

COMPANY UPDATE

MyNews Holdings (MNHB MK)

Assessing Supervalu's Competitiveness

We went on the ground to assess MyNews' Supervalu stores' competitiveness against that of established incumbents. 99 Speedmart is the cost price leader within the minimart space but Supervalu could eventually be drawn parallel to KK Mart. Supervalu offers a decent avenue of growth but MyNews' overall prospects continue to remain challenging and its valuations have exceeded its recovery prospects. Maintain SELL with target price reduced to RM0.43.

WHAT'S NEW

- Supervalu to expand MyNews' retail appeal.** Over the course of the pandemic, MyNews introduced a new minimart store format called Supervalu. Recently, MyNews rebranded, repositioned and upgraded its Supervalu store concept. Of MyNews' 593 stores, 19 stores are Supervalu format stores. An additional 12 Supervalu stores are expected to be rolled out by the end of the year. The purpose of the Supervalu format is to establish a suitable store format for varying localities, considering the significant differences in appeal between Supervalu, MyNews and CU stores. Purchases from minimarts are usually consumed at home while purchases from convenience (CVS) store are typically consumed immediately. CVS stores have a significantly higher F&B sales mix as well.
- Basket of goods study to determine Supervalu's competitiveness.** Supervalu's positioning as a minimart will naturally be compared to 99 Speedmart and KK Mart. As such, we visited these minimarts in Bukit OUG, which are within 2km of each other to adjudge the relative competitiveness of said minimarts. This was done based on our basket of goods and corresponding costs of these three minimarts.
- 99 Speedmart is the cheapest followed by Supervalu and KK Mart.** Our basket of goods included nine products across the personal care, cooking essentials and F&B categories. The basket size is limited due to the homogeneity of products offered by all three mini-marts. The basket of goods at 99 Speedmart was the cheapest at RM79.10, followed by Supervalu (RM90.40) and KK Mart (RM93.45). Based on this, Supervalu's pricing is 14.3% higher than that 99 Speedmart but -3.4% cheaper than KK Mart.

KEY FINANCIALS

Year to 31 Oct (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	401	631	770	831	906
EBITDA	6	53	59	76	83
Operating profit	(51)	(16)	(8)	9	17
Net profit (rep./act.)	(43)	(18)	(10)	4	13
Net profit (adj.)	(43)	(18)	(10)	4	13
EPS (sen)	(6.3)	(2.7)	(1.5)	0.6	2.0
PE (x)	n.m.	n.m.	n.m.	93.4	29.4
P/B (x)	1.6	1.8	1.8	1.8	1.7
EV/EBITDA (x)	88.6	9.4	8.4	6.5	5.9
Dividend yield (%)	0.0	0.0	(0.8)	0.1	0.7
Net margin (%)	(10.8)	(2.9)	(1.3)	0.5	1.5
Net debt/(cash) to equity (%)	22.6	34.9	28.6	4.0	(21.5)
Interest cover (x)	0.9	6.0	7.5	16.3	94.8
ROE (%)	n.a.	n.a.	n.a.	1.9	6.0
Consensus net profit	-	-	(13)	7	16
UOBKH/Consensus (x)	-	-	0.76	0.63	0.84

Source: MyNews Holdings, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

SELL

(Maintained)

Share Price	RM0.575
Target Price	RM0.430
Upside	-18.3%
(Previous TP)	RM0.470

COMPANY DESCRIPTION

MyNews operates the largest homegrown convenience store chain in Malaysia.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	MNHB MK
Shares issued (m):	750.4
Market cap (RMm):	412.7
Market cap (US\$m):	87.7
3-mth avg daily t'over (US\$m):	0.1
Price Performance (%)	

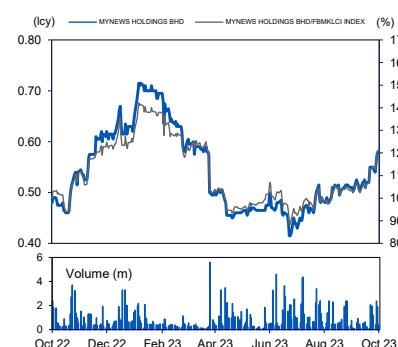
52-week high/low RM0.715/RM0.415

1mth	3mth	6mth	1yr	YTD
7.8	32.5	(5.2)	20.9	(12.7)

Major Shareholders

	%
D&D Consolidated	57.4
Aberdeen	5.1
EPF	4.9
FY23 NAV/Share (RM)	0.32
FY23 Net Debt/Share (RM)	0.10

PRICE CHART



Source: Bloomberg

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- **Selective rollout is the name of the game for Supervalu.** Over time, Supervalu should gain competitiveness as it scales up to achieve more bargaining power with its suppliers to draw closer to the established incumbents. The advantage of being the first mover to establish a presence in small localities could bolster a Supervalu store, but it also remains vulnerable to potential entrance and competition from 99 Speedmart. We point out that despite 99 Speedmart's superior scale (2,400 stores), KK Mart still manages a decent presence with 700 stores. In summary, there are pockets of opportunity to selectively roll out Supervalu stores, which MyNews is undertaking at this juncture.

STOCK IMPACT

- **Placement of new shares.** On 13 July, MyNews completed its placement of 68.2m new MyNews shares. This represents 10% of MyNews' previous share base. The placement generated proceeds of RM27.8m, which would primarily be utilised to fund MyNews' capex (RM22.9m) and working capital (RM4.9m).

EARNINGS REVISION/RISK

- **No changes to earnings.** Key risks include CU store execution and a slowdown in consumer spending.

VALUATION/RECOMMENDATION

- **Maintain SELL with target price reduced slightly to RM0.43 on the back of its new share placement.** MyNews' valuations are relatively detached from its near-term prospects. Furthermore, the upcoming placement will be EPS dilutive. Our target price is based on a P/B valuation given that its earnings over FY24 is negligible. Our P/B peg is based on 1.5x FY24F P/B or -1.5SD of its five-year mean.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• Environmental
- Renewable energy. MyNews is embarking on solar energy for its HQ and food processing centres. This project will reduce 546 tonnes of CO2 emission.
• Social
- Diversity & inclusion. 48% of its >2,000-strong workforce is female.
• Governance
- Board composition. Independent Non-Executive Directors make up 50% of the board.

BASKET OF GOODS COMPARISON ACROSS SUPERVALU, 99 SPEEDMART AND KK MART

	Supervalu	99 Speedmart	% Relative To Comparable Item Sold In Supervalu	KK Mart	% Relative To Comparable Item Sold In Supervalu
1 Nescafe 3-in-1 (25 sachets)	15.90	12.40	-22.0%	14.90	-6.3%
2 Maggi Curry Instant Noodles	6.80	5.95	-12.5%	5.90	-1.5%
3 Premier Tissue (200 pulls x 4 boxes)	17.50	16.90*	-3.4%	16.90*	-15.4%
4 Knife Oil (3kg)	23.30	20.90	-10.3%	22.90	-1.7%
5 Life Sos Cili (500g)	4.90	4.65	-5.1%	4.80*	-2.0%
6 Pantene Shampoo (320ml)	15.90	11.80	-25.8%	17.90	-6.3%
7 Coke (1.5L)	2.80	2.80	0.0%	4.00	16.1%
8 Dutch Lady Milk (180ml)	1.90	1.80	-5.3%	2.25	18.4%
9 Milo (200ml)	1.40	1.90	35.7%	2.90	35.7%
Total Basket Spend (RM)	90.40	79.10		86.60	
% Relative to Supervalu's Basket Spend		-12.5%		-3.4%	

* Adjusted for 100 pulls x 4 boxes

* Adjusted for Life chilli sauce (750g)

- Adjusted for Coke (1.25L)

Source: UOB Kay Hian

REVENUE DRIVERS ASSUMPTIONS

	2023F	2024F	2025F
Revenue (RMm)	770	831	906
Growth yoy (%)	21.9%	8.0%	9.0%
Avg store count for the year	595	630	680
Net store addition	20	50	50
Growth yoy (%)	7.9%	5.9%	7.9%
Revenue per store (in '000)	1293.6	1319.4	1332.6
Growth yoy (%)	13.0%	2.0%	1.0%

Source: MyNews, UOB Kay Hian

FORWARD PE BAND (PRE-COVID-19)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Net turnover	631	770	831	906
EBITDA	53	59	76	83
Deprec. & amort.	68	67	67	66
EBIT	(16)	(8)	9	17
Total other non-operating income	3	0	0	0
Associate contributions	1	1	1	1
Net interest income/(expense)	(9)	(8)	(5)	(1)
Pre-tax profit	(21)	(15)	5	17
Tax	(1)	4	(1)	(4)
Minorities	4	1	0	0
Net profit	(18)	(10)	4	13
Net profit (adj.)	(18)	(10)	4	13

BALANCE SHEET

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Fixed assets	248	214	180	147
Other LT assets	226	226	226	226
Cash/ST investment	12	8	41	68
Other current assets	142	162	170	180
Total assets	628	611	618	621
ST debt	53	33	23	13
Other current liabilities	183	193	218	244
LT debt	37	37	27	7
Other LT liabilities	132	132	132	132
Shareholders' equity	224	216	217	225
Total liabilities & equity	628	611	618	621

CASH FLOW

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Operating	92	55	93	96
Pre-tax profit	(21)	(16)	3	14
Tax	(1)	4	(1)	(4)
Deprec. & amort.	68	67	67	66
Associates	(3)	(3)	(3)	(3)
Working capital changes	16	(29)	(3)	(4)
Other operating cashflows	32	32	30	27
Investing	(71)	(33)	(33)	(33)
Capex (growth)	(72)	(33)	(33)	(33)
Proceeds from sale of assets	0	0	0	0
Others	1	0	0	0
Financing	(24)	(26)	(27)	(36)
Dividend payments	0	3	(1)	(3)
Issue of shares	0	0	0	0
Proceeds from borrowings	52	0	0	0
Loan repayment	(33)	0	(10)	(20)
Others/interest paid	(43)	(29)	(17)	(14)
Net cash inflow (outflow)	(4)	(4)	33	27
Beginning cash & cash equivalent	15	12	8	41
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	12	8	41	68

KEY METRICS

Year to 31 Oct (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.3	7.6	9.1	9.2
Pre-tax margin	(3.3)	(2.0)	0.6	1.9
Net margin	(2.9)	(1.3)	0.5	1.5
ROA	n.a.	n.a.	0.7	2.2
ROE	n.a.	n.a.	1.9	6.0
Growth				
Turnover	57.6	21.9	8.0	9.0
EBITDA	846.4	11.7	29.0	9.4
Pre-tax profit	n.a.	n.a.	n.a.	242.5
Net profit	n.a.	n.a.	n.a.	217.9
Net profit (adj.)	n.a.	n.a.	n.a.	217.9
EPS	n.a.	n.a.	n.a.	217.9
Leverage				
Debt to total capital	28.7	24.5	18.7	8.1
Debt to equity	40.2	32.4	23.0	8.8
Net debt/(cash) to equity	34.9	28.6	4.0	(21.5)
Interest cover (x)	6.0	7.5	16.3	94.8

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