

Sabina (SABINA TB)

Earnings to remain solid despite delayed OEM orders

Reiterate BUY, with lower FY24 TP of THB32.50

Reiterate BUY on Sabina with a lower DCF-based TP of THB32.50 (7.7% WACC, 2% growth) after rolling forward valuations to FY24E. We trim our earnings forecasts to reflect delayed OEM orders but FY23E and FY24 earnings should still hit new records. 3Q23E profit likely remained strong as sales and gross profit margin (GPM) likely rose. The stock is trading at 18.7x FY24E P/E, below its 5-year average of 21.9x. Among consumer names, CPALL (CP THB59.5, BUY, TP THB79.0 is our Top Pick due to solid earnings growth.

Trim forecasts but expect record FY23E/24E profits

We cut our FY23-24E earnings by 5% and 4%, respectively, to reflect delayed OEM orders (9% of 1H23 sales) as Europe's economy slows. However, management expects OEM orders to resume in FY24 as demand recovers while brand sales (off-line) are likely to grow strongly following the successful launch of the 'Braless' series and as domestic consumption recovers. We estimate sales to grow 8% YoY in FY23 and 10% YoY in FY24. Gross margin should improve due to better operating efficiency and lower production cost per unit as it has more automated machines now. We forecast earnings growth of 12% YoY in FY23 and 14% YoY in FY24, with net margins rising to 13.5% and 13.9%, respectively, from 13.1% in FY22. Upside/downside risks to our forecasts are related to OEM orders.

Solid 3Q23E earnings from rising sales and GPM

We estimate 3Q23 earnings (due 13 Nov) of THB116m, up 16% YoY and 1% QoQ. Despite lower OEM sales due to delayed orders, we forecast Sabina's 3Q23 top line to rise 8% YoY due to healthy growth of brand and NSR sales as the market is responding well to the new 'Braless' series. Moda sales should also contribute to NSR sales. We forecast GPM expanded by 173bps YoY to 49.7% in 3Q23E, thanks to improving production efficiency.

Net cash position to sustain 100% pay-out ratio

We expect SABINA's cash-conversion cycle to decline to 251 and 245 days in FY23 and FY24, respectively, from 273 days in FY22 as inventory days improve to 245 and 240 days in FY23 and FY24, from 264 days in FY22. Its financial position is likely to remain strong, with net cash. Annual capex is less than THB50m, which should allow SABINA to maintain its 100% pay-out ratio. The company is looking at expanding to other businesses. We should have better visibility of this in FY24E.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,631	3,168	3,426	3,773	4,082
EBITDA	413	559	632	712	779
Core net profit	294	417	466	531	587
Core EPS (THB)	0.85	1.20	1.34	1.53	1.69
Core EPS growth (%)	6.3	41.8	11.8	13.7	10.6
Net DPS (THB)	0.85	1.20	1.34	1.53	1.69
Core P/E (x)	23.4	19.4	21.2	18.7	16.9
P/BV (x)	3.8	4.3	5.2	5.1	5.0
Net dividend yield (%)	4.3	5.2	4.7	5.4	5.9
ROAE (%)	16.2	22.6	24.8	27.6	29.8
ROAA (%)	10.7	15.3	16.6	18.7	21.0
EV/EBITDA (x)	16.7	14.1	15.5	13.8	12.6
Net gearing (%) (incl perps)	2.2	net cash	net cash	net cash	net cash
Consensus net profit	-	-	468	531	583
MIBG vs. Consensus (%)	-	-	(0.3)	(0.1)	0.6

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BUY

Share Price	THB 28.50
12m Price Target	THB 32.50 (+14%)
Previous Price Target	THB 33.00

Company Description

SABINA makes lingerie, including its own brand, Sabina. It also distributes popular European brands.

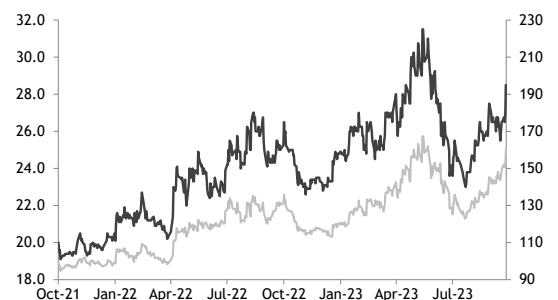
Statistics

52w high/low (THB)	31.50/22.60
3m avg turnover (USDm)	0.7
Free float (%)	47.3
Issued shares (m)	348
Market capitalisation	THB9.9B USD273M

Major shareholders:

Viroj Thanalongkorn	46.4%
Thai NVDR	3.2%
Achada Thanalongkorn	3.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	21	14
Relative to index (%)	17	24	23

Source: FactSet

Other companies mentioned

Moda (77.33%-owned subsidiary, not listed)

Acronyms defined

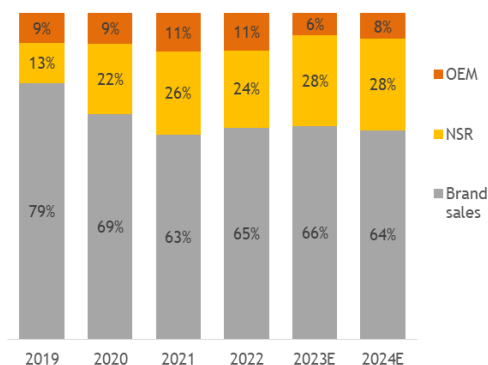
NSR - non-store retail, including online sales, TV sales and catalogue sales
OEM - original equipment manufacturer

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Sabina is one of the leading underwear producers in Thailand, under its own brand, Sabina, with a proven track record of over 25 years.
- Strong brand recognition coupled with product innovation.
- In addition to off-line sales via more than 500 outlets, Sabina has NSR sales through online, TV shopping and catalogue sales. OEM sales are an additional sales channel through exports to Europe.
- Increasing proportion of NSR sales should support net margins.
- Own production and outsourcing allow for a more flexible strategy and resilient operations.

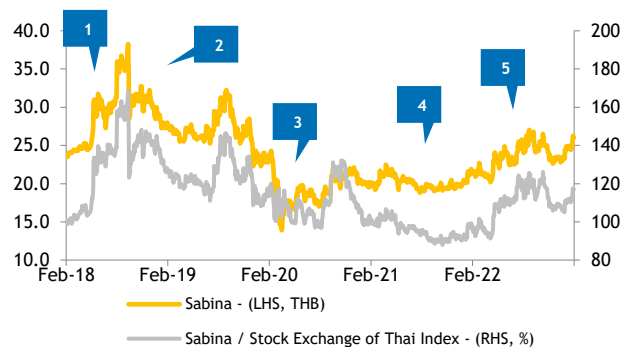
Sales breakdown



Source: Company, MST

Price Drivers

Historical share price trend



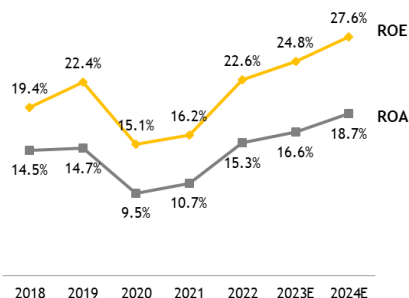
Source: Company, MST

1. Outstanding earnings growth drew investor attention.
2. Share price correction after the major shareholder sold 28.78% of total paid up capital to both local and foreign institutional investors as well as high net worth individual investors at THB25.0/share.
3. Temporary store closures during the lockdown.
4. Wait-and-see phase as Covid outbreaks subsided.
5. Earnings recovery after post-Covid reopening.

Financial Metrics

- Expect ROE to rise to 24.8% and 27.6% in FY23E and FY24E from 22.6% in FY22 and 22.4% in FY19 (pre-Covid year).
- ROA to reach 16.6% in FY23E and 18.7% in FY24E from 15.3% in FY22 and 14.7% in FY19.
- Solid EBITDA of more than THB500m pa, available for annual capex of THB20-50m.
- Low capex helps generate compelling dividend payments at a pay-out ratio of 100%.
- Healthy financial position with expected net cash from FY22E onwards.

Improving profitability ratio



Source: Company, MST

Swing Factors

Upside

- Better operating leverage on growing NSR sales.
- Export opportunity in CLMV markets.
- More innovative products to enhance sales and profitability.

Downside

- Significant increase in raw material and labour costs.
- Large inventory level pressuring working capital.
- Headwinds on logistics dampening export sales.

Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- Sabina places importance on supply chain management of all processes in the business chain, ranging from production, warehouse, transportation and distribution management. It also takes into account the use of resources in production and creates value for products and services through various innovations.
- Sabina operates business in tandem with ESG approach to manage negative environmental impact, in terms of energy consumption, pollution or waste management. It reduces the impact of climate change and strives for sustainable development in accordance with the Sustainable Development Goals.
- Being in a labour-intensive industry, the company must have safety measures and promote good quality of life while adopting advanced production technology and innovation, including state-of-the-art machinery in order to produce quality products to cater to consumers' requirements.

Material E issues

- In 2020, all Sabina plants have reduced their electricity consumption by 22%, above the target of 15% by shifting from air conditioning to EVAPOLATIVE COOLING SYSTEM (EVAP) and electronic equipment modifications such as industrial sewing machines, light bulbs, air conditioners and air pumps.
- In 2020, the organization's water usage was reduced by 14% from 2019, better than the target of 10%, and regulated wastewater management to meet statutory standards and does not have a negative impact on the community.
- Control air pollution from the foaming moulding process, dust not exceeding 400 ml. per cubic metre and chemicals (toluene) not exceeding 200 ppm, as well as reducing fuel consumption. Greenhouse gas emission from transport fell to 20.16% vs the target of 10% and the reduction of greenhouse gas emission from travelling to meetings fell to 77.7% vs the target of 20%, resulting in a 24.11% reduction in overall greenhouse gas emission in 2020.
- Using the 3R (Reuse, Reduce, Recycle) principle. General waste, which is landfill, is reduced by 43% in 2020, vs the target of 30%, and the amount of waste generated from the production process is reduced by 40% vs the target of 30%.
- In 2020, Sabina was certified GREEN INDUSTRY Level 2 (Green Operations, implementing activities to reduce environmental impacts) for all 5 factories and it's preparing to upgrade to Green Industry Level 3 (Effective Environmental Management, which has been monitored and evaluated for continuous improvement).
- Implement a zero-waste project by recycling raw materials left over from production and transforming them into products by 0.31% from the target of 0.25%.

Material S issues

- Mae Jintana Thanalongkorn Foundation was established in 2009, providing scholarships to students since 2010. Until now, 2,021 scholarships have been awarded, amounting to THB18.56m.
- Initiate the Sewing Cup Sewing Heart Project Fighting breast cancer since 2007. By 2020, the company produces artificial breasts and donates 23,000 breasts, which is more than the target of 19,000 breasts / year.
- Sabina employs 45 disabled workers, representing 1.13% of the total workforce as of December 31, 2020.
- Even with store closures and production cuts during the COVID-19 outbreak, the company has not laid off employees.

Key G metrics and issues

- Sabina has 11 board members, consisting of 7 non-executive directors (5 independent directors) and 4 executive directors, of which 2 are female.
- In 2020, BoDs' remuneration was THB4.94m or 1.8% of net profit. Executive directors and executives' remuneration was THB10.28m or 3.7% of net profit.
- There is a code of ethics designated to cover the responsibility of the various parts and promote them among employees at all levels as a guideline for conducting business with ethics (Code of Conduct).
- There is a policy in conducting business correctly and transparently that emphasises the participation of everyone in the organisation to be aware of the negative effects of corruption and send employees to attend training courses on corruption prevention organised by various institutions. In addition, there is a policy seeking cooperation to refrain from giving and receiving all kind of gifts on every occasion (No Gift Policy).
- There are policies and methods for preventing directors, executives and employees from seeking benefits from the use of the company's inside information that have not yet been disclosed to the public to use for personal benefit including trading the company's share.

¹Risk Rating & Score - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. **²Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. **³Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Revising down forecasts, but earnings growth in FY23-24E should remain healthy

1.1 Trim earnings forecasts to reflect delayed OEM orders

We revise down our FY23-24E profit by 5% and 4%, respectively, to reflect delayed OEM orders from European customers to early FY24. We estimate OEM sales to decrease by 37% YoY to THB222m in FY23 before recovering by 30% YoY to THB289m in FY24E. However, brand sales (off-line) are likely to grow a solid 9% YoY to THB2.24b in FY23E and by 8% YoY to THB2.42b in FY24E as the market's response to the new 'Braless' series has been good and as consumption is recovering.

NSR sales should also continue to grow, thanks to online promotion campaigns and the recognition of sales from Moda, a retailer and distributor of Sabina products in the Philippines. We expect NSR sales to rise 21% YoY to THB910m in FY23, with THB49m contributed from Moda. NSR sales should reach THB1.0b in FY24E, coupled with additional Moda sales of THB59m.

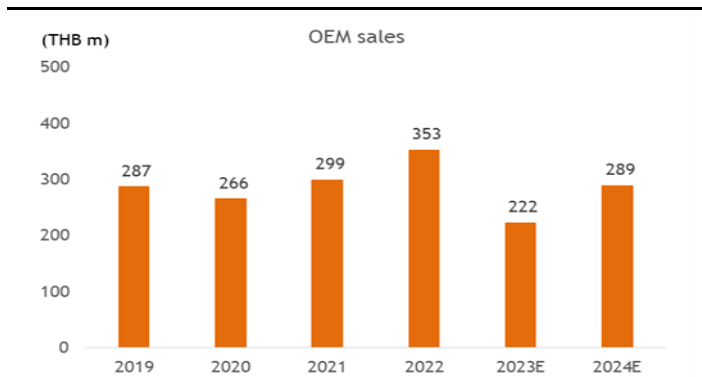
Our estimated gross margin is raised 92bps to 48.8% given lower contribution from low-margin OEM products. However, we raise our FY23 SG&A-to-sales assumption to 33.5% from 32.0% due to rising advertising expenses for the 'Braless' series launched earlier this year.

Fig 1: Our forecast revisions

(THB m)	New		Previous		% Revision	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	3,426	3,773	3,554	3,925	-4%	-4%
Gross margin	49.7%	50.0%	48.8%	49.1%	+92 bps	+90 bps
EBITDA	591	670	615	694	-4%	-3%
Net profit	466	531	489	552	-5%	-4%
EPS (THB)	1.34	1.53	1.41	1.59	-5%	-4%

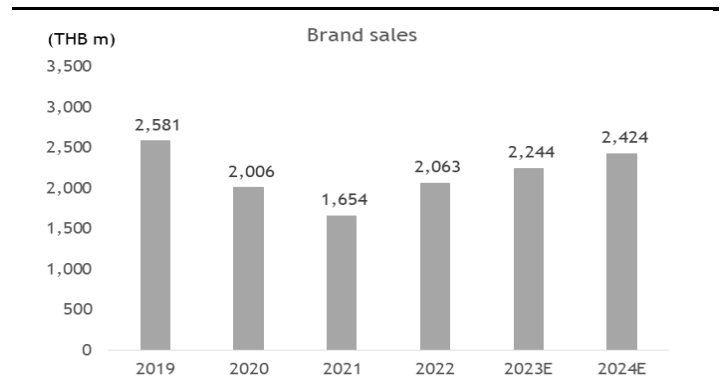
Source: Company, MST

Fig 2: Expect OEM sales to drop in FY23E before recovering in FY24E



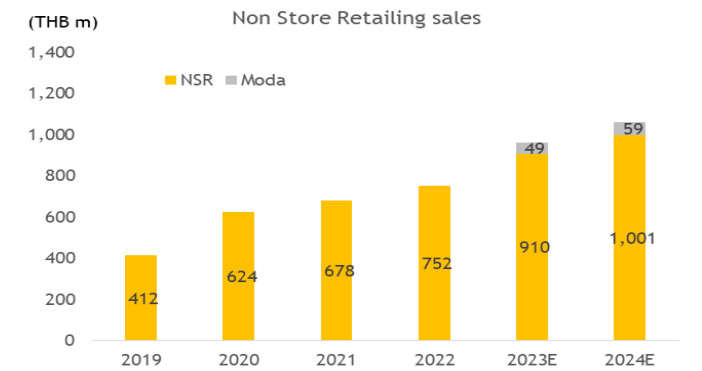
Source: Company, MST

Fig 3: Brand sales to see healthy growth due to new products launched



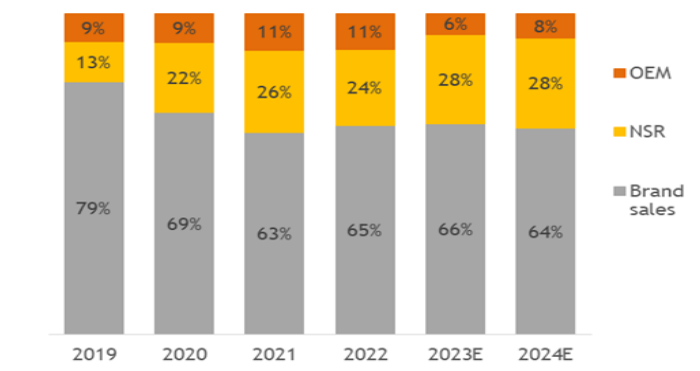
Source: Company, MST

Fig 4: We expect robust NSR sales growth, coupled with additional sales from Moda



Source: Company, MST

Fig 5: FY23-24E sales breakdown outlook sees declining OEM proportion but rising NSR contributions



Source: Company, MST

1.2 Expect record earnings in FY23 and FY24

We forecast FY23 sales to grow by 8% YoY to a record THB3.43b, and then grow by a further 10% YoY to THB3.77b in FY24, underpinned by healthy growth in brand and NSR sales. Gross margin should improve by 171bps YoY to 49.7% in FY23 and by a further 30bps YoY to 50.0% in FY24 on the back of better operating efficiency and lower production cost per unit as production volume grows. SABINA expects its own production to rise to 44% of total production in FY23 and FY24 from 41% in FY22, based on 24% capacity expansion to 9m pieces in FY23.

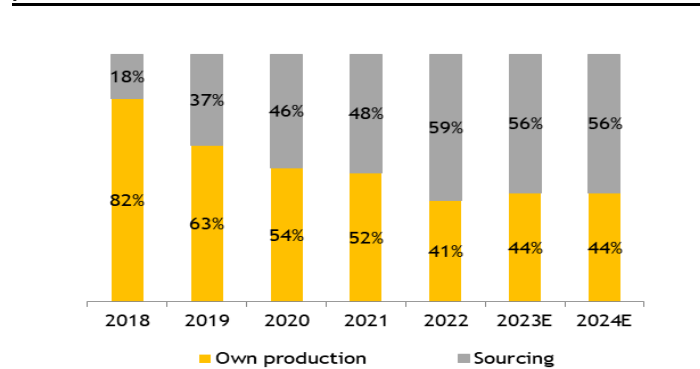
We also expect record earnings in FY23 of THB466m (+12% YoY) and further growth to THB531m in FY24 (+14% YoY) with net margin rising to 13.5% and 13.9% from 13.1% in FY22. Its financial position is likely to remain solid with net cash, which would allow SABINA to maintain its 100% pay-out ratio, offering a dividend yield of roughly 5%.

Fig 6: SABINA expects its own production to increase to 24% of total production in FY23E

Output (million pcs.)			
Factory	2022	2023	%G
YS	2.93	3.75	27.8%
CN	1.85	2.00	8.1%
BN	0.81	1.00	22.9%
TP	0.92	1.15	24.4%
S5	0.74	1.10	49.3%
Capacity	7.26	9.00	24.0%

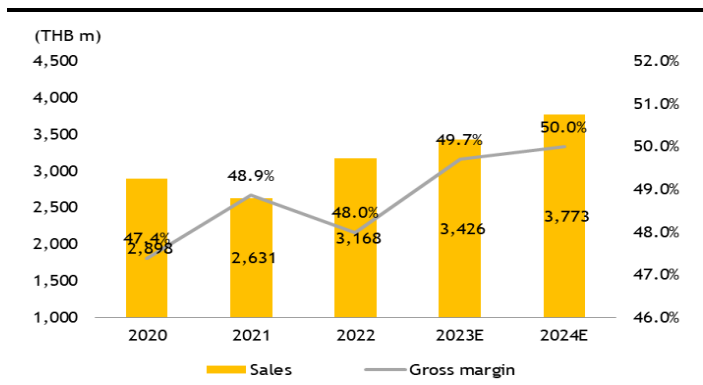
Source: Company

Fig 7: SABINA projects sourced products to make up 56% of production in FY23-24E



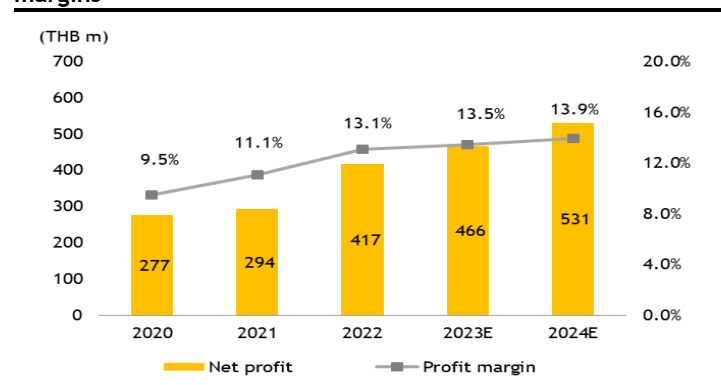
Source: Company, MST

Fig 8: MST expects sales to hit record high in FY23-24E



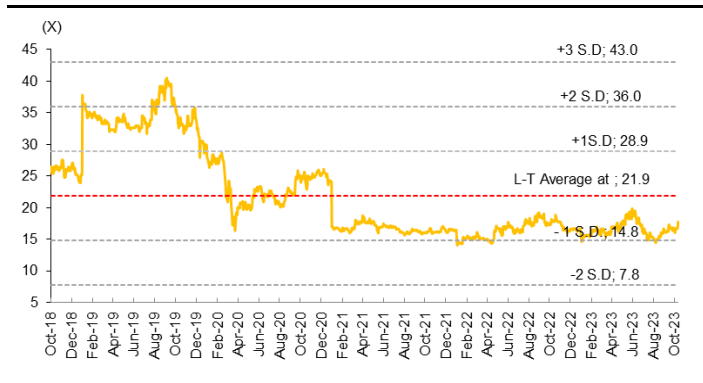
Source: Company, MST

Fig 9: We expect record FY23-24E earnings on higher profit margins



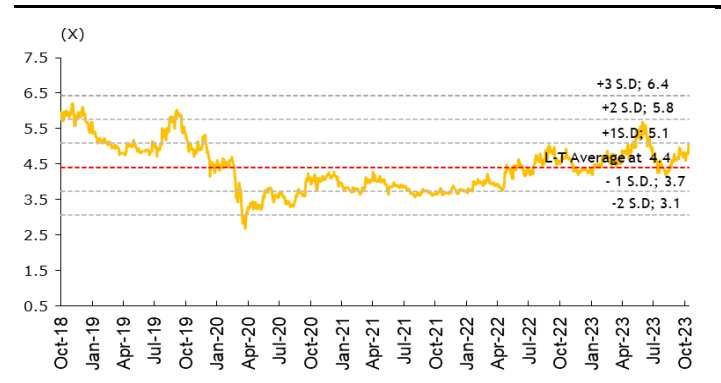
Source: Company, MST

Fig 10: SABINA P/E band



Source: Bloomberg

Fig 11: SABINA P/BV band



Source: Bloomberg

2. 3Q23E earnings likely solid

SABINA's earnings likely remained solid in 3Q23E at THB116m, up 16% YoY and 1% QoQ. Despite falling OEM sales due to delayed orders, we estimate the company's top line grew 8% YoY. Brand and NSR sales should continue to grow as consumption is recovering and due to good response to the new 'Braless' product. Moda sales should also contribute to NSR sales. We estimate OEM sales dropped 59% YoY to THB31m in 3Q23.

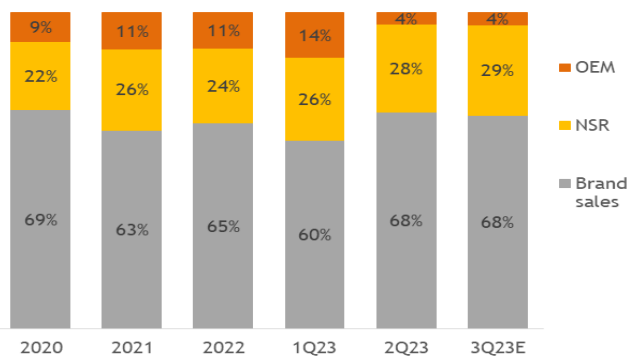
We forecast gross margin expanded by 173bps YoY to 49.7% in 3Q23, thanks to more production units. SG&A likely surged 10% YoY (33.2% of sales vs 32.7% of 3Q22 sales) but declined 5% QoQ due to lower advertising expenses.

Fig 12: Our 3Q23 preview; falling OEM sales offset by growing NSR sales

(THB m)	3Q22	2Q23	3Q23E	YoY	QoQ	9M22	9M23E	YoY
Sales	774	838	836	8%	(0%)	2,332	2,543	9%
Brand	510	573	566	11%	(1%)	1,524	1,657	9%
Non store retailing	189	234	240	27%	3%	570	701	26%
OEM	75	31	31	(59%)	2%	238	185	(22%)
Other income	7	19	7	(3%)	(62%)	20	31	54%
COG	403	422	420	4%	(0%)	1,225	1,282	5%
Gross profit	371	416	415	12%	(0%)	1,107	1,261	14%
SG&A	253	293	278	10%	(5%)	739	854	16%
EBITDA	135	152	155	15%	2%	415	467	12%
Interest expense	1	2	2	112%	12%	3	6	89%
Tax charge	25	26	27	8%	2%	73	84	15%
Net profit	100	115	116	16%	1%	311	348	12%
EPS (THB)	0.29	0.33	0.33	16%	1%	0.90	1.00	12%
Gross margin (%)	48.0%	49.6%	49.7%			47.5%	49.6%	
SG&A/sales (%)	32.7%	34.9%	33.2%			31.7%	33.6%	
EBITDA margin (%)	17.3%	17.8%	18.4%			17.7%	18.1%	
Net margin (%)	12.8%	13.4%	13.8%			13.2%	13.5%	

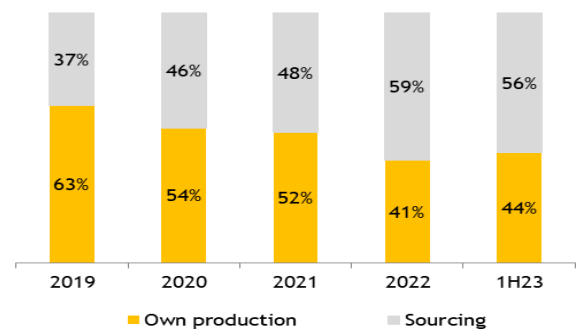
Source: Company, MST

Fig 13: Breakdown of 3Q23E sales; rising share of NSR due to healthy online sales and recognition of Moda sales



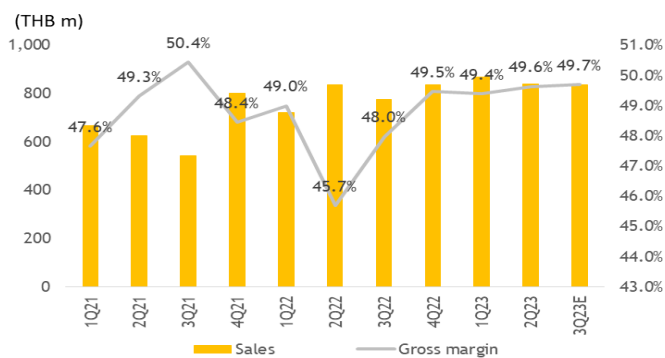
Source: Company, MST

Fig 14: Own labels made up 44% of 1H23 sales as SABINA launched more new products under its own brands



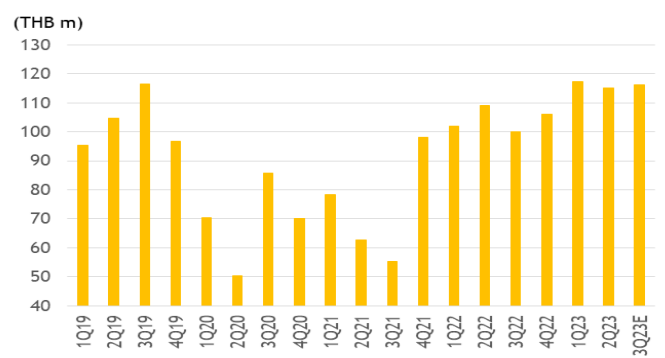
Source: Company, MST

Fig 15: Gross margin likely improved in 3Q23E due to better production efficiency



Source: Maybank IBG Research

Fig 16: Expect solid 3Q23E earnings



Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	23.7	19.3	21.2	18.7	16.9
Core P/E (x)	23.4	19.4	21.2	18.7	16.9
P/BV (x)	3.8	4.3	5.2	5.1	5.0
P/NTA (x)	3.8	4.3	5.2	5.1	5.0
Net dividend yield (%)	4.3	5.2	4.7	5.4	5.9
FCF yield (%)	9.7	9.3	4.4	1.2	5.6
EV/EBITDA (x)	16.7	14.1	15.5	13.8	12.6
EV/EBIT (x)	18.6	15.2	16.5	14.7	13.3

INCOME STATEMENT (THB m)

Revenue	2,631.4	3,167.8	3,425.7	3,772.7	4,082.0
EBITDA	413.5	559.3	632.0	712.2	779.3
EBIT	373.0	520.1	590.9	670.2	738.0
Net interest income / (exp)	(4.9)	(4.3)	(7.9)	(7.1)	(4.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	368.1	515.7	583.0	663.1	733.4
Income tax	(73.9)	(98.5)	(116.6)	(132.6)	(146.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	294.2	417.2	466.4	530.5	586.7
Core net profit	294.2	417.2	466.4	530.5	586.7

BALANCE SHEET (THB m)

Cash & Short Term Investments	353.7	527.9	598.8	308.3	303.5
Accounts receivable	403.8	383.9	385.7	441.2	431.1
Inventory	1,260.3	1,126.5	1,186.8	1,293.8	1,324.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	243.6	240.5	251.2	251.0	241.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	5.0	0.0	0.0	0.0	0.0
Other assets	436.9	461.1	467.5	488.4	493.3
Total assets	2,703.3	2,739.9	2,889.9	2,782.6	2,794.3
ST interest bearing debt	394.6	317.4	470.0	236.0	223.2
Accounts payable	147.8	174.6	155.9	205.8	184.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	332.0	379.0	363.0	389.0	397.0
Total Liabilities	874.1	871.4	988.9	831.2	804.1
Shareholders Equity	1,829.2	1,867.7	1,900.3	1,950.7	1,989.5
Minority Interest	0.0	0.7	0.7	0.7	0.7
Total shareholder equity	1,829.2	1,868.4	1,901.1	1,951.5	1,990.2
Total liabilities and equity	2,703.3	2,739.9	2,889.9	2,782.6	2,794.3

CASH FLOW (THB m)

Pretax profit	368.1	515.7	583.0	663.1	733.4
Depreciation & amortisation	40.4	39.2	41.1	42.0	41.3
Adj net interest (income)/exp	4.9	4.3	7.9	7.1	4.6
Change in working capital	168.8	155.4	(84.8)	(116.6)	(35.3)
Cash taxes paid	(73.9)	(98.5)	(116.6)	(132.6)	(146.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	627.4	781.9	485.7	158.4	583.4
Capex	42.5	(25.2)	(51.7)	(41.8)	(31.9)
Free cash flow	669.9	756.6	433.9	116.6	551.5
Dividends paid	(299.1)	(365.3)	(433.7)	(480.1)	(548.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(164.2)	(77.2)	152.5	(234.0)	(12.8)
Other invest/financing cash flow	(77.8)	(139.9)	(81.9)	307.0	4.6
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	128.8	174.3	70.9	(290.5)	(4.7)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(9.2)	20.4	8.1	10.1	8.2
EBITDA growth	1.2	35.3	13.0	12.7	9.4
EBIT growth	5.1	39.4	13.6	13.4	10.1
Pretax growth	6.5	40.1	13.0	13.7	10.6
Reported net profit growth	6.3	41.8	11.8	13.7	10.6
Core net profit growth	6.3	41.8	11.8	13.7	10.6
Profitability ratios (%)					
EBITDA margin	15.7	17.7	18.4	18.9	19.1
EBIT margin	14.2	16.4	17.2	17.8	18.1
Pretax profit margin	14.0	16.3	17.0	17.6	18.0
Payout ratio	100.4	99.9	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	11.2	13.2	13.6	14.1	14.4
Revenue/Assets (x)	1.0	1.2	1.2	1.4	1.5
Assets/Equity (x)	1.5	1.5	1.5	1.4	1.4
ROAE (%)	16.2	22.6	24.8	27.6	29.8
ROAA (%)	10.7	15.3	16.6	18.7	21.0
Liquidity & Efficiency					
Cash conversion cycle	377.1	270.3	247.6	241.6	235.7
Days receivable outstanding	54.9	44.8	40.4	39.5	38.5
Days inventory outstanding	356.4	260.8	241.6	236.7	231.8
Days payables outstanding	34.2	35.2	34.5	34.5	34.5
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	3.0	3.3	2.9	3.5	3.7
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	3.1	2.9	3.3	3.5
Net gearing (%) (incl perps)	2.2	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	2.2	net cash	net cash	net cash	net cash
Net interest cover (x)	75.9	120.1	75.0	94.9	nm
Debt/EBITDA (x)	1.0	0.6	0.7	0.3	0.3
Capex/revenue (%)	nm	0.8	1.5	1.1	0.8
Net debt/ (net cash)	40.9	(210.5)	(128.8)	(72.3)	(80.4)

Source: Company; Maybank IBG Research

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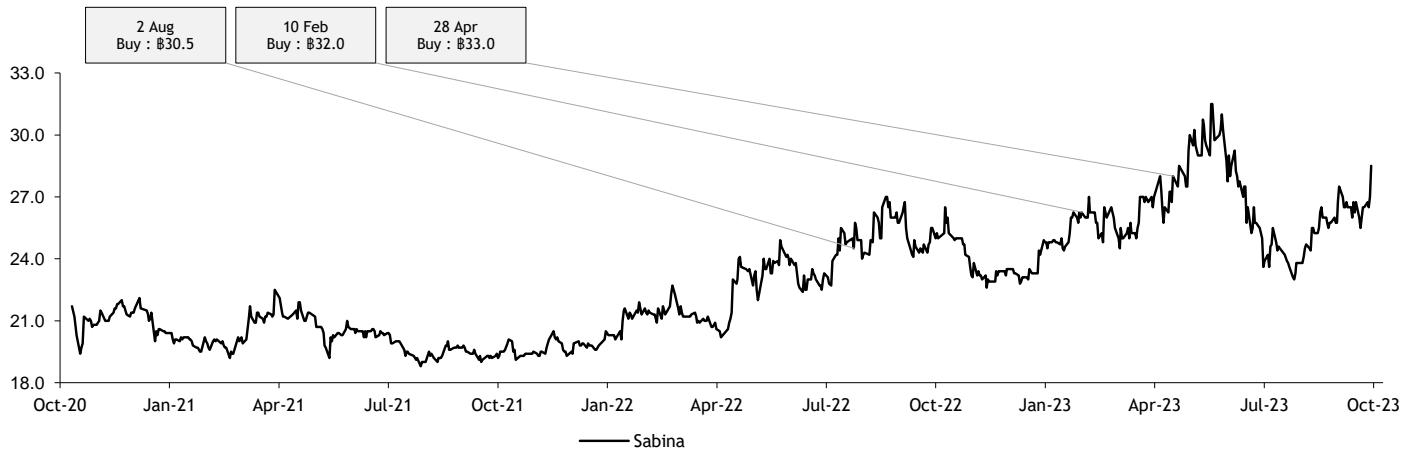
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