

Mynews Holdings (MNHB MK)

2QFY22 results: Far from an earnings turnaround

Maintain HOLD with a lower TP of MYR0.60

2QFY22 results underperformed largely due to heavy expenses incurred in tandem with the ramp up of its new CU stores, coupled with ongoing FPC losses. We project for MNHB to remain in the red in FY22 (-MYR29m) and cut FY23-FY24 earnings estimates by 39%-82%. With expectations for continued losses, we switch to a book-based valuation methodology and derive a lower TP of MYR0.60 based on 2.0x CY23 P/BV (-1SD to mean; vs. 29x normalised PER previously).

Disappointing 2QFY22 results

MNHB's 2QFY22 net loss of MYR10m (-1% YoY, +30% QoQ) brought 1HFY22 net loss to MYR18m (-6% YoY), below expectations against our/consensus full-year net profit estimates of +MYR4m/-MYR6m respectively. The earnings shortfall was mainly due to higher-than-expected expenses relating to its ramp up of CU stores and ongoing losses at its food processing centre (FPC).

Still in losses despite normalised business operations

Key takeaways from 2QFY22 results: (i) revenue grew 36% YoY driven by normalised business operations following the lifting of movement restrictions, coupled with added contribution from its CU stores, (ii) gross profit also increased 45% YoY (GP margin: +2.2 pts YoY) due to CU's higher fresh food sales, (iii) MNHB however fell into pre-tax loss of MYR11m (-1% YoY) given higher labour costs and SG&A expenses related to new CU stores. As at end-2QFY22, MNHB had 556 stores (+37 [net] new stores YoY) across its three brands (*Mynews*, *CU* & *Mynews Supervalue*). Separately, its FPC reported a loss of MYR2.5m (2QFY21: -MYR3.2m).

Revised earnings estimates

Despite consumer mobility improvement and extended business operating hours, MNHB's ongoing losses is an outlier vs. the overall consumer sector, especially in the retail segment. Although its CU stores are gaining traction within the convenience store market, it remains in its gestation period. Further, sales momentum may soften in sequential quarters as consumer spending slows in light of the significant rise in food inflation. Hence, we now project for MNHB to report a loss of MYR29m in FY22 (vs. MYR4m net profit previously) and lower FY23/FY24 earnings estimates by 82%/39%.

FYE Oct (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	489	394	512	582	656
EBITDA	44	10	16	54	75
Core net profit	(10)	(43)	(29)	3	18
Core EPS (sen)	(1.4)	(6.3)	(4.3)	0.5	2.6
Core EPS growth (%)	nm	nm	nm	nm	427.3
Net DPS (sen)	0.0	0.0	1.2	0.1	0.7
Core P/E (x)	nm	nm	nm	111.1	21.1
P/BV (x)	1.4	2.7	1.7	1.7	1.6
Net dividend yield (%)	0.0	0.0	2.2	0.3	1.3
ROAE (%)	(3.5)	(16.8)	(12.9)	1.5	7.8
ROAA (%)	(2.0)	(8.4)	(5.8)	0.7	3.3
EV/EBITDA (x)	9.2	67.8	28.6	8.7	6.4
Net gearing (%) (incl perps)	9.9	23.0	38.2	44.1	46.6
Consensus net profit	-	-	(6)	18	29
MKE vs. Consensus (%)	-	-	(415.6)	(81.3)	(38.6)

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HOLD

Share Price	MYR 0.55
12m Price Target	MYR 0.60 (+9%)
Previous Price Target	MYR 0.80

Company Description

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

Statistics

52w high/low (MYR)	1.05/0.54
3m avg turnover (USDm)	0.1
Free float (%)	27.9
Issued shares (m)	682
Market capitalisation	MYR375.2M USD85M

Major shareholders:

D&D Consolidated Sdn. Bhd.	57.4%
Employees Provident Fund	6.1%
Aberdeen Standard Investments (Malaysia)	5.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(11)	(24)	(38)
Relative to index (%)	(4)	(15)	(33)

Source: FactSet

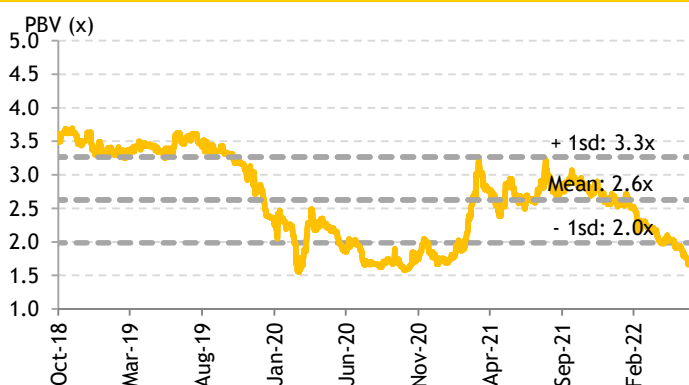
Fig 1: Mynews: Results summary table

FYE Oct (MYR'm)	Quarterly					Cumulative		
	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	6MFY22	6MFY21	%YoY
Revenue	141.1	103.9	35.7	139.4	1.2	280.5	202.6	38.5
Cost of sales	(93.2)	(70.9)	31.5	(96.2)	(3.1)	(189.4)	(138.1)	37.1
Gross Profit	47.9	33.0	45.0	43.2	10.7	91.1	64.5	41.3
Other operating income	0.3	0.2	35.8	0.4	(22.6)	0.6	0.5	18.5
Selling, distribution & admin	(39.2)	(28.6)	37.3	(35.5)	10.4	(74.8)	(55.5)	34.6
Other expenses	(17.6)	(13.9)	26.5	(15.3)	15.5	(32.9)	(27.6)	19.3
Operating profit	(8.7)	(9.3)	(6.0)	(7.2)	21.3	(15.9)	(18.1)	(12.0)
Finance costs	(2.3)	(1.5)	48.9	(1.6)	40.6	(3.9)	(3.2)	23.3
Associates	(0.3)	(0.6)	(45.5)	0.1	n.m.	(0.3)	(0.3)	1.2
Pretax profit	(11.4)	(11.5)	(0.7)	(8.8)	29.7	(20.1)	(21.6)	(6.6)
Income tax	(0.1)	(0.4)	(84.3)	(0.1)	(1.5)	(0.1)	(0.9)	(85.0)
Minority Interest	1.2	1.6	(21.5)	1.0	24.3	2.2	3.2	(31.3)
Net profit	(10.2)	(10.3)	(0.9)	(7.9)	30.1	(18.1)	(19.3)	(6.1)
Core net profit	(10.2)	(10.3)	(0.9)	(7.9)	30.1	(18.1)	(19.3)	(6.1)

Margins	YoY ppt		QoQ ppt		YoY ppt	
	Chg	Chg	Chg	Chg	Chg	Chg
Gross profit (%)	33.9	31.8	2.2	31.0	2.9	0.7
Operating profit (%)	(6.2)	(9.0)	2.8	(5.2)	(1.0)	3.3
Pretax profit (%)	(8.1)	(11.0)	3.0	(6.3)	(1.8)	3.5
Net profit (%)	(7.2)	(9.9)	2.7	(5.6)	(1.6)	3.1
Tax rate (%)	(0.6)	(3.6)	3.1	(0.8)	0.2	3.4

Source: Company, Maybank IBG Research

Fig 2: One-year forward PBV



Source: Company

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	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	111.1	21.1
Core P/E (x)	nm	nm	nm	111.1	21.1
P/BV (x)	1.4	2.7	1.7	1.7	1.6
P/NTA (x)	1.4	2.7	1.8	1.7	1.6
Net dividend yield (%)	0.0	0.0	2.2	0.3	1.3
FCF yield (%)	1.6	0.5	nm	nm	nm
EV/EBITDA (x)	9.2	67.8	28.6	8.7	6.4
EV/EBIT (x)	nm	nm	nm	nm	25.0
INCOME STATEMENT (MYR m)					
Revenue	489.4	394.4	511.8	582.1	656.3
EBITDA	44.1	10.2	16.0	54.1	75.1
Depreciation	(51.9)	(56.7)	(56.0)	(54.7)	(55.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(7.8)	(46.5)	(40.0)	(0.6)	19.4
Net interest income / (exp)	(4.9)	(6.2)	(6.6)	(8.1)	(9.5)
Associates & JV	(1.4)	(0.7)	(0.7)	3.2	3.6
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	(14.1)	(53.4)	(47.3)	(5.5)	13.4
Income tax	(1.8)	3.5	11.2	2.1	(2.4)
Minorities	6.1	6.8	6.8	6.8	6.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(9.8)	(43.2)	(29.4)	3.4	17.8
Core net profit	(9.8)	(43.2)	(29.4)	3.4	17.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	40.4	16.1	2.8	3.8	7.3
Accounts receivable	38.9	37.3	48.4	55.1	62.1
Inventory	66.9	58.8	71.5	80.7	87.9
Property, Plant & Equip (net)	210.2	206.8	202.3	206.0	216.1
Intangible assets	0.0	3.9	3.7	3.5	3.3
Investment in Associates & JVs	6.8	6.0	5.3	8.5	12.1
Other assets	165.4	172.4	172.4	172.4	172.4
Total assets	528.6	501.4	506.3	529.9	561.1
ST interest bearing debt	18.4	25.4	25.4	25.4	25.4
Accounts payable	75.2	82.6	100.5	113.4	123.5
LT interest bearing debt	49.2	45.6	60.6	75.6	90.6
Other liabilities	112.0	109.0	102.0	95.0	88.0
Total Liabilities	254.7	262.2	288.3	309.5	327.8
Shareholders Equity	273.9	239.2	218.1	220.5	233.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	273.9	239.2	218.1	220.5	233.3
Total liabilities and equity	528.6	501.4	506.3	529.9	561.1
CASH FLOW (MYR m)					
Pretax profit	(14.1)	(53.4)	(47.3)	(5.5)	13.4
Depreciation & amortisation	51.9	56.7	56.0	54.7	55.7
Adj net interest (income)/exp	0.0	0.0	(6.6)	(8.1)	(9.5)
Change in working capital	(9.4)	12.5	(5.9)	(2.9)	(4.1)
Cash taxes paid	(5.9)	(3.0)	11.2	2.1	(2.4)
Other operating cash flow	18.1	13.2	7.4	4.9	6.0
Cash flow from operations	40.6	25.8	14.6	45.2	59.1
Capex	(34.6)	(22.9)	(51.2)	(58.2)	(65.6)
Free cash flow	6.0	2.9	(36.5)	(13.0)	(6.5)
Dividends paid	0.0	0.0	8.2	(0.9)	(5.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	41.5	3.4	15.0	15.0	15.0
Other invest/financing cash flow	(22.0)	(26.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	25.4	(20.1)	(13.3)	1.0	3.5

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.5)	(19.4)	29.8	13.7	12.7
EBITDA growth	(42.7)	(77.0)	57.8	237.7	38.7
EBIT growth	nm	nm	nm	nm	nm
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	427.3
Core net profit growth	nm	nm	nm	nm	427.3
Profitability ratios (%)					
EBITDA margin	9.0	2.6	3.1	9.3	11.4
EBIT margin	nm	nm	nm	nm	3.0
Pretax profit margin	nm	nm	nm	nm	2.0
Payout ratio	0.0	0.0	nm	28.1	28.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	0.6	2.7
Revenue/Assets (x)	0.9	0.8	1.0	1.1	1.2
Assets/Equity (x)	1.9	2.1	2.3	2.4	2.4
ROAE (%)	(3.5)	(16.8)	(12.9)	1.5	7.8
ROAA (%)	(2.0)	(8.4)	(5.8)	0.7	3.3
Liquidity & Efficiency					
Cash conversion cycle	23.0	13.7	1.6	2.4	2.1
Days receivable outstanding	30.0	34.8	30.2	32.0	32.1
Days inventory outstanding	70.4	82.6	70.4	72.8	74.1
Days payables outstanding	77.5	103.7	98.9	102.4	104.2
Dividend cover (x)	nm	nm	(3.6)	3.6	3.6
Current ratio (x)	1.3	0.9	0.9	0.9	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	1.9	1.8	1.7	1.7
Net gearing (%) (incl perps)	9.9	23.0	38.2	44.1	46.6
Net gearing (%) (excl. perps)	9.9	23.0	38.2	44.1	46.6
Net interest cover (x)	na	na	na	na	2.0
Debt/EBITDA (x)	1.5	7.0	5.4	1.9	1.5
Capex/revenue (%)	7.1	5.8	10.0	10.0	10.0
Net debt/ (net cash)	27.2	54.9	83.2	97.2	108.7

Source: Company; Maybank IBG Research

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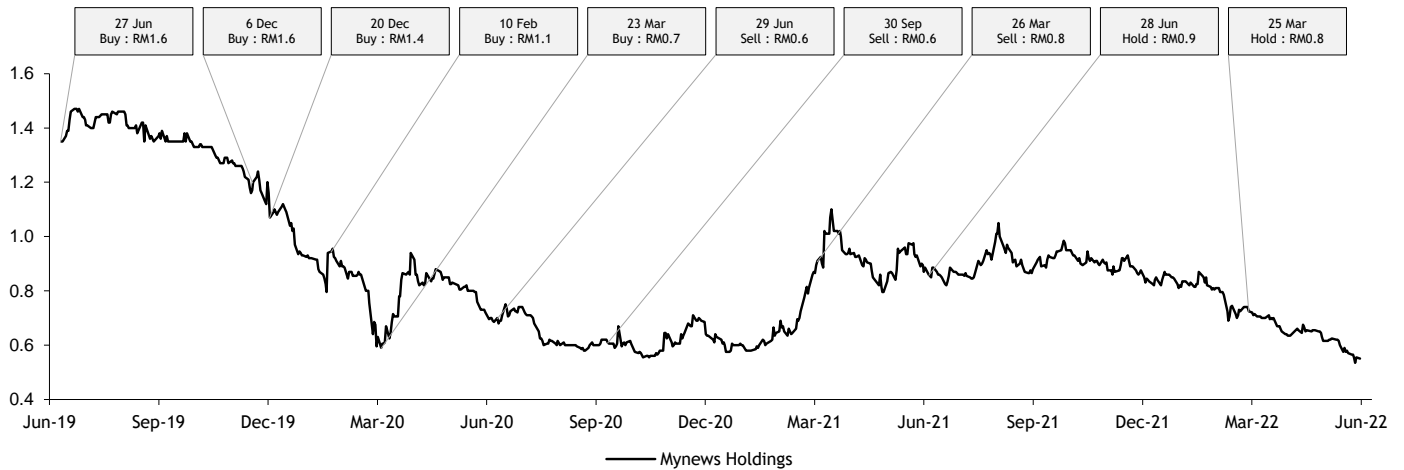
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