

20 December 2019

MyNews Holdings Berhad

FY19 Below Expectations

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FY19 CNP of RM26.8m (+1%) came in below expectations at 84%/85% of our/consensus full-year earnings estimate, due to lower-than-expected margin, which we believe stemmed from higher-than-expected costs during Food Production Centre (FPC) gestation period. As such, we cut FY20E CNP by 23%, and our TP to RM1.20 (from RM1.55). MyNews may take a longer time to improve its margin, while boosting its new offerings take-up rate during this gestation period. Downgrade to MP from OP.

FY19 below expectations. FY19 CNP of RM26.8m (+1%) came in below expectations at 84%/85% of our/consensus full-year earnings estimate, due to lower-than-expected margin, which we believe stemmed from higher-than-expected costs (discounts, wastage, and operating costs) during Food Production Centre (FPC) gestation period. No dividend was declared as MyNews typically pays dividend once a year in the 2Q.

YoY, FY19 core PATAMI increased marginally by 1%, despite stronger sales growth (+34%), largely due to (i) contraction in gross profit margin by 2.7ppt to 35.4% from 38.1% in FY18 from higher cost of sales (+40%), as well as (ii) higher effective tax rate of 26.9% (FY18:19.3%), from higher non-deductible expenses especially for its new FPC. The contraction on GP margin was due to change in the sales mix, price discounts offered to promote and drive the sales of in-house ready-to-eat (RTE) food and the expected high wastages at the initial roll out of the RTE food. Operating expenses was also higher (+28%) in tandem with the opening of 77 (net) new outlets to 513 stores for FY19 as well as higher staff costs, rental expenses, and expenses incurred for the bigger head office premises and food processing centre (at Taman Sains, Kota Damansara) and the new Johor Bharu Distribution Centre.

QoQ, 4QFY19 core PATAMI plunged by 57% in spite of increase in sales (+6%), mainly from contraction in PBT margin by 3.4ppt to 3.0% from 6.4% in 3QFY9 due to (i) higher operating expenses (+16%) in tandem with the opening of 41 (net) new outlets, as well as full quarter costs contribution from FPC operation, and (ii) contraction on GP margin by 1.1ppt to 34.5% from 35.6% in 3QFY19 due to aggressive price discount promotions for the in-house products and other merchandises. Effective tax rate was also higher at 49.4% (3QFY19: 30.7%) from under-provision of tax last year.

Outlook. Whilst MyNews recognizes the facts of reality in the increasingly competitive convenience retail landscape and the challenges faced in introducing ready-to-eat food (RTE) similar to the Japan's *konbini*s to meet the increasing consumer expectations and fast consumption trend, it remains optimistic of its business growth, sustainability and potential driven by its continuous network expansion. Meanwhile, every measure is taken to serve the Malaysia populace well and to capture the big market, with both Mynews Kineya Sdn Bhd's and Mynews Royupan Sdn Bhd's manufacturing facilities having successfully obtained Halal certifications.

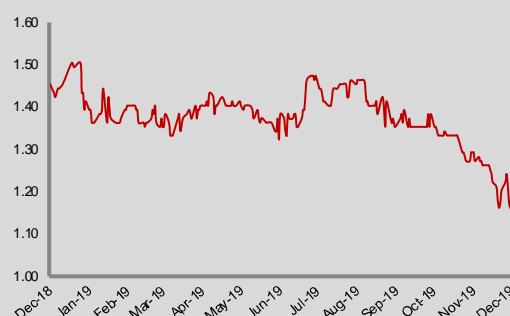
Cut FY20E CNP by 23% to reflect the lower-than-expected margin. We also introduced FY21E CNP at RM36.0m (+21% YoY).

Downgrade to MARKET PERFORM from OUTPERFORM with a lower TP of RM1.20 (from RM1.55, previously) based on unchanged 27x FY20E EPS, at -1.0SD of its 3-years historical mean PER, also in line with regional peers' average PER. MyNews may take a longer time to improve its margin, while boosting its new offerings take-up rate under this gestation period. **Key risks to our call include:** lower-than-expected sales, and higher-than-expected operating expenses.

MARKET PERFORM

Price: **RM1.16**
Target Price: **RM1.20**

Share Price Performance



KLCI 1,596.36
YTD KLCI chg -5.6%
YTD stock price chg -22.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MNHB MK EQUITY
Market Cap (RM m)	791.3
Shares Outstanding	682.2
52-week range (H)	1.50
52-week range (L)	1.11
3-mth avg daily vol:	182,331
Free Float	28%
Beta	0.5

Major Shareholders

D & D Consolidated	57.4%
KWAP	5.0%
Bank of New York Mellon Corp	3.9%

Summary Earnings Table

FYE Oct (RM m)	2019A	2020E	2021E
Turnover	528.5	656.7	768.3
EBITDA	33.0	52.5	60.2
PBT	33.1	38.1	43.4
Net Profit (NP)	26.8	29.8	36.0
Core Net Profit	26.8	29.8	36.0
Consensus(NP)	-	39.9	47.8
Earnings Revision	-	-23%	New
EPS (sen)	3.9	4.4	5.3
EPS growth (%)	1.2	11.3	20.8
NDPS (sen)	1.0	1.0	1.0
BV/Share (RM)	0.42	0.48	0.52
PER (x)	29.5	26.5	22.0
P/BV (x)	2.8	2.4	2.2
Gearing (x)	0.1	0.1	0.1
Net Dvd Yield (%)	0.9	0.9	0.9



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Result Highlight

	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FYE Oct (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	139.8	131.7	6.2%	109.3	27.9%	528.0	393.4	34.2%
Gross Profit	48.2	46.8	3.0%	40.4	19.3%	187.0	149.7	24.9%
Operating Expenses	-40.9	-35.3	15.8%	-31.3	30.8%	-143.1	-111.6	28.3%
Jointly -Controlled (WH Smith)	0.8	1.1	-23.3%	0.7	15.1%	3.2	2.2	44.4%
PBT	4.1	8.5	-51.2%	7.3	-43.5%	33.1	32.2	2.6%
Tax expense	-2.0	-2.6	-21.5%	-1.7	17.3%	-8.9	-6.2	43.1%
Net Profit (NP)	3.2	7.4	-57.3%	6.1	-47.5%	26.8	26.5	1.3%
Core Net Profit	3.2	7.4	-57.3%	6.1	-47.5%	26.8	26.5	1.3%
EPS (sen)	0.5	1.1	-56.9%	0.9	-47.2%	3.9	3.9	1.5%
DPS (sen)	0.0	0.0		0.0		1.0	1.0	0.0%
Gross margin (%)	34.5%	35.6%		37.0%		35.4%	38.1%	
PBT margin (%)	3.0%	6.4%		6.7%		6.3%	8.2%	
NP margin	2.3%	5.7%		5.5%		5.1%	6.7%	
Effective tax rate (%)	49.4%	30.7%		23.8%		26.9%	19.3%	

Source: Bursa Announcement, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.42	1,633.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.1	30.0	28.5	23.6	22.9	77.5%	2.8%	1.35	MP
AEON CO (M) BHD	1.41	1,979.6	Y	12/2019	5.5%	5.4%	-26.5%	16.4%	15.9	21.6	18.6	1.0	1.0	4.5%	2.8%	1.60	MP
AMWAY MALAYSIA HOLDINGS BHD	5.75	945.2	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.3	16.4	15.5	4.0	3.8	23.8%	4.8%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	46.48	2,974.7	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	24.0	29.0	26.4	28.2	27.8	97.9%	3.4%	54.60	MP
FRASER & NEAVE HOLDINGS BHD	34.46	12,639.2	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.2	29.4	27.8	5.0	4.7	16.5%	1.9%	35.15	MP
HAI-O ENTERPRISE BHD	2.14	621.3	N	04/2020	1.7%	2.3%	-25.0%	8.7%	13.1	17.5	16.1	2.0	2.0	11.4%	4.7%	1.50	UP
MYNEWS HOLDINGS BHD	1.16	791.3	N	10/2019	24.2%	17.0%	11.3%	20.8%	29.5	26.5	22.0	2.6	2.4	9.5%	0.9%	1.20	MP
NESTLE (MALAYSIA) BHD	147.00	34,471.5	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.1	51.3	47.9	52.7	51.9	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.10	2,039.5	Y	06/2020	0.5%	4.7%	12.8%	5.3%	13.0	11.6	11.0	3.0	2.6	24.5%	3.7%	4.00	OP
PARKSON HOLDINGS BHD	0.22	229.4	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	27.6	23.8	0.1	0.1	0.3%	0.0%	0.27	MP
POWER ROOT BHD	2.43	986.1	Y	03/2020	13.3%	10.5%	54.0%	12.3%	28.7	19.3	17.7	4.4	3.9	21.8%	3.7%	2.75	OP
QL RESOURCES BHD	8.04	13,044.4	Y	03/2020	10.9%	4.5%	13.0%	4.2%	60.2	53.2	51.1	6.5	6.0	12.1%	0.7%	6.60	UP
SPRITZER BHD	2.20	461.9	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.1	14.9	14.1	1.2	1.1	7.7%	1.8%	2.50	OP
Simple Average					6.3%	4.7%	63.4%	9.6%	28.2	26.8	24.6	10.3	10.0	31.7%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	14.94	4,265.8	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	9.1	12.8	13.1	10.1	9.9	78.1%	7.6%	18.30	MP
CARLSBERG BREWERY MALAYSIA BHD	28.22	8,681.1	N	12/2019	16.0%	7.3%	13.6%	9.0%	31.7	29.6	28.3	48.0	47.1	175.6%	3.5%	30.00	OP
HEINEKEN MALAYSIA BHD	27.20	8,217.1	N	12/2019	22.4%	4.0%	21.3%	5.1%	29.1	28.3	26.9	22.1	19.3	85.9%	3.5%	28.60	OP
Simple Average					6.7%	2.7%	2.0%	4.0%	23.3	23.6	22.7	26.8	25.4	113.2%	4.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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