

24 May 2018 | 3QFY18 Results Review

Padini Holdings Berhad

Diminishing return from additional new outlets

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings grew at a slower pace of +2.6%yoy as the group incurred higher cost from new outlets**
- **Interim and special dividend declared**
- **Expecting a strong 4QFY18 in view of Hari Raya festive and abolishment of GST**
- **Maintain NEUTRAL with an unchanged TP of RM4.77**

Earnings in line with expectations. Padini's 3QFY18 earnings came in at RM39.8m (+14.3%yoy). This led to 9MFY18 earnings of RM121.0m. The results is in line with our and consensus expectations, accounting for 67.9% and 65.7% of full year FY18 earnings forecasts respectively. We expect stronger 4QFY18 earnings as in view of the Hari Raya festive. This will be further boosted by the abolishment of GST.

Lower returns from opening additional outlets. During the 9MFY18, Padini has opened a total of 12 new outlets comprised of six Padini Concept stores and six Brand Outlet stores. However, 9MFY18 earnings only grew by +2.6%yoy to RM121.0m. Despite aggressive outlet expansion, the revenue generated was insufficient to cover additional operating costs. Currently, the combined average same-store sales for Padini Concept and Brands Outlets contracted by -4.0%yoy.

Interim and special dividend declared. The Company has declared the 4th interim and special dividend of 2.5sen and 1.5sen per share. Cumulatively, 9MFY18 dividend amounted to 11.5sen per share.

Prospect. While Hari Raya spending and GST abolishment will provide temporary short term boost to sales, we expect that the outlook for the group to remain challenging. This is as new outlets are expected to take longer period to break even due to the crowded local retail landscape. In 2018, it is estimated that about 24 foreign brands has opened their 1st outlet in Malaysia. Among the foreign brands, we view that Max Fashion, which positioned themselves as value fashion brand, would pose as the greatest threat to Padini.

Maintain NEUTRAL with unchanged TP of RM4.77. We are maintaining our **NEUTRAL** stance on Padini with an unchanged target price of **RM4.77** based on 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 (23 rd May 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	1,804.25
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	5.88
52-wk price Range	RM3.25–RM5.50
Beta (against KLCI)	0.97
3-mth Avg Daily Vol	1.31m
3-mth Avg Daily Value	RM6.29m
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	30.8
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

Table 1: 3QFY18 RESULTS SUMMARY

FYE June (RMm)	Quarterly results				Cumulative results			
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	425.3	460.4	373.7	13.8	(7.6)	1,200.9	1,110.4	8.1
Cost of sales	(246.6)	(279.8)	(220.2)	12.0	(11.9)	(705.8)	(649.9)	8.6
Gross profit	178.7	180.6	153.5	16.4	(1.1)	495.1	460.6	7.5
Other income	2.6	2.1	2.6	2.5	24.2	11.7	11.4	2.4
Administrative expenses	(26.9)	(17.9)	(21.3)	26.2	50.6	(60.6)	(56.2)	7.7
Selling and distribution expenses	(103.6)	(97.1)	(87.3)	18.7	6.7	(285.1)	(253.4)	12.5
Profit from operations	50.8	67.8	47.5	7.0	(25.1)	161.2	162.4	(0.7)
Finance costs	(0.7)	(0.8)	(1.1)	(30.1)	(10.7)	(2.2)	(3.6)	(37.1)
PBT	50.0	67.0	46.4	7.8	(25.3)	158.9	158.8	0.1
Taxation	(10.3)	(17.0)	(11.6)	(11.4)	(39.7)	(38.0)	(40.9)	(7.1)
PAT	39.8	50.0	34.8	14.3	(20.4)	121.0	117.9	2.6
Basic EPS (sen)	6.1	7.6	5.3	14.4	(20.4)	18.4	17.9	2.6
					<i>+ / (-) ppts</i>			<i>+ / (-) ppts</i>
Gross profit (%)	42.0	39.2	41.1	0.9	2.8	41.2	41.5	(0.2)
Operating margin (%)	11.9	14.7	12.7	(0.8)	(2.8)	13.4	14.6	(1.2)
PBT margin (%)	11.8	14.5	12.4	(0.6)	(2.8)	13.2	14.3	(1.1)
PAT margin (%)	9.4	10.9	9.3	0.0	(1.5)	10.1	10.6	(0.5)
Effective Tax rate (%)	20.5	25.4	25.0	(4.5)	(4.9)	23.9	25.7	(1.9)

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.