21 September 2017 | Sector Update

Consumer - Retail

***Maintain* NEUTRAL**

Retail sales grew driven by price discounting

INVESTMENT HIGHLIGHTS

- **Retailer's performance in the 2Q is within expectation**
- **Departmental store cum supermarket and department store sub-sectors recovered from poor 1Q**
- **Aeon Co intensifies its strategy to maintain business competitiveness**
- **Fashion and fashion related sub-sector facing ever increasing competition**
- **Padini looking to expand its footprint regionally**
- **Maintain NEUTRAL on the sector**

Retailer's performance in the 2Q is within expectation. Retailers under our coverage recorded results within expectation from the recently concluded earnings season as the 2Q is seasonally a strong quarter for retailers due to the effect from Hari Raya spending. Therefore, we have maintained our full-year earnings estimates for **AEON Co (NEUTRAL, TP: RM2.21)**, **Padini (NEUTRAL, TP: RM3.79)** and **Panasonic (NEUTRAL, TP: RM35.75).** During the quarter, all three companies reported earnings growth of +32.7%yoy, +5.7%yoy and +3.3%yoy respectively. AEON Co's earnings jumped of +32.7%yoy was on the back of improvement in margins due to cost efficiency efforts and aggressive marketing and pricing strategies. Generally, year-on-year improvement in earnings for retailers is due to i) spending due to festivity period enticed by heavy price discounting ii) opening of new stores and iii) recovery in earnings driven by export sales.

Departmental store cum supermarket and department store sub-sectors recovered from poor 1Q – As per the data compiled by the Retail Group Malaysia (RGM), both departmental store cum supermarket and department store sub-sectors showed a recovery from the poor performance last quarter with a year-on-year growth of +4.1%yoy and +15.1%yoy respectively. This corroborated with Aeon Co and Parkson's year-on-year revenue growth of +2.3%yoy and +21.30%yoy respectively (refer to Figure 1). The recovery is within expectation as 2Q is historically a stronger quarter for these sub-sectors as seen in Figure 2 and 3 due to the Hari Raya celebration which boosted spending on the back of heavy promotions offered by retailers. In the coming quarter, RGM forecasted departmental cum supermarket and department store sub-sectors to decline -2.5%yoy and -1.5%yoy. We concur with this view as the growth of both sub-sectors will normally return to the red in the 3Q in line with the historical trend.

Figure 1: No of stores in Malaysia and revenues by retailers

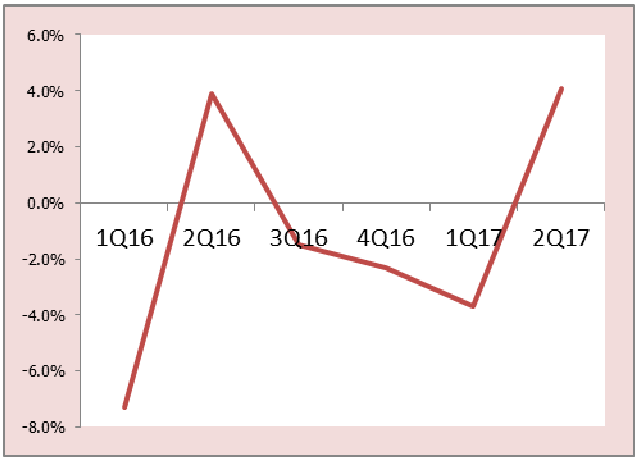
Retailers	Call	TP	Sub-sector	Annual Revenue (RM b)	Annual Earnings (RM b)	No of stores	YoY% chg in revenue
Aeon Co	Neutral	2.21	Departmental store cum supermarket	4.04	0.08	34	2.3
Parkson Corporation	Not Rated	NA	Departmental store	0.89	0.04	44	21.3
The Store Corporation	NA		Departmental store	1.44	-0.02	72	NA

Source: Company

Aeon Co intensifies its strategy to maintain business competitiveness. Focusing on bottom line numbers, Aeon Co also exhibited earnings recovery on its retailing segment with reported earnings of RM5.2m from RM1.4m in the previous quarter and RM1.0m reported in the corresponding period last year. This resulted from its efforts to maintain business competitiveness by amongst others refurbishing, rezoning the layout and bringing in fresh tenant mix for its existing shopping malls. The group will also continue to refurbish and upgrade its selected stores and shopping malls. In order to fund this, it plans to dispose AEON Mahkota Cheras as it also no longer strategic to its requirement.

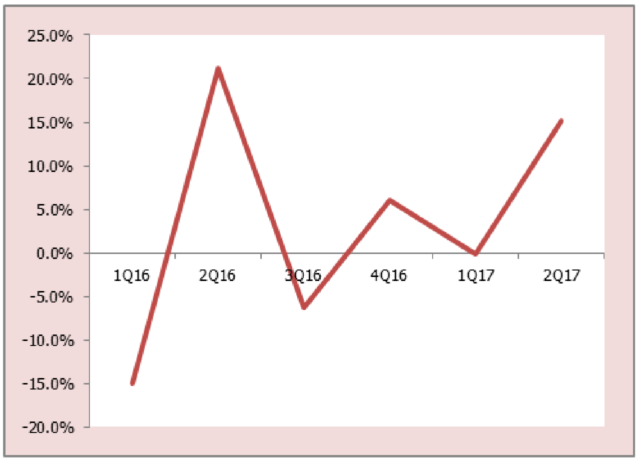
Aeon will not loss it appeals despite the challenges facing departmental store sub-sectors. As reported from in the Total Retail 2017 report by PWC, the household appliance, furniture and homeware, clothing and footwear are among the product categories that consumers prefer to buy in-store rather than online as shoppers still like to touch and feel and try on things before buying (Refer to Figure 4). Nevertheless, there is a need for retailers to invest in an inviting, appealing in-store environment at a suitable store locations, which Aeon is currently focusing on. Going forward, newly opened Aeon Mall Bandar Dato' Onn in Kempas, Johor which was launched on 7th September as well as Aeon Mall Kuching which is expected to be launched next year are expected to contribute positively to earnings. We are positive on this move despite the continuing challenge facing departmental store sub-sector and proliferating shopping malls as Aeon Co's possesses a unique business model. Being a player in both businesses, Aeon Co is in position to improve its store's performance by making its shopping malls a preferred choice within a catchment area.

Figure 2: Department store cum supermarket sub-sector's quarterly sales growth



Source: RGM

Figure 3: Department store sub-sector's quarterly sales growth



Source: RGM

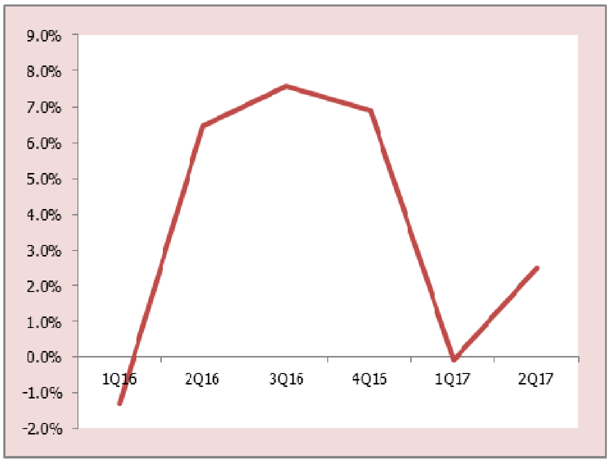
Figure 4: Preference to buy online vs in-store

Online		In-store
60%	Books, music, movies & video games	28%
39%	Toys	37%
43%	Consumer electronics & computers	51%
36%	Sports equipment/outdoor	44%
37%	Health & beauty (cosmetics)	47%
40%	Clothing & footwear	51%
32%	Jewelery/watches	49%
33%	Household appliances	56%
30%	DIY/home improvements	52%
30%	Furniture & homeware	59%
23%	Grocery	70%

Source: PWC

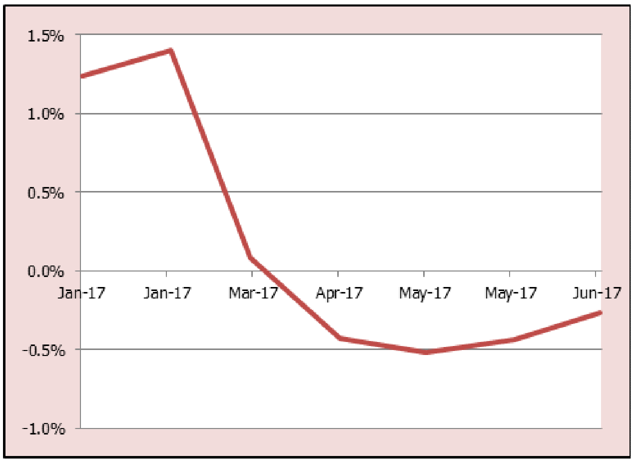
Fashion and fashion related sub-sector facing ever increasing competition – Fashion and fashion accessories sub-sectors reported a bumped in sales growth of +2.5%yoy in the 2Q17. Looking at the sub-sector performance historically in Figure 5, 2Q to 4Q sales growth is normally strong with a +6% to +7%yoy. We expect that this trend will continue driven by the contribution from new stores opening as a result of opening of new shopping malls. In addition, the continued drop of clothing and footwear's prices year-on-year of approximately -0.5% from March 17 as seen in Figure 6 as a result of stiff price competition and heavy discounting will continue to support this trend.

Figure 5: Fashion and fashion accessories' quarterly sales growth



Source: RGM

Figure 6: CPI: Clothing and Footware y-o-y growth



Source: RGM

Padini looking to expand its footprint regionally. Despite the growth in revenue of +32.0%yoy in the recent quarter which is in line with the sub-sector growth, Padini's net profit margin contracted approximately -2.1ppts yoy. The top line growth is mainly attributable to the opening of 14 new stores during the current 12-month period. Nevertheless, margins contracts due the pressures of rising input costs as well as selling and distribution expense while retail price need to be retained due to the stiff competition locally. Due to this, Padini is looking to expand its footprint in Cambodia in order to find new market to penetrate. It plans to open two to four stores in the next 12 months with investment of up to RM20.0m in Cambodia. We are positive on this development as it will provide a new area of growth for the company amidst the increasing purchasing power of Indo-China region. On a side note, earnings for Panasonic improves +3.3%yoy partly contributed by the increased in export sales to Vietnam corroborating the fact of rising affluent of the Indo-China region.

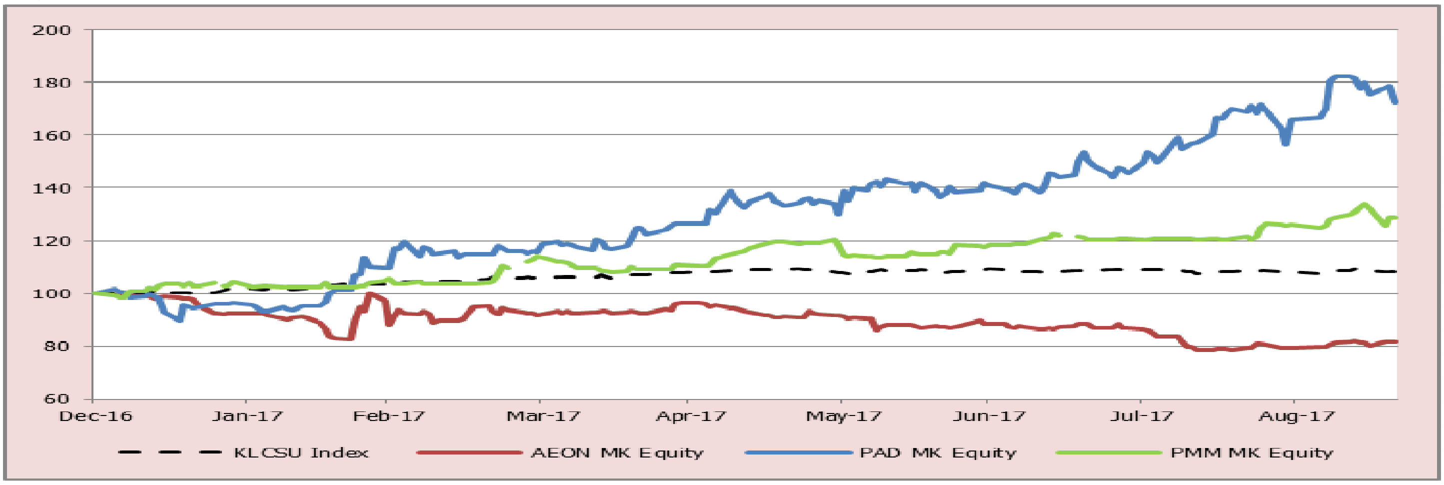
Figure 7: No of stores in Malaysia and revenues by companies

Companies	Call	TP	Annual Revenue (RM b)	Annual Earnings (RM b)	No of stores	YoY% chg in revenue
Padini	Neutral	2.21	1.30	0.14	136	32.00
Bonia	Not Rated	NA	0.67	0.03	123	-4.00
Panasonic Manufacturing	Neutral	35.75	1.12	0.13	NA	10.00

Source: Company

Padini and Panasonic outperformed the KL consumer index (KLCSU). Year to date, Padini and Panasonic experienced price run-ups of +72.5% and +28.9% respectively in comparison to the KL consumer index (KLCSU) of +8.3%. In contrast, the return from Aeon Co lagged the index return at -18.4%. On a side note, Padini remains a significant mover amongst retailing stock to the KLCSU index's year to date movement as it contributed 5.89pts or +11.0% to date.

Figure 8: Normalised return of KLCSU index vs Retail stocks

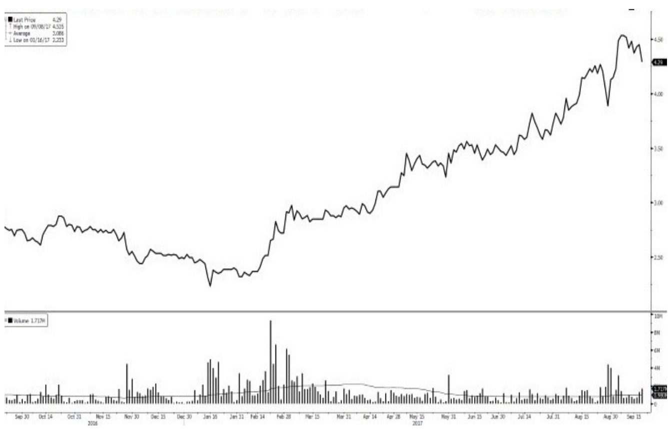


Source: Bloomberg

Figure 9: Daily price chart of Aeon Co

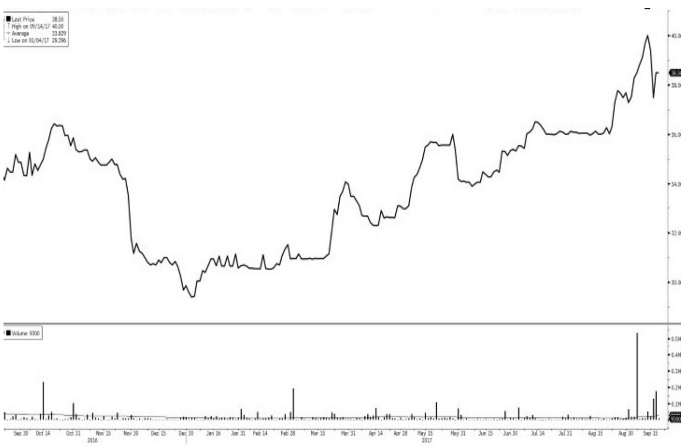
Source: Bloomberg

Figure 10: Daily price chart of Padini



Source: Bloomberg

Figure 10: Daily price chart of Panasonic Manufacturing



Source: Bloomberg

Maintain NEUTRAL on the sector. The local retail market remains challenging as consumer purchasing power will continue to fall 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 unconducive scenario to raise selling prices. We expect that the recovery in the local retailing segment will improve starting from the 1HFY18 as the multiplier effect of better GDP number translated into better consumer spending power. In the meantime, local retailers need to expand to seek untapped markets to sustain earnings. Hence, we are maintaining our **NEUTRAL** call due to the aforementioned reasons.

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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.