

PP14767/09/2012(030761)

Thursday, May 28, 2015

Parkson Holdings Berhad

“Challenging Outlook”

Results Review

- Actual vs. expectations.** Parkson Holdings Berhad (Parkson) recorded revenue of RM3.4 billion in 3Q15 that grew by 8% q-o-q and y-o-y respectively. Cumulatively, revenue touched RM9.2 billion in 9M15, a jump by 2% y-o-y compared to RM9.0 billion in 9M13, driven by higher sales in Malaysia Parkson operation benefitting from GST front loading spending.
- Bottomline.** PAT of RM4 million in 3Q15 declined by 96% q-o-q and y-o-y respectively, bringing 9M15’s PAT to RM143 million compared to RM186 million in 9M14 (-23% y-o-y). The lower PAT recorded was impacted by lower performance in Parkson China, that dropped by 33% y-o-y to RM115 million in 9M15 vs. RM171 million in 9M14 due to weakening consumer sentiment and higher competition from different retail format (e.g. e-commerce operation). Parkson’s 9M15 PAT of RM143 million accounted 57% and 122% of ours and consensus estimates respectively.
- Dividend.** No dividend was declared during the quarter.
- Margin review.** Higher operating expenses and weakening consumer sentiment pushed Parkson to record lower earnings in 9M15 to RM141 million vs RM186 million in 9M14, shifting down PBT margin and PAT margin to 7% and 5% respectively compared to 12% (PBT margin) and 7% (PAT margin) in 9M14.
- Malaysia operation injured.** Parkson Malaysia revenue dropped marginally by 1% y-o-y to RM95.5 million in 9M15 (RM96.4 million in 9M14) impacted by weakening consumer sentiment due to the concern of rising cost of living and a depreciating currency of Ringgit Malaysia against USD. We expect the next quarter will be more challenging for the Malaysia operation due to

Research Team
research@mna.com.my
03-22821820 ext. 257, 229, 221, 249, 258

HOLD (TP: RM2.00)

Current Price (RM)	RM2.02
New Fair Value (RM)	RM2.00
Previous Fair Value (RM)	RM2.25
Previous Recommend.	HOLD
Upside To Fair Value	-1%
Dividend Yield (FY15F)	3.4%

Stock Code

Bloomberg	PKS MK
-----------	--------

Stock & Market Data

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	1,089.3
Market Cap (RM mn)	2,603.4
YTD Chg In Share Price	-2.35%
Beta (x)	0.85
52-week Hi/Lo (RM)	3.36 2.17
9M Average Volume (shrs)	1.280mn
Estimated Free Float	20%

Major Shareholders

Narajaya Sdn Bhd	27.89%
Jem Cheng Heng	23.02%
Amsteel Mills	12.41%

the slowdown in consumer spending on GST cautiousness.

- **Challenges operation in China and Vietnam.** China's operation stores recorded negative growth in SSSG by 33% y-o-y to RM115 million in 9M15 compared to RM171 million in 9M14. The lower earnings recorded were impacted by competition from online retailers. The Vietnam operation also remained challenging amid weak retail spending and stiff competition. Moreover, the provision for the closure of store in Hanoi has hurt the Vietnam and Myanmar operation.
- **Outlook.** We foresee to be a challenging year for the group due to the tough environment cause of weakening consumer sentiment in countries it operating in, especially in Malaysia and China. The implementation of GST will hurt consumer spending in retail industry in Malaysia due to higher cost of living. However, we are still optimistic the group will continue to compete in retail industries due to aggressive marketing and promotion activities along with the presence of festivals such are school holiday and celebration festivities.
- **Change to forecast.** We revised downward our FY15 and FY16 earnings forecast by 20% respectively due to lower earnings in 3Q15. FY16 earnings expected to grow by 3% to RM202 million underpinned by 1) festive season in Malaysia and 2) efficient cost savings initiatives among consumers.
- **Valuation & recommendation.** We value Parkson at RM2.00 and the stock is a **HOLD** based on 3-years average PER of 15.7x over its FY15 EPS estimate at 14 cent. Support to TP would be underpinned by 1) aggressive marketing and promotion activities and 2) recovery economic growth in Malaysia and China.

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	2.02	17	19	17	16	1	1	5	NA	2.00	Hold
Amway	Dec	11.00	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	71.10	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.39	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	45.66	216	229	22	20	14	16	58	2.4	40.00	Sell
Padini*	Jun	1.40	15	18	13	11	3	3	24	5.0	1.80	Buy
Scientex	July	7.08	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.05	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.20	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.00	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: June (RM million)	FY12	FY13	FY14	FY15F	FY16F
Gross sales proceeds	11,218	11,348	11,580	12,750	14,038
Revenue	3,444	3,455	3,551	3,657	3,767
Profit before tax	888	616	386	397	409
Profit after tax	669	436	242	196	202
EPS (sen)	34.90	22.11	13.02	14.00	15.12
PBT Margin	26%	18%	11%	11%	11%
PAT Margin	19%	13%	7%	5%	5%
P/E (x)	13.11	17.64	19.82	22.29	21.06
P/BV (x)	1.85	1.52	1.02	1.05	1.04

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: June (RM million)	2Q15	2Q14	1Q14	q-o-q	y-o-y	6M15	6M14	y-o-y
Gross sales proceeds	3,429	3,188	3,161	8%	8%	9,217	9,026	2%
Revenue	1,049	958	982	7%	9%	2,879	2,737	5%
Operating Expenses	(1,060)	(900)	(1,006)	5%	18%	(2,936)	(2,698)	9%
Operating Profit	94	132	66	43%	-29%	202	275	-27%
Pre-tax Profit	20	148	139	-86%	-87%	209	315	-34%
Taxation	(15)	(46)	(31)	-50%	-66%	(67)	(129)	-48%
Net Profit	4	102	108	-96%	-96%	143	186	-23%
EPS (sen)	0.29	5.25	10.24	-97%	-94%	12.63	10.43	21%
PBT Margin	2%	15%	14%			7%	12%	
PAT Margin	0%	11%	11%			5%	7%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Revenue

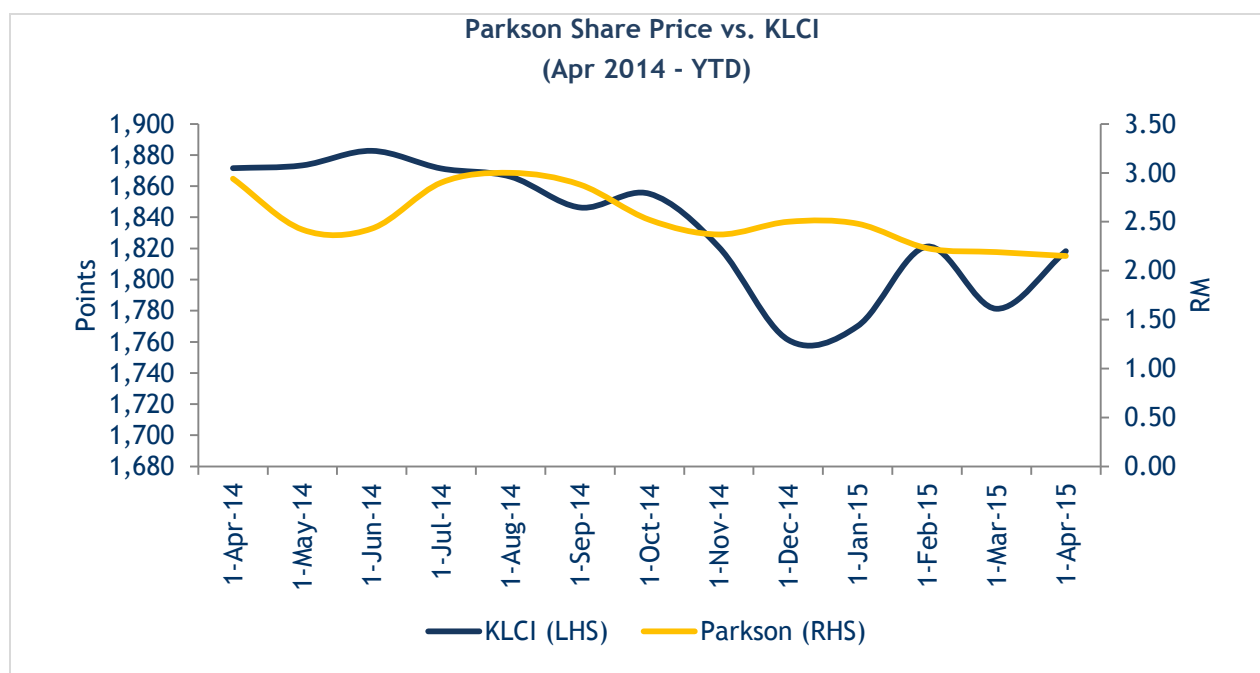
Segmental Breakdown (RM'mil)								
YE: June (RM million)	3Q15	3Q14	2Q15	q-o-q	y-o-y	9M15	9M14	y-o-y
China	703	672	632	11%	5%	1,893	1,853	2%
Malaysia	249	213	236	5%	17%	697	667	5%
Vietnam and Myanmar	32	31	32	-1%	3%	92	88	5%
Indonesia	37	33	39	-6%	10%	118	105	12%
Others	28	9	42	-34%	226%	80	25	219%
Total	1,049	958	982	7%	9%	2,879	2,737	5%

Source: Bursa Malaysia, M&A Securities

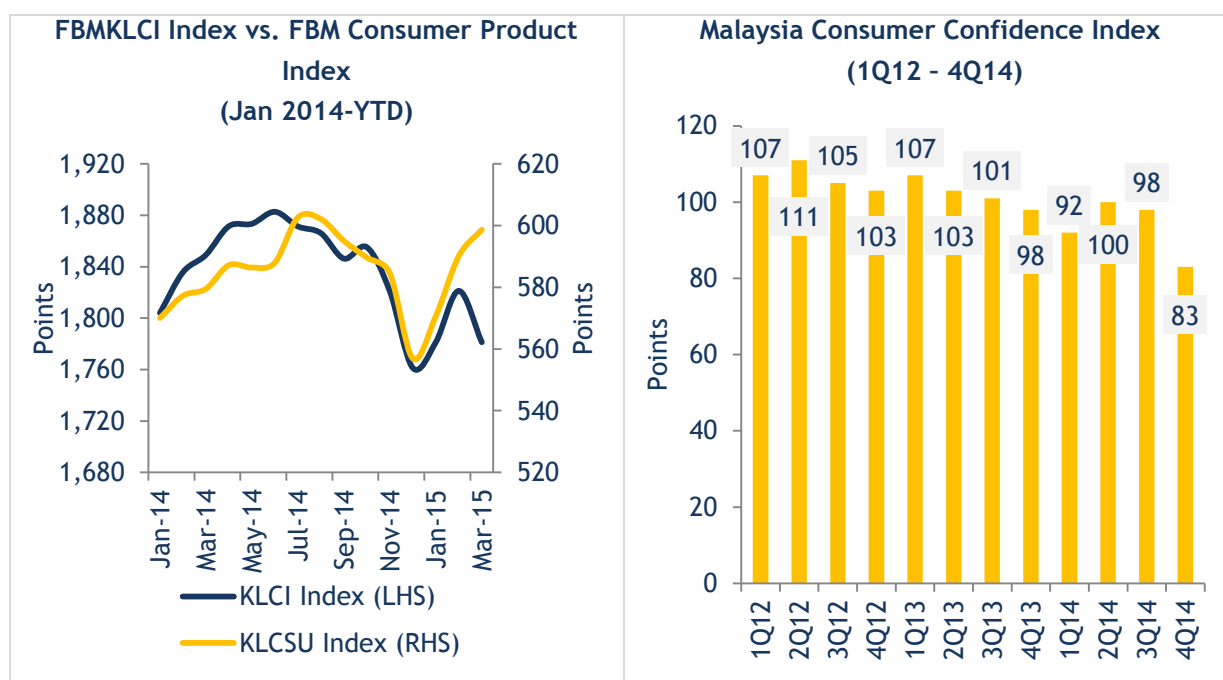
Table 5: Segmental Profit

Segmental Profit (RM'mil)									
YE: June (million)	(RM	3Q15	3Q14	2Q15	q-o-q	y-o-y	9M15	9M14	y-o-y
China*		66	106	33	103%	-38%	115	171	-33%
Malaysia		32	25	37	-14%	28%	96	96	-1%
Vietnam and Myanmar		1	0	(8)	-118%	535%	(10)	(2)	485%
Indonesia		(5,469)	0	(2)	286987%	-1793215%	(7)	7	-203%
Others		(0)	(0)	6	-103%	33%	8	5	41%
Total		(5,370)	132	66	-8292%	-4182%	202	278	-27%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45 & 47,43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893
Website: www.mnaonline.com.my