Mr D.I.Y Group Berhad

Unstoppable Expansion

OUTPERFORM ↔

Price : **RM2.07**

Target Price : **RM2.65** ↔

By Ahmad Ramzani Ramli l ahmadramzani@kenanga.com.my

Coming from the official launch of MR DIY PLUS followed by a meeting with management, we are positive on MR DIY's earnings for FY22 as supply issue is not a critical matter with GP margins expected to normalize with the passing of costs to consumers. Reiterate OUTPERFORM with unchanged TP of RM2.65.

We attended the official launch of **MR DIY PLUS** yesterday which was followed by a casual meeting with management. This latest concept store follows on the heels of MR DIY, Mr TOY, MR Dollar, with this store focused on a 'LifeStyle' Concept. The store located at Mid-Valley Megamall is MR DIY Group's biggest outlet so far at 30k sq foot covering two levels.

Other key takeaways from the launch.

1. An outlet at 30k sq foot (vs the average MR DIY stores of 10k sq ft) covering 2 floors with 14 check-out counters of which 6 are self-service. Goods that are promoted in the store range from hardware, stationeries, toys, households and F&B. The store has a multi-purpose area solely for workshop/promotional activities by suppliers.
2. Opened since 19th May, it has chalked almost 200k visitors or an average 5k visitors/day. Being at Mid-Valley, the store has been well-received especially on weekends and public holidays. The store currently operates with extra shifts and manpower to cope with demand and stockpiling of fast-running inventory. The average MR DIY outlet has c.12 workers while DIY Plus is currently running with 40-50 workers.
3. We understand that capex for the store is at RM2.4m with inventories at an additional RM2.4m. The average MR DIY store has a capex of RM600k followed by an additional RM900k for inventories. Due to the traffic seen at Mid-Valley since reopening of the economy, we understand that payback for the DIY Plus store is likely at 12-18 months (vs the 24 months for other stores).

On track. We believe that the Group is on track to achieve its target of 180 stores for FY22 of which 83% will be MR DIY stores (which includes MR DIY Plus) with the remainder filled by Mr Dollar and Mr Toy. Management is looking at introducing another 9 MR DIY Plus stores within 2 to 3 years but depends on the availability of space especially in shopping malls. Despite increased ASPs since its 'Price-Lock' campaign in 1QCY22, traffic has been robust corresponding to the endemic phase and we expect gross profit margins to improved 2 to 3ppt from 1QCY22 (c.39%). Inventory turnover days are still between 1.2 to 1.4 days with inventory stockpiling not needed indicating that the supply issue is over. Traffic at other outlets is encouraging with the reopened borders with the unfavorable Ringgit boosting its outlets in the southern region. Shortage of labor is another bane for the group with the Group expecting further influx of foreign workers into their workforce in the coming months ahead. While the Group has always adhered to the minimum wage, staff retention is supported by sales incentives and performance bonus.

Post update we make no changes to our FY22E/FY23E earnings of RM602m/RM743m.

Maintain OUTPERFORM call with a TP of RM2.65 on a FY23E PER of 34x (vs. regional peers of 29x). We believe the higher PER is justified based on: (i) robust growth potential, driven by sustainable market demand for its products and stores expansion, (ii) its unchallenged position in the domestic space, (iii) strong GP margins (c.40% vs peers of 32%) with the absence of near- and long-term margin volatility thanks to its supply source China's massive economies of scale, (iv) robust balance sheet providing ample cash for expansion, and (v) net cash position ahead, allowing MR D.I.Y. to deliver sustainable dividends.

Share Price Performance

KLCI	1,444.22
YTD KLCI chg	-7.9%
YTD stock price chg	-14.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRDIY MK Equity
Market Cap (RM m)	19,512.9
Shares Outstanding	9,426.5
52-week range (H)	2.65
52-week range (L)	1.90
3-mth avg. daily vol.	12,884,890
Free Float	26%
Beta	#N/A N/A

Major Shareholders

Bee Family Ltd	50.8%
Hyptis	8.7%
Platinum Alphabet SdnBhd	6.1%

Summary Earnings Table

FYE Dec (RMm)	2021A	2022E	2023E
Revenue	**3,373**	**4,303**	**4,996**
EBITDA	**873**	**1,167**	**1,399**
EBIT	645	868	1,060
PBT	586	817	1,009
PATAMI	**432**	**602**	**743**
Core PATAMI	**432**	**602**	**743**
Consensus (NP)	434	555	669.0
Earnings Revision	N.m	0%	0%
Core EPS (sen)	4.6	6.4	7.9
Core EPS growth (%)	N.m	39.3%	23.3%
NDPS (sen)	3.0	4.6	5.1
BVPS (RM)	0.12	0.14	0.17
PER (x)	45.2	32.4	26.3
PBV (x)	17.0	14.6	12.1
Net Gearing (x)	0.0	(0.0)	(0.2)
Net Div. Yield (%)	1.4%	2.2%	2.5%

Income Statement

FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E
Revenue	**2,276**	**2,559**	**3,373**	**4,303**	**4,996**
EBITDA	639	697	873	1,167	1,399
Operating Profit	501	525	645	868	1,060
Depreciation &Amortz	(139)	(173)	(228)	(299)	(340)
Interest Inc/(Exp)	(65)	(69)	(61)	(54)	(54)
Profit Before Tax	**438**	**458**	**586**	**817**	**1,009**
Taxation	(120)	(121)	(155)	(215)	(266)
Net Profit	318	337	432	602	743
Core PATAMI	**318**	**337**	**432**	**602**	**743**

Balance Sheet

FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E
Fixed Assets	354	436	531	383	169
Intangible Assets	694	884	1,063	1,063	1,063
Other Fixed Assets	17	23	21	21	21
Inventories	497	690	749	1,018	1,213
Receivables	122	128	139	208	232
Other Current Assets	0	0	0	0	0
Cash	141	91	193	221	536
Total Assets	**1,824**	**2,253**	**2,697**	**2,915**	**3,235**
Payables	82	120	149	180	219
ST Borrowings	12	243	192	192	192
Other ST Liability	129	161	194	194	194
LT Borrowings	612	21	16	16	16
Other LT Liability	649	832	997	997	997
Net Assets	**340**	**877**	**1,149**	**1,336**	**1,617**
Shareholders' Equity	340	877	1,149	1,336	1,617
Minority Interests	0	0	0	0	0
Total Equity	**340**	**877**	**1,149**	**1,336**	**1,617**

Cashflow Statement

FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E
Operating CF	403	385	648	645	954
Investing CF	(218)	(118)	(140)	(149)	(123)
Financing CF	(111)	(328)	(396)	(468)	(516)
Change In Cash	75	(61)	111	29	314
Free CF	286	263	503	495	828

Financial Data & Ratios

FY Dec	2019A	2020A	2021A	2022E	2023E
Growth					
Turnover	28%	12%	32%	28%	16%
EBITDA	0%	9%	25%	34%	20%
EBIT	0%	5%	23%	35%	22%
PBT	0%	5%	28%	39%	23%
Core PATAMI	0%	6%	28%	39%	23%
Profitability					
EBITDA Margin	28%	27%	26%	27%	28%
EBIT Margin	22%	21%	19%	20%	21%
PBT Margin	19%	18%	17%	19%	20%
Core Net Margin	14%	13%	13%	14%	15%
Effective Tax Rate	-27%	-26%	-26%	-26%	-26%
ROE	17%	17%	17%	21%	24%
ROA	93%	55%	43%	48%	50%
DuPont Analysis					
Net Margin	14%	13%	13%	14%	15%
Assets Turnover (x)	1.2	1.1	1.3	1.5	1.5
Leverage Factor (x)	5.4	2.6	2.3	2.2	2.0
ROE	93%	54%	43%	48%	50%
Leverage					
Debt/Asset (x)	0.3	0.1	0.1	0.1	0.1
Debt/Equity (x)	1.8	0.3	0.2	0.2	0.1
Net (Cash)/Debt	483	173	16	(13)	(327)
Net Debt/Equity (x)	1.4	0.2	0.0	(0.0)	(0.2)
Valuations					
Core EPS (sen)	31,696	5.2	6.9	6.4	7.8
NDPS (sen)	-	0.8	3.0	4.6	5.1
BV/share (RM)	340.5	0.1	0.2	0.1	0.2
PER (x)	0.0	35.9	28.1	30.2	24.5
Div. Yield	0.0%	0.4%	1.5%	2.4%	2.6%
PBV (x)	0.0	13.8	10.6	13.7	11.3
EV/EBITDA (x)	(0.8)	27.9	29.1	27.8	28.6

Source: Kenanga Research

Official launch of MR DIY Plus

Source: MR DIY, Kenanga Research

This section is intentionally left blank

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 DivYld (%)	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	1.39	1,565.6	N	12/2022	10.2%	-2.6%	79.2%	-5.8%	35.4	19.7	21.0	12.6	11.4	60.6%	3.6%	1.70	OP
AEON CO. (M) BHD	1.32	1,853.3	Y	12/2022	20.2%	4.4%	32.5%	8.8%	21.7	16.4	15.1	1.1	1.0	6.5%	3.1%	1.85	OP
AMWAY (MALAYSIA) HOLDINGS BHD	5.04	828.5	Y	12/2022	-10.0%	-5.0%	62.6%	-4.8%	22.5	13.8	14.5	3.7	3.5	26.1%	5.4%	5.30	MP
DUTCH LADY MILK INDUSTRIES BHD	33.02	2,113.3	Y	12/2022	1.0%	1.0%	-67.3%	5.2%	8.5	26.0	24.7	5.5	4.9	19.9%	1.5%	35.60	MP
FRASER & NEAVE HOLDINGS BHD	21.20	7,775.7	Y	09/2022	4.8%	6.4%	-16.5%	3.5%	19.7	23.6	22.8	2.8	2.6	11.4%	2.4%	26.30	OP
MR D.I.Y.	2.07	19,512.9	Y	12/2022	27.6%	16.1%	39.3%	23.5%	45.2	32.4	26.3	17.0	14.6	48.4%	2.2%	2.65	OP
MYNEWS HOLDINGS BHD	0.400	272.9	N	10/2022	36.7%	12.1%	-22.7%	-147.1%	N.A.	N.A.	17.4	1.9	1.8	-22.1%	0.0%	0.500	UP
NESTLE (MALAYSIA) BHD	132.60	31,094.7	Y	12/2022	7.4%	4.6%	23.3%	-9.2%	54.6	44.3	48.8	53.4	51.4	118.3%	2.2%	136.50	MP
PADINI HOLDINGS BHD	3.20	2,105.3	Y	06/2022	23.3%	32.2%	123.6%	-4.1%	39.0	17.4	18.2	2.6	2.5	14.8%	3.8%	3.80	OP
POWER ROOT BHD	1.67	659.0	Y	03/2023	8.2%	7.9%	7.3%	-6.8%	26.7	24.9	26.7	2.4	2.3	13.4%	5.4%	1.70	OP
QL RESOURCES BHD	5.20	12,655.0	Y	03/2023	17.5%	9.3%	23.9%	26.7%	58.2	47.0	37.1	4.3	4.1	9.5%	1.2%	5.45	MP
Simple Average					**13.4%**	**7.9%**	**25.9%**	**-10.0%**	**33.1**	**26.6**	**24.8**	**9.8**	**9.1**	**27.9%**	**2.8%**		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	10.80	3,083.7	N	12/2022	-2.4%	-1.0%	-10.2%	5.5%	10.8	12.0	11.4	8.1	7.8	65.8%	7.9%	13.40	OP
CARLSBERG BREWERY MALAYSIA BHD	22.48	6,873.2	N	12/2022	31.3%	6.0%	38.0%	15.1%	33.3	24.2	21.0	32.1	32.1	130.8%	4.2%	28.05	OP
HEINEKEN MALAYSIA BHD	23.02	6,954.3	N	12/2022	30.8%	11.1%	32.8%	16.9%	28.3	21.3	18.2	17.6	17.6	82.5%	4.7%	27.40	OP
Simple Average					**19.9%**	**5.4%**	**20.2%**	**12.5%**	**24.2**	**19.2**	**16.9**	**19.3**	**19.2**	**93.0%**	**5.6%**		

Source: Bloomberg, Kenanga Research

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities.Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my