

30 November 2018 | 1QFY19 Results Review

## Padini Holdings Berhad

*Struggling to remain competitive*

**Downgrade to SELL**  
(Previously Neutral)  
Target Price (TP): RM4.08  
(Previously RM5.55)

### INVESTMENT HIGHLIGHTS

- 1QFY19 earnings grew dropped by -42.5%yoy, which is below ours and consensus expectations
- No significant positive spillover from the recent the tax holiday period
- Low retail prices and increasing operating expenses led to profit margin compression
- Downgrade to SELL with a revised TP of RM4.08

**Earnings below our and consensus expectations.** Padini Holdings Bhd's (Padini) 1QFY19 earnings came in at RM18.0m, which is below ours and consensus expectations, accounting for 12.0% and 8.8% of full year FY19 earnings forecasts respectively. 1QFY19 earnings dropped by -42.5%yoy due to profit margins compression. Contrary to ours and consensus expectations, the group's earnings was not significantly lifted by the tax holiday period.

**Revenue growth attributed to additional stores.** The group registered 1QFY19 revenue growth of +4.6%yoy to RM14.6m. This was mainly attributable to the increase in Brand Outlets store from 49 to 54 in comparison to the same quarter last year. However, the contribution from new stores was partially mitigated by the declining same store sales growth (SSSG) for both Padini Concept and Brands Outlet stores. Going forward, the management plans to open additional four stores in FY19 which is lower than the initially ten stores previously plan.

**Facing profit margins compression.** The dropped in 1QFY19 earnings was mainly premised on the compression in gross profit margin to 39.9% in comparison to 43.1% recorded in 1QFY18. We believe that this is caused by the lowering of retail prices for some of its brands during the zero-rated GST period. This is despite GST cost was already absorbed previously as not to lose out market share to competitors. In addition, a higher selling and distribution expense was incurred during the period to entice customer to spend. As a result, net profit margin dropped to 5.4% from 9.9% recorded in 1QFY18.

**Second interim dividend declared.** Second interim dividend of 2.5sen per share was declared for FY19. This brings its cumulative dividend to 5.0sen per share which is equal to the corresponding period in FY18.

RETURN STATS	
Price (29 <sup>th</sup> November 2018)	RM5.52
Target Price	RM4.08
Expected Share Price Return	-26.1%
Expected Dividend Yield	+2.8%
<b>Expected Total Return</b>	<b>-23.3%</b>

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	7052 / PAD MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	657.91
Market cap. (RM'm)	3,631.66
Price over NA	5.56x
52-wk price Range	RM4.11–RM6.20
Beta (against KLCI)	0.66
3-mth Avg Daily Vol	0.60m
3-mth Avg Daily Value	RM3.48m
Major Shareholders (%)	
Yong Pang Chaun Hldgs	43.74
EPF	5.84
Somerset Capital	5.40

**Impact to earnings.** We are revising our FY19 and FY20 earnings forecasts downwards by -21.8% and -20.5% respectively due to the tapering down in number of new stores opening as well as longer gestation period for these new stores to breakeven.

**Target price.** We are revising our target price to **RM4.08** (*previously RM5.52*) which is based on pegging the FY20 EPS of 26.3sen per share to PER of 15.5x. The assigned PER multiple is the group's three-year average historical PER.

**Downgrade to SELL.** Coming off from tax holiday, we remain wary however on the weaker sales performance in the immediate months after the reimplementation of SST. To entice consumer to spend, we expect that the management will further increase promotional expenses in December 2018 in conjunction with school holidays and festivity period. While we expect a gradual improvement in margins as the group adjusts the brand prices, we foresee a challenging outlook for the group as we expect that recently launched stores will have longer gestation period than the average of two to three years. This is in view of the increasing competition in the local fashion segment. All things considered, we are downgrading our recommendation on the stock to **SELL** from neutral previously. 

## INVESTMENT STATISTICS

FYE June (RMm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,301.2	1,570.7	1,678.8	1,969.6	1,889.3
Gross profit	542.6	618.6	687.5	797.7	774.6
PBT	186.7	213.2	239.7	220.8	230.7
PAT	137.4	157.4	178.3	161.2	173.0
EPS (sen)	20.9	23.9	27.1	24.5	26.3
Net Dividend (sen)	11.5	11.5	11.5	13.5	15.5
Gross profit margin (%)	41.7	39.4	41.0	40.5	41.0
PBT margin (%)	14.3	13.6	14.3	11.2	12.2
PAT margin (%)	10.6	10.0	10.6	8.2	9.2
EPS growth (%)	71%	14%	13%	-10%	7%
Dividend yield (%)	2.1	2.1	2.1	2.4	2.8
PER (x)	26.4	23.1	20.4	22.5	21.0

Source: Company, MIDF

## DAILY PRICE CHART



## PADINI HOLDINGS BHD: 1QFY19 RESULTS SUMMARY

FYE June (RMm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue	329.8	477.9	315.2	4.6	(31.0)
Cost of sales	(198.3)	(285.5)	(179.3)	10.6	(30.5)
<b>Gross profit</b>	131.5	192.4	135.9	(3.2)	(31.7)
Other income	4.3	12.4	6.9	(38.4)	(65.7)
Administrative expenses	(16.9)	(19.6)	(15.8)	7.0	(13.8)
Selling and distribution expenses	(91.9)	(104.0)	(84.4)	9.0	(11.6)
<b>Profit from operations</b>	26.9	81.1	42.6	(36.9)	(66.9)
Finance costs	(0.2)	(0.4)	(0.7)	(65.9)	(46.0)
<b>PBT</b>	26.6	80.7	41.9	(36.5)	(67.0)
Taxation	(8.7)	(23.4)	(10.7)	(19.0)	(63.0)
<b>PAT</b>	18.0	57.3	31.2	(42.5)	(68.6)
Basic EPS (sen)	2.7	8.7	4.8	(42.5)	(68.7)
				<i>+ / (-) pts</i>	
Gross profit margin (%)	39.9	40.3	43.1	(3.2)	(0.4)
Operating margin (%)	8.1	17.0	13.5	(5.4)	(8.8)
PBT margin (%)	8.1	16.9	13.3	(5.2)	(8.8)
PAT margin (%)	5.4	12.0	9.9	(4.5)	(6.5)
Effective Tax rate (%)	32.5	29.0	25.5	7.0	3.5

Source: Company, MIDFR

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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.