



AmInvestment Bank

Company report

MYNEWS HOLDINGS

(MNHB MK EQUITY, MYNE.KL)

22 Dec 2020

Disappointing end to FY20F due to pandemic

SELL

(Downgraded)

AmInvestment Bank

www.amequities.com.my

03-2036 2372

Rationale for report: Company results

Price	RM0.69
Fair Value	RM0.57
52-week High/Low	RM1.17/RM0.55

Key Changes

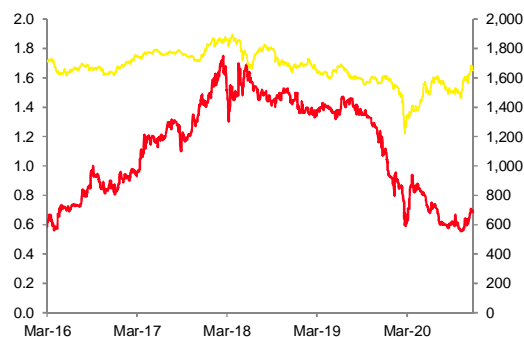
Fair value	⬇️
EPS	⬇️

YE to Oct	FY19	FY20	FY21F	FY22F
Revenue (RM mil)	528.5	490.0	698.6	832.3
Core net profit (RM mil)	26.8	(9.2)	18.4	28.6
FD Core EPS (sen)	3.9	(1.4)	2.7	4.2
FD Core EPS growth (%)	1.2	(134.4)	(299.8)	55.2
Consensus Net Profit (RM mil)	-	-	35.7	42.9
DPS (sen)	1.0	1.0	1.0	1.0
PE (x)	17.4	nm	25.4	16.3
EV/EBITDA (x)	6.2	12.0	7.1	6.2
Div yield (%)	1.5	1.5	1.5	1.5
ROE (%)	9.9	(3.3)	6.7	9.9
Net Gearing (%)	3.4	21.5	27.1	35.9

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 (6.7%) Standard Life Aberdeen PLC (5.5%)
Free Float	205.6
Avg Daily Value (RM mil)	1.8

Price performance	3mth	6mth	12mth
Absolute (%)	14.2	(4.9)	(36.0)
Relative (%)	3.9	(13.0)	(37.4)



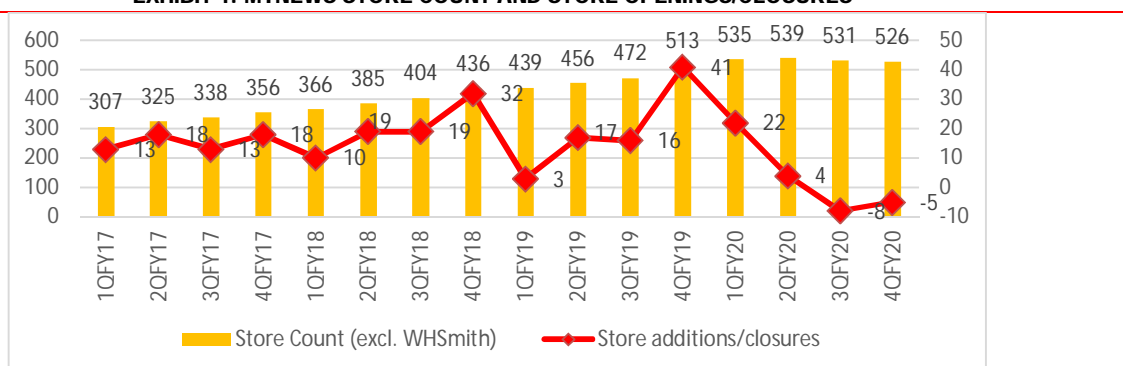
— MNHB MK — FBMKLCI Index

Investment Highlights

- We downgrade our call on Mynews Holdings (Mynews) to a SELL from HOLD with a lower fair value of RM0.57/share. Our valuation is pegged to a P/E of 21x FY21F EPS, which is below its average historical P/E of 29x. This is to reflect the impact of the Covid-19 pandemic on the group's prospects as well as the prolonged gestational period for the food processing centre (FPC).
- We cut our FY21F and FY22F net profit forecasts by 8% and 7% to RM18.4mil and RM28.6mil respectively to account for lower-than-expected same store sales growth (SSSG) and lower new store openings assumption.
- Mynews' 4QFY20 loss after tax and minority interest of RM5.15mil brought its FY20 to a net loss of RM9.21mil. The results are below our and consensus net loss estimates of RM0.3mil and RM3.8mil respectively.
- The shortfall was mainly due to: (i) the overall decline in sales as a result of a drop in footfall; (ii) temporary closure of some outlets at locations, which were significantly affected by the pandemic; (iii) a shift in product sales mix to categories of lower margin such as daily essential items and; (iv) continued losses in its food processing centre (FPC) of RM4.35mil for the quarter.
- Mynews' revenue increased 5.2% from RM110mil in 3QFY20 to RM116mil in 4QFY20. Gross profit rose by 17% QoQ to RM37.9mil in 4QFY20 while GP margin climbed 3.2ppt from 29.5% to 32.7%. This suggests that sales of its higher margin products (RTE/bakery) recovered after the implementation of recovery movement control order (RMCO).
- The higher revenue also coincided with a lower store count for the quarter of 526 (vs. 531 stores in 3QFY20). However, the reimplementing of the conditional MCO reversed any prospects for a stronger recovery and this had resulted in a performance that was only similar to the first stage of the MCO.
- We understand that approximately 95% of stores were opened during the period. Hence, we estimate that the average spend per outlet (based on 95% stores opened) was roughly RM237K in 4QFY20. This is weak compared to the average spend per outlet of RM275K in 4QFY19 (-14% YoY).

- For the full FY20 period, revenue slid 7% YoY to RM490.0mil. The disruptions caused by the Covid-19 pandemic resulted in the temporary closure and shorter operating hours of some of the group's stores. GP margin was also lower by 2.5ppt from 35.5% in FY19 to 32.9% in FY20 due to: (1) the change in sales mix, which favoured lower margin products; (2) higher marketing costs; and (3) aggressive price discounts offered to promote and drive sales.
- The group's retail convenience segment posted a PAT of RM12.7mil in FY20. However, this was partly dragged by its manufacturing segment (FPC currently in gestational period with low utilization rate of approximately 35% vs. its breakeven point of 70%), which posted a loss after tax of RM12.4mil.
- Moving forward, the outlook is challenging. Mynews depends heavily on footfall, which is volatile due to the resurgence of Covid-19 cases and various restriction measures that differ across districts and states in the country. A prolonged gestational period of its FPC would also continue to drag earnings as utilization rates are far from breaking even. On a positive note, Mynews' recent master franchise agreement to operate South Korean convenience store brand CU would increase its FPC utilization rate in the long term. We expect this to only come onstream in CY21F.

EXHIBIT 1: MYNEWS STORE COUNT AND STORE OPENINGS/CLOSURES



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: RESULTS SUMMARY

YE Oct	19Q4	20Q3	20Q4	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	139.8	110.1	115.8	5.2	-17.2	528.5	490.0	-7.3
EBITDA	4.9	-5.1	-2.5	-49.8	-152.2	77.2	50.4	-34.8
Depreciation	-5.8	-13.8	-12.13	-11.9	107.5	-41.3	-52.0	25.9
EBIT	4.9	-5.1	-2.5	-49.8	-152.2	35.9	-1.7	-104.7
Interest expense	-0.8	-1.1	-1.7	54.5	102.7	-3.2	-5.2	62.4
Interest income	0.1	0.1	0.0	-86.4	-81.7	0.3	0.3	-19.6
Associates	0.8	-0.7	-1.1			3.2	-1.4	-142.2
Pretax profit	4.1	-7.8	-6.9	-11.3	-267.4	33.1	-13.1	-139.8
Taxation	-2.0	0.5	-0.3	-171.0	-83.3	-8.9	-2.1	-76.0
Minority interest	1.1	1.2	2.1			2.7	6.1	
PATAMI	3.2	-6.1	-5.1	-15.5	-261.7	26.8	-9.2	-134.4
Core EPS - Diluted (sen)	0.5	-0.9	-0.8	-15.5	-261.7	3.9	-1.4	-134.4
Gross margin (%)	34.5	29.5	32.7	3.2ppt	-1.8ppt	35.5	32.9	-2.5ppt
EBIT margin (%)	3.5	-4.6	-2.2	2.4ppt	-5.7ppt	6.8	-0.3	-7.1ppt
Pretax margin (%)	3.0	-7.1	-6.0	1.1ppt	-8.9ppt	6.3	-2.7	-8.9ppt
Effective tax rate (%)	49.4	6.2	-4.9	-	-	26.9	-16.2	-43.1ppt
PATAMI margin (%)	2.3	-6.7	-6.3	0.4ppt	-8.6ppt	5.1	-3.1	-8.2ppt

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

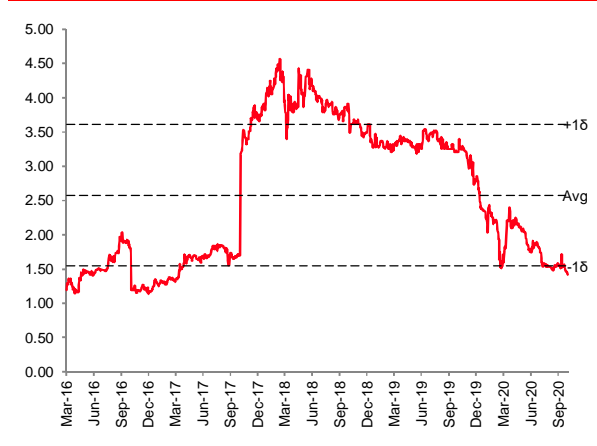


EXHIBIT 4: PE BAND CHART

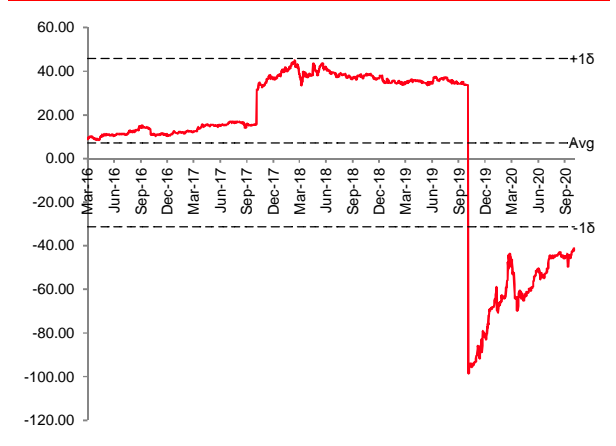


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Oct)	FY18	FY19	FY20	FY21F	FY22F
Revenue	393.4	528.5	490.0	698.6	832.3
EBITDA	40.4	77.3	43.8	76.2	93.2
Depreciation/Amortisation	(8.2)	(41.3)	(52.0)	(100.0)	(51.1)
Operating income (EBIT)	32.3	35.9	(8.2)	28.0	42.1
Other income & associates	2.2	3.2	(1.4)	(1.4)	(1.4)
Net interest	-	(2.9)	(4.9)	(3.1)	(2.9)
Exceptional items	-	-	-	-	-
Pretax profit	34.5	33.1	(13.1)	24.9	39.2
Taxation	(6.2)	(8.9)	(2.1)	(6.5)	(10.6)
Minorities/pref dividends	0.5	2.7	6.1	-	-
Net profit	28.7	26.8	(9.2)	18.4	28.6
Core net profit	28.7	26.8	(9.2)	18.4	28.6
Balance Sheet (RMmil, YE 31 Oct)	FY18	FY19	FY20	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	(22.2)	(20.3)	(47.8)
Stock	44.3	62.0	51.2	71.2	83.1
Trade debtors	64.7	42.8	49.8	71.0	84.6
Other current assets	45.2	16.8	16.4	27.3	38.1
Total current assets	177.8	137.8	95.2	149.2	158.0
Trade creditors	51.3	66.6	56.8	79.0	92.2
Short-term borrowings	2.4	10.9	20.0	40.0	30.0
Other current liabilities	0.4	4.1	27.3	47.5	65.2
Total current liabilities	54.1	81.7	104.1	166.5	187.5
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	267.1	278.7	300.4
Minority interests	-	-	-	-	-
BV/share (RM)	0.38	0.42	0.39	0.41	0.44
Cash Flow (RMmil, YE 31 Oct)	FY18	FY19	FY20	FY21F	FY22F
Pretax profit	34.5	33.1	(13.1)	24.9	39.2
Depreciation/Amortisation	8.2	41.3	52.0	100.0	51.1
Net change in working capital	(21.0)	18.5	(6.2)	(19.2)	(12.5)
Others	(10.9)	(5.8)	0.6	(58.1)	(9.8)
Cash flow from operations	10.7	87.2	33.3	47.6	68.0
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)	(5.2)	(4.3)	(4.5)
Cash flow from financing	(10.2)	(14.5)	(2.9)	8.9	(6.4)
Net cash flow	1.8	(11.3)	(25.6)	0.8	(13.7)
Net cash/(debt) b/f	23.0	23.6	16.3	(47.3)	(76.3)
Net cash/(debt) c/f	24.8	12.3	(9.3)	(46.5)	(90.0)
Key Ratios (YE 31 Oct)	FY18	FY19	FY20	FY21F	FY22F
Revenue growth (%)	20.1	34.4	(7.3)	42.6	19.2
EBITDA growth (%)	15.6	91.2	(43.3)	73.8	22.4
Pretax margin (%)	8.8	6.3	(2.7)	3.6	4.7
Net profit margin (%)	7.3	5.1	(1.9)	2.6	3.4
Interest cover (x)	1,040.4	12.5	(166.8%)	8.9	14.3
Effective tax rate (%)	18.0	26.9	16.2	26.0	27.0
Dividend payout (%)	23.7	25.4	nm	37.1	23.9
Debtors turnover (days)	50	37	34	32	34
Stock turnover (days)	35	37	42	32	34
Creditors turnover (days)	41	41	46	35	38

Source: Company, AmInvestment Bank Bhd estimates

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