

SABINA: Initiate – THB 37.25

Sabina

Growth from the beginning

4 reasons for the suggestion of "Buy" 1) the revenue is increased as organic growth but the profit can be increased more from GPM 2) the non-store retailing market significantly grows resulting in the increase in NPM 3) although there are 5 operating factories with almost full capacity of operation, the operation capacity can be increased at least for 5 factories with low cost of production and 4) the stock has high growth and outstanding dividends after the dividend payment ratio is 100% of net profit since 2017 with ROE of more than 20%.

The second rank in market share but top rank in profit

Although there is no clear report on the market share of branded lingerie as of today, the basic information from companies shows that WACOAL has the highest market share that is not less than 50%, whereas SABINA has the second highest market share of 20%. However, if considering in term of profit margin, the information shows that SABINA has higher profit margin than WACOAL since 2016. It is higher at the faster rate.

In 1H18, the profit margin of SABINA was at 11.9%, compared with that of WACOAL which is at 7.8%. During 2009 – 2013, SABINA had the low net profit margin, that was only 3 – 5%, while the net profit margin of WACOAL remained the same which was around 10% resulting in SABINA having lower net profit than WACOAL at slower rate. In 1H18, SABINA's net profit was lower than that of WACOAL by 2%. As a result, SABINA is in the top rank in term of net profit in 2019,

New high in 3Q18 profit, 2% Growth in next year

The net profit in 3Q18 is expected to be at THB 100 million +/- slightly increase or remain in QoQ and lot of increase by 30% in YoY. The quarterly net profit is considered as new high even in low reason because 1) the revenue from outsourcing is increased. Outsourcing has higher margin than OEM production resulting in better profit margin 2) the revenue from E-commerce and TV (NSR) is still higher which lessen the seasonal impact. Although the sales from these channel

does not impact much on revenue, it impacts lot on net profit due to lower SG&A and 3) a new presenter helps to increase sales volume from Doom Series products. In 2019, although the revenue is expected to be increased only by 11.2%, the net profit is forecasted to be increased by 25.8% YoY. From gross profit margin and net profit margin, they are still increased from the increase in the operation capacity. The revenue contribution from outsourcing and NRS significantly increased at the faster rate. The gross profit margin is expected to be increased from 52.3% in 2018 to be 52.7% in 2019. Also, Chinese market is a new market for SABINA due to a new presenter that is very popular in Chinese people. If Chinese tourists come to travel in Thailand in 2019, the revenue tends to be higher than our projection too.

Better Stock Liquidity, Strong Fundamental, Suggestion to “Buy”

SABINA has the daily trading value of around THB 60 million per day compared with the previous average trading value of lower than THB 10 million per day after the shareholders sold “big lot” to institutional investors resulting in the increase in Free float from 19% to 30%. It helps to lessen the stock liquidity issue.

The basic factor is still increased. The profit is expected to grow on average at 14.9% per year CAGR 3 years (2018 – 2021). The stock price as of today is around PER62 of 24.3x which is lower than that of the 5-year average at 36.6x. The valuation is calculated based on DCF (WACC = K_e = 6%). The price as of 2019 should be THB 37.25 with upside gain of 22.3%. Also, for dividends payment, it will be paid at 100% of total net profit or accounted for THB 1.00 (payment as of 1H61 at THB 0.50) and THB 1.25 (semi-annual payment). The return is accounted from 3.3% and 4.1% in 2018 and 2019 respectively. The suggestion is to “buy”.

FYE Dec (THBmn.)	2017	2018F	2019F	2020F
Revenue	2,659	3,114	3,463	3,748
EBITDA	361	491	593	636
Core Profit	243	347	436	465
Net profit	243	347	436	465
Core EPS (THB)	0.70	1.00	1.25	1.34
Core EPS growth (%)	38.4	42.5	25.8	6.6
DPS (THB)	0.82	1.00	1.25	1.34
Core P/E (x)	43.6	30.6	24.3	22.8
P/BV(x)	5.6	5.6	5.6	5.6
Div Yield (%)	2.7	3.3	4.1	4.4
Net Gearing (%)	Cash	1.2	5.8	12.6
ROE (%)	12.8	18.2	22.9	24.4

Source : Company, Yuanta

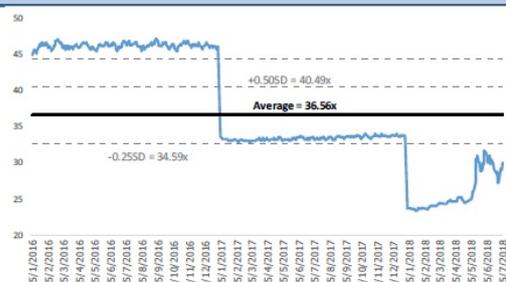
Stock Valuation

We use DCF approach for stock valuation because free cash flow and profit consistently grows and also revenue is in-line with Thailand's economy.

SABINA has the debt ratiowith very low interest. It is accounted for 5% of total debt and equity. For our valuation, we use the cost of equity or WACC that is equal to total cost of equity, which is higher than WACC calculated based on the total cost of debt and equity due to tax benefits of interest and lower the cost of equity,

The risk of SABINA share price compared with the market or calculated as the average 3-year beta is only 0.40. However, we use 0.45 beta in order to reflect the increase in the market risk after the stock liquidity in the market is better. Besides, the assumption of market return is 10% and government bond return is 2.5%. It gives the cost of equity of 6.0% as WACC. The price as of 2019 is about THB 37.25 with PER 2019 at 29.8x which is close to -1.0SD at 28.7x with upside gain of 22.3%. The suggestion is to "Buy".

Figure 1: SABINA Forward PER band



Source: Bloomberg

Figure 2: Valuation table

	1	2	3	4	5
OCF	344	370	415	486	596
DCF	324	329	348	384	444
Long-term growth	3.0%				
Terminal value	15,096				
PVof TV	11,263				
Total PV	13,094				
Plus Cash	30				
Less Financial Debt	-139.73				
Enterprise value	12,984				
No. of shares	348				
Price target	37.4				
Implied 2019 PER	29.8				
Implied 2019 PEG	1.2				

Source: Yuanta

Performance Outlook

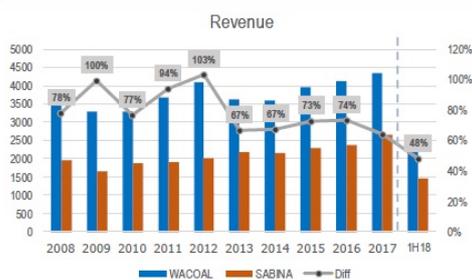
Being a leader of the industry in term of profit in 2019

Considering SABINA's financial performance, it is the second highest in term of market share of lingerie compared with WACOAL that gets the highest market share. Based on 4-year historical data since 2014, SABINA got the revenue of THB 2,153 million only which was lower than that of WACOAL by 75.6%, but SABINA has changed market plans and increased the strength of SABINA brand resulting in the increase in revenue. In 1H18, SABINA had the revenue which was lower than that of WACOAL by 56.2% only.

In term of profitability, SABINA has the higher profit margin than that of WACOAL since 2016. The difference tends to be increased. In 1H18, SABINA had the profit margin of 11.9% compared with that of WACOAL which was 7.8% only. Besides, considering in term of net profit, although SABINA's revenue as of 1H18 was lower than that of WACOAL by 56.2% but the net profit was lower than 2.3% only, we believe that if SABINA maintains the profitability to have net profit margin that is below than 10%, SABINA can have the higher net profit than that of WACOAL although the revenue is increased at the average rate of industry.

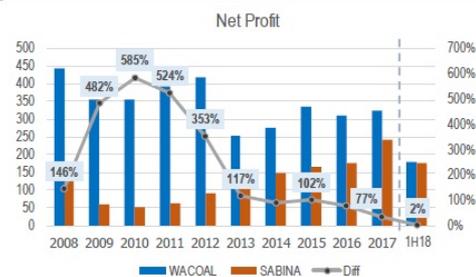
The forecasted profit as of 2019 is about THB 436 million (+25.8% YoY) which tends to be higher than that of WACOAL leading to SABINA to be the leader of industry in term of net profit in 2019 onward.

Figure 3: Revenue of WACOAL vs SABINA



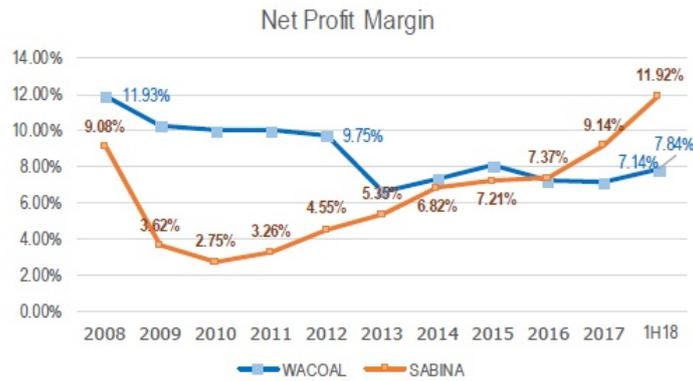
Source: Company, Yuanta

Figure 4: Net profit of WACOAL vs SABINA



Source: Company, Yuanta

Figure 5: SABINA NPM topped WACOAL since 2016



Source: Company

Debt with low interest, High cash flow

It is normal for fashion business to have varieties of products and sizes that are stocked in order to serve for customers' demands all times. It results in the inventory turnover of more than 400 days and cash cycle or receivable turnover of 424 days in 2012. When the sales volume of SABINA is increased and the company reduces SKU of fashion products but increases normal products. The studies obtained after R&D show that ladies prefer to buy lingerie that has plain color and there are not many colors and designs that they frequently use. As a result, the inventory turnover is shorter to be 269 days and cash cycle is lower to 274 days. As of 2Q18, cash cycle was stable at 278 days.

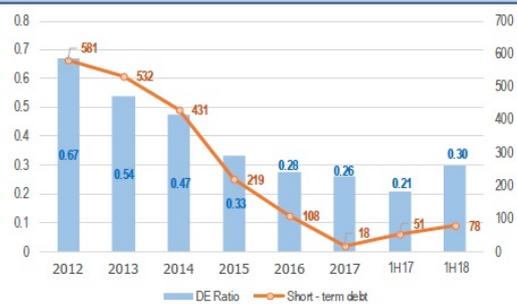
Although the cash cycle is high, the company can consistently maintain debt/equity ratio to be lower than 1x. The company has only short-term debt which is low. As of 2017, the debt was about THB 18 million and as of 2018, it was about THB 78 million. It shows that the company has strong financial position as it has enough cash flow to spend as working capital. The company has cash flow of THB 400 million on average per year showing the strength in good liquidity management

Figure 6: Cash Conversion Cycle



Source: Company, Yuanta

Figure 7: DE Ratio and Short-Term Loan



Source: Company, Yuanta

Spending less capital, Making high profit

The company spends the average investment capital of THB 30 million per year and has no investment plans in any mega or big projects. SABINA plans to invest in a new factory in Buriram totaling in 6 factories by renting vacant factories and using existing machines. The company plans to purchase not many machines. Around the area, there are more than 5 vacant factories for production operation. Also, there is a change in production operation from sitting process to be standing process leading that a sewing staff takes care of 3 machines instead of 1 machine. It helps to increase the operation capacity and efficiency. The operation capacity was increased from 6.9 million units in 2017 to be 12 million unit in 2Q18 with the almost full capacity.

High outsourcing volume, high gross profit margin

There are 2 sources of revenue from SABINA's manufacture

1) Original Equipment Manufacturer (OEM) from overseas customers who mostly are in UK. It is customers' branded product. The revenue is lower because the company focus on high-margin products that are difficult to produce.

2) Sourcing. It is products under SABINA brand that are cheap. Outsourcing has lower cost of production than OEM resulting in higher gross profit margin than that of OEM by 6% and reversed capacity that the company can produce the products that has the price range from medium to premium and high margin.

The sales volume of sourcing as of 1H18 was at 14% of total sales under SABINA brand. The gross profit margin was increased from 51% in 1H17 to be 51.6%. The company aims the sales volume from sourcing in 2018 is 25% and increased to be 50% in 5 years. We, therefore, forecast that the gross profit margin in 2H18 continues increased. We estimate that the gross margin is increased from 50.8% in 2017 to be 52.3% in 2018.

Figure 8: Sourcing product sold portion (by pieces)



Source: Company

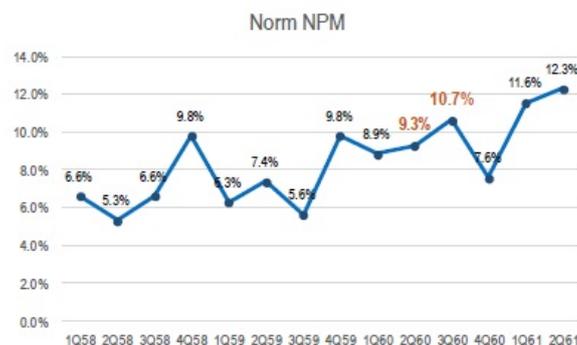
High Growth in NSR, Increase in NPM

The company started distributing products by non-store retailing (NSR) since 2017 through E-commerce channels such as LAZADA, JD, SEASON, Line Shop, 11 street, Shopee and Line@ of SABINA and TV Shopping such as True Select and O Shopping. There is good feedback. The revenue from NSR was THB 96 million and in 1H18, the revenue was THB 122 million which was higher than in 2017. It was accounted for 278.2% YoY.

The products sold through NSR channel is not as fashionable as the products sold in the stores, but the price is lower and there are more promotions. It results in lower gross profit margin that that generated from the stores, but the net profit is higher due to lower SG&A, no staffs, no rental fee. Online market has lower cost than offline market.

The growth in NSR channel has no positive impact on gross profit margin but since SG&A is lower, it results in higher net profit margin. In 3Q17, the sales volume of NSR was highest sales in 2017 and the net profit margin was as high as 10.7% which was the first time that the company has 2 digits in net profit margin. It increased by 140bps QoQ and more than 500bps YoY

Figure 9: SABINA quarterly NPM



Source: Company

Where is high margin from?

The gross profit margin since the company was listed in SET in 2008 was 36.7% and significantly increased to 50.8% in 2017 and 51.7% in 1H18 and tends to be increased due to following main factors

1) the company changes the strategic plan by reducing the ratio of OEM for overseas branded products. It focused on high-margin products especially SABINA branded products. The brand is very popular and well known in the market; as a result, the revenue has been higher than that from OEM since 2009.

2) the company does not produce products that are cheap in order to reserve capacity to produce products that has higher quality that the company has expertise. It results in higher operation capacity. Sourcing generates higher profit margin than that from OEM.

3) The company reduce the number of staffs in order to increase the operation capacity of existing staffs. The operation was changed from sitting process with 1 staff and 1 machine to be standing process that 1 staff can control 3 machines.

4) the company change the marketing strategy in order to adapt to the change by selling products through NSR more. There is high growth in NSR due to lower base and higher net profit margin than that from stores.

Financial Performance

Net profit expected to grow at 17.9% on average, 3Q18 profit expected to be new high.

The net profit in 3Q18 of THB 100 million +/- is expected to be stable to slightly higher QoQ and significantly increase 30% YoY. This is a new high for quarterly net profit although it is normally low reason that the profit is lower QoQ. It is because Q2 is high reason due to the marketing of Doom Serie products with the new presenter that is very popular in Thai and Chinese customers. In China, SABINA has not many customers. This creates the new opportunity for future growth. Also, the sales volume through NSR are significantly increased which is lessen the impact of as seasonal on the net profit. However, in 4Q18, the net profit tends to be lower QoQ due to bonus for staffs and marketing expenses

For the net profit in 2018, we expected to be THB 347 million which is accounted for 42.5% YoY. The profit in 1H18 is accounted for 51% of total profit and expected to increase by 25.8% YoY

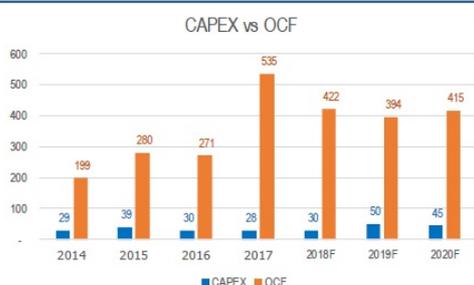
which is THB 436 million. It will new high in 2019 with the average CAGR of 14.9% per years for the next 3 years (2018 – 2021)

DPO based on policy of 40% vs the actual DPS expected to as high as 100% with ROE of 20%

Based on the policy, the company’s dividend payout ratio is at 40%. However, the dividend in 2017 was paid at 117% of total net profit which was THB 0.82 per share whereas ESP was THB 0.70. In 1H18, the dividend was paid at THB 0.50 per share which was accounted for 98.9% as the company has no plan to have any mega or big investment. CAPEX is low which is around THB 30 – 50 million per year compared with the operating cash flow of THB 400 million on average.

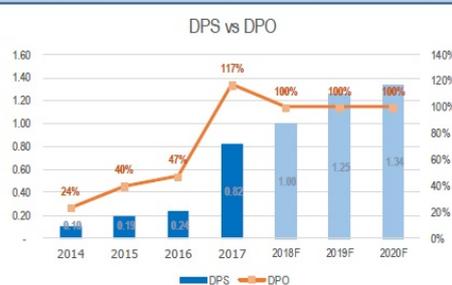
The dividend in 2018 is expected to be at THB 1.00 which is accounted for the dividend payout ratio of 100%. Based on the closing price as of yesterday, the return is accounted for 3.3.%. the dividend in 2019 is expected to be THB 1.25 per share which is accounted for the return of 4.1%.

Figure 10: Company CAPEX vs Operating cash flow



Source: Company, Yuanta

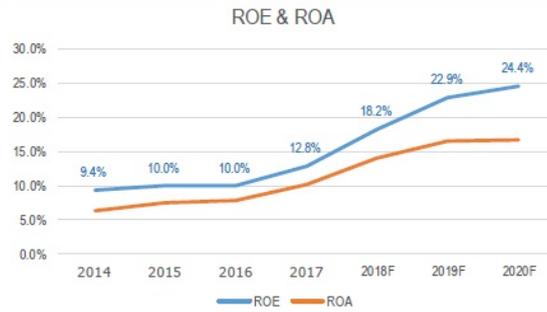
Figure 11: Company Dividend per share and Dividend payout ratio



Source: Company, Yuanta

With the dividend payout ratio of 100%, it makes SABINA’s ROE, that is high, to be more outstanding. It is increased from 12.8% in 2017 to be 18.2% and 22.9% in 2018 and 2019 respectively.

Figure 12: Company ROE & ROA



Source: Company, Yuanta

Industry Competition

Based on information in 2017, female population is accounted for 51% of total population in Thailand and lingerie product is an essential product and has the limited lifetime which are the main factors for the demand of lingerie products that tends to be increased. At present, the competition in this industry is more intense because there are many sellers selling products through E-Commerce and there are imported products from China which has lower cost. With all these, the customers have more choices to choose for: as a result, SABINA lunched new promotion or marketing campaigns to be attractive to customers by setting the price to not be too expensive than those products imported from China but being strong brand and high creditability in customers' points of view. Compared in term of market share, WACOAL has the highest market share. There is no a recent report on the market share. Based on the information that is available, WACOAL has the market share of not less 50%. Then, it is followed by SABINA with the market share of 20%. The third rank is TRIUMPH.

Figure 13: Thai population breakdown by gender

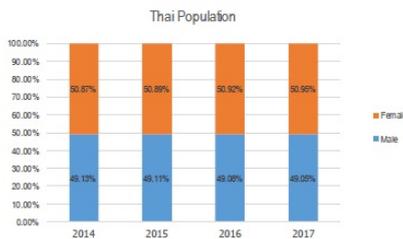


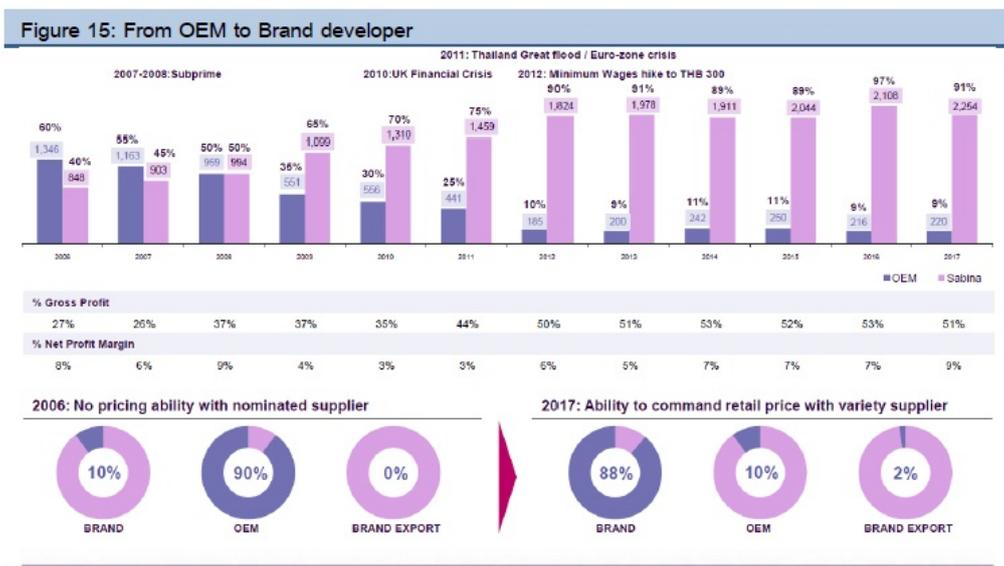
Figure 14: SABINA positioning



Company Overview

Sabina Public Company Limited – “SABINA”, formally known as J&D Apparel Public Company Limited is a manufacturer and distributor to subsidiary company (Sabina Fareast Company

Limited with the ownership of 99.99%) and customers who sells products in overseas markets. The targeted customers are mostly in Europe. Initially, the company is an original equipment manufacturer for branded products in Europe. In 2008, the company changes the business model to have its own brand which is mainly sold in Thailand. With this, the sales volume from OEM was continually dropped. Until 2017, the sales volume from OEM was only 8.2% but that from SABINA branded products sold in Thailand was accounted for 88% of total sales volume in 2017. If breakdown the revenue by distribution channels in 2017, the revenue generated from modern trade such as Big C and Lotus was accounted for 52%. Then, it is followed by the revenue from department stores and company's stores, which was accounted for 14% and the revenue from other channels was accounted for 20%. The revenue from other channels did not include the revenue from Non-store Retailing, Online and TV Shopping which generated not many revenues and has high growth of 278.2% YoY in 1H18 as the sales through this channel started since 2017.



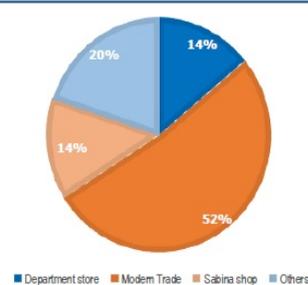
Source: Company

Figure 16: 1H2018 revenue breakdown



Source: Company

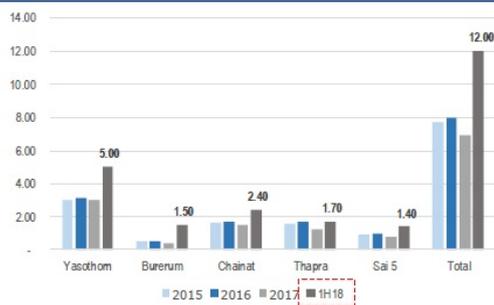
Figure 17: Sabina brand domestic revenue breakdown by channel



Source: Company

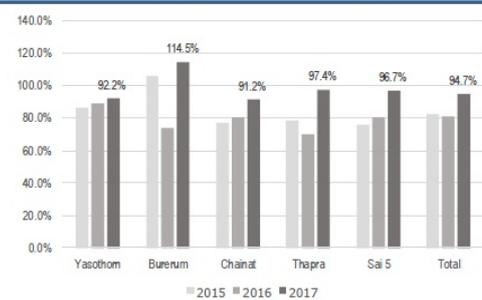
As of today, the company has total 5 factories, which located in Chainart, Yasothon, Burirum and Bangkok that are located in Tha-pra and Putthamonthon 5. The total operating capacity of all factories are 6.9 million units per year. The utilization rate was 94.5% in 2017. In 2Q18, the total operating capacity was double increased to be 12 million units per year. The company changed the sewing and manufacturing process. The highest capacity is the factory in Yasothon with the capacity of 5 million units per year. It is followed by the factory in Chainart with the capacity of 2.4 million unit per year.

Figure 18: Company Capacity (million pieces/year)



Source: Company

Figure 19: Company utilization rate



Source: Company

Product

The female lingerie products under SABINA branch can be divided by the age of customers.

- 1) Kids = “Cool Teen” product for kids who are 13 – 15 years old. During this age, the breast is developing but not yet fully developed. The product is sold under Sabinie brand.

Figure 20: Sabinie products for Kids & Teen



Source: Company

- 2) Teenagers = the customers who is 15 - 25 years old. They are under adolescence development and focus on their appearance.

2.1 Pretty Perfect: this product is for the teenagers under 15 – 18 years. The product focus on a modern design and has little padded bra.

2.2 Doomm Series: the product is for teenagers under 18 – 25 years. They focused as cushioned padding to push up. They are suitable for teenagers who has the small size of bra wants to have fully coverage of bra to be more attractive. The products are Doomm Doomm, Soft Doomm and Doomm Functions

2.3 Products under Maggie Mae: the product is for teenagers under 18 – 25 years whose breast is fully developed.



3) Adult = the customers who are 25 – 45 years old

3.1 Modern V: the product was launched in 2012 and are suitable for working customers who like to push their breasts upwards and move them close together being as V shape

3.2 Mad Moisselle: the products focused on modern or fashionable design with high material and sewing quality. They are suitable for ladies who love fashion

3.3 Cris's Collection: the products are for every comfort look.

3.4 Perfect Bra: the products are for the ladies with bigger size. They do not prefer to push-up breast. There is the change in breast due to aging such as saggy

3.5 Sbn Sport

Figure 22: Sbn Sport



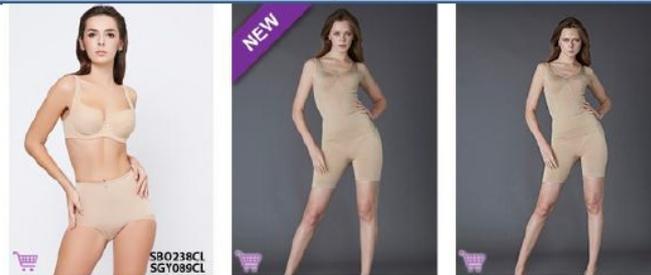
Source: Company

4) Middle-age = the customers who are 45-years old and more.

4.1 Function Bra: the products are for middle age or senior. There is the change in their body. The products help to lift and full support their breast

4.2 Function Shapewear: the products help to fully cover their breast.

Figure 23: Function Bra & Function Shapewear



Source: Company

Risk

1. the change in customers' behavior impacts on the popularity of the products
2. the dependence on few suppliers supplying raw materials impacts on revenue when one of suppliers cannot supply the raw materials. However, since there are many suppliers supplying the raw materials, the company has a back-up plan
3. the increase in labor cost leads to have higher the cost of production due to higher wages as this business is labor intensive
4. the revenue of household impacts on the power purchasing of customers due to the debt of household and price of agriculture.

We Create Fortune

SABINA: Initiate - THB 37.25

Financial Summary (Ended Dec) (THB mn)

Income Statement	2017	2018F	2019F	2020F
Revenue	2,659	3,114	3,463	3,748
Gross Profit	1,352	1,629	1,823	1,960
EBITDA	361	491	593	636
SG&A	1,067	1,207	1,287	1,384
Net Interest Income (Exp)	2	(2)	(5)	(10)
Associates & JV	-	-	-	-
Normalized Income	243	347	436	465
Extra Items	-	-	-	-
Net Income (Loss)	243	347	436	465

Balance Sheet	2017	2018F	2019F	2020F
Cash & Short-Term Investment	44	14	30	13
Account Receivable	351	389	385	416
Inventory	976	1,031	1,116	1,217
Current Assets	499	512	522	530
Property, Plant & Equip (net)	283	270	288	300
Other Assets	234	265	290	311
Total Assets	2,387	2,481	2,630	2,786
ST Interest Baring Debt	18	36	140	252
Account Payable	153	186	205	223
LT Interest Baring Debt	0	0	0	0
Other Liabilities	321	354	382	409
Total Liabilities	492	576	727	885
Paid-up Capital	348	348	348	348
Retained Earnings (Loss)	1,117	1,117	1,117	1,117
Total Shareholder Equity	1,895	1,906	1,903	1,901

Key Cash Flow Statement Data	2017	2018F	2019F	2020F
Net Income	243	347	436	465
Depreciation & Amortization	56	56	43	45
Change in Working Capital	233	-33	-36	-91
Change in Other ST Asset & Liability	3	22	-99	-48
Cash Flow From Operation	535	392	344	370
Capital Expenditure	-28	-30	-50	-45
Change in LT Investment	-319	0	0	0
Change in Other LT Asset & Liability	2	0	0	0
Cash Flow From Investment	-345	-30	-50	-45
Dividend Paid	-97	-410	-381	-455
Equity Raised / (Purchased)	0	0	0	0
Change in Debt	-90	18	104	113
Other Financing Cash Flow	0	0	0	0
Cash Flow From Financing	-187	-392	-278	-342
Net Cash flow	3	-30	16	-17

Source : Company, Yuanta

Company Profile

The Company manufactures and sell ladies lingerie brandname Sabina and OEM of popular brandnames in Europe.

Risks

1. Customer life style shift demand drop
2. Relying on few suppliers
3. The business is labor intensive the increase of wage should be directly impact to COGS
4. The non-recovery of purchasing power of middle to low income segments should drag the demand

We Create Fortune

SABINA: Initiate – THB 37.25

Financial Summary (Ended Dec)

Key Ratios	2017	2018F	2019F	2020F
Growth Ratios (%)				
Revenue Growth	11.6	17.1	11.2	8.2
EBITDA Growth	28.3	36.1	20.8	7.1
Pretax Growth	39.4	42.6	25.8	6.6
Net Profit Growth	38.4	42.5	25.8	6.6
Norm.Profit Growth	38.4	42.5	25.8	6.6
Profitability Ratios (%)				
Gross Profit Margin	50.8	52.3	52.7	52.3
EBITDA Margin	13.6	15.8	17.1	17.0
Operating Profit Margin	11.5	14.0	15.9	15.8
Net Profit Margin	9.1	11.1	12.6	12.4
Dividend Payout Ratio	117.2	100.0	100.0	100.0
Liquidity & Efficiency				
Cash Conversion Cycle	274.1	250.0	240.0	240.0
Collection Days	47.5	45.0	40.0	40.0
Inventory Days	268.7	250.0	245.0	245.0
Payment Days	42.1	45.0	45.0	45.0
Current Ratio (x)	4.6	4.0	3.2	2.7
Leverage & Expense Analysis				
Asset / Liability (x)	4.9	4.3	3.6	3.1
Net Gearing (x)	Cash	0.0	0.1	0.1
Net Interest Cover (x)	210.4	239.9	102.5	60.9
Debt / EBITDA (x)	1.4	1.2	1.2	1.4

Source : Company, Yuanta

Refer : Yuanta