

5 April 2012
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12-month upside potential

Target price	1.85
Current price (as at 4 Apr)	1.41
Capital upside (%)	31.2
Net dividends (%)	4.3
Total return (%)	35.5

Key stock information

Syariah-compliant?	Yes
Market cap (RM m)	928
Issued shares (m)	658
Free float (%)	50
52-week high / low (RM)	1.58 / 0.83
3-mth avg volume ('000)	2,060
3-mth avg turnover (RM m)	3

Share price performance

	1M	3M	6M
Absolute (%)	-4.1	28.2	64.0
Relative (%)	-4.7	21.4	42.9

Share price chart


Source: Bloomberg

Major shareholders

Yong Pang Chaun	44.0%
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Padini Holdings

Consumer

Strong Buy

Bloomberg Ticker: PAD MK | Bursa Code: 7052

A multi-year re-rating story...

We initiate coverage on Padini Holdings (Padini) with a Strong Buy recommendation and a target price of RM1.85 based on its 12-month forward P/E of 11x. We believe Padini deserves to trade at its 5-year historical peak valuation of 11x P/E as we anticipate the company to be re-rated by market due to (1) strong 3-year earnings CAGR of 20% driven by aggressive expansion in FY12, (2) diminishing investable universe within consumer sector, and (3) tremendous earnings potential if it expands aggressively into Indonesia market and/or ventures into e-commerce in the future. Furthermore, Padini is also a good yield play, offering attractive FY12-FY14 yields of 4.3%-5.7%!

Still plenty of room to grow...

- Padini is expanding aggressively in FY12 with 10 new stores opening which will increase its gross retail floor space by 22.8% y-o-y. These include 6 Brands Outlets (BO), 3 Padini Concept Stores (PCS) and 1 free-standing store. Out of these 10 stores, 5 had already opened while the remaining 5 are expected to be opened in 4QFY12. We believe contributions from new stores opening would only be fully reflected in FY13, although the company had already achieved 37% and 69% growth for its 1HFY12 top and bottom line respectively. In fact, we see tremendous earnings potential from Padini's BO as market penetration is still low, in our view, as we believe there are at least another 50 malls in Malaysia that are suitable for BO's expansion.
- Furthermore, we are also positive on the company's export business though it only accounted for 9.2% of its revenue in FY11. According to management, the company is currently in early discussion with FJ Benjamin to explore the possibility of a partnership to expand its reach in the Indonesian market. If this partnership materialises, we believe it could serve as a re-rating catalyst for Padini given the vast Indonesian market.
- Last but not least, we see tremendous opportunity for Padini in e-commerce. Over the past 10 years, Malaysian e-commerce has been growing strongly, thanks to the increasing internet penetration rate within the country. We see e-commerce as a viable solution for front-line labour shortage in apparel retail industry which had restricted the company's expansion plan in East Malaysia. We believe by having a presence in the virtual world, Padini could easily increase its customer base as it makes it easier for consumers to shop.

3-year earnings CAGR of 20%

- Going forward, we project the company's earnings to grow by a 3-year CAGR of 20.0%, underpinned by its strong growth in retail floor space (3-year CAGR of 7.7%) and revenue per store (3-year CAGR of 10.1%) over the same period.
- We also expect Padini to improve its net margin from 13.3% in FY11 to 15.9% in FY14 as it reaps the benefit of economy of scales by operating more PCS and BO stores, which have larger floor space, instead of standalone stores. Our forecasts are 9-23% higher than Bloomberg consensus forecasts.

Valuation and recommendation

- We recommend a Strong Buy on Padini with a target price of RM1.85, based on its 12-month forward P/E of 11x. We believe the target price is achievable as we expect the company to be re-rated by market over the next 12 months. Furthermore, Padini is also a good yield play, offering attractive FY12-FY14 yields of 4.3%-5.7%, based on the estimated payout ratio of 40% to 42%.
- Key risks include (1) Europe debt crisis which may lead to global economic recession, (2) potential tightening of personal credit by Bank Negara Malaysia, and goods and services tax (GST) implementation which may affect consumers' affordability, and (3) higher costs pressure due to labour cost and cotton cost increase.



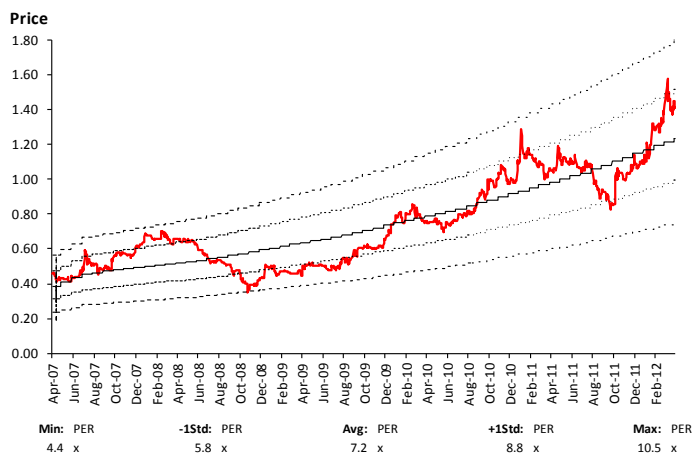
SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 30 June	2010A	2011A	2012F	2013F	2014F
Revenue (RM m)	518.8	568.5	709.9	787.2	824.3
EBITDA (RM m)	109.9	129.8	152.1	181.9	194.6
EBIT (RM m)	88.1	107.5	129.5	161.2	178.3
Pretax profit (RM)	86.3	105.1	127.5	160.6	179.0
Net profit (RM m)	61.0	75.7	92.6	117.0	130.8
Adj net profit (RM m)	63.0	77.8	94.7	119.1	133.0
EPS (sen)	9.3	11.5	14.1	17.8	19.9
Adj EPS (sen)	9.6	11.8	14.4	18.1	20.2
Alliance / Consensus (%)			108.8	122.6	122.3
Adj EPS growth (%)	16.8	23.5	21.8	25.7	11.7
Adj P/E (x)	14.7	11.9	9.8	7.8	7.0
EV/EBITDA (x)	0.8	3.3	2.7	2.5	2.3
ROE (%)	28.7	30.1	28.2	29.3	27.4
Net DPS (sen)	4.5	4.0	6.0	7.0	8.0
Net dividend yield (%)	3.2	2.8	4.3	5.0	5.7
BV/share (RM)	0.36	0.43	0.51	0.62	0.74
P/B (x)	4.0	3.3	2.8	2.3	1.9

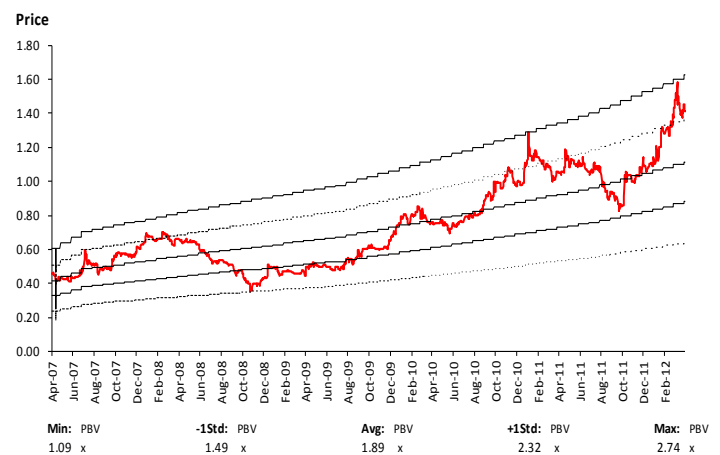
Source: Alliance Research, Bloomberg

Figure 2 : Forward P/E trend



Source: Alliance Research, Bloomberg

Figure 3 : Forward P/B trend



Source: Alliance Research, Bloomberg

Figure 4 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13
Padini	Strong buy	1.85	1.41	927.7	23.3	20.3	9.0	7.5	2.6	2.1	28.0	28.1	4.5	5.2
Parkson	N/R	N/R	5.37	5,874.2	19.9	18.8	13.1	11.0	2.3	2.0	17.8	19.4	3.1	3.6
AEON Co	N/R	N/R	9.46	3,320.5	2.9	12.6	16.5	14.7	2.3	2.1	15.1	15.0	1.7	1.8
Bonia	N/R	N/R	2.40	483.8	23.6	8.5	7.4	6.8	1.5	-	21.0	-	3.3	3.3
Average					17.4	15.0	11.5	10.0	2.2	2.1	20.5	20.8	3.1	3.5

Note: Parkson, AEON & Bonia are based on consensus

Source: Alliance Research, Bloomberg

Share price date: 4 Apr 2012

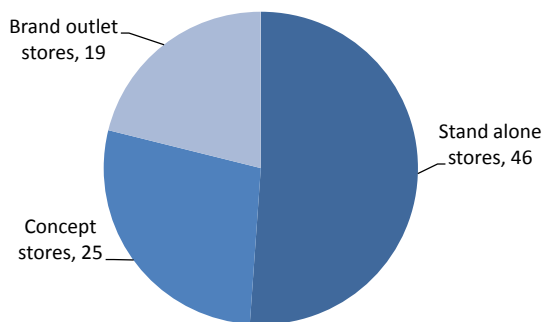
A MULTI-YEAR RE-RATING STORY...

Introduction

A 41-year old Malaysia-based fashion retailer

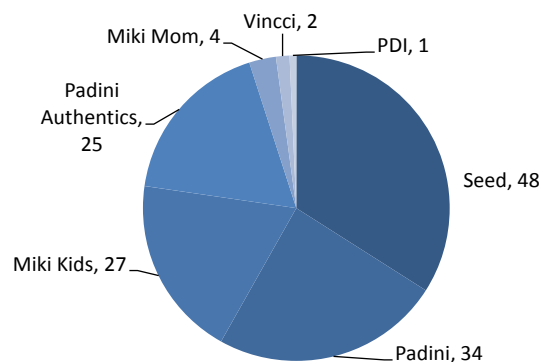
Padini Holdings (Padini) is a 41-year old Malaysia-based fashion retailer offering clothing, accessories and shoes for women, men and children under the brands of Padini, Vincci, Seed, Miki, Padini Authentic, P&Co, PDI and so on (*Please refer to Appendix II on details of Padini's brand portfolio*). The company currently operates 85 outlets in Malaysia which consists of 46 single-brand standalone stores, 23 Padini Concept Stores (PCS) and 16 Brands Outlet (BO) stores. On top of that, Padini also sells its products via a network of 141 consignment stores throughout the nation. By the end of FY06/12, Padini is expected to have a total of 90 outlets as it set to open another 2 PCS and 3 BO in Paradigm Mall, Setia City Mall and Boulevard Phase 2.

Figure 5 : Padini's domestic outlets by segment in FY12



Source: Company data, Alliance Research

Figure 6 : Padini's domestic consignment counter by brand



Source: Company data, Alliance Research

Story begins in 1971...

The Padini's story begins in 1971, when the company started its operations as a garment manufacturer and wholesaler under the name of Hwayo Garments Manufacturers Company. Drawing on a strong customer base, the company continued to expand rapidly throughout the 1970s, and began vending its own private-label office clothing, PADINI in 1975, followed by another self-owned label, VINCCI in 1981 which markets ladies shoes, bags, belts, and other accessories. Thereafter, the company launched more labels such as MIKI, SEED, P&Co, PDI and PADINI AUTHENTICS to diversify its market base.

...business picked up since its launching of Padini Concept Store

In 1991, Home Stores Sdn Bhd was established to hold all the companies involved in the group's retail, wholesale and manufacturing businesses. It was subsequently renamed to its present name, Padini Holdings, in 1992. In 1999, the group launched its first multi-brand shop, the Padini Shop with a gross floor area of 11,000 square feet (sf) in City Square of Johor Bahru. The Padini Shop, which showcased all its merchandises under the labels of SEED, PADINI, PDI, VINCCI, P&Co and Rope' was revamped and renamed PCS in 2001. Padini was first listed on the Second Board of Bursa Malaysia in 1998 and was transferred to the Main Board of Bursa Malaysia in 2004 as the company grew bigger.

Figure 7 : Padini's outlets



Source: Google

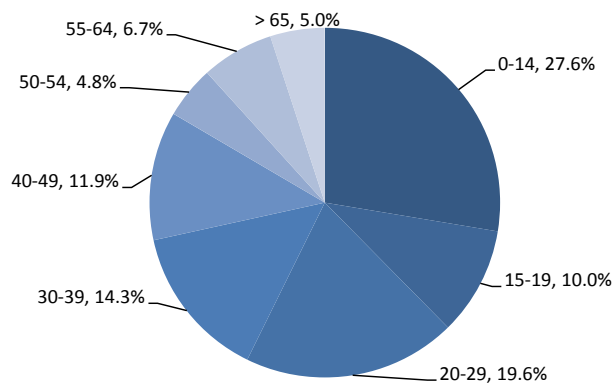


Industry analysis

A growing but competitive market

Malaysian fashion retailing industry is a growing but competitive market where Padini captures only 3-4% market share, based on the estimated industry revenue of RM13bn disclosed in the Economic Transformation Programme’s report in 2009. According to 2010 Population and Housing Census of Malaysia (Census 2010), Malaysia has a young population with a median age of 27.6 years or 57.2% of the population is younger than 30 years old. This so-called Generation Y (Gen-Y) population is considered the fastest growing segment of the country workforce and the majority of them are deemed to have a high propensity to spend as compared to previous generations. As such, we believe the local fashion retailing market would be one of the biggest beneficiaries of the country’s young population.

Figure 8 : Malaysian population breakdown



Source: Census 2010, Alliance Research

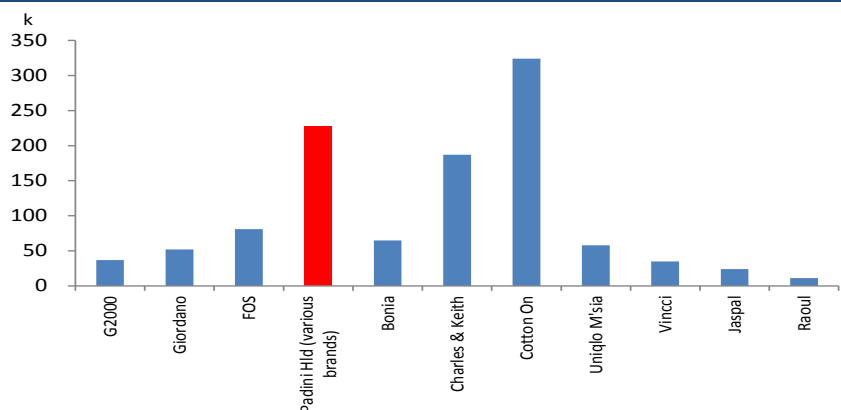
Moderate barriers of entry

Overall, the barriers of entry for Malaysian fashion retailing industry are moderate. While capex is low, new entrants will have limited access to distribution channels as most of the first tier retail malls are fully occupied. Ability to build brand loyalty and deliver quality products is also important due to increasingly affluent Malaysian consumers who are less price-sensitive. In addition, front-line labour shortage could also be a near term hurdle for many new entrants, especially the small local brands which could not compete with big local and foreign brands on talents recruitment.

High bargaining power of buyers

Generally speaking, consumers’ spending behaviour is greatly affected by their disposable income, which depends on general economic condition in the near term. As Malaysian consumers are increasingly discerning with heightened consumer rights awareness, bargaining power of consumer in the fashion retailing industry is high due to low switching costs. Again, we believe the only way to mitigate the risk of high bargaining power of consumer is to build brand loyalty among customers. Thus far, we have seen a trend of rising popularity of Padini’s brands which we believe could help the company to mitigate the high bargaining power of its customers.

Figure 9 : Comparison of Facebook’s fans by brand



Source: Facebook, Alliance Research

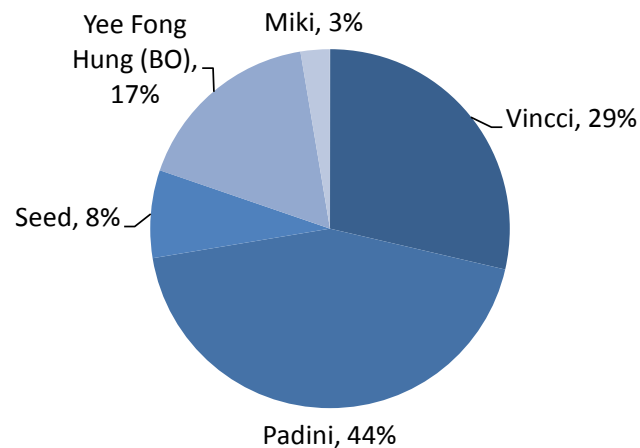
Moderate bargaining power of suppliers

On the other hand, we view the bargaining power of suppliers in the apparel and footwear supply chain as moderate, due to the fragmented apparel and footwear manufacturing sector. Just like most of the international fashion retailers, Padini controls the design of its apparel and shoes while outsourcing the manufacturing operations to original equipment manufacturers (OEM). Shoes and knitted items such as graphic t-shirts are sourced from OEMs in Malaysia (mainly Ipoh) while woven items such as jeans and slacks are sourced from southern and northern coastal areas of China. We believe this is an appropriate strategy for the company as it could focus on other business processes which are more value add such as designing, branding, marketing and forecasting the fashion trend. Presently, the company has more than 10 OEM suppliers and is planning to start diversifying some manufacturing operations to other countries which have similarly strong apparel manufacturing skills such as Sri Lanka. This would directly reduce the bargaining power of its suppliers in future.

Manageable rivalry competition in the industry

Over the past four years, we have seen more international brands entering the Malaysian fashion retail market such as Uniqlo from Japan (2011), Bershka (2011) from Spain, Cotton On (2009) from Australia and Charles & Keith (2008) from Singapore. However, we believe the rivalry competition within the fashion retailing industry is still manageable, given the growing market pie due to rising affluence among consumers. In fact, Padini, being one of the most experienced and competitive local fashion retailers, has always been able to find its niche and grow its business consistently. This was evidenced by its successful launch of BO since Dec 2006 to capture the mass market. Since then, the PBT contribution from the segment has grown significantly from 1% in FY07 to 17% in FY11.

Figure 10 : PBT contribution by segment



Source: Company data, Alliance Research

Low threat of substitute product

Fashion retailing industry is a mature industry as garments and shoes are considered basic needs. However, we notice that the threat of substitute product for traditional apparel retailers has increased as the trend of online shopping rose rapidly over the past 10 years. Typically, apparels and shoes sold online are priced cheaper as the cost of running an online-shop is significantly lower as compared to a brick-and-mortar store. This creates a competitive edge for the new comers via the internet. However, given the low start-up costs of setting up an online-store, we believe the threat of substitute product for Padini is low as the company can easily venture into e-commerce as it already has an established e-customer base with 227k fans following its Facebook's page to get up-to-date information about the new products launching or sales events.

In conclusion, the industry is fairly attractive with one positive and one negative score in Porter's Five Forces Analysis, while the bargaining power of suppliers, rivalry competition and barriers of entry are considered moderate.



SWOT analysis

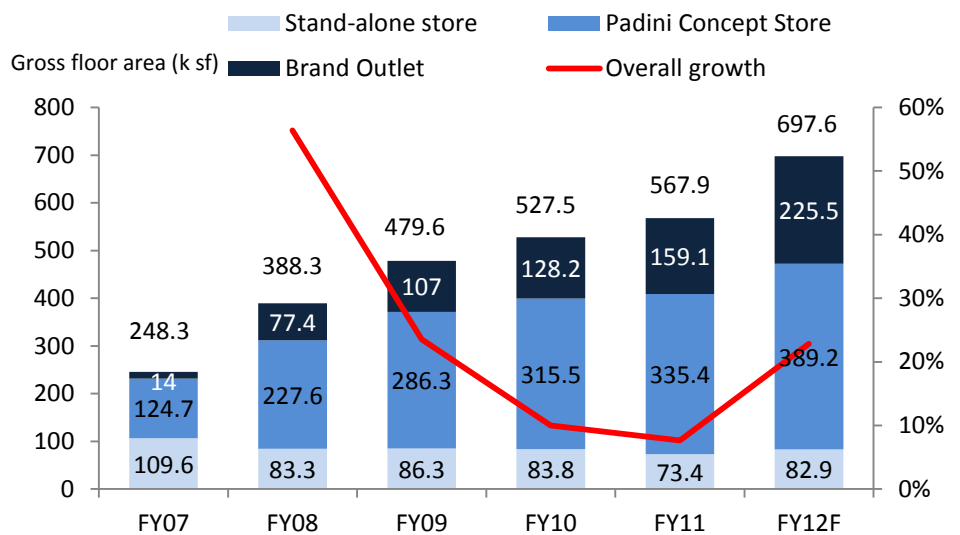
Strong brand portfolio that complement each other

Padini has a strong and diversified brand portfolio which almost covers all the market segments from low to mid-end, except the luxury segment. The company, via its brands such as PADINI, SEED and VINCCI+, offers higher-end items for the middle-class consumers, while capturing the low-to-mid market segment by selling affordable and value-for-money items through brands such as VINCCI, PADINI AUTHENTHICS and BO. In terms of age profile, Padini's products are targeting a wide range of age group from 5 to 45 years old. All these brands complement each other and indirectly widen the company's sources of revenue.

Strong foothold in the domestic market

Furthermore, Padini has a strong foothold in the domestic market due to their early presence in the market, established customer base, and in-depth of knowledge of the Malaysian consumers. The company has one of the strongest retail networks as compared to many of the international brands which only have presence in a few of the first-tier cities. All these appear to be its strength against its competitors.

Figure 11 : Padini's retail floor space growth rate by segment



Source: Company data, Alliance Research

Biggest weaknesses are lack of long term business strategy...

On the flip side, we believe there is lack of visibility of Padini long-term business direction as the company has always been short-term focus (1-3 years) with its business strategy. To certain extent, it might be good for the company to focus on its short-term targets as it could utilise its human resources more efficiently and effectively. However, we believe long term strategic plan is also very important for the company if it intends to extend its reach in the regional or maybe even the global market. This seems to be its biggest weakness as compared to its regional peers.

...and longer production lead-time

On top of that, we also understand that the lead-time for Padini's new product launching is longer than its international peers. Typically, Padini takes about 6 months to complete a new product launching, from design to delivery. Firstly, garments designs are sent to OEMs to produce the sample. Then, the designer team would review the sample product for several times before it confirms its production. Given the seasonality of fashion retailing, new designs from Padini could always lag its international peers, which usually take less than a month to roll out their new designs. Management had acknowledged this weakness and plans to reduce the product launching lead-time, which could be turning the current weakness to opportunity in future.



However, there are still plenty of business opportunities going forward

Despite all these weaknesses, we still see a lot of opportunities for Padini going forward. Firstly, we believe the domestic fashion retailing market is far from its saturation point, especially the mass market segment. Padini has been expanding its retail floor space aggressively in FY12 by opening 10 new stores, including 6 new BO stores, 3 PCS stores and 1 free-standing store. As at 31 March 2012, 5 stores have been opened as showing in Figure 12. The company is expected to open another 3 BO stores and 2 PCS in locations such as Paradigm Mall (Kelana Jaya), Setia City Malls and Boulevard Mall Phase 2 (Kuching). All these new outlets are scheduled to open in May or June 2012, which should contribute strongly to the company's earnings in FY13 and FY14. Hence, we believe the existing consensus earnings forecasts of 12% growth for FY13 are too conservative, especially after the recent civil servants' pay hike of 7-13% by the Malaysian government.

Figure 12 : Padini's new stores opening in FY12

Shopping malls	Opening date	Padini Concept Store	Brands Outlet	Free-standing store
Paradigm Mall, PJ	Jun-12	1	1	
Setia City Mall	May-12	1	1	
Boulevard Shopping Mall, Kuching	May-12		1	
AEON Station 18, Ipoh	Mar-12	1		
Johor Premium Outlet, JB	Nov-11			1
1st Avenue, Penang	Oct-11		1	
One Borneo, KK	Aug-11		1	
1 Utama (Old Wing)	Jul-11		1	
Total		3	6	1

Source: Company data, Alliance Research

Still plenty of room to grow its Brands Outlet...

Looking beyond FY12, we understand that Padini is currently negotiating with the management of First World Plaza, Genting to open a new BO store with a gross retail floor space of 11,000 square feet (sf), which is currently being occupied by S&M department store. Although the management has not guided any other potential stores opening in FY13 other than the Genting's BO, we are still very positive on the group's expansion potential as we believe there are still a lot more suitable locations for BO opening, especially in the second-tier cities as compared to PCS. Based on our estimates, there are at least more than 50 malls which are suitable for BO opening in future.

...which could be the main earnings driver over the next 3 FY

Currently, Padini has 16 BO stores across Malaysia, of which 3 were opened in 1HFY12 such as 1 Utama's Old Wing (PJ), One Borneo (KK) and 1st Avenue (Penang). The company started its first BO in Ampang Point back in Dec 2006 as it foresees limited room to expand its retail floor space via PCS due to limited suitable location. Since then, the company has been focusing on expanding its BO stores with an average 3 new stores opened per annum. BO is a different concept which complements PCS, selling the ideas of convenience, quality and affordability to the mass market irrespective of age and gender. We believe BO could potentially overtake PCS as the largest contributor to Padini over the next 5 years.



Figure 13 : Padini's existing presence in local shopping malls and potential location for expansion

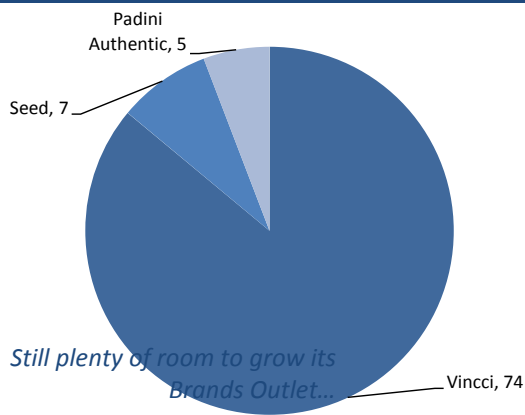
Shopping Malls	Padini Concept Store	Brands Outlet	Free Standing Store	Shopping Malls	Padini Concept Store	Brands Outlet	Free Standing Store
KL				Penang			
1 Pavilion Kuala Lumpur	1			50 Queensbay Mall	1	1	
2 Aeon Alpha Angle, Wangsa Maju	1	Potential		51 1st Avenue Mall	Potential	1	
3 Mid Valley, KL	Potential	Potential	7	52 Gurney Plaza	1	Potential	
4 Sungai Wang, KL	Potential	Potential	4	53 Prangin Mall, Komtar	Potential	Potential	2
5 Jusco Maluri	Potential	Potential	3	54 Megamall Penang, Seberang Prai		Potential	1
6 Suria KLCC	Potential		1	55 Sunway Carnival Mall, Seberang Jaya	Potential	Potential	2
7 Fahrenheit88, KL	Potential	Potential	1	56 Aeon Seberang Prai City	Potential	Potential	2
8 Bangsar Village	Potential		1	Perak			
9 Sunway Putra Mall (2014)	Potential	Potential		57 AEON Station 18, Ipoh (29 March 2012)	1	Potential	
10 The Garden, KL	Potential			58 Kinta City Shopping Centre, Ipoh	1	Potential	
11 Aeon Metro Prima, Kepong		Potential		59 Taiping Sentral		Potential	1
12 Aeon Cheras Selatan, Balakong		Potential		60 One Town Avenue, Sitiawan (2013)	Potential	Potential	
13 Avenue K	Potential	Potential		61 Aeon Seri Manjung (2013)	Potential	Potential	
14 Bangsar Shopping Centre	Potential			62 Aeon Ipoh (2013)	Potential	Potential	
15 Berjaya Times Square	Potential	Potential		Pahang			
16 Cheras Leisure Mall	Potential	Potential		63 First World Plaza (Genting)	1	1*	
17 Festival City Mall, Setapak		Potential		64 East Coast Mall, Kuantan	1	1	
18 Lot 10 Shopping Centre	Potential			65 Berjaya Megamall, Kuantan		Potential	1
19 Maju Junction Mall		Potential		Putrajaya/ Cyberjaya			
20 The Weld Shopping Centre	Potential	Potential		66 Alamanda, Putrajaya	Potential	Potential	1
Selangor				67 D'Pulze Cyberjaya (2013)	Potential	Potential	
21 Paradigm Mall (June 2012)	1	1		Melaka			
22 Setia City Mall (May 2012)	1	1		68 Dataran Pahlawan Melaka Megamall	1	1	
23 1 Utama	1	1	3	69 Aeon Bandaraya Melaka, Legenda	1	1	
24 Sunway Pyramid	1	1		70 Mahkota Parade		Potential	1
25 IPC Shopping Centre	1	1		71 Aeon Melaka, Ayer Keroh		Potential	
26 Aeon Bukit Tinggi, Klang	1	1		Sabah			
27 IOI Mall, Puchong	1	1		72 1 Borneo, KK	1	1	
28 Ampang Point		1		73 Suria Sabah	1	1	
29 The Curve	1	Potential		74 Warisan Square, KK	1	Potential	
30 Jaya Jusco Bukit Raja, Klang	Potential	Potential	4	75 Palm Square, KK	Potential	Potential	1
31 Sacc Mall, Shah Alam		Potential	1	76 Story Commercial Building, Tawau			1
32 Aeon Taman Equine, Seri Kembangan	Potential	Potential		Sarawak			
33 Aeon AU2, Setiawangsa		Potential		77 The Spring, Kuching	1	1	
34 Aeon Mahkota Cheras	Potential	Potential		78 Boulevard Shopping Mall (May 2012)		1	
35 Aeon Rawang Anggun	Potential	Potential		79 Bintang Plaza, Miri		Potential	1
36 Empire Shopping Gallery	Potential			80 ST3 Mall, Kuching (2014)	Potential	Potential	
37 KLIA2 (2013)	Potential	Potential		81 Plaza Merdeka, Kuching (2013)	Potential	Potential	
38 The Mines	Potential	Potential		82 The Summer Mall, Kuching (2013)	Potential	Potential	
39 SS2 Mall	Potential	Potential		83 CityOne Megamall (2012)	Potential	Potential	
40 Tropicana City Mall		Potential		Negeri Sembilan			
Johor				84 Jusco Seremban 2		Potential	1
41 Johor Premium Outlet, JB			2	Kelantan			
42 City Square, JB	1	Potential		85 Kota Bharu Mall, KB		Potential	1
43 Aeon Bukit Indah, JB	1	1		Kedah			
44 Jusco Tebrau City, JB	1	Potential		86 Centre Square, Sungai Petani		Potential	1
45 Kluang Mall, JB	Potential	1	2	87 Langkawi Parade	Potential	Potential	1
46 Batu Pahat Mall			1				
47 Aeon Permas Jaya, JB	Potential	Potential					
48 Aeon Taman Universiti, Skudai		Potential					
49 KSL City Mall	Potential	Potential					
Total					25	20	46
* Potential opening in FY13.		Opened in FY12.					

Source: Company website, Alliance Research

Furthermore, oversea expansion shouldn't be underestimated...

In addition, we also see strong growth potential for the company in its export market, which only accounts for 9.2% of its total revenue in FY11. Most of the company's export sales are contributed by the Middle East market as 64% of its overseas stores are located in the Middle East. Apart from that, Padini also exports to the ASEAN market with the strongest distribution networks of 12 dealer stores in Thailand. However, management revealed that sales to Thailand have always been lagging behind its export sales to other countries as its Thai business is undertaken via the dealership structure instead of franchise, where the latter offers Padini more control over retail pricing strategy. In order to improve its revenue in Thailand, the company had decided to sell its goods at a lower price to its Thailand's dealers in exchange for pricing control for its Thailand's business since early 2012. We believe this could help Padini to set a more competitive retail price and therefore, gain more market share in Thailand going forward.

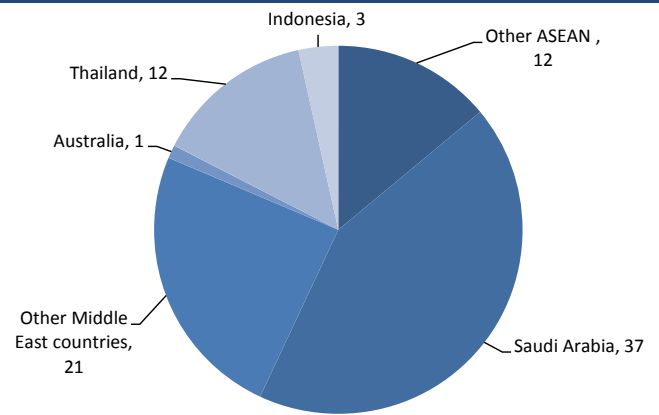
Figure 14 : Padini's number of foreign stores by brand



Still plenty of room to grow its Brands Outlet...

Source: Alliance Research

Figure 15 : Padini's number of foreign stores by country



Source: Alliance Research

...especially its' potential expansion in Indonesia market...

Furthermore, Padini also has a presence in Indonesia with 3 Vincci franchise stores. According to the management, the franchise agreement with these stores has expired in mid 2011 but extended on a month-to-month basis now. The company is currently in negotiation with FJ Benjamin, an industry leader in fashion brands building, development of retail and distribution networks for international luxury and lifestyle brands across Asia, to collaborate in Padini's expansion plan in Indonesia. FJ Benjamin is currently the exclusive retailer and distributor for international brands such as Banana Republic, Catherin Deane, Celine, Gap, Givenchy, Goyard, Guess, La Senza, RAOUL and Sheridan in the Southeast Asia, Hong Kong and Australia markets.

...which could serve as a re-rating catalyst for the company

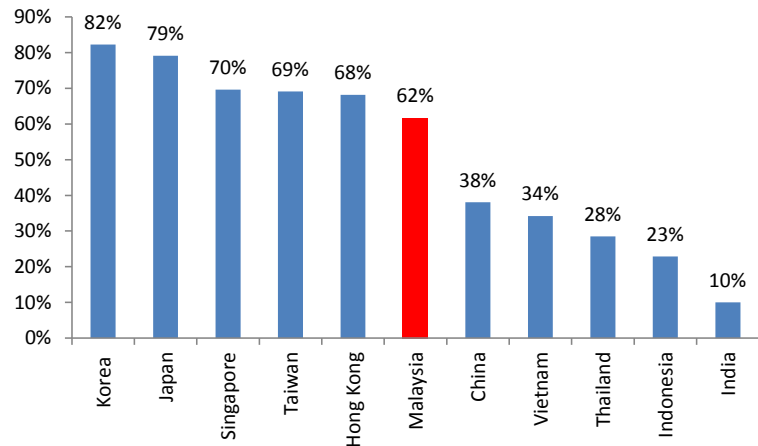
We are very positive on this potential partnership as it would definitely help the Padini's brands to expand its reach in the fast-growing Indonesia market rapidly, riding on the rising affluence of Indonesian consumers. According to the management, the collaboration would likely be in the form of franchise where FJ Benjamin would be responsible for the development of retail and distribution networks while Padini will receive revenue from goods sale on a cost-plus basis and some royalties charge on its sales, which translates to about 10% net margin as compared to its domestic's margin of 13-15%. Given the discussion is still at the preliminary stage, we currently do not factor in any additional contribution from Indonesia. However, we view this as a potential re-rating catalyst for the company going forward.

We also see tremendous opportunity for Padini if it ventures into e-commerce

Last but not least, we see tremendous opportunity for Padini if it ventures into e-commerce in the future, though the management has no immediate plan. Over the past 10 years, e-commerce has been taking off in Malaysia given increasing internet penetration rate from 22% in 2000 to 62% in 2011. Therefore, we wouldn't be surprised if the company decides to expand its business via the internet in the next 5 years, which could help to overcome the shortage of front-line labour within the retail industry. Furthermore, e-commerce could also lower operating costs and enlarge Padini's customer base as it makes it easier for consumer to shop.



Figure 16 : Internet penetration rate by country

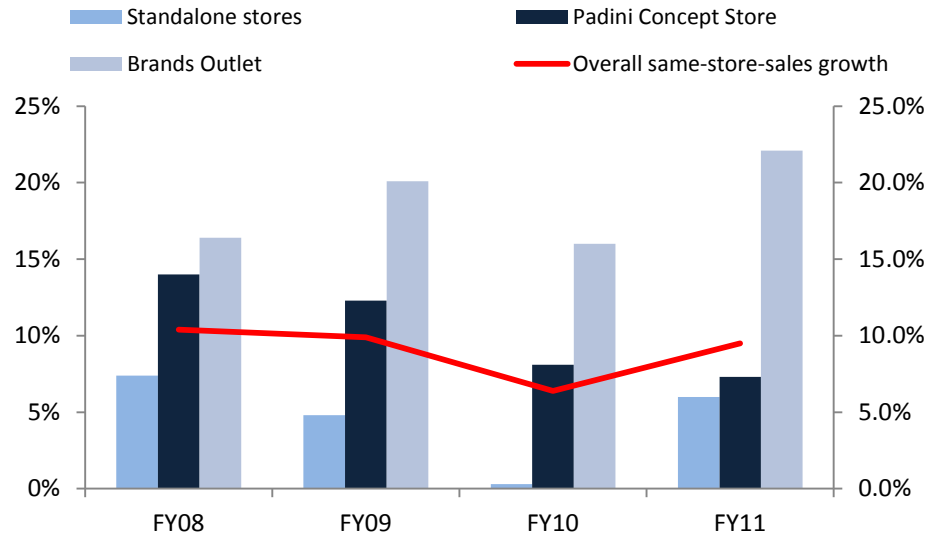


Source: Internet World Stats, Alliance Research

Global economic recession could be the risk...

In the meantime, we see global economic slowdown or recession as a risk to the company if the Eurozone sovereign debt crisis deepens. Having said that, we currently do not factor in a recession scenario in our forecasts as we believe domestic consumption in Malaysia is quite resilient as it consistently grew by more than 6% with the exception of 2009 due to global financial crisis. In fact, Padini managed to achieve same-store-sales (SSS) growth of 10.4% and 9.9% for FY08 and FY09 respectively despite the global financial crisis. Hence, we believe the domestic fashion retailing industry could be rather resilient, unless there is a severe global economic recession.

Figure 17 : Padini's historical same-store-sales (SSS) growth by segment



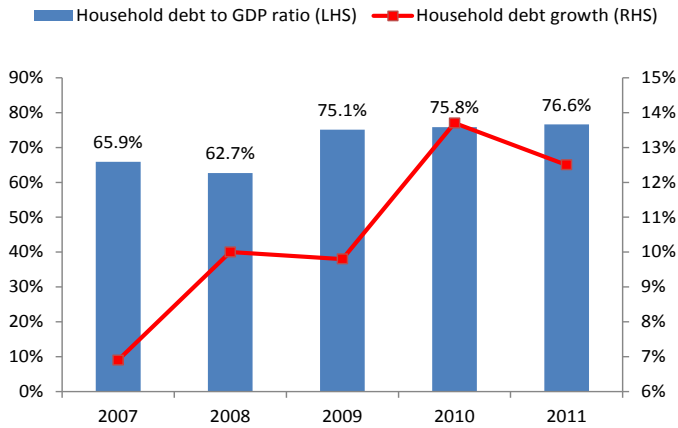
Source: Company data, Alliance Research

...while potential tightening of personal credit by the Malaysian government could also hurt the industry earnings as a whole

Another risk that we see is the potential personal credit tightening by the Malaysian government. According to Bank Negara Malaysia (BNM), Malaysian's household debt to GDP ratio has reached 76.6% in 2011, increased from 65.9% and 75.8% from 2007 and 2010 respectively. Out of the total household debts, 20.2% is the unsecured borrowings such as personal loans and credit card financing. Given the rising trend of household debt to GDP ratio, BNM has taken a pre-emptive stance since 2010 to encourage responsible lending within the banking community with the aim to control the country's household debt level. As a result, Malaysian household debt growth has slowed to 12.5% in 2011 as compared with 13.7% a year earlier. However, if BNM decided to implement more stringent lending measures on personal credit, such as raising the minimum monthly repayment on credit cards' outstanding, it could hurt the fashion retailing industry earnings as a whole.

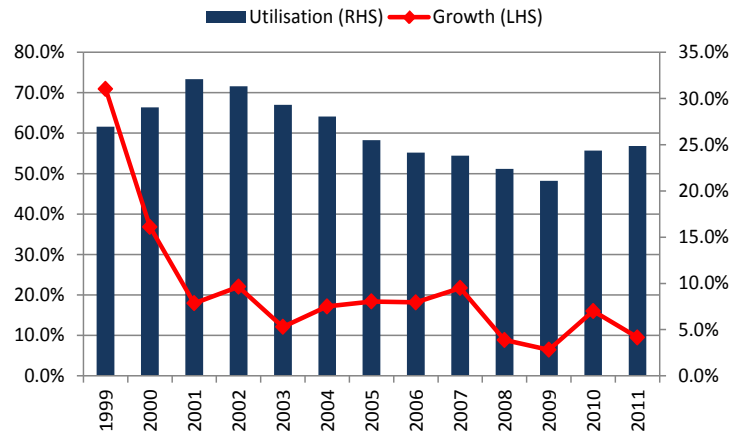


Figure 18 : Malaysia household debt to GDP ratio vs growth rate



Source: BNM, Alliance Research

Figure 19 : Malaysian's credit card loan growth vs utilisation

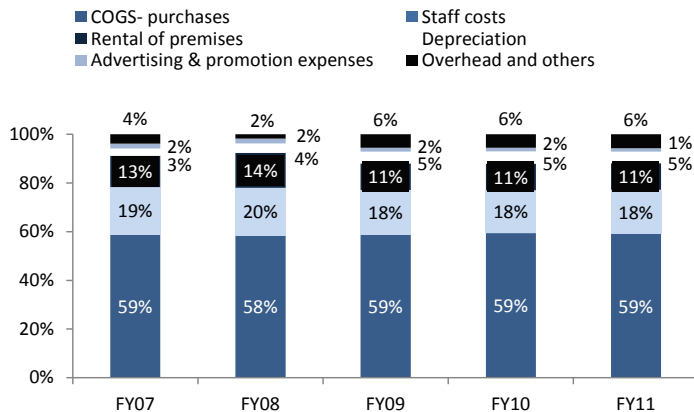


Source: BNM, Alliance Research

Other key threats include higher material costs and potential introduction of Goods and Services Tax (GST) in the future. Needless to say, GST will impair consumers' affordability and eventually the industry volume. While higher material costs due to higher cotton price, appreciation of Chinese RMB and wage hike might squeeze its profit margin if the company failed to fully pass on costs to consumers. However, Padini's cost of purchase of finished garments, shoes and accessories has been very stable over the past four years, accounting for 58-59% of its total operating cost, even when cotton price fluctuated between USD0.40/lb to USD2.14/lb over the same period. We believe this was mainly due to the company's strong pricing power and good inventory management strategy. Hence, we believe the risk of cost escalation and margin squeeze is manageable.

Other key threats include GST implementation and higher material costs due to higher cotton price, higher labour cost and appreciation of RMB

Figure 20 : Padini's historical operating costs breakdown



Source: Company data, Alliance Research

Figure 21 : Cotton price trend



Source: Bloomberg, Alliance Research

Figure 22: Padini's SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Strong and diversified brand portfolio. - Strong foothold in the domestic market with established retail network. 	<ul style="list-style-type: none"> - Lack of long term strategy. - Long production lead-time which may caused its new designs lagging the international peers.
Opportunities	Threats
<ul style="list-style-type: none"> - Strong earnings growth from BO expansion. - Potential strong earnings contribution from overseas expansion, such as the fast-growing Indonesia market. - Rising young population in Malaysia could underpin the domestic apparel and footwear industry. - Huge earnings potential in e-commerce if Padini decides to expand its reach via the internet. 	<ul style="list-style-type: none"> - Global recession risks. - Higher material costs due to high cotton price, labour costs and RMB appreciation. - Potential tightening of personal credit by Malaysian Government. - Implementation of GST may impair affordability of consumers and eventually hurt the industry volume.

Source: Alliance Research



FINANCIAL HIGHLIGHTS

Income statement analysis

3-year historical revenue and earnings grew by a CAGR of 14% and 21% respectively

Padini reported a 3-year CAGR of 14.0% and 21.2% for its revenue and normalised profit respectively from FY06/09 to FY06/11, driven by its retail floor space expansion which grew at a CAGR of 13.5% over the same period. The company's operating profit margin has improved gradually from 15.6% in FY06/08 to 18.9% in FY06/11 as the company reaps the fruits from its expansion via PCS and BO instead of standalone stores which have much larger retail floor space but lower operating costs per square feet due to economies of scales.

Going forward, we estimate 3-year CAGR of 13% and 20% for revenue and earnings respectively

Going forward, we project the company's earnings to grow by a 3-year CAGR of 20.0%, underpinned by its strong growth in retail floor space (3-year CAGR of 7.7%) and revenue per store (3-year CAGR of 10.1%) over the same period. We expect Padini to improve its net margin from 13.3% in FY11 to 15.9% in FY14, thanks to its lower operating cost per square feet as its retail floor space per outlet increases.

But still, more earnings upside than downside

Our forecasts are currently 9-23% higher than consensus forecasts. We think the consensus forecasts of 12% earnings growth for FY13 is too conservative as we believe the contribution from the 10 new outlets opened in FY12 would be stronger in FY13, given that 50% of the new outlets are expected to open in 4QFY12. This implies a significant potential consensus earnings upgrade going forward. Furthermore, we believe Padini could open more than 1 outlet in FY13 though we only factor in 1 additional outlet in FY13 based on management's guidance. Therefore, if Padini opens more than 1 outlet in FY13, it would be a bonus to our above-consensus forecasts!

Figure 23 : Key assumptions for Padini's revenue forecasts

Key Revenue Drivers	FY07	FY08	FY09	FY10	FY11	FY12F	FY13F	FY14F
Total number of local outlets = (a)	74	69	80	80	80	90	91	91
Standalone Store	64	49	53	50	45	46	46	46
Padini Concept Store	9	15	19	20	22	25	25	25
Brands Outlet	1	5	8	10	13	19	20	20
Consignment Counter	96	118	140	141	141	141	141	141
Total number of oversea outlets	77	82	96	95	86	86	86	86
Revenue by segments (RM m) = (a * b)	316.9	383.3	475.5	518.8	568.5	709.9	787.2	824.3
Standalone Store	137.7	132.5	134.5	134.3	129.2	138.7	142.8	147.1
Padini Concept Store	82.3	125.6	176.4	201.5	225.8	269.4	282.9	291.4
Brands Outlet	2.2	12.7	27.9	46.7	77.8	153.5	210.1	231.1
Consignment Counter	50.7	64.7	72.5	72.8	75.4	75.4	75.4	75.4
Export	34.3	38.2	50.1	45.2	52.4	62.9	66.0	69.3
Others (Café, HK's subs- trading)- constant	9.7	9.6	14.1	18.3	7.9	10.0	10.0	10.0
Annual revenue per outlet (RM m) = (historical * (1 + c)								
Standalone Store	2.15	2.70	2.54	2.69	2.87	3.01	3.11	3.20
Padini Concept Store	9.14	8.37	9.28	10.08	10.26	10.78	11.32	11.66
Brands Outlet	2.20	2.54	3.49	4.67	5.98	8.08	10.50	11.55
Consignment Counter	0.53	0.55	0.52	0.52	0.53	0.53	0.53	0.53
Overseas Outlet	0.45	0.47	0.52	0.48	0.61	0.73	0.77	0.81
Growth of annual revenue per outlet (%) - (c)								
Standalone Store		25.7%	-6.2%	5.8%	6.9%	5.0%	3.0%	3.0%
Padini Concept Store		-8.4%	10.9%	8.5%	1.9%	5.0%	5.0%	3.0%
Brands Outlet		15.5%	37.3%	33.9%	28.2%	35.0%	30.0%	10.0%
Consignment Counter		3.8%	-5.6%	-0.3%	3.6%	0.0%	0.0%	0.0%
Overseas Outlet		4.6%	12.0%	-8.8%	28.1%	20.0%	5.0%	5.0%

Source: Company data, Alliance Research's forecasts



Balance sheet analysis

Strong balance sheet with a net gearing of 0.13x as at Dec 2011

Padini has a strong balance sheet with a net gearing of just 0.13x as at 31 Dec 2011. This enables the company to take up any business opportunities such as new stores opening, e-commerce venture and oversea expansion anytime in future.

Inventory increased as management deliberately stocking up for its new stores opening in FY12

On the flip side, Padini's net operating cash cycle has increased from about 120 days in FY06/08 to 160 days as at 31 Dec 2011 due to higher inventory turnover days. We understand that management is deliberately stocking up for its new stores opening in FY12. According to management, most of the inventories are basic clothing which has less risk of inventory obsolescence as compared to seasonal clothing.

Factor in a normal 2% inventory write-down/write-off p.a.

However, we projected a 2% inventory loss p.a. over the next 3 FY as we view the inventory write down or write off as part and parcel of the apparel retailing business. We believe this is appropriate as Padini on average written down/off 2.2% of its inventory p.a. over the past 4 FYs. We anticipate Padini's net operating cash cycle to improve to 130 days by the end of FY12 as inventory level normalises.

Cash flow analysis

Need minimal capex in FY13 as it only has 1 new BO opening in the pipeline

In FY13, Padini needs minimal capex as it only has 1 new BO opening in the pipeline as compared to 10 new stores in FY12. The company has been spending about RM22-33m p.a. over the past 4 years as it expands aggressively via BO and PCS which require renovation costs of about RM100-120/sf and RM220/sf respectively.

Going forward, CFO would improve significantly, thanks to its strong earnings growth and lower working capital requirement

Going forward, we anticipate Padini to generate strong CFO of about RM140m p.a. as compared to its historical 4-year average of RM50m p.a. The sharp improvement is mainly due to its strong 3-year earnings CAGR of 20% p.a. and lower working capital requirement as inventory level normalises. This will enable the company to pay out at least 40% of its earnings over the next 3 years, based on our estimates, vs 35-49% in the past 3 FYs.



VALUATION AND RECOMMENDATION

Recommendation

Strong Buy with a target price of RM1.85

In conclusion, we recommend a Strong Buy on Padini with a target price of RM1.85, based on its 12-month forward P/E of 11x. We believe Padini deserves to trade at its 5-year historical peak valuation of 11x P/E as we anticipate the company to be re-rated by market due to,

- (1) strong 3-year earnings CAGR of 20% due to its aggressive expansion in FY12,
- (2) diminishing investable universe within consumer sector after the privatisation of KFC and QSR, and
- (3) huge earnings potential from aggressive expansion in Indonesia market or ventures into e-commerce in the future, or both.

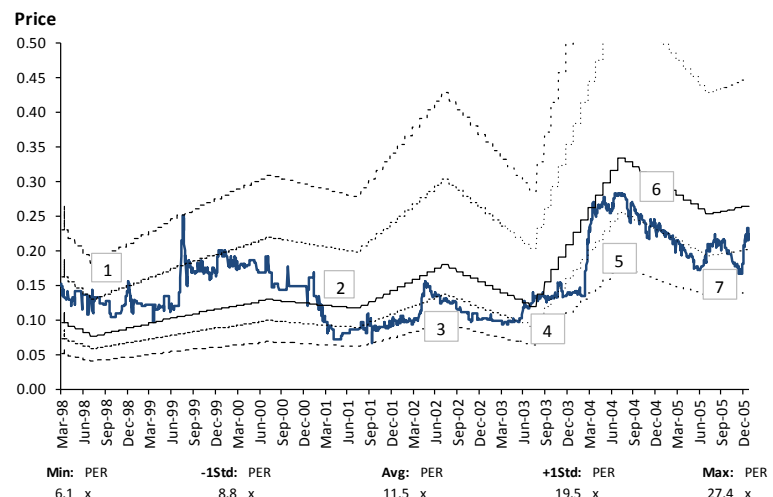
Also a good yield play with 4-5% yield and cash piles should grow strongly if it doesn't have further expansion

In addition, Padini is also a good yield play, offering attractive FY12-FY14 yields of 4.3%-5.7%, based on the payout ratio of 40% to 43%. In fact, we expect Padini to continue to build its cash piles over the next 3 years, underpinned by its strong CFO as earnings and working capital improved.

Historical valuation review

Figure 24 : Padini's 7-year historical P/E band 1- (March 1998-Dec 2005)

PE BAND



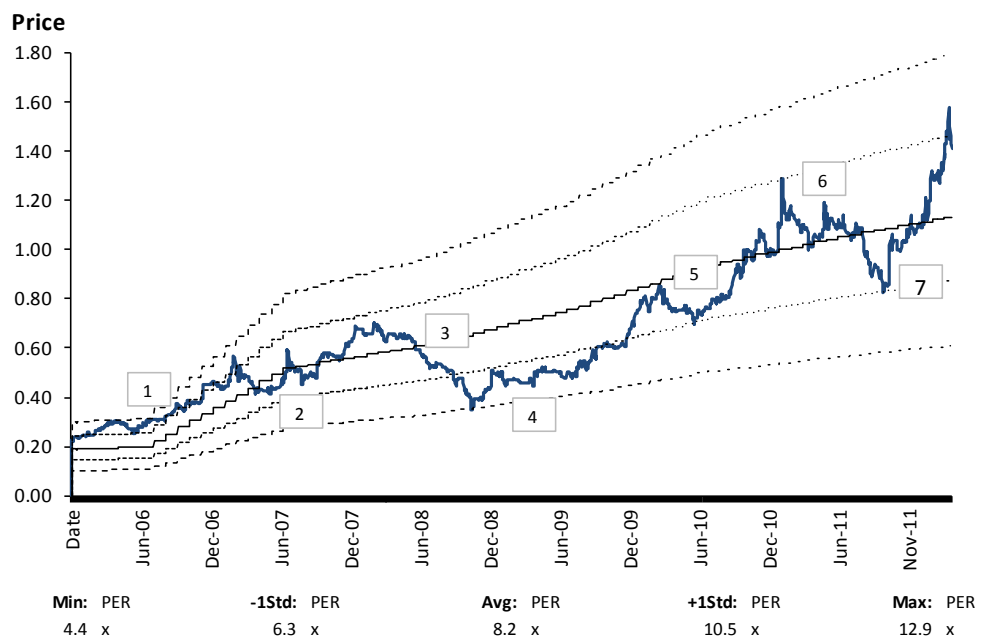
Source: Alliance Research

- 1) Padini made its Bursa debut with a 7% share price appreciation from its IPO price of RM0.143 (adjusted for corporate exercise) on 5 March 1998. The company was traded between 13-20x P/E from 1998 to 2000 with thin volume, except in July 1999 when share price surged by more than 100% within a month with strong volume. The sudden surge in share price wasn't accompanied by any significant newsflow, therefore share price tumbled by 46% from its peak in Aug 1999. The company recorded 65% and 44% earnings contraction for FY98 and FY99 respectively due to the Asian Financial Crisis, but recovered by 38% y-o-y in FY00.
- 2) Heading into 2001, Padini's share price slide further from RM0.16 in Jan 2001 to RM0.06 in April 2001 as market de-rated it from 15x to 7x P/E. Thereafter, the company was trading between RM0.08-RM0.12, translating to 7-10x P/E during that time. However, Padini's top and bottom line for FY01 achieved a growth rate of 26% and 23% respectively.



- 3) After a 3-month share price consolidation in 1Q2002, Padini's share price surged 50% again in April 2002 as it announced bonus issues. However, the rally was short-lived and share price came off sharply from RM0.15 in April 2002 to RM0.10 by the end of the year as earnings contracted by 10% in FY02.
- 4) In 2003, Padini's share price appreciated by some 40% as the company achieved 8% and 54% growth for its FY03 revenue and earnings respectively. However, it was still traded within the valuation of 8-11x P/E.
- 5) In Feb 2004, Padini announced plans to reward its shareholder with another bonus issue and proposed to transfer its listing from the Second Board to Main Board. Share price doubled in less than 2 months.
- 6) However, Padini started its 10-month downtrend in Aug 2004 as it recorded losses in its 4QFY04 results due to higher operating costs such as staff costs, rental of premises and upkeep of shops. The share price tumbled and wiped out most of its gain in the 1H04.
- 7) Share price tried to find the bottom in June 2005 and rebounded by some 28% in 2-month time. However, Padini's share price remained volatile in 2H05 as the company continue to struggle with volatile profit margin due to its high operating costs.

Figure 25 : Padini's 7-year historical P/E band 2- (Jan 2006- March 2012)



Source: Alliance Research

- 1) In 2006, Padini was traded between 9-13x P/E. Share price more than doubled in the year as the company registered 18% and 53% growth for its FY06 top and bottom line respectively, thanks to its aggressive expansion plan via Padini Concept Store.
- 2) In 2007, Padini's share price continued its strong momentum and surged by 50% y-o-y as 2 brokers initiated coverage on the company with Buy recommendation on Feb and Sept 2007 respectively. However, market de-rated Padini from about 10x PER in Jan 2007 to only 7x PER in June 2007 as the company's FY07 revenue and earnings growth slowed to 13% and 11% respectively.



- 3) During the first 10 months of 2008, Padini's share price tumbled by 50% as global equity markets collapsed due to US subprime crisis, before it recovered by about 42% from its bottom in 4Q2008. Market sold down Padini sharply from 10x PER to 5.7x PER during the 10-month period as it anticipates Padini's earnings to contract as economy slows down. However, Padini managed to achieve strong revenue and earnings growth of 21% and 31% respectively in FY08 thanks to its strong expansion via BO, which caused the share price to rebound sharply in the 4Q08.
- 4) During 1H09, Padini's share price was consolidating between RM0.45 to RM0.52. However, market started to accumulate Padini from July 2009 onwards as Padini reported 24% and 18% growth for its FY09 top and bottom line respectively. Share price surged 56% in 2H09 as market re-rated Padini from about 5x PER to 8x P/E.
- 5) Given its sustainable strong earnings growth, Padini continued its uptrend in 2010 and appreciated by 45% during the year. Market seems to have realize the value of the company as it was traded at a cheap 6-8x P/E in 1H10, hence it was re-rated to 10.5x P/E by the end of 2010. The company registered another year of strong growth for FY10, with 9% and 23% of top and bottom line growth respectively. During the year, the company improved its trading liquidity by splitting its shares from 1 into 5.
- 6) During the first 9 months of 2011, Padini was being sold down sharply by market from 10.5x P/E to 6.3x P/E, though it recorded 9.5% and 24% growth for its FY11 revenue and earnings respectively. We believe this was mainly due to 2 reasons, (1) market jitters after one of its major shareholders, Puncak Bestari disposed its 27% stake or 179.3m shares in Padini through crossing and married deal in April, and (2) broad market sell down from July to Sept due to Eurozone sovereign debt crisis.
- 7) However, Padini rebounded strongly since Oct 2011 and continued its strong upward momentum with share price appreciating by almost 90% within the 5-month period as the company continues to deliver strong earnings growth of 69% in 1HFY12 coupled with improved market sentiment on Europe. In the meantime, 2 brokers had initiated coverage on the stock with Buy recommendation while a few of the existing brokers upgraded their target prices for the company as management guided sustainable expansion plan via its Brands Outlets. The company was re-rated and traded 1 standard deviation above its historical P/E of 10.5x for the first time in 5 years.



APPENDIX I

External auditors

The current external auditors of Padini are Peter Chong & Co, which have not expressed a qualified opinion on the company's financial statements.

Board of directors

Padini has a strong and experienced management team. The group practices good corporate governance by splitting the roles of the chairman of the board and managing director. The board consists of eight members, of which three are independent directors.

- 1) **Tuan Haji Sahid bin Mohd Yasin, 62**
Independent non-executive chairman, since 1997

Qualification > BA in Economics (University Malaya), Postgraduate Diploma in Management Science (National Institute of Public Administration)

Experience > He served in the Prime Minister's Department until 1977 and subsequently joined Malaysia British Assurance Sdn Bhd with a senior management position. In 1983, he joined Hicom Holdings Bhd as Manager for Corporate Services leaving in 1995 to concentrate on his private business.

- 2) **Yong Pang Chaun, 60**
Managing Director, since 1992

Qualification > Completion of secondary education

Experience > After completing his secondary education, Mr. Yong joined a textile merchant in Singapore. He subsequently returned to the country to set up the company's first subsidiary in 1971. Today, he continues to manage the strategies and plans for the Group's future.

- 3) **Chan Kwai Heng, 59**
Executive director, since 1995

Qualification > BEcons (Hons.) majoring in Accounts (University Malaya), MBA (Paris School of Graduate Management)

Experience > Mr. Chan has experience lecturing on part time basis in colleges such as Systematic Business Training Centre and TL Management Centre Bhd. He had also worked from 1983 to 1987 in Vinci Department Sdn Bhd as a manager in charge of finance and administration.

- 4) **Cheung Chong Yet, 45**
Executive Director, since 2000

Qualification > Bachelor of Accountancy (Hons.) from University Malaya

Experience > He was in Isetan of Japan Sdn Bhd in 1990 as sales and marketing executive before being promoted to the position of manager of Merchandising Department in 1995. While serving there, he had gained extensive experience in retail management, concept planning, branding and merchandising for in-house labels.

- 5) **Chong Chin Lin, 58**
Executive Director, since 1995

Qualification > Completion of form-sixth education

Experience > While still in the form-sixth, she was called upon to help in the family business which dealt in wholesale and retail of fashion accessories and costume jewellery. She had also involved herself in garment manufacturing operations while she was a merchandiser for ladies fashion.



Board of directors (*continued*)

- 6) **Yong Lai Wah, 61**
Executive Director, since 1992

Qualification > Completion of secondary education

Experience > She joined her family's manufacturing operation which produced ladies fashion wear for both wholesale and retail in 1971. Since then, she was actively involved with manufacturing and selling of fashion wear to local department stores and boutiques.

- 7) **Foo Kee Fatt, 45**
Independent non-executive director, since 2009

Qualification > Member of Malaysian Institute of Certified Public Accountants and member of Malaysian Institute of Accountants.

Experience > He was with a local accounting firm with international affiliation from 1993 to 2006. In 2007, he set up an accounting firm in Penang and joined another local accounting firm in Johor.

- 8) **Yeap Tien Ching, 39**
Independent non-executive director, since 2011

Qualification > BComm majoring in marketing and management (University of Western Australia)

Experience > She had gained significant insights of banking operations and financing of businesses from her previous position as a senior officer in corporate banking department of Overseas Union Bank. In 1996, she was involved in setting up the operations for the then sole distributor of Kenwood Audio Visual equipment in Sarawak.

Note: Yong Pang Chaun is the spouse of Chong Chin Lin. He is also the brother of Yong Lai Wah.



APPENDIX II

Padini's brand portfolio

- 1) **MIKI KIDS**- Children's wear catering for those between 3-13 years old. Clothes that burst with energetic ideas and cheerful colours to charge up every youngster's batteries. Hardwearing, child-friendly designs combine for the junior chic of Miki Kids.
- 2) **MIKI MATERNITY**- Designed for fashionable mums-to-be. Miki Maternity offers working mum's a wardrobe especially designed to fit a growing bump.
- 3) **PADINI**- Garments for office and official occasion and mainly designed for modern executives and managers between the mid-20s and late 30s. The PADINI collection carries a clean, timeless, modern and chic approach to the working lifestyle. The line is split between work wear and a trendy smart casual line to provide a balanced modern lifestyle collection.
- 4) **PADINI AUTHENTIC**- This brand focuses on quality casual wears for those between 5 to 45 years old. It sells pullovers, jackets, shirts and a variety of denims, khakis and knitwear.
- 5) **PDI**- Fashion that's simple as ABC and covers practically the A to Z of casual dressing for teens to the 30's.
- 6) **P&CO**- Edgy, experimental fashion for females between the mid-teens to mid-20's. P&Co girls mark the trends to their beat. Their motto is fashion unlimited and they live up to it in designs that are ahead of the others on the street.
- 7) **SEED**- It's the confidence of classic and no-fuss style, plus a refreshing close of forward-looking design. This brand focuses on urban office-wear for the masses. It is a modern adult fashion designed for both genders between the young generations of 20's to early 30's. The clothes under this line are usually jackets, coats, suits, office pants and knee-length skirts.
- 8) **VINCCI**- The most prominent brand of the Padini family. A footwear brand that focuses on chic and affordability, most of its shoes are made from synthetic material. It also sells watches, sunglasses, PVC handbags and bead accessories.
- 9) **VINCCI +-** Stylish shoes, bags and accessories which are high on the luxe and fashion factor. Prices for shoes and bags start from RM119.90 while accessories are priced at RM49.90 and above.

Figure 26 : Padini's brand portfolio



Source: Company's website



Padini Holdings

Financial Summary

Price Date: 04 April 2012

Balance Sheet

FY 30 Jun (RM m)	2010A	2011A	2012F	2013F	2014F
PPE	80.8	83.6	87.1	68.9	53.9
Intangible Assets	7.1	6.6	6.2	5.8	5.4
Inventories	76.6	171.0	145.9	140.2	146.8
Receivables	32.6	39.4	48.6	53.9	56.5
Other assets	24.6	5.1	5.1	5.1	5.1
Deposit, bank and cash	135.0	138.6	222.1	323.4	413.3
Total Assets	356.6	444.3	514.9	597.3	680.9
LT borrowings	10.1	22.2	22.2	22.2	22.2
ST borrowings	19.7	13.2	15.0	15.0	15.0
Payables	54.9	89.5	105.0	116.5	121.9
Other liabilities	37.4	36.9	36.9	36.9	36.9
Liabilities	122.3	161.7	179.1	190.5	196.0
Share capital	65.8	65.8	65.8	65.8	65.8
Reserves	168.5	216.9	270.0	341.0	419.1
Shareholders' equity	234.3	282.7	335.8	406.7	484.9
Minority interest	-	-	-	-	-
Total Equity	234.3	282.7	335.8	406.7	484.9
Total Equity and Liabilities	356.6	444.3	514.9	597.3	680.9

Cash Flow Statement

FY 30 Jun (RM m)	2010A	2011A	2012F	2013F	2014F
Pretax profit	86.3	105.1	127.5	160.6	179.0
Depreciation & amortisation	21.8	22.3	22.6	20.7	16.4
Change in working capital	26.3	(69.0)	31.5	11.8	(3.7)
Net interest received / (paid)	(2.2)	(2.1)	(2.7)	(4.1)	(5.5)
Tax paid	(26.7)	(29.2)	(34.9)	(43.6)	(48.2)
Others	4.7	2.1	-	-	-
Operating Cash Flow	110.2	29.2	144.0	145.4	138.0
Capex	(25.7)	(24.7)	(25.6)	(2.1)	(1.0)
Others	(0.7)	22.5	2.7	4.1	5.5
Investing Cash Flow	(26.4)	(2.3)	(22.9)	2.0	4.5
Issuance of shares	-	-	-	-	-
Changes in borrowings	4.2	10.3	1.8	-	-
Dividend paid	(17.8)	(32.9)	(39.5)	(46.1)	(52.6)
Others	-	-	-	-	-
Financing Cash Flow	(13.6)	(22.6)	(37.6)	(46.1)	(52.6)
Net cash flow	70.2	4.4	83.4	101.4	89.9
Forex	(0.8)	(0.8)	-	-	-
Beginning cash	65.6	135.0	138.6	222.1	323.4
Ending cash	135.0	138.6	222.1	323.4	413.3

Income Statement

FY 30 Jun (RM m)	2010A	2011A	2012F	2013F	2014F
Revenue	518.8	568.5	709.9	787.2	824.3
EBITDA	109.9	129.8	152.1	181.9	194.6
Depreciation & amortisation	(21.8)	(22.3)	(22.6)	(20.7)	(16.4)
Net interest income	1.1	0.5	0.9	2.2	3.7
Share of associates	-	-	-	-	-
Exceptional items	(2.9)	(2.9)	(2.9)	(2.8)	(2.9)
Pretax profit	86.3	105.1	127.5	160.6	179.0
Taxation	(25.3)	(29.4)	(34.9)	(43.6)	(48.2)
Minority interest	-	-	-	-	-
Net profit	61.0	75.7	92.6	117.0	130.8
Adj net profit	63.0	77.8	94.7	119.1	133.0

Key Statistics & Ratios

FY 30 Jun	2010A	2011A	2012F	2013F	2014F
Growth					
Revenue	9.1%	9.6%	24.9%	10.9%	4.7%
EBITDA	17.7%	18.1%	22.1%	10.9%	4.7%
Pretax profit	23.6%	21.8%	21.3%	26.0%	11.5%
Net profit	17.9%	24.1%	22.3%	26.4%	11.8%
Adj EPS	16.8%	23.5%	21.8%	25.7%	11.7%
Profitability					
EBITDA margin	21.2%	22.8%	21.4%	23.1%	23.6%
Net profit margin	11.8%	13.3%	13.0%	14.9%	15.9%
Effective tax rate	29.3%	27.9%	27.4%	27.1%	26.9%
Return on assets	19.5%	19.4%	9.9%	10.7%	10.4%
Return on equity	28.7%	30.1%	28.2%	29.3%	27.4%
Leverage					
Total debt / total assets (x)	0.08	0.08	0.07	0.06	0.05
Total debt / equity (x)	0.13	0.12	0.11	0.09	0.08
Net debt / equity (x)	0.00	0.12	0.05	0.04	0.03

Key Drivers

FY 30 Jun	2010A	2011A	2012F	2013F	2014F
Total # of domestic outlets	80	80	90	91	91
Total gross floor area (k sf)	527.5	567.9	697.6	708.6	708.6
Growth	10.0%	7.7%	22.8%	1.6%	0.0%
Avg local revenue per k sf (RM k)	725.2	762.1	805.0	897.2	944.9
Growth	2.7%	5.1%	5.6%	11.5%	5.3%

Valuation

FY 30 Jun	2010A	2011A	2012F	2013F	2014F
EPS (sen)	9.3	11.5	14.1	17.8	19.9
Adj EPS (sen)	9.6	11.8	14.4	18.1	20.2
P/E (x)	14.7	11.9	9.8	7.8	7.0
EV/EBITDA (x)	0.8	3.3	2.7	2.5	2.3
Net DPS (sen)	4.5	4.0	6.0	7.0	8.0
Net dividend yield	3.2%	2.8%	4.3%	5.0%	5.7%
BV per share (RM)	0.36	0.43	0.51	0.62	0.74
P/BV (x)	4.0	3.3	2.8	2.3	1.9



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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