

COMPANY UPDATE

MyNews Holdings (MNHB MK)

Uneven Path To Recovery

We come away downbeat from MyNews' briefing, and have decided to trim earnings further as issues related to labour are clouding our visibility on earnings. However, MyNews has room to manoeuvre by potentially raising its ASPs closer to its peers. Looking beyond near-term volatility in earnings, we believe MyNews' earnings will rebound soon, which is a catalyst for MyNews. Maintain BUY but with a lower target price of RM0.62 (from RM0.67).

WHAT'S NEW

- MyNews hosted its 1QFY23 results briefing. Here are our key takeaways:

- Net store expansion of 1.9% skewed towards MyNews stores.** MyNews rolled out 12 new stores for the quarter. This brought its store count to 596 stores, or a net addition of 1.9%. The 12 stores comprise eight MyNews stores, which the remainder being CU stores. Management indicated that it is fine-tuning its requirements for its CU expansion, detailing the rationale behind the slower rollout vs MyNews Stores.
- Better revenue generation but offset by higher opex.** Despite the higher revenue generation of CU stores compared with MyNews stores, we gather that CU stores remain unprofitable. We believe this in part stems from higher rent for more prominent areas and strategic locations, as well as higher headcount required to operate the stores that consist of more costly local hires.
- Headcount shortage complexes turnaround.** Currently, management indicated a headcount shortfall of 250, predominantly frontliners at its CU stores. These positions are intended to be fulfilled by locals as it is the preferred choice by consumers when it comes to food handling. The headcount shortfall is unlikely to be resolved immediately, and thus a potential limiting factor to CU enhancing revenue through shorter operating hours and more costly labour
- More costly overtime.** The headcount shortage is further compounded by an amendment to the employment act in regards to overtime payment. All employees with wages below RM4,000/month will be entitled to overtime payments. This has translated to an additional RM250,000/month in wages for MyNews.

KEY FINANCIALS

Year to 31 Oct (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	401	631	723	798	875
EBITDA	6	53	84	107	117
Operating profit	(51)	(16)	16	38	49
Net profit (rep./act.)	(43)	(18)	9	27	39
Net profit (adj.)	(43)	(18)	9	27	39
EPS (sen)	(6.3)	(2.7)	1.4	3.9	5.7
PE (x)	n.m.	n.m.	36.9	12.7	8.8
P/B (x)	1.4	1.5	1.5	1.4	1.2
EV/EBITDA (x)	71.3	7.5	4.7	3.7	3.4
Dividend yield (%)	0.0	0.0	0.5	1.8	2.6
Net margin (%)	(10.8)	(2.9)	1.3	3.4	4.4
Net debt/(cash) to equity (%)	22.6	34.9	24.1	(6.4)	(33.9)
Interest cover (x)	0.9	6.0	10.7	22.9	133.5
ROE (%)	n.a.	n.a.	4.1	11.2	14.8
Consensus net profit	-	-	9	21	30
UOBKH/Consensus (x)	-	-	1.08	1.31	1.28

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

BUY

(Maintained)

Share Price	RM0.50
Target Price	RM0.62
Upside	+33.7%
(Previous TP)	RM0.67

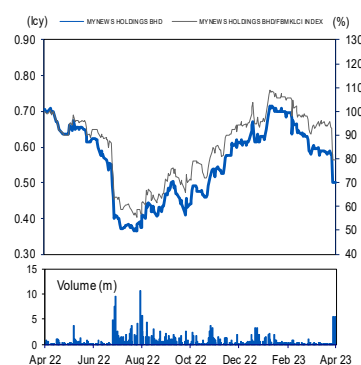
COMPANY DESCRIPTION

MyNews operates the largest homegrown convenience store chain in Malaysia.

STOCK DATA

GICS sector	Consumer Discretionary				
Bloomberg ticker:	MNHB MK				
Shares issued (m):	682.2				
Market cap (RMm):	341.1				
Market cap (US\$m):	77.3				
3-mth avg daily t'over (US\$m):	0.1				
Price Performance (%)					
52-week high/low					RM0.715/RM0.365
1mth	3mth	6mth	1yr	YTD	
(19.4)	(20.6)	16.3	(29.6)	(20.6)	
Major Shareholders					%
D&D Consolidated					57.4
Aberdeen					5.1
EPF					4.9
FY23 NAV/Share (RM)					0.34
FY23 Net Debt/Share (RM)					0.08

PRICE CHART



Source: Bloomberg

ANALYST(S)

Philip Wong
+603 2147 1996
philipwong@uobkayhian.com

- e) **But CU should see increasing gestation over the next one year.** CU was introduced in Malaysia in Apr 21. Given the usual gestational period of two years, a high proportion of its >100 stores will be increasingly gestated over the next one year. Coupled with longer operating hours and gained traction with its customer base, we hold hope for CU to breakeven by year end.
- f) **Higher electricity surcharge nullifies FPC progress.** Its food processing centre's (FPC) utilisation rate was 60% for the quarter while wastage declined to 3.3% of revenue (from 4.0% qoq). Despite the improvement in operating metrics, FPC losses widened to RM2.5m from -RM1.7m sequentially, due to higher electricity surcharge and rising raw material cost. We continue to expect its FPC to breakeven by year end.
- g) **Potential ASP hike could uplift earnings sustainably.** Positively, management indicated that ASPs for both CU and MyNews were lagging behind its peers. We think this could be key to profitable earnings being sustained going forward.

STOCK IMPACT

- **The FPC is on the verge of breakeven.** Despite the recent setback of widening losses, we believe the FPC is on track to becoming profitable towards the tail end of FY23, driven by its food-centric CU expansion. The FPC's quoted utilisation rate is based on a single shift, which can be doubled up once it reaches a saturation point.

EARNINGS REVISION/RISK

- We further trim our FY23-25 earnings by 2%/7%/10% as deep underlying issues prompt us to raise our opex assumptions. Key risks include CU store execution and slowdown in consumer spending.

VALUATION/RECOMMENDATION

- **Maintain BUY but with a lower target price of RM0.62 (from RM0.67)** as we cut our earnings. Our target price is based on a PE peg of 17x or its -1.5SD of its mean PE to FY24's earnings. MyNews' recovery will be uneven, as exemplified by this quarter's performance. However, we expect recovery nonetheless. Looking past its near-term headwinds, MyNews offers decent value ahead and remains relatively well-managed.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

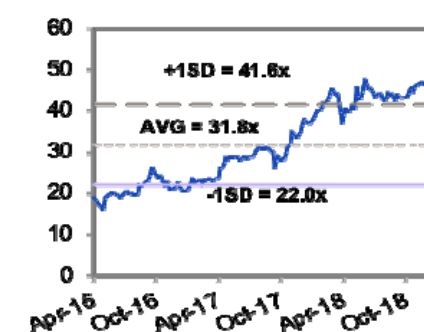
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Renewable energy. MyNews is embarking on solar energy for its HQ and food processing centres. This project will reduce 546 tonnes of CO2 emission. • Social <ul style="list-style-type: none"> - Diversity & inclusion. 48% of its over 2,000-strong workforce is female. • Governance <ul style="list-style-type: none"> - Board composition. Independent Non-Executive Directors make up 50% of the board.

REVENUE DRIVERS ASSUMPTIONS

	2023F	2024F	2025F
Revenue (RMm)	723	798	875
Growth yoy (%)	14.5%	10.4%	9.7%
Avg store count for the year	610	660	710
Net store addition	50	50	50
Growth yoy (%)	10.6%	8.2%	7.6%
Revenue per store (in '000)	1184.8	1208.5	1232.7
Growth yoy (%)	3.5%	2.0%	2.0%

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	723	798	875
EBITDA	53	84	107	117
Deprec. & amort.	68	68	69	68
EBIT	(16)	16	38	49
Total other non-operating income	3	2	2	3
Associate contributions	1	1	1	1
Net interest income/(expense)	(9)	(8)	(5)	(1)
Pre-tax profit	(21)	11	36	52
Tax	(1)	(3)	(9)	(13)
Minorities	4	1	0	0
Net profit	(18)	9	27	39
Net profit (adj.)	(18)	9	27	39

BALANCE SHEET

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Fixed assets	248	225	189	154
Other LT assets	226	226	226	226
Cash/ST investment	12	14	66	113
Other current assets	142	156	166	176
Total assets	628	621	646	669
ST debt	53	33	23	13
Other current liabilities	183	189	216	242
LT debt	37	37	27	7
Other LT liabilities	132	132	132	132
Shareholders' equity	224	230	249	276
Total liabilities & equity	628	621	646	669

CASH FLOW

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Operating	92	78	117	123
Pre-tax profit	(21)	10	34	49
Tax	(1)	(3)	(9)	(13)
Deprec. & amort.	68	68	69	68
Associates	(3)	(3)	(3)	(3)
Working capital changes	16	(26)	(4)	(4)
Other operating cashflows	32	32	30	27
Investing	(71)	(45)	(33)	(33)
Capex (growth)	(72)	(45)	(33)	(33)
Proceeds from sale of assets	0	0	0	0
Others	1	0	0	0
Financing	(24)	(31)	(33)	(43)
Dividend payments	0	(2)	(6)	(9)
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)	3	51	48
Beginning cash & cash equivalent	15	12	14	66
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	12	14	66	113

KEY METRICS

Year to 31 Oct (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.3	11.6	13.4	13.4
Pre-tax margin	(3.3)	1.5	4.5	5.9
Net margin	(2.9)	1.3	3.4	4.4
ROA	n.a.	1.5	4.2	5.9
ROE	n.a.	4.1	11.2	14.8
Growth				
Turnover	57.6	14.5	10.4	9.7
EBITDA	846.4	59.7	26.7	9.7
Pre-tax profit	n.a.	n.a.	230.9	43.7
Net profit	n.a.	n.a.	191.3	43.8
Net profit (adj.)	n.a.	n.a.	191.3	43.8
EPS	n.a.	n.a.	191.3	43.8
Leverage				
Debt to total capital	28.7	23.3	16.7	6.7
Debt to equity	40.2	30.4	20.0	7.2
Net debt/(cash) to equity	34.9	24.1	(6.4)	(33.9)
Interest cover (x)	6.0	10.7	22.9	133.5

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W