Shariah Compliant

8 December 2020

Consumer Cyclical | Retailing

Mr DIY Group (MRDIY MK)

Buy

Mi Casa Es Su Casa; Initiate With BUY

Target Price (Return):	MYR3.20 (+23%)
Price:	MYR2.60
Market Cap:	USD4,018m
Avg Daily Turnover (MYR/USD)	55.7m/13.6m

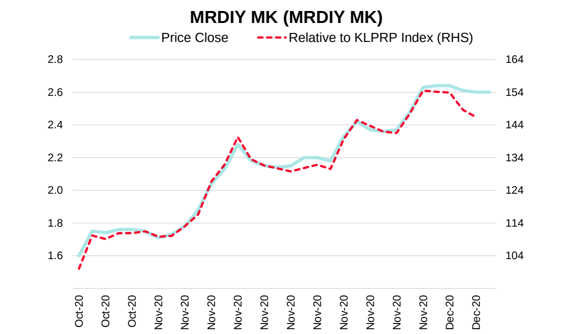
- **Initiate coverage with BUY, MYR3.20 TP, 23% upside with c.2% FY21F yield.** Mr DIY Group, Malaysia's the largest listed consumer retail company, has flourished in a challenging environment, thanks to a sound business model developed over the years. Our 25% 3-year earnings CAGR estimate is underpinned by network growth, SSSG preservation, and contributions from new store brands. We expect its valuation to undergo a further rerating on a scarcity premium and its potential inclusion in benchmark indexes. Its ESG credential is rated at 3.22, based on our proprietary scoring.
- **"Everyday low price".** Mr DIY is the largest home improvement retailer in Malaysia, with an estimated market share of 25.4% in 2018. It is able to develop a regular customer base, largely due to its merchandising strategy in offering a wide variety of competitively-priced products. The low-price model is made possible by leveraging on sizeable scale and a strict adherence to cost discipline. In addition, Mr DIY maximises convenience for its customers – stores are strategically set up in accessible locations nationwide, and generally operate seven days a week. We highlight that its profit margins stand out from that of major regional peers, reflecting its effective business model and cost optimisation initiatives.
- **Outlet expansion propelling growth and cost efficiency.** To capitalise on the underpenetrated home improvement retail sector and robust industry growth, Mr DIY is targeting to open at least 100 additional Mr DIY stores a year – leveraging on its impressive track record in opening profitable stores and achieving new store payback periods of <2 years. The network expansion should lift cost efficiency – taking into account the operating leverage – whilst brand visibility and awareness is likely to be further enhanced. We forecast FY20-22 net store additions of 130, 175, and 175, inclusive of new store brands in Mr Dollar and Mr TOY.
- **Robust growth ahead.** We forecast a 3-year core net profit CAGR of 25% to MYR616m in FY22 – stemming from post-COVID-19 demand normalisation, outlet expansions, healthy SSSG, and efficient cost management. Our DCF-derived (WACC: 5.5%, terminal growth: 2.5%) TP of MYR3.20 implies 39x FY21F P/E, at a c.25% premium over the regional peer average. We believe Mr DIY's valuation will continue to rerate – on the scarcity premium to be ascribed accordingly, given the lack of sizeable-cap consumer retail stocks offering a similar growth profile. Also, the potential of the stock being included in major benchmark indexes such as the FBM KLCI and MSCI should raise further interest.
- **Key risks** include a strong resurgence of COVID-19 infections, a sharp rise in input costs, and supply chain disruptions.

Analyst

Soong Wei Siang
+603 9280 8865
soong.wei.siang@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	27.5	0.0	0.0	0.0
Relative	0.0	12.3	0.0	0.0	0.0
52-wk Price low/high (MYR)					1.60 – 2.64



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	1,771	2,276	2,643	3,479	4,267
Recurring net profit (MYRm)	308	318	339	515	616
Recurring net profit growth (%)	46.8	3.0	6.6	52.2	19.5
Recurring P/E (x)	52.92	51.38	48.19	31.67	26.50
P/B (x)	31.1	47.9	16.2	12.9	10.4
P/CF (x)	61.33	40.46	32.10	26.94	21.22
Dividend Yield (%)	0.8	3.1	1.0	1.6	1.9
EV/EBITDA (x)	30.73	26.27	22.72	16.64	13.79
Return on average equity (%)	70.6	73.4	50.2	45.3	43.3
Net debt to equity (%)	4.8	141.8	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
Mr DIY Group
MRDIY MK
Buy

Valuation basis

DCF

Key drivers

i. Store expansion;
ii. Robust SSSG;
iii. Market share gains.

Key risks

i. Supply disruption;
ii. Further major outbreak of infections worsening the pandemic;
iii. Intense competition.

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 retailing home improvement products and mass merchandise in Malaysia and Brunei

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.05	0.05	0.05	0.08	0.10
DPS	0.02	0.08	0.03	0.04	0.05
BVPS	0.08	0.05	0.16	0.20	0.25
Return on average equity (%)	70.6	73.4	50.2	45.3	43.3

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	52.92	51.38	48.19	31.67	26.50
P/B (x)	31.1	47.9	16.2	12.9	10.4
FCF Yield (%)	0.9	1.8	2.5	2.9	3.9
Dividend Yield (%)	0.8	3.1	1.0	1.6	1.9
EV/EBITDA (x)	30.73	26.27	22.72	16.64	13.79
EV/EBIT (x)	38.23	33.55	30.45	21.67	18.01

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	1,771	2,276	2,643	3,479	4,267
Gross profit	774	964	1,123	1,479	1,792
EBITDA	532	639	715	974	1,168
Depreciation and amortisation	(104)	(139)	(182)	(226)	(274)
Operating profit	427	501	533	748	894
Net interest	(30)	(65)	(75)	(63)	(75)
Pre-tax profit	398	438	460	687	821
Taxation	(90)	(120)	(121)	(172)	(205)
Reported net profit	308	318	339	515	616
Recurring net profit	308	318	339	515	616

Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(149)	(180)	(64)	(174)	(171)
Cash flow from operations	266	403	508	606	769
Capex	(124)	(115)	(101)	(133)	(133)
Cash flow from investing activities	(125)	(218)	(101)	(133)	(133)
Dividends paid	(133)	(502)	(169)	(258)	(308)
Cash flow from financing activities	(179)	(111)	(348)	(497)	(534)
Cash at beginning of period	89	67	141	193	168
Net change in cash	(39)	75	60	(24)	103
Ending balance cash	67	141	200	170	271

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	67	141	193	168	283
Tangible fixed assets	269	354	396	455	497
Total investments	3	5	7	8	10
Total assets	1,384	1,824	2,167	2,579	3,089
Short-term debt	44	12	12	12	12
Total long-term debt	48	612	112	62	62
Total liabilities	859	1,483	1,157	1,311	1,514
Total equity	525	340	1,010	1,267	1,575
Total liabilities & equity	1,384	1,824	2,167	2,579	3,089

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	44.1	28.5	16.1	31.6	22.6
Recurrent EPS growth (%)	46.8	3.0	6.6	52.2	19.5
Gross margin (%)	43.7	42.3	42.5	42.5	42.0
Operating EBITDA margin (%)	30.0	28.1	27.0	28.0	27.4
Net profit margin (%)	17.4	14.0	12.8	14.8	14.4
Dividend payout ratio (%)	43.1	158.0	50.0	50.0	50.0
Capex/sales (%)	7.0	5.1	3.8	3.8	3.1
Interest cover (x)	14.2	7.7	7.1	11.9	11.9

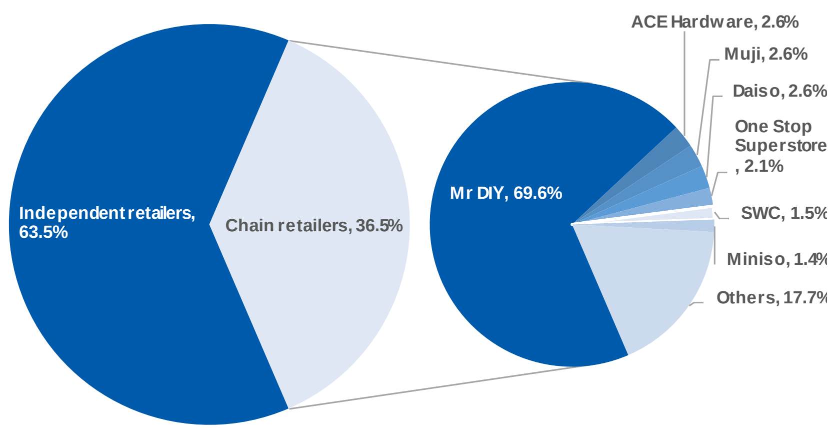
Source: Company data, RHB

Investment Thesis

The home champion. Established in 2005, Mr DIY is now the largest home improvement retailer in Malaysia, with an estimated market share of 25.4% (69.6% within the chain retailer pie) in 2018. As at Oct 2019, the group operated 566 stores nationwide. We highlight that its store count is >7x ahead of its nearest competitor. It also has four outlets in Brunei.

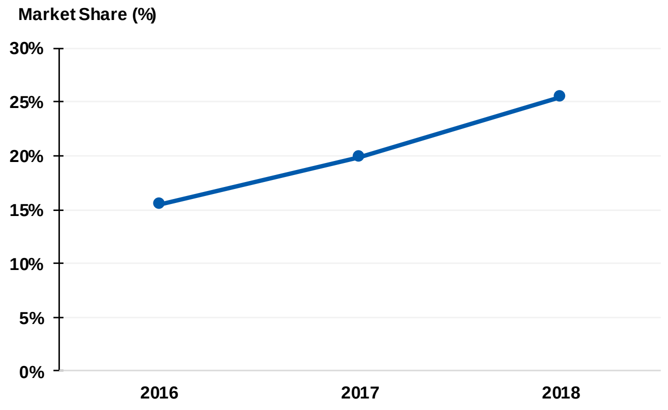
In Malaysia, Mr DIY enjoys high brand visibility among consumers as a convenient one-stop destination for home improvement needs. We observed that elevated living costs have given rise to price sensitivity and down-trading amongst consumers, thereby lifting demand for value-for-money options. By offering a wide range of attractive price-to-quality products, Mr DIY has managed to capture the switch in demand – this explains the rapid expansion in its store network, as well as profitability over the years.

Figure 1: Market share by revenue (2018)



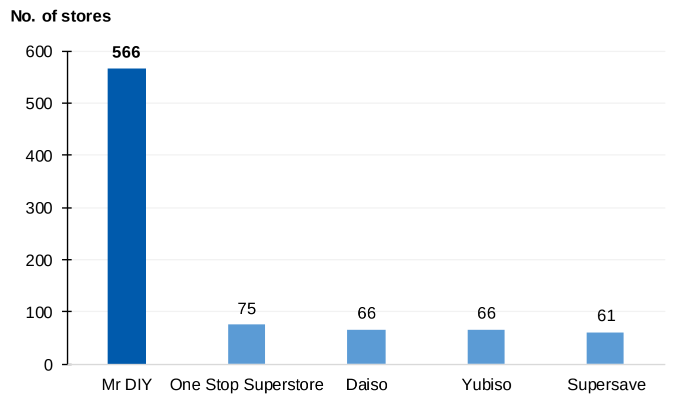
Source: Frost & Sullivan

Figure 2: Mr DIY's market share by revenue in Malaysia's home improvement retail sector



Source: Frost & Sullivan

Figure 3: Number of stores vs next largest competitors (as of 2018)

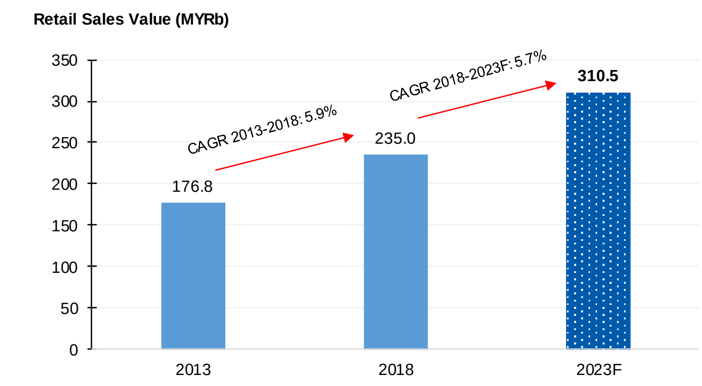


Source: Frost & Sullivan

Home improvement segment outgrowing the retail sector. Notwithstanding the challenging retail environment, the home improvement segment Mr DIY operates in has outstripped overall retail sales growth: 2013-2018 CAGR of 12.7% vs 5.9%. This trend looks set to continue, with the home improvement segment's 5-year CAGR estimated at 10.9%, vs overall retail's +5.7% for 2018-2023F. This is being driven by increasing urbanisation and household income in Malaysia.

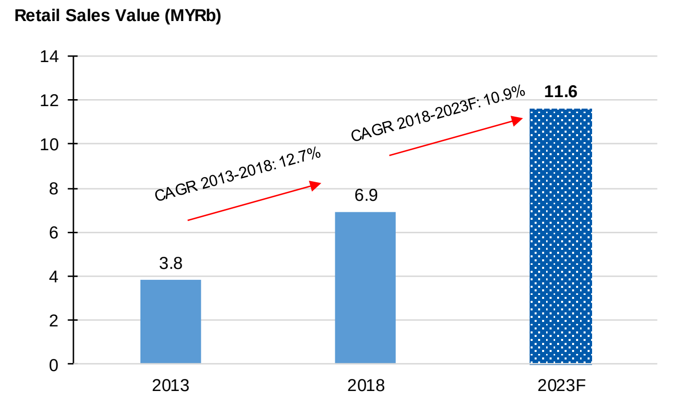
In addition, we highlight that the home improvement segment enjoys stable and resilient demand against the change in overall economic conditions. This is because most of the products sold in this segment comprise household necessities, consumer staples, and non-discretionary consumables.

Figure 4: Retail sales value in Malaysia (2013-2023F)



Source: Frost & Sullivan

Figure 5: Retail sales value of the home improvement retail sector in Malaysia (2013-2023F)

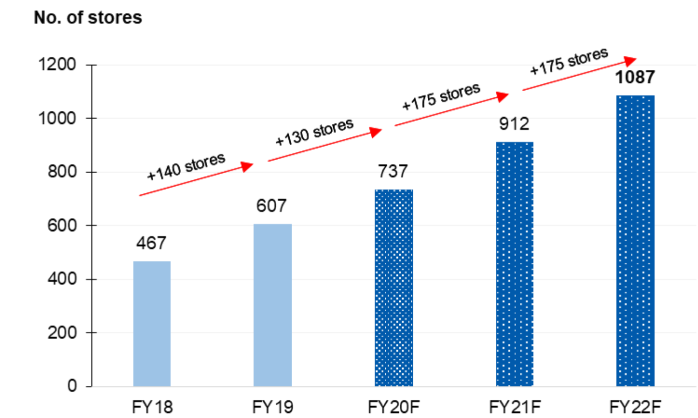


Source: Frost & Sullivan

Outlet expansion propelling growth and cost efficiency. According to Frost & Sullivan, retail sales of the home improvement sector per capita in Malaysia is currently lagging behind that of neighbouring countries including Thailand, Vietnam, and Singapore. To capitalise on the opportunity, the group is targeting to open at least 100 additional Mr DIY stores a year. Mr DIY will leverage on its successful business model and operating platform – which has resulted in an impressive track record in opening profitable stores and new store payback periods of less than two years, achieved in FY16 and FY17.

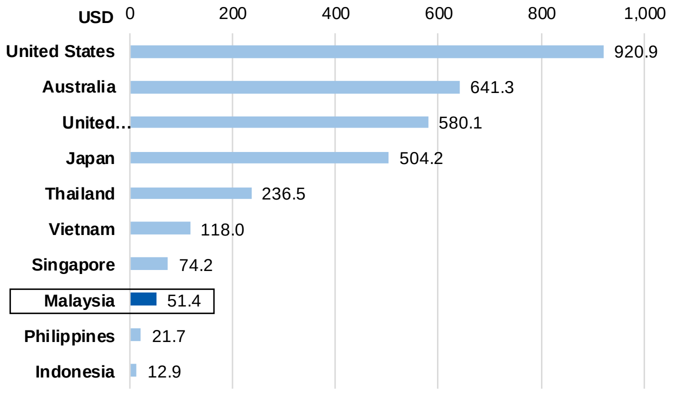
Correspondingly, we believe that, with the store network expansion, the larger scale of operations should lift cost efficiency – taking into account the operating leverage – while enhancing brand visibility and consumer awareness. Meanwhile, capex should be funded by the business' strong cash flow generation, with free cash flow estimated at MYR407m, MYR473m, and MYR637m for FY20-22. We are forecasting net store additions of 130, 175, and 175 across all brands in FY20-22. This is estimated to propel YoY revenue growth of 16.1%, 31.6%, and 22.6% during the same period.

Figure 6: Mr DIY's store numbers (including all brands)



Source: Company data

Figure 7: Retail sales of the home improvement retail sector per capita (2018)



Source: Frost & Sullivan

Expanding on a tried and tested platform. Mr DIY has formulated an effective and scalable business model over the years. Its strategy of identifying and selecting sites to open new stores – as well as standardising the store-opening process – allows the group to set up new stores quickly and efficiently. Established relationships with mass merchandise retailers – such as AEON, Tesco, and Giant – enable Mr DIY's new stores to enjoy high footfall in matured malls.

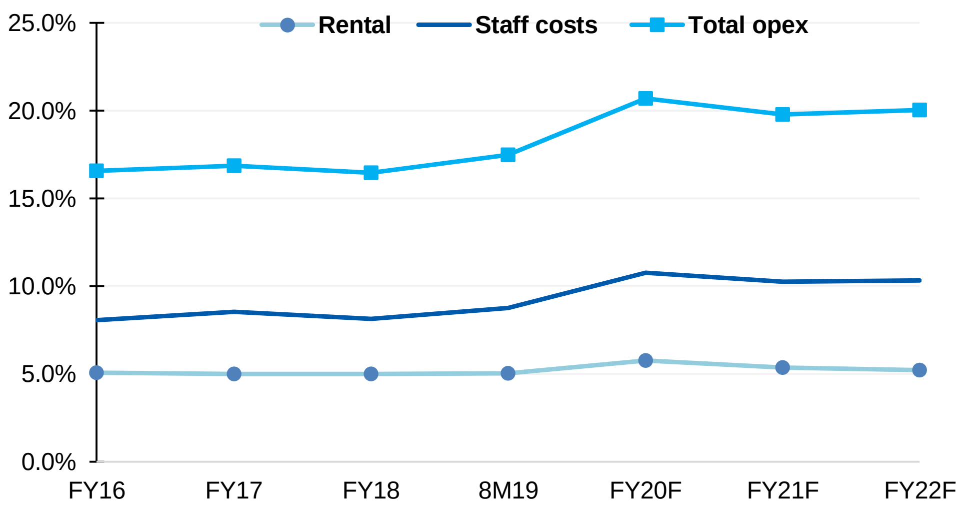
In addition, the group continuously reviews and fine-tunes its operational framework to improve efficiency. This is aided by data-driven analysis on relevant operational statistics – tracked and generated by customised software systems. Standardised store operational processes have created consistency in pricing, quality, and convenience value between stores. This is vital in moulding the trusted brand image amongst consumers, in our view.

Something for everyone. Mr DIY is able to develop a base of repeat and regular customers, largely owing to the merchandising strategy that offers a wide variety – on average of 14,900 stock keeping units (SKUs) per store as at 31 Aug 2019 – of competitively priced products. This is effective in capturing the demand from consumers seeking attractive price-to-quality propositions amidst an environment of a higher cost of living. This comprehensive assortment of products should also create cross-selling opportunities, consequently increasing the average spending ticket size by customers. Additionally, Mr DIY stores maximise customer convenience – as they are strategically set up in convenient and accessible locations nationwide, and generally operate seven days a week.

"Always Low Prices". Essentially, the low-price model is made possible by sticking to cost discipline and streamlining operations to cut down on unit costs. The group leverages on the sizeable scale to secure attractive sourcing terms, and consolidates the purchases into full container loads before shipping.

We highlight key that opex components, ie wages and rental, are well-controlled (Figure 8). To put things into perspective, store items are systematically organised by product categories, with clear display signs put up to minimise staffing requirements. The appeal of the Mr DIY brand in attracting footfall to new or less popular locations is an advantage in negotiating favourable rental rates, and for the group to rent spaces on higher floors – since the latter commands lower rental rates. Additionally, Mr DIY insources most of the warehousing and distribution functions, which we believe facilitates better control over inventory management and related costs.

Figure 8: Key opex components as a % of revenue

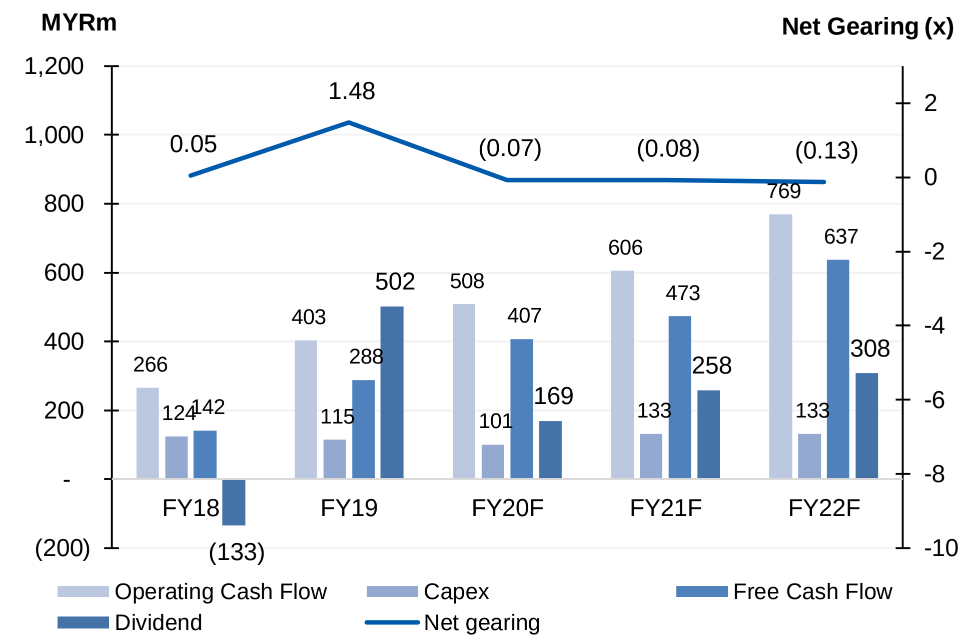


Source: Company data

Robust financial strength. Thanks to the sound business model and efficient operations, Mr DIY has delivered 3-year (FY16-19) revenue and net profit CAGRs of 40% and 30%. The profitability and short payback investment periods have generated strong and consistent cash flow generation over the years. This, in turn, has facilitated its store expansion without the need for external funding or gearing up.

To illustrate, we are forecasting free cash flow of MYR407m-637m in FY20-22, and expect Mr DIY to be in a net cash position within this period. This will free up sufficient cash to reward shareholders, and we forecast dividends of MYR169m-308m, based on a 50% payout ratio.

Figure 9: Cash flow, capex, dividend, and gearing (FY18-22F)



*Note: *Negative net gearing numbers indicate net cash position*
Source: Company data

In good hands. The founder-led senior management team has played a pivotal role in steering the group towards charting a rapid rise over the years. Moving forward, we believe Mr DIY's entrepreneurial drive will continue to motivate the management team to scale greater heights.

Meanwhile, we highlight that store-level staff are incentivised to drive the sales and profitability of their respective stores, as a portion of their salaries are performance-based. Staff undergo on-the-job training and development programmes, which help ensure they are properly trained and knowledgeable about products offered – this allows them to provide a positive retail experience to customers.

Valuation & Recommendation

We derive our MYR3.20 TP from a DCF calculation. The DCF approach is preferred, after taking into account Mr DIY's stable historical operating cash flow trend. In addition, DCF effectively captures the multi-year earnings growth potential, which values the stock more accurately and fairly – since the group is on an aggressive expansion drive. We highlight that this methodology is consistent with what we use to value other retail stocks under our coverage.

Figure 10: Mr DIY's DCF valuation

FYE Dec	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Adj. EBITDA	788	945	974	1,120	1,261	1,395	1,522	1,640	1,747	1,844
Adj. EBITDA*(1-tax rate)	591	709	730	840	946	1,046	1,141	1,230	1,310	1,383
Less: WC investments (WC Inv)	-197	-193	-211	-209	-211	-213	-216	-218	-220	-222
Less: Fixed investments (FC Inv)	-133	-133	-190	-190	-230	-230	-270	-270	-330	-390
FCFF	262	383	329	441	504	603	656	742	761	771
Disc. FCFF	**252**	**354**	**292**	**377**	**415**	**477**	**498**	**542**	**534**	**521**
Terminal value	26,784									
PV of terminal value	15,754									
NPV	4,261									
Add net cash	95									
Equity Value of Firm	20,111									
Target Price	**3.20**									
Implied FY21F P/E	39.0									
Rf	2.9%									
Beta	1.0									
Risk premium (Rm-Rf)	5.0%									
Rm	7.9%									
COE	7.9%									
COD	4.0%									
WACC	5.5%									
Tax rate	25.0%									
TG	2.5%									

Source: RHB

Our DCF assumptions:

i. Risk-free rate: 2.9%, in-house assumption;

ii. Market risk premium: 5.0%, in-house assumption,

iii. Market returns: 7.9% (i)+(ii),

iv. Beta: 1.0x – in line with the average beta of the listed regional peers;

v. Terminal growth of 2.5%, at the upper range of the assumptions used within our coverage;

vi. Cost of equity: 7.9%, (ii)*(iv)+(i),

vii. Cost of debt: 4%, in line with current cost of debt;

viii. Debt to equity ratio: 50:50, in line with FY21 forecast;

ix. WACC: 5.5%, based on (vi), (vii), and (viii).

Figure 11: TP sensitivity to DCF assumptions

	TP in MYR	Terminal growth				
	Assumptions	**1.5%**	**2.0%**	**2.5%**	**3.0%**	**3.5%**
Risk premium	**4.0%**	2.92	3.31	3.86	4.70	6.10
	4.5%	2.72	3.05	3.50	4.16	5.20
	5.0%	2.55	2.83	**3.20**	3.73	4.53
	5.5%	2.40	2.64	2.95	3.39	4.01
	6.0%	2.27	2.47	2.74	3.10	3.61

Source: RHB

The valuation implies a FY21F P/E of 39x, which represents a c.25% premium to the regional peer average. This is justifiable, as we believe the scarcity premium is warranted for Mr DIY – given the lack of sizeable-cap consumer stocks in Malaysia. Large-cap consumer staples companies Nestle (NESZ MK, Neutral, TP:MYR128) and QL Resources (QLG MK, Neutral, TPMYR6.05) are trading at FY21F P/Es of 47x and 50x, thanks to their consistent earnings track records. On top of that, Mr DIY's superior profit margins and ROE vis-à-vis regional peers should also justify the valuation premium.

We view regional peers the most relevant to draw reference to, given the similarity in business segments they are in, profit bases, and growth profiles. We highlight there could be differences in business models vs some of the regional players in terms of product offering, outlet acreage, average ticket size, geographical exposure, and others. That said, we opine that, generally, the robust industry growth potential and resilient consumption dynamic are common catalysts those companies share in commanding premium valuations, vs other retail sub-sectors.

Meanwhile, there is no direct comparison available locally, as none of the listed retailers operate in the home improvement segment. Note that AEON operates Daiso, the flat price store chain in Malaysia – but AEON's earnings are primarily underpinned by its shopping mall management and grocery retail businesses. On the other hand, the outlet expansions by other convenience store players may be as aggressive, but their profitability is inferior when compared to Mr DIY – this is due to their relatively lower sales per store. As such, we do not draw any direct valuation comparison against any of Mr DIY's locally listed peers.

Notwithstanding this opinion, our valuation implies a steep >100% premium over the FY21F P/E average of 18x that its local peers are trading at. The premium is warranted, as Mr DIY will deserve a scarcity premium – as it is the largest-cap consumer retail company in the market by a big margin at present, ie 10x bigger than second largest company, 7-Eleven Malaysia (SEM MK, BUY, TP:MYR1.60). Relative to other local retail peers, Mr DIY offers a more resilient yet exciting earnings growth profile, superior ROEs, higher profitability, and a sturdier balance sheet.

We highlight Mr DIY was included in the FBM KLCI reserve list in the latest review released earlier this month. Hence, we believe the group stands a chance of debuting on the benchmark index in the next review in mid-2021. Besides that, there is a possibility of it becoming an MSCI component stock in the next review, judging from its current market capitalisation. The abovementioned potential should spur buying interest on the stock, and support the valuation re-rating.

Last, we believe international peers are less relevant or not so suitable to be compared with, given the disparity in operating environments across different regions. In addition, some of the listed players are much bigger, in terms of market capitalisation and profit base.

Figure 12: Peer comparison (valuation metrics)

Company	FYE	Country	Price 1-Dec-20 (Local Currency)	Mkt Cap (USDm)	P/E (x) Actual	P/E (x) 1 Yr Fwd	P/E (x) 2 Yr Fwd	Div. Yld (%) 1 Yr Fwd	ROE (%) 1 Yr Fwd	PBV (x) 1 Yr Fwd	EV/ EBITDA 1 Yr Fwd	PEG	NP Growth (%) 1 Yr Fwd	NP Growth (%) 2 Yr Fwd
Regional														
Home Product	Dec	TH	14.90	6,497	32.6	38.1	31.9	2.1	24.1	9.1	21.4	1.6	-14.3	19.5
Siam Glob. House	Dec	ID	18	2,612	38.7	37.6	31.2	1.2	12.5	4.5	24.3	1.5	3.0	20.3
ACE Hardware	Dec	TH	1630.00	1,969	27.0	34.6	25.8	1.4	16.2	5.2	24.5	0.8	-22.0	34.4
Wilcon Depot Inc	Dec	PH	18.04	1,536	37.4	48.4	33.7	0.8	10.0	4.7	24.5	0.8	-22.7	43.5
Dohome	Dec	TH	13.90	998	42.7	40.3	32.2	0.8	10.7	3.9	24.5	1.3	6.0	25.3
Index Living Mall	Dec	TH	13.90	233	12.1	16.2	13.9	3.1	8.7	1.4	7.6	0.8	-25.2	16.5
Mkt. Cap Weighted Avg.					**33.9**	**38.4**	**30.8**	**1.6**	**18.0**	**6.7**	**22.7**			
Local														
7-Eleven	Dec	MY	1.35	374	28.7	27.6	24.4	2.2	45.3	16.6	8.9	1.8	4.0	13.2
Padini Holdings	June	MY	2.86	462	25.9	16.8	14.0	2.8	14.3	2.3	6.7	0.7	53.8	20.1
AEON Co (M)	Dec	MY	0.94	324	12.3	23.6	14.5	3.3	3.6	0.8	6.0	0.2	-48.1	62.9
Mynews	Oct	MY	0.68	114	17.6	NM	27.1	0.7	-0.9	1.7	14.2	na	NM	NM
Mkt. Cap Weighted Avg.					**22.5**	**20.2**	**18.3**	**2.6**	**19.3**	**6.0**	**7.8**			
International														
Dollar General	Jan	US	213.43	52,291	31	19.8	21.8	0.7	39.1	7.6	13.1	NA	53.9	(8.9)
Dollar Tree Inc	Jan	US	112.51	26,461	32	19.8	18.3	0.0	19.5	3.6	11.2	2.2	61.7	8.3
Pan Pacific Int.	Jun	JP	2470	15,024	32.3	28.6	25.1	0.7	13.8	3.7	17.4	1.8	13.0	13.9
Dollarama Inc	Jan	CA	53.96	13,103	30.8	30.6	24.4	0.3	138.7	20.7	18.1	1.0	0.7	25.3
Ollie'S Bargain	Jan	US	80.71	5,276	37.4	26.2	26.7	0.0	17.1	4.2	17.2	NA	42.8	-1.9
B&M European	Mar	GB	470	6,239	54.5	12.3	14.8	5.7	41.8	5.1	9.0	NA	341.5	-16.7
DCM Holdings	Feb	JP	1126	1,748	13.8	8.3	10.6	2.7	10.4	0.7	5.6	NA	65.9	-21.2
Europris ASA	Dec	NO	49.10	929	21.8	11.9	14.9	5.4	33.1	3.7	7.2	NA	82.2	-19.7
Mkt. Cap Weighted Avg.					**32.3**	**21.7**	**21.3**	**0.8**	**41.2**	**7.3**	**13.6**			
Mr DIY	**Dec**	**MY**	**2.60**	**4,019**	**51.4**	**48.2**	**31.7**	**1.0**	**50.2**	**16.2**	**22.7**	**0.6**	**6.6**	**52.2**

Source: Bloomberg, RHB

Figure 13: Peer comparison (operating metrics)

Company	FY16-19 revenue 3-year CAGR	FY16-19 net profit 3-year CAGR	FY19 gross profit margin	FY19 EBITDA margin	FY19 net profit margin	FY19 net gearing (%)
Mr DIY	**40.1%**	**30.1%**	**41.8%**	**27.8%**	**14.2%**	**142**
Regional						
Home Product Center	3.5%	14.4%	25.9%	17.4%	9.8%	49.8
Siam Global House	14.2%	7.7%	20.6%	13.4%	7.5%	91.1
ACE Hardware Indonesia	18.2%	13.2%	47.7%	17.7%	12.7%	Net Cash
Wilcon Depot Inc	25.8%	33.8%	33.4%	16.0%	8.7%	7.9
Dohome*	-1.3%	-7.2%	16.6%	8.9%	4.1%	137.9
Index Living Mall*	1.5%	6.4%	43.5%	15.9%	6.1%	83.9
Mkt. Cap Weighted Avg.	**9.7%**	**13.4%**	**28.5%**	**15.9%**	**9.2%**	
Local						
7-Eleven Malaysia	3.9%	1.2%	31.4%	7.8%	2.3%	646.7
Padini Holdings	1.4%	-18.2%	39.7%	20.3%	5.5%	10.6
AEON Co (M)	4.1%	6.3%	39.3%	18.5%	2.4%	186.0
Mynews	26.0%	13.9%	35.5%	14.0%	5.1%	19.5
Mkt. Cap Weighted Avg.	**4.9%**	**-3.5%**	**36.8%**	**15.7%**	**3.8%**	
International						
Dollar General Corp^	8.1%	11.0%	30.6%	14.7%	6.2%	170.9
Dollar Tree Inc^	4.5%	-2.6%	29.8%	14.5%	3.5%	151.8
Pan Pacific International^	26.6%	15.0%	28.6%	6.3%	3.0%	89.1
Dollarama Inc^	8.5%	8.2%	43.6%	29.3%	14.9%	NA
Ollie'S Bargain Outlet^	16.5%	33.2%	39.5%	18.2%	10.0%	24.9
B&M European Value Retail^	16.2%	-14.3%	33.6%	14.3%	2.4%	187.2
DCM Holdings^	-0.5%	5.9%	32.9%	7.7%	3.2%	50.9
Europris ASA	7.0%	-3.2%	43.2%	17.6%	6.0%	177.3
Mkt. Cap Weighted Avg.	**10.3%**	**7.7%**	**32.3%**	**15.2%**	**6.1%**	

Note: ^refers to 3-year CAGR for FY17-20
*Note 2: *refers to 2-year CAGR for FY17-19*
Source: Bloomberg, RHB

Figure 14: Comparison of listed peers (operation details)

Company	Number of outlets*	Operated brands	Key product categories: Household	Furnishing	Hardware	Electrical	Areas of operation
Mr DIY	467	Mr DIY, Mr TOY**	♦	♦	♦	♦	Malaysia, Brunei
ACE Hardware Indonesia	215	ACE Hardware, Toys Kingdom			♦	♦	Indonesia
Home Product Center	108	HomePro, Mega Home		♦	♦	♦	Thailand, Malaysia
Siam Global House	61	Global House		♦	♦		Thailand, Cambodia
Wilcon Depot Inc	51	Wilcon Depot		♦	♦	♦	Philippines

*Note: *As at 31 Dec 2018*
*Note 2: **First store opened in May 2019*
Source: Company data, RHB

Financial Overview

We project Mr DIY's FY20-22 revenue growth at 16.1%, 31.6%, and 22.6% YoY – and expect turnover to reach MYR4.3bn by FY22, from MYR2.3bn in FY19. The robust growth should be driven by its network expansion across all three brands – Mr DIY, Mr TOY, and Mr Dollar (130, 175, and 175) and healthy SSSG (0.5%, 2.5%, and 2.5%), as the group continues to capitalise on opportunities in the underpenetrated home improvement retail sub-sector. As we expect consumers to remain price-sensitive and opt for value-for-money products, Mr DIY is likely to gain market share by maintaining competitiveness in product pricing. This is made possible by the group being able to grow from strength to strength, from increasing the scale of its business with its network expansion.

We conservatively assume GPMs of 42.5%, 42.5%, and 42 % for FY20-22F from 42.3% in FY19, as we expect margin growth to stay relatively stable. We understand that Mr Dollar products will command lower GPMs, but Mr TOY's GPMs will be higher. Meanwhile, we expect a longer payback period of three years for Mr Dollar and Mr TOY stores, given their differences in product offerings and business landscapes vis-à-vis Mr DIY. Besides, the aggressive expansion in outlets should inevitably lead to cannibalisation, to a certain extent. As a result, we foresee a gradual slippage in operating margins ahead, to 20.2%, 21.5%, and 20.9% in FY20-22F from 22% in FY19E. However, we are not too perturbed, as we think that margins will have to be compromised, in return for absolute profit growth going forward.

We assume an effective tax rate of 25% – higher than the statutory level of 24% – to take into account the start-up losses incurred for new stores. Note that FY20's forecasted effective tax rate of 26.5% is higher – this is to take into account non-tax deductible interest expenses. Accordingly, we forecast FY21-22 core net profit to grow YoY by 52.2% and 19.5% to MYR515.2m and MYR615.7m, from MYR338.6m in FY20F. Nonetheless, the tapering growth rates over the longer run are the effect of a higher core earnings base, as we do not expect any major weakness or slowdowns in its business. In a nutshell, we expect the expansion – based on the current business model – to continue to yield positive results. Note that FY20 core net profit is estimated to grow moderately by 4.6% YoY, due to the operational disruptions arising from the COVID-19 pandemic and subsequent Movement Control Order (MCO).

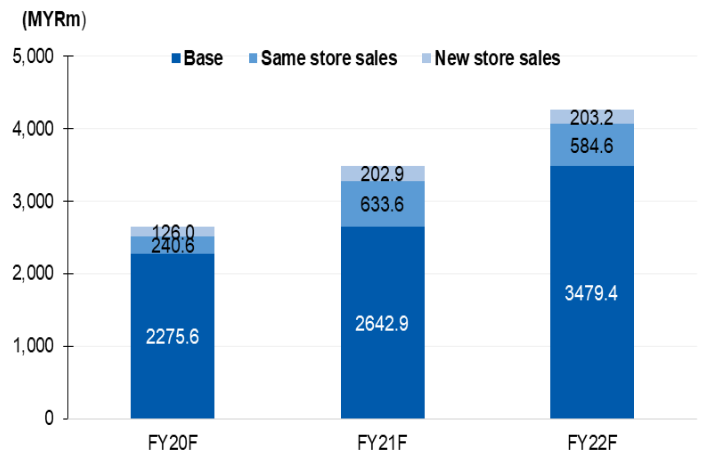
Operating cash flow generation is expected to be healthy at MYR508.3-769.1m pa in the aforementioned period, thanks to the stable earnings growth. This should support the commitments in capex and dividends. We highlight that Mr DIY has a dividend policy with a payout ratio of 40% of PATAMI. Notwithstanding, we believe there is room for it to declare higher dividends, in view of the ample free cash flow. Hence, we are assuming a payout ratio of 50% and forecast dividends of MYR169.3m, MYR257.6m, and MYR307.9m for FY20-22.

Figure 15: Key assumptions and sensitivity analysis

Key assumptions	**FY18**	**FY19**	**FY20F**	**FY21F**	**FY22F**
SSSG	4.5%	2.0%	0.5%	2.5%	2.5%
Net store addition	113	140	130	175	175
Total stores at end of FY	467	607	737	912	1087
Revenue growth	44.1%	28.5%	16.1%	31.6%	22.6%
GPM	43.7%	42.3%	42.5%	42.5%	42.0%
Sensitivity analysis					
Base case net profit			338.6	515.2	615.7
SSSG +1%			346.0	524.8	627.4
Changes to earnings			2.2%	1.9%	1.9%
Net store addition +20 (Mr DIY)			338.0	528.7	642.0
Changes to earnings			-0.2%	2.6%	4.3%
GPM +1ppt			358.4	541.3	647.7
Changes to earnings			5.9%	5.1%	5.2%

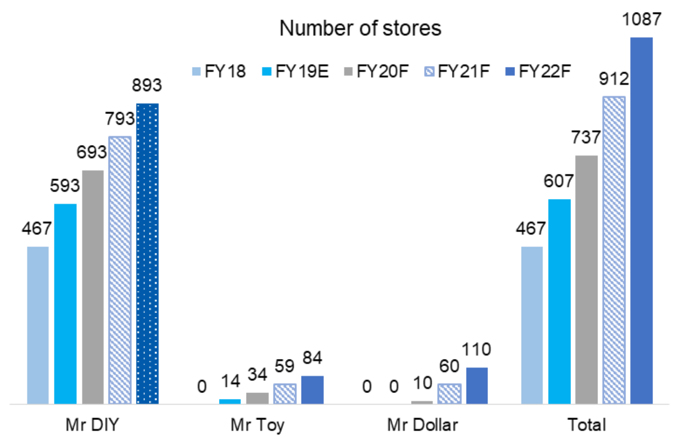
Source: RHB, Company data

Figure 16: Forecasted revenue growth breakdown



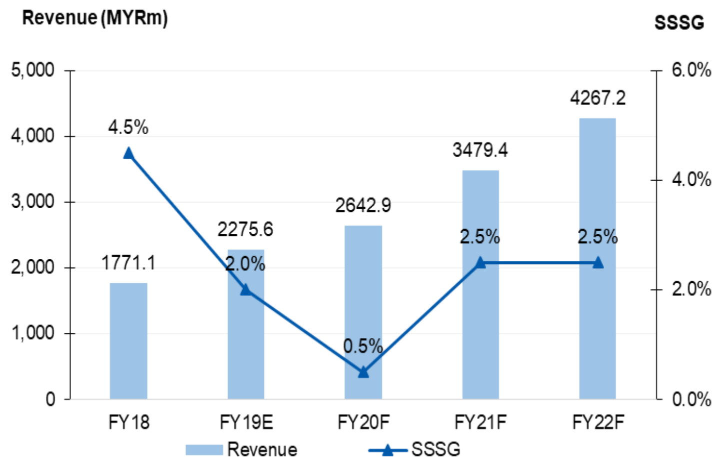
Source: Company data, RHB

Figure 17: Estimated numbers of store by brands



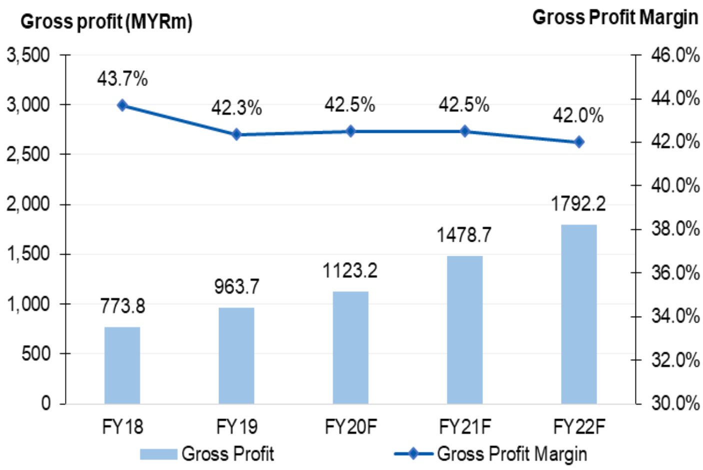
Source: Company data, RHB

Figure 18: Revenue growth and SSSG



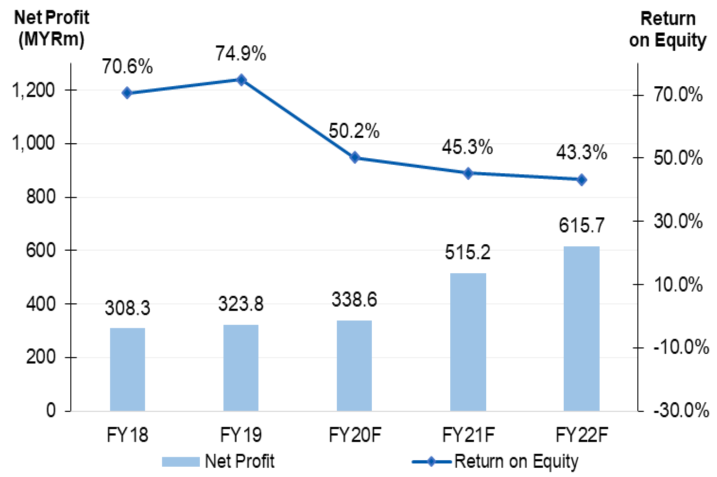
Source: Company data, RHB

Figure 19: Gross profit and GPM trends



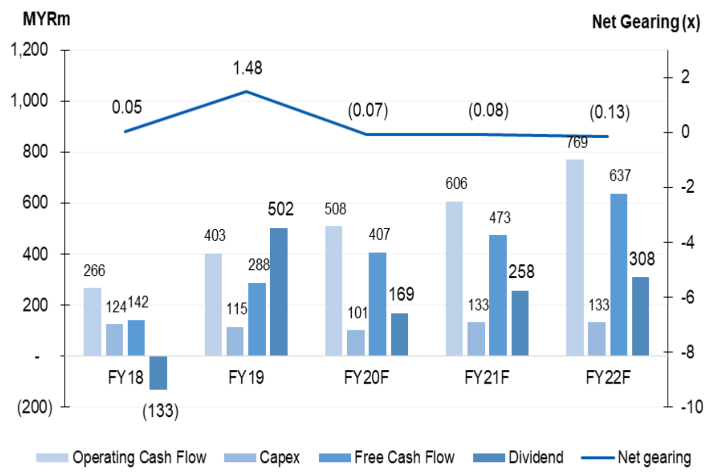
Source: Company data, RHB

Figure 20: Net profit vs ROE



Source: Company data, RHB

Figure 21: Cash flow illustration



Source: Company data, RHB

Key Risks

Disruption of domestic/international supply chain. With China being Mr DIY's dominant import source, a sudden shift in policies pertaining to tax and trade or tariffs imposed by the authorities – with regards to the East Asian nation – may negatively impact the business, operational results, as well as liquidity and net income. The same applies to a shift in domestic Chinese export policies related to capital controls, FX restrictions, and validity of export licences. All these could adversely impact the group's business.

FX fluctuations. Mr DIY is exposed to exchange rate fluctuations, particularly the MYR against the CNY and USD, as a significant portion of its products are manufactured in or sourced from China. This, in turn, may have an adverse effect on Mr DIY's financial condition, especially since the group has not entered into any hedging transactions;

Conflicting interests with substantial shareholders. The interests of Mr DIY's substantial shareholders may differ from the interest of the other shareholders. This is especially because such substantial shareholders have a significant influence over all of its corporate transactions. For instance, the substantial shareholders also continue to hold controlling interests in entities that undertake businesses that are similar to Mr DIY's business – in Thailand, Singapore, Indonesia, the Philippines, Cambodia, Laos, and possibly elsewhere.

Competition. In a highly competitive market, other home improvement retailers as well as mass merchandise retailers may prove to be a threat to Mr DIY. The business may face growing competition from manufacturers that provide a similar or an even wider product offering – in addition to competing on the basis of store locations, appearances, and merchandise presentations. Failure to meet such challenges may result in the group's financial condition being negatively impacted.

COVID-19 pandemic. Footfall to stores could be adversely affected if the pandemic spreads or any lockdowns are prolonged – thereby posing downside risks to earnings. On top of that, the abovementioned risks on supply disruptions are also relevant if Chinese manufacturers are unable to resume operations in time, and/or the distribution centres in Malaysia are unable to operate normally.

IPO Details

Offering size

Mr DIY was listed on Bursa Malaysia on 26 Oct at an IPO price of MYR1.60. The IPO offered a total of 941.5m shares, representing 15% of the group's enlarged issued shares. Hence, the offer size of the IPO amounted to c.MYR1.5bn.

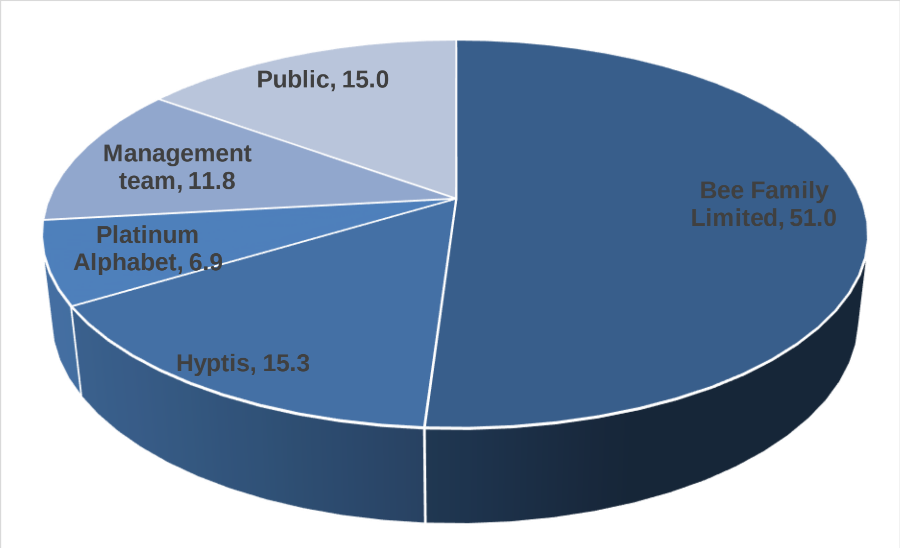
Offering structure

780m shares (82.5% of total offering) were offered to institutional shareholders, while the remaining 161.5m shares (17.5% of the total offering) were offered to retail investors. Meanwhile, the split between primary and secondary offering was 20%:80%.

Moratorium arrangement

There will be a 6-month lock-up period for major shareholders including Bee Family Ltd and Hyptis, while Platinum Alphabet and 11 other individual shareholders will be subjected to a 3-month lock-up period.

Figure 22: Post-IPO shareholding structure



Note: Based on post-IPO enlarged share base
Source: IPO prospectus

Information on major shareholders

Bee Family Limited: An investment holding company predominantly owned by the founding family.

Hyptis: A special purpose vehicle to hold the investments of Creador Funds in Mr DIY.

Platinum Alphabet: An investment holding company predominantly owned by management team members of Mr DIY

Figure 23: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	%
Repayment of bank borrowings	Within 6 months of listing	276.1	91.6
Defray fees and expenses for IPO	Within 6 months of listing	25.3	8.4
		301.4	100

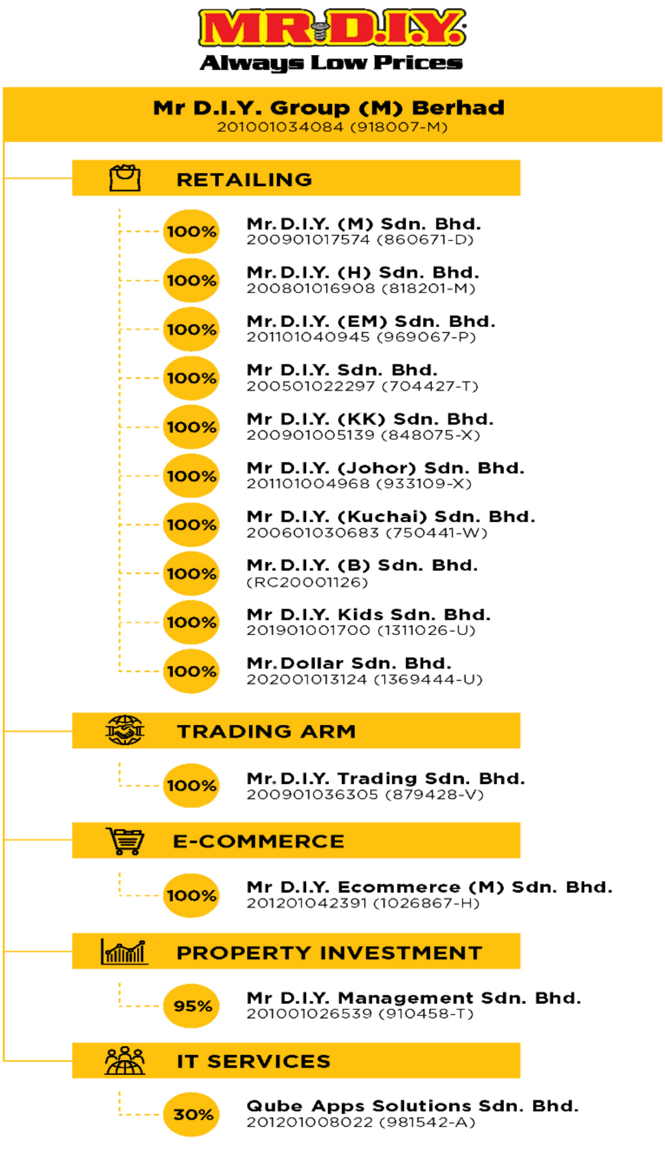
Source: Company data

Company Overview

Historical background

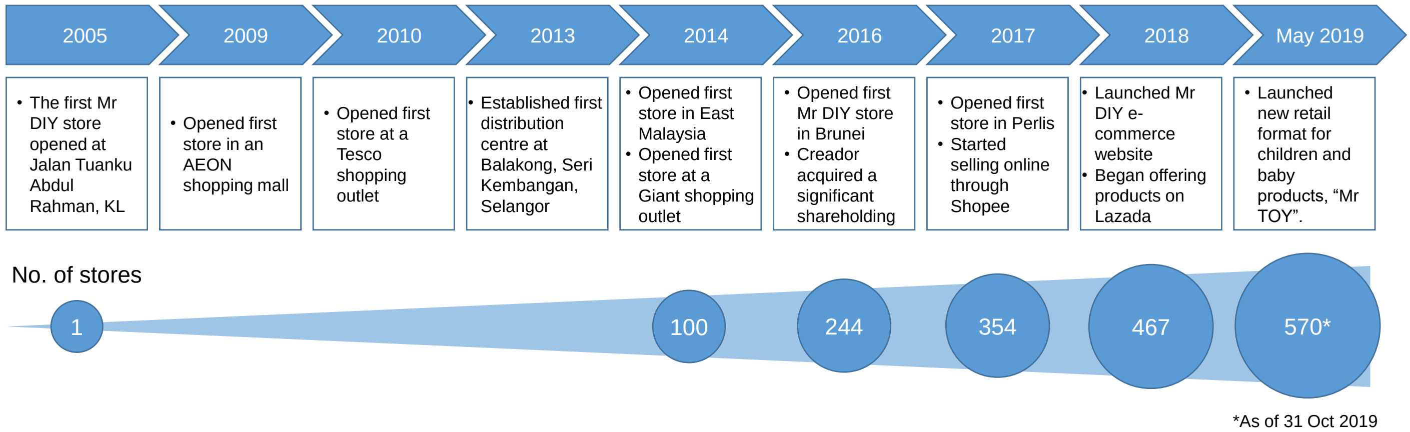
The group was incorporated in Malaysia on 12 Oct 2010, under the name Mr D.I.Y. Enterprise. It was later converted into a public company on 4 Jun 2019, and assumed the name of Mr D.I.Y. Group (M). The history of the business can be traced back to 2005, when the founder opened a hardware store along Jalan Tuanku Abdul Rahman, Kuala Lumpur. The founder has continued to expand the business under various operating companies since that time.

Figure 24: Mr DIY's corporate structure



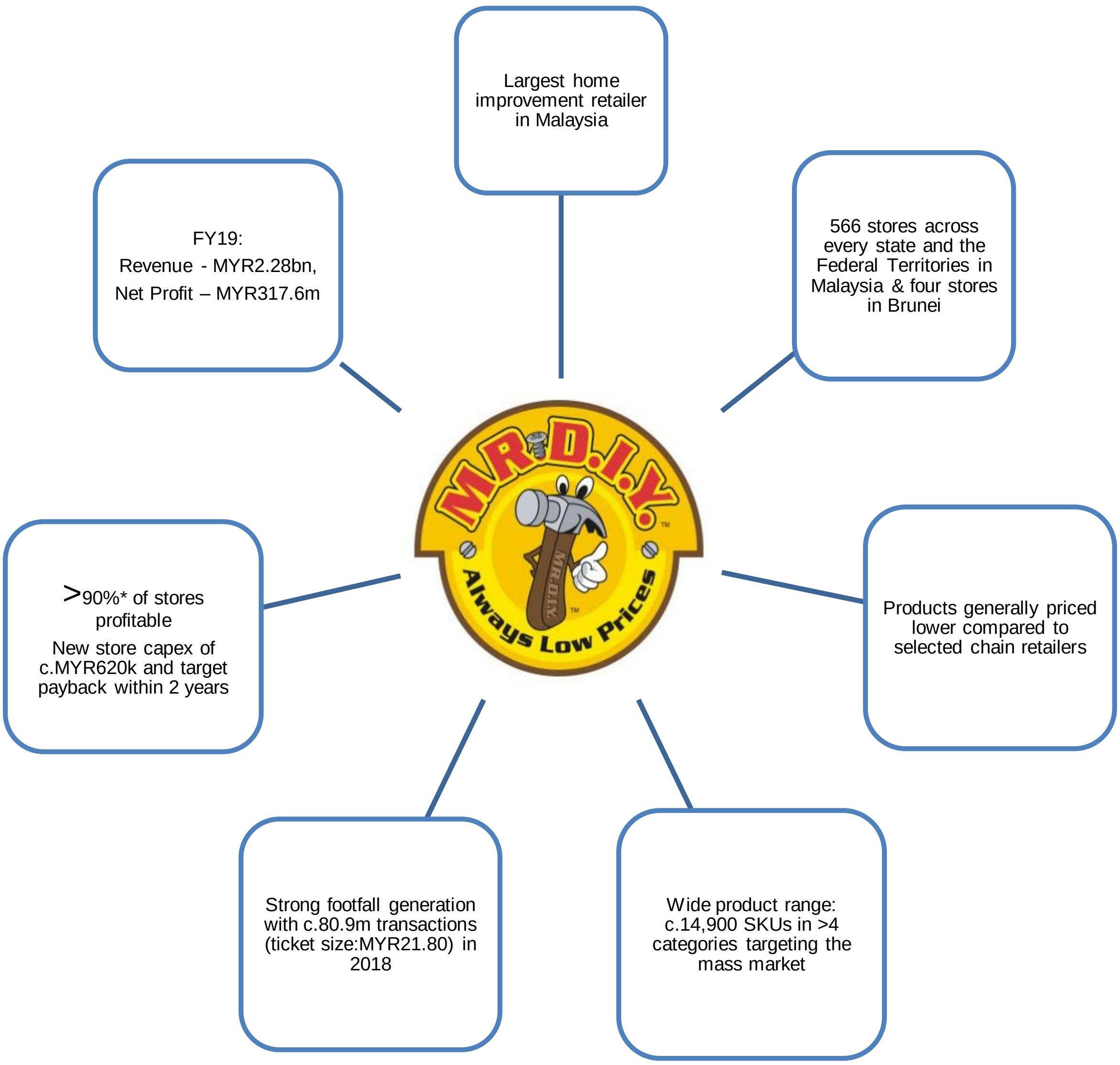
Source: Company data

Figure 25: Mr DIY's milestones



Source: Company data

Figure 26: Mr DIY at a glance



*Note: *Refers to FY18 and 8M19*
Source: Company data

Business Overview

Mr DIY is the largest home improvement retailer in Malaysia, with an estimated market share of 25.4% by revenue in 2018.

Mr DIY recorded approximately 6.7m and 8.2m transactions per month on average in FY18 and 8M19. The group directly operates and manages all of its stores. These stores are located in shopping malls, business parks, alongside roads, and shopping districts – all for customers' easy access. Typically, these outlets operate seven days a week.

Mr DIY's merchandising strategy is to offer a wide range of products that provide attractive price-to-quality value propositions. The bulk of its products comprise hardware, household & furnishing, electrical, stationery, and sports equipment. As at 31 Aug 2019, Mr DIY stores carried c.14,900 SKUs on average per store. In FY18 and 8MFY19, the group recorded average transaction values of MYR21.80 and MYR22.30.

Store operations are supported by centrally managed inventory management and distribution systems. As at 31 Oct 2019, the products are distributed to Mr DIY's stores across West Malaysia through a fleet of 94 delivery trucks from the group's distribution centre in Balakong, Sri Kembangan, Selangor. Mr DIY uses third-party freight service providers for stores in East Malaysia and Brunei, as well as some of the stores in West Malaysia, which are inaccessible to its delivery trucks.

Figure 27: Mr DIY's value proposition

Attractive price-to-quality	Convenient & optimised shopping experience	Wide product variety
• Quality products, competitively priced • Affordable to mass-market consumers	• Comfortable retail experience • Convenient locations	• Broad range of c.14,900 SKUs on average per store • Continual review of product mix to cater to changing customer demand

Source: Company data

Stores

Store locations and formats. As at 31 Oct 2019, Mr DIY operates 566 stores nationwide, as well as four in Brunei under the "Mr DIY" brand. The group also operates eight stores in West Malaysia under the Mr TOY brand, and opened its first Mr Dollar store last August.

Mr DIY directly operates all of its stores without any franchise or agency agreements. 569 of these stores are operated on tenanted properties, while one operates within its own property. There are two store formats:

i. Retail mall-based stores;

ii. Standalone shopfront stores.

Figure 28: Revenue breakdown by geography

Region (MYRm)	FY16	FY17	FY18	8MFY18	8MFY19
Malaysia					
Central	290.7	374.7	532.2	325.8	458.7
East Coast	103.5	165.9	242.6	156.8	190.9
North	139.2	192.4	284.7	178.5	227.6
South	198.4	272.0	375.4	235.2	315.3
East Malaysia	93.7	206.1	312.2	190.3	251.6
Sub-total	**825.5**	**1,211.1**	**1,747.1**	**1,086.6**	**1,444.1**
Brunei	0.4	16.6	19.1	11.8	13.4
Total	**825.9**	**1,227.7**	**1,766.2**	**1,098.4**	**1,457.5**

Source: Company data, RHB

Figure 29: Mr DIY's store types

Type of stores	Retail mall-based store	Standalone shopfront store
No. of stores (As of 31 Oct 2019)	348	222
Location	Typically located on higher floors of shopping malls or within, or adjacent to, the premises of supermarkets and hypermarkets	Typically at street level
		

Source: Company, RHB

Mr DIY's store opening process consists of:

i. **Site identification and preliminary site assessment.** The group has an in-house business development team that actively sources for potential new store sites by identifying premises that are new, vacant, or are soon to be vacated by an existing tenant. Once identified, internal site assessment and procurement teams conduct due diligence, feasibility studies, and market analyses – this includes the size and demographic of the local population, presence of other retailers, customer traffic, and accessibility and developmental prospects of the area;

ii. **Physical site visits.** If a site is approved by the preliminary site assessment process, Mr DIY will then conduct physical visits to verify the assumptions made during the preliminary assessment. Site visits also enable the assessment of physical and environmental characteristics that the team might have missed during the preliminary stage;

iii. **Site implementation.** Once a site passes the assessment process, the team will proceed to negotiate and execute the tenancy agreement and take possession of the vacant premises. Third-party contractors will then be appointed to fit out the new store, including the installation of equipment, furniture, fittings, security systems, and electrical fittings. The store's operations team will then ensure that the requirements are met. Once the store fit is completed, Mr DIY will determine the initial product mix via an analysis of the sales history of its other stores, in areas with similar demographics – the mix is then adjusted based on experience. The site implementation process from the day Mr DIY enters into a lease for a store to the opening day for that store typically takes between 30 and 60 days.

Figure 30: Breakdown number of stores by size as at 31 August 2019

Store size (sq ft)	No. of stores
Less than 6,000	82
6,000 to 12,000	351
More than 12,000 to 20,000	110
More than 20,000	5
Total	**548**

Source: Company data, RHB

E-commerce. Mr DIY launched a dedicated e-commerce website in Jun 2018 that allows customers in Malaysia to browse, order, and pay for its products online. The orders will then be fulfilled through third-party delivery services. Customers also may choose to pick up their purchases at 84 selected Mr DIY stores in the Klang Valley, Johor, Perak, and Penang. The group intends to expand the store pick-up service to other regions in Malaysia, as online sales in such regions increase.

Mr DIY maintains a dedicated warehousing facility within its distribution centre to service e-commerce orders. Moving forward, the group plans to expand the product range available on its e-commerce website to sell products that take up a lot of shelf or floor space. It is also looking at ways to deliver products that require consumer education more effectively via this channel.

Mr DIY's products also available on third-party e-commerce retail platforms such as Lazada and Shopee. Sales from e-commerce websites and third-party retail platforms account for 0.12% and 0.25% of FY18 and 8MFY19's total sales.

End-suppliers

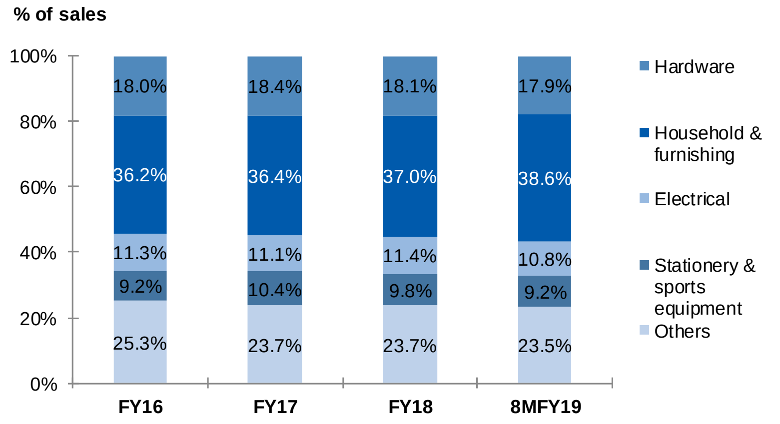
Mr DIY sources its products from end-suppliers, which comprise manufacturers or distributors based in China, Malaysia, Thailand, and Indonesia. In FY18 and 8M19, 74.8% and 72.8% of its produces were sourced from China. During the same two periods, 24.4% and 26.5% were locally sourced. As at 31 Oct 2019, Mr DIY purchased products from more than 800 end-suppliers, with the largest of them accounting for less than 5% of total purchases. The group is not dependent on any of these end-suppliers, as there are alternative options providing similar products that it can source from.

The inventory purchases from overseas end suppliers were made through Malaysian-based trading houses, which help to manage the importation. Once the trading houses receive the products, they then issue invoices to Mr DIY. The trading houses then pass the applicable portion to end-suppliers after payments are made. These houses are regarded as the Mr DIY's direct suppliers.

Products

The products Mr DIY sells comprise both white-label products sold under "MR. D.I.Y." and "MR. D.I.Y. Premium" brands and third-party branded products. Third-party branded products fall under major names like Philips, Dunlop, Faber Castell, WD-40, and Energizer – and this segment accounts for the majority of the company's sales. The group is also the sole or exclusive distributor/agent in Malaysia for 57 third-party brands such as RMZ City, Fixman, Carsun, and Aeropak. Mr DIY works closely with third-party manufacturers to design white-label products in order to provide higher price-to-quality products. Its popular white-label products include batteries, hardware tools, and home appliances.

Figure 31: Sales breakdown by product category



Hardware: This product category contains tools and equipment for the purposes of home improvement and maintenance, and includes plumbing, gardening and power & hand tools.

Household & furnishing: Encompasses home organisation, home decoration and cooking items, appliances and accessories, and includes housekeeping and storage solutions, kitchen appliances, bathroom accessories and kitchenware.

Electrical: Includes simple electronic products such as lights, hairdryers and electric shavers and electrical and travel accessories.

Stationery & sports equipment: Includes general office stationery supplies and casual sports equipment.

Others: Includes toys, car accessories, jewellery and cosmetics.

Source: Company data

Supply management and distribution network

Mr DIY's product procurement team will engage with end-suppliers on a regular basis to survey new product offerings and assess the quality of the products. The procurement team also identifies third-party brand products that best satisfy their product selection criteria. Once the suitable products and end-suppliers are identified, the procurement team negotiates the supply arrangements.

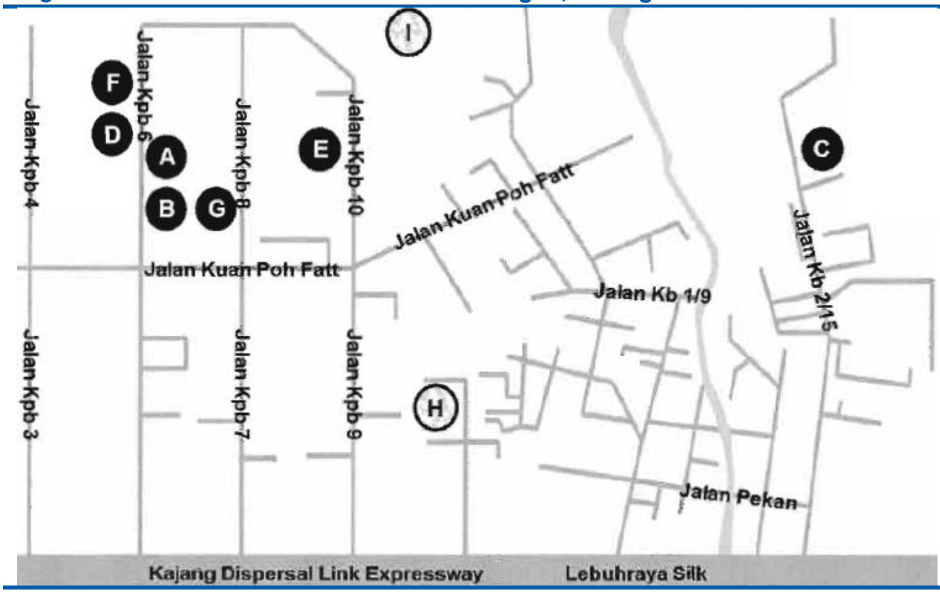
If there are several end-suppliers that are considered suitable, the selection will be made through a tender process to ensure the supply terms are competitive and commercially favourable to the group. As at 31 Oct 2019, Mr DIY did not have any minimum purchase obligations with any of the end-suppliers.

Supply chain process. Mr DIY engages with third-party import trading houses based in Malaysia to assist with the importation of its products, including collecting supplies from overseas ports, receiving supplies at ports in Malaysia, warehousing, and customs handling processes. As the frequency and volume of the products imported are substantial, Mr DIY benefits from leveraging on the trading houses' experience and knowledge in managing logistics and custom clearing processes. The group has also engaged a China-based freight management service provider to assist with the administrative aspects and logistics of purchasing and exporting the products from the East Asian nation, which includes placing purchase orders, and consolidating and storing the products.

The imported products are shipped to designated trading houses in Malaysia. If an end supplier does not hold an export license, the products are sent to a third-party exporter before being delivered to the trading houses. When the volume of an order is not sufficient to fill a full shipment container, the orders are aggregated with other orders by the freight management service provider.

Once the designated trading houses receive the products, they will issue an invoice to Mr DIY for the cost of products, customs duties, Sales and Services Tax (SST), the trading house's service fees, and the freight management service provider's fees. Once Mr DIY makes the payment against the invoice, the trading houses will pass the applicable portion of these payments to the relevant suppliers. Mr DIY will receive the order only after the shipment has been cleared by Royal Malaysian Customs. The payments to the trading houses in Malaysia are in MYR terms.

Figure 32: Mr DIY's facilities in Seri Kembangan, Selangor



Source: Company

Figure 33: Facilities' details as at 31 Oct 2019

Facility		Approximate land area (sq. ft.)	Approximate gross floor area (sq. ft.)
Existing			
A -	Warehousing and distribution	85,000	66,000
B -	Warehousing and distribution	86,000	56,000
C -	Warehousing and distribution	133,000	87,000
D -	Delivery trucks and employee parking	85,000	-
E -	E-commerce warehousing and distribution	43,000	18,000
F -	Warehousing and distribution	73,000	55,000
G -	Warehousing and distribution of goods shipping outside of Peninsular Malaysia	88,000	49,000
Total		**593,000**	**331,000**
Future plans			
H -	Corporate office, warehousing and distribution	na	210,000
I -	Warehousing	260,000	na

Source: Company data, RHB

Figure 34: Mr DIY's staff breakdown according to function

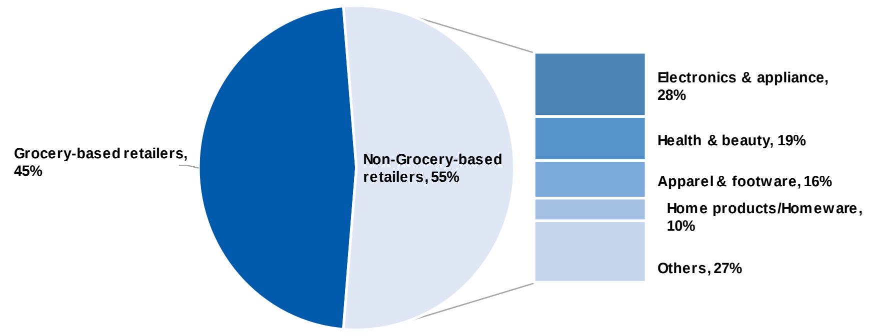
Function	FY16	FY17	FY18	8MFY19
Managerial staff	24	35	40	51
Administrative and headquarters staff	183	237	362	438
Warehousing staff	292	403	745	755
Store staff	3,630	5,399	6,832	7,780
In Malaysia	3,622	5,348	6,769	7,726
In Brunei	8	51	63	54
Total	**4,129**	**6,074**	**7,979**	**9,024**

Source: Company data, RHB

Industry Overview

Malaysia's retail industry can be segmented into grocery and non-grocery-based retailers. Grocery-based retailers mainly focus on food & beverages and household supplies, while non-grocery retailers cover homeware (furniture and home improvement products, electrical appliances) and apparel. Mr DIY is the leading player within the home improvement segment in Malaysia. Hardware, household & furnishing, and electrical products are the largest revenue contributors to the group. Together with stationery and sports equipment, these contributed approximately 76.3% of Mr DIY's total revenue in FY18.

Figure 35: Breakdown of retail sales in Malaysia (2018)

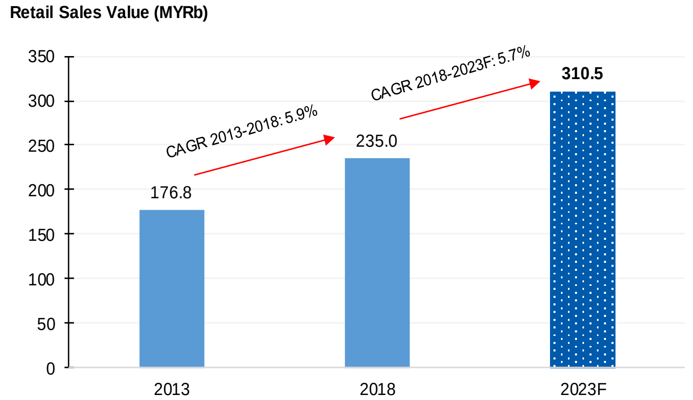


Source: Frost & Sullivan

The development of Malaysia's retail landscape is driven by three key factors – rapid urbanisation, modernisation, and solid domestic demand. Retail activities, especially in the home improvement segment, are gradually shifting from traditional to modern retail channels. The traditional business model – often termed as "mom-and-pop" stores – are typically less structured, and are operated by individuals or as family businesses. Usually, traditional retailers operate on a small scale and focus on a single product segment (like hardware and household items), and carry limited branded goods to cater to demand from households within their vicinity. By contrast, modern retail channels offer a variety of products, are owned by large corporate entities, and are established as chain stores with broad geographical coverage.

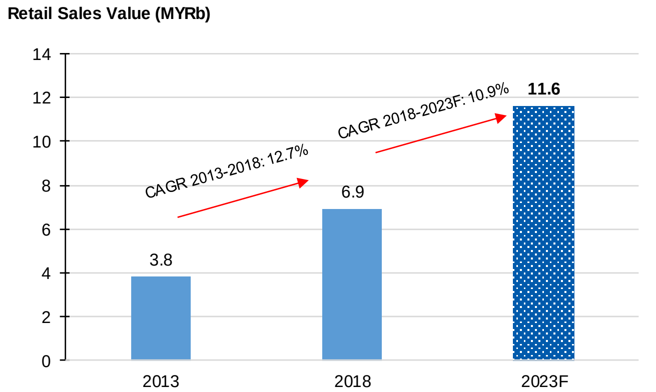
According to Frost & Sullivan, Malaysia's population increased at a CAGR of 1.4% from 2013 to 2018. According to the United Nations, the urban population grew to 76% from 72.9% during the same period, and is forecasted to grow to 78.7% by 2023. This should encourage the development of new residential properties and townships to drive demand for home improvement products. The rising disposable income and emergence of the middle-income segment in Malaysia should also contribute to greater household purchasing power. Frost & Sullivan expects home improvement retail sector sales to expand to MYR11.6bn in 2023, from MYR6.9bn in 2018 – implying a CAGR of 10.9%.

Figure 36: Retail sales value in Malaysia, 2013-2023F



Source: Frost & Sullivan

Figure 37: Retail sales value of the home improvement retail sector in Malaysia, 2013-2023F

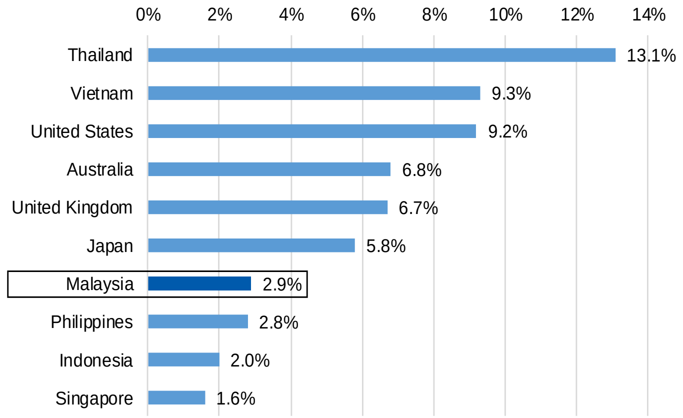


Source: Frost & Sullivan

According to Frost & Sullivan, Malaysia recorded home improvement retail sales per capita at USD51.00 in 2018, substantially below that of developed countries such as the US (USD921.00), Australia (USD641.00), and the UK (USD580.00). It was also lower than that of neighbouring countries like Thailand (USD237.00), Vietnam (USD118.00), and Singapore (USD74.00). However, it expects this to grow at a CAGR of 9.5% from 2018 to 2023F – higher than most ASEAN countries except Vietnam – due to the growth in disposable income and stable labour market conditions.

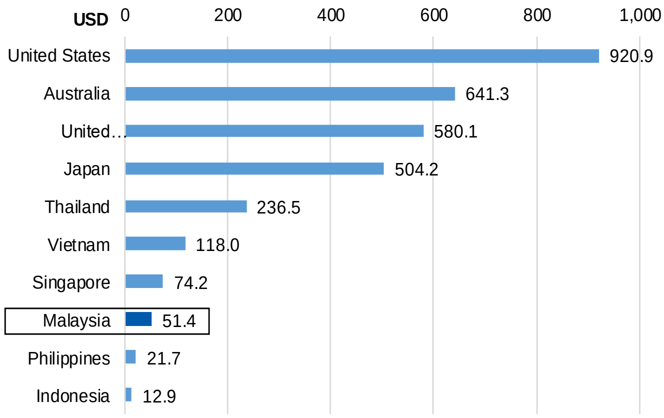
Retail sales of the home improvement segment as a percentage of total retail sales in most ASEAN member states are lower, given the availability of cheap labour vs developed countries that have a stronger "do it yourself" culture. Nevertheless, ASEAN member states sales are expected to grow, with increasing acceptance of the "do it yourself" trend.

Figure 38: Home improvement retail sector as a % of total retail sales (2018)



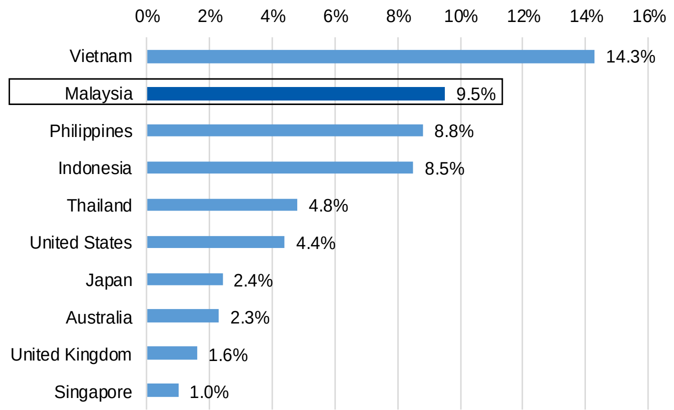
Source: Frost & Sullivan

Figure 39: Retail sales of the home improvement retail sector per capita (2018)



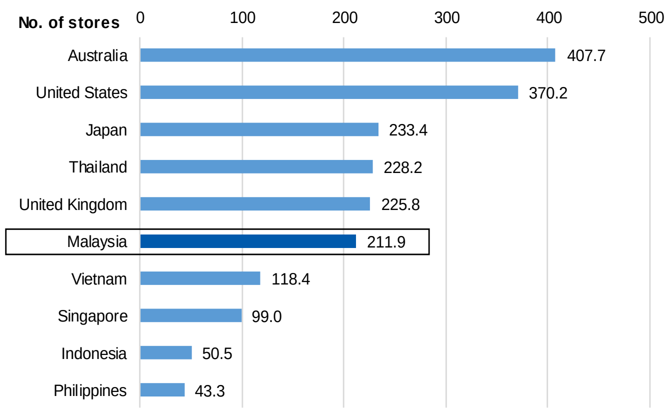
Source: Frost & Sullivan

Figure 40: Growth in retail sales of the home improvement retail sector per capita, CAGR for 2018-2023F



Source: Frost & Sullivan

Figure 41: Total home improvement stores per million people (2018)



Source: Frost & Sullivan

Key players

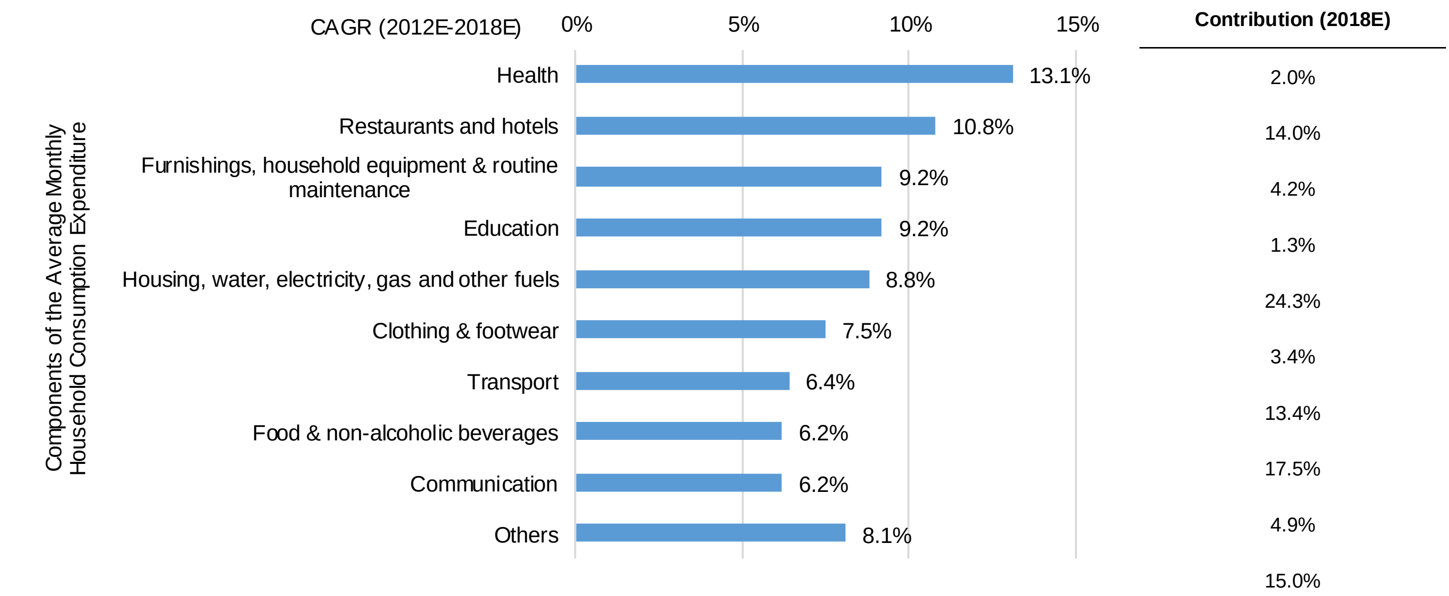
The majority of home improvement chain retailers are present in major cities, while small independent companies are concentrated mostly in the states they are based in. According to Frost & Sullivan, Mr DIY is the largest in Malaysia by geographical coverage and the number of stores. And, among the listed home improvement retailers, Mr DIY is the only player with presence in all Malaysian states, including the federal territories. ACE Hardware and One Stop Superstore are Mr DIY's closest competitors within the hardware & electrical products and household & furnishing categories.

Figure 42: Key Players in Malaysia's Home Improvement Retail Sector, 31 October 2019

Brand name	Company in Malaysia	Presence in Malaysia	Stores	Key product category
Mr DIY	Mr DIY Group (M)	All states including Federal Territories	566	Household, furnishing, hardware, electrical
One Stop Superstore	One Stop Superstore (under TCT Trading)	Sabah, Sarawak, Labuan	75	Household, furnishing
Daiso	Daiso Malaysia	All states except Terengganu	66	Household, furnishing
Yubiso	Yubiso (M)	Kuala Lumpur, Selangor, Perak, Penang, Negeri Sembilan, Johor, Melaka, Pahang, Kelantan	66	Household, furnishing
Supersave	Supersave Group of Companies	Sabah, Sarawak, Selangor, Negeri Sembilan	61	Household, furnishing
Miniso	Miniso (M)	Kuala Lumpur, Selangor, Penang, Melaka, Johor, Pahang, Sarawak	34	Household, furnishing
Ninso	Ninso Global (under TCT Trading SB)	Johor, Sarawak, Sabah, Selangor, Kuala Lumpur	32	Household, furnishing
Kaison	Kaison Furnishing	Kuala Lumpur, Selangor, Perak, Melaka, Negeri Sembilan, Kelantan, Kedah, Pahang, Sabah, Sarawak	29	Household, furnishing
Fun N Cheer	Fun N Cheer	Kuala Lumpur, Selangor	22	Household, furnishing
SWC	SWC Entreprise	Selangor, Perak, Negeri Sembilan	21	Household, furnishing
ACE Hardware	Giant Ace	Kuala Lumpur, Selangor, Perak, Penang	20	Hardware, electrical
Domesky	Domesky Holding	Kuala Lumpur, Selangor, Melaka, Johor, Kedah, Perak, Penang	13	Household, furnishing
Home-Fix	Home-Fix (M)	Kuala Lumpur, Selangor, Johor	9	Hardware, electrical
Muji	Muji (Malaysia)	Kuala Lumpur, Selangor	8	Household, furnishing
5ringgit Shop	Fasons Five	Kedah, Penang, Perak	6	Household, furnishing

Source: Frost & Sullivan

Figure 43: Average monthly household consumption by component



Source: Frost & Sullivan

Barriers to entry

Competitive and fragmented market. It will be challenging for new players to gain market share, given the wide availability of home improvement product categories in many retail store formats. Rising costs associated with product distribution, and staff training and marketing, among others, make it difficult for new players to break even and be profitable, when compared to the bigger players.

Intense price competition. Existing players may have an edge over new entrants, since they should be able to price products more competitively due to good relationships with suppliers, as well as economies of scale. Due to the homogenous nature of the products, consumers switch brands and purchase points easily. Malaysia consumers, especially the low- to middle-income groups, are also price-sensitive.

Setting up stores in shopping malls. It will be more difficult for new home improvement retailers to secure retail space at in-demand shopping malls due to long waiting lists and stringent tenant selection criteria. Large existing players also may have negotiated for longer lease periods and cap on rentals, which could make it more difficult and costly for new entrants to establish their presence.

Figure 44: Product pricing comparison

Category	Brand	Specification	Mr DIY's price (MYR)	Price comparison (MYR)							
				ACE Hardware	Home-Fix	Supersave	Daiso	FNC	One Stop Superstore	Ninso	SWC
Hardware											
Plumbing	Watertac	WTC Hand Bidet + Hose Set 301 WHT	11.68	20.90	-	-	-	-	-	-	-
Plumbing	Watertac	Wall Sink Tap P301	23.90	36.90	-	-	-	-	-	-	-
Adhesives	Chemi-Bond	All Purpose Magic Glue 100gm	4.90	5.50	-	-	-	-	-	-	-
Fan Blades	Liwida	Multi Fan Blade 16" FB1688	6.32	11.50	-	-	-	-	-	-	-
Fillers	PYE	Puttyfilla Cellulose Filler 1.5kg	11.27	13.90	-	-	-	-	-	-	-
Fillers	PYE	Puttyfilla Cellulose Filler 0.5kg	6.50	8.50	-	-	-	-	-	-	-
Fillers	PYE	Woodfilla Teak 0.5kg	9.98	12.90	-	-	-	-	-	-	-
Fillers	PYE	Powderfilla Cellulose Filler 454gm	2.73	3.50	-	-	-	-	-	-	-
Solvents	PYE	Drain Clog Free (Drain Renovator Solvent) 500ml	9.00	11.90	-	-	-	-	-	-	-
Solvents	PYE	Drain Clog Free (Drain Renovator Solvent) 1litre	15.04	19.50	-	-	-	-	-	-	-
Locks	Stelar	Brass Padlock 38mm	5.19	-	-	-	-	5.00	-	-	-
Locks	Stelar	Brass Padlock 20mm	1.69	-	-	-	-	2.50	-	-	-
Locks	Stelar	Password Lock L40	5.19	-	-	-	-	4.80	-	-	-
Lubricants	WD-40	Multi-purpose oil spray and lubricant 191ml	10.06	-	-	-	-	-	-	-	13.80
Electrical											
Batteries	Eveready	Eveready Super Heavy Duty AA (4 units/pack)	6.51	7.50	-	-	-	-	-	-	-
Batteries	Eveready	Eveready Super Heavy Duty AAA (4 units/pack)	6.89	8.00	-	-	-	-	-	-	-
Batteries	Energizer	Energizer Max AA 1.5V (2 units/pack)	6.82	7.90	7.08	-	-	-	-	-	-
Batteries	Energizer	Energizer Max AAA 1.5V (4 units/pack)	12.38	12.38	12.64	-	-	-	-	-	-
Lightings	Philips	Philips Master PL-C 18W/865/2P	5.75	7.90	-	9.42	-	-	-	-	-
Lightings	Philips	Philips Master PL-C 13W/827/2P	5.57	7.50	-	-	-	-	-	-	-
Lightings	Philips	Philips Master PL-C 13W/865/2P	5.83	7.50	-	-	-	-	-	-	-
Lightings	Philips	Philips Essential 18W WW E27 220-240V	9.23	-	-	-	-	-	16.80	-	13.60
Lightings	Philips	Philips Essential 18W CDL E27 220-240V	8.05	-	-	13.19	-	-	-	-	-
Lightings	Philips	Philips Essential 23W CDL E27 220-240V	11.54	-	-	16.99	-	-	-	-	-
Lightings	Philips	Philips Tornado 24W CDL E27 220-240V	16.55	-	-	-	-	-	-	-	24.80
Lightings	Philips	ESS LED bulb 5W E27 3000k 230V	9.90	12.50	-	-	-	-	-	-	-
Household & Furnishing											
Cleaning Agents	Kleenso	9 in 1 Anti-Bacterial Tea Tree Oil Concentrated Floor Cleaner 900gm	13.61	17.90	-	-	-	-	-	-	-
Cleaning Agents	Kleenso	Serai Wangi Pest Repellent Spray 500ml	8.32	11.00	-	-	-	-	-	-	-
Pest Control	Chemi-Bond	Rat Glue 220ml	5.57	8.50	-	-	-	-	-	-	-
Housekeeping	Scotch Brite	Heavy Duty Scouring Sponge (1 piece/pack)	3.30	3.80	-	-	-	-	-	-	-
Housekeeping	Scotch Brite	Heavy Duty Scouring Sponge (3 piece/pack)	6.51	8.20	-	-	-	-	-	-	-
Housekeeping	Multi-brands	Wire Brush - nylon, steel, brass (3 units/pack)	2.90	-	-	-	5.90	1.60	-	-	-
Hooks	Multi-brands	5 step over door hook 278mm (5kg max load)	1.79	-	-	3.76	5.90	-	-	-	-
Hooks	Multi-brands	Steel S hook 11cm x 5cm (4 pieces/pack)	2.17	-	-	-	5.90	-	-	-	-
Hooks	Multi-brands	Steel S hook 16.3cm x 5.2cm (3 pieces/pack)	2.36	-	-	-	5.90	-	-	-	-
Hooks	Multi-brands	PVC Coated S hook (6 inches)	1.47	-	-	1.32	-	-	-	-	-
Hooks	Multi-brands	1 piece Mop Hook (500g max load)	3.30	-	-	-	5.90	-	-	-	-
Housekeeping	Multi-brands	Mini broom and dustpan 14cm x 9cm	3.11	-	-	-	5.90	-	-	-	-
Housekeeping	Multi-brands	Brass and polypropylene cleaning brush 17cm	2.36	-	-	-	5.90	-	-	-	-
Kitchenware	Multi-brands	Mason glass jar with lid 480ml	3.10	-	-	4.99	5.90	-	-	-	-
Kitchenware	Multi-brands	Gas Foil Pad 24cm (2 pieces/pack)	3.10	-	-	-	5.90	-	-	-	-
Door Wedge	Multi-brands	Door Stopper 4.5cm x 13.0cm x 2.7cm (2 pieces/pack)	3.49	-	-	-	5.90	-	-	-	-
Laundry	Multi-brands	Plastic Clothes Hanger (6 pieces/pack)	1.63	-	-	-	-	-	-	2.50	-

Source: Frost & Sullivan

Future Plans And Strategies

Continue to expand presence and grow store network. Mr DIY should continue to leverage on its business model and operational platform to further expand its store network, capitalising on the underpenetrated home improvement retail sector in Malaysia. The group has set a target of at least 100 additional stores in 2020, at an aggregated capex of c.MYR62m. This is to be funded through internally-generated funds and bank borrowings. In 10M19, it opened 103 net additional stores.

Continue to deliver positive SSSG through increased brand awareness, attractive price-to-quality product offerings, and convenience to customers. The expansion of the store network should further increase brand awareness among consumers and help to drive footfall. The group is likely to continue actively monitoring customer demand and customise the product range, in response to changes in customer preferences and buying patterns. Every quarter, Mr DIY continues to review its product offerings and grade each product on criteria such as sales volumes and margins, to determine the optimal shelf space and positioning of these products within its outlets. It also actively engages end-suppliers on ways to improve sales, eg adjusting selling prices. Mr DIY also phases out products that consistently underperform, and reallocates shelf space to different products. The group constantly keeps abreast of new product trends by participating in trade shows and conventions, as well as collaborating closely with product manufacturers to bring in new products that are attractive to Malaysian consumers.

Expanding into new retail formats. Mr DIY intends to leverage on its knowledge of local industry practices, customer preferences, direct sourcing network, and scale advantage to access new customer segments. In May 2019, the group opened its first Mr TOY store in Malaysia, which is focused on selling products for babies and children, namely toys. As at end-Sep 2020, it has 28 Mr TOY stores in Malaysia and intends to open an additional eight by end 2020. The Mr TOY stores complement Mr DIY's existing store portfolio by offering a wide range of products at attractive price-to-quality value. The new products will be sourced by leveraging on the group's existing network of end-suppliers. Meanwhile, Mr DIY opened the first Mr Dollar store in August, and has four stores under the brand as at end-Sep 2020.

Figure 45: Mr Dollar store

Source: RHB

Figure 46: Products in a Mr Dollar store

Source: RHB

Figure 47: Mr TOY store

Source: Company data, RHB

Figure 48: Products in a Mr TOY store

Source: Company data, RHB

Board Of Directors

Dato' Azlam Shah Bin Alias, Independent Non-Executive Chairman, currently serves as a Senior Adviser to the CEO of Tesco Stores Malaysia, and is concurrently the Chairman of Tesco Halal Council. He joined Tesco Malaysia in 2001 as Regional Property Director. Prior to working for Tesco Stores Malaysia, he held various roles in ExxonMobil Asia Pacific, Esso Malaysia, and Mobil Oil Malaysia.

Tan Yu Yeh, Non-Independent Executive Director and Co-Managing Director, has almost 15 years of experience in the industry. He founded Mr DIY and was responsible for opening the first Mr DIY store at Jalan Tuanku Abdul Rahman. He currently oversees the entire business operations of the group, in addition to setting business strategy, and has been actively contributing since 2005 as a director, shareholder, and adviser.

Tan Yu Wei, Non-Independent Executive Director and Executive Vice President, has been an active member of the group's management since 2011. He oversees Mr DIY's procurement strategy and store expansion, in addition to helming the logistics and marketing departments. He was part of the management team that set up De Little Chinatown between 2000 and 2011, and served as a production supervisor with Solectron Corp in the US, from 1998 to 2000.

Adrian Ong Chu Jin, Non-Independent Executive Director and Co-Managing Director, is responsible for the day-to-day business operations, particularly in corporate management and financial oversight. In 2015, he joined Creador as Managing Director and represented Creador Funds on Mr DIY's Board from 26 Oct 2016 until 31 Aug 2018, and acted as its main representative. In addition to representing Creador on its investment in the group, Ong also served as Creador's representative for its other retail sector portfolio companies. He was re-appointed to Mr DIY's Board on 11 Feb 2019. Ong has 20 years of experience in the banking industry, having held the position of Senior Managing Director of Investment Banking at CIMB.

Brahmal A/L Vasudevan, Non-Independent Non-Executive Director, was appointed to the board in 2018. He has experience spanning 10 years in different roles overseeing the branding, consulting, marketing, strategy, and business developments of various companies from 1990 to 2000. He founded Creador and has acted as its CEO since 2011. Responsible for founding Endeavor Entrepreneurs Malaysia – for which he is also a board member – Brahmal also sits on the board of Usaha Tegas.

Ng Ing Peng, Independent Non-Executive Director, has an extensive career in finance and accounting, having served at Thornton Baker and Ernst & Whinney between 1980 and 1987, before moving to the finance industry – ultimately becoming Head of Group Finance at CIMB in 2012. She has held various roles at Petra Energy, and currently serves as an Independent Non-Executive Director with the latter, a position she has held since 2016. She assumes the same role at Red Sena.

Leng Choo Yin, Independent Non-Executive Director, served at Commerce Trust (now part of Principal Asset Management) and Templeton Management in Canada between 1996 and 2001. She was responsible for strengthening regional sales efforts during her time at CIMB in various roles between 2001 and 2019. She is currently the Head of Group Wealth Management at Malayan Banking, where she has served since Jul 2019.

Key Management Team

Tan Yu Yeh, Co-Managing Director (please refer to Board of Directors for profile)

Tan Yu Wei, Executive Vice President (please refer to Board of Directors for profile)

Adrian Ong Chu Jin, Co-Managing Director (please refer to Board of Directors for profile)

Lim Chen Hwee, Senior Vice President, has over 15 years of experience in accounting and finance. She primarily oversees the statutory reporting, finance operations, and internal management reporting functions of the group. Lim was at BDO for almost eight years, before becoming Financial Manager at Time Zone between 2012 and 2015, and Senior Manager at TMF Administrative Services Malaysia from 2015 to 2016.

Tan Yew Hock, Director and Head, Business Development, has over 13 years of experience in business development. Joining the group in 2006, he leads new business opportunities for the group, and identifies strategic locations for developing new market bases. Prior to joining Mr DIY, Tan served at Intertech Component as an accounts manager and a treasurer with Inter-Pacific Securities**.**

Tan Yew Teik, Director and Head, Logistics, has around 15 years of experience in the retail business. He oversees store operations and is instrumental in overseeing the group's entire supply chain, including the logistics between Mr DIY's distribution centres and retail stores. Tan served as a purchasing manager in De Little Chinatown for nine years from 2004 and as a customer service engineer at AE Technology.

Hoe Lye Peng, Vice President, Distribution Centre, has over 15 years of experience in supply chain, warehousing, and logistics processes. Joining the group as a store manager in 2013, he became Head of the People & Store Department in 2015 to oversee warehouse activities, before being promoted to Vice President of the distribution centre in 2019. Hoe previously served as Warehouse and Logistics Manager at Solid Logic between 2004 and 2013.

Lau Boon Teck, Vice President, Retail Operations, has over 16 years of experience in the retail industry. He is responsible for the overall operations of the group's stores, including management staff and inventory, as well as the in-store performance for all stores in Malaysia and Brunei. Lau has held various roles within the group since 2010, prior to holding his current role, and previously worked with De Little Chinatown between 2003 and 2010.

Chin Guangui, Vice President, Marketing, has over seven years of experience in marketing. He started his career serving Brooks Running Malaysia as a sales & marketing executive from 2012 and 2014. He joined Mr DIY in 2014 as an assistant manager for the marketing department before being promoted to Head of Marketing in 2016. Chin is responsible for the marketing and sales strategies for the group, in addition to leading its e-commerce platform – playing a pivotal role in expanding Mr DIY's market share in Malaysia and setting up the digitalising of the group's marketing strategies and plans.

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-07			

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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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531