

3 November 2021

Consumer Cyclical | Retailing

## Mr DIY Group (MRDIY MK)

**Buy** (Maintained)

### On Firm Footing Despite Headwinds; BUY

Target Price (Return): MYR4.59 (+29%)  
Price (Market Cap): MYR3.56 (USD5,386m)  
ESG score: 3.20 (out of 4)  
Avg Daily Turnover (MYR/USD) 19.1m/4.55m

- **Maintain BUY and MYR4.59 TP, 29% upside with 1% yield.** Mr DIY's 9M21 results marginally trailed expectations, dragged down by the prolonged lockdown in 3Q21. Earnings should recover sharply in 4Q21, thanks to the lifting of movement restrictions, post-lockdown pent-up demand, and year-end seasonality. We continue to like Mr DIY for its gravity-defying growth, anchored by entrenched brand equity and a proven business model. Outlet expansion is sustainable, underpinned by market share gains and underpenetration in Malaysia's home improvement market.
- **Mr DIY's 9M21 results are slightly below expectations.** Core net profit of MYR297m (+28% YoY) met 65% of both our and consensus forecasts. The negative deviation could be attributed to a slower-than-expected return in footfall stemming from the prolonged lockdown in 3Q21. Post-results, we trim FY21F earnings by 4%, but make no material changes to FY22-23F profits. Our DCF-derived TP remains at MYR4.59, which is inclusive of a 4% ESG premium. The TP implies 48x P/E FY22F, in line with the valuation we ascribed to other large-cap consumer peers.
- **Results review.** YoY, 9M21 sales jumped 34% to MYR2.4bn, primarily driven by the net addition of 107 stores, with the Mr DIY brand making up 60% of the outlet expansion. Meanwhile, 9M21 GPM slipped 0.9 ppt to 41.6%, due to planned promotional campaigns and higher raw material costs whilst opex rose 36% YoY – largely in tandem with the topline growth. Consequently, 9M21 PBT surged 29% to MYR407m. QoQ, 3Q21 revenue was flatish at MYR768m on a longer period of store closures enforced by the lockdown, but offset by the lifting of trading restrictions (Figure 2). The former translated into lower opex (-5% QoQ), whereas the latter contributed to higher sales for the stores that were allowed to remain open. These factors led to a 10% QoQ increase in 3Q21 net profit to MYR90m.
- **Outlook.** The encouraging recovery momentum in September should sustain into 4Q21, considering the broader reopening of the economy and the ease in movement restrictions. This bodes well for all the outlets in shopping mall locations as well as Mr Toy stores which were not allowed to operate for the most parts of the lockdown. In addition, the store expansion plans have also resumed progressively since end-3Q21, and Mr DIY is confident of achieving its FY21 target of opening 175 new stores. As such, we anticipate a sharp earnings recovery in 4Q21, also taking into consideration the post-lockdown pent-up demand and favourable year-end seasonality. Our new forecast points to a >50% QoQ jump in 4Q21 core net profit.
- **Downside risks to our recommendation** include a critical supply chain disruption and a resurgence of COVID-19 infections.

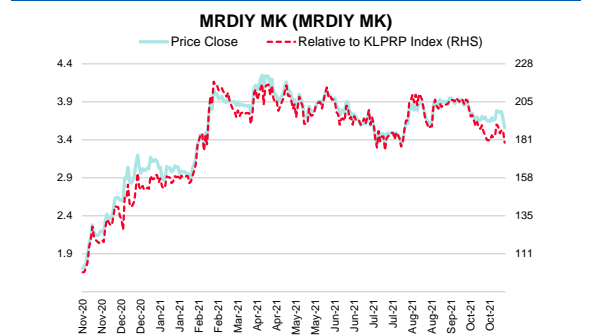
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.1	(6.3)	2.9	(10.8)	108.2
Relative	11.4	(11.4)	(6.0)	(11.5)	79.6
52-wk Price low/high (MYR)				1.73 – 4.25	



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	2,276	2,559	3,362	4,307	5,110
Recurring net profit (MYRm)	324	350	438	603	699
Recurring net profit growth (%)	5.0	8.1	25.1	37.8	15.8
Recurring P/E (x)	69.01	63.86	51.03	37.02	31.96
P/B (x)	65.6	25.5	20.4	16.0	12.8
P/CF (x)	55.40	58.01	40.18	30.91	24.68
Dividend Yield (%)	2.2	0.4	1.0	1.4	1.6
EV/EBITDA (x)	35.69	32.28	25.18	19.12	16.38
Return on average equity (%)	73.4	55.4	44.4	48.4	44.5
Net debt to equity (%)	141.8	19.7	15.6	7.5	net cash

Source: Company data, RHB

#### Overall ESG Score: 3.20 (out of 4)

##### E: GOOD

The company tracks and seeks solutions to optimise energy consumption, 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 promoting the use of reusable bags at its stores.

##### S: EXCELLENT

Donated protective equipment 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 information and statistics on its business operations. It is also transparent about its expansion plan. The current composition of the Board includes 50% of independent directors and 33% of women directors.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Malaysia	Recurring EPS	0.05	0.06	0.07	0.10	0.11
Consumer Cyclical	DPS	0.08	0.01	0.03	0.05	0.06
<b>Mr DIY Group</b>	BVPS	0.05	0.14	0.17	0.22	0.28
MRDIY MK	Return on average equity (%)	73.4	55.4	44.4	48.4	44.5
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	69.01	63.86	51.03	37.02	31.96
DCF	P/B (x)	65.6	25.5	20.4	16.0	12.8
	FCF Yield (%)	1.3	1.2	1.9	2.6	3.2
	Dividend Yield (%)	2.2	0.4	1.0	1.4	1.6
<b>Key drivers</b>	EV/EBITDA (x)	35.69	32.28	25.18	19.12	16.38
i. Store expansion;	EV/EBIT (x)	45.58	42.90	33.81	25.09	21.59
ii. Robust SSSG;						
iii. Market share gains.						
	<b>Income statement (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Total turnover	2,276	2,559	3,362	4,307	5,110
i. Supply disruption;	Gross profit	964	1,091	1,389	1,796	2,121
ii. Major epidemic outbreak;	EBITDA	639	697	894	1,173	1,363
iii. Intense competition.	Depreciation and amortisation	(139)	(173)	(228)	(279)	(329)
	Operating profit	501	525	666	894	1,034
	Net interest	(65)	(69)	(70)	(81)	(91)
	Pre-tax profit	438	458	598	816	945
	Taxation	(120)	(121)	(160)	(212)	(246)
	Reported net profit	318	337	438	603	699
	Recurring net profit	324	350	438	603	699
<b>Company Profile</b>						
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.						
	<b>Cash flow (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	(180)	(129)	(159)	(216)	(192)
	Cash flow from operations	403	385	556	723	905
	Capex	(115)	(120)	(129)	(133)	(185)
	Cash flow from investing activities	(218)	(118)	(129)	(133)	(185)
	Dividends paid	(502)	(90)	(219)	(302)	(350)
	Cash flow from financing activities	(111)	(328)	(445)	(565)	(648)
	Cash at beginning of period	67	141	91	63	99
	Net change in cash	75	(61)	(18)	25	72
	Ending balance cash	141	80	73	88	171
	<b>Balance sheet (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	141	91	63	99	177
	Tangible fixed assets	354	436	488	527	601
	Total investments	5	6	8	10	13
	Total assets	1,824	2,253	2,619	3,107	3,622
	Short-term debt	12	243	213	183	153
	Total long-term debt	612	21	21	21	21
	Total liabilities	1,483	1,376	1,523	1,710	1,875
	Total equity	340	877	1,096	1,397	1,747
	Total liabilities & equity	1,824	2,253	2,619	3,107	3,622
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	28.5	12.5	31.4	28.1	18.7
	Recurrent EPS growth (%)	5.0	8.1	25.1	37.8	15.8
	Gross margin (%)	42.3	42.6	41.3	41.7	41.5
	Operating EBITDA margin (%)	28.1	27.2	26.6	27.2	26.7
	Net profit margin (%)	14.0	13.2	13.0	14.0	13.7
	Dividend payout ratio (%)	158.0	26.6	50.0	50.0	50.0
	Capex/sales (%)	5.1	4.7	3.8	3.1	3.6
	Interest cover (x)	7.75	7.61	9.58	11.05	11.31

Source: Company data, RHB

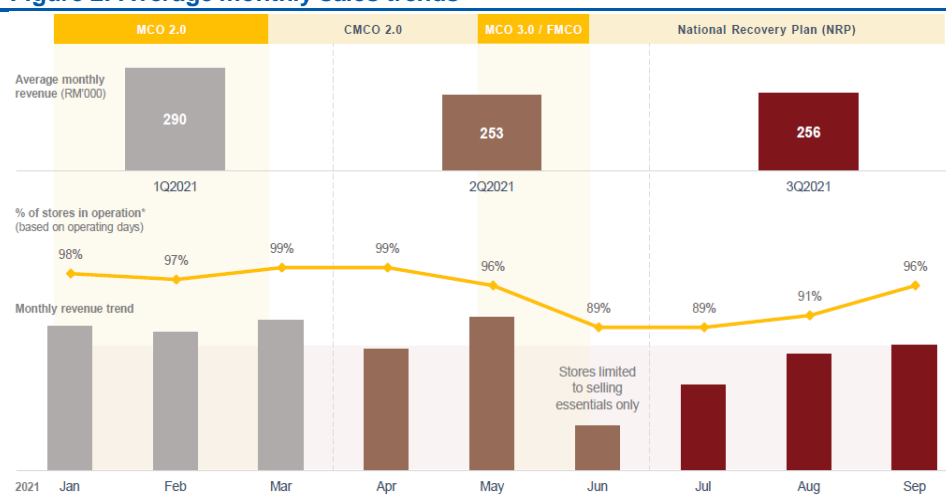
## Results At A Glance

Figure 1 : Mr DIY's results review

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Revenue	740.2	759.8	768.0	1.1	3.8	1,791.0	2,398.0	33.9	9M21 growth driven by 107 net addition of stores (65 Mr DIY, 9 Mr Toy and 33 Mr Dollar).
Gross profit	314.2	315.3	316.5	0.4	0.7	762.2	998.3	31.0	
Gross margin	42.4	41.5	41.2	(0.3)	(1.2)	42.6	41.6	(0.9)	On planned promotional campaigns and higher sourcing costs.
EBITDA	215.7	182.9	194.0	6.0	(10.0)	491.4	614.1	25.0	
Depreciation	(43.7)	(55.6)	(55.6)	0.0	27.4	(124.8)	(163.1)	30.7	
EBIT	172.0	127.3	138.4	8.7	(19.5)	366.6	451.0	23.0	
EBIT Margin (%)	23.2	16.8	18.0	1.3	(5.2)	20.5	18.8	(1.7)	
Finance costs	(16.7)	(15.3)	(14.9)	(2.4)	(10.4)	(52.7)	(45.6)	(13.4)	
Pretax profit	155.5	112.6	124.0	10.2	(20.2)	315.2	407.3	29.2	In line with the solid topline growth.
Pretax Margin (%)	21.0	14.8	16.1	1.3	(4.9)	17.6	17.0	(0.6)	
Tax	(42.0)	(30.4)	(33.7)	10.7	(19.9)	(86.3)	(110.0)	27.5	
Effective tax rate (%)	(27.0)	(27.0)	(27.2)	(0.1)	(0.1)	(27.4)	(27.0)	0.4	
Net profit	113.5	82.1	90.4	10.0	(20.4)	228.9	297.3	29.9	
Net Margin (%)	15.3	10.8	11.8	1.0	(3.6)	12.8	12.4	(0.4)	
Extraordinary Item(s)	(0.7)	0.0	0.0	nm	nm	(3.8)	0.0	nm	
Core net profit	114.2	82.1	90.4	10.0	(20.9)	232.7	297.3	27.8	At 65% of the forecasts.
Net Margin (%)	15.3	10.8	11.8	1.0	(3.6)	12.8	12.4	(0.4)	Third interim DPS of 0.65 sen declared, YTD 9M21 payout at 2.05 sen

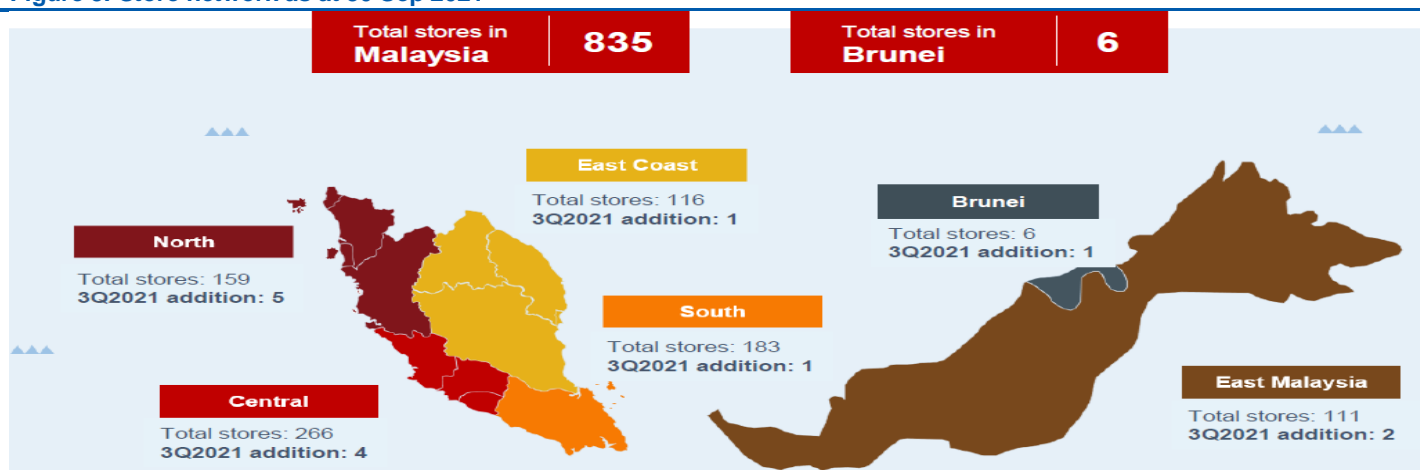
Source: Company data, RHB

Figure 2: Average monthly sales trends



Source: Company

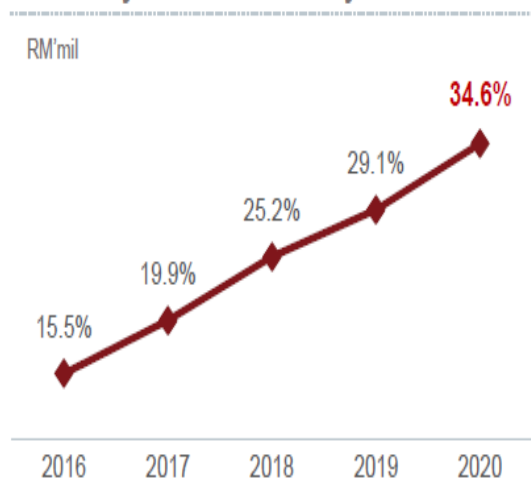
Figure 3: Store network as at 30 Sep 2021



Source: Company

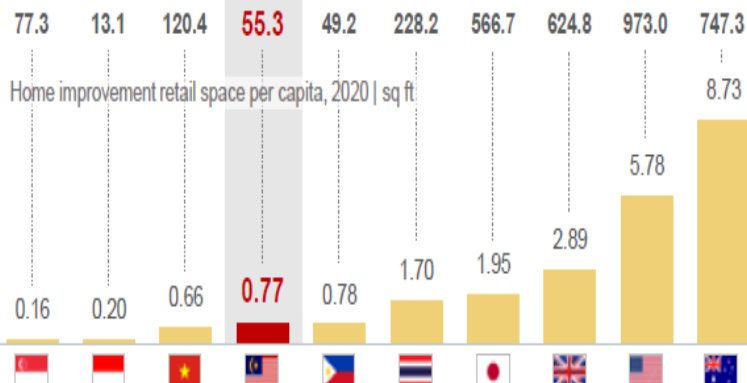
Figure 4: Updated industry data is supportive of a sustainable outlet expansion

## Historical growth of MR DIY's market share by revenue in Malaysia

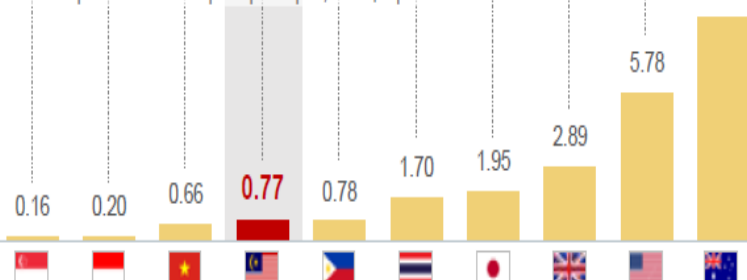


## Malaysia home improvement market remains underpenetrated

Home improvement sales per capita, 2020 | USD

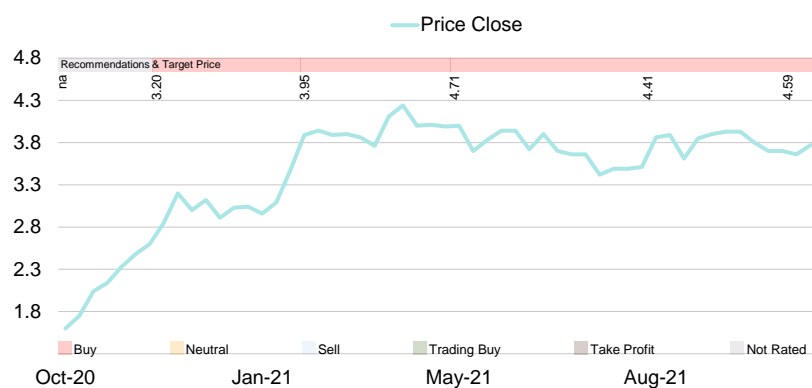


Home improvement retail space per capita, 2020 | sq ft



Source: Company

## Recommendation Chart

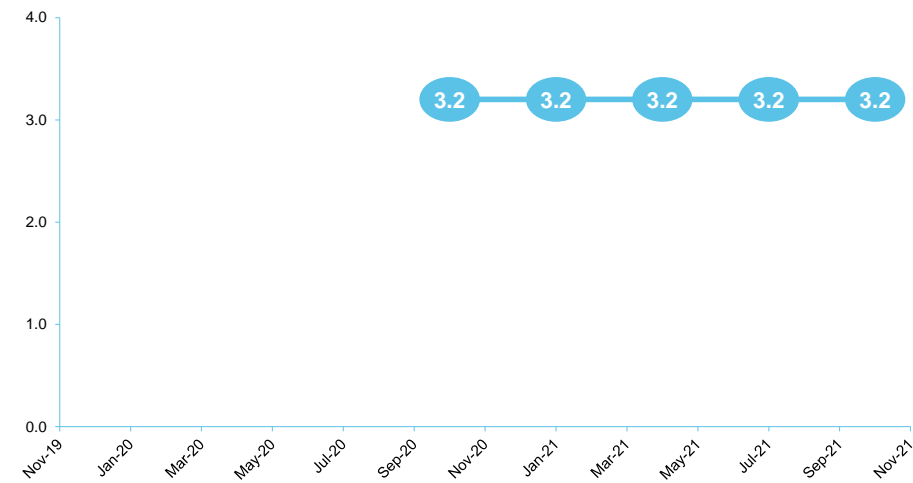


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-13	Buy	4.59	3.71
2021-08-05	Buy	4.41	3.38
2021-05-02	Buy	4.71	3.99
2021-02-18	Buy	3.95	3.73
2020-12-08	Buy	3.20	2.90

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Not Rated:</b>	Stock is not within regular research coverage

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