

29 January 2013

# Padini Holdings Berhad

## Maturing gracefully

We are initiating coverage on Padini Holdings Berhad ("Padini") with a MARKET PERFORM call and a target price of RM1.84, which is based on a targeted PER of 11.2x on the company's FY13 EPS of 16.4 sen. Padini has a strong foothold in the domestic market with a vast retail network of nine labels under its portfolio namely Padini, Padini Authentics, PDI, P&Co, Seed, Vincci, Vincci+, Vincci Accessories, and Miki Kids. The group has grown its retail presence over the years to 48 single brand stores, 26 Padini Concept Stores, 20 Brands Outlets, 155 consignment counters, 15 franchises in the domestic market and over 80 franchises and dealers in the international arena.

**5-year net profit CAGR of 24.8%.** Padini has a strong track record of revenue and earnings growth. It has a 5-year revenue and net profit CAGR of 18.0% and 24.8% respectively, driven primarily by the aggressive floor space expansion of its high-growth Brands Outlet and Padini Concept stores. In just five years, Padini has almost tripled its floor space to 699,136 sq ft, which a net addition of 129,600 sq in the past year alone.

**Growing beautifully.** With five more stores scheduled to open in early FY14, much of the revenue growth in the interim will come mainly from the gradual maturing of its outlets in new malls, which should then generate a higher per square foot sales. Management has guided that this would be achieved via 1) attracting customer spending by tweaking its store merchandise mix and the perceived value and quality of Padini's offerings, 2) improving the design to delivery of its products to keep up with the ever-changing consumer trends and preferences and 3) continuously refurbishing its existing stores to attract customers. We expect Padini to register a revenue of RM802.9m - RM927.1m for FY13-FY14, which translate into revenue growth rates of 11.0%-15.5% for the two years.

**Economies of scale.** Padini's operating expenses as a percentage of revenue has been on a declining trend over the past four years as the group benefited from the economies of scale of more outlet openings. In addition, the revenue per square foot for Padini's single brand stores, Brands Outlet stores and Padini Concept stores have been increasing, reflecting management's efficient use of floor space and probably better product mix. As a consequence, we expect the net margins to improve by 13bps-21bps in FY13-FY14E.

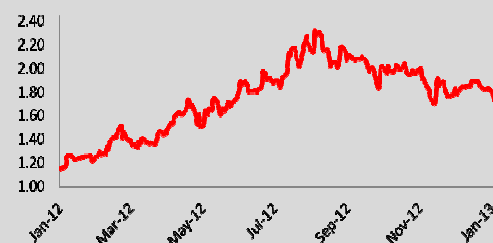
**Becoming a dividend yield play.** Although Padini does not have a formal dividend policy in place, the group has been paying out 35%-49% of its earnings in the past five years. We believe that with the minimal CAPEX plans expected for FY13-FY14E, it is likely that Padini will adopt a higher dividend payout ahead. Based on our FY13-FY14 net profit estimates of RM107.9m-RM120.5m, we expect the company to distribute a DPS of 8 sen-9 sen, translating into attractive dividend yields of 4.4%-4.9%.

**Initiating Coverage on Padini Holdings Berhad with a MARKET PERFORM rating and a fair value of RM1.84.** We have applied a 11.2x forward PER (+1.5 standard deviation above the 5-year Average PER) on our FY13 EPS forecast of 16.4 sen to derive the fair value of RM1.84. We feel that Padini deserves a valuation closer to the larger retail industry players such as Amway and Aeon (which are trading at +2.0SD above the mean of their 5-year average PER) given the company's bigger size and scale relative to the smaller garment retailers. However, with the share price already trading close to our target price of RM1.84, we are initiating coverage on the company with only a MARKET PERFORM rating.

## MARKET PERFORM

**Price: RM1.83**  
**Target Price: RM1.84**

### Share Price Performance



KLCI	1637.13
YTD KLCI chg	-3.1%
YTD stock price chg	-1.1%

### Stock Information

Bloomberg Ticker	PAD MK Equity
Market Cap (RM m)	1,204.0
Issued shares	657.9
52-week range (H)	2.37
52-week range (L)	1.19
3-mth avg daily vol:	1,052,347
Free Float	48%
Beta	1.2

### Major Shareholders

PANG CHAUN YONG	44.0%
SKIM AMANAH SAHAM BU	5.0%
CAPITAL DYNAMICS ASS	3.5%

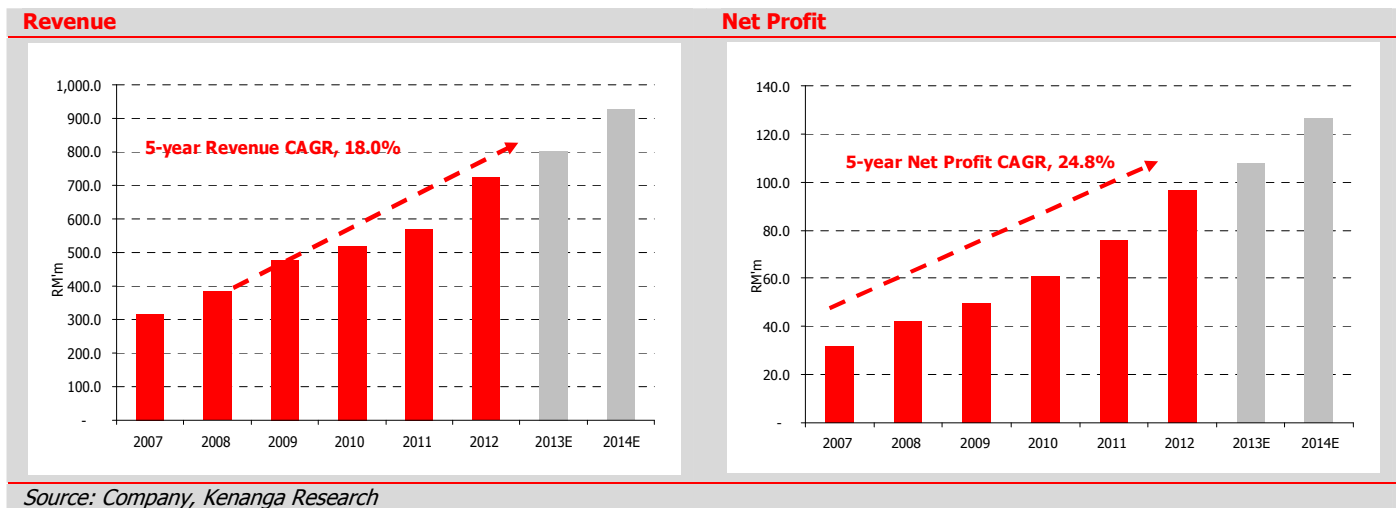
### Summary Earnings Table

FY Jun (RM'm)	2012A	2013E	2014E
Turnover	723.4	802.9	927.1
EBIT	130.8	148.7	174.4
PBT	131.0	149.0	174.7
<b>Net Profit (NP)</b>	<b>96.3</b>	<b>107.9</b>	<b>126.6</b>
<b>Core Net Profit</b>	<b>96.3</b>	<b>107.9</b>	<b>126.6</b>
Consensus (NP)	-	107.6	121.3
Earnings Revision	-	-	-
Core EPS (sen)	14.6	16.4	19.2
Core EPS growth (%)	26.6	12.1	17.3
NDPS (sen)	6.0	8.0	9.0
NTA/Share (RM)	0.7	0.8	1.0
Core PER	12.5	11.2	9.5
BVPS (sen)	0.5	0.6	0.7
Price/NTA (x)	2.5	2.2	1.9
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.3	4.4	4.9

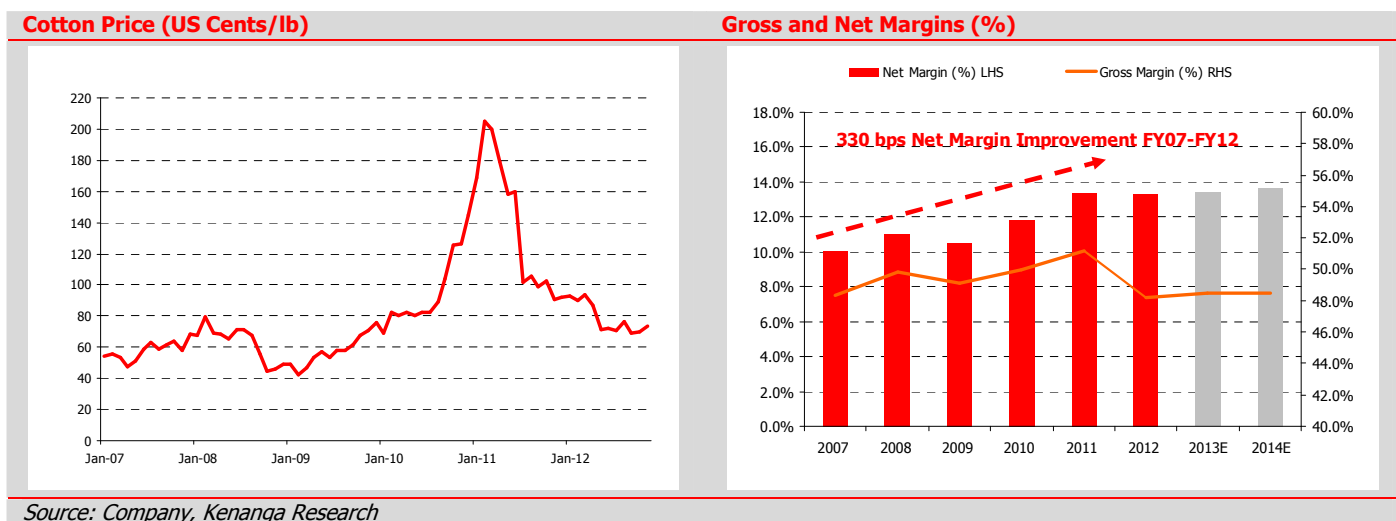
Lawrence Yeo Eng Chien  
[lawrence.yeo@kenanga.com.my](mailto:lawrence.yeo@kenanga.com.my)  
 +603 2713 2292

### 1. Investment Merits

**Strong branding and presence.** Padini has a strong foothold in the domestic market as well as a vast retail network due to its early presence in the market, prominent outlet locations, strong management capabilities and opportunistic expansion attributes. Today, Padini has become a market leader in the multibillion dollar textile and garment industry in Malaysia with nine labels under its portfolio namely Padini, Padini Authentics, PDI, P&Co, Seed, Vincci, Vincci+, Vincci Accessories, and Miki Kids. The group has grown its retail presence over the years to 48 single brand stores, 26 Padini Concept Stores, 20 Brands Outlets, 15 consignment counters, 15 franchises in the domestic market alone and over 80 franchises and dealers in the international arena.

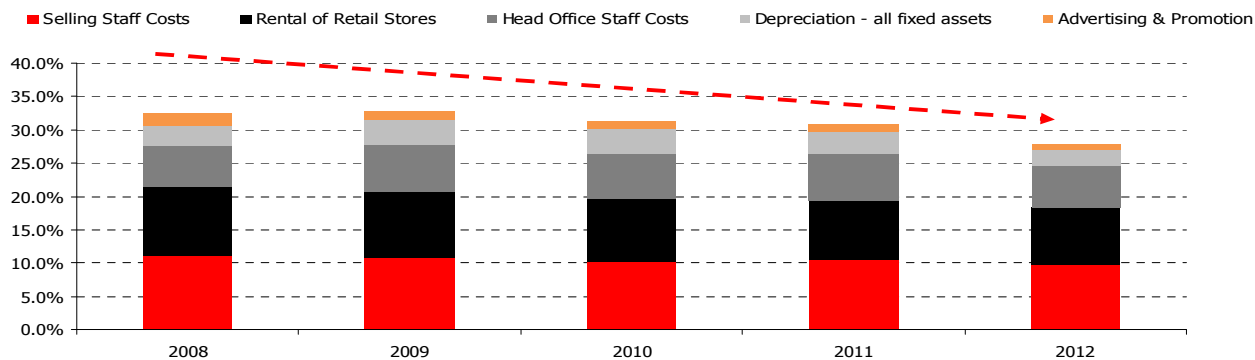


**Growing with grace and style.** Padini has a strong set of track records of top line and earnings growth. It has delivered a 5-year revenue and net profit CAGR of 18.0% and 24.8% respectively, driven primarily by the aggressive floor space expansion of its high-growth Brands Outlet and Padini Concept stores. In just five years, Padini has almost tripled its floor space to 699,136 sq ft, with a net addition of 129,600 sq in the past year alone. With five more stores scheduled to open in early FY14, we believe that much of the revenue growth in the interim will come through the gradual maturing of its outlets within new malls such as Aeon Ipoh Station 18 (March 2012), Setia City Mall (May 2012), Boulevard Mall Kuching (June 2012) and Paradigm Mall (June 2012). To this regard, we expect Padini to register revenue of RM802.9m-RM927.1m for FY13-FY14, which translate into revenue growth rates of 11.0%-15.5% for the two years.



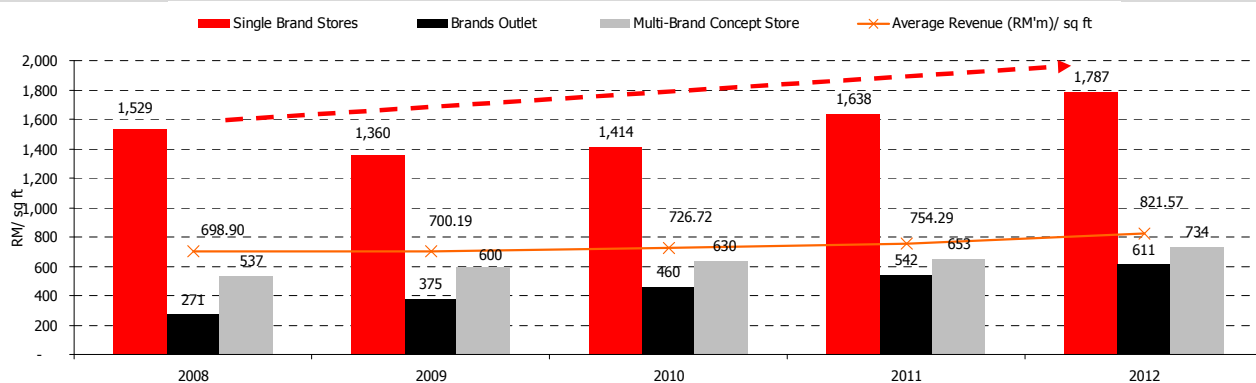
**Improving net margins.** Around 60% of Padini’s products are outsourced to independent garment manufacturers in China while the remaining 40% are outsourced to local manufacturers. Despite being exposed to the volatility in cotton prices and a double-digit labour cost inflation in the emerging markets over the years, Padini was still able to maintain its gross margin at between 48.2% – 51.2%. In fact, Padini’s net margins have improved 330bps from 10.0% in FY07 to 13.3% in FY12 as the group diversified its merchandise mix and benefited from the economies of scale via its Brands Outlet and Padini Concept stores, which occupy larger floor areas compared to its single brand stores.

**Operating Expenses as a % of Revenue**



Source: Company, Kenanga Research

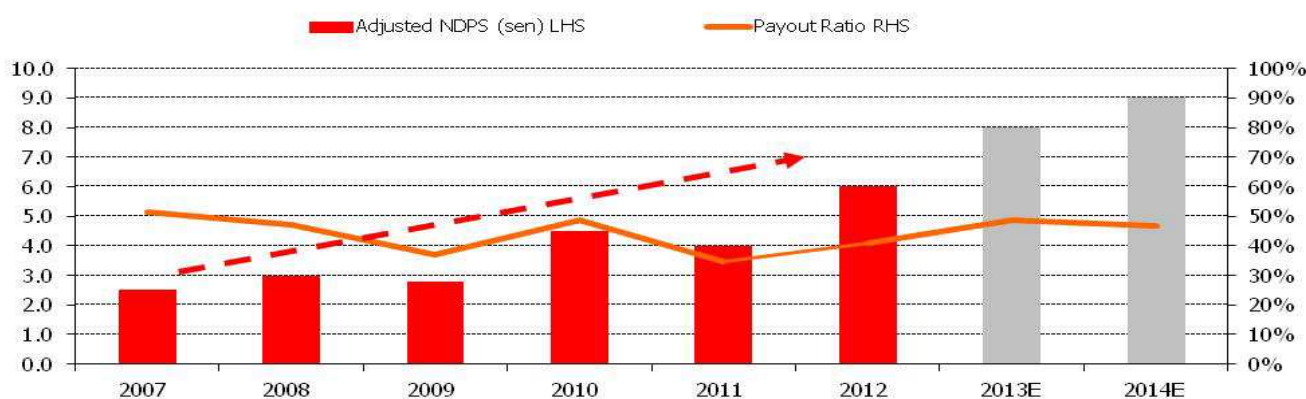
**Revenue per sq ft**



Source: Company, Kenanga Research

**Economies of scale.** Padini’s operating expenses as a percentage of revenue have also been on a declining trend over the past four years as the group benefited from the economies of scale. Additionally, the revenue per square foot for Padini’s single brand stores, Brands Outlet stores and Padini Concept stores have also been increasing, reflecting management’s efficient use of floor space and good P&L control. One such initiative was the allocation of larger floor space for the higher-margin Vincci accessories in its stores. We believe that in a stable gross margin environment, tight cost control would be sufficient to allow its profitability to improve. Consequently, we expect the group’s net margins to improve by 13bps- 21bps in FY13-FY14E.

**Net Dividend Per Share and Payout Ratio**

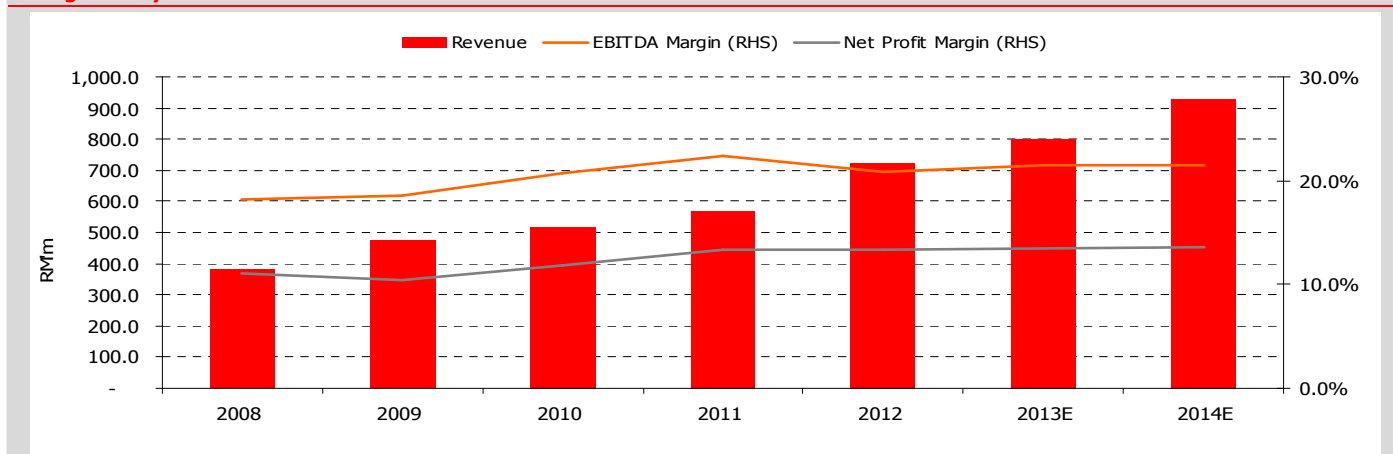


Source: Bloomberg, Kenanga Research

**Becoming a dividend yield play.** Although Padini does not have a formal dividend policy in place, the group has been paying out 35%-49% of its earnings in the past five years. We believe that with minimal CAPEX plans expected for FY13-FY14E, it is likely that Padini will adopt a higher dividend payout. Based on our FY13-FY14 net profit estimates of RM107.9m - RM126.6m, we expect the company to distribute DPS of 8 sen - 9 sen, which translate to attractive dividend yields of 4.4%-4.9%. While we have conservatively estimated a net profit growth of 12.1% and 17.3% for the next two years, we do not rule out the possibility that the Padini’s tie up venture with FJ Benjamin in Indonesia could be a game changer for the group.

## 2. Financial Highlights

### Margin Analysis



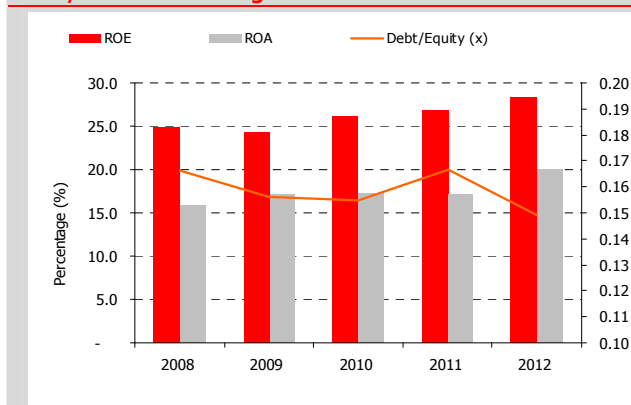
Source: Company, Kenanga Research

### Income statement

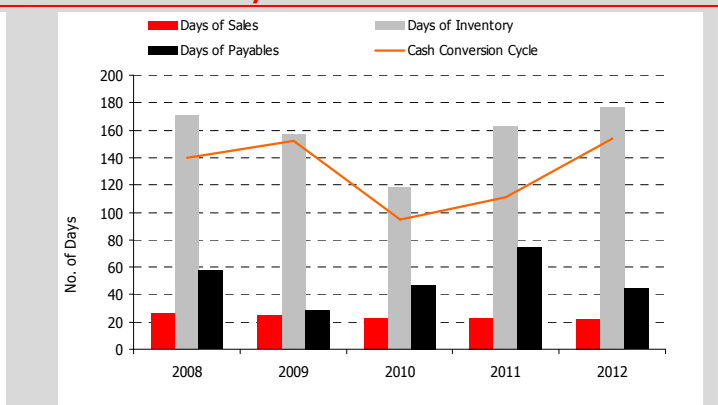
**Input and labour costs.** Generally, the major cost components for garment manufacturers are cotton price and labour costs. There exists the risk that manufacturers would not be able to pass on the rising costs to fashion retailers. Thus far, Padini's costs of good sold have been relatively steady despite the rising input and Chinese manufacturing labour costs due to the low bargaining power of manufacturers. Padini also designs most of its own products, which affords the company a better control of input costs while retaining the flexibility of varying its merchandise mix via its Brands Outlet stores.

**Resilient gross margins.** Furthermore, Padini's Brands Outlet stores have been growing in its contribution to the group's revenues in recent years (accounting for 5.5% of FY08 group revenues to 20.9% in FY12). Brands Outlet's gross margin of 47%-50% is lower than the typical c.50% yielded by other brands under its portfolio and in FY12, the ratio dipped to 48.2%. Nevertheless, the group's overall gross profit margin has remained remarkably steady over the past five years, yielding between 48.2%-51.2%. Going forward, we believe an overall gross profit margin of 48.5% is attainable, underpinned by Padini's increasing bargaining power over the suppliers and as well as its flexibility in varying raw material inputs for the products it designs.

### ROE, ROA and Gearing Ratio



### Cash Conversion Cycle



Source: Company, Kenanga Research

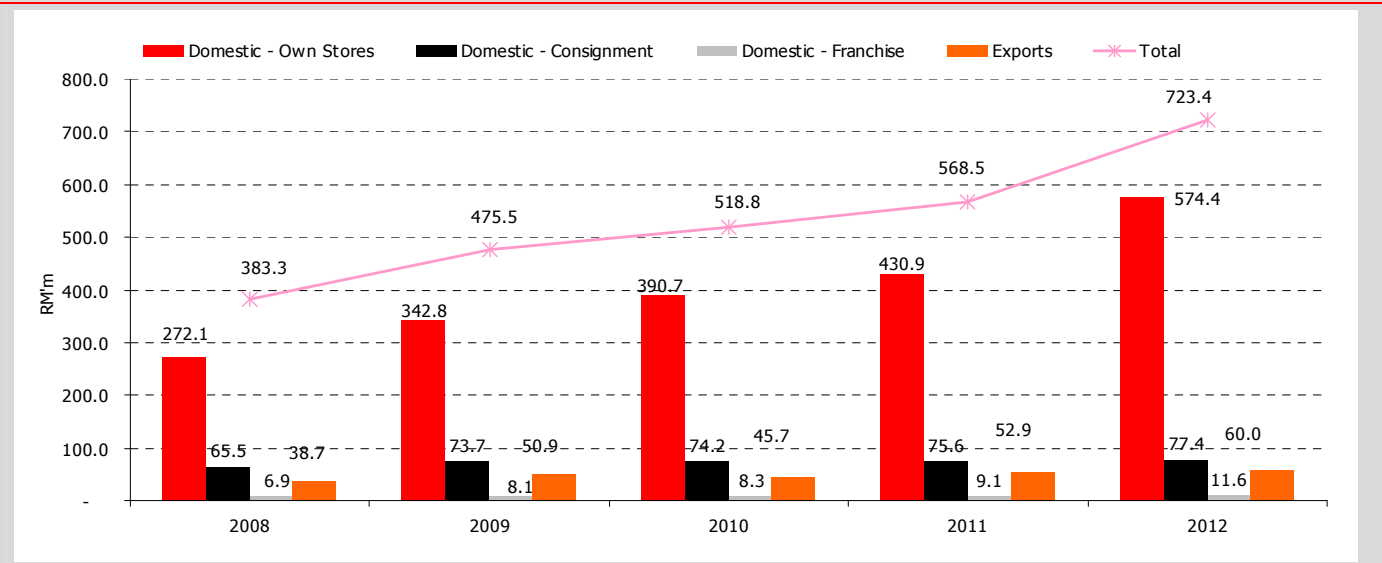
### Balance Sheet

**Management efficiency.** Padini has been able to maintain a high ROE of above 24% over the past five years with little needs to employ additional gearing. In fact, its ROE has been growing steadily from 24.4% in FY09 to 28.3% in FY12 while its gearing ratio has decreased from 0.16x to 0.15x over the same period. The group's balance sheet is sound with a cash pile of RM137.6m, which translates to a cash per share of 21 sen. Currently, Padini does not have a dividend policy in place but the company has been progressively paying out 35-49% of its earnings between FY08 – FY12. We believe that with minimal CAPEX expected for FY13/14E, it is possible that Padini could still pay out higher dividends while retaining the flexibility of utilising the cash for new store openings should the opportunity present itself.

**Inventory control.** Padini's operating cycle has increased from 95 days in FY10 to 154 days in FY12. This is not a major reflection of management's efficiency as rather the increase was attributed to the higher inventory days as the group sought to build up inventory levels ahead of its new store openings in FY11 and FY12 as well as a shift in the product mix to the "value labels" particularly for the Brands Outlet stores. We think that its stock obsolescence risk here is not a major concern given that the bulk of the inventories consist of non-seasonal clothing, which is less affected by changes in fashion trends. Going forward, we expect the Padini's operating cycle to gradually normalise to 142 days - 139 days in line with the anticipated number of new store openings in FY13 and FY14.

### 3. Company Outlook

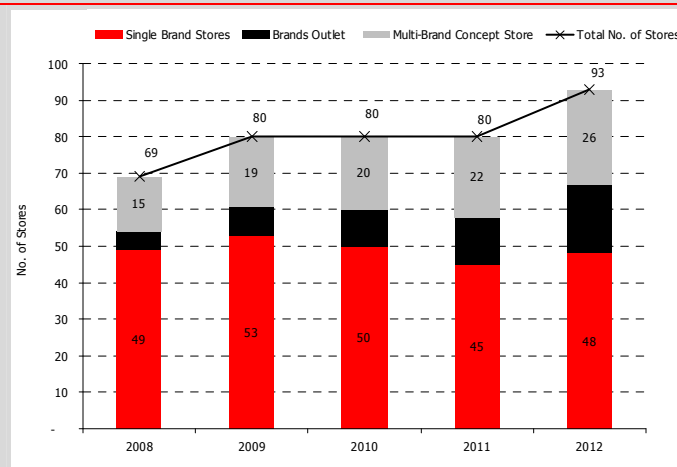
#### Revenue by Distribution Channels



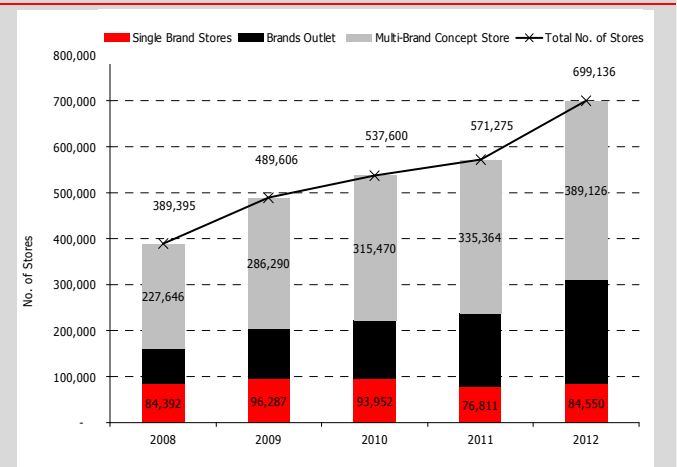
Source: Company, Kenanga Research

**Padini's growth strategy.** Padini's growth strategy has not changed very much in recent years. Its focus had always been on the group's domestic operations, which accounted for almost 92% of the revenue in FY12. In recent years of stellar top line growth (5-year CAGR of 18.0%), the group has adopted the strategy of opening its Brands Outlet and consolidating its single brand stores under the Padini Concept stores (Multi-brand stores). The Brands Outlet stores cater to the value-for-money segment similar to FOS but with greater control over the merchandise mix as Padini designs and markets its own house brands. In a short span of five years, Padini has grown its sole Brands Outlet store to a network of 20 stores today while in the same period, the group has also increased its 9 Padini Concept stores to 26.

#### No. of Stores (Domestic)



#### Retail Floor Space

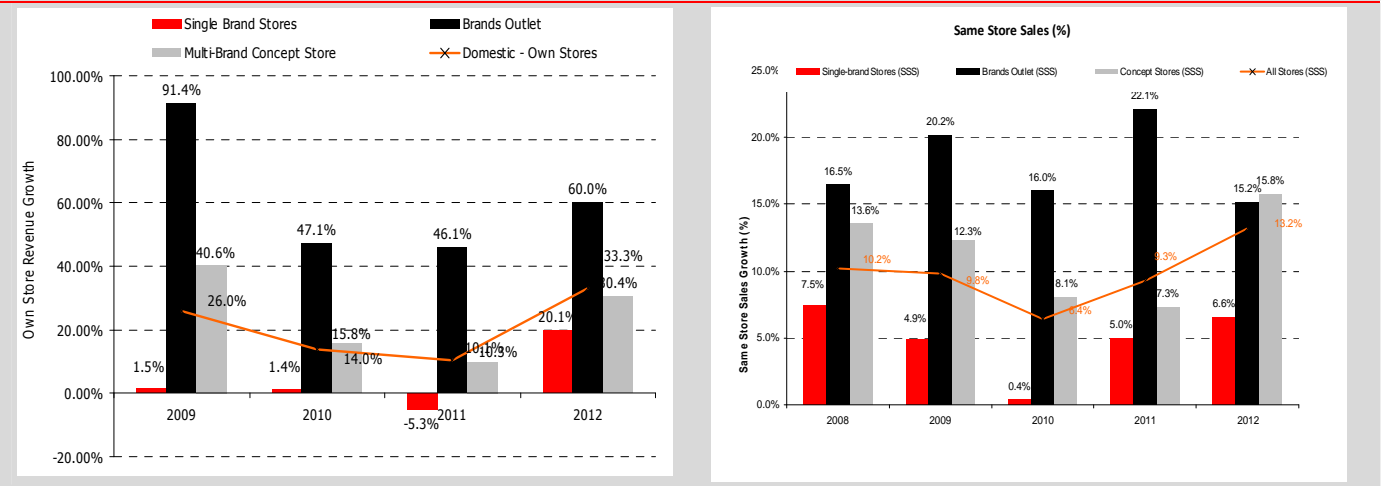


Source: Company, Kenanga Research

**Store openings plans.** The quantum leap in domestic retail store expansion has also had seen the group's retail floor space almost tripled from 245,700 sq ft in FY07 to 699,136 sq ft in FY12 as the group took advantage of the rapid growth in retail floor space capacity via mall extensions as well as the launch of new malls across the country. In fact, Padini had a bumper year in FY12, adding 129,600 sq ft, which comprised of 3 Brands Outlets, 6 Padini Concept stores and 1 free-standing store. With an additional Brands Outlet stores having opened at Fahrenheit 88 in the first quarter of FY13, its store count currently stands at 48 single-brand stores, 26 Padini Concept stores and 20 Brands Outlet stores. Beyond that, five more stores are scheduled to be opened in early FY14, which include a Brands Outlet store in Seremban and another Brands Outlet and Padini Concept store in Miri. However, management has commented that the right locations with the right kind of environment that Padini's brands have been thriving on have become few and far between. While there is no dearth of new malls being opened, management has found many of them to be unsuitable for its brands.

**Total Sales Growth for own stores (%)**

**Same Store Sales Growth (%)**



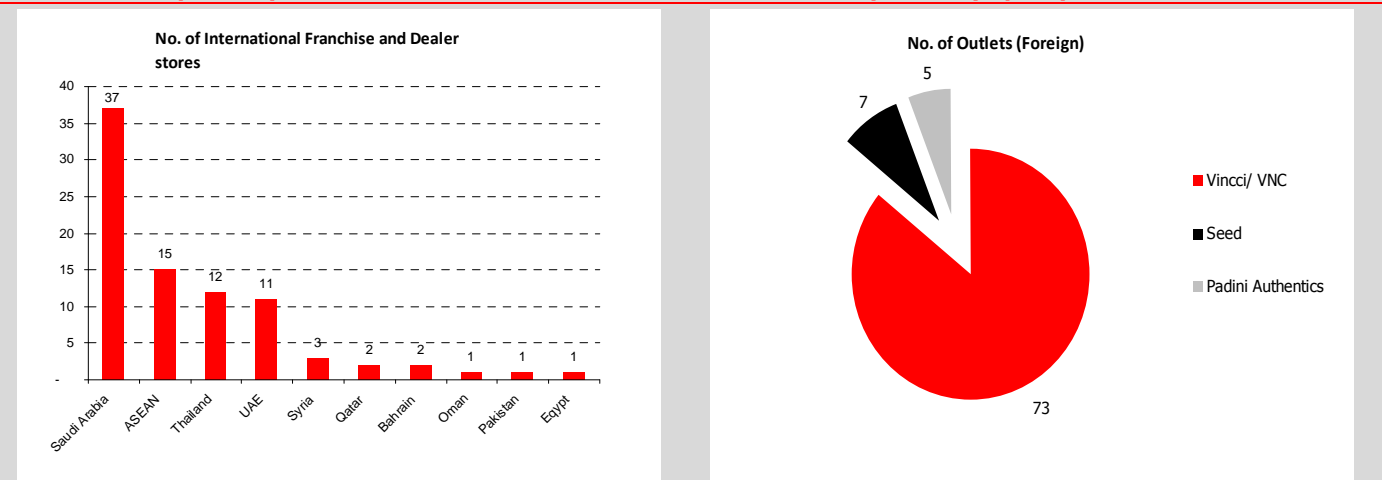
Source: Company, Kenanga Research

**Strong SSSG numbers.** Hitherto, the new store openings allowed Padini to boost its year-on-year sales growth, but with fewer floor space expansion plans on the horizon, we believe Padini’s revenue growth trajectory will be one that is less sanguine than in previous years. Padini’s same-store sales growth has been increasing at a 4-year CAGR of 9.8%, very much below the corresponding 20.5% growth rate of both new and existing stores. Going forward, we expect Padini’s top line growth to be driven by the gradual maturing of the new stores it opened in recent years, which is expected to see higher per square foot sales generated. Management has guided that they would be achieve this by 1) attracting customer spend by tweaking its store merchandise mix and perceived value and quality of Padini’s offerings, 2) Improving design to delivery of its products to keep up with the ever-changing consumer trends and preferences, as well as 3) continually refurbish existing stores to attract customers.

**Opportunities abound.** Regardless, opportunities still do exist as far as new store openings are concerned. Over the next four years, more than 8-million sq ft of new retail space is expected to come on-stream within the Klang Valley, adding on to the existing supply of 48.4-million sq ft. Whilst Padini’s preference is to open its stores within shopping malls with a ready stream of visitor traffic and an established track record, we believe that the group is no stranger to opening its stores in new malls, as we have observed with the recent opening of its Padini Concept and Brands Outlet stores in Paradigm Mall (June 2012) and Setia City Mall (May 2012). Furthermore, we believe that pockets of opportunities are present outside of the Klang Valley where a number of brands under Padini have yet to establish a foothold. We also believe that the increasing number of shopping malls in Penang and Johor creates vast opportunities for the company to further widen their distribution network to reach more customers which would in turn translate to higher sales revenue.

**No. of outlets by Country**

**No. of outlets by Brands (Exports)**



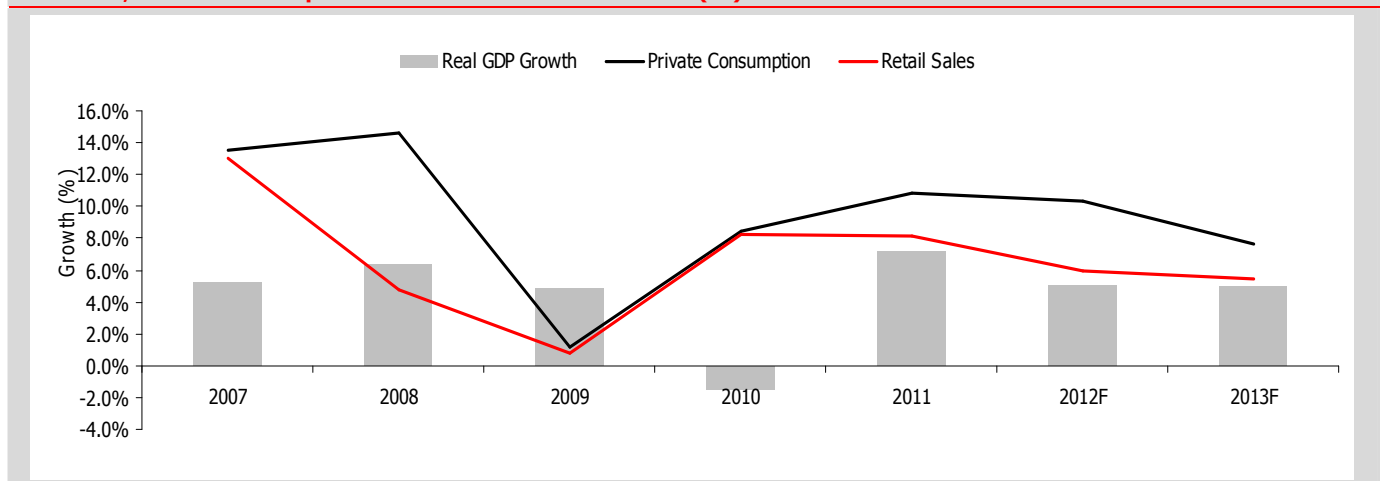
Source: Company, Kenanga Research

**The wildcard.** Among the bright spots are the group’s export markets. Padini has 65 franchises located mostly in the Middle East and 16 dealer stores in Thailand. Combined, the export market accounted for 8.3% of total revenue in FY12. Revenue from this segment has grown from RM38.7m in FY08 to RM60.0m in FY12 at a 4-year CAGR of 11.6%. Furthermore, Padini had recently signed an exclusive 10-year deal with Singapore’s leading fashion retailer FJ Benjamin Holdings Ltd to distribute Vincci shoes and accessories under the brand name “VNC” in Indonesia. The collaboration entails a master franchise agreement where a total of 25 stores will be opened within the next five years, the first of which is expected to open as soon as December this year.

The tie-up with FJ Benjamin would be a huge positive for Padini, and we expect that FJ Benjamin’s diverse distribution network would complement Padini’s strong product development capabilities where Vincci designs in excess of 50 products per month. Top line contribution from Indonesia would likely be minimal in FY13, as it will take some time to lay down the foundations for the deal although we believe that the venture would unlock much potential to Indonesia’s rising middle-class income group and large population size. Whilst we have not factored in the revenue contribution from the tie-up with FJ Benjamin, we acknowledge that the deal could be a game changer for Padini in the years to come.

**4. Industry Outlook**

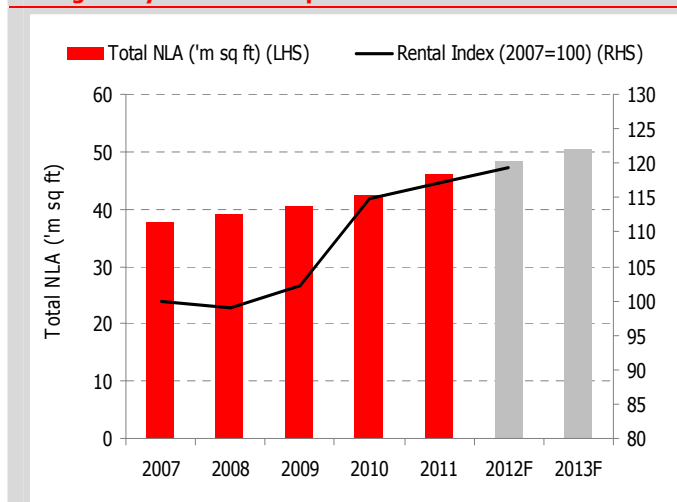
**Real GDP, Private Consumption and Retail Sales Growth Rates (%)**



Source: CEIC, Kenanga Research

**The Retail Industry outlook in Malaysia.** While growth in the retail trade sector is correlated to GDP over the past five years, it has outpaced that of the broader GDP growth rates in an environment where private consumption makes up c.50% of GDP. The Malaysian Retailers Association (MRA) expects a slower retail sales growth for 2012 of 6%, in an index which includes big-ticket items such as vehicles and houses. Citing a cautious consumer retail spending, MRA also expects an element of uncertainty ahead of the impending general election although confidence levels may improve following the consumer-friendly Budget 2013. Consistent with the MRA-initiated retail sales growth projections, our house forecasts a private consumption spending to grow at a rate of 10.3% in 2012 and 7.6% for 2013.

**Klang Valley Retail Floor Space and Rental Rates**



Source: CBRE, Kenanga Research

**New and Future Supply of Malls in Klang Valley**

Shopping Malls	Expected Completion Date
Damansara City Mall	2013
M Square Shopping Centre	2013
The Strand Shopping Mall	2013
Atria Shopping Gallery	2013
Sunway Velocity Lifestyle Shopping Mall	2014
Boustead Retail	2014
Empire City Mall	2014
Jaya Shopping Centre	2014
Damen	2014
Damansara Uptown Mall	2015

**Retail floor space.** As of Dec-2012, there were over 65 shopping malls and 48.4m sq ft of retail space in the Klang Valley. The recent completion of Paradigm Mall and Setia City Mall alone added 1.42m sq ft, while the completion of refurbishment works at Cheras Sentral Shopping mall saw an additional 500,000 sq ft of net lettable retail space come onto the market. According to the CBRE report, the overall occupancy rates in Klang Valley averaged at 88.5% with demand for quality retail space in large catchment areas remaining strong. That said, more than 8m sq ft of new retail space is expected to be completed by 2016, though we anticipate that with Malaysia becoming an increasingly important expansion base for western retailers, the local market place will see an influx of international brands which in turn would result in an increase in demand for retail space in the Klang Valley.

**Made in Malaysia.** Outside of Malaysia, we see a potential avenue for growth via the 1Malaysia Mall project. As part of the Government's Economic transformation program (ETP) initiative, the 1Malaysia Mall project is a plan to push Malaysian mall operators and retailers to expand overseas and export Malaysian management expertise. Malaysian retailers would be given at least 50% of the newly created commercial space, providing exposure to the burgeoning middle-class income group across Asia - with Vietnam and China likely to be the first two countries where the 1Malaysia malls will be opened. Additionally, other countries like India and Iran have also expressed interest in setting up such malls though promising as the project may seem, we believe that timing of such a project remains the primary variable.

### Porter's Five Forces analysis of the company

**Threat of New Entrants – HIGH.** Malaysia is becoming an important expansion base for Western retailers. Even as big retail brands and labels focus their attentions on the emerging markets of China, India or even our ASEAN neighbours, they too have seen it fit to establish a presence in Malaysia as well. Increasingly, Malaysia will see more international retailers venturing into the market directly as opposed to via the traditional gateways of Hong Kong and Singapore. In the past year itself, there has been an influx of international brands, which compete on the same playing field as Padini, the most recent being Japanese behemoth Uniqlo and Swedish fashion retailer H&M, which have opened their flagship stores in the Golden Triangle. We believe that given the growing size of the pot, the main barrier to entry would be with regards to the prime retail space which is getting scarce.

**Bargaining Power of Buyers – HIGH.** The rising income levels, better education and greater access to a variety of brands and labels have resulted in a class of consumers more sophisticated in their needs and preferences. Where customer loyalty is of the utmost importance, retailers have strived to attain superior customer responsiveness by employing various methods of advertisements and promotions, loyalty programmes, as well as to increase customers perceived value of a brand. Brands catering to this expanding group of consumers have become numerous but more often than not, these brands pay more attention to the pricing strategies than to the perceived quality of the products under their brands. As a result, many brands fail rather than thrive.

**Bargaining Power of Suppliers – LOW.** As with the trend in the fashion retail industry, Padini designs its garments while outsourcing the manufacturing operations to OEM manufacturers. Knitwear and graphic Ts are manufactured locally while the more complex woven items are sourced from China and Sri Lanka. With the advent of the global slowdown, the garment manufacturing industry in China has become saturated and oversupply issues have more than mitigated the effects of minimum wage rebasing. Thus far, bargaining power of suppliers has remained low, and as a result, large scale Chinese manufacturers who had previously shunned the small to mid-sized fashion retailers have reopened their doors to Padini.

**Threat of Substitute Products – MEDIUM.** Padini's products cater to a wide range of audiences, the more pronounced differences being the styles and pricing of the brands they carry. The SEED and Padini brands are more trendy while the PDI and Vincci brands are more neutral. The Brands Outlet's products, on the other hand, houses lesser-known value-for-money labels, which include off-season and surplus branded items. We believe that Padini's differentiated products as well as its flexibility of varying its merchandise mix provides the group with some degree of immunity, though it is note-worthy that the Vincci accessories are not generally designed in-house, which means these products no longer retain their unique qualities. In this situation, these range of products runs the risk of attracting the interest of suppliers eager to broaden their distribution as well as competitive retailers anxious to boost their own sales.

**Competitive Rivalry within the Industry – HIGH.** The garment retail industry is by nature, one of the most competitive areas of commerce. Competition is particularly apparent where there are numerous other brands, which operate at the same locations as Padini. These brands compete not only for market share and floor space, but also for front line retail staff, which is becoming increasingly scarce. The increased demand for staff required to run retail operations extends beyond fashion retailing, and the current rapid growth in retail outlets of all kinds has caused high turnover rates for front line staff, which has in turn made recruitment costly, time-consuming and often unproductive. Management has envisaged that the coming years will see the situation deteriorate further if nothing is done to radically alter the conditions of demand and supply of labour in this industry.

## 5. Valuation/Recommendation

**Industry-centric headwinds.** Our outlook for the retail industry in general has been more cautious of late due to a combination of factors, including the rising threat from domestic and international players entering the fray and fierce competition not just in terms of pricing but also for prime locations as well as front-line staff. Thus far, Padini's earnings have been relatively resilient to the changes in consumer preferences and economic conditions over the years. We like Padini for its extensive retail network, strong revenue generating capabilities and healthy balance sheet. However, the potentially challenging retail landscape is keeping us guarded on our estimates and recommendation.

**Initiating Coverage on Padini Holdings Berhad with a MARKET PERFORM rating and a fair value of RM1.84.** We have applied an 11.2x forward PER (+1.5 standard deviation above the 5-year Average PER) based on our FY13 EPS forecast of 16.4 sen. We feel that Padini deserves a valuation closer to the larger retail industry players such as Amway and Aeon (+2.0SD above the mean of its 5-year average PER) given the company's size and scale relative to the smaller garment retailers. That said, despite the 23% decline from the all-time high of RM2.37, the share price is still up 70% for the year-to-date. Padini is currently trading close to our target price of RM1.84 and given the limited upside potential, we are initiating coverage on the stock with just a MARKET PERFORM rating.



## 6. Risks

**Challenging business environment.** Padini faces strong competition both directly and indirectly. Many competing fashion retailers operate at the same level playing field as Padini while at the same time, general retailers though not necessarily targeting the same segment, do pose an indirect threat to Padini as spending habits may change in tandem with economic cycles. There is also a growing trend of deep-pocket international retailers entering the market, and together with the local brands, they compete on i) location and retail space ii) front-line retail staff iii) product quality and pricing iv) consumer trends and preferences.

**Risks associated with expansion.** Prime retail locations have become scarce though with 8.0m sq ft of new retail floor space coming on-stream in the Klang Valley over the next four years, opportunities do exist for Padini to sustain its new store growth trajectory. However, of central importance are the timing and location risks associated with the new mall openings. With the completion of new malls, there exists a multitude of question marks in relation to demography, visitor traffic, and catchment areas and even whether or not the new malls would be disruptive of visitor traffic to existing malls.

## 7. Appendix

Padini Holdings Berhad was founded in 1971 and started out as a manufacturer, trader and supplier of clothing to retailers and distributors. Subsequently, they ventured into distributing and retailing of their own house brands to cater to specific consumer niches. Through the years, Padini Group has expanded significantly and is entrenched itself as a leader in the multibillion textile and garment industry in Malaysia. Today, Padini's products include casual wear for the working class, basic wear such as denims, jeans, T-shirts, jackets, polo Ts for teenagers, fashionable children wear, and even shoes and accessories that bring runway styles at affordable prices. Padini Group boasts 9 house brands and more than 330 retail stores, franchise outlets and consignment counters in Malaysia and abroad.

In the domestic market, Padini's products are sold through the numerous retail stores and consignment counters that the group manages. As for overseas markets, Padini's products are mostly sold through retail stores managed by licensees and dealers. Their presence extend to Bahrain, Brunei, Cambodia, Egypt, Indonesia, Myanmar, Oman, Pakistan, Philippines, Saudi Arabia, Syria, Thailand and United Arab Emirates. Padini Group's 9 house brands consist of Padini, Padini Authentics, PDI, P&Co, Seed, Vincci, Vincci+, Vincci Accessories and Miki Kids. Each of these labels represents a particular fashion concept based on a specific target market of consumers.

### Company Milestones

Year	Description
1971 – 1980	Padini began operations as Hwayo Garments Manufacturers Company and manufactured ladies garments which were sold to departmental stores wholesale. The then sole proprietorship expanded into textile trading two years later, and in 1975, the company entered the retail industry with the flagship brand, PADINI.
1981 - 1990	VINCCI was launched in 1981, representing a brand for ladies shoes, bags, belts and accessories. The company subsequently launched the MIKI brand to distribute childrenwear in 1987. The SEED and ROPE labels were then created in 1990.
1991 - 1995	In 1991, Home Stores Sdn Bhd was established as a holding company for the Group's retail, wholesale and manufacturing businesses. The holding company was then changed to Padini Holdings Sdn Bhd. Soon after, the brand PADINI AUTHENTICS was launched. In 1995, Padini became a public company as we know today - Padini Holdings Berhad
1996 - 2000	In 1998, Padini Holdings Berhad was listed on the Second Board of the KLSE and in the same year, P&Co was launched. The PDI label followed suit a year later along with the first of the Group's multi-brand concept store - The Padini Shop. The group also ventured into the F&B industry with Seed Cafe.
2001 - 2005	Padini was relaunched as a career wear brand in 2001. In these five years, Padini had also expanded its foreign presence in markets such as the Philippines, Saudi Arabia and Thailand. In 2004, Padini was transferred to the main board.
2006 - 2010	Vincci+, Vincci Accessories and Brands Outlet were launched in 2007. It opened it's first store in Oman and received a valutaion by Interbrand at RM 245million. Subsequently, in 2009-2010, Padini launched its first stores in Syria, Qatar and Pakistan.
2011 - Current	Padini launched more stores in the Middle East, South East Asia and North African countries as well as its first Vincci store in Myanmar.

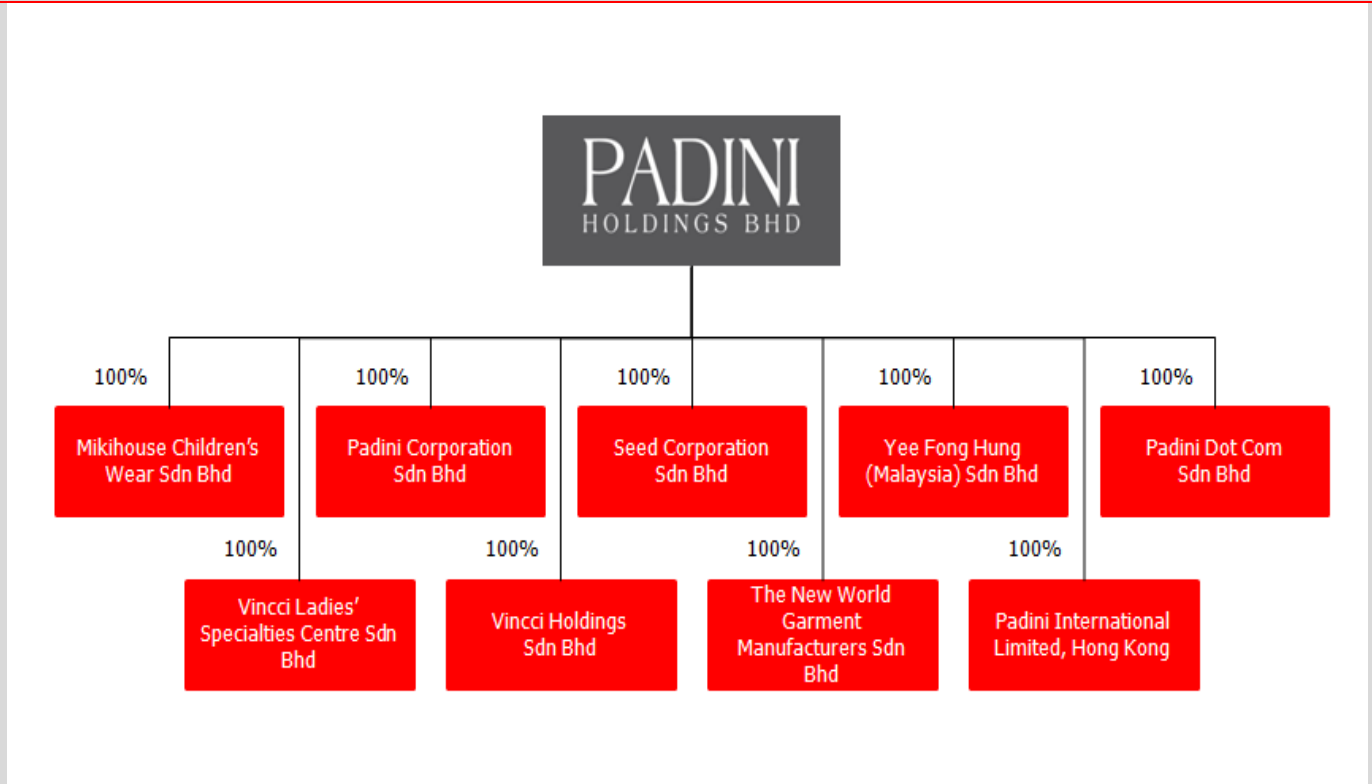
Source: Company, Kenanga Research

**Key Management**

Name	Position
Haji Sahid bin Mohamed Yasin	Chairman of the Board, Member of the Audit Committee, Independent Non-Executive Director
Yong Pang Chaun	Managing Director
Chan Kwai Heng	Executive Director
Cheong Chung Yet	Executive Director
Chong Chin Lin	Executive Director
Yong Lai Wah	Executive Director
Foo Kee Fatt	Chairman of the Audit Committee, Independent Non-Executive Director
Yeap Tien Ching	Member of the Audit Committee, Independent Non-Executive Director

Source: Company, Kenanga Research

**Corporate structure**



Source: Company, Kenanga Research

**Padini**



Padini's apparels consists of the chic, simple, formal and smart casual wear for young executives. Padini likes to emphasise on continuity and consistency whilst following current trends. Hence, Padini's apparels centres upon details, sharp tailoring and style.

Domestic Market:	No. of outlets
Free-standing stores	2
Consignment Counters	37

Source: Company, Kenanga Research

**SEED**



SEED apparels focuses on contemporary, trendy and creative designs for both casual and work apparels, which targets the fashion conscious. SEED offers runway-inspired collections which is in line with its aspirations to bring runway fashions onto its racks, for men, women and children.

Domestic Market:	No. of outlets
Free-standing stores	4
Consignment Counters	54

Source: Company, Kenanga Research

**Padini Authentics**



Padini Authentics offers a casual line that embodies individuality and confidence, for men, women and children. Padini Authentic mainly targets young and exuberant college kids, whilst Padini Authentic Kids adapts the same fashion sense for children.

Domestic Market:	No. of outlets
Free-standing stores	8
Consignment Counters	29

Source: Company, Kenanga Research

**P&Co.**

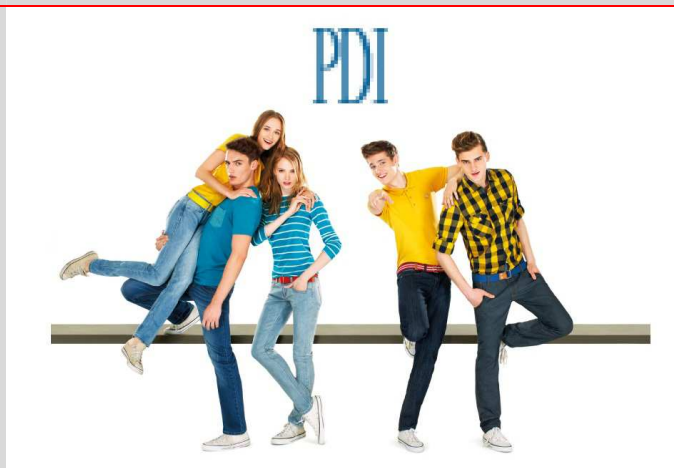


P&Co's clothing line targets the eclectic, edgy and individualistic fashion-minded consumer. This brand was conceptualised as a bold and adventurous trend for fashion-forward teenage girls and young women.

Domestic Market:	No. of outlets
Free-standing stores	1

Source: Company, Kenanga Research

**PDI**



PDI offers smart and simple basic-wear for both men and women, including denims, jeans, T-shirts, jackets, shirts, polo-Ts and accessories. Their range are generally updated season to season, to reflect new trends in style, fit and colour whilst maintaining its motto of providing stylish basic-wear.

Domestic Market:	No. of outlets
Free-standing stores	13
Franchise Stores	1

Source: Company, Kenanga Research

**MIKI**



MIKI's line of clothing consists of MIKI Kids and MIKI baby. MIKI's clothing line generally comprises of bold colours and fun and playful styles, for both boys and girls. MIKI's concept focuses on creating trendy wear for babies and toddlers.

Domestic Market:	No. of outlets
<b>Miki Kids</b>	
Consignment Counters	30
<b>Miki Mom</b>	
Consignment Counters	4

Source: Company, Kenanga Research

**VINCCI, VINCCI+, VINCCI Accessories**



VINCCI is one of the first Malaysian brands which offered fashion-forward footwear which adapts runway styles at affordable prices. VINCCI's implements the affordability, trendy and quick-to-market strategy. Whilst the brand is mainly used for shoes, VINCCI also offers in-trend bags and accessories.

Domestic Market:	No. of outlets
Free-standing stores	20
Consignment Counters	1
Franchise stores	14
Foreign Market:	
Franchise stores	65
Dealer stores	16

Source: Company, Kenanga Research

**Brands Outlet**



Brands Outlet is a multi-brand retail store that offers a variety of lesser known house brands at a reasonable and affordable price. It comprises of various styles of clothing and accessories for men, women and children. The outlets use all year round promotions, value buys and value-for-money merchandise as a marketing strategy.

Brands Outlet	No. of outlets
Free-standing Stores	20

Source: Company, Kenanga Research

**Padini Concept (Multi-brands)**



Padini Concept is a multi-brand store which showcases the various brands under one roof. The first of the group's multi-brand stores was opened in City Square, Johor in 1999. Today, there are 26 of these concept stores nationwide, with a total of 179 stores-within-store.

Padini Concept	No. of outlets
Free-standing Stores	26

Source: Company, Kenanga Research



**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenangaresearch.com](http://www.kenangaresearch.com)



Chan Ken Yew  
Head of Research