

# Mynews Holdings (MNHB MK)

## Briefing update

### Maintain HOLD with an unchanged TP of MYR0.60

We expect MNHB to continue to face a challenging business environment in FY22 given heightened industry competition, expectations for overall softer consumer spending in 2H22, and the adverse impact of labour shortages on both its food manufacturing and retail business. We make no changes to our earnings estimates, HOLD call or TP of MYR0.60 (2.0x FY23 P/BV, -1SD to mean).

### Labour shortage disrupting operations

Following MNHB's 2QFY22 results briefing, we understand that the group is facing labour shortages in both its food manufacturing and retail businesses. This has hindered its ability to capture increases in in-store demand throughout the quarter where fresh food demand and full store operations have not been able to be met given its limited manpower. MNHB is still in need of an additional c.500 workers and it expects to onboard c.200 foreign workers at the beginning of Aug 2022.

### Growing FPC utilisation rate

Excluding CU, Mynews retail stores were also loss making in 2QFY22 owing to operational challenges stemming from labour shortages, absence of rental rebates, and slow in-store product replenishment. That said, average revenue/store has been improving on a MoM basis from May 2022 onwards and management expects it to break-even in 3QFY22. MNHB has 573 stores (Mynews: 463 stores, CU: 96 stores, WHSmith: 14 stores) under their belt as at 28 Jun 2022. With aggressive ramp up of CU store openings, its FPC utilisation rate has risen to c.60% and has almost reached EBITDA break even (-MYR0.3m). Group wastage rate has also fallen to <10% in 2QFY22 (1QFY22: 10%).

### Stiff industry competition

Curtailing its FPC losses will be the first step to MNHB's earnings recovery but the convenience store (CVS) industry landscape has become very competitive with incumbent CVS's and new entrants proactively launching new products to drive sales and store footfall. The focus on building its CU brand may set the foundation for potentially better earnings in the long-run. However, we believe more needs to be done to refresh its product offering at its larger Mynews retail stores segment in order for the group to see a faster earnings turnaround.

FYE Oct (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	489	394	512	582	656
EBITDA	44	10	16	54	75
Core net profit	(10)	(43)	(29)	3	18
Core EPS (sen)	(1.4)	(6.3)	(4.3)	0.5	2.6
Core EPS growth (%)	nm	nm	nm	nm	427.3
Net DPS (sen)	0.0	0.0	1.2	0.1	0.7
Core P/E (x)	nm	nm	nm	111.1	21.1
P/BV (x)	1.4	2.7	1.7	1.7	1.6
Net dividend yield (%)	0.0	0.0	2.2	0.3	1.3
ROAE (%)	(3.5)	(16.8)	(12.9)	1.5	7.8
ROAA (%)	(2.0)	(8.4)	(5.8)	0.7	3.3
EV/EBITDA (x)	9.2	67.8	28.6	8.7	6.4
Net gearing (%) (incl perps)	9.9	23.0	38.2	44.1	46.6
Consensus net profit	-	-	(6)	18	29
MKE vs. Consensus (%)	-	-	(415.6)	(81.3)	(38.6)

jade.tam@maybank-ib.com  
(603) 2297 8687

# HOLD

Share Price	MYR 0.55
12m Price Target	MYR 0.60 (+9%)
Previous Price Target	MYR 0.60

### Company Description

Mynews's principal business activity is press and convenience retailing.

### Statistics

52w high/low (MYR)	1.05/0.54
3m avg turnover (USDm)	0.1
Free float (%)	28.0
Issued shares (m)	682
Market capitalisation	MYR375.2M USD85M

### Major shareholders:

D&D Consolidated Sdn. Bhd.	57.4%
Employees Provident Fund	6.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(11)	(24)	(38)
Relative to index (%)	(4)	(15)	(33)

Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	NA
Score Momentum <sup>2</sup>	NA
Last Updated	NA
Controversy Score <sup>3</sup>	NA

## Business Model & Industry Issues

- The ESG pressure faced by convenience stores mainly involve its usage of single-use plastic bags and other plastic materials in its food product packaging. Enhanced Government regulations have led to a decline in MNHB's overall plastic usage per retail transaction but more needs to be done to assimilate biodegradable plastics in its food product packaging, especially ones that are manufactured in-house.
- Food wastage is another area that requires attention given MNHB's foray into food manufacturing in 2019. Unsold third-party supplied food products are returnable but the group has yet to determine sustainable means of disposing its in-house manufactured food products at this juncture.
- In summary, MNHB's current ESG disclosure is brief and the group has not committed to any concrete targets nor has it publicised any comprehensive sustainability framework. Once MNHB shares more details of its sustainability goals, this could strengthen its brand perception to both customers and investors alike.

### Material E issues

- Following the launch of Malaysia's "Roadmap Towards Zero-Single Use Plastics 2018-2030", the number of sales transactions that used plastic bags made up 6% of MNHB's total number of sales transactions in 2021 (2020: 7%) mainly due to the surcharge on plastic bags & straws for customers.
- MNHB aims to replace its conventional plastic bags with biodegradable plastic bags to lower impact on environmental pollution but no set timeline has been disclosed yet.
- Food products offered at its CVS' are returnable to its third-party suppliers. That said, MNHB is still exploring ways for safe disposal of its in-house manufactured food items (eg. engaging food recycling company, process food wastage into animal feed/organic fertiliser).
- MNHB is progressively reducing its energy consumption by installing LED lights in all its new and existing convenience stores (CVS). To date, 70% of its CVS' use LED lights.

### Material S issues

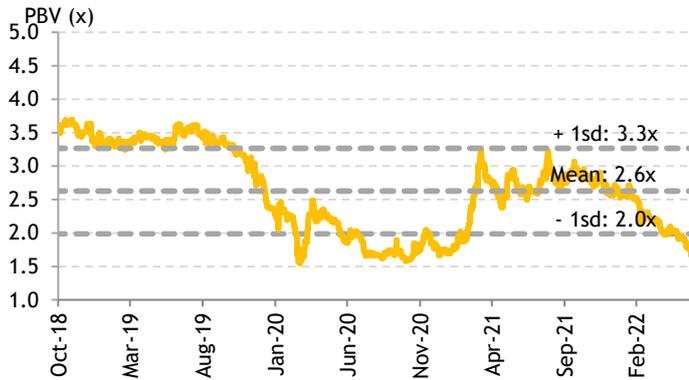
- In FY21, MNHB employed 2,112 employees with a male: female ratio of 52:48 (from 61:39 in 2017). MNHB's foreign workers represent 17% of its workforce.
- The group's third-party suppliers are required to adhere to high standards of food safety. MNHB ensures its suppliers are credible in terms of product quality and food handling before they are taken on board.
- Through Mynews Cares, MNHB runs a programme ("Allowance That Allow") that converts loose change collected from donation boxes at its CVS outlets, into allowances for underprivileged students.

### Key G metrics and issues

- In 2021, MNHB's Board comprises of 6 directors: 3 Independent Non-Executive Directors (including the Chairman) along with 3 executive directors.
- The 3 executive directors on the Board are siblings. All 3 executive directors have indirect interest in MNHB through group's major shareholder, D&D Consolidated Sdn Bhd (57.4% shareholding).
- As at end-FY21, there is only 1 woman on MNHB's Board (17% representation).
- The chairman of the board and the group CEO positions are held by separate individuals.
- Annual shareholders' approval is required for independent directors serving beyond 9 years. At the moment, no Directors have served as an Independent Director for more than 9 years.
- The group CEO's total remuneration package was MYR0.8m against MNHB's pre-tax loss in 2021.
- MNHB does not disclose the remuneration packages of its senior management due to confidentiality reasons.
- The group maintains a policy that requires a former key audit partner to observe a cooling-off period of at least 2 years before being appointed as a member of the audit committee. At present, the members of the Board were not former key audit partners.
- MNHB has been audited by Grant Thornton Malaysia PLT since 2016.  
In 2018, MNHB entered into a related party transaction to dispose 2 units of property for MYR3.4m, to the sons of a non-independent non-executive director. Aside from this, the group is also required to enter into recurring related party transactions involving various parts of their food manufacturing business for its day-to-day operations.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

**Fig 1: One-year forward PBV**



Source: Company

### Risk statement

There are several risk factors for our earnings estimates, price target, and rating for MNHB. Poor execution or inability to find suitable store locations could hinder new store openings and revenue growth. Additionally, slower consumption demand growth could result in falling same store sales growth. Higher operating expenses from higher minimum wage and higher rental could also adversely impact earnings.

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	nm	nm	nm	111.1	21.1
Core P/E (x)	nm	nm	nm	111.1	21.1
P/BV (x)	1.4	2.7	1.7	1.7	1.6
P/NTA (x)	1.4	2.7	1.8	1.7	1.6
Net dividend yield (%)	0.0	0.0	2.2	0.3	1.3
FCF yield (%)	1.6	0.5	nm	nm	nm
EV/EBITDA (x)	9.2	67.8	28.6	8.7	6.4
EV/EBIT (x)	nm	nm	nm	nm	25.0
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	489.4	394.4	511.8	582.1	656.3
EBITDA	44.1	10.2	16.0	54.1	75.1
Depreciation	(51.9)	(56.7)	(56.0)	(54.7)	(55.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(7.8)	(46.5)	(40.0)	(0.6)	19.4
Net interest income / (exp)	(4.9)	(6.2)	(6.6)	(8.1)	(9.5)
Associates & JV	(1.4)	(0.7)	(0.7)	3.2	3.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(14.1)	(53.4)	(47.3)	(5.5)	13.4
Income tax	(1.8)	3.5	11.2	2.1	(2.4)
Minorities	6.1	6.8	6.8	6.8	6.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(9.8)	(43.2)	(29.4)	3.4	17.8
Core net profit	(9.8)	(43.2)	(29.4)	3.4	17.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	40.4	16.1	2.8	3.8	7.3
Accounts receivable	38.9	37.3	48.4	55.1	62.1
Inventory	66.9	58.8	71.5	80.7	87.9
Property, Plant & Equip (net)	210.2	206.8	202.3	206.0	216.1
Intangible assets	0.0	3.9	3.7	3.5	3.3
Investment in Associates & JVs	6.8	6.0	5.3	8.5	12.1
Other assets	165.4	172.4	172.4	172.4	172.4
<b>Total assets</b>	<b>528.6</b>	<b>501.4</b>	<b>506.3</b>	<b>529.9</b>	<b>561.1</b>
ST interest bearing debt	18.4	25.4	25.4	25.4	25.4
Accounts payable	75.2	82.6	100.5	113.4	123.5
LT interest bearing debt	49.2	45.6	60.6	75.6	90.6
Other liabilities	112.0	109.0	102.0	95.0	88.0
<b>Total Liabilities</b>	<b>254.7</b>	<b>262.2</b>	<b>288.3</b>	<b>309.5</b>	<b>327.8</b>
Shareholders Equity	273.9	239.2	218.1	220.5	233.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>273.9</b>	<b>239.2</b>	<b>218.1</b>	<b>220.5</b>	<b>233.3</b>
<b>Total liabilities and equity</b>	<b>528.6</b>	<b>501.4</b>	<b>506.3</b>	<b>529.9</b>	<b>561.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	(14.1)	(53.4)	(47.3)	(5.5)	13.4
Depreciation & amortisation	51.9	56.7	56.0	54.7	55.7
Adj net interest (income)/exp	0.0	0.0	(6.6)	(8.1)	(9.5)
Change in working capital	(9.4)	12.5	(5.9)	(2.9)	(4.1)
Cash taxes paid	(5.9)	(3.0)	11.2	2.1	(2.4)
Other operating cash flow	18.1	13.2	7.4	4.9	6.0
Cash flow from operations	40.6	25.8	14.6	45.2	59.1
Capex	(34.6)	(22.9)	(51.2)	(58.2)	(65.6)
Free cash flow	6.0	2.9	(36.5)	(13.0)	(6.5)
Dividends paid	0.0	0.0	8.2	(0.9)	(5.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	41.5	3.4	15.0	15.0	15.0
Other invest/financing cash flow	(22.0)	(26.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	25.4	(20.1)	(13.3)	1.0	3.5

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(5.5)	(19.4)	29.8	13.7	12.7
EBITDA growth	(42.7)	(77.0)	57.8	237.7	38.7
EBIT growth	nm	nm	nm	nm	nm
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	427.3
Core net profit growth	nm	nm	nm	nm	427.3
<b>Profitability ratios (%)</b>					
EBITDA margin	9.0	2.6	3.1	9.3	11.4
EBIT margin	nm	nm	nm	nm	3.0
Pretax profit margin	nm	nm	nm	nm	2.0
Payout ratio	0.0	0.0	nm	28.1	28.0
<b>DuPont analysis</b>					
Net profit margin (%)	nm	nm	nm	0.6	2.7
Revenue/Assets (x)	0.9	0.8	1.0	1.1	1.2
Assets/Equity (x)	1.9	2.1	2.3	2.4	2.4
ROAE (%)	(3.5)	(16.8)	(12.9)	1.5	7.8
ROAA (%)	(2.0)	(8.4)	(5.8)	0.7	3.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	23.0	13.7	1.6	2.4	2.1
Days receivable outstanding	30.0	34.8	30.2	32.0	32.1
Days inventory outstanding	70.4	82.6	70.4	72.8	74.1
Days payables outstanding	77.5	103.7	98.9	102.4	104.2
Dividend cover (x)	nm	nm	(3.6)	3.6	3.6
Current ratio (x)	1.3	0.9	0.9	0.9	1.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	1.9	1.8	1.7	1.7
Net gearing (%) (incl perps)	9.9	23.0	38.2	44.1	46.6
Net gearing (%) (excl. perps)	9.9	23.0	38.2	44.1	46.6
Net interest cover (x)	na	na	na	na	2.0
Debt/EBITDA (x)	1.5	7.0	5.4	1.9	1.5
Capex/revenue (%)	7.1	5.8	10.0	10.0	10.0
Net debt/ (net cash)	27.2	54.9	83.2	97.2	108.7

Source: Company; Maybank IBG Research

## Research Offices

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(603) 2297 8682  
suhaimi\_ilias@maybank-ib.com

**CHUA Hak Bin**  
Regional Thematic Macroeconomist  
(65) 6231 5830  
chuahb@maybank.com

**LEE Ju Ye**  
Singapore | Thailand | Indonesia  
(65) 6231 5844  
leejuye@maybank.com

**Dr Zamros DZULKAFLI**  
(603) 2082 6818  
zamros.d@maybank-ib.com

**Fatin Nabila MOHD ZAINI**  
(603) 2297 8685  
fatinnabila.mohdzaini@maybank-ib.com

**Brian LEE Shun Rong**  
(65) 6231 5846  
brian.lee1@maybank.com

**Luong Thu Huong**  
(65) 62315 8467  
hana.thuluong @maybank.com

### FX

**Saktiandi SUPAAT**  
Head of FX Research  
(65) 6320 1379  
saktiandi@maybank.com.sg

**Christopher WONG**  
(65) 6320 1347  
wongkl@maybank.com.sg

**TAN Yanxi**  
(65) 6320 1378  
tanyx@maybank.com.sg

**Fiona LIM**  
(65) 6320 1374  
fionalim@maybank.com.sg

### STRATEGY

**Anand PATHMAKANTHAN**  
ASEAN  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

### FIXED INCOME

**Winson PHOON, FCA**  
(65) 6340 1079  
winsonphoon@maybank.com

**SE THO Mun Yi, CFA**  
(603) 2074 7606  
munyi.st@maybank-ib.com

### REGIONAL EQUITIES

**Anand PATHMAKANTHAN**  
Head of Regional Equity Research  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

**WONG Chew Hann, CA**  
Head of ASEAN Equity Research  
(603) 2297 8686  
wchewh@maybank-ib.com

**ONG Seng Yeow**  
Research, Technology & Innovation  
(65) 6231 5839  
ongsengyeow@maybank.com

### MALAYSIA

**Anand PATHMAKANTHAN** *Head of Research*  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com  
• Strategy

**WONG Chew Hann, CA**  
(603) 2297 8686  
wchewh@maybank-ib.com  
• Non-Bank Financials (stock exchange)  
• Construction & Infrastructure

**Desmond CH'NG, BFP, FCA**  
(603) 2297 8680  
desmond.chng@maybank-ib.com  
• Banking & Finance

**LIAW Thong Jung**  
(603) 2297 8688 tjliaw@maybank-ib.com  
• Oil & Gas Services- Regional  
• Automotive

**ONG Chee Ting, CA**  
(603) 2297 8678 ct.ong@maybank-ib.com  
• Plantations - Regional

**YIN Shao Yang, CPA**  
(603) 2297 8916 samuel.y@maybank-ib.com  
• Gaming - Regional  
• Media • Aviation • Non-Bank Financials

**TAN Chi Wei, CFA**  
(603) 2297 8690 chiwei.t@maybank-ib.com  
• Power • Telcos

**WONG Wei Sum, CFA**  
(603) 2297 8679 weisum@maybank-ib.com  
• Property • Glove

**Jade TAM**  
(603) 2297 8687 jade.tam@maybank-ib.com  
• Consumer Staples & Discretionary

**Nur Farah SYIFAA**  
(603) 2297 8675  
nurfarahsyifaa.mohamadfuad@maybank-ib.com  
• Construction • Renewable Energy • REITs

**Arvind JAYARATNAM**  
(603) 2297 8692  
arvind.jayaratnam@maybank.com  
• Petrochemicals • Technology

**Shafiq KADIR**  
(603) 2297 8691  
msshafiqk.abkadir@maybank-ib.com  
• Healthcare • Software

**LOH Yan Jin**  
(603) 2297 8687  
lohyanjin.loh@maybank-ib.com  
• Ports • Shipping

**TEE Sze Chiah** *Head of Retail Research*  
(603) 2082 6858 szechiah.t@maybank-ib.com  
• Retail Research

**Nik Ihsan RAJA ABDULLAH, MSTA, CFTe**  
(603) 2297 8694  
nikmohdihsan.ra@maybank-ib.com  
• Chartist

**Amirah AZMI**  
(603) 2082 8769 amirah.azmi@maybank-ib.com  
• Retail Research

### SINGAPORE

**Thilan WICKRAMASINGHE** *Head of Research*  
(65) 6231 5840 thilanw@maybank.com  
• Banking & Finance - Regional  
• Consumer

**CHUA Su Tye**  
(65) 6231 5842 chuasutye@maybank.com  
• REITs - Regional

**LAI Gene Lih, CFA**  
(65) 6231 5832 laigenelih@maybank.com  
• Technology

**Eric ONG**  
(65) 6231 5924 ericong@maybank.com  
• Healthcare • Transport • SMIDs

**Kelvin TAN**  
(65) 6231 5837 kelvintan1@maybank.com  
• Telcos • Industrials

**Samuel TAN**  
(65) 6231 5843 samuel.tan@maybank.com  
• Technology

**LI Jialin**  
(65) 6231 5845 jialin.li@maybank.com  
• REITs

### PHILIPPINES

**Jacqui de JESUS** *Head of Research*  
(63) 2 8849 8840  
jacqui.dejesus@maybank.com  
• Strategy • Conglomerates

**Rachelleen RODRIGUEZ, CFA**  
(63) 2 8849 8843  
rachelleen.rodriquez@maybank.com  
• Banking & Finance • Transport • Telcos

**Daphne SZE**  
(63) 2 8849 8847  
daphne.sze@maybank.com  
• Consumer

**Miguel SEVIDAL**  
(63) 2 8849 8844  
miguel.sevidal@maybank.com  
• REITs • Property

**Fiorenzo de JESUS**  
(63) 2 8849 8846  
fiorenzo.dejesus@maybank.com  
• Utilities

### VIETNAM

**Quan Trong Thanh** *Head of Research*  
(84 28) 44 555 888 ext 8184  
thanh.quan@maybank.com  
• Banks

**Hoang Huy, CFA**  
(84 28) 44 555 888 ext 8181  
hoanghuy@maybank.com  
• Strategy • Technology • Industrials

**Le Nguyen Nhat Chuyen**  
(84 28) 44 555 888 ext 8082  
chuyen.le@maybank.com  
• Oil & Gas • Logistics

**Nguyen Thi Sony Tra Mi**  
(84 28) 44 555 888 ext 8084  
trami.nguyen@maybank.com  
• Consumer

**Tyler Manh Dung Nguyen**  
(84 28) 44 555 888 ext 8085  
manhdung.nguyen@maybank.com  
• Utilities • Property

**Tran Thi Thanh Nhan**  
(84 28) 44 555 888 ext 8088  
nhan.tran@maybank.com  
• Consumer

**Nguyen Thi Ngan Tuyen**  
*Head of Retail Research*  
(84 28) 44 555 888 ext 8081  
tuyen.nguyen@maybank.com  
• Retail Research

**Nguyen Thanh Lam**  
(84 28) 44 555 888 ext 8086  
thanhlam.nguyen@maybank.com  
• Chartist

### INDIA

**Jigar SHAH** *Head of Research*  
(91) 22 4223 2632 jigars@maybank.com  
• Strategy • Oil & Gas • Automobile • Cement

**Neerav DALAL**  
(91) 22 4223 2606 neerav@maybank.com  
• Software Technology • Telcos

**Vikram RAMALINGAM**  
(91) 22 4223 2607  
vikram@maybank.com  
• Automobile • Media

### INDONESIA

**Rahmi MARINA**  
(62) 21 8066 8689  
rahmi.marina@maybank.com  
• Banking & Finance

**Willy GOUTAMA**  
(62) 21 8066 8500  
willygoutama@maybank.com  
• Consumer

**Satriawan, CTA**  
(62) 21 8066 882  
satriawan@maybank.com  
• Chartist

### THAILAND

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 6300 ext 1395  
jesada.t@maybank.com  
• Banking & Finance

**Vanida GEISLER, CPA**  
(66) 2658 6300 ext 1394  
Vanida.G@maybank.com  
• Property • REITs

**Yuwanee PROMMAPORN**  
(66) 2658 6300 ext 1393  
Yuwanee.P@maybank.com  
• Services • Healthcare

**Wasu MATTANAPOTCHANART**  
(66) 2658 6300 ext 1392  
wasu.m@maybank.com  
• Telcos

**Surachai PRAMUALCHAROENKIT**  
(66) 2658 5000 ext 1470  
Surachai.p@maybank.com  
• Auto • Conmat • Contractor • Steel

**Suttatip PEERASUB**  
(66) 2658 5000 ext 1430  
suttatip.p@maybank.com  
• Food & Beverage • Commerce

**Jaroonpan WATTANAWONG**  
(66) 2658 5000 ext 1404  
jaroonpan.w@maybank.com  
• Transportation • Small cap

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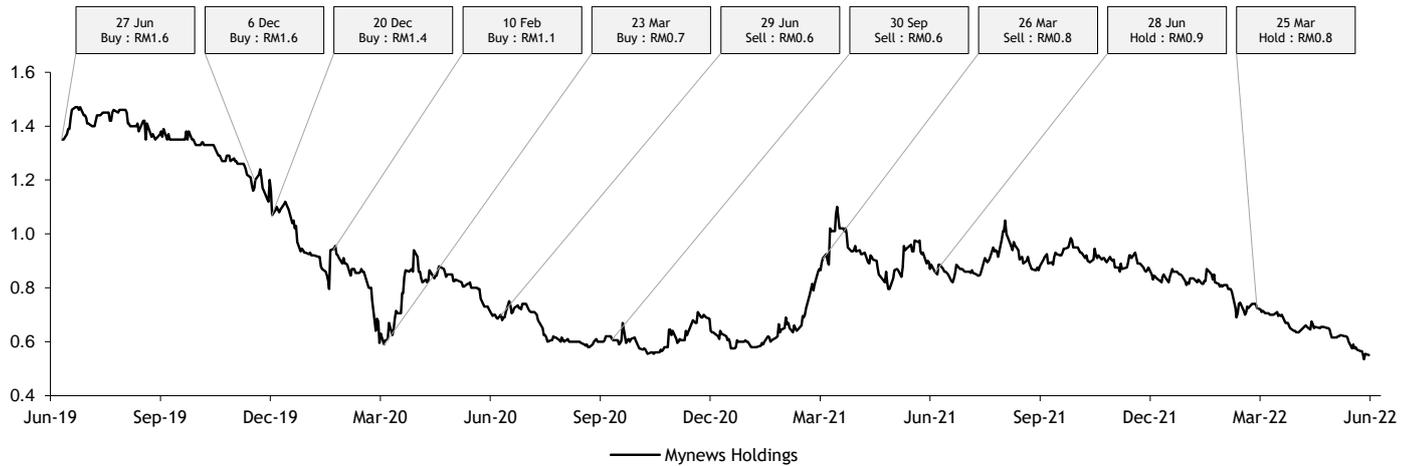
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Historical recommendations and target price: Mynews Holdings (MNHB MK)



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### Malaysia

Maybank Investment Bank Berhad  
(A Participating Organisation of  
Bursa Malaysia Securities Berhad)  
33rd Floor, Menara Maybank,  
100 Jalan Tun Perak,  
50050 Kuala Lumpur  
Tel: (603) 2059 1888;  
Fax: (603) 2078 4194  
Stockbroking Business:  
Level 8, Tower C, Dataran Maybank,  
No.1, Jalan Maarof  
59000 Kuala Lumpur  
Tel: (603) 2297 8888  
Fax: (603) 2282 5136

### Singapore

Maybank Securities Pte Ltd  
Maybank Research Pte Ltd  
50 North Canal Road  
Singapore 059304

Tel: (65) 6336 9090

### Hong Kong

MIB Securities (Hong Kong) Limited  
28/F, Lee Garden Three,  
1 Sunning Road, Causeway Bay,  
Hong Kong

Tel: (852) 2268 0800  
Fax: (852) 2877 0104

### London

Maybank Securities (London) Ltd  
PNB House  
77 Queen Victoria Street  
London EC4V 4AY, UK

Tel: (44) 20 7332 0221  
Fax: (44) 20 7332 0302

### Indonesia

PT Maybank Sekuritas Indonesia  
Sentral Senayan III, 22<sup>nd</sup> Floor  
Jl. Asia Afrika No. 8  
Gelora Bung Karno, Senayan  
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188  
Fax: (62) 21 2557 1189

### New York

Maybank Securities USA Inc  
400 Park Avenue, 11th Floor  
New York, New York 10022,  
U.S.A.

Tel: (212) 688 8886  
Fax: (212) 688 3500

### India

MIB Securities India Pte Ltd  
1101, 11<sup>th</sup> floor, A Wing, Kanakia  
Wall Street, Chakala, Andheri -  
Kurla Road, Andheri East,  
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600  
Fax: (91) 22 6623 2604

### Philippines

Maybank Securities Inc  
17/F, Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 8849 8888  
Fax: (63) 2 8848 5738

### Thailand

Maybank Securities (Thailand) PCL  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road Pathumwan,  
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)  
Tel: (66) 2 658 6801 (research)

### Vietnam

Maybank Securities Limited  
4A-15+16 Floor Vincom Center Dong  
Khoi, 72 Le Thanh Ton St. District 1  
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888  
Fax : (84) 8 38 271 030

### Sales Trading

Kevin Foy  
Regional Head Sales Trading  
kevinfoy@maybank.com  
Tel: (65) 6636-3620  
US Toll Free: 1-866-406-7447

#### Indonesia

Helen Widjaja  
helen.widjaja@maybank.com  
(62) 21 2557 1188

#### New York

James Lynch  
jlynch@maybank-keusa.com  
Tel: (212) 688 8886

#### Philippines

Keith Roy  
keith\_roy@maybank.com  
Tel: (63) 2 848-5288

#### London

Greg Smith  
gsmith@maybank.co.uk  
Tel: (44) 207-332-0221

#### India

Sanjay Makhija  
sanjaymakhija@maybank.com  
Tel: (91)-22-6623-2629