



AmInvestment Bank

Company report

MYNEWS HOLDINGS

(MNHB MK EQUITY, MYNE.KL)

30 Sep 2020

9MFY20 in the red

HOLD

(Maintained)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company results

Price	RM0.62
Fair Value	RM0.60
52-week High/Low	RM1.38/RM0.56

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	2.9	19.6	28.6
FD Core EPS (sen)	3.9	0.4	2.9	4.2
FD Core EPS growth (%)	1.2	(89.1)	573.2	45.4
Consensus Net Profit (RM mil)	-	9.9	20.6	26.9
DPS (sen)	1.0	1.0	1.0	1.0
PE (x)	15.8	145.0	21.5	14.8
EV/EBITDA (x)	5.6	8.9	6.1	5.4
Div yield (%)	1.4	1.4	1.4	1.4
ROE (%)	9.9	1.0	6.9	9.4
Net Gearing (%)	3.4	13.9	18.0	26.6

Stock and Financial Data

Shares Outstanding (million)	682.2
Market Cap (RM mil)	422.9
Book Value (RM/share)	0.42
P/BV (x)	1.5
ROE (%)	9.9
Net Gearing (%)	3.4
Major Shareholders	D&D Consolidated (57.4%) KWAP (5.0%) EPF (3.9%)
Free Float	205.6
Avg Daily Value (RM mil)	0.5

Price performance	3mth	6mth	12mth
Absolute (%)	(11.4)	(7.5)	(54.1)
Relative (%)	(12.0)	(17.4)	(51.6)



Investment Highlights

- We cut our FY20–22F net profit forecasts by 81%, 10% and 3% respectively, reduce our fair value by 10% to RM0.60 (from RM0.67) based on 21x revised FY21F EPS. Maintain HOLD.
- Our valuation P/E of 21x is at a discount of the average historical forward PE of 29x to reflect the weak prospect arising from the Covid-19 pandemic as well as the prolonged gestational period for the group's food processing centre (FPC).
- Mynews' 9MFY20 loss after tax and minority interest of RM4.1mil (PATAMI of RM28.9mil in 9MFY19) was below our and street's full-year net profit expectations of RM15.7mil and RM9.9mil respectively. The variance was mainly due to a worse-than-expected performance during the movement control order (MCO).
- The impact from the Covid-19 pandemic has set back the turnaround period for its food FPC, prolonging the gestational period. We think that the earnings performance will start to recover in the upcoming quarter as the full-blown impact of the MCO has passed.
- Although Mynews had 59 more stores (531 stores) compared with the 472 outlets in 3QFY19, its 3QFY20 revenue fell 15% YoY (-11% QoQ) to RM110.1mil. This is because some of its outlets were temporarily shuttered and there was also a drop in daily sales during the MCO.
- We estimate that the average spend per outlet in 3QFY20 (based on 85% operating stores) was roughly RM235K whereas that in 3QFY19 (assuming all stores were fully operational) was RM272K, a 13% decline YoY.
- Mynews' FPC was closed from 1 May to 14 June 2020 which hurt sales due to the lack of ready-to-eat (RTE) and baked goods offerings. This has caused a shift in product sales mix, and consumers have also shifted to low-margin offerings. The utilisation rate of its FPC was 25% at the end of June 2020 and we think that it will be challenging for the group to reach its breakeven point of 70% with the ongoing pandemic.
- 3QFY20 gross profit dropped 30% YoY (-21% QoQ) as gross margins slipped 6ppt YoY (-4ppt QoQ) to 29.5%. The group had incurred roughly RM2.5mil of wastages and stock loss. Ultimately, the impact from Covid-19 has pushed Mynews' earnings performance further in the red in 3QFY20 with a net loss of RM6.1mil (net loss of RM2.3mil in 2QFY20).

- For 9MFY20, revenue slid 4% YoY to RM374.2mil. The drop was mainly due to the impact of Covid-19 which resulted in reduced footfall. The group's sales were also affected by the temporary closures of outlets since the start of the pandemic. Profitability took a hit due to the high gestational costs of its FPC, coupled with the impact of the Covid-19 pandemic and MCO.
- Moving forward, we think Mynews' earnings performance will begin to recover from 4QFY20F onwards. The FPC resumed production mid-June 2020 which should improve the group's sales mix with the high-margin RTE offerings back on the shelves. We think that demand will creep back up following the easing of the MCO with the return of footfall albeit at a slower pace as the recovery MCO (RMCO) was extended until the end of the year.
- We estimate FY21F PATAMI of RM19.6mil following a recovery in sales assuming that the Covid-19 situation gradually improves. The group's earnings performance will be dragged by its FPC as we think that the gestational costs will remain for at least the next 2 years.

EXHIBIT 1: RESULTS SUMMARY

YE Oct	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)
Revenue	130.1	123.5	110.1	-10.8	-15.4	388.2	374.2	-3.6
EBITDA	8.8	-0.8	-5.1	499.1	-157.5	66.5	40.7	-38.7
Depreciation	-11.8	-13.0	-13.77	5.8	16.3	-35.5	-39.9	12.5
EBIT	8.8	-0.8	-5.1	499.1	-157.5	31.0	0.8	-97.3
Interest expense	-0.9	-1.2	-1.1	-10.5	24.2	-2.4	-3.5	48.5
Interest income	0.1	0.1	0.1	135.8	71.2	0.2	0.3	22.5
Associates	1.1	-0.3	-0.7			2.4	-0.3	-111.3
Pretax profit	8.2	-3.5	-7.8			28.9	-6.2	
Taxation	-2.6	-0.2	0.5			-6.8	-1.8	
Minority interest	1.6	1.4	1.2			1.6	3.9	
PATAMI	7.2	-2.3	-6.1			23.6	-4.1	
Core EPS - Diluted (sen)	1.1	-0.3	-0.9			3.5	-0.6	
Gross margin (%)	36.0	33.3	29.5	-3.8ppt	-6.5ppt	35.7	33.0	-2.7ppt
EBIT margin (%)	6.8	-0.7	-4.6	-3.9ppt	-11.4ppt	8.0	0.2	-7.8ppt
Pretax margin (%)	6.3	-2.8	-7.1	-4.3ppt	-13.4ppt	7.4	-1.7	-9.1ppt
Effective tax rate (%)	31.7	-6.3	6.2	12.5ppt	-25.5ppt	23.7	-28.8	-52.4ppt
PATAMI margin (%)	5.5	-3.0	-6.7	-3.7ppt	-12.2ppt	6.1	-2.1	-8.2ppt

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

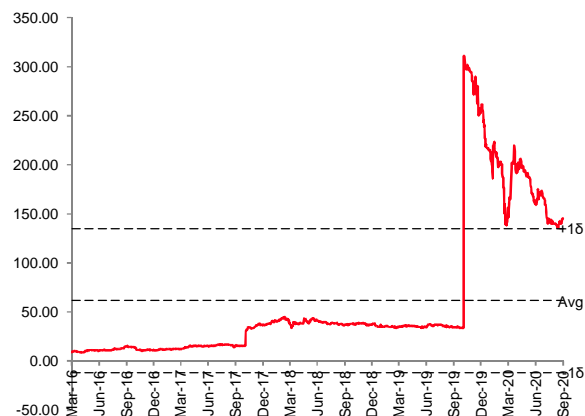


EXHIBIT 4: FINANCIAL DATA

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	52.0	78.6	93.2
Depreciation/Amortisation	(8.2)	(41.3)	(45.6)	(48.1)	(51.1)
Operating income (EBIT)	32.3	35.9	6.4	30.4	42.1
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	3.6	27.3	39.1
Taxation	(6.2)	(8.9)	(0.7)	(7.6)	(10.6)
Minorities/pref dividends	0.5	2.7	-	-	-
Net profit	28.7	26.8	2.9	19.6	28.6
Core net profit	28.7	26.8	2.9	19.6	28.6
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	(3.6)	2.6	(23.4)
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	116.1	169.3	176.7
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	279.2	292.0	313.8
Minority interests	-	-	-	-	-
BV/share (RM)	0.38	0.42	0.41	0.43	0.46
Cash Flow (RMmil, YE 31 Oct)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	34.5	33.1	3.6	27.3	39.1
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)	(4.8)	(12.0)	(14.4)
Cash flow from operations	10.7	87.2	37.0	47.2	64.9
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)	(20.3)	0.5	(16.8)
Net cash/(debt) b/f	23.0	23.6	16.3	(28.7)	(53.4)
Net cash/(debt) c/f	24.8	12.3	(4.0)	(28.2)	(70.2)
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	(32.7)	51.2	18.6
Pretax margin (%)	8.8	6.3	0.7	4.0	4.9
Net profit margin (%)	7.3	5.1	0.6	2.9	3.6
Interest cover (x)	1,040.4	12.5	2.3	9.7	14.3
Effective tax rate (%)	18.0	26.9	20.0	28.0	27.0
Dividend payout (%)	23.7	25.4	233.8	34.7	23.9
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, AmlInvestment Bank Bhd estimates

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