

28 August 2018 | 4QFY18 Results Review

Padini Holdings Berhad

Expecting longer gestation period for new stores

INVESTMENT HIGHLIGHTS

- **FY18 earnings grew +13.3%yoy in view of lower inventory losses, written down and written off expense**
- **Nonetheless, revenue growth tapered substantially despite the marginal reduction in new stores launching**
- **Declared 1QFY19 first interim dividend of 2.5sen per share, in line with its historical practice**
- **Maintain NEUTRAL with an adjusted TP of RM5.55**

Earnings met our and consensus expectations. Padini Holdings Bhd's (Padini) 4QFY18 earnings came in at RM57.3m. This brings its full year FY18 earnings to RM178.3m which met ours and consensus' expectations, accounting for 100.0% and 103.3% of full year FY18 earnings forecasts respectively. Against last year, FY18 revenue increased by +6.9%yoy. Nonetheless, FY18 earnings grew at a faster pace of +13.3%yoy as gross profit margin normalised to above 40%.

Prudent cost management. The improvement in FY18 earnings was mainly premised on the recovery in GP margin to 41.0% in comparison to 39.4% recorded in FY17. The decline in GP margin last year was due to the initiative of the management to embark on a more stringent inventory policy. They implemented stricter write off and write down estimates and this resulted in inventory losses, written down and written off expense of RM32.2m. Nonetheless, this expense dropped by more than a third to RM9.4m in FY18 resulting in improved earnings.

However, revenue growth tapered in FY18. The FY18 revenue growth reduced to +6.9%yoy in comparison to +20.7%yoy recorded in FY17. This was mainly attributable to reduction in total stores count to 12 stores from 14 stores as at FY17. We believe that this is attributable to (i) longer gestation period of new stores; and (ii) declining same store sales growth (SSSG) for both Padini Concept and Brand Outlets store.

First interim dividend declared. To recall, the group already declared full year FY18 dividend 11.5sen. During this quarter, a first interim dividend of 2.5sen per share was declared (vs Q1FY18:2.5sen) for FY19.

Impact to earnings. We made no changes to our FY19 and FY20 earnings forecasts post earnings announcement.


Maintain NEUTRAL

**Adjusted Target Price (TP): RM5.55
(Previously RM4.77)**

RETURN STATS	
Price (27 August 2018)	RM6.04
Target Price	RM5.55
Expected Share Price Return	-8.1%
Expected Dividend Yield	+2.6%
Expected Total Return	-5.5%

STOCK INFO	
KLCI	1,811.60
Bursa / Bloomberg	7052 / PAD MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	657.91
Market cap. (RM'm)	3,973.77
Price over NA	6.08x
52-wk price Range	RM3.78–RM6.20
Beta (against KLCI)	0.68
3-mth Avg Daily Vol	0.94m
3-mth Avg Daily Value	RM5.50m
Major Shareholders (%)	
Yong Pang Chaun Hldgs	43.74
Somerset Capital	5.40
Thian Min Yang	2.95

Target price. We are rolling forward our valuation base year to FY20 and derive a new target price of RM5.55 (previously RM4.77). This is based on pegging the FY20 EPS of 35.8sen per share to PER of 15.5x. The assigned PER multiple is the group's three-year average historical PER.

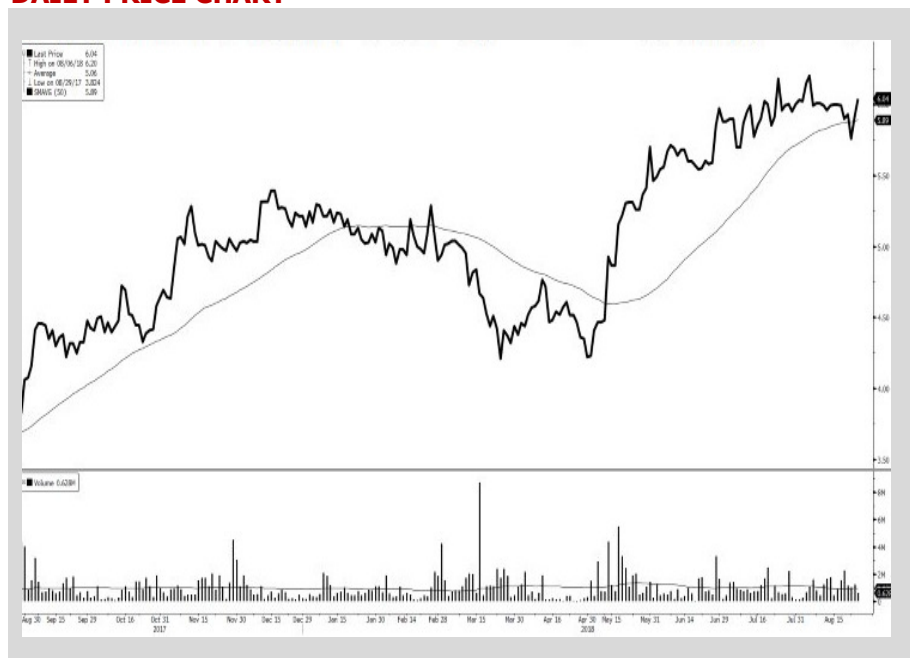
Maintain NEUTRAL. In the immediate term, we expect that the tax holiday spending and strong consumer sentiment will prompt increase in sales volume in 1QFY19. On the longer term horizon, we remain wary of the group's earnings growth as we expect that (i) the additional plan opening of 10 new stores locally in FY19 will have longer gestation period than the average of two to three years due to the increasing competition in the local fashion segment; and (ii) declining SSSG of existing stores. Moreover, we view that the stock valuation is currently stretched at this juncture with a forward PER of close to 20.0x in comparison to the average historical three-year PE of 15.5x. Therefore, we maintain our **NEUTRAL** stance on the stock. 

INVESTMENT STATISTICS

FYE June (RMm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,301.2	1,570.7	1,678.8	1,984.6	2,290.4
Gross profit	542.6	618.6	687.5	823.6	939.0
PBT	186.7	213.2	239.7	282.0	314.0
PAT	137.4	157.4	178.3	204.5	235.5
EPS (sen)	20.9	23.9	27.1	31.1	35.8
Net Dividend (sen)	11.5	11.5	11.5	13.5	15.5
Gross profit margin (%)	41.7	39.4	41.0	41.5	41.0
PBT margin (%)	14.3	13.6	14.3	14.2	13.7
PAT margin (%)	10.6	10.0	10.6	10.3	10.3
EPS growth (%)	71%	14%	13%	15%	15%
Dividend yield (%)	1.9	1.9	1.9	2.2	2.6
PER (x)	28.9	25.2	22.3	19.4	16.9

Source: Company, MIDFR

DAILY PRICE CHART



4QFY18 RESULTS SUMMARY

FYE June (RMm)	Quarterly results				Cumulative results			
	4QFY18	3QFY18	4QFY17	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue	477.9	425.3	460.3	3.8	12.4	1,678.8	1,570.7	6.9
Cost of sales	(285.5)	(246.6)	(302.3)	(5.5)	15.8	(991.3)	(952.1)	4.1
Gross profit	192.4	178.7	158.0	21.7	7.7	687.5	618.6	11.1
Other income	12.4	2.6	6.1	104.8	373.2	24.1	17.5	38.0
Administrative expenses	(19.6)	(26.9)	(17.0)	15.4	(27.0)	(80.2)	(73.3)	9.5
Selling and distribution expenses	(104.0)	(103.6)	(91.6)	13.6	0.4	(389.1)	(345.0)	12.8
Profit from operations	81.1	50.8	55.5	46.2	59.8	242.3	217.9	11.2
Finance costs	(0.4)	(0.7)	(1.1)	(61.2)	(42.9)	(2.7)	(4.7)	(42.8)
PBT	80.7	50.0	54.4	48.4	61.3	239.7	213.2	12.4
Taxation	(23.4)	(10.3)	(14.9)	57.0	128.4	(61.4)	(55.8)	10.0
PAT	57.3	39.8	39.5	45.1	44.0	178.3	157.4	13.3
EPS (sen)	8.7	6.1	6.0	45.2	44.0	27.1	23.9	13.3
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	40.3	42.0	34.3	5.9	(1.8)	41.0	39.4	1.6
Operating margin (%)	17.0	11.9	12.1	4.9	5.0	14.4	13.9	0.6
PBT margin (%)	16.9	11.8	11.8	5.1	5.1	14.3	13.6	0.7
PAT margin (%)	12.0	9.4	8.6	3.4	2.6	10.6	10.0	0.6
Effective Tax rate (%)	29.0	20.5	27.4	1.6	8.5	25.6	26.2	(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.