

PP14767/09/2012(030761)

Parkson Holdings Berhad

“Still Hoping”

Results Review

- Actual vs. expectations.** Parkson Holdings Berhad (Parkson) recorded earnings of RM87 million in 3M16 vs. RM30 million in 3M15 (+190% y-o-y). However, if we exclude disposal of subsidiary amounting of RM136 million, Parkson’s earnings came in at net loss of RM49 million in 3M16. The sluggish performance in 3M16 was derailed by higher-than-expected losses in China’s operations.
- Top line.** 3M16 revenue rose to RM933 million, that gained by 10% y-o-y compared to RM849 million in 3M15. The double digits growth was driven by higher contribution from Indonesia market that jumped 13% y-o-y to RM47 million compared to RM41 million in 3M15 thanks to strong consumer spending during the Muslim festive season.
- Dividend.** No dividend was declared during the quarter.
- China continued to weak. China 1Q16 SSS growth fell 10% y-o-y due to stiff competition and weak consumer sentiment. Additionally, Parkson incurred higher marketing and start-up costs of new stores, and hence led to operational loss of RM49 million in 3M16.
- Malaysia operation bleeding.** Parkson Malaysia revenue declined by 3% y-o-y RM205 million in 3M16 compared RM212 million in 3M15. The lower revenue was impacted by negative consumer sentiment due to the concern of rising cost of living on GST cautiousness and depreciating currency of Ringgit against USD.
- Vietnam and Indonesia were mixed.** The group Vietnam operation remained challenging in 3M16. Of note, Parkson Vietnam reported negative SSS growth by 4% injured by lower retail spending and stiff competition. However, Parkson Indonesia reported

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HOLD (TP: RM1.04)

Current Price (RM)	RM1.00
New Fair Value (RM)	RM1.04
Previous Fair Value (RM)	RM1.20
Previous Recommend.	HOLD
Upside To Fair Value	4%
Dividend Yield (FY16F)	5.7%

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)	1,114.5
YTD Chg In Share Price	-54.59%
Beta (x)	0.16
52-week Hi/Lo (RM)	2.34 0.99
9M Average Volume (shrs)	1.280mn
Estimated Free Float	30%

Major Shareholders	
Jem Cheng Heng	32.65%
Amsteel Mills	15.49%
Lembaga Tabung Haji	8.71%

strong SSS growth of 10% in 3M16 to RM47 million of revenue vs. RM41 million in 3M15 riding on the growing middle class and young population.

- Outlook.** We foresee Parkson will face challenging operational environment impacted by lower consumer spending due to higher cost of living and GST cautiousness which will influence consumer behaviour particularly in Malaysia. The weakening consumer sentiment will also impact China and Vietnam operations and hence will give negative impact to the group earnings. However, we believe that Parkson will continue perform and compete aggressively in the retail industry. Additionally, aggressive marketing and promotional activities along with the presence of festivals such as school holiday, festivities and year-end sales will give positive impact to the group earnings in FY16.
- Change to forecast.** We revise downward our FY16 and FY17 earnings forecast by 20% and 19% respectively due to lower earnings in 3M16. As such, Parkson's PAT for FY16 are expected to turn to positive numbers before growing by 3% in FY17 to be assisted by 1) festive season in Malaysia and Indonesia during Muslim festive and 2) efficient cost savings initiatives by the group.
- Valuation & recommendation.** We value our target price on Parkson at RM1.04 based on 3-years average PER of 15.7x over its FY16 EPS estimate of 6.63 cent and the stock is a **HOLD**. Note that the 15.7x PER this is slightly below Parkson 3-years PER of 17x. 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	1.00	17	19	17	16	1	1	5	NA	1.04	Hold
Amway	Dec	9.55	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	73.32	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.86	34	38	14	13	2	2	13	5.1	5.46	Buy
DutchLady	Dec	48.70	216	229	22	20	14	16	58	2.4	47.30	Hold
Padini*	Jun	1.61	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	8.18	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.53	11	33	10	6	2	2	10	5.1	1.80	Buy
Aeon Co	Dec	2.73	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.21	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	12,295	13,537
Revenue	3,455	3,551	3,738	3,813	3,927
Profit before tax	616	386	53	54	55
Profit after tax	436	242	(17)	66	68
EPS (sen)	22.11	13.02	4.06	6.63	6.26
PBT Margin	18%	11%	1%	1%	1%
PAT Margin	13%	7%	0%	1.7%	1.7%
P/E (x)	17.64	19.82	22.29	16.20	14.80
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)	1Q16	1Q15	4Q15	q-o-q	y-o-y	3M16	3M15	y-o-y
Gross sales proceeds	2,896	2,626	2,720	6%	10%	2,896	2,626	10%
Revenue	933	849	859	9%	10%	933	849	10%
Operating Expenses	(1,043)	(869)	(941)	11%	20%	(1,043)	(869)	20%
Operating Profit/Loss	(25)	42	(10)	162%	-159%	(25)	42	-159%
Pre-tax Profit	105	50	(156)	-167%	110%	105	50	110%
Taxation	(18)	(20)	(3)	590%	-9%	(18)	(20)	-9%
Net Profit	87	30	(159)	-154%	190%	87	30	190%
EPS (sen)	5.80	1.90	(8.75)	-166%	205%	5.80	1.90	205%
PBT Margin	11%	6%	-18%			11%	6%	
PAT Margin	9%	4%	-19%			9%	4%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Revenue

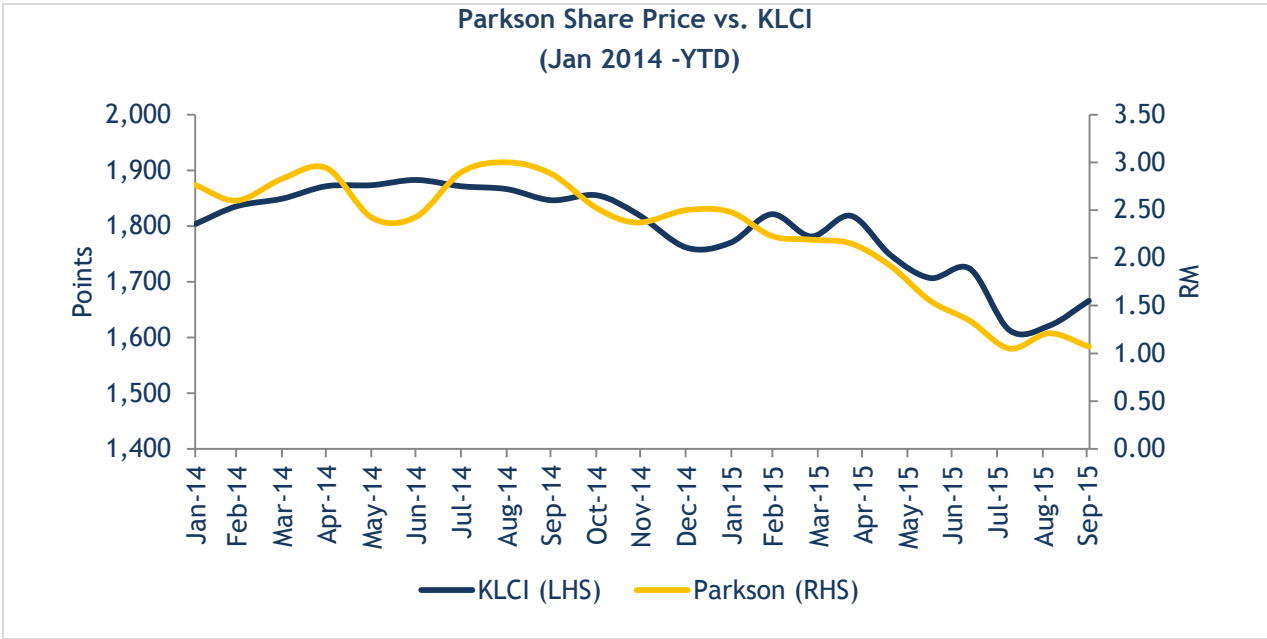
Segmental Breakdown (RM'mil)								
YE: June (RM million)	1Q16	1Q15	4Q15	q-o-q	y-o-y	3M16	3M15	y-o-y
China	628	557	603	4%	13%	628	557	13%
Malaysia	205	212	165	24%	-3%	205	212	-3.4%
Vietnam and Myanmar	26	28	32	-18%	-7%	26	28	-7%
Indonesia	47	41	39	19%	13%	47	41	13%
Others	27	9	19	41%	191%	27	9	191%
Total	933	849	859	9%	10%	933	849	10%

Source: Bursa Malaysia, M&A Securities

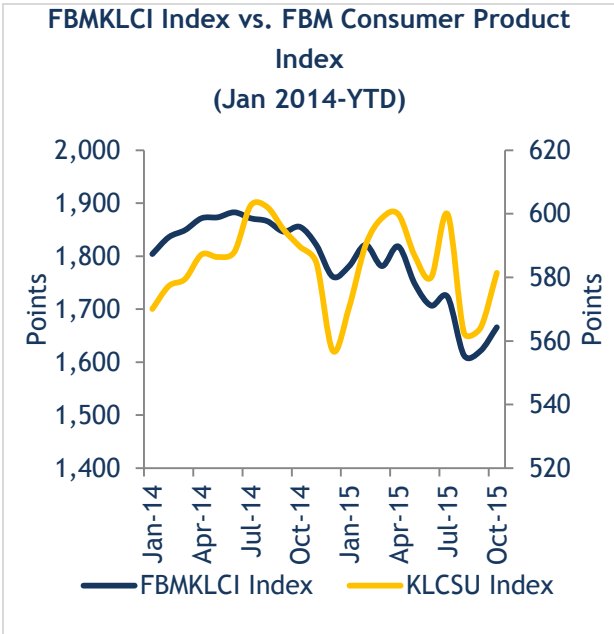
Table 5: Segmental Profit

Segmental Profit (RM'mil)								
YE: June (RM million)	1Q16	1Q15	4Q15	q-o-q	y-o-y	3M16	3M15	y-o-y
China	(33)	16	13	-358%	-301%	(33)	16	-301%
Malaysia	11	27	(6)	-297%	-59%	11	27	-59%
Vietnam and Myanmar	(3)	(3)	(8)	-61%	-4%	(3)	(3)	-4%
Indonesia	(1)	0	(3)	-83%	-274%	(1)	0	-274%
Others	0	2	(6)	-105%	-87%	0	2	-87%
Total	(25)	42	(10)	162%	-159%	(25)	42	-159%

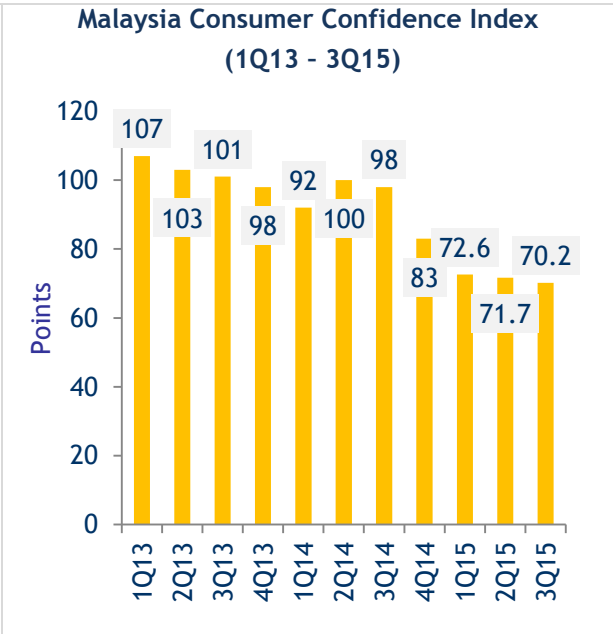
Source: Bursa Malaysia, M&A Securities



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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