

28 November 2019

Padini Holdings Berhad

Seasonally Weakest First Quarter

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1QFY20 CNP of RM19.6m (+9% YoY, -63% QoQ) came in at 10%/12% of our/consensus full-year estimates. The 1QFY is seasonally the weakest quarter due to absence of festivities and we expect stronger quarters ahead especially on year-end promotions. Nevertheless, we deemed the results as below expectations on higher-than-expected net impact from the implementation of MFRS 16. As such, we cut FY20-21E CNP by 7-14% and TP to RM4.00 (from RM4.35) based on 15x FY20E EPS (at +1.0SD of 5-year mean PER). Maintain OUTPERFORM.

1QFY20 below expectations. 1QFY20 CNP of RM19.6m (+9% YoY, -63% QoQ) came in at 10%/12% of our/consensus full-year estimates. We deemed the results as below expectation on higher-than-expected net impact from the implementation of MFRS 16. A 2nd interim DPS of 2.5 sen was declared for the quarter. Recall that, a 1st interim DPS of 2.5 sen was declared on 27th August 2019 (payment date on 13th September 2019), bringing the YTD-FY20 DPS to 5.0 sen, which is within our expectation as 60% of dividend pay-out is typically in 2H.

YoY, 1QFY20 CNP rose 9%, boosted by: (i) higher sales (+3%) with slightly better SSSG at +1% compared to nil in 1QFY19 as Padini was not a major beneficiary of last year tax holiday, (ii) improvement in GP margin by 0.6ppt to 40.5% from 39.9% in 1QFY19 from better merchandise mix, and (iii) lower effective tax rate of 27.0% (1QFY19: 32.5%). This was despite the net reduction in PBT by RM4.8m with the implementation of MFRS 16.

QoQ, 1QFY20 CNP plunged 63%, dragged down by: (i) slower sales (-35%) which were unable to match the seasonally stronger Hari Raya festive season sales in 4QFY19, (ii) contraction in PBT margin by 6.2ppt to 8.0% from 14.2% in 4QFY19, with higher operating expenses allocation of 31.8% (4QFY19: 26% of sales) from the rise in staff cost, rental and store operating expenses, and (iii) higher effective tax rate of 27% (4QFY19: 25.8%) due to higher non-deductible expenses. This was despite improvement in GP margin by 1.8ppt to 40.5% from 38.7% in 4QFY19 from better merchandise mix.

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.

Cut FY20-21E CNP by 7-14%. We cut FY20-21E CNP by 7-14% to recognize the higher-than-expected net impact of MFRS 16 implementation.

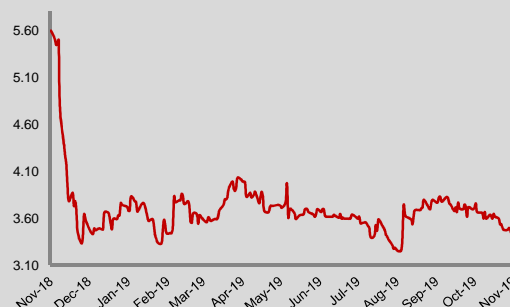
As such, we cut our TP to RM4.00 from RM4.35 based on an unchanged 15x FY20E EPS (at +1.0 SD of its 5-year forward historical mean PER). 1QFY20 is seasonally the weakest quarter due to absence of festivities and we expect stronger quarters ahead especially on year-end promotion. **Maintain OUTPERFORM.**

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

OUTPERFORM ↔

Price: RM3.48
Target Price: RM4.00 ↓

Share Price Performance



KLCI	1,587.18
YTD KLCI chg	-6.1%
YTD stock price chg	-0.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK Equity
Market Cap (RM m)	2,289.5
Shares Outstanding	657.9
52-week range (H)	5.53
52-week range (L)	3.14
3-mth avg daily vol:	261,038
Free Float	27%
Beta	0.6

Major Shareholders

Yong Pang Chaun Holdings	43.7%
Employees Provident Fund	8.4%
KWAP	7.2%

Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	1,783.0	1,792.6	1,877.8
EBIT	221.1	240.6	249.3
PBT	219.3	252.1	265.4
Net Profit (NP)	160.2	176.5	185.8
Core Net Profit	156.5	176.5	185.8
Consensus (NP)	-	170.1	179.8
Earnings Revision	-	-7%	-14%
EPS (sen)	23.8	26.8	28.2
EPS growth (%)	-12	13	5
NDPS (sen)	11.5	11.5	11.5
BV/Share (RM)	1.13	1.28	1.44
PER (x)	14.3	13.0	12.3
P/BV (x)	3.1	2.7	2.4
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd Yield (%)	3.3	3.3	3.3

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Results Highlights					
	1Q	4Q	QoQ	1Q	YoY
FY Jun (RM m)	FY20	FY19	Chg	FY19	Chg
Turnover	338.0	516.5	-34.5%	329.8	2.5%
Gross Profit (GP)	136.7	200.1	-31.7%	131.5	4.0%
Profit Before Tax (PBT)	26.9	73.4	-63.4%	26.6	0.9%
Tax	(7.3)	(18.9)	-61.6%	(8.7)	-16.1%
Net Profit (NP)	19.6	54.4	-64.0%	18.0	9.2%
Core Net Profit (CNP)	19.6	52.6	-62.7%	18.0	9.2%
Core EPS (sen)	3.0	8.3	-64.0%	2.7	9.2%
GP margin	40.5%	38.7%		39.9%	
PBT margin	8.0%	14.2%		8.1%	
NP margin	5.8%	10.5%		5.4%	
CNP margin	5.8%	10.2%		5.4%	
Effective tax rate	27.0%	25.8%		32.5%	

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	1.42	1,633.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.1	30.0	28.5	23.6	22.9	77.5%	2.8%	1.35	MP
AEON CO (M) BHD	1.59	2,232.4	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.9	21.9	20.0	1.1	1.1	5.0%	2.5%	1.70	OP
AMWAY MALAYSIA HOLDINGS BHD	5.80	953.4	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.5	16.6	15.6	4.1	3.9	23.8%	4.7%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	57.08	3,653.1	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	29.4	35.7	32.4	34.6	34.1	97.9%	2.8%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	34.66	12,712.5	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.3	29.6	28.0	5.0	4.7	16.5%	1.9%	35.15	MP
HAI-O ENTERPRISE BHD	2.17	630.0	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.3	13.3	13.0	2.0	2.0	15.1%	6.0%	1.95	UP
MYNEWS HOLDINGS BHD	1.25	852.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	32.2	26.6	22.0	2.8	2.7	10.2%	0.8%	1.55	OP
NESTLE (MALAYSIA) BHD	144.70	33,932.2	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.2	50.5	47.1	51.9	51.1	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.48	2,289.5	Y	06/2020	0.5%	4.7%	12.8%	5.3%	14.3	13.0	12.3	3.4	3.0	24.5%	3.3%	4.00	OP
PARKSON HOLDINGS BHD	0.25	266.8	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	32.1	27.7	0.1	0.1	0.3%	0.0%	0.27	MP
POWER ROOT BHD	2.42	979.1	Y	03/2020	13.3%	10.5%	54.0%	12.3%	28.6	19.2	17.6	4.4	3.9	21.8%	3.7%	2.75	OP
QL RESOURCES BHD	7.35	11,924.9	Y	03/2020	10.9%	4.5%	13.0%	4.2%	55.0	48.7	46.7	5.9	5.5	12.1%	0.7%	6.30	UP
SPRITZER BHD	2.19	459.8	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.0	14.9	14.0	1.2	1.1	7.7%	1.8%	2.50	OP
Simple Average					6.5%	4.5%	66.7%	8.5%	28.7	27.1	25.0	10.8	10.5	32.1%	2.5%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	16.58	4,734.1	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	10.1	14.2	14.5	11.2	11.0	78.1%	6.8%	18.30	MP
CARLSBERG BREWERY MALAYSIA BHD	27.70	8,521.1	N	12/2019	16.0%	7.3%	13.6%	9.0%	31.1	29.1	27.7	47.1	46.2	175.6%	3.6%	30.00	OP
HEINEKEN MALAYSIA BHD	26.20	7,915.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	28.0	27.2	25.9	21.3	21.1	77.9%	3.6%	24.25	MP
Simple Average					1.3%	3.0%	-4.2%	4.0%	23.1	23.5	22.7	26.6	26.1	110.5%	4.7%		

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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Published and printed by:

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