

# MR D.I.Y. GROUP (M)

(MRDIY MK EQUITY, MRDI.KL)

6 July 2022

## BUY

(Maintained)

### Inventory flying off the shelves

## Company report

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Rationale for report: Company update

Price	RM2.04
Fair Value	RM2.60
52-week High/Low	RM2.65/RM1.90

### Key Changes

Fair value	↕
EPS	↔

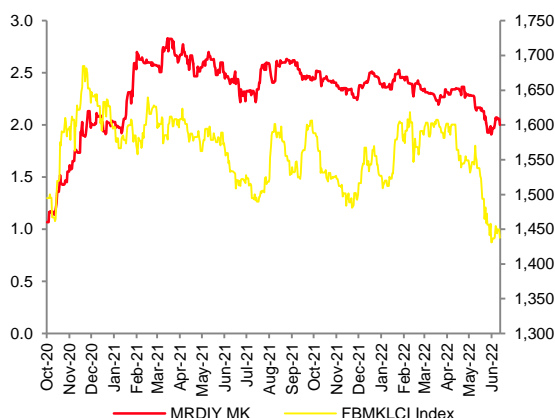
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	3,373.4	3,858.5	4,415.6	5,224.9
Core net profit (RM mil)	431.8	492.5	574.5	727.5
FD Core EPS (sen)	4.6	5.2	6.1	7.7
FD Core EPS growth (%)	28.1	14.0	16.7	26.6
Consensus Net Profit (RM mil)	-	554.7	669.4	772.6
DPS (sen)	2.0	2.4	2.7	3.5
PE (x)	43.7	38.3	32.8	25.9
EV/EBITDA (x)	21.8	18.8	16.0	12.7
Div yield (%)	1.0	1.2	1.3	1.7
ROE (%)	42.6	38.3	36.4	37.6
Net Gearing (%)	1.4	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	9,426.5
Market Cap (RM mil)	18,853.0
Book Value (RM/share)	0.12
P/BV (x)	16.4
ROE (%)	42.6
Net Gearing (%)	1.4

Major Shareholders	Bee Family Limited (51.0%)
	Hyptis (11.5%)
	Platinum Alphabet (6.1%)
Free Float	22.9
Avg Daily Value (RM mil)	28.7

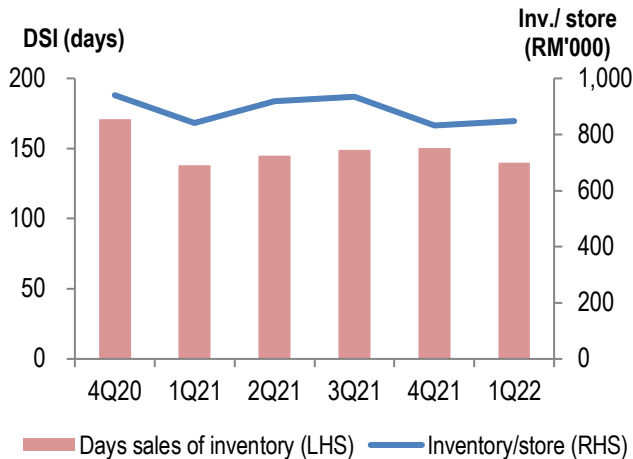
Price performance	3mth	6mth	12mth
Absolute (%)	(12.8)	(16.9)	(18.0)
Relative (%)	(3.0)	(10.9)	(12.6)



### Investment Highlights

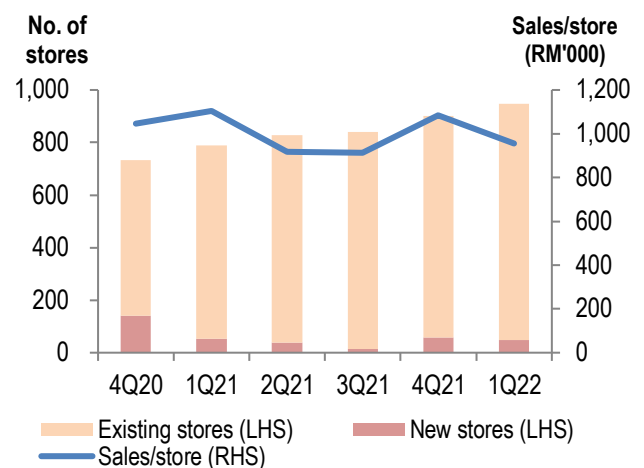
- Maintain BUY with a lowered DCF-based fair value (FV) of RM2.60 (from RM2.73) after updating our WACC assumption to 7.5% (from 6.4%), mainly to reflect the change in the risk-free rate to 4.2% from 3.4%. No change in our terminal growth rate assumption of 1.5% and earnings forecasts. Our FV implies PE of 43x based on FY23F EPS.
- MR D.I.Y. Group (M)'s (MR DIY) 2QFY22 results are expected to be better both QoQ and YoY. The group's revenue is expected to recover from the previous quarter's low base given that the number of Covid-19 Omicron variant cases has subsided. Gross margin recovery is also in the cards following the end of the "Price Lock" promotional campaign.
- The group's revenue and earnings are projected to gradually improve in upcoming quarters with the remaining 2QFY22–4QFY22 quarters expected to contribute 77% of our FY22F revenue and 79% of net profit.
- Concerns over inventory shortages due to supply chain disruptions may have been overplayed, in our view. At the end of 1QFY22, MR DIY's inventory per store was at a healthy level of RM0.85mil vs. the RM0.88mil average over the past 6 quarters (Exhibit 1). Based on 1QFY22 days sales of inventory of 140 (vs. 138 days in 2021), the current level should be sufficient to cover more than one quarter of sales.
- Ruling out potential supply-demand mismatch concerns, the company's historical sales trend (Exhibit 3) showed that there was no significant and sudden shift in consumer spending patterns which could lead to a material change in MR DIY's inventory composition.
- The recent addition of the larger and more upscale format of MR DIY Plus would bolster MR DIY's brand stature and further widen its exposure. The initial reception by the market is encouraging as the store reported more than 100,000 transactions in its first month of operation.
- The group is targeting to open 10 stores of similar size in the next 2–3 years. Expected to be located in high-traffic areas, this payback period of 2 years is likely to mirror the smaller sized stores despite heavier capex requirement.
- We like the company for its strong economies of scale, backed by a more than 900-strong store network. This gives MR DIY strong bargaining power with suppliers while providing great value to customers. Ranked high in consumers' pecking order for spending, demand for household essentials is expected to be less affected by inflation.
- At 34x FY23F PE, the company is trading below its historical 2-year average of 50x.

## EXHIBIT 1: INVENTORY LEVEL LOOKS HEALTHY



Source: MR DIY, AmInvestment Bank

## EXHIBIT 2: SALES PER STORE RELATIVELY STABLE



Source: MR DIY, AmInvestment Bank

## EXHIBIT 3: NO MAJOR AND SUDDEN SHIFT IN CONSUMERS' PURCHASES

Revenue by product category (% of revenue)	2017	2018	2019	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Household & Furnishing	36%	37%	39%	38%	40%	39%	39%	40%	40%	40%	39%	40%
Hardware	18%	18%	18%	19%	18%	17%	18%	18%	18%	18%	17%	18%
Electrical	11%	11%	10%	10%	11%	10%	10%	10%	11%	11%	11%	10%
Stationery & Sports	10%	10%	9%	9%	6%	8%	7%	7%	6%	6%	6%	7%
Others	24%	24%	24%	24%	25%	26%	26%	25%	25%	25%	27%	25%

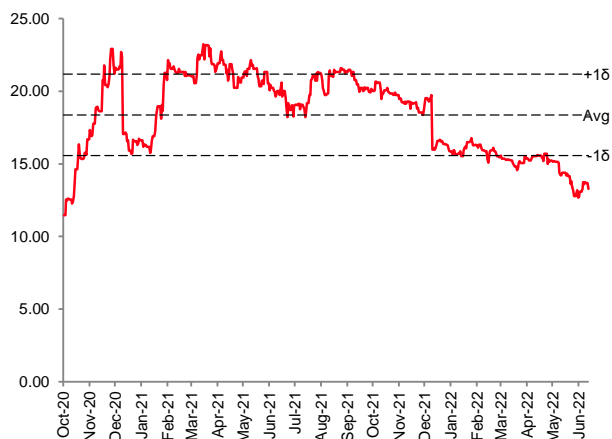
Source: AmInvestment Bank

## EXHIBIT 4: DCF VALUATION

FYE Dec (RM mil)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Adj. EBITDA	913	1,150	1,341	1,549	1,772	2,012	2,267	2,537	2,822	3,127
Adj. EBITDA*(1-tax rate)	685	862	1,006	1,162	1,329	1,509	1,701	1,903	2,116	2,345
Less: WC investments (WC Inv)	-116	-170	-189	-204	-217	-229	-239	-248	-258	-272
Less: Fixed investments (FC Inv)	-135	-141	-141	-145	-155	-151	-151	-157	-157	-157
FCFF	433	551	676	813	956	1,129	1,311	1,498	1,701	1,916
Disc. FCFF	419	515	610	710	807	921	1,034	1,142	1,254	1,365
Terminal value	32,143									
PV of terminal value	15,524									
NPV	8,776									
Less Net Debt/(Net Cash)	(246)									
Equity Value of Firm	24,546									
Fair value per share (RM)	2.60									
Implied 2023F PE (x)	42.7									
Rf	4.2%									
Beta	0.7									
Risk premium (Rm-Rf)	5.7%									
Rm	9.9%									
TG	1.5%									

Source: AmInvestment Bank

**EXHIBIT 5: PB BAND CHART**



Source: AmInvestment Bank

**EXHIBIT 6: PE BAND CHART**



**EXHIBIT 7: ESG MATRIX**

<b>Overall</b>	★	★	★		
Water + energy conservation	★	★	★		
Pollution + waste regulation	★	★			
Sustainable sourcing	★	★			
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★	★	
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars.

Source: AmInvestment Bank

## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	2,559.3	3,373.4	3,858.5	4,415.6	5,224.9
EBITDA	696.9	866.2	1,001.4	1,164.4	1,437.9
Depreciation/Amortisation	(172.2)	(221.3)	(260.0)	(304.4)	(349.8)
Operating income (EBIT)	524.7	644.9	741.5	860.0	1,088.1
Other income & associates	1.9	2.1	2.2	2.3	2.5
Net interest	(69.0)	(60.7)	(74.9)	(82.2)	(94.0)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	457.7	586.4	668.7	780.2	996.5
Taxation	(120.5)	(154.6)	(176.3)	(205.7)	(269.1)
<b>Minorities/pref dividends</b>	-	-	-	-	-
Net profit	337.2	431.8	492.5	574.5	727.5
Core net profit	337.2	431.8	492.5	574.5	727.5
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Fixed assets	436.3	531.2	583.6	639.6	694.1
Intangible assets	5.0	6.2	6.2	6.2	6.2
<b>Other long-term assets</b>	<b>902.9</b>	<b>1,078.8</b>	<b>1,294.2</b>	<b>1,470.3</b>	<b>1,607.8</b>
Total non-current assets	1,344.3	1,616.2	1,884.0	2,116.0	2,308.1
Cash & equivalent	90.9	192.7	185.5	293.8	568.6
Stock	690.0	748.9	919.7	1,034.3	1,202.4
Trade debtors	127.8	139.1	190.3	217.8	257.7
<b>Other current assets</b>	-	-	-	-	-
Total current assets	908.7	1,080.7	1,295.5	1,545.9	2,028.8
Trade creditors	119.9	148.7	179.7	205.7	243.4
Short-term borrowings	242.8	192.2	142.2	42.2	42.2
<b>Other current liabilities</b>	<b>160.9</b>	<b>194.0</b>	<b>223.0</b>	<b>254.3</b>	<b>285.1</b>
Total current liabilities	523.6	534.8	544.9	502.1	570.6
Long-term borrowings	20.8	16.2	5.4	5.4	5.4
<b>Other long-term liabilities</b>	<b>831.9</b>	<b>996.7</b>	<b>1,209.1</b>	<b>1,418.4</b>	<b>1,624.7</b>
<b>Total long-term liabilities</b>	<b>852.7</b>	<b>1,012.9</b>	<b>1,214.6</b>	<b>1,423.8</b>	<b>1,630.1</b>
Shareholders' funds	876.7	1,149.2	1,420.0	1,736.0	2,136.1
Minority interests	-	-	-	-	-
BV/share (RM)	0.09	0.12	0.15	0.18	0.23
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Pretax profit	457.7	586.4	668.7	780.2	996.5
Depreciation/Amortisation	172.2	221.3	260.0	304.4	349.8
Net change in working capital	(202.4)	(105.1)	(190.9)	(116.2)	(170.3)
<b>Others</b>	<b>(42.3)</b>	<b>(55.0)</b>	<b>(144.3)</b>	<b>(178.1)</b>	<b>(242.7)</b>
Cash flow from operations	385.2	647.7	593.6	790.3	933.4
Capital expenditure	(119.9)	(141.2)	(148.5)	(135.5)	(141.2)
Net investments & sale of fixed assets	0.9	1.7	(2.2)	(2.3)	(2.5)
<b>Others</b>	<b>1.5</b>	<b>(0.8)</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>
Cash flow from investing	(117.5)	(140.2)	(148.5)	(135.5)	(141.2)
Debt raised/(repaid)	(379.0)	(97.0)	(60.8)	(100.0)	-
Equity raised/(repaid)	301.5	-	-	-	-
Dividends paid	(95.8)	(172.6)	(221.6)	(258.5)	(327.4)
<b>Others</b>	<b>(154.9)</b>	<b>(126.7)</b>	<b>(220.3)</b>	<b>(253.2)</b>	<b>(290.5)</b>
<b>Cash flow from financing</b>	<b>(328.2)</b>	<b>(396.4)</b>	<b>(502.6)</b>	<b>(611.8)</b>	<b>(617.8)</b>
<b>Net cash flow</b>	<b>(60.6)</b>	<b>111.1</b>	<b>(57.5)</b>	<b>43.0</b>	<b>174.4</b>
<b>Net cash/(debt) b/f</b>	<b>125.4</b>	<b>64.8</b>	<b>175.9</b>	<b>118.4</b>	<b>161.4</b>
Net cash/(debt) c/f	64.8	175.9	118.4	161.4	335.8
<b>Key Ratios (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue growth (%)	12.5	31.8	14.4	14.4	18.3
EBITDA growth (%)	9.0	24.3	15.6	16.3	23.5
Pretax margin (%)	17.9	17.4	17.3	17.7	19.1
Net profit margin (%)	13.2	12.8	12.8	13.0	13.9
Interest cover (x)	7.6	10.6	9.9	10.5	11.6
Effective tax rate (%)	26.3	26.4	26.4	26.4	27.0
Dividend payout (%)	41.5	42.9	45.0	45.0	45.0
Debtors turnover (days)	18	15	18	18	18
Stock turnover (days)	172	138	150	150	150
Creditors turnover (days)	17	16	17	17	17

Source: Company, AmlInvestment Bank Bhd estimates

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