

15 November 2024

Consumer Cyclical | Retailing

Mr DIY Group (MRDIY MK)

Buy (Maintained)

Unspectacular, But Still Steady; Stay BUY

Target Price (Return): MYR2.35 (+12%)
Price (Market Cap): MYR2.10 (USD4,428m)
ESG score: 3.2 (out of 4)
Avg Daily Turnover (MYR/USD) 22.6m/5.26m

Analyst

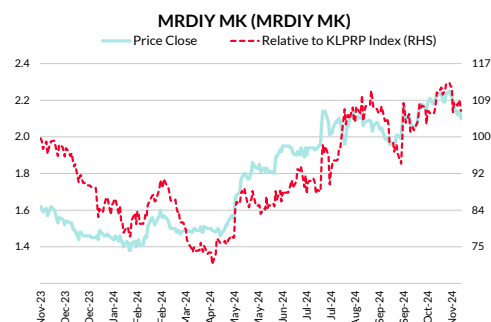
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- **Maintain BUY, with new MYR2.35 TP from MYR2.59, 12% upside and c.3% FY25F yield.** Mr DIY's 9M24 results disappointed as weak consumer sentiment continued to dampen consumer spending. That said, we maintain our positive stance in anticipation of an improving environment ahead lifted by rising disposable income of which the company will be well-placed to capitalise on. Valuation is not overly demanding considering the robust expansion plans lined up and promising prospects of the KKV brands as a second leg of growth.
- **9M24 results were below expectations.** Net profit of MYR422m (+5% YoY) met only 69% of both our and consensus forecasts due to the weaker-than-expected sales traction on persistently cautious consumer sentiment. Post results, we cut FY24F-26F earnings by 6%, 10%, and 11%. Correspondingly, our DCF-derived TP drops to MYR2.35 (inclusive of a 4% ESG premium) which implies 30x FY25F P/E or at the stock's 4-year mean.
- **Results review.** YoY, 9M24 revenue grew 8% to MYR3.5bn primarily driven by the 181 net new store additions (+15%), whilst SSSG remained in the negative territory, impacted by the subdued consumer sentiment. As a result, 9M24 opex (+12%) outpaced revenue growth and translated to a modest 5% growth in 9M24 PBT to MYR568m. QoQ, 3Q24 revenue was 5% lower at MYR1.1bn on softer seasonality in the absence of major festivities. Meanwhile, additional costs of MYR6m were incurred in 3Q24 related to the transition to a new automated warehouse. Consequently, 3Q24 net profit dipped 22% to MYR122m. DPS of 1 sen was declared in 3Q24 which represents a payout ratio of 78% – the highest level since listing.
- **Outlook.** Earnings momentum should pick up in 4Q24F in view of the favourable year-end seasonality but we understand that the additional costs related to the new warehouse will continue to incur before reaching the optimal level by 1Q25F. Meanwhile, management shared the FY25F new store opening target of 190 outlets, which is inclusive of the KKV brands (>20 outlets) with another brand – The Colorist (beauty and cosmetic specialty) to be introduced by end-2024. Looking further ahead, the higher wages in both public and private sector in 2025F is expected to lift disposable income and consumer sentiment. Together with the upsized cash handouts for the lower-income groups, Mr DIY could stand to benefit as the recipients of these measures fall well within its targeted customer groups. On top of that, the stronger MYR/CNY is another catalyst, by bringing about a margin upside potential.
- **Risks to our recommendation** include a sharp rise in input costs and weaker-than-expected consumer sentiment.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	44.8	(2.8)	0.0	18.6	38.2
Relative	22.1	(0.5)	2.0	19.9	13.5
52-wk Price low/high (MYR)				1.38	–2.25



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	3,986	4,359	4,818	5,616	6,340
Recurring net profit (MYRm)	480	561	600	716	814
Recurring net profit growth (%)	11.1	16.9	7.0	19.3	13.7
Recurring P/E (x)	40.48	34.63	32.37	27.14	23.86
P/B (x)	13.6	11.1	10.1	9.1	8.1
P/CF (x)	45.26	19.96	19.62	18.25	17.57
Dividend Yield (%)	1.1	1.5	2.2	2.6	2.9
EV/EBITDA (x)	20.27	17.09	15.86	13.71	12.37
Return on average equity (%)	36.6	35.3	32.7	35.2	36.0
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 consumptions and reduce the amount of waste generated in 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

Donated PPEs to hospitals, clinics, and other government facilities across nine states to support the frontliners. 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 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% of independent directors and 33% of women directors.

Financial Exhibits

Asia Malaysia Consumer Cyclical Mr DIY Group MRDIY MK Buy	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring EPS	0.05	0.06	0.06	0.08	0.09
	DPS	0.02	0.03	0.05	0.05	0.06
	BVPS	0.15	0.19	0.21	0.23	0.26
	Return on average equity (%)	36.6	35.3	32.7	35.2	36.0
Valuation basis Discounted Cash Flow	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	40.48	34.63	32.37	27.14	23.86
	P/B (x)	13.6	11.1	10.1	9.1	8.1
	FCF Yield (%)	1.2	3.8	4.4	4.8	5.0
	Dividend Yield (%)	1.1	1.5	2.2	2.6	2.9
Key drivers i. Store expansion; ii. Robust SSSG; iii. Market share gain.	EV/EBITDA (x)	20.27	17.09	15.86	13.71	12.37
	EV/EBIT (x)	27.97	23.60	21.93	18.53	16.55
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	3,986	4,359	4,818	5,616	6,340
	Gross profit	1,647	1,977	2,178	2,555	2,872
Key risks i. Supply disruption; ii. Major epidemic outbreak; iii. Intense competition.	EBITDA	967	1,133	1,208	1,388	1,530
	Depreciation and amortisation	(266)	(313)	(334)	(361)	(386)
	Operating profit	701	820	874	1,027	1,143
	Net interest	(63)	(70)	(79)	(86)	(91)
	Pre-tax profit	641	753	806	961	1,093
Company Profile Mr DIY 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 mass merchandise in Malaysia and Brunei	Taxation	(168)	(192)	(206)	(246)	(279)
	Reported net profit	473	561	600	716	814
	Recurring net profit	480	561	600	716	814
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(290)	89	(23)	(64)	(132)
	Cash flow from operations	429	973	990	1,064	1,105
	Capex	(200)	(229)	(126)	(126)	(126)
	Cash flow from investing activities	(196)	(247)	(126)	(126)	(126)
	Dividends paid	(222)	(296)	(420)	(501)	(570)
	Cash flow from financing activities	(295)	(628)	(731)	(814)	(969)
	Cash at beginning of period	193	138	232	364	488
	Net change in cash	(62)	98	132	124	10
	Ending balance cash	131	236	365	488	499
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	138	232	364	488	499
	Tangible fixed assets	682	827	848	860	864
	Total investments	12	34	45	66	106
	Total assets	3,324	3,551	3,835	4,196	4,519
	Short-term debt	318	191	150	150	100
	Total long-term debt	12	11	11	11	11
	Total liabilities	1,891	1,806	1,910	2,056	2,135
	Total equity	1,433	1,745	1,925	2,140	2,384
	Total liabilities & equity	3,324	3,551	3,835	4,196	4,519
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	18.2	9.4	10.5	16.6	12.9
	Recurrent EPS growth (%)	11.1	16.9	7.0	19.3	13.7
	Gross margin (%)	41.3	45.4	45.2	45.5	45.3
	Operating EBITDA margin (%)	24.3	26.0	25.1	24.7	24.1
	Net profit margin (%)	11.9	12.9	12.5	12.7	12.8
	Dividend payout ratio (%)	46.9	52.8	70.0	70.0	70.0
	Capex/sales (%)	5.0	5.3	2.6	2.2	2.0
	Interest cover (x)	11.1	11.6	11.0	11.9	12.6

Source: Company data, RHB

Results At A Glance

Figure 1 : Mr DIY's results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	1,066.5	1,196.2	1,135.1	(5.1)	6.4	3,212.6	3,474.4	8.1	9M24 growth mainly driven by 181 net new stores; 3Q24 SSSG at -1.8%
Gross profit	479.5	544.7	515.4	(5.4)	7.5	1,451.8	1,583.4	9.1	
Gross margin	45.0	45.5	45.4	(0.1)	0.4	45.2	45.6	0.4	Largely stable notwithstanding the higher freight rates
EBITDA	261.8	307.7	267.5	(13.0)	2.2	814.8	867.7	6.5	
Depreciation	(78.0)	(82.6)	(84.4)	2.2	8.2	(224.1)	(246.0)	9.7	
EBIT	183.9	225.1	183.2	(18.6)	(0.4)	590.6	621.7	5.3	Incurred additional costs of MYR6m in 3Q24 from the operation of new automated warehouse
EBIT margin (%)	17.2	18.8	16.1	(2.7)	(1.1)	18.4	17.9	(0.5)	9M24 opex rose 12% YoY
Finance costs	(17.4)	(19.7)	(20.0)	1.3	14.8	(52.9)	(58.6)	10.8	
Shr of profit of assoc.	0.6	2.5	1.4	(45.8)	115.6	3.1	4.4	38.5	
Pretax profit	167.1	207.9	164.5	(20.9)	(1.5)	540.9	567.5	4.9	
Pretax margin (%)	15.7	17.4	14.5	(2.9)	(1.2)	16.8	16.3	(0.5)	
Tax	(43.1)	(52.7)	(42.9)	(18.6)	(0.5)	(138.9)	(145.8)	5.0	
Effective tax rate (%)	(25.8)	(25.3)	(26.1)	(0.7)	(0.3)	(25.7)	(25.7)	(0.0)	
Net profit	123.9	155.2	121.6	(21.6)	(1.9)	402.0	421.7	4.9	At 66% of the forecasts
Net margin (%)	11.6	13.0	10.7	(2.3)	(0.9)	12.5	12.1	(0.4)	9M24 DPS amounted to 3.2 sen (72% payout ratio) vs 9M23: 2.2 sen (52% payout ratio)

Source: Company data, RHB

Emissions And ESG

Trend analysis

Emissions are on increasing trend due to the business expansion.

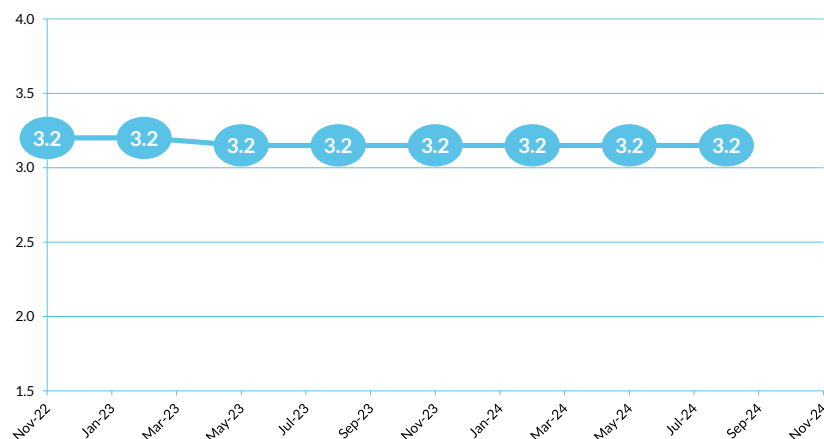
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	0	0	0
Scope 2	70,046	93,749	116,616
Scope 3	na	na	na
Total emissions	70,046	93,749	116,616

Source: Company data, RHB

Latest ESG-Related Developments

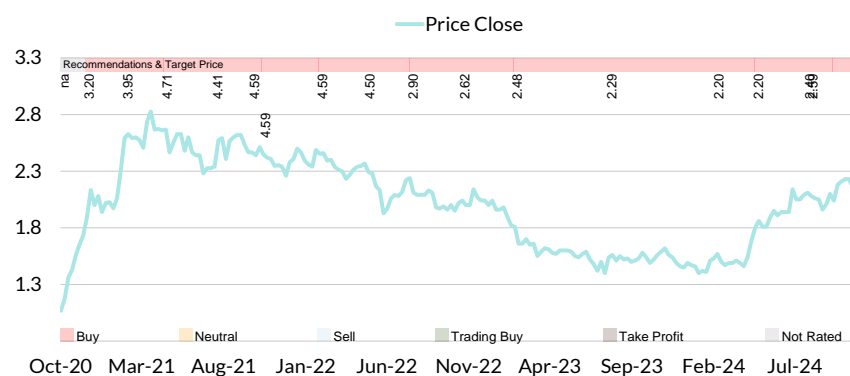
- Embarked on several pilot initiatives including hydrogen fuel cells on two of its fleet vehicles to enhance fuel efficiency and piloted a waste separation system at its headquarters aimed at reducing waste to landfill.
- Enhanced the office environment with new facilities designed to foster collaboration and a positive culture among employees.
- Contributed over MYR500k to support 175 CSR activities which impacted c.58,000 individuals.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-10-02	Buy	2.59	2.05
2024-08-13	Buy	2.40	2.10
2024-05-10	Buy	2.20	1.80
2024-02-25	Buy	2.20	1.53
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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