

30 May 2019

# Parkson Holdings Bhd

## 9M19 Below Expectations

By Wan Mustaqim Bin Wan Ab Aziz I [wanmustaqim@kenanga.com.my](mailto:wanmustaqim@kenanga.com.my)

**9M19 CNL of RM76m expanded, compared to CNP of RM5m in 9M18, and both our/consensus RM16.6m full-year estimates. We consider the results to be below expectation due to higher-than-expected finance costs and tax expenses. We cut our FY19-20E estimates to CNL/CNP of RM60.9m/RM8.5m (from CNP of RM16.6m/RM18.8m). Nevertheless, overall performance had improved from last quarter, especially for China operation. Maintain MP with a lower TP of RM0.240 (from RM0.250).**

**9M19 below expectations.** 9M19 CNL of RM76m expanded, compared to CNP of RM5m in 9M18, and both our/consensus RM16.6m full-year estimates. We consider the results to be below expectations due to higher-than-expected finance costs and tax expenses. No dividend was declared, as expected.

**YoY, 9M19** revenue increased marginally due to improved SSS growth from Malaysian and Indonesian operations which more than offset the lower SSS growth in China and Vietnam/Myanmar operations. China's 9M19 SSS growth was lower at -2.7% vs. +2% in 9M18 mainly due to lower direct sales arising from stores closures in 2018 but improving operating revenue was seen from strong sales performance of the Cosmetics & Accessories category (51% of merchandise sales). SSS growth rate was stronger for Malaysia (+5.1% vs. 9M18 of -1.2%) which benefited from the spending spree during the zero-rated tax holiday and year-end sales, while Indonesia's (-1.4% vs. 9M18 of -5.9%) improved SSS was mainly driven by the targeted promotions and increasing house brands' contribution. On the other hand, Vietnam's (-18.9% vs. 9M18 of -6.5%) SSS growth rates sunk deeper due to intense competition, especially with the launch of Vincom Center Landmark 81 Mall on 30 July 2018, which is located at the tallest building in Ho Chi Minh City. Nevertheless, 53%-owned Parkson China recorded higher operating efficiencies to report an operating profit of RM93m (+7%), which more than offset other region's losses to record EBIT of RM45m. Nevertheless, due to higher finance costs and higher tax expenses, 9M19 CNL expanded to RM76m compared to CNP of RM5m in 9M18.

**QoQ, 3Q19** revenue rose 4% mainly due to higher consumer spending during the CNY festivities and extended holiday seasons across all the retailing regions. Coupled with improved operating efficiencies and stores productivity, the group recorded higher operating profit of RM53.7m (+162%), mainly contributed by China operation following the closure of underperforming stores. Nevertheless, higher tax expense brought 3Q19 Core Net Loss to RM6.5m compared to RM5.9m in 2Q19.

**Outlook.** We believe that Parkson's strategy of optimising its retail format, expanding its product and services offerings are gradually paying off as it is minimising stores' losses via optimising store effectiveness and efficiency. However, South-East Asia continues to remain challenging. As of March 2019, the group's department stores network comprises of 44 stores in China and 64 stores in South-East Asia, including Malaysia (44 stores), Vietnam (5 stores), and Indonesia (15 stores). Note that, Parkson has ceased its Myanmar operation with the closure of its only store in 2Q19.

**We cut our FY19-20E earnings to CNL/CNP of RM60.9m/ RM8.5m from CNP of RM16.6m/RM18.8m** to reflect the higher-than-expected finance costs and tax expenses.

**Maintain MARKET PERFORM with a lower TP of RM0.240 (from RM0.250)** based on the revised Sum-of-Parts (SoP) which implied 30x FY20E PER.

**Key risks to our call are:** (i) higher-than-expected losses in the South-East Asia region, and (ii) slower-than-expected SSS growth.

# MARKET PERFORM ↔

**Price:** RM0.245  
**Target Price:** RM0.240 ↓

## Share Price Performance



KLCI 1,623.67  
YTD KLCI chg -4.0%  
YTD stock price chg 0.0%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PKS MK Equity
Market Cap (RM m)	261.5
Shares Outstanding	1,067.2
52-week range (H)	0.65
52-week range (L)	0.23
3-mth avg daily vol:	1,888,954
Free Float	47%
Beta	1.1

## 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)	2018A	2019E	2020E
Turnover	3,982.0	4,030.9	4,039.8
EBIT	12.6	102.5	165.5
PBT	-77.7	-0.3	69.1
<b>NP/ (NL)</b>	<b>-104.0</b>	<b>-60.9</b>	<b>8.5</b>
<b>CNP/ (CNL)</b>	<b>-30.7</b>	<b>-60.9</b>	<b>8.5</b>
Consensus (NP)	-	16.6	18.8
Earnings Revision	-	-467%	-55%
EPS (sen)	-2.8	-5.6	0.8
EPS growth	-75%	98%	-114%
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	3.30	3.18	3.13
PER	N.M	N.M	31.6
P/BV (x)	0.1	0.1	0.1
Gearing (x)	0.1	0.0	0.0
Net Dvd Yield	0.0%	0.0%	0.0%

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<b>Result Highlight</b>								
	3Q	2Q	QoQ	3Q	YoY	9m	9m	YoY
FYE: June (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	1100.1	1054.2	4.4%	1061.0	3.7%	3,078	3,042	1.2%
EBIT/ (LBIT)	53.7	20.5	>100%	34.3	56.7%	45	16	>100%
PBT/ (LBT)	37.5	-3.5	>100%	29.2	28.4%	(8)	(27)	-71.8%
Taxation	-29.2	-50.6		-26.4		(99)	(56)	
PATAMI / (LATAMI)	-6.5	-16.6	-60.9%	25.3	<100%	(87)	(32)	<100%
Core PATAMI / (CL)	-6.5	-5.9	10.8%	26.3	<100%	(76)	5	<100%
Core EPS/ (LPS) (sen)	-0.6	-1.5	-60.9%	2.3	<100%	-8.0	-2.9	>100%
<b>EBIT margin</b>	<b>4.9%</b>	<b>1.9%</b>		<b>3.2%</b>		<b>1.5%</b>	<b>0.5%</b>	
PBT margin	3.4%	-0.3%		2.7%		-0.2%	-0.9%	
NP margin	-0.6%	-1.6%		2.4%		-2.8%	-1.1%	
Effective tax rate	n.m	n.m		n.m		n.m	- n.m	

Source: Bursa Malaysia, Kenanga Research

<b>Segmental Breakdown</b>								
FY Jun (RM'm)	3Q	2Q	QoQ	3Q	YoY	9m	9m	YoY
Segment Revenue	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Malaysia	266	286	-7.0%	268	-0.5%	788	773	1.9%
China	773	697	10.9%	727	6.3%	2,097	2,046	2.5%
Vietnam & Myanmar	16	18	-15.3%	20	-21.4%	51	65	-22.3%
Indonesia	31	38	-17.8%	32	-1.6%	100	117	-14.6%
Others	14	14	-3.8%	15	-6.4%	42	40	4.8%
Segment Revenue	1,100	1,054	4.4%	1,061	3.7%	3,078	3,042	1.2%
Malaysia	2	17	-88.5%	(10)	-120.0%	1	(30)	-103.3%
China	64	19	235.1%	55	17.4%	93	87	7.2%
Vietnam & Myanmar	(3)	(5)	-39.8%	(4)	-13.4%	(15)	(11)	30.2%
Indonesia	(7)	(1)	514.6%	(6)	11.4%	(14)	(20)	-28.2%
Others	(3)	(10)	-72.7%	(1)	257.1%	(20)	(11)	88.3%
Segment profit (operating)	54	21	161.6%	34	56.7%	45	16	190.3%
Malaysia	1%	6%		n.m		n.m	n.m	
China	8%	3%		8%		4%	4%	
Vietnam & Myanmar	n.m	n.m		n.m		n.m	n.m	
Indonesia	n.m	n.m		n.m		n.m	n.m	
Profit margin (%)	n.m	n.m		n.m		n.m	n.m	

Source: Bursa Malaysia, Kenanga Research

<b>Sum-of-Parts Valuation</b>				
	PHB's stake	No of shares effective stakes	Value (RM m)	Valuation methodology
Parkson Retail Asia (PRA)	67.60%	455.5	24	Based on share price of SGD 0.025 (previously SGD 0.034)
Parkson Retail Group (PRG)	53.10%	1,398.94	395	Based on share price of HKD 0.540 (previously HKD 0.63)
Net debt at holding level			-71	
Total SOP			348	
No of shares			1,093	
Holding Co. discounts (25%)			-87	
<b>Target price (RM / share)</b>			<b>0.240</b>	

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.	1-Yr. Fwd.			
<b>F&amp;B AND RETAIL</b>																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.49	1,745.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.8	31.5	29.9	24.8	24.0	77.5%	2.7%	1.35	UP		
AEON CO (M) BHD	1.47	2,063.9	Y	12/2019	6.5%	3.1%	17.3%	9.2%	19.5	16.6	15.2	1.1	1.0	5.3%	2.7%	2.00	OP		
AMWAY MALAYSIA HOLDINGS BHD	5.91	971.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.8	16.9	15.9	4.1	3.9	23.8%	4.7%	7.25	OP		
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP		
FRASER & NEAVE HOLDINGS BHD	34.20	12,543.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.9	28.0	5.4	5.0	18.0%	1.9%	36.60	MP		
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP		
MYNEWS HOLDINGS BHD	1.36	927.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.0	28.9	24.0	3.3	3.1	11.1%	0.7%	1.25	UP		
NESTLE (MALAYSIA) BHD	147.50	34,588.8	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.3	47.2	45.3	52.9	52.9	114.7%	2.2%	137.00	MP		
PADINI HOLDINGS BHD	3.63	2,388.2	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.4	15.4	12.7	3.7	3.3	22.3%	3.2%	4.00	MP		
PARKSON HOLDINGS BHD	0.245	261.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	31.6	0.1	0.1	-1.7%	0.0%	0.240	MP		
POWER ROOT BHD	1.41	558.2	Y	03/2020	6.3%	8.6%	26.3%	16.8%	16.8	13.8	12.2	2.5	2.3	18.0%	6.4%	1.75	OP		
QL RESOURCES BHD	6.87	11,146.2	Y	03/2019	8.1%	12.2%	11.0%	7.3%	54.0	48.7	45.4	5.9	5.5	12.2%	0.7%	6.05	UP		
SPRITZER BHD	2.26	474.5	Y	12/2019	4.0%	5.0%	3.1%	12.6%	19.6	19.0	16.9	1.2	1.2	6.3%	1.8%	1.90	UP		
<b>Simple Average</b>					<b>4.5%</b>	<b>5.2%</b>	<b>1.8%</b>	<b>64.2%</b>	<b>28.4</b>	<b>25.3</b>	<b>23.9</b>	<b>11.2</b>	<b>11.0</b>	<b>33.7%</b>	<b>2.6%</b>				
<b>SIN</b>																			
BRITISH AMERICAN TOBACCO (M) BHD	31.00	8,851.4	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	18.9	21.4	21.0	21.0	20.0	96.0%	4.4%	29.55	UP		
CARLSBERG BREWERY MALAYSIA BHD	23.86	7,339.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	26.8	25.0	23.9	40.6	44.1	173.9%	4.2%	23.00	MP		
HEINEKEN MALAYSIA BHD	23.36	7,057.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.0	24.3	23.1	19.0	18.8	77.9%	4.1%	23.25	MP		
<b>Simple Average</b>																			
<b>CONSENSUS ESTIMATES</b>																			
BERJAYA FOOD BHD	1.79	641.7	N	06/2019	8.2%	9.9%	2368.1%	15.4%	546.1	22.1	19.2	1.7	1.7	7.3%	2.7%	2.08	BUY		
BONIA CORPORATION BHD	0.26	207.2	Y	06/2019	-5.8%	2.2%	-38.0%	23.6%	10.5	16.9	13.7	0.6	0.4	2.9%	2.7%	0.25	SELL		
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL		
LAY HONG BHD	1.36	488.9	Y	12/2019	16.7%	20.3%	54.9%	23.4%	21.4	13.8	11.2	1.5	1.4	10.4%	2.8%	2.16	BUY		
KAWAN FOOD	4.54	738.5	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.1	7.0	6.3	1.4	N/A	21.0%	N/A	6.45	BUY		
MAGNI-TECH INDUSTRIES BHD	1.79	641.7	N	06/2019	8.2%	9.9%	2368.1%	15.4%	546.1	22.1	19.2	1.7	1.7	7.3%	2.7%	2.08	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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research

