

10 August 2023

Consumer Cyclical | Retailing

Mr DIY Group (MRDIY MK)

Buy (Maintained)

Growing From Strength To Strength; Stay BUY

- **Maintain BUY, new TP of MYR2.29 from MYR2.48, 60% upside with c.2% FY23F yield.** Mr DIY Group's 1H23 results trailed our forecast but met the Street projection, as our previous growth assumptions were too optimistic. We like the stock, as it is a major proxy to capture the trend of consumers downtrading due to heightened inflationary pressures – thanks to its value-for-money product offerings and well-established store network. This large-cap consumer player that has been delivering solid growth amidst challenging conditions is trading at attractive valuations.
- **1H23 core earnings are below our expectations, but in line with the consensus estimate.** MRDIY's core net profit of MYR278m (+15% YoY) is at 47% and 49% of our and Street full-year forecasts. Post results, we trim our FY23-25 forecasts by 4-7%, after updating our growth assumptions. Correspondingly, our DCF-derived TP drops to MYR2.29 (inclusive of a 4% ESG premium), which implies 39x FY23F P/E – in line with the valuations we ascribe to large-cap consumer peers.
- **2Q23 net profit and GPM at record highs.** YoY, 1H23 revenue rose 10% to MYR2.2bn, mainly driven by 175 net new stores, which brought the total store count to 1,168. Notably, 2Q23 SSSG was at -8.4% vs the high 2Q22 base that was spurred by the economic reopening and special Employees Provident Fund withdrawals. Meanwhile, 1H23 GPM rebounded strongly by 5.2ppts to 45.3%, thanks to the cost tailwinds stemming from lower international freight rates, as well as the effect of ASP adjustments. 2Q23 revenue grew 5% QoQ to MYR1.1bn, supported by the 43 net new store additions and more favourable seasonal factors kicking in. 2Q23 GPM further expanded by 2ppts to 46.3%, exceeding management's guidance, on the liquidation of lower-cost inventory. Together with effective cost management and a lower ETR, 2Q23 net profit jumped 18% to an all-time high of MYR150m.
- **Outlook.** Notwithstanding the softer seasonality of 3Q – given the lack of festive seasons – we believe the base effect will turn more favourable for MRDIY going forward in 3Q23F. This is in view of the more normalised spending in 3Q22 and more comparable cost base, given the implementation of the new minimum wage in May 2022. With consumer sentiment remaining soft, we expect MRDIY to be more aggressive with promotional activities to stimulate consumer spending, leveraging on its cost savings from the lower freight rates. Beyond the near term, outlet expansion will still be the key growth driver as the group continues to identify opportunities by widening its reach to more rural locations and customising store formats accordingly to meet consumer demand.
- **Risks to our recommendations** include sharp hikes in input or operating costs, and major supply chain disruptions.

Target Price (Return):

MYR2.29 (+60%)

Price (Market Cap):

MYR1.43 (USD2,944m)

ESG score:

3.2 (out of 4)

Avg Daily Turnover (MYR/USD)

13.9m/3.01m

Analyst

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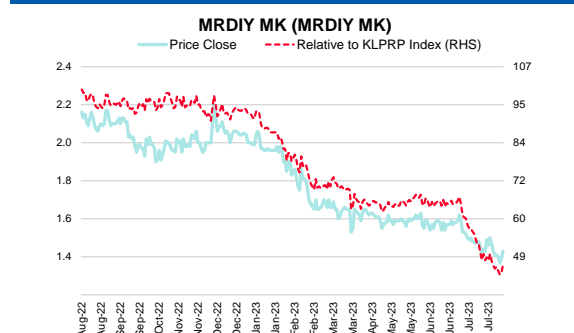
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.5)	(5.9)	(10.1)	(23.1)	(33.8)
Relative	(48.4)	(15.1)	(20.6)	(36.2)	(53.8)
52-wk Price low/high (MYR)				1.37 – 2.20	



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

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

S: EXCELLENT

It donated personal protective equipment to hospitals, clinics and other government facilities across nine states to support the frontliners during the COVID-19 pandemic. It also provided support for employees affected by the floods on the east coast of West Malaysia and in Johor, by offering financial assistance and compassionate leave.

G: EXCELLENT

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	3,373	3,986	4,547	5,318	6,081
Recurring net profit (MYRm)	432	480	567	651	724
Recurring net profit growth (%)	23.4	11.1	18.2	14.8	11.2
Recurring P/E (x)	30.62	27.57	23.31	20.30	18.26
P/B (x)	11.5	9.2	7.7	6.5	5.5
P/CF (x)	20.41	30.82	13.59	13.04	11.32
Dividend Yield (%)	2.1	1.7	2.1	2.5	2.7
EV/EBITDA (x)	15.10	13.33	10.61	9.03	7.91
Return on average equity (%)	42.6	36.6	36.0	34.7	32.6
Net debt to equity (%)	1.4	13.4	0.5	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.05	0.05	0.06	0.07	0.08
Consumer Cyclical	DPS	0.03	0.02	0.03	0.04	0.04
Mr DIY Group	BVPS	0.12	0.15	0.19	0.22	0.26
MRDIY MK	Return on average equity (%)	42.6	36.6	36.0	34.7	32.6
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	30.62	27.57	23.31	20.30	18.26
DCF	P/B (x)	11.5	9.2	7.7	6.5	5.5
	FCF Yield (%)	3.8	1.7	5.3	6.5	7.4
Key drivers	Dividend Yield (%)	2.1	1.7	2.1	2.5	2.7
i. Store expansion;	EV/EBITDA (x)	15.10	13.33	10.61	9.03	7.91
ii. Robust SSSG;	EV/EBIT (x)	20.51	19.13	15.25	13.07	11.55
iii. Market share growth.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	3,373	3,986	4,547	5,318	6,081
i. Supply disruptions;	Gross profit	1,392	1,647	2,041	2,367	2,688
ii. Major outbreak of COVID-19 infections;	EBITDA	876	1,005	1,245	1,443	1,620
iii. Intense competition.	Depreciation and amortisation	(231)	(304)	(378)	(446)	(510)
	Operating profit	645	701	867	998	1,110
Company Profile	Net interest	(61)	(63)	(104)	(122)	(136)
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 the retail of home improvement products and selling mass merchandise in Malaysia and Brunei	Pre-tax profit	586	641	766	880	979
	Taxation	(155)	(168)	(199)	(229)	(254)
	Reported net profit	432	473	567	651	724
	Recurring net profit	432	480	567	651	724
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(8)	(290)	(39)	(173)	(173)
	Cash flow from operations	648	429	973	1,014	1,167
	Capex	(141)	(200)	(268)	(160)	(185)
	Cash flow from investing activities	(140)	(196)	(268)	(160)	(185)
	Dividends paid	(273)	(222)	(284)	(326)	(362)
	Cash flow from financing activities	(396)	(295)	(634)	(680)	(760)
	Cash at beginning of period	91	193	138	271	444
	Net change in cash	111	(62)	71	175	222
	Ending balance cash	202	131	209	446	666
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	193	138	271	444	656
	Tangible fixed assets	531	682	815	816	824
	Total investments	8	12	16	21	25
	Total assets	2,697	3,324	3,898	4,465	5,052
	Short-term debt	192	318	268	268	268
	Total long-term debt	16	12	12	12	12
	Total liabilities	1,548	1,891	2,181	2,423	2,648
	Total equity	1,149	1,433	1,716	2,042	2,404
	Total liabilities & equity	2,697	3,324	3,898	4,465	5,052
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	31.8	18.2	14.1	17.0	14.3
	Recurrent EPS growth (%)	23.4	11.1	18.2	14.8	11.2
	Gross margin (%)	41.3	41.3	44.9	44.5	44.2
	Operating EBITDA margin (%)	26.0	25.2	27.4	27.1	26.6
	Net profit margin (%)	12.8	11.9	12.5	12.2	11.9
	Dividend payout ratio (%)	63.2	46.9	50.0	50.0	50.0
	Capex/sales (%)	4.2	5.0	5.9	3.0	3.0
	Interest cover (x)	10.6	11.1	8.3	8.2	8.1

Source: Company data, RHB

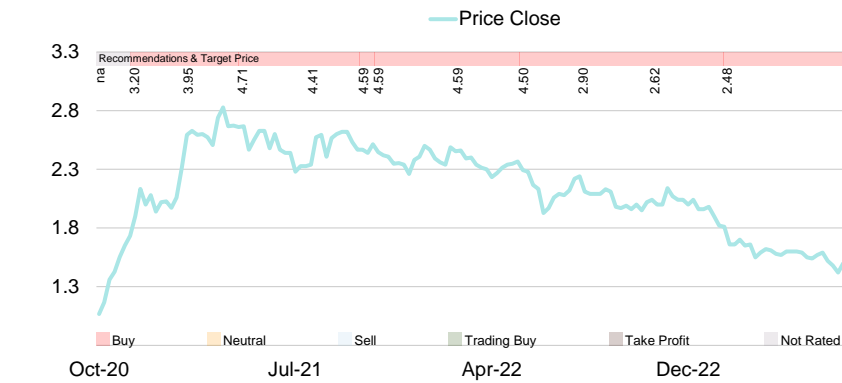
Results At a Glance

Figure 1 : Mr DIY's results review

FYE Dec (MYRm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	Comments
Revenue	1,048.7	1,046.4	1,099.6	5.1	4.9	1,953.9	2,146.0	9.8	Driven by 175 net new store additions, bringing the total to 1,168 outlets.
Gross profit	429.5	463.3	509.0	9.9	18.5	784.2	972.3	24.0	
Gross margin	41.0	44.3	46.3	2.0	5.3	40.1	45.3	5.2	Strong recovery on the back of cost tailwinds and ASP adjustments
EBITDA	262.5	262.6	290.4	10.6	10.6	474.7	553.0	16.5	
Depreciation	(65.1)	(72.7)	(73.5)	1.0	12.9	(127.7)	(146.2)	14.5	
EBIT	197.5	189.8	216.9	14.3	9.9	347.0	406.8	17.2	
EBIT Margin (%)	18.8	18.1	19.7	1.6	0.9	17.8	19.0	1.2	
Finance costs	(15.4)	(17.9)	(17.5)	(2.3)	13.7	(30.5)	(35.4)	16.0	
Pretax profit	183.3	172.6	201.3	16.6	9.8	317.8	373.8	17.6	
Pretax Margin (%)	17.5	16.5	18.3	1.8	0.8	16.3	17.4	1.2	
Tax	(48.1)	(44.8)	(51.0)	13.8	5.9	(82.1)	(95.8)	16.6	
Effective tax rate (%)	(26.2)	(26.0)	(25.3)	0.6	0.9	(25.8)	(25.6)	0.2	
Net profit	135.2	127.8	150.3	17.7	11.2	235.7	278.1	18.0	
Net Margin (%)	12.9	12.2	13.7	1.5	0.8	12.1	13.0	0.9	
Extraordinary Item(s)	(6.7)	0.0	0.0	nm	nm	(6.7)	0.0	nm	
Core net profit	141.9	127.8	150.3	17.7	5.9	242.4	278.1	14.7	At 47% and 49% of our and Street full-year forecasts
Net Margin (%)	12.9	12.2	13.7	1.5	0.8	12.1	13.0	0.9	1H23 DPS totalled 1.4 sen (1H22: 1.3 sen)

Source: Company data, RHB

Recommendation Chart

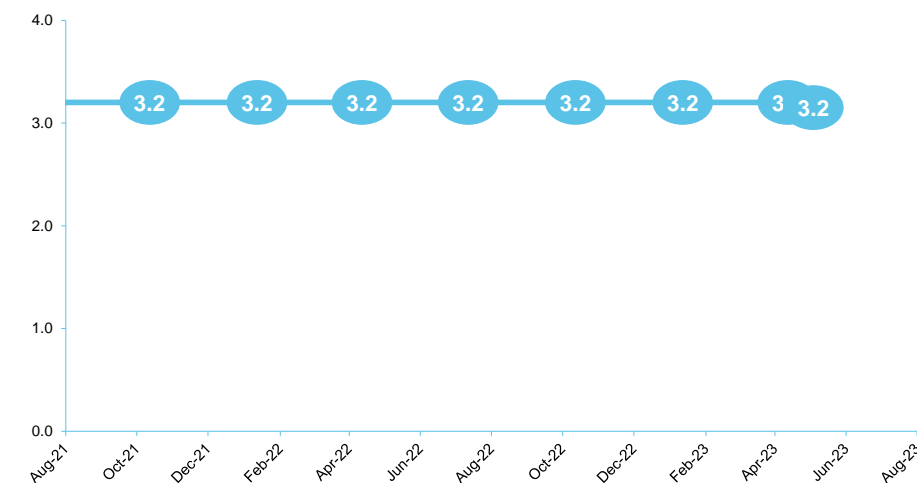


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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

ESG Rating History



Source: RHB

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