

# Padini Holdings Berhad

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

**Maintain NEUTRAL**

**Not in vogue now**

**Adjusted Target Price: RM2.61**  
**(previously RM2.86)**

## KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings came in at RM55.8m (+4.9%yoy) which is below our and consensus' expectations**
- **Sales significantly affected by Covid-19**
- **Earnings forecast cut by 29.3%/8.8% for FY20E/FY21F**
- **Holding back on dividend announcement**
- **Maintain NEUTRAL with an adjusted TP of RM2.61**

**Earnings missed expectations.** Padini Holdings Bhd's (Padini) 3QFY20 earnings came in at RM16.6.0m (-52.0%yoy), bringing its cumulative 9MFY20 earnings to RM92.0m (-13.0%yoy). The profit registered was below our expectations at 61.3% of full year FY20 forecast and largely within consensus' 71% of full year FY20 earnings forecasts respectively.

**Sales significantly affected by Covid-19.** Revenue for 3QFY20 dropped by -26.8%yoy and -29.9%qoq to RM347.3m due to the movement control order (MCO), which forces Padini to halt its operations as its businesses are deemed non-essential. Earnings are also adversely affected by the MFRS 16 leases. As a result, net profit plunged -52.0%yoy to RM16.6m. Sequentially, net profit fell -70.2%qoq due to the Covid-19 pandemic and bonus payment made during the quarter.

**Earnings forecast cut by 29.3%/8.8% for FY20E/FY21F** as we take into consideration of a more cautious consumer sentiment amid the Covid-19 pandemic. Besides consumer sentiment, Covid-19 will also have an effect on; (i) sales as consumers would have switch to online fashion platforms that are operating during the movement control order (MCO) especially before the Raya festive season, and (ii) cost as Covid-19 has affected the supply chain of its products, which may lead to an increase in costing. However, the reopening of businesses in early May just before Raya, may help to recoup some loss sales previously. Moreover, there may be a pent up demand when consumer sentiment improves as Padini's products are positioned at accessible price points.

**Holding back on dividend announcement.** Contrary to the 4.0sen dividend (2.5 sen interim and 1.5 sen special dividend) announced the past four financial years, the group did not announce any dividend for the quarter. We think that the company will focus on preserving cash in face of the uncertainties that impacts its business. That said, we believe that it may resume the dividend payout when there is more clarity for the business outlook. This will be supported by its net cash of RM449.8m and strong operating cash flow. We expect another dividend for this financial year albeit at a smaller quantum. As such, our DPS assumption is now 8.0 sen from 10.0 sen previously.

## RETURN STATISTICS

Price @ 27 <sup>th</sup> May 2020 (RM)	2.74
Expected share price return (%)	-4.7
Expected dividend yield (%)	+2.9
<b>Expected total return (%)</b>	<b>-1.8</b>

## SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	20.2	13.6
3 months	35.6	-7.3
12 months	-31.0	-23.3

## KEY STATISTICS

FBM KLCI	1,451.73
Syariah compliant	Yes
Issue shares (m)	657.91
Estimated free float (%)	27.93
Market Capitalisation (RM'm)	1802.67
52-wk price range	RM1.78 -
Beta vs FBM KLCI (x)	1.15
Monthly velocity (%)	0.00
Monthly volatility (%)	26.52
3-mth average daily volume (m)	1.74
3-mth average daily value (RM'm)	4.11
Top Shareholders (%)	
Clariden Inv	43.74
Lau Joo Han	8.82
Lau Eng Guang	5.67

**ANALYST**  
Ng **BEI SHAN**  
ng.bs@midf.com.my  
03 -2173 8461

**Maintain NEUTRAL with a revised TP of RM2.61 (previously RM2.86).** Following the changes in our earnings estimates, we are revising our target price to RM2.61. Our target price is based on pegging the FY21F EPS of 21.2sen per share to PER of 13.5x, which is unchanged. The assigned PER multiple is -1.5SD below the group's one-year average historical PER as we account for the challenging business condition and subdued consumer sentiment. Notably, 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. Dividend yield is estimated at 2.9%. 

## 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	1,481.3	1,583.2	1,693.7
Gross profit	687.5	697.8	557.0	601.6	626.7
PBT	239.7	219.3	145.3	169.6	177.8
PAT	178.3	160.2	106.1	127.2	133.4
EPS (sen)	27.1	24.4	16.1	19.3	20.2
Net Dividend (sen)	11.5	11.5	8.0	8.0	8.0
Gross profit margin (%)	41.0	39.1	37.6	38.0	37.0
PBT margin (%)	14.3	12.3	9.8	10.7	10.5
PAT margin (%)	10.6	9.0	7.2	8.0	7.9
EPS growth (%)	13%	-10%	-34%	20%	5%
Dividend yield (%)	4.2	3.5	2.9	2.9	2.9
PER (x)	10.1	28.3	17.0	14.2	13.6

Source: Company, MIDFR

## PADINI BERHAD: 3QFY20 RESULTS SUMMARY

FYE June (RMm)	Quarterly results			Cumulative results		
	3QFY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	347.3	(26.8)	(29.9)	1,180.5	1,266.6	(6.8)
Cost of sales	(199.0)	(32.9)	(32.9)	(697.0)	(768.8)	(9.3)
<b>Gross profit</b>	148.3	(16.6)	(25.2)	483.5	497.8	(2.9)
Other income	5.3	54.7	61.6	12.6	10.9	15.2
Administrative expenses	(26.5)	(7.3)	43.7	(62.7)	(63.6)	(1.4)
Selling and distribution expenses	(97.0)	(7.7)	(4.9)	(288.6)	(297.9)	(3.1)
<b>Profit from operations</b>	30.2	(36.7)	(62.9)	144.9	147.2	(1.6)
Finance costs	(6.1)	>100	(1.9)	(18.7)	(1.3)	>100
<b>PBT</b>	24.1	(48.8)	(67.9)	126.2	145.9	(13.5)
Taxation	(7.5)	(39.9)	(61.3)	(34.2)	(40.2)	(15.0)
<b>PAT</b>	16.6	(52.0)	(70.2)	92.0	105.8	(13.0)
Basic EPS (sen)	2.5	(52.0)	(70.2)	14.0	16.1	(13.0)
		+ / (-) ppts				+ / (-) ppts
Gross profit margin (%)	42.7	5.2	2.6	41.0	39.3	1.7
Operating margin (%)	8.7	(1.4)	(7.7)	12.3	11.6	0.6
PBT margin (%)	6.9	(3.0)	(8.2)	10.7	11.5	(0.8)
PAT margin (%)	4.8	(2.5)	(6.5)	7.8	8.3	(0.6)
Effective Tax rate (%)	31.1	4.6	5.3	27.1	27.5	(0.5)

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (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

<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.