

BUY (Unchanged)

Company Update

TP: Bt 25.00

Upside : 16.8%

(Unchanged)

25 JANUARY 2022

Small Cap Research

Sabina Pcl. (SABINA TB)**Recovery has started**

After 33/3% falls during the 2020-21F COVID years, SABINA's earnings have recovered since 4Q21F. We expect the COVID situation to improve from last year and project a strong earnings recovery at a 24% three-year CAGR in 2022-24F. We reaffirm BUY on SABINA.

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Turning around, BUY

SABINA is a COVID recovery play, in our view. It suffered 33/3% earnings drops in 2020-21F due to lockdowns and weak traffic at department store and shopping malls. With Thailand's high one-shot vaccination rate of 72%, two-shot at 67%, booster-shot at 17% and rising, we expect a much less severe COVID situation this year with a very low risk of lockdowns, and thus a business recovery for SABINA. We project an earnings turnaround of 24/28/19% in 2022-24F and expect both sales growth and margin expansion to be drivers. We reaffirm our BUY call on SABINA, which we also expect to offer a 4.5% dividend yield in 2022F. Our DCF-based 12-month TP (2022F base year) is Bt25.0.

Sales growth resumption

With 4Q21F sales reaching 80% of the pre-COVID level, SABINA targets its sales in 2022 to be able to get back to the 2019 number. We expect growth to be across all channels, i.e. physical stores, online and exports. We project a sales breakdown of 62% from stores, 26% from online and 12% from exports in 2022F (see Exhibit 5). We believe SABINA has been gaining market share from small players on the back of a more aggressive marketing strategy, penetration of all age groups and more of a focus on online sales. We estimate SABINA's sales growth at 13/13/10% in 2022-24F vs. 12/15% declines in 2020-21F.

Margin continues to expand

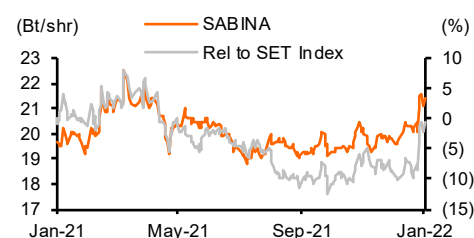
Despite some concerns over rising costs of finished-goods outsourced from China and Vietnam (60% of total outsourcing) due to the weak baht impact on imported finished-goods costs, we still project margin to widen over the next few years. Drivers are improving sales, a rising online sales mix and selling more high-margin products. Online sales have around a 10pp higher net margin than products sold at stores. As for the weak baht, the company has a natural hedge from its export sales, some forex hedging and raising the portion of domestic finished-goods outsourcing. We estimate gross margin to expand from 47.4/49.6% in 2020-21F to 50.1/50.7/51.0% in 2022-24F and for net margin to increase from 9.6/10.9% in 2020-21F to 12.0/13.5/14.6% in 2022-24F.

Recovery started in 4Q21F

We estimate SABINA's 4Q21F earnings to grow 4% y-y and 30% q-q to Bt73m. The y-y earnings growth has been driven by rising gross margin and falling SG&A to sales. The strong q-q earnings growth is due to 1) improving sales, mainly from the offline channel after the easing of the lockdown, and 2) operating margin widening from 12.0% in 3Q21 to 13.8% in 4Q21F on the back of economies of scale and rising cost-management efficiency.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,898	2,473	2,794	3,169
Net profit	277	269	334	426
Consensus NP	—	276	368	456
Diff frm cons (%)	—	(2.7)	(9.1)	(6.5)
Norm profit	277	269	334	426
Prev. Norm profit	—	269	334	426
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	0.8	0.8	1.0	1.2
Norm EPS grw (%)	(33.0)	(2.9)	24.3	27.6
Norm PE (x)	26.8	27.6	22.2	17.4
EV/EBITDA (x)	17.6	18.2	15.4	12.6
P/BV (x)	4.1	4.1	4.1	4.0
Div yield (%)	3.7	3.6	4.5	5.7
ROE (%)	15.1	15.0	18.5	23.1
Net D/E (%)	18.6	11.1	14.0	15.2

PRICE PERFORMANCE**COMPANY INFORMATION**

Price as of 25-Jan-22 (Bt)	21.40
Market Cap (US\$ m)	224.9
Listed Shares (m shares)	347.5
Free Float (%)	47.4
Avg Daily Turnover (US\$ m)	0.4
12M Price H/L (Bt)	22.50/18.80
Sector	Fashion
Major Shareholder	Thanalongkorn Family 52.42%

Sources: Bloomberg, Company data, Thanachart estimates

Turning around, BUY

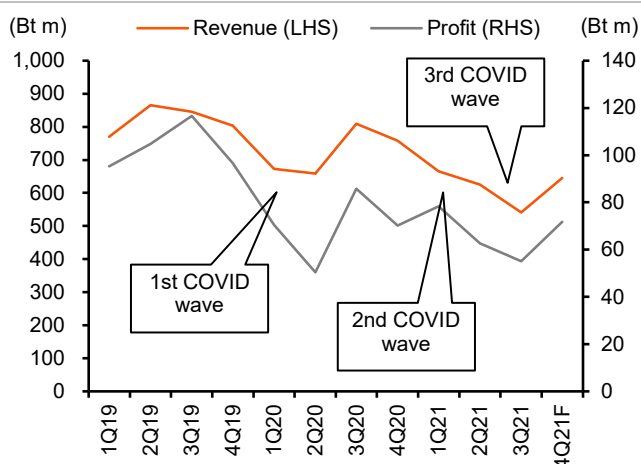
Earnings turnaround of 24/28/19% in 2022-24F

We see Sabina Pcl (SABINA) as a COVID recovery play. Its earnings suffered from the country's lockdown along with weak traffic at department stores and shopping malls because of people's health fears amid the COVID-19 pandemic. Earnings declined by 33% in 2020 and we estimate another 3% drop in 2021F.

After the easing of the lockdown in 4Q21, we estimate SABINA's 4Q21F earnings to grow by 4% y-y and 30% q-q to Bt73m. The y-y earnings growth has been driven by rising gross margin and falling SG&A to sales. We expect strong q-q earnings growth because of 1) improving sales, mainly from the offline channel, and 2) operating margin widening from 12.0% in 3Q21 to 13.8% in 4Q21F on the back of economies of scale and rising cost-management efficiency.

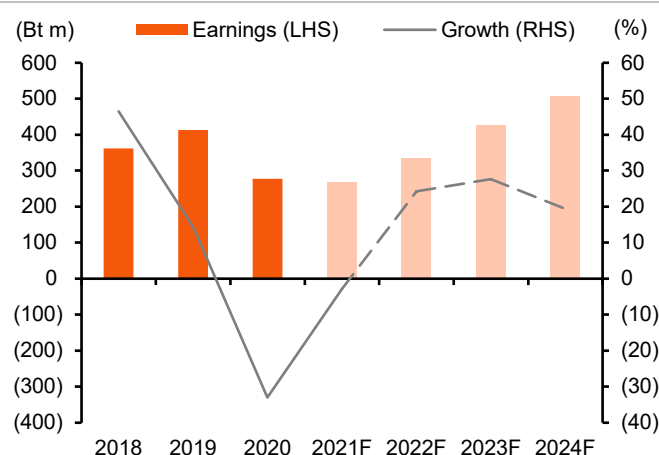
Given that SABINA's earnings already started to recover from 4Q21F, together with our expectation for the COVID situation to improve from last year and the very low risk of lockdowns due to Thailand's high one-shot vaccination rate of 72%, two-shot at 67%, booster-shot at 17% and rising, we therefore expect to see SABINA's business rebound and estimate an earnings turnaround of 24/28/19% in 2022-24F. We expect both sales growth and margin expansion to be drivers for SABINA's earnings growth over the next few years.

Ex 1: 4Q21F Recovery



Sources: Company data, Thanachart estimates

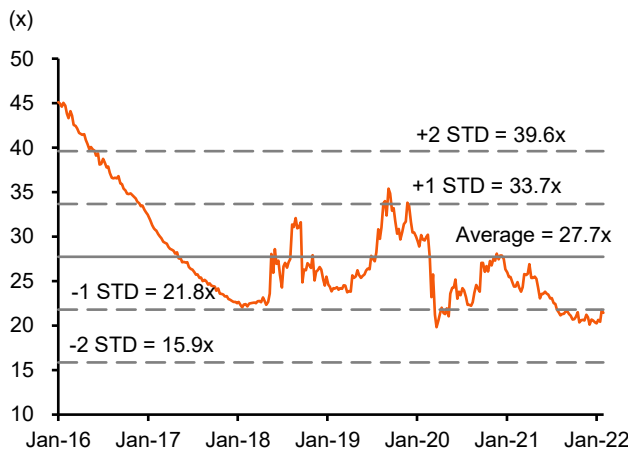
Ex 2: Earnings Recovery



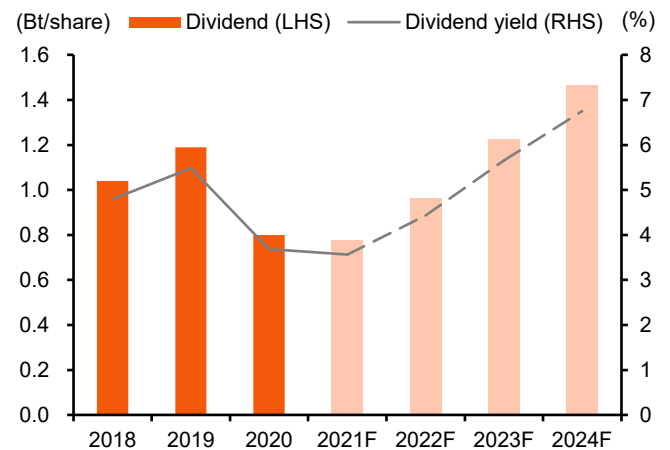
Sources: Company data, Thanachart estimates

Decent dividend yield and inexpensive valuation in our view

We reaffirm our BUY call on shares of SABINA with a DCF-based 12-month TP, using a 2022F base year, of Bt25.0/share. SABINA's dividend yield looks decent at 4.5% in 2022F. Valuation is also not excessive in our view. At -1 STD PE, SABINA is also trading at the bottom of its five-year historical PE band.

Ex 3: Inexpensive Valuation In Our View

Sources: Company data, Thanachart estimates

Ex 4: Decent Forecast Dividend Payments

Sources: Company data, Thanachart estimates

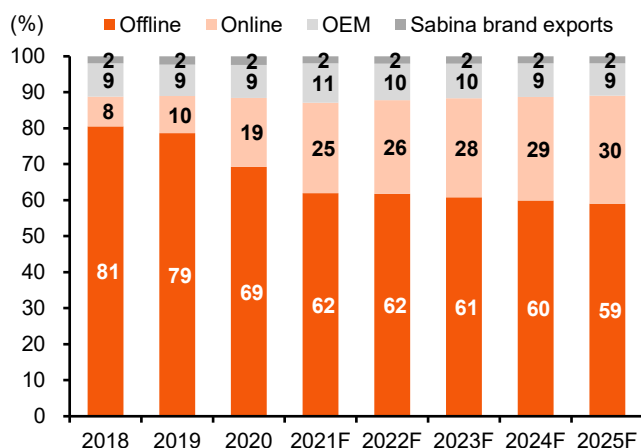
Sales growth resumption

Sales growing across all channels

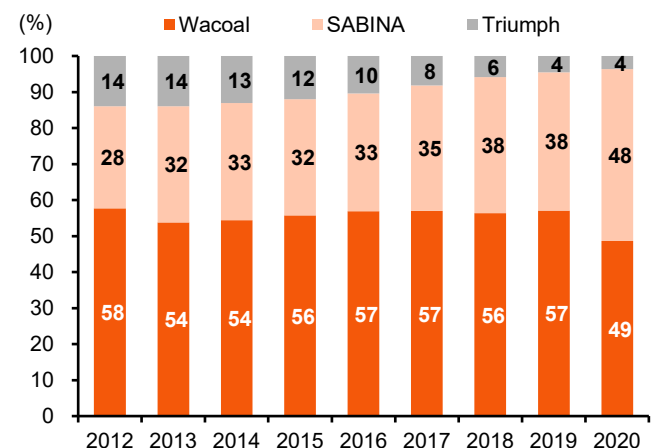
After 4Q21F sales reached 80% of the pre-COVID level, SABINA targets its sales in 2022 to be able to get back to 2019's number of Bt3.3bn. We expect sales growth to be driven by rising sales across all distribution channels, i.e. physical stores, online and exports (both OEM and Sabina brand sales). We project SABINA's sales contribution from stores, online and exports at 62/26/12% in 2022F and 59/30/11% in 2025F vs. 81/8/11% in 2018.

Market share gains from small players

SABINA has been gaining market share from small players on the back of a more aggressive marketing strategy, penetration of all age groups and more of a focus on online sales both in the domestic and export markets. Besides the pricing strategy that the company concentrated on in the last couple of years during the COVID-19 pandemic, SABINA's management thinks it's time to launch innovative new products to capture demand in all market segments this year after COVID-19 subsides. We estimate SABINA's sales growth at 13/13/10% in 2022-24F vs. 12/15% drops in 2020-21F.

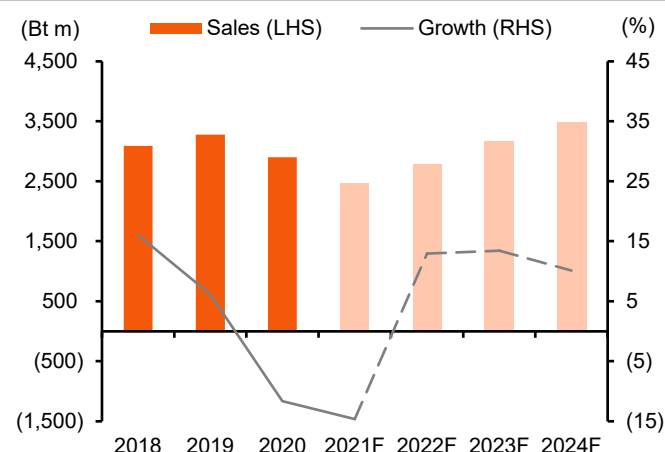
Ex 5: Sales Breakdown

Sources: Company data, Thanachart estimates

Ex 6: Market Share Gains

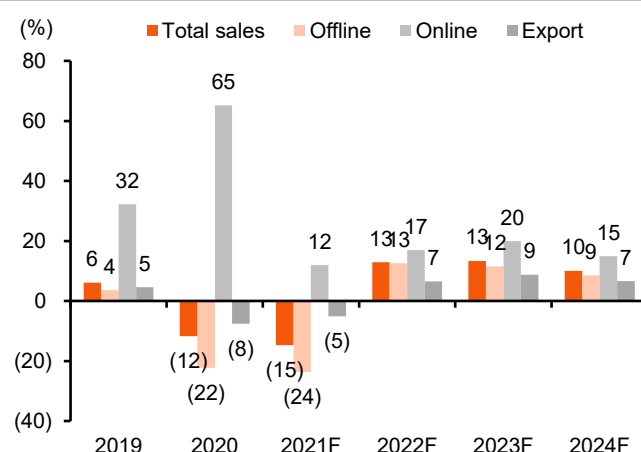
Sources: Company data, Thanachart compilation

Ex 7: Sales Growth Resumption



Sources: Company data, Thanachart estimates

Ex 8: Growth In All Distribution Channels



Sources: Company data, Thanachart estimates

Margin continues to expand

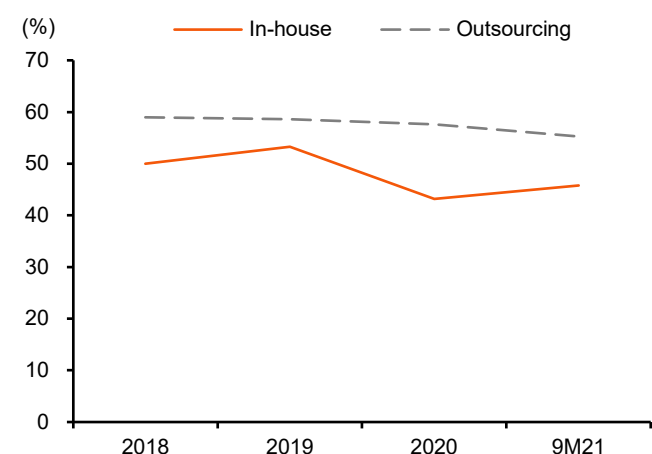
We expect SABINA to continued expanding its margins, despite some concerns about the rising costs of finished-goods outsourced from China and Vietnam due to the weak baht's impact on imported costs. Around 60% of total outsourcing is from China and Vietnam.

Margin drivers

Drivers for SABINA's margin are 1) economies of scale and rising bargaining power with suppliers from its sales expansion, 2) a rising sales mix in its online channel which provides a better margin than stores because of higher gross margins from outsourcing product sales through the channel and lower operating expenses, and 3) selling more high-margin products.

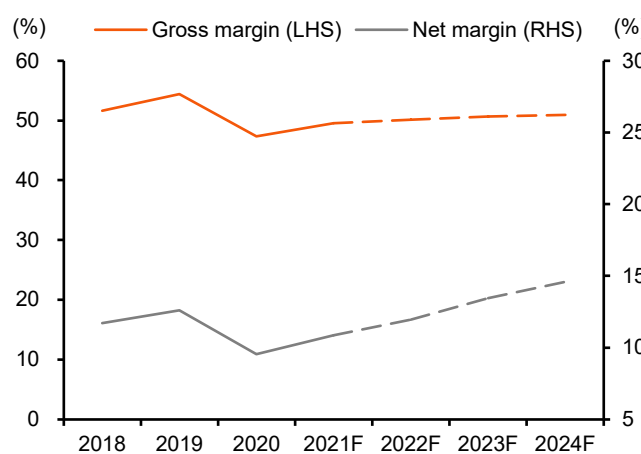
As for the weak baht, the company has a natural hedge from its OEM products exported to the US and Europe of around 10% while it also hedges against exchange rate risk. SABINA has increased the portion of finished-goods outsourced from the domestic market which presently accounts for around 40% of total finished-goods outsourcing. We estimate gross margin to rise from 47.4/49.6% in 2020-21F to 50.1/50.7/51.0% in 2022-24F and net margin to increase from 9.6/10.9% in 2020-21F to 12.0/13.5/14.6% in 2022-24F.

Ex 9: Outsourcing VS. In-House Production Gross Margin

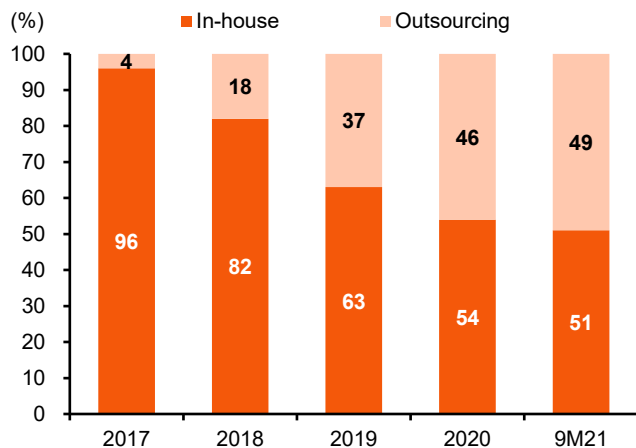


Source: Company data

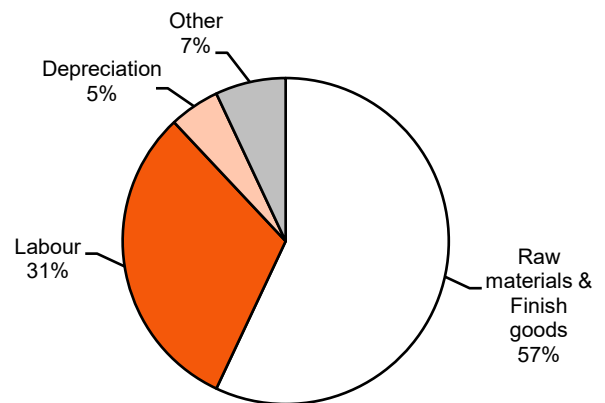
Ex 10: Margin Expansion



Sources: Company data, Thanachart estimates

Ex 11: Sales Contribution From Outsourcing & Production

Source: Company data

Ex 12: Cost Breakdown In 2020

Source: Company data

Ex 13: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
EBITDA excl. depre from right of use	453	568	669	747	801	829	844	859	874	891	908	—
Free cash flow	306	402	536	578	583	641	669	681	693	707	721	11,532
PV of free cash flow	305	348	432	426	398	406	392	370	349	316	297	4,758
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	7.4											
Terminal growth (%)	2.0											
Enterprise value - add investments	8,801											
Net debt (end 2021F)	199											
Minority interest	0											
Equity value	8,602											
# of shares (m)	347											
Equity value / share (Bt)	25.00											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 14: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Dollar Industries Ltd	DOLLAR IN	India	na	na	37.6	na	6.3	na	24.2	20.5	0.2	na
Page Industries Ltd	PAG IN	India	na	na	na	na	na	na	na	na	na	0.7
Wacoal Holdings Corp	3591 JP	Japan	na	na	120.3	21.0	0.6	0.6	18.9	8.6	1.9	2.4
PVH Corp	PVH US	US	na	na	na	10.3	1.4	1.3	32.5	6.6	0.0	0.1
Triumph Group Inc	TGI US	US	na	na	na	25.5	na	na	18.4	14.8	0.0	0.0
Hanesbrands Inc	HBI US	US	34.2	1.9	8.9	8.8	7.1	4.9	8.1	7.8	3.7	3.3
L Brands Inc	LB US	US	46.3	37.4	na	na	na	na	na	na	na	na
Sabina Pcl *	SABINA TB	Thailand	(2.9)	24.3	27.6	22.2	4.1	4.1	18.2	15.4	3.6	4.5
Average			25.9	21.2	48.6	17.6	3.9	2.7	20.1	12.3	1.6	1.8

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

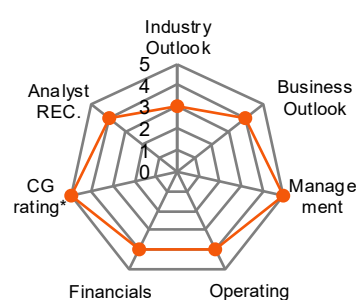
Based on 25-Jan-2022 closing prices

COMPANY DESCRIPTION

Sabina Pcl (SABINA) is the second-largest manufacturer and distributor in the ladies' underwear market in Thailand. The company transformed from OEM to owned-brand products under the name "Sabina" in 2006. Products cover four customer target groups consisting of children, teens, adults and other products. In 2017, SABINA expanded its distribution channels from store retailing, OEM and Sabina brand exports to e-commerce sales.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Second-largest manufacturer and distributor in the ladies' underwear market in Thailand.
- Has the strong "Sabina" brand in Thailand.
- Owners and company executives have many years of experience in the ladies' underwear industry.

O — Opportunity

- Thailand's rising consumption and economic expansion.
- Economic expansion in CLMV markets.
- China-US trade war.

W — Weakness

- Small exposure to markets abroad.

T — Threat

- Thailand and global economic slowdowns.
- Regulatory risk.
- COVID-19 outbreaks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	25.94	25.00	-4%
Net profit 21F (Bt m)	276	269	-3%
Net profit 22F (Bt m)	368	334	-9%
Consensus REC	BUY: 5	HOLD: 0	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings are slightly lower than the Bloomberg consensus estimate, which we attribute to us having a more conservative view on sales growth this year. However, our TP is in line with the Street's, likely as we have a more bullish view on SABINA's long-term growth.

RISKS TO OUR INVESTMENT CASE

- If domestic or global consumption recovers more slowly than our current expectation, this would lead to downside risk to our earnings forecasts.
- If competition in Thailand's underwear industry is higher than our current expectation, this would cause downside risk to our earnings forecasts.
- If raw material prices or labour costs increase by more than we currently expect, this would also result in downside risk to our earnings forecasts.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

2022-23F earnings are on
a turnaround trend

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	3,280	2,898	2,473	2,794	3,169
Cost of sales	1,494	1,525	1,247	1,393	1,563
Gross profit	1,786	1,373	1,226	1,401	1,606
% gross margin	54.4%	47.4%	49.6%	50.1%	50.7%
Selling & administration expenses	1,276	1,034	908	1,001	1,091
Operating profit	509	339	318	399	515
% operating margin	15.5%	11.7%	12.8%	14.3%	16.2%
Depreciation & amortization	48	103	102	100	99
EBITDA	558	442	420	499	614
% EBITDA margin	17.0%	15.3%	17.0%	17.9%	19.4%
Non-operating income	15	16	23	24	25
Non-operating expenses	0	0	0	0	0
Interest expense	(8)	(9)	(5)	(6)	(7)
Pre-tax profit	516	346	336	418	533
Income tax	103	69	67	84	107
After-tax profit	413	277	269	334	426
% net margin	12.6%	9.6%	10.9%	12.0%	13.5%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	0	0	0	0	0
NET PROFIT	413	277	269	334	426
Normalized profit	413	277	269	334	426
EPS (Bt)	1.2	0.8	0.8	1.0	1.2
Normalized EPS (Bt)	1.2	0.8	0.8	1.0	1.2

BALANCE SHEET

No significant new
investments

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	2,407	2,163	1,980	2,066	2,159
Cash & cash equivalent	243	225	225	215	205
Account receivables	492	436	373	421	477
Inventories	1,564	1,404	1,299	1,336	1,370
Others	109	98	83	94	107
Investments & loans	5	5	5	5	5
Net fixed assets	282	268	254	236	213
Other assets	324	369	326	358	392
Total assets	3,018	2,804	2,565	2,664	2,769
LIABILITIES:					
Current liabilities:	1,035	853	693	753	805
Account payables	367	213	171	191	214
Bank overdraft & ST loans	565	559	424	470	489
Current LT debt	0	0	0	0	0
Others current liabilities	103	81	98	92	102
Total LT debt	0	0	0	0	0
Others LT liabilities	122	156	81	88	94
Total liabilities	1,157	1,009	774	841	899
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	348	348	347	347	347
Share premium	275	275	275	275	275
Warrants	0	0	0	0	0
Surplus	(60)	(65)	(65)	(65)	(65)
Retained earnings	1,298	1,237	1,233	1,266	1,312
Shareholders' equity	1,861	1,795	1,790	1,823	1,870
Liabilities & equity	3,018	2,804	2,565	2,664	2,769

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Sustainable cash inflow streams

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	516	346	336	418	533
Tax paid	(98)	(140)	(43)	(94)	(95)
Depreciation & amortization	48	103	102	100	99
Chg In working capital	(515)	61	127	(65)	(68)
Chg In other CA & CL / minorities	(23)	60	6	(6)	(14)
Cash flow from operations	(71)	430	528	352	455
Capex	(31)	(29)	(30)	(25)	(20)
Right of use	0	(113)	(50)	(45)	(40)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(35)	42	(40)	(37)	(43)
Cash flow from investments	(66)	(100)	(120)	(107)	(103)
Debt financing	409	(6)	(134)	46	18
Capital increase	0	0	(1)	0	0
Dividends paid	(386)	(337)	(273)	(301)	(380)
Warrants & other surplus	(2)	(5)	0	0	0
Cash flow from financing	21	(349)	(408)	(255)	(361)
Free cash flow	(103)	401	498	327	435

VALUATION

Inexpensive valuation, in our view

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	18.0	26.8	27.6	22.2	17.4
Normalized PE - at target price (x)	21.0	31.3	32.3	26.0	20.4
PE (x)	18.0	26.8	27.6	22.2	17.4
PE - at target price (x)	21.0	31.3	32.3	26.0	20.4
EV/EBITDA (x)	13.9	17.6	18.2	15.4	12.6
EV/EBITDA - at target price (x)	16.1	20.4	21.1	17.9	14.6
P/BV (x)	4.0	4.1	4.1	4.1	4.0
P/BV - at target price (x)	4.7	4.8	4.8	4.8	4.6
P/CFO (x)	(103.9)	17.3	14.1	21.1	16.3
Price/sales (x)	2.3	2.6	3.0	2.7	2.3
Dividend yield (%)	5.6	3.7	3.6	4.5	5.7
FCF Yield (%)	(1.4)	5.4	6.7	4.4	5.9
(Bt)					
Normalized EPS	1.2	0.8	0.8	1.0	1.2
EPS	1.2	0.8	0.8	1.0	1.2
DPS	1.2	0.8	0.8	1.0	1.2
BV/share	5.4	5.2	5.2	5.3	5.4
CFO/share	(0.2)	1.2	1.5	1.0	1.3
FCF/share	(0.3)	1.2	1.4	0.9	1.3

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Margin is on the rise

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	6.1	(11.6)	(14.7)	12.9	13.4
Net profit (%)	14.3	(33.0)	(2.9)	24.3	27.6
EPS (%)	14.3	(33.0)	(2.9)	24.3	27.6
Normalized profit (%)	14.3	(33.0)	(2.9)	24.3	27.6
Normalized EPS (%)	14.3	(33.0)	(2.9)	24.3	27.6
Dividend payout ratio (%)	99.9	100.3	99.9	99.9	99.9
Operating performance					
Gross margin (%)	54.4	47.4	49.6	50.1	50.7
Operating margin (%)	15.5	11.7	12.8	14.3	16.2
EBITDA margin (%)	17.0	15.3	17.0	17.9	19.4
Net margin (%)	12.6	9.6	10.9	12.0	13.5
D/E (incl. minor) (x)	0.3	0.3	0.2	0.3	0.3
Net D/E (incl. minor) (x)	0.2	0.2	0.1	0.1	0.2
Interest coverage - EBIT (x)	61.1	37.3	64.6	71.4	71.6
Interest coverage - EBITDA (x)	66.9	48.6	85.4	89.3	85.3
ROA - using norm profit (%)	14.7	9.5	10.0	12.8	15.7
ROE - using norm profit (%)	22.4	15.1	15.0	18.5	23.1
DuPont					
ROE - using after tax profit (%)	22.4	15.1	15.0	18.5	23.1
- asset turnover (x)	1.2	1.0	0.9	1.1	1.2
- operating margin (%)	16.0	12.2	13.8	15.1	17.0
- leverage (x)	1.5	1.6	1.5	1.4	1.5
- interest burden (%)	98.4	97.4	98.6	98.7	98.7
- tax burden (%)	80.1	80.1	80.0	80.0	80.0
WACC (%)	7.4	7.4	7.4	7.4	7.4
ROIC (%)	25.0	12.4	11.9	16.1	19.8
NOPAT (Bt m)	408	271	254	319	412
invested capital (Bt m)	2,183	2,129	1,990	2,079	2,154

Sources: Company data, Thanachart estimates

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