85	(17)
Net cash flow	1	(9)	0	21	(17)
Net cash/(debt) b/f	23	24	14	15	35
Net cash/(debt) c/f	24	14	15	35	19

Key Ratios

FYE Oct	2018	2019	2020F	2021F	2022F
Revenue growth (%)	17.7	34.3	(3.1)	25.5	45.8
EBITDA growth (%)	5.0	>100	(18.7)	50.6	46.6
Pretax margins (%)	8.4	6.4	0.0	2.7	4.2
Net profit margins (%)	6.9	5.3	0.0	2.0	3.1
Interest cover (x)	921.1	10.7	1.6	2.9	5.1
Effective tax rate (%)	19.3	26.2	24.0	25.0	26.0
Net dividend payout (%)	20.8	18.3	7,279.6	40.6	17.8
Debtors turnover (days)	43	35	44	34	25
Stock turnover (days)	36	38	44	39	37
Creditors turnover (days)	42	45	54	45	36

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