

Wednesday, May 20, 2015

Padini Holdings Berhad

“A good Quarter”

Results Review

- Actual vs. expectations.** Padini Holdings Berhad (Padini) recorded revenue of RM284 million in 3Q15 that grew by 15% q-o-q and 30% y-o-y. Cumulatively, revenue touched RM756 million in 9M15 compared to RM670 million in 9M14 (+13% y-o-y). The higher revenue was pushed by positive impact of sales and marketing due to festive season in this quarter (i.e.: Chinese New Year) and additional 7 Brand Outlet Stores (BOS) and 6 Padini Concept Stores (PCS) that were opened during November 2014 to March 2015.
- Bottomline.** The group's PAT at RM27 million in 3Q15 grew by 64% q-o-q and 26% y-o-y, bringing 9M15 to RM62 million compared to RM77 million in 9M14 (-20% y-o-y). Aggressive promotional and discounting activities in 3Q15 has pressurised PAT margin to 9% compared 10%. Nevertheless, 9M15's PAT of RM62 million attributed 70% of ours and 76% consensus forecast respectively.
- Dividend.** The group declared a 3rd interim dividend of 2.5 cents in 3Q15, bringing total dividend of 7.5 cents in 9M15 translating into 79% payout ratio which is slightly higher from the previous year of 77%.
- Outlook.** Padini will face the challenging operating environment in the next quarter (4Q15) due to implementation of GST in April 2015 on retail products. But, we are positive that Padini will expand their business in retail industries. Store openings are on track with 6 PCS and 8 BO outlets scheduled for opening in FY15 will give positive impact to the group earnings. Padini's PCS in Mid Valley that opened in early 2015 will give positive impact to support the group earnings in near and long term. We foresee marketing and promotion

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BUY (TP: RM1.80)

Current Price (RM)	RM1.35
New Fair Value (RM)	RM1.80
Previous Fair Value (RM)	RM2.35
Previous Recommend.	BUY
Upside To Fair Value	33%
Dividend Yield (FY15F)	9%

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)	888.2	
YTD Chg In Share Price	-7.53%	
Beta (x)	0.68	
52-week Hi/Lo (RM)	RM2.06	RM1.34
3M Average Volume (shrs)	441mil	
Estimated Free Float	50%	

Major Shareholders

Yong Pang Chuan Holdings	43.7%
Skim ASB	5.01%
Capital Dynamic Asset Management	3.5%

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effort by the group will give advantage to the group to maintain their lead in the retail industry.

- **Change to forecast.** We made adjustment to our earnings by cutting FY15 forecast by 5% due to below expectation earnings for 9M15, and at the same time introduce FY16 earning forecast. Padini's PAT for FY15 and FY16 is expected to grow by 2% 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 RM1.80 based on 3-years average PER of 14x and EPS FY15 of 13 cent and the stock remains a **BUY**. 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	2.08	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	11.04	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	72.90	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.46	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	47.00	216	229	22	20	14	16	58	2.4	48.8	Hold
Padini*	Jun	1.35	15	18	13	11	3	3	24	5.0	1.80	Buy
Scientex	July	6.90	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.06	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.14	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.00	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)	FY12	FY13	FY14	FY15F	FY16F
Turnover	726.1	789.8	817.0	825.2	835.1
EBIT	132.5	118.7	118.3	119.5	120.9
Pretax profit	129.7	117.6	119.2	120.4	121.8
Net Profit	95.3	85.4	87.6	88.5	89.5
EPS (sen)	14.5	13.0	13.3	13.4	13.6
PER (x)	11.1	12.4	12.4	12.5	12.7
EBIT margin	18.7%	18.2%	15.0%	14.5%	14.5%
Pretax margin	18.5%	17.9%	14.9%	14.6%	14.6%
PAT Margin	13.3%	13.1%	10.8%	10.7%	11.2%
Div. Yield (%)	3.6%	4.8%	4.8%	4.8%	4.8%
Dividend (RM)	0.4	0.6	0.8	0.8	0.8
Dividend yield (%)	7.8	9.9	8.8	9.0	9.7
Dividend payout (%)	35%	41%	62%	60%	56%

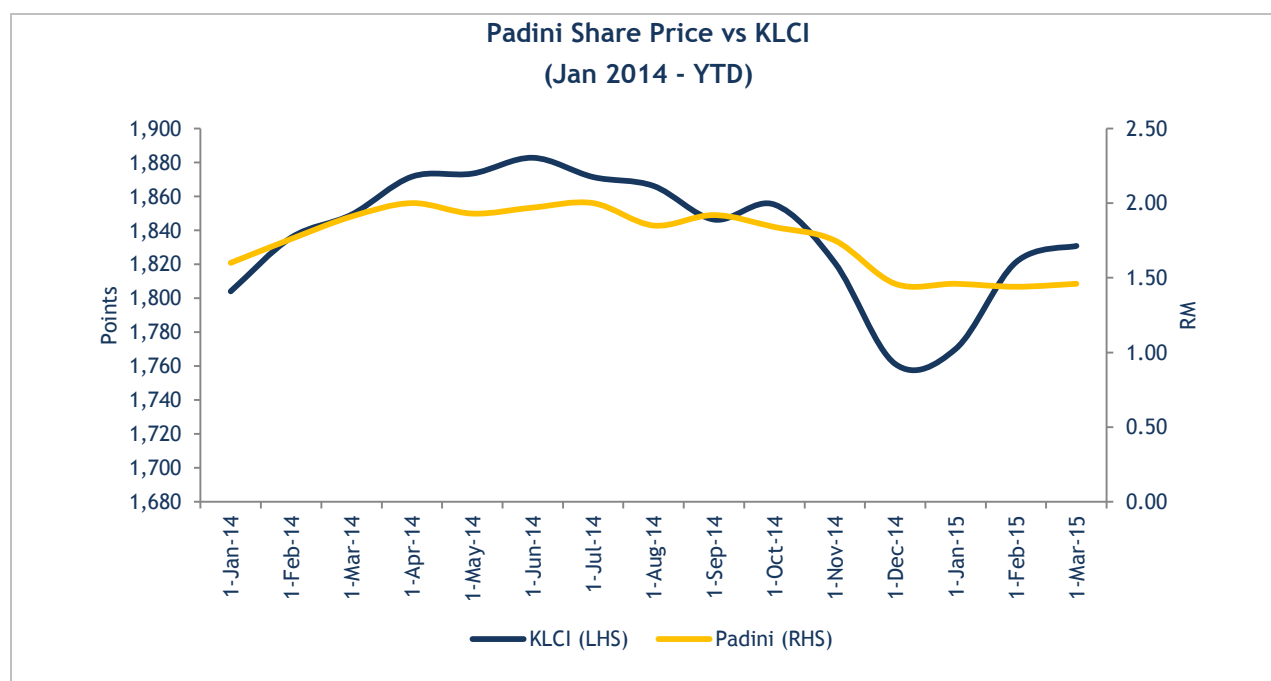
Source: Bursa Malaysia, M&A Securities

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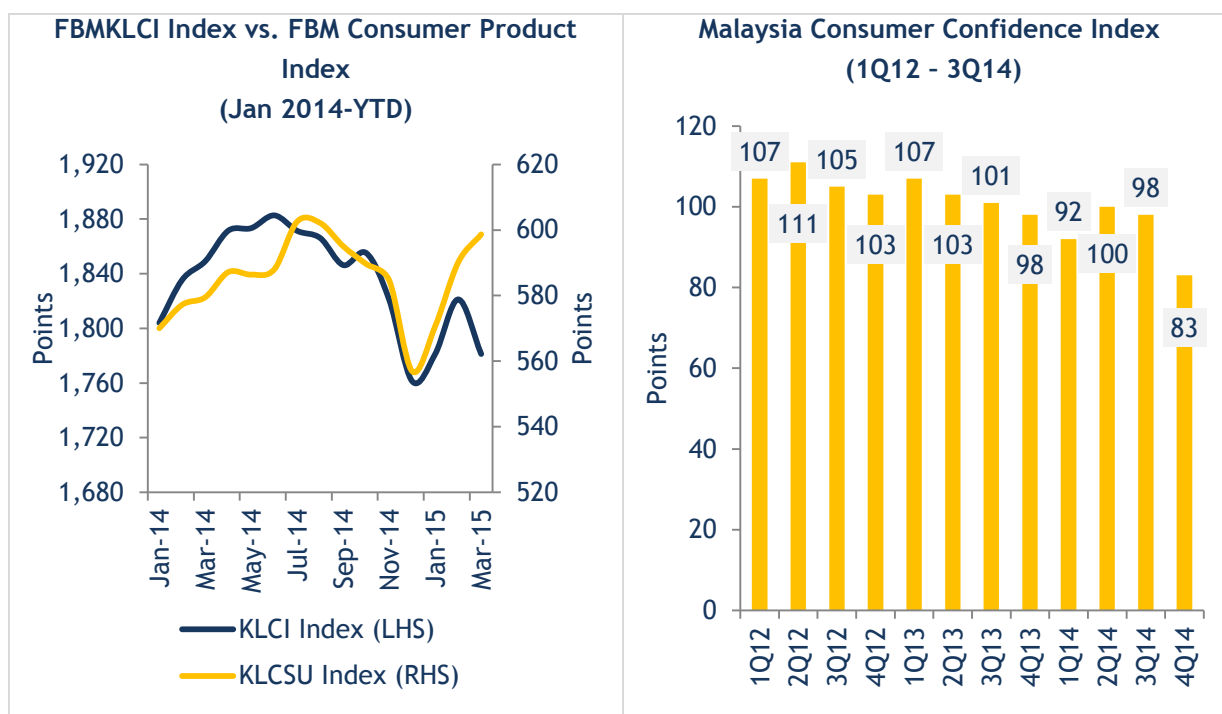
Table 3: Results Analysis

YE: June (RM million)	3Q15	3Q14	2Q14	q-o-q	y-o-y	9M15	9M14	y-o-y
Revenue	284	219	246	15%	30%	756	670	13%
Gross Profit	(158)	(118)	(145)	8%	34%	(427)	(357)	20%
Finance Cost	(1)	(1)	(1)	19%	53%	(2)	(2)	23%
PBT	39	28	24	62%	39%	90	106	-15%
Taxation	(12)	(7)	(8)	57%	78%	(28)	(29)	-4%
PAT	27	21	16	64%	26%	62	77	-20%
EPS (sen)	4	3	2	64%	26%	9	12	-20%
GP Margin	44%	46%	41%			43%	47%	
PBT Margin	14%	13%	10%			12%	16%	
PAT Margin	9%	10%	7%			8%	12%	

Source: Bursa Malaysia, M&A Securities



Source: Bursa Malaysia, M&A Securities



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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