

PP14767/09/2012(030761)

Parkson Holdings Berhad

“Hurting Ending”

Results Review

- Actual vs. expectations.** Parkson Holdings Berhad (Parkson) made a net loss of RM17 million in 12M15 against net profit of RM239 million in 12M15. The group’s disappointing performance was derailed by lower performance from Parkson China that dropped by 43% y-o-y to RM128 million in 12M15 vs. RM223 million in 12M14 and provision of arbitral award amounting to RM82.4 million related to tenancy dispute.
- Dividend.** No dividend has been proposed for this quarter.
- Top line.** Parkson’s posted commendable revenue of RM3.7 billion in 12M15 compared to RM3.6 billion in 12M14 (+5% y-o-y). The higher revenue in 12M15 was driven by higher contribution from Vietnam and Indonesia that jumped 8% y-o-y and 13% y-o-y to RM124 million and RM156 million respectively. Malaysia segment recorded subdued growth by 0.1% due to weaker consumer spending as a result of Goods and Services Tax (GST) implementation. Nevertheless, Indonesia segment continued to enjoy healthy growth as a result of emergence middle class and young population. Despite commendable topline, it was unable to translate into better margins as result of various issue surrounding Parkson namely refurbish cost, establishment cost and heightened competition that led to lower PAT margin.
- Potential in China, however cautious.** Despite recording higher revenue in China in 12M15, however, earnings were dragged by losses in the arbitration dispute between PHB’s Hong Kong listed subsidiary and its landlord in Beijing amounting to RM82.4 million. To

Thursday, August 27, 2015

HOLD (TP: RM1.20)

Current Price (RM)	RM1.12
New Fair Value (RM)	RM1.20
Previous Fair Value (RM)	RM2.00
Previous Recommend.	HOLD
Upside To Fair Value	7.1%
Dividend Yield (FY16F)	3.4%

Stock Code	
Bloomberg	PKS MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	1,092.6
Market Cap (RM mn)	1354.8
YTD Chg In Share Price	-44.8%
Beta (x)	0.30
52-week Hi/Low (RM)	2.85 1.21
9M Average Volume (shrs)	1.280mn
Estimated Free Float	34%

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

add, China segment, the largest contributor to PHB, was cautious mode given keen competition from online retailer. Additionally, China's economic structural reform led to slower consumer spending, and ultimately slower PHB revenue.

- **Malaysia operation bleeding.** Parkson Malaysia reported negative growth in net profit to RM90 million in 12M15 vs. RM106 million in 12M14, which dropped by 15% y-o-y. The lower earnings were impacted by weakening consumer sentiment due to higher cost of living and depreciation of ringgit against the USD. Of note, Ringgit has depreciated by 16% y-o-y in 12M15 against USD. Moving forward, we expect Malaysia operation to remain soft due to the challenging economic environment.
- **Outlook.** Looking ahead over the next subsequent quarters, we expect Parkson to continue to face tough and challenging environment on the back of cautious consumer sentiment especially in Malaysia and China. Higher cost of living due to the implementation of GST and weakening of Ringgit may hurt Malaysia Parkson operation in the future. However, the aggressive marketing and promotion activities in festive season (e.g: school holiday and celebration festivities) will continue to help the group earnings performance.
- **Change to forecast.** Looking at the negative earnings performance in 12M15, we are view that Parksons earnings may continue to be soft. Therefore, we have tweaked our FY16 earnings forecast to RM83 million (-59%) and introduce FY17 earnings forecast of RM86 million after imputing our view on the challenging business environment moving forward.
- **Valuation & recommendation.** We value Parkson at RM1.20 based on 3-years average PER of 15.7x over its FY16 EPS estimate at 7.60 cent and the stock is a **HOLD**. Re-rating catalyst may come from 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	1.12	17	19	17	16	1	1	5	NA	1.20	Hold
Amway	Dec	9.90	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	71.60	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.97	34	38	14	13	2	2	13	5.1	5.46	Hold
Dutch Lady	Dec	46.98	216	229	22	20	14	16	58	2.4	41.60	Hold
Padini*	Jun	1.32	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	6.87	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.42	11	33	10	6	2	2	10	5.1	1.80	Buy
Aeon Co	Dec	2.80	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	3.89	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)	FY13	FY14	FY15	FY16F	FY17F
Gross sales proceeds	11,348	11,580	11,937	13,143	14,470
Revenue	3,455	3,551	3,738	3,850	3,966
Profit before tax	616	386	53	54	56
Profit after tax	436	242	(17)	18	19
EPS (sen)	22.11	13.02	4.06	7.60	7.83
PBT Margin	18%	11%	1%	1%	1%
PAT Margin	13%	7%	0%	0%	0%
P/E (x)	17.64	19.82	22.29	21.06	21.67
P/BV (x)	1.52	1.02	1.05	1.04	1.04

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: June (RM million)	4Q15	4Q14	3Q14	q-o-q	y-o-y	12M15	12M14	y-o-y
Gross sales proceeds	2,720	2,557	3,429	-21%	6%	11,937	11,583	3%
Revenue	859	817	1,049	-18%	5%	3,738	3,554	5%
Operating Expenses	(941)	(827)	(1,060)	-11%	14%	(3,876)	(3,525)	10%
Operating Profit	(10)	49	94	-110%	-120%	192	323	-41%
Pre-tax Profit	(156)	68	20	-886%	-332%	53	383	-86%
Taxation	(3)	(14)	(15)	-83%	-81%	(69)	(143)	-52%
Net Profit	(159)	53	4	-3669%	-399%	(17)	239	-107%
EPS (sen)	(8.75)	2.56	0.29	-3117%	-442%	4.06	13.00	-69%
PBT Margin	-18%	8%	2%			1%	11%	
PAT Margin	-19%	7%	0%			0%	7%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Revenue

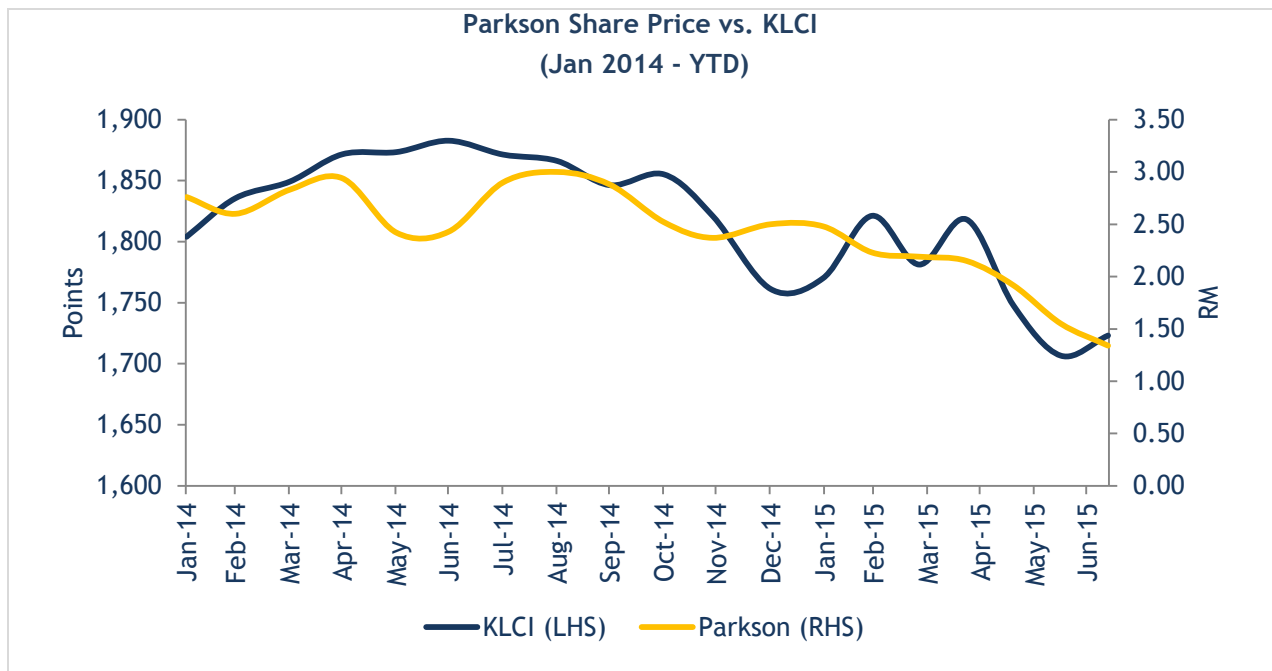
Segmental Breakdown (RM'mil)								
YE: June (RM million)	4Q15	4Q14	4Q15	q-o-q	y-o-y	12M15	12M14	y-o-y
China	603	548	703	-14%	10%	2,496	2,401	4%
Malaysia	165	194	249	-34%	-15%	862	861	0%
Vietnam and Myanmar	32	27	32	0%	18%	124	115	8%
Indonesia	39	34	37	6%	15%	157	139	13%
Others	19	14	28	-31%	43%	99	39	158%
Total	859	817	1,049	-18%	5%	3,738	3,554	5%

Source: Bursa Malaysia, M&A Securities

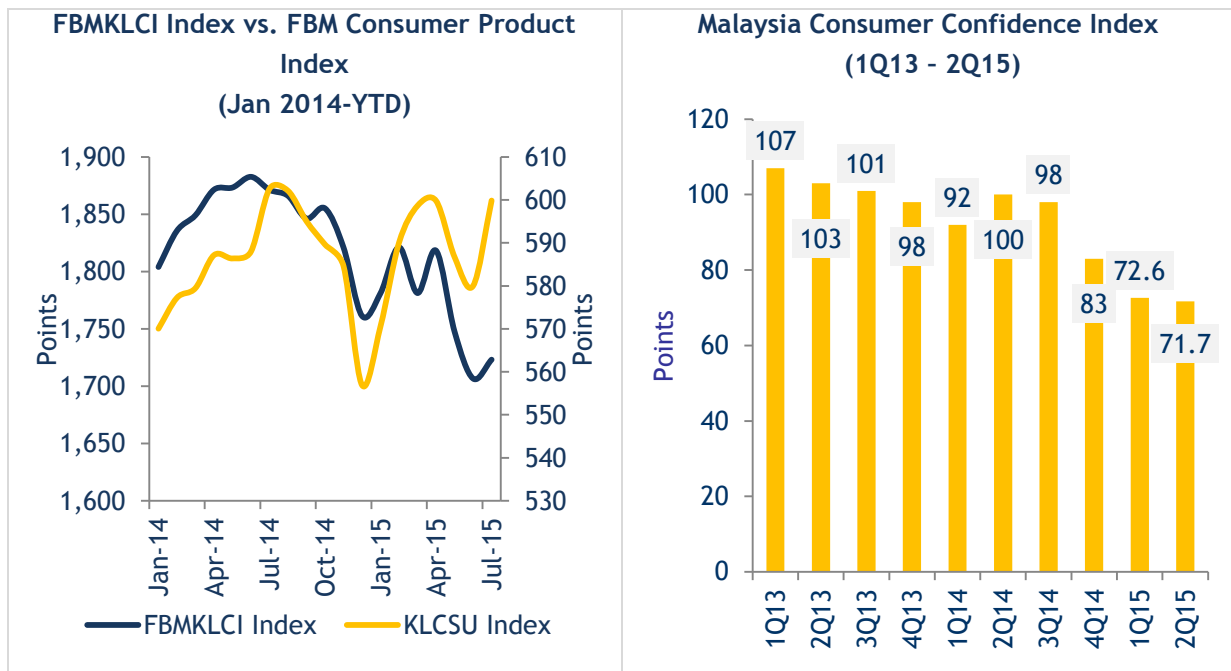
Table 5: Segmental Profit

Segmental Profit (RM'mil)									
YE: June (RM million)	4Q15	4Q14	3Q15	q-o-q	y-o-y	12M15	12M14	y-o-y	
China	13	51	66	-81%	-75%	128	223	-43%	
Malaysia	(6)	10	32	-117%	-156%	90	106	-15%	
Vietnam and Myanmar	(8)	(10)	1	-643%	-26%	(17)	(12)	43%	
Indonesia	(3)	(1)	(5,469)	-100%	255%	(10)	6	-271%	
Others	(6)	(1)	(0)	3286%	337%	2	1	222%	
Total	(10)	49	(5,370)	-100%	-120%	192	323	-41%	

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

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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.

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