

14 March 2019 | Sector Update

Consumer A Buyer's Market

Maintain NEUTRAL

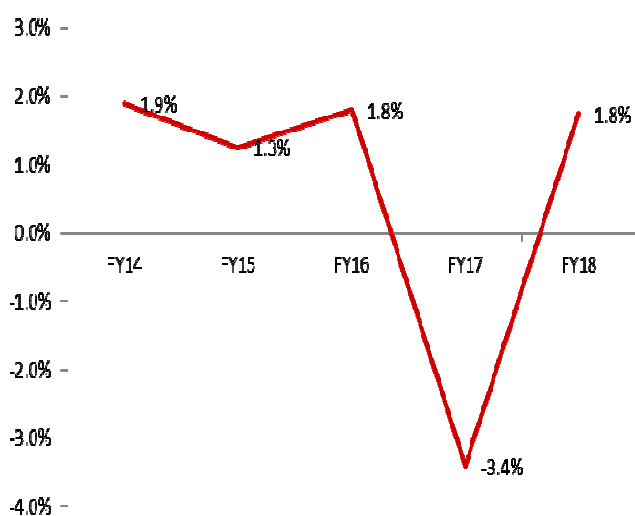
INVESTMENT HIGHLIGHTS

- Retailer's 4QCY18 performance tripled sequentially, in-line with expectation
- SSSG expected to remain in the positive territory, albeit slower pace
- Brick and mortars retail companies are looking to scale down their expansion plan in light of the competitive retail landscape and expectation of longer gestation period
- Maintain NEUTRAL on the sector

4QCY18 earnings came in within expectation. In the recently concluded earnings season, consumer discretionary companies under our coverage namely **Padini Holdings Berhad (Neutral, TP: RM3.59)** and **AEON Co. (M) Berhad (Sell; TP: RM1.41)**'s earnings improved strongly from the subdued performance recorded in the previous quarter. The recorded earnings for both companies tripled sequentially to RM53.2m and RM53.5 for Padini and Aeon Co respectively as average selling price reverted upwards. To recall, in 3QCY18, retailers revised down the average selling price and executed aggressive marketing campaign in order to remain competitive during the tax holiday period. Hence, the readjustment of retail pricing post tax-holiday period coupled with the strong spending during the Christmas season and year-end school holidays helped to lift earnings.

SSSG to normalise in FY19. We gathered that the overall 1HFY19 same-store-sales-growth (SSSG) for Padini improved by +2.0%yoy (from -2.0%yoy for FY18) while Aeon Co's FY18 SSSG is estimated to increase by +1.8%yoy (from -3.4%yoy for FY17). This is supported by the: (i) tax holiday spending in the 3QCY18 and; (ii) closure of underperforming stores such as AEON Mahkota Cheras as well as 11 stores by Padini in FY18. The closure of these underperforming stores helped to lift group's overall earnings. Nonetheless, we expect SSSG to moderate to about +1.0%yoy in FY19 due to the absence of aforementioned one-off factors.

Chart 1: Aeon Co's SSSG (%yoy)

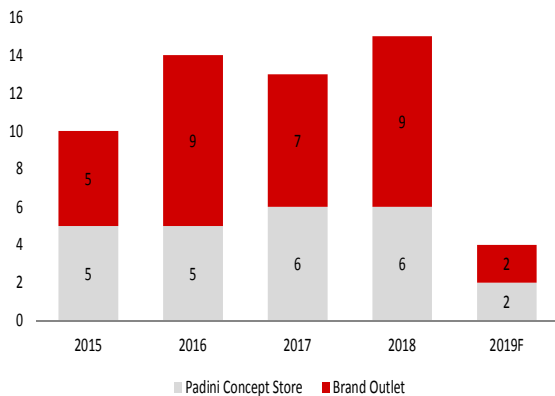


Note: FY18 SSSG is MIDFR's estimation

Source: Company, MIDFR

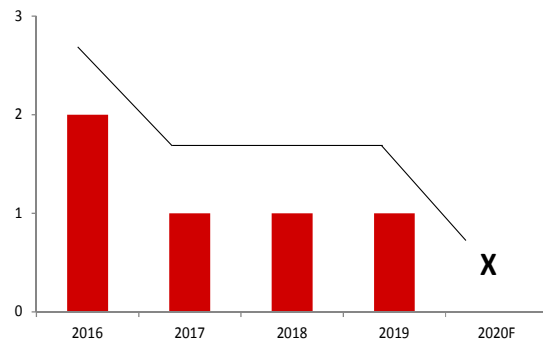
Scale down in expansion plan. The heightening competition among brick and mortars retailers compounded with the exponential sales growth of online shopping platforms has resulted in increasingly challenging outlook for the consumer discretionary players particularly in the fashion industry. In view of the shift in preference of shopping platform, Padini and Aeon Co have scale down their stores expansion plan as part of their rationalisation strategy. We understand that Padini has reduced new stores opening to four this year (from 10 stores opened in FY18) while Aeon Co currently has no concrete plan to open new shopping malls beyond FY19.

Chart 2: Padini's new outlets



Source: Company, MIDFR

Chart 3: Aeon Co's new shopping mall



Source: Company, MIDFR

Newer stores to experience longer gestation period. As consumers are becoming more price sensitive, we expect minimal upward revision in average selling prices moving forward. Coupled with the moderation of SSSG, we expect that retailer's profit margin will continue to remain depressed. Hence, in our view we expect that the recent addition of malls and stores are expected to have a longer breakeven period. We understand that for AEON Co, AEON Kota Bahru (1st AEON in Kelantan) and AEON Kuching (1st in Sarawak) will take approximately six years to breakeven due to the lower average spending among consumers in these states in comparison to the average four years breakeven period for stores located in the west coast of Malaysia.

Maintain NEUTRAL on the sector. The local retail market remains challenging as consumer sentiment weakens whilst retail players are facing ever increasing competition as new local and foreign retailers are flooding into the local market. In the near term, retail sales will grow driven heavily by promotion and price discounting as consumer will look for value for money purchase as choices are ample. Hence, this creates uncondusive scenario to raise selling prices which will depress profit margins. 

Nabil Zainoodin, CFA, CA
 nabil.zainoodin@midf.com.my
 03-2772 1663

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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 <i>rise</i> 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 <i>fall</i> 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.