

## MERRYMART

### MerryMart Consumer Corp. (MM) An Up-and-Coming Retail Player

#### Company Statistics

Company	MerryMart Consumer Corp.
Rating	Trading Buy
Offer Price (Php)	Up to PhP1.0
Offer size (Php Mn)	1,595
Shares Outstanding (M)	7,595
Market Cap (Php M)	7,595
Free Float	21.0
Offer Period	May 27 – June 5
Listing Date	June 15
Issue Manager	PNB Capital & Investment Corp.

#### Company Background

MerryMart Consumer Corp. (MM) is a retail business which mainly focuses in the operation of retail stores in the household essentials and supermarket category. MM has three store formats that caters different economic segments: MerryMart Grocery, MerryMart Market, and MerryMart Store.

#### Top Shareholders

<b>Name</b>	<b>%</b>
Existing shareholders	79
New investors	21

*\*post offer*

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#### Executive Summary

MerryMart Consumer Corp. ("MM") is a retail company that primarily focuses in the operation of retail stores in the household essentials and supermarket category. Currently, MM has three store formats that caters different economic segments: MerryMart Grocery, MerryMart Market, MerryMart Store.

#### Aggressive expansion plan through franchise business model

MM plans to expand its business through a franchise business model as it will allow the Company to cater to a wider consumer base. This expansion strategy will be beneficial to both parties as the franchisor can take advantage of the finance and operations expertise of the franchisee, while the latter can benefit from the better supplier terms and purchasing power that comes with most retail chains.

#### Industry Overview

The combined categories of supermarket/hypermarket/discounter/warehouse club have grown at a compounded annual growth rate ("CAGR") of 8.57% from 2013-2019, according to Euromonitor. Pre-coronavirus, Euromonitor showed an estimate that the country's retail industry is expected to grow at a CAGR of 6.81% from 2019-2024.

#### Superb execution capability of major shareholder

Injap Investments, Inc. ("III"), the major shareholder of MM, was the founder of Mang Inasal, and the co-founder of DoubleDragon Properties Corp. Mang Inasal has now over 600 branches as of today, and within its 7 years of operations, III had led Mang Inasal in its above normal growth path to 338 branches in the country.

#### Application of Proceeds

The Company looks to raise about PhP1.5B in net proceeds after its listing, of which PhP1B is earmarked for capital expenditures and initial working capital needs relating to its store network expansion. The remaining proceeds will be used for investments in distribution centers (PhP221M), and general corporate purposes (PhP220M). MM's midterm goal is to have a distribution center in all of the country's provinces to achieve 100% coverage of its supply chain for all branches by 2025.

Use of Proceeds	Amount (in PhP '000)	Timing
Capital Expenditure and Working Capital	1,030,800	2Q20-4Q21
Distribution Centers	220,900	2Q20-4Q21
General Corporate Purpose	220,100	2Q20-4Q20
<b>Total</b>	<b>1,471,800</b>	

Source: MM Prospectus

Key Performance Indicators	2017	2018	2019
EPS (PhP)	0.003	0.005	0.004
P/E ratio (x)	379.80	187.08	271.16
BVPS (PhP)	0.005	0.011	0.014
P/B ratio (x)	191.62	94.66	70.17
Return on Equity (%)	50.45	67.74	29.72
Revenue Growth (%)	11.44	20.28	18.81
Operating Income Growth (%)	447.34	103.26	(19.71)
Net Income Growth (%)	451.78	103.02	(31.01)

Sources: MM Prospectus, AB Capital

Table 1: No. of Branches (1Q 2020)

Branch No.	Selling Area	Year Opened
1	960 sqm.	2009
2	1,868 sqm.	2009
3	1,257 sqm.	2019
4	1,231 sqm.	2020
5	513 sqm.	2020
6	1,516 sqm.	2020
7	1,986 sqm.	2020

Source: MM Prospectus

Table 2: MerryMart Store Formats

Store Format	Size (sqm.)	Capex required
MM Grocery	1,500-2,500	80M
MM Market	600-1,000	36M
MM Store	150-300	12M

Source: MM Prospectus

Table 3: Top PH Retailers

Company and Rank	Outlets	Selling Space ('000 sqm.)
1.PGOLD	396	556
2.SM Retail	316	1,271
3.RRHI	269	647
4.MRSGI	47	115
5.Waltermart	53	149

Sources: Euromonitor, Retailing 2020 Edition

## Company Overview

MerryMart Consumer Corp. ("MM", the "Company") first opened two branches last 2009, and has since grew its local network to a total of seven stores (Table 1). The Company looks to effectively expand and capture a bigger portion of the market through having three store formats namely, MerryMart Grocery, MerryMart Market, and MerryMart Store. MM believes it is offering customers a unique shopping experience as it is a one-stop shop for a customer's grocery, personal care, and pharmacy needs (Table 2).

**MerryMart Grocery.** The Company's grocery format is a full-size supermarket catering to the lower to middle-income customers. The grocery format carry over 20,000 stock keeping units ("SKUs") which it sells at competitive prices. This format will be available for franchising via conversion of traditional supermarkets.

**MerryMart Market.** This is a medium format located in central business districts and urbanized areas catering to the middle to high-income customers. The market format carry over 10,000 SKUs of premium and imported grocery items, on top of the usual personal care and pharmaceutical products. This format will not be available for franchising due to its specialized nature.

**MerryMart Store.** MM's store format caters to the general population which carry about 3,000 SKUs. This format will be available for franchising.

## Competitive Position and Growth Strategy

### First-to-Market Store Format

The Company's unique 3-in-1 store format allows it to become a one-stop shop for customers' essential and non-essential needs. Although MM is not the first retail company to list in the Philippine Stock Exchange ("PSE"), its idea of combining a grocery, personal care, and pharmaceutical products gives it an advantage over other existing retail names. The combination of discretionary and non-discretionary product lines can lead to higher blended margins.

### Asset-Light Business Model

The Company's prime growth strategy is growing through franchising. If successful, this will allow MM to quickly dominate the retail sector as it can scale up at a much faster pace vs. its competitors. The listing of MM should attract potential franchisees to be part of the MM network given its stronger brand equity. As MM grows its network, it should be able to get better supplier terms and purchasing power which will also benefit franchisees. In addition, the franchise conversion template entails the renovation of the branch to a more modernized look which can give customers a better shopping experience. The Company envisions to grow its network to 600 branches by 2025, and to 1,200 by 2030.

### Highly Experienced Management with Proven Track Record

MM's major shareholder, Edgar J. Sia II, has proven multiple times his expertise in brand building, franchising, and penetrating highly competitive industries. During the first seven years of Mang Inasal, it was able to grow exponentially to 338 branches despite competing against some of the most reputable fast-food names such as Jollibee and McDonalds', of which 92% were franchised. The successful rollout of the Injap-led Mang Inasal shows his expertise in growing a business, and that a new player can dominate a mature industry given innovative ideas paired with proper execution of plans (Table 3).

## Financial Highlights

From 2017-2019, MM's net revenues have grown at a CAGR of 12.64%, while its net income have grown at a CAGR of 11.88%. The Company saw an 18.81% revenue growth in 2019 after it opened its first store since 2009. Net income however fell 31.01% in 2019 as the Company ramped up its marketing efforts, recognized higher depreciation, and higher interest expense after the adoption of PFRS 16.

Financial Ratios	2017	2018	2019
<b>Profitability</b>			
Gross Profit Margin (%)	3.96	4.43	5.75
Operating Profit Margin (%)	1.62	2.74	1.85
Net Income Margin (%)	1.14	1.92	1.11
Return on Equity (%)	50.45	67.74	29.72
Return on Assets (%)	8.71	14.41	4.49
<b>Solvency</b>			
Debt-to-Equity (x)	-	-	0.29
Debt-to-Assets (x)	-	-	2.47
Asset-to-Equity (x)	5.79	4.16	8.45
<b>Liquidity</b>			
Current Ratio (x)	1.20	1.19	1.33
Quick Ratio (x)	0.12	0.10	0.85
<b>Activity</b>			
Fixed Asset Turnover (x)	7.66	7.51	4.03
Total Asset Turnover (x)	354.33	124.60	13.63
Receivables Turnover (x)	1,068.15	1,652.46	467.69
Days Sales Outstanding (x)	0.34	0.22	0.78
Inventory Turnover (x)	8.36	8.56	10.45
Days Inventory on Hand (x)	43.65	42.63	34.94
Payables Turnover (x)	15.55	19.84	19.74
Days Payables Outstanding (x)	23.48	18.39	18.49
Cash Conversion Cycle (x)	20.51	24.46	17.23

Balance Sheet Items (in PhP '000)	2017	2018	2019
Current Assets	223,622	296,110	509,938
Noncurrent Assets	6,049	37,629	404,696
Total Assets	229,671	333,739	914,635
Current Liabilities	186,431	249,249	382,587
Noncurrent Liabilities	3,604	4,256	423,804
Total Liabilities	190,034	253,505	806,391
Total Equity	39,636	80,234	108,244

Income Statement Items (in PhP '000)	2017	2018	2019
Net Revenues	1,760,099	2,116,971	2,515,236
Gross Profit	69,689	93,708	144,564
Operating Profit	28,499	57,926	46,510
Net Profit	19,998	40,598	28,009

Sources: MM Prospectus, AB Capital

## Recommendation

Assuming an IPO price of PhP1.00/sh., the Company's 2019 PER will be 271.2x, a significant premium as compared to its local peers which have an average PER of just 20.39x in 2019. However, history suggests that IPO's with an offer size of PhP1.5B or less, experienced significant demand, thus, we think this can be a good trading buy.

Peer Comparison	PER ('19)	PER ('20)	PB ('19)	PB ('20)	ROE ('19)	ROE ('20)
Puregold Price Club Inc.	19.88	17.33	0.86	0.85	11.28	11.48
Robinsons Retail Holdings Inc.	32.13	25.24	1.75	1.47	6.08	6.81
Metro Retail Stores Group	9.17	8.60	0.78	0.57	8.65	6.83
Average	20.39	17.06	1.13	0.96	8.67	8.37

Source: Bloomberg