27 February 2015 | 2QFY15 Results Review

# Parkson Holdings Berhad

*China's topline growth dragged by lower SSS*

***Maintain NEUTRAL***

***Unchanged* Target Price (TP): RM2.44**

## INVESTMENT HIGHLIGHTS

- **Parkson's 2QFY15 revenue grew +3.5%yoy to RM981.7m while its core profit increased +77.5%yoy to RM45.4m boosted by lower effective tax rate.**
- **At the operating profit level, earnings declined -9.8%yoy to RM61.4m but grew sequentially by +59.3%qoq due possibly to seasonal factors.**
- **Operating margin fell -9.8%yoy due to higher operating costs and slower same stores sales ("SSS").**
- **Maintain NEUTRAL with a TP of RM2.44.**

**Results within expectations.** Parkson's 2HFY15 core profit grew +77.5%yoy and +124.7%qoq to RM45.4m after accounting for a one-off disposal gain of KL Festival City Mall (RM108.9m) and impairment loss on goodwill (-RM43.7m). The strong growth was boosted by lower effective tax rate in the quarter. This also resulted in the core profit for 1HFY15 increasing +16.5%yoy to RM65.6m.

**Parkson in Malaysia.** Revenue contributions from its Malaysian operations declined -1.3%yoy but grew 11.2%qoq to RM236.0m in the quarter. For the 1HFY15 period, revenue contracted -1.3%yoy to RM448.2m. The decline was due to poor consumer sentiment ensuing from rising living costs and uncertain economic outlook. Furthermore, the poor tourist arrivals from China and floods in the East Coast also impacted sales.

**Parkson in China.** Revenue fell -1.0%yoy due to negative SSS growth and higher operating costs. This was underpinned by the slowdown in the Chinese market, as well as austerity measures by local authorities and stiff competition from online retailers.

**Parkson in Vietnam and Myanmar.** While revenue grew +10.0%yoy and +14.6%qoq the division losses widened over both periods due to the weak discretionary spending and increasing competition from new entrants in industry.

**Parkson in Indonesia.** Revenue grew +6.3%yoy in the half on stronger SSS performance which increased +7.0%yoy. However, posted an operating loss of -RM1.9m due to start-up costs from new store openings.

**Property division.** Revenue grew +417.1%yoy and +348.9%qoq to RM42.3m in 2QFY15 primarily driven by the Group's newly acquired subsidiaries which are involved in the F&B industry. This also resulted in a strong operating profit growth over the period.

**Maintain NEUTRAL with TP of RM2.44.** We remain NEUTRAL on Parkson with a TP of RM2.44. We are basing our TP on sum-of-part valuation utilising PER of 20.0x and 15.0x for Parkson Retail Asia and Parkson Retail Group respectively.

| RETURN STATS | |
|---|---|
| Price (26 Feb' 14) | RM2.30 |
| Target Price | RM2.44 |
| Expected Share Price Return | +6.1% |
| Expected Dividend Yield | +0.0% |
| **Expected Total Return** | **+6.1%** |

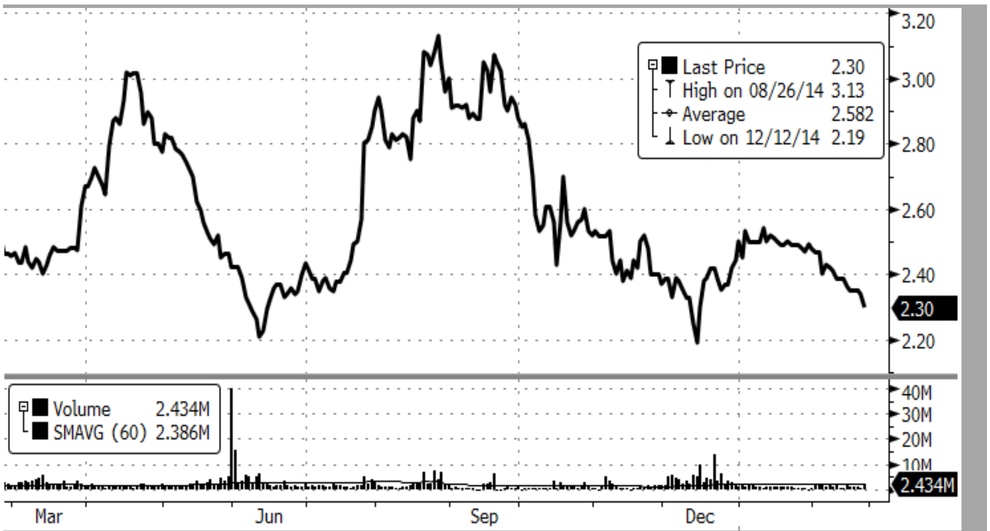
| STOCK INFO | |
|---|---|
| KLCI | 1,820.87 |
| Bursa / Bloomberg | 5625 / PKS MK |
| Board / Sector | Main / Consumer |
| Syariah Compliant | Yes |
| Issued shares (mil) | 1,024.5 |
| Par Value (RM) | 1.00 |
| Market cap. (RM'm) | 2356.3 |
| Price over NA | 1.97x |
| 52-wk price Range | RM2.17-RM3.17 |
| Beta (against KLCI) | 0.55 |
| 3-mth Avg Daily Vol | 2.35m |
| 3-mth Avg Daily Value | RM5.059m |
| Major Shareholders (%) | |
| Cheng Heng Jem | 31.0 |
| Yong Kim Cheng | 26.2 |
| Lembaga Tabung Haji | 7.9 |

## INVESTMENT STATISTICS

| FYE 30 June | FY12 | FY13 | FY14 | FY15F |
|---|---|---|---|---|
| Revenue (RM m) | 3,442.9 | 3,455.0 | 3,553.9 | 3,585.7 |
| Profit from operations (RM m) | 835.6 | 554.5 | 325.0 | 328.5 |
| Operating profit margin (%) | 24.4 | 16.1 | 9.1 | 9.2 |
| Pre-tax profit (RM m) | 887.7 | 614.9 | 384.2 | 308.9 |
| Net profit (RM m) | 380.1 | 238.2 | 139.0 | 127.3 |
| Net profit margin (%) | 11.1 | 6.9 | 3.9 | 3.5 |
| Basic EPS (sen) | 34.9 | 22.0 | 13.1 | 11.7 |
| Basic EPS growth (%) | 9.3 | (37.1) | (40.4) | (10.6) |
| PER (x) | 6.6 | 10.5 | 17.6 | 19.7 |
| Net DPS (sen) | 16.0 | 18.0 | 0* | 0** |
| Net dividend yield (%) | 7.0 | 7.8 | - | - |

** (i)No cash dividend paid for FY14.*
*(ii)61.1m treasury shares had been distributed as share dividend on 25 April 2014*
*** (i)61.7m treasury shares had been distributed as share dividend on 8 August 2014*
*Source: Company, Forecasts by MIDFR*

## DAILY PRICE CHART




*Source: Bloomberg*

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## 2QFY15 RESULTS REVIEW

| FYE June (RM m) | Quarterly Results | | | Cumulative | | Comments |
|---|---|---|---|---|---|---|
| | 2QFY15 | YoY (%) | QoQ (%) | 1HFY15 | YoY (%) | |
| **Revenue** | **981.7** | **3.5** | **15.7** | **1,830.3** | **2.9** | |
| Other operating income | 90.1 | 4.7 | 44.2 | 152.6 | (5.8) | |
| Operating expenses | (1,010.4) | 4.6 | 15.8 | (1,883.0) | 4.2 | |
| **Operating profit** | **61.4** | **(9.8)** | **59.3** | **99.9** | **(25.5)** | |
| Finance income | 26.3 | (3.0) | 7.4 | 50.8 | (3.2) | |
| Finance cost | (22.0) | 23.0 | 7.3 | (42.5) | 7.5 | |
| Associates & JVs | 4.2 | (26.7) | 11.4 | 8.1 | (26.4) | |
| EI | 65.2 | nm | nm | 65.2 | nm | Disposal of KL Festival City Mall and impairment on goodwill |
| **Profit before tax** | **139.3** | **58.5** | **178.2** | **189.3** | **13.3** | |
| Income tax expense | (31.1) | (40.0) | 54.0 | (51.3) | (38.6) | |
| **Profit after tax** | **108.2** | **199.7** | **262.2** | **138.1** | **65.1** | |
| Minority interest | (2.4) | (123.1) | (125.1) | 7.2 | (73.5) | |
| **PATAMI** | **110.6** | **332.3** | **447.1** | **130.8** | **132.3** | |
| **Normalized PATAMI** | **45.4** | **77.5** | **124.7** | **65.6** | **16.5** | |
| Basic EPS (sen) | 102.4 | (57.0) | (46.1) | 292.4 | (44.0) | |
| Operating Margin % | 6.3 | (12.9) | 37.7 | 5.5 | (27.6) | |
| PBT Margin % | 14.2 | 53.1 | 140.5 | 10.3 | 10.1 | |
| PAT Margin % | 11.0 | 189.4 | 213.1 | 7.5 | 60.5 | |
| PATAMI % | 11.3 | 317.5 | 373.0 | 7.1 | 125.8 | |
| Effective tax rate % | 22.3 | (62.1) | (44.7) | 27.1 | (45.8) | |
| **Segmental Revenue** | | | | | | |
| Malaysia | 236.0 | (1.3) | 11.2 | 448.2 | (1.3) | |
| China | 631.8 | (1.0) | 13.3 | 1,189.3 | 0.7 | |
| Myanmar & Vietnam | 32.3 | 10.0 | 14.6 | 60.5 | 6.3 | |
| Indonesia | 39.3 | 17.9 | (4.9) | 80.6 | 13.4 | |
| Property and others | 42.3 | 417.1 | 348.9 | 51.8 | 215.8 | |

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| MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -15% and +15% over the next 12 months. |
| SELL | Total return is expected to be <15% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |