

Friday, November 27, 2015

Padini Holdings Berhad

“A Good Start to the Year”

Results Review

- Actual vs. expectations.** Padini Holdings Berhad (Padini) 3M16 net profit touched RM32 million compared to RM19 million in 3M15, that surged by 65% y-o-y. It essentially beaten ours and consensus expectation respectively, accounting 39% and 34% of both estimates full year net profit forecast. Commendable earnings were boosted by 4 new Brand Outlet Stores (BOS) and 4 new Padini Concept Stores (PCS) that have been added to the Group’s overall retail network.
- Dividend.** Declared the 1st interim dividend of 2.5sen/share for 3M16.
- Top line.** 3M16 revenue gained 19% y-o-y to RM270 million compared to RM227 million in 3M15. Padini solid performance in 3M16 was driven by positive impact of sales and marketing activities during the Hari Raya festive. The higher revenue in 3M16 had pushed PBT and PAT margin to 16% and 12% respectively compared to 12% (PBT margin) and 8% (PAT margin) in 3M15.
- Outlook.** We foresee Padini employing the right strategy to aggressively open PSC and BO outlets even though the group may face challenging operation environment in FY16 due to higher cost of living and GST cautiousness among consumer. We are positive Padini will continue to focus on growing their business in retail industry through various sales and marketing initiatives despite the temporary softness in consumer spending. Moreover, we expect sales and marketing activities due to festive season will assist the group to face the challenging operation environment and give positive impact to earnings performance.

HOLD (TP: RM1.65)

Current Price (RM)	RM1.56
New Fair Value (RM)	RM1.65
Previous Fair Value (RM)	RM1.45
Previous Recommend.	HOLD
Upside To Fair Value	5.8%
Dividend Yield (FY16F)	8.4%

Stock Code

Bloomberg	PAD MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Consumer	
Shariah Compliance	Yes	
Issued Shares (mn)	657.9	
Market Cap (RM mn)	1,046.1	
YTD Chg In Share Price	8.9%	
Beta (x)	0.60	
52-week Hi/Lo (RM)	RM1.81	RM1.28
3M Average Volume (shrs)	441mil	
Estimated Free Float	46%	

Major Shareholders

Yong Pang Chaun Holdings	43.74%
Halley Sicav-Halley Asian Prospec	4.19%
Capital Dynamic Asset Management	2.89%

Results Review - Padini Holdings Bhd

- **Change to forecast.** We revise upwards our FY16 and FY17 earnings forecast by 23% and 33% respectively due to better-than-expected earnings in 3M16. Given that, FY16 and FY17 earnings are projected to grow by 25% y-o-y and 10% y-o-y respectively assisted by 1) sales and promotion activities and 2) expansion of PCS and BO to sustain their business in long term.
- **Valuation and Recommendation.** We value Padini at RM1.65 based on 5-years average PER of 11x and EPS FY16 of 15 cent and the stock is a **HOLD**. We justify our valuation based on its 1) continuous aggressive sales and marketing activities and 2) large number of stores and retail channel.

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	1.01	17	19	17	16	1	1	5	NA	1.04	Hold
Amway	Dec	9.60	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	73.52	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.80	34	38	14	13	2	2	13	5.1	5.46	Buy
DutchLady	Dec	48.68	216	229	22	20	14	16	58	2.4	47.30	Hold
Padini*	Jun	1.59	15	18	13	11	3	3	24	5.0	1.65	Hold
Scientex	July	8.08	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.53	11	33	10	6	2	2	10	5.1	1.80	Buy
Aeon Co	Dec	2.75	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.28	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: June (RM million)	FY13	FY14	FY15	FY16F	FY17F
Turnover	789.8	817.0	977.9	999	1009
Pretax profit	117.6	119.2	111.8	123	130
Net Profit	85.4	87.6	80.2	100	110
EPS (sen)	13.0	13.3	12.2	15.3	16.8
DPS (sen)	8.0	11.5	10	10.1	10.3
PBT Margin (%)	15%	15%	11%	12%	13%
PAT Margin (%)	10.8%	10.7%	8.2%	10%	11%
Dividend yield (%)	8.8%	9.4%	8.3%	8.4%	8.6%
Dividend payout(%)	62%	83%	82%	82%	82%

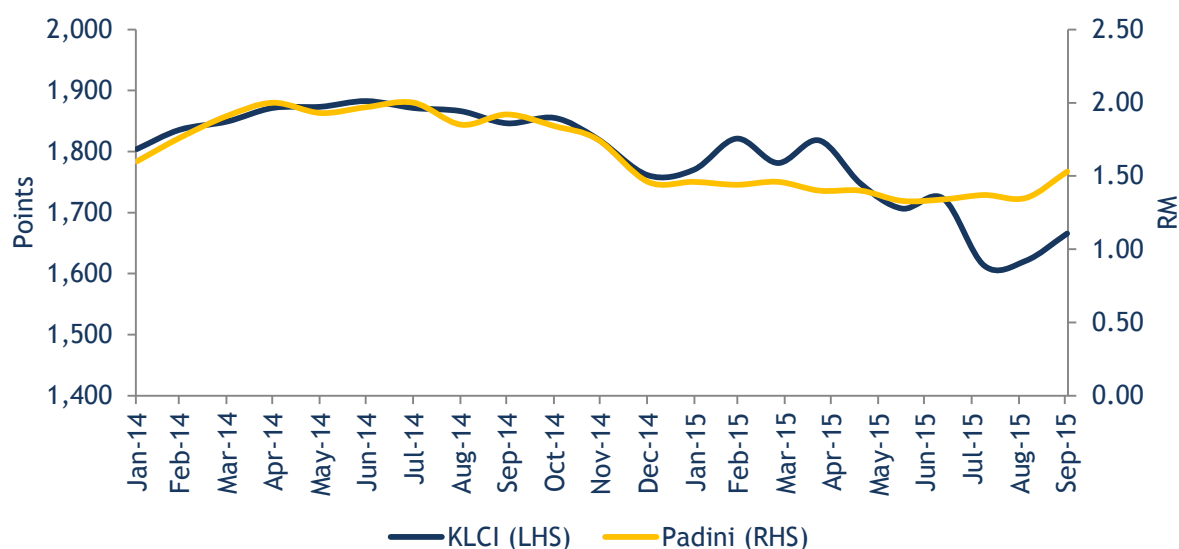
Source: Bursa Malaysia, M&A Securities

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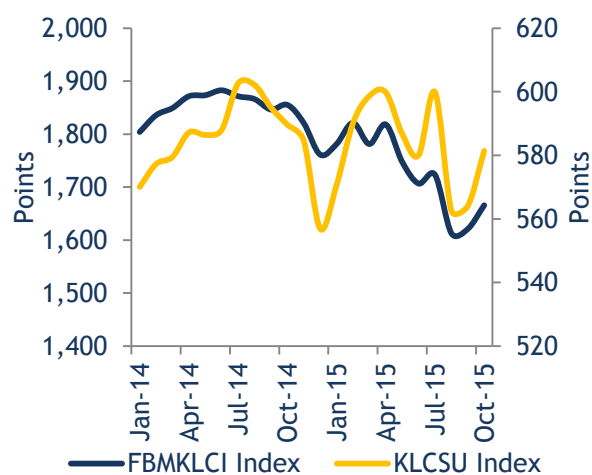
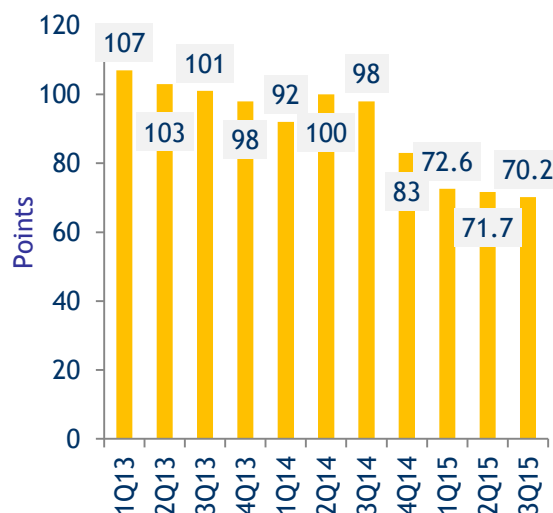
Table 3: Results Analysis

YE: June (RM million)	1Q16	1Q15	4Q15	q-o-q	y-o-y	3M16	3M15	y-o-y
Revenue	270	227	222	21%	19%	270	227	19%
Gross Profit	125	103	93	33%	21%	125	103	21%
Finance Cost	(1)	(1)	(1)	-22%	16%	(1)	(1)	16%
PBT	44	27	22	101%	66%	44	27	66%
Taxation	(12)	(7)	(4)	225%	66%	(12)	(7)	66%
PAT	32	19	18	75%	65%	32	19	65%
EPS (sen)	5	3	3	75%	66%	5	3	66%
GP Margin	46%	45%	42%			46%	45%	
PBT Margin	16%	12%	10%			16%	12%	
PAT Margin	12%	8%	8%			12%	8%	

Source: Bursa Malaysia, M&A Securities

Padini Share Price vs KLCI
(Jan 2014 - YTD)

Source: Bursa Malaysia, M&A Securities

FBMKLCI Index vs. FBM Consumer Product Index
(Jan 2014-YTD)Malaysia Consumer Confidence Index
(1Q13 - 3Q15)

Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my