

# Padini Holdings Berhad

(7052 | PAD MK) | Consumer Products & Services | Retailers

## Upgrade to NEUTRAL

(Previously SELL)

Unchanged Target Price: RM2.86

### Improvement in same stores sales growth

#### KEY INVESTMENT HIGHLIGHTS

- **2QFY20 earnings came in at RM55.8m (+4.9%yoy) which is within our and consensus' expectations**
- **Sales rose by +7.0%yoy due to the improved same stores sales growth**
- **The implementation of MFRS 16 put a drag on quarterly earnings by about RM4.5m**
- **Third interim dividend declared of 2.5sen per share**
- **Upgrade to NEUTRAL with an unchanged TP of RM2.86**

**Earnings within expectations.** Padini Holdings Bhd's (Padini) 2QFY20 earnings came in at RM55.8m (+4.9%yoy). This bring its cumulative 1HFY20 earnings to RM75.5m (+6.1%yoy) which was within ours and consensus' expectations, accounting for 50.1% and 47.1% of full year FY20 earnings forecasts respectively.

**Improvement in same stores sales growth.** 2QFY20 revenue increased by +7.0%yoy to RM495.1m. The increase was contributed by the: (i) sales generated from four new stores that were opened in the 1HCY19 and; (ii) improvement in same stores sales growth (SSSG). Note that Christmas, year-end school holidays and the nationwide five days special sales promotion was held during the quarter.

**The implementation of MFRS16 put a drag on earnings.** The group had started to adopt the new accounting standard on leases i.e. MFRS 16 from 1st July 2019 onwards. Consequently, 2QFY20 and cumulative 1HFY20 earnings was dragged by about RM4.5m and RM9.3m respectively as Padini's business model heavily dependent on operating leases. We expect a similar drag to earnings in the subsequent quarters.

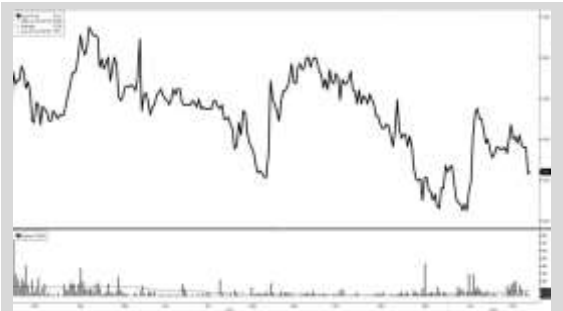
**Third interim dividend declared.** The group has declared its 3rd interim dividend of 2.5sen per ordinary share (single tier) for FY20. This brings its cumulative dividend to 7.5sen which is of the same quantum as in FY19.

**Target price.** We maintain our target price at **RM2.86** per share. The target price is based on pegging the FY21 EPS of 21.2sen per share to PER of 13.5x. The assigned PER multiple is -1.5SD below the group's one-year average historical PER. This is to reflect the challenging business condition and subdued consumer sentiment.

#### RETURN STATISTICS

Price @ 26 <sup>st</sup> February 2020 (RM)	3.24
Expected share price return (%)	-11.7
Expected dividend yield (%)	+3.1
<b>Expected total return (%)</b>	<b>-8.6</b>

#### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-6.1	-1.2
3 months	0.0	-1.2
12 months	-7.3	6.2

#### KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	Yes
Issue shares (m)	657.91
Estimated free float (%)	26.45
Market Capitalisation (RM'm)	2,131.63
52-wk price range	RM3 - RM4.09
Beta vs FBM KLCI (x)	0.52
Monthly velocity (%)	11.02
Monthly volatility (%)	26.52
3-mth average daily volume (m)	0.69
3-mth average daily value (RM'm)	2.29
Top Shareholders (%)	
Yong Pang Chuan	43.74
EPF	8.57
KWAP	7.71

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**Upgrade to NEUTRAL.** The local fast fashion industry has become increasingly competitive due to the: (i) rising average time spent per customer on online shopping; (ii) change in spending habit and purchase decision of consumers and; (iii) competition from foreign fashion companies. Coupled with subdued consumer sentiment, customers are becoming more price sensitive and less brand loyal. In order to protect its market share, we do not expect Padini to significantly revise its product prices. Nevertheless, we are positive on the group's strategy to review its store expansion programme beyond CY19. We think that this will free up additional resources to improve existing stores in view of driving up better SSSG. All things considered, we are upgrading our call recommendation to **NEUTRAL** (previously **SELL**) on the stock. We also note that the share price have decline by about -10.2% since we downgraded our call to SELL on 7<sup>th</sup> June 2019. 

## INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	1,678.8	1,783.0	1,832.9	1,860.4	1,879.0
Gross profit	687.5	697.8	689.2	679.0	685.8
PBT	239.7	219.3	206.3	186.0	187.9
PAT	178.3	160.2	150.6	139.5	140.9
EPS (sen)	27.1	24.4	22.9	21.2	21.4
Net Dividend (sen)	11.5	11.5	10.0	10.0	10.0
Gross profit margin (%)	41.0	39.1	37.6	36.5	36.5
PBT margin (%)	14.3	12.3	11.3	10.0	10.0
PAT margin (%)	10.6	9.0	8.2	7.5	7.5
EPS growth (%)	13.2	(10.1)	(6.0)	(7.4)	1.0
Dividend yield (%)	3.5	3.5	3.1	3.1	3.1
PER (x)	12.0	28.3	14.1	15.3	15.1

Source: Company, MIDFR

## PADINI BERHAD: 2QFY20 RESULTS SUMMARY

FYE June (RMm)	Quarterly results			Cumulative results		
	2QFY20	YoY (%)	QoQ (%)	1HFY20	1HFY19	YoY (%)
Revenue	495.1	7.0	46.5	833.2	792.4	5.1
Cost of sales	(296.7)	8.2	47.4	(498.0)	(472.4)	5.4
<b>Gross profit</b>	198.4	5.3	45.1	335.2	319.9	4.8
Other income	3.3	0.0	(20.1)	7.3	7.5	(2.6)
Administrative expenses	(18.4)	1.8	3.4	(36.2)	(35.0)	3.4
Selling and distribution expenses	(101.9)	1.0	13.6	(191.5)	(192.9)	(0.7)
<b>Profit from operations</b>	81.4	11.9	144.1	114.8	99.6	15.3
Finance costs	(6.2)	>100	(4.2)	(12.6)	(0.8)	>100
<b>PBT</b>	75.2	4.1	179.7	102.1	98.8	3.3
Taxation	(19.4)	1.9	166.7	(26.6)	(27.7)	(3.8)
<b>PAT</b>	55.8	4.9	184.5	75.5	71.1	6.1
Basic EPS (sen)	8.5	4.8	184.6	11.5	10.8	5.9
		+ / (-) ppts			+ / (-) ppts	
Gross profit margin (%)	40.1	(0.7)	(0.4)	40.2	40.4	(0.1)
Operating margin (%)	16.4	0.7	6.6	13.8	12.6	1.2
PBT margin (%)	15.2	(0.4)	7.2	12.3	12.5	(0.2)
PAT margin (%)	11.3	(0.2)	5.5	9.1	9.0	0.1
Effective Tax rate (%)	25.8	(0.6)	(1.3)	26.1	28.0	(1.9)

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.