

05 August 2022

MR D.I.Y Group Berhad

Inflation Weighing In

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1HFY22 earnings came in below expectations. YoY sales improved but margins eroded slightly on account of its strategic move to lock in prices in the first quarter. We expect improvement in margins in the coming quarters due to price adjustments but are cautious on topline for the second half of the year on inflationary concerns. Reducing our FY22E/FY23E earnings by 16%/10%, TP lowered by 9% to RM2.40 (10% reduction). Downgrade to MARKET PERFORM from OUTPERFORM. No adjustment to TP based on ESG which is rated a 3-star as appraised by us.

Results disappointing. 1HFY22 PATAMI of RM242m came in below expectations at only 40%/44% of our full-year forecast and full-year consensus estimate, respectively, as we believe consumers cut back on spending, even on small low-value items as inflation ate into their disposable incomes. DPS of 1.3 sen came short of expectation of 4.6 sen.

Results' highlights. YoY, 1HFY22 topline grew 20% ending at RM1.95b benefiting from the endemic phase and price increase (in the second quarter). Likewise, gross profit (GP) grew 15% but margin saw 2ppt erosion on account of elevated inputs costs and the company's strategic move to keep prices low in the first three months of the year. Stripping off the one-off tax penalty (RM7m in 2Q, PATAMI ended 20% higher to RM249m.

Store expansion remained on track for 180 new stores for FY22 with 93 net stores added for 1HFY22 (49 in 1Q). Same-store-sales growth (SSSG) saw a 1.2% decline (vs. our assumption of 4%) dragged by poor sales in 1Q due to Covid restrictions in Feb/March.

QoQ, GP margin improved by 2ppt to 41%, boosted by price increase and normalization of supplies. The reopening of the economy, festive season saw SSSG rebounding by 11% despite the additional 44 new stores.

Key takeaways from the results briefing are as follows:

- YoY sales were boosted by strong contribution from the April-May festive season and positive contribution from new stores and the endemic phase. Price increase in the beginning of April did not dampened sales during the festive period. However, the company is seeing normalization of sales in June. The company is cautiously optimistic for 2HFY22 as inflationary pressures build up but positive for the final quarter on festivities and year-end demand.
- GP margin improvement in 2Q came from higher sales and the adjustment in prices. Margins are expected to remain stable throughout the year with FY22 margin expected to end at c.41%. The company guided for a 5-15% increase in sales prices which translate to a 2-3% increase in margins.
- Its target for 180 new stores in FY22 is on track. The focus will be in and outside of the Klang Valley. The basket size in East Malaysia is significantly higher than in Peninsular Malaysia. Currently, 69% of stores are located outside of the Klang Valley, up by 1ppt from a year ago.

MARKET PERFORM ↓

Price : **RM2.30**
Target Price : **RM2.40** ↓

Share Price Performance



KLCI 1,500.99
YTD KLCI chg -4.2%
YTD stock price chg -4.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker MRDIY MK Equity
Market Cap (RM m) 21,681.2
Shares Outstanding 9,426.6
52-week range (H) 2.65
52-week range (L) 1.90
3-mth avg daily vol 12,692,090
Free Float 22%
Beta 0.8

Major Shareholders

Bee Family Ltd 50.8%
Hyptis 8.7%
Platinum Alphabet Sdn Bhd 6.1%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	3,373	4,129	4,874
EBITDA	873	1,024	1,280
EBIT	645	726	940
PBT	586	674	889
Net Profit	432	506	667
PATAMI	432	506	667
Consensus (NP)	434	555	669
Earnings Revision		-16%	-10%
Core EPS (sen)	6.9	5.4	7.1
Core EPS growth (%)	28.1	-22.0	31.6
NDPS (sen)	3.0	2.6	3.5
BVPS (RM)	0.18	0.15	0.19
PER (x)	33.4	42.9	32.6
PBV (x)	12.6	15.2	12.2
Net Gearing (x)	0.0	(0.1)	(0.3)
Net Div. Yield (%)	1.3	1.1	1.5

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Cautious for 2H. While we are positive on its store expansion for FY22, we remained cautious for its sales in 2H as inflationary pressures creep in. However, historically 4Q is the strongest quarter due to the year-end shopping season and festivities. With the adjustments in prices, we expect GP margin to remain stable at c.41% for the rest of the year.

Post results, our FY22E/FY23E earnings are reduced by 16%/10% on expectation of a slowing 2H. We maintain our assumption of a net addition of 180 stores for both years with SSSG at 1%/2%, respectively (from 4% for both years previously). We also revised our assumption of average basket size at c.RM29 for both years (RM30 previously). TP is lowered to RM2.40 (RM2.65 previously) on account of the revision in earnings as we ascribed FY23E PER of 34x (unchanged) which is at a 5x multiple premium to the average forward PER of its regional peers of 29x). The higher premium is based on: (i) its high growth drive by store expansion, (ii) its dominant position in hardware retail space locally, and (iii) its strong GP margin (c.40% vs. peers of 32%), (iv) a strong balance sheet translating to war chest for expansion. There is no adjustment to TP based on ESG of which it is given a 3-star rating as appraised by us. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

Risks to our call include: (i) unfavourable forex trend, (ii) volatile supply and logistics, and (iii) higher-than-unexpected inflation.

Results Highlights								
Y/E : Dec (RM m)	2Q22	1Q22	QoQ Chg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Revenue	1,048.7	905.2	15.9%	759.8	38.0%	1,953.9	1,630.0	19.9%
Gross Profit	429.5	354.8	21.1%	315.3	36.2%	784.2	681.8	15.0%
OPEX	(172.4)	(147.5)	16.9%	(136.3)	26.6%	(319.9)	(269.5)	18.7%
EBITDA	262.8	212.1	23.9%	182.9	43.6%	474.9	420.1	13.1%
EBIT	197.5	149.5	32.1%	127.3	55.1%	347.0	312.6	11.0%
PBT/(LBT)	183.3	134.5	36.3%	112.6	62.9%	317.8	283.2	12.2%
Taxation	(41.4)	(34.0)	21.7%	(30.4)	36.1%	(82.1)	(76.3)	7.6%
Net Profit	135.2	100.5	34.5%	82.1	64.6%	235.7	206.9	13.9%
PATAMI	135.2	100.5	34.5%	82.1	64.6%	242.4	206.9	17.1%
Core EPS (sen)	(1.6)	1.6	-200.0%	1.3	-222.3%	0.0	3.3	-100.0%
DPS (sen)	0.6	0.7	-14.3%	0.6	0.0%	1.3	1.4	-7.1%
New Stores (x)	46	39	18%	39	18%	95	93	2%
Gross Margin	41%	39%		42%		40%	42%	41%
EBITDA Margin	25%	23%		24%		24%	26%	25%
EBIT Margin	19%	17%		17%		18%	19%	19%
PBT Margin	17%	15%		15%		16%	17%	17%
PATAMI Margin	13%	11%		11%		12%	13%	13%
ETR	23%	25%		27%		26%	27%	23%

Source: Company

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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	1.57	1,768.3	N	12/2022	10.2%	2.7%	79.2%	8.7%	39.9	22.3	20.5	14.3	12.8	60.6%	3.2%	1.70	OP
AEON CO. (M) BHD	1.42	1,993.7	Y	12/2022	20.2%	4.4%	32.5%	8.8%	23.4	17.6	16.2	1.2	1.1	6.5%	2.9%	1.85	OP
AMWAY (MALAYSIA) HOLDINGS BHD	5.00	821.9	Y	12/2022	-10.0%	-5.0%	62.6%	-4.8%	22.3	13.7	14.4	3.7	3.4	26.1%	5.4%	5.30	MP
DUTCH LADY MILK INDUSTRIES BHD	32.30	2,067.2	Y	12/2022	1.0%	1.0%	-67.3%	5.2%	8.3	25.5	24.2	5.4	4.8	19.9%	1.5%	35.60	MP
FRASER & NEAVE HOLDINGS BHD	22.42	8,223.2	Y	09/2022	9.3%	11.6%	-11.6%	10.3%	20.8	23.5	21.3	2.9	2.8	12.0%	2.2%	23.15	MP
MR D.I.Y.	2.32	21,869.7	Y	12/2022	22.4%	18.0%	17.1%	31.8%	33.7	43.2	32.9	12.7	15.3	39.2%	1.1%	2.40	MP
MYNEWS HOLDINGS BHD	0.410	279.7	N	10/2022	36.7%	12.1%	-22.7%	-147.1%	N.A.	N.A.	17.8	1.9	1.8	-22.1%	0.0%	0.500	UP
NESTLE (MALAYSIA) BHD	135.20	31,704.4	Y	12/2022	7.6%	4.8%	23.3%	-9.2%	55.6	45.1	49.7	54.4	52.4	118.3%	2.1%	119.75	UP
PADINI HOLDINGS BHD	3.13	2,059.3	Y	06/2022	23.3%	32.2%	123.6%	-4.1%	38.1	17.1	17.8	2.6	2.5	14.8%	3.8%	3.80	OP
POWER ROOT BHD	1.77	736.7	Y	03/2023	8.2%	7.9%	7.3%	-6.8%	28.3	26.4	28.3	2.6	2.4	13.4%	5.1%	1.70	OP
QL RESOURCES BHD	5.24	12,752.4	Y	03/2023	17.5%	11.1%	15.9%	34.3%	58.7	50.6	37.7	4.3	4.2	8.9%	1.1%	5.35	MP
Simple Average					13.3%	9.2%	23.6%	-6.6%	32.9	28.5	25.5	9.6	9.4	27.1%	2.6%		
TOBACCO RPRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	10.48	2,992.4	N	12/2022	-2.7%	-1.0%	-10.2%	5.6%	10.5	11.7	11.1	7.8	7.6	65.7%	8.1%	11.20	MP
CARLSBERG BREWERY MALAYSIA BHD	22.88	6,995.5	N	12/2022	31.3%	6.0%	38.0%	15.1%	33.9	24.6	21.4	32.7	32.7	130.8%	4.1%	28.05	OP
HEINEKEN MALAYSIA BHD	23.80	7,189.9	N	12/2022	30.8%	11.1%	32.8%	16.9%	29.3	22.0	18.9	18.2	18.2	82.5%	4.5%	27.40	OP
Simple Average					19.8%	5.4%	20.2%	12.5%	24.6	19.4	17.1	19.6	19.5	93.0%	5.6%		

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	SPECIFIC	Employee Training	★	★	☆	
Energy Efficiency		★	★	★		
Occupational Health & Safety		★	★	★	☆	
Product Quality & Safety		★	★	★		
Supply Chain Auditing		★	★	☆		
Waste Disposal/Pollution Control		★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP

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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