BUY

Last closing price: MYR 1.90
Date of coverage: 03/02/23
Target price: MYR 7.59
Upside: 399%

Analysts

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Basic Information

GICS Sector: Consumer Discretionary
GICS Sub-Industry: Multiline Retail
Bloomberg Ticker: MRDIY
Market Cap: MYR 18.02B
52 Weeks High: MYR 2.55
52 Weeks' Low: MYR 1.84

Company Description

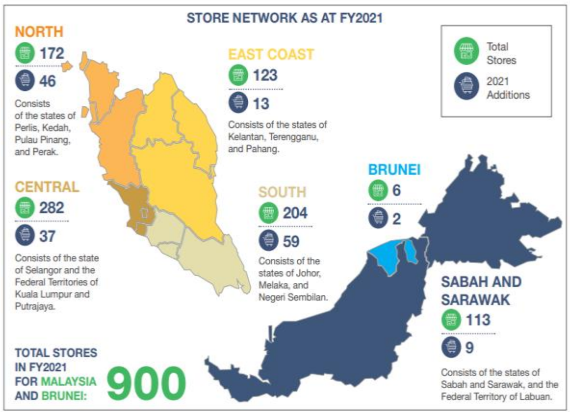
Mr DIY is Malaysia's largest home-improvement retailer with over 800 stores in Malaysia alone. Mr DIY offers more than 18,000 different products under 10 different brands. Their motto of 'Always Low Prices' exemplify their commitment to keeping prices low.

Key Financials

	2022A	2023F	2024F
Revenue	3,710,408	4,081,823	4,490,006
Op Income	764,414	840,855	924,941
Net Profit	1,558,514	1,714,365	1,885,802
EBITDA	567,636	624,367	686,728
Unlevered FCF	825,560	896,964	951,705

**in millions MYR*

Figure 1: Mr DIY stores in Malaysia and Brunei



Source: Company Annual Report

Investment Thesis

We initiate a Buy recommendation for Mr DIY with a five-year price target of MYR 7.59, representing an upside of 399%. Our recommendation is based on the following catalysts.

Economic moat deterring the entrants of competitors

With a retail presence in most Malaysian malls, Mr DIY leaves little room for competitors with extremely competitive pricing. This is critical to Mr DIY success as its products are easily accessible to customers and mass marketing would be vastly more effective.

High profit margin from products strategy

Economy of scale and white-label products keep production cost low, improving profit margins. This strategy is effective as home-improvement goods are commoditized products and product quality is generally not the main focus. Strong demand for home-improvement goods due to the pandemic was a key factor in Mr DIY's exceptional profit margins with a 31.8% year on year growth for the financial year of 2020 and 2021.

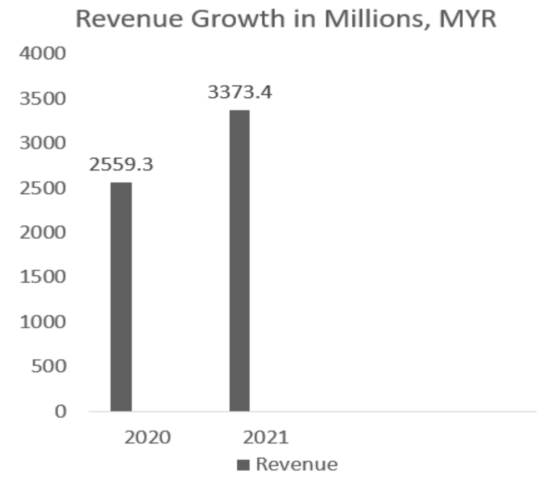
Healthy financials enables aggressive expansions

Mr DIY has a healthy balance sheet with a net gearing ratio of 0.01x. Leverage ratio stands at 0.2x in 2020 and 1.15x in 2021. Interest coverage ratio has also increased from 8.3x in 2020 to 11.75x in 2021.

Mr DIY main strength lies in its high profitability, which justifies its aggressive store expansions. Capital expenditure for 2021 was MYR 171M, funding the expansion of 175 stores.

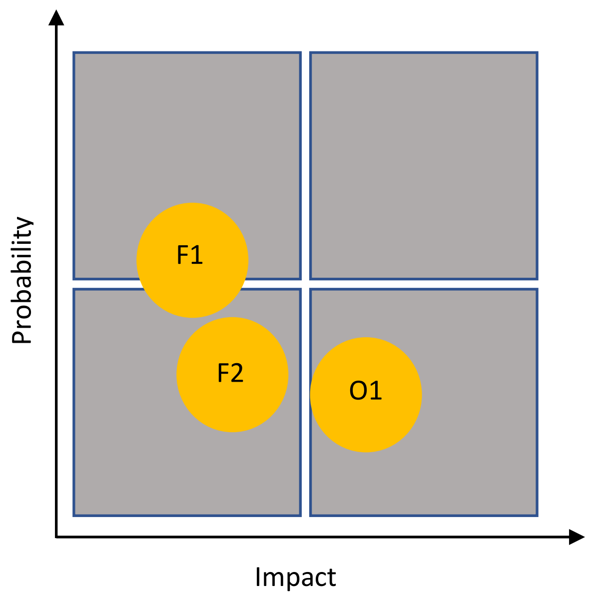
In 2020, Mr DIY had a dividend pay-out ratio of 26.6%, and 42.8% in 2021. Management promised to maintain a pay-out ratio of 40%. Looking at its forecasted cash flow, they can commit to the dividend pay-out ratio while executing its store expansions.

Figure 2: 31.8% YoY revenue growth from 2020 to 2021



Source: Company Annual Report

Figure 3: Risk Matrix



Source: Team Analysis

Figure 4: WACC Assumptions

Market Cap	MYR 22,672B
% of Equity	95.0%
Cost of Equity	4.4%
Risk Free Rate	3.94%
Beta	0.4
Market Risk Premium	1.17%
Debt	MYR 1,131B
% of Debt	5.0%
WACC	4.4%
Tax Rate	26.0%

Source: Team Analysis

Risks Matrix

Operational Risk (O1):

Mr DIY suppliers are mostly from China, in the event of a supply chain disruption, this will severely impact Mr DIY operations.

- Mitigation: Mr DIY closely monitors its supply chain, logistics and warehousing with strict compliance to the internal SOPs. They continue to monitor the developments of Covid-19 in China.

Financial Risk (F1):

Low liquidity in the KSLE stock market may create pricing inefficiencies, depressing share price in spite of strong growth and fundamentals.

- Mitigation: NIL

Financial Risk (F2):

- Mr DIY is exposed to foreign exchange risk, as its production cost is in Chinese RMB but its revenue is in Malaysia MYR.

- Mitigations: Management is aware of the risk, and is monitoring and managing it.

DCF Valuation

- Our recommendation is based on the Free Cash Flow to Firm (FCFF) Discounted Cash Flow (DCF) methodology. We then run a sanity check on our assumptions with a sensitivity analysis.
- Our WACC assumptions are conservative, even the bear case projects an upside of 399%.

Figure 5: Sensitivity Analysis

		WACC						
	$7.79	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
TGR	0.5%	5.61	4.89	4.33	3.89	3.52	3.22	2.96
	1.0%	6.44	5.50	4.80	4.25	3.82	3.46	3.16
	1.5%	7.61	6.32	5.40	4.71	4.18	3.75	3.40
	2.0%	9.36	7.47	6.21	5.31	4.63	4.10	3.68
	2.5%	12.29	9.19	7.33	6.09	5.21	4.55	4.03
	3.0%	18.13	12.06	9.02	7.20	5.98	5.12	4.47
	3.5%	35.67	17.79	11.83	8.85	7.07	5.88	5.03