

15 February 2023

MR D.I.Y Group Berhad

Both Sales and Margins Under Pressure

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MR D.I.Y'S FY22 earnings met expectations. YoY, sales improved on stable margins helped by easing of freight cost. Looking forward, we are cautious on its topline performance due to inflationary concerns. Meanwhile, margins may come under pressure due to rising operating cost, though cushioned by price hikes and the easing of freight cost. We cut our FY23F earnings by 6%, reduce our TP by 7% to RM1.85 (from RM2.00) and maintain our MARKET PERFORM call.

FY22 PATAMI met our forecast and consensus estimate. A DPS of 0.6 sen was declared for the 4Q22 cumulating full-year DPS to 2.4 sen (48% payout ratio) which is below our expectation of 2.6 sen.

Results' highlights. YoY, FY22 topline grew 18% to RM3.98b benefiting from the pandemic transiting into the endemic phase and price increases (in the second and third quarters). Its average basket size was at RM28 (in line with our expectation). Its total transactions jumped by 23% to 142m in FY22 but we estimate that average transaction per store per day fell by 3% to 395 (due to the pandemic phase in 1QFY22 and the absence of festivities in 3QFY22). Likewise, its gross profit margin was stable at 41% on account of sales prices increases and receding freight costs (ex-China). Opex saw a 30% uptick on account of inflationary pressures leading to PATAMI growing by 9%. Net store addition for FY22 was 180 with 40 coming in during 4QFY22 while same-store-sales growth (SSSG) fell by 2% to RM3.93m dragged by poor sales in 1QFY22.

QoQ, revenue jumped 10% while gross profit saw a 3ppts uptick to 44% in margin given the lower ex-China freight cost (40%). Its average basket size saw a RM1 increase to RM28 and seasonal activities saw SSSG rebounding by 5%.

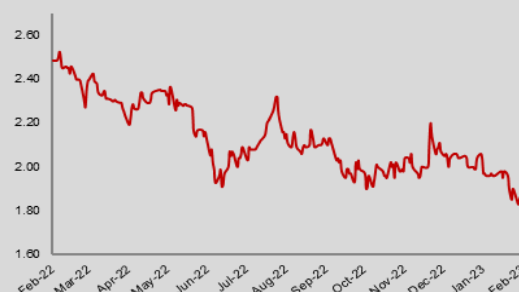
The key takeaways from the results briefing are as follows:

- Gross margin was impacted by both ex-China and internal freight cost (freight cost to East Malaysia). Ex-China freight costs reached a peak in Jan 2022 and have come down by 81% to RM3k/container or nearing its pre-Covid level. Given the lagging effect of 120-150 inventory days, the full impact of declining costs is expected to be seen in the coming quarters of FY23. Internal freight charges remain high at circa RM12k /container. These costs are charged to the P&L in the period the containers are shipped.
- The easing in freight charges is expected to boost gross profit margin by 1.5-2ppts by 1QFY23. For FY23, the company expects gross profit margin to be in the range of 43-44% on the assumption that no more increase in sales prices and ex-China freight costs reach its pre-Covid level.
- Operating expenses are expected to rise in FY23 coming from wages (+6%) and rental (+6%). To mitigate the rental pressure, the size of new stores will be reduced by 4-5%.
- It maintains its target to open another 180 new stores in FY23, comprising 160 MR D.I.Y stores and the remainder split between MR Dollar and MR Toy.

MARKET PERFORM ↔

Price : RM1.75
Target Price : RM1.85 ↓

Share Price Performance



KLCI 1,483.97
YTD KLCI chg -0.8%
YTD stock price chg -12.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker MRDIY MK Equity
Market Cap (RM m) 16,506.3
Shares Outstanding 9,432.2
52-week range (H) 2.55
52-week range (L) 1.71
3-mth avg daily vol 4,746,693
Free Float 24%
Beta 0.6

Major Shareholders

Bee Family Ltd 50.9%
Hyptis 6.6%
Platinum Alphabet Sdn Bhd 6.1%

Summary Earnings Table

| FY Dec (RM m) | 2022A | 2023F | 2024F |
|---------------------|-------|-------|-------|
| Turnover | 3,986 | 4,715 | 5,361 |
| EBITDA | 967 | 1,244 | 1,386 |
| EBIT | 701 | 923 | 1,019 |
| PBT | 641 | 849 | 947 |
| Net Profit | 474 | 627 | 699 |
| PATAMI | 474 | 627 | 699 |
| Consensus (NP) | 481 | 601 | 633 |
| Earnings Revision | 3% | -6.0% | n.a |
| Core EPS (sen) | 5.0 | 6.7 | 7.4 |
| Core EPS growth (%) | 9.8 | 32.4 | 11.4 |
| NDPS (sen) | 2.4 | 3.5 | 3.5 |
| BVPS (RM) | 0.15 | 0.19 | 0.23 |
| PER (x) | 34.8 | 26.3 | 23.6 |
| PBV (x) | 11.6 | 9.5 | 7.7 |
| Net Gearing (x) | 0.1 | (0.0) | (0.3) |
| Net Div. Yield (%) | 1.4 | 2.0 | 2.0 |

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While we are positive on its store expansion, we remained cautious on its sales moving forward as inflationary pressures creep in. However, historically, festivities have proven to be strong quarters benefitting their 2Q and 4Q due to festivities and year-end shopping season. With the adjustments in prices and easing of freight charges, we expect gross profit margin to remain robust and no make no changes to our previous assumption of 43% for FY23.

We cut our FY23F earnings by 6% to reflect higher operating expenses. No change to our other assumptions, namely: (i) an average basket size of RM28, (ii) a net addition of 180 stores, (iii) a flattish SSSG, and (iv) a gross profit margin of 43%. We also introduce our FY24F earnings premised on the same assumptions for FY23, except for a lower net addition of new stores of only 150.

Investment case. We like MR D.I.Y for: (i) its leading position in the home improvement market in Malaysia, (ii) its strong gross profit margin (> 40% vs. peers of 32%) given its strong bargaining position with suppliers and economies of scale arising from its size, and (iii) a strong balance sheet translating to war chest for expansion/higher dividends. However, with rising inflationary pressure and the reopening of business, sales will be challenging as consumers especially the B40 will have a wider and cheaper alternative from competitors.

TP is lowered to RM1.85 (RM2.00 previously) on an unchanged FY23F PER of 28x which is at a 5x multiple premiums to the best forward PER of its regional peers of 23x. The higher premium is based on the relatively still under-penetrated home improvement market in Malaysia, with approximately 216 home improvement stores per million capita (2019) vs Thailand, Japan and Australia at 231, 236 and 405, respectively, according to Frost & Sullivan. The home improvement retail space in Malaysia is expected to chalk a CAGR of 22% (FY21-25) vs ASEAN's CAGR of 9% according to market research. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintained at **MARKET PERFORM**.

Risks to our call include: (i) unfavourable forex trend, (ii) volatile supply and logistics, and (iii) high inflation eating into consumer spending power.

Results Highlights

| Y/E : Dec (RM m) | 4Q22 | 3Q22 | QoQ Chg | 4Q21 | YoY Chg | FY22 | FY21 | YoY Chg |
|-----------------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| Revenue | 1,065.8 | 966.2 | 10.3% | 975.4 | 9.3% | 3,985.8 | 3,373.4 | 18.2% |
| Gross Profit | 466.2 | 396.7 | 17.5% | 393.6 | 18.4% | 1,647.2 | 1,391.9 | 18.3% |
| OPEX | (196.6) | (187.4) | 4.9% | (145.0) | 35.5% | (703.9) | (540.8) | 30.2% |
| EBITDA | 278.2 | 213.7 | 30.2% | 259.3 | 7.3% | 966.8 | 873.3 | 10.7% |
| EBIT | 204.9 | 148.8 | 37.7% | 194.0 | 5.6% | 700.7 | 644.9 | 8.6% |
| PBT/(LBT) | 189.0 | 134.6 | 40.4% | 179.1 | 5.5% | 641.4 | 586.4 | 9.4% |
| Taxation | (52.9) | (33.4) | 58.5% | (44.6) | 18.6% | (168.4) | (154.6) | 9.0% |
| Net Profit | 136.1 | 101.2 | 34.5% | 134.6 | 1.1% | 472.9 | 431.8 | 9.5% |
| PATAMI | 136.1 | 101.2 | 34.5% | 134.6 | 1.1% | 472.9 | 431.8 | 9.5% |
| Core EPS (sen) | 1.4 | 1.1 | 34.3% | 2.1 | -32.7% | 5.0 | 6.9 | -27.1% |
| DPS (sen) | 0.6 | 0.5 | 20.0% | 0.9 | -33.3% | 2.4 | 3.0 | -18.6% |
| New Stores (x) | 42 | 39 | 8% | 59 | -29% | 182 | 166 | 10% |
| Gross Margin | 44% | 41% | | 40% | | 41% | 41% | |
| EBITDA Margin | 26% | 22% | | 27% | | 24% | 26% | |
| EBIT Margin | 19% | 15% | | 20% | | 18% | 19% | |
| PBT Margin | 18% | 14% | | 18% | | 16% | 17% | |
| PATAMI Margin | 13% | 10% | | 14% | | 12% | 13% | |
| ETR | 28% | 25% | | 25% | | 26% | 26% | |

Source: Company

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Peer Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | ROE (%) | Net Div. (sen) | Net Div Yld (%) |
|---|--------|-----------------|-------------------|------------|-------------------|-------------------|-------------|----------------|------------|-----------------|--------------|-------------------------|-------------|-------------|---------------|----------------|-----------------|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. |
| CONSUMER | | | | | | | | | | | | | | | | | |
| AEON CO. (M) BHD | OP | 1.38 | 1.95 | 41.30% | 1,937.5 | Y | 12/2022 | 8.9 | 10.2 | 46.4% | 15.1% | 15.5 | 13.5 | 1.1 | 7.2% | 4.1 | 3.0% |
| DUTCH LADY MILK INDUSTRIES BHD | MP | 29.74 | 32.60 | 9.62% | 1,903.4 | Y | 12/2022 | 119.8 | 148.1 | -69.1% | 23.6% | 24.8 | 20.1 | 4.5 | 18.9% | 50.0 | 1.7% |
| FRASER & NEAVE HOLDINGS BHD | OP | 26.80 | 26.11 | -2.57% | 9,829.7 | Y | 09/2023 | 118.6 | 129.1 | 13.5% | 8.8% | 22.6 | 20.8 | 3.1 | 14.1% | 62.5 | 2.3% |
| MR D.I.Y. | MP | 1.75 | 2.00 | 14.29% | 16,506.3 | Y | 12/2023 | 6.7 | 7.4 | 32.4% | 11.4% | 26.3 | 23.6 | 9.5 | 39.4% | 3.5 | 2.0% |
| MYNEWS HOLDINGS BHD | OP | 0.655 | 0.760 | 16.03% | 446.8 | N | 10/2023 | 3.4 | 4.2 | -229.3% | 23.0% | 19.0 | 15.5 | 2.0 | 9.9% | 0.0 | 0.0% |
| NESTLE (MALAYSIA) BHD | UP | 137.00 | 115.65 | -15.58% | 32,126.5 | Y | 12/2022 | 270.1 | 295.2 | 11.1% | 9.3% | 50.7 | 46.4 | 59.9 | 113.2% | 290.0 | 2.1% |
| PADINI HOLDINGS BHD | OP | 3.69 | 4.30 | 16.53% | 2,427.7 | Y | 06/2023 | 23.3 | 28.6 | -0.3% | 22.5% | 15.8 | 12.9 | 2.5 | 16.5% | 10.0 | 2.7% |
| POWER ROOT BHD | OP | 1.98 | 2.50 | 26.26% | 837.2 | Y | 03/2023 | 13.1 | 14.3 | 108.8% | 9.5% | 15.2 | 13.8 | 2.6 | 18.0% | 10.0 | 5.1% |
| QL RESOURCES BHD | MP | 5.89 | 6.00 | 1.87% | 14,334.2 | Y | 03/2023 | 12.6 | 16.1 | 41.6% | 27.1% | 46.6 | 36.7 | 4.6 | 10.8% | 6.0 | 1.0% |
| Sector Aggregate | | | | | 82,602.7 | | | | | 15.2% | 13.6% | 32.8 | 28.9 | 6.6 | 20.2% | | 2.2% |
| TOBACCO PRODUCTS & BREWERIES | | | | | | | | | | | | | | | | | |
| BRITISH AMERICAN TOBACCO (M) BHD | MP | 12.06 | 12.00 | -0.50% | 3,443.5 | N | 12/2023 | 102.1 | 103.5 | 11.0% | 1.4% | 11.8 | 11.7 | 8.7 | 75.4% | 99.0 | 8.2% |
| CARLSBERG BREWERY MALAYSIA BHD | MP | 24.86 | 23.05 | -7.28% | 7,600.9 | N | 12/2022 | 105.2 | 114.6 | 56.0% | 8.9% | 23.6 | 21.7 | 35.5 | 147.9% | 106.0 | 4.3% |
| HEINEKEN MALAYSIA BHD | MP | 29.38 | 25.80 | -12.19% | 8,875.6 | N | 12/2022 | 129.7 | 129.3 | 59.5% | -0.3% | 22.6 | 22.7 | 22.5 | 99.2% | 129.7 | 4.4% |
| Sector Aggregate | | | | | 19,920.0 | | | | | 40.7% | 3.2% | 19.8 | 19.2 | 22.2 | 107.5% | | 5.6% |

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

| | Criterion | Rating | | | | |
|----------------|-----------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ★ | | |
| | Community Investment | ★ | ★ | ★ | ★ | |
| | Workers Safety & Wellbeing | ★ | ★ | ★ | | |
| | Corporate Governance | ★ | ★ | ★ | ★ | |
| | Anti-Corruption Policy | ★ | ★ | ★ | | |
| | Emissions Management | ★ | ★ | ★ | | |
| SPECIFIC | Employee Training | ★ | ★ | ★ | ★ | |
| | Digitalisation & Innovation | ★ | ★ | ★ | | |
| | Energy Efficiency | ★ | ★ | ★ | | |
| | Product Quality & Safety | ★ | ★ | ★ | ☆ | |
| | Sustainable Supply Chain | ★ | ★ | ★ | ☆ | |
| | Effluent/Waste Management | ★ | ★ | ★ | ★ | |
| | Water Efficiency | ★ | ★ | ☆ | | |
| 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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