

27 September 2019

MyNews Holdings Berhad

9M19 Within Expectations

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9M19 core PATAMI of RM23.7m (+16% YoY) came in within expectations at 74%/73% of our/consensus full-year earnings estimate. The commercial production of its in-house food processing centre has started in stages from July 2019 and we believe margins for the merchandise mix will gradually improve after the promotional discount period ends. No changes to our FY19-20E CNP and our TP of RM1.55 is based on 27x FY20E EPS. Maintain OP.

9M19 within expectations. 9M19 core PATAMI of RM23.7m (+16% YoY) came in within expectations at 74%/73% of our/consensus full-year earnings estimate. No dividend was declared for the quarter, as expected. MyNews typically pays dividend once a year in the 2Q. We are not expecting any dividend in the forthcoming quarters.

YoY, 9M19 core PATAMI surged 16%, but with contraction in PBT margin by 1.4ppt to 7.4% from 8.8% in 9M18 despite stronger sales growth (+38%) mainly due to higher cost of sales (+43%) which reduced gross profit margin by 2.4ppt to 35.7% from 38.1% in 9M18. The contraction on GP margin was due to price discounts offered to promote and drive the sales of in-house RTE food and beverages as well as unfavorable merchandise mix. Operating expenses was also higher (+27%) in tandem with the opening of 68 (net) new outlets since 9M18 to 472 stores as well as higher staff costs, rental expenses, and expenses incurred for the bigger head office premises and food processing centre (at Taman Sains, Kota Damansara) and the new Johor Bharu Distribution Centre. Note that the group's effective tax rate of 23.7% (9M18: 17.9%) is lower than the Malaysian statutory tax rate because one of its wholly-owned subsidiaries, DKE Technology SB, is a MSC-status company which enjoys certain tax incentives.

QoQ, 3Q19 core PATAMI decreased by 7% in spite of marginal drop in sales (-1%), during the fasting month, mainly from contraction in PBT margin by 1.2ppt to 6.4% from 7.6% in 2Q19 due to higher operating expenses (+5%) in tandem with the opening of 16 (net) new outlets. Effective tax rate was also higher at 30.7% (2Q19: 20.7%) from under-provision of tax last year. This was despite better merchandise mix with higher GP margin by 0.6ppt to 35.6% from 35.0% mainly from the food and beverages, and tobacco categories.

Outlook. Competitively priced, fresh (shelf life that ranges from 1 day to 3) and a range of food offering that fits the local palate to the tee are main reasons why we think MyNews' venture into convenient ready-to-eat food stands a good chance of succeeding. This new product range and revamping stores to increase sales are keys to raising the asset turnover and hence we are likely to see improvements in ROE going forward. There are plans to open at least 80 net new outlets in FY19, which is the same target as FY18 (total 456 outlets as of 31st April 2019).

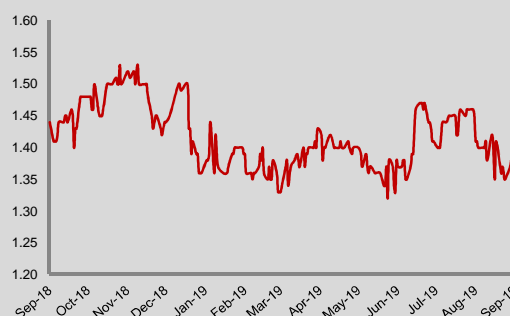
Maintain OUTPERFORM with unchanged TP of RM1.55 based on 27x FY20E EPS, at -1.0SD of its 3-years historical mean PER, also in line with regional peers' average PER. We like MYNEWS for its: (i) double-digit earnings growth (c.20% vs. SEM of c.7%), and (ii) above-industry earnings margin (c.7% vs. SEM of c.2%).

Key risks to our call include: lower-than-expected sales, and higher-than-expected operating expenses.

OUTPERFORM ↔

Price: RM1.35
Target Price: RM1.55 ↔

Share Price Performance



KLCI	1,593.00
YTD KLCI chg	-5.8%
YTD stock price chg	-10.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MNHB MK EQUITY
Market Cap (RM m)	920.9
Shares Outstanding	682.2
52-week range (H)	1.53
52-week range (L)	1.32
3-mth avg daily vol:	228,040
Free Float	28%
Beta	0.5

Major Shareholders

D & D Consolidated	57.4%
KWAP	5.0%
Bank of New York Mellon Corp	4.0%

Summary Earnings Table

FYE Oct (RM m)	2018A	2019E	2020E
Turnover	391.5	498.3	568.8
EBITDA	30.3	46.8	56.3
PBT	32.7	38.6	46.7
Net Profit (NP)	26.5	32.1	38.7
Core Net Profit	26.5	32.1	38.7
Consensus(NP)	-	32.4	40.7
Earnings Revision	-	-	-
EPS (sen)	3.9	4.7	5.7
EPS growth (%)	10.3	21.0	20.7
NDPS (sen)	1.0	1.0	1.0
BV/Share (RM)	0.38	0.44	0.49
PER (x)	34.7	28.7	23.8
P/BV (x)	3.5	3.0	2.8
Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	0.7	0.7	0.7

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9m	9m	YoY
FYE Oct (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	131.7	133.0	-1.0%	97.9	34.5%	388.2	282.2	37.6%
Gross Profit	46.8	46.5	0.7%	37.3	25.4%	138.8	107.6	29.0%
Operating Expenses	-35.3	-33.8	4.6%	-27.9	26.5%	-102.2	-80.3	27.3%
Jointly -Controlled (WH Smith)	1.1	0.6	67.7%	0.6	74.0%	2.4	1.5	58.1%
PBT	8.5	10.1	-16.4%	8.3	1.8%	28.9	24.9	16.1%
Tax expense	-2.6	-2.1	23.9%	-1.1	146.6%	-6.8	-4.5	53.1%
Net Profit (NP)	7.4	8.0	-7.3%	7.3	2.5%	23.7	20.4	15.8%
Core Net Profit	7.4	8.0	-7.3%	7.3	2.5%	23.7	20.4	15.8%
EPS (sen)	1.1	1.2	-6.8%	1.1	2.8%	3.5	3.0	16.1%
DPS (sen)	0.0	1.0		0.0		1.0	1.0	0.0%
Gross margin (%)	35.6%	35.0%		38.1%		35.7%	38.1%	
PBT margin (%)	6.4%	7.6%		8.5%		7.4%	8.8%	
NP margin	5.7%	6.0%		7.4%		6.1%	7.2%	
Effective tax rate (%)	30.7%	20.7%		12.7%		23.7%	17.9%	

Source: Bursa Announcement, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.46	1,710.4	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.1	30.9	29.3	24.3	23.6	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.47	2,063.9	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	16.6	20.3	18.5	1.0	1.0	5.0%	2.7%	1.70	MP
AMWAY MALAYSIA HOLDINGS BHD	5.90	969.9	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.8	16.9	15.9	4.1	3.9	23.8%	4.7%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	59.58	3,813.1	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	30.7	37.2	33.8	36.2	35.6	97.9%	2.7%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	35.00	12,837.2	Y	09/2019	5.9%	7.0%	9.4%	2.9%	32.3	29.6	28.7	5.6	5.1	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.73	792.7	N	04/2020	1.7%	2.3%	0.1%	1.8%	16.7	16.7	16.4	2.5	2.6	15.1%	4.8%	1.95	UP
MYNEWS HOLDINGS BHD	1.35	920.9	N	10/2019	27.3%	14.2%	21.0%	20.7%	34.7	28.7	23.8	3.0	2.9	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	145.50	34,119.8	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.5	50.8	47.4	52.1	51.4	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.83	2,519.8	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	16.1	13.2	11.7	3.9	3.3	26.8%	3.0%	3.75	OP
PARKSON HOLDINGS BHD	0.22	229.4	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	27.6	23.8	0.1	0.1	0.3%	0.0%	0.27	OP
POWER ROOT BHD	2.07	826.0	Y	03/2020	12.3%	9.7%	26.6%	16.0%	24.7	20.2	18.0	3.7	3.4	18.1%	4.3%	2.30	OP
QL RESOURCES BHD	7.18	11,649.1	Y	03/2020	10.9%	4.5%	13.0%	4.2%	53.7	47.6	45.6	5.8	5.4	12.1%	0.8%	6.30	UP
SPRITZER BHD	2.24	470.3	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.4	16.9	15.0	1.2	1.2	7.0%	1.8%	2.40	MP
Simple Average					6.9%	4.3%	64.9%	9.7%	29.2	27.4	25.2	11.0	10.7	32.0%	2.5%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	19.20	5,482.2	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	11.7	13.2	13.0	13.0	12.5	84.5%	6.3%	24.40	UP
CARLSBERG BREWERY MALAYSIA BHD	26.30	8,090.4	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.5	27.6	26.3	47.5	52.0	186.7%	3.8%	25.95	OP
HEINEKEN MALAYSIA BHD	23.90	7,220.1	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.6	24.9	23.6	19.5	19.3	77.9%	4.0%	23.25	MP
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.3	21.9	21.0	26.7	27.9	116.4%	4.7%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.40	502.1	N	06/2019	9.8%	8.4%	15.9%	7.8%	19.1	16.5	15.3	1.3	1.3	7.5%	3.3%	1.94	BUY
BONIA CORPORATION BHD	0.26	201.3	Y	06/2020	2.4%	2.0%	-4.0%	4.0%	11.2	11.6	11.2	0.5	0.5	3.7%	3.1%	0.28	NEUTRAL
COCOALAND BHD	1.95	446.2	Y	12/2019	4.8%	6.6%	6.2%	9.8%	14.4	13.6	12.4	1.8	1.8	13.4%	3.9%	2.36	NEUTRAL
KAWAN FOOD	1.29	463.8	Y	12/2019	10.5%	14.5%	-47.4%	75.0%	20.3	38.6	22.1	1.5	1.4	3.6%	1.9%	1.42	SELL
MAGNI-TECH INDUSTRIES BHD	6.48	1,054.0	Y	04/2020	18.8%	4.5%	13.0%	5.2%	10.3	9.1	8.6	1.9	N/A	20.3%	N/A!	6.60	BUY

Source: Bloomberg, Kenanga Research

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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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