

16 March 2018 | Sector Update

## Consumer - Retail

**Maintain NEUTRAL**

### ***Retail sales improvement expected in 2QCY18***

#### **INVESTMENT HIGHLIGHTS**

- **The overall Malaysia retail industry sales grew by +3.1%yoy in the 4QCY17 due to seasonality factor**
- **Retailers' recorded mixed performance despite the stronger retail industry sales growth**
- **BUY recommendation on AEON Co due to its competitive advantage as a shopping mall operator**
- **Maintain NEUTRAL on the sector as overall outlook remain challenging due to intense competition**

**The overall Malaysia retail industry sales grew by +3.1%yoy in the 4QCY17 due to seasonality factor.** The recent data compiled by Retail Group Malaysia (RGM) revealed that Malaysia retail industry recorded growth of +3.1yoy in the 4QCY17 which mostly due to the Christmas and year-end sales. This is an improvement from the -1.1yoy growth recorded in the immediate previous quarter. Nevertheless, the sales growth came in below the expected +4.5%yoy growth. Dissecting further by retail sub-sectors, departmental store with supermarket and fashion and fashion accessories sub-sector recorded performance above expectation at +2.3%yoy and +7.8%yoy growth respectively while pure departmental store sub-sector recorded a decline in sales of -0.4%yoy which is in contrast to the estimated +9.3%yoy growth.

**Mixed 4QCY17 earnings performance.** Despite the stronger overall industry sales growth, mixed earnings were recorded. Under our coverage universe, **AEON Co (m) Bhd (BUY:RM2.04)** and **Padini Holdings Bhd (NEUTRAL: RM4.77)** recorded strong revenue growth in its retailing segment of +2.9%yoy of +7.9%yoy respectively which was in accord with the departmental store with supermarket and fashion and fashion accessories sub-sectors' strong performance. Nevertheless, due to a better net profit margin, Aeon Co's operating profit from retailing segment grew by +70.9%yoy whilst Padini's operating profit dropped by -8.4%yoy due to higher cost of goods and increase in selling and distribution expenses due to its recent rapid expansion. Meanwhile, pure departmental store player's performance such as **Parkson Holdings Bhd (Non-rated)** recorded a decline of -45.0%yoy in its local retailing segment which was worse than the industry's departmental store sub-sector performance.

**As a shopping mall operator, Aeon Co is in a better position to react to the latest consumer trend.** Despite operating in a similar retail sub-sector, Aeon Co's better performance was partly due to its competitive advantage as a shopping mall operator as oppose to a pure departmental store player like Parkson. This enables the group to react faster to the latest consumer shopping trend and spending behaviour as it has the ability to influence tenancy mix in its shopping mall. The group has been actively refurbishing, rezoning the layout and bringing in fresh tenant mix for its older shopping malls such as AEON Taman Maluri. In addition, Aeon also operates supermarket, pharmacies (AEON wellness), flat-price shop (DAISO) and premium supermarket (AEON Maxvalu). Hence, these enhance its position as community-centric and family-friendly shopping mall. Due to the aforementioned reason, Aeon is our top pick for the retail sector.

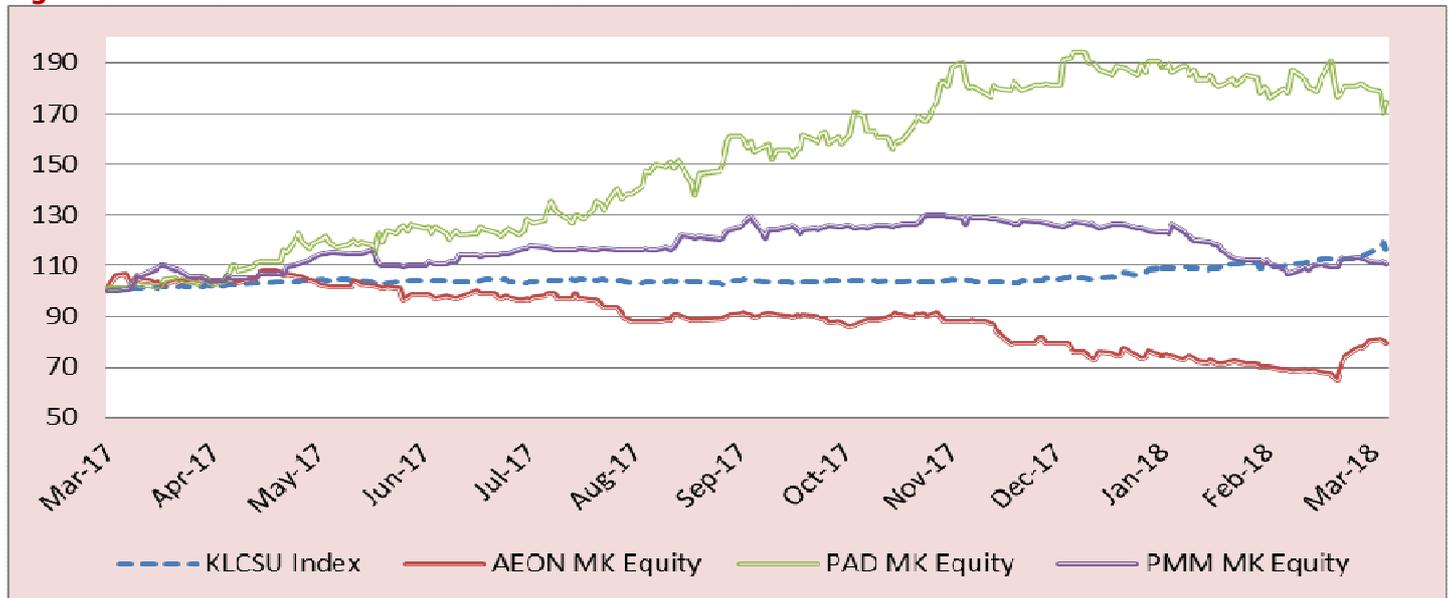
**Event-driven 2QCY18.** In addition, we expect that retail sales will further improve in 2QCY18 driven by the Hari Raya Aidilfitri celebration and upcoming election campaign. We believe that pre-election goodies will further encourage consumers to spend. On a broader note, we expect retailers to benefit from: (i) improvement in consumer sentiment; and (ii) strengthening of Ringgit. However, these factors will be partly mitigated by the: (i) influx of competing retail outlets and; (ii) intense pricing war between retailers as observed by the continuous drop of clothing and footwear prices on year-over-year. All factors considered, we maintain **NEUTRAL** stance on the sector as we expect the outlook will continue to be challenging in view of intense competition on the local front. 

**Figure 1: YoY percentage change in retail sales by sub- sector**

Retail sub-sectors	1Q17	2Q17	3Q17	4Q17
Department store cum supermarket	-3.7%	4.1%	-3.5%	2.3%
Department store	-0.1%	15.1%	-4.4%	-0.4%
Supermarket and hypermarket	-4.8%	0.8%	-5.2%	-2.7%
Fashion and fashion accessories	-0.1%	2.5%	-4.8%	7.8%

Source: Retail Group Malaysia (RGM), MIDFR

**Figure 2: Normalised return of KLCSU index vs Retail stocks**



Source: Bloomberg, MIDFR

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

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 (Bank Pelaburan)  
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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.