

28 November 2019

# Parkson Holdings Bhd

## Seasonally Weakest Quarter

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1QFY20 CNL of RM45m expanded, compared to CNL of RM43m in 1QFY19 and core profit of RM12.6m in 4QFY19, but is deemed within expectations of both our/consensus estimated core profit of RM8.5m each as its 1QFY is seasonally the weakest quarter. Malaysian operation has returned to black with the on-going rationalization strategy and China operation recorded higher operating efficiencies than 1QFY19. Having risen an impressive 25% since our last upgrade to OP, we believe the positives are priced in at the current level. As such, we downgrade it to MP with unchanged TP of RM0.270.

**1QFY20 deemed within expectations.** 1QFY20 CNL of RM45m expanded compared to CNL of RM43m in 1QFY19, and core profit of RM12.6m in 4QFY19, but is deemed within expectations of both our/consensus estimated core profit of RM8.5m each as its 1QFY is seasonally the weakest quarter. No dividend was declared, as expected.

**YoY, 1QFY20** core losses expanded to RM45m compared to core losses of RM43m in 1QFY19 mainly due to lower sales (-4%), and higher finance costs (lease finance charges recognition under MFRS 16), but netted off by lower tax expenses. The lower sales came from negative overall SSSG growth from: (i) China (-5.0% vs. +2.9% in 1QFY19) due to lower direct sales arising from stores closures but marginal revenue growth was seen from strong sales in the Cosmetics & Accessories category (51% of merchandise sales) and the credit service income generated by Parkson Credit SB (acquired in October 2018), (ii) Malaysia (-1.0% vs. 1QFY19 of 5.9%) as last year sales benefited from the zero-rated tax holiday, and (iii) Indonesia (-8.0% vs. 1QFY19 of +0.3%) mainly due to the aftermath of earthquake occurrences and stores renovation. On the other hand, Vietnam's SSS growth rates (-14% vs. 1QFY19 of -16.5%) 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 RM56m (>100%) and Malaysia operation recorded operating profit of RM0.3m from operating loss of RM18m in 1QFY19, which more than offset other region's losses to record EBIT of RM43.2m.

**QoQ, 1QFY20** sunk into core losses of RM44.6m, compared to core profit of RM12.6m mainly due to lower sales (-7%) on seasonally lower quarter due to absence of festivities, and higher finance costs (lease finance charges recognition under MFRS 16), but netted off by lower tax expenses.

**Outlook.** Parkson's strategy is on track includes: (i) optimising its retail format, expanding product and services offerings, which is paying off, (ii) 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 September 2019, the group's department stores network comprises 42 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 2QFY19.

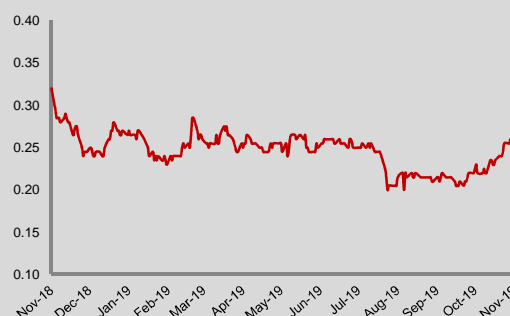
**PARKSON share price has risen an impressive 25% since our last upgrade to OP and we believe that much of the positives could have been priced in at this juncture. Downgrade to MP with unchanged TP of RM0.270** based on Sum-of-Parts (SoP) (implied PER of 34x based on FY20E EPS, above regional PER of 27x).

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

## MARKET PERFORM

Price: **RM0.250** ↓  
Target Price: **RM0.270** ↔

### Share Price Performance



KLCI	1,587.18
YTD KLCI chg	-6.1%
YTD stock price chg	2.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PKS MK Equity
Market Cap (RM m)	266.8
Shares Outstanding	1,067.2
52-week range (H)	0.30
52-week range (L)	0.20
3-mth avg daily vol:	456,127
Free Float	31%
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
<b>NP/ (NL)</b>	<b>-132.6</b>	<b>8.5</b>	<b>9.9</b>
<b>CNP/ (CNL)</b>	<b>-63.7</b>	<b>8.5</b>	<b>9.9</b>
Consensus (NP)	-	8.5	9.9
Earnings Revision	-	-	-
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	32.1	27.7
P/BV (x)	0.1	0.1	0.1
Gearing (x)	0.2	0.1	0.0
Net Dvd Yield (%)	-	-	-

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<b>Result Highlight</b>					
	<b>1Q</b>	<b>4Q</b>	<b>QoQ</b>	<b>1Q</b>	<b>YoY</b>
<b>FYE: June (RM'm)</b>	<b>FY20</b>	<b>FY19</b>	<b>Chg</b>	<b>FY19</b>	<b>Chg</b>
Turnover	887.4	953.5	-6.9%	924.1	-4.0%
EBIT/ (LBIT)	43.2	55.1	-21.5%	-28.9	>100%
PBT/ (LBT)	-54.4	-17.8	<100%	-41.6	30.7%
Taxation	-11.2	-32.4	-65.3%	-18.9	-40.6%
<b>PATAMI / (LATAMI)</b>	<b>-44.6</b>	<b>-45.6</b>	<b>-2.0%</b>	<b>-43.0</b>	<b>3.7%</b>
<b>Core PATAMI / (CL)</b>	<b>-44.6</b>	<b>12.6</b>	<b>&lt;100%</b>	<b>-43.0</b>	<b>3.7%</b>
Core EPS/ (LPS) (sen)	-4.1	1.2	<100%	-3.9	3.7%
<b>EBIT margin</b>	<b>4.9%</b>	<b>5.8%</b>		<b>n.m</b>	
PBT margin	n.m	n.m		n.m	
NP margin	n.m	n.m		n.m	
Effective tax rate	n.m	n.m		n.m	

Source: Bursa Malaysia, Kenanga Research

<b>Segmental Breakdown</b>					
<b>FY June (RM'm)</b>	<b>1Q</b>	<b>4Q</b>	<b>QoQ</b>	<b>1Q</b>	<b>YoY</b>
<b>Segment Revenue</b>	<b>FY20</b>	<b>FY19</b>	<b>Chg</b>	<b>FY19</b>	<b>Chg</b>
Malaysia	205	236	-13.2%	235	-13.0%
China	631	648	-2.7%	627	0.6%
Vietnam & Myanmar	9	11	-18.1%	17	-45.4%
Indonesia	30	44	-32.7%	31	-3.5%
Others	13	14	-5.3%	14	-8.0%
<b>Segment Revenue</b>	<b>887</b>	<b>954</b>	<b>-6.9%</b>	<b>924</b>	<b>-4.0%</b>
Malaysia	0	13	-98.0%	(18)	-101.4%
China	56	62	-9.8%	10	473.0%
Vietnam & Myanmar	(6)	(7)	-13.5%	(7)	-1.9%
Indonesia	(4)	(8)	-45.8%	(6)	-27.9%
Others	(2)	(4)	-50.7%	(8)	-73.5%
<b>Segment profit (operating)</b>	<b>43</b>	<b>55</b>	<b>-21.5%</b>	<b>(29)</b>	<b>-249.5%</b>
Malaysia	0%	5%		-8%	
China	9%	10%		2%	
Vietnam & Myanmar	n.m	n.m		n.m	
Indonesia	n.m	n.m		n.m	
<b>Profit margin (%)</b>	<b>n.m</b>	<b>n.m</b>		<b>n.m</b>	

Source: Bursa Malaysia, Kenanga Research

<b>Sum-of-Parts Valuation</b>				
	<b>PHB's stake</b>	<b>No of shares effective stakes</b>	<b>Value (RM m)</b>	<b>Valuation methodology</b>
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	
<b>Target price (RM / share)</b>			<b>0.270</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.				
<b>F&amp;B AND RETAIL</b>																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.42	1,633.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.1	30.0	28.5	23.6	22.9	77.5%	2.8%	1.35	MP		
AEON CO (M) BHD	1.59	2,232.4	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.9	21.9	20.0	1.1	1.1	5.0%	2.5%	1.70	OP		
AMWAY MALAYSIA HOLDINGS BHD	5.80	953.4	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.5	16.6	15.6	4.1	3.9	23.8%	4.7%	5.90	MP		
DUTCH LADY MILK INDUSTRIES BHD	57.08	3,653.1	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	29.4	35.7	32.4	34.6	34.1	97.9%	2.8%	54.60	UP		
FRASER & NEAVE HOLDINGS BHD	34.66	12,712.5	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.3	29.6	28.0	5.0	4.7	16.5%	1.9%	35.15	MP		
HAI-O ENTERPRISE BHD	2.17	630.0	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.3	13.3	13.0	2.0	2.0	15.1%	6.0%	1.95	UP		
MYNEWS HOLDINGS BHD	1.25	852.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	32.2	26.6	22.0	2.8	2.7	10.2%	0.8%	1.55	OP		
NESTLE (MALAYSIA) BHD	144.70	33,932.2	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.2	50.5	47.1	51.9	51.1	104.6%	2.0%	128.00	UP		
PADINI HOLDINGS BHD	3.48	2,289.5	Y	06/2020	0.5%	4.7%	12.8%	5.3%	14.3	13.0	12.3	3.4	3.0	24.5%	3.3%	4.00	OP		
PARKSON HOLDINGS BHD	0.25	266.8	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	32.1	27.7	0.1	0.1	0.3%	0.0%	0.27	MP		
POWER ROOT BHD	2.42	979.1	Y	03/2020	13.3%	10.5%	54.0%	12.3%	28.6	19.2	17.6	4.4	3.9	21.8%	3.7%	2.75	OP		
QL RESOURCES BHD	7.35	11,924.9	Y	03/2020	10.9%	4.5%	13.0%	4.2%	55.0	48.7	46.7	5.9	5.5	12.1%	0.7%	6.30	UP		
SPRITZER BHD	2.19	459.8	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.0	14.9	14.0	1.2	1.1	7.7%	1.8%	2.50	OP		
<b>Simple Average</b>					<b>6.5%</b>	<b>4.5%</b>	<b>66.7%</b>	<b>8.5%</b>	<b>28.7</b>	<b>27.1</b>	<b>25.0</b>	<b>10.8</b>	<b>10.5</b>	<b>32.1%</b>	<b>2.5%</b>				
<b>SIN</b>																			
BRITISH AMERICAN TOBACCO (M) BHD	16.58	4,734.1	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	10.1	14.2	14.5	11.2	11.0	78.1%	6.8%	18.30	MP		
CARLSBERG BREWERY MALAYSIA BHD	27.70	8,521.1	N	12/2019	16.0%	7.3%	13.6%	9.0%	31.1	29.1	27.7	47.1	46.2	175.6%	3.6%	30.00	OP		
HEINEKEN MALAYSIA BHD	26.20	7,915.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	28.0	27.2	25.9	21.3	21.1	77.9%	3.6%	24.25	MP		
<b>Simple Average</b>					<b>1.3%</b>	<b>3.0%</b>	<b>-4.2%</b>	<b>4.0%</b>	<b>23.1</b>	<b>23.5</b>	<b>22.7</b>	<b>26.6</b>	<b>26.1</b>	<b>110.5%</b>	<b>4.7%</b>				

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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