

COMPANY RESULTS

MyNews Holdings (MNHB MK)

2QFY22: Quarterly Losses Widen

MyNews sustained its yoy revenue generation trend. However, elevated opex for the quarter widened its sequential losses, missing earnings expectations. That said, we believe MyNews' performance should gradually recover going forward. This should be aided by recent mobility now surpassing pre-pandemic levels and longer operating hours. The recent sell-down has more than priced in its near-term headwinds. Upgrade to BUY but with a lower target price of RM0.66 (from RM0.80).

2QFY22 RESULTS

Year to 31 Oct (RMm)	2QFY22	qoq % chg	yoy % chg	1HFY22	yoy % chg	Comment
Revenue	141.1	1.2	35.7	280.5	38.5	Qoq revenue lifted by higher store count
Gross profit	47.9	10.7	45.0	91.1	41.3	
EBITDA	8.2	2.9	74.2	16.1	57.0	
Pretax profit	-11.4	30.5	-0.1	-20.2	-6.3	
Core earnings	-10.2	30.1	-0.9	-18.1	-6.1	Below expectations
Store count	556	3.3	7.1	538	3.9	
Revenue per store	254	-2.1	26.7	259	29.0	
		qoq ppt chg	yoy ppt chg		yoy ppt chg	
Gross margin (%)	33.9	2.9	2.2	32.5	0.7	
EBITDA margin (%)	5.8	0.1	1.3	5.7	0.7	High opex weighs on margins
Effective tax rate (%)	0.6	-0.2	-3.1	0.6	-3.4	
Core margin (%)	-7.2	-1.6	2.7	-6.4	3.1	

Source: MyNews, UOB Kay Hian

RESULTS

- Losses unexpectedly widened.** MyNews Holdings (MyNews) reported a RM10.2m net loss in 2QFY22. This brought 1HFY22 losses to -RM18.1m. This is below our and consensus full-year earnings estimates of marginal losses. We had expected losses for the quarter but losses widened against our expectations. While revenue generation per store trended positively on a yoy basis (+26.7%), the negative deviation is attributed to a spike in opex. We believe despite sustaining losses for up to two additional quarters, value has emerged for MyNews.

KEY FINANCIALS

Year to 31 Oct (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	489	401	535	703	859
EBITDA	45	6	33	86	106
Operating profit	-10	-51	-25	30	49
Net profit (rep./act.)	-10	-43	-25	16	30
Net profit (adj.)	-10	-43	-25	16	30
EPS (sen)	-1.5	-6.3	-3.7	2.4	4.4
PE (x)	-37.3	-8.7	-14.9	23.3	12.6
P/B (x)	1.3	1.5	1.7	1.6	1.4
EV/EBITDA (x)	-26.3	77.4	13.2	5.0	3.9
Dividend yield (%)	0.0	0.0	-0.9	0.6	1.1
Net margin (%)	-2.1	-10.8	-4.7	2.3	3.5
Net debt/(cash) to equity (%)	10.0	22.6	29.0	24.8	14.9
Interest cover (x)	8.6	0.9	3.8	8.4	10.3
ROE (%)	-3.4	-16.2	-10.6	6.1	11.8
Consensus net profit	-	-	(7)	18	29
UOBKH/Consensus (x)	-	-	3.6	0.90	1.03

Source: MyNews Holdings, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM0.55
Target Price	RM0.66
Upside	+20.0%
(Previous TP)	RM0.80

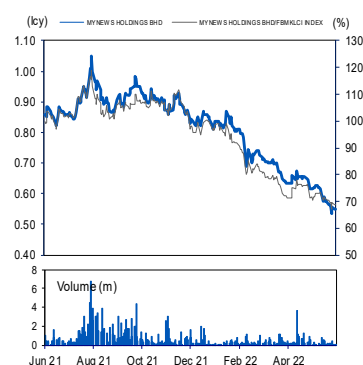
COMPANY DESCRIPTION

MyNews operates the largest homegrown convenience store chain in Malaysia.

STOCK DATA

GICS sector	Consumer Discretionary			
Bloomberg ticker:	MNHB MK			
Shares issued (m):	682.2			
Market cap (RMm):	419.5			
Market cap (US\$m):	96.1			
3-mth avg daily t'over (US\$m):	0.1			
Price Performance (%)				
52-week high/low	RM1.05/RM0.615			
1mth	3mth	6mth	1yr	YTD
(3.1)	(24.1)	(28.5)	(28.9)	(26.3)
Major Shareholders				
D&D Consolidated	57.4			
EPF	6.7			
Aberdeen	5.4			
FY22 NAV/Share (RM)	0.36			
FY22 Net Debt/Share (RM)	0.12			

PRICE CHART



Source: Bloomberg

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- **Decent revenue generation trend.** Top-line grew 35.7% yoy and 1.2% qoq. Store revenue generation went up by +26.7% yoy off a low base. We believe the qoq store revenue generation softness (-2.1%) is attributed to the Omicron wave and the fasting month. However, the enlarged store base on a qoq (3.3%) and yoy (7.1%) basis to 556 stores lifted overall sales to 1.2% qoq and 35.7% yoy. Given that foot traffic to workplaces and places of retail has fully recovered to pre-pandemic levels, we expect significantly sequential growth heading into 3QFY22.
- **Losses widened as opex outstripped store revenue generation.** Better product mix improved gross margins to 33.9%, or 290bp qoq. MyNews should continue to improve its gross margins to pre-pandemic levels of around 36%, alongside increased fresh food sales. Opex for the quarter grew 12% qoq off its enlarged store base (3.3%), longer operating hours, increased overhead expenses and marketing spend. Losses widened with the share of associates, finance cost and food processing centres (to -RM2.6m from -RM2.0m in 1QFY22) weighing on earnings as it contracted 30% qoq to a loss of -RM10.2m (1QFY22: -RM7.9m).

STOCK IMPACT

- **Workplace foot traffic fully recovers to pre-pandemic levels, better conditions for MyNews' 3QFY22.** Foot traffic to places of retail has been gradually recovering. It is now -3.0% below pre-COVID-19 levels, an improvement of 9.1ppt from 1Q22. Conditions have appeared to have fully recovered to pre-pandemic levels. In relation to foot traffic to the workplace, the recovery trailed places of retail but has since surpassed pre-pandemic levels. Recent readings dramatically improved since mid- June. We believe this should create more conducive operating conditions for MyNews heading into 3QFY22.
- **Eventual return of pre-pandemic behaviour should gradually lift overall sales.** Malaysia transitioned into the endemic phase on 1 Apr 22. Businesses are now allowed to operate 24 hours. Gradual consumer lifestyle behaviour reverting to pre-pandemic practices should gradually lift MyNews' graveyard sales and, in turn, overall sales. Meanwhile, the minimum wage hike to RM1,500 from RM1,200, effective 1 May 22, is likely to impact MyNews' opex from its 1,800 employees at its store outlets. We assume that MyNews would attempt to pass on the costs by implementing an ASP hike of 1%, by our estimates.
- **2QFY22 net gearing stands at 0.33x** while its coverage ratio is at 3.5x. Management previously indicated that should net gearing reach 0.5-0.7x, it would then consider equity financing. Based on our projections with narrowing losses, MyNews' net gearing should remain close to 0.3x and not require additional equity financing.

EARNINGS REVISION/RISK

- We primarily cut our FY22 earnings to -RM25m from -RM1m. Key risks include CU store execution and additional movement lockdown associated with the COVID-19 pandemic.

VALUATION/RECOMMENDATION

- **Upgrade to BUY but with a lower target price of RM0.66 (from RM0.80).** We roll over our valuations to 2023 from 2022. Our valuation basis switches to a PE peg of 17x of MyNews' -1SD of its mean PE. We had valued MyNews previously on a P/B basis as losses were projected for 2022. MyNews is likely to see at least two additional quarters of losses. That said, losses should narrow and we expect it to recover from strength to strength. We believe value has emerged given its recent sell-down, which appears to have been compounded by its illiquidity.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental

- **Renewable energy.** MyNews is embarking into solar renewable energy for its HQ and food processing centres. This project will reduce 546 tonnes of CO2 emission.

• Social

- **Diversity & inclusion.** 48% of its 2,000 over strong workforce is female.

• Governance

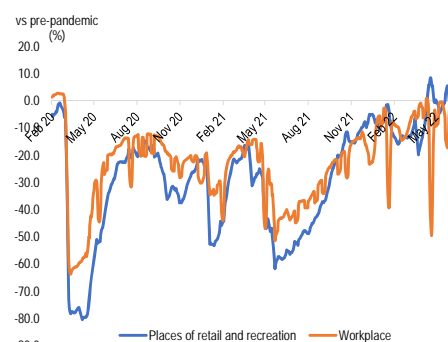
- **Board composition.** Independent Non-Executive Directors make up 50% of the board.

REVENUE DRIVERS ASSUMPTIONS

	2021F	2022F	2023F
Revenue (RMm)	535	703	859
Growth yoy (%)	33.6%	31.5%	22.1%
Avg store count for the year	558	638	728
Net store addition	80	80	100
Growth yoy (%)	6.9%	14.3%	14.1%
Revenue per store (in '000)	958.5	1102.3	1179.5
Growth yoy (%)	25.0%	15.0%	7.0%

Source: MyNews, UOB Kay Hian

FOOT TRAFFIC TO PLACES OF RETAIL



Source: Google

FOOT TRAFFIC (VS PRE-COVID-19) TO PLACES OF RETAIL BY QUARTER

	Average foot traffic (%)
1Q20	-21.6
2Q20	-58.9
3Q20	-19.7
4Q20	-29.9
2020	-32.5
1Q21	-34.2
2Q21	-39.2
3Q21	-47.8
4Q21	-15.2
2021	-33.8
1Q22	-10.3
2Q22	-3.4
YTD22	-7.0

Source: Google

MYNEWS FORWARD PE BAND (PRE-COVID-19)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Oct (RMm)	2021	2022F	2023F	2024F
Net turnover	401	535	703	859
EBITDA	6	33	86	106
Deprec. & amort.	56	58	57	56
EBIT	-51	-25	30	49
Total other non-operating income	4	2	2	3
Associate contributions	-1	-1	-1	-1
Net interest income/(expense)	-6	-9	-10	-10
Pre-tax profit	-54	-32	21	41
Tax	4	9	-6	-11
Minorities	7	-2	1	0
Net profit	-43	-25	16	30
Net profit (adj.)	-43	-25	16	30

BALANCE SHEET

Year to 31 Oct (RMm)	2021	2022F	2023F	2024F
Fixed assets	207	208	209	208
Other LT assets	169	169	169	169
Cash/ST investment	15	27	33	54
Other current assets	116	128	150	171
Total assets	507	532	561	600
ST debt	25	43	43	43
Other current liabilities	113	137	154	171
LT debt	46	49	49	49
Other LT liabilities	76	76	76	76
Shareholders' equity	246	226	239	261
Total liabilities & equity	507	532	561	600

CASH FLOW

Year to 31 Oct (RMm)	2021	2022F	2023F	2024F
Operating	21	45	78	93
Pre-tax profit	-54	-32	21	41
Tax	4	9	-6	-11
Deprec. & amort.	56	58	57	56
Associates	1	1	1	1
Working capital changes	7	-6	-12	-11
Other operating cashflows	17	20	21	21
Investing	-16	-52	-57	-55
Capex (growth)	-18	-52	-57	-55
Proceeds from sale of assets	1	2	3	4
Others	3	0	0	0
Financing	-29	19	-14	-18
Dividend payments	0	6	-4	-7
Issue of shares	1	2	3	4
Proceeds from borrowings	-27	4	0	0
Loan repayment	1	2	3	4
Others/interest paid	-33	9	-10	-10
Net cash inflow (outflow)	-24	12	6	20
Beginning cash & cash equivalent	39	15	27	33
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	15	27	33	54

KEY METRICS

Year to 31 Oct (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	1.4	6.2	12.3	12.3
Pre-tax margin	-13.4	-6.0	2.9	4.8
Net margin	-10.8	-4.7	2.3	3.5
ROA	-8.3	-4.8	3.0	5.4
ROE	-16.2	-10.6	6.1	11.8
Growth				
Turnover	-18.1	33.5	31.5	22.1
EBITDA	-87.6	499.0	158.7	22.5
Pre-tax profit	275.2	-39.9	-164.1	97.3
Net profit	328.0	-41.7	-164.2	85.1
Net profit (adj.)	328.0	-41.7	-164.2	85.1
EPS	328.0	-41.7	-260.2	-169.3
Leverage				
Debt to total capital	28.8	40.9	38.8	35.5
Debt to equity	28.8	40.9	38.8	35.5
Net debt/(cash) to equity	22.6	29.0	24.8	14.9
Interest cover (x)	0.9	3.8	8.4	10.3

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