



MYNEWS HOLDINGS

(MNHB MK EQUITY, MYNE.KL)

30 June 2020

Expecting foot traffic to recover by end-2020

HOLD

(Maintained)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company update

Price	RM0.69
Fair Value	RM0.67
52-week High/Low	RM1.49/RM0.58

Key Changes

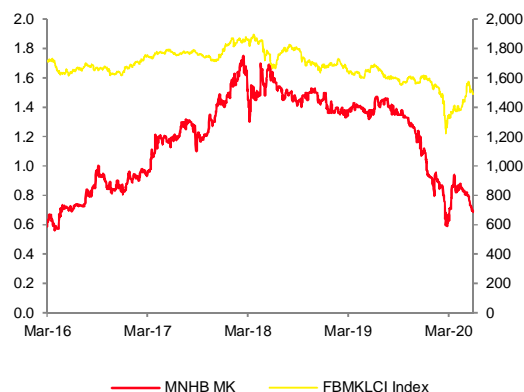
Fair value	↕
EPS	↕

YE to Oct	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	528.5	503.1	679.8	797.2
Core net profit (RM mil)	26.8	15.7	21.8	29.3
FD Core EPS (sen)	3.9	2.3	3.2	4.3
FD Core EPS growth (%)	1.2	(41.4)	38.7	34.4
Consensus Net Profit (RM mil)	-	13.4	22.9	29.6
DPS (sen)	1.0	1.0	1.0	1.0
PE (x)	17.4	29.7	21.4	16.0
EV/EBITDA (x)	6.2	7.3	6.2	5.7
Div yield (%)	1.4	1.4	1.4	1.4
ROE (%)	9.9	5.5	7.3	9.2
Net Gearing (%)	3.4	8.9	12.2	20.6

Stock and Financial Data

Shares Outstanding (million)	682.2
Market Cap (RM mil)	467.3
Book Value (RM/share)	0.42
P/BV (x)	1.7
ROE (%)	9.9
Net Gearing (%)	3.4
Major Shareholders	D&D Consolidated (57.4%) EPF (5.4%) KWAP (4.8%)
Free Float	205.6
Avg Daily Value (RM mil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	2.2	(37.2)	(49.3)
Relative (%)	(7.7)	(32.0)	(43.0)



Investment Highlights

- We maintain our **HOLD** recommendation for Mynews Holdings (Mynews) with an unchanged FV of RM0.67. Our valuation is pegged to a PE of 21x FY21F EPS.
- The key takeaways from the results briefing call are as follows:
 1. The food processing centre (FPC) restarted operations on 14 June 2020 with utilisation rate now at 25%.
 2. Average ticket size surged to roughly RM13 per transaction, compared with RM7 pre-MCO.
 3. Sales mix was unfavourable during the movement control order (MCO), which resulted in lower gross margin.
 4. Online sales surged 300% in 2QFY20 from a low base in 1QFY20.
 5. 3QFY20F outlook remains uncertain as footfall recovery is still in its early stages.
- Mynews' FPC restarted operations on 14 June 2020 after closing on 1 May 2020. The utilisation rate is now at 25% (45% pre-MCO). The group is planning on gradually building up the utilisation rate again. However, we think that it will be challenging to reach the 70% breakeven point by the end of this year.
- The group is ramping up its effort in cost optimization of its FPC as they reduce product offerings putting more emphasis on each product offerings to tailor to customers' preference. The group is managing its logistics and manpower activities and expects to see a reduction in costs for these.
- Average ticket size surged to roughly RM13 per transaction during the MCO, compared with RM7 pre-MCO (RM9 for stores with RTE offerings). However, group sales were lower due to lower footfall during the period. However, footfall is gradually recovering and the group estimates full recovery by end-2020.
- Sales mix was unfavourable during the MCO which resulted in lower gross margin. Tobacco sales rose 5% during the MCO while sales of fresh food dropped. Fresh food sales mix was lower at 13% compared with 15% pre-MCO.
- Online sales surged 300% in 2QFY20 from a low base in 1QFY20. Mynews now have 71 distribution points. Around 70K orders were delivered during the MCO.
- Earnings performance for 3QFY20F remains uncertain as the recovery in demand is still in its early stages. Footfall is gradually improving with the easing of the MCO which bodes well for the group.

- Moving forward, we think Mynews' earnings performance will remain subdued in 3QFY20. The group's FPC closed temporarily in May before production recommenced on 14 June 2020. We think that there will be further downward pressure on the group's margins due to the absence of RTE offerings, which fetch a higher margin. However, we think that following the easing of the MCO, footfall will gradually return and demand will slowly creep up. Hence, we think that the group's earnings will recover in 2H2020.
- We expect Mynews' PATAMI to contract by 41% in FY20F due to the impact of the Covid-19 pandemic and MCO. We also think FPC's gestational costs will remain a drag on the company's operating profit margins for the next two years. We estimate FY21F PATAMI to grow by 39% YoY on the back of a recovery in sales, assuming that Covid-19 is fully contained by 1HCY2021.

EXHIBIT 1: RESULTS SUMMARY

YE Oct	19Q2	20Q1	20Q2	QoQ (%)	YoY (%)	1H19	1H20	YoY (%)
Revenue	133.0	140.6	123.5	-12.2	-7.1	256.5	264.1	3.0
EBITDA	11.1	6.7	-0.8	-112.5	-107.6	45.7	32.0	-30.0
Depreciation	-12.2	-13.1	-13.0	-0.9	6.4	-23.7	-26.1	10.5
EBIT	11.1	6.7	-0.8	-112.5	-107.6	22.1	5.9	-73.3
Interest expense	-0.8	-1.3	-1.2	-4.2	49.2	-1.6	-2.4	55.5
Interest income	0.1	0.1	0.1	-40.4	-5.4	0.1	0.1	-2.1
Associates	0.6	0.8	-0.3			1.4	0.5	-66.2
Pretax profit	10.1	5.1	-3.5	-168.5	-134.4	20.4	1.6	-92.2
Taxation	-2.1	-2.1	-0.2	-89.3	-89.5	-4.2	-2.3	-46.4
Minority interest	-0.1	1.3	1.4			0.0	2.7	
PATAMI	8.0	4.4	-2.3	-153.6	-129.3	16.2	2.0	-87.5
Core EPS - Diluted (sen)	1.2	0.6	-0.3	-153.6	-129.3	2.4	0.3	-87.5
Gross margin (%)	35.0	35.5	33.3	-2.2ppt	-1.7ppt	35.8	34.5	-1.4ppt
EBIT margin (%)	8.3	4.8	-0.7	-5.5ppt	-9.0ppt	8.6	2.2	-6.4ppt
Pretax margin (%)	7.6	3.6	-2.8	-6.4ppt	-10.4ppt	8.0	0.6	-7.4ppt
Effective tax rate (%)	20.7	40.3	-6.3	-46.6ppt	-27.0ppt	20.7	141.9	121.2ppt
PATAMI margin (%)	6.0	2.2	-3.0	-5.2ppt	-9.0ppt	6.3	-0.3	-6.6ppt

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

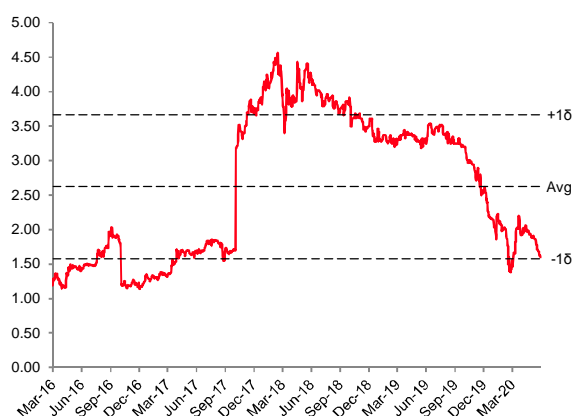


EXHIBIT 3: PE BAND CHART

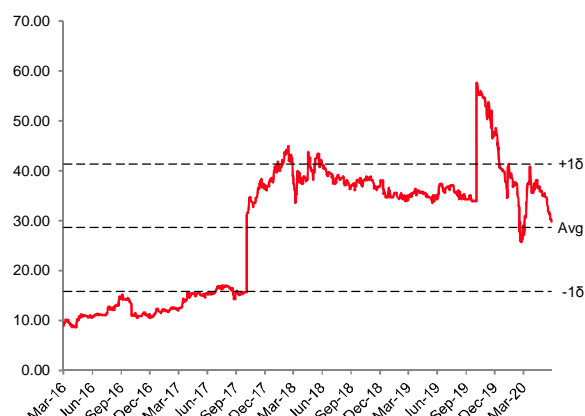


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Oct)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	393.4	528.5	503.1	679.8	797.2
EBITDA	40.4	77.3	68.0	81.6	94.2
Depreciation/Amortisation	(8.2)	(41.3)	(45.6)	(48.1)	(51.1)
Operating income (EBIT)	32.3	35.9	22.4	33.4	43.1
Other income & associates	2.2	3.2	3.2	3.2	3.2
Net interest	-	(2.9)	(2.7)	(3.1)	(2.9)
Exceptional items	-	-	-	-	-
Pretax profit	34.5	33.1	19.6	30.3	40.1
Taxation	(6.2)	(8.9)	(3.9)	(8.5)	(10.8)
Minorities/pref dividends	0.5	2.7	-	-	-
Net profit	28.7	26.8	15.7	21.8	29.3
Core net profit	28.7	26.8	15.7	21.8	29.3
Balance Sheet (RMmil, YE 31 Oct)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	155.7	250.9	294.6	335.7	393.8
Intangible assets	-	-	-	-	-
Other long-term assets	7.1	9.5	9.5	9.5	9.5
Total non-current assets	162.7	260.5	304.1	345.2	403.3
Cash & equivalent	23.6	16.3	9.2	17.5	(7.7)
Stock	44.3	62.0	52.1	70.3	80.9
Trade debtors	64.7	42.8	51.1	69.1	81.0
Other current assets	45.2	16.8	16.4	27.3	38.1
Total current assets	177.8	137.8	128.9	184.3	192.4
Trade creditors	51.3	66.6	57.8	78.0	89.8
Short-term borrowings	2.4	10.9	20.0	40.0	30.0
Other current liabilities	0.4	4.1	24.1	44.1	64.1
Total current liabilities	54.1	81.7	101.9	162.2	183.9
Long-term borrowings	1.9	15.1	15.1	15.1	30.0
Other long-term liabilities	3.9	9.8	9.8	9.8	9.8
Total long-term liabilities	5.8	24.9	24.9	24.9	39.8
Shareholders' funds	261.3	283.1	292.0	307.0	329.4
Minority interests	-	-	-	-	-
BV/share (RM)	0.38	0.42	0.43	0.45	0.48
Cash Flow (RMmil, YE 31 Oct)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	34.5	33.1	19.6	30.3	40.1
Depreciation/Amortisation	8.2	41.3	45.6	48.1	51.1
Net change in working capital	(21.0)	18.5	(7.5)	(16.2)	(11.0)
Others	(10.9)	(5.8)	(8.0)	(12.8)	(14.7)
Cash flow from operations	10.7	87.2	49.8	49.4	65.6
Capital expenditure	(87.1)	(116.3)	(60.0)	(60.0)	(80.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	88.3	32.4	4.0	4.4	4.7
Cash flow from investing	1.2	(83.9)	(56.0)	(55.6)	(75.3)
Debt raised/(repaid)	(2.6)	(3.5)	9.1	20.0	4.9
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)
Others	(0.7)	(4.2)	(3.5)	(4.3)	(4.5)
Cash flow from financing	(10.2)	(14.5)	(1.3)	8.9	(6.4)
Net cash flow	1.8	(11.3)	(7.5)	2.7	(16.1)
Net cash/(debt) b/f	23.0	23.6	16.3	(15.9)	(38.5)
Net cash/(debt) c/f	24.8	12.3	8.8	(13.3)	(54.5)
Key Ratios (YE 31 Oct)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	20.1	34.4	(4.8)	35.1	17.3
EBITDA growth (%)	15.6	91.2	(12.0)	20.0	15.5
Pretax margin (%)	8.8	6.3	3.9	4.5	5.0
Net profit margin (%)	7.3	5.1	3.1	3.2	3.7
Interest cover (x)	1,040.4	12.5	8.2	10.6	14.6
Effective tax rate (%)	18.0	26.9	20.0	28.0	27.0
Dividend payout (%)	23.7	25.4	43.4	31.3	23.3
Debtors turnover (days)	50	37	34	32	34
Stock turnover (days)	35	37	41	33	35
Creditors turnover (days)	41	41	45	36	38

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.