

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)

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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
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Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³	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

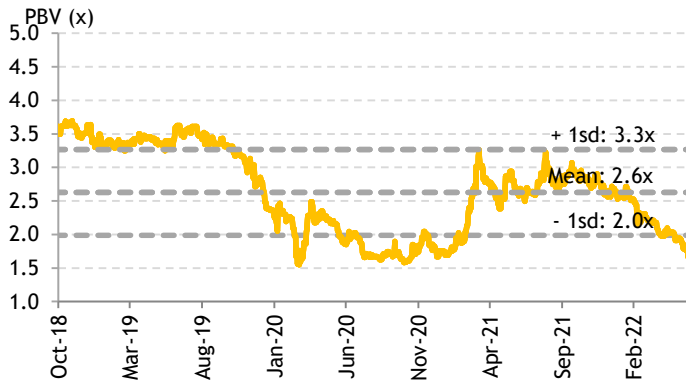
- In FY21, MNHB employed 2,112 employees with a male: female ratio of 52:48 (from 61:39 in 2017). MNHB's foreign workers represent 17% of its workforce.
- The group's third-party suppliers are required to adhere to high standards of food safety. MNHB ensures its suppliers are credible in terms of product 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.

¹**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. ²**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. ³**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
Key Metrics					
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
INCOME STATEMENT (MYR m)					
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
BALANCE SHEET (MYR m)					
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
Total assets	528.6	501.4	506.3	529.9	561.1
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
Total Liabilities	254.7	262.2	288.3	309.5	327.8
Shareholders Equity	273.9	239.2	218.1	220.5	233.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	273.9	239.2	218.1	220.5	233.3
Total liabilities and equity	528.6	501.4	506.3	529.9	561.1
CASH FLOW (MYR m)					
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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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

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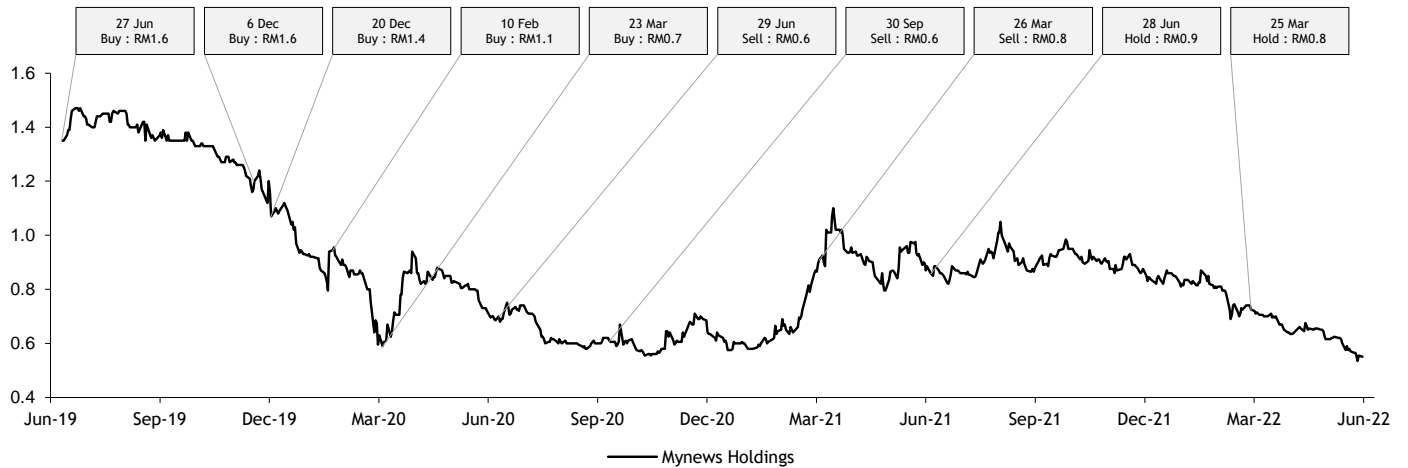
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