MyNews Holdings Berhad

Scaling Down Store Expansion

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UNDERPERFORM ↔

Price:	**RM0.50**
Target Price:	**RM0.41** ↓

MYNEWS has scaled down its expansion plan as it intends to "focus more on product quality and expanding its SKUs". We believe, it could have also considered the intensifying competition in the industry which is getting crowded with more players vying for customers. Hence, we cut FY23-24F net profit by 26% and 17%, respectively, reduce our TP by 18% to RM0.41 (from RM0.50) and maintain our UNDERPERFORM call.

We came away from MYNEWS's analyst briefing last Friday feeling cautious over its prospects as explained by the key takeaways as follows:

1. MYNEWS has scaled down its expansion plan for FY23 with only a net addition of 50 stores vs. 80 stores as guided previously, as it intends to "focus more on product quality and expanding its SKUs". We believe, MYNEWS could have also taken into consideration the frantic pace at which its competitors have added new stores post the pandemic. This has reduced the viability of new stores in certain locations flooded by too many players. Ironically, MYNEWS itself opened eight new Mynews and six new CU stores during 1QFY23.

2. MYNEWS expects a slower 2QFY23 (Feb-Apr 2023) vs. 1QFY23 (Nov 2022 – Jan 2022) on the back of the Muslim fasting month in Mar-Apr 2023 as it caters largely to daytime commuter and office crowds. We believe apart from the seasonality, MYNEWS is also feeling the pinch from more convenience store operators fighting for the same consumer's dollar as well as consumers cutting back spending on non-essential snacks and drinks as inflation bites deeper.

3. Its food processing centre (FPC) may not turn around anytime soon due to sustained high raw material, labour and utility costs. Meanwhile, we now project its utilisation to only rise from an estimated 60% at present to c.75% over the near term (vs. 80%-90% as previously assumed) as we have yet to see any significant jump in its productivity after the recent arrival of foreign workers.

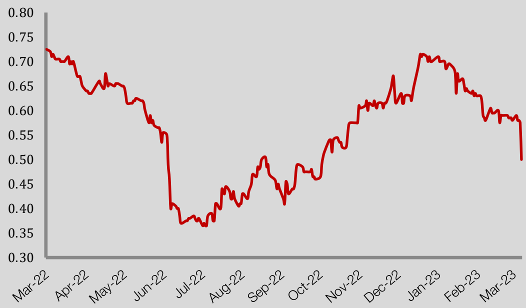
4. It is confident that its food inventory wastage will continue to improve and will be capped at 15%-20% which it has achieved, in line with the industry level since 4QFY22. This will be achieved via better inventory cost on reducing stockholding days and improving the efficiency of logistic planning.

5. MYNEWS has launched new ready-to-eat (RTE) foods such as sandwiches, gimbap, CU curry laksa series and others with new flavours and different combination of product mix to attract more customers. We understand that new products promotion in store will be done in the subsequent quarters, resulting in higher costs during the trial period. We also understand that MYNEWS is expecting to adjust its ASPs for fresh food products to cushion the higher opex.

Forecasts. We cut our FY23-24F net profit by 26% and 17%, respectively, to reflect the scaled-back expansion plan, a slower FY23F same-store sales growth of 6% (vs. 12% assumed previously, a higher opex, particularly, labour and electricity costs and lower FPC utilisation.

We lower our TP by 18% to RM0.41 (from RM0.50) based on 19x FY24F PER, at a 20% discount to the forward PER of 24x of a 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 (see Page 5). Maintain **UNDERPERFORM.**

Share Price Performance



KLCI	1,422.59
YTD KLCI chg	-4.9%
YTD stock price chg	-20.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MNHB MK Equity
Market Cap (RM m)	341.1
Shares Outstanding	682.2
52-week range (H)	0.72
52-week range (L)	0.36
3-mth avg daily vol:	491,394
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

FY Oct (RM m)	2022A	2023F	2024F
Turnover	631.3	742.4	825.0
EBIT	-12.8	22.6	35.5
PBT	-21.0	14.1	27.6
Core Net Profit	-18.2	6.5	14.8
Consensus (NP)		8.6	20.6
Earnings Revision		-26%	-17%
Core EPS (sen)	-2.7	1.0	2.2
Core EPS growth (%)	27.3	136.0	126.2
NDPS (sen)	0.0	0.0	1.0
Core PER (x)	N.M.	60.4	26.7
BVPS	0.33	0.34	0.36
PBV (x)	1.8	1.7	1.6
Net Div Yield (%)	0.0	0.0	1.7

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) returning to the growth path with the turnaround of its FPC and planned net addition of 50 stores in FY23, 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.

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

Key Assumptions

	After		Before	
	FY23F	FY24F	FY23F	FY24F
Chg. In Av. No. of Outlets	+50	+50	+80	+50
Same-Store Sale Growth (%)	+6	+3	+12	+3

Source: Kenanga Research

Income Statement					
FY Oct (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	489.4	400.6	631.3	742.4	825.0
EBITDA	47.1	38.5	56.0	92.2	99.0
Depreciation	-54.9	-56.3	-68.9	-69.5	-63.6
Operating Profit	-7.8	-17.8	-12.8	22.6	35.5
Interest Inc/(Exp)	-4.9	-6.4	-8.8	-8.6	-7.9
PBT	-14.1	-25.0	-21.0	14.1	27.6
Taxation	-1.8	4.0	-1.2	-3.5	-8.8
MI	6.1	6.7	4.0	-4.0	-4.0
Core Net Profit	-9.8	-14.3	-18.2	6.5	14.8

Balance Sheet					
FY Oct (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	210.2	206.8	248.3	317.8	381.4
Other Fixed Assets	7.8	11.0	11.2	9.1	3.5
Inventories	66.9	58.8	81.0	95.1	107.0
Receivables	5.9	1.4	0.8	4.2	2.8
Other Current Assets	0.3	0.0	7.8	0.0	0.0
Cash	39.1	15.3	11.7	-2.3	3.4
Total Assets	528.6	501.4	628.4	454.4	498.1
Payables	34.9	31.6	72.9	66.2	76.9
ST Borrowings	18.4	25.4	53.0	33.0	59.8
Other ST Liability	32.9	29.0	42.6	0.0	24.8
LT Borrowings	49.2	45.6	36.9	45.0	45.0
Other LT Liability	65.9	71.3	129.0	0.0	0.0
Net Assets	286.1	245.9	223.8	237.3	218.7
Shr. Equity	201.6	201.6	201.6	201.6	201.6
Mnrt. Interest	12.3	6.7	2.7	2.7	2.7
Total Equity	286.1	245.9	223.8	237.3	218.7

Cashflow Statement					
FY Oct (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	40.6	25.8	91.5	56.0	82.5
Investing CF	-19.3	-20.9	-71.4	-50.0	-50.0
Financing CF	4.2	-29.2	-23.7	-20.0	-26.8

Financial Data & Ratios					
FY Oct	2020A	2021A	2022A	2023F	2024F
Growth (%)					
Revenue	-5.5	-18.1	57.6	17.6	11.1
EBITDA	-38.4	-18.3	45.5	64.5	7.5
EBIT	-123.8	128.9	-27.9	276.2	56.7
Pre-tax Income	-142.7	77.1	-15.9	167.0	96.4
Core Net Profit	-135.7	45.0	27.3	136.0	126.2
Profitability (%)					
EBITDA Margin	9.6	9.6	8.9	12.4	12.0
EBIT Margin	-1.6	-4.4	-2.0	3.1	4.3
PBT Margin	-2.9	-6.2	-3.3	1.9	3.3
Net Income Margin	-2.0	-3.6	-2.9	0.9	1.8
Effective Tax Rate	-12.8	16.0	-5.5	25.0	31.9
ROA	-3.4	-5.8	-8.1	2.8	6.8
ROE	-1.9	-2.8	-2.9	1.4	3.0
DuPont Analysis					
Net margin (%)	-2.0	-3.6	-2.9	0.9	1.8
Assets Turnover (x)	0.9	0.8	1.0	1.6	1.7
Leverage Factor (x)	1.8	2.0	2.8	1.9	2.3
ROE (%)	-3.4	-5.8	-8.1	2.8	6.8
Leverage					
Debt/Asset (x)	0.13	0.14	0.14	0.17	0.21
Debt/Equity (x)	0.24	0.29	0.40	0.33	0.48
N.Debt/(Cash)	-20.7	10.1	78.2	80.3	101.5
N.Debt/Equity (x)	0.10	0.23	0.35	0.34	0.46
Valuations					
Core EPS (sen)	-1.4	-2.1	-2.7	1.0	2.2
NDPS (sen)	1.60	2.60	0.00	0.00	1.00
BV/share (RM)	0.4	0.4	0.3	0.3	0.4
Core PER (x)	-40.2	-27.7	-21.8	60.4	26.7
Net Div. Yield	2.76	4.48	0.00	0.00	1.72
PBV (x)	1.4	1.6	1.8	1.7	1.6

Source: Kenanga Research

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	1.30	1.80	38.46%	1,825.2	Y	12/2023	9.1	10.0	15.2%	9.4%	14.2	13.0	1.0	7.3%	4.0	3.1%
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	26.00	26.11	0.42%	9,536.2	Y	09/2023	118.6	129.1	13.5%	8.8%	21.9	20.1	3.0	14.1%	62.5	2.4%
MR D.I.Y.	MP	1.55	1.85	19.35%	14,621.0	Y	12/2023	6.7	7.4	32.4%	11.4%	23.3	20.9	8.4	39.4%	3.5	2.3%
MYNEWS HOLDINGS BHD	UP	0.500	0.410	-18.00%	341.1	N	10/2023	1.0	2.2	135.8%	127.7%	52.5	23.0	1.5	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	137.10	121.18	-11.61%	32,150.0	Y	12/2023	303.0	305.1	14.6%	0.7%	45.2	44.9	45.7	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.99	6.00	50.38%	2,625.1	Y	06/2023	35.8	39.7	53.0%	10.8%	11.1	10.1	2.7	25.3%	10.0	2.5%
POWER ROOT BHD	OP	2.12	2.70	27.36%	903.1	Y	03/2023	13.1	14.3	108.8%	9.5%	16.2	14.8	2.8	18.0%	10.0	4.7%
QL RESOURCES BHD	MP	5.81	6.66	14.63%	14,139.5	Y	03/2023	14.3	17.7	60.3%	23.5%	40.6	32.9	4.5	12.1%	6.0	1.0%
Simple Average					80,099.1					20.1%	9.3%	29.5	27.0	6.3	21.4%		2.2%
BREWERY & TOBACCO																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.86	12.00	10.50%	3,100.9	N	12/2023	102.1	103.5	11.0%	1.4%	10.6	10.5	7.8	75.4%	99.0	9.1%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.54	23.05	7.01%	6,585.8	N	12/2023	114.6	126.4	13.9%	10.3%	18.8	17.0	25.2	145.0%	100.0	4.6%
HEINEKEN MALAYSIA BHD	MP	26.50	27.70	4.53%	8,005.6	N	12/2023	138.9	147.8	12.3%	6.4%	19.1	17.9	20.3	94.8%	138.9	5.2%
Simple Average					17,692.3					12.5%	6.3%	16.6	15.6	17.8	105.0%		6.3%

Source: 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	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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