

Mynews Holdings (MNHB MK)

Briefing update

Maintain BUY with unchanged TP of MYR0.62

MNHB's operating outlook is improving as in-store sales rise on better product offering and increasing store footfall. The expected turnaround in *CU* and its food processing centre may also aid in the group's earnings performance in FY24E. We leave our earnings estimates, BUY call and TP of MYR0.62 (1.7x FY24E PBV, -1SD to mean) unchanged.

Sales momentum is improving

At MNHB's 4QFY23 results briefing, management shared that average sales per store at both *Mynews* and *CU* have been steadily improving. Average ticket sizes for both *brands* are currently above MYR10 and the group will continue to focus on rolling-out new fresh food SKUs to align with consumer preferences. Separately, MNHB has indicated its intention to open a dedicated outlet for *Maru Kafe* sometime in FY24E but did not share any store opening targets at this juncture.

A couple of challenges remain

We understand that *CU* has not broken even in 4QFY23 but its performance is on track with internal targets. MNHB is in the midst of merging various departments (i.e. marketing, merchandising etc.) which may see potential cost savings coming through in the next 6 to 12 months, we believe. Meanwhile, its food processing centre (FPC) is still loss making (4QFY23: -MYR1.7m) but MNHB is confident that it will turn profitable in FY24E.

No change to earnings estimates

We leave our earnings estimates unchanged. MNHB's sequential earnings may progressively improve with better in-store product offerings (within the fresh food category), and rising store footfall during festive and school holiday periods. The eventual turnaround in both *CU* and its *FPC* will also remove existing roadblocks towards a sustainable positive earnings growth trajectory, in our view.

FYE Oct (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	631	730	795	902	1,014
EBITDA	56	82	81	72	53
Core net profit	(20)	(11)	5	8	12
Core EPS (sen)	(2.9)	(1.6)	0.7	1.2	1.8
Core EPS growth (%)	nm	nm	nm	65.8	56.2
Net DPS (sen)	0.0	0.5	0.0	0.0	0.0
Core P/E (x)	nm	nm	75.2	45.4	29.0
P/BV (x)	1.7	1.5	1.5	1.4	1.4
Net dividend yield (%)	0.0	0.9	0.0	0.0	0.0
ROAE (%)	(8.6)	(4.7)	2.0	3.2	4.8
ROAA (%)	(3.5)	(1.7)	0.8	1.2	1.8
EV/EBITDA (x)	8.0	5.0	4.2	4.0	4.6
Net gearing (%) (incl perps)	35.5	17.2	net cash	net cash	net cash
Consensus net profit	-	-	6	17	13
MIBG vs. Consensus (%)	-	-	(24.9)	(53.1)	(0.4)

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BUY

Share Price	MYR 0.53
12m Price Target	MYR 0.62 (+17%)
Previous Price Target	MYR 0.62

Company Description

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

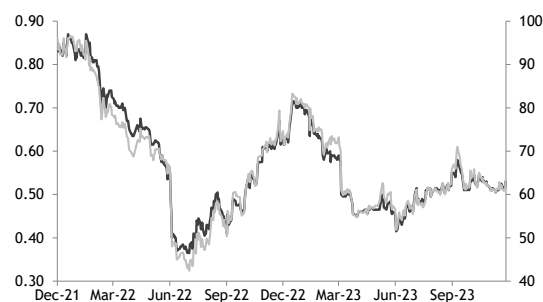
Statistics

52w high/low (MYR)	0.72/0.42
3m avg turnover (USDm)	0.1
Free float (%)	23.7
Issued shares (m)	750
Market capitalisation	MYR397.7M USD86M

Major shareholders:

D&D Consolidated Sdn. Bhd.	52.5%
Jag Capital Holdings Sdn. Bhd.	13.9%
DANG TAI KIEN	3.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	2	(14)
Relative to index (%)	2	1	(13)

Source: FactSet

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Tear Sheet Insert

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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 emanates from 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.
- In 2022, 90% of the plastic bags used throughout MNHB’s operations are biodegradable.
- 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 FY22, MNHB employed 2,729 employees with a male: female ratio of 54:46 (from 61:39 in 2017). MNHB’s foreign workers represent 19% 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 2022, MNHB’s board comprised 7 directors: 4 Independent non-executive directors, 2 executive directors and 1 executive chairman.
- The 2 executive directors on the board are siblings. Both executive directors have indirect interest in MNHB through group’s major shareholder, D&D Consolidated Sdn Bhd (57.4% shareholding).
- As at end-FY22, there are only 2 women on MNHB’s board (29% 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 2022.
- 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 its 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).

Quantitative Parameters (Score: 32)						
	Particulars	Unit	2020	2021	2022	SEM MK (2022)
E	Scope 1 GHG emissions	tCO2e	NA	NA	NA	945
	Scope 2 GHG emissions	tCO2e	NA	NA	NA	136,800
	Total	tCO2e	NA	NA	NA	137,745
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	24
	Total	tCO2e	NA	NA	NA	137,769
	GHG intensity (Scope 1 and 2)	kgCO2e/tonne	NA	NA	NA	409
	Electricity consumption	MWh	NA	NA	5,622	233,846
	Water consumption	m3	NA	5.5%	7.5%	14,413
	Recycled corrugated boxes	Kg	630.1	851.5	594.5	894
	Waste diverted away from landfill	%	NA	873.0	790.3	NA
Renewal energy usage	MWh	NA	NA	14.0%	NA	
S	% of women in workforce	%	43%	48%	46%	55%
	% of women in management roles	%	NA	NA	NA	56.8%
	Lost time incident rate	No.	0	0	0	0
	Customer satisfaction index	%	NA	NA	NA	NA
	Average hours of training/employee	p.a.	21	22	9	10
G	MD/CEO salary as % of reported net profit	%	NA	NA	NA	4.1%
	Board salary as % of reported net profit	%	NA	NA	NA	5.0%
	Independent directors on the Board	%	50%	50%	57%	40%
	Female directors on the Board	%	17%	17%	29%	30%

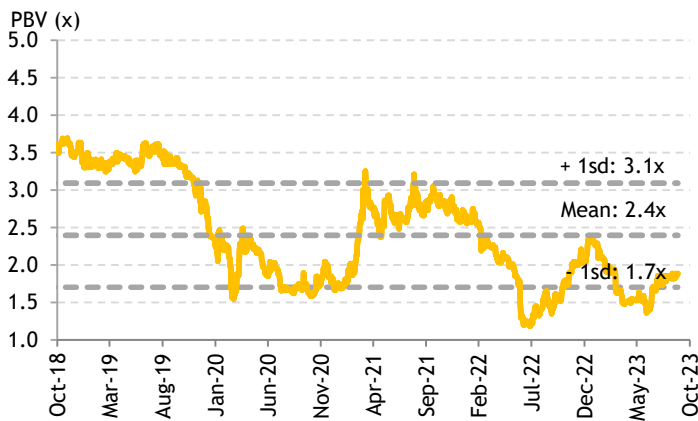
Qualitative Parameters (Score: 50)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes - MNHB has a standalone sustainability committee responsible for leading groupwide sustainability strategies. The sustainability committee is headed by the board of directors.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes.</i>
c) Is the company taking initiatives to improve the nutritional value of its products and making products healthier?	<i>No.</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No.</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>MNHB has a dedicated recycling programme for the usage of its corrugated boxes and cooking oils. Corrugated boxes are reused in their warehouses and a portion are sold to third party vendors to be recycled. Similarly, its cooking oil are also onsold to a licensed recycle vendor. Majority of Mynews outlets are using energy-saving LED lights. All store plastic bags are made of biodegradable ingredients which are compostable.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No.</i>

Target (Score: 0)		
Particulars	Target	Achieved
MNHB currently does not have any formal ESG targets	NA	NA
Impact		
NA		
Overall Score: 28		
As per our ESG matrix, Mynews Holdings has an overall score of 28		

ESG score	Weights	Scores	Final Score
Quantitative	50%	32	16
Qualitative	25%	50	12
Target	25%	0	0
Total			28

As per our ESG assessment, MNHB has a sustainability framework but lacks transparency in key ESG metrics long-term targets. For these reasons, MNHB's overall ESG score is 28, which makes its ESG rating below average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

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.

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating

FYE 31 Oct	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	nm	75.2	45.4	29.0
Core P/E (x)	nm	nm	75.2	45.4	29.0
P/BV (x)	1.7	1.5	1.5	1.4	1.4
P/NTA (x)	1.7	1.6	1.5	1.5	1.4
Net dividend yield (%)	0.0	0.9	0.0	0.0	0.0
FCF yield (%)	5.2	14.5	17.0	14.9	9.8
EV/EBITDA (x)	8.0	5.0	4.2	4.0	4.6
EV/EBIT (x)	nm	nm	62.0	46.7	27.9
INCOME STATEMENT (MYR m)					
Revenue	631.3	730.2	795.5	902.3	1,014.0
EBITDA	55.6	82.5	80.6	71.6	53.2
Depreciation	(68.9)	(80.7)	(75.2)	(65.5)	(44.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(13.3)	1.8	5.5	6.1	8.8
Net interest income / (exp)	(8.6)	(11.3)	(8.4)	(5.0)	(2.0)
Associates & JV	0.8	2.2	2.3	2.4	2.6
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	(21.1)	(7.3)	(0.6)	3.5	9.4
Income tax	(2.5)	(8.1)	0.7	(0.3)	(1.6)
Minorities	4.0	4.7	4.7	4.7	4.7
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(19.6)	(10.7)	4.8	8.0	12.5
Core net profit	(19.6)	(10.7)	4.8	8.0	12.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	12.5	47.9	111.2	166.8	203.8
Accounts receivable	35.6	29.4	32.0	36.3	40.8
Inventory	81.0	91.9	98.6	111.7	125.1
Property, Plant & Equip (net)	247.9	227.1	163.3	110.6	80.5
Intangible assets	3.5	3.1	2.9	2.7	2.5
Investment in Associates & JVs	6.9	7.1	7.5	8.2	9.1
Other assets	240.3	224.6	224.6	224.6	224.6
Total assets	627.7	630.9	640.0	660.8	686.3
ST interest bearing debt	42.4	39.2	39.2	39.2	39.2
Accounts payable	136.3	122.4	131.4	148.9	166.7
LT interest bearing debt	48.1	49.6	49.6	49.6	49.6
Other liabilities	181.0	181.0	176.0	172.0	167.0
Total Liabilities	408.1	392.4	396.6	409.5	422.5
Shareholders Equity	219.6	238.6	243.4	251.3	263.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	219.6	238.6	243.4	251.3	263.8
Total liabilities and equity	627.7	630.9	640.0	660.8	686.3
CASH FLOW (MYR m)					
Pretax profit	(21.1)	(7.3)	(0.6)	3.5	9.4
Depreciation & amortisation	68.9	80.7	75.2	65.5	44.4
Adj net interest (income)/exp	0.0	0.0	(8.4)	(5.0)	(2.0)
Change in working capital	14.5	(40.7)	(0.4)	0.1	(0.1)
Cash taxes paid	(1.1)	0.9	0.7	(0.3)	(1.6)
Other operating cash flow	28.9	30.0	6.1	2.5	(0.6)
Cash flow from operations	90.1	63.6	72.6	66.4	49.6
Capex	(71.3)	(10.2)	(11.1)	(12.6)	(14.2)
Free cash flow	18.8	53.4	61.4	53.8	35.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	27.8	0.0	0.0	0.0
Change in Debt	19.5	(1.6)	0.0	0.0	0.0
Other invest/financing cash flow	(41.9)	(43.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(3.6)	36.2	61.4	53.8	35.4

FYE 31 Oct	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	60.1	15.7	8.9	13.4	12.4
EBITDA growth	447.3	48.3	(2.2)	(11.2)	(25.6)
EBIT growth	nm	nm	206.9	11.2	45.4
Pretax growth	nm	nm	nm	nm	165.6
Reported net profit growth	nm	nm	nm	65.8	56.2
Core net profit growth	nm	nm	nm	65.8	56.2
Profitability ratios (%)					
EBITDA margin	8.8	11.3	10.1	7.9	5.3
EBIT margin	nm	0.2	0.7	0.7	0.9
Pretax profit margin	nm	nm	nm	0.4	0.9
Payout ratio	0.0	nm	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	0.6	0.9	1.2
Revenue/Assets (x)	1.0	1.2	1.2	1.4	1.5
Assets/Equity (x)	2.9	2.6	2.6	2.6	2.6
ROAE (%)	(8.6)	(4.7)	2.0	3.2	4.8
ROAA (%)	(3.5)	(1.7)	0.8	1.2	1.8
Liquidity & Efficiency					
Cash conversion cycle	(13.2)	(16.6)	(8.5)	(8.2)	(8.3)
Days receivable outstanding	20.8	16.0	13.9	13.6	13.7
Days inventory outstanding	60.1	65.6	67.3	65.6	66.0
Days payables outstanding	94.1	98.2	89.7	87.4	87.9
Dividend cover (x)	nm	(3.1)	nm	nm	nm
Current ratio (x)	0.7	0.8	1.1	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.6	1.6	1.6
Net gearing (%) (incl perps)	35.5	17.2	net cash	net cash	net cash
Net gearing (%) (excl. perps)	35.5	17.2	net cash	net cash	net cash
Net interest cover (x)	na	0.2	0.7	1.2	4.4
Debt/EBITDA (x)	1.6	1.1	1.1	1.2	1.7
Capex/revenue (%)	11.3	1.4	1.4	1.4	1.4
Net debt/ (net cash)	78.0	41.0	(22.3)	(77.9)	(114.9)

Source: Company; Maybank IBG Research

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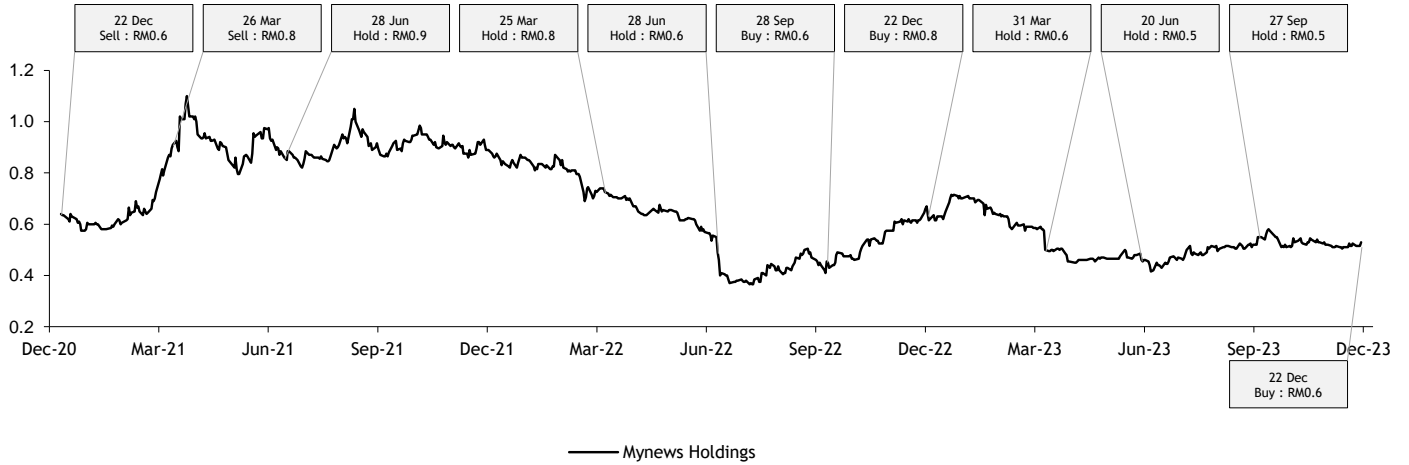
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