

27 February 2018 | 2QFY18 Results Review

Padini Holdings Berhad

2QFY18 earnings within expectation

INVESTMENT HIGHLIGHTS

- **2QFY18 earnings dropped by -8.3%yoy to RM50.0m**
- **Earnings impacted by higher costs**
- **Outlook remain challenging**
- **Maintain NEUTRAL with an unchanged TP of RM4.77**

Earnings met our and but exceed consensus expectations.

Padini's 2QFY18 earnings came in at RM50.0m. This met our expectations but exceed consensus expectations, accounting for 46.0% and 58.0% of full year FY18 earnings forecasts respectively. Against last year, revenue increased by +7.9%yoy but earnings dropped of -8.3%yoy respectively while on quarterly sequential basis, revenue and earnings increased of +46.1% and +60.1% respectively due to seasonally stronger quarter.

The 2QFY18's earnings impacted by higher costs. Revenue for 2QFY18 increased by +7.9%yoy to RM460.4m. The increase was mainly due to the increased number of outlets for both Padini Concept Stores (PCS) and Brands Outlet (BO). Nevertheless, cost of sales and selling and distribution expenses increased at a higher pace of +12.4%yoy and +9.4%yoy respectively. This was mainly attributable to additional PCS and BO stores opened during the year. As a result, the quarterly earnings dropped of -8.3%yoy. On a sequential quarterly basis, 2QFY18 recorded a stronger performance as compared to 1QFY18, driven by the Christmas and year-end school holiday season sales.

Future prospect. We expect that the outlook for the group to remain challenging in the coming quarters due to the increasing competition in the local fashion segment. Nevertheless, the additional plan opening of 12 new stores locally and three outlets in Cambodia in FY18 will sustain growth trajectory.

Maintain NEUTRAL with unchanged TP of RM4.77. We are maintaining our **NEUTRAL** stance on Padini with an unchanged target price of **RM4.77**. Our target price changes as we rolled forward our valuation based to FY19F with a PER of 15.5x pegged to EPS19 of 30.8sen. We view that the valuation is currently stretched at this juncture with a forward PER of close to 20.0x in comparison to the average historical two-year PE of 15.0x.



Maintain NEUTRAL

Unchanged Target Price (TP): RM4.77

RETURN STATS	
Price (26 th February 2018)	RM5.35
Target Price	RM4.77
Expected Share Price Return	-10.8%
Expected Dividend Yield	+3.0%
Expected Total Return	-7.8%

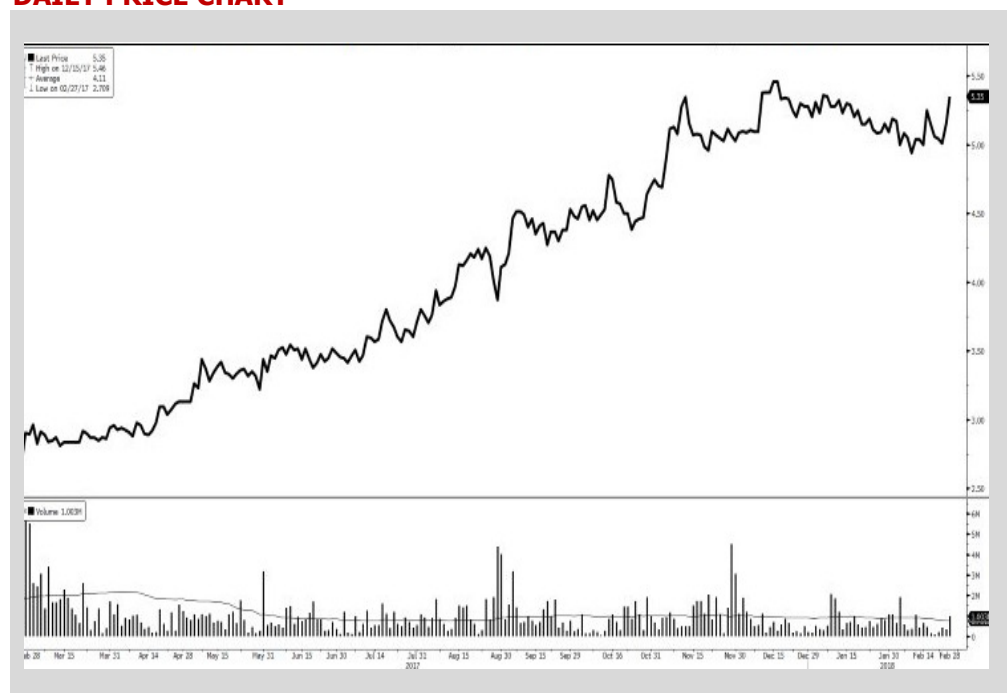
STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	7052 / PAD MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	657.91
Market cap. (RM'm)	3519.82
Price over NA	6.21x
52-wk price Range	RM2.76–RM5.5
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	0.78m
3-mth Avg Daily Value	RM4.02
Major Shareholders (%)	
Yong Pang Chaun Hldgs	43.74
Somerset Capital	5.40
Thian Min Yang	2.95

INVESTMENT STATISTICS

FYE June (RMm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	977.9	1,301.2	775.6	1,732.1	1,957.6
Gross profit	422.2	542.6	316.5	729.2	812.4
Operating profit	114.7	190.4	215.5	110.4	283.9
PBT	111.8	186.7	108.9	244.2	278.2
PAT	80.2	137.4	81.2	178.3	201.7
EPS (sen)	12.2	20.9	12.3	27.1	30.7
Net Dividend (sen)	10.0	11.5	11.5	14.0	16.0
Gross profit margin (%)	43.2	41.7	40.8	42.1	41.5
Operating profit margin (%)	11.7	14.6	27.8	6.4	14.5
PBT margin (%)	11.4	14.3	14.0	14.1	14.2
PAT margin (%)	8.2	10.6	10.5	10.3	10.3
EPS growth (%)	-12	71	-41	120	13
Dividend yield (%)	1.9	2.1	2.1	2.6	3.0
PER (x)	43.9	25.6	43.4	19.7	17.5

Source: Company, MIDFR

DAILY PRICE CHART



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

2QFY18 RESULTS SUMMARY

FYE June (RMm)	Quarterly results					Cumulative results		
	2QFY18	1QFY18	2QFY17	YoY (%)	QoQ (%)	1HFY18	1HFY17	YoY (%)
Revenue	460.4	315.2	426.6	7.9	46.1	775.6	736.7	5.3
Cost of sales	(279.8)	(179.3)	(248.2)	12.8	56.0	(459.1)	(429.6)	6.9
Gross profit	180.6	135.9	178.5	1.2	32.9	316.5	307.1	3.1
Other income	2.1	6.9	4.9	(57.1)	(69.5)	9.0	8.8	2.4
Administrative expenses	(17.9)	(15.8)	(20.7)	(13.5)	12.9	(33.7)	(34.9)	(3.6)
Selling and distribution expenses	(97.1)	(84.4)	(88.8)	9.4	15.0	(181.4)	(166.1)	9.3
Profit from operations	67.8	42.6	74.0	(8.4)	59.2	110.4	114.9	(3.9)
Finance costs	(0.8)	(0.7)	(1.3)	(34.7)	23.7	(1.5)	(2.5)	(40.1)
PBT	67.0	41.9	72.7	(7.9)	59.8	108.9	112.4	(3.1)
Taxation	(17.0)	(10.7)	(18.3)	(6.9)	59.1	(27.7)	(29.3)	(5.4)
PAT	50.0	31.2	54.5	(8.3)	60.1	81.2	83.1	(2.3)
EPS (sen)	7.6	4.8	8.3	(8.2)	60.0	12.3	12.6	(2.3)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	39.2	43.1	41.8	(2.6)	(3.9)	40.8	41.7	(0.9)
Operating margin (%)	14.7	13.5	17.3	(2.6)	1.2	14.2	15.6	(1.4)
PBT margin (%)	14.5	13.3	17.0	(2.5)	1.2	14.0	15.3	(1.2)
PAT margin (%)	10.9	9.9	12.8	(1.9)	0.9	10.5	11.3	(0.8)
Effective Tax rate (%)	25.4	25.5	25.1	0.3	(0.1)	25.4	26.1	(0.6)

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.