

28 August 2019

Padini Holdings Berhad

FY19 Within Expectations

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OUTPERFORM ↑

Price: **RM3.38**
Target Price: **RM3.75** ↔

FY19 CNP of RM156.5m (-12%) came in within our/consensus expectation at 101%/107% of full-year estimates. We introduced FY20E CNP higher by 13%. The worst for Padini appears to be over. PADINI's share price has plunged 18% since our last downgrade to MP and we believe that much of the negatives have been priced in at this juncture. With Fwd. 2-year CAGR of 16%, we upgrade the stock to OP from MP with unchanged TP of RM3.75 based on 13x FY20E EPS.

FY19 within expectations. FY19 CNP of RM156.5m (-12%) came in within our/consensus expectation at 101%/107% of full-year estimates. 1st interim DPS of 2.5 sen, for FY20, was declared for the quarter, as expected. Recall that, a 4th interim DPS of 2.5 sen and a special DPS of 1.5 sen were declared in the last quarter, bringing FY19 DPS to 11.5 sen.

YoY, FY19 CNP declined by 12%, mainly dragged by: (i) lower GP margin by 1.9ppt to 39.1% from 41.0% in 1H18 due to unfavourable merchandise mix and inventories written off (particularly from its overseas unit), and (ii) higher effective tax rate of 27.0% (1H18: 25.6%) from higher non-deductible expenses. This was despite improvement in revenue (+6%), from stronger festive season sales contribution and higher SSSG of 4% compared to FY18 of -2%, from the closure of underperforming stores.

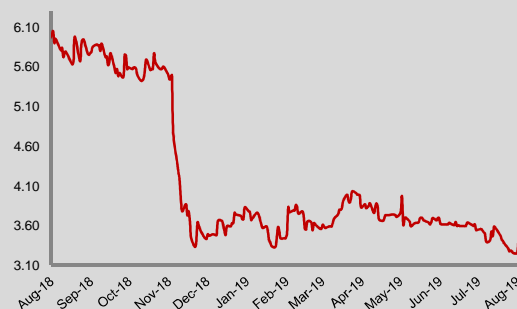
QoQ, 4Q19 CNP rose 61% mainly from: (i) stronger turnover (+9%) on Hari Raya Aidilfitri festive season sales, (ii) lower operating expenses allocation of 26% (3Q19: 28% of sales) compared to one-off spike in 3Q19 from staff performance bonus pay-out, (iii) improved GP margin by 1.2ppt to 38.7% from 37.5% in 3Q19 from better merchandise mix and absence of inventories written-off, and (iv) lower effective tax rate of 25.8% (3Q19: 26.5%) from lower non-deductible expenses.

Outlook. We like the stock for: (i) its resilient business models, focusing on the value-for-money segment through its Brands Outlet stores, and (ii) expected improvement in its SSSG and cost allocation. For FY20, the group will not be opening more than 10 outlets in the local market to streamline cost allocation, while maintaining the status quo for its Cambodia operation. We understand that the new, slower expansion plan is to streamline the operational cost towards strategic locations, while expanding regionally by taking over franchisee of Vincci stores in Thailand (7 stores) to strategically control the stores' value.

PADINI share price has plunged 18% since our last downgrade to MP call and we believe that much of the negatives have been priced in at this juncture. Upgrade to OP from MP with the unchanged TP of RM3.75 based on an unchanged 13x FY20E EPS (at its 5-year forward historical mean PER).

Risks to our call include: (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses.

Share Price Performance



KLCI	1,590.84
YTD KLCI chg	-5.9%
YTD stock price chg	-3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	Pad MK Equity
Market Cap (RM m)	2,223.7
Shares Outstanding	657.9
52-week range (H)	6.16
52-week range (L)	3.14
3-mth avg daily vol:	348,252
Free Float	41%
Beta	0.6

Major Shareholders

Yong Pang Chaun Holdings	43.7%
Employees Provident Fund	8.3%
KWAP	7.1%

Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	1,783.0	1,753.7	1,796.6
EBIT	221.1	308.2	344.3
PBT	219.3	272.4	307.0
Net Profit (NP)	160.2	190.7	214.9
Core Net Profit	156.5	190.7	214.9
Consensus (NP)	146.7	165.1	176.2
Earnings Revision			NEW
EPS (sen)	23.8	28.9	32.6
EPS growth (%)	-12	22	13
NDPS (sen)	11.5	11.5	11.5
BV/Share (RM)	1.13	1.17	1.38
PER	13.9	11.7	10.4
P/BV (x)	3.0	2.9	2.5
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd Yield (%)	3.4	3.4	3.4

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Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	FY19	FY18	YoY
FY Jun (RM m)	FY19	FY19	Chg	FY18	Chg	12M	12M	Chg
Turnover	516.5	474.2	8.9%	477.9	8.1%	1,783.0	1,678.8	6.2%
Gross Profit (GP)	200.1	177.8	12.5%	192.4	4.0%	697.8	687.5	1.5%
Profit Before Tax (PBT)	73.4	47.1	55.8%	80.7	-9.1%	219.3	239.6	-8.5%
Tax	(18.9)	(12.5)	51.8%	(23.4)	-19.2%	(59.1)	(61.4)	-3.7%
Net Profit (NP)	54.4	34.6	57.3%	57.3	-5.0%	160.2	178.3	-10.1%
Core Net Profit (CNP)	52.6	32.8	60.5%	57.3	-8.2%	156.5	178.3	-12.2%
Core EPS (sen)	8.3	5.3	57.3%	8.7	-5.0%	24.3	27.1	-10.1%
GP margin	38.7%	37.5%		40.3%		39.1%	41.0%	
PBT margin	14.2%	9.9%		16.9%		12.3%	14.3%	
NP margin	10.5%	7.3%		12.0%		9.0%	10.6%	
CNP margin	10.2%	6.9%		12.0%		8.8%	10.6%	
Effective tax rate	25.8%	26.5%		29.0%		27.0%	25.6%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.48	1,733.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.65	2,316.6	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	18.6	22.7	20.7	1.1	1.1	5.0%	2.4%	1.70	MP
AMWAY MALAYSIA HOLDINGS BHD	6.08	999.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.3	17.4	16.4	4.3	4.0	23.8%	4.5%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	63.90	4,089.6	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	33.0	39.9	36.3	38.8	38.2	97.9%	2.5%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	35.78	13,123.3	Y	09/2019	5.9%	7.0%	9.4%	2.9%	33.1	30.2	29.4	5.7	5.2	18.0%	1.8%	36.60	MP
HAI-O ENTERPRISE BHD	2.23	647.5	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.7	13.7	13.4	2.0	2.1	15.1%	5.8%	1.95	UP
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.1	3.0	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	148.60	34,846.7	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.7	51.9	48.4	53.3	52.5	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.38	2,223.7	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	14.2	11.7	10.3	3.4	2.9	26.8%	3.4%	3.75	OP
PARKSON HOLDINGS BHD	0.22	234.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	28.4	0.1	0.1	-1.7%	0.0%	0.24	UP
POWER ROOT BHD	1.96	776.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.4	19.1	17.0	3.5	3.3	18.1%	4.6%	2.30	OP
QL RESOURCES BHD	6.92	11,227.3	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.8	45.8	44.0	5.6	5.2	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP
Simple Average					6.9%	4.3%	3.3%	63.7%	29.3	27.6	25.7	11.3	11.0	31.9%	2.5%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	20.06	5,727.7	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	12.2	13.8	13.6	13.6	13.0	84.5%	6.0%	24.40	UP
CARLSBERG BREWERY MALAYSIA BHD	25.92	7,973.5	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.1	27.2	26.0	46.9	51.2	186.7%	3.9%	25.95	OP
HEINEKEN MALAYSIA BHD	24.76	7,479.9	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.5	25.7	24.5	20.2	20.0	77.9%	3.8%	23.25	MP
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.6	22.3	21.3	26.9	28.1	116.4%	4.6%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.55	555.9	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.1	18.5	16.9	1.5	1.5	7.5%	3.0%	1.94	BUY
BONIA CORPORATION BHD	0.26	205.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.4	14.8	12.5	0.6	0.6	3.2%	2.7%	0.30	SELL
COCOALAND BHD	1.87	427.9	Y	12/2019	5.7%	7.1%	2.9%	7.0%	13.8	13.4	12.6	1.7	1.7	13.1%	4.1%	2.29	NEUTRAL
LAY HONG BHD	1.21	435.0	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.1	32.3	20.0	1.4	1.3	4.1%	2.1%	1.14	SELL
KAWAN FOOD BHD	5.19	844.2	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.3	6.9	1.6	N/A	20.3%	N/A	6.60	BUY
MAGNI-TECH INDUSTRIES BHD	1.55	555.9	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.1	18.5	16.9	1.5	1.5	7.5%	3.0%	1.94	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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