

29 August 2019

Parkson Holdings Bhd

FY19 Within Expectations

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

FY19 CNL of RM64m expanded, compared to CNL of RM31m in FY18, is deemed within expectations of both our/consensus estimated CNL of RM60.9m. Malaysian operation has returned to black with the on-going rationalization strategy and China operation recorded higher operating efficiencies (+40%). At the current pace, PARKSON is expected to be in the black with FY20E CNP of RM8.5m and we introduce FY21E CNP, which is higher by 16%. Upgrade to OP from UP with a higher TP of RM0.270 (from RM0.240) based on the revised SoP.

FY19 within expectations. FY19 CNL of RM64m expanded, compared to CNL of RM31m in FY18, is deemed within expectations of both our/consensus full-year estimate of RM60.9m each. No dividend was declared, as expected.

YoY, FY19 core losses expanded to RM64m compared to core losses of RM31m in FY18 mainly due to higher finance costs and higher tax expenses. This was despite marginally increase in revenue (+1.3%) due to improved SSS growth from: (i) Malaysia (+5.1% vs. FY18 of -1.2%) which benefited from the spending spree during the zero-rated tax holiday as well as strong festivities sales, and (ii) Indonesia (-1.4% vs. FY18 of -3.8%) mainly driven by the targeted promotions and increasing house brands' contribution, which more than offset the lower SSS growth in China and Vietnam/Myanmar operations. China's FY19 SSS growth was lower at -2.2% vs. +0.5% in FY18 mainly due to lower direct sales arising from stores closures in 2018 but improving operating revenue was seen from strong sales performance in the Cosmetics & Accessories category (51% of merchandise sales). On the other hand, Vietnam's SSS growth rates (-20.5% vs. FY18 of -8.3%) sunk deeper due to intense competition, especially with the launch of Vincom Center Landmark 81 Mall. Nevertheless, 53%-owned Parkson China recorded higher operating efficiencies to report an operating profit of RM155m (+40%) and Malaysia operation recorded operating profit of RM14m from operating loss of RM47m, which more than offset other region's losses to record EBIT of RM100m.

QoQ, 4Q19 returned to the black with core PATAMI of RM12.6m compared to core losses of RM6.5m in 3Q19 from improved operating efficiencies and stores productivity, as the group recorded higher operating profit of RM55m (+2.6%), mainly contributed by China and Malaysia operation following the closure of underperforming stores (Malaysian segment saw the closure of Parkson stores in Suria KLCC and Puchong Square M Mall in the quarter, and China closed 3 stores YTD). These more than mitigated lower turnover (-13%) due to higher base in the previous quarter from seasonally stronger consumer spending during the CNY festivities and extended holiday but cushioned by Hari Raya Aidilfitri sales in Indonesia (+42%).

Outlook. We like Parkson for the following: (i) its strategy of optimising its retail format, expanding its product and services offerings, which is paying off, (ii) it is minimising stores losses via optimising store effectiveness and efficiency, which are bearing fruits, and (iii) China operation's improvement to gain further momentum. As of June 2019, the group's department stores network comprises 44 stores in China and 61 stores in South-East Asia, including Malaysia (42 stores), Vietnam (4 stores), and Indonesia (15 stores). Note that, Parkson has ceased its Myanmar operation with the closure of its only store in 2Q19.

Upgrade to OP from UP with a higher TP of RM0.270 (from RM0.240) based on the revised Sum-of-Parts (SoP) (implied PER of 34x based on FY20E EPS, above regional PER of 27x). The share price has plunged 20% since our UP call and we believe most negatives have been priced in. **Key risks to our call are:** (i) higher-than-expected losses in the South-East Asia region, and (ii) slower-than-expected China operation.

OUTPERFORM ↑

Price: RM0.200
Target Price: RM0.270 ↑

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	-18.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PKS MK Equity
Market Cap (RM m)	213.4
Shares Outstanding	1,067.2
52-week range (H)	0.48
52-week range (L)	0.20
3-mth avg daily vol:	661,310
Free Float	47%
Beta	1.2

Major Shareholders

Tan Sri William Cheng	26.9%
Amsteel Mills	16.6%
Urusharta Jamaah Sdn Bhd	9.9%

Summary Earnings Table

FYE Jun (RM'm)	2019A	2020E	2021E
Turnover	4,031.9	4,048.9	4,070.3
EBIT	100.3	145.2	145.9
PBT	-25.4	115.7	130.2
NP/ (NL)	-132.6	8.5	9.9
CNP/ (CNL)	-63.7	8.5	9.9
Consensus (NP)	-	8.5	-
Earnings Revision	-	-	new
EPS (sen)	-5.8	0.8	0.9
EPS growth	107%	-113%	16%
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	3.03	3.01	3.00
PER (x)	N.M	25.7	22.2
P/BV (x)	0.1	0.1	0.1
Gearing (x)	0.2	0.1	0.0
Net Dvd Yield (%)	-	-	-

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FYE: June (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	953.5	1100.1	-13.3%	939.7	1.5%	4,032	3,982	1.3%
EBIT/ (LBIT)	55.1	53.7	2.6%	-3.0	-1956.7%	100	13	>100%
PBT/ (LBT)	-17.8	37.5	<100%	-50.7	-64.9%	(25)	(78)	-67.3%
Taxation	-32.4	-29.2		-37.3		(131)	(94)	
PATAMI / (LATAMI)	-45.6	-6.5	<100%	-71.9	-36.6%	(133)	(104)	27.5%
Core PATAMI / (CL)	12.6	-6.5	>100%	-35.3	>100%	(64)	(31)	<100%
Core EPS/ (LPS) (sen)	1.2	-0.6	>100%	-3.2	>100%	-5.8	-2.8	107.5%
EBIT margin	5.8%	4.9%		-0.3%		2.5%	0.3%	
PBT margin	-1.9%	3.4%		-5.4%		-0.6%	-2.0%	
NP margin	-4.8%	-0.6%		-7.7%		-3.3%	-2.6%	
Effective tax rate	n.m	n.m		n.m		n.m	- n.m	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown								
FY June (RM'm)	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
Segment Revenue	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Malaysia	236	266	-11.5%	258	-8.5%	1,024	1,031	-0.7%
China	648	773	-16.1%	605	7.2%	2,745	2,651	3.6%
Vietnam & Myanmar	11	16	-27.8%	19	-39.8%	62	84	-26.2%
Indonesia	44	31	41.6%	43	2.4%	144	161	-10.0%
Others	14	14	-0.2%	15	-8.6%	56	56	1.2%
Segment Revenue	954	1,100	-13.3%	940	1.5%	4,032	3,982	1.3%
Malaysia	13	2	>100%	(17)	>100%	14	(47)	>100%
China	62	64	-4.1%	23	163.6%	155	111	40.3%
Vietnam & Myanmar	(7)	(3)	141.2%	(6)	16.1%	(22)	(18)	25.1%
Indonesia	(8)	(7)	12.5%	0	<100%	(22)	(20)	12.6%
Others	(4)	(3)	53.4%	(3)	41.4%	(24)	(14)	78.3%
Segment profit (operating)	55	54	2.6%	(3)	>100%	100	13	>100%
Malaysia	5%	1%		-7%		1%	-5%	
China	10%	8%		4%		6%	3%	
Vietnam & Myanmar	-66%	-20%		-34%		-36%	-28%	
Indonesia	-18%	-23%		0%		-15%	-3%	
Profit margin (%)	-30%	-19%		-19%		-43%	-69%	

Source: Bursa Malaysia, Kenanga Research

Sum-of-Parts Valuation				
	PHB's stake	No of shares effective stakes	Value (RM m)	Valuation methodology
Parkson Retail Asia (PRA)	67.60%	455.5	30	Based on share price of SGD 0.022 (previously SGD 0.025)
Parkson Retail Group (PRG)	53.10%	1,398.94	462	Based on share price of HKD 0.620 (previously HKD 0.540)
Net debt at holding level			-71	
Total SOP			421	
Holding Co. discounts (30%)			-126	
No. of shares			1,093	
Target price (RM / share)			0.270	

Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.				
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.50	1,757.2	N	12/2019	12.4%	4.9%	13.6%	5.5%	36.1	31.7	30.1	25.0	24.2	77.5%	2.7%	1.35	UP		
AEON CO (M) BHD	1.54	2,162.2	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.4	21.2	19.4	1.1	1.0	5.0%	2.6%	1.70	MP		
AMWAY MALAYSIA HOLDINGS BHD	6.08	999.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.3	17.4	16.4	4.3	4.0	23.8%	4.5%	5.90	MP		
DUTCH LADY MILK INDUSTRIES BHD	63.10	4,038.4	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	32.6	39.4	35.8	38.3	37.7	97.9%	2.5%	54.60	UP		
FRASER & NEAVE HOLDINGS BHD	34.72	12,734.5	Y	09/2019	5.9%	7.0%	9.4%	2.9%	32.1	29.3	28.5	5.5	5.1	18.0%	1.9%	36.60	MP		
HAI-O ENTERPRISE BHD	2.26	656.2	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.8	13.8	13.6	2.1	2.1	15.1%	5.8%	1.95	UP		
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.1	3.0	10.2%	0.7%	1.55	OP		
NESTLE (MALAYSIA) BHD	147.00	34,471.5	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.1	51.3	47.9	52.7	51.9	104.6%	2.0%	128.00	UP		
PADINI HOLDINGS BHD	3.74	2,460.6	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	15.7	12.9	11.4	3.8	3.2	26.8%	3.1%	3.75	OP		
PARKSON HOLDINGS BHD	0.200	213.4	Y	06/2019	0.4%	0.5%	749.5%	16.0%	N.A.	25.7	22.2	0.1	0.1	0.3%	0.0%	0.270	OP		
POWER ROOT BHD	1.93	764.4	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.1	18.8	16.7	3.5	3.2	18.1%	4.7%	2.30	OP		
QL RESOURCES BHD	6.90	11,194.8	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.7	45.7	43.9	5.5	5.1	12.1%	0.8%	6.30	UP		
SPRITZER BHD	2.40	503.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	20.8	18.2	16.1	1.3	1.2	7.0%	1.7%	2.40	MP		
Simple Average					6.9%	4.3%	64.9%	9.7%	29.2	27.3	25.1	11.2	10.9	32.0%	2.5%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	20.06	5,727.7	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	12.2	13.8	13.6	13.6	13.0	84.5%	6.0%	24.40	UP		
CARLSBERG BREWERY MALAYSIA BHD	25.66	7,893.6	N	12/2019	11.4%	4.6%	6.9%	4.8%	28.8	26.9	25.7	46.4	50.7	186.7%	3.9%	25.95	OP		
HEINEKEN MALAYSIA BHD	24.68	7,455.8	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.4	25.7	24.4	20.1	19.9	77.9%	3.8%	23.25	MP		
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.5	22.1	21.2	26.7	27.9	116.4%	4.6%				
CONSENSUS ESTIMATES																			
BERJAYA FOOD BHD	1.55	555.9	N	06/2019	9.8%	8.4%	14.3%	9.3%	21.1	18.5	16.9	1.5	1.5	7.5%	3.0%	1.94	BUY		
BONIA CORPORATION BHD	0.270	209.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.6	15.0	12.7	0.6	0.6	3.2%	2.6%	0.300	SELL		
COCOALAND BHD	1.87	427.9	Y	12/2019	5.7%	7.1%	6.2%	9.8%	13.8	13.0	11.9	1.7	1.7	13.4%	4.1%	2.36	NEUTRAL		
KAWAN FOOD	1.21	435.0	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.1	32.3	20.0	1.4	1.3	4.1%	2.1%	1.14	SELL		
MAGNI-TECH INDUSTRIES BHD	5.20	845.8	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.3	6.9	1.6	n/a	20.3%	n/a	6.60	BUY		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

