

03 October 2019

MyNews Holdings Berhad

Dashing to Serve Fresh Foods

By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

OUTPERFORM ↔

Price : **RM1.35**
Target Price : **RM1.55** ↔

We came away from MyNews' well-attended Food Production Centre (FPC) official launching event and 3Q19 analysts briefing yesterday feeling positive about its commitment in growing the fresh food sales to stay competitive in the industry, especially with the introduction of its online convenience stores delivery services, MyNews Dash. Maintain OP with a TP of RM1.55 based on 27x FY20E EPS.

FPC to pare down losses gradually. Its Food Production Centre (FPC) has been operating for four full months since the launch of RTE commercial sales in June. Based on our the back-of-the envelope calculation, we estimated a start-up operating losses at around RM1.5m for the recent 3Q19 results operating at 33% capacity. Management is re-strategizing RTE sales to reduce wastage and raise sales volume. Note that, monthly RTE sales were steady at RM3m with wastage having been reduced from 40% initially to 20% currently, and we expect to see gradual improvement in its operating efficiencies in the upcoming quarters. If the FPC is able to reach its breakeven level at c.75% capacity (timeline undisclosed), it could potentially account for close to RM80m annually in sales with better asset turnover. On the other hand, during the 3Q19 analysts' briefing, management disclosed that the one-off high effective tax rate in 3Q19 (at 30.7% compared to 20.7% in 2Q19, from under provision of tax last year) was due to un-claimable expenses relating to the FPC and expect the FY19 to register an average effective tax rate of c.22% .

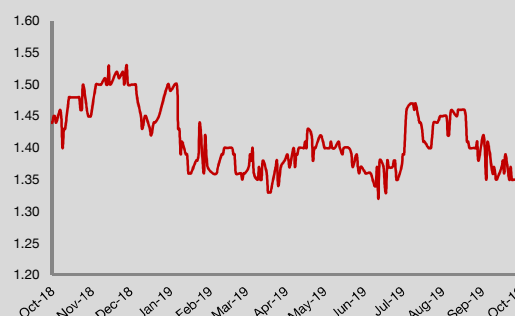
1st in Southeast Asia, online convenience stores delivery services. MyNews Dash delivery started just last month with delivery execution by a mix of internal staff and partnership with Grab Express which we believe serve as a good marketing strategy in boosting the fresh food volume sales and increasing brand visibility. Management noted that only marginal cost was incurred as the services operated out of 8-10 hubs initially (startup hub is Taman Tun) targeting to cover the whole of Klang Valley (undisclosed timeline) based on demand (only RM60k incurred as one-off training course for existing staff). Currently, Ready-to-Eat-Foods (RTE) are served in around 304 outlets out of its 519 outlets nationwide, with 420 outlets in Klang Valley. Stores with Maru Cafés offerings are currently nonly at 150 outlets, with upcoming 50 ice cream machines ready to be installed.

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 85 net new outlets in FY19. As of 31st September 2019, Mynews has opened of 79 (net) new outlets with a base of 519 outlets.

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.

Share Price Performance



KLCI	1,574.90
YTD KLCI chg	-6.8%
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:	217,944
Free Float	28%
Beta	0.5

Major Shareholders

D & D Consolidated	57.4%
KWAP	5.0%
Employees Provident Fund	3.9%

Summary Earnings Table

FYE Oct (RMm)	2018A	2019E	2020E
Turnover	391.5	498.3	568.8
EBITDA	30.3	49.3	61.2
PBT	32.7	41.2	51.5
Net Profit (NP)	26.5	32.1	38.7
Core Net Profit	26.5	32.1	38.7
Consensus(NP)	-	31.9	40.1
Earnings Revision	-	-	-
EPS (sen)	3.9	4.7	5.7
EPS growth	10.3%	21.2%	20.3%
NDPS (sen)	1.0	1.0	1.0
BV/Share (RM)	0.38	0.44	0.49
PER	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%

03 October 2019

Food Production Centre (FPC) Official Launching Event



Source: Company, Kenanga Research

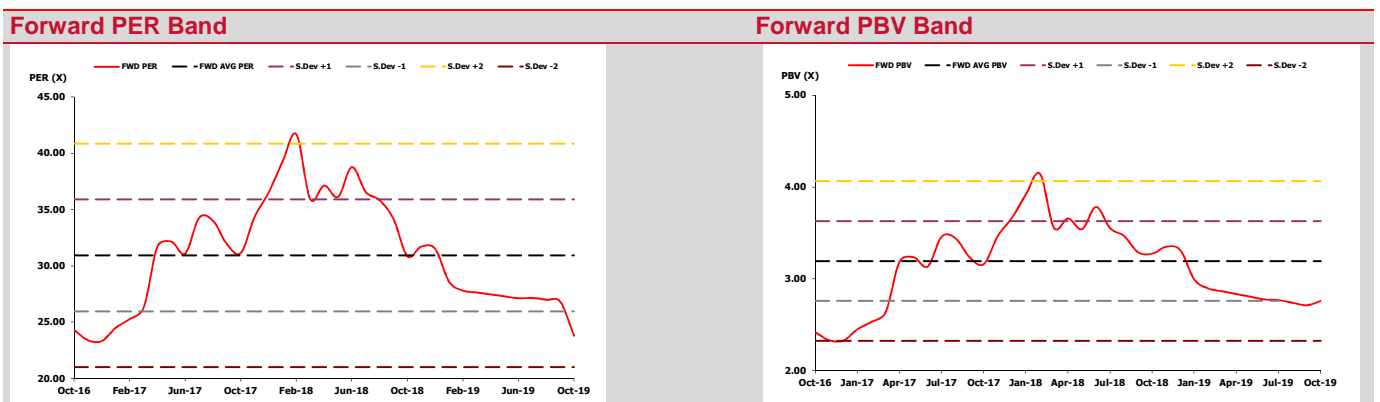
MyNewsDash.my

Source: Company, Kenanga Research

03 October 2019

Income Statement						Financial Data & Ratios					
FY Oct (RM m)	2016A	2017A	2018A	2019E	2020E	FY Oct(RMm)	2016A	2017A	2018A	2019E	2020E
Revenue	264.0	327.6	391.5	498.3	568.8	Growth (%)					
EBITDA	23.0	29.2	30.3	49.3	61.2	Turnover	21.4	24.1	19.5	27.3	14.2
Depreciation	(4.5)	(6.0)	(8.2)	(10.5)	(11.9)	EBITDA	31.1	26.8	4.0	62.6	24.0
Operating Profit	18.5	23.2	22.2	38.9	49.2	Op. Profit	32.8	25.0	(4.3)	75.2	26.6
Interest Inc/(Exp)	(0.1)	(0.2)	(0.0)	0.1	0.1	PBT	33.4	30.0	6.6	25.9	25.1
PBT	23.6	30.7	32.7	41.2	51.5	Net Profit	34.2	32.5	10.3	21.2	20.3
Taxation	(5.5)	(6.7)	(6.2)	(9.1)	(12.9)	Profitability (%)					
Net Profit	18.1	24.0	26.5	32.1	38.7	Op. Margin	7.0	7.1	5.7	7.8	8.7
Balance Sheet						PBT Margin	8.9	9.4	8.4	8.3	9.1
FY Oct (RM m)	2016A	2017A	2018A	2019E	2020E	NP margin	6.9	7.3	6.8	6.4	6.8
Fixed Assets	65.3	80.6	154.4	174.5	200.1	ROA	23.2	21.7	19.0	22.0	25.0
Other Fixed Assets	11.3	5.4	7.5	7.5	7.5	ROE	11.9	9.7	8.5	9.2	10.1
Inventories	29.8	31.7	44.2	53.6	60.1	DuPont Analysis					
Receivables	7.0	10.7	10.7	14.3	16.8	Net Margin(%)	6.9	7.3	6.8	6.4	6.8
Other Current Assets	74.4	138.4	92.5	92.5	92.5	Assets T/O (x)	1.3	1.1	1.2	1.4	1.4
Cash	16.7	23.0	24.2	24.5	24.7	Lev. Factor(x)	1.5	1.3	1.2	1.2	1.2
Total Assets	204.4	289.8	333.5	366.8	401.7	ROE (%)	17.4	12.2	10.5	11.4	12.2
Payables	26.1	23.0	33.4	41.7	44.9	Leverage					
ST Borrowings	1.3	1.4	2.4	2.1	1.9	Debt/Asset (x)	-	-	-	-	-
Other ST Liability	14.7	14.8	15.3	15.3	15.3	Debt/Equity(x)	-	-	-	-	-
LT Borrowings	6.9	5.5	1.9	1.9	1.9	N.(Cash)/Debt	(8.5)	(16.1)	(19.9)	(20.4)	(20.9)
Other LT Liability	3.0	3.5	3.5	3.5	3.5	N.Debt/Eqty(x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Assets	152.4	241.6	277.0	302.2	334.2	Valuations					
Ret. Earnings	60.5	77.4	99.8	125.1	157.0	EPS(sen)	5.3	3.5	3.9	4.7	5.7
Share Capital	62.0	201.6	201.6	201.6	201.6	NDPS (sen)	1.4	0.9	1.0	1.0	1.0
Others	29.9	(37.4)	(24.4)	(24.4)	(24.4)	BV/sh (RM)	0.4	0.4	0.4	0.4	0.5
Total Equity	152.4	241.6	277.0	302.3	334.1	PER (x)	25.4	38.3	34.7	28.7	23.8
Cashflow Statement						Div. Yield (%)	1.0	0.7	0.7	0.7	0.7
FY Oct (RM m)	2016A	2017A	2018A	2019E	2020E	PBV (x)	3.1	3.0	3.8	3.5	3.0
Operating CF	19.6	5.9	12.5	33.3	38.9	EV/EBITDA(x)	20.4	32.1	31.0	22.8	21.2
Investing CF	(85.5)	(61.9)	(17.8)	(29.3)	(36.2)						
Financing CF	75.5	63.1	6.5	(3.7)	(2.5)						
Change In Cash	9.7	7.0	1.2	0.2	0.2						
Free CF	(65.8)	(56.1)	(5.3)	4.0	2.7						

Source: Kenanga Research



03 October 2019

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	1.45	1,698.7	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.9	30.7	29.1	24.1	23.4	77.5%	2.8%	1.35	MP
AEON CO (M) BHD	1.52	2,134.1	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.2	21.0	19.1	1.1	1.0	5.0%	2.6%	1.70	OP
AMWAY MALAYSIA HOLDINGS BHD	5.81	955.1	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.5	16.6	15.6	4.1	3.9	23.8%	4.7%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	59.50	3,808.0	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	30.7	37.2	33.8	36.1	35.6	97.9%	2.7%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	34.00	12,470.5	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.4	28.7	27.9	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.24	650.3	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.7	13.7	13.5	2.0	2.1	15.1%	5.8%	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	145.20	34,049.4	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.4	50.7	47.3	52.0	51.3	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.82	2,513.2	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	16.1	13.2	11.7	3.8	3.3	26.8%	3.0%	4.35	OP
PARKSON HOLDINGS BHD	0.220	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%	0.270	OP
POWER ROOT BHD	2.12	846.0	Y	03/2020	12.3%	9.7%	26.6%	16.0%	25.3	20.7	18.4	3.8	3.5	18.1%	4.2%	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	2.19	459.8	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.0	16.6	14.7	1.2	1.1	7.0%	1.8%	2.40	MP
Simple Average					6.9%	4.3%	64.9%	9.7%	28.9	27.1	24.9	11.0	10.7	32.0%	2.5%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	18.60	5,310.9	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	11.3	12.8	12.6	12.6	12.1	84.5%	6.5%	23.10	OP
CARLSBERG BREWERY MALAYSIA BHD	26.10	8,028.9	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.3	27.4	26.1	47.2	51.6	186.7%	3.8%	27.15	OP
HEINEKEN MALAYSIA BHD	24.12	7,286.6	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.8	25.1	23.9	19.6	19.4	77.9%	3.9%	24.25	MP
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.1	21.8	20.9	26.5	27.7	116.4%	4.8%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.44	516.4	N	06/2019	9.8%	8.4%	14.3%	9.3%	19.6	17.2	15.7	1.4	1.4	7.5%	3.2%	1.94	BUY
BONIA CORPORATION BHD	0.25	193.4	Y	06/2020	2.4%	2.0%	-4.0%	4.0%	10.7	11.2	10.7	0.5	0.5	3.7%	3.3%	0.28	NEUTRAL
COCOALAND BHD	1.88	430.1	Y	12/2019	4.8%	6.6%	6.2%	9.8%	13.9	13.1	11.9	1.7	1.7	13.4%	4.1%	2.36	NEUTRAL
KAWAN FOOD	1.24	445.8	Y	12/2019	10.5%	14.5%	-47.4%	75.0%	19.5	37.2	21.2	1.4	1.3	3.6%	2.0%	1.42	SELL
MAGNI-TECH INDUSTRIES BHD	6.69	1,088.2	Y	04/2020	18.8%	4.5%	13.0%	5.2%	10.6	9.4	8.9	1.9	N/A	20.3%	N/A	6.60	BUY

Source: Bloomberg, Kenanga Research

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my