

Padini Holdings (PAD MK)

Share Price: MYR1.92

MCap (USD): 391M

Malaysia

Target Price: MYR2.35 (+22%)

ADTV (USD): 2M

Consumer Disc.

BUY

(Unchanged)

Still growing and expanding

- Expansion plans still intact - looking at about 7 PCS and 7 BO outlets in FY15 versus 5 PCS and 7 BO in FY14.
- Company is now Shariah compliant and hopes to be back on the SC's list in Nov 2014
- BUY - recent selldown provides buying opportunity. TP of MYR2.35 on 14.8x CY14 PER, dividend yield attractive at 6%.

What's New

Same store sales growth (SSSG) has continued to hold up despite stiff competition, with its Padini Concept Stores (PCS) registering +2.9% SSSG in 9MFY14 and +19% for Brands Outlet (BO). However, SSSG for its single brand stores (principally *Vincci*), contracted by 2.9%. *Seed*, *Padini Authentics* and *Vincci* face stiff competition but *Padini* workwear and *PDI* are still faring well.

Separately, management has addressed its Shariah issue (the stock was dropped from the Securities Commission's (SC) Shariah list in May 2014) and expects to be put back on the list in Nov 2014.

What's Our View

3QFYE6/14 was a slow quarter due to the timing of the CNY and also of its new store openings. However, sales have improved in recent months and the company appears on track to meeting our FY14 net profit of MYR98m (+15% YoY). BO, which currently accounts for almost 30% of sales, will continue to be the primary growth driver, particularly as consumers turn more cost conscious.

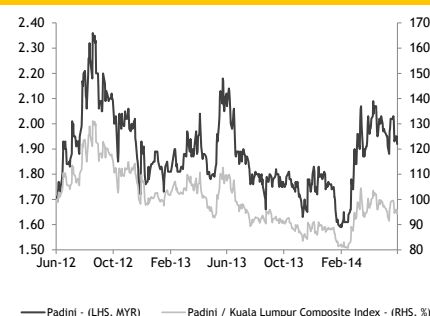
In the pipeline is the expected opening of about 7 BO and 5 PCS outlets in FY15 versus 4 BO and 7 PCS in FY14. This will ensure that revenue momentum is sustained. Valuations are undemanding with the stock trading at just 11.4x FY15 PER and dividend yields are attractive at 6%. Our MYR2.35 TP is pegged to 14.8x CY14 PER (2SD above historical mean).

FYE Jun (MYR m)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	726.1	789.8	827.7	966.3	1,040.2
EBITDA	150.9	139.0	156.1	175.4	186.9
Core net profit	95.3	85.4	97.8	111.2	118.7
Core EPS (sen)	14.5	13.0	14.9	16.9	18.0
Core EPS growth (%)	25.9	(10.4)	14.5	13.7	6.7
Net DPS (sen)	6.0	8.0	11.5	11.0	12.0
Core P/E (x)	13.3	14.8	12.9	11.4	10.6
P/BV (x)	3.7	3.4	3.2	2.9	2.7
Net dividend yield (%)	3.1	4.2	6.0	5.7	6.3
ROAE (%)	30.6	24.0	25.5	26.9	26.3
ROAA (%)	20.5	17.1	18.6	19.7	19.2
EV/EBITDA (x)	7.4	7.7	6.9	6.1	5.6
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Key Data

52w high/low (MYR)	2.14/1.59
3m avg turnover (USDm)	1.6
Free float (%)	48.4
Issued shares (m)	658
Market capitalization	MYR1.3B
Major shareholders:	
-Yong Pang Chaun Holdings Sdn. Bhd.	43.7%
-Somerset Capital Management LLP	3.5%
-Public Mutual Bhd.	3.2%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(4.0)	2.7	(9.4)
Relative to index (%)	(4.4)	0.5	(14.0)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	2	1
Maybank Consensus			% +/-
Target Price (MYR)	2.35	2.04	15.5
'14 PATMI (MYRm)	98	98	(0.5)
'15 PATMI (MYRm)	111	109	1.9

Source: FactSet; Maybank

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Expanding its reach

From our recent visit to Padini, what is evident is that while competition has diluted some of the influence of its key brands, the company continues to stand its ground well and will continue to expand its reach both for its Padini Concept Stores (PCS) as well as Brands Outlets (BO).

The stock should soon be Shariah compliant

The first positive point to take note of is that management has taken the necessary steps to ensure Shariah compliance and is confident that it will be able to get back onto the Securities Commission's Shariah list in November 2014. Investors will recall that Padini was taken off the Shariah list during the May review due to the fact that it did not have <33% of its cash in conventional bank accounts. This resulted in a 4% drop in its share price on the day the Shariah compliant list was released i.e. on 30th May, for Shariah funds had to dispose of the shares immediately.

A recap of store openings in FY14

Over the course of its fiscal year to end-June 2014, Padini would have opened five PCS and seven BO outlets. PCS outlets were opened in Gurney Paragon Mall (Penang), Imperial City Mall (Miri) and The Main Place (USJ). The fourth and fifth will open by end June in Palm Mall (Seremban) and First Avenue Mall (Penang). *(Note: the PCS at The Main Place USJ occupies just 2k sq ft because it houses just children's wear).*

As for BO, Padini has opened outlets in Gurney Paragon Mall, Imperial City Mall, The Main Place, Langkawi Fair Shopping Mall, Empire Gallery (Subang), AEON Bukit Mertajam. The seventh outlet will also be located in Palm Mall.

Store openings in FY14

Description	Location	000 sq ft	Opened
Padini Concept Stores			
Gurney Paragon Mall	Penang	33	Jul 13
Imperial City Mall	Miri	11	Feb 14
The Main Place	USJ	2	Mar 14
Palm Mall	Seremban	8	Jun 14
First Avenue	Penang	16	Jun 14
Brands Outlets			
Gurney Paragon Mall	Penang	17	Jul 13
Imperial City Mall	Miri	7	Jan 14
The Main Place	USJ	8	Mar 14
Langkawi Fair Shopping Mall	Langkawi	9	Nov 13
Empire Gallery	Subang	16	May 14
AEON Bukit Mertajam	Penang	10	May 14
Palm Mall	Seremban	8	Jun 14
Total		145	

Source: Company, Maybank KE

A look at SSSG

In 9MFY14, Padini's PCS registered same store sales growth (SSSG) of +2.9% while BOs registered SSSG of +19%. The drag was its single brand stores which carry principally the PDI and Vincci labels, which saw SSSG contract by 2.9% during the period.

In 3QFY14, the SSSG for PCS was +2.4% and +11.5% for BOs, but was -3.5% for its single brand stores.

Brands Outlets doing well...

As the SSSG numbers above would indicate, the company's BOs are doing well and currently account for almost 30% of sales. Pretax margins here are also higher at about 20% vs. the company's blended pretax profit margin of 16%.

...but some of the Padini labels are facing stiff competition

Vincci, which has been a strong selling shoe brand for the company in the past, is suffering from some fatigue and sales have been impacted by higher raw material costs and the lack of new product designs. The division's Brand Manager has since moved to operations and the position was assumed by the manager of the Accessories Division early this year. It remains to be seen if the sales can be turned around here.

The company's other brands - *Padini Authentics* and *Seed*, are also facing stiff competition from the likes of H&M. Faring well are the company's *Padini* workwear and *PDI*.

Padini workwear and *PDI* accounted for 37% of sales in FY13, while *Vincci* made up 23%. *Seed* and *Padini Authentics* made up 17% and 14%.

As it stands, *Seed* and *Padini Authentics* are profitable despite poorer sales and management believes it is very important to have a varied range of products to attract the wide spectrum of customers, particularly since they are all housed within a Padini Concept store. The ability to negotiate for larger pace at retail malls for its PCS is crucial and the wide range of products helps.

3QFY14 earnings affected by timing of openings and CNY

Padini's sales rose 7% YoY in 3QFY14 but net profit declined 14% YoY during the period. Management attributes this to:

- (i) The earlier CNY this year which started 31 Jan 2014 versus 10 Feb in 2013. This would have led to some customers buying ahead in Dec 2013 rather than in Jan 2014 itself.
- (ii) The quarter end opening of some of the stores, e.g. the opening of a PCS and BO in Imperial City Mall in Feb 2014, and a PCS and BO in The Main Place in March 2014. Revenue would not have been sufficient to cover the opening costs for the period.

Positively though, 9MFY14 sales were up 9% YoY while net profit rose a healthy 12%.

More store openings in FY15

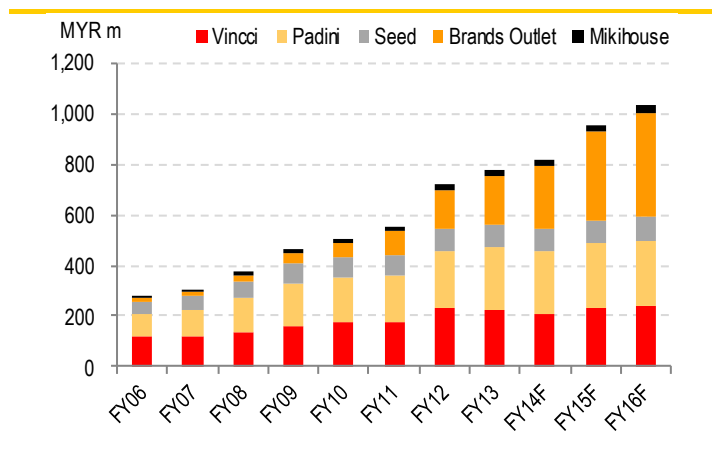
In FY15, more store openings are planned, with seven PCS and seven BO stores in the pipeline. Management expects to open a PCS and a BO at: Sunway Putra Mall, Empire City (Damansara Perdana), IOI City Mall (Putrajaya), Imago Mall (Kota Kinabalu), Vivo City Shopping Mall (Kuching) and the new Komtar in Johor. There will be a standalone PCS at Mid Valley Megamall, as well as a standalone BO store at AEON Taiping.

Assuming an average 10k sq ft per BO and 15k per PCS in terms of store size, we could be looking at about 175k in additional store space in FY15, this being a 21% increase over 145k sq ft in FY14.

Finally, an outlet at Mid Valley Megamall

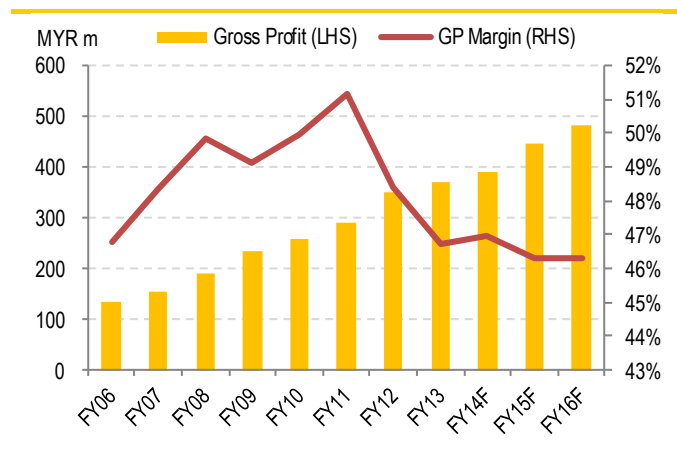
One of the high traffic areas that Padini has lacked a large store presence in is Mid Valley Megamall. What it does have in the mall presently are single brand shops (*Padini, Seed, Padini Authentics, PDI, Vincci, P&CO and Tizio*). It will finally be setting up a PCS at the mall, which is targeted to open in Nov 2014 and is expected to be about 20k sq ft in size. Upon the opening of the PCS, the single brand shops will be closed and returned to the mall operator, likely after Chinese New Year, which falls on 19th February 2015.

Padini: Revenue breakdown by brands



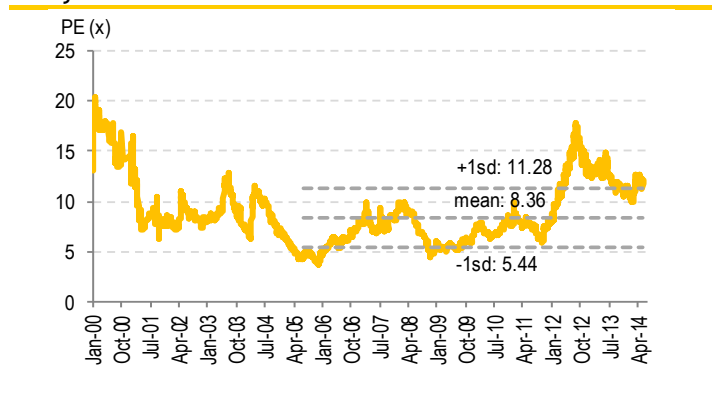
Source: Company, Maybank KE

Padini: Gross profit trend



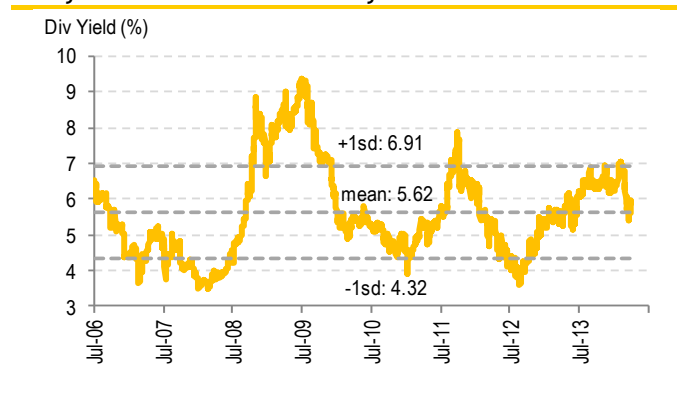
Source: Company, Maybank KE

One-year forward PER



Source: Company, Bloomberg, Maybank KE

One-year forward net dividend yield



Source: Company, Bloomberg, Maybank KE

FYE 30 Jun	FY12A	FY13A	FY14E	FY15E	FY16E
Key Metrics					
P/E (reported) (x)	13.3	14.8	12.9	11.4	10.6
Core P/E (x)	13.3	14.8	12.9	11.4	10.6
P/BV (x)	3.7	3.4	3.2	2.9	2.7
P/NTA (x)	3.8	3.5	3.3	3.0	2.7
Net dividend yield (%)	3.1	4.2	6.0	5.7	6.3
FCF yield (%)	8.2	14.2	11.1	11.3	12.8
EV/EBITDA (x)	7.4	7.7	6.9	6.1	5.6
EV/EBIT (x)	8.6	9.2	8.0	7.0	6.4

INCOME STATEMENT (MYR m)

Revenue	726.1	789.8	827.7	966.3	1,040.2
Gross profit	351.3	368.8	388.5	447.3	481.5
EBITDA	150.9	139.0	156.1	175.4	186.9
Depreciation	(20.2)	(21.4)	(21.2)	(22.2)	(23.4)
Amortisation	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)
EBIT	129.9	116.8	134.1	152.5	162.6
Net interest income / (exp)	(0.2)	0.8	1.7	1.9	2.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	129.7	117.7	135.9	154.4	164.8
Income tax	(34.4)	(32.3)	(38.0)	(43.2)	(46.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	95.3	85.4	97.8	111.2	118.7
Core net profit	95.3	85.4	97.8	111.2	118.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	137.6	206.2	220.0	234.8	259.7
Accounts receivable	47.8	49.6	52.0	60.7	65.3
Inventory	192.3	143.8	150.1	177.4	190.9
Property, Plant & Equip (net)	93.2	88.3	92.3	97.6	103.0
Intangible assets	7.2	6.7	5.9	5.1	4.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	7.3	17.7	17.7	17.7	17.7
Total assets	485.4	512.3	538.0	593.3	641.0
ST interest bearing debt	31.2	18.7	18.7	18.7	18.7
Accounts payable	78.9	89.0	92.8	109.7	118.1
LT interest bearing debt	19.6	17.2	17.2	17.2	17.2
Other liabilities	16.3	15.2	15.2	15.2	15.2
Total Liabilities	146.0	140.1	144.0	160.9	169.2
Shareholders Equity	339.4	372.2	394.0	432.4	471.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	339.4	372.2	394.0	432.4	471.7

CASH FLOW (MYR m)

Pretax profit	129.7	117.7	135.9	154.4	164.8
Depreciation & amortisation	21.0	22.2	22.0	22.9	24.2
Adj net interest (income)/exp	0.1	1.2	1.7	1.9	2.2
Change in working capital	(53.5)	46.6	(4.8)	(19.1)	(9.8)
Cash taxes paid	(29.2)	(34.5)	(38.0)	(43.2)	(46.2)
Other operating cash flow	8.5	10.0	0.0	0.0	0.0
Cash flow from operations	76.8	162.9	115.0	115.0	133.1
Capex	(26.8)	(16.1)	(25.2)	(27.5)	(28.8)
Free cash flow	103.6	179.0	140.2	142.5	161.9
Dividends paid	(52.6)	(52.6)	(75.7)	(72.4)	(78.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	3.7	(15.2)	0.0	0.0	0.0
Other invest/financing cash flow	(2.8)	(9.9)	0.0	0.0	0.0
Effect of exch rate changes	0.7	(0.4)	(0.4)	(0.4)	(0.4)
Net cash flow	(1.0)	68.6	13.8	14.8	24.9

FYE 30 Jun	FY12A	FY13A	FY14E	FY15E	FY16E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.7	8.8	4.8	16.7	7.6
EBITDA growth	18.9	(7.9)	12.3	12.4	6.5
EBIT growth	24.2	(10.1)	14.8	13.7	6.7
Pretax growth	23.5	(9.3)	15.5	13.7	6.7
Reported net profit growth	25.9	(10.4)	14.6	13.7	6.7
Core net profit growth	25.9	(10.4)	14.6	13.7	6.7
Profitability ratios (%)					
EBITDA margin	20.8	17.6	18.9	18.2	18.0
EBIT margin	17.9	14.8	16.2	15.8	15.6
Pretax profit margin	17.9	14.9	16.4	16.0	15.8
Payout ratio	41.4	61.6	77.3	65.1	66.5
DuPont analysis					
Net profit margin (%)	13.1	10.8	11.8	11.5	11.4
Revenue/Assets (x)	1.5	1.5	1.5	1.6	1.6
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	30.6	24.0	25.5	26.9	26.3
ROAA (%)	20.5	17.1	18.6	19.7	19.2
Liquidity & Efficiency					
Cash conversion cycle	113.1	94.1	68.0	64.3	67.1
Days receivable outstanding	21.6	22.2	22.1	21.0	21.8
Days inventory outstanding	174.4	143.7	120.5	113.6	118.6
Days payables outstanding	83.0	71.8	74.5	70.2	73.4
Dividend cover (x)	2.4	1.6	1.3	1.5	1.5
Current ratio (x)	3.2	3.5	3.6	3.5	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	3.3	3.7	3.7	3.7	3.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.3	0.3	0.2	0.2	0.2
Capex/revenue (%)	3.7	2.0	3.0	2.8	2.8
Net debt/ (net cash)	(86.8)	(170.3)	(184.0)	(198.8)	(223.8)

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