

31 March 2023

MyNews Holdings Berhad

Slips Back into the Red in 1QFY23

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MYNEWS's 1QFY23 results disappointed as it unexpectedly slipped back into the red, unable to sufficiently grow its top line to absorb higher cost. This also implies a longer gestation period for its CU stores. Hence, we cut our FY23-24F earnings by 62% and 38%, respectively, reduce our TP by 34% to RM0.50 (from RM0.76) and downgrade our call to UNDERPERFORM from OUTPERFORM.

Slipped back into the red. It disappointed with a 1QFY23 net loss of RM3.2m vs. our full-year net profit forecast of RM23.8m and the full-year consensus net profit estimate of RM14.4m. The variance against our forecast came largely from its inability to grow top line strong enough to absorb higher cost, particularly staff cost.

YoY, 1QFY23 revenue rose by 32% thanks to an increase of new outlets launches with longer business hours as well as higher footfall on the reopening of the economy. This, coupled with a better product mix (with high-margin CU fresh food) and improved inventory wastage control, helped to narrow its core net loss in 1QFY23 by 59%.

QoQ, MYNEWS slipped into net loss of RM3.2m (vs. net profit of RM1.4m in the preceding quarter) as a tepid 2% increase in sales was insufficient to absorb higher overheads, which we believe was mainly incurred on the intake of foreign workers for its food processing centre (FPC) since Sep 2022. We also understand that its CU stores were loss-making.

Outlook. MYNEWS's top line will continue to expand driven by: (i) new CU outlets and longer operating hours, and (ii) a further rise in utilisation at its FPC to 80%-90% based on our estimate from 60% currently, backed by rising fresh food sales and solved labour issue. A stronger top line, coupled with a better product mix should help to absorb start-up cost (including promotion cost) for new CU stores.

Forecasts. We cut our FY23-24F net profit by 62% and 38%, respectively, to reflect a higher opex, particularly, labour and electricity costs, and a longer gestation period for its CU stores.

We lower our TP by 34% to RM0.50 (from RM0.76) as we roll forward our valuation base year to FY24F (from FY23F) and on reduced earnings forecast. We value MYNEWS at 19x forward PER, at a 20% discount to the forward PER of its listed competitor to reflect MYNEWS's quarterly earnings volatility. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

We like MYNEWS for: (i) the still under-penetrated convenience store market in Malaysia with approximately 111 convenience stores per million population currently based on our estimates, vs. Thailand, Japan and Australia at 291, 445 and 268, respectively, (ii) its previously disrupted earnings growth trajectory (due to the pandemic) has returned to the growth path with the turnaround of its FPC and net addition of 50 stores in FY23F, and (iii) its differentiation from competitors through Korean products. However, we are concerned over the volatility in its quarterly earnings and a seemingly longer gestation period for its CU stores. Hence, we downgrade MYNEWS to **UNDERPERFORM** from **OUTPERFORM**.

Recommendation: (i) a shorter gestation period for CU stores, (ii) lower inventory wastage at its FPC, (iii) fresh food and ready-to-eat products gaining better-than-expected traction

UNDERPERFORM

Price: **RM0.58**
Target Price: **RM0.50**

Share Price Performance



KLCI	1,424.61
YTD KLCI chg	-4.7%
YTD stock price chg	-8.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MNHB MK Equity
Market Cap (RM m)	392.2
Shares Outstanding	682.2
52-week range (H)	0.72
52-week range (L)	0.36
3-mth avg daily vol:	492,286
Free Float	25%
Beta	0.8

Major Shareholders

D & D Consolidated	57.4%
Employees Provident Funds	4.9%
Dang Tai Kien	3.4%

Summary Earnings Table

FYE Oct (RM m)	2022A	2023F	2024F
Turnover	631.3	781.5	885.5
EBITDA	-12.8	26.2	44.3
PBT	-21.0	18.5	36.7
Net Profit/(NL)	-22.1	13.9	22.9
PATAMI/(LATAMI)	-18.2	8.9	17.9
Consensus (NP)		14.4	25.0
Earnings Revision		-62%	-38%
EPS (sen)	-2.7	1.3	2.6
EPS growth (%)	27.3	N.M.	101.4
NDPS (sen)	0.0	0.0	1.0
Core PER (x)	N.M.	44.5	22.1
BV/Share (RM)	0.33	0.35	0.37
PBV (x)	1.8	1.7	1.6
Net Dvd. Yield (%)	0.0	0.0	1.7

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Earnings Performance								
Y/E : Oct (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Turnover	184.1	180.6	2%	139.4	32%	184.1	139.4	32%
Gross Profit	62.3	61.0	2%	43.2	44%	62.3	43.2	44%
Operating Expenses	-43.2	-42.6	2%	-35.5	22%	0.0	-35.5	-100%
EBITDA	19.5	20.5	-5%	8.0	143%	19.5	8.0	143%
EBIT	-0.4	3.6	-110%	-7.2	-95%	-0.4	-7.2	-95%
PBT/(LBT)	-2.9	1.5	-291%	-8.8	-67%	-2.9	-8.8	-67%
Taxation	-1.6	-1.0	66%	-0.1	2332%	-1.6	-0.1	2332%
Net Profit	-4.5	0.5	-946%	-8.8	-50%	-4.5	-8.8	-50%
Core Net Profit	-3.2	1.4	-335%	-7.9	-59%	-3.2	-7.9	-59%
Core EPS (sen)	-0.5	0.2	-335%	-1.2	-59%	-0.5	-1.2	-59%
DPS (sen)	1.0	0.0	N.m	0.0	N.m	1.0	0.0	N.m
Gross Margin	33.8%	33.8%		31.0%		33.8%	31.0%	
Opex Margin	23.5%	23.6%		25.5%		0.0%	25.5%	
EBITDA margin	10.6%	11.4%		5.8%		10.6%	5.8%	
EBIT Margin	-0.2%	2.0%		-5.2%		-0.2%	-5.2%	
PBT Margin	-1.5%	0.8%		-6.3%		-1.5%	-6.3%	
Core Net Profit Margin	-1.7%	0.8%		-5.6%		-1.7%	-5.6%	
ETR	-56.3%	64.8%		-0.8%		-56.3%	-0.8%	

Source: Company, Kenanga Research

Key Assumptions	After		Before	
	FY23F	FY24F	FY23F	FY24F
	Chg. In Av. No. of Outlets	+80	+50	+50
Same-Store Sale Growth (%)	+9	+3	+12	+5

Source: Kenanga Research

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Peer Table 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.
F&B AND RETAIL																	
AEON CO. (M) BHD	OP	1.32	1.80	36.36%	1,853.3	Y	12/2023	9.1	10.0	15.2%	9.4%	14.5	13.2	1.0	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.46	29.78	12.55%	1,693.4	Y	12/2023	139.4	135.3	-64.0%	-2.9%	19.0	19.6	3.9	21.7%	50.0	1.9%
FRASER & NEAVE HOLDINGS BHD	OP	25.86	26.11	0.97%	9,484.9	Y	09/2023	118.6	129.1	13.5%	8.8%	21.8	20.0	3.0	14.1%	62.5	2.4%
MR D.I.Y.	MP	1.53	1.85	20.92%	14,432.3	Y	12/2023	6.7	7.4	32.4%	11.4%	23.0	20.6	8.2	39.4%	3.5	2.3%
MYNEWS HOLDINGS BHD	UP	0.575	0.500	-13.04%	392.2	N	10/2023	1.3	2.6	-149.0%	101.1%	44.1	21.9	1.7	3.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	137.40	121.18	-11.80%	32,220.3	Y	12/2023	303.0	305.1	14.6%	0.7%	45.3	45.0	45.8	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	4.00	6.00	50.00%	2,631.6	Y	06/2023	35.8	39.7	53.0%	10.8%	11.2	10.1	2.7	25.3%	10.0	2.5%
POWER ROOT BHD	OP	2.09	2.70	29.19%	890.4	Y	03/2023	13.1	14.3	108.8%	9.5%	16.0	14.6	2.7	18.0%	10.0	4.8%
QL RESOURCES BHD	MP	5.90	6.66	12.88%	14,358.6	Y	03/2023	14.3	17.7	60.3%	23.5%	41.2	33.4	4.6	12.1%	6.0	1.0%
Simple Average					80,232.6					20.2%	9.3%	29.5	27.0	6.3	21.5%		2.2%
BREWERY & TOBACCO																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	11.02	12.00	8.89%	3,146.5	N	12/2023	102.1	103.5	11.0%	1.4%	10.8	10.7	7.9	75.4%	99.0	9.0%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.44	23.05	7.51%	6,555.2	N	12/2023	114.6	126.4	13.9%	10.3%	18.7	17.0	25.1	145.0%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	26.80	27.70	3.36%	8,096.2	N	12/2023	138.9	147.8	12.3%	6.4%	19.3	18.1	20.5	94.8%	138.9	5.2%
Simple Average					17,798.0					12.5%	6.3%	16.7	15.7	17.8	105.0%		6.3%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	
	Corporate Social Responsibility	★	★	★
	Management/Workforce Diversity	★	★	
	Accessibility & Transparency	★	★	★
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	★
SPECIFIC	Migrant Worker Welfare	★	★	
	Waste Disposal/Pollution Control	★	★	
	Work Site Safety	★	★	★
	Usage of Biodegradable Materials	★	★	
	Supply Chain Auditing	★	★	★
	Energy Efficiency	★	★	
OVERALL		★	★	★

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