

# Mynews Holdings (MNHB MK)

## 4QFY20 results: Still in the red

# SELL

Share Price MYR 0.69  
 12m Price Target MYR 0.57 (-16%)  
 Previous Price Target MYR 0.57

### Maintain SELL with unchanged TP of MYR0.57

4QFY20 results were below our/consensus earnings estimates due to higher-than-expected selling, distribution & admin expenses. The CMCO is likely to keep store footfall subdued going forward and earnings may only meaningfully recover once lockdown measures are lifted. Our SELL call, TP of MYR0.57 (based on unchanged CY21 PER of 21x) and earnings estimates are maintained pending MNHB's results briefing today.

### Results below expectations

MNHB's 4QFY20 net loss of MYR5m (4QFY19: MYR4m net profit, 3QFY20: MYR6m net loss) brought FY20 net loss to MYR9m (FY19: MYR28m net profit). The latter fell below expectations against our/consensus FY20 estimates of -MYR5m/-MYR4m. FY20 revenue of MYR490m (-5% YoY) was however in-line at 102% of our full-year estimate. The earnings shortfall was due to higher-than-expected selling, distribution & admin expenses.

### Losses narrowed slightly QoQ

4QFY20 revenue grew 5% QoQ as sales volume and store footfall were gradually recovering throughout the RMCO before CMCO was put back in place on Oct 14. 4QFY20 gross profit also improved (+17% QoQ; GP margin: +3.2 ppts QoQ) on the back of better product mix. MNHB's selling, distribution & admin expenses increased 15% QoQ as manufacturing activities were in force for a full quarter in 4QFY20 as compared to the 6 week halt in 3QFY20, we suspect. Hence, this led to an operating loss of MYR4m in 4QFY20 (3QFY20: -MYR6m). MNHB's food processing centre's losses also grew wider to -MYR4m in 4QFY20 (vs. -MYR2.5m in 3QFY20).

### Lacklustre outlook

We expect store footfall to continue to be subdued in sequential quarters given the ongoing CMCO but partially buffered by a potential uptick in sales volume over the year-end festive period. With changing consumer behaviour, MNHB continues to focus on expanding its online sales presence while opening new retail formats like Mynews Supervalu which offers a wider range of daily necessities for consumers. Its maiden CU convenience store is also set to open by 1QCY21. Nevertheless, we believe that earnings may only stabilise when COVID-19 cases are reduced and lockdown measures are relaxed.

FYE Oct (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	518	490	591	679	772
EBITDA	77	45	68	76	84
Core net profit	28	(9)	18	22	23
Core EPS (sen)	4.0	(1.4)	2.6	3.2	3.4
Core EPS growth (%)	2.8	nm	nm	23.0	5.6
Net DPS (sen)	1.0	0.0	0.7	0.9	1.0
Core P/E (x)	32.9	nm	26.3	21.4	20.2
P/BV (x)	3.2	1.4	1.6	1.5	1.5
Net dividend yield (%)	0.8	0.0	1.1	1.3	1.4
ROAE (%)	10.1	(3.3)	6.3	7.4	7.4
ROAA (%)	6.8	(1.9)	3.3	3.9	3.8
EV/EBITDA (x)	11.9	8.9	7.5	7.0	6.6
Net gearing (%) (incl perp)	3.4	9.9	15.3	20.8	27.2
Consensus net profit	-	-	18	28	na
MKE vs. Consensus (%)	-	-	(1.2)	(21.1)	na

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### Company Description

Mynews's principal business activity is press and convenience retailing.

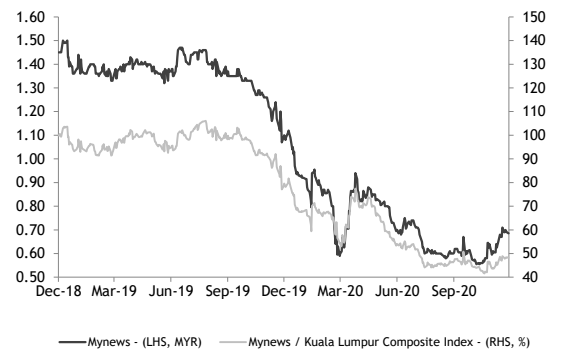
### Statistics

52w high/low (MYR)	1.12/0.56
3m avg turnover (USDm)	0.4
Free float (%)	27.1
Issued shares (m)	682
Market capitalisation	MYR467.3M USD115M

### Major shareholders:

D&D Consolidated Sdn. Bhd.	57.4%
Employees Provident Fund	6.7%
Aberdeen Standard Investments (Malaysia)	5.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	7	14	(36)
Relative to index (%)	3	4	(38)

Source: FactSet

Fig 1: Mynews: Results summary table

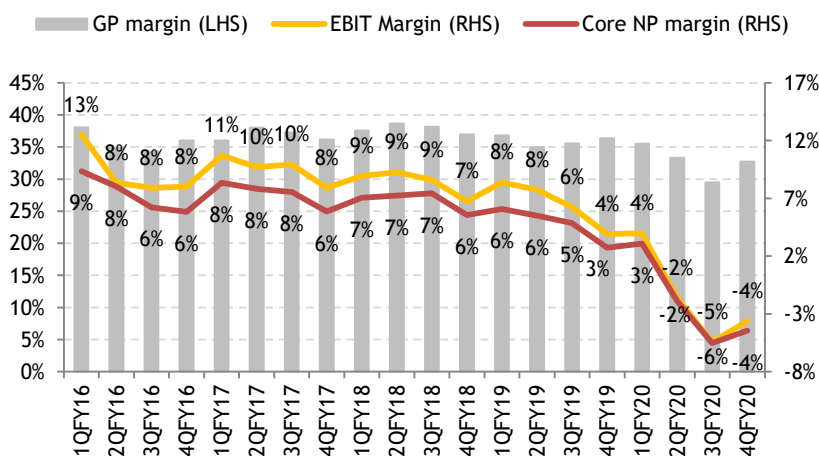
FYE Oct (MYR'm)	Quarterly					Cumulative		
	4QFY20	4QFY19	% YoY	3QFY20	% QoQ	12MFY20	12MFY19	%YoY
Revenue	115.8	129.6	(10.6)	110.1	5.2	490.0	517.8	(5.4)
Cost of sales	(77.9)	(82.5)	(5.6)	(77.6)	0.4	(328.6)	(331.9)	(1.0)
<b>Gross Profit</b>	<b>37.9</b>	<b>47.1</b>	<b>(19.5)</b>	<b>32.5</b>	<b>16.8</b>	<b>161.4</b>	<b>185.9</b>	<b>(13.2)</b>
Other operating income	0.2	1.0	(77.6)	1.1	(80.9)	2.3	3.0	(22.6)
Selling, distribution & admin	(30.1)	(32.6)	(7.6)	(26.1)	15.4	(118.9)	(112.0)	6.2
Other expenses	(12.2)	(10.4)	17.2	(13.5)	(9.8)	(51.4)	(43.7)	17.7
<b>Operating profit</b>	<b>(4.2)</b>	<b>5.1</b>	<b>n.m.</b>	<b>(6.0)</b>	<b>(30.5)</b>	<b>(6.6)</b>	<b>33.2</b>	<b>n.m.</b>
Finance costs	(1.7)	(1.2)	39.5	(1.1)	54.5	(5.2)	(3.5)	49.7
Associates	(1.1)	0.8	n.m	(0.7)	49.2	(1.4)	3.2	n.m.
<b>Pretax profit</b>	<b>(6.9)</b>	<b>3.9</b>	<b>n.m.</b>	<b>(7.8)</b>	<b>(11.3)</b>	<b>(13.1)</b>	<b>33.0</b>	<b>n.m.</b>
Income tax	(0.3)	(2.0)	(83.3)	0.5	n.m.	(2.1)	(8.6)	(75.4)
Minority Interest	2.1	1.7	26.6	1.2	70.7	6.1	3.2	87.0
<b>Net profit</b>	<b>(5.1)</b>	<b>3.5</b>	<b>n.m.</b>	<b>(6.1)</b>	<b>(15.5)</b>	<b>(9.2)</b>	<b>27.6</b>	<b>n.m.</b>
<b>Core net profit</b>	<b>(5.1)</b>	<b>3.5</b>	<b>n.m.</b>	<b>(6.1)</b>	<b>(15.5)</b>	<b>(9.2)</b>	<b>27.6</b>	<b>n.m.</b>

Margins	YoY ppt			QoQ ppt			YoY ppt		
			Chg			Chg			Chg
Gross profit (%)	32.7	36.4	(3.6)	29.5	32.9	3.2	35.9	32.9	(3.0)
Operating profit (%)	(3.6)	3.9	(7.5)	(5.5)	6.4	1.9	6.4	(1.3)	(7.8)
Pretax profit (%)	(6.0)	3.0	(9.0)	(7.1)	6.4	1.1	6.4	(2.7)	(9.0)
Net profit (%)	(4.4)	2.7	(7.2)	(5.5)	5.3	1.1	5.3	(1.9)	(7.2)
Tax rate (%)	(4.9)	52.6	(57.5)	6.2	26.2	(11.1)	26.2	(16.2)	(42.4)

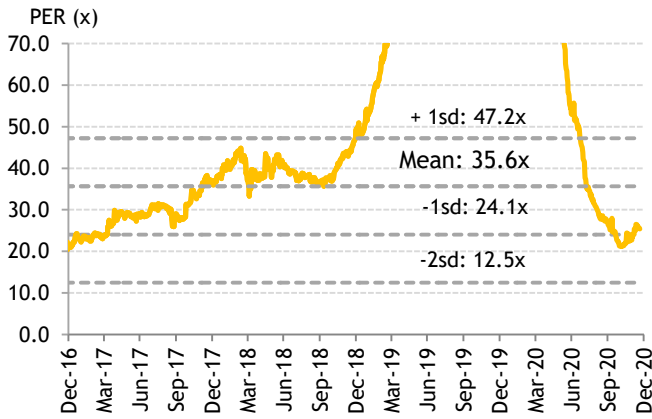
Source: Company, Maybank KE

Fig 2: EBIT vs. core net profit margin



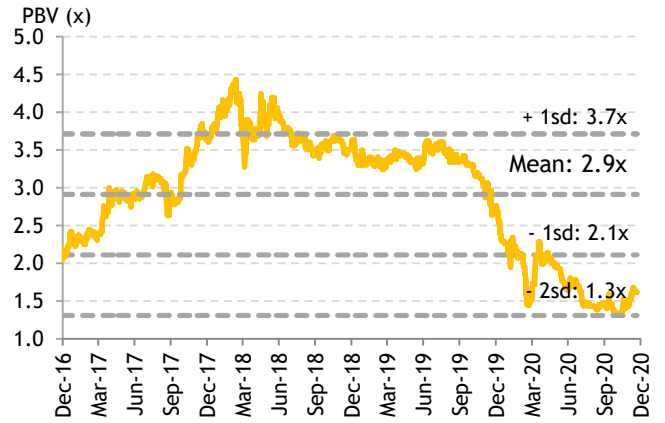
Source: Company

**Fig 3: One-year forward PER**



Source: Bloomberg, Maybank KE

**Fig 4: One-year forward PBV**



Source: Bloomberg, Maybank KE

**Risk statement**

There are several risk factors for our earnings estimates, price target, and rating for MNHB. Poor execution or inability to find suitable store locations could hinder new store openings and revenue growth. Additionally, slower consumption demand growth could result in falling same store sales growth. Higher operating expenses from higher minimum wage and higher rental could also adversely impact earnings.

FYE 31 Oct	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	34.7	nm	26.3	21.4	20.2
Core P/E (x)	32.9	nm	26.3	21.4	20.2
P/BV (x)	3.2	1.4	1.6	1.5	1.5
P/NTA (x)	3.2	1.4	1.6	1.5	1.5
Net dividend yield (%)	0.8	0.0	1.1	1.3	1.4
FCF yield (%)	nm	1.1	nm	nm	nm
EV/EBITDA (x)	11.9	8.9	7.5	7.0	6.6
EV/EBIT (x)	27.6	nm	21.3	18.4	17.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	517.8	490.0	590.6	678.5	771.6
Gross profit	185.9	161.4	206.1	240.2	273.2
EBITDA	76.9	45.4	68.2	76.1	84.0
Depreciation	(43.8)	(52.0)	(44.2)	(47.3)	(51.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	33.2	(6.6)	24.0	28.8	32.4
Net interest income /(exp)	(3.5)	(5.2)	(12.8)	(13.1)	(16.1)
Associates & JV	3.2	(1.4)	3.2	3.9	4.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	33.0	(13.1)	14.4	19.6	21.0
Income tax	(8.6)	(2.1)	(2.7)	(3.8)	(3.9)
Minorities	3.2	6.1	6.1	6.1	6.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	27.6	(9.2)	17.8	21.9	23.1
Core net profit	27.6	(9.2)	17.8	21.9	23.1
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	16.3	40.4	23.7	19.7	10.5
Accounts receivable	42.8	39.8	48.0	55.2	62.7
Inventory	62.0	66.9	78.3	89.3	101.6
Property, Plant & Equip (net)	250.9	210.6	225.4	245.9	271.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	9.5	6.8	8.7	11.2	14.5
Other assets	86.3	160.0	160.0	160.0	160.0
<b>Total assets</b>	<b>467.9</b>	<b>524.5</b>	<b>544.1</b>	<b>581.2</b>	<b>620.7</b>
ST interest bearing debt	10.9	17.3	25.0	25.0	25.0
Accounts payable	66.6	75.8	88.7	101.2	115.1
LT interest bearing debt	15.1	50.3	42.6	57.6	72.6
Other liabilities	92.0	107.0	101.0	94.0	88.0
<b>Total Liabilities</b>	<b>184.8</b>	<b>250.0</b>	<b>256.8</b>	<b>278.2</b>	<b>301.0</b>
Shareholders Equity	283.1	274.5	287.3	303.0	319.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>283.1</b>	<b>274.5</b>	<b>287.3</b>	<b>303.0</b>	<b>319.6</b>
<b>Total liabilities and equity</b>	<b>467.9</b>	<b>524.5</b>	<b>544.1</b>	<b>581.2</b>	<b>620.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	33.0	(13.1)	14.4	19.6	21.0
Depreciation & amortisation	43.8	52.0	44.2	47.3	51.6
Adj net interest (income)/exp	0.0	0.0	(12.8)	(13.1)	(16.1)
Change in working capital	18.5	(5.3)	(6.7)	(5.7)	(5.9)
Cash taxes paid	(5.8)	(5.9)	(2.7)	(3.8)	(3.9)
Other operating cash flow	(1.4)	17.1	9.6	9.2	11.4
Cash flow from operations	88.1	44.8	46.0	53.6	58.1
Capex	(115.3)	(40.7)	(59.1)	(67.9)	(77.2)
Free cash flow	(27.2)	4.1	(13.0)	(14.3)	(19.1)
Dividends paid	(6.8)	0.0	(5.0)	(6.1)	(6.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	28.0	41.5	0.0	15.0	15.0
Other invest/financing cash flow	(1.3)	(19.4)	1.4	1.4	1.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(7.3)	26.1	(16.7)	(4.1)	(9.2)

FYE 31 Oct	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	31.6	(5.4)	20.5	14.9	13.7
EBITDA growth	100.0	(40.9)	50.1	11.6	10.4
EBIT growth	9.4	nm	nm	20.0	12.6
Pretax growth	1.3	nm	nm	35.9	7.0
Reported net profit growth	2.8	nm	nm	23.0	5.6
Core net profit growth	2.8	nm	nm	23.0	5.6
<b>Profitability ratios (%)</b>					
EBITDA margin	14.9	9.3	11.5	11.2	10.9
EBIT margin	6.4	nm	4.1	4.2	4.2
Pretax profit margin	6.4	nm	2.4	2.9	2.7
Payout ratio	24.8	0.0	28.0	28.0	28.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.3	nm	3.0	3.2	3.0
Revenue/Assets (x)	1.1	0.9	1.1	1.2	1.2
Assets/Equity (x)	1.7	1.9	1.9	1.9	1.9
ROAE (%)	10.1	(3.3)	6.3	7.4	7.4
ROAA (%)	6.8	(1.9)	3.3	3.9	3.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	31.0	22.9	17.7	18.2	18.3
Days receivable outstanding	37.4	30.4	26.8	27.4	27.5
Days inventory outstanding	57.6	70.6	68.0	68.8	68.9
Days payables outstanding	64.0	78.0	77.1	78.0	78.1
Dividend cover (x)	4.0	nm	3.6	3.6	3.6
Current ratio (x)	1.3	1.4	1.2	1.2	1.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	3.4	9.9	15.3	20.8	27.2
Net gearing (%) (excl. perps)	3.4	9.9	15.3	20.8	27.2
Net interest cover (x)	9.6	na	1.9	2.2	2.0
Debt/EBITDA (x)	0.3	1.5	1.0	1.1	1.2
Capex/revenue (%)	22.3	8.3	10.0	10.0	10.0
Net debt/ (net cash)	9.8	27.2	43.8	62.9	87.1

Source: Company; Maybank

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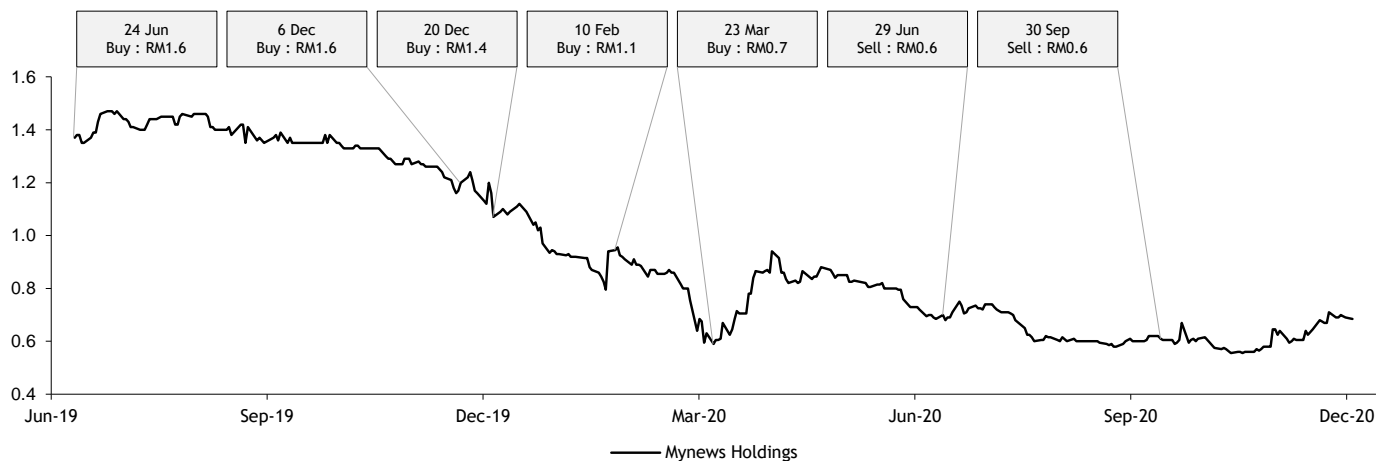
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