

21 November 2023

MR D.I.Y Group

Mapping Out A Future

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MRDIY's 9MFY23 results met expectations. It guided for a consistent 45% GP margin and revealed a five-year expansion plan to bring its store count to 2,000, introduce new formats and brands, and explore acquisitions. We maintain our FY23F numbers but raise our FY24F earnings forecast by 11%. We lift our TP by 7% to RM1.78 (from RM1.67) and maintain our OUTPERFORM call.

MRDIY's 9MFY23 net profit accounted for 70% of both our full-year forecast and the full-year consensus estimate. We consider the results within expectations given a seasonally strong 4Q ahead. It declared a dividend per share of 0.8 sen for 3Q23, bringing the total DPS for 9MFY23 to 2.2 sen (or 52% payout), on track to achieve our targeted payout of 53% for the full year.

Results highlights. YoY, the group's revenue grew 10% fuelled by the opening of 35 new stores in the quarter, cumulatively reaching 123 so far this year. This progress is in line with their goal to open 180 new stores, aiming for a total of 1,260 stores by the end of FY23. Its gross profit increased by 23%, with a gross margin rise to 45.2% vs. 40.4%, thanks to lower freight costs and last year's price adjustments. Its EBIT and PAT only grew by 18-19%, due to higher administrative and operational expenses due to the store expansions.

QoQ, its 3QFY23 revenue and PBT lowered by 3% and 17% primarily due to the absence of holiday sales and a subdued retail sector, further impacted by weaker consumer confidence owing to higher inflation and rising interest rates.

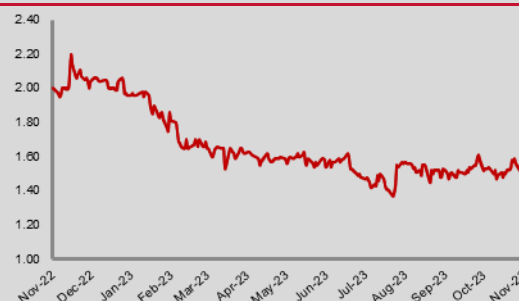
The key takeaways from the results' briefing are as follows:

1. It highlighted that FY23 GP margin of c.45% will be a new norm moving forward, owing to the stabilised of freight charges. Moreover, the implementation of a warehouse automation plan is expected to improve throughput, increase picking accuracy, and optimize space utilization. This initiative is targeted to result in annual net savings of around RM10m, mainly from reductions in labor and warehouse rental costs.
2. Its raised the dividend policy to a minimum of 50%, up from the previous 40%, and plans to reward shareholders with a quarterly dividend payout of 50%-65%, in line with its increasing profitability.
3. It also unveiled its 5-year expansion plan (2024-2028) targeting the opening of 180 new stores in 2024, primarily in underrepresented areas in East Malaysia due to high population density and potential for higher sales per store. Most of these stores will feature the flagship MR.DIY concept but on a smaller scale. The group's goal is to reach 2,000 stores by 2028, implying for an average of approximately 19,000 people per MR DIY store.
4. The company is planning to introduce one or two new store formats and brands or franchise opportunities. This strategy aims to leverage existing relationships with suppliers, landlords, and systems to enhance its business model moving forward.

OUTPERFORM ↔

Price : RM1.61
Target Price : RM1.78 ↑

Share Price Performance



KLCI	1456.92
YTD KLCI chg	-2.6%
YTD stock price chg	-19.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRDIY MK EQUITY
Market Cap (RM m)	15,200.69
Shares Outstanding	9,441.42
52-week range (H)	2.20
52-week range (L)	1.37
3-mth avg daily vol	7,195,789
Free Float	22%
Beta	0.8

Major Shareholders

Bee Family Ltd	51.0%
Employees Provident Fund	5.4%
Hyptis	4.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	3,986	4,407	5,153
EBIT	701	843	963
PBT	641	777	899
Net Profit	473	579	674
Consensus (NP)	-	565	648
Earnings Revision	-	-	11%
Core EPS (sen)	5.0	6.1	7.1
Core EPS growth (%)	9	22	16
NDPS (sen)	2.4	3.2	3.9
BVPS (RM)	0.15	0.18	0.21
PER (x)	30.5	24.9	21.4
PBV (x)	10.1	8.4	7.2
Net Gearing (x)	-0.1	0.1	0.1
Net Div. Yield (%)	1.6%	2.1%	2.6%

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5. The company intends to grow through modest acquisitions, with a focus on horizontal acquisitions aimed at increasing operational efficiency and earnings visibility. Vertical acquisitions, meanwhile, will target future earnings growth, enhanced operational synergies, or supply chain protection. Management has indicated that any vertical acquisitions are likely to come from the hardware business industry.

Forecasts: We maintain our FY23F numbers but raise our FY24F PAT forecast by 11% to reflect: (i) a higher number of new store openings, now targeted at 180 compared to 140 previously, (ii) a stronger gross profit margin to 45% from 43%, and (iii) a higher average basket size of RM29, up from RM28.

Correspondingly, we raise our TP to RM1.78 based on FY24E PER of 25x, which is at a 5x multiple premium to the average forward PER of its regional peers of 20x to reflect a relatively under-penetrated home improvement market in Malaysia. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We like MRDIY for: (i) its dominant position in Malaysia's home improvement market, (ii) its impressive gross margins exceeding 40%, significantly outpacing its peers of 32%, a testament to its advantageous negotiation position with suppliers and benefits derived from economies of scale, (iii) a vigorous store expansion strategy aimed at broadening its national footprint, and (iv) the impending initiation of an automated inventory system in 1QFY24, which could further enhance its operational efficiency. Maintain **OUTPERFORM**.

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

Results Highlights

FYE Dec (RM m)	3Q23	2Q23	QoQ Chg	3Q22	YoY Chg	9M23	9M22	YoY Chg
Revenue	1,066.5	1,099.6	-3.0%	966.2	10.4%	3,212.6	2,920.1	10.0%
Gross Profit	479.5	509.0	-5.8%	396.7	20.9%	1,451.8	1,181.0	22.9%
EBITDA	261.8	291.6	-10.2%	217.2	20.5%	816.0	691.7	18.0%
EBIT	183.9	216.9	-15.3%	148.8	23.6%	590.6	495.8	19.1%
PBT/(LBT)	167.1	201.3	-17.0%	134.6	24.1%	540.9	452.4	19.6%
Taxation	43.1	51.0	-15.4%	33.4	29.1%	138.9	115.5	20.2%
Net Profit	123.9	150.3	-17.5%	101.2	22.5%	402.0	336.9	19.3%
Core Net Profit	123.9	150.3	-17.5%	101.2	22.5%	402.0	336.9	19.3%
Core EPS (sen)	1.3	1.6	-17.5%	1.1	22.8%	4.3	3.6	19.6%
DPS (sen)	0.8	0.8	0.0%	0.5	60.0%	2.2	1.8	22.2%
Gross Margin	45.0%	46.3%		41.1%		45.2%	40.4%	
EBITDA Margin	24.5%	26.5%		22.5%		25.4%	23.7%	
EBIT Margin	17.2%	19.7%		15.4%		18.4%	17.0%	
PBT Margin	15.7%	18.3%		13.9%		16.8%	15.5%	
NP Margin	11.6%	13.7%		10.5%		12.5%	11.5%	
Taxation Rate	11.6%	13.7%		10.5%		12.5%	11.5%	

Source: Company

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Peer Comparison

Name	Rating	Last Price at 8-Nov (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	MP	1.10	1.10	0.0%	1,544.4	Y	12/2023	8.7	8.9	9.9%	2.5%	12.7	12.4	0.8	6.7%	5.0	4.5%
DUTCH LADY MILK INDUSTRIES BHD	OP	22.58	26.60	17.8%	1,445.1	Y	12/2023	131.3	123.4	5.0%	-6.0%	17.2	18.3	3.4	18.0%	75.0	3.3%
FRASER & NEAVE HOLDINGS BHD	OP	26.84	29.40	9.5%	9,844.3	Y	09/2024	135.5	141.5	2.7%	4.4%	19.8	19.0	2.8	14.4%	70.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.61	1.78	10.6%	15,200.7	Y	12/2023	6.1	7.1	19.9%	16.4%	26.4	22.6	8.9	36.9%	3.0	1.9%
NESTLE (MALAYSIA) BHD	UP	121.20	115.00	-5.1%	28,421.4	Y	12/2023	296.8	305.8	12.3%	3.0%	40.8	39.6	44.3	109.8%	290.0	2.4%
PADINI HOLDINGS BHD	MP	3.95	4.50	13.9%	2,598.7	Y	06/2024	37.6	39.5	11.2%	4.9%	10.5	10.0	2.2	22.1%	12.5	3.2%
POWER ROOT BHD	MP	1.97	2.10	6.6%	911.2	Y	03/2024	13.5	13.7	-1.0%	1.0%	14.5	14.4	2.3	17.0%	5.0	2.5%
QL RESOURCES BHD	MP	5.61	5.90	5.2%	13,652.8	Y	03/2024	15.4	16.9	8.4%	9.6%	36.4	33.2	4.7	14.6%	7.0	1.2%
SECTOR AGGREGATE					73,618.7					10.5%	6.9%	27.7	25.9	5.8	21.0%		2.7%

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	Product Quality & Safety	★	★	★	
	Effluent/Waste Management	★	★	★	
	Digitalisation & Innovation	★	★	★	★
	Use of Biodegradable Materials	★	★	★	
	Supply Chain Management	★	★	★	
	Energy 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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