

26 February 2024

Consumer Cyclical | Retailing

## Mr DIY Group (MRDIY MK)

**Buy** (Maintained)

### Relentless In Delivering Growth; Stay BUY

- **Maintain BUY, new TP of MYR2.20 from MYR2.29, 44% upside with c.3% FY24F dividend yield.** Mr DIY Group's FY23 results met expectations on its solid sales and GPM recovery. Its current market valuation is undemanding, considering its fundamentals to deliver solid growth amidst a soft business environment, thereby outperforming most consumer sector peers. We like MRDIY for its entrenched store network and effective business model to capture resilient consumer spending. A positive outcome of the ongoing civil servant salary scheme review is also a catalyst for the stock.
- **FY23 results in line.** The group's core net profit of MYR561m (+17% YoY) accounted for 99% and 100% of our and consensus forecasts. Post-results, our FY24-25F earnings are <3% lower after making housekeeping changes. Correspondingly, our DCF-derived TP also drops to MYR2.20 (inclusive of a 4% ESG premium), which implies 33x P/E FY24F or close to the stock's 3 year-mean.
- **Results review.** YoY, FY23 revenue grew 9% to MYR4.4bn, mainly underpinned by the new store expansion (+175 outlets to total 1,261). SSSG was at -3.7%, being negatively impacted by ensuing demand elasticity on ASP increases and soft consumer sentiment. Meanwhile, FY23 GPM expanded by 4ppt to 45.4% to reflect ASP increases and the normalisation in freight costs. This more than offset the rise in operating costs and propelled the 17% YoY jump in FY23 PBT to MYR753m. QoQ, 4Q23 revenue and net profit rose 8% and 28% due to favourable year-end seasonality and product mix. FY23 DPS totalled 3.2 sen, which points to a higher 54% payout ratio vs FY22's 48%.
- **Outlook.** We expect its store network expansion to remain the primary growth driver. MRDIY plans to open 180 new stores in FY24, with a focus on the underpenetrated East Malaysia region, which currently generates higher average sales per store. In addition, the negative SSSG trend could be reversed, with the effect of demand elasticity likely to wear off. On the other hand, Mr DIY has no plans to adjust ASPs, notwithstanding the meaningful hike in freight costs in recent months as the impact is manageable. Instead, we believe the company could be more aggressive with price promotions to induce consumer spending, leveraging on its healthy GPM. Essentially, we expect that its proven business model of offering a wide range of products at competitive prices across convenient locations should continue attract sticky demand even if consumer sentiment remains subdued.
- **Downside risks to our recommendation include** weaker-than-expected consumer sentiment and a sharp rise in operating costs.

Target Price (Return): MYR2.20 (+44%)  
Price (Market Cap): MYR1.53 (USD3,025m)  
ESG score: 3.2 (out of 4)  
Avg Daily Turnover (MYR/USD) 10.1m/2.15m

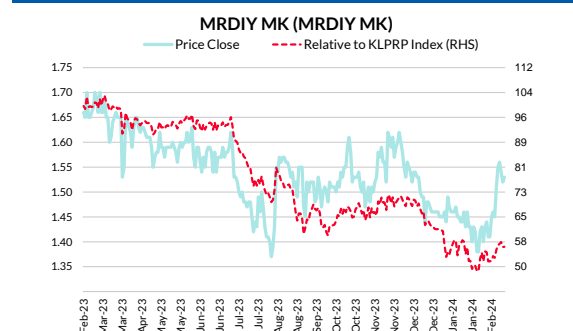
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	4.8	(4.4)	0.0	(8.9)
Relative	(2.5)	1.7	(12.7)	(15.3)	(45.1)
52-wk Price low/high (MYR)				1.37	1.70



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	3,986	4,359	5,098	5,874	6,631
Recurring net profit (MYRm)	480	561	640	719	799
Recurring net profit growth (%)	11.1	16.9	14.2	12.3	11.2
Recurring P/E (x)	29.49	25.23	22.09	19.67	17.70
P/B (x)	9.9	8.1	7.1	6.3	5.6
P/CF (x)	32.98	14.54	14.65	13.06	12.55
Dividend Yield (%)	1.6	2.1	2.7	3.3	3.7
EV/EBITDA (x)	14.82	12.43	10.91	9.71	8.78
Return on average equity (%)	36.6	35.3	34.2	33.8	33.4
Net debt to equity (%)	13.4	net cash	net cash	net cash	net cash

Source: Company data, RHB

#### Overall ESG Score: 3.2 (out of 4)

##### E: GOOD

The company tracks and seeks solutions to optimise energy consumption and reduce the amount of waste generated at its premises. It is exploring the potential of cleaner energy sources such as solar power for its distribution centres and promotion of the use of reusable bags in its stores.

##### S: EXCELLENT

During the COVID-19 pandemic, it donated PPEs to hospitals, clinics and other government facilities across nine states to support frontliners. It also provided support for employees affected by the floods on the East Coast and in Johor by offering financial assistance and compassionate leave.

##### G: EXCELLENT

The company provides a comprehensive set of information and statistics on its business operations. It is also transparent with the expansion plan. The current composition of the Board includes 50% made up of independent directors and 33% comprising women directors.

## Financial Exhibits

<b>Asia</b> Malaysia Consumer Cyclical <b>Mr DIY Group</b> MRDIY MK Buy	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring EPS	0.05	0.06	0.07	0.08	0.09
	DPS	0.02	0.03	0.04	0.05	0.06
	BVPS	0.15	0.19	0.22	0.24	0.27
	Return on average equity (%)	36.6	35.3	34.2	33.8	33.4
<b>Valuation basis</b> DCF	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	29.49	25.23	22.09	19.67	17.70
	P/B (x)	9.9	8.1	7.1	6.3	5.6
	FCF Yield (%)	1.6	5.3	5.6	6.4	6.7
	Dividend Yield (%)	1.6	2.1	2.7	3.3	3.7
<b>Key drivers</b> i. Store expansion; ii. Robust SSSG; iii. Market share gain.	EV/EBITDA (x)	14.82	12.43	10.91	9.71	8.78
	EV/EBIT (x)	20.45	17.17	14.83	13.11	11.77
<b>Key risks</b> i. Supply disruption; ii. Major outbreak of infections leading to an epidemic; iii. Intense competition.	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	3,986	4,359	5,098	5,874	6,631
	Gross profit	1,647	1,977	2,258	2,567	2,884
	EBITDA	967	1,133	1,278	1,423	1,564
	Depreciation and amortisation	(266)	(313)	(337)	(368)	(397)
<b>Company Profile</b> Mr DIY Group is the largest home improvement retailer in Malaysia, with an estimated market share of 25.4% in revenue terms in 2018. The group is principally involved in retailing home improvement products and mass merchandise in Malaysia and Brunei.	Operating profit	701	820	941	1,054	1,167
	Net interest	(63)	(70)	(79)	(86)	(91)
	Pre-tax profit	641	753	865	972	1,080
	Taxation	(168)	(192)	(225)	(253)	(281)
	Reported net profit	473	561	640	719	799
	Recurring net profit	480	561	640	719	799
	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(290)	89	(97)	(72)	(143)
	Cash flow from operations	429	973	966	1,083	1,128
	Capex	(200)	(229)	(179)	(179)	(179)
	Cash flow from investing activities	(196)	(247)	(179)	(179)	(179)
	Dividends paid	(222)	(296)	(384)	(467)	(520)
	Cash flow from financing activities	(295)	(628)	(695)	(780)	(919)
	Cash at beginning of period	193	138	232	324	448
	Net change in cash	(62)	98	92	124	30
	Ending balance cash	131	236	324	448	478
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	138	232	324	448	478
	Tangible fixed assets	682	827	898	955	1,001
	Total investments	12	34	38	42	46
	Total assets	3,324	3,551	3,927	4,328	4,689
	Short-term debt	318	191	150	150	100
	Total long-term debt	12	11	11	11	11
	Total liabilities	1,891	1,806	1,925	2,075	2,156
	Total equity	1,433	1,745	2,001	2,253	2,533
	Total liabilities & equity	3,324	3,551	3,927	4,328	4,689
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	18.2	9.4	16.9	15.2	12.9
	Recurrent EPS growth (%)	11.1	16.9	14.2	12.3	11.2
	Gross margin (%)	41.3	45.4	44.3	43.7	43.5
	Operating EBITDA margin (%)	24.3	26.0	25.1	24.2	23.6
	Net profit margin (%)	11.9	12.9	12.6	12.2	12.1
	Dividend payout ratio (%)	46.9	52.8	60.0	65.0	65.0
	Capex/sales (%)	5.0	5.3	3.5	3.0	2.7
	Interest cover (x)	11.1	11.6	11.9	12.2	12.9

Source: Company data, RHB

## Results At a Glance

Figure 1 : Mr DIY's results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	1,065.8	1,066.5	1,146.7	7.5	7.6	3,985.8	4,359.3	9.4	Added 175 stores to close 2023 with 1,261 stores, SSSG: -3.7% (negatively impacted by price increases and soft consumer sentiment).
Gross profit	466.2	479.5	525.4	9.6	12.7	1,647.2	1,977.2	20.0	Driven by price increases and lower freight costs.
Gross margin	43.7	45.0	45.8	0.9	2.1	41.3	45.4	4.0	
EBITDA	274.0	261.8	307.7	17.5	12.3	965.8	1,122.5	16.2	
Depreciation	(69.1)	(78.0)	(78.3)	0.4	13.4	(265.2)	(302.4)	14.1	GPM expansion more than offset the rising operating costs.
EBIT	204.9	183.9	229.4	24.8	11.9	700.7	820.0	17.0	
EBIT Margin (%)	19.2	17.2	20.0	2.8	0.8	17.6	18.8	1.2	
Finance costs	(17.0)	(17.4)	(17.6)	0.9	3.7	(63.3)	(70.5)	11.3	At 99-100% of our and consensus full-year forecasts. FY23 DPS totalled 3.2 sen, representing a 54% payout ratio (FY22: 2.4 sen, 48% payout ratio).
Pre-tax profit	189.0	167.1	212.3	27.1	12.3	641.4	753.2	17.4	
Pre-tax Margin (%)	17.7	15.7	18.5	2.8	0.8	16.1	17.3	1.2	
Tax	(52.9)	(43.1)	(53.6)	24.4	1.4	(168.4)	(192.5)	14.3	
Effective tax rate (%)	(28.0)	(25.8)	(25.3)	0.5	2.7	(26.3)	(25.6)	0.7	
Net profit	136.1	123.9	158.6	28.0	16.6	472.9	560.7	18.5	
Net Margin (%)	12.8	11.6	13.8	2.2	1.1	11.9	12.9	1.0	
Extraordinary Item(s)	0.0	0.0	0.0	Nm	nm	(6.7)	0.0	nm	
Core net profit	136.1	123.9	158.6	28.0	16.6	479.6	560.7	16.9	
Net Margin (%)	12.8	11.6	13.8	2.2	1.1	11.9	12.9	1.0	

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

My DIY Group's absolute Scope 1 emissions have increased YoY, but the intensity (emissions/1000 transactions) actually decreased by 6.8%. Meanwhile, its Scope 2 emissions are expected to decrease in FY23F as the installation of energy-efficient equipment at stores was only implemented from Aug 2022 onwards.

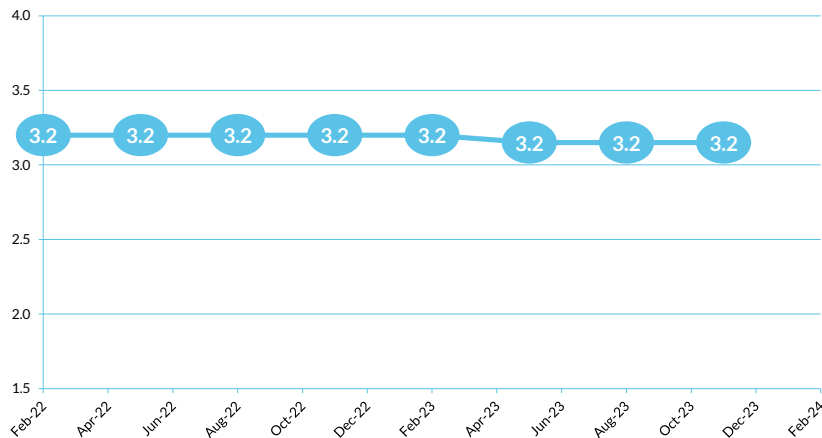
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	8,600	9,900	na
Scope 2	57,000	75,000	na
Scope 3	na	na	na
Total emissions	65,600	84,900	na

Source: Company data, RHB

## Latest ESG-Related Developments

- The group installed energy-efficient equipment at stores from Aug 2022 onwards, and it is on track to realise its 30% emissions reduction target set by 2030.
- It has supported over 90 corporate social responsibility events, investing >MYR2m in various programmes that have benefited >126,000 people nationwide.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-20	Buy	2.29	1.61
2023-08-10	Buy	2.29	1.55
2023-05-11	Buy	2.48	1.59
2023-02-14	Buy	2.48	1.75
2022-11-08	Buy	2.62	1.98
2022-08-04	Buy	2.90	2.32
2022-05-16	Buy	4.50	2.37
2022-02-17	Buy	4.59	2.49
2021-11-02	Buy	4.59	2.37
2021-10-13	Buy	4.59	2.47
2021-08-05	Buy	4.41	2.25
2021-05-02	Buy	4.71	2.66
2021-02-18	Buy	3.95	2.49
2020-12-08	Buy	3.20	1.93

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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